

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

11 September 1985

EXAMINER HEARING

IN THE MATTER OF:

Application of TXO Production Corp. for amendment of Division Order No. R-7817, as amended, Eddy County, New Mexico.      CASE 8699

BEFORE: Gilbert P. Quintana, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

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MR. QUINTANA: We'll call next Case 8699.

This is the application of TXO Production Corporation for amendment to Division Order No. R-7817, as amended, Eddy County, New Mexico.

MR. DICKERSON: Mr. Examiner, I'm Chad Dickerson of Artesia, New Mexico, on behalf of the applicant.

We have two witnesses.

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

MR. NUTTER: Dan Nutter, Consulting Engineer, Santa Fe, appearing on behalf of Bass Enterprises.

I'll have a statement to make.

MR. QUINTANA: Would you all please stand and be sworn at this time.

You just going to make a statement?

MR. NUTTER: Just a statement.

(Witnesses sworn.)

1 MR. QUINTANA: You may proceed.

2  
3 DAVID M. HUNDLEY,

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

6  
7 DIRECT EXAMINATION

8 BY MR. DICKERSON:

9 Q Mr. Hundley, will you state your name,  
10 your occupation, and by whom you're employed, please?

11 A My name is David Hundley. I'm a landman  
12 with TXO Production Corp. in Midland, Texas.

13 Q And you have previously testified before  
14 this Division and had your credentials made a matter of re-  
15 cord, have you not?

16 A Yes, sir, I have.

17 MR. DICKERSON: Is this witness  
18 considered qualified, Mr. Examiner?

19 MR. QUINTANA: When was the  
20 most recent time you testified? Approximately. Within the  
21 last year or two?

22 A It was 1985.

23 MR. QUINTANA: He's considered  
24 qualified.

25 Q Will you briefly summarize the purpose of

1 TXO's application in Case 8699?

2 A TXO seeks an amendment of Division Order  
3 No. R-7817, as amended, in approving an unorthodox gas well  
4 location 660 feet from the south and east lines of Section  
5 2, Township 22 South, Range 27 East, Eddy County, New Mexi-  
6 co.

7 This previous location was approved for a  
8 proration unit consisting of the south half of said Section  
9 2.

10 TXO would like to rededicate the east  
11 half of said Section 2 to the subject well, and in addition  
12 to compulsory pool all mineral interest from the base of the  
13 Wolfcamp formation to the base of the Morrow formation un-  
14 derlying the east half of Section 2, and also to approve a  
15 nonstandard proration unit consisting of the southeast quar-  
16 ter of Section 2 for the Wolfcamp production.

17 Q So TXO desires to retain the approval  
18 previously granted for the unorthodox well location but to  
19 change the spacing unit from south half to east half of Sec-  
20 tion 2.

21 A That's right.

22 Q Please refer to Exhibit Number One, Mr.  
23 Handley, and state what is shown on that.

24 A Exhibit Number One is a land plat of the  
25 area in which the proposed location of our well is circled

1 and the proration unit for a Morrow producing well is col-  
2 ored yellow, being the east half of Section 2.

3 The proration unit for a Wolfcamp pro-  
4 ducer is outlined in orange in the southeast quarter of Sec-  
5 tion 2.

6 Q Mr. Hundley, who are the parties who are  
7 proposed to be subjected the forced pooling in this case? ✓

8 A The parties owning interest in the north-  
9 east quarter of Section 2 in the Morrow formation are Delta  
10 US Corporation, Gulf Oil Corporation, now Chevron, Bass En-  
11 terprises Production Company, and Perry K. Bass.

12 Q Now has the application filed in this  
13 case also sought to pool the interest of Champlin Petroleum  
14 Company and has TXO subsequently made a voluntary agreement  
15 with Champlin regarding its interest?

16 A Yes. Champlin has agreed to farmout its  
17 interest and TXO has accepted their terms.

18 Q What are the approximate interests of the  
19 four parties sought to be pooled in this case?

20 A Delta US Corporation has approximately 11  
21 percent interest in the Champlin-operated Nix-Yates No. 1 in  
22 the northeast quarter of Section 2.

