

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

23 September 1987

EXAMINER HEARING

IN THE MATTER OF:

Application of Marathon Oil Company CASE
for compulsory pooling, Lea County, 9222
New Mexico.

BEFORE: David R. Catanach, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Division: Jeff Taylor
Attorney at Law
Legal Counsel to the Division
State Land Office Bldg.
Santa Fe, New Mexico 87501

For Marathon Oil Co.: W. Thomas Kellahin
Attorney at Law
KELLAHIN, KELLAHIN & AUBREY
P. O. Box 2265
Santa Fe, New Mexico 87504
and
Lawrence D. Garcia
Attorney at Law
Marathon Oil Company
P. O. Box 3128
Houston, Texas 77253

A P P E A R A N C E S

1
2
3 For Texaco Producing and
Phillips Petroleum:

4 Scott Hall
5 Attorney at Law
6 CAMPBELL & BLACK P. A.
7 P. O. Box 2208
8 Santa Fe, New Mexico, 87501
9 and
10 James L. Gallogly

11 For C. W. Trainer:

12 Ernest Carroll
13 Attorney at Law
14 LOSEE & CARSON P. A.
15 Artesia, New Mexico 88210

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1 MR. CATANACH: Call Case 9222.

2 MR. TAYLOR: The application of
3 Marathon Oil Company for compulsory pooling, Lea County New
4 Mexico.

5 MR. CATANACH: Appearances in
6 this case?

7 MR. KELLAHIN: Mr. Examiner,
8 I'm Tom Kellahin of the Santa Fe law firm of Kellahin, Kel-
9 lahin, & Aubrey.

10 I'm appearing in association
11 with Mr. Larry Garcia, who is an attorney for Marathon. He
12 is a member of the Texas and New Mexico and Nebraska Bars.

13 We represent Marathon Oil Com-
14 pany, the applicant, and I have three witnesses to be sworn.

15 MR. CATANACH: Other appear-
16 ances?

17 MR. CARROLL: Mr. Examiner, my
18 name is Ernest Carroll from Artesia, New Mexico. I am with
19 the law firm of Losee and Carson. I'm here today represen-
20 ting C. W. Trainer, who opposes the application of Marathon.

21 MR. CATANACH: Other
22 appearances?

23 MR. HALL: Mr. Examiner, Scott
24 Hall from Campbell & Black of Santa Fe, on behalf of Texaco
25 Producing, Inc., and Phillips Petroleum Company.

1 With me is Mr. Jim Gallogly,
2 who is counsel for Phillips, member of Texas Bar.

3 MR. TAYLOR: How do you spell
4 it?

5 MR. GALLOGLY: It's G-A-L-L-O-
6 G-L-Y. I need to correct the record. I'm a member of the
7 Colorado and Oklahoma Bars.

8 MR. CATANACH: Mr. Carroll, do
9 you have any witnesses?

10 MR. CARROLL: Yes, Mr.
11 Examiner, we'll have one witness and that's Mr. Trainer
12 himself.

13 MR. CATANACH: Okay, and Mr. --

14 MR. HALL: Two witnesses.

15 MR. CATANACH: Okay, can I get
16 all the witnesses to stand at this time and be sworn in?

17

18 (Witnesses sworn.)

19

20 PAUL BENEFIEL,

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

23

24

25

DIRECT EXAMINATION

1
2 BY MR. KELLAHIN:

3 Q Paul Benefiel.

4 Q Mr. Benefiel, would you spell your last
5 name for the record?

6 A B-E-N-E-F-I-E-L.

7 Q Mr. Benefiel, by whom are you employed
8 and in what capacity?

9 A Marathon Oil Company as a reservoir en-
10 gineer in Midland, Texas.

11 Q Mr. Benefiel, would you take a moment
12 and describe what has been your educational background?

13 A I graduated from the University of Mis-
14 souri at Rolla in December of 1982 with a Bachelor's degree
15 in petroleum engineering, and I've been employed by Marathon
16 Oil Company since January of '83 in Bridgeport, Illinois,
17 Shreveport, Louisiana, and Midland, Texas.

18 Q Does Marathon's application for compul-
19 sory pooling involve you as a petroleum engineer?

20 A Yes, sir, it does.

21 Q Would you describe in what particular way
22 this particular project is your responsibility?

23 A I've been involved with this project
24 since April of this year in various capacities.

25 I logged the well that we drilled in Sec-

1 tion 17. I recommended the perforations and completion pro-
2 cedure.

3 Since that time I've been involved with
4 trying to acquire additional acreage for Marathon in the
5 area and seeing that this area is properly developed.

6 Q When we talk about this area, can you
7 describe for the Examiner approximately where we are in
8 relation to some community, highway, or general
9 topographical feature?

10 A This is at the north end of the Vacuum
11 Field and it's northwest of Hobbs, New Mexico, in Lea
12 County.

13 Q The subject of this application is a
14 compulsory pooling request by Marathon. For what particular
15 formation?

16 A The Atoka Morrow.

17 Q Within the area identified on Exhibit
18 Number One, the south half of Section 16, is this area sub-
19 ject to any special pool rules?

20 A No, sir, it isn't.

21 Q Is this adjacent to or part of any exis-
22 ting named pool?

23 A It's adjacent to the Vacuum Field.

24 Q Marathon's well in Section 17, which
25 would be just to the west of the area outlined in the pink,

1 the well you've identified as the well you were involved in,
2 can you locate it for us this exhibit?

3 A It's in the -- it's the north half unit
4 in Section 17.

5 Q And it's the gas well in the southeast of
6 the northwest quarter?

7 A Yes, sir, it is.

8 Q All right, and that is a gas well
9 producing from what formation?

10 A From the Atoka.

11 Q Is that well subject to any special pool
12 rules?

13 A No.

14 Q And is it under any particular pool name?

15 A Just the North Vacuum Atoka Morrow Field.

16 Q Do you anticipate whether or not the
17 proposed location or well to be drilled in 17 will be an
18 extension or a part of that pool?

19 A Yes, sir, it will be an extension of
20 that, the producing Atoka in the Section 17 well.

21 Q And have you had personal experience in
22 the drilling and completion of these types of wells in this
23 area?

24 A Yes, sir.

25 MR. KELLAHIN: Mr. Examiner, at

1 this time we tender Mr. Benefiel as an expert petroleum en-
2 gineer.

3 MR. CATANACH: He is so quali-
4 fied.

5 Q Let me have you describe for us, Mr.
6 Benefiel, what has been Marathon's plan of exploration and
7 development for Atoka Morrow tests in this general area?

8 A They'll start in 1986. In 1986 we pro-
9 posed and finalized plans to drill the Section 17 well,
10 north half of Section 17, and also the Shoe Bar 23 in Sec-
11 tion 23.

12 Those plans were approved for drilling
13 this year. We drilled the Section 17 and also the Section
14 23 wells in the spring and summer of this year.

15 Prior to drilling the Section 17 well we
16 sent out requests for farmouts from a number of operators in
17 this area. We sent out farmout requests to all operators
18 except our partners in the Section 17 well.

19 Q What was the general plan of exploration
20 for this area?

21 A We felt that a reasonable plan of devel-
22 opment was to first drill the Section 17 well and then to
23 proceed into Section 16. We felt that that was the case be-
24 cause we had established production closer to the Section 17
25 well to the north and west, and that due to the risk invol-

1 ved in these step-out locations we should first drill a Sec-
2 tion 17 well before we proceeded to Section 16.

3 Q When we look to the producing area to the
4 west of the Section 17 well, approximately where are those
5 producing wells located?

6 A To the -- well, to the northwest in Sec-
7 tion 7 Marathon operates the State Section 7 Gas Com No. 1,
8 and there's a Mobil operated UU Well in which Marathon also
9 has a substantial working interest.

10 Q And the intent then was to develop off of
11 those producing wells and progress in a southeasterly
12 fashion with the exploration?

13 A Yes, sir.

14 Q When was the well in Section 17 commen-
15 ced, do you approximately remember?

16 A It took 35 days to -- from start of
17 drilling till we released the rig and we released the rig on
18 July 27th, so it started the latter part of June.

19 Q Of 1987, of this year?

20 A 1987, yes.

21 Q What is your proposal with regards to the
22 drilling of a well in Section 16?

23 A We propose to drill a well, a south half
24 unit, 1980 from the west line and 1980 from the south line
25 to test the Atoka Morrow.

1 Q Do you have a recommendation to the Exam-
2 iner as to who should be the operator of the well to be
3 drilled in Section 16?

4 A Yes, sir, I believe that Marathon should
5 operate this well.

6 Q And has an effort been made, Mr. Bene-
7 fiel, to obtain the voluntary cooperation of other working
8 interest owners in the section for the drilling of this
9 well?

10 A Yes, sir. As I stated earlier, a number
11 of the operators in that half section, we requested farmouts
12 from them earlier in the year and then we sent them an AFE
13 requesting their voluntary cooperation in the drilling of
14 this well.

15 Q Let's take a moment and use Exhibit One
16 as a display to have you help us identify for the Examiner
17 the various owners that are involved, or potentially invol-
18 ved, in Section 16.

19 A Okay. Mr. C. W. Trainer.

20 Q And where is his acreage in the section?

21 A He has 3/4s of the southwest quarter and
22 he also has the southeast of the southeast 40 acres.

23 Q Okay.

24 A Texaco has 40 acres northwest of the
25 southwest, and Shell has the southwest of the southeast.

1 Marathon has the north half of the south-
2 east 80 acres.

3 Q Okay, and if we look in the northeast --
4 northwest quarter of that section, Phillips has the balance
5 then, has that 160-acre tract.

6 A Yes.

7 Q In implementing Marathon's plan of devel-
8 opment of this area and furthering exploration efforts, can
9 you describe for us, Mr. Benefiel, what has been your own
10 particular expertise and involvement?

11 A Okay. Well, I was -- logged the Section
12 17 well and I proposed requesting farmouts from operators in
13 the area. I wrote the AFE for the Section 16 well and since
14 that time I've been trying to obtain voluntary cooperation
15 from the other operators in this half section to participate
16 with Marathon in the well.

17 Q How would you characterize Marathon's
18 success as an operator for wells of this type in this area
19 as contrasted to other operators?

20 A Marathon has a very good track record in
21 this area.

22 Our Section 7 well has recovered about 17
23 BCF, which is more than any other well producing in the
24 field.

25 We just drilled the Section 17 well at

1 low cost. The CAOF was about 3,000,000 a day, 3500 a day,
2 and our recoverable reserves are estimated to be about 9-1/2
3 BCF.

4 So I'd say that our success ratio and our
5 recovery from wells of this type have been exceptional, and
6 I'd say that our track record has been extremely good in
7 this area.

8 Q You said that you were involved and re-
9 sponsible for the preparation and circulation of the AFE for
10 the subject well in Section 16.

11 A Yes.

12 Q Do you have a copy of that AFE with you?

13 A Yes, sir.

14 Q And has that been marked as an exhibit?

15 A Yes, sir, Exhibit Two.

16 Q All right. Let me have you take Exhibit
17 Number Two and help orient us as to how to read and under-
18 stand the exhibit.

19 A The first page is a description of the
20 well, legal location, and expected reservoir properties at
21 this location.

22 Q Does that first page indicate or repre-
23 sent the necessary signatures and approval by the various
24 Marathon personnel that are responsible for such approvals?

25 A Yes, sir.

1 Q Let's turn to the second page. What is
2 -- what is indicated on the second page?

3 A Second page is a number of line items de-
4 tailing our expected costs to drill this well.

5 Q Okay, and as we turn to the last of the
6 three pages, what is indicated on that pages?

7 Further costs to drill, drill the well.

8 Q I note that this originally was marked as
9 four sheets for the AFE. What was the second page?

10 A The second page were proprietary econo-
11 mics for Marathon.

12 Q Let's start then with page three, which
13 is the second page of this exhibit, and without going
14 through each of the itemized details, would you describe for
15 us the methodology, the procedure that you go through for
16 Marathon in determining, first of all, what numbers to put
17 in here and how those numbers are fair and reasonable?

18 A A lot of these costs are developed by our
19 Drilling-Engineering Department. We have a number of en-
20 gineers who handle our drilling and they developed a lot of
21 this.

22 Completion costs are developed by comple-
23 tion engineers and who also have a great deal of experience
24 in completing wells of this type.

25 Q What is the procedure that you have re-

1 commended with regards to determining how the well is going
2 to be drilled? Is that to be a Marathon rig or will you
3 contract to have the well drilled by someone else?

4 A We'll contract.

5 Q And how is that procedure handled?

6 A Our Drilling Department handles that. They
7 send out notifications to a number of drilling contractors
8 and the bid will be awarded on -- to the low bidder.

9 Q That goes out to a series of contractros
10 with whom Marathon has had dealings in the past and have
11 proved to be reliable?

12 A Yes.

13 Q Has a particular contractor been selected
14 for this well?

15 A No, sir, not yet.

16 Q The bids have not gone out yet?

17 A That's correct.

18 Q What is the recommendation you have with
19 regards to how to drill the well in terms of a day rate or a
20 footage depth rate?

21 A We drilled the Section 17 well on a foot-
22 age basis and had a great deal of success and we intend to
23 award this bid on a footage basis, also.

24 Q The total drilling intangible costs that
25 you have identified for the well are what number on this ex-

1 hibit?

2 A The intangible drilling costs?

3 Q Yes, sir. The total drilling costs --

4 A Okay, the total intangible drilling costs
5 are \$501,000 on this exhibit.

6 Q Okay, and then you've added to that the
7 drilling costs, tangible, and you get the \$564,000 number.

8 A Yes,

9 Q Okay. What are the estimated completion
10 costs that are tangible?

11 A \$156,000.

12 Q Okay, and then the intangible?

13 A \$221,000.

14 Q What do you anticipate to be the cost of
15 the surface equipment to be utilized in the well.

16 A \$85,000.

17 Q Okay, giving you a total estimated com-
18 pleted well cost of what number, sir?

19 A \$870,000.

20 Q And how does that estimate compare to any
21 other estimates that you have examined for similar wells?

22 A I received -- we received an AFE for Mr.
23 C. W. Trainer in February of 1986. His total cost to drill
24 the south half well was \$885,600.

25 Q Do you have a copy of that AFE that Mr.

1 Trainer sent Marathon?

2 A Yes, sir.

3 Q Have you marked that as an exhibit?

4 A Yes, sir, Exhibit Three.

5 Q Have you made a comparison and a study,
6 Mr. Benefiel, of the -- Mr. Trainer's AFE of February of '86
7 versus your estimated costs for this well?

8 A Yes, sir.

9 Q Can you describe for us or identify any
10 significant differences between the two?

11 A Well, they were within \$16,000 of each
12 other. Marathon's, you know, was a bit lower but I did see
13 that the overhead charges and the supervision and engineering
14 charges seemed to be rather high.

15 Q In terms of categorizing the expenses
16 into different areas, do you see a significant difference in
17 terms of drilling costs?

18 A No, not really. Everything falls pretty
19 much into line.

20 Q Do you have a recommendation to the
21 Examiner of what overhead charges you would recommend be
22 included in any compulsory pooling order that he might issue
23 against any nonconsenting working interest owners.

24 A Yes, sir. \$5500 a month while drilling
25 and \$550 a month while producing.

1 Q Do you know, sir, what the overhead
2 charges were that apply to the well drilled in Section 17?

3 A Those are the charges.

4 Q Have you had other working interest
5 owners agree with you on those charges for that well?

6 A Yes, sir.

7 Q And no one has objected to those as being
8 fair and reasonable?

9 A No.

10 Q How do the estimated costs you have
11 prepared for the well in Section 17 compare to the actual
12 costs for the well Marathon drilled in Section 17, you know,
13 the one that's producing now, how does that compare to the
14 well in Section 16?

