

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO

8 May 1985

EXAMINER HEARING

IN THE MATTER OF:

Application of Southland Royalty
Company for compulsory pooling,
Eddy County, New Mexico.

CASE
8557

BEFORE: Gilbert P. Quintana, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

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A P P E A R A N C E S

1
2
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4
5
6
7
8
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10
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14
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18
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I N D E X

DON W. DAVIS

Direct Examination by Mr. Carr	5
Cross Examination by Mr. Kellahin	13
Redirect Examination by Mr. Carr	33

PATRICIA WEBER

Direct Examination by Mr. Carr	35
Cross Examination by Mr. Kellahin	42

WILLIAM LEMAY

Direct Examination by Mr. Kellahin	59
Cross Examination by Mr. Carr	70
Cross Examination by Mr. Quintana	79
Redirect Examination by Mr. Kellahin	81

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

I N D E X CONT'D

WILLIAM G. McCOY

Direct Examination by Mr. Kellahin	83
Cross Examination by Mr. Carr	93
Cross Examination by Mr. Quintana	97

STATEMENT BY MR. KELLAHIN	102
---------------------------	-----

STATEMENT BY MR. CARR	107
-----------------------	-----

E X H I B I T S

SRC Exhibit One, Plat	7
SRC Exhibit Two, AFE	9
SRC Exhibit Three, Letter	10
SRC Exhibit Four, Structure Map	36
SRC Exhibit Five, Isopach	36
SRC Exhibit Six, Isopach	37
SRC Exhibit Seven, Isopach	39
SRC Exhibit Eight, Cross Section	43

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

E X H I B I T S

Link Exhibit One, Land Plat	60
Link Exhibit Two, Structure Map	62
Link Exhibit Three, Isopach	63
Link Exhibit Four, Cross Section	64
Link Exhibit Five, Curve	85
Link Exhibit Six, Calculation	86
Link Exhibit Seven, P/Z Plot	86
Link Exhibit Eight, Map	88
Link Exhibit Nine, Diagram	91

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
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MR. QUINTANA: We'll call next Case 8557.

MR. TAYLOR: The application of Southland Royalty Company for compulsory pooling, Eddy County, New Mexico.

MR. QUINTANA: Are there appearances in this case?

MR. CARR: May I please the Examiner, my name is William P. Carr, with the law firm Campbell and Black, P. A., of Santa Fe, appearing on behalf of Southland Royalty Company.

I have two witnesses.

MR. QUINTANA: Are there other appearances in this case?

MR. KELLABIN: Yes, Mr. Quintana.

I'm Tom Kellabin of Santa Fe, New Mexico, appearing on behalf of Don R. Link and Dennis R. Link, and I have two witnesses.

MR. QUINTANA: would all the witnesses please stand at this time and be sworn in?

(Witnesses sworn.)

1 MR. QUINTANA: You may proceed.

2 MR. CARR: At this time we call
3 Don Davis.

4
5 DON W. DAVIS,
6 being called as a witness and being duly sworn upon his
7 oath, testified as follows, to-wit:

8
9 DIRECT EXAMINATION

10 BY MR. CARR:

11 Q Will you please state your full name and
12 place of residence?

13 A Don Wayne Davis, in Midland, Texas.

14 Q Mr. Davis, by whom are you employed and
15 in what capacity?

16 A Southland Royalty Company as a petroleum
17 landman.

18 Q Have you previously testified before this
19 Division and had your credentials as a landman accepted and
20 made a matter of record?

21 A Yes, I have.

22 Q Are you familiar with the application
23 filed in this case?

24 A Yes, I am.

25 Q Are you familiar with the proposed well

1 and the subject acreage?

2 A Yes, I am.

3 MR. CARR: Are the witness'
4 qualifications acceptable?

5 MR. QUINTANA: They are.

6 Q Mr. Davis, will you briefly state what
7 Southland seeks with this application?

8 A We're requesting an order pooling all the
9 mineral interest under the northwest quarter of Section 21,
10 Township 16 South, Range 27 East, Eddy County.

11 We're also requesting to be named opera-
12 tor of the unit area.

13 We're also asking allocation of certain
14 costs for the drilling and producing and we're asking for
15 the Commission to impose a risk penalty for all nonparticipi-
16 pating parties.

17 Q Now, Mr. Davis, you're aware in Case 9556
18 the Commission may be considering today the changing of the
19 spacing in this particular area?

20 A Yes, I am.

21 Q If the rules were to be changed, what
22 would Southland be seeking; i.e. what would be the spacing
23 unit?

24 A We would propose a west half of Section
25 21 unit.

1 Q Have you prepared certain exhibits for
2 introduction in this case?

3 A Yes, I have.

4 Q Would you please refer to what has been
5 marked for identification as Southland's Exhibit Number One,
6 identify this, and review it for the Examiner?

7 A Southland Exhibit Number One is a land
8 plat of the area that shows our proposed SRC Duffield Feder-
9 al 21 Com No. 1 Well, located 1980 from the north, 660 from
10 the west of Section 21.

11 It also shows a dedicated proration unit
12 of 160 acres, described as the northwest quarter of the sec-
13 tion and, as you can see from the map, the interest, or the
14 leasehold under this is divided between Southland Royalty
15 Company and Donald R. Link.

16 Q What exactly is Southland's proposed well
17 location?

18 A 1980 from the north, 660 from the west,
19 in Section 21.

20 Q Is that a standard location for a west
21 half stand-up unit in Section 21?

22 A Yes, it is.

23 Q Would it also be a standard location for
24 a well on 160-acre spacing?

25 A Yes, sir.

1 Q What is the primary objective of South-
2 land Royalty Company in drilling this well?

3 A The Pennsylvanian series.

4 Q Could you review for Mr. Quintana the
5 ownership breakdown in the northwest quarter of Section 21?

6 A Yes, the south half of the northwest
7 quarter of Section 21 is owned 100 percent by Southland
8 Royalty Company.

9 The north half of the northwest quarter
10 of Section 21 is owned 100 percent, as far as I am aware, by
11 Donald R. Link, and, of course, this has a distribution of
12 50/50 between the parties.

13 Q That is if it's a 160-acre spacing unit.

14 A That's correct.

15 Q Could you provide Mr. Quintana with an
16 acreage breakdown of the west half of Section 21?

17 A Yes, I will. The west half of Section 21
18 would be Southland Royalty Company 75 percent, owning the
19 southwest quarter and the south half of the northwest quar-
20 ter, and Donald R. Link with 25 percent owning the north
21 half of the northwest quarter.

22 Q Are there any other interest owners in
23 the west half of this section?

24 A No, sir, there are none, as far as I know
25 of.

1 Q And at this time Mr. Link has -- you have
2 not been able to reach an agreement with Mr. Link for devel-
3 opment.

4 A No, sir, we have not.

5 Q Would you now refer to what's been marked
6 for identification as Southland's Exhibit Number Two and re-
7 view this for the Examiner?

8 A Yes. This is Southland Royalty Company's
9 detailed AFE for the drilling of the well. As you can see,
10 it's an 2800 Foot Morrow Atoka gas well.

11 It shows a dry hole cost of 100 percent
12 of the interest of \$357,000 and a completed well cost of
13 \$581,000.

14 Q Are these costs in line with what's being
15 charged by other operators in the area for similar wells?

16 A Yes, they are. We drill a number of
17 wells in this area of the county and for this depth of well
18 these are very much in line.

19 Q Would you summarize for the Examiner the
20 efforts that you have made to obtain voluntary joinder in
21 the development of this acreage?

22 A Yes. Originally we used a broker and
23 contacted Mr. Link approximately, well over a year ago. I
24 guess it could have been as much as a year and a half, two
25 years ago; tried to reach an agreement at that point with a

1 broker.

2 We were never able to reach an agreement
3 and for about a year I've had a number of conversations with
4 Mr. Link and most recently I sent -- well, most recently in
5 writing sent a proposal offering Mr. Link to either join as
6 a working interest partner, farm out under specific terms,
7 reserving him an override plus a back-in after payout, and
8 also requesting that if he didn't okay one of those two,
9 he'd be interested in selling his lease at a specific price.

10 Q When you talk about a proposal, are you
11 talking about your February 6th letter?

12 A Yes, I am.

13 Q And that's what has been marked as South-
14 land Exhibit Number Three?

15 A Yes, sir, it is.

16 Q Since that time have you been in communi-
17 cation with Mr. Link?

18 A Yes, we have. We've had a number of
19 telephone conversations since this letter, I guess the lat-
20 est one being Monday afternoon by telephone, and we still at
21 this point haven't been able to reach an agreement concern-
22 ing voluntary --

23 Q Who was the broker that Southland em-
24 ployed?

25 A A man named Mr. Hooper.

1 Q Is he still in the employ of Southland
2 Royalty Company?

3 A No, he is not, has not been, I guess, for
4 a little over a year.

5 Q Mr. Davis, in your opinion has Southland
6 made a good faith effort to obtain voluntary joinder of the
7 Link interest in a proposed well in the west half of Section
8 21?

9 A Yes, I have. I believe we have.

10 Q Has Southland drilled other Pennsylvanian
11 wells in this general area?

12 A Yes, sir. We're a -- we're a partner in
13 a well in the north half of Section 16, the Husky Well, and
14 just east of this we're also a working interest owner in
15 some additional wells.

16 Q Was notice of this hearing given to Mr.
17 Link?

18 A Yes, it was.

19 Q When was the application originally filed
20 seeking pooling of the west half of 21?

21 A I believe application was filed March
22 15th for original hearing date of April 10th.

23 We were notified or requested that we
24 grant a continuance to allow Mr. Link to further prepare and
25 we were agreeable to doing that, and so that's why the case

1 is as far as it is today.

2 Q Now, Mr. Davis, have you made an estimate
3 of overhead and administrative costs while drilling this
4 well?

5 A Yes, I have.

6 Q And also while producing it?

7 A Yes. We feel that for a well of this
8 type we should charge \$4600 producing -- excuse me, drilling
9 well rate, and a \$460 a month producing well rate.

10 Q So it's \$4600 and \$460?

11 A Yes.

12 Q And are these costs in line with what's
13 being charged by other operators in the area?

14 A Yes, I feel they are.

15 Q Do you recommend that these figures be
16 incorporated into any order which results from today's hear-
17 ing?

18 A Yes, sir.

19 Q Does Southland Royalty Company seek to be
20 designated operator of the proposed well?

21 A Yes, we do.

22 Q Were Exhibits One through Three prepared
23 by you or compiled under your direction and supervision?

24 A Yes, they were.

25 MR. CARR: At this time, Mr.

1 Quintana, we would offer Southland Royalty Company Exhibits
2 One through Three.

3 MR. QUINTANA: Exhibits One
4 through Three for Southland Royalty will be entered as evi-
5 dence.

6 MR. CARR: That concludes my
7 direct examination of Mr. Davis.

8 MR. QUINTANA: Mr. Kellahin?

9 MR. KELLAHIN: Thank you, Mr.
10 Examiner.

11

12 CROSS EXAMINATION

13 BY MR. KELLAHIN:

14 Q Mr. Davis, you've testified before the
15 Division as a petroleum landman before. I believe I've seen
16 you here before.

17 A Yes, sir.

18 Q Would you describe for me when you first
19 became a petroleum landman?

20 A Originally I got out of college and was a
21 petroleum landman for Texaco, and that was in September of
22 '78. I worked for Texaco for approximately a year.

23 Q How long have you been working for South-
24 land Royalty?

25 A About six years; six years as of June.

1 Q During that period of time were you in-
2 volved in any of the leases or proration and spacing units
3 that Southland participated in in the immediate area that
4 we're looking at on your Exhibit Number One?

5 A Originally -- well, to clarify your ques-
6 tion, yes, I was involved in some leasing, a lease in the
7 south half of 16, as well as the leases we purchased in 15,
8 17, and 21.

9 I was not directly involved in the nego-
10 tiations nor the dedicated proration units concerning our
11 working interest in the north half of Section 16. That was
12 handled by someone prior to my coming here.

13 Q You said you have any conversations with
14 Mr. Link over the last several months about his interest in
15 this prospect.

16 What is your responsibility with South-
17 land Royalty Company in those type of negotiations?

18 A Well, it's too, of course, represent my
19 company in purchasing, securing types of support, be it pur-
20 chasing of leases, farm-ins, et cetera, for the company un-
21 der certain economic parameters that have been devised by
22 our -- by our engineers and Geology Department concerning
23 the purchase of leases.

24 Q It's within your area of responsibility
25 then to negotiate with someone in Mr. Link's position to see

1 if you can work out the voluntary commitment of acreage to
2 form a spacing unit.

3 A That's correct.

4 Q Do you have other land personnel that
5 work under you, Mr. Davis?

6 A Yes, land personnel working under me in
7 terms of additional brokers and things. I have no per se
8 company people who work under me as far as controlling their
9 negotiations.

10 Q To whom do you report and who is your
11 supervisor or manager in the Land Department?

12 A Dennis Sledge, who's the District Land-
13 man.

14 Q And how many landmen similar to you, Mr.
15 Davis, does Mr. Sledge have under his control?

16 A One, two, three, four, five total, in-
17 cluding me.

18 Q When we talk about setting the terms of
19 different proposals --

20 A Uh-huh.

21 Q -- to give Mr. Link to reach a voluntary
22 agreement, are those terms and conditions set by you or are
23 they set by Mr. Sledge, or are they determined by someone
24 else?

25 A Well, the general parameters are deter-

1 mined by the Geological-Engineering Department to decide a
2 maximum economic limit we could pay at any one time depend-
3 ing on all market factors.

4 Of course, below that, my boss, Dennis
5 Sledge, of course, has authority within those parameters,
6 which are addressed to me and then at that point I have cer-
7 tain authority within myself under his parameters to nego-
8 tiate.

9 Q All right, sir. When we talk about the
10 Link acreage in this immediate area --

11 A Uh-huh.

12 Q -- what were the maximum economic para-
13 meters set by the Geologic Department when they evaluated
14 this property?

15 A Okay, it -- that's going to be somewhat
16 hard to explain. You mean certain economic parameters as of
17 today's market or economic parameters as of a different --
18 as of a different market? Are you talking about today?

