

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

18 November 1986

EXAMINER'S HEARING

IN THE MATTER OF:

Application of Pennzoil Company for
compulsory pooling, Lea County, New
Mexico.

CASES
9266
9267

Application of Pennzoil Company for
compulsory pooling and an unorthodox
oil well location, Lea County, New
Mexico.

CASE
9268

BEFORE: David R. Catanach, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

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MR. CATANACH: We'll call Case 9266.

MR. TAYLOR: The application of Pennzoil Company for compulsory pooling, Lea County, New Mexico.

MR. CATANACH: Are there appearances in this case?

MR. KELLAHIN: Yes, Mr. Examiner, I'm Tom Kellahin of Santa Fe, New Mexico, appearing on behalf of the applicant, and I have three witnesses to be sworn.

We would, Mr. Examiner, we would like to have you also call Case 9267 and 9268, and for purposes of testimony only have all three cases consolidated together.

MR. CATANACH: Okay, at this time we'll call Case 9267 and 9268.

MR. TAYLOR: Both of those cases are the application of Pennzoil Company for compulsory pooling. No, one is -- 9267 is the application of Pennzoil Company for compulsory pooling, Lea County, and 9268 is the application of Pennzoil Company for compulsory pooling an an unorthodox oil well location, Lea County.

MR. CATANACH: Okay, you may

1 proceed, Mr. Kellahin.

2 MR. KELLAHIN: Thank you, Mr.
3 Examiner. I'd request that the three witnesses be sworn at
4 this time.

5

6 (Witnesses sworn.)

7

8 LONNIE L. WHITFIELD,
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. Whitfield, for the record would you
15 please state your name and occupation?

16 A My name is Lonnie L. Whitfield. I'm a
17 petroleum landman with Pennzoil Company.

18 Q Mr. Whitfield, have you previously testi-
19 fied as a petroleum landman before the Oil Conservation Di-
20 vision?

21 A Yes, I have.

22 Q Pursuant to your employment by Pennzoil
23 have you and your staff made an effort to obtain voluntary
24 joinder, acquire leases, and obtain participation either by
25 way of joinder in an operating agreement or farming out in-

1 terests for the drilling of each fo the Strawn wells that
2 are the subjects of each of these three applications?

3 A Yes, we have.

4 MR. KELLAHIN: At this time,
5 Mr. Examiner, we tender Mr. Whitfield as an expert petroleum
6 landman.

7 MR. CATANACH: He is so quali-
8 fied.

9 Q Mr. Whitfield, I have given to the Exam-
10 iner Exhibit Number One from the packet of Exhibits for
11 Case 9266.

12 In addition, I have given him a large
13 display of the entire area. We might take a moment, sir,
14 and have you find a similar copy of the large display so we
15 can first orient the Examiner as to the location of each of
16 the three spacing units involved.

17 A Okay. Okay, Tom.

18 Q Directing your attention now to Exhibit
19 Number One, which we're utilizing in all three cases, this
20 would be the large copy of Exhibit One, which I would like
21 for you to first identify for us the spacing unit in Section
22 14 that deals with the well to be drilled pursuant to Case
23 9266.

24 A Okay. The spacing unit for Section 14
25 will be the east -- excuse me, will be the south half of the

1 northwest quarter of Section 14, Township 16 South, 37 East,
2 Lea County, New Mexico.

3 Q For that particular well, what are you
4 seeking to do, Mr. Whitfield? What formations?

5 A We are seeking to -- we're going to drill
6 a Strawn test and test the Pennsylvanian formation.

7 Q When we look at the case for 9267 and the
8 well to be drilled in Section 22, would you identify for us
9 what portion of Section 22 is to be the spacing unit?

10 A The spacing unit for Section 22 will be
11 the east half of the southeast quarter of Section 22, Town-
12 ship 16 South, 37 East, Lea County, New Mexico.

13 Q And again you're seeking to form a spac-
14 ing unit for an undesignated Northeast Lovington Pennsylvan-
15 ian Pool?

16 A That is correct.

17 Q In addition, for this well you're also
18 seeking an undesignated Casey Strawn Pool pooling order?

19 A Yes.

20 Q All right. When we go to 9268, that's
21 the well in Section 3 of Township 17 South, 37 East.

22 Would you locate for us in Section 3 the
23 Strawn spacing unit that's proposed for that well?

24 A Yes, sir. The Strawn spacing unit pro-
25 posed for that well will be the east half of the southwest

1 quarter of Section 3, Township 17 South, Range 37 East, Lea
2 County, New Mexico.

3 Q In the event the spacing for that well is
4 to be on a 40-acre designation, what will be the 40-acre de-
5 signation for that well?

6 A I'll have to let me geologist answer that
7 question for you, Mr. Kellahin.

8 Q All right, I was just looking at the sur-
9 face location. I believe it's the southwest of the south-
10 west of that section.

11 A Okay.

12 Q And if it's Strawn, it's going to be the
13 east half of the southwest?

14 A Yes.

15 Q Directing your attention now back to Case
16 9266, let's go through that entire case with regards to the
17 land transactions that were involved by you or employees of
18 Pennzoil under your direction and control.

19 If you'll take a moment, Mr. Whitfield,
20 and look at Section 14, and within the proposed spacing unit
21 describe for us generally the types of leases involved in
22 that 80-acre tract.

23 A Okay, Section 14, as we have been active
24 in this area for some time, we've bought oil and gas leases
25 in this country since 1968, have renewed some of those

1 leases and have bought other leases as we generated pros-
2 pects.

3 When we first began leasing in this coun-
4 try we were able to acquire 5-year leases. Now the terms as
5 we've continued to develop the country have dropped to 3-
6 year leases and even in some cases now we're taking 1-year
7 leases.

8 So under this particular proration unit
9 the majority of those leases were 3-year term.

10 Q Are the majority of leases involved in
11 this 80-acre spacing unit fee acreage?

12 A That is correct.

13 Q Are you dealing in any way with leases
14 that involve leases from the State of New Mexico or the Fed-
15 eral government?

16 A No, sir, we are not.

17 Q Let me direct your attention to Exhibit
18 Number Two, which is the certificate of mailing of notice
19 for today's hearing.

20 A Okay.

21 Q And if you'll turn to the attachment to
22 that certification, did you cause your employees to prepare
23 that Exhibit A?

24 A That is correct.

25 Q Let's use that as a reference document,

1 then, to identify for the Examiner what the current status
2 is of your efforts to obtain voluntary joinder from the var-
3 ious parties that you're now seeking to pool.

4 If you'll start off with the tabulation
5 and begin with the first entry on Exhibit A, I believe that
6 is Rio Pecos?

7 A Yes, sir.

8 Q All right, would you go through each one
9 of those and identify for the Examiner what the current
10 status is of your efforts to obtain joinder?

11 A Yes, sir, I will.

12 Rio Pecos Corporation was contacted and
13 was given the opportunity to either participate with their
14 interest or farmout. When we initially contacted Rio Pecos
15 they indicated to us that they would probably farmout. At
16 the same time they indicated either farmout or participate,
17 but they expressed a desire to see our seismic.

18 At the time, and still, to this day, we
19 did not want to show our seismic because it's proprietary
20 data. We have other prospects in the area and so we contin-
21 ued our negotiations. I advised Scott Wilson with Rio Pecos
22 that we could not show him the seismic to help him decide
23 whether or not he wanted to participate.

