

CASE NO.

7455

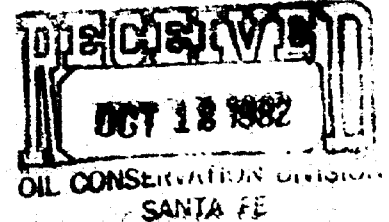
APPLICATION,
TRANSCRIPTS,
SMALL EXHIBITS,
ETC.

H. L. BROWN, JR.
PARAGON TOWER, SUITE 412
600 N. MARIENFELD
POST OFFICE BOX 2237
MIDLAND, TEXAS 79702
915 683-5216

October 7, 1982

State of New Mexico
Oil Conservation Division

All Working Interest Owners



RE: VLS #1 Well
Case No. 7455
Order No. R-6931
Roosevelt County, NM
HLBJr Ls #396-1655

In compliance with the captioned Order, H. L. Brown, Jr. has drilled and completed the VLS #1 Well. In further compliance with said Order and with specific reference to numbered paragraph 5 thereof, we attach an itemized schedule of the actual well costs concerned with the VLS #1 Well.

These costs are to be established as the reasonable well costs unless objections thereto are received by the Oil Conservation Division within 45 days after the receipt of the enclosed itemized schedule.

Very truly yours,

H. L. BROWN, JR.

by: 

James H. Shaw

JHS:tg

396 NORTHWEST MARTIN BAKER
1655 0 VLS
1 VLS #1

	BUDGET AMT	ACTUAL AMT	----- VARIANCE -----		%
			OVER	UNDER	
INTANGIBLE DRILLING COSTS *					
10 CONTRACT DRILLING FOOTAGE	110,600.00	137,572.72	(26,972.72)		24%
70 ELECTRIC LOGGING	16,000.00	0.00		16,000.00	100%
90 RADIOACTIVITY LOGGING	0.00	11,575.64	(11,575.64)		0%
10 TEMPERATURE SURVEY	800.00	610.75		189.25	24%
20 BOTTOM HOLE PRESSURE TEST	0.00	2,058.60	(2,058.60)		0%
40 EQUIPMENT RENTALS	0.00	30,976.23	(30,976.23)		0%
50 LABOR - CONTRACT & COMPANY	7,000.00	15,182.11	(8,182.11)		117%
70 WATER - DRILLING	10,000.00	8,137.36		1,812.64	13%
30 DIGGING & FILLING PITS	1,000.00	0.00		1,000.00	100%
90 LOCATION & ROAD PREPARATION	20,000.00	18,269.51		1,730.49	9%
00 TRANSPORTATION & TRUCKING	5,000.00	10,395.26	(5,395.26)		108%
10 CEMENTING - SURFACE	5,300.00	6,949.54	(1,649.54)		31%
20 CEMENTING - INTERMEDIATE	12,000.00	12,927.01	(927.01)		8%
30 CEMENTING - PRODUCTION STRING	16,000.00	8,915.67		7,084.33	44%
40 DRILLING MUD & CHEMICALS	8,500.00	12,435.52	(3,935.52)		46%
50 PERFORATING	5,000.00	3,398.72		1,601.28	32%
60 ACIDIZING & FRACTURING	38,000.00	10,176.78		27,823.22	73%
70 ENGINEERING SERVICES	2,800.00	8,119.16	(5,319.16)		190%
80 GEOLOGICAL SERVICES	1,800.00	536.36		1,263.64	70%
90 DRILLING OVERHEAD	5,000.00	4,463.87		536.13	11%
00 RIGHT-OF-WAY & LOCATION SITE	5,000.00	2,500.00		2,500.00	50%
10 FLOATING EQUIPMENT	2,000.00	1,277.64		722.36	36%
20 SCRATCHERS & CENTRALIZERS	300.00	2,413.74	(1,613.74)		202%
30 WELDING	3,000.00	208.06		2,792.00	93%
40 COMPLETION UNIT	16,000.00	12,588.45		3,411.55	21%
60 MISCELLANEOUS I.D.C.	0.00	11,878.53	(11,878.53)		0%
70 OTHER INTANGIBLE DRLG COSTS	29,600.00	3,729.38		25,430.62	87%

((MORE))

396 NORTHWEST MARTIN BAKER
1655 0 VLS
1 VLS #1

INTANGIBLE DRILLING COSTS *
SUBTOTAL:

BUDGET AMT	ACTUAL AMT	OVER	VARIANCE	UNDER	%
320,760.00	337,346.55	(16,586.55)			5%

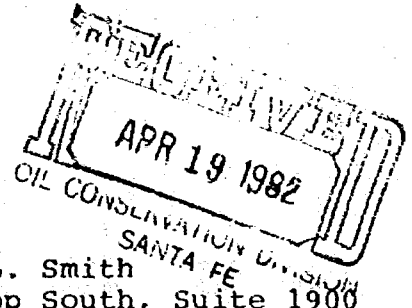
EASE & WELL EQUIPMENT - NEW *
10 CASING - SURFACE - NEW
20 CASING - INTERMEDIATE - NEW
30 CASING - PRODUCTION - NEW
40 TUBING - NEW
50 WELL HEAD - NEW
70 BOTTOM HOLE PUMP - NEW
20 LINE PIPE & CONNECTIONS - NEW
30 TANK BATTERY & CONNECTIONS - NEW
60 INTANGIBLE INSTALL COSTS - NEW
70 NON-CONTROLABLE MATERIAL - NEW
80 GAS PRODUCTION UNIT - NEW
SUBTOTAL:

10,612.00	8,891.20	(11,640.71)	1,720.80		16%
39,984.00	51,624.71	(18,722.92)			29%
41,622.00	60,344.92	(1,380.34)			45%
26,702.00	28,082.34	(9,307.87)			5%
11,000.00	20,307.87				85%
4,000.00	0.00		4,000.00		100%
3,000.00	0.00		3,000.00		100%
10,000.00	18,173.50	(8,173.50)			82%
5,000.00	0.00		5,000.00		100%
0.00	(97.71)		97.71		0%
20,000.00	0.00		20,000.00		100%
171,920.00	187,326.83	(15,406.83)			9%

TOTAL:	492,680.00	524,673.38	(31,993.38)		6%
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H. L. BROWN, JR.
323 WEST MISSOURI
POST OFFICE BOX 2237
MIDLAND, TEXAS 79701
915 683-5216

April 14, 1982



Energy Reserves Group
1509 West Wall
Midland, Texas 79701

Mrs. Vivian L. Smith
2000 West Loop South, Suite 1900
Houston, Texas 77027

Phillips Petroleum Company
4001 Penbrook
Odessa, Texas 79762

Re: Our Ls. #1655-1, Prospect
#396
S/2 Sec. 11, T-6-S, R-33-E,
Roosevelt Co., New Mexico

Ladies and Gentlemen:

Reference my letter of April 6th concerning captioned. Please find attached hereto the following:

1. Title Opinion covering the captioned dated January 4, 1982, from Cotton, Bledsoe, Tighe and Dawson
2. Xerox copy of New Mexico Oil Conservation Commission division order #R-6931. *(Not enclosed)*

In my letter of April 6th under ownership, I incorrectly attributed 40 acres to Phillips Petroleum Company in the S/2. According to the Title Opinion they only have 10 acres. Shown below is the correct ownership of the S/2:

Phillips Petroleum Co.	10/320.....	3.125%
Energy Reserves Group	230/320.....	71.875%
Vivian L. Smith	40/320.....	12.5%
H. L. Brown, Jr.	40/320.....	12.5%

Please be advised that I have today signed a contract with Verna Drilling Company and plan to commence this well as soon as possible.

Very truly yours,

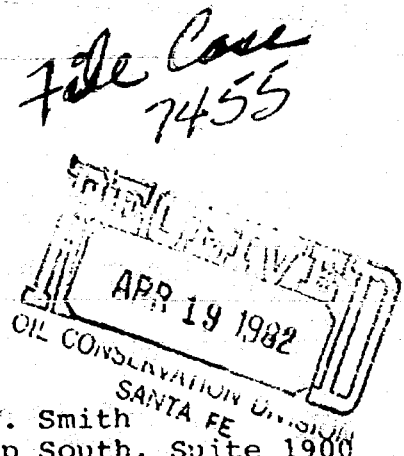
H. L. Brown, Jr.
H. L. Brown, Jr.

HLB:mh

cc: New Mexico Oil Conservation Division

H. L. BROWN, JR.
323 WEST MISSOURI
POST OFFICE BOX 2237
MIDLAND, TEXAS 79701
915 683-5216

April 14, 1982



Energy Reserves Group
1509 West Wall
Midland, Texas 79701

Mrs. Vivian L. Smith
2000 West Loop South, Suite 1900
Houston, Texas 77027

Phillips Petroleum Company
4001 Penbrook
Odessa, Texas 79762

Re: Our Ls. #1655-1, Prospect
#396
S/2 Sec. 11, T-6-S, R-33-E,
Roosevelt Co., New Mexico

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Please be advised that I have today signed a contract with Verna Drilling Company and plan to commence this well as soon as possible.

Very truly yours,

H. L. Brown, Jr.

HLB:mh

cc: New Mexico Oil Conservation Division

COTTON, BLEDSOE, TIGHE & DAWSON

A PROFESSIONAL CORPORATION

ATTORNEYS AT LAW

SUITE 2005 FIRST NATIONAL BANK BUILDING

MIDLAND, TEXAS 79701

TELEPHONE (915) 684-5782
P. O. BOX 2775 ZIP 79702

WM. H. COTTON
HUBERT C. BLEDSOE
CHARLES L. TIGHE
ROBERT H. DAWSON
TAYLOR HEND
ROBERT H. HUBBARD
RICHARD T. HAYES
JOHN A. WOODS JR.
JAMES C. CONSIDINE
BARRY N. REED
ALAN H. METERS
C. D. DANIEL, JR.
LYNN C. DUBHAM, JR.
MAE E. WRIGHT
DEBORAH S. HENDERSON

No. 9177

HLB, Jr. - Prospect No. 396

H. L. Brown, Jr.
P. O. Box 2237
Midland, Texas 79702

Attention: Mr. Webb Walker, Jr.

ORIGINAL TITLE OPINION covering the following described lands
located in Roosevelt County, New Mexico:

Township 6 South, Range 33 East, N.M.P.M.

Section 11: S/2, containing 320 acres,
more or less.