19 Q I didn't know there was --

20 A See, the market has changed drastically.
21 The gas market has changed drastically out here. What at
22 one time was a financially attractive price and a logical
23 price to pay in the area, has changed somewhat over the
24 last, I'd say over the last four years.

25 Q All right, sir. Let's start with the

1 maximum economic factors given to you by the Geologic De-
2 partment when Mr. Link was first contacted by Mr. Hooper,
3 who I believe was the broker under your supervision.

4 A I would think probably at that time our
5 maximum economic limit, and of course you must understand
6 there's a difference in a maximum economic limit and what we
7 feel we should pay for a bit of acreage, it was probably in
8 the range of \$650 to \$700 an acre.

9 Q And that was the economic limit in appro-
10 ximately what month and year, do you recall, Mr. Davis?

11 A Oh, I would say that was probably April
12 of '82.

13 Q All right, sir, and is that the limit set
14 by the Geologic Department or is that Mr. Sledge's limit or
15 is that your limit?

16 A Well, that's -- that's -- okay, that is
17 basically what the geologists and the district landman have
18 come up with as far as an economic limit.

19 So you're talking about, at this point
20 you're talking about a group agreeing on a price we can eco-
21 nomically afford to pay.

22 Q Let's look at the plat for a moment, Mr.
23 Davis, and let me ask you some questions.

24 You said you were involved in the South-
25 land acquisition of the south half o Section 16.

1 A That's correct.

2 Q Which is immediately to the north of this
3 section.

4 A Uh-huh.

5 Q What type of lease are we dealing with in
6 the south half of 16?

7 A State of New Mexico oil and gas lease,
8 competitive oil bidding acquisition.

9 Q Did you participate on behalf of South-
10 land Royalty in the competitive oil bidding at that State
11 lease?

12 A Yes, I did.

13 Q And in what month and year did that take
14 place, do you recall?

15 A I think that was March of '82.

16 Q Do you recall what Southland Royalty paid
17 in terms of the bonus per acre for that acreage?

18 A Sure, it was \$2000 an acre.

19 Q Are you aware or have you been informed
20 of what Southland's current plans are for drilling a well to
21 the Pennsylvanian in the south half of --

22 A Sure. We have definite plans to drill a
23 well in the south half of Section 16.

24 Q That location has been staked?

25 A You bet, sure.

1 Q And do you have a drilling permit for it?

2 A I'm not aware at this point if we have a
3 drilling permit yet or not, but we have -- we -- it's a firm
4 item to drill for Southland.

5 Q What is the time range of commencement
6 for drilling, do you know?

7 A Basically the time range for commencement
8 to drill on this lease is 4-1-87, because that's when it ex-
9 pires. I mean any time between now and then.

10 We have plans to drill that well but, of
11 course, these factors change as the gas market changes;
12 prior to December of '85, I would say.

13 Q Is the money budgeted for the well in the
14 south half of 16?

15 A We just had a re-review of the budget.
16 It was -- originally it was budgeted and we have a six month
17 review period, which we just finished, and once again, it's
18 budgeted for a six month period. It's reviewed at that
19 time; depending on certain market factors it may be ap-
20 proved, it may not be approved, and at this point in time we
21 don't have a firm commitment from our top management to ap-
22 prove that well, but I'm assuming that's going to come.

23 Q Would the drilling of this well take
24 place in the next six months under the next budget?

25 A Yes, as far as I know as of this date.

1 Q All right, sir. To your knowledge is
2 Southland prepared to drill the well in the south half of 16
3 before it commences the well in Section 21 that's under dis-
4 cussion today?

5 A That, you mean on a daily basis? Yeah, I
6 don't think that they're contingent, you know, that we have
7 to drill 21 before 16 or 16 before 21.

8 Q There's no plan to do that?

9 A No, sir. No, we -- we're going to -- we
10 have -- well basically what I'd say is we have plans to
11 drill both wells, and that, you know, that's about as far as
12 I can say.

13 Q Will you drill both wells regardless of
14 the outcome of either?

15 A I think that's probably more of a geolo-
16 gical question. I couldn't -- of course, if one -- if one
17 is a dry hole, you know, it's going to have -- it's going to
18 have some bearing on whether we drill the second well, yes.

19 Q The decision on that issue has not been
20 conveyed to you by Southland management?

21 A No, it hasn't.

22 Q When we look at the acreage that South-
23 land has in Section 21 --

24 A Uh-huh.

25 Q -- you've shaded in for us a yellow ac-

1 reage?

2 A That's a Federal KGS lease.

3 Q How did Southland acquire that acreage
4 and approximately when?

5 A It was a sealed bid probably around, I
6 guess I would have to say -- those run a few months behind
7 -- it was probably October of '82.

8 Q Was Southland the successful bidder at
9 the KGS Federal sale?

10 A Yes, we were.

11 Q And what was the bonus per acre paid for
12 that acreage?

13 A \$501.50, which was far and away the most
14 attractive bid.

15 Q Did you make that bid and participate in
16 that for Southland?

17 A Yes, I did participate in the preparation
18 of that bid.

19 Q Was that the maximum bid price that
20 Southland was willing to pay for that acreage or were you
21 able to obtain it below the maximum price you were willing
22 to pay?

23 A That was the maximum price Southland was
24 willing to pay for that acreage at that time.

25 Q When we look at the orientation of the

1 proration unit in Section 21, Mr. Davis --

2 A Uh-huh.

3 Q -- you've indicated in response to Mr.
4 Carr's question that if we look at the west half and that if
5 we go through with the forced pooling order, we have a 25
6 percent interest to the Links and 75 percent interest to
7 Southland.

8 A Uh-huh.

9 Q In terms of the offers you have made to
10 Mr. Link, would you describe for us what the first offer
11 was?

12 A To the best of my knowledge, and, of
13 course, it was done through a broker at that time, I think
14 it was \$300 an acre.

15 Q That would be the bonus?

16 A Yes, sir, with -- probably the original
17 offer was \$300 an acre and a 5 percent override, I think.

18 Q Now I notice by looking on your plat that
19 the Link acreage extends beyond Section 21 and is also in
20 Section 22, and there's a little 30-acre tract in Section
21 27?

22 A Yes, uh-huh, in Section 22.

23 Q I'm sorry, it's Section --

24 A South half southwest.

25 Q -- 17.

1 A Okay, yes.

2 Q Let me do that again. I saw 27. That's
3 the township and range.

4 All right, we're looking at 15.

5 A Yes, sir.

6 Q You've got the west half of the southwest
7 quarter?

8 A Uh-huh.

9 Q Down in 22, the northwest quarter and the
10 north half of the southwest quarter.

11 A Yes, sir.

12 Q And then in Section 21, the north half of
13 the north half and then the east half of the northeast and
14 the northeast of the southeast.

15 A Southeast northeast.

16 Q Yeah, south half. All right. That's all
17 under one lease --

18 A That's correct.

19 Q -- as I understand. Is that correct?

20 A Yes, sir.

21 Q When you talk to Mr. Link about proposed
22 offers --

23 A Uh-huh.

24 Q -- what are we talking about? You said
25 you gave him several options. Describe for me the option

1 that includes farming out this acreage to Southland.

2 A Okay. To the best of my knowledge --

3 Q Let's start with February. Let's talk
4 about the latest series --

5 A Okay. The latest offer we made was to
6 drill our well as proposed in the northwest quarter of Sec-
7 tion 21, Mr. Link earning -- or excuse me, Southland Royalty
8 Company earning 100 percent of Mr. Link's interest. Under
9 the drilled proration unit Mr. Link was earning -- reserving
10 6.25 percent override convertible to a 25 percent working
11 interest at payout, and in addition, Southland would earn a
12 portion of his acreage outside the dedicated proration unit.

13 Q Have you made a proposal to Mr. Link
14 about purchasing his entire lease in all these various sec-
15 tions?

16 A Sure.

17 Q What does that propose?

18 A In fact, we've actually made two propos-
19 als along those lines. I think only one's in writing.

20 We made a proposal to purchase 100 per-
21 cent of his interest in the entire Federal lease, assuming
22 it's 560 acres of a \$357 per acre offer, which comes to a
23 total bonus of 199,920 acres.

24 Q And what was the override under a pur-
25 chase?

1 A 6.25 percent override.

2 Q All right.

3 A And the second offer, which was made by
4 phone to him the other day, was an offer to purchase only
5 his acreage in Section 21 and he would keep the balance of
6 this acreage and we would pay him a \$500 per acre bonus for
7 the acreage in Section 20, plus a 6.25 percent override, and
8 the, of course, the last proposal we made was for him to
9 just join as a working interest partner.

10 Q You've indicated to me earlier that the
11 recommendation from Mr. Sledge and the Geologic Department
12 about the maximum economic value for this acreage in ap-
13 proximately April of '82 was \$650.

14 A Uh-huh.

15 Q Is that still the maximum economic limit
16 agreed to Mr. Sledge and the Geology Department?

17 A No, sir, it is not.

18 Q All right, sir, what is that number?

19 A \$500 an acre, and that is input for an en-
20 gineering-geological-district landman, as well as myself.

21 Q All right, sir.

22 In terms of any continuing efforts to
23 work out a purchase agreement, Mr. Davis, does the process
24 we're going through now terminate that or is Southland still
25 willing to acquire Mr. Link's acreage?

1 A I'd have to say at this point that --
2 that offer is terminated from -- from the standpoint that
3 our upper level management has not approved this money.

4 Assuming he accepted an offer, we would
5 have to go back to management and once again it would be
6 subject to management's approval.

7 Q You have an authority, then, at this
8 point to accept any kind of settlement based upon a bonus of
9 \$500 an acre and a 6.25 overriding royalty.

10 A Not without -- no, not without
11 consultation with my upper level management.

12 Q Do you have any discretion or authority
13 to alter the orientation of the proration unit from a west
14 half proration unit to a north half proration unit?

15 A Those are really geological and
16 engineering questions concerning locations and proration
17 units, et cetera.

18 Q Mr. Link has raised that issue with you,
19 has he not, in --

20 A Yes, he has.

21 Q -- discussions with you?

22 A Yes, he has.

23 Q And have you in turn conveyed that
24 request on his part to your management and to your
25 geologist?

1 A Yes, I have.

2 Q All right, and what decision has been
3 made about that issue?

4 A That our location is as good a location
5 as the one he's recommending.

6 Q All right. Let's look in terms of as-
7 signing to Mr. Link a 6.25 percent overriding royalty for
8 his acreage.

9 A Uh-huh.

10 Q And the consequence that would have in
11 calculating the net revenue interest --

12 A Uh-huh.

13 Q -- that Southland would have on a west
14 half proration unit versus a north half proration unit.

15 A Uh-huh.

16 Q What happens to Southland's net revenue
17 interest assuming they have purchased the Link acreage,
18 giving him an override of 6.25, and we have a west half de-
19 dication. What's your net revenue interest?

20 A Well, I haven't got the exact figure. Of
21 course it increases and decreases proportionately his over-
22 ride.

23 Q Can you give me an estimate of what -- of
24 what that net revenue interest will be?

25 A To Southland?

1 Q Yes, sir.

2 A Approximately, I would say, in the
3 neighborhood of 82 percent. I think the KGS tract has a
4 one-sixth burden on it and then assuming we bought Mr.
5 Link's acreage, 6.25 percent, assuming he still has an 87-
6 1/2 percent net revenue, would be 81-1/4 there, so we're in
7 the range of 81-1/4 acres. So --

8 Q If we turn the proration unit now and do
9 a north half dedication, what would be Southland's net reve-
10 nue interest in that arrangement, assuming the KGS royalty
11 and assuming Mr. Link's royalty of 12.5?

12 A 83, well, assuming we purchased Mr.
13 Link's acreage.

14 Q Yes, sir.

15 A Okay, probably, well, it would -- it
16 would decrease a little but we'd still be in the range of 81
17 to 82 percent.

18 Q Mr. Davis, I would like your understand-
19 ing of how far the parties are apart on this purchase propo-
20 sition.

21 A Uh-huh.

22 Q What is your understanding of Mr. Link's
23 position versus Southland's position? How far apart are we?

24 A I think, the best I can recall, we're of-
25 fering \$500 an acre and 6.25 percent. I think he's request-

1 ing what in essence would be about \$816, I think, for the
2 acreage in Section 21 and \$200 for the outlying acreage, so
3 I guess we're probably -- and the most important acreage by
4 all means is the acreage in Section 21 -- we're a little
5 over \$300 per acre apart, I think.

6 Q I'm a little confused. I think I've mis-
7 understood what you've told me.

8 The offer of \$500 an acre, is that only
9 for Section 21 acreage or is that for the whole 560?

10 A That is correct. It's only for the ac-
11 reage in Section 21.

12 Q All right. And what is Southland's best
13 offer for all 560 acres?

14 A \$357 an acre, or \$199,920, which is basi-
15 cally paying what we feel \$500 per acre for Section 21 and a
16 much reduced rate for the outlying acres.

17 Q All right. When was this price first of-
18 fered to Mr. Link?

19 A By letter it was in February of '85. I
20 can't recall if we made it verbally over the phone prior to
21 that.

22 I'm not -- I don't think we did. I think
23 that was the first time we made that offer.

24 Q What is your recollection of what Mr.
25 Hooper's offer was back --

1 A I think his best offer was \$300 an acre
2 and a 5 percent.

3 Q All right. So over the last year, then,
4 you've come up \$57 an acre and increased the override 1.25
5 percent.

6 A Yes, and a declining market.

7 Q All right. You talked about the prepara-
8 tion of the AFE awhile ago, Mr. Davis, and you attested to
9 the fact that you thought this was fair and reasonable.

10 A Uh-huh.

11 Q Can you identify for us what wells you
12 drew this comparison from to determine that this AFE is
13 reasonable?

14 A Well, we've basically, we're drilled a
15 number of wells out here and most of them east of here in
16 18,28, 19,28, and those wells are about 11,500 feet and the
17 completed well cost on those is about \$880,000.

18 On a general review, as you come up hole
19 somewhat, of course, the cost is going to decrease rapidly,
20 but a lot of a detailed AFE, I have to rely on our Engineer-
21 ing Department, but I do feel that -- that my knowledge of
22 the final costs of the wells east of here versus my know-
23 ledge of this AFE, I would think it's probably in line.