24 My next contact with Scott Wilson, he
25 said that since he could not see our seismic that he was

1 thinking about farming out.

2 The last time I contacted Mr. Wilson he
3 said that after running economics he felt that they would
4 elect to be force pooled.

5 Q Based upon your knowledge of the area and
6 your active attempt to obtain additional leases from the
7 unleased mineral owners, have you found yourself in any type
8 of competitive position with Rio Pecos Corporation over
9 acquiring these leases?

10 A Yes, sir, we have. This is a very
11 competitive area. Many of our leases, many, specifically 35
12 net undivided acres under the northwest quarter of Section
13 14, are expiring January 24th of next year.

14 We have learned, when we attempted to
15 renew those leases to get some more time for developing this
16 prospect, drilling this well, those leases have been top-
17 leased by Scott Wilson, Rio Pecos. The leases were not of
18 record but based on -- on what the mineral owners have told
19 us, they have been leased to Rio Pecos.

20 We have ascertained that Rio Pecos has
21 been top-leasing throughout the area, as have other opera-
22 tors in the area, so it has been a very competitive situa-
23 tion.

24 Q You propose to commence this well
25 approximately when, Mr. Whitfield?

1 A We were proposing to commence this well
2 as soon as possible, as soon as we could get our -- get a
3 decision from everyone, but in no event later than January
4 24th, 1988, since that is the expiration date of our leases.
5 Ideally we would like to commence it earlier than that.

6 Q Because of the expiration of certain of
7 your leases in this area, have -- have you sent notifica-
8 tions to each of these individuals to advise them in the
9 event you're unsuccessful because of the short time con-
10 straints, that you'll seek compulsory pooling in order to
11 form the spacing unit required for the drilling of this
12 well?

13 A Yes, we did. Once we discovered that our
14 leases had been top leased and that we had a very serious
15 problem, in that if we did not commence a well on or before
16 January 24th of next year, our working interest would --
17 would reduce dramatically; would reduce from 61.67 percent
18 to 47.08 percent.

19 We began to immediately do everything
20 that we could to proceed with trying to get this well drill-
21 led.

22 We contacted everyone. We gave all work-
23 ing interest owners the option, same options of participat-
24 ing or farming out. We contacted all unleased mineral own-
25 ers; we gave them the option of leasing to us. Some of

1 these unleased mineral owners had been leased and the leases
2 were not of record.

3 Q Let's use Exhibit Number Two, the exhi-
4 bit, as a reference point and go through the items of cor-
5 respondence, then, that are identified as subsequent ex-
6 hibits, starting with Exhibit Number Three.

7 A Okay.

8 Q Did you send formal notification to Rio
9 Pecos Corporation by way of Exhibit Number Three, offering
10 them an opportunity to participate or to farm out?

11 A That is correct.

12 Q Okay, and this was a letter sent by Mr.
13 Greg Davis of Pennzoil.

14 A That is correct.

15 Q And is Mr. Davis under your supervision?

16 A That is correct.

17 Q Okay. You've already describe for us
18 your conversations with Mr. Wilson in response to your ef-
19 forts to obtain voluntry joinder. Did you also enclose to
20 Mr. Wilson a copy of your proposed AFE for this well?

21 A Yes, we did.

22 Q All right, Let's turn now to the next
23 company on Exhibit A, which is Inexco. Did you sent Inexco
24 a similar letter?

25 A Yes, we did.

1 Q And how is that identified as an exhibit?

2 A That is exhibit -- identified as Exhibit
3 Number Four.

4 Q And again did you propose to Inexco terms
5 by which they could participate or farmout with regards to
6 the drilling of the well?

7 A That is correct.

8 Q All right, let's go through each one of
9 the entries, then, and have you describe your efforts, con-
10 tacts, and correspondence with each of those companies.

11 Continuing now with Inexco, what is the
12 status of your efforts to get Inexco's participation?

13 A Inexco has elected to participate by
14 signing an AFE and sending the same instrument to us. They
15 have not yet executed a copy of our joint operating agree-
16 ment but we are electing to dismiss them from the pooling
17 procedures today since they have assured us that they are
18 going to participate and work with us in this well.

19 Q Okay, we've got Inexco with an executed
20 AFE.

21 Terra Resources, now, Mr. Whitfield,
22 what's the status of their participation?

23 A Terra Resources has indicated that they
24 think that they are going to participate but we still do not
25 have anything in writing from Terra. Mr. Pfister has right

1 up until yesterday told me that he thought that they would
2 participate but we don't have an AFE or a joint operating
3 agreement back from them, so we've left them under the pool-
4 ing for that purpose.

5 Q And Exhibit Five represents the documents
6 sending correspondence to Terra about the well?

7 A That is correct.

8 Q Okay, let's turn now to Sabine Corpora-
9 tion.

10 A Sabine's interest has now been leased to
11 Terra Resources, we've been told. There is still nothing
12 been put of record to that effect so we're simply taking
13 their word for that. Since nothing has been put of record
14 we have left Sabine on the pooling just to make sure.

15 Q Okay, and Exhibit Six represents your
16 correspondence to Sabine in order to obtain voluntary parti-
17 cipation?

18 A That is correct.

19 Q Okay. Will you go down to the next entry
20 and describe your contacts and efforts?

21 A Okay, Exhibit Number Seven is a letter
22 which we wrote -- well, let me move --

23 Q Let's follow Exhibit A list.

24 A Okay, very good. The Exhibit A, the next
25 party is Lynn Melton Medlin and Billy Melton, personal rep

1 representatives of the Estate of Billy Melton Medlin, deceased.

2 We are dismissing them from the order be-
3 cause they have leased their interest to Rio Pecos. We have
4 seen those leases into Rio Pecos so we are satisfied that --
5 that that has occurred.

6 The next entry, Mrs. Minnie Taylor, we
7 are dismissing her from the pooling procedure also because
8 she has leased her interest to Rio Pecos. We have seen that
9 lease and we are satisfied the transaction has occurred, al-
10 so.

11 Mr. Lynn R. Brown, we are dismissing Mr.
12 Brown from the process at this time. He has been -- he has
13 leased his resources to Terra Resources.

14 Excuse me, we are not -- we are not going
15 to release Mr. Brown. Let me correct that. It would be Ex-
16 hibit Number Eight where correspondence is showing that we
17 have contacted Mr. Brown. We're not -- we're not dismissing
18 that because we have not seen the lease to Terra and there
19 is nothing of record yet to that effect.

20 Q All right.

21 A The next party, the Heirs or Devisees of
22 Alice G. Brown Huntington, Deceased, to our knowledge that
23 interest has still not been leased, so we are leaving that
24 interest under the pooling process, also.

25 Q And Exhibit Nine represents the notice to

1 them?

2 A That is correct.

3 Q Okay.

4 A We have made attempts to lease that in-
5 terest, as have others.

6 The next, Ida Louise Brown McDonald, as
7 far as we know that interest is still unleased. Exhibit
8 Number Ten shows our correspondence to Ida Louise Brown
9 McDonald, wherein we tried to lease that interest.

10 Brady M. Lowe, in Exhibit Number Eleven
11 shows where we tried to -- where we contacted Mr. Lowe and
12 tried to lease that interest and to our knowledge that in-
13 terest is still unleased.