Dear Sir:

We have examined the following:

PRIOR TITLE OPINION AND ABSTRACT

1. Original lease purchase opinion dated February 18, 1969, by Stubbeman, McRae, Sealy & Laughlin (Robert C. Bledsoe), covering SE/4 Section 11 and other lands and based upon abstracts of title certified from inception of the records to January 23, 1969, at 12:00 noon.

2. Supplemental and Complete Abstract of Title No. 13,568 certified by Graham Abstract Company, Inc. as covering the mineral estate only in SE/4 Section 11 since January 23, 1969, at 12:00 noon and as covering the mineral estate only in SW/4 Section 11 from inception of the records, all down to December 7, 1981, at 7:00 a.m., containing 294 pages.

FEE TITLE TO OIL, GAS AND OTHER MINERALS

Based upon an examination of the foregoing abstract and materials, and subject to the requirements and comments hereinafter made, it is our opinion that title to the oil, gas and other minerals (including leasing rights, bonuses, delay rentals and royalties) in the captioned land is vested as follows:

A. SE/4 Section 11:

H. L. Brown, Jr., a single man	1/4
Vivian L. Smith, individually and as Ancillary Executrix of the Estate of R. E. Smith, deceased	1/4
J. M. Miller, husband of Lela D. Miller	3/8
Gertrude G. Alstrin, a widow	1/16
Richard A. Lisman.	1/64
E. Diane Lisman.	3/64*

H. L. BROWN, JR., HIS SUCCESSORS OR AS-
SIGNS OR THE WRITERS OF THIS TITLE OPIN-
ION DO NOT ACCEPT ANY RESPONSIBILITY
FOR NOR IN ANY WAY GUARANTEE THE
ACCURACY OR THE CONTENTS OF THIS
OPINION.*

*Subject to an undivided 3/128 interest in the royalty,
nonparticipating, vested in Marian B. Lisman.

B. SW/4 Section 11:

Shelley Louise Floyd, a single woman	1/4
Mark Russell Floyd, a single man	1/4
Malcolm G. Garrett and wife	
Donna Jean Garrett	1/8
Michael T. Garrett and wife,	
Clare Ann Garrett.	1/8
Charles Wiseman, husband of	
Mable Wiseman.	1/32
Gil K. Phares, Trustee	1/32
Rush Herefords, Inc.	3/32
Marland E. Davis and wife	
Darlene D. Davis	3/32

OIL AND GAS LEASES

A. Covering SE/4 Section 11:

Lease 1:

Dated: May 20, 1976.
Recorded: 87 OGLR 981.
Lessor: J. M. Miller and his wife, Lela D. Miller.
Lessee: Malcolm Garrett and Michael Garrett.
Land Covered: T-6-S, R-33-E, N.M.P.M.:
Section 3: Lt. 4, less West 20.23 ac and Lt. 3
Section 4: Lots 1 & 2, less East 50 ac.
Section 9: N/2 NE/4
Section 10: N/2
Section 11: E/2
Section 12: SW/4 & 13.9 acre tract in NW/4 described as beginning at the SW/corner of said NW/4; thence East 628.5 feet; thence North 966.05 feet; thence West 628.5 feet; thence South 966.05 feet to point of beginning.
T-6-S, R-32-E, N.M.P.M.:
Section 23: NW/4 and SE/4
Section 14: SW/4
T-6-S, R-34-E, N.M.P.M.:
Section 9: N/2, less SW/4 NW/4;

recited to comprise 1,771.05 acres, more or less.

Interest Covered:	Undivided 3/8 interest lease as to SE/4 Section 11.
Primary Term:	Five (5) years from date.
Royalty:	1/8 on oil and gas.
Shut-In Gas Royalty:	Payable in an amount equal to annual delay rentals beginning on or before 90 days after a well is shut in and annually thereafter.

H. L. BROWN, JR., HIS SUCCESSORS OR ASSIGNS OR THE WRITERS OF THIS TITLE OPINION DO NOT ACCEPT ANY RESPONSIBILITY FOR NOR IN ANY WAY GUARANTEE THE ACCURACY OR THE CONTENTS OF THIS OPINION.

Delay Rentals: \$1,771.05.

Depository: Portales National Bank, Portales, New Mexico.

Delay Rental Instructions: The lessors executed a Rental Division Order dated August 10, 1978, 88 OGLR 779, providing for net delay rentals payable under this lease in the sum of \$673.56. We have not examined copies of delay rental receipts.

Status of Lease: You advise that this lease is held by production from lands covered by the lease other than SE/4 Section 11.

Lease Form: Producers 88 (Revised 1972) New Mexico Form 342P, being a commence operations commercial form lease containing a pooling clause allowing units not to exceed the standard proration unit fixed by law or by the New Mexico Oil Conservation Commission, plus 10% tolerance.

Lease Assignment History: This lease was assigned by Malcolm Garrett et ux, Donna Jean Garrett and by Michael Garrett, et ux, Clare Ann Garrett to J. V. Atkinson, who thereafter joined by his wife, Dalys D. Atkinson, assigned the lease as to E/2 Section 11 and other lands to Energy Reserves Group, Inc. and the lease is subject to a 1/8 overriding royalty interest vested equally in Malcolm G. Garrett, Michael T. Garrett, E. Richard Neff and J. V. Atkinson, et ux.