24 Q When we look at Item number -- well, it's
25 not numbered, it's the first intangible halfway down, the

1 footage rate, the drilling rate --

2 A Yes.

3 Q -- \$14.00 a foot?

4 A Uh-huh.

5 Q How current is that number?

6 A That number is about, let's see, it's as
7 current as February 6th, '85, and they constantly review
8 these, so I would think it's probably current from two to
9 three weeks.

10 Q All right, sir, when does Southland pro-
11 pose to commence the well we're talking about now? This
12 well?

13 A Well, that's hard to tell, and the reason
14 it's hard to tell is because we're been trying to negotiate
15 the purchase of the lease for two years. We're not even
16 very close to doing it, so at this point, if purchase is
17 made, I would think we would probably drill this well in the
18 next six to eight months.

19 Q Okay, you don't have any expiring lease
20 or other kind of time constraints on your acreage here?

21 A No, the only constraints we have on a
22 long term look, of course, is the lease expiration.

23 The other constraints we have, if the
24 well is approved and we don't drill the well, it comes
25 around again and it may not be approved next time, you know,

1 and of course, once again, this is a market condition type
2 situation, so --

3 Q You said -- you talked about notice to
4 Mr. Link and filing of the application on March 5th.

5 A 15th.

6 Q I'm sorry, March 15th of 1985?

7 A Uh-huh.

8 Q At what point did you notify Mr. Link
9 that the hearing was going to take place in this case?

10 A Okay. Originally it was, of course, it
11 was done by our attorney, Bill Carr. It was done by formal
12 written notice.

13 So at the point in time, I would assume
14 notification is at the point in time that it reaches his
15 place of residence or his office, so I guess you're looking
16 at a day, two days from the 15th; I guess you could say
17 about March 17th or 18th.

18 Q All right, sir, I think I'm about
19 through. Just to make sure I'm correct on this, from a
20 landman's point of view in calculating the net revenue in-
21 terest to Southland Royalty, it does not appear to make a
22 material difference in terms of the income that Southland
23 would receive from the well whether or not it's a north half
24 dedication as opposed to a west half dedication.

25 A Not a large difference.

1 Q All right, sir, we're dealing with a one
2 or two percent difference.

3 A That's correct.

4 MR. KELLAHIN: Could I have
5 just a moment, Mr. Quintana?

6 MR. QUINTANA: Uh-huh.

7 MR. KELLAHIN: That concludes
8 my questions for Mr. Davis. Thank you.

9 MR. QUINTANA: Do you have some
10 additional questions?

11

12 REDIRECT EXAMINATION

13 BY MR. CARR:

14 Q Mr. Davis, in response to a question by
15 Mr. Kellahin you stated that if you were able to purchase
16 the other interest in this section, that you anticipated you
17 would drill a well within six to eight months, is that cor-
18 rect?

19 A Yes, sir, that's correct.

20 Q If you obtain a pooling order pooling the
21 west half of this section for a Pennsylvanian well, is
22 Southland prepared to go forward with the drilling of a well
23 within ninety days?

24 A Yes, sir.

25 MR. CARR: I have no further

1 questions.

2 MR. QUINTANA: Are there any
3 further questions of the witness at this time?

4 If not, he may be excused.

5 I think we'll break for lunch
6 now and be back at 1:15.

7

8 (Thereupon the noon recess was taken.)

9

10 MR. QUINTANA: The hearing will
11 come to order.

12 The last -- we stopped with --
13 I assume we have a new witness now, Mr. Carr?

14 MR. CARR: Yes, we do.

15 MR. QUINTANA: You may proceed.

16 MR. CARR: At this time I'd
17 call Patricia Weber.

18

19 PATRICIA WEBER,
20 being called as a witness and being duly sworn upon her
21 oath, testified as follows, to-wit:

22

23 DIRECT EXAMINATION

24 BY MR. CARR:

25 Q Will you state your full name and place

1 of residence?

2 A Patricia Weber, Midland, Texas.

3 Q By whom are you employed?

4 A Southland Royalty Company.

5 Q Have you previously testified before this
6 Division or one of its Examiners?

7 A No, I have not.

8 Q Would you summarize for Mr. Quintana your
9 educational background and your work experience?

10 A Yes. I have a Bachelor of Arts degree in
11 geology from Western Connecticut State University; received
12 that in January of '76.

13 Since then I've been employed by four
14 different oil and gas companies in the Midland area; most
15 recently Southland Royalty. I've been with them nearly two
16 years.

17 Q With Southland Royalty company does your
18 area of responsibility include that portion of southeast New
19 Mexico which is involved in this case?

20 A Yes, it does.

21 Q Are you familiar with the application
22 filed herein on behalf of Southland Royalty Company?

23 A Yes, I am.

24 Q Are you familiar with the subject area
25 and the proposed well?

1 A Yes.

2 MR. CARR: At this time I would
3 tender Patricia Weber as an expert witness in petroleum
4 geology.

5 MR. QUINTANA: We'll accept her
6 qualifications as an expert petroleum geologist.

7 Q Ms. Weber, have you prepared certain ex-
8 hibits for introduction in this case?

9 A Yes, I have.

10 Q Would you please refer to what has been
11 marked as Southland's Exhibit Number Four, identify this and
12 review it for the Examiner, please?

13 A Exhibit Number Four is a structure map
14 mapped on the Chester, the top of the Mississippian, and it
15 trends, the structure in that area trends southwest/north-
16 east, and shows a paleotopographic surface on which all the
17 Morrow Clastics were deposited and also shows that there is
18 a low over Section 21 and Section 16.

19 Q How would you characterize the control
20 available to you in preparing this structure map?

21 A I'd say there is a considerable amount of
22 control.

23 Q Would you now refer to Southland Exhibit
24 Number Five, identify this, and review it for Mr. Quintana?

25 A Exhibit Number Five is a Lower Morrow

1 gross and net sand Isopach. It shows the beach environment
2 and deposition of that sand in the low presented by the
3 Chester surface, and shows that there is a thick accumula-
4 tion of sand from the Lower Morrow over Section 21 and 16.

5 Q When was the structure map actually pre-
6 pared?

7 A My first experience with mapping in this
8 -- for this prospect was a year and a half ago.

9 Q Is this a gross Isopach or a net Isopach?

10 A This is a gross Isopach; however, a gross
11 Isopach contoured on the net porosity.

12 Q And what porosity cutoff did you use?

13 A We used 6 percent.

14 Q I'm sorry, I didn't hear you. When did
15 you say this exhibit was prepared?

16 A My first work with this mapping for this
17 prospect was about a year and a half ago.

18 Q Has it been revised from time to time?

19 A Many of the Southland geologists, the
20 District Geologist, and of course the reservoir engineering
21 people, have all worked -- put their thoughts together on
22 this map and its been changed over the -- the time.

23 Q Would you now go to Southland Exhibit
24 Number Six, identify this, and review it, please?

25 A Exhibit Number Six is an Upper Morrow

1 gross and net sand Isopach and it shows again to the sand
2 accumulation deposited on the low, Lower Chester beneath it,
3 and also shows the significant sand trend and it is 90 per-
4 cent -- 90 degree to the regional strike.

5 And the thick in that sand also occurs
6 over Section 16 and 21.

7 Q Are you aware of the location that has
8 been proposed in the northwest quarter of Section 21 by Mr.
9 Link?

10 A Yes.

11 Q And what is that location?

12 A That's 990 from the north and 990 from
13 the west.

14 Q And what is Southland's location?

15 A Southland's is 1980 from the north and
16 660 from the west line.

17 Q Looking at this Isopachous map, can you
18 compare those two proposed locations?

19 A Yes. Actually, there really isn't much
20 difference between the two locations.

21 Q If I could ask you to go back to Exhibit
22 Number Five and again ask you to compare those two locations
23 based on your Isopachous map of the Lower Morrow, how would
24 they compare?

25 A The same, as being relatively no differ-

1 ence.

2 MR. KELLAHIN: Which exhibit,
3 I'm sorry?

4 MR. CARR: Exhibit Number Five,
5 the Lower Morrow Gross Sand Isopach.

6 Q Okay. Would you now go to Southland Ex-
7 hibit Number Seven and identify this and review it?

8 A Exhibit Number Seven is a Lower Atoka
9 gross sand Isopach. This is the only Atoka that is prospec-
10 tive in the area and produces, and it's deposited on strike
11 with the adjacent Chester structure, and shows that the sand
12 appears to thicken to the northwest in Section 16.

13 Q How in -- on this Isopach, how would the
14 proposed location of Mr. Link compare with that location
15 that has been proposed by Southland Royalty Company?

16 A Again it would be the same.

17 Q Now, there has been some testimony this
18 morning concerning development of the south half of Section
19 16. In the south half of Section 16 would you advise the
20 Examiner as to the chances for encountering the Atoka?

21 A We think that the south half of 16 is a
22 better prospective location for the Atoka and that's again
23 based on the considerable amount of control we have.

24 Q Was the Atoka present in the abandoned
25 well in Section 21?

1 A It was not, but the Atoka reservoir sand
2 was not there.

3 Q In Section 21 would the Atoka be a
4 primary objective?

5 A No, it would not.

6 Q Do you have an opinion as a result of
7 your study of this area as to the most prudent way to
8 develop Section 21?

9 A Yes. After considerable thought, the
10 most effective way to void the Morrow and Atoka reservoirs
11 would be with two stand-up units, Section 21, the well drill-
12 led in the north portion of each of those.

13 Q Do you believe that development with a
14 north half section would provide you with equal flexibility
15 for the development of the reserves underneath that spacing
16 unit?

17 A I think that would cut down on reserves
18 considerably. The two wells in the northern -- on the
19 stand-up units would drain a considerably larger amount --
20 area, and also both on trend with the Morrow and Atoka sand,
21 and then also be good prospective locations for any addi-
22 tional sands there that we anticipate but aren't real, you
23 know, sure of right now.

24 Q Are you prepared to make a recommendation
25 to the Examiner as to the risk penalty that should be asses-

1 sed against any nonconsenting interest owner in either the
2 northwest quarter of Section 21 or in the west half, what-
3 ever the unit happens to be?

4 A Yes, I am.

5 Q And what is that?

6 A We recommend that it be 200 percent.

7 Q And upon what do you base that recommen-
8 dation?

9 A Based on the -- just the sheer riskiness
10 of the Morrow and Atoka drilling in this area. The success
11 ratio is quite low and a lot of dry holes here.

12 Q And are there dry holes in the area?

13 A Yes, there are.

14 Q In your opinion is it possible that
15 Southland could drill a well anywhere in this spacing unit
16 and get a well that is not a commercial success?

17 A Unfortunately, yes.

18 Q In your opinion will granting the appli-
19 cation of Southland Royalty Company be in the best interest
20 of conservation, the prevention of waste, and the protection
21 of correlative rights?

22 A Yes.

23 Q Were Exhibits Four through Seven prepared
24 by you or have you reviewed them and can you testify as to
25 their accuracy?

1 A Yes, I can.

2 MR. CARR: At this time, Mr.
3 Quintana, we would offer into evidence Southland Royalty
4 Company Exhibits Four through Seven.

5 MR. QUINTANA: Exhibits Four
6 through Seven will be entered into evidence.

7 MR. CARR: That concludes my
8 direct examination of this witness.

9 MR. QUINTANA: Mr. Kellahin?

10 MR. KELLAHIN: May I have just
11 a moment?

12

13

CROSS EXAMINATION

14 BY MR. KELLAHIN:

15 Q Ms. Weber, let me ask you some questions
16 about your exhibits in general.

17 I see that Exhibits Four, Five, Six, and
18 Seven all have notations on them that they are the work pro-
19 duct of various people, some of which bear your name and
20 some of which bear the names of others.

21 For example, on Exhibit Number Five, this
22 shows Mr. Betcher (sic) as the geologist and he revised it
23 in 1983.

24 Did you participate in any way in the
25 preparation of Exhibit Number Five.

1 saying that your recommendation is that there would be a
2 well located in the northwest quarter and that there be a
3 well located in the northeast quarter, and that if we had
4 two stand-up units in Section 21, that would give you the
5 opportunity for two wells in the north half. Is that a fair
6 representation of what you said?

7 A No. Actually, in Section 21 we feel that
8 most of the sand is deposited on trend and that involves
9 Section 21 as a whole. Right now we feel confident of our
10 present location at 1980 and 660 and the second location
11 will depend on the results from the first drilling that we
12 do.

13 Q The first well would be in the northwest
14 quarter?

15 A It would be 1980 from the north and 660
16 from west in 21.

17 Q That puts it in the northwest quarter.

18 A That's for the whatever you want to call
19 it, the stand-up 320.

20 Q All right. And the second well, if it's
21 drilled, would be in the northeast quarter.

22 A It would be in the stand-up 320 on the
23 east side of 21, right.

24 Q All right. Why would you not locate the
25 wells in Section 21, one of those wells in the southeast

1 quarter of 21?

2 A There's really no reason not to. It may
3 turn out that after drilling the first well that southeast
4 quarter might even be a better location.

5 Of course the sands do trend through that
6 section and we will have to see what happens when we have
7 the first well in.

8 Q Isn't there already an attempt made in
9 the southeast quarter in the Coquina Oil No. 1 Dean Federal
10 Well?

11 A There was a well drilled there and it was
12 not a completed well.

13 Q And why was it not a completed well?

14 A I don't know Coquina's, you know, speci-
15 fic reasons for plugging the well. It may have in fact been
16 a, you know, a viable location or a good producing well. We
17 really have no idea of knowing what their specific testing,
18 you know, involved, who was calling the tests, what their
19 backgrounds were, if the well was tested properly, if sands
20 were not overlooked. We really don't know.

21 Q Well, you've got the Coquina Well on your
22 cross section as the last well on the right, don't you?

23 A That's correct.

24 Q All right. Coquina drilled that well to
25 a depth to penetrate the potential producing zones in the

1 Pennsylvanian that you've identified on the cross section,
2 did they not?

3 A That's right.

4 Q All right. And Coquina drill stem tested
5 those intervals, did they not?

6 A Yes, if I can see from here correctly,
7 they did drill stem test the -- looks like part of the Upper
8 Morrow and that log right there is not a lithology indica-
9 tive log and I can't say right now if they tested all the
10 sands or whether they did not.