14 Pauline B. Lowe, Exhibit Number Twelve
15 shows wherein we tried to lease that interest. Well, we
16 have correspondence to Pauline B. Lowe. To our knowledge
17 that interest is still unleased.

18 And, obviously, all these unleased min-
19 eral interests we're leaving under the pooling process.

20 Odell L. Lowe, we are dismissing this
21 party from the pooling procedure because that party has
22 leased to Pennzoil.

23 Nell P. Lowe, we are dismissing that par-
24 ty because they have also leased to Pennzoil.

25 Kay Lowe Hughes, we are dismissing that

1 party because they have leased to Pennzoil.

2 Vivian Lowe Anselmi, we are dismissing
3 them because they, too, have leased to Pennzoil.

4 Debra Lowe Finn, we are dismissing be-
5 cause they have leased to Pennzoil.

6 M. Dion Lowe is the next party. Exhibit
7 Thirteen shows wherein we contacted M. Dion Lowe and tried
8 to lease that interest. To our knowledge that interest is
9 still unleased.

10 Larry K. Lowe is Exhibit Number Seven.
11 Mr. Lowe has indicated to us that he is going to partici-
12 pate. He has signed an AFE but he has not yet signed an
13 operating agreement. Since he has not signed the operating
14 agreement we're leaving him under the pooling process.

15 Shana Low Conine, C-O-N-I-N-E, is Exhibit
16 Numbaer Fourteen, which shows where we've contacted this
17 person and to our knowledge that interest is still not
18 leased.

19 Loretta D. Lowe, Exhibit Number Fifteen
20 shows wherein we contacted Loretta D. Lowe. That interest,
21 to our knowledge, is still not leased.

22 Ronny P. Lowe, Exhibit Number Sixteen
23 shows where we contacted Ronny P. Lowe. To our knowledge
24 that interest is still unleased.

25 Denise Lowe, Exhibit Number Seventeen

1 shows wherein we contacted Denise Lowe. To our knowledge
2 that interest is still unleased.

3 Exhibit Number Eighteen shows Clodette
4 Maner as Gardian of the Estate of Hadley (sic) Lowe, wherein
5 we tried to lease the interest from this party. To our
6 knowledge that interest is still unleased.

7 Kay Salem, as Guardian of the Kelly --
8 Kelly Lowe, Exhibit Number Nineteen shows wherein we contac-
9 ted Kay Salem and that interest is still unleased.

10 Okay. Okay, let me correct that. It
11 would be Exhibit Number Twenty would be Kay Salem as Guar-
12 dian of Kelly Lowe.

13 Exhibit Number Nineteen would be Kay
14 Salem as Guardian of Lauren Lowe. Both of those correspon-
15 dences show that they were contacted and that both of those
16 interests are still to our knowledge unleased.

17 Coy S. Lowe, we are dismissing her from
18 the pooling process. They have leased to Pennzoil Company.

19 We have called all of these individuals
20 on numerous occasions. I've talked with them personally and
21 they simply are choosing to hold out. We have not been able
22 to make a deal with them at this time.

23 Q Do you think simply having more time to
24 do this is going to make a significant difference in obtain-
25 ing any additional leases or obtaining voluntary agreements

1 in this case?

2 A No, sir.

3 Q Do you have a recommendation to the Exa-
4 miner as to an overhead charge to be applied against any of
5 the nonconsenting owners in the event forced pooling is
6 awarded?

7 A An overhead charge? Are you talking
8 about a COPAS --

9 Q Yes, sir, the COPAS overhead charges for
10 a drilling well and a producing well rate?

11 A Yes, sir, our recommendation will be
12 \$5000 for a drilling well, \$500 for a producing well.

13 Q Upon what basis do you make that recom-
14 mendation?

15 A These are the rates that we've used in
16 the area for other wells which we've drilled, which have
17 been acceptable to the industry.

18 Q Has Pennzoil been active in developing
19 and exploring for Strawn production in this area?

20 A That is correct, we have.

21 Q The AFE that was circulated among the
22 various parties to participate in the well, how was that AFE
23 prepared?

24 A That AFE was prepared by our Engineering
25 Department at Pennzoil Company. I have an engineer here

1 present today who prepared the AFE's.

2 Q All right, sir, is there anything else on
3 the land issues involved in Case 9266 before we go on to the
4 land issues in the other wells?

5 A Yes, sir, the only thing I would like to
6 say would be the urgency involved with our being able to --
7 to get an order in this particular case. As previously men-
8 tioned, 35 acres has been top-leased and if we're not able
9 to drill a well by January 24th of next year, then our work-
10 ing interest will automatically decrease and that interest
11 will be credited to Rio Pecos or their assigns, and to pre-
12 vent that from happening the only -- the only way we can
13 prevent that from happening is to -- is to pool the parties
14 who have not elected to participate, farmout, or lease to us
15 at this time and we're at the mercy at this point of the
16 Examiner to grant us an order as soon as possible to enable
17 us to solve this problem, this time problem.

18 Q Has Rio Pecos or anyone else objected to
19 the orientation of the 80-acre spacing unit?

20 A No, they have not.

21 Q Has Rio Pecos or any of the owners in the
22 well objected to the proposed well location?

23 A No, they have not.

24 Q Have -- has Rio Pecos or anyone else ob-
25 jected to Pennzoil being the operator?

1 A No, they have not.

2 Q Has Rio Pecos suggested that they drill
3 the well?

4 A No, they have not.

5 Q Has anyone else proposed a well to you
6 for drilling in this quarter section?

7 A No, they have not.

8 Q Are you aware of anyone else actively
9 planning to drill the well other than Pennzoil for this for-
10 mation at this spacing unit?

11 A No, sir.

12 Q All right. Let's turn now, sir, to the
13 next case and discuss the land matters involved in Case
14 9267, which is the well in Section 22.

15 All right, let's look at Exhibit One,
16 which for your purposes, Mr. Whitfield, I am simply asking
17 you to ignore the Isopach lines and let's use that as a dis-
18 play to show the spacing unit, the proposed location, and
19 the various ownerships involved within the spacing unit.

20 A Okay, sir, the spacing unit will be the
21 east half of the southeast quarter, Section 22, 16 South, 37
22 East, containing 80 acres, more or less, Lea County, New
23 Mexico.

24 Pennzoil's interest prior to proposing
25 this well was 82.14 percent, which left 17.86 percent un-
leased.

1 At the time the records indicated that no
2 leases had -- had been given and the two mineral interests,
3 two mineral owners of record, which had a 5/28ths mineral
4 interest, showed to be unleased.

5 We have since learned that these inter-
6 ests have been leased to Rio Pecos, who in turn has assigned
7 that interest to Yates Petroleum, and we have since contac-
8 ted Yates, Yates Petroleum Corporation, I should say. We
9 have since contacted Yates, and incidentally, this interest
10 is broken with Yates Petroleum, with Yates Petroleum having
11 4.46 percent, Yates Drilling, another 4.46 percent, Abo Pet-
12 roleum 4.46 percent, and MYCO Industries, Inc., with 4.46
13 percent. That group, I'll refer to them as the Yates Group,
14 we contacted them with our proposal to either participate or
15 farmout that interest to us in the drilling of this well and
16 they have advised us that they're planning to participate in
17 that well. They have signed an AFE and returned it to us.
18 We have that in hand but we do not as of yet have a signed
19 operating agreement in hand.