Lease 2:

Dated: July 19, 1978.
Recorded: 88 OGLR 32.
Lessor: Gertrude G. Alstrin, individually and as Independent Executrix of the Estate of E. F. Alstrin, deceased.
Lessee: F. G. Alstrin, dealing in his sole and separate property.
Land Covered: Township 6 South, Range 33 East:
Section 10: NE/4
Section 11: SE/4
Section 12: SW/4 and 13.9 acres out of the SW corner of the NW/4 of Section 12, described as follows: BEGINNING at the SW corner of the NW/4 of Section 12; THENCE N. 628.5 ft.; THENCE East 966.05 ft.; THENCE S. 628.5 ft.; THENCE W. 966.05 ft. to beginning;
recited to comprise 493.9 acres, more or less.
Interest Covered: An undivided 1/16 interest in SE/4 Section 11.
Primary Term: Five (5) years from date.
Royalty: 3/16 on oil and gas.
Shut-In Gas
Royalty: Same as Lease 1.
Delay Rentals: \$493.90.
Depository: First National Bank, Midland, Texas.
Delay Rental
Instructions: None, since we have not examined title to all of the lands covered by the lease.
Lease Form: Same as Lease 1.

THE FOLLOWING INFORMATION IS FOR INFORMATIONAL PURPOSES ONLY AND DOES NOT REPRESENT ANY OPINION OR CONCLUSION OF THE FBI. THE FBI DOES NOT ASSUME ANY LIABILITY FOR THE ACCURACY OR THE CONTENTS OF THIS INFORMATION.

Assignment: By Assignment dated July 20, 1978, 88 OGLR 34, F. G. Alstrin assigned this lease in its entirety to Phillips Petroleum Company, without reservation.

Lease 3:

Dated: May 9, 1980.
Recorded: 94 OGLR 751.
Lessor: Richard A. Lisman, Beneficiary and Co-Executor, Independent, of the Estate of Clyde V. Lisman, Sr., deceased.
Lessee: Energy Reserves Group, Inc.
Land Covered: SE/4 Section 11 and SW/4 Section 12, T-6-S, R-33-E, recited to comprise 320 acres, more or less.
Interest Covered: Apparently an undivided 1/64 interest in SE/4 Section 11.
Primary Term: Two (2) years from date.
Royalty: 3/16 on oil and gas.
Shut-In Gas Royalty: The lease is poorly reproduced in the abstract and we are unable to determine the shut in gas royalty provision, and in the event that this becomes important to you, a certified copy of the lease should be submitted for our examination.
Delay Rentals: \$320.00.
Depository: American National Bank, Denver, Colorado.
Delay Rental Instructions: None, since we have not examined title to all of the lands covered by the lease.
Lease Form: Producers 88 (7-69), With 640 Acres Pooling Provision, Pound Printing & Stationery Company, Houston, Texas, being a commence operations commercial form lease containing a pooling clause allowing units for oil not to exceed 80 acres and units for gas not to exceed 640 acres, plus 10% tolerance.

Lease 4:

Dated: May 24, 1980.
Recorded: 95 OGLR 237.
Lessor: E. Diane Lisman.
Lessee: Energy Reserves Group, Inc.
Land Covered: SE/4 Section 11, recited to comprise 160 acres, more or less, and apparently being a 3/64 interest lease.
Primary Term: Two (2) years from date.
Royalty: 3/16 on oil and gas.
Shut-In Gas Royalty: See our comment above under Lease 3.
Delay Rentals: \$160.00.
Depository: Mercantile National Bank, Dallas, Texas.
Delay Rental Instructions: Net delay rentals are apparently payable in the sum of \$7.50 per annum, but we have not examined delay rental receipts.
Lease Form: Same as Lease 3.

H. L. BROWN, JR., HIS SUCCESSORS OR ASSIGNS OR THE WRITERS OF THIS TITLE OPINION DO NOT ACCEPT ANY RESPONSIBILITY FOR NOR IN ANY WAY GUARANTEE THE ACCURACY OR THE CONTENTS OF THIS OPINION.

ASSIGNMENTS OF LEASES 3 AND 4

By Assignment of Overriding Royalty dated July 8, 1980, 98 OGLR 419, Energy Reserves Group, Inc. assigned to J. V. Atkinson, et ux, Dalys D. Atkinson, an overriding royalty interest equal to the difference between 25% of 8/8 and the royalty provided for in the leases, under Leases 3 and 4. By Assignment of Overriding Royalty dated July 8, 1980, 98 OGLR 426, J. V. Atkinson et ux, Dalys D., assigned to Michael T. Garrett, Malcolm G. Garrett and Richard E. Neff each an undivided 1/4 interest in the overriding royalty interest assigned to J. V. Atkinson, et ux by Energy Reserves Group under Leases 3 and 4.

LEASEHOLD ESTATE IN SE/4 SECTION 11:

H. L. Brown, Jr. (Unleased) 1/4 M.I.

Vivian L. Smith, individually and
as Ancillary Executrix of the Estate
of R. E. Smith, deceased (Unleased) 1/4 M.I.

Malcolm G. Garrett. 1/4 of 3/8 of 1/8 O.R.I.
Plus 1/4 of 1/16 of 1/16 O.R.I.