15 A The actual costs were much lower. The
16 drilling and completion costs were \$697,000 actual and we
17 anticipate another \$40,000 in surface equipment.

18 Q Have you brought an exhibit that shows us
19 the actual costs for the producing well in 17?

20 A Yes, I did.

21 Q And how has that been marked as an
22 exhibit?

23 A Exhibit Four.

24 Q Does Marathon have a division or a
25 section, personnel assigned that do nothing other than keep

1 track of well costs and invoices and paying bills?

2 A Exactly.

3 Q All right. Describe for us how this
4 document is generated.

5 A It's generated through our Accounting
6 Department and each month our bills are posted and these are
7 the total costs attributed to drilling and completing the
8 Section 17 well.

9 Q Is this a document that you're familiar
10 with?

11 A Yes.

12 Q Is this a document and a procedure that
13 you utilize on a regular basis in your profession?

14 A Yes.

15 Q Would you show us those significant
16 entries with regards to the actual costs on the well in 17
17 and how they were used by you in developing the AFE for the
18 subject well?

19 A Okay. The AFE for the subject well
20 includes some costs, contingency costs, and that's why the
21 AFE costs for the Section 16 well are higher than the actual
22 costs for the well in Section 17.

23 You can see that our footage basis
24 drilling costs were low and across the board our actual
25 costs were much lower than anticipated.

1 Q Have you obtained management approval for
2 the budgeting and the drilling of the proposed well in Sec-
3 tion 16?

4 A Yes.

5 Q And is there any time constraints or time
6 references with regards to the commencement and drilling of
7 that well?

8 A Yes. We have to have it drilled and com-
9 pleted before the end of the year or our budgeting -- we
10 have to go all the way through our budgeting procedure
11 again.

12 Q Let me have you describe for us, Mr.
13 Benefiel, what you have recommended as a well program, a
14 drilling program for this well. Have you made such a propo-
15 sal?

16 A Yes.

17 Q Would you describe for us the method by
18 which you derive at a drilling program or a proposal for a
19 well like this?

20 A We based a lot of our proposed drilling
21 program for the Section 16 well on our actual experience
22 with the Section 17 well.

23 Q Have you reduced your proposed program to
24 an exhibit form?

25 A Yes.

1 Q Do you have that marked as Exhibit Number
2 Five?

3 A Yes, sir.

4 Q Let me have you describe for us, Mr.
5 Benefiel, how you derive -- how you propose to recommend to
6 the Examiner a drilling program for this well.

7 A I'd like to go through this page by page.

8 Q Let's do that.

9 A Okay. The first page gives the legal lo-
10 cation of the proposed well, the well name, the AFE number.

11 We've already surveyed the location, the
12 surveyed elevations are shown. Our projected total depth
13 and in cooperation with our Geology Department we have the
14 estimated formation tops.

15 Q Okay.

16 A Moving on to the second page, we propose
17 a DST in the Basal Atoka and mudlogging from 8500 feet to
18 11,500 with two man service continuing to project a total
19 depth of 12,500.

20 It also shows that our mudlogging program
21 will be bid out in order to reduce well costs and that
22 we will not be running a log prior to setting intermediate
23 casing.

24 It shows that the log for TD to bottom of
25 intermediate, we propose to run a gamma ray compensated

1 neutron log and a litho-density tool to surface and to bot-
2 tom of intermediate a gamma ray dualatero log and a strictly
3 focused log.

4 Okay, continuing to the third page, we
5 again show that the drilling contractor has not been
6 determined. That bid will be awarded on a low bid basis.

7 A location will also be awarded on a low
8 bid basis and we proceed down to what size holes we're going
9 to drill for the various casing strings and how those casing
10 strings should be tested.

11 And finally once we get to TD the logging
12 and running of a production string.

13 The next page shows the casing program,
14 casing weights, and quantities needed. Casing will also be
15 awarded on a low bid basis, and the casing design.

16 And continuing on to the next page is the
17 cementing program that we intend to set cement for various
18 stirngs of pipe that will be run.

19 The next page is the BOP program, a
20 wellhead program. That equipment will also be purchased on
21 a low bid basis.

22 And lastly is our mud program. We will
23 receive also prices on our mud; we'll perform mud services.
24 Well, the drilling engineer that we have location will
25 perform all mud services, again to reduce the total well

1 cost.

2 Q Do you have an opinion, Mr. Benefiel as
3 to whether the drilling program you have recommended for the
4 well is fair and reasonable?

5 A Yeah, I think it's an excellent drilling
6 program. We estimated 60 days to drill the 17 No. 2 Well.
7 The actual days were only 35, and I think it's an extremely
8 good drilling program.

9 Q You have discussed a comparison between
10 your proposed AFE, Exhibit Number Two, with costs that
11 you've compared from an AFE received from Mr. Trainer.

12 Would you describe for us what has been
13 your involvement and the circumstances surrounding Mr.
14 Trainer's proposal to you in '86?

15 A Yep. Although Mr. Trainer's proposed
16 location at that time didn't fit in with our proposed plan
17 of development, as I said earlier, we wished to drill the 17
18 No. 2 Well first, after a lot of evaluation we had decided
19 that we would join Mr. Trainer in drilling this well.

20 Q When we look at Mr. Trainer's proposal in
21 '86, where had he proposed the location of the well in
22 Section 16?

23 A 1980 feet from the east line and 660 feet
24 from the south line.

25 Q And that puts it at a different location

1 than the one you're recommending?

2 A Yes.

3 Q Mr. Trainer's location would have been in
4 the southwest of the southeast quarter?

5 A That's correct.

6 Q And what proposed spacing unit did he --
7 the orientation of the spacing unit in the section had he
8 proposed?

9 A He proposed a laydown unit in the south
10 half of the section, 320 acres.

11 Q What, if anything, ever came to your
12 knowledge with regard to Mr. Trainer's drilling of this
13 well?

14 A Well, on August 20th, I believe it was,
15 we received a letter from Mr. Trainer saying that he would
16 be unable to drill this well.

17 Q Was that at a point when Marathon had
18 agreed to participate and go forward with the drilling of
19 this well?

20 A Yes. That was August 20th of last year.

21 Q Yes, sir. Did you have monies and funds
22 budgeted for the drilling of a well in Section 16 in that
23 time?

24 A Yes.

25 Q And you now propose to go forward with

1 laydown units are preferable.

2 Let's see, those are the two major
3 reasons.

4 Q I think the third thing you were thinking
5 of had to do with the well location itself. Let me ask you,
6 sir, if you have an engineering opinion with regards to
7 where you prefer to have the well located for drilling the
8 south half section?

9 A I believe it should be in the northeast
10 quarter of the southwest quarter.

11 Q Do you have an engineering reason for
12 saying so?

13 A Well, as I said earlier, equitable dis-
14 tribution of the reserves and similar risk weighted oppor-
15 tunities for a north half and a south half well.

16 Q Would that put the well in a location in
17 that south half section that would give you at least the op-
18 portunity to have the reasonable ability to drain and deve-
19 lop the entire half section?

20 A Yes.

21 Q Now the question of this well has been
22 the subject of discussion among all these various working
23 interest owners for some time now.

24 A Uh-huh.

25 Q Can you describe for us what -- whether

1 or not Marathon agreed or did not agree to join with Mr.
2 Trainer in 1986?

3 A Marathon intended to join with Mr. Train-
4 er when his drilling proposal was withdrawn.

5 Q So the review process on his request for
6 joinder or participation had been completed?

7 A It was not completed because we didn't
8 join in the well, but it was at a significantly advanced
9 stage.

10 Q All right, sir. The next area I'd like
11 you to describe for me, Mr. Benefiel, is whether or not you
12 have an engineering opinion with regards to the risk factor
13 penalty that the Examiner has the authority to impose
14 against any nonconsenting working interest owners that do
15 not ultimately agree to participate.

16 A Yes, I do. Marathon has spent a consid-
17 erable amount of time and money in order to reduce the risk
18 associated with drilling this well; however, it is a step-
19 out location approximately a mile from established produc-
20 tion in this interval and it, you know, essentially it's a
21 wildcat and I think the maximum risk penalty should be as-
22 sessed.

23 Q Do you have an opinion, sir, as to
24 whether or not, if there is a dispute about who the operator
25 is, why, in your opinion, Marathon ought to be designated

1 and approved as the operator?

2 A Well, Marathon has along history in this
3 area. We first became involved in 1974 when we joined in
4 the Mobil UU Gas Com.

5 Since that time we've drilled two of --
6 two wells which we operate and have interest in another
7 well.

8 So we have a long established history as
9 a good operator in this area, both in producing and drilling
10 and completion.

11 Marathon also has established a gas mar-
12 ket in this area. We're familiar with the gas market. We
13 sent out bids for our expected gas production from the North
14 Vacuum wells and we received the high bid from -- from one
15 purchaser and we doubt if other operators will be in a posi-
16 tion to obtain that good a gas price.

17 It's also our opinion the gas purchaser
18 has indicated that they would probably be willing to pur-
19 chase total deliverability from this well and I believe that
20 Marathon could give the partners in the well a better gas
21 price, be able to market their gas and get a better gas
22 price than any of the other operators.

23 So basically we have a good track record.
24 We have a good knowledge of the gas market and we have a
25 long history and a significant amount of experience in this
area.

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MR. KELLAHIN: That concludes my examination of Mr. Benefiel.

We'd move the introduction of his Exhibits One through Five.

MR. CATANACH: Exhibits One through Five will be admitted as evidence.

Mr. Carroll?

MR. CARROLL: Thank you, Mr. Examiner.

CROSS EXAMINATION

BY MR. CARROLL:

Q Mr. Benefiel, the proposed location 1980 from the west line and 1980 from the south line, that location falls on Texaco acreage, does it not?

A Yes, sir, it does.

Q In fact, Marathon owns no acreage in the southwest quarter of Section 16, is that correct?

A It is.

Q You have indicated to the Commission that you have made overtures to the other working interest owners in the south half. Can you tell us if you've reached an agreement with Texaco?

A No, sir.

Q A voluntary agreement?

1 A No, sir, we have not.

2 Q You have not. Have they flat refused to
3 participate with you as of this date?

4 A To the best of my knowledge, that's true.

5 Q Mr. Benefiel, the -- you have told the
6 Commission that you have tried to obtain voluntary -- a vol-
7 untary pooling for this south half of Section 16 and you've
8 stated that you have tried to -- requested this voluntary
9 unit earlier in the year. Can you tell me exactly the dates
10 that you made these requests or overtures to the other wor-
11 king interest partners?

12 A This AFE is dated July 31st, 1987.

13 Q All right, was that the date of the ac-
14 tual overtures to these working interest --

15 A It's also stamped, Sent to working inter-
16 est owners 8-13-87. I can't tell you when they received it
17 but I assume it was within two or three days after 8-13-87.

18 Q All right. Did you actually or were res-
19 ponsible for the communication to these other working inter-
20 est owners?

21 A Partially.

22 Q All right, did the letter go out under
23 your signature?

24 A My signature is shown on the first page.

25 Q Of course I would assume that there would

1 have been a cover letter with that AFE. Would there not
2 have been?

3 A Yes, sir.

4 Q Did you sign the cover letter?

5 A No, I did not.

6 Q All right. Did you happen to see that
7 cover letter that went out?

8 A I have seen it.

9 Q All right, and isn't it true that that
10 particular cover letter requested a response by September
11 the 11th from these -- from the various working interest
12 owners?

13 A Yes, sir, I believe that's true.

14 Q And isn't it also true that you in fact
15 filed this application for forced pooling prior to that
16 September 11th date, did you not?

17 A Yes. The reason that was done was
18 because Shell indicated to us that they would not join in
19 the drilling of this well.

20 Q All right, so as of today's date none of
21 the working interest owners have agreed to join you in this
22 proposed south half unit.

23 A That's correct.

24 Q Now, Mr. Benefiel, when -- when did you
25 determine or make the decision to drill at this particular

1 location, the 1980 by 1980?

2 A After we saw the log from the State 17
3 Gas Com No. 2. I believe the drill -- the logging date on
4 that was 27th of July of this year.

5 Q Right. Mr. Benefiel, have you furnished
6 any of the information that was obtained from this
7 particular well that was drilled in Section 17 to the other
8 working interest parties that would be in this south half
9 unit?

10 A No, sir, the 60-day limit is up I think
11 the 25th of this month, within a couple of days, and our
12 logs, the logs will be come public knowledge at that time.
13 We felt that we had an ethical obligation not to release
14 the logs, ethical obligation to other partners in our well,
15 not to release the logs until that 60-day limit had expired.

16 Q You did not try to exact any secrecy of
17 promises from these other owners that you were trying to
18 join or get to join in this south half unit if they -- that
19 question is confused, Mr. Benefiel. Let me -- let me re-
20 state it. I'm sorry, I apologize.

21 Did you attempt to protect the secrecy of
22 these logs by offering to furnish Mr. Trainer, Texaco, or
23 Shell copies of the information from this second 17 well by
24 extracting from them some sort of promise of secrecy or any-
25 thing such as that?

1 A No. sir,

2 Q So, in effect, you have not offered any
3 of these three proposed working interest owners in this
4 south half unit any of the information which you gained from
5 that Section 17 well?

6 A No. As I said, it was our ethical obli-
7 gation not to release the logs; we were obligated to our
8 partners in the drilling of the 17 well.

9 Q Now, you have shown us a -- or introduced
10 as an exhibit, the AFE that was was prepared by -- or at
11 least sent to you by C. W. Trainer and prepared by H. E.
12 Gene Lee, is that correct?

13 A Yes, sir.

14 Q And that AFE was dated February 12th,
15 1986, is that correct?

16 A Yes, sir.

17 Q That AFE is at least a year and a half
18 old at this time, is that correct?

19 A That's correct.

20 Q Now how did you come to have possession
21 of this particular AFE?

22 A Mr. Trainer sent it to Marathon when he
23 proposed drilling the well in Section 16.

24 Q All right, now you have indicated, and
25 I'm a little confused because of some later answers, that --

1 that Marathon had the intention to join Mr. Trainer.

2 Was that intention ever expressed to Mr.
3 Trainer?

4 A To the best of my knowledge it was not.

5 Q All right, you were aware that early in
6 -- around the date that this AFE was prepared, that Mr.
7 Trainer had farmouts in hand from Texaco and Shell, did you
8 not, for the drilling of this south half well?

9 A Yeah, we received a letter June 20th,
10 1986, that indicated he did have farmouts.

11 Q All right, and as of the August 20th date
12 when Mr. Trainer called to tell you that he was going to be
13 unable to drill the well, you had still not indicated to him
14 Marathon's decision or indication that they would join in
15 drilling the well with him.

16 A That's correct. As I said earlier, it
17 was our -- our orderly plan of development called for a well
18 in Section 17, but if the well was going to be drilled, Mar-
19 athon would participate with Mr. Trainer in the drilling of
20 the well.

21 Q Now, there is another well, you have dis-
22 cussed some of Marathon's wells, to the north and west of
23 this proposed location, I believe up in Section 7 and the
24 Section 17 well. Mr. Trainer and a partner of his, T. H.
25 McIlvain, actually have a well in this same formation to the

1 south and east of this location, do they not?

2 A They do.

3 Q And are you familiar where that well is
4 located?

5 A Yes. It's an unorthodox location in the
6 north half of Section 22.

7 Q All right, and that particular well is
8 also a very good Atoka gas well, is it not?

9 A Yes.

10 Q And that well was drilled prior to Mr.
11 Trainer's request for you to join in the drilling of a well
12 that was made in 1986.

13 A Yes.

14 Q Now, you have talked about Marathon's
15 time constraints, that you need to drill this well by the
16 end of the year because of your own budgetary problems. Are
17 there any lease expirations that Marathon faces if they do
18 not drill by the end of the year?

19 A No.

20 Q So the only time constraints that we're
21 really looking at here are just Marathon's own company con-
22 straints, is that correct?

23 A Yes, that has to be our viewpoint.

24 Q Do you have an approved location for this
25 well in Section 16?

1 A We filed a C-101 and C-102 but we haven't
2 been awarded a proration unit.

3 Q Are you aware that Mr. Trainer already
4 has an approved location for drilling in the southwest quar-
5 ter of Section 16?

6 A No, I'm not.

7 Q Are you also aware that Mr. Trainer had
8 prepared another AFE for the drilling of this particular
9 well that was -- is dated September 10th, 1987?

10 A I have knowledge of that.

11 Q And that particular AFE of September 10th
12 is considerably less than the AFE that you have presented
13 today for your drilling a well in Section 16, is it not?

14 A Yes, it is, but I believe it's somewhat
15 above our actual costs for our Section 17 well.

16 Q You are aware that Mr. Trainer owns over
17 -- or owns half of the acreage in the entire section, Sec-
18 tion 16, do you not?

19 A Yes.

20 Q And all -- Marathon only owns 80 acres,
21 is that correct?

22 A That's correct.

23 MR. CARROLL: Could I have just
24 a second, Mr. Catanach?

25 MR. CATANACH: Yes.

1 MR. CARROLL: I pass the wit-
2 ness.

3 MR. CATANACH: Mr. Hall.
4

5 CROSS EXAMINATION

6 BY MR. HALL:

7 Q Mr. Benefiel, a few questions.

8 Previously you testified that your Sec-
9 tion 16 prospect is what you termed a wildcat, isn't that
10 so?

11 A By state definition.

12 Q And at the same time you testified that
13 the 16 prospect is basically a step-out. Is that a step-out
14 from your 17 location?

15 A Yes, sir.

16 Q Then on your AFE, if you'll look at that
17 Exhibit Two, you say it's -- the 16 well is proposed as a
18 northwesterly offset to the McIlvain well in 22.

19 A Uh-huh.

20 Q How much closer to the 17 well is your 16
21 location than it is to the McIlvain well in 22?

22 A Possibly half a mile or three-quarters of
23 a mile, something like that.

24 Q Is the well that you operate in Section
25 17 what would be what you would call your control point or

1 your control well?

2 A We have a number of control points and
3 that is one of them, yes.

4 Q Of these two which do you regard as the
5 primary control?

6 A The Section 17 well.

7 Q Okay, and wouldn't it be prudent to lo-
8 cate your Section 16 well as closely as possible to your
9 control point?

10 A Based on our mapping, we've picked what
11 we feel is the best location for this well and that's shown
12 on Exhibit Number One.

13 Q But previously you testified that the
14 risk for a west half standup unit is, your words, signifi-
15 cantly reduced, as opposed to an east half standup, isn't
16 that correct?

17 A Yes. I believe that standup units would
18 result in an inequitable risk distribution for development
19 of this section.

20 Q I'm sorry, say that again.

21 A I believe that a standup unit would re-
22 sult in an inequitable risk distribution for development of
23 this section.

24 Q But if I understood your testimony be-
25 fore, wasn't the thrust of it that there's a greater likeli-

1 hood of recovery of more hydrocarbons with a west half
2 standup unit?

3 A No, I did not say that. I said that the
4 risk was reduced.

5 Q For a west half standup unit?

6 A Yes.

7 Q All right, I understand you.

8 A Okay. I'm trying to make a distinction
9 between risk and estimated recovery or reserves.

10 Q All right, so the record is clear now,
11 the risk is lesser in the west half standup unit.

12 A The risk is less.

13 Q And notwithstanding Marathon's acreage
14 position anywhere within Section 16, wouldn't it be more
15 prudent to drill a west half standup?

16 A When I --

17 Q Setting aside Marathon's interest?

18 A Yeah, I think to equitably develop this
19 section in its entirety laydown units should be formed and
20 laydown wells drilled.

21 Q But a standard well location for a stand-
22 up west half unit would put you substantially closer to your
23 control point, would it not?

24 A Certainly.

25 Q Mr. Benefiel, you previously testified

1 that you thought Marathon had an ethical obligation to the
2 partners in the well in Section 17.

3 A Correct.

4 Q And that's the reason you cited for not
5 divulging the logs from that well.

6 A That's right.

7 Q And you understand that these logs are
8 required to be filed by -- with the Oil Conservation Divi-
9 sion after a period of time?

10 A Yes.

11 Q What do you perceive Marathon's ethical
12 obligation to be to the other working interest owners in
13 Section 16?

14 A We would have the same ethical obligation
15 in 16 as we had in 17.

16 Q So if you propose yourself, you hold
17 yourself out to be an operator of a well in Section 16,
18 don't you owe them the obligation to disclose whatever in-
19 formation you have geologically, engineering, with respect
20 to your other well you operate?

21 A When our 60 day limit is up we have every
22 intention of providing that information.

23 Q So your ethical obligation in your under-
24 standing doesn't start until the 60-day limitation.

25 A Excuse me?

- 1 Q When does your ethical obligation start?
- 2 A On which well?
- 3 Q To disclose to the partners or the other
4 working interest owners in Section 16?
- 5 A At the end of 60 days the other owners in
6 Section 16 will be privy to the logs for the Section 17 well.
- 7 Q But not when you propose a well or when
8 you send out AFES or when a request is made of you?
- 9 A No, those are two unique -- two complete-
10 ly separate situations. When you --
- 11 Q And indeed -- excuse me, go ahead.
- 12 A When you drill a well you have an ethical
13 obligation to your partners and we're performing that duty
14 right now.
- 15 Q They're consistent but they're inconsis-
16 tent, is that what you're telling me?
- 17 A No, I'm not telling you that at all.
18 They seem perfectly consistent to me.
- 19 Q Texaco has requested the well information
20 from your 17 well have they not?
- 21 A Yes, they have.
- 22 Q And they've been refused, have they not?
- 23 A That's correct.
- 24 Q And they are a working interest owner in
25 the laydown unit for Section 16.

1 A That's correct.

2 MR. NALL: Nothing further.

3

4

REDIRECT EXAMINATION

5 BY MR. KELLAHIN:

6 Q Mr. Benefiel, did Texaco ever inform you
7 that they were unable to make a decision about participation
8 with Marathon because you wouldn't give them the information
9 on the well in 17?

10 A No, they did not.

11 Q Did Texaco ever tell you that they could
12 not make a decision about participation in the south half
13 because you didn't share any geologic information --

14 A No, they did not tell me that.

15 Q Did Texaco ever request more time in
16 which to make a decision?

17 A No, they didn't.

18 Q Did Mr. Trainer ever request more time
19 from you in order to make a decision about his participa-
20 tion?

21 A No, sir.

22 Q Did Mr. Trainer ever ask you for geologic
23 information in order for him to make up his mind about par-
24 ticipation in this well to be drilled by Marathon?

25 A He did not ask me for that information.

1 Q Did he say he couldn't make up his mind
2 because you wouldn't give him data?

3 A No, sir.

4 MR. KELLAHIN: No further ques-
5 tions.

6 MR. CATANACH: I have no
7 questions of this witness. He may be excused.

8
9 JAMES HAHNENBERG,
10 being called as a witness and being duly sworn upon his
11 oath, testified as follows, to-wit:

12
13 DIRECT EXAMINATION

14 BY MR. KELLAHIN:

15 Q Would you please state your name and oc-
16 cupation.

17 A My name is James Hahnenberg and I'm a
18 geologist for Marathon.

19 Q Mr. Hahnenberg, would you spell your last
20 name, please?

21 A H-A-H-N-E-N-B-E-R-G.

22 Q Mr. Hahnenberg, would you describe for
23 the Examiner what has been your educational experience?

24 A I have a Bachelor of Science degree from
25 Central Michigan University.

1 I have a Master of Science degree from
2 Western Michigan University.

3 Q In what year, sir, did you obtain those
4 degrees?

5 A The Bachelor's was in 1975 and the Mas-
6 ter's degree in 1981.

7 Q Would you summarize for the Examiner what
8 has been your professional experience as a geologist?

9 A I began employment with Marathon Oil in
10 1980 and I've worked for them ever since.

11 Q Would you describe for the Examiner what
12 has been your involvement as a geologist with regards to the
13 prospect in Section 16?

14 A I was assigned to supervise the group
15 that works this area, including this particular prospect, as
16 of January this year.

17 Q In January of this year would describe
18 for us the status of the project that you took -- that you
19 undertook?

20 A We were working towards drilling location
21 -- drilling wells in Section 17, 16, and Section 23.

22 Q When we talk about the project, what is
23 the project area?

24 A It would be essentially the North Vacuum
25 Field area.

1 Q When you undertook the responsibility for
2 developing the geology for the project, what was the status
3 of the development of data that you then began to utilize?

4 A We had had geologists working in the area
5 for some time and we had made structure maps, Isopach maps,
6 and had cross sections, and had reviewed all the data, all
7 the general (unclear).

8 Q Did you personally review and authenti-
9 cate the geologic data and conclusions that were contained
10 in the information given to you when you undertook the
11 responsibility for this project?

12 A Yes, I have.

13 Q Subsequent to taking charge of the pros-
14 pect, what have you done?

15 A I've continued to review the activity,
16 including drilling of the well, and further revisions to the
17 work, to the geologic maps and interpretation in the area
18 based primarily on the well drilled in Section 17.

19 I've also evaluated the considerations
20 in the Section 16 well relative to the risk of that well,
21 relative to the best drill -- best drillsite location, and
22 the best drilling unit configuration.

23 Q You were asked with regards to the well
24 in Section 16 to examine and address issues of risk?

25 A Yes.

1 Q A risk factor penalty, I assume?

2 A Correct.

3 Q The issue of the orientation recommenda-
4 tion for the first well to be drilled in 16?

5 A Yes.

6 Q And a geologic opinion about the optimum
7 location of the well to be drilled.

8 A That's correct.

9 Q And have, based upon your study and in-
10 terpretations, have you reached such an opinion?

11 A Yes, I have.

12 Q Let me ask you, sir, have you reduced to
13 the form of a display or exhibit any of the work that you
14 have undertaken for this project?

15 A Yes. We have two maps. One is a struc-
16 ture map on the Basal Atoka pay sand and we also have a net
17 Isopach (not understood) of that same sand.

18 Q Let me ask you some preliminary questions
19 about Exhibit Six and then we'll go to Exhibit Seven and
20 then we'll call -- talk to you about your interpretation and
21 finally your conclusions as a geologist.

22 Let me start off, sir, and have you sim-
23 ply identify Exhibit Number Six for us.

24 A It's a structure map on the Basal Atoka
25 pay sand in the North Vacuum Field area.

1 Q Would you identify for us how you have
2 located the proposed spacing unit and well location in
3 Section 16?

4 A The spacing unit is a south half unit and
5 the proposed location is in the northeast quarter section,
6 or quarter quarter section of the southwest quarter section.

7 Q Would you help us identify so that we can
8 understand the information on the exhibit, the legend that's
9 indicated on the left margin?

10 A Yes. The map does incorporate all the
11 well control that penetrated this formation in this area.
12 These locations, wells locations are indicte by two symbols,
13 a gas symbol for productive wells and an X symbol for wells
14 that have penetrated but do not produce in this formation.

15 I've indicated a nonconformity or non-
16 depositional event by a wiggly line.

17 I've indicated where the wells are shaded
18 out by an S/O symbol.

19 Lowest known gas, an OKG symbol.

20 Yellow is Marathon acreage. The red area
21 represents the distribution of the gas production in this
22 sand, and the blue represents where this sand is wet.

23 And the drilling unit is indicated by the
24 green tape and the proposed location by the green dot.

25 Q In the far right corner there is a list

1 of various names. I assume that these are all geologists
2 that have participated in putting information on this
3 display and making the contour lines for the structure map.

4 A Two of the people are geologists and one
5 individual is a geophysicist.

6 Q Have you examined all the information and
7 conclusions they have reached in preparing this display?

8 A Yes, I have.

9 Q And are the informations and conclusions
10 and interpretations reached as depicted on this display
11 represent interpretations and opinions that you hold?

12 A Yes, they do.

13 Q Is the exhibit done in such a way that
14 the structure is identified on a readily identifiable marker
15 found in logs of the various wells shown on the exhibit?

16 A Yes, it is.

17 Q Is there anything unusual about the
18 methodology that you have used to interpret the structure
19 map?

20 A No, it's a very standard approach as far
21 as structural mapping.

22 Q Let's turn now, sir, to Exhibit Number
23 Seven and have you identify this exhibit.

24 A Pardon me?

25 Q Would you identify this exhibit?

1 A Oh, yes. It's a net pay sand of the same
2 sand that the structure map was made upon, which is the
3 Basal Atoka sand which is productive in this area.

4 Q And who is Mr. Carlson?

5 A He's a geologist.

6 Q And have you supervised and prepared and
7 agreed with the contouring of the net sands in the Atoka pay
8 as depicted on this exhibit?

9 A Yes, I have.

10 Q What conclusions and interpretations do
11 you make about the Atoka sand insofar as it underlies Sec-
12 tion 16 when you integrate the Atoka Isopach with the struc-
13 ture map?

14 A The trend of the sand is east/west,
15 roughly east/west, through Section 16. The basis for this
16 interpretation is that from the evidence we have reviewed,
17 this indicates -- we believe it indicates that the distribu-
18 tion of this sand does relate to the structure map; that is,
19 we believe the structure as mapped in this area represents
20 the topography that existed during the deposition of this
21 sand; therefor the sand would tend to accumulate on the
22 flank of the structure rather than on the crest of the
23 structure, and the sand would tend to parallel the structur-
24 al strike.

25 Q Mr. Carroll in a question to Mr. Benefiel

1 directed his attention to the Humble well in 22. I believe
2 it was identified as the Trainer-McIlvain well. Are you
3 familiar with that?

4 A Yes, I am.

5 Q What is the basis for your geologic opin-
6 ion that there is a break or a discontinuity in the sand be-
7 tween Section 22 and the sand as you have interpreted it for
8 Section 16?

9 A This is based primarily on pressure data
10 which would imply a -- some type of permeability barrier be-
11 tween Section 22 and Section 17. The basis for this is that
12 when the McIlvain well was completed last year, it had vir-
13 tually a virgin pressure in the reservoir.

14 To the northwest in -- where Marathon op-
15 erates Section 7, the pressure is considerably depleted and
16 when we drilled Section 17, the Section 17 well, we saw es-
17 sentially the same pressure that we're seeing depleted, that
18 is, up to the northwest.

19 Therefore we believe that the well in
20 Section 22 seeing this virgin pressure will indicate it
21 would be a different and distinct reservoir from the reser-
22 voir to the northwest.

23 Q I'd like you to begin back earlier and
24 talk about the geologic hypothesis that was developed orig-
25 inally prior to the drilling of the well in 17 and how that

1 has evolved with the subsequent drilling.

2 A Prior to drilling the well in Section 17
3 we did predict continuation of sands into Section 17, but
4 not having control to the southeast of the productive wells,
5 there is considerable risk and the risk extending into Sec-
6 tion 16 would be even greater.

7 Subsequent to drilling Section 17, our
8 interpretation was confirmed in the trend of the sands and
9 we did see pay sand in Section 17 similar to what we predic-
10 ted.