20 Since we don't have a signed operating
21 agreement, we would like to leave them under the pooling
22 procedure at this time.

23 Q It's our hope that we can complete the
24 voluntary successful formation of this unit but in the event
25 that should not come to pass, then we would ask the Examiner

1 to process a pooling order.

2 A Absolutely.

3 Q Let's go back to the beginning, then, and
4 talk about the Medlin/Taylor interests that were unleased at
5 the time that we filed the application, or at least we
6 thought they were unleased.

7 When we talk about the Lynn Melton Medlin

8 --

9 A Yes.

10 Q And the Billy Medlin, personal represen-
11 tatives for the Medlin Estate, what fractional interest were
12 we discussing?

13 A Okay, the Lynn Melton Medlin and Billy
14 Medlin, personal representatives of the Estate of Buddy Mel-
15 ton Medlin, deceased, had a 2/28ths unleased mineral inter-
16 est.

17 Q Is that an undivided interest for the en-
18 tire 80-acre tract?

19 A That's correct.

20 Q And how about Minnie Taylor?

21 A Minnie Taylor had a 3/28ths unleased min-
22 eral interest.

23 Q And both of those interests, then, were
24 acquired by Rio Pecos, as you understand it?

25 A As we understand it. Matter of fact, we

1 have seen those -- those leases, so we are satisfied that
2 the leases have been granted to Rio Pecos.

3 We have seen an assignment from Rio Pecos
4 into the Yates Group but that assignment has not yet hit re
5 cord, another reason why we need to -- to keep them under
6 the pooling procedure.

7 Q Okay. Let's go through the rest of the
8 land exhibits at this time, Mr. Whitfield.

9 Exhibit Number Two represents the notifi
10 cations to Medlin, Taylor, Rio Pecos and Yates Corporation
11 with the return receipt cards, and if you'll move past the
12 exhibit and direct your attention to Exhibit Number Three,
13 would you identify that letter for us?

14 A Exhibit Number Three is a letter to Ms.
15 Minnie Taylor, Hope, New Mexico, wherein we contacted her
16 asking her to lease her interest to us or participate in the
17 well. We sent this letter simply because at that time the
18 interest appeared to be an unleased mineral interest.

19 Q Attached to that is an AFE?

20 A That is correct.

21 Q And did you send all the rest of these
22 individuals or companies the same AFE?

23 A That is correct.

24 Q And is that also an AFE prepared by Penn-
25 zoil's engineering --

1 A That is correct.

2 Q Let's turn to Exhibit Number Four and
3 have you identify that one.

4 A Exhibit Number Four is correspondence to
5 Lynn Melton Medlin and Billy Medlin, personal representa-
6 tives of the Estate of Buddy Melton Medlin, deceased.

7 Again this was the other unleased mineral
8 interest that we thought was unleased at the time, so we --
9 we sent them correspondence asking them to participate or
10 lease their interest to us.

11 Q Okay. Let's turn now to Exhibit Number
12 Five and have you identify that for us.

13 A Exhibit Number Five is a letter to Rio
14 Pecos Corporation wherein once we had -- we thought we'd
15 ascertained, we'd been told, although we had no way of know-
16 ing since no instruments were of record, but based on the
17 premise that Rio Pecos might have that leased, we went ahead
18 and sent Rio Pecos a letter, also, asking them to either
19 participate or farmout in the drilling of this well.

20 Exhibit Five is that correspondence to
21 Rio Pecos.

22 Q All right, sir. You've described your
23 efforts to form a voluntary unit. In the event we are un-
24 able to form -- obtain completion of the paperwork and form
25 a voluntary unit with the Yates Group, do you have a recom-

1 mendment to the Examiner as to overhead charges to be as-
2 sessed in the pooling order?

3 A Yes, sir, I would recommend the same
4 overhead charges, being \$5000 for a drilling well and \$500
5 for a producing well.

6 Q Do you have the same urgencies for com-
7 mencing this well as you had for the prior well we discussed
8 in Case 9266?

9 A Yes, sir, we do. As a matter of fact,
10 it's even a greater urgency in this -- well, it's an equally
11 as urgency in this case because in this case a 40 acres, un-
12 divided acres in the southeast quarter of Section 22 has
13 been top-leased by Rio Pecos. If we are not able to drill a
14 well by January 24th, 1988, which is the same expiration
15 date as under the other case that we just reviewed, then our
16 working interest will reduce from 80 -- will be reduced from
17 82.14 percent to 57.14 percent, so the same sense of urgency
18 exists there and again we're at the mercy of the Examiner to
19 expedite the order, if possible, to enable us to be able to
20 spud a well without Rio Pecos being able to ride us down.

21 Q All right, sir. I think that completes
22 the land testimony for Case 9267.

23 Let's turn at this time, Mr. Whitfield,
24 to the land testimony in Case 9268.

25 Again for convenience, Mr. Whitfield, if

1 you'll simply ignore the Isopach lines on Exhibit One for
2 Case 9261 (sic) and devote your attention and comments to
3 simply the arrangement of the spacing unit and the ownership
4 in the area, let me begin by having you identify for us the
5 proposed spacing unit for the well.

6 A Okay, sir. The proposed spacing unit
7 will be the east half of the southwest quarter of Section 3,
8 17 South, 37 East, 80 acres, more or less, Lea County, New
9 Mexico.

10 Q Again you're seeking to form a spacing
11 unit for Strawn and Atoka production. You anticipate the
12 production would be spaced upon 80 acres but if not, you're
13 seeking in the alternative for the 40-acre dedication and
14 spacing.

15 A That is correct.

16 Q This well is a little different from the
17 prior two in that this involves an unorthodox location?

18 A That is correct. It does involve an un-
19 orthodox location.

20 Q Would you describe for this examiner what
21 efforts Pennzoil has made to obtain approval from the Divi-
22 sion for the unorthodox oil well location?

23 A Yes, sir. Back in the first quarter of
24 1986 we had hoped to be able to drill this prospect and at
25 that time began to work on obtaining an unorthodox location.

1 We notified all offset operators and advertised. A hearing
2 was held and an order was granted on March 31st, 1987 --
3 1986 by the Division Director granting Pennzoil the unortho-
4 dox location for a well to be drilled 1310 feet from the
5 south line and 1980 feet from the west line of Section 3,
6 Township 17 South, Range 37 East, for an Undesignated Strawn
7 Pool in Lea County, New Mexico.

8 Q What's the R-number for the order? It's
9 R-what?

10 A The order number would be R-8199.

11 Q And you're proposing to pool and drill
12 the well also under this unorthodox order?

13 A Yes, sir, we are.

14 Q This, then, is the same well that you
15 obtained approval for back in March of '86.

16 A That is correct.

17 Q What was the reason for the delay in
18 getting the well drilled?

19 A Budget constraints.

20 Q At this point you're prepared to go
21 forward, though, with the drilling of this well?

22 A Yes, sir, we are.

23 Q What efforts have you made to form a
24 voluntary unit for participation in the well?

25 A We have made the same effort for this

1 well as we -- as we have under the first two wells that we
2 have discussed.