Michael T. Garrett. 1/4 of 3/8 of 1/8 O.R.I.
Plus 1/4 of 1/16 of 1/16 O.R.I.

E. Richard Neff 1/4 of 3/8 of 1/8 O.R.I.
Plus 1/4 of 1/16 of 1/16 O.R.I.

J. V. Atkinson et ux,
Dalys D. Atkinson 1/4 of 3/8 of 1/8 O.R.I.
Plus 1/4 of 1/16 of 1/16 O.R.I.

Energy Reserves Group, Inc. 7/16 of 3/4 W.I.

Phillips Petroleum Company. 1/16 of 13/16 W.I.

B. Covering SW/4 Section 11:Lease 5:

Dated:	July 21, 1978.
Recorded:	88 OGLR 202.
Lessor:	Patty Lou Floyd and Ben D. Floyd, Jr., her husband. (This lease covers the mineral interests now vested in Shelley Louise Floyd and Mark Russell Floyd).
Lessee:	J. V. Atkinson.
Land Covered:	SW/4 Section 11, recited to comprise 160 acres, more or less, and being a undivided 1/2 interest lease.
Primary Term:	Five (5) years from date.
Royalty:	1/8 on oil and gas.
Shut-In Gas Royalty:	Same as Lease 1.
Delay Rentals:	\$160.00.
Depository:	The Fourth National Bank, Tulsa, Oklahoma 74100.

H. L. BROWN, JR., HIS SUCCESSORS OR AS-
SIGNORS OR THE WRITERS OF THIS TITLE OPIN-
ION DO NOT ACCEPT ANY RESPONSIBILITY
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Delay Rental
Instructions:

The lessors executed a Rental Division Order dated July 21, 1978, 88 OGLR 204, providing for net delay rentals in the sum of \$80.00 payable to the credit of the lessors in the depository bank named in the lease. We have not examined copies of rental receipts and it should be noted that by Mineral Deeds dated May 31, 1981, Patty Lou Floyd joined by her husband, Ben D. Floyd, Jr. conveyed to Shelley Louise Floyd an undivided 1/4 mineral interest in SW/4 Section 11 and to Mark Russell Floyd an undivided 1/4 mineral interest in SW/4 Section 11.

Lease Form: Same as Lease 1.

Lease 6:

Dated: July 12, 1978.
 Recorded: 88 OGLR 7.
 Lessor: Charles Wiseman and wife, Mable Wiseman.
 Lessee: J. V. Atkinson.
 Land Covered: Township 6 South, Range 33 East, N.M.P.M.
 Section 12: SE/4 of SE/4
 Section 11: SW/4
 Section 13: N/2 & E/2 of SE/4
 recited to comprise 600 acres, more or
 less.
 Interest Covered: Undivided 1/32 interest in SW/4 Section 11.
 Primary Term: Five (5) years from date.
 Royalty: 1/8 on oil and gas.
 Shut-In Gas
 Royalty: Same as Lease 1.
 Delay Rentals: \$600.00.
 Depository: Security National Bank, Lubbock, Texas.
 Delay Rental
 Instructions: None, since we have not examined title
 to all of the lands covered by the lease.
 Lease Form: Same as Lease 1.

ASSIGNMENTS OF LEASES 5 AND 6

By Assignment dated 8/22/78, 89 OGLR 117, J. V. Atkinson et ux, Dalys D., assigned all interest in Leases 5 and 6 to Energy Reserves Group, Inc., who thereafter by Assignment dated 2/29/80, 93 OGLR 823, assigned all interest in these leases to Energy Trading, Inc., subject to a letter agreement dated 12/20/78 by and between Jerry V. Atkinson, et ux, and Energy Reserves Group, Inc.

By Assignment of Overriding Royalty dated 3/18/80, 98 OGLR 416, Energy Trading, Inc. assigned to J. V. Atkinson, et ux, Dalys D., an overriding royalty interest equal to the difference between 25% and the royalty provided for in Leases 5 and 6, not made subject to proportionate reduction. By Assignment of Overriding Royalty dated 3/18/80, 98 OGLR 423, J. V. Atkinson, et ux, Dalys D., assigned to Michael T. Garrett, Malcolm G. Garrett and E. Richard Neff each an undivided 1/4 interest in the overriding royalty interest conveyed to J. V. Atkinson, et ux, by Energy Trading, Inc. in the Assignment of Overriding Royalty dated 3/18/80.

By Assignment dated 1/2/81, 100 OGLR 332, Energy Trading, Inc. reassigned to Energy Reserves Group, Inc. all interest in Leases 5 and 6.

Lease 7:

Dated: July 12, 1978.
 Recorded: 88 OGLR 413.
 Lessor: Gil K. Phares, Trustee and attorney-in-fact
 for and on behalf of Banker Phares, Gil K.
 Phares, E. L. Nolte and Homer P. Haber.
 Lessee: J. V. Atkinson.
 Land Covered: Township 6 South, Range 33 East, N.M.P.M.
 Section 12: SE/4 of SE/4
 Section 11: SW/4
 Section 13: N/2 & E/2 of SE/4
 Section 23: SE/4 & SE/4 of SW/4
 Section 24: N/2
 Section 26: NE/4 of NW/4;
 recited to comprise 1160 acres, more or
 less.
 Interest Covered: Apparently 1/32 interest in SW/4 Section
 11.
 Primary Term: Five (5) years from date.
 Royalty: 3/16 on oil and gas.