11 It may actually be that that Coquina Well
12 is a good indication that the sands may develop near the
13 middle of Section 21 to the north of that well. It may
14 prove to be a good key well.

15 Q A key well for what purpose?

16 A For a location in the southeast area or
17 like a 1980/660, 1980 from the south.

18 Q All right. You've noted on the base of
19 that cross section showing the Coquina log that there were
20 two different drill stem tests. Right?

21 A That's right, uh-huh.

22 Q All right. Did any of those drill stem
23 tests show commercial gas to be produced out of either --

24 A I'd have --

25 Q -- one of those wells?

1 A I don't recall right offhand what --

2 Q All right, let's have you look.

3 A Okay, the first drill stem test (not un-
4 derstood). It was an area that we don't even see that
5 there's sand development. Their reason for running a (not
6 understood) we have no way of knowing. We don't even see
7 any sands there.

8 Q Are you involved as a geologist in the
9 evaluation of drill stem test information?

10 A Not as -- not as a reservoir expert.

11 Q That would be a function of a reservoir
12 engineer. All right, but you're able to identify the sec-
13 tions that ought to be drill stem tested by your analysis of
14 the log.

15 A No, not by the log, by the drilling of
16 the well.

17 Q All right. Now there are two drill stem
18 tests indicated. Are you aware of whether or not there were
19 any other drill stem tests of any of those intervals?

20 A Those are the only two recorded.

21 Q Are you aware of any other information
22 about the Coquina Oil Well that we're looking at that you
23 can base a geologic opinion about?

24 A Just the reliable information of the open
25 hole log showing that there may be sands, especially from

1 the Morrow, that were untested.

2 Q All right. If we look, for example, on
3 Exhibit Number Seven and if I orient you to Section 20,
4 there is a dry hole in Section 20 with a circle around it?

5 A Yes, there is.

6 Q All right, you found that one. It's got
7 the number 24-something.

8 A It's a question mark.

9 Q A question mark. What does that mean?

10 A Okay, that first number is a gross sand.
11 That's how many feet of sand we think are in the well in the
12 Morrow -- in the Atoka section.

13 That -- on that -- the reason there was a
14 question mark for net sand is unfortunately a lot of the
15 data material is old or unreliable and there was a 1971 FNP
16 run on the well that is questionable for porosity, so we
17 disallowed that information.

18 Q Let me make sure I understand. The well
19 in Section 20, was that well tested in the Lower Atoka sand
20 that you've mapped on this Isopach?

21 A Not that I recall.

22 Q The gross sand that you've attributed to
23 that well is 24 feet?

24 A Yes.

25 Q All right, and what is the status of that

1 well?

2 A To my knowledge it's plugged and aban-
3 doned.

4 Q Do you know whether or not the operator
5 of that well tested that 24-foot interval before they aban-
6 doned the well?

7 A I do not recall.

8 Q In terms of mapping the Isopach --

9 A No, let me --

10 Q All right.

11 A Let me say that well was not tested in
12 that zone.

13 Q Okay. But the operator did abandon the
14 well?

15 A It shows to be plugged and abandoned.

16 Q And you credit it in terms of drawing the
17 Isopach with 24 feet on the contour lines.

18 A Yes.

19 Q All right. Let's look at Exhibit Number
20 Five for a moment.

21 You mapped the Lower Morrow A gross Iso-
22 pach from that one. Is that the producing interval that was
23 produced in the Continental Duffield No. 1 Well, located in
24 Section 21?

25 A It was one of the sands that was per-

1 perforated, yes.

2 Q What other sands were perforated?

3 A In the Continental well, the Upper, what
4 we call the Upper Morrow was.

5 Q And was the Lower Atoka produced in that
6 Duffield Well?

7 A I don't believe it's perforated, no.

8 Q All right. Let's look at the Duffield
9 Well for a moment then, and look at Exhibits Six and Five on
10 which you've mapped the Upper and Lower Morrow for that
11 well.

12 What is the net thickness of sands that
13 you've attributed to that wellbore in the Upper Morrow?

14 A It's 12 feet and that's based on
15 information we had available.

16 Q That's 12 feet and that's the gross
17 number.

18 A That's right.

19 Q There's a question mark on the net
20 number.

21 A Yes. The net number is not determined
22 because of insufficient data.

23 Q And we go across to the Lower Morrow and
24 we've got 6 feet of Lower Morrow gross sand and question
25 mark on the net number. Right?

1 A That's right. Yes.

2 Q So the gross interval for the Upper and
3 Lower Morrow is 18 gross feet for that well.

4 A As our data indicates, that's right.

5 Q Was that gross interval opened with per-
6 forations in that well?

7 A Both Morrow sands were perforated.

8 Q And what was the total gas production
9 from the Duffield Well over the life of that well?

10 A The well made 4.4 BCF.

11 Q And when was the well plugged?

12 A It was plugged in 1968.

13 Q In terms of locating a well in the south-
14 west quarter, we've talked about a well in the southeast
15 quarter, let's talk about a well in the southwest quarter,
16 that would be in the same quarter section with the Conoco
17 Duffield Well we've just talked about, would it not?

18 A Yes.

19 Q All right. Would you propose to locate a
20 well in the southwest quarter to test any of these potential
21 sands that you've mapped on your exhibits?

22 A Our proposed location is firmly updated
23 1980 from the north and 660 from the west. That's our most
24 confident location to drill a well there.

25 Q Why would you have no confidence in drill-

1 ling a well in the southeast quarter?

2 A I didn't say I wouldn't have no confi-
3 dence. I'm saying that our best shot is where we decided.

4 Q All right, would you drill a well in the
5 southeast quarter -- southwest quarter?

6 A I would drill the best location and the
7 best location is 1980 from the north and 660 from the west.

8 Q All right. You've told me that notwith-
9 standing the Coquina Well in the southeast quarter you would
10 recommend drilling a well in the southeast quarter. Is that
11 not what you said?

12 A I would drill our best location first.
13 I'm not saying that that acreage is condemned.

14 Q All right, what is the second best loca-
15 tion?

16 A I won't know until the first well is
17 drilled.

18 Q In taking the four quarter sections in
19 Section 21, would you rate those in order of preference as
20 to their ability to contribute acreage to the well?

21 A I'd say that Section 21 overall is as
22 equal and as important as is Section 16. The whole play
23 mapped over the general area is equally as important.

24 Q Each of the 160-acre quarter section --

25 A Is all prospective in the Morrow trend.

1 Of course, our location is picked on where we think we'll
2 have the best success.

3 Q You tell me the four quarter sections in
4 21 are all equal.

5 A On a trend basis, yes.

6 Q All right. Then upon what do you base
7 your preference for a location in the northwest quarter as
8 opposed to the equally preferable quarter acre tract in the
9 southwest quarter?

10 A Based on a year and a half worth of re-
11 servoir engineering and exploration, exploitation expertise
12 using all of the data that we had available.

13 Q Are you a reservoir engineer?

14 A I'm an exploitation geologist.

15 Q Let's take Exhibit Number Seven for a mo-
16 ment, Ms. Weber.

17 I'm interested in what you do as an ex-
18 ploration geologist in using this exhibit that identifies
19 gross sand and net sand in determining where to best locate
20 a well to test the Lower Atoka.

21 For example, if we look in Section 20, or
22 Section 21, how do you use this map to determine where to
23 locate a well in reference to the fact that you do have
24 wells that have produced and you do have wells that are dry
25 holes?

1 A Unfortunately, in the Morrow and Atoka,
2 such a risky pay, that the best tools that we've found
3 available to us at Southland are constructing Isopach maps.
4 Unfortunately, they throw all of the sand intervals to-
5 gether. Of course, the Morrow and Atoka is made up of a lot
6 of prospective sands, and so unfortunately, we don't have a
7 cut and dry situation like we do with carbonates and struc-
8 tural features, so we use all of our Isopach maps as a
9 guide.

10 Q All right. I want to use the Exhibit
11 Number Seven as a guide to pick a location in Section 21.
12 How do you use that?

13 A You would not use the map, one specific
14 map as one to be the indicator for the location of a well.
15 It only starts us thinking that, yes, we know sands there,
16 and this is how they trend.

17 Q I don't think I understood you. I can't
18 use Exhibit Number Seven to pick a location --

19 A Exhibit Number --

20 Q -- for the Morrow-Atoka?

21 A Exhibit Number Seven tells you that there
22 are Lower Atoka sands trending through the area; the thick-
23 est of which, apparently at this day, are in the Husky Well,
24 leaving that section more prospective for the Atoka than 21.

25 Q And I think you've concluded from Exhibit

1 Seven that Southland's location is similar the way you've
2 mapped it as a location that Mr. Link has suggested 1980
3 from the west and 990 from the north.

4 A There's really very little difference.

5 Q All right. Can we use another one of
6 these maps to pick locations? How about Number Six, the Up-
7 per Morrow? Can we use that one to pick a location?

8 A As I said before, you know, you don't
9 pick locations using a map, and this map tells you that
10 there are Upper Morrow sands trending through the area of
11 beach sand and also deposited at a 90 degree angle to
12 strike.

13 This map tells you that the best prospec-
14 tive areas are Section 16 and 21 and again due to the riski-
15 ness of the Morrow and the unfortunate packaging together of
16 all the Morrow sands, there really isn't a very good, defin-
17 itive way to pick a location using a map.

18 It's telling you that 21 and 16 look good
19 in their opinion.

20 Q Okay, can we use Exhibit Number Five, the
21 Lower Morrow? Can we pick a location for that one?

22 A Exhibit Number Five shows you you can
23 again have Morrow sands striking through the area of beach
24 sands and deposited in the Morrow at a 90 degree angle and
25 tells you that Section 16 and 21 are both prospective for

1 these Lower Morrow sands.

2 Q Now, in Exhibit Number Five there is a
3 difference between the two locations, isn't there, in terms
4 of thickness --

5 A I'd have to --

6 Q -- the way you've mapped it?

7 A Actually, if there is any difference, and
8 if you're going to count, you know, three feet difference, I
9 wish I could -- I wish I could detect the Morrow sands like
10 that.

11 Q Well, you've mapped a high or a thickness
12 in here of a ten-foot interval --

13 A We know that --

14 Q -- in the north half of 21.

15 A Yes. We have a lot of control and we
16 know that there are no Lower Morrow sands in the surrounding
17 wells and the only Lower Morrow sand we see is that which is
18 perforated in the Continental Duffield Well, and our only
19 sands identification, really, through there.

20 Q So Mr. Link's location in 21 in the Lower
21 Morrow would put you in the heart of that ten-foot thick-
22 ness, would it not?

23 A Unfortunately, we don't know. We can
24 only use our trend analysis to say that we hope that the
25 sand is there, whether or not you have 5 feet or 8 feet, and

1 I really couldn't say.

2 Q Did you -- is your geology responsible
3 for picking this location or did some other geologist do
4 this?

5 A It's combined efforts over the last two
6 years of many, many experienced geologists.

7 Q Can you assess a percentage of your
8 involvement in picking this location as opposed to the other
9 participants?

10 A In the last year and a half, I'd say 90
11 percent.

12 Q Did -- were you involved in picking any
13 of the other Southland locations in here?

14 A I was not involved in the Husky Well in
15 16 but I am involved in this trend play and I'm working
16 about three miles to the northeast and (not understood.)

17 Q When we look at Exhibit Number Five, Ms.
18 Weber, I notice that -- I think that's an ownership mark.
19 What's the proration unit assigned in Section 16 to that
20 Husky Well?

21 A It's a north half.

22 Q And when we get down into the south half
23 of 16, what proration unit is Southland going to assign to
24 that well?

25 A I think the Husky well is still

1 producing. It will have to be a south half.

2 Q When Coquina had their well drilling what
3 was the proration dedication in Section 21 to that Coquina
4 Well, do you know?

5 A I believe it was a 160 in the southwest
6 quarter.

7 Q I'm sorry, I've confused you. I'm talk-
8 ing about the Coquina Well.

9 A Oh, the Coquina Well. I don't, I really,
10 don't know.

11 Q The Conoco Well, what acreage was dedi-
12 cated to that, to your knowledge?

13 A The Continental Well?

14 Q Yeah.

15 A The Duffield? That was a 160 southwest
16 quarter, I believe.

17 Q Thank you.

18 MR. KELLAHIN: Nothing further.

19 MR. CARR: I have nothing fur-
20 ther.

21 MR. QUINTANA: At this time I
22 have no questions of the witness.

23 Does anybody else have ques-
24 tions?

25 If not, she may be excused.

1 MR. CARR: That concludes our
2 direct case.

3 I would offer into evidence
4 Southland Royalty Company Exhibit Number Eight.

5 MR. QUINTANA: Exhibit Number
6 Eight will be entered as evidence.

7 MR. KELLAHIN: Call Mr. Bill
8 Lemay.

9
10 WILLIAM LEMAY,
11 being called as a witness and being duly sworn upon his
12 oath, testified as follows, to-wit:

13

14 DIRECT EXAMINATION

15 BY MR. KELLAHIN:

16 Q Mr. Lemay, for the record would you
17 please state your name and occupation?

18 A My name is William J. Lemay. I'm a pet-
19 roleum geologist, an independent, in Santa Fe, New Mexico.
20 I have had 28 years experience in southeast New Mexico in
21 the Permian Basin and I have testified previously before
22 this Commission.

23 Q Mr. Lemay, are -- have you been retained
24 as a consulting petroleum geologist by Mr. Don Link and Mr.
25 Dennis Link to evaluate their property and to analyze their

1 interest with regards to this case?

2 A Yes, I have.

3 MR. KELLAHIN: We tender Mr.
4 Lemay as an expert petroleum geologist, Mr. Quintana.

5 MR. QUINTANA: We recognize his
6 qualifications; he's accepted.

7 Q Mr. Lemay, let me turn first of all to
8 the ownership plat and have you identify that for us, sir,
9 and describe what we have.

10 A Exhibit Number One is a land map of the
11 general area, Township 16 South, Range 27 East.

12 Specifically in Section 21 it addresses
13 the proration unit as proposed by Southland, colored in
14 blue, which was the west half of Section 21, containing ap-
15 proximately 320 acres, and the recommended proration unit,
16 which I recommended to Mr. Link, and which we think is the
17 better proration unit for many reasons for a test well in
18 Section 21.

19 Q All right. Let me see if I can't put in
20 perspective what the specific dispute is, Mr. Lemay.

21 You have recommended as a geologist that
22 the proration unit be the north half as opposed to the west
23 half?

24 A That is correct.

25 Q Are there any other areas in which you

1 are in disagreement with Southland's presentation in terms
2 of well location?

3 A Only in approach. I have no disagreement
4 with the -- with numerous geologists who will present gross
5 Isopach trends within intervals of the Atoka-Morrow; how-
6 ever, when those trends and maps fail to delineate produc-
7 tion from nonproduction, I find it very difficult to come to
8 grips with any form of discussion.

9 I would almost say Southland's approach
10 would tend to be more pure science and did not take into ac-
11 count why a certain well or combination of wells produced
12 gas from the Atoka-Morrow interval and why certain wells
13 were dry.

14 For that reason, it's hard to argue with
15 those exhibits but it's also very difficult for me to -- to
16 find any basis for either productive, gas productive acreage
17 in the Morrow, or any drainage from the gas well that has
18 produced over 4 BCF, the Continental Duffield, and I ap-
19 proach the area completely differently.

20 Q All right, sir, let's talk, Mr. Lemay,
21 about the process you go through as a consulting geologist
22 in order to evaluate Mr. Link's property so that you have a
23 basis of information when -- from which you are then com-
24 fortable to draw certain conclusions.

25 What is the first thing you did in ana-

1 lyzing this property for Mr. Link?

2 A I started with a general -- of course,
3 I've worked with the Atoka-Morrow all over southeast New
4 Mexico, but specifically I looked at the available data,
5 which were logs, completion information, drill stem tests,
6 in the township of 16, 27.

7 I concentrated most of my detailed effort
8 in the 12-section area, as shown on Exhibit Two and Three,
9 but in general, the area and wells surrounding Section 21,
10 which was the -- the area that is disputed.

11 Q All right, sir, let's turn now to Exhibit
12 Number Two and have you describe for us the structure map as
13 you've depicted it, and what, if any, conclusions you reach
14 from that exhibit.

15 A Exhibit Two, I've constructed a structure
16 map on the top of the Atoka formation, which is the -- are
17 the first clastics encountered in the Lower Pennsylvanian
18 interval.

19 That map shows a nose generally located
20 in Section 16. It's been my experience with the Atoka and
21 Morrow that generally structure has very little influence,
22 especially on top -- a map on top of the Morrow or a map on
23 top of the Atoka has very little influence on the trapping
24 of gas within the Atoka-Morrow interval.

25 Q Has your mapping of the structure for

1 this site specific area confirmed your general assumptions
2 about structure not being a factor?

3 A It has. After -- after constructing and
4 analyzing this structure map, I do not consider it a map
5 which would differentiate productive wells from nonproduc-
6 tive wells.

7 Q All right, sir, let's turn to Exhibit
8 Three.

9 A Exhibit Three is an Isopach map, however,
10 it is a net Isopach map of porous gas sands within the
11 Atoka-Morrow interval.

12 Again, like Exhibit Two, the producing
13 Atoka-Morrow gas wells are colored in orange.

14 The wells that are circle are wells that
15 have either penetrated the Atoka-Morrow section and there-
16 fore are either dry holes, producing wells, or in the case
17 of the Southland No. 1 Duffield 16, a proposed location
18 which has been -- been staked in the south half of Section
19 16.

20 The -- would say the Exhibit Number Three
21 is a map in which as a geologist I could pick favorable lo-
22 cations and high grade the area, so to speak, within the
23 Atoka-Morrow.

24 The net porous sands were -- the interval
25 was picked from available logs and I did look at all of

1 them. Gas effect was a big factor. Of course drill stem
2 tests; any indications of production were taken into account
3 as to cataloging a sand as porous, permeable, and gas-bearing
4 in the area.

5 I think --

6 Q All right, let's at the same time we look
7 at the Isopach, let's go to the cross section, Exhibit Number
8 Four, Mr. Lemay, and have you correlate the cross sections
9 with the way you've mapped the sands on the Isopach
10 map.

11 A Yes. The closest wells that affect Section
12 21 are the Husky Well; Husky was purchased by Marathon.
13 That's the No. 1 Husky SRC State in the northwest quarter,
14 northeast quarter of Section 16.

15 The Continental No. 1 Duffield Well,
16 which is the depleted producer in Section 21. That location
17 is in the northeast quarter southwest quarter; and the Coquina
18 No. 1 Dean Federal, a dry hole, which was drilled and
19 tested by Coquina in 1974.

20 Q Let's look at the Coquina Well for a moment,
21 Mr. Lemay. We have that one in the southeast quarter
22 of the section. Do you see any indications on the logs or
23 from any other information you've studied that Coquina
24 failed to test any potential zone in that wellbore that
25 could contribute gas from this interval?

1 A No, I do not. They ran two drill stem
2 tests which cover the correlative interval in the Continen-
3 tal Duffield; 90 foot of gas-cut mud and 10 feet of slightly
4 gas-cut mud indicates to me nonproductivity. I don't think
5 any prudent operator would handle the well any differently.
6 I think it's a legitimate dry hole, and I think on that
7 basis you'd have to condemn not only the wellbore itself but
8 a certain percentage of acreage around that wellbore.

9 Q Has your Isopach, Exhibit Number Three,
10 taken into consideration the significance of the Coquina dry
11 hole?

12 A It certainly has. It shows that the
13 general sands, productive sands, within the Atoka-Morrow
14 interval in this general area do trend north/northeast
15 south/southwest, and then up in the vicinity of the north
16 half of 16 the trend bears a more easterly direction,
17 east/northeast, but there is a general continuity to the
18 producing trend.

19 The map does show quite a few significant
20 dry holes in the area and I think you have to take the dry
21 holes into consideration and when you're analyzing the area,
22 assign a certain amount of -- of nonproductive acreage asso-
23 ciated with each dry hole.

24 I don't think you can -- you can say that
25 certain dry holes, and let's see that reason specifically,

1 to say this dry hole was not tested in this interval and we
2 feel that it should have been; I think you have to assume
3 that the operators were prudent in their drilling and test-
4 ing of the wells and that these wells are nonproductive and
5 that a certain amount of acreage around these dry holes is
6 nonproductive.

7 This was taken in consideration in draw-
8 ing the productive sand trend through the subject area.

9 Q Let's turn now to the Continental Duf-
10 field Well in the southwest quarter. That also appears on
11 your Exhibit Number Four, the cross section?

12 A That's correct.

13 Q In your opinion has the operator of that
14 well prior to plugging the well perforated all the poten-
15 tially productive sands that you see in this interval for
16 this well?

17 A I think -- of course, the well was dril-
18 led in 1952 and considering the technology then, I think
19 Continental did an excellent job.

20 They did run two drill stem tests, both
21 of which flowed significant volumes of gas with good pres-
22 sures; 3,000,000 cubic feet of gas in the upper; a little
23 over 1,000,000 cubic feet in the lower test, as indicated on
24 my cross section.

25 They did perforate two out of the three

1 sands. That third sand, which might have contributed a lit-
2 tle gas, is very, very thin, only two or three feet. I do
3 correlate it with the same interval as the upper set of per-
4 forations in the Husky Well; however, they -- they did a
5 prudent job and they did complete the well where I would
6 have completed it from -- even with the information today.

7 Q Do you see any geologic barriers, any
8 evidence of discontinuity, around the Continental Duffield
9 Well that would cause you to believe that the area of drain-
10 age from the production from that well, would have been
11 other than you have mapped it on the Isopach?

12 A No, I do not. I think your dry holes,
13 and I've been, I think, very fair in trying to limit the
14 productive area; example, I -- that zero line is midway be-
15 tween or actually a little bit closer to the Coquina Well
16 than the Duffield Well.

17 In cases up in Section 15 where there are
18 two dry holes, I think you have to honor those dry holes and
19 the trend, I think, is established by the producing sands
20 within the correlative intervals of the Atoka-Morrow as
21 shown on my cross section A-A'.

22 This, I think, is the most logical way to
23 draw the producing sand trend, or trends, in the area.

24 Q From a geologist's point of view or per-
25 spective, Mr. Lemay, how do you assess the continuing poten

1 tial of the southwest quarter of this section?

2 A Because of the dry hole that was tested,
3 the Coquina No. 1 Dean Federal, I think you have to assign a
4 certain amount of dry, nonproductive acreage surrounding
5 this well.

6 As I've shown on my exhibit --

7 Q I may have not said that right. You've
8 --

9 A Dry, nonproductive, you have to assume a
10 certain amount of dry --

11 Q You're talking about the Coquina Well and
12 I asked you about the Conoco Duffield Well.

13 A I'm sorry, I thought you said the Coquina
14 Well.

15 Q I may have, but I was asking about the
16 southwest quarter.

17 A Yes.

18 Q The plugged and abandoned well that pro-
19 duced the 4.5 BCF.

20 A Yes.

21 Q How do you assess the -- that acreage,
22 from a geologist's point of view in determining a well loca-
23 tion or the orientation of a proration unit now for this new
24 well?

25

1 A I think you have to assume that a certain
2 amount of drainage connected to producing 4.4-billion cubic
3 feet from that Continental Duffield Well, and therefore,
4 have less, if any, producable reserves in place under the
5 southeast southwest quarter of Section 21.

6 Q Miss Weber has made a recommendation that
7 in her opinion the proration units in Section 21 ought to be
8 stood up to preserve the potential to have two wells in the
9 north half of 21.

10 Do you agree or disagree with that recom-
11 mendation that she's made?

12 A I disagree violently on the basis of cer-
13 tainly correlative rights and ownership in the north half
14 versus the south half.

15 Q Do you see any geologic reason to have
16 two wells in the north half of Section 21 as opposed to one
17 well?

18 A No, I do not, especially considering the
19 fact that Section 16 established a pattern of proration
20 units which is similar, which is following that pattern in
21 Section 16 that's already been established.

22 Q Mr. Lemay, what proration unit would you
23 recommend that the Division establish in order for that pro-
24 ration unit to contain an area that can be effectively and
25 efficiently drained and developed by one well and in so

1 doing, minimize the economic loss of drilling unnecessary
2 wells and protect the correlative rights, including those of
3 royalty owners, prevention of waste, and the avoidance of
4 the augmentation of risk involved in the drilling of unne-
5 cessary wells?

6 A My recommendation that the only proration
7 unit which answers all those issues is the north half of
8 Section 21 and the south half of 21; the north half being
9 the -- certainly the preferred one.

10 Q Were Exhibits One -- Exhibits Two, Three,
11 and Four prepared by you?

12 A They were.

13 Q All right, and Exhibit One is simply a
14 land map upon which you've drawn the proration units.

15 A That is correct.

16 MR. KELLAHIN: We move the in-
17 troduction of Exhibits One, Two, Three, and Four.

18 MR. QUINTANA: Exhibits One
19 through Four will be entered as evidence.

20 Mr. Carr?

21

22 CROSS EXAMINATION

23 BY MR. CARR:

24 Q Mr. Lemay, you stated you were retained
25 by Mr. Link to review this area.

- 1 A That's correct.
- 2 Q When were you retained?
- 3 A I talked to Mr. Link on the phone approx-
4 imately a week and a half, two weeks ago, roughly two weeks
5 ago.
- 6 Q Were you aware at that time that this
7 hearing had been scheduled?
- 8 A At the time I talked to Mr. Link he men-
9 tioned that fact. That's correct.
- 10 Q And you would be appearing here today in
11 opposition to Southland Royalty Company.
- 12 A I'm in opposition to the proration units
13 being established east/west rather than north/south.
- 14 Q And you knew when you were retained that
15 you were going to develop testimony for this hearing, did
16 you not?
- 17 A I was asked to look at the area as a con-
18 sultant for -- for Mr. Link. My experience in southeast New
19 Mexico has given me some background in not only this area
20 but in the Atoka-Morrow throughout southeast New Mexico.
- 21 Q And you do have some experience in this
22 particular area.
- 23 A I've had some, yes.
- 24 Q Now, you have recommended a north half
25 proration unit.

- 1 A That's correct.
- 2 Q And that is your recommendation.
- 3 A That is correct.
- 4 Q What is Mr. Link's ownership in a north
5 half proration unit?
- 6 A He has 5/8ths of the working interest in
7 the north half of Section 21.
- 8 Q And what would his working interest be in
9 a west half unit?
- 10 A One-quarter, 2/8ths, 1/4.
- 11 Q So he has substantially more if we
12 develop this with a north half unit.
- 13 A He would have more in the north half; of
14 course less in the south half.
- 15 Q But the question is you're recommending a
16 north half unit.
- 17 A I'm recommending that my geology says a
18 north half unit contains the productive gas, more productive
19 gas, certainly, than the south half, and my recommendation
20 for a location would be in the north half.
- 21 That would not preclude the south half
22 from being drilled. It would be a separate proration unit.
- 23 Q But you're recommending a north half
24 unit.
- 25 A Yes, I am.

1 Q And that just happens to be a unit in
2 which Mr. Link has substantial more acreage.

3 A That is correct.

4 Q Now, you talked about perhaps Southland's
5 approach being pure scientific, or something of that nature.

6 A I have a hard time differentiating those
7 areas which could be considered low risk Atoka-Morrow pros-
8 pects from -- from higher risk areas based on the exhibits
9 presented, yes.

10 Q Are you aware that they have never had a
11 well in this area that's had to be plugged and abandoned in
12 the Morrow?

13 A I was not aware of that. How many wells
14 have they drilled in the area?

15 Q I'm asking the questions, Mr. Lemay. How
16 many wells has Mr. Link drilled in the area?

17 A Mr. Link is not an oil operator.

18 Q Thank you.

19 A He has not drilled any wells in the area.

20 Q Thank you. If I understood your testi-
21 mony, drainage is a factor that you need to consider when
22 you look at developing further development of Section 21.

23 A As a geologist I consider drainage from a
24 quality point of view, not from a quantitative point of
25 view.

1 Q But I believe it was your testimony that
2 you would anticipate that the Conoco Well had drained re-
3 serves from the southwest quarter of Section 21, is that
4 correct?

5 A Yes. Yes, it is.

6 Q Now how far from the -- a north half
7 spacing and proration unit was the Conoco Duffield Well
8 drilled and completed? How far off that north half unit?

9 A Well, I'm not sure I understand it. It's
10 one proration -- one 40 acres away from the north half. Is
11 that what you mean?

12 Q Would you accept that it's 660 feet from
13 the --

14 A From the lease boundary, yes, I will.

15 Q And wouldn't you also anticipate that if
16 there had been drainage that had occurred in the southwest
17 quarter that you also would have drained from the northwest
18 quarter and also from the northeast quarter?

19 A I would anticipate some drainage from
20 those, from those sections, yes.

21 Q And you're only 660 out of -- off of that
22 lease line.

23 A Yes.

24 Q Now if you look at your cross section,
25 you've used the control that's available to you in preparing

1 -- I'm sorry, looking at Exhibit Three, Isopach map.

2 A Yes.

3 Q You've used the control that's available
4 to you in preparing this Isopachous map.

5 A Yes, I have.

6 Q And if we look at Section 22 to the east
7 of the subject section --

8 A Yes.

9 Q -- you do not have any control to that
10 section.

11 A Well, I -- I did not carry my -- my map
12 over the entire township, no.

13 Q But you don't have any control over in
14 Section 2 -- 22, do you?

15 A No. There's a shallow well there.

16 Q But -- not in the immediate proximity as
17 you move east from that contour line.

18 A No. A geologist could use some wide --

19 Q Do you have --

20 A -- discretion within Section 22, yes.

21 Q Wouldn't you be able to further refine
22 this if there was additional drilling in the north half of
23 Section 21?

24 A I don't understand the question.

25 Q As there is additional drilling in the

1 north half, you would anticipate the acquisition of data
2 that would enable you to further refine your map, is that
3 not true?

4 A As each well is drilled in the area adds
5 data for a refinement of an interpretation, yes.

6 Q And if a well is drilled in the northwest
7 quarter of Section 21, that data would have an impact or
8 could have an impact on your interpretation.

9 A Yes, but I doubt if that would carry over
10 in Section 22.

11 Section 22 was -- was shown to be nonpro-
12 ductive on my Exhibit Number Three because of the Coquina
13 dry hole in the south half of 21 and the two deep dry holes
14 in Section 15. There is no reason to assume 21 would be
15 productive.

16 Q But if you did have a well, my question
17 was if you had a well in the northwest of 21, that might
18 affect your interpretation as depicted on this map.

19 A It would in the vicinity of 21. I cannot
20 visualize that being extended over in 22.

21 Q And then if based on that information an-
22 other well was drilled in the northeast of 21, you might
23 have data that would also affect your interpretation over
24 there.

25 A That would certainly help more on the in-

1 terpretation of 22.

2 Q If I look at your cross section, this is
3 a 3-well cross section and you are mapping porosity, is that
4 correct, or are you mapping just the presence of sand
5 volume?

6 A Well, the cross section, of course, isn't
7 -- isn't mapping porosity. It's depicting the productive
8 intervals within the Husky Well, the Duffield Well, as they
9 -- and the Coquina Dean Well.

10 Q Well, now, to have a productive interval
11 in the Morrow, you have to have a sand present, is that cor-
12 rect?

13 A Yes, sir, that's correct.

14 Q And you'd also have to have porosity,
15 would you not?

16 A That is correct.

17 Q Now you have in the Marathon Husky Well a
18 log and I assume that this log indicates porosity?

19 A Yes, it does.

20 Q You have a log on the Coquina Well and
21 that log shows no porosity in this interval.

22 A That is correct; also utilized the drill
23 stem test data in the Coquina Well.

24 Q You have a log on the Continental Duf-
25 field Well and that is a 1952 mud log, is it not?

1 A Well, it's -- yes. It's an older vintage
2 log.

3 Q And unfortunately is not as reliable as
4 we would like.

5 A That is a fair statement.

6 Q And so you are mapping the productive
7 area based actually on an old mud log and a log over a mile
8 away from the area of interest.

9 A Well, I certainly took into consideration
10 the gas production from that well and the gas had to come
11 from the perforated intervals and therefore you have --
12 could certainly assume logically there was at least the
13 amount of sand I -- I gave to that well.

14 Q Now you stated you had experience in this
15 area.

16 A That's correct.

17 Q Is it possible for you to map porosity
18 stringers over wide areas with any accuracy in this area?

19 A I think I stated that the production was
20 from the same correlative interval. I did not say that they
21 were the same sands.

22 Q Okay.

23 MR. CARR: I have nothing fur-
24 ther.

25 MR. QUINTANA: Mr. Kellahin?

1 MR. KELLAHIN: No, sir.

2 MR. QUINTANA: I have one more
3 question.

4

5

CROSS EXAMINATION

6 BY MR. QUINTANA:

7 Q Mr. Lemay, you stated in your testimony
8 that you were opposed -- that you disagreed with geologists
9 from the opposing party as to why you want to locate the
10 wells in the -- you stated that you -- would you repeat that
11 statement as to why you disagreed violently, or whatever the
12 statement was?

13 A I'd like to explain it a little bit, if I
14 can, Mr. Examiner.

15 Q Yes.

16 A I do not disagree so much with the loca-
17 tions, one being riskier than the other. What I disagree
18 with is the amount of producable gas in the north half ver-
19 sus the amount of producable gas in the south half.

20 Therefore, to protect correlative rights
21 a dedication of the north half of Section 21 is the fairest
22 way to allocate reserves in 21, together with the fact that
23 the spacing has been established already in Section 16 as a
24 north half/south half.

25 That proposed location would be closer to

1 Mr. Link's acreage line, closer to the line. As I under-
2 stand, it's 990 feet, and if that was not -- with the east
3 half/west half, the closest you could get to that line would
4 be 1980 feet; therefore, Southland would have a decided ad-
5 vantage in draining Mr. Link's acreage with that location
6 they have staked in Section 16; it's closer to the lease
7 boundary than would a location, a standard location be if
8 you dedicated the west half of that section to a proration
9 unit.

10 Q So it's your opinion that the north half
11 of that section than the south half.

12 A Yes, based on the available data I have.
13 It's much more attractive as a gas in place and Isopach
14 work, and everything else.

15 Q Do you believe that the drilling of two
16 wells in the north half which would require east half/west
17 half dedications, would be the more efficient way to produce
18 this greater amount of gas in the northern half than would
19 be one well in the north half and one well in the south
20 half?

21 A No, I think what you're doing by -- by
22 having two wells, we'll say in the northeast corner and the
23 northeast quarter in the northwest quarter.

24 What you're doing, you're bringing a lot
25 of nonproductive acreage in the south half to start with.

1 Then secondly, you are also allowing that
2 16 Duffield Well to drain some of Mr. Link's acreage, be-
3 cause it is still closer to the Link acreage than either of
4 those locations could be to the lease boundary, the boundary
5 between -- separating Section 16 and 21, so that those would
6 not be fair locations.

7 MR. QUINTANA: I have no fur-
8 ther questions.

9 MR. KELLAHIN: A follow-up
10 question to one that you asked, Mr. Quintana, if I may.

11 MR. QUINTANA: You may proceed,
12 Mr. Kellahin.

13

14

REDIRECT EXAMINATION

15 BY MR. KELLAHIN:

16 Q In terms of locating the Southland loca-
17 tion on your Isopach, Mr. Lemay, as opposed to a location
18 acceptable to Mr. Link, in terms of the thickness of the net
19 pay, where does each location put you on the Isopach?

20 A The Duffield 16 as compared with a loca-
21 tion -- I don't know if I can --

22 Q All right, sir, if we look at the South-
23 land location 1980 from the north line of 21 and 990 from
24 the west line, is that on a thicker or thinner contoured in-
25 terval than a location 990 from the north line and 1980 from

1 the west line that Mr. Link has proposed?

2 A The Southland location would be in a
3 thinner net Isopach line than would the location 990 from
4 the north and 1980 from the west.

5 Q All right, approximately in which con-
6 tour line does each of those locations fall?

7 A Approximately, the Southland location
8 would be approximately on the 15-foot Isopach line and the
9 proposed location by Mr. -- from Mr. Link would fall on the
10 30-foot line. It's approximately the same thickness as the
11 Duffield 16 location.

12 MR. KELLAHIN: Nothing further.

13 MR. QUINTANA: Mr. Carr.

14 MR. CARR: Nothing further.

15 MR. QUINTANA: I have nothing
16 further for the witness.

17 Are there any further questions
18 of the witness?

19 If not, he may be excused.

20 MR. KELLAHIN: Mr. Examiner, at
21 this time we'll call Mr. McCoy.

22

23 WILLIAM G. MCCOY,

24 being called as a witness and being duly sworn upon his
25 oath, testified as follows, to-wit:

DIRECT EXAMINATION

1
2
3 BY MR. KELLAHIN:

4 Q Will you please state your name and occu-
5 pation, sir?

6 A William G. McCoy. I'm a consulting en-
7 gineer and geologist, residing in Santa Fe.

8 Q Mr. McCoy, would you give us the benefit
9 of a summary of your professional degrees and your work ex-
10 perience and background as a petroleum engineer?

11 A Number one, I'm a graduate of Texas A & M
12 College, degree in geological engineering, 1949.

13 I worked in the Exploration Department of
14 Gulf Oil Corporation for a period of seven years, progres-
15 sing through field geology, through seismic interpretation
16 at Gulf Research and Development.

17 In 1957 I resigned from Gulf and assumed
18 the position of Exploration Manager for the Denver Company,
19 a drilling contractor in Dallas, Texas, with the primary re-
20 sponsibility of developing a drilling program, originating
21 prospects, developing the economics, reserves, selling the
22 prospects to investors, drilling and completing the wells,
23 and operating and producing properties.

24 Since 1960 I've been a consulting engin-
25 eer and geologist, primarily in Roswell, concentrating in

1 east -- southeast New Mexico and West Texas.

2 In September of last year I moved to San-
3 ta Fe.

4 In the process of being a consulting en-
5 gineer and geologist I prepared evaluation reports, provided
6 expert testimony in District Courts, originated prospects,
7 drilled and completed prospects, operated properties, and
8 made numerous evaluation reports.

9 Q Are you a Registered Professional Engin-
10 eer in the State of New Mexico?

11 A I am.

12 Q Are you also a Registered Professional
13 Engineer in the State of Texas?

14 A I am.

15 Q Have you been retained by Mr. Link as a
16 consulting engineer?

17 A I have.

18 Q Pursuant to that employment, have you
19 made a study of the impact that the production from the Con-
20 oco Duffield Well has in terms of a drainage area?

21 A I have made a calculation, yes.

22 MR. KELLAHIN: We tender Mr.
23 McCoy as an expert geological engineer.

24 MR. QUINTANA: He's accepted as
25 an expert petroleum engineer.

1 Q Mr. McCoy, I have handed you what we have
2 marked as Exhibit Number Five and ask you if this represents
3 your work product?

4 A It does.

5 Q Would you identify for us what it is that
6 we are looking at?

7 A We're looking a production decline curve
8 on the Husky, now the Marathon, No. 1 SRC State, in which
9 I've plotted the production and made an estimate of the ul-
10 timate decline.

11 Q That is the Husky well located in the
12 north half of Section 16?

13 A In Unit B of Section 16.

14 Q What is the purpose of making this exhi-
15 bit, Mr. McCoy?

16 A Number one was to familiarize myself with
17 the producing area immediately adjacent to Mr. Link's inter-
18 est and the quality is indicated by the steepness of the de-
19 cline.

20 It evidently looks like the ultimate re-
21 covery would be 1766.4 MMCF.

22 Q Have you used this information to form a
23 basis on which you could draw some opinions and conclusions
24 about the drainage areas involved in Section 21?

25 A It was part of it. The primary was the

1 next exhibit, I believe.

2 Q All right, sir. Let's turn to Exhibit
3 Number Six, then, Mr. McCoy.

4 All right, sir, let's look at Exhibit
5 Six, which is the drainage radius calculation, as well as
6 Exhibit Number Seven, and you might wish to start with Num-
7 ber Seven.

8 A Number Seven, in order to make some cal-
9 culation on drainage, there had to be a way to estimate an
10 ultimate recovery from the well.

11 Probably the best method is to use a P/z
12 plot, extending that plot to zero pressure, and the data
13 used in plotting it is in the upper right of the graph.

14 Q Once you've made the P/z plot, Mr. McCoy,
15 are you then able to use standard engineering calculations
16 from which you can then calculate the drainage radius from
17 both the Husky Well and the Continental Duffield Well?

18 A Well, I can use the first two to estimate
19 the Husky drainage area and we'll go through the calcula-
20 tions using the production. We have an ultimate on the Con-
21 tinental Duffield because it is abandoned. We know what it
22 has produced so we don't have to make an estimate.

23 Q All right, let's go, then, through Exhi-
24 bit Number Six, which is in two parts.

25 A Yes.

1 Q And starting with the top part, about the
2 drainage calculations for the Husky Well, would you identify
3 for us what the parameters are?

4 A Yeah. This exhibit is a calculation of
5 the radius of drainage and in it we have certain parameters
6 which we input, the thickness of the formation, the poros-
7 ity, the salt water saturation, initial volume factor, and
8 make an estimate of the gas in place, the original gas in
9 place. What can that particular wellbore hold per acre
10 foot, and in the instance of the Husky Well we came up with
11 a factor of 2,024 MMCF per acre.

12 We then divide that, divide that into the
13 ultimate which we have estimated to be 1899.9959 MCF, and
14 come up with an acreage drained of 93.8 acres.

15 We calculate the radius of drainage by a
16 standard formula and find that it is 1,140 feet.

17 We do the same on the Continental Duf-
18 field, the only change being the -- we know what the well
19 recovered, 4,421 MMCF.

20 We come up with a calculated radius of
21 drainage of 1907 feet.

22 Q Have you used this information in order
23 to draw some opinions and conclusions about the impact of
24 the Continental Duffield Well on the acreage in Section 21
25 that's in question?

1 A Yes, I have.

2 Q All right, sir, let's turn to Exhibit
3 Number Eight, then.

4 A The application of the formula we have
5 just sawn through is based on several assumptions, primarily
6 that we're dealing with radial flow, reservoir flow from all
7 directions, a homogeneous formation, steady state produc-
8 tion, an infinite reservoir, and single phase flow of gas.

9 We have, the map that we have is on a
10 scale of 1-to-2000 and in that we have used the Continental
11 Duffield as the well, a 1907 feet radius, drawn a circle
12 showing the radial drainage pattern of that well for that
13 amount of gas, 4.4 BCF.

14 We further investigated it on the basis
15 of a north half and a west half proration unit.

16 If we go to the point where we have a
17 north half proration unit, A-1, which includes part of the
18 blue acreage to the right, we find that we have approximate-
19 ly 78 acres of drainage in the south half of the north half.

20 Based on the picture represented, we can
21 see that there's little or no reserve in the southwest quar-
22 ter and probably in the southeast quarter, 40 percent
23 drained, and that does not include any analysis on the Co-
24 quina Well, which we have no data on to project the radius
25 of drainage.

1 Q In projecting a radius of drainage as de-
2 picted on Exhibit Number Eight, let's apply some of the geo-
3 logic information that Mr. Lemay has testified to, Mr.
4 McCoy, and first of all, with regards to the Coquina Dean
5 Federal No. 1 Well, assuming the radial flow and the homo-
6 geneous reservoir for the drainage calculation, how close do
7 you come to the Coquina dry hole in the southeast quarter of
8 21?

9 A Well, we -- we cross the wellbore,
10 actually it's roughly on this representation, as close as
11 can be shown.

12 Q Is the information about the Coquina dry
13 hole in the southeast quarter consistent with the drainage
14 calculation and the assumptions that you've made for your
15 study?

16 A It does. It shows no recovery of gas at
17 all.

18 Q In terms of applying geologic informtion
19 with regards to the mapping of the sands by Mr. Lemay for
20 the Conoco Duffield Well --

21 A Uh-huh.

22 Q Do you see any information indicated on
23 the Isopach that would cause you to materially change your
24 conclusion that the southwest quarter of Section 21 has been
25 substantially drained by the Duffield Well?

1 A Nothing could change it, no.

2 Q Based upon your study, Mr. McCoy, do you
3 have a recommendation to the Examiner as to which proration
4 unit, the north half of the section or the west half of the
5 section, would be the proration unit that would contribute
6 the most productive acreage to the subject well?

7 A The north half proration unit would be --
8 offer the ultimate recovery of gas from Section 21, remain-
9 ing gas.

10 Q Are your opinions and conclusions about
11 that fact changed or modified by the geology in terms of the
12 calculation being a radial flow homogeneous reservoir cal-
13 culation?

14 A Well, no, I think our approaches are dif-
15 ferent. Mr. Lemay's study was independent of mine.

16 My approach is to see what would be the
17 best position to drill a well and what would be the best re-
18 covery possibility in that Section 21, and I assume radial
19 drainage and I do not -- I did not know Mr. Lemay's struc-
20 ture map, or Isopach.

21 Q Having seen his Isopach now, sir, and un-
22 derstanding that the Atoka-Morrow is typically characterized
23 as not being radial flow --

24 A Uh-huh.

25 Q -- can you reach the same conclusions and

1 assumptions as an expert that you can fairly apply the
2 drainage calculation to this Atoka-Morrow --

3 A Yes.

4 Q -- well that we're talking about?

5 A Yes, uh-huh.

6 Q Okay, can you?

7 A Yes, sir.

8 Q When we look at a location, do you have
9 an opinion as an engineer with regards to the drainage ef-
10 fect that the Conoco Duffield Well has upon either the
11 Southland Royalty location or upon Mr. Link's proposed loca-
12 tion?

13 A Well, my opinion would be to, if there
14 was a location in the north half of 21, it should be in the
15 northwest quarter of the northeast quarter to stay as far
16 away from and allow as much undrained acreage available to
17 the wellbore.

18 Q All right, sir, let's turn to Exhibit
19 Number Nine.

20 Would you describe what you have depicted
21 in Exhibit Number Nine for us, Mr. McCoy?

22 A A very, very brief picture to myself of
23 where is the sand or where would be the best location be-
24 tween the Husky Well and the Continental Well to drill a
25 well, and the two tangents to the radius of drainage would

1 be, in my opinion, the east and west most limits of the po-
2 tential reservoir, the SRC proposed location in 16 probably
3 being the best location to drill within the area.

4 Q In terms of evaluating a prospect such as
5 this from an engineer's point of view, such as yours, and
6 taking into consideration the geologic evidence that you've
7 heard today, can you give us an opinion as to what you would
8 recommend the examiner do about both a location and a prora-
9 tion unit for this well?

10 A I would recommend that in order to bene-
11 ficially drain the best acreage, that in the north half of
12 21 a location be proposed 1980 from the east, 660 from the
13 north, and I think that tends to the -- I just noticed Mr.
14 Lemay's structure map, Isopach map, rather, tends to agree
15 with the, you might call a fairway we have drawn on the last
16 exhibit.

17 Q In terms of picking a location that would
18 protect Mr. Link's correlative rights in the north half of
19 21, Mr. McCoy, would a location as he proposed, in relation
20 to the Southland Royalty Well in 16, be a location that will
21 more equitably protect his correlative rights as opposed to
22 the Southland Royalty location in 21?

23 A I think the proposed northwest northeast
24 location would protect Mr. Link's interest.

25 Q Yes, the northeast northwest location

1 we're talking about. I'm not quite sure what you said.

2 A No, I said in Section 21 my proposed lo-
3 cation would tend to be 660 from the north, 1980 from the
4 east, which would be the northwest quarter of the northeast
5 quarter.

6 Q All right, sir. Were Exhibits Five
7 through Nine, Mr. McCoy, prepared by you?

8 A Yes, they were.

9 MR. KELLAHIN: We move the in-
10 troduction of Exhibits Five through Nine, Mr. Quintana.

11 MR. QUITANA: Exhibits Five
12 through Nine will be entered as evidence.

13 Mr. Carr?

14

15 CROSS EXAMINATION

16 BY MR. CARR:

17 Q Mr. McCoy, when were you employed by Mr.
18 Link?

19 A That's a good question. I think it was
20 last Thursday.

21 Q And you were aware of this hearing at
22 that time?

23 A Not at the time I was called by Mr. Le-
24 may. I was actually called by Mr. Lemay and I was not aware
25 of the problem until I arrived there.

1 Q You arrived where?

2 A At Mr. Lemay's office.

3 Q And it was on that day that you dis-
4 covered that the hearing was coming.

5 A Yes, sir.

6 Q When you started your work you were aware
7 that we were going to have a rendezvous here today?

8 A Well, I didn't anticipate any great di-
9 vergence of opinion.

10 Q What were you asked to study?

11 A I was just asked to prepare a radius of
12 investigation study of the Continental Duffield.

13 Q And you, I believe from your testimony
14 when you set out your qualifications, you have experience in
15 southeast New Mexico, and you have --

16 A Twenty-five years.

17 Q -- worked with the Pennsylvanian forma-
18 tion?

19 A Yes, sir.

20 Q You've worked with the Morrow.

21 A I have.

22 Q Studied it before so it wasn't a new ani-
23 mal to you.

24 A Yes. In fact in this case if you look
25 over in Section 24, and that dry hole over there in the San

1 Andres, so I'm familiar with the area.

2 Q So you've got painful experience.

3 A Yes. But I also represent Mr. Anderson
4 who owns acreage on either side. We looked at it to drill a
5 Morrow well and we could not justify drilling a Morrow well.

6 Q In the Morrow, do you anticipate, in
7 fact, radial flow?

8 A I think you'd probably find it is the
9 best answer in the absence of any other data.

10 If we have pressure build-up data, we
11 might make different estimates, but I would think channel is
12 typical of flow, probably.

13 Q To produce and therefore to drain any ac-
14 reage, you do have to have a sand body present.

15 A Yes.

16 Q And you would have to have porosity.

17 A Yes.

18 Q And to have a homogeneous area you'd have
19 to have porosity throughout the acreage that's shaded on
20 your Exhibit Number Eight.

21 A That's right.

22 Q This is just a model that you're using
23 now?

24 A Well, that is -- that is a standard
25 method of analyzing radius of drainage.

1 Q And in this model that you're using, you
2 assume an infinite reservoir.

3 A Yes.

4 Q Homogeneous reservoir?

5 A Yes.

6 Q Radial flow --

7 A Yes.

8 Q -- and a number of things.

9 A Right, but --

10 Q And you're not -- okay, go ahead.

11 A You are dealing with a finite reserve re-
12 covery, so that's the limiting there, it adds credence to
13 the facts that you're using.

14 Q But none of these tools are necessarily
15 applicable to the formation, are they?

16 A I think they are. I think they use them
17 considerably.

18 Q But do you believe that you actually have
19 radial flow?

20 A We have to assume that when we're dealing
21 with an analysis of Morrow sands.

22 Q Do you believe you have an infinite re-
23 servoir?

24 A No, I'm not going to say that.

25 Q Do you believe that it's homogeneous?

1 A I'm not going to say that. That doesn't
2 affect the analysis.

3 Q But those are things that you've used in
4 working with this model.

5 A Yes.

6 Q That's all I was asking. Those are just
7 things that you used and worked with.

8 Now, in this model, Exhibit Number Eight,
9 you show drainage all the way to the Coquina Well.

10 A Yes.

11 Q And yet you're aware that Mr. Lemay has
12 indicated that there is no sand present --

13 A Yes, I am.

14 Q -- at that well.

15 A I see that now.

16 Q Okay.

17 MR. CARR: I have no further
18 questions.

19 MR. KELLAHIN: Nothing further,
20 Mr. Quintana.

21

22 CROSS EXAMINATION

23 BY MR. QUINTANA:

24 Q Mr. McCoy.

25 A Yes, sir.

1 Q The Southland No. 1, Duffield No. 16 in
2 the south half of Section 16 --

3 A Well, that location.

4 Q -- that location there, if that well was
5 to be drilled and you were to estimate a radius of drainage,
6 do you happen to have a calculation of that sort --

7 A No, I wouldn't.

8 Q -- assuming some of the other assumptions
9 you have made?

10 A I think what you do, and I think this
11 would be legitimate, you can draw a perpendicular to the
12 tangent of the two tangents to the radius of drainage to
13 that point, and then assume that that would be the center of
14 the circle and then draw a radius of drainage around there
15 in the absence of any other information.

16 I did, in my preparatory work, take the
17 SRC Well in the north half of 16 and draw a circle there,
18 and it would just encroach on the north line of 21, possibly
19 not too much, but --

20 Q What's possibly not too much as far as --

21 A Yeah, but I mean it would be important to
22 me were I the owner of the north half, that -- to protect my
23 rights, that a well is going to have to be drilled in the
24 north half within a reasonable length of time after the well
25 in 16, or we might suffer drainage there, if it turned out

1 to be another Duffield.

2 Q If you assume what you just described,
3 drawing a circle around that arc --

4 A Yes.

5 Q -- and since the proposed location is
6 more toward the west side rather than to the east side,
7 would you assume that they would possibly drain more of the
8 northwest quarter of Section 21 rather than the northeast
9 quarter of Section 21?

10 A I think probably if we were to draw that,
11 it would be -- well, really, I think -- yeah, but I don't
12 think it would be significant using the SRC -- SRC radius.

13 I think, just visualizing it, it doesn't
14 look like it would penetrate the north line there too much.
15 In fact, I think we could -- if we might have a compass we
16 might draw one, if you want to give it a whirl.

17 Q Why don't we do that?

18 A Let me see if I've got one here. I us-
19 ually carry one. That's the way I do all my engineering, is
20 with a compass.

21 Q Let's get this on the record.

22 A All righty, we are -- we are now discus-
23 sing the potential radius of drainage --

24 Q Right.

25 A -- on Section 16, the SRC proposed loca-

1 tion in the south half.

2 Q Right. Now assuming the radius of drain-
3 age that you have depicted on, you know, we call those --
4 what exhibit do we have?

5 A Exhibit Nine.

6 Q Exhibit Nine.

7 A We'll call the north well, let's call
8 that Well 1 and the Continental well 2?

9 Q Okay. On Exhibit Nine we've depicted
10 theoretical radius of drainage based on your assumptions.

11 A Yes.

12 Q How much of Section 20 would be drained
13 from the well drilled in the south half of Section 16?

14 A How much acreage would be --

15 Q Approximately.

16 A Oh, golly, that would be an eyeball, I'd
17 say --

18 Q A percent.

19 A -- probably 5 percent.

20 Q Five percent of the north half of Section
21 21?

22 A Yes, probably; could be even less than
23 that, I mean, less than 5 percent.

24 Q And if a well was drilled in the north-
25 west quarter of Section 21, based on Southland Royalty Com-

1 pany's proposed location, how much of a percentage of that
2 radius of drainage would -- would spill over into the north-
3 east quarter of Section 21?

4 A Not into the northeast of 21.

5 Q It would not drain any -- you wouldn't
6 expect it to drain anything from the northeast quarter?

7 A No, but I was going to say, it looked
8 about 40 percent of the well location that already have been
9 drained by the Continental well.

10 Q Have already been drained by the Contin-
11 ental well.

12 A Yes.

13 Q Thank you. I wanted to get that on the
14 record.

15 I have no further questions.

16 MR. QUINTANA: Does anybody
17 have anything further of the witness?

18 Any questions of the witness?

19 MR. KELLAHIN: No, sir.

20 MR. QUINTANA: If there is no-
21 thing further of the witness, he may be excused.

22 Is there anything further in
23 this case? Closing statements?

24 MR. KELLAHIN: Yes, sir.

25 MR. QUINTANA: Okay, we'll al-

1 low Mr. Kellahin to go first.

2 MR. KELLAHIN: Mr. Quintana,
3 this is not a typical case you have. These aren't two big
4 guys fighting over a spacing case. This is not even a lit-
5 tle big guy against a big big guy. This is a little itty-
6 bitty guy against a great big company.