3 We have sent correspondence to all
4 working interest owners of record and all unleased mineral
5 owners of record.

6 Q Let me direct your attention to Exhibit
7 Number Two, which is the Affidavit of Mailing of notice for
8 the hearing, and turn to the attachment identifying the
9 individuals and companies involved and have you start at the
10 top of the list with the Amerada Hess Corporation and tell
11 us what efforts you have made to obtain their voluntary co-
12 operation.

13 A Okay. Exhibit Number Four shows that we
14 wrote Amerada Hess a letter on October 20th, 1987, trying to
15 get them to participate in the drilling of this well or farm
16 out their interest to Pennzoil. To date we have not been
17 able to -- to reach agreement with Amerada Hess and at this
18 time I have no idea whether they want to participate, farm
19 out or elect to be pooled. I'm assuming they're choosing to
20 be pooled.

21 Q You've had conversations on the phone
22 with an individual for Amerada Hess?

23 A Yes, we have.

24 Q And what was the substance of that con-
25 versation?

1 A They have indicated that they probably
2 will participate but we have not yet received an AFE or an
3 operating agreement.

4 Q Let's turn your attention to the Mobil
5 Producing Texas & New Mexico, Inc., I believe that's Exhibit
6 Number Three, and describe what efforts you have made to ob-
7 tain their voluntary participation.

8 A Okay, Exhibit Number 3 reflects corres-
9 pondence to Mobil offering them the same proposal as we did
10 to Amerada to either join in the drilling of this well or
11 farming out their interest to us.

12 Mobil has also indicated that they will
13 probably participate in the drilling of this well but as of
14 -- as to this date they have not yet signed an AFE or an
15 operating agreement.

16 Q If you'll turn now to the third entry on
17 the tabulation of interests, Mr. Bill Seltzer, what contacts
18 and efforts have you made to get Mr. Seltzer's interest com-
19 mitted to the well?

20 A Okay, Mr. Bill Seltzer is representing
21 Amerind Company and Amerind has elected to participate in
22 the drilling of this well. They have signed an AFE and they
23 have signed an operating agreement, so we are releasing them
24 from -- from the application at this time.

25 Q The Harvey E. Yates Company?

1 A The Harvey E. Yates Company, and again I
2 refer this to the Harvey E. Yates Group because it is the
3 Harvey E. Yates Company, Explorers' Petroleum Corporation,
4 and Spiral, Inc., we contacted them on numerous occasions.
5 As of yesterday they advised me that they will probably par
6 ticipate but we do not have an AFE from them or an operating
7 agreement, signed operating agreement in hand.

8 Exhibit Number Six shows where we contac
9 ted Harvey E. Yates Company, Explorers' Petroleum Corpora-
10 tion, and Spiral, Inc., asking them to either participate or
11 farm out their interest in the drilling of this well.

12 Q I turn your attention now to Yates Energy
13 Corporation and ask you to describe your efforts to obtain
14 their voluntary cooperation.

15 A Exhibit Number Five shows that we attemp-
16 ted to contact Yates Energy Corporation. Again Yates Energy
17 Corporation has indicated that they will probably partici-
18 pate in the drilling of the well but we, as of yet, we do
19 not have an AFE, a signed AFE or operating agreement from
20 them.

21 Q There's three more entries on the tabula-
22 tion of interests attached to Exhibit Number Two. Would you
23 go through each of those?

24 A Yes. The first entry is Miss Sue Anne
25 Stolenburg Campbell. We're releasing her from -- from the

1 application at this time because she has elected to partici-
2 pate. She has signed an AFE and she has signed an operating
3 agreement.

4 Inexco, Inc., is the next entry. We're
5 releasing them from the application at this time because
6 they also have signed an AFE and operating agreement and
7 have elected to participate.

8 The last entry is Mrs. Lynn Waite Stolen-
9 burg Ray. We're releasing her from the pooling procedure at
10 this time because she has also signed an AFE and an operat-
11 ing agreement.

12 Q When does Pennzoil propose to commence
13 the drilling of this well, Mr. Whitfield?

14 A Again we want to drill this well just as
15 soon as possible. We would like to drill the well, if -- if
16 -- we'd hoped if we could have gotten voluntary approval by
17 December 1st, or the middle or no later than December the
18 15th of this year. We have a lease expiration problem, a
19 lease expiring January 4th of '88, so if we do not get this
20 well down, we've got a similar problem.

21 Q Again what is your recommendation to the
22 Examiner for overhead charges for the drilling of this well?

23 A I recommend \$5000 for a drilling well,
24 \$500 for a producing well.

25 MR. KELLAHIN; That concludes

1 my examination of Mr. Whitfield with regards to the land
2 testimony involved in each of these three cases.

3 We would move the introduction
4 of the exhibits in each of these cases and I'll have to rely
5 on Sally to tell me what numbers we ended up with, because
6 I've lost track.

7 THE REPORTER: 9266 is Exhibits
8 Two through Twenty.

9 MR. CATANACH: Okay.

10 THE REPORTER: 9267 is Exhibits
11 One through Five.

12 MR. CATANACH: Okay.

13 THE REPORTER: 9268 is Exhibits
14 One through Six.

15 And then there is that one that
16 is for all of them.

17 MR. KELLAHIN: That's the great,
18 big plat.

19 MR. CATANACH: Okay, Exhibits
20 Two through Twenty in 9266 are admitted as evidence.

21 Exhibits One through Five in
22 Case 9267 is hereby admitted as evidence.

23 And Exhibits One through Six in
24 Case 9268 are admitted, and also Exhibit One, which has been
25 designated for all three cases, 9266, 9267, and 9268, will

1 be admitted.

2 MR. KELLAHIN: We're going to
3 mark that big plat One-A so we can find it a little easier.

4 MR. TAYLOR: It has been refer-
5 red to originally, I think, as One.

6 MR. CATANACH: I don't have any
7 questions of the witness. I would just like to point out
8 the advertisement in Case 9268 states that you would either
9 like to dedicate 40 or 80 acres and the 40 acres would be
10 the southwest quarter southwest quarter, and I don't think
11 that's correct. It should be southeast quarter southeast
12 quarter.

13 MR. KELLAHIN: Take a moment
14 and see.

15 Mr. Examiner, in light of your
16 comment we have re-examined the situation with regards to
17 the possibility of a 40-acre Atoka dedication for Case 9268.
18 We believe that will be unnecessary and we would withdraw at
19 this time any request for a pooling order for the Atoka
20 portion of the case and would confine our efforts for a
21 pooling order to any 80-acre oil spacing principally invol-
22 ved, which is the Strawn formation.

23 MR. CATANACH: Okay, at this
24 time we'll just dismiss that portion of the application
25 requesting a 40-acre proration unit.

1 MR. KELLAHIN: We're prepared
2 to call our next witness at this time, if that's acceptable.

3 MR. CATANACH: Okay.

4 MR. KELLAHIN: Mr. Examiner, at
5 this time we'd call Mr. James Barr. He's our geologic wit-
6 ness for Pennzoil.

7

8 JIM L. BARR,
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. Barr, for the record would you please
15 state your name and occupation?

16 A Yes. My name is Jim L. Barr. I don't go
17 by James and it's an illegal name for me. It's Jim, and I
18 am a Senior Explorationist for Pennzoil Company.