H. L. BROWN, JR., HIS SUCCESSORS OR AS-
 SIGNS OR THE WRITERS OF THIS TITLE OPIN-
 ION DO NOT ACCEPT ANY RESPONSIBILITY
 FOR NOR IN ANY WAY GUARANTEE THE
 ACCURACY OR THE CONTENTS OF THIS
 OPINION.

Shut-In Gas
Royalty:

Apparently payable in the net sum of \$200.00 per annum beginning on or before 90 days after a well is shut in, or if shut in during the primary term, then on or before 90 days following expiration of the primary term, and annually thereafter.

Delay Rentals:

None, this is a paid-up lease.

Depository:

First National Bank of Port Arthur, Texas.

Lease Form:

Producers 88 Rev. NM C-Paid-Up (5-72), being a commence operations commercial form lease containing a pooling clause allowing units for oil not to exceed 40 acres and units for gas not to exceed 640 acres, plus 10% tolerance.

Assignment:

By Assignment dated May 11, 1981, 106 OGLR 684, J. V. Atkinson, et ux, Dalys D., assigned this lease to Energy Reserves Group, Inc. as to SW/4 Section 11 and other lands, reserving an overriding royalty interest of 1/16 of 8/8, which is not subject to proportionate reduction.

Lease 8:

Dated:

September 12, 1980.

Recorded:

96 OGLR 313.

Lessor:

Marland E. Davis and wife Darlene D. Davis.

Lessee:

Curry County Oil Co., a New Mexico corporation.

Land Covered:

SW/4 Section 11, recited to comprise 160 acres, more or less, and being a 3/32 interest lease.

Primary Term:

Five (5) years from date.

Royalty:

1/8 on oil and gas.

Shut-In Gas

Royalty:

Payable in the sum of \$160.00 per annum, proportionately reduced to the interest covered by the lease, beginning on or before 90 days after a well is shut in, or if shut in during the primary term, then on or before 90 days following the expiration of the primary term, and annually thereafter.

Delay Rentals:

This is a paid-up lease form, but the lessors executed a Rental Division Order dated June 11, 1981, 103 OGLR 792, providing for net delay rentals in the sum of \$15.00.

Depository:

Citizens Bank of Clovis, New Mexico.

Lease Form:

Same as Lease 7.

Lease 9:

Dated:

September 15, 1980.

Recorded:

96 OGLR 349.

Lessor:

Rush Herefords, Inc., a New Mexico corporation.

Lessee:

Curry County Oil Co., a New Mexico corporation.

Land Covered:

SW/4 Section 11, recited to comprise 160 acres, more or less, and being a 3/32 interest lease.

Primary Term:

Five (5) years from date.

Royalty:

3/16 on oil and gas.

Shut-In Gas

Royalty:

Same as Lease 1.

H. L. BROWN, JR., HIS SUCCESSIONS OR ASSIGNS OR THE ATTORNEYS AT LAW, IN CONNECTION DO NOT ASSUME ANY RESPONSIBILITY FOR NOR IN ANY WAY GUARANTEE THE ACCURACY OR THE CONTENTS OF THIS OPINION.

Shut-In Gas
Royalty: Same as Lease 1.
Delay Rentals: \$160.00.
Depository: First National Bank, Portales, New Mexico.
Delay Rental
Instructions: The lessor executed a Rental Division Order dated September 15, 1980, 96 OGLR 351, providing for net delay rentals of \$15.00.
Lease Form: Same as Lease 1.

Lease 10:

Dated: May 6, 1981.
Recorded: 106 OGLR 366.
Lessor: Michael T. Garrett and wife Clare Anne Garrett.
Lessee: J. V. Atkinson.
Land Covered: SW/4 Section 11, recited to comprise 160 acres, more or less, and being a 1/8 interest lease.
Primary Term: Five (5) years from date.
Royalty: 1/8 on oil and gas.
Shut-In Gas
Royalty: Same as Lease 1.
Delay Rentals: \$160.00.
Depository: Citizens Bank, Clovis, New Mexico 88101.
Delay Rental
Instructions: Rental payments of \$20.00 should be deposited to the credit of the lessors in the depository bank on or before each anniversary date of the lease during the primary term in the absence of drilling or production.
Lease Form: Same as Lease 1.
Lease Rider: "12. Notwithstanding any provision of this lease apparently to the contrary, the term 'gas' as used herein shall be construed to cover and include carbon dioxide gas and helium gas as well as gas of the hydrocarbon kind."
Assignment: By Assignment dated 5/11/81, 106 OGLR 364, J. V. Atkinson and wife, Dalys D. Atkinson, assigned this lease in its entirety to Energy Reserves Group, Inc., reserving a 1/8 overriding royalty interest, which is not made subject to proportionate reduction.

Lease 11:

Dated: May 6, 1981.
Recorded: 106 OGLR 370.
Lessor: Malcolm G. Garrett and wife Donna Jean Garrett.
Lessee: J. V. Atkinson.
Land Covered: SW/4 Section 11, recited to comprise 160 acres, more or less, and being a 1/8 interest lease.
Primary term: Five (5) years from date.
Royalty: 1/8 on oil and gas.
Shut-In Gas
Royalty: Same as Lease 1.
Delay Rentals: \$160.00.
Depository: Citizens Bank, Clovis, New Mexico.
Delay Rental
Instructions: Same as Lease 10.
Lease Form: Same as Lease 1.