23 Gulf has approximately 11 percent inter-  
24 est and Bass Enterprises Production Company and Perry K.  
25 Bass together have approximately 5 percent.

1                   Of course these numbers would be propor-  
2 tionately reduced by half if those parties were to partici-  
3 pate in our well drilled to the Morrow formation.

4                   MR. DICKERSON: Mr. Examiner,  
5 the case file will also reflect an affidavit of mailing giv-  
6 ing notice of this hearing, together with a copy of the ap-  
7 plication to all four of these parties.

8                   Q           Mr. Hundley, refer to the package you  
9 have submitted as Exhibit Number Two and tell us what's  
10 shown by that.

11                  A           Exhibit Number Two is a set of copies of  
12 my most recent correspondence with the parties we are seek-  
13 ing to pool.

14                               In the letter I refer to the hearing, as  
15 well as our previous letter of March 26th, 1985, to the par-  
16 ties in which we initially proposed the drilling of our  
17 well. The letter also was a cover letter for an Authority  
18 for Expenditure and operating agreement.

19                               We originally asked the parties owning an  
20 interest in the northeast quarter of Section 4 to farm out  
21 their lease ownership.

22                  Q           To your knowledge, what is the position  
23 of the four parties at this time?

24                  A           Recent telephone conversations with them  
25 have indicated there's no objection to being pooled at this

1 time.

2 Q Direct the Examiner's attention to Exhi-  
3 bit Number Four and state what that is, or Exhibit Number  
4 Three, excuse me.

5 A Exhibit Number Three is an Authority for  
6 Expenditure for the drilling of our proposed well at the  
7 proposed location, showing a dry hole cost of \$514,700 and a  
8 completed well cost of \$810,400.

9 Q This AFE was prepared by TXO's Engineer-  
10 ing Department based on its experience in this area to  
11 wells of this depth?

12 A Yes, it was.

13 Q Refer to Exhibit Number Four, Mr. Hand-  
14 ley, and state what it is.

15 A Exhibit Number Four is the short form of  
16 operating agreement we propose to use in this well. The ex-  
17 hibit details how the AAPL Form 610, 1977 Operating Agree-  
18 ment should be completed and any additions or deletions to  
19 the operating agreement.

20 Q Where in that exhibit does it -- is the  
21 requested overhead charges that TXO seeks in this case set  
22 out?

23 A Page four of the operating agreement in  
24 Article 2-A lists the drilling well rate and the producing  
25 well rate that TXO proposes to use.

1 Q And what are those?

2 A The drilling well rate is \$5374 a month  
3 and the producing well rate is \$538 per month.

4 Q And are these TXO's usual, customary,  
5 reasonable charges for overhead for wells of this depth in  
6 this area?

7 A Yes, they are.

8 Q Where in Exhibit Four, Mr. Hundley, is  
9 the penalty to be imposed upon nonconsenting parties set  
10 forth?

11 A Okay, on page one, Article 10-B, and the  
12 nonconsent penalty TXO normally uses, it says change to 300  
13 percent. 300 percent is the penalty we seek in drilling and  
14 completing costs.

15 Q Mr. Hundley, what is the requested non-  
16 standard proration unit for the Wolfcamp well possibility?  
17 What's the necessity for that request?

18 A The reason we are requesting a 160-acre  
19 proration unit for Wolfcamp production is because on July  
20 6th, 1976, Order No. R-5229 was handed down by the Oil Con-  
21 servation Commission establishing 160-acre spacing for the  
22 Nix-Yates No. 1 Well, located in the northeast quarter of  
23 Section 2, which Nix-Yates No. 1 Well produces from the  
24 Wolfcamp formation.

25 Q That order also created 160-acre spacing

1 units for other Wolfcamp wells in the area, as well, did it  
2 not?

3 A Yes. The two wells in the adjacent Sec-  
4 tion 1 were also given 160-acre spacing units to Wolfcamp  
5 production.

6 Q Mr. Hundley, were Exhibits One, Two,  
7 Three, and Four compiled by you or under your direction and  
8 supervision?

9 A Yes, they were.

10 MR. DICKERSON: Mr. Examiner,  
11 at this time move the admission of Applicant's Exhibits One,  
12 Two, Three and Four.