19 Q Have you previously testified as an ex-
20 pert petroleum geologist before the Oil Conservation Divi-
21 sion, Mr. Barr?

22 A Yes, sir, I have.

23 Q And pursuant to your employment as a geo-
24 logist for Pennzoil have you made a study of the geologic
25 factors surrounding each of the three applications before

1 the Examiner today?

2 A Yes, I certainly have.

3 Q Included in that study have you made an
4 assessment of what in your opinion ought to be the risk fac-
5 tor penalty percentage to be assessed against each of the
6 nonconsenting interest owners involved in each of the three
7 forced pooling cases?

8 A Yes, I have. I certainly have.

9 MR. KELLAHIN: We tender Mr.
10 Barr as an expert petroleum geologist.

11 MR. CATANACH: He is so quali-
12 fied.

13 Q Mr. Barr, for each of the three cases
14 what is your opinion of the risk factor penalty that ought
15 to be assessed?

16 A Well, in the area that we're talking
17 about with these mounds, it's a very risk thing and I would
18 say that just straight out you're talking about 800 to 1000
19 percent, but with integration of geological data and geophy-
20 sics, we get it worked down to somewhere into the 200 to 400
21 percent range.

22 So I think a 200 percent range (not
23 clearly understood) is more than needed in terms of the risk
24 factor for these mounds.

25 Q And putting that in context of the Exam-

1 iner's authority under the statute for a penalty factor
2 which allows him to award Pennzoil out of production any
3 nonconsenting working interest owner's cost of the well plus
4 two more times. That's the maximum.

5 A Yes. I think that should be levied
6 against them.

7 Q Well, let's talk about the reasons that
8 you have reached that conclusion.

9 Let's start with the Exhibit One-A, which
10 is the large plat, and address yourself generally to the
11 types of geologic risks that you're encountering in your ex-
12 ploration for Strawn production.

13 A I think in terms of the history and our
14 track record out here, we can see here that starting up on
15 the north up here we have to our west of the Section 14, and
16 we have one in Section 16, we drilled the Pennzoil No. 2
17 State, which was a dry hole.

18 Subsequent to the data that we gained
19 from that we have drilled the Pennzoil No. 3, and most re-
20 cently the Pennzoil No. 4 up in the northwest quarter.

21 Also, during the same period of time
22 Mobil has come in to Section 15, re-entered the Standard of
23 Texas Well there, and has re -- I understand has plugged it.

24 Moving down to the southwest quarter of
25 Section 16 we have a case there where we drilled the Penn-

1 zoil State No. 1 and then in Section 21, in the northwest
2 quarter we have a dry hole, and then south of that we now
3 have a producing well.

4 Moving further south, down into Township
5 17, excuse me, Township 17 South, directs our attention to
6 Section 3. We have the Waldron 1 there, which we drilled.
7 It was dry. It was a thin section. And to the northeast of
8 it, based upon geologic data, we have successfully drilled
9 the Meyers No. 1 and the Waldron No. 2.

10 Another case that we went before the Com-
11 mission and asked for an exceptional location was in the
12 very southern part of Section 4. We have the Viersen No. 3,
13 in which case we have it being exactly 300 feet from the
14 bottom hole location of the Exxon Well No. 2 in Section 9.

15 The well in Section 9 by Exxon is meeting
16 its allowable; the Viersen No. 3 should never have had cas-
17 ing put in it.

18 Literally, it's a -- almost a dry hole.

19 So here we have a case here that within
20 really, 300 feet we have a well that's made allowable and we
21 have a well that should be a dry hole.

22 So it is a very risky business. We know
23 that all the geology that we've put into it, both the well
24 data and the geophysics, especially the geophysics, is not
25 infallible.

1 We have a high risk factor in here and we
2 can get some dry holes.

3 MR. KELLAHIN: For the record,
4 Mr. Examiner, this display which is marked as Exhibit One-A
5 is also shown in this package of exhibits for Case 9266 as
6 Exhibit Twenty-one.

7 Q Let me direct your attention, now, Mr.
8 Barr, to Exhibit 22 for Case 9266, and would you identify
9 that exhibit for us?

10 A This is an Isopach map of the Lower
11 Strawn Lime. It's in Township 16 South, 37 East, and at its
12 center is the Section 16 with the surrounding parts of those
13 sections surrounding it.

14 In this particular case we've identified
15 the Pennzoil acreage, as well as the proration units that we
16 proposed before the Commission a couple of months ago.

17 At that time we were requesting that --
18 to drill the Pennzoil State Four, which is in the southeast
19 of the northwest quarter there in that 80-acre proration
20 unit. We have subsequently drilled that well. It is a suc-
21 cessful well and is now being -- we're pressure testing
22 right now but it will be put on production momentarily.

23 Q In looking at this portion of the Strawn
24 development in the area, it does demonstrate at relatively
25 large number of wells or tests for the Strawn. Can you use

1 this as an example to demonstrate for us the kinds of inher-
2 ent risks that are involved in drilling for Strawn produc-
3 tion even when you have wells 80 acres apart?

4 A Oh, yes. I think it -- of course in Sec-
5 tion 16 we drilled the Pennzoil Oil 16-1 down there, but
6 then we drilled the State 16-2 up there, which was on an in-
7 tegrated anomaly from seismic and geology, and we ended up
8 with a dry hole and a thin section.

9 Subsequent to that time we drilled the
10 State 16-3 and had a successful well there and it's produc-
11 ing today.

12 To the east of us is the Standard of Tex-
13 as State B-15. It was a dry hole and Mobil has come back in
14 and attempted to recomplete that and I understand quite an
15 extensive recompletion attempt, and now dry.

16 Down in the southwest corner we do have
17 the State 16-1 and south of it the Pennzoil State 21 No. 1.
18 It's a dry hole and it's sitting right between two produc-
19 ing wells.

20 So there is a decided risk factor here
21 exploring for these mounds.

22 Q Let's go down to your specific geologic
23 evaluation of the well to be drilled in Section 14 pursuant
24 to Case 9266, and in that regard let me direct your atten-
25 tion to Exhibit Twenty-three in Case 9266.

1 Did you prepare that exhibit?

2 A I certainly did.

3 Q Would you describe for the Examiner the
4 information and data by which you made this interpretation?

5 A What we've constructed is a series of
6 maps and most specifically an Isopach map over the whole
7 area, with your map up here, One-A.

8 We have a general thickening of the Lower
9 Strawn Lime from the west of less than 100 feet going to the
10 east of where the Strawn Lime is over 270 feet. A use of
11 well data and geophysics in the areas where we see an anoma-
12 ly, then we zero in on that additional geophysics and any
13 other information that we gain, then we propose to drill a
14 well on that particular anomaly.

15 An example of this, or the problems that
16 can be inherent to this is an example of the 16-2, we
17 thought we had a good anomaly there and it's a dry hole.

18 Q In developing a location in Section 14,
19 did you have the benefit of having subsurface control within
20 the section?

21 A We have none within the section but we
22 have a well in Section 13 to the east that was drilled by
23 LL&E, had 270 feet of Lower Strawn Lime in it, and in Sec-
24 tion 15 to the west, we have two wells there, one of them is
25 the NH (unclear) Petroleum Company and had 243 feet of Lower

1 Strawn Lime in it. The Standard of Texas well had 216 feet,
2 if I remember correctly.

3 So we did have some input but not in the
4 immediate section.

5 Q What is your opinion, then, of the geolo-
6 gic risk and percentage risk factor penalty that ought to be
7 assessed for this specific well?

8 A I think at least a minimum of 200 per-
9 cent. This has less well control around it and it's a much
10 riskier endeavor.

11 Q Let's turn to the Isopach that you've
12 prepared in Case 9267, which I believe is identified as --
13 Mr. Barr, referring you to Pennzoil Exhibit Number One in
14 Case 9267, would you identify and describe that exhibit?

15 A This is an Isopach map of the Lower
16 Strawn Lime underlying the (unclear) location, the location
17 for the well, and we show here that we do have an anomaly of
18 the Lower Strawn Lime thickness. In addition, we do have
19 well control to the southwest down here in the area of the
20 plat that's shown here. I might also add that we do have
21 other well control in the area that's west of the location,
22 and that's the Magnolia (unclear) Shipp in Section 22, just
23 off the plat.

24 Q What is your opinion about the risk fac-
25 tor penalty that ought to be assessed in this case for that

1 well?

2 A I think it should be the 200 percent.

3 Q Let's turn now to the Isopach that
4 you're prepared for Case 9268, which is also marked as Exhi-
5 bit Number One for that case.

6 A Okay. This is an Isopach of the Lower
7 Strawn Lime under the Pennzoil No. 1 Simmons location, and
8 in this particular case we've shown a normal thickening of
9 the Lower Strawn Lime. As you can see here in this imme-
10 diate area, we have well control here but yet we still have
11 a very high geological risk.

12 We have the Pennzoil No. 1 Waldron there,
13 which was drilled as a dry hole and it was offset to the
14 southwest by a successful well, the No. 1 Viersen. And im-
15 mediately to the northeast of the No. 1 Waldron but just off
16 the plat are the Meyers and the Waldron wells, which both
17 were successful in the -- in producing their allowables on
18 their (inaudible.)

19 Q Again, Mr. Barr, for this particular well
20 what is your opinion and recommendation for a risk factor
21 penalty to be assessed?

22 A 200 percent.

23 MR. KELLAHIN: Mr. Examiner,
24 that concludes my examination of Mr. Barr.

25 We would move the introduction

1 of the following exhibits: In Case 9266, Exhibits Twenty-
2 one through Twenty-three. In Case 9267, Exhibit One, the
3 geologic portion of that exhibit. And then in 9268, the
4 geologic portion of Exhibit Number One.

5 MR. CATANACH: Exhibits Number
6 Twenty-one through Twenty-three in Case 9266 will be admit-
7 ted as evidence.

8 Exhibit Number One, the geolo-
9 gic portion of Exhibit Number One in Case 9267 will be
10 admitted into evidence.

11 And the geologic portion of Ex-
12 hibit Number One in Case 9268 will be admitted into evi-
13 dence.

14 And I have no questions of the
15 witness.

16
17 RANDY HODGINS,
18 being called as a witness and being duly sworn upon his
19 oath, testified as follows, to-wit:

20
21 DIRECT EXAMINATION

22 BY MR. KELLAHIN:

23 Q All right, sir, would you please state
24 your name and occupation?

25 A My name is Randy Hodgins and I'm a

1 petroleum engineer for Pennzoil Company.

2 Q Mr. Hodgins, have you previously testi-
3 fied as an engineer before the Oil Conservation Division?

4 A Yes, I have.

5 Q And have you made an evaluation and a
6 study of the estimated well costs that Pennzoil proposes for
7 each of these three wells?

8 A Yes, I have.

9 Q Let me direct your attention to the AFE
10 that was introduced in Case 9266 and we'll take any of the
11 copies of that AFE. I will simply show you the one attached
12 to the Rio Pecos cover letter. Have you reviewed that AFE?

13 A Yes, I have. As a matter of fact, I pre-
14 pared this AFE.

15 Q Would you describe generally the process
16 you go through on behalf of Pennzoil for the obtaining of
17 data in order to satisfy yourself that your AFE costs are
18 current and that they represent fair and reasonable costs?

19 A Yes. I've been involved with this place.
20 It's just really gotten heated up, you could say, in the
21 last couple of years, and I've -- I send out the contracts
22 for the drilling, make recommendations on who to use; did
23 the services and contract services and some supplies that we
24 need to drill these wells and I see the invoices when they
25 come in, and based on -- based on seeing these numbers on

1 each well, that's the numbers that I use for the next AFE I
2 prepared for the next well.

3 Q How long have you been involved in making
4 the AFE estimates and reviewing actual well costs in the
5 Strawn area?

6 A I've been involved in the past, either
7 preparing directly or assisting in preparing, all of our
8 AFE's for the past couple years in this area.

9 Q In approximately how many wells have you
10 participated in the preparation of the AFE's on for this
11 area?

12 A Well, we've -- in the last two years with
13 the discovery of the Shipp Field, we've drilled nine wells.
14 I've been aware of the costs on all those wells and how
15 they've -- how they've been going up or down. And Pennzoil
16 has been active in the Northeast Lovington for almost twenty
17 years. We've drilled -- in the past couple years that I've
18 been involved we've drilled three wells in Northeast Loving-
19 ton, which I've seen the costs.

20 Q Let's take the proposed well costs for
21 the Case 9266 and have you simply tell the Examiner what the
22 estimated total costs are for that well.

23 A That's the (unclear) Medlin?

24 Q Yes, sir.

25 A 9266?

1 Q Yes.

2 A The total dry hole cost is \$433,400. A
3 completed producer, we have estimated the cost of \$817,300.

4 Q When we turn to the well to be drilled
5 pursuant to Case 9267, it's the Mod Medlin No. 1. Let me
6 show you that AFE. Did you prepare that AFE?

7 A Yes, I did.

8 Q And what are the estimated costs for that
9 well?

10 A The estimated dry hole cost is \$430,900.
11 The estimated completed cost, \$813,300.

12 Q All right, and with regards to the well
13 to be drilled for Case 9268, that's the Simmons No. 1 Well,
14 I'll show you that AFE which was attached to one of the not-
15 ice letters, did you also prepared that AFE?

16 A Yes, I did.

17 Q And what are the estimated total costs
18 for that well?

19 A The dry hole cost we have estimated
20 \$407,300; a completed cost we have estimated at \$772,050.

21 Q At the time you prepared those AFE's, in
22 your opinion did they represent fair and reasonable costs by
23 which the Examiner could enter forced pooling orders?

24 A Yes.

25 Q Have you had an opportunity since prepar-

1 ing those AFE's to re-examine the costs involved for each of
2 those wells?

3 A Yes.

4 Q Let me direct your attention to what is
5 marked as Exhibit Number Twenty-four in Case 9266, which is
6 a letter from Rio Pecos to Pennzoil Company in which Mr.
7 Wilson attaches three different AFE's to that letter.

8 Are you familiar with that letter and
9 those AFE's?

10 A Yes.

11 Q What review and investigation did you
12 make concerning each of those AFE's that are depicted on
13 that Exhibit Twenty-four?

14 A In anticipating questions from other
15 operators, as well as questions from the Examiner, I
16 prepared an analysis of current drilling costs in the area.

17 Q And have you made that analysis and put
18 it in the form of a display?

19 A Yes.

20 Q An exhibit? Is that Exhibit Number
21 Twenty-five?

22 A Yes, it is.

23 Q Let me direct your attention to Exhibit
24 Number Twenty-five and have you lead us through the display,
25 demonstrating the way you have analyzed your costs versus

1 the AFE's that Mr. Wilson sent you and what conclusions
2 you've reached about your costs.

3 All right, let's start with the exhibit
4 and first tell us how you've organized the information.

5 A Okay. Exhibit Number Twenty-five is --
6 summarizes current drilling costs that we've seen in the
7 Lovington -- Northeast Lovington and Shipp Fields. It in-
8 cludes several Pennzoil operated wells, as well as several
9 non-Peenzoil operated wells.

10 The well name and operators is listed in
11 the extreme lefthand column. Each well has listed its pro-
12 posed depth, the date at which the AFE was written. We have
13 shown the AFE, the estimated dry hole cost, the estimated
14 producer costs of all the AFE's, as compared with the actual
15 dry hole cost and actual producer cost of drilling these
16 wells. And we also show that -- the over and under cost of
17 the estimates as compared with the actual cost, as well as
18 some remarks out to the extreme righthand column.

19 Q Does this tabulation or summary include
20 the three AFE's that Mr. Wilson sent you?

21 A Yes, it does.

22 Q And would you identify those for us on
23 Exhibit Twenty-five?

24 A The first well is the Shipp 34-4, oper-
25 ated by Union of Texas Petroleum.

1 Q What's the next one?

2 A The second well is the "BE" Shipp 28 No.
3 1. I think the name of that may have been -- Amerind is the
4 operator and they have changed that to the "BE" Shipp No. 3.

5 Q All right, and what's the third AFE?

6 A The third non-Pennzoil AFE is the Burton
7 "AER" Com No. 1, operated by Yates Petroleum.

8 Q What is your ultimate conclusion after
9 making a study and review of the AFE's, including those sub-
10 mitted to you by Mr. Wilson, in deciding whether or not the
11 three AFE's you have shown the Examiner for each of the
12 three wells for today's pooling case are still fair and
13 reasonable?

14 A I think -- I think the exhibit shows that
15 we have done a good job on trying to estimate what our ac-
16 tual drilling costs are going to be. The exhibit, on some
17 of these outside operated wells, are -- shows that their
18 costs are somewhat lower than Pennzoil's but there's --
19 there's reasons for that, which I don't know if you want to
20 get into now.

21 Q We'll discuss them in a minute.

22 A And really that Pennzoil is pretty much
23 in line with the industry as far as our AFE estimates and
24 our actual drilling costs.

25 Q In having the opportunity to re-examine

1 your AFE and make comparisons between those three AFE's
2 you've presented today and what other operators are doing,
3 describe for us in what categories or general ways there ap-
4 pears to be significant differences in dollars.

5 A There are several, several things that
6 Pennzoil traditionally does that I've noticed some of the
7 other -- other AFE's do not include, particularly the Amer-
8 ind AFE.

9 Pennzoil uses new pipe. Amerind, I note,
10 uses -- sometimes uses used B-condition pipe.

11 The cost of tubulars, they're on the rise
12 now and that really makes a significant difference in the
13 AFE cost.

14 We core our wells. Our AFE's include
15 cost for a 60-foot core.

16 We log more, open hole. We do more open
17 hole logging to evaluate any potential behind pipe that's
18 above the Strawn, or primary target.

19 We -- we utilize vapor recovery units on
20 the production -- production facilities, which captures
21 vapors off of our production tanks, which we've found to be
22 economical and we can justify those costs. That's a sub-
23 stantial -- that's roughly \$15,000 for a vapor recovery
24 unit.

25 We use LAC units to automatically sell

1 our oil, which is economical. We can sell oil twenty-four
2 hours a day. We've had good luck with those and the cost of
3 those are \$1250, \$1000.

4 Those are some major -- major items that
5 I saw.

6 Q Is there any major difference in the cost
7 allocations for completion and stimulation of wells? Did
8 you see any of that?

9 A No.

10 Q Have you made a further study with re-
11 gards to the cost comparisons or estimated cost comparisons
12 between Strawn wells that were drilled last spring and what
13 you might expect to pay for the same kinds of wells in to-
14 day's drilling?

15 A Yes, I have.

16 Q Let me direct your attention to Exhibit
17 Number Twenty-six, Mr. Hodgins, and have you identify and
18 describe that exhibit.

19 A This exhibit is not meant to be used on
20 any particular AFE. It's merely an exhibit to show that
21 drilling costs are increasing. The biggest item that we see
22 is increasing at an alarming rate is tubulars. This exhibit
23 shows percent increases just over the last -- from May to
24 October, which -- which is -- drilling costs are increasing.

25 Q How did you arrive at these estimates?

1 A They are from actual invoices. From the
2 May I used the 16 -- or the (unclear) 2 Well that we drilled
3 last spring. I used the invoices from that well as compared
4 with the invoices from a recent well, the 16-4, that we
5 drilled just last month. These numbers are either directly
6 off of invoices or directly from bids that we received.

7 Q In your opinion should any of the three
8 AFE's you've submitted to the Examiner as reasonable costs
9 for the drilling of each of these wells, should any of those
10 be changed?

11 A No.

12 Q In your opinion they still represent ac-
13 curate and reasonably estimates of costs for the wells?

14 A Yes.

15 MR. KELLAHIN: That concludes
16 my examination of Mr. Hodgins. We would move the introduc-
17 tion of his exhibits in Case 9266. They're Exhibits TWenty-
18 four, Twenty-five, and Twenty-six.

19 MR. CATANACH: I'm sorry, could
20 you go over them again?

21 MR. KELLAHIN: Yes, sir.
22 They're intended to apply to all three cases but they are
23 numbered for identification as Exhibits Twenty-four, Twenty-
24 five and TWenty-six in Case 9266.

25 MR. CATANACH: Okay, we already

1 admitted those, didn't we?

2 MR. KELLAHIN: I believe we
3 stopped at Twenty-three.

4 MR. CATANACH: Okay, Exhibits
5 Twenty-four, Twenty-five, and Twenty-Six in Case 9266 will
6 be admitted into evidence.

7 MR. KELLAHIN: That concludes
8 my examination of Mr. Hodgins.

9

10 CROSS EXAMINATION

11 BY MR. CATANACH:

12 Q Mr. Hodgins, there's a difference in the
13 -- in the AFE's for the Simmons No. 1 and the (unclear)
14 Medlin No. 1. What do you attribute that difference to?

15 A The difference in total, total cost?

16 Q Yeah, right.

17 A There's a difference in depth. That's
18 the main contributing factor.

19 MR. CATANACH: That's -- that's
20 all the questions I have.

21 The witness may be excused.

22 MR. KELLAHIN: That's all we
23 have, Mr. Examiner.

24 MR. CATANACH: Okay. There
25 being nothing further in Case 9266, 9267, and 9268, these
cases will be taken under advisement.

(Hearing concluded.)

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C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY that the foregoing Transcript of Hearing before the Oil Conservation Division (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. 2206, 9267, heard by me on November 18 19 87. 9268
David R. Catamb, Examiner
Oil Conservation Division