H. L. BROWN, JR., HIS SUCCESSORS OR ASSIGNS OR THE WRITERS OF THIS TITLE OPINION DO NOT ACCEPT ANY RESPONSIBILITY FOR NOR IN ANY WAY GUARANTEE THE ACCURACY OR THE CONTENTS OF THIS OPINION.

Lease Rider: Same as Lease 10.
 Assignment: By Assignment dated May 11, 1981, 106 OGLR 368, J. V. Atkinson, et ux, Dalys D., assigned this lease in its entirety to Energy Reserves Group, Inc., reserving a 1/8 overriding royalty interest, which is not made subject to proportionate reduction.

LEASEHOLD ESTATE IN SW/4 SECTION 11:

Malcolm G. Garrett 1/4 of 17/32 of 1/8 O.R.I.
 Michael T. Garrett 1/4 of 17/32 of 1/8 O.R.I.
 E. Richard Neff. 1/4 of 17/32 of 1/8 O.R.I.
 J. V. Atkinson, et ux
 Dalys D. Atkinson. 1/4 of 17/32 of 1/8 O.R.I.
 Plus 1/32 of 1/16 O.R.I.
 Plus 1/4 of 1/8 O.R.I.
 Energy Reserves Group, Inc.. 26/32 of 3/4 W.I.
 Curry County Oil Co., a
 New Mexico corporation 3/32 of 7/8 W.I.
 Plus 3/32 of 13/16 W.I.

LIENS AND ENCUMBRANCES

The interest of J. M. Miller et ux, Lela D. Miller, in SE/4 Section 11 is subject to a Mortgage to the Federal Land Bank of Wichita dated November 3, 1965, 121 Mortgage Records 345, and the Federal Land Bank executed a Subordination Agreement dated August 17, 1978, 33 Misc. Records 25, subordinating this Mortgage to the leasehold estate created by Lease 1.

The interests of Charles Wiseman et ux, and Gil K. Phares, Trustee, in SW/4 Section 11, are subject to a Mortgage dated 3/19/63, 112 Mortgage Records 33, in favor of W. S. Smith and wife, Nannie Mae Smith, securing a promissory note in the original principal sum of \$95,000.00.

The interest of Rush Herefords, Inc. in SW/4 Section 11 is subject to a Mortgage dated 5/26/77, 147/701, to the First National Bank of Portales, New Mexico, securing a promissory note in the original principal sum of \$302,500.00, and this Mortgage has been partially released by the Bank as to 1/2 of the mineral interest owned by Rush Herefords, Inc. at the time of the Mortgage.

TAXES

Taxes assessed against the captioned lands have been paid for all lienable years up to and including 1981, except taxes for the first half of 1981.

EASEMENTS

None reflected in the materials examined.

POSSESSION

This opinion does not cover the ownership of the surface estate of the captioned lands since the abstract submitted for examination is limited to the mineral estate only. However, you are charged

THE LAND AND MINERAL RIGHTS
 SHOWN ON THIS ABSTRACT ARE
 BASED ON THE RECORDS OF THE
 PUBLIC LANDS OFFICE AND THE
 RECORDS OF THE COUNTY CLERK
 FOR NEW MEXICO. THE LAND
 OFFICE OR THE COUNTY CLERK
 DOES NOT IN ANY WAY GUARANTEE THE
 ACCURACY OR THE CONTENTS OF THIS
 OPINION.

with notice of the nature and extent of the claims of any party in actual possession, and you should satisfy yourself that no one other than the surface owner is in actual possession.

TITLE REQUIREMENTS

1.

Your attention is directed to the delinquent taxes assessed against the captioned lands for the first half of 1981.

REQUIREMENT

Taxes for the first half of 1981 assessed against the captioned lands should be promptly paid and we should be furnished with evidence showing payment of such taxes.

2.

Your attention is directed to the Mortgage owned by W. C. Smith, et ux, Nannie Mae, which encumbers the mineral interests now owned in SW/4 Section 11 by Charles Wiseman et ux, and by Gil K. Phares, Trustee. This Mortgage has not been subordinated to the leasehold estates created by Leases 6 and 7.

REQUIREMENT

In the event that you obtain any interest under Leases 6 and 7, you should make certain that the above described Mortgage dated 3/19/63, is subordinated to the leasehold estates created by Leases 6 and 7.

3.

The above described Mortgage dated 5/26/77, owned by First National Bank of Portales, New Mexico, and encumbering the interests of Rush Herefords, Inc. in SW/4 Section 11 has not been subordinated to the leasehold estate created by Lease 9.

REQUIREMENT

In the event that you acquire an interest under Lease 9, you should make certain that the above described Mortgage dated 5/26/77, is subordinated by the First National Bank of Portales to the leasehold estate created by Lease 9.

4.