7 God bless them, Southland has
8 got a turkey and the spray-painted it white and want to call
9 it a swan, but this sucker is still a turkey, and I'll tell
10 you why, because we're going to look at some of the
11 feathers. We're going to analyze some of those feathers and
12 show you we don't have a swan.

13 What they're doing is using the
14 club of the forced pooling rules and statutes to beat us
15 over the head into submission about this acreage.

16 If Mr. Link was a big operator
17 and had the resources and ability to operate this well, we'd
18 have come in here and force pooled Southland for the north
19 half and we'd have gone at it head to head, and we'd be
20 drilling this well.

21 We're not in that kind of posi-
22 tion and the only comfort and help we have is the statute
23 and your obligation to protect us when our correlative
24 rights are so obviously being violated.

25 And you can see that very

1 clearly by taking the little pieces of the puzzle that have
2 been presented to you today and analyzing it.

3 Miss Weber has testified, and
4 she has stuck by her position and she wants to tell you this
5 is great, but it's the little things that she says that are
6 important, and particularly one thing that she would not
7 say.

8 The little thing that she did
9 say is that she attempted to assess each of the 160-acre
10 quarter sections in this section as being equal. She says
11 notwithstanding the dry hole in Coquina in the southwest
12 quarter, that's good acreage. We're going to use that.

13 Notwithstanding 4.5 BCF of gas
14 produced out of the Conoco well, she wasn't going to admit
15 that that was bad acreage, how can she? Because the whole
16 strategy of her company is to take their depleted, condemned
17 acreage in the south half of that section, set up the prora-
18 tion units so that they share in the remaining viable pro-
19 duction that Mr. Link has managed to get in his Federal
20 lease.

21 What they do is they want to
22 set it up so they have stand-up units and they can have two
23 wells, take our share of the production, and take it twice.

24 Let's look at where we are.
25 The negotiations about the lease, let's look at that little

1 item. It's not a big item; we often don't even talk about
2 it in forced pooling cases. The only thing you usually ask
3 is, well, did everybody have a chance to talk? Well, cer-
4 tainly, everybody had a chance to talk, but hear the words
5 they said and the context in which they were voiced to you.
6 Remember now that Southland has already paid \$500 an acre
7 for the southwest quarter of 21, and that's been produced
8 and depleted in the same interval.

9 They've got the south half of
10 16. They paid \$2000 an acre there. Big bucks.

11 What are they trying to do?
12 Several things.

13 One, they're trying to protect
14 their investment, their 100 percent interest in the south
15 half of 16, and how do you do that? You try to keep the
16 well out of the north half of 21 from crowding it.

17 They've very cleverly figured
18 out a way to do that. They move it down 1980 instead of
19 990 where it ought to be.

20 How do they handle Mr. Link?
21 We find in asking Mr. Davis questions that the geologic and
22 his land superior have valued this property at \$650 an acre,
23 and what do they do? They offer Mr. Link \$300 an acre as
24 his bonus, and they continue to offer the same thing.

25 In over two years what do they

1 increase that offer to? 350 Bucks an acre.

2 Is that fair? Is that good
3 faith negotiations?

4 And how does Mr. Link hear
5 about the hearing? He doesn't get a copy of the application
6 that's filed with the Commission. They know who he is;
7 they've been talking to him.

8 Naw, Mr. Carr sends him a copy
9 of the docket two days before the hearing and then Mr. Carr
10 asks his experts, well, when were you hired? We all know
11 when they were hired. They were hired at the last minute to
12 try to save this man a significant portion of his assets,
13 and wouldn't you do the same thing? We certainly tried.

14 What does that testimony show
15 you? It shows you that Mr. McCoy has calculated the signi-
16 ficant drainage impact of that Conoco well. Miss Weber
17 wants to ignore it. You're an engineer, you're not going to
18 ignore that. That's a hunk of gas and it came from some-
19 where and it logically follows that it drained a significant
20 portion of the southwest quarter. What other conclusion can
21 you come to? That's got to be a conclusion.

22 If you reach that fundamental
23 conclusion, then how can we allow Southland to dedicate the
24 southwest quarter to this well?

25 You can't fairly do it because

1 the statute says you cannot do that. Don't give them two
2 wells where one well will do.

3 And what does Southland care?
4 I asked Mr. Davis what the net revenue interest was between
5 the two proration units. We assumed a purchase of Southland
6 -- by Southland of the Link acreage. The \$200,000 cash
7 bonus, the 6.25 overriding royalty, we're prepared to take
8 that. Hey, we're not far apart on this deal and the reason
9 we're not far apart is because there's nothing to fight
10 about. Southland's net revenue interest in the west half is
11 81 percent; 82 percent, whatever it was. If they buy the --
12 Mr. Link's property, as he's proposed, put a north half de-
13 dication to it, then that revenue interest is about the
14 same; there's no difference there, and that's what ought to
15 be done, and the reason they won't do it is they've got some
16 stubbornness in them about orientation of this proration
17 unit to the west half, and it doesn't make any sense on pa-
18 per or anywhere else.

19 I think what we have here is a
20 failure to communicate and I don't know where it started.
21 Maybe it started with Mr. Hooper, who is the hotshot that
22 Southland hired to negotiate this deal with Mr. Link, and
23 maybe that's where this thing stopped and failed.

24 But for whatever reason, don't
25 let the forced pooling rules extract from Mr. Link a penalty

1 or a concession that he cannot possibly endure, because un-
2 less this property is purchased by Southland, here's the
3 consequence: We're going to have a west half proration unit
4 in which Southland drills the well, has 75 percent, and has
5 contributed virtually no productive acreage.

6 Mr. Davis -- Mr. Link is going
7 to have contributed the productive acreage, and he gets 25
8 percent, and you know what he's going to do? He's going to
9 have to go nonconsent.

10 For crying out loud, we're
11 talking about big bucks. He's a little guy. He's going to
12 pay his fair share of this? He can't do that. He's going
13 to be subject to the 200 percent penalty and the big guy is
14 going to eat the little fish, and they're going to have it
15 all.

16 Don't let that happen to us.

17 MR. QUINTANA: Mr. Carr?

18 MR. CARR: Mr. Quintana, there
19 are a number of things that are not at issue in this case
20 and they're really not questions that are before you for de-
21 cision.

22 First of all, there's no ques-
23 tion about the risk penalty. The risk penalty is 200 per-
24 cent. There's no evidence in the record on anything else.

25 There's no dispute as to over-

1 head and administrative costs. There has been one recom-
2 mendation. There's no dispute; no conflicting evidence.

3 There's no dispute as to who
4 should be the operator of the well. Only one party has
5 asked to drill. Only one party stands before you prepared
6 to drill and ready to go forward.

7 Southland Royalty Company, in
8 the order that you enter, must be the operator.

9 We believe what we have here
10 today is a situation where, for whatever reason, this hear-
11 ing process is being used simply to extract a higher bonus
12 from Southland Royalty Company. There's no other logical
13 conclusion that you can reach.

14 We can talk about being a poor,
15 little guy. We can talk about how rough life is in the real
16 world. But this is the same little guy who won't take
17 \$200,000 and a 6.25 percent override, which is the highest
18 dollar amount that our calculations will permit us to offer
19 to pay for this acreage if, in fact, we're to make a prudent
20 and a businesslike decision.

21 This isn't a littl guy. This
22 is somebody who wants more, more than in the marketplace
23 they can otherwise get unless they bring you in and get you
24 involved.

25 We're going to talk about cor-

1 relative rights because that's the issue that's left.
2 There's no issue as to waste. We all want a well out there.

3 But when you look at correla-
4 tive rights, I think you need to remember, although Mr. Kel-
5 lahin says don't let the rules hurt us, well, let me tell
6 you what the law is that you're bound by.

7 You're a creature of statute.
8 Your powers and duties are expressly defined and limited by
9 those statutes and you are directed to protect correlative
10 rights.

11 Correlative rights is also de-
12 fined. It doesn't mean I get every MCF under my tract. It
13 is, I am entitled. I have the opportunity to produce with-
14 out waste my just and fair share of the reserves under that
15 tract.

16 As this case stands before you,
17 nobody but Southland is trying to pursue their correlative
18 rights. Nobody has asked for the opportunity to drill a
19 well.

20 You can protect correlative
21 rights. You can let us drill the well that we have the
22 right to drill, and that we have been unable to reach volun-
23 tary agreement with the other interest owners, and you can
24 let us go on and develop the reserves.

25 Or you can say no; you can

1 breach your duty; you can impair our correlative rights.
2 Nobody else stands before you here seeking to do anything
3 than get a higher bonus payment.

4 We've had an interesting case.
5 It took two weeks to prepare. They presented geologic data,
6 their interpretation. They presented engineering informa-
7 tion based on some things that don't apply to the Morrow re-
8 servoir. They're talking about draining acreage. Their
9 engineer, or their geologist, says there's no porosity
10 found.

11 They seem to balk at two wells
12 in the north half of Section 21, but when you asked them to
13 draw a drainage radius in the north half of that section,
14 you can see two wells would be needed, even by their own
15 testimony, and you'd see that the well in Section 16 is not
16 in fact going to drain any appreciable amount of the re-
17 serves, and if it did, they still have an opportunity to
18 come in and pursue their correlative rights.

19 They can do it several ways.
20 They can drill a well or they can join with us and take the
21 offer that we've made.

22 Neither of those seems to be
23 satisfactory alternatives before them.

24 There are other things that
25 aren't at issue before you here today, and I think it's im-

1 portant that those be clearly set out.

2 There's no application before
3 you. There's nothing here that would entitle you to approve
4 an unorthodox well location in the north half of 21, 990
5 from the north and east lines.

6 There's no request before you
7 at all for a north half unit. That's what they'd like.
8 That's what they're using to negotiate, attempt to get a
9 higher bonus, but that is not before you.

10 You have before you some -- a
11 company that has the right to drill, that cannot reach vol-
12 untary agreement; who's been at it for two years, who's pre-
13 pared to drill.

14 We've negotiated and negotiated
15 and the time has come to drill the well. We'll pay 100 per-
16 cent of it; we'll pay 75 percent of it. If you want to go
17 with a 160-acre unit in the northwest, we'll pay 50 percent
18 of it. We'll let those other interest owners join. We'll
19 do what has to be done.

20 But the time to drill is here
21 and it is time for a decision. It's time to quit waltzing
22 around the bush and trying to once again negotiate another
23 deal. It's time to get the pooling order that we're en-
24 titled to so that within ninety days we can drill a well and
25 we will do it as the operator and the operator of the well

1 will pick the location and the operator will dedicate and
2 orient the proration unit, because that's what an operator
3 does, and there's no issue as to who is going to be operator
4 because no one else has even asked to be.

5 We submit that if you're to
6 carry out your statutory duties, you have one choice, and
7 that is to grant the application of Southland Royalty Com-
8 pany, set the overhead and administrative costs that we've
9 requested, impose a 200 percent risk penalty, and then if
10 anyone wants to pay their proportionate share and join with
11 us, they certainly under your order will be free to do so.

12 MR. QUINTANA: Thank you, Mr.
13 Carr.

14 MR. KELLAHIN: We'd request
15 fifteen days, Mr. Examiner, to provide you with a proposed
16 order in this case.

17 MR. QUINTANA: That will be
18 fine.

19 MR. CARR: And we'll join in
20 that request and do it, too.

21 MR. QUINTANA: Is there any-
22 thing further in Case 8557?

23 If not, Case 8557 will be taken
24 under advisement.

25

(Hearing concluded.)

C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY that the foregoing Transcript of Hearing before the Oil Conservation Division was reported by me; that the said transcript is a full, true, and correct record of the hearing, prepared by me to the best of my ability.

Sally W. Boyd CSR

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 8557, heard by me on May 8 1985.

Walter P. Quintana Examiner
Oil Conservation Division

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO

24 April 1985

EXAMINER HEARING

IN THE MATTER OF:

Application of Southland Royalty Com-
pany for compulsory pooling, Eddy
County, New Mexico.

CASE
8557

BEFORE: Michael E. Stogner, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation
Division:

Maryann Lunderman
Attorney at Law
Energy and Minerals Department
Energy and Minerals Division
Santa Fe, New Mexico 87501

For the Applicant:

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MR. STOGNER: Call next Case 8557, which is the application of Southland Royalty Company for compulsory pooling, Eddy County, New Mexico.

At the request of the applicant this case will be continued to the Examiner Hearing scheduled for May 8, 1985.

(Hearing concluded.)

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C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY that the foregoing Transcript of Hearing before the Oil Conservation Division was reported by me; that the said transcript is a full, true, and correct record of the hearing, prepared by me to the best of my ability.

Sally W. Boyd CSR

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 8557 heard by me on 24 April 1985.
Michael E. Hooper, Examiner
Oil Conservation Division

1 STATE OF NEW MEXICO
2 ENERGY AND MINERALS DEPARTMENT
3 OIL CONSERVATION DIVISION
4 STATE LAND OFFICE BUILDING
5 SANTA FE, NEW MEXICO

6
7 10 April 1985

8 COMMISSION HEARING

9 IN THE MATTER OF:

10 Application of Southland Royalty Company CASE
11 for compulsory pooling, Eddy County, New 8557
12 Mexico.

13 BEFORE: Gilbert P. Quintana, Examiner

14 TRANSCRIPT OF HEARING

15 A P P E A R A N C E S
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19 For the Oil Conservation Division: Jeff Taylor
20 Attorney at Law
21 Legal Counsel to the Division
22 State Land Office Bldg.
23 Santa Fe, New Mexico 87501
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MR. QUINTANA: We'll call Case 8557.

MR. TAYLOR: The application of Southland Royalty Company for compulsory pooling, Eddy County, New Mexico.

The applicant has requested that this case be continued.

MR. QUINTANA: Case 8557 will be continued until April 24, 1985.

(Hearing concluded.)

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C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY that the foregoing Transcript of Hearing before the Oil Conservation Division was reported by me; that the said transcript is a full, true, and correct record of the hearing, prepared by me to the best of my ability.

Sally W. Boyd CSR

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 8557, heard by me on APRIL 10 1985.

Gilbert P. Quintana, Examiner
Oil Conservation Division