13 MR. QUINTANA: Exhibits One  
14 through Four will be entered as evidence.

15 MR. DICKERSON: And I have no  
16 further questions of Mr. Hundley.

17

18 CROSS EXAMINATION

19 BY MR. QUINTANA:

20 Q Did you say, Mr. Hundley, that you had  
21 phone contact with nonconsenting working interest owners and  
22 that they posed no objection to being force pooled?

23 A No, I did not. To expound a little bit,  
24 the people we are pooling only have an interest in our pro-  
25 posed well in the Morrow formation. As such if the well was

1 drilled and completed elsewhere, they would not have an in-  
2 terest in the well.

3 As a result, it proposes even greater  
4 risk for them to participate in our well and in addition to  
5 their interest being rather small they didn't want to parti-  
6 cipate or farmout under the terms that we sought.

7 Q You've answered my question.

8 MR. QUINTANA: Any further  
9 questions of the witness?

10 If not, he may be excused.

11 MR. DICKERSON: Mr. Examiner,  
12 call Mr. Richards at this time.

13  
14 RUSSELL RICHARDS,  
15 being called as a witness and being duly sworn upon his  
16 oath, testified as follows, to-wit:

17  
18 DIRECT EXAMINATION

19 BY MR. DICKERSON:

20 Q Will you state your name, your occupation  
21 and by whom you're employed, please?

22 A My name is Russell Richards. I'm a geo-  
23 logist with TXO Production in Midland, Texas.

24 Q Mr. Richards, have you previously testi-  
25 fied before this Division?

1 A No, I haven't.

2 Q Will you briefly summarize your educa-  
3 tional and employment background for the examiner?

4 A Yes. I received my Bachelor of Science  
5 degree in geology from Eastern New Mexico University in  
6 1980.

7 I was employed with Gulf Oil Corporation  
8 as a petroleum geologist for two and a half years and have  
9 been employed with TXO Production as a geologist for the  
10 past two years.

11 Q And in that capacity have you had occa-  
12 sion to review the geology of the area of the well in ques-  
13 tion in this case for the purpose of forming an opinion as  
14 to a risk penalty factor to be imposed?

15 A Yes, I have.

16 Q And are you familiar with TXO's applica-  
17 tion in Case 8699?

18 A Yes, I am.

19 MR. DICKERSON: Mr. Examiner,  
20 is this witness considered qualified?

21 MR. QUINTANA: Mr. Richards,  
22 where has the major part of your experience been, in New  
23 Mexico, West Texas, or where?

24 A I was employed with Gulf in Hobbs, New  
25 Mexico, where I spent most of my time working Eddy County.

1 MR. QUINTANA: That will be  
2 fine. He is considered qualified.

3 You may proceed.

4 Q Please refer to what you have submitted  
5 as Exhibit Number Five, 5, Mr. Richards, and state what that  
6 is.

7 A Exhibit Number Five is a production map  
8 in the area of the Carlsbad East Field. The proposed loca-  
9 tion is shown by a circle, 660 from the south and east lines  
10 of Section 2. The Morrow proration unit is outlined in yel-  
11 low and the Wolfcamp proration unit is outlined in orange.

12 To briefly summarize the production,  
13 there is one Delaware producer in Section 10; however, the  
14 Delaware is not an objective at the proposed location.

15 There are four immediate offsetting wells  
16 which produced or attempted to produce from the Wolfcamp, of  
17 which three were economic or marginally economic and one  
18 well in the south -- excuse me, in the northeast of Section  
19 1 was uneconomic in the Wolfcamp.

20 In the Strawn interval there is one well  
21 which attempted to produce from the Strawn, with basically  
22 no production, just 4-million cubic feet of gas.

23 Two nearby wells were completed in the  
24 Morrow, the Champlin Nix-Yates Well in the northeast of Sec-  
25 tion 2 and the Champlin Pecos Federal in the northwest of

1 Section 1. Both were uneconomic at that depth.

2 Q What is TXO's primary objective in this  
3 well?

4 A Primarily Wolfcamp.

5 Q Refer to your Exhibit Number Six, Mr.  
6 Richards, and tell us what you've shown on that.

7 A Exhibit Number Six is a structure map on  
8 top of the Middle Morrow Sands. The Morrow producers are  
9 highlighted in green.

10 The proposed location is a down dip step  
11 out from the Morrow production to the north.

12 Also indicated by the dashed line are the  
13 wells displayed on cross section B-3', which is the next ex-  
14 hibit.

15 Q Refer to your next exhibit, Number Seven,  
16 and describe that for the examiner.

17 A Exhibit Number Seven is a stratigraphic  
18 cross section hung on the top of the Middle Morrow, showing  
19 the correlation of the Middle and Lower Morrow section of  
20 the wells in the immediate area of the proposed location.

21 Also indicated are the perforated and  
22 tested intervals in each of these wells.

23 Q Describe what you've shown by Exhibit  
24 Number Eight, please.

25 A Exhibit Number Eight is an Isopach map of

1 net Middle Morrow Sands, which is our primary Morrow objec-  
2 tive.

3 The Champlin Nix-Yates Well in the north-  
4 east of Section 2 encountered 21 net feet of Mid Morrow Sand  
5 and produced 300-million cubic feet. The well was completed  
6 in April of '74. That, again, as I stated earlier, that  
7 would be uneconomic at that depth.

8 Also a direct offset to the south, the  
9 Western Oil Bass No. 1 Well in Section 11 encountered 13  
10 feet of net Mid Morrow Sand. This -- these sands were per-  
11 forated but were found nonproductive.

12 We anticipate approximately 20 to 25 net  
13 feet of Mid Morrow Sand at the proposed location.

14 Q Refer the examiner, Mr. Richards, to your  
15 Exhibit Number Nine and describe that for us.

16 A Exhibit Number Nine is a structure map on  
17 the top of the Wolfcamp, showing generally east regional  
18 dip. The Wolfcamp producers are highlighted in pink. The  
19 proposed location -- excuse me, the proposed Wolfcamp unit  
20 again is outlined in yellow. Also shown by the dashed line  
21 is the location of cross section A-A'.

22 Q Okay, refer to your Exhibit Number Ten  
23 and tell us what you've shown on that exhibit.

24 A Exhibit Ten is a stratigraphic cross sec-  
25 tion hung on top of the Wolfcamp. The Lower Wolfcamp inter

1 val in this area has been divided into three intervals,  
2 first the A zone, which is only present in the TXO Delta  
3 fee, Fee No. 1 Well; however, this zone thickens to the  
4 south of the immediate location.

5 The B porosity zone, which is not gener-  
6 ally productive in the area; however, it is well developed  
7 in the Western Oil Bass No. 1 Well.

8 And the C porosity zone, which is the  
9 most widespread of the Wolfcamp porosity zones, and probably  
10 the primary contributor to production.

11 Also shown is the Upper Wolfcamp porosity  
12 zone, which produced further to the north.

13 Q Okay. Turn to your Exhibit Number Ele-  
14 ven, Mr. Richards, and describe that to us.

15 A Exhibit Number Eleven is an Isopach map  
16 of net porosity in the Lower Wolfcamp B Zone. This porosity  
17 interval, as stated earlier, is best developed in the Wes-  
18 tern Bass No. 1 Well; however, it calculates high water sat-  
19 urations from the logs and was not tested in that well.

20 The interval quickly pinches out to the  
21 north and east. This interval was perforated in TXO's Delta  
22 Fee No. 1 in Section 14, but does not appear to be a major  
23 contributor to the total production.

24 Q Describe your Exhibit Number Twelve for  
25 us, please.



1 porosity interval that is an objective, the Wolfcamp C Zone;  
2 as shown on Exhibit Twelve, I anticipate 25 to 30 feet of  
3 Wolfcamp porosity, whereas the better producers had 50+ feet  
4 of Wolfcamp C Zone porosity.

5 Further I feel that we'll have to have  
6 had some production from both intervals, the Morrow, Mid  
7 Morrow and the Wolfcamp C Zone, for this to be an economic  
8 well, and both of them have risks attached.

9 Q Based on these factors, Mr. Richards,  
10 what in your opinion would be an appropriate risk factor to  
11 be imposed upon the non-joining parties in this well?

12 A The maximum risk penalty of 200 percent.

13 Q Were Exhibits Five through Twelve pre-  
14 pared by you or under your direction and supervision?

15 A Yes, they were.

16 MR. DICKERSON: Mr. Examiner,  
17 move admission of Applicant's Exhibits Five through Twelve  
18 at this time.

19 MR. QUINTANA: Exhibits Five  
20 through Twelve will be admitted as evidence.

21 MR. DICKERSON: And I have no  
22 further questions of Mr. Richards.

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CROSS EXAMINATION

BY MR. QUINTANA:

Q Mr. Richards, is it your testimony or --  
or is it your understanding that only the Morrow formation  
would be pooled and the rest of the other formations are un-  
der agreement to be drilled by yourself and other parties?

A I don't know.

Q Let me clarify that. In other words,  
everything up to the Wolfcamp formation is taken 100 percent  
-- the risk is being taken by you.

A That's correct, yes.

MR. DICKERSON: So only, Mr.  
Examiner, the application requests pooling of any gas zones  
found below the base of the Wolfcamp to the base of the Mor-  
row formation.

MR. QUINTANA: And those (not  
clearly understood) is based on the completion of the well  
to the Morrow total completion costs, including the Wolfcamp  
all the way to the Morrow, right?

A Yes, it is.

MR. QUINTANA: I take it then  
that the risk penalty to be assigned to this pool would ap-  
ply to the total cost of drilling the well, right, is that  
what you're asking for, \$1,110,400?



1 If not, you may be excused.

2 Mr. Nutter, you said you had a  
3 statement?

4 MR. NUTTER: Yes, sir.

5 MR. QUINTANA: You may proceed.

6 MR. NUTTER: I'd like to call  
7 the Examiner's attention to a well that's located in Unit G  
8 of Section 2.

9 This well was originally com-  
10 pleted as a Wolfcamp-Morrow dual completion in 1974 and was  
11 connected to El Paso Natural Gas Pipeline on August the 1st  
12 of '74.

13 The Wolfcamp is still producing  
14 and has a cumulative production as of the end of 1984 of  
15 403-million MCF and 32,600 barrels of condensate. The well  
16 has the northeast quarter of the section dedicated to it.

17 The Morrow in the well last  
18 produced in August of 1983 and had a cumulative Morrow pro-  
19 duction of 309,589 MCF and 1366 barrels of condensate.

20 There is no evidence in the  
21 well file of any physical work that's ever been done on the  
22 well to actually abandon the Morrow. Now if this work has  
23 not been done, under FERC rules the proration unit in the  
24 north half of the section would still be active, even though  
25 the State Land Office did terminate the communitization of

1 the north half of the Section 2 in October, 1983.

2 The owners in the northeast  
3 quarter will not share in any Wolfcamp production; that has  
4 been stated; so therefore we feel that only the incremental  
5 cost of going from the Wolfcamp to the Morrow should be  
6 charged to the owners in the northeast quarter.

7 We also believe that inasmuch  
8 as the east half of Section 2 has already been proven pro-  
9 ductive of gas in the Morrow formation that the maximum risk  
10 penalty factor of 200 percent is excessive in this case and  
11 that a lower risk factor should be applicable.

12 As stated by the witness, his  
13 AFE was for the total cost of the well from the surface down  
14 through the Morrow formation. We don't feel that the owners  
15 of the northeast quarter should have to share in this total  
16 AFE and at that risk penalty.

17 MR. QUINTANA: Mr. Nutter, are  
18 you prepared to submit a proposed -- a recommended penalty?

19 MR. NUTTER: No, I'm not.  
20 Something less than 200 percent.

21 MR. QUINTANA: Are you prepared  
22 to give us your estimate of the incremental costs?

23 MR. NUTTER: No, I can't do  
24 that. I don't know.

25 MR. DICKERSON: Mr. Examiner,

1 if I could --

2 MR. NUTTER: Mr. Dickerson had  
3 stated awhile ago that he only expected the owners in the  
4 northeast quarter to share in the cost from the base of the  
5 Wolfcamp to the base of the Morrow formation, so the risk  
6 factor, those costs and that risk penalty factor should be  
7 applicable only in that portion.

8 MR. DICKERSON: Mr. Examiner, I  
9 would like to point out -- you correct me if I'm wrong, Mr.  
10 Nutter -- but it's my information that no one from Bass has  
11 ever even as much as raised a peep concerning this before,  
12 and as you're probably well aware, the COPAS accounting pro-  
13 cedure form, there exists a COPAS accounting procedure form  
14 which is designed to take care of exactly this type of ques-  
15 tion. If Bass wanted to raise this question, or had they  
16 ever raised it with TXO as far as discussing any middle  
17 ground or anything of that nature, we would have been a lit-  
18 tle better prepared on both sides to argue this.

19 So we did not even know until  
20 Mr. Nutter made his statement that Bass intended to as much  
21 as make a statement, and they make a statement; they're not  
22 submitting any evidence. The statement which is submitted  
23 is not substantial evidence to overthrow the preponderance  
24 of evidence based on TXO's testimony and TXO respectfully  
25 requests the 200 percent penalty.

1 MR. NUTTER: Mr. Examiner, it's  
2 prima facie evidence that the owners in the northeast quar-  
3 ter are not going to share the production from the -- from  
4 the well as far as the Wolfcamp formation is concerned. I  
5 don't think we have to submit substantial evidence in that  
6 case.

7 MR. DICKERSON: Mr. Examiner,  
8 Bass has not even given your office the -- anything to work  
9 with. They want you to do the work. They do not even take  
10 the position of recommending a certain risk penalty, nor al-  
11 locating cost between the zones below the base of the Wolf-  
12 camp in relation to the whole case.

13 It's the parties that come and  
14 dispute these issues before this Division who have the bur-  
15 den of doing such things. It's certainly not your obliga-  
16 tion and that of your office to calculate for yourselves.

17 MR. QUINTANA: Bear with me  
18 just a second.

19 I have a quick question and  
20 maybe one of your witnesses can answer this.

21 MR. DICKERSON: Uh-huh.

22 MR. QUINTANA: Is this AFE  
23 based on a drilling cost, per day drilling cost, or is it  
24 based on (not understood)?

25 A WITNESS: It's day work.

1 MR. QUINTANA: I would like to  
2 request that TXO Production Company submit to me an AFE  
3 showing the drilling costs only up to the Wolfcamp and if  
4 they don't want to, then I can calculate one myself off of  
5 this. If they see different figures that they'd like to  
6 submit, then they can submit them.

7 I'd like to that -- Mr. Dickerson,  
8 I'd like those figures submitted depending on what type  
9 of decision I make, I guess, and I want to be prepared in  
10 order that I won't have to wait for the figures at a later  
11 date.

12 I can calculate --

13 MR. DICKERSON: No, but Mr. Examiner,  
14 I think it's misleading to calculate and allocate  
15 costs to zones in cases like this based on that simple a  
16 formula, and what we would propose to do is submit for the  
17 Examiner's consideration the COPAS accounting procedure  
18 which describes some of the problems involved in allocating  
19 costs as between zones in cases such as this, so the Examiner  
20 can see the difficulties that arise. It's not quite as  
21 simple as Mr. Nutter would have us believe, as simply allocating  
22 on a pro rata footage basis.

23 MR. QUINTANA: Would you please  
24 submit that to me? I'll take this under consideration, and  
25 Mr. Nutter, if you do wish to submit anything, I'll be --

1 MR. NUTTER: Fine. My state-  
2 ment was based on Mr. Dickerson's previous statement that  
3 the costs from the base of the Wolfcamp to the base of the  
4 Morrow would be applicable to the order in the northeast  
5 quarter.

6 I recognize that there are  
7 COPAS accounting procedures for determining those types of  
8 costs.

9 MR. QUINTANA: Is there any-  
10 thing further in Case 8699?

11 If not, Case 8699 will be taken  
12 under advisement pending additional data to be submitted.

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(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 correct report of the hearing held in the Oil Conservation Division, Case No. 8699, heard by me on SEPT. 11, 1985.  
Silbet P. Quintana Examiner  
Oil Conservation Division