11 Q What, if any, involvement did you have as
12 a geologist in the work done for the well in Section 17?

13 A I reviewed and supervised the mapping
14 prior to drilling that well and I also kept close supervi-
15 sion on the results of that well and what was happening
16 while it was drilling.

17 Q Did you provide any geological input or
18 opinions with regards to the location of the well in 17?

19 A Yes, I did.

20 Q When we direct our attention to the geol-
21 ogy for 16, you said you were asked to address three issues,
22 one of which was the risk involved, the geologic risk invol-
23 ved, in terms of the risk factor penalty that the Examiner
24 has authority to assess against any nonconsenting working
25 interest owners. Have you reached such an opinion?

1 A Yes, I have.

2 Q And what is that opinion?

3 A I would recommend the maximum penalty al-
4 lowed based on the considerable geologic risk for this well.

5 Q Does it reduce in your mind as a geolo-
6 gist the risk factor penalty if the orientation of the spac-
7 ing unit is other than you have proposed?

8 A The reduction in risk would be relatively
9 insignificant.

10 Q In terms of the risk factor penalty?

11 A That's correct.

12 Q So regardless of how we orient the spac-
13 ing for Section 16, it is going to be a geologic risk that
14 exceeds the 200 percent penalty.

15 A That's correct.

16 Q All right. You were asked to make an as-
17 sessment as a geologist as to what your recommendation is as
18 to an orientation of the first spacing unit for this sec-
19 tion. Have you reached such an opinion?

20 A Yes.

21 Q And what is that opinion?

22 A My recommendation is a south half pattern
23 in this area and the reasons for this are this: The sand
24 does trend east/west through the section and this trend of
25 the unit will best fit the trend of the sand. This would

1 result in including only the best acreage in the unit and
2 also what it would do is it would provide wells of equal
3 risk in both drilling units; that is, both the north half
4 and the south half units.

5 The alternative to a north half - south
6 half pattern, a west half - east half pattern, would be per-
7 pendicular to the sand trend through here and it would pos-
8 sibly include poorer acreage equal with the best acreage in
9 the tract, and also this would result in two wells of un-
10 equal risk in each of those units.

11 Q When we look at Section 16 and simply di-
12 vide it into its four quarter sections, do you have a geolo-
13 gic opinion as to which of the four quarter sections has the
14 worst potential?

15 A The northeast quarter of Section 16.

16 Q When you look at the remaining quarter
17 sections, what in your opinion is an orientation that allows
18 both half sections to more equitably share the potential re-
19 servoir as depicted on your net pay sand map?

20 A It would be a north half - south half
21 pattern.

22 Q Let's talk about the risk management. If
23 the Division approves a south half orientation and confirms
24 the proposed location as you have suggested, where, in your
25 opinion, would the well for the north half be located?

1 A The best location in that instance would
2 be in the southeast of the northwest quarter section.

3 Q Do you have a geologic opinion as to
4 which orientation will allow the working interest owners to
5 fully develop the section with two wells?

6 A It would be a north half - south half
7 pattern.

8 Q If it is a west half - east half pattern,
9 do you have a geologic opinion as to whether or not that
10 would be an appropriate, equitable allocation of the reser-
11 voir?

12 A I don't believe it would be.

13 Q And why not, sir?

14 A Because it would tend to include equally
15 in any one drilling unit, would include poorer acreage along
16 with the best acreage in the block.

17 Q Let me spend some time with you on your
18 structure map.

19 You've told us you've integrated your
20 structural interpretations with the Isopach but let's focus
21 specifically on the structure and have you identify for us
22 your structural interpretation and how that affects the risk
23 management of well locations in the Atoka.

24 A Using the model I described earlier that
25 the structure as we've mapped it influences the deposition

1 of the sands, we believe we have a better control on the
2 mapping of the structure than we would just solely mapping
3 the sands.

4 We have through Section 16 east-west
5 trending strike here, structural strike, and we can -- we
6 have more evidence to support the structural interpretation.
7 One line of evidence in the section we have is a a view of
8 the seismic here, which does skirt the eastern edge of Sec-
9 tion 16 and it does show north-dipping beds.

10 Q When you look at Section 16 and look at
11 the structure, if they are standup units with west half -
12 east half, then that orientation would be against the -- or
13 perpendicular to the line of the structure as you see it.

14 A That's right, it would be against the
15 structural grain.

16 Q Okay. When we look at the orientation of
17 the spacing units in 17, how were those spacing units orien-
18 ted?

19 A It was a north half, north half unit, and
20 this -- the Section 22 well is also in a north half unit.

21 Q Have other spacing units in the develop-
22 ment of the Atoka sand been consistently applied with the
23 grain of the structure as opposed to against or perpendicu-
24 lar to the structure?

25 A In general I'd say they've been consis-

1 tent with the grain of the structure.

2 Q Do you have a geologic opinion as to
3 whether or not the south half of Section 16 represents an
4 orientation that best includes the most productive acres in
5 the section?

6 A Yes, I do have.

7 Q And what is that opinion?

8 A I would say it would include the most --
9 most of the best productive individual acreage.

10 MR. KELLAHIN: That concludes
11 my examination of this witness.

12 We move the introduction of Ex-
13 hibits Six and Seven.

14 MR. CATANACH: Exhibits Six and
15 Seven will be admitted into evidence.

16 Mr. Carroll?

17 MR. CARROLL: Mr. Examiner, if
18 I might, I would propose to let Mr. Hall go first just to
19 help shorten -- he has been more responsible for geologic
20 preparation of the opposition. That way we won't ask -- if
21 I have a few questions, then I can ask him those.

22 MR. CATANACH: That would be
23 fine. Mr. Hall?

24

25

CROSS EXAMINATION

1
2 BY MR. HALL:

3 Q Mr. Hahnenberg, you testified that when
4 you were asked to evaluate this prospect one of the aspects
5 you were asked to look at was the best unit configuration.

6 Taking that aspect, wasn't the primary
7 element to that consideration Marathon's acreage position?

8 A No, it wasn't.

9 Q Then why did you show your acreage posi-
10 tion on the exhibits if it doesn't matter?

11 A For information for this hearing.

12 Q Let's look at your Isopach map. Do you
13 have an opinion as to the thickness of the sand at a loca-
14 tion 660 feet from the west line as opposed to 1980 from the
15 west line?

16 A It would be -- from the west line? How
17 far from the south line? I mean --

18 Q The same distance.

19 A It would be essentially the same.

20 Q Aren't you closer to your 50-foot inter-
21 val the closer you are to the western boundary?

22 A Only very slightly.

23 Q How much less slightly?

24 A Couple hundred feet.

25 Q How much closer to the well in Section 17

1 firmation well or your control well, the more interpretive
2 your geology becomes.

3 A That's correct.

4 Q And your risk increases.

5 A That's right.

6 Q In your opinion has the well in Section
7 17 been draining the west half of Section 16?

8 A I would say no.

9 Q What's the basis of that opinion?

10 A Well, it's really an engineering ques-
11 tion.

12 Q Okay, do you have an opinion?

13 A I would -- my opinion is that it would
14 not be draining it.

15 Q Okay, and why don't you think so?

16 A Just based on the drainage radius with
17 respect to this area, having talked with the engineers and
18 they feel, they believe would be the drainage area.

19 Q You offered some testimony on the initial
20 shut-in pressures for some of the offsets and I thought that
21 was the basis for your interpretation that there was a dis-
22 continuity between the structures dedicated to the well in
23 Section 22 and then to your Section 16.

24 A That's correct.

25 Q Does that have any bearing on your opin-

1 ion that there is no drainage from the Section 17 well?

2 A Not necessarily. You could have pressure
3 reduction and not necessarily drainage of that area.

4 Q Did you look at the initial shut-in pres-
5 sures for the wells to the north and the west of the Section
6 17 well?

7 A I'm familiar generally with what they
8 were. The virgin pressures were around 5000 pounds and the
9 pressures currently are around 2600 pounds.

10 Q All right, and what was the initial pres-
11 sure on the 17 well?

12 A Very close to the same, 2600 pounds.
13 It's very similar -- very close to the same as the wells up
14 in Section 7.

15 Q Earlier you testified that you thought
16 two laydown units in Section 16 would go a long way towards
17 equal sharing of risk in your risk management program, I
18 think you called it.

19 A That's correct. That's right.

20 Q Explain to me what you mean by equal
21 sharing of risks and how you have a duty to the interest
22 owners in the north half of share risk equally with them.

23 A I would say it's the fairest way to do it
24 because based on information we have right now, a well in
25 the east half of Section 16, we'd have to say it would be

1 riskier than it would be anywhere in the west half of Sec-
2 tion 16, because, as you mentioned, the points you men-
3 tioned, that it would -- any well in the west half of Sec-
4 tion 16 would be closer to Section 17, Section 17 productive
5 well.

6 Therefore, two laydown units would pro-
7 vide wells to both drilling units that would be as close as
8 possible in equal distance to the productive well in Section
9 17; therefore I feel that it would be fairest to all the
10 working interest owners to have wells of equal risk, equal
11 drilling risk.

12 Q Marathon has no ownership interest in the
13 north half of 16, does it?

14 A That's correct.

15 Q There's no other contract with any other
16 operators in that section, there is nothing --

17 A No.

18 Q -- that would give rise to the duty to
19 share risk with them, is there?

20 A No.

21 Q In your opinion would a well in the
22 northeast of the southwest interfere at all with the produc-
23 tion from a well in the southeast of the northwest?

24 A It's possible. Again I'm not an en-
25 gineer, so it's really more of an engineering type question.

1 It's --

2 Q You said there were more equal risks
3 lying across that line if you had two laydown units.

4 A Correct.

5 Q When you first -- were you involved with
6 the prospect in Section 17 at all?

7 A Yes, I was.

8 Q Didn't you first propose two standup
9 units for that section?

10 A No.

11 Q Did anyone in Marathon to your knowledge?

12 A Not that I'm aware of.

13 Q Okay. Nothing further.

14 MR. CATANACH: Mr. Carroll?

15

16 CROSS EXAMINATION

17 BY MR. CARROLL:

18 Q I don't know if I've gotten your name
19 straight, Hahnenberg?

20 A Correct.

21 Q Excuse me, I'm sorry, I didn't write it
22 down very clearly.

23 Mr. Hahnenberg, in looking at Exhibit
24 Six, your structure map, you show the basic structure of
25 the, I guess that's the Morrow, is it not, underneath? Or

1 is it --

2 A Well, it's the, what we call the Basal
3 Atoka, which is, some people call the Atoka Morrow sand,
4 which is the pay sand in this area.

5 Q All right, now --

6 A It's in the Atoka section.

7 Q Okay. Now your structure map does not
8 show or provide any reason for an impermeable barrier giving
9 rise between these two orange bubbles, so to speak, that
10 you've got on your map, do they?

11 A That's correct. The rationale for that
12 permeability barrier is not based on the structure but based
13 on the stratigraphy.

14 Q All right. Now, you have, I believe, in
15 your testimony, I believe that you've stated that you feel
16 that the well in Section 17 has been drained by the wells
17 that you show, I guess, up in Section 7, 12, and 18, is that
18 not true?

19 A No, I said that the pressure was depleted
20 in this area.

21 Q All right, how -- do you have an opinion
22 as to how the pressure was depleted in this area?

23 A Because of withdrawal throughout the
24 reservoir. You have less gas and less gas to push the rest
25 of the gas out overall in the reservoir.

1 Q All right, so that in effect these other
2 gas wells that are in the Atoka formation are draining Sec-
3 tion 17, is that correct?

4 A I would say that's hypothetical.

5 Q Hypothetical, but some how the gas pres-
6 sure got -- is lower, is that true?

7 A Some, that's right.

8 Q Now, the gas pressure that -- have you
9 done an examination of what the virgin pressure was in these
10 other wells up in these other sections?

11 A As far as the information that we have,
12 yes, and the information we have is mostly in our wells,
13 well actually, and some of the reported pressures in some of
14 the other wells.

15 Q All right, and isn't it true that that
16 virgin pressure is very comparable to the Humble well down
17 in Section 22?

18 A That's right.

19 Q That's correct, isn't it?

20 A Uh-huh.

21 Q Have you done any analysis of the gas to
22 determine whether or not that they're from different pools
23 as opposed to the gas in 22 as opposed to the gas up in
24 Section 17?

25 A No, I have not.

1 Q And in fact, other than your statement
2 that there was a difference in gas pressures, you have no
3 other real basis for drawing this impermeable barrier be-
4 tween Section 16 and Section 22.

5 A That's correct.

6 Q Now, if a geologist was looking at this
7 and determined that there was no impermeable barrier and, in
8 fact, included that Humble well within this channel sand,
9 this is a channel sand we're talking about, kind of like a
10 river channel, is it not, or similar to it?

11 A I would disagree. I would say it's prob-
12 ably -- it's more likely to be a marine bar, shallow marine
13 bar.

14 Q All right.

15 A And we really don't see erosion, the type
16 of erosion you would expect from a channel sand in this
17 area.

18 Q Whether you have a channel sand or a bar
19 sand, you're talking about one contiguous sand which
20 produces gas generally.

21 A Well, this is probably -- we have it
22 mapped as a single sand; however, you do see on some of the
23 electric logs indications that this action may represent
24 more than one bar, even where we haven't mapped; therefore,
25 the distribution of any one genetic unit, particularly any

1
2 one marine bar, would actually be smaller than we've shown
3 on here; however, we've chosen to combine these because it's
4 impossible to separate them out geologically.

5 What that would indicate, then, is that
6 you could have a series of marine bar build-ups as we've
7 shown here, and you it's very possible you could have an-
8 other marine bar developing in the southeast which would in-
9 clude the Humble well, or the McIlvain well, as it's called,
10 in Section 22.

11 Q Now, you made a statement in the early
12 part of your testimony that you have included in this south
13 half unit of Section 16, what you consider to be the best
14 acreaged in Section --

15 A That's correct.

16 Q -- 16, is that correct?

17 A That's correct.

18 Q Well, if you've included the best acreage
19 out of the section, how can the south half be equal to the
20 north half?

21 A It's not. It's not going to be because
22 the northeast quarter is a quarter has -- has poor reservoir
23 quality rock.

24 But what we have done is we've included
25 acreage of nearly equal value throughout the unit. If you
had a standup, two standup units, you would be -- the work-

1 ing interest owners that had the better acreage would be
2 forced to carry the working interest owners that had the
3 poor acreage, and we view that as -- as inequitable and un-
4 fair.

5 Q I see. So what you're telling me is that
6 because Marathon owns acreage in the east half and none in
7 the west half, that if you divided that acreage up east-
8 west, that if you weighed out the best acreage on some sort
9 of valuation, that Marathon would end up being in the prora-
10 tion unit that would have the poorest amount of productive
11 acreage.

12 A It would force us to carry the poorer ac-
13 reage. Our unit actually has the best potential.

14 Q Mr. Hahnenberg, you show a dry hole in
15 Section 23 on your maps, do you not?

16 A Yes.

17 Q That is the ARCO well.

18 A Well, it's marked as a penetration, not
19 necessarily a dry hole. ARCO is still working to complete
20 that well.

21 Q Marathon was a working interest owner in
22 that well, was it not?

23 A That's correct.

24 Q And in fact that particular proration
25 unit is a standup, is it not?

1 A Yes, it is.

2 Q And that particular standup unit goes
3 against the grain of the structure, does it not?

4 A Really it's the edge of the map and the
5 structural grain is subject -- is fairly interpretive.
6 There really, the control in that area is very limited, so
7 it's quite hypothetical in that area.

8 Q And at least at the time that well was
9 drilled, which it was projected to drill the Atoka gas sand,
10 was it not?

11 A Yes, it was.

12 Q The thinking then was drill a well at a
13 location that would get closest to a good producing well,
14 was it not?

15 A Yes.

16 MR. CARROLL: That's all I
17 have, Mr. Catanach.

18 MR. CATANACH: Anything further
19 of this witness?

20 MR. HALL: Follow-up.

21

22 RE-CROSS EXAMINATION

23 BY MR. HALL:

24 Q Mr. Hahnenberg, looking back at your
25 Exhibit Seven, would you believe me if I told you that a well

1 location 660 feet from the west line of Section 16 would be
2 about 1320 closer to the line than the line you proposed?

3 A I'll --

4 Q Can you accept that?

5 A I'll accept your word.

6 Q Now, considering that distance, let's
7 look at some of the other completions on your maps, comple-
8 tions in the Atoka shown to be productive in the Atoka.

9 Aren't there wells within 320 -- 1320
10 feet of those completions that are in fact dry holes? For
11 instance the ARCO well we talked about?

12 A Yes.

13 Q And aren't there other wells, say, up in
14 Section 6?

15 A No, that looks -- that looks to be fur-
16 ther away to me.

17 I might add, the well in Section 23, if
18 you notice, the only established production near that was
19 only one well. The location we're stepping out is a larger
20 developed area, so the continuity of the sand we know has,
21 where it's been developed, large distribution. The sand at
22 the -- excuse me, the well to the southeast is only one con-
23 trol point for that particular sand, so we have much less
24 knowledge about its distribution which did increase the risk
25 in that well in Section 23.

1 Q Again the risk is such as was present
2 when the Mobil well in Section 12 was drilled, considering
3 its proximity to the Shell well in Section 1.

4 A Pardon? Will you rephrase the question?
5 Will you repeat the question?

6 Q Wasn't that risk also present when the
7 Mobil well in Section 12 was drilled, considering its
8 proximity to the well in Section 1?

9 A Yes.

10 Q And likewise the well in Section 7.

11 A To a lesser degree.

12 Q To a lesser degree --

13 A Well, I'm saying -- the two wells in Sec-
14 tion 7?

15 Q Either one.

16 A I'm not following the question.

17 Q The dry hole in Section 12 is not much
18 further from the producing well in Section 7 than it is the
19 well in Section 11.

20 A That looks to be correct.

21 Q Yeah, just by eyeballing it, it seems to
22 be within 1320 feet, does it not?

23 A (Not clearly understood.)

24 Q The point is that still geologically it's
25 more prudent to locate as closely as you can to a proven

1 producer.

2 A Yes, it is.

3 Q All right.

4 MR. HALL: Nothing further.

5 MR. CATANACH: Any more ques-
6 tions of the witness?

7 MR. KELLAHIN: Yeah, boy, I've
8 got to have them here, I think, you know.

9

10 REDIRECT EXAMINATION

11 BY MR. KELLAHIN:

12 Q Is the sole substance of what you do as a
13 geologist to get to the closest next location to a well that
14 you pick?

15 A No. There are many --

16 Q Is that what you're telling me?

17 A There are many other considerations.

18 Q All right. Mr. Hall has asked you to
19 place -- play closeology with him. Is that the simplistic
20 function that you get paid money to perform?

21 A No, it's much more involved than that.
22 Anybody could take a ruler and measure the distance from
23 wells.

24 Q And in fact closeology doesn't always
25 work very well, does it?

1 A That's right.

2 Q And you want to show us an example of
3 that in Section 23 and 22?

4 A Yes, the Humble well and the ARCO well.

5 Q All right. As a geologist, then, how do
6 you integrate the human desire to crowd up against a good
7 well with the functions that you went to school to perform?

8 A Well, we look at all the data we have and
9 we come up with our best interpretation and try and pick
10 what we believe, based on that information, to be the best
11 possible drilling site.

12 Q And have you applied that in picking this
13 location in Section 16?

14 A Yes, we have. We considered many, many
15 types of data, electric log data, seismic data. We even
16 have dipmeter data in Section 17 well, which supports our
17 idea that the sand is trending to the east and southeast,
18 and integrating all this, this is, we believe, the best in-
19 terpretation you could come up with.

20 MR. KELLAHIN: Nothing further.

21 MR. CATANACH: The witness may
22 be excused.

23 Let's take a 10 or 15 minute
24 break.

25

1

2

(Thereupon a recess was taken.)

3

4

MR. TAYLOR: We're back in

5

order, back in session.

6

MR. KELLAHIN: All right.

7

8

STEVE DANIELS,

9

being called as a witness and being duly sworn upon his

10

oath, testified as follows, to-wit:

11

12

DIRECT EXAMINATION

13

BY MR. KELLAHIN:

14

Q

Mr. Daniels, for the record would you

15

please state your name and occupation?

16

A

Steve Daniels, landman with Marathon Oil

17

Company.

18

Q

Mr. Daniels, have you previously testi-

19

fied as a landman for Marathon Oil Company before the Oil

20

Conservation Division?

21

A

Yes, sir, I have.

22

Q

And were you responsible as Marathon's

23

landman for an attempt to obtain voluntary participation for

24

the well to be drilled in Section 16 that Marathon proposed?

25

A

Yes, sir.

1 MR. KELLAHIN: We tender Mr.
2 Daniels as an expert petroleum landman.

3 MR. CATANACH: He is so quali-
4 fied.

5 Q Let me separate these out into the ef-
6 forts you have made to each of the working interest owners
7 in the south half of 16 and let me have you start, Mr. Dan-
8 iels, with whether or not you have made efforts to have
9 Shell Western E & P, Inc., participate with their acreage in
10 the south half?

11 A Yes, sir, I have. On the --

12 Q If you tabulated as an exhibit, which
13 we've marked as Exhibit Number Eight, copies of correspon-
14 dence and telephone notes that you've had with representa-
15 tives or personnel of Shell Western?

16 A Yes, sir.

17 Q Did you compile from your files the in-
18 formation that is put together as a single exhibit of sev-
19 eral pages and marked as Exhibit Number Eight?

20 A Yes, sir, I did.

21 Q Let me have you summarize for us what has
22 been your effort to obtain voluntary joinder by Shell?

23 A Okay. By letter dated June 17th, 1987,
24 we requested a farmout from Shell covering their interest in
25 the southwest quarter southeast quarter of Section 16. We

1 had proposed to drill a 12,500 foot Atoka Morrow test at a
2 legal location in Section 16.

3 Farmout terms were that Texaco would de-
4 liver a 70 -- I mean, excuse me, Shell would deliver a 75
5 percent net revenue interest lease and retain an override
6 equal the difference between existing burdens and 25 per-
7 cent.

8 In addition, at payout of the well they
9 would have the opportunity to convert that override to 25
10 percent working interest at payout.

11 What, if any, response did you get on
12 that inquiry from Shell?

13 A On June the 7th, I mean, excuse, me, July
14 7th, 1987, I had a call, which on the second page of Exhibit
15 Eight, the second reference, I had a call from John Goforth
16 with Shell and he requested that Marathon furnish him an
17 AFE.

18 Q And did you do that?

19 A No, sir, I didn't.

20 Q Okay.

21 A I advised him that we were seeking farm-
22 out and not participation from Shell.

23 By letter dated July 24th, 1987, Marathon
24 received a letter from Shell advising that they were not in-
25 terested in farming out their acreage in the southwest quar-

1 ter southeast quarter of Section 16.

2 Q In response to Mr. Goforth's letter of
3 July 24th, what then did you do, Mr. Daniels?

4 A Upon further evaluation of this prospect,
5 Marathon by letter dated August 12th, 1987, requested that
6 Shell either participate in the well or to farmout their ac-
7 reage to Marathon.

8 Marathon had proposed to drill a 12,500
9 foot Atoka Morrow test, to be located 1980 feet from the
10 south line and 1980 feet from the west line of Section 16.

11 Q And at that time, then, you provided
12 Shell with the requested AFE?

13 A That is correct.

14 Q All right, and what, if any, response did
15 you get from Shell for your efforts to seek participation in
16 the drilling of the well?

17 A By letter dated August 19th, 1987, they
18 advised they would not be interested in participating or
19 farming out their interest at this time. Therefor, a no
20 thanks letter.

21 Q Did you receive any inquiries or corres-
22 pondence from Shell seeking any other information from you
23 other than the AFE which you submitted to them?

24 A No, sir.

25 Q Did they ask you for proposed operating

1 agreements?

2 A No, sir.

3 Q Did they ask you for geologic informa-
4 tion?

5 A No, sir.

6 Q Did they ask you to supply any type of en-
7 gineering data?

8 A No, sir.

9 Q As a result of having received the refus-
10 al from Shell to either farmout or participate, then what
11 did you do?

12 A I, what I did, I circulated Shell's let-
13 ter to our management and they reviewed it and advised that
14 we should proceed with forced pooling proceedings for a
15 south half location in Section 16.

16 Q Having realized the necessity now to
17 force pool Shell's acreage, did you instigate or continue
18 with efforts to get any of the other working interest owners
19 to participate, farmout, or work some arrangement with you
20 on the drilling of the well?

21 A Yes, sir, we continued to negotiate.

22 Q All right, let's talk about the efforts
23 that were made with regards to Texaco.

24 The Texaco acreage is the 40-acre tract
25 in the northeast of the southwest quarter?

1 A Yes, sir, that's correct.

2 Q And it says FPP, held -- does that mean
3 held by production?

4 A It should be FPP, held by production.

5 Q All right. Let me turn to the package of
6 exhibits marked as Exhibit Number Nine. Does this represent
7 correspondence, notes of telephone conversations, that you
8 had from and to representatives of Texaco?

9 A Yes, sir, it does.

10 Q And was the subject an initiation on your
11 part to get voluntary participation or farmouts for the well
12 in the south half of the section?

13 A Yes, sir, it was.

14 Q Describe for us what you did.

15 A As we did with Shell, by letter dated
16 June 17th, 1987, we requested a farmout of their interest in
17 the northeast southwest quarter of Section 16.

18 These proposed farmout terms were the
19 same which were offered in the Shell letter.

20 Q All right, what, if any, response did you
21 get from Texaco to your June 17th letter?

22 A By letter dated July 14th, 1987, Texaco
23 advised that they were not interested in farming out their
24 acreage at this time.

25 Q Up to this time did Texaco request fur-

1 ther time to evaluate the proposal?

2 A No, sir, they did not.

3 Q Did they request information or other da-
4 ta from you?

5 A No, sir, they did not.

6 Q Okay. What then did you do after receiv-
7 ing the July 14th letter from Texaco?

8 A On August 12th, 1987, we forwarded a let-
9 ter to Texaco requesting that they either participate or
10 farmout their interest to Marathon for the drilling of our
11 proposed well in the -- 1980 from the south line and 1980
12 from the west line, Section 16.

13 Q Did you receive any correspondence from
14 Texaco in response to your August 12th letter?

15 A No, sir, I did not.

16 Q Did you follow up your correspondence
17 with Texaco with telephone calls to any of the Texaco per-
18 sonnel?

19 A Yes, sir, I did.

20 Q And what did you do?

21 A Well, on September 2nd, 1987, as is on
22 Exhibit page, let me see what page that is, six, I advised
23 Texaco that Marathon was proceeding with forced pooling pro-
24 ceedings in the south half of 16 and that the date of the
25 hearing would be September 23rd.

1 feel for some of the basic efforts that were made. Let's
2 have you identify what was your initial contact with Mr.
3 Trainer in order to solicit his participation or farmout
4 with regards to Marathon's well?

5 A On June 17th, 1987, we requested that Mr.
6 Trainer farmout his interest in Section 16 to Marathon for
7 the drilling of a 12,500 foot Atoka Morrow test. These were
8 the same terms which we had previously requested of Texaco
9 and Shell.

10 Q All right, after sending the June 17th
11 letter to Mr. Trainer, what was the next contact you had
12 with Mr. Trainer?

13 A On page three of Exhibit Number Ten
14 there's a telephone conversation on June 26th, 1987, in
15 which I talked to Mr. Trainer and he advised that he would
16 wait until he sees the results of the -- of our North Vacuum
17 State 17 Com No. 2 Well before making a decision to farmout.

18 Q What was the next contact and correspon-
19 dence with him?

20 A Okay, if you would, skip a page to
21 there's an August 12th, 1987, letter in which we proposed or
22 requested Mr. Trainer either to participate in our proposed
23 test or farmout his interest in the south half of Section 16
24 to the proposed test.

25 Q All right, what then is the next contact

1 or correspondence with Mr. Trainer?

2 A On September the 2nd, 1987, if you'll go
3 back to page three of Exhibit Ten, there's a telephone con-
4 versation where I advised Mr. Trainer that Marathon had pro-
5 ceeded with forced pooling proceedings for the south half of
6 Section 16 and advised him that the hearing would be held on
7 September 23rd, 1987.

8 Q When did Mr. Trainer ultimately advise
9 you that he was not going to participate with Marathon or
10 farmout his acreage to Marathon?

11 A In a telephone conversation on September
12 16th, 1987, I talked to Mr. Trainer and he advised that -- I
13 just asked him basically the status, you know, of our re-
14 quest, and he said, well, we didn't hear from you a year ago
15 so I really haven't paid that much attention to your August
16 12th letter, and we basically also discussed that he wanted
17 to operate a well in the south half of Section 16 with he
18 having a 50 percent interest and Marathon, of course, having
19 25 percent working interest.

20 He advised that he would be at the attor-
21 ney -- at the September 23rd hearing and his attorney would
22 be either Mr. A. J. Losee or Mr. Ernest Carroll, and also he
23 said that he, you know, as far as not having a response, is
24 that we didn't -- Marathon didn't break our back to answer
25 his proposal a year ago and therefore that he didn't see why

1 he should break his neck to answer ours.

2 Q During any of these conversations with
3 Mr. Trainer did he either in writing or in communications to
4 you say that he could not make up his mind about participa-
5 tion in the well in Section 16 after you had completed the
6 well in 17?

7 A I --

8 Q Let me start over. Look at the entry on
9 June 26. Mr. Trainer says he's awaiting the results of the
10 drilling of the Marathon well in 17. All right?

11 A Okay.

12 Q From then until September 16th did Mr.
13 Trainer request of you any information from Marathon about
14 the prospect?

15 A I talked with him one time and in our
16 conversation I advised him, if you would like to see, you
17 know, if you'd like to ask any questions of our geologist
18 concerning our proposed well, that, you know, that I could
19 give him our geologist's name, and he requested, well, will
20 they show me the information from the State 17 Com No. 2,
21 and I advised him that I was not sure.

22 Q Did Mr. Trainer advise you that he needed
23 more time to make a decision about your proposal in the
24 south half of 16?

25 A No, sir.

1 Q Did he specifically request from you any
2 engineering data with regards to that well in 17?

3 A No, sir.

4 Q Were -- were you involved as the Marathon
5 landman when Mr. Trainer was proposing his well in the south
6 half of 16 in 1986?

7 A Yes, sir, I was.

8 Q Approximately when did Mr. Trainer advise
9 you that he wanted Marathon's participation and had at that
10 point obtained the cooperation of both Texaco and Shell?

11 A On June 23rd, 1986.

12 Q After that date did Mr. Trainer contact
13 you and ask you when Marathon was going to make a decision?

14 A I believe it was at that point, June
15 23rd, 1986.

16 Q After that point what was the next cor-
17 respondence you received from Mr. Trainer?

18 A Mr. Trainer had written a letter dated
19 August 20th, 1986, to Shell and Texaco and I believe we re-
20 ceived it on August 27th, 1986, stating that he would be un-
21 able to drill the well.

22 Q Did Mr. Trainer advise you of any reasons
23 why he was not able to drill the well?

24 A No, sir.

25 Q Did the letter to Shell and Texaco that

1 you saw identify or explain any reason why he wasn't going
2 to drill the well?

3 A No, sir.

4 Q Between June 23rd of '86 and August 20th,
5 '86 letter, did Mr. Trainer call you and ask you for a deci-
6 sion by Marathon?

7 A Not that I can remember (unclear).

8 Q Did Mr. Trainer ever advise you that he
9 had any time delays in Marathon making a decision during
10 that period of time?

11 A No, sir, he did not.

12 Q Did Mr. Trainer ever tell you that, I've
13 got everybody signed up, you got to hurry and do this or we
14 just can't do it at all?

15 A No, sir.

16 Q As far as you know, he just pulled the
17 plug and walked away.

18 A That is correct, sir.

19 MR. KELLAHIN: Mr. Examiner, I
20 have marked as Marathon Exhibit Eleven the affidavit showing
21 certification that we have mailed return receipt cards and
22 received them back from the three working interest owners,
23 showing that notice was sent more than 20 days prior to the
24 hearing date, and we would asked that that be introduced in-
25 to the record.

1 That concludes my examination
2 of Mr. Daniels.

3 We would move the introduction
4 of his Exhibits Eight, Nine, and Ten.

5 MR. CATANACH: Exhibits Eight,
6 Nine, and Ten, and Exhibit Number Eleven will be admitted
7 into evidence.

8

9

CROSS EXAMINATION

10 BY MR. HALL:

11 Q Mr. Daniels, let me just ask you a couple
12 of brief questions here.

13 Let's refer back to your Exhibit Number
14 Nine. That is the correspondence from Marathon to Texaco.

15 Page three of that exhibit is dated -- a
16 letter dated August 12, 1987. Isn't that the first time
17 that Marathon had offered Texaco an opportunity to partici-
18 pate in a well, anything other than a farmout?

19 A Yes, sir, that is correct.

20 Q Okay. Now let's look at the following
21 two pages. They are pages three and four of you four sheet
22 AFE, and I believe that's the same as your Exhibit Two, is
23 it not? If you want to look at Exhibit Two I can show you
24 mine real quick.

25 A Yes, sir, it is.

1 Q And on the face of Exhibit Two there is a
2 stamp and it indicates sent to working interest owners for
3 approval on August 13, 1987. I assume again that that is
4 the first time, although that does not necessarily square
5 with the August 12th date. Do you know when Texaco was
6 first sent the AFE?

7 A Mr. Hall, if you will notice -- no, I
8 don't.

9 Q You do not know? The 12th or 13th, one
10 of the two.

11 A Yes, sir.

12 Q Okay. Were you involved with the deci-
13 sion to seek a forced pooling application before the OCD in
14 this matter?

15 A Yes, sir, I was.

16 Q When was that decision made?

17 A It was made on August 31st, 1987.

18 Q What's the significance of that date?

19 A We had received a letter from Shell ad-
20 vising that they would not participate or farmout to Mara-
21 thon and this was their second turndown letter in a matter
22 of a couple of months. Let me look and see the exact date
23 on the -- actually Shell's letter is dated August 19th,
24 1987, and if you can read there at the bottom at the right-
25 hand corner, we received it on August 24th. Marathon re-

1 ceived it on August 24th, 1987.

2 So when we received Shell's letter, I
3 routed it through our management and they -- they advised to
4 proceed with forced pooling proceedings.

5 Q Now you said -- now you said August 31
6 was the date that the decision was made.

7 A Yes, sir.

8 Q And I assume you're familiar enough with
9 the OCD rules to know that notice to the affected interest
10 owners would have had to have gone out just immediately, is
11 that not correct?

12 A That is correct.

13 Q All right. All right. Prior to that are
14 you also familiar enough with the OCD rules to know that a
15 case has to be advertised and the time to call in for an
16 advertisement would have been several days if not weeks
17 prior to August 31st of 1987?

18 MR. KELLAHIN: I'm going to ob-
19 ject about this witness being asked those kinds of ques-
20 tions. I think they constitute questions for you to
21 resolve. I'm not going ot let him express an opinion about
22 whether or not he had complied or not complied with Division
23 rules and regulations.

24 He has simply told Mr. Hall
25 what he did and what he did not do. To ask this question

1 for the legal opinion as to whether that was proper or ade-
2 quate is beyond the scope of this witness' expertise.

3 Q Let me ask you another question. When
4 did you contact Mr. Kellahin and advise him to proceed with
5 the pooling?

6 A I -- I don't have that date. I would
7 think it would be August the 31st, 1987.

8 As soon as I -- as soon as I was told
9 something by our management I believe I acted on it promp-
10 tly.

11 Q Did you have communications with Mr. Kel-
12 lahin prior to that time?

13 MR. KELLAHIN: I would object.
14 That's an attorney/client privilege. That's gets us no-
15 where.

16 MR. HALL: It is not a privi-
17 lege. It's a question of fact. We're not inquiring as to
18 the attorney's state of mind, his impressions, or legal
19 opinions. It's strictly factual. We think it's a primary
20 issue in this case that Marathon did not make a bona fide
21 effort to secure voluntary joinder. That question is
22 directly probative of that issue and I'm entitled to know.

23 MR. KELLAHIN: That issue is
24 not relevant in this case, Mr. Catanach. There is not a
25 party here that has asked for more time in this proceeding.

1 Everyone has turned down Marathon. That is not an issue in
2 this case.

3 MR. HALL: Well, the fact is
4 they didn't offer participation until August 12th, and we
5 suspect simply because of the advertisement requirements of
6 the OCD they didn't really mean it.

7 MR. KELLAHIN: Mr. Hall can
8 speculate and guess on what he suspects and it's still not
9 relevant, Mr. Examiner.

10 MR. HALL: But true.

11 MR. CATANACH: I'll have to
12 agree with Mr. Kellahin on these subjects.

13 MR. HALL: So the ruling is?

14 MR. TAYLOR: The objection is
15 sustained.

16 MR. HALL: In that case, we'd
17 ask the examiner to take administrative notice of when Mr.
18 Kellahin called the OCD or directed correspondence their way
19 requesting that this matter be advertised. I'm sure the
20 record will show that it was sometime prior to Marathon's
21 offer to allow Texaco to participate in the well.

22 I have nothing further. Thank
23 you.

24 MR. KELLAHIN: The record will
25 reflect, Mr. Examiner, the case file shows it was filed on

1 September 1st, after efforts were made to obtain voluntary
2 joinder.

3 MR. HALL: Just so counsel
4 understands we're not speaking of the application. I'm
5 speaking of the request for advertisement.

6 MR. KELLAHIN: Now I'm not
7 going to leave that confused.

8 He's not going to sit here and
9 get you that confused.

10 There was no oral request for
11 any kind of advertising. The first contact with this
12 Division is the written request and application. I don't
13 know how he practices his cases but I don't call them in. I
14 hand carry them over here and they're date stamped and
15 whatever the date stamp is, I suspect it's September 1st.

16 MR. CATANACH: That is correct.

17 MR. KELLAHIN: That's my first
18 contact with you on this subject.

19 MR. HALL: Has Mr. Kellahin
20 been sworn?

21 MR. CATANACH: Mr. Carroll, do
22 you have any questions of the witness?

23 MR. CARROLL: Yes, just one, I
24 think.

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CROSS EXAMINATION

BY MR. CARROLL:

Q Mr. Daniels, in looking at your exhibit marked Number Nine, on the very last page you have some pencilled notes of a conversation held on Monday of this week, is that true.

A Yes, sir, that's correct.

Q And the last entry is Curtis advised that Texaco was going to back C. W. Trainer for the formation of a west half of Section 22. Is that correct?

A Yes, sir, that is correct.

Q So in fact Texaco has indicated to Marathon that they wanted a west half or a standup proration unit in Section 16.

A That is correct.

MR. CARROLL: That's all I have.

CROSS EXAMINATION

BY MR. CATANACH:

Q Mr. Daniels, I'm a little curious on one point.

On your Exhibit Number Ten --

A Yes, sir.

1 Q -- the June 17th entry, Marathon request-
2 ted a farmout of C. W. Trainer's interest in all of Section
3 16. That includes the northeast quarter. You stated that
4 Marathon believes the northeast quarter isn't productive or
5 is the poorest acreage in the unit. Why were you willing to
6 farm that out, or to obtain that acreage?

7 A That's what our geological recommendation
8 was, to -- to get that. I, as far as to try to get a farm-
9 in of that. As far as the reason, that's basically all --
10 what I've got. That's what my management wanted us to do.

11 MR. CATANACH: That's all I
12 have.

13 The witness may be excused.

14 MR. KELLAHIN: That's all I
15 have.

16 MR. CATANACH: That's all you
17 have.

18 Mr. Carroll?

19 MR. CARROLL: Right, Mr.
20 Examiner, we'd call C. W. Trainer.

21

22

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

25

DIRECT EXAMINATION

BY MR. CARROLL:

Q Mr. Trainer, would you for the record state your full name?

A C. W. Trainer, T-R-A-I-N-E-R.

Q Mr. Trainer, what is your occupation or how do you make your living?

A I'm an independent oil producer, promoter, engineer, in southeast New Mexico.

Q Do you have an actual engineering background, Mr. Trainer?

A Yes, I am a graduate of University of Texas, 1948, electrical engineer, Bachelor of Science.

Q Do you have any work experience in the oil patch?

A Before the -- worked on drilling rigs as a kid and geophysical companies; worked for Continental on the way through college in land surveying, and then worked for Schlumberger nine years as an engineer and five of that years was manager at Hobbs for Schlumberger; quit in 1956 and the past thirty-one years I've been down and around in southwest Louisiana, drilling wells and producing oil, oil and gas.

Q Does your experience actually include the

1 operation of oil or gas wells in southeast New Mexico?

2 A Yes, I'm an operator.

3 Q All right. And that's some thirty-one
4 years you've been doing that, is that correct?

5 A Right.

6 Q In fact with respect to the area in ques-
7 tion, do you have any -- and of course we're talking about
8 the proposed well, an Atoka gas well -- have you had any ex-
9 perience in this area with Atoka gas wells?

10 A Yes. The well in Section 22, operated by
11 T. H. McIlvain, is my deal and I worked on it almost twenty
12 years, really, and McIlvain's furnished the money and we've
13 had them operate it, but we actually are joint operators in
14 fact of the well.

15 Q Did you in fact participate in the day to
16 day drilling of that well and in the decision making process
17 with respect to how that well was to be drilled?

18 A You bet.

19 Q And completed.

20 A I'm the biggest owner in it.

21 Q All right. Now, with respect to the own-
22 ership in Section 16, you do own 120 acres out of the west
23 half, is that not true?

24 A That's true.

25 Q And with respect to the east half of that

1 section, you have 360 acres, is that correct?

2 A No, 200.

3 Q Excuse me, 200, I'm sorry, you're cor-
4 rect.

5 A 320 all told.

6 Q 320 all told. And in fact, the unit that
7 is being proposed by Marathon, you would have -- own 50 per-
8 cent of, is that correct?

9 A That's right.

10 Q And in the unit that you're -- that -- I
11 take it by your appearance here at the hearing, you are op-
12 posing Marathon's application.

13 A Yes, I'd like to drill in the west half,
14 drill the best well because it's close to that good well.

15 Q All right. Now your ownership in the
16 west half would only be approximately 37-1/2 percent, is
17 that correct?

18 A I'd rather have that in a good well.

19 Q All right, so your motivation today for
20 appearing and opposing Marathon is not to get a larger piece
21 of a well but in fact to get a better well.

22 A To get a better well. That's where you
23 make your money.

24 Q Now, Mr. Trainer, the -- you have in fact
25 had conversations with the other working interest owners in

1 the west half, is that not true?

2 A True.

3 Q Concerning this drilling of a well in the
4 west half.

5 A True.

6 Q And the other two working interests are
7 Phillips and Texaco, is that correct?

8 A True.

9 Q Phillips is appearing here today and has
10 agreed with you to allow you to operate a well.

11 A They're ready to drill.

12 Q And we have also heard testimony today
13 from Mr. Daniels where he's been informed by Texaco that
14 they were going to back you in the drilling of a well, is
15 that correct?

16 A That's right. I haven't had -- Texaco
17 hasn't turned me down but they haven't told me as much as
18 they told Daniels.

19 Q All right, they've had more conversation
20 with them than you have.

21 A Well, I haven't pushed them like he has.

22 Q All right, and in fact Texaco has earlier
23 farmed out that acreage to you.

24 A Yes, they'd farmed out to me (unclear)
25 last year.

1 Q Now, you -- have you gone so far as to
2 seek from the Oil and Gas Commission a location for the
3 drilling of a well in the west half?

4 A Yes. I staked the Betty State No. 1,
5 1980 from the south and 660 from the west and dedicated the
6 west half on the plat.

7 Q All right, going to exhibits we have mar-
8 ked as 1-A and 1-B, Trainer exhibit, would you identify what
9 that exhibit is?

10 A It's an application for permit to drill
11 and the other one is the well location and acreage dedica-
12 tion plat for that well we were just talking about in the
13 west half.

14 Q Is this an approved application to drill?

15 A Yes, it says right here at the bottom.

16 Q Okay, and what date was that application
17 approved?

18 A August -- approved, August 24th, 1987.

19 Q All right. Do you feel that the location
20 that you have approved, 1980 from the south and 660 from
21 the west, is the best possible location for drilling an Ato-
22 ka test in Section 16?

23 A I pray it is and I believe it is.

24 Q All right.

25 A There's some difference.

1 Q Okay. I'm going to show you what I have
2 marked as Trainer Exhibit Two. Would you identify for the
3 Hearing Examiner what Exhibit Two is?

4 A It's an AFE for this well that Phillips
5 asked for when I sent them that one that Marathon showed as
6 considered.

7 Q All right, what is the date of this
8 particular AFE?

9 A September 10, '87.

10 Q All right. Now this particular AFE,
11 there has been an earlier exhibit that was presented by
12 Marathon, which was an exhibit of yours, or excuse me, an
13 AFE of yours dated February 16th, '86. Is that correct?

14 A That's correct.

15 Q The AFE that we are now looking at,
16 Trainer Exhibit Two, is considerably -- the amounts shown
17 both for the dry hole and the completed costs are
18 considerably less, is that not true?

19 A Yes, it is.

20 Q You've also had a chance to look at
21 Marathon Exhibit Number Two, which was their AFE for their
22 well that they propose in Section 16. Have you had a chance
23 to look at that exhibit?

24 A Yes, I looked at it. It's not -- it's a
25 good AFE.

1 Q All right. But it is considerably higher
2 than your AFE of September 10th.

3 A That's my business; I'm supposed to drill
4 cheaper.

5 Q All right. Now, Mr. -- the actual AFE is
6 shown to be prepared by an H. Gene Lee, H. E. Gene Lee. Who
7 is Mr. Lee?

8 A Gene is a graduate engineer, lives in
9 Roswell. He owns 10 percent of the McIlvain Well, or he's a
10 partner in it with me, and he will be a partner in this,
11 but he'll do the field work. He's the well expert and that
12 was a tough job over there in Section 22, because Humble had
13 spent several million dollars and gave up on it and left it
14 there for us, and we almost gave up a couple of times, too.

15 Gene's a good man; knows what he's doing.

16 Q All right, so Mr. Lee who's prepared
17 these -- this AFE has had direct experience with your McIl-
18 vain Well in Section 22, then.

19 A Right.

20 Q And will participate with you in the --
21 and aid you in the drilling of the well that you propose to
22 drill in the west half.

23 A He'll spend some of his own money.

24 Q All right.

25 MR. CARROLL: I would pass the

1 witness.

2 MR. CATANACH: Mr. Kellahin?

3 MR. KELLAHIN: Thank you, Mr.

4 Catanach.

5

6 CROSS EXAMINATION

7 BY MR. KELLAHIN:

8 A Mr. Trainer, who is designated as the
9 operator of the well in Section 22 that you said you had the
10 majority interest in?

11 A (Unclear) McIlvain Oil and Gas, whatever
12 it is --

13 A SPECTATOR: Properties.

14 A Yeah, Properties.

15 Q The original AFE that you sent to Mara-
16 thon back in February of '86 proposed a well location in,
17 let's see, I believe it was in the southwest of the south-
18 east quarter of Section 16 with a south half dedication.

19 A I really believe that would be all right
20 but I think it was in the southeast of the southwest, but it
21 doesn't matter, they're about equal. I'd usually rather
22 they're on my own lease.

23 A SPECTATOR: That's right.

24 A I believe that's correct.

25 Q I show you a copy of that AFE that Mr.

1 Lee prepared for you back in February of '86.

2 A Okay, that's fine.

3 Q That footage location corresponds to the
4 southwest of the southeast?

5 A Yes, it does.

6 Q Okay, and you have said that the south-
7 west of the southeast is about as good as the southeast of
8 the southwest?

9 A Well, excepting it's a quarter of a mile
10 further from that good well. At the time we did this the
11 Marathon well in 17 wasn't drilled, Mr. Kellahin, and we
12 were trying to get close to our good well in 22.

13 I still believe in closeology.

14 Q Your decision -- you've answered my
15 question, it appears to me, and you correct me if I'm wrong,
16 that there the only decision based upon where this well is
17 to be located in Section 16 is a location as close as you
18 can get to the western boundary of that section.

19 A I sure wouldn't want to say that wasn't
20 important because if we drill a dry hole over there to the
21 east we'll be sorry.

22 Q Your proposal, then, would move this to
23 as far west as you can and you don't attribute any signifi-
24 cance to the producing well that you have in Section 23?

25 A Oh, yes, I do, you bet, but I -- there's

1 12 feet of sand down there and 48 over there in 17 and it
2 gets thin in between.

3 Q You have not prepared any geologic
4 presentation in support of your position in this hearing,
5 have you, sir?

6 A Well, I didn't bring any to show you. I
7 have some ideas.

8 Q All right. Now, your original applica-
9 tion for permit to drill, which you have marked as Exhibit
10 One, that shows us at a location 660 from the west line and
11 that puts you up in the northwest of the southwest quarter.

12 A Okay.

13 Q Have you had subsequent correspondence or
14 telephone conversations with the Oil Conservation Division's
15 office in Hobbs with either Mr. Jerry Sexton or any of his
16 employees concerning any amendment to this application for
17 permit to drill?

18 A Well, this permit to drill, no, but with
19 this hearing coming up --

20 Q Yes, sir.

21 A -- I mailed in a location to Jerry to
22 drill the southeast of the southwest for a south half loca-
23 tion.

24 Q Okay.

25 A And it's down there in Hobbs but he can't

1 approve both of them --

2 Q All right.

3 A -- (unclear) the southwest quarter is in
4 both of them.

5 Q I see.

6 A But at least the flag is flying out there
7 and I would want to drill one of those two and I want to be
8 the operator of the well. I don't want Marathon spending my
9 money.

10 Now, maybe I don't supposed to say that,
11 but that's the way it goes and my preference is to drill the
12 one that I've laid here and said I want to drill, but we
13 don't know how this hearing is going to come.

14 Q But regardless of your preference the
15 fact is that on after the approval of that location on Aug-
16 ust 24th, you have subsequently filed --

17 A No, that's not --

18 Q -- again, you sought to amend this, Mr.
19 Trainer.

20 A No, no, no, no, no, no. I beg your par-
21 don.

22 Q You just told me you did.

23 A No, I told you I staked them at the same
24 time. I took them in there at the same time and Jerry will
25 tell you that, he was here a minute ago.

1 But not subsequently, at the same time.

2 Q So you have on file down at the District
3 Office an alternative application for permit to drill?

4 A It's stamped in but it's not been proces-
5 sed because, I told you, I mean --

6 Q But that -- I'm sorry, I didn't mean to
7 interrupt you.

8 A I think I'm through.

9 Q Okay. That alternative application
10 that's on file with Mr. Sexton is for a south half dedica-
11 tion --

12 A That's right.

13 Q -- and for a well to be located where
14 Marathon proposes to locate it.

15 A No. No, it's located a quarter mile
16 south of where Marathon's is. I think the sand goes south
17 instead of north like he's drawn it.

18 But I'd rather drill it where I'm showing
19 you.

20 Things happen awful fast in this hearing
21 business, it seems like.

22 Q In response to Mr. Carroll's questions
23 awhile ago, he was talking to you about the orientation of
24 the spacing unit for the section.

25 A Uh-huh.

1 Q And I believe your words was -- were to
2 the effect that it makes a better orientation if you stand
3 it up versus lay it down.

4 A Those aren't any of my words.

5 Q Well, I'm trying to recall what you said
6 about what --

7 A Another man's words, but not mine.

8 Q Do you have a preference about orienta-
9 tion of the unit?

10 A Well, I want to drill the location that's
11 approved right here on this exhibit, and if you dedicated a
12 section to it or 80 acres or the north half of the south
13 half, the most important thing to me is to drill where the
14 sand is and get a good well.

15 Now in order to drill there you have to
16 have the west half of the section or have an unorthodox or
17 nonstandard unit.

18 Q I'm trying to understand your priorities
19 and how you made --

20 A My priorities --

21 Q -- your decision --

22 A -- is to get the best well.

23 Q -- and your priority is to put that well
24 as close as you can to the western boundary.

25 A I believe I've got a better chance to get

1 the best well if I drill it there, and that's what I'm in
2 business to do.

3 Q And the orientation of the spacing unit
4 is not of concern to you --

5 A No.

6 Q -- only insofar as one orientation --

7 A Why don't you give me my half section
8 just scattered like it is on the lease, like the --

9 Q Why don't you let me ask you the question
10 and maybe we'll get through this.

11 A I'm sorry.

12 Q The -- the orientation of the spacing
13 unit is not the deciding factor, is it?

14 A Not to me. Not to me.

15 Q So you don't care what orientation is
16 going to be the most equitable in dividing the acreage in
17 this section?

18 A I didn't say that. I said my first pri-
19 ority is to get the best well. Now then, don't tell me what
20 I don't care, because I do.

21 Q The orientation -- the location you
22 picked can be approved as a south half dedication with a
23 hearing to approve an unorthodox location.

24 A Would you like to do that?

25 Q I'll be happy to try.

- 1 Q Oh, I understand, you do not see --
- 2 A I feel like we have a deal with Phillips.
- 3 Now, I think --
- 4 Q You don't see any impediment to comple-
- 5 tion of that transaction.
- 6 A No.
- 7 Q If that transaction is completed is Phil-
- 8 lips going to be the operator or are you to be the operator,
- 9 Mr. Trainer?
- 10 A I'm to be the operator.
- 11 Q When we talk about the cost of the well
- 12 you have proposed an AFE that I believe you've introduced as
- 13 an exhibit.
- 14 A Uh-huh.
- 15 Q When you look at that estimate and com-
- 16 pare it to the estimate Marathon has given you, can we both
- 17 conclude that those AFEs represent reasonable estimates of
- 18 what it might cost to drill this well?
- 19 A Well, now you're talking about Marathon's
- 20 AFE is quite a bit more than mine, but their man testified
- 21 they in fact drilled their well cheaper.
- 22 Q Yes, sir.
- 23 A And I don't doubt it at all.
- 24 Q All right.
- 25 A And I, in fact, will probably drill mine

1 cheaper. To answer your question, I think they're both good
2 AFEs, just like I said awhile ago.

3 Now I can tune mine up some more. I bet
4 he can tune his up some more, you know.

5 Q All right. Do you have available to you,
6 Mr. Trainer, a gas market for production that would be de-
7 rived from the well if it's drilled as you propose?

8 A More than likely. I've built two pipe-
9 lines to two different gas markets for the one I have there
10 in Section 22, besides the existing market. So I have more
11 markets than Marathon does.

12 Q Does that market include all the produc-
13 tion from the well?

14 A Well, it's a 6-inch line.

15 Q Or just the operator or your share of
16 that production?

17 A No, it's all of it, the owners of the
18 well own the lines.

19 Q Do you know whether or not you have a
20 contractual commitment at this point from any purchaser for
21 gas to be produced from Section 16?

22 A Should I tell him what we have, Gordon,
23 or not?

24 Q I don't want you to -- let me try again,
25 Mr. Trainer.

1 I don't want to know who it is. I don't
2 want to know the price of it. I just want you to tell me if
3 there is a --

4 A Well, we've got what I think is a sweet
5 deal, 'cause I built it, you know.

6 Q Mr. Trainer, I have reviewed the reports
7 at the Oil Conservation Division trying to get the number of
8 wells that you operate in New Mexico.

9 Do you know offhand?

10 A Producing wells?

11 Q Yes, sir, how many producing wells?

12 A Eleven.

13 Q You have eleven producing wells?

14 A You want me to name them?

15 Q No, I don't really think so. What is --

16 A I try not to operate as much as I can and
17 let somebody good like George operate it and hold his hand,
18 because I don't want to be as big as Texaco, but I'm a good
19 operator.

20 Q The proposed commencement data for the
21 well, do you have a specific commencement date to suggest
22 for the well?

23 A It would be nice to say November 15th.
24 I'd like to get it drilled. I (unclear) spend money.

25 Q So there's a firm commitment date that

1 you could commence the well, by November 15th?

2 Q I said I'd like to commence it by Novem-
3 ber 15th. Isn't that good enough?

4 A Well, I'm concerned about whether or not
5 there's a specific commitment or a time frame in which --

6 A The lease is not running out --

7 Q -- to drill the well.

8 A I have the money to pay my part but I'm
9 not sure Phillips will send their part or where we're going
10 to be to make it, you know, so let's say that November 15th
11 is the spud date, commence date, but don't make me take an
12 oath.

13 Q Thank you.

14 MR. CATANACH: Are there other
15 questions of this witness?

16 MR. CARROLL: I do. Could I
17 ask just a couple, just very shortly.

18 MR. CATANACH: Sure.

19

20 REDIRECT EXAMINATION

21 BY MR. CARROLL:

22 Q Mr. Trainer, I want to try to clear up
23 any misconception. You have reviewed the geological work
24 that's been prepared by Phillips, have you not?

25 A Oh, yes. Uh-huh.

1 Q You have also had your lown geological
2 workups done on this area, Section 16 in particular, have
3 you not?

4 A That's right.

5 Q You elected not to present your own work
6 to this Commission, did you not?

7 A That's right.

8 Q Your decision to drill the well where you
9 propose to in Section 16 with a west half proration is it
10 based upon your review of this geology that you've had ac-
11 cess to, both your own and both Phillips?

12 A It's really based more on getting close
13 to that good well.

14 Q Okay, but does the geology that you have
15 reviewed tell you that that is --

16 A Looks reasonable and all of it here shows
17 that well -- that location to want to produce.

18 Q All right. That's all.

19 A That's a good reason.

20 MR. CATANACH: The witness may
21 be excused.

22 MR. HALL: Call Mr. Rick Halle.
23
24
25

1 A Yes, I am.

2 MR. HALL: Is this witness
3 qualified as an expert geologist?

4 MR. CATANACH: He is.

5 Q Mr. Halle, I take it you've examined the
6 geology in the area, have you not?

7 A Yes, I have.

8 Q And you're aware of Marathon's proposed
9 location?

10 A Yes.

11 Q And you are also aware of Mr. Trainer's
12 proposed location 660 and 1980?

13 A Yes, sir, I am.

14 Q Okay. How -- why don't you explain how
15 you first became aware of Mr. Trainer's proposal?

16 A I heard a rumor that he had staked a lo-
17 cation and called him on the telephone to find out where it
18 was. This is in an area that we had been studying since
19 Marathon proposed their well back in late '86 in 17, and
20 upon our evaluation of that well we forecast other, other
21 locations offsetting the Marathon well in 17 and one of them
22 was this same location that Mr. Trainer has proposed in Sec-
23 tion 16, and that, that location was proposed to Phillips
24 management in April of this year.

25 Q Now, by the way, with respect to Mara-

1 thon's first proposal for the Section 17 well, did they ever
2 at any time propose standup drilling units for that section?

3 A Yes, sir, the AFE, when it originally
4 came, was proposed as a standup proration unit and then
5 changed by a later -- a letter later in time to a laydown
6 north half.

7 Q In any event, Phillips was considering a
8 well in the west half of Section 16 as far back as --

9 A April.

10 Q -- spring of '86?

11 A Yes.

12 Q Why does Phillips prefer a standup loca-
13 tion?

14 A I think the standup proration units give
15 you two better locations in that section. Mr. Hahnenberg's
16 map is very similar to mine and it shows a thick running
17 through the center of the section and two wells, say, Mr.
18 Trainer's proposed location in the northwest of the south-
19 west and a second well in the northwest of the southeast,
20 would both be drilled into the thickest part of the sand and
21 drain most reservoir most equitably.

22 Q Do you feel in your opinion that a well
23 in the west half poses less risk than a well dedicated to a
24 laydown south haf drilling unit, a standard location well
25 laydown?

1 A Yes, I do.

2 Q And what methodology did you utilize to
3 determine that that was so?

4 A We -- I Isopached the sands and used
5 other trends from the Shoe Bar Field and from the dipmeter
6 that was run in the Marathon well in Section 17, and projec-
7 ted this sand trend about south 60 degrees east. That
8 brings the thickest, thickest part of that sand right into
9 this location.

10 The thickness appears to change very
11 rapidly in these wells and the closer you are to a well with
12 good sand in it the safer you are.

13 Q So proximity to a proven producer is im-
14 portant; in fact, isn't it highly important?

15 A It has to be that much safer, yes.

16 Q Now you were -- you were here today to
17 hear Mr. Hahnenberg's testimony, were you not?

18 A Yes, I was.

19 Q And he testified to the effect that in
20 Section 16 if you squared that section off into quadrants,
21 into fours, all things were more or less equal and a laydown
22 unit would help them manage their risk, so to speak, and
23 give everybody in Section 16 a fair shot at producing their
24 fair share of minerals.

25 MR. KELLAHIN; I'm going to ob-

1 ject to the way he posed the question, Mr. Catanach. I do
2 not believe it was our geologist' testimony that each of the
3 four quarter sections were comparable.

4 He made specific reference to
5 the northeast quarter section being the worst of the four,
6 and I would object to the way he's formed the question.

7 MR. CATANACH: Rephrase the
8 question, Mr. Hall.

9 Q What did you understand Mr. Hahnenberg's
10 testimony to be, the thrust of it?

11 A I understood him to -- to say that the
12 south half was better, but I don't believe his map shows
13 that.

14 Q What do you believe his map to show?

15 A I believe that actually the north half
16 and the south half are equal but locations that would be ap-
17 plied to the north and south half probably would not be as
18 efficient at draining this reservoir as a north/south or two
19 standup proration units.

20 Q So if, as you say, all things being
21 equal, then doesn't closeology become very important?

22 A I believe so. I think that's what
23 they're doing. They're "closeology-ing" as much as they can
24 with their lease. They can't -- if they use a standup east
25 half, they can't get as close as they are. They're going

1 1528 feet further west by proposing a laydown than they
2 could by a standup.

3 Q Do you have anything further to add?

4 A No, sir.

5 MR. HALL: We pass the witness.

6 MR. KELLAHIN: No questions.

7 MR. CARROLL: I have no
8 questions.

9 Mr. Examiner, I, excuse me, I
10 forgot to move admission of my two exhibits. I would now
11 move them to --

12 MR. KELLAHIN: No objection.

13 MR. CATANACH: How many were
14 there, two?

15 MR. CARROLL: Well, there was
16 actually three, Exhibits One-A and One-B and then Exhibit
17 Two.

18 MR. CATANACH: Okay, Trainer
19 Exhibits One-A, One-B, and Two will be admitted into evi-
20 dence.

21 I have no questions of the wit-
22 ness.

23 MR. HALL: Call Bill Mueller to
24 the stand.

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WILLIAM J. MUELLER,

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

DIRECT EXAMINATION

BY MR. HALL:

Q For the record state your name, your employer, place of employment and responsibility.

A Okay. I'm William J. Mueller. I spell it M-U-E-L-L-E-R, Reservoir Engineering Supervisor for Phillips Petroleum Company, Permian Basin Region, in Odessa, Texas.

Q And you --

A My area of responsibility is the (unclear) area which encompasses all of southeast New Mexico. I have three reservoir engineers within this area.

Q All right. Also you are familiar with the lands that are the subject of this application?

A Yes.

Q And you've testified before the OCD before?

A Yes.

Q Mr. Mueller, have you conducted an engineering study of the subject area?

1 A The subject area has been, yes, studied
2 by engineers under my supervision.

3 Q All right, why don't we -- why don't you
4 tell me the results of your study?

5 A Can I go -- want me to just go by exhi-
6 bits?

7 Q Yeah.

8 A I'd like to --

9 Q Do you want to start with Exhibit A?

10 A Yeah, let's start with this one.

11 Q Exhibit One just shows the south half of
12 Section 16, being the subject of the hearing today, outlined
13 in orange.

14 It shows a red arrow pointing to the well
15 that has been referenced here many times today, and that's
16 the Marathon State Com No. 2. That well actually exists on
17 Phillips acreage and the working interest distribution of
18 that well is Marathon is operator with 37.5 percent. Phil-
19 lips has 25 percent interest. Mobil has 25 and Chevron has
20 12-1/2 percent.

21 So we are a working interest owner in
22 that well. It's nice and prolific. And that's really the
23 main purpose of Exhibits 2, 3, and 4, is I think the exam-
24 iner ought to get a chance to see what this peach looks
25 like, since everybody's been talking about it.

1 Q I'm sorry, let's call it B-2, I believe.

2 Okay, B-2 is a Schlumberger run
3 dualatero log, microspherically focused log for the same
4 well, and here again it shows the same essentially 50 feet
5 of good, clean sand, but here we see, you know, the
6 resistivity profile that's highly characteristic of a highly
7 permeable, low water saturation gas sand with RT's in the
8 neighborhood of 1000 ohms and, as I say, spherically focused
9 log down around 20 ohms, containing good permeability.

10 The B-3 Exhibit is just a computer pro-
11 cessed log of the same raw data in the field, and here it
12 shows that the porosity is in the neighborhood of about 14
13 percent with water saturation averaging less than 10 per-
14 cent.

15 Q Would an operator generally want to get
16 close to a well with logs like this?

17 A Oh, yeah, everybody would.

18 Q Let's look at Exhibit --

19 A Okay.

20 Q -- look at Exhibit C.

21 A Okay, Exhibit C is a -- just a copy of
22 the daily report detail on this well furnished us by Mara-
23 thon as a working interest owner in the well, and as the log
24 showed in reality it happened to be what it was on August
25 the 7th, they perforated 46 feet of this sand. It immediate-

1 ly kicked off and flowed at a rate of 3.2-million a day at
2 750 psi.

3 They shut the well in for three hours and
4 shut-in tubing pressure snapped up to 1600 pounds.

5 They took a 5-1/2 hour test and it shows
6 2.7-million a day, 1400 pounds tubing pressure.

7 The continuation of this report shows
8 that on a 4-point calculated open flow the well tested at
9 the highest rate of 3.07-million a day with 1357 psi. It
10 has a calculated open flow of 9-million, 9.4-million a day.

11 And its shut-in tubing pressure is shown
12 on the second page there of 1703.2 psia, or 1690 psig.

13 Q All right, let's look at Exhibit D. What
14 does that exhibit show?

15 A Exhibit D shows colored in yellow is
16 Phillips ownership in the northwest quarter of Section 16.
17 It shows the standup or west half proration unit that Phil-
18 lips believes it has a right to participate in, or should be
19 allowed to participate in, and the Trainer location being
20 1980 from the south and 660 from the west.

21 The data on this exhibit shows the cumu-
22 lative production to 1-1-87, and as is noted here, there are
23 Atoka Morrow wells out here that have cumed 13-billion and
24 16.7-billion up in Section 7. There are wells -- a well in
25 Section 8 that has cumed 10.2-billion. There's a well in

1 the north -- well, I'll say north half of the west of 18
2 that's cumed 9.9-billion, and then we have the new Marathon
3 well in Section 17.

4 Now what is of particular interest here
5 is the Marathon well has a shut-in tubing pressure of 1690
6 psi initial completion and tubing pressures recorded on the
7 surrounding wells in 1986 are 1750, 1909, 1325. So the Mar-
8 athon well has already suffered considerable drainage in
9 this high productivity sand.

10 Q Now, let me ask you, you were here today
11 to hear Marathon's evidence, were you not?

12 A Yes.

13 Q And you heard their testimony with re-
14 spect to the pressures for the well in Section 17 and the
15 wells to the north and west. Did you? Were you here for
16 that?

17 A Yes. I believe he testified it had not
18 suffered drainage. I would disagree with that.

19 Q Okay, and why is that?

20 A Because of the pressure.

21 Q Likewise, would the acreage underlying
22 the west half of Section 16 possibly suffer drainage by the
23 well in 17?

24 A Oh, it definitely will. With 46 feet of
25 pay like that, that baby can drain the whole of what, Lea

1 County, if you want.

2 Q Let's look at Exhibit E, if you'd identi-
3 fy that and explain what that shows.

4 A Okay. Exhibit E is the same plat only
5 this time I've posted what is called the highest monthly
6 average production for 1987.

7 In other words, due to, I guess, prora-
8 tion out there, some wells are shut-in some months and
9 others produce, but you can see that the well in the west
10 half of Section 7 produces at a rate of over 5-million a
11 day. The well in the -- excuse me, in the east half of 7 is
12 over 5-million a day. The west half of 7 is about 1-million
13 a day. The well north in Section 8 is about 1.1-million,
14 and then we have the new Marathon well in Section 17 at a
15 calculated open flow of 9.4-million a day, and that -- and
16 the calculated open flows in New Mexico are wellhead deliv-
17 erability.

18 Q All right, what does this tell you about
19 drainage?

20 A It tells me that that Marathon well can
21 drain substantial acreage and that --

22 Q What do all of these exhibits tell you
23 with respect to the proposed locations on either a standup
24 drilling unit or a laydown drilling unit?

25 A I think all these locations show that you

1 have to drill at the least risk; that the location with a
2 standup unit and 660 from the west line affords substantial-
3 ly less risk than a location further away because a location
4 660 from the west line would exist at 3960 feet from the
5 Marathon well, and a location 1980 from the west line would
6 be 1320 feet further, or 33-1/3 percent greater distance
7 away from a known good well.

8 And on, as we -- Marathon's exhibits show
9 that there are many dry holes out there right now located in
10 1320 foot distance from good wells, and so this one does,
11 too, you can see the dry hole in Section 12, and see a well
12 right north that's producing 2-million a day; the two wells
13 in Section 18, one of them with no current production is al-
14 ready abandoned and the other well producing at a rate of
15 3/4 of a million a day and previous exhibits showed in 18
16 one well only cumed .1-billion cubic feet and the other one
17 had cumed 9.3.

18 So 1320 feet thins very quickly.

19 Q All right, let's look at Exhibit F and
20 why don't you explain that?

21 A Exhibit F is just -- it takes the pre-
22 vious plat and puts names on the well locations.

23 Q Anything further you wish to add?

24 A The only thing I would say is that Phil-
25 lips believes that it, you know, to protect its correlative

1 rights it needs the right to participate in the standup
2 unit.

3 Our acreage is in the west half and that
4 is definitely the lowest risk, best acreage available right
5 now.

6 Q So in your opinion would the granting of
7 Marathon's application be in the best interest of conserva-
8 tion, protection of correlative rights, and prevention of
9 waste?

10 A No.

11 MR. HALL: Pass the witness.
12 Just a minute.

13 Q Did you or someone at your direction pre-
14 pare Exhibits A through F?

15 A Yes.

16 MR. HALL: We'd move their ad-
17 mission and pass the witness.

18 MR. CATANACH: Phillips --

19 A Well, excuse me. F was prepared by Rick
20 Halle.

21 Q Do you agree that it's accurate?

22 A Yes, I do.

23 MR. CATANACH: Phillips Exhi-
24 bits A through F will be admitted into evidence.

25 Mr. Kellahin?

1 MR. KELLAHIN: No questions.

2 MR. CARROLL: No questions.

3 MR. CATANACH: I have no ques-
4 tions of the witness. He may be excused.

5 Would counsel like to make
6 closing statements at this time?

7 MR. HALL: Briefly, Marathon's
8 come to you with an application for pooling. Statute Sec-
9 tion 70-2-17 and 18 are very clear. They set out the statu-
10 tory requisites which the Examiner must find before a pool-
11 ing order can issue.

12 Of those elements Marathon has
13 failed to prove at least two.

14 One is that they afforded all
15 the other affected interest owners an adequate opportunity
16 to voluntarily join in the well. Informatin has shown that
17 they were forcing a farmout on the interest owners and not
18 until some time immediately before the hearing proceedings
19 were commenced did they even think about offering a partici-
20 pation to the other working interest owners. In fact, we
21 don't believe that the offer was serious. They didn't meet
22 that statutory requirement.

23 Secondly, I think the geologic
24 and engineering proof is fairly convincing that the only
25 reason they're proposing a laydown unit is because that's

1 the only way they can get close to proving that producer.
2 Their acreage position is solely in the east half of Section
3 16. A standup won't do it for them.

4 That's not a geologic consider-
5 ation, that's an acreage situation. That's not enough to
6 allow you to find sufficient evidence to pool them.

7 That's all I have.

8 MR. CATANACH: Mr. Carroll.

9 MR. CARROLL: Mr. Catanach,
10 I would only -- the only thing that I would add is that be-
11 sides the considerations that Mr. Hall has brought to your
12 attention, I think of the equities here.

13 Mr. Trainer owns half of the
14 acreage in this Section 16. He has been, as he told you to-
15 day, he's been working this particular prospect for nine
16 years. Mr. Trainer has already gone out and has staked a
17 location. Mr. Trainer is a capable operator. He has one of
18 the better wells in this area. I think that the equities
19 here is that the standup type proration units will actually
20 provide a better sharing. I draw your attention to the fact
21 that while Marathon says it's a better -- it's more equit-
22 able, they kept saying they put the best acreage in the
23 south half and those statements just in my mind do not coin-
24 cide.

25 What they're doing is if they

1 put two -- the wells that -- we're not going to get a fair
2 equity with respect to all of the ownership in the entire
3 section.

4 Based on all those considera-
5 tions, I think that Mr. Trainer at least as opposed to Mara-
6 thon is just as capable, is just the same, he has the same
7 experience, he is knowledgeable in this area because of his
8 amount of ownership in this section, and the fact that the
9 geology that this Commission has seen does show that the
10 best location is closer to that west section and since, as
11 in Marathon's words, this is more or less a wildcat, we
12 should allow the best shot to be taken, and that, I think,
13 Marathon may agree that they want the best shot but they
14 want the best shot that they can be involved in it, and just
15 because they own in that -- that section, they do not own in
16 the west half and that's something that we just can't
17 change, and I don't think this Commission should be forced
18 to change the ownership out there. I mean you have to take
19 it as it falls, and we should make our decision based on,
20 when all the other things are equal, the fact that we do
21 have knowledgeable operators. We have good geology and
22 everything, that then we should go with the way this acreage
23 is owned and the most sensible location or the most sensible
24 alignment of the proration unit would be to stand up.

25 MR. CATANACH: Mr. Kellahin?

1 MR. KELLAHIN; Thank you, Mr.
2 Catanach.

3 This case has been presented to
4 you in the format of a forced pooling cases, but as I think
5 you quickly saw, this is not a forced pooling case, this is
6 a different creature.

7 It's an effort by competing in-
8 terests to obtain and seek an advantage over well locations.
9 This is more like an unorthodox well location hearing in
10 substance than it is a forced pooling case.

11 From my perspective I think it
12 is Marathon who has been the pioneer in this area. They are
13 the ones that are developing and extending the known produc-
14 tion in the Atoka Sand.

15 They explained very carefully
16 to you what their plan of development was over the last few
17 years and it was an orderly progression using the well in 17
18 and then developing the acreage in Section 16.

19 We believe that Mr. Trainer
20 prematurely proposed a well in Section 16. he jumped the
21 gun on everybody, trying to get operations for the well;
22 didn't matter to him how it was oriented, he wanted to oper-
23 ate the well.

24 I think he was finally per-
25 suaded that he ought to wait the results of the well in 17

1 and he unilaterally abandoned his efforts to form a volun-
2 tary unit in 16. He pulled the plug on August 20th of 1986
3 without any further inquiry as to forming a voluntary unit.

4 As Mr. Mueller has pointed out
5 to you, the well in 17 is quite a peach. It will drain all
6 of Lea County, and that's exactly the problem.

7 We have come to you to have you
8 exercise some of the fundamental rules of conservation in
9 order that all of us have an equitable share in how Section
10 16 is fully developed.

11 Mr. Hall directs your attention
12 to the forced pooling statute. I will dismiss that very
13 quickly for you. I think we've complied with requirements
14 of the forced pooling statute. There's not a party in here
15 that's cried for some more time. No one has said that they
16 need more time to process a review.

17 In fact, this is not a forced
18 pooling case. It's a question for you to exercise your
19 judgment on how to orient the units.

20 The only geologic evidence dis-
21 played for you in the form of an exhibit is what we've given
22 you, and I think they speak very eloquently about what you
23 ought to do.

24 If you stand these units up,
25 you require the owners in the southeast quarter to carry the

1 northeast. As much as Section 17 well is a peach, everyone
2 else is trying to get rid of that prune over there in the
3 northeast quarter. That's the question. Who has to carry
4 the worst acreage. If you stand them up you can't fully de-
5 velop the section. It makes the east half undesirable.
6 You don't allocate the reserves contiguous with the way
7 they're laid out on the display; however, if you lay them
8 down, you give the opportunity for two wells. Not only will
9 it support a well in the south half but it certainly doesn't
10 preclude Phillips from drilling a well in the northeast --
11 northwest quarter.

12 Mr. Mueller is complaining
13 about a well in the northeast quarter, you know, he wants
14 his acreage to contribute. There is absolutely no reason he
15 can't drill a well in the northwest quarter.

16 So as I said before, I think
17 it's a question that is complicated by the fact that we
18 spaced these type of wells on 320 across. Rectangular
19 shaped spacing units are very difficult to deal with. It
20 creates an inequity where you consistently lay them down.
21 If you get into the next section, you change the orienta-
22 tion, you create an unfair advantage because wells in the
23 south half of Section 16 now can crowd up against the west
24 boundary. That's not going to help us develop reserves in
25 Section 16.

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C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY that the foregoing Transcript of Hearing before the Oil Conservation Division (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

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 2222, heard by me on Sept 23 1987.

David R. Catanach, Examiner
Oil Conservation Division