The records reflect a Mortgage dated 1/13/67, 125 Mortgage Records 108, from Mrs. Mary Rush, et al, to Charles Wiseman and Doyle Watkins, securing two notes for \$5,000, both due 1/13/72, one payable to Charles Wiseman and one payable to Doyle Watkins. This Mortgage was released by Doyle Watkins and the records reflect that Charles Wiseman assigned all of his interest in the Mortgage to L. C. O'Bannon, although the records thereafter reflect a release of the Mortgage by Charles Wiseman in 1972. The records do not reflect any release by L. C. O'Bannon nor any reassignment of the Mortgage from O'Bannon to Wiseman.

REQUIREMENT

Obtain from L. C. O'Bannon a release of the above described Mortgage and file such release for record.

H. L. BROWN, JR., HIS SUCCESSORS OR ASSIGNS OR THE WRITERS OF THIS TITLE OPINION DO NOT ACCEPT ANY RESPONSIBILITY FOR NOT IN ANY WAY GUARANTEEING THE ACCURACY OR THE CONTENTS OF THIS OPINION.

January 4, 1982

5.

SW/4 Section 11 was patented to Thomas G. Bledsoe on 4/23/13, and by Warranty Deed dated 4/30/38, Thomas G. Bledsoe, a single man, conveyed SW/4 Section 11 to Alice Melton. The marital status of Thomas G. Bledsoe at the time of the patent should be determined, since his later conveyance as a single man raises a question as to whether or not a divorced wife could have an outstanding community interest.

REQUIREMENT

Obtain and submit for our examination an affidavit stating, if true, that Thomas G. Bledsoe was a single man on April 24, 1913, the date that SW/4 Section 11 was patented to him.

6.

By Warranty Deed dated 3/19/63, William S. Smith, et ux, Nannie Mae, conveyed an undivided 1/4 mineral interest in SW/4 Section 11 to Charles Wiseman and Doyle Watkins. Thereafter, by Deed dated 1/10/67, Charles Wiseman, et ux, Mable, and Doyle Watkins, et ux, Carolyn, conveyed an undivided 3/16 mineral interest in SW/4 Section 11 to Mrs. Mary Rush, Bill Rush and Roy G. Rush, who thereafter conveyed to Rush Herefords, Inc. There is no legal presumption as to the proportions in which the grantors conveyed this 3/16 mineral interest, although we assume that they intended to convey the same equally out of their respective mineral interests, leaving Charles Wiseman et ux with a 1/32 mineral interest and Doyle Watkins et ux with a 1/32 mineral interest.

By Deed dated 11/15/74, Doyle D. Watkins, without being joined by his wife, conveyed all of his mineral interest in SW/4 Section 11 to Gil K. Phares, Trustee, and we assume that this conveyed an undivided 1/32 mineral interest. Lease 7 above reflects that Gil K. Phares is acting as Trustee and attorney-in-fact for Banker Phares, Gil K. Phares, E. L. Nolte and Homer P. Haber, although there is nothing of record to reflect this, and a "blind trust" is not effective under New Mexico law.

REQUIREMENT

- (a) If Doyle Watkins was married on the date he acquired his interest (3/19/63) then Doyle Watkins et ux, Carolyn, should execute a correction Deed for the Deed dated 11/15/74, conveying all of their mineral interest in SW/4 Section 11 to Gil K. Phares, Trustee. If Doyle Watkins was married and his interest was a community interest, then the Deed to Gil K. Phares, Trustee is void since his wife did not join.
- (b) We should be furnished with a copy of the Trust Agreement pursuant to which Gil K. Phares is acting as Trustee.
- (c) Gil K. Phares, Trustee, and Charles Wiseman, et ux, Mable Wiseman, should join in a stipulation of interest setting forth their respective mineral interests in SW/4 Section 11.

7.

The records reflect several old Oil and Gas Leases executed in May and June of 1967, all to H. L. Brown, Jr. as lessee, covering SW/4 Section 11, SE/4 SE/4 Section 12, NE/4 and E/2 SE/4 Section 13 and NW/4 Section 14, all T-6-S, R-33-E, which leases contained primary terms of five years. We assume that all of these leases expired without production.

The records reflect three prior Oil and Gas Leases executed in January and February of 1976, all to Clayton W. Williams, Jr. as lessee, covering only SW/4 Section 11 for a primary term of five years. We assume that these leases have expired without production.

Your attention is directed to the old Oil and Gas Leases tabulated in the prior opinion covering SE/4 Section 11 and other lands described therein.

REQUIREMENT

Satisfy yourself that all of the above described old Oil and Gas Leases have expired by virtue of their own terms.

8.

As noted above in our lease analyses, the overriding royalty interests owned by J. V. Atkinson et ux under the leases which are vested of record in Energy Reserves Group, Inc. were not made subject to proportionate reduction to the extent of the mineral interests covered by these leases.

REQUIREMENT

J. V. Atkinson, et ux, and the other overriding royalty interest owners who are his assignees and their spouses should join in a recordable stipulation of interest with Energy Reserves Group, Inc. specifically making their overriding royalty interests subject to proportionate reduction to the extent of the mineral estate covered by the leases under which they own.

9.

By Mineral Deed dated 8/11/78, 138 DR 965, Malcolm G. Garrett and wife Donna Jean Garrett, conveyed an undivided 1/8 mineral interest in SW/4 Section 11 to Micahel T. Garrett and wife, Clare Ann Garrett. We assume that the first name of Michael T. Garrett was misