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

17 October 1985

COMMISSION HEARING

IN THE MATTER OF:

Application of Lynx Petroleum Consulatants, Inc. for an unorthodox gas well location, compulsory pooling, and a dual completion, Lea County, New Mexico.	CASE 8631

BEFORE: Richard L. Stamets, Chairman
Ed Kelley, Commissioner

TRANSCRIPT OF HEARING

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I N D E X

I N D E X CONT'D

E X H I B I T S

E X H I B I T S

MR. STAMETS: We'll call next Case 8731.

MR. TAYLOR: The application of Lynx Petroleum Consultants, Incorporated, for an unorthodox gas well location, compulsory pooling, and a dual completion, Lea County, New Mexico.

MS. AUBREY: Karen Aubrey, Kellahin and Kellahin, representing the applicant.

MR. BATEMAN: Ken Bateman, White, Koch, Kelly, and McCarthy, representing Texaco.

MR. STAMETS: Any other appearances in this case?

I presume we have some witnesses in this case?

MS. AUBREY: Mr. Stamets, I have two witnesses to be sworn.

MR. STAMETS: Ken, how about you?

MR. BATEMAN: Yes, sir, I have two witnesses, also.

MR. STAMETS: Will all those stand and be sworn at this time, please?

(Witnesses sworn.)

MR. STAMETS: Any time you're ready, Ms. Aubrey.

MS. AUBREY: Thank you.

I'd like to make a brief opening statement, Mr. Stamets.

This case is here on a de novo application filed by Lynx Petroleum in connection with the Geraldine Doughty No. 1 Well, which is a Paddock oil producer.

The case came on early this year before Examiner Stogner and at the time the case was heard by the Examiner the only real issue between the parties was the allocation of well costs between the present producing Paddock formation and the proposed recompletion in the Queen.

At that time Lynx presented testimony of actual well costs attributable to both the Paddock and the proposed Queen recompletion, and suggested to the Examiner that Texaco had an obligation to pay its proportionate share of the cost of drilling the well to the base of the Queen, to about 4000 feet.

Texaco's position at the Examiner Hearing was that it was not obligated to pay any money to get down to 4000 feet.

The Examiner order was based

upon salvage value of the equipment in the wellbore to 4000 feet.

Today we are going to present testimony to you to show that salvage value was not an appropriate method of compensating Lynx Petroleum for having drilled the well to the Paddock and to compensate them for the value of the wellbore to 4000 feet to Texaco, who will receive 50 percent of the gas from that formation if the well is successfully recompleted in the Queen.

Gary Fonay will testify and Joe Ramey will testify for Lynx.

That's all.

MR. STAMETS: Mr. Bateman, before Ms. Aubrey begins, let me confirm that indeed today we are only looking at an appropriate allocation of well costs. Is that your understanding?

MR. BATEMAN: That's correct. That's the issue.

MR. STAMETS: Fine. You may proceed.

MS. AUBREY: So the record is complete, since we are on a de novo application, if you wish I will go through the testimony on the forced pooling, unorthodox location, and/or completion issues. If not, we can skip that and simply talk about well costs.

MR. STAMETS: I presume that we can stipulate that the only issue is well costs and other issues as to risk factors, overhead charges, and the acreage in question all will be as in the original order.

MR. BATEMAN: Let me correct myself. Risk penalty certainly is an issue.

MR. STAMETS: Okay.

MS. AUBREY: I believe the dual completion is at issue, too, so if we're going to talk about risk factor, the dual completion, and the well costs will be brought up.

MR. STAMETS: Actually we ought to cover the whole thing and as quickly as possible.

GARY FONAY,

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

DIRECT EXAMINATION

BY MS. AUBREY:

Q Would you state your name and occupation for the record, please?

A Gary Fonay. I'm co-owner of Lynx Petroleum.

Q And, Mr. Fonay, where does Lynx Petroleum operate?

A Our only office is in Hobbs, New Mexico, and we operate solely in southeast New Mexico.

Q Do you have a professional degree, Mr. Fonay?

A Yes, I have a BS in petroleum engineering from Colorado School of Mines.

Q Are you presently employed as a petroleum engineer?

A Yes, I am.

Q Are you familiar with the application of Lynx Petroleum for forced pooling, dual completion, and an unorthodox gas well location for the Geraldine Doughty No. 1?

A Yes, I am.

Q Have you testified previously before the Oil Conservation Commission and had your qualifications made a matter of record?

A I have.

MS. AUBREY: Mr. Commissioner, are the witness' qualifications acceptable?

MR. STAMETS: They are.

Q Mr. Fonay, would you give a brief history, starting with the forced pooling in September and Oct-

tober of 1984 for the Geraldine Doughty No. 1?

A Okay. Might refer to Exhibit One. Here's a little better Exhibit One than that Xerox, if the Examiner would like to look at that. It might be a little clearer to read.

Q We will substitute this exhibit.

A Lynx Petroleum and Southern Union Exploration began leasing the north half of the southwest quarter and the south half of the northwest quarter of Section 25, 16 South, 36 East, Lea County, to drill a well to approximately 6350 feet for a Paddock test about July of 1984, a little before that.

We completed acreage acquisition in there for the most part with a few small leaseholders refusing to either lease or join in the drilling of that Paddock well, the northeast of the southwest quarter to be dedicated to that well.

In September, 1984, Lynx Petroleum applied here at this Commission for forced pooling for those fractional interests in that 40 acres and force pooled all minerals from surface to the base of the Paddock. We asked for a cost plus 200 percent risk penalty on that well and overhead charges of $3500 a month while drilling and $350 a month while operating a producing well.

That case was heard and the order was

written as we had asked and the well was drilled and actually completed the end of 1984 and began in January, 1985, from the Paddock formation.

Q When did Lynx first propose a recompletion of the Geraldine Doughty No. 1 in the Queen?

A We wrote a letter dated January 15th, just two weeks after we had started producing the Paddock, to both Texaco and Tenneco, asking them to participate with their leased or owned mineral rights in that recompletion.

Q Could you explain for the Commission what the interest of Tenneco and Texaco are in the 160 acres?

A In the 160 acres that we're asking to dedicate to the Queen well, which would be the southwest quarter of Section 25, Tenneco would have 50 percent of that 160 acres and Tenneco would have 25 percent.

MR. STAMETS: Would you run that by me again? Is Texaco 50 percent?

A Yes, sir.

MR. STAMETS: And Tenneco is how much?

A 25.

MR. STAMETS: Thank you.

Q And what is Lynx' interest in the well (not clearly understood)?

A Lynx is the rest, 25; Lynx, et al, we've

got some partners but that's -- it's our interest. We speak for that 25.

Q Let me have you skip over Exhibit Number Two, Mr. Fonay, and refer to what we've marked as Exhibit Number Three.

A Exhibit Number Three is a letter dated February 1, 1985, which is the second time I mailed that letter to Texaco. It got misplaced or lost or never -- Texaco never received it.

The February 1 letter is a letter to Texaco proposing the possible dual completion of the Geraldine in the Paddock and Queen. This letter went to both Texaco and Tenneco. It offers them an opportunity to participate in the well or if they chose not to participate, they could lease or farm out their interest to Lynx, if they would deliver Lynx a 75 net lease.

Q Has Texaco had any interest in the Paddock production in this well?

A No, they do not.

Q Was Texaco force pooled when Lynx filed its compulsory pooling application in connection with the Paddock oil zone?

A No, they were not.

Q In your Exhibit Number Three you indicate that you have received some indication of possible Queen

production when you were completing the Geraldine Doughty No. 1 in the Paddock.

Can you explain that for the Commission?

A The -- the Queen, when we were drilling the well, we had a mud logger on the well and had a fair mud log show drilling through the Queen formation.

Also, upon running open hole logs, the porosity tool, CNL/FDC showed fair crossover on that log, indicating possible gas production. Open hole logs were, although not overly optimistic, looked like it had a reasonable chance of production in the Queen formation, and our intent here was to maximize our cash flow from the well; in addition to the Paddock,to try and get some additional production from the Queen.

Q Let me have you look back at Exhibit Number One, Mr. Fonay, does that exhibit show the other wells in the area which are producing from the Queen formation?

A Yes. Exhibit One is a copy of a lease ownership map with the Geraldine Doughty roughly in the middle of that map.

The nearest Queen producer to the Geraldine is the Amoco well in Unit letter P of Section 1, 17, 36, shown by the arrow. That well is approximately two miles from the Geraldine and that's the nearest Queen producer, and the only Queen producer on this map.

That well has been a fair Queen producer. It has a cumulative recovery of about 300-million cubic feet and makes about 50 MCF a day.

Q Are there wells shown on the map which were dry holes?

A Yes, there are. In Section 26 two wells were drilled to the Queen formation. Both of those wells tested the Queen and both tested the Queen as nonproductive; actually produced water. Both those wells are down structure from the Geraldine.

General structure in the area, there's a high located about at the township corner there with a variety of horizons productive across that high, dropping off to water and nonproductive on the edge.

Q Do you know what wells in the area shown by your Exhibit Number One had gas shows in the Queen but are not currently producing from the Queen formation?

A We know that there's a number of wells across this general structure, in Section 36, Section 1, Section 31. I don't know of each well that did or did not show a gas show or did report a gas show.

No other well in Section 25 reported a gas show with the Commission records. There are several wells down in Section 36 that indicated gas shows when they were drilled, but the Queen is a sand formation and perme-

ability seems to somewhat come and go across that structure and some may be productive, some not. It's not a continuous productive sand across that high. At spots where peremability is such it might be productive; spots where it isn't. None of the wells are producing up there on that crest.

Q Can you draw a conclusion for the Commission about the risk factor which Lynx Petroleum is entitled to for the completion of this well in the Queen formation?

MR. STAMETS: Excuse me, just a minute.

Gentlemen, it's -- it's sort of distracting, you know, I don't mind you holding conversations but if you could move to the back of the room that would be most appreciated. Thank you. Sorry.

THE REPORTER: Would you ask your question again? Let's go over that again.

Q Mr. Fonay, can you draw a conclusion from the information that you have given the Commission and the information contained on your Exhibit Number One about the risk factor which should be applied in this case to the completion of the well in the Queen formation?

A Yes, I can. As previously I noted, the nearest producer is slightly over two miles away and the nearest actual tests in the Queen are nonproductive. Our open hole logs would be encouraging but at the same time it

indicates the zone is somewhat tight on our duolateral and I think the chance, the risk of commercial production is very real and substantial, and I think that cost plus 200 is very reasonable and that risk has already been assigned to the well in a previous forced pooling hearing.

Q In addition to the risk you just testified to, are you aware of any mechanical risks involved in re-entering the wellbore and recompleting the well in the Queen?

A Yes. There's always mechanical risks working on a well. We'll possibly lose water to the Paddock formation. There's always a possibility of damage there. We have several retrievable bridge plugs over the Paddock; perforating the Queen; there's always a chance of damage to the lower zone; problems with downhole tools on the upper zone; just risks inherent in working on a well would be included here and would also be -- be real substantial.

Q At the last hearing on this matter before the Examiner, Texaco presented testimony that they believed that an appropriate risk factor in this case was 25 percent.

Do you have an opinion about that?

A Well, it's my opinion that there's never a sure thing. We could offset that Queen well down there in Section 1 and might not have got a Queen producer.

Two miles from the nearest producer is

substantial risk, even though we've already got the geologic data, the mud log and open hole log, and I just -- just feel that that's not realistic at all, the risk that would be associated, and the risks we've already taken in drilling the well.

Q Let me have you look at the next set of exhibits, Mr. Fonay. Since we are, as I understand it, not directly dealing with the forced pooling issue, I'll ask you to deal with those together, Exhibits Four through Nine I believe represent correspondence between Lynx Petroleum and Texaco with regard to the voluntary participation of Texaco in the well in the Queen.

A Well, Exhibit Four is a letter from Texaco to Lynx dated June 11th. That letter is actually, probably, in the wrong order.

Q These Exhibits Four through Nine are all letters which deal with the efforts that Lynx made to obtain the voluntary participation of Texaco in the Queen formation.

A That's right. There were several correspondences back and forth between Lynx and Texaco, the first being this letter dated February 1 from Lynx to Texaco asking them to participate or farm out. Texaco declined.

The second letter to Texaco would be Exhibit Seven, dated April 17th, in which Lynx offered a much

more attractive terms on the farmout, offered not only a 1/8th overriding royalty to Texaco, but in addition to that a 25 percent working interest after payout, which we felt was pretty attractive offer, would be a more attractive offer than, you know, we'd often offer.

Exhibit Four was their -- no, Exhibit Eight was their response to that, that they declined.

And there were several telephone conversations with Mr. Clark about this matter in addition to this written correspondence.

Q Did you send AFE's to Texaco in connection with this course of correspondence for the recompletion work from the Paddock to the Queen, as well as an AFE for the Queen completion?

A Yes, we did. Those AFE's went with the letter that is Exhibit Number Three, and that Exhibit Three discusses these AFE's. They received both those AFE's, a copy of them.

Q Did you correspond with Tenneco Oil Company --

A Tenneco --

Q -- in connection with the recompletion in the Queen and send AFE's to Tenneco, also?

A The identical letter, Exhibit Three, an identical letter went to Tenneco in San Antonio, Texas, the

same letter; had several telephone conversations with their people after they received that letter. They thought the proposal quite reasonable and signed the AFE to pay their proportionate share of actual drilling costs to the base of the Queen.

Q Let's look right now at Exhibit Number Ten, Mr. Fonay, which is a two-page exhibit.

Will you explain to the Commission what that is?

A Exhibit Number Ten is a letter from Tenneco Oil Company to Mrs. Aubrey with the attached AFE which they signed and agreed to.

This AFE is actual costs based on invoices that Lynx spent drilling the Geraldine Doughty to the base of the Queen formation. In other words, we used actual footage costs; its share of mud; its share of cement; we took each invoice and took what the -- what were costs that well to drill 4075 feet, which is sufficient to test the Queen and provide a small amount of raffle (?) and Tenneco agreed to this. Tenneco actually thought this was a good deal because they were able to participate in the --

MR. BATEMAN: Your Honor, I object to the hearsay that's being put in the record here.

I think the fact that they signed the AFE is sufficient in itself.

MR. STAMETS: I will agree and will sustain your objection.

Q Do you know when Tenneco signed the AFE?

A Not specifically, no. It would have been approximately March.

Q Your letter to them went out February 1st or January 15th?

A January 15th.

Q And the 25 percents interest of Tenneco in the Queen formation would result in a cost to them of $45,0175, is that right?

A That is correct.

Q And Texaco's share of this AFE would be twice that, is that right?

A Yes, ma'am, that's correct.

Q Let's look at the AFE which is attached to Exhibit Ten. Can you tell the Commission what you have included in terms of recovery of costs from Tenneco in this AFE, breaking it out by intangible and tangible costs?

A Well, as I said earlier, this was actual invoice cost for drilling intangibles. We split out its cost of cement, mud, logging, and supervision, and its share of tangibles, which would be the 8-5/8ths and 4,075 feet of the 5-1/2.

Q Are you aware of any dispute by Tenneco

with any of these particular costs that are included on the AFE?

A No, none.

Q Would you explain to the Commission what in your opinion your present contractual arrangement with Tenneco is with regard to the $45,000 they have agreed to pay under the AFE?

A It would be my understanding that if we came to agreement with Texaco to form the 160-acre proration unit and recomplete the well in the Queen, that Tenneco would pay that amount to Lynx Petroleum.

Q In exchange for 25 percent of the production.

A Yes, uh-huh.

Q Let me have you look now at Exhibit Number Ten-A. Can you explain what that is?

A Southern Union Exploration is a small partner with Lynx Petroleum in the drilling venture of the Geraldine Doughty and this is a letter from Southern Union Exploration simply supporting Lynx in this application.

Q Particularly with respect to the allocation of well costs.

A Yes, ma'am.

Q Let's look now at Exhibit Number Eleven, which appears to be an AFE. Is this the AFE for the Paddock

completion?

A That was the original AFE to drill and equip the Geraldine Doughty in the Paddock formation.

Q Do you know what the actual completion costs of the Geraldine Doughty in the Paddock were?

A Actual costs to drill, complete, and set surface facilities for the Geraldine Doughty was approximately $315,000.

Q So the well came in under AFE in the Paddock.

A Yes, it did.

Q Included on that exhibit, Exhibit Number Eleven, are both drilling tangibles and intangibles.

A Yes, there is.

Q And that would be the total cost to 6350.

A That's right. Right if you drilled it to 6350.

Q Let me have you look at Exhibit Number Twelve. Can you explain what that is to the Commission?

A This is the same AFE we talked about attached to the Tenneco letter, we've talked about several times. It's the actual costs of its share of just drilling, drilling and casing to the base of the Queen.

Q And these again are actual well costs, are they not?

A Actual well costs.

Q Let me have you now look at Exhibit Number Thirteen. What is that?

A Exhibit Number Thirteen is an AFE to recomplete the well, the Geraldine, from the Paddock to the Queen. This is just an estimated cost of what Lynx thinks it would cost us to temporarily plug back and test the Queen formation.

Q And that's in the amount of $50,000.

A Yes, it is.

Q With regard to Exhibits Eleven, Twelve, and Thirteen, which are the three AFE's, were you present at the Examiner Hearing when Texaco testified that they believed that these costs were not out of line and that they were not objecting to the cost figures on those three AFE's?

A Yes, that's the way I recall it, that the cost of those AFE's was not in question.

Q We need to talk about the dual completion, Mr. Fonay. Would you look at Exhibit Number Fourteen?

A Exhibit Fourteen is a proposed wellbore sketch of the Geraldine showing the possible dual completion between the Paddock and the Queen.

The Paddock currently makes approximately 210 barrels of oil per month, about the same water, and gas has been too small to measure.

We tried to get the well connected and simply didn't make sufficient gas to connect.

So we feel that the Paddock could adequately be pumped below a packer without any, you know, problem as far as making the same production.

The Queen, as was previously testified, based on mud log data and evaluation of open hole logs, we feel would be a relatively dry gas well.

What we would like to do is to be able to produce, continue to produce the Paddock. It's generating some revenue and we'd like to continue to produce that Paddock and we'd also like to produce the Queen, if it proves productive. And what we propose here to do that is a dual completion and if the Queen was sufficiently dry to flow up that back side, that's what we'd like to do.

If the Examiner would wish, we'd make that dual completion subject to approval by the local District Supervisor, Mr. Sexton, you know, subject to a pending test of that Queen to prove that it would be able to flow up that back side without any waste or loading up.

If the Queen did make sufficient liquids that it would not adequately flow up the back side, then Lynx would, and with its partners, would have to make a decision to go back and remain in the Paddock or possibly remain in the Queen for some time and later try to downhole

commingle, or depends on the production test, of course.

Q Are you asking for an order from the Commission which would allow you work with the local District Office in connection with the dual completion of the Queen based upon how dry that gas is and allow you do dually complete it if the locat District Office approves that without coming back to another hearing?

A That's exactly the reason. We just didn't want to have to come back for a hearing just for dual if it proved that was a prudent choice.

Q Let me have you look at the next three exhibits together, Mr. Fonay, Exhibits Fifteen, Sixteen, and Seventeen.

A Exhibit Fifteen is a listing of parameters determined from open hole log data.

Exhibit Sixteen is a copy of the porosity log across the Paddock horizon.

And Exhibit Seventeen is an economic run on the subject well, just showing discounted net present value of the Paddock reserves.

Before going further I need to discuss a little on the completion of the Paddock.

The Paddock zone was stimulated in two separate intervals. The first interval stimulated was that zone from 6257 to 6306. We broke that zone down on acid and

attempted to sand frac that interval. The frac job sanded out and our swab rates out of that zone were somewhat disappointing; swabbed, oh, less than a barrel an hour with a good oil cut; it was almost all oil, but at a real low rate.

We went ahead and set a retrievable bridge plug over that zone and decided the prudent choice would be an acid frac rather than a sand frac, and we acid fraced the upper zone and that zone swabbed at about four times the rate of that lower zone, although we felt that the log indicated somewhat poorer quality.

Our feeling was that we'd have a better well if we restimulated that lower zone but we decided at that time the thing to do would be go head and put the well on pump and see what it would make and then make any further decisions subsequent to that.

Put the well on pump and started out reasonable and declined and now currently makes about 210 barrels of oil a month, which is less than we would like it to make.

We feel that with restimulation on that lower zone we might be looking at a rate close to about 400 barrels a month rather than the 210, or 350, you know, no one can be sure on something like that; but it would be higher.

That is --

Q Let me interrupt you. Do you propose to do that restimulation at the time that you re-enter the well to complete it in the Queen?

A That's exactly -- we -- we intended to do it all along as soon as we went to the Queen, and what has happened is we just kind of went along here and been somewhat longer than we expected getting to the Queen and we just continued to wait till we get a unit on the well to do that restimulation.

But the volumetric calculations are there and you can see the numbers, 48 feet of pay; 4-1/2 average porosity; 23 average saturation; the drainage area, 30 acres; estimated V-sub-O (sic) of 1.15; and then 10 percent recovery of the original oil in place.

We feel these numbers are reasonable to conservative. This would indicate that the Geraldine would have an ultimate recovery of 37,000 barrels of oil. At its current rate it would take some time to recover that, with just a little bit of additional stimulation that 37 is a very realistic number and what Exhibit Seventeen shows, that a well that would cum 37,000 barrels with flat oil prices and an operating cost of $600 a month, just about our current operating cost, that that would have a discounted net present value of $311,000.

Probably wouldn't have been a super in-

vestment. We think this Paddock is a viable producer, or we know it's a viable producer, it's a moneymaker month to month, and it's a relatively -- good potential to be a relatively decent well.

Q Can you draw a conclusion from these exhibits that the Geraldine Doughty No. 1 as it's presently completed in the Paddock is an economic well?

A Yes, no question, month-to-month it's a moneymaker.

Q Is it your opinion that in the event you re-enter the Geraldine Doughty No. 1 and restimulate the Paddock that you will increase your oil production?

A I think that's a very, very strong likelihood.

Q Would it be economic to re-enter the well solely for the purpose of restimulating the Paddock formation?

A Oh, no question, if we run into trouble on the Queen and decided not to do it, we'd do it right away.

Q Mr. Fonay, what formula are you proposing that the Oil Conservation Commission use to allocate the cost of the Geraldine Doughty No. 1 between the Queen and Paddock formations?

A We're proposing that we use actual in-

voice well costs to drill that well to base the Queen, which seems the most prudent choice.

Q And you have provided those to Texaco and the Commission in the AFE's which are exhibits today?

A Yes, I have.

Q Those AFE's include both intangible drilling costs and tangible costs, is that correct?

A Oh, yeah.

Q Are the tangible costs in those AFE's in there at salvage value or at the cost to Lynx?

A Cost.

Q Do you want to explain your justification for including them at that figure?

A Well, the well was drilled less than year ago. We have essentially a -- or essentially we do have a new wellbore.

Texaco or Tenneco would have the opportunity to participate here in what essentially is a new drilling venture. We see no reason we shouldn't be in there at cost.

Q Do you have an opinion as to whether or not salvage value of the casing and tubing in and of itself compensates Lynx for the cost of drilling the Geraldine Doughty No. 1 to the base of the Queen?

A No, I don't think it's sufficient compensation at all.

sation at all.

Q Okay, I refer you now back to your AFE's and let's see if we can put in the record what the intangible costs were to the base of the Queen.

I think you need to look at Exhibits Eleven, Twelve, and Thirteen.

A Exhibit Number Twelve, Examiner, is the AFE based on actual invoice to the base of the Queen. Intangibles and tangibles are broken down on that AFE sheet showing intangible costs of $137,206.

Q And the total tangible costs are on that AFE?

A $43,094.

Q And those are costs which are solely attributable to the Queen formation, is that correct?

A Yes, ma'am, that is correct.

Q Now, Mr. Fonay, if you examined the numbers on your AFE in terms of footage, depth of the formation, do you know where you come out in terms of comparison with the AFE which is your Exhibit Number Twelve?

A Very similar; very similar.

Q And that's based on roughly 4000 versus roughly 6000 feet of depth.

A That is correct.

Q Were Exhibits One through Seventeen pre-

pared by you or under your supervision and direction?

A Oh, yes.

Q Will the granting of the Lynx Petroleum's application, particularly the allocation of wells costs and the risk factor of 200 percent, protect correlative rights, promote conservation, and prevent waste?

A Yes, it will.

MS. AUBREY: Mr. Stamets, I offer Exhibits One through Twenty and tender the witness for cross examination.

MR. STAMETS: Without objection the exhibits will be admitted.

Are there questions of the witness?

MR. BATEMAN: Yes, Mr. Commissioner.

CROSS EXAMINATION

BY MR. BATEMAN:

Q Mr. Fonay, you testified that you in drilling the Geraldine Doughty encountered a show of Queen production based on a mud log during the drilling, is that correct?

A Yes, it is.

Q Had you had an interest in the Queen pro-

duction prior to the drilling of this well?

A Yes, we did. The well in Unit letter P of Section 26, if you'll refer to Exhibit One, the Velma Petroleum well --

Q That's in section --

A 26, Unit letter P.

Q Uh-huh.

A That's a -- was a Velma Petroleum Sinclair State No. 1. That is a State lease currently under lease to Mr. Moncrief.

Lynx Petroleum attempted re-entry of that well in July of 1984 for Paddock and possible Queen production, and that re-entry was unsuccessful. We never could tie the 5-1/2 back.

And it was based on our work here in this area along with that Queen show and that Moncrief well that we thought that was possible back-up zone, you know, over in the Geraldine, I'm talking about.

Q All right.

A We did some work across that area.

Q So in the Velma well you don't know whether the Queen is productive or not, you weren't able --

A We were not able to re-enter, that's right.

Q But there's geologic evidence that it is,

is that correct?

A Well, they -- they reported a gas show when they drilled through that well and so there's some evidence it might be productive, although when it was plugged nobody made an attempt to produce the Queen.

Q So you had it in mind as a, you testified, a back-up zone, is that correct?

A Possibly.

Q But nevertheless you didn't contact Texaco or Tenneco or anybody else concerning that production prior to drilling the Geraldine Doughty, is that correct?

A Well, Tenneco, we did, because we had to lease the Paddock rights from Tenneco to drill the Geraldine, so Tenneco was somewhat aware of our plans, although Texaco, I did not talk to Texaco prior to drilling the Geraldine.

Q So Tenneco does have an interest in the Paddock production?

A No, they don't. Well, they're a royalty; a royalty owner.

Q Texaco does not.

A Texaco does not.

Q Nevertheless you did testify that you did not contact Texaco until after you completed the well, is that correct?

A Uh-huh.

Q Now you've testified that -- concerning the geology of the area in the Queen that in your opinion that permeability comes and goes in the sand formation and it's not continuous in this area.

A Well, I --

Q Any place else.

A Well, the sand is continuous. You'll see a Queen sand everywhere but it does not appear to have the same characteristics on the logs everywhere and I think probably the permeability varies widely, just based on reviewing logs in the area.

Q Those logs are somewhat dated, aren't they?

A Oh, yeah, they're all old gamma ray neutron; you really can't get a solid handle on what's there but I think you can get a general opinion on cleanliness of that Queen sand and on the neutron characteristic on the porosity.

Q The only produced you're testified is some two miles to the south, is that correct?

A Uh-huh.

Q That's the only one you can really draw any correct conclusions from, is that correct?

A Solid, that's true.

Q Now, with respect to the risk factor, you testified that you thought that this was a highly risky venture, is that correct?

A Or certainly there's substantial risk.

Q You stated that it was -- well, you didn't state, but let me ask you, do you consider it to be equally as risky as the initial well that you drilled to the Paddock?

A Rephrase that; I'm not sure what you're asking.

Q The initial well was drilled to the Paddock as a result of a compulsory pooling application in which you were given a 200 percent risk penalty.

A That's correct.

Q Do you consider the proposal you now make to recomplete in the Queen equally as risky as the risk that you were faced with when you drilled the well originally?

A Yes, I think we deserve the same. Yes, I do.

Q You consider it equally as risky given the information that you have, the geologic information?

A Well, I think we deserve the same penalty because we're out there taking that risk. Yes, I do.

Q Well, you say you ought to have the risk because you're -- the penalty because you're taking the

risk, is that your point?

A I think so, yes.

Q Disregarding the fact that you have an enormous amount of information about the geology in that wellbore that you didn't have initially. Is that correct?

A I'm sorry, I'm a little bit confused.

Q You're asking the Commission to disregard the fact that you have geologic information concerning the Queen production that you certainly didn't have before you drilled the well.

A No, I wouldn't ask the Commission to disregard that, no.

Q Do you think that's a factor in determining what the risk is?

A No, not really. Well, somewhat, but not really, no.

Q So you'd rather have them disregard it, is that correct?

A No, I'd rather not have them disregard it. It's a fact, you know, and we've presented that. I don't intend them to disregard that, no.

Q And mechanical risk, why don't you expand on that a little bit for me? I'm not sure I understand. Is this a complicated procedure, to recomplete in the Queen?

A Not overly complicated, no.

Q Is it complicated by the fact that you intend to stimulate the lower zone of the Paddock at the same time?

A No, that wouldn't complicate the Queen any.

Q You don't consider that to be a factor in determining mechanical risk in what you propose?

A No, that, of course, Lynx would have to bear any risk as far as restimulating the Paddock all on their own.

Q You intend to do it at the same time, is that right?

A Probably would.

Q Now does Tenneco have any offset production in the Paddock or any other zones?

A Yeah, Tenneco has some producers in Section 30 in the Paddock of Township 16 South, 37 East. I'm afraid they're blocked out by my notation of the subject well.

Q Do you know where -- what zone they're producing from?

A Yes, they're from the Paddock

Q From the Paddock.

A I'm sorry I've blotted the wells out there with my notation "subject well". They would lie

directly underneath that.

Q I see some indication in the northwest quarter, is that right?

A I beieve they're in the north half of the southwest quarter; however, I'm not sure, as I cannot see on that map.

Q Okay. Has Tenneco signed an operating agreement or any other kind of a document besides the AFE?

A They agreed to sign an operating agreement if we managed to, you know, come to terms here and everybody get together and we could get the Queen well.

We have not submitted an operating agreement to them.

Q How did they agree to that, orally or in writing?

A Just orally, just talking to me.

Q With respect ot the dual completion, you testified that you would work with the Commission office in Hobbs. What do you propose to do if the gas production isn't dry?

A Well, if the gas production is not dry, and say it made sufficient fluid to require pumping, then we would have a decision, along with our partners in the well, is that we'd either have to come up with a single in the Queen or we'd have to squeeze it off and go back to the Pad-

dock. That decision would have to rest with the owners and depend to a large extent on production. You know, if it's a 15 MCF a day well, we'd, I'm sure, give up on it and go downhole. If it was a half million a day, you know, or something like this, with some oil, we'd probably stay there and save the Paddock for, you know, some future production. It just depends on the test, would really have to be the telling story.

Q The restimulation of that lower zone you expect an increase production of some 400 barrels a day?

A No, no, no, 400 barrels a month.

Q Excuse me, per month?

A Yes. I'd say 350 to 400 would be a reasonable estimate.

Q It swabbed only one barrel per hour, you said?

A Uh-huh.

Q How do you come to the conclusion that you can increase production by that factor?

A Well, the upper zone, which we felt was somewhat less, looked less attractive on the open hole logs, which I'm sure you all agree, swabbed at a rate of about 4 barrels an hour, and the well is stable down here to about 7 barrels a day.

And the lower zone, I really believe,

should give up about as much as that upper zone, and it's our feeling that that lower zone is contributing probably very little, based on those poor swab rates, and so you figure you get another 5 barrels a day out of that lower zone, it's 12 barrels a day or, you know, 400 barrels a month.

Q Is there a reason why you didn't stimulate that at the time you completed the well?

A Well, we did, but it sanded out.

Q So apparently you (not clearly understood) 7 barrels per day production. Is that (not clearly understood) initial production?

A Uh-huh, but it's been stable at that now for I'd say about six or seven months and I think what we'll have there is that 7 barrels a day at an extremely low decline rate for a long time if we didn't do anything to the well.

I think it would last, you're probably looking at 15-year life there if you don't restimulate the lower zone; just, you know, eke out there for along time.

Q Have you done any studies to determine when the well will pay out at that rate, if ever?

A Yeah, I did look at payout if we never restimulated the lower zone and at that rate the well may not pay out; if it did, it would be in excess of ten years.

But it might. Of course, all depends on

oil prices and operating costs; might pay out.

Q The economics would be helped, of course, if you had somebody else to participate in the two-thirds of the cost of drilling to the Paddock, wouldn't it?

A Are you talking about the Queen?

Q Yes.

A Well, yes. Of course, you know, our intent all along here has been trying to, you know, improve the productivity of the well and the Queen looked like our best chance to do that.

Q One of the way to do that, then, is to allocate the cost of drilling from the surface to the Queen to somebody else, is that correct?

A Well, just proportionate to their revenue, of course.

Q Proportionate to their revenue or depth?

A Their share of the revenue.

Q I understood your proposal was proportionate to the depth.

A Well, if they --

Q (Not clearly audible.)

A Well, yeah, the cost to drill to 4000 feet was $180,000, we would ask Texaco to pay for half that cost because they would share in half the cost of revenue from the Queen.

Q Right. But my point is that you then take out of the economics in the Paddock that amount of money, isn't that correct?

A Well, the Paddock would stand on its own along with the Queen.

Q Less the amount of money you recovered from Texaco and Tenneco, is that right?

A Well, of course, they -- they -- that would be their payment for their sharing in cost of, you know, they're to get their share of the revenue from the Queen.

Q You don't propose to allocate any of those costs back to the people who have already paid if you recover them from Texaco (not clearly understood)?

A It would be allocated equally to those partners that participated in the Paddock, which included a couple of fractional mineral owners. It sure would. That would go back to -- because they're losing that part of the wellbore.

Q Well, unless I misundertand, we're talking about two-thirds of the cost of drilling the well, essentially, you just used the footage, 4000 feet compared to 6000 feet, and you've gone back and allocated --

A Well, it would be closer to half.

Q All right, let's use half, then. Now,

the proposal that I understand you're making, then, is the individuals who are now burdened with paying the cost of drilling the well from the surface down to the Queen, we'll say half of the cost, would be relieved of that burden.

A Well, no, they wouldn't be relieved of that burden by any means, because they would still be paying for a part of that cost. They certainly wouldn't be relieved of it.

Q Well, they'd be relieved of the cost that you're now recovering from Texaco, would they not?

A Yeah, whatever we recovered, they'd be relieved of that fraction certainly.

Q That fraction, 50 percent of one-half.

A Well, whatever it would be.

Q 50 percent of one-half if 25 percent, is that right?

A I think that's probably about right.

Q Let me ask you a question about the -- your statement that you're asking the Commission to adopt a formula, or proposing a formula which is based on actual invoiced well costs.

Your statement was that that was the most prudent choice because it had been drilled less than a year ago and you've taken the cost.

Let's presume hypothetically that it had

been drilled fifteen, twenty years ago, what would your proposal be then?

MS. AUBREY: I'm going to object to that, Mr. Stamets. We're not talking about a well that was drilled fifteen years ago; we're talking about one that was drilled and completed in 1984.

MR. BATEMAN: It's germane, if I may say so, because we're asking you to adopt a formula in a situation that as far as I know is somewhat unique, force pooling or compulsorily pooling additional interests in a wellbore that's already been drilled.

MR. STAMETS: Mr. Bateman, I think you can develop that line of testimony with your witness.

MR. BATEMAN: Thank you.

Q Now, you talked about salvage value as being an inaccurate or, I guess, an unfair way to compensate you.

A Inaccurate, uh-huh.

Q What is the -- your estimate of the salvage value of the equipment in the well which would be allocated to the Queen?

A Well, really I just don't see where salvage values enters in here. We've talked about the Paddock some. Whether you're successful or unsuccessful in stimu-

lating the lower zone, the Paddock is a viable, economic produced month to month, will be for some time. If Lynx Petroleum never comes to the Queen we'll be producing the Paddock for years to come; have no intention of being in a salvage situation, and it really won't matter.

Q Well, let me ask you another question. Have you produced a document in which you've identified what you say are these salvage values of the equipment in the hole?

A What we did is submitted a list of all tangible costs to Mr. Stogner with a cover letter saying that of course only a portion of that would be -- would be salvagable.

Q Let me show you what we've -- has been marked as Texaco's Exhibit Number Six, somewhat out of order, and ask you if that's this document that you testified to?

A Yes. See, as I say here, these prices shown are list prices and this equipment would be worth less than that and the only casing that could be recovered would be 3000 feet (not clearly understood).

Q That last meaning, what, 85 percent of cost?

A Uh-huh. You know, if you pulled it and had to go out and sell it, you know, that would be a reason-

able number at this time.

Q State again for the record why you don't think recovering salvage value of the equipment that's going to be used in the production of the Queen is a fair way to compensate Lynx Petroleum.

A Well, we have no intention of salvaging or selling this equipment. It's in the well and we intend to use it right where it's at; you know, we're not going to be in a salvage situation; certainly hope not.

Q The proposal is not to salvage it. I'm asking you why you don't feel that being reimbursed for the salvage value by those interests that are being compulsorily pooled in the Queen is a fair way to compensate Lynx?

A Well, I just -- based on salvage value, if it was a bust in the Queen, they'd get all their money back, you know, you'd salvage it and sell it and they'd be in there for, you know, for nothing. You know, this is just what you'd get if you went out there and pulled it and sold it. It's just -- I just don't see where it enters in.

Q Do you feel that volumetric calculations are accurate when they're made in a well that's offsetting a waterflood?

A Well, it certainly complicates matters but bottom hole pressure there that would indicate we're about 18-1900 pounds bottom hole pressure, in that range,

and probably haven't seen any appreciable response from that waterflood, and, of course, I'd drop the acreage that we might drain there from what be considered a typical 40 to a 30, and then I've only included 10 percent of what would be original oil in place there as recoverable, and I think those numbers would reflect a realistic recovery.

Q Has your water production gone up substantially?

A No, it hasn't.

Q What is it?

A I honestly don't have a solid number. I think it's in the neighborhood of 10 barrels a day.

Q It's stabilized at 10 barrels?

A That's what we've been reporting every --

MR. BATEMAN: Thank you, Mr. Commissioner. I have no further questions.

CROSS EXAMINATION

BY MR. STAMETS:

Q Mr. Fonay, did I understand you to say in response to one of Mr. Bateman's questions that the salvage value of the material was 85 percent of the original costs?

A Well, that was just a personal estimate. If it was salvaged, the equipment being so new that I think that if you made an effort to sell that, I think you could

recover that much cost.

Q That 85 percent, is that on the surface of the ground or is that in the hole?

A That would be laying on the ground.

Q Okay.

MR. STAMETS: Are there any other questions of this witness?

He may be excused.

JOE D. RAMEY,

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

DIRECT EXAMINATION

BY MS. AUBREY:

Q Would you state your name, your place of employment, and your professional degrees for the record?

A My name is Joe D. Ramey. I live in Hobbs, New Mexico. I guess I'm employed in Hobbs, New Mexico. I'm an oil and gas consultant. I have a Bachelor of Science degree in petroleum engineering from the University of Kansas.

Q Mr. Ramey, have you testified previously before the Oil Conservation Commission?

A Yes, I have.

Q And had your qualifications made a matter of record.

A Yes.

MS. AUBREY: Mr. Stamets, I tender Mr. Ramey as an expert witness.

MR. STAMETS: He is considered qualified.

Q Have you reviewed and are you familiar with the application of Lynx Petroleum for compulsory pooling, unorthodox location, and dual completion of the Geraldine Doughty No. 1?

A Yes, I have.

Q And particularly with regard to the allocation of costs in connection with a proposed recompletion of the Queen formation, are you familiar with that issue?

A Yes, I am familiar with it.

Q Have you reviewed the exhibits which have previously been tendered here this morning, particularly the AFE's tendered to Texaco in connection with the recompletion and AFE tendered to Texaco in connection of the costs of drilling the well to 4000 feet?

A Yes, I have.

Q Let me have you pull those out, Mr. Ramey, so you have those in front of you.

A What are those exhibit numbers?

Q Those are Exhibits Eleven, Twelve, and Thirteen.

A Okay. Eleven is the AFE for the total cost of the well to the Paddock and Twelve is the AFE for the actual cost in drilling to 4075 or through the Queen pay and then the Number Thirteen is the AFE for the workover to make a Queen completion.

Q Do you have any opinion, Mr. Ramey, as to whether the costs included on those three documents are fair and reasonable costs and in line with costs in southeast New Mexico for drilling wells to these formations?

A Well, except for Number Eleven. I think that Mr. Fonay testified that $315,000 was the total cost and not $385,000 but the Exhibit Number Twelve, I think, is completely accurate; that it reflects the actual cost of drilling and setting casing through the -- through the Queen pay.

The Exhibit Thirteen is, of course, is an estimated amount that would be necessary to do the completion work on the Queen. It could be more; could be less, but I think it's a reasonable, reasonable figure certainly.

Q In connection with the allocation of costs between two zones in a wellbore, do you have an opinion as to what costs it is appropriate to include leaving aside for the moment any allocation of those costs but sim-

ply do you have an opinion as to what kinds of costs should be included?

A I think intangibles and tangibles both should be considered, certainly should be considered. If you consider only something like tangible, salvagable, or salvagable tangibles, you are -- you are in essence giving the people who don't agree to join a free ride. They are paying for the salvage value. They will be reimbursed for the salvage value, so they are putting nothing into it.

Q How will they be reimbursed for the salvage value? Can you explain that?

A Well, when the well is plugged this equipment will be salvaged and they will get their proportionate share of it. They paid their proportionate share so they will get it back, so they have assumed no risk. They have put no money up front for the drilling of the well and it's just -- it's just a free rides.

I think the intent of the law, when the Commission got this forced pooling legislation, was to be able to form standard units and to be able to reimburse those taking the risk, give them a penalty factor, and make them, you know, operators pay their proportionate share or -- or be penalized accordingly for not paying their share.

Q Are you aware of any instances in connection with a forced pooling application where intangible

drilling costs have been excluded in that amount that the applicant would receive or to which the penalty would apply?

A No, I don't know of any.

Q Would you look at Exhibit Number Twelve, specifically at the drilling intangibles shown on there and I'd like you to look through them, Mr. Ramey, and tell the Commission whether or not you agree that they are for each cost, an appropriate cost to be considered in connection with the drilling of the well to the 4075-foot depth?

A Well, I haven't, you know, I haven't checked to see if these figures are proportionate, but I am certain that Mr. Fonay has -- has, you know, allocated these -- these properly on actual invoices, and so I think -- I think all of the items listed are -- are items that should be taken into consideration, and in allocating -- allocating the well costs to the Queen, certainly.

Q Let me clarify my question to you. I'm not so much interested in the actual numbers shown on Exhibit Twelve, but in the category of costs --

A Oh, yes.

Q -- which are described under drilling intangibles on this exhibit.

Do you have an opinion that they are appropriate intangible drilling costs to be included in connection with drilling a well down to the 4075-foot depth?

A Yes, I think so.

Q For instance, it would be reasonable and prudent in your opinion to allocate some portion of the expense for the location to that depth.

A Yes.

Q And with regard to drilling the well, it's appropriate to allocate some footage cost and day work cost to the depth of the well.

A Yes, as it would be with the rest of these things; mud, fuel, cementing, logging, supervision, even miscellaneous.

Q There are no completion costs included on this AFE, is that correct?

A No, there are completion intangibles on this AFE. That's -- that will be covered by the other AFE for $50,000.

Q With regard to the tangibles that are included on the AFE, and I'm again not asking you to give your opinion as to the proportionate nature of the numbers or the numbers themselves, but simply the types of costs which are included under tangibles, do you have an opinion as to whether or not those are appropriate costs to be included?

A Yes. They just -- there's a portion of the wellhead and a portion of the casing, and I think those

are very logical charges that should be considered.

Q Now, the Queen if completed, will be completed as a gas well?

A Yes, it will be a gas well.

Q And the Paddock, presently producing Paddock zone is an oil well.

A Yes, it is an oil well.

Q Are there costs which are appropriately excluded because they are attributable solely to oil production?

A Yes, tubing. Lynx will make a standard dry gas/oil dual here. There will be no tubing charge to the Queen, only -- only that used during workover. I'm sure there would be -- well, I don't even see any tubing rental, but I suppose there will be rental, maybe.

Well, they've got tubing on the well. I don't think there would be any charge for tubing.

Q So Lynx has excluded those costs from this AFE which would be attributable to the oil zone.

A Yes. Yes, ma'am.

Q Mr. Ramey, have you calculated what you believe to be a fair and reasonable to Texaco to reimburse Lynx Petroleum in exchange for a 50 percent share of the gas production from the Queen formation?

A I think I would like to refer to Exhibit

Nineteen in this case, which is a copy of Commission Order No. R-7393.

This was a forced pooling application in which two zones with different spacing were -- were force pooled.

The first was the Abo zone to a depth of -- let me refer to my --

Q Mr. Ramey, is that Exhibit Eighteen?

A That's Exhibit Eighteen. Did I say Nineteen? It's Exhibit Eighteen.

Let me refer to my notes here.

Okay, the estimated depth for this case to the Abo was 5200 feet and the well was going to be drilled to a depth of 6350 feet.

If you will look on page three at Finding No. (25), the estimated well costs for the Abo formation were figured on a formula strictly on depth, 5200 feet over 6350 or a percentage factor of 81.89 percent.

MR. BATEMAN: Excuse me, Mr. Ramey, what exhibit are you referring to?

A Exhibit Number Eighteen.

MS. AUBREY: Eighteen, Mr. Bateman.

MR. BATEMAN: Eighteen? Okay.

A On page three, Finding No. (25). When

you apply this same formula that was approved by the Commission to -- to the Geraldine Doughty, you'd have a depth of 4075 and a total depth of 6360 so your factor is 64.07 percent and applying this to the actual well costs of around $280,000, not counting completion costs, the Queen costs figures out from this formula $179,000.

Of course we're not seeking an allocation but this does track with our figure of $180,300 very closely, which to me illustrates that this a good method, one that the Commission has -- has previously approved and is a good method for allocating the actual well costs to different -- different horizons in a wellbore.

Q Let me have you look at Exhibits Nineteen and Twenty now. Mr. Bateman has asked some questions this morning about whether or not it is an unusual situation for an applicant to come back to the Division and seek to pool another zone.

Do you have an opinion as to whether or not that's an unusual situation?

A That is not unusual. This has happened many times to us, particularly down in Eddy County. Exhibits Nineteen and Twenty are -- are "A" orders which amended regular forced pooling orders to include other zones.

Exhibit Nineteen, the applicant requested that -- or they force pooled the Morrow, I believe, and then

they came back later and they wanted to force pool the entire Pennsylvanian formation rather than just the Morrow only.

In Exhibit Twenty they have force pooled the Morrow formation and came back and wanted to force pool the Wolfcamp and other Pennsylvanian formations.

So this is, this is essentially what we're seeking here today. We want to add another -- another formation to an original forced pooling order and which has been done many times. This is just two examples. I'm sure if I had continued to look, I could have found a dozen, anyway; probably more, as I remember.

Years back there were numerous applications of this type that came before the Division.

Q And were granted?

A And were granted, yes.

Q In forming your opinion, Mr. Ramey, of the reasonableness of this method of allocating the costs, was it important to you that Tenneco Oil Company agreed to the the $180,000 AFE?

A Yes. I think -- I think Tenneco agrees with our proposal. Certainly they have signed an AFE stating that they will -- they will participate and pay their 25 percent. Now I don't know what would happen if the Commission would write an order saying this was not proper,

what that would do to these contract obligations. Would Lynx have to go back to Tenneco and give them the same free ride, if you -- if you considered only the salvagable tangibles that Texaco is getting?

It would -- it would create a mess and I think giving only, only the salvagable tangibles, considering those in this type of an order is a gross violation of my client's correlative rights in this case.

They -- they are taking full risk. Texaco is in effect not putting up any money on the -- on the drilling of the well and they're only having to put up 50 percent of the recompletion costs.

It's -- it's just a wonderful deal for Texaco to go that way.

It's a terrible deal, a gross injustice for Lynx.

Q Mr. Ramey, there's been some suggestion this morning that possibly the forced pooling statutues don't cover this type of situation. Do you agree with that?

A No, I don't think so. I don't think it specifically states, but I don't think any statute can cover every situation.

The Commission, with Order No. 7393 has -- has a guideline that has already been approved by the Commission for allocating costs between zones, so what we

are asking here is not at all unusual.

Q Mr. Ramey, Exhibits Eighteen and Nineteen and Twenty are photocopies of orders of the Oil Conservation Commission and the Oil Conservation Division and are matters of public record, is that correct?

A That is correct.

MS. AUBREY: Mr. Stamets, I tender Exhibits Eighteen, Nineteen, and Twenty and pass the witness for cross examination.

MR. STAMETS: They will be admitted.

Are there questions of the witness?

MR. BATEMAN: Mr. Stamets, if I might, I'd like to request a brief recess.

MR. STAMETS: We'll take about a fifteen minute recess.

(Thereupon a recess was taken.)

MR. STAMETS: Mr. Bateman, do you have some questions?

MR. BATEMAN: Yes, thank you.

CROSS EXAMINATION

BY MR. BATEMAN:

Q Mr. Ramey, you testified concerning actual costs on Exhibit Twelve, actual costs of -- that have been allocated to the drilling of the well from the surface to the Queen, is that correct?

A Yes, sir, that is correct.

Q You haven't made any independent verification of these costs, have you?

A No, I did not.

Q So when you state that they're actual costs it's based on what you've been told.

A That is correct, yes. I assume since Mr. Fonay was sworn in that he was telling the truth.

Q Now, with respect to the allocation, what in your opinion is appropriate with respect to the Paddock? The Paddock now bears the burden of -- or risk, I suppose, of being compensated for drilling to that depth, if there's no recompletion in the Queen.

A Yes, under our formula and the formula that the Commission has previously approved, it would be those proportionate amounts of the -- of the, you know, some of these drilling intangibles, I assume, the location, road, and such were allocated on this and the --

Q My question didn't have to do with the validity of this application.

My question has to do with the facts as they are today. The facts as they are today, as I understand them, is that the well has been drilled and completed in the Paddock, (not clearly understood) drilling 7 barrels a day. The costs were some $315,000 to drill and complete the well.

A Yes.

Q There is testimony of record that it is doubtful that the well will pay out at that rate with that expense. Do you recall hearing that?

A I think Mr. -- yes, Mr. Fonay's testimony was that with the restimulation of the lower zone there's a good chance the well would pay out.

Q But as it is now --

A The actual --

Q But as it is today, it probably would not.

A On the -- on the seven barrels that it's making today, it probably would not.

Q Under current conditions.

A It's an economic well to operate but it may not pay the full $315 -- 25, what was -- $315,000, no, not based on the present rate of production.

Q Now if the formula which you've testified to is applied here, then, the interest owners in the Paddock would be relieved of a proportion of that $315-- or excuse me, the $180,000 which is a proportion of the $315,000 completion costs, is that what you propose?

A Yes, I think the formula says 64 percent would be allocated to the -- 64 percent of the well cost would be allocated to the Queen, so 36 percent of the well cost plus the completion and what have you would then be allocated to the -- to the Paddock, yes, sir.

Q The Paddock would continue to use the wellbore to produce its production?

A Yes, sir.

Q So it will be relieved of 64 percent of the burden of getting to that depth.

A That is correct, yes, sir.

Q Now, you've testified with respect to certain orders of the Commission. I note that, first of all, Exhibit Number Eighteen, the signature on the last page of that is Mr. Joe D. Ramey.

Is that the same Joe D. Ramey that's testifying today?

A That is the same Joe D. Ramey, yes, that is; that is correct.

Q And in a prior life you were a member of

the Commission, is that correct?

A Yes.

Q Now the order which is Exhibit Number Eighteen has to do, as I read it, with the compulsory pooling of two zones, the Wolfcamp and the Abo.

A No, it would be the Abo and the other formations from the top of the Wolfcamp down through the Precambrian.

Q Was this order entered before the well was drilled?

A Yes, it was.

Q So it is not an identical situation to what we have before us today, is that correct?

A It's not identical in that the well -- the well was not drilled when this order was written, but it is, I think, identical in that we have different spacing units and need some -- some method of allocating the cost, and I think it's not identical, no, but it's --

Q Well, it's not identical in another respect. The geological risk of completion in one of these zones had not been identified through current geological data, had it?

A That is correct.

Q And do you know if any of these parties had offset production in the same zones?

A Yes, I think there was -- there was, certainly was offset production in both -- both zones.

Q Owned by the same parties?

A If I recall the case, Grynberg brought the case and he had 100 percent of the interest to the Abo and a 50 percent interest to the deeper horizon.

Q In the proration unit that was at issue.

A And he had 100 percent of the 160-acre proration unit to the Abo and 50 percent of the 320-acre proration unit to the -- to the Wolfcamp-Precambrian.

Q Uh-huh.

A In this case he was the applicant and he requested this and he was, of necessity, then paying -- paying 100 percent of an Abo well. He thought it was equitable and I think that it is.

Q Was there any opposition to the allocation that you placed in the order?

A No, there was not -- there was no opposition to the allocation.

There was an opposition -- the opposition was that Yates Petroleum had a companion case that I think wanted to turn the 320 another way. Grynberg wanted it either north/south or east/west and Yates wanted the opposite and that, as I recall, was the only -- we tried -- we tried to get the transcript on this but they're, unfortun-

ately, sent off to be microfilmed and they're not available in the Commission files here in Santa Fe.

Q So I conclude that you had different issues being contested in this case than we have today.

A Yes, I think that is true, but the Commission back at this time, this was the first case that there had been considerable discussion among the Commission, the Division employees as to what kind of an allocation could be -- could be made where we have different, different proration units, different ownerships in zones within a common wellbore.

I know we had some cases where the well was drilled as a 320 Morrow and they found 40-acre Wolfcamp oil and the Commission had no -- no standard, no guideline to go by prior to this order as to what kind of an allocation could be made on different zones.

This was the first and I don't know whether there's been any orders since this. This was the -- this was the one that stuck out in my mind and this was the one I looked for.

Q Exhibit Numbers Nineteen and Twenty are amendments, are they not --

A They --

Q -- to compulsory pooling orders previously entered by the Commission?

A Yes, sir. They amend, they amend the original orders to include other -- other formations.

Q Do you know whether or not these orders were amended prior to the drilling of the well or after the completion of it?

A These were after the completion of the well.

Q There's no statement in here with respect to the allocation of costs in these amendments.

A No, sir, that is correct.

Q So are we to conclude that that wasn't an issue?

A I think you could probably conclude that, yes.

Q So I would also conclude that these two orders don't deal with cases that are identical to this one.

A No, they aren't identical and they -- these were just an illustration for the Commission's benefit that what we are seeking is not unusual. We want to add another zone to the original -- original forced pooling order and the Commission has done that many times.

Q These all -- these cases all deal with instances, as I understand it, where the well is being drilled contemporaneously with the entry of the order, or had been drilled previously, within recent months, is that cor-

rect?

A Yes, I --

MS. AUBREY: I'd like to clarify something here. I think Mr. Ramey testified that Order 7393 was entered prior to the well being drilled and the other two --

MR. BATEMAN: Well --

MS. AUBREY: -- are amendments to existing forced pooling orders.

MR. BATEMAN: All right, let me ask the question again.

Q Exhibit Number Eighteen was entered prior to the drilling of the well.

A Yes.

Q Is that correct?

A Yes, sir.

Q Exhibits Nineteen and Twenty were entered shortly thereafter, within a matter of months?

A I am not sure. Now, I can recall -- I can recall some cases before the Division where the lower zone had been depleted. The well had been produced long enough for the lower zone to deplete and then they came in and asked for an amendment to the original order to move up the hole to another zone, force pool that zone, also.

So there is -- there's no time limit on

these. I don't -- I'm not sure about these. As I said, we could not find -- we could not --

Q You don't know whether they are or not?

A No, these in particular, but I know that -- that the Division or Commission has amended forced pooling orders a considerable time after the well was drilled to include the other.

Q But you don't have an example of that today.

A No. It may be -- it may be one of these. I'm not certain.

Q But if it is one of these, we don't have any evidence that the formula that you testified to were applied in either Exhibit Nineteen or Twenty.

MS. AUBREY: Well, excuse me, Mr. Ramey testified that the formula applied in Exhibit Nineteen, which is an order dated 1983, and three or four years more recent than the other two.

A Exhibit Eighteen.

MS. AUBREY: Exhibit Eighteen was the first time he was aware that the formula had been applied.

Q So I presume the answer is yes.

A Please give me your question again.

Q We don't have any evidence that the for-

mula you testified to as being adopted in Exhibit Eighteen was applied in Exhibits Nineteen and Twenty.

A No. I'm sure it wasn't. There is nothing in the order to -- to say that it was, so I am sure that that whatever was force pooled in the original order was force pooled in these orders.

Q Thank you, Mr. Ramey.

MR. STAMETS: Any other questions?

CROSS EXAMINATION

BY MR. STAMETS:

Q Mr. Ramey, is it possible that there may exist some order somewhere in the Commision's files that might have allocated costs on an older well being recompleted on some other basis than you show in this Exhibit Eighteen?

A Yes, I -- it's possible. I couldn't recall one, Mr. Stamets, but, you know, when you say an older well --

Q Older order. Oh, I'm sorry.

A You did say an older well, I think.

Q That is correct, an older well, one that had been completed and then at some time later an attempt was made to recomplete in another zone and force pool

different parties.

A Well, I don't think you can consider this an older well. Now the well was drilled in the latter part of '84, started producing in early '85. In early '85 the proposal was sent out to recomplete the well and we're still trying to recomplete the well. We're held back by the process.

Q So if you measure the age of the well by its original completion date and the date of the first request for participation in recompletion, it's not an older well.

A No, it's within 30 days, I think.

Q Okay.

A Mr. Fonay said that he first contacted Texaco in January or his records reflect that he sent a letter in January to do this recompletion work, or to try to get them to agree to the recompletion work, so that is, that's -- you can't consider it an old well.

Q If we're talking about a well in the abstract, not this well but any well, the -- does the intangible cost only have a value so long as that well is -- is a producing property?

A Yes, everything but the -- everything but the salvage, are intangibles. Did you say intangibles?

Q Intangibles.

A Yes.

Q So if you had a well that had a productive life of 20 years it might be like a car battery, you could prorate the intangible costs over a period of years, and it begins with full value at first production and no value when the well ceases to produce.

A I think that -- maybe Two Dollars. You might get Two Dollars out of a battery that you --

But in this case, in this case thirty days is not -- when you're looking at a producing life of fifteen years, thirty days is -- is not even a percent, I don't think.

MR. STAMETS: Any other questions of this witness?

MS. AUBREY: Yes, Mr. Stamets, I'd like to clarify something.

MR. STAMETS: Ms. Aubrey.

REDIRECT EXAMINATION

BY MS. AUBREY:

Q Mr. Ramey, you were asked some questions by Mr. Stamets about older wells.

Can you explain for me why there should be a distinction between older wells and newer wells in terms of how you allocate the costs?

A I don't know whether I can or not, Ms. Aubrey.

An old well, well that's been producing thirty years, may not have any salvage value, for one thing. It would be hard to -- to set some kind of drilling cost. Maybe they have the records that said, you know, this well cost $50,000 to drill back in 1950, or something, but could you bring those -- could you accurately bring those costs up to the -- up to the present day and show a present day value? I just don't think so.

If you've got an old well perhaps, you know, just recompletion costs would be -- would be proper, but in this case we've got a new well. We've got a potential zone that looks -- looks viable on the log.

We have assumed the risk in drilling the well. It just does not seem fair that an operator that did not participate should get a free ride, and they should be made to participate.

That's -- I think that's the intent of the law and if they don't participate, why, they should pay a penalty for not only drilling the well but an additional penalty for not coming forth with their money.

Q In connection with the penalty, Mr. Bateman asked you some questions about instances where the geological risks had been identified.

Do you have an opinion as to whether or not a gas show on a mud log allows you to identify your geological risk to the extent that you know whether or not you have a well capable of commercial production?

A The gas log is merely an indication when you drill through that formation that there is gas in that actual 8-inch hole that -- or whatever the size of the hole was -- that is so-called drilled up. It is picked up by the mud. The sensors on the mud-logging unit pick it up and record it. That -- that's an indication. It's certainly not a -- not a cinch. It's another tool that can be used. We have the modern day log which shows porosity and we have the mud log which indicated gas present. We would have to come up -- we would have to, you know, set a bridge plug to protect the Paddock zone. We'd have to perforate, have to frac, and all of these things add to the risk involved.

Q Do you know now whether or not you have a well which is capable of commercial gas production in the Queen?

A No, not even -- not even if you have an excellent log and an excellent mud show do you -- you don't have an indication of a well until you actually get in to perforate, treat, and test, and we have not done that yet. There's risk involved and not the mechanical work on the well but also in the geologic evaluation or engineering

evaluations, whatever, that has been done. There is -- it's not a cinch; it's not a gut cinch yet.

Q Thank you, Mr. Ramey. That's all I have.

MR. STAMETS: Are there any other questions of the witness?

If not, he may be excused.

MR. RAMEY: Thank you, Mr. Stamets.

MR. STAMETS: Mr. Bateman.

TIMOTHY J. HUNT,

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

DIRECT EXAMINATION

BY MR. BATEMAN:

Q Mr. Hunt, would you state your full name and place of employment for the record?

A My name is Timothy Hunt. I work for Texaco in Midland, Texas.

Q In what capacity are you employed with Texaco?

A I'm a development geologist.

Q In your capacity as a development geologist have you undertaken a study of the area which is in

question today?

A Yes.

Q Have you previously testified before the Commission and had your educational and work experience made a matter of record?

A Yes, I have.

MR. BATEMAN: I offer Mr. Hunt as an expert geologist and witness.

MR. STAMETS: He is considered qualified.

Q Mr. Hunt, would you refer to what's been marked as Texaco Exhibit Number One and describe the information that's been placed on that exhibit?

A This is a structure map of the Lovington Queen Field area. The structure is mapped upon the Queen formation marker.

The arrow on the map points to the proposed workover well, the Lynx Petroleum Consultants No. 1 Doughty.

The acreage colored yellow is Texaco's contribution to the proposed Queen proration. The green line outlines the proposed Queen proration unit. The dashed line on the map outlines the Lovington Paddock Unit.

The wells that are circled in brown are Paddock producers. The wells that are circled in green are

Queen producers. Other production in the area of this map is from the San Andres, Abo, Strawn, and Devonian.

The red line across the map is the cut of the cross section that is Exhibit Number Two.

The highest portion of the structure is centered somewhat over Section 1 or the corners of the townships.

Some Queen production has been noted on the map in Section 1, Spot O and Spot P; a well in Section 12, Spot B.

The two wells in -- or the well in Section 1 and the well in Section 12 -- let me start over there.

The well in Section 1, Spot O, and the well in Section 12, Spot B, combine for a cumulative of 1.8 billion cubic feet of gas. Both those wells are shut in now and I believe most of the gas came from the one well in Spot O of Section 1.

The well in, the Queen well in Spot P of Section 1 has a cumulative right now of 335-million cubic feet as of 6-1-85 and is currently producing.

There are two more wells located on the map and I've included those just to indicate that there is substantial Queen production in the area of this map.

I'd like to refer to the cross section,

Exhibit Number Two.

Q Before you do that, let's turn to Exhibit Number One, the Geraldine Doughty in Section 25, there's an indication of a dry hole offsetting it --

A That's correct.

Q -- to the east. Do you know whether that was drilled through the Queen or whether there was any show of gas there?

A That well immediately the east of the Lynx well, was drilled to San Andres depth and tested the San Andres, or cored part of the zone, perforated it and recovered only salt water and did not examine the Queen in any way that I can find on records.

Q The offsetting wells to the south, in the south half of the southeast quarter there, are operated by Texaco?

A That is correct.

Q And they are Paddock producers?

A Right.

Q All right. Proceed with Exhibit Number Two.

A Exhibit Number Two is a structural cross section which is hung on the --hung on sea level, or zero feet, sea level.

The yellow zone is a productive Queen

zones which I can correlate across the top of the structure over to the Lynx Petroleum Consultants No. 1 Doughty from the Stanolind No. 1 State E, I believe that should be Tract 18 Well, which is a well that produced in Section 1, Spot O.

This zone looks like it -- looks the same in all the wells I've examined across the structure and looks like it should be, according to the logs, as productive as the one that produced in Section 1.

This cross section also indicates the horizon on which the structural map was made, the Queen horizon map.

Q How do you associate the cross section with the proposed Queen completion in the Geraldine Doughty?

A I feel that the cross section shows that the zone that Lynx proposes to workover is correlative across the structure. It is the same zone and will be productive in their well.

Q Is it the same in every respect with respect to porosity, do you know?

A Well, it's difficult to get a good handle on the porosity because these are old radioactivity logs and if you look at the -- attempt to get a porosity reading off of those older logs I think they read somewhat higher. I really don't put much reliability in them.

Q So you can't conclude anything about por

osity from these?

A Only that the porosity is there.

Q What about the structure? How do you identify that on Exhibit One?

A How did I identify it?

Q Uh-huh.

A I identified it by calculating subsea depths on the Queen horizon indicated on the cross section.

Q All right, then based on your study of the geology of the area, particularly the Queen, what is your conclusion concerning the risk involved of the successful completion in the Queen of the Geraldine Doughty?

A I feel there's no geologic risk in a Queen producer in the Doughty because there's a well in Section 26, Spot P, that flowed an estimated 600,000 cubic feet of gas a day while they were drilling, so that does not involve any stimulation and I assume it just kicked on them.

That well is down dip and indicates that the Doughty Queen -- I'm sorry, the Lynx No. 1 Doughty should be just as productive as that well.

I feel that in the future this whole feature will be developed on the Queen and that all the -- all the wells up dip to the Lynx No. 1 Doughty Well should be productive in the Queen.

Q Do you expect then that the Paddock pro

ducers that are in the East Lovington Unit --

A This is the Lovington Unit.

Q Lovington Unit, excuse me, will eventually be recompleted in the Queen? Is that your testimony?

A They don't just have to be Paddock producers. There's Abo and San Andres wells, whichever field would be depleted first and as wellbores would become available those wells would probably be completed in the Queen first.

Q Do you have any information about what Texaco plans to do with its wells in this area?

A As a development geologist I would recommend that we workover these wellbores for the Queen as they become available.

Q Were Exhibits One and Two prepared by you or under your direction?

A Yes, they were.

MR. BATEMAN: I'll offer Exhibits One and Two.

MR. STAMETS: These exhibits will be admitted.

MR. BATEMAN: No further direct testimony.

MR. STAMETS: Are there questions of Mr. Hunt?

MS. AUBREY: Thank you, Mr. Stamets.

CROSS EXAMINATION

BY MS. AUBREY:

Q Mr. Hunt, are there presently any dry holes which have been drilled within the Lovington Unit as outlined on your Exhibit Number One?

A Yes, I see some.

Q And Texaco is the operator of the unit, as I understand it?

A That's correct.

Q Does Texaxo have any plans to test those wells in the Queen?

A I don't know that we have the Queen rights on those dry holes.

Q So you know of no present plans by Texaco to test those dry holes in the Queen, the wells within the unit.

A Are you asking do we have any plans to work over any of the wells?

Q I'm asking if you have any plans to work over any of the dry holes which are within the boundaries of the Lovington Unit for Queen production.

A Well, no. If we don't have the Queen

rights I don't see how we can.

Q Do you know what wells shown on your Exhibit One you have the Queen rights to?

A I can look it up.

Q You don't have that information here on your map.

A No.

Q The well you referred to in the southeast quarter of Section 26 --

A Right.

Q -- is a plugged and abandoned well, isn't it?

A Yes.

Q How long did that produce from the Queen?

A It did not produce from the Queen. It gave a gas kick or flowed while they were drilling it.

Q Was it ever completed in the Queen?

A No.

Q Is it producing from the Paddock?

A I believe it's plugged now.

Q Let me refer you now to your Exhibit Number Two. This is a cross section.

Given the information on your cross section can you correlate productivity across the cross section?

A I'm not sure what you mean by productivity.

Q You've shown that the Queen is present in each fo these wells.

A Right.

Q Were each of these wells productive in the Queen?

A No.

Q Which of these wells were productive in the Queen?

A The Stanolind No. 1 State E, Tract 18. The perforations are indicated by the red box along the wellbore.

Q So one of these wells produced from the Queen.

A Right.

Q Does your log on the Lea Drilling Company No. 1 State E show any prorosity in the Queen?

A Yes.

Q Does it show porosity at the -- in the yellow zone where you have mapped it?

A Yes.

Q And that well did not produce from it.

A It is now a Paddock injection well being used by the unit. If that wellbore were the first one to

become available in that unit, I would recommend it for Queen workover if it were our -- if we had the acreage around that well.

Q Let me try my question again, Mr. Hunt. Has that well produced from the Queen?

A No.

Q I believe your testimony on direct was that there is no geological risk in drilling to the Queen in the Geraldine Doughty No. 1.

A Right.

Q By that did you mean zero?

A Yes.

Q It's a sure thing?

A Right.

Q For commercial production?

A Yes.

Q In the Queen.

A Yes.

Q Thank you, Mr. Hunt. I have no more questions.

MR. BATEMAN: Just one question on redirect.

REDIRECT EXAMINATION

BY MR. BATEMAN:

Q On the cross section you were asked

whether the Lea No. 1 State E was productiver in the Queen. Isn't it true that that well's never been perforated in the Queen or tested?

A Yes. It has not been tested in the Queen.

Q And what about the other two wells? Obviously the Lynx hasn't been and the Skelly No. 6?

A That has also not been tested in the Queen.

Q Thank you.

MR. STAMETS: Any other questions of this witness?

He may be excused.

GARY KERN,

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

DIRECT EXAMINATION

BY MR. BATEMAN:

Q Will you state your full name and place of employment for the record?

A Yes. My name is Gary Kern. I'm the Division Proration Engineer with Texaco in Midland.

Q And as the Division Proration Engineer

have you made a study of the well in question and the area in question today at this hearing?

A Yes, I have.

Q Have you previously testified before the Commission and had your academic and work experience made a matter of record?

A Yes, I have.

MR. BATEMAN: I offer Mr. Kern as an expert witness.

MR. STAMETS: He's qualified.

Q Mr. Kern, if you would, would you proceed with what's been marked as Exhibit Number Three and state what information you've placed on that exhibit?

A Okay. The first thing I'd like to show is a production versus time plot, and this is a plot of the Geraldine Doughty No. 1, which Lynx has testified to and indeed did complete in the Lovington Paddock Field, and it shows that intially the well produced approximately 15 barrels a day and I believe, as Mr. Fonay's testified to, the last month's production I have from the plot consists of 6.6 barrels a day, or nearly 7 barrels a day from the Lovington Paddock.

I might also note that the water production increased substantially from the inition two months, or the initial month from their -- an average of about 3 bar-

rels a day all the way up to approximately 15 barrels a day.

I took and looked at the offsetting Paddock producers, which are in our Lovington Paddock Unit, and I got declines from these offsetting wells in a range of from a low of 4.4 percent to a high of 15 percent.

I took the average of that and the average of that came out to be 8.8 percent.

I then declined that out to an economic limit of one barrel per day and I got a life of some 20.32 years with an ultimate oil recovery of 24,609 barrels.

I might note that the offsetting wells that I looked at I would classify as having responded to the injection. The response was typically in the range of what I'm seeing here, 15 barrels a day, so it's my opinion that this well is in an area where -- where there has -- the injection has taken effect and I feel that the way that I have extrapolated out the reserves for the life of this well is a reasonable method of doing this in a waterflood project.

One quick thing, referrig to Lynx's Exhibit Seventeen, I don't know if you all have that handy in front of you, but it's the cash flow analysis for the -- where Lynx determined what the economics would be, and that first year production is some 5000 barrels. When you divide that out, that means it has to produce some 13.7 barrels per day.

Looking at the curve, there's only been one month where this well has produced some 13.7 barrels per day, and I know he testified to the fact of the recompletion, and certainly that could be, you know, you could get some increase from that, but without any further -- without any further treatment, this well will not make 5000 barrels in the first year's production.

Q Let me substitute these exhibits for the ones you have.

A Okay.

Q All right. Would you proceed, Mr. Kern, with what's been marked Exhibit Four?

A Okay, Exhibit Four, we were supplied an estimate of AFE costs down to the Queen and that AFE cost is shown under the Queen 4075 foot column. It should be the exact numbers taken off the AFE costs from the Queen that Lynx supplied us.

What I then did is try to determine how much the drilling costs might have been for Lynx's Paddock completion and I came up with a number with the equipment bottom line of $319,000. Mr. Fonay has testified it was $315,000. This, I guess this exhibit really is -- I'll, you know, I don't have any problem with $315,000 number.

What I -- the reason I did all this was not just to -- for an exercise. I then went into looking,

referring to Exhibit Number Five, I ran economics on the well with the reserves scheduled out as -- as I had done in Exhibit Number Three, and with the cost of $319,000. Now, it's understood that the cost is some $4000 lower.

But I showed with a $15,000 a year operating cost based on our offsetting Lovington Paddock Unit production which we have a substantial amount of production from, that the project would lose some $95,498 present worth net value.

I feel that the -- I feel that the Lynx well was uneconomical. There was -- they took a risk to drill the well. They did not contact Texaco in regard to any costs to be borne by this, and the recovery of their -- Lynx is requesting half of $180,000, which is approximately $90,000 from us in addition to the $45,000 that's going to come from Tenneco, so they will be recovering in essence, $135,000.

So this in turn will take a well that was uneconomical and make it a profitable venture.

Q Mr. Kern, will you proceed with what we've already identified as Exhibit Number Six?

A Okay, Exhibit Number Six is what Lynx Petroleum Consultants provided to the Commission as far as equipment value, tangible value, for their Geraldine Doughty No. 1.

I might make several notes there. The area highlighted in yellow, I may make a note that since the well has been only in service 7 months that it should be worth approximately 85 percent of the listed value, and on the value of the casing that only 3000 foot of 5-1/2 could be recovered. I assume that's because the cement top of the 5-1/2 would be somewhere around 3000 feet.

I don't -- I don't have any problems with that, with their (not clearly understood.)

Q Do you have any opinion of whether the costs indicated on page two are reasonable?

A I think they are reasonable costs for the equipment that went into the well.

Q Now would you proceed then with what you've marked Exhibit Seven?

A Exhibit Number Seven is basically, the left part is a reconstruction of that exact same list that -- that Lynx has supplied, under the "new value" is the listing that Lynx supplied.

I then took it a couple of steps further. I took the 85 percent value, which Lynx had indicated in their letter and I highlighted in yellow, would be the estimated salvage value due to the time of it being a well. That came out to be a total of $96,493.

What I then did is took a look at all the

equipment that is in the well and determined not only what part of it was salvageable but also what part of it would be applicable to a Queen recompletion, and the Lynx proposal is to dually produce the Paddock and the Queen; therefore, I feel like that virtually the tubing, the rods, the pump, that welded tanks, the heater-treater, the welded tanks, the 15 horsepower motor and panel, would all be -- would all be not associated with the Queen recompletion, which is the only thing Texaco has an interest in. I think it would be very unfair for us to pay for investment costs into something that we have no interest in and all that investment cost would do would be to depreciate.

I took a salvage value for the 5-1/2 inch casing of 3000 foot, which is exactly what Lynx had indicated was recoverable, and that came out to be $14,206, one thing which I listed in the far righthand column five.

I did include the tubing head, casing head, as well as miscellaneous valves and fittings.

I did not include any salvage value for the 8-5/8ths, since Lynx's Exhibit Number Fourteen shows that that 8-5/8ths -- Exhibit Fourteen is a wellbore schematic which showed that that 8-5/8ths is cemented to surface, as I believe is the requirement and the practice in the area to protect fresh water.

So there would be no salvage value there

because it's obviously not salvageable.

That came out to be a number, a total number of $17,110, as far as what I feel is salvage valuable -- value applicable to a Queen completion, which is what we're talking about here today.

Q Proceed, then, with Exhibit Number Eight.

A Okay. Exhibit Number Eight is a summary of costs and salvage value associated with the Geraldine Doughty and associated with the proposed Queen test.

The recompletion cost there of $50,000 which was supplied to us as one AFE, we have no problems with. We think it's fair and reasonable. Texaco's interest in that would be $25,000.

The salvage value, as from my previous Exhibit Number Seven, was $17,110. I feel that half of our salvage value of that would be $8,555.

The plugging liability, and when we buy into this well I would assume that we would also be responsible to plug this well when it -- when the plugging is required at the end of its production life, that would be a total cost of $12,000, which once again our half would be $6000.

We feel like we'd be purchasing into a liability there, so therefore it should be subtracted.

That comes into a total buy-in cost for

Texaco of $27,555.

Q Mr. Kern, I notice some eyebrows being raised around the table as you were testifying to that price.

Is that, in your opinion, an unusual approach for participation in a recompletion?

A No, I certainly do not think it is. I have been involved -- part of my tenure with Texaco has been as a Midland District Operations Engineer. We, I say routinely, I guess there was probably two or three cases where we had an existing wellbore which was completed, say, from an interval at 5000 foot, and there was a unitized interval at, say, 3000 foot. The wellbore had depleted in the 5000 foot interval. We then came up and desired to use it in the unitized interval.

What we would typically charge our partners for in that unitized interval, typically Texaco would be the operator, would be what we said the salvage value would be, minus the plugging liability that the unit would then incur when the well would become plugged.

So let's call that, I guess, for clarity's sake, net salvage pay, and I think that's -- I think that's a reasonable -- reasonable approach to it, to a situation where you have a well that was drilled to and for a deeper horizon, and then for whatever reason, it's either no

longer productive or desirous to make it more productive.

Q Mr. Kern, you have had actual experience with an arrangement such as you suggest today?

A That is correct.

Q Would you proceed with what's been marked Exhibit Number Nine and describe that exhibit?

A Okay. Exhibit Number Nine, I took a look at the logs and made some corrections for gas saturation as well as the fact that it was run on a limestone matrix and this a sandstone, I got cross plotted porosity for the interval 3988 to 3995 of 8 percent and a cross plotted porosity for the interval 3995 to 4002 of 11.8 percent.

From that I calculated the water saturation, of course with the -- with the resistivity value, and came up with 27.45 percent, which I feel is a reasonable water saturation calculation for a Queen completion that I believe that we all anticipate to be dry.

I then calculated the volumetric gas in place using standard reservoir engineering procedures, and came out with a total recoverable gas in place of some 954-million cubic feet.

I might note that the cross section which Mr. Hunt has testified to, it verified that two wells in the southern part of our Lovington Paddock Unit did indeed, between the two produce some 1.8 BCF, which is an average of

some 900-million cubic feet, so I feel like the reserves that I calculated are reasonable.

Q Mr. Kern, do you have an opinion concerning the mechanical risk of recompleting this well in the Queen?

A I feel like the mechanical risk is very, very low because we have virtually new casing. The well, as has been testified to, was drilled in 1984. This is a rather routine type workover.

The only thing that complicates the situation is the Paddock and I guess I fail to see how -- why we should be applied a higher risk penalty because there's a zone down there which Lynx is wanting to keep, which Lynx Petroleum is desiring to protect, let's say.

I think Mr. Fonay testified to the fact that there was some possibility of damaging the formation and that added to risk. Keep in mind that we have no interest in the Paddock, and so we're -- so actually we're trying to be forced on a higher risk penalty to protect something that from this forced pooling hearing has really no applicability.

Q Mr. Kern, what do you think an appropriate risk penalty would be in this case?

A I think Mr. Hunt has testified to the fact that we have mud logs through this that show a good gas

kick.

We have logs that demonstrate crossover, that demonstrate a gas correction when you put them in the -- when you go into the cross plot charts, indicating gas.

The well is drilled, so there is no drilling risk, as typically is brought out in most forced pooling hearings.

So I feel, as I testified in the original hearing, that a 25 percent risk penalty overall, cost plus 25 percent, is a reasonable risk penalty because there virtually is no risk in this recompletion.

Q Mr. Kern, if you'd look at Exhibit Number Nine and Exhibit Number Eight, what do you anticipate the economics of this proposal would be from Texaco's perspective if you were permitted to participate for the price that's shown on Exhibit Number Eight the expected recovery as shown on Exhibit Number Nine?

A Okay, I presented -- I collected costs from our Hobbs District Office with regard to recompletion costs of one of our wells, what that would be, and we came up with virtually the same number, that it would be somewhere around $50,000 for recompletion costs, an additional $50,000, possibly, for equipment costs.

Using those economics, I made an economics run with the recoverable gas in place and I presented

it to our management and it was definitely something that they would do. At the time that we would want to recomplete one of our Lovington Paddock wells, it would be something we would want to do.

In addition, with the cost that I am proposing here for what I feel is fair, what Texaco feels is fair, it would certainly also be something that Texaco would desire to do; my point being the two costs are virtually identical when you -- and therefore the economics are very close and it is economically viable and something that Texaco as a company would do.

Q If Texaco wanted to recomplete one of its offsetting wells, wells in the southeast, or excuse me, southwest quarter of this section, would you be prepared to accept the same kind of proposal that you're now making from other participants in that acreage?

MS. AUBREY: I object to that. That's not relevant to this inquiry. We don't have any information about how old that well is they're talking about, which well it is, when they're going to do it, or if they're going to do it at all.

That's purely hypothetical and asking the witness to speculate. I don't think he's a technical person who can make the decision to recomplete the well.

A I presented -- if I can talk --

MR. STAMETS: Mr. Bateman, do you have any response to the objection?

MR. BATEMAN: I could expand on his ability to answer that question, if you like, but I believe he's fully qualified to answer.

MR. STAMETS: I'm going to sustain the objection.

MR. BATEMAN: We have no further questions.

CROSS EXAMINATION

BY MR. STAMETS:

Q Mr. Kern, in your opinion would the well be profitable for Texaco at the costs that Lynx has proposed for Texaco's participation?

A I didn't make an economic run. Having not made an economic run I cannot answer that question.

Q Earlier you talked about wells where Texaco had made this sort of arrangement, or that you had proposed with other operators.

A Right.

Q Are those wells that were less than a year old or were those old wells, ten years old, twenty years old?

A They were, they were older wells; probably in the range of ten to twenty years.

Q So they had used up some of their value by that time, presumably.

A I guess in my mind it really becomes a distinction of where a well becomes an old well.

Q Do you have an opinion as to when a well becomes an old well?

A No, I sure don't.

Q Okay. Now, if Lynx had proposed this dual completion initially, Texaco would have been involved in the original hearing, presumably. They would have been either a willing participant or an unwilling participant.

What harm will come to Texaco now if the Commission goes along with the Lynx proposal that would not have been there for Texaco initially?

A I think the harm that comes is that -- if it is -- that Lynx -- Lynx was going for the Paddock. They drilled the well to the Paddock, They accepted the full risk to the Paddock.

The other harm that I see is that in essence $135,000, which is $90,000 for Texaco and $45,000 for Tenneco, is going to come again, a total of $315,000 of the cost to drill the Paddock well.

I never heard in the testimony, or maybe

I didn't understand in the testimony, how this was going to be reimbursed back to people who had joined in the original Paddock well and accepted and already paid for, I assume, the costs to drill from zero to 4000 feet, as well as from 4000 to 6350 feet.

Q I'm not clear, sir, how that harms Texaco in any way.

A Well, I think it -- I think it sets a precedent that -- that -- I think it just sets a dangerous precedent.

Q In what way?

A Okay, in the matter of in essence a company possibly double-dipping; in other words, the possibility of -- I'm not trying to -- I'm not trying to allegate (sic) here, I'm just -- I'm just --

Q Make your response as to a theoretical well --

A Okay, a theoretical well, it's just, you know, it's been testified here today that we would be getting a free ride, in essence, I believe by Mr. Ramey, and as I see this, the Paddock portion, I think you can turn that very thing around and say that the Paddock portion is getting a free ride from zero to 4000 feet.

Q How would that be different, though, from a situation where they had made this application initially?

A Okay, the difference being there that the risk, the original forced pooling hearing and everything was solely on Paddock completion and was not on the Queen.

Q I'm still unclear as to what additional risk Texaco now bears because of the way the situation has developed that they would not have borne had Lynx made an application for a dual completion and dual compulsory pooling initially.

A Okay. Not knowing the exact working interest numbers of the people that were involved in the Paddock completion, let's take a -- let's take a hypothetical situation that Lynx had 50 percent of their well, 50 percent of the Paddock and someone else had 50 percent of the Paddock. Okay, so the total drilling cost as he has testified to would be $315,000.

Under that arrangement Lynx's would be some $157,500 and someone else's would be some $157,500 for a total Paddock completion.

Okay, if the well was drilled for both of them at the initial hearing, that 50 percent, part of the zero to 4000 foot cost would have borne by Lynx as well as the other operator, the other 50 percent operator, but it would have been split up amongst Texaco and Tenneco in the shallower zone.

Am I making that clear or --

Q Texaco has the right to the Queen.

A Right.

Q And do they have rights to any of the other shallower formations in there under -- if they were oil on 40-acres where the well is located?

A No, not on the 40-acres where the well is located.

Q So you're saying if they drilled the Queen and Paddock and made a Yates completion, Texaco would have been paying some for the Yates completion that they shouldn't have.

A I'm primarily saying Texaco is paying 50 percent of from zero to 4000 feet total cost.

Q Uh-huh.

A Whereas, whereas, if it would have been done simultaneously, then certainly the people who had the other 50 percent in the Paddock would have to pay some portion of that cost from zero to 4000 feet.

Q Presumably they would even under Lynx' scenario and Lynx would be contributing 25 percent of the cost of drilling to the Queen; Tenneco 25 percent.

A Well, okay.

Q I think I understand the answer to my question --

A Okay.

Q -- at this point.

MR. STAMETS: Are there other questions of the witness?

MS. AUBREY: Yes, Mr. Stamets. I think I have a fairly lengthy cross examination for Mr. Kern.

With your indulgence, could we break for lunch and start after lunch?

MR. STAMETS: What's lengthy?

MS. AUBREY: Forty-five minutes.

MR. STAMETS: That's lengthy.

Okay, let's just go off the record a minute.

(Thereupon a discussion was had off the record.)

(Thereupon the noon recess was taken.)

(Thereafter at the hour of 1:15 o'clock p. m. on the same day this hearing was again called to order and the following proceedings were had:

MR. STAMETS: I'd like to apologize to all participants for the delay. Like I said, I knew better.

Ms. Aubrey, I believe you were about to cross examine what, hopefully, will be the last witness in Case 8631?

MS. AUBREY: Thank you, Mr. Stamets.

GARY KERN,

resuming the witness stand, and being previously sworn and qualified, testified as follows, to-wit:

CROSS EXAMINATION

BY MS. AUBREY:

Q Mr. Kern, on your Exhibit Number Nine, do you have that in front of you?

A Okay.

Q Did you calculate the recoverable gas in

place?

A Uh-huh.

Q And that's attributable to the Queen formation in the Geraldine Doughty No. 1?

A Yes, ma'am.

Q And you calculated recoverable gas in place at 954,943 MCF?

A Uh-huh. Yes, ma'am.

Q Have you calculated what the value of tha gas is?

A No, I have not.

Q Texaco has a 50 percent interest in that gas, is that correct?

A Yes, they should.

Q If we multiply your recoverable gas in place by a figure of $3.00 an MCF, I think we come out to roughly $2,864,829. Does that sound about right to you?

A At $3.00 an MCF? Yes, it does sound about right.

Q We could divide that in half to represent Texaco's 50 percent interest.

A Okay.

Q I get a figure of $1,432,414.

A Okay.

Q I believe you testified on direct that

Texaco believes it is reasonable for it to buy into the Queen formation for $27,555, is that correct?

A That's correct, plus equipment cost, which will be AFE'd at a later date, according to their AFEs.

Q Do you have any idea of how much those would be?

A We estimate that would be up around $50,000.

Q Let me let you look at your Exhibit Eight so we can talk about the same numbers. Got the $50,000 re-completion cost on there?

A Right.

Q $25,000 is your half?

A Right.

Q You figure $8,555 as your half of the salvage value?

A Yes, ma'am.

Q And you take out $6000 for your plugging liability?

A Uh-huh.

Q So your number is $27,555?

A Yes, but there is, as from the original Lynx letter, there was -- that $50,000 is only the physical cost of recompleting a well. It does not include any sur-

face equipment that is going to be required to produce a well, so that's where I came up with my answer earlier.

Q So that's a different $50,000 you're talking about.

A Right, than the $50,000 that is on this page.

Q So you want -- are you telling me I'd add $25,000 to that number?

A We don't --

Q I'm not trying to pin you down.

A Yeah, I don't think Gary knows what that's going to be, either. We don't know exactly what that's going to be, but, yeah, $50,000 is the total cost, $25,000 to Texaco.

Q So that's about $52 -- and I'm really not trying to pin you down -- about $52,000 --

A That's correct.

Q -- for Texaco to get into the well?

A Correct.

Q With an estimate of the value to Texaco of the recoverable gas in place of $1,432,000.

A Of course, I'm sure you understand that that is also over a period of a certain number of years, depending on and in addition to a certain amount of operating cost, so you cannot take that $1.something million and say

that's what you're going to get, because you're going to get it down the road and it's not going to be worth as much down the road as it is today.

Q I believe you testified that we were looking at roughly 20 years of production from this well, or that was one of your assumptions from the Paddock?

A That was from the Paddock. The assumption, I believe the time frame for the reserves as I schedule amounts was somewhere in the range of ten years for the Queen gas reserves.

Q For the Queen gas.

I believe one of the questions Mr. Stamets asked you was whether or not this well would be profitable to Texaco at Lynx' cost estimate attributable to the Queen, and you said, I think you said, you didn't know?

A I have not run economics so therefore I don't know.

Q If we take Lynx' estimated costs or actual well costs to the base of the Queen of $180,300, or $179,000 as testified to by Mr. Ramey, and we divide that into the value of the recoverable gas in place attributable to Texaco's share, and this is without the operating costs you talked about, whatever those might be, I come up with a $10 return to Texaco for every dollar invested using Lynx's numbers. Do you agree with that?

A I didn't -- I haven't done calculations but yes, that sounds -- once again not taking the operating costs, at the present worth value of money, yes.

Q Taking Texaco's figure of $27,555, I calculate your return on investment at $51 for every dollar invested.

Does that sound right to you?

A Sounds reasonable to me.

Q Now you don't have any interest in the Paddock, do you? You're not here representing any Paddock interest owners?

A No.

Q Mr. Hunt testified earlier today that in his opinion the risk was zero for obtaining commercial production in the Queen. Do you agree with that testimony?

A He testified to the geological risk. Mr. Hunt is a geologist; I'm an engineer, so I don't feel like I can answer that question.

Q Do you have your own opinion of what the risk of obtaining commercial Queen production is?

A I would say it's very low because you have -- you have, as I've said before, you have good response on the logs, the set of open hole logs. We have a good suite of open hole logs.

You have good reponse on the mudlogger,

so the -- the risk is very low.

Q I think you testified on direct that you placed that at 25 percent?

A I placed a 25 percent risk, that was my testimony, I guess, as a combination of mechanical risk as well as completion risk, which is rather low in both mechanical and from the standpoint of reservoir being there.

Q In commercial quantities? You testified on direct, Mr. Kern, and I'm not sure I got this down right, about two or three cases in which Texaco had been involved, or you, I'm sorry, you had been involved with a recompletion of an existing wellbore?

A Yes.

Q And you testified that the way you figured it out, what you should charge to that is salvage value minus plugging liability?

A In essence the net salvage value. The net salvage value.

Q What was the age of those wellbores?

A I believe I testified that they were somewhere in the range of ten to twenty years old.

I do, once again there, I do not know exactly the age.

Q Do you know where those were?

A Those were in a waterflood project in

Texas. The two that I can think of were on the Penwell Unit in Texas.

But that did not require a forced pooling hearing of any sort. It was merely where we AFE'd the joint operators and they accepted it as being reasonable.

Q Those -- those -- the people involved were people who were already in the unit?

A Typically it was our well and we were going into a unit. It was our 100 percent well at that depth and going into a unit that had various working interest owners, so yes, they had been.

Q Let me ask you a question about your salvage value exhibit, I think it's Exhibit Eight.

A Uh-huh.

Q I'm sorry, I've referred you to the wrong exhibit.

A Okay.

Q You have zero there for the 8-5/8ths inch pipe, is that right?

A That's correct.

Q And I believe you show on here that that's because you can't get it out of the ground.

A That's correct.

Q And it will remain in the ground if the well is completed in the Queen?

A It will remain in the ground permanently regardless of what's done with the well.

Q You don't think Texaco has any liability to pay for any part of it.

A No, I don't. No, I don't.

Q So Texaco gets 2100 feet free because it can't be pulled out of the ground? I'm just trying to figure out what your testimony is.

A Well, it's not -- my testimony in that column is that it's salvage values and it has no salvage value because it could not physically be pulled out. I guess there would be a way to mine it out. I don't know.

Q Probably cost more than the $14,000 you have on there.

Do you know what Texaco's position in the Lovington Unit is with regard to the Queen rights?

A No, I do not. I do know that in the section -- pardon me, in the proration unit involved in the forced pooling that we own the -- we own that acreage highlighted in yellow on our Exhibit Number One.

Q Mr. Hunt testified that he did not know in which of these Paddock completions shown on his Exhibit Number One you had Queen rights.

A Uh-huh.

Q And you don't know that either.

A I don't know that either.

Q Mr. Kern, last time we did this I believe you testified that you believe that the $180,300 figure for the Queen completion was a reasonable figure, reasonable well cost.

A Reasonable cost to drill down to the Queen?

Q Yes.

A Yes, ma'am.

Q Do you continue to hold that opinion?

A Yes, ma'am, I do.

Q And I believe you testified that the $50,000 AFE for recompletion from the Paddock to the Queen was a reasonable cost.

A Yes, uh-huh.

Q Is that still your opinion?

A Yes, ma'am.

Q On your Exhibit Number Five you calculated something. Can you tell me what you calculated here?

A Okay. Well, this is the summary sheet off of what we call a profit run, which is the economics program that we use to analyze all of our projects and typically the parameters that we look at are the DCFROI, which is discount cash flow rate to payout; the present worth index; and the net present value.

This project did not pay out; consequently, there is nothing under payout.

The present worth index is therefore below one andthe DCFROI is .2.

And also, the most important thing is it yields a -95,498 dollar net present value.

Q Is this one of those economic programs that you run that assumes certain economic parameters?

A Yes, indeed.

Q In running this program do you use Texaco's $15,000 per year per well figure for operating?

A Yes, I did.

Q So that's in here.

A That's correct.

Q And if it cost less than $15,000 per year to operate this, the economics would change?

A Would be better.

Q Mr. Kern, does this also assume the present Paddock production rate of approximately 7 barrels?

A It assumes -- it assumes exactly what is shown on Exhibit One.

For the first year it assumed that the first year's production would be 1369 barrels a day plus 1447; and then it assumed, starting from an economic rate or from a producing rate of 6.5 to a economic limit, that

scheduled out at an 8.8 decline.

Q But it does not assume the --

A I've got -- I've got the program if you want me to look up exactly what the one year, two year, three --

Q Oh, no.

MS. AUBREY: I have no more questions of Mr. Kern.

MR. STAMETS: Any other questions of the witness?

Mr. Bateman.

MR. BATEMAN: May I have a brief redirect, please?

REDIRECT EXAMINATION

BY MR. BATEMAN:

Q Mr. Kern, have you prepared an exhibit that will assist you in illustrating the equities involved in this case?

A Yes, I feel like I have.

Q And that's what's been marked Exhibit Number Ten?

A That's correct.

Q Would you then state briefly for the record what that illustrates?

A What I'm trying to illustrate, I think Mr. Stamets asked me a question in regard to what's the difference between being pooled now and being pooled at the initial hearing would have been, and I'm trying to -- let me go through this and explain what I was trying to explain earlier and did not do a great job of.

The Queen, as we know, is approximately 4000 foot. The testimony by -- I'm referring to the schematic here now; I might note that this is not to scale -- the Queen is approximately 4000 foot.

The cost to drill, potential, (not clearly understood), is $180,000 as per the Lynx testimony.

The cost to drill and complete the Paddock, as I understood it, was $315,000.

From the equipment list that Lynx supplied earlier, I took off $59,525 which is the total of my Exhibit, Exhibit Number Six, which is the letter from Lynx Petroleum that was submitted at the last hearing. So that yielded a cost to drill of $255,475 down to 5360 feet.

Now the Lynx recompletion plan calls for Texaco to pay 50 percent of $180,000, which is $90,000, plus the $50,000 recompletion cost and the $50,000 -- or the equipping cost.

The Tenneco, which was already agreed, would pay $45,000. Lynx, and others, would pay $45,000,

which is the total $180,000.

The inequity that I was trying to show earlier was that if you look at this now from the Paddock perspective, and one that he and I don't -- I do not know how much Lynx and how much others, what their interest is in the Paddock, but let's -- I assume 50 percent with Lynx and 50 percent with others.

For that interval form zero to 4075 feet from a Paddock perspective, because all the cost has been borne from a Queen perspective, there would be no cost to Lynx or to the other operator, because that interval was freely paid now by the second order if it were approved, by Texaco, Tenneco, as well as Lynx because of their portion in the Queen.

The interval, then, from 4075 feet down to 6360 feet, that cost to drill then would be $255,475 minus $180,000, or $75,475. Lynx then, according to the re-completion plans that have been presented by Lynx today, would pay 50 percent of that and once again, these would be assumed, and the others involved in the Lovington Paddock would pay 50 percent, which would be a total of $75,475, the point being that if I were -- let's say I were one of these others in the -- in the Lynx Well, I would in essence be getting a Paddock well down 6360 feet, which is what the well was originally drilled for, for $37,137.

And that, I guess that's the point that I was trying to prove on the inequity of why it would be different now than what it would be if it were pooled at the original time.

MR. BATEMAN: No further questions.

RECROSS EXAMINATION

BY MR. STAMETS:

Q In your example, though, wouldn't these others be included in your et al in 25 percent of the Queen cost?

A Once again, I don't know. There the Land Department, the land situation, in other words, it's conceivable that someone, someone else could only have the right to the Paddock and not have the rights to the Queen, so in that case, no, they would not be (not clearly understood.)

Q Does this harm Texaco?

A Well, I guess --

Q Let me change that around. Let's suppose that the well were only to be drilled to the Queen. Wouldn't the cost to Texaco be exactly the same as we're talking about here today, a half of $180,000.

A Yes, sir, that would be the case but the

well, as we know, was not drilled originally for the Queen. It was originally drilled for the Paddock, and I guess that's the point I'm trying to make.

MR. STAMETS: Are there other questions of this witness?

MR. TAYLOR: I've got a question.

CROSS EXAMINATION

BY MR. TAYLOR:

Q If Texaco were doing this administratively, when you come in and drill deeper to a -- in a well you've already completed, wouldn't you reallocate part of the cost of the original wellbore to the second one or would you just have those totally separate; you'd just charge the -- whatever additional cost there is to go deeper to the second well and leave all the original costs to the first well?

A Okay, you're saying we had drilled a well and for whatever reason we wanted to abandon that zone or go deeper?

Q No, if you just wanted to complete to a deeper horizon.

A Okay. I don't have any experience with how we would do that.

Q Do you think it would be reasonable to allocate the costs of going to a deeper horizon only to the addition drilling and not some of the original wellbore costs, if it's within a short period of time?

A I guess that's going to get back into what is age and what is old.

Q It just seems to me like for tax purposes and other things, you would -- and drilling costs -- you would have to allocate them, specially if you have different ownerships, you'd have to allocate those costs between them.

A I guess from my experience what I've seen is that we -- that companies complete, charge us, and we typically charge companies what cost there is associated with the additional work that needs to be done to do -- make a recompletion.

In other words if that cost is going deeper, then the deeper cost; if it's plugging back, then it's the shallower.

That's -- that's just my experience.

MR. TAYLOR: That's all I have.

MR. STAMETS: Any other questions?

MS. AUBREY: May I have one moment, Mr. Stamets?

I have no questions.

MR. STAMETS: The witness may be excused.

Would you like to offer this last exhibit?

MR. BATEMAN: Yes, I will tender it.

MR. STAMETS: Exhibit Ten will be admitted.

Does anyone have anything further they wish to offer in this case?

MS. AUBREY: I have nothing, Mr. Stamets.

MR. BATEMAN: Nothing further.

MR. STAMETS: This case will be taken under advisement.

(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 (Commission) 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

NEW MEXICO OIL CONSERVATION COMMISSION

COMMISSION HEARING

SANTA FE, NEW MEXICO

Hearing Date OCTOBER 17, 1985 Time: 9:00 A.M.

NAME	REPRESENTING	LOCATION
Karen Aubrey	Kellahin + Kellahin	Santa Fe
Ken Bateman	White Koch Kelly & McCarthy	Santa Fe.
[illegible]	Bryram	Santa Fe
William F. Carr	Campbell and Black, P.A	Santa Fe
W. Perry Pearce	Montgomery & Andrews PA	Santa Fe
Ernest Padilla	Jones, Gallegos etc	Santa Fe
Gary Fonay	Lynx Pet	Hobbs
John Yuronka	Independent	Midland
Toby Rhodes	Yates Drilling Co	Artesia
Burk Whittenburg	Plains Radio	Amarillo
Van L. Goebel	Meridian Oil	Farmington, N.M.
Paul Doyal	Doyal Royalties	Caprock, St. [illegible]
GARY KERN	TEXACO INC.	
Tim Hunt	Texaco Inc.	Midland, TX
John Uniacke	Texaco Inc.	Midland, Tx
Michael E. Stogner	OCD	Santa Fe

NEW MEXICO OIL CONSERVATION COMMISSION

COMMISSION HEARING

SANTA FE, NEW MEXICO

Hearing Date OCTOBER 17, 1985 Time: 9:00 A.M.

NAME	REPRESENTING	LOCATION
E. F. MOTTER	Cities Service Oil & Gas	Midland, Tx
DAN NUTTER	CONS. ENGR	SANTA FE
W. T. Kellahin	Kellahin & Kellahin	Santa Fe
J. Losee	Losee & Carson	Artesia
M. E. Hinger	Grynberg Pet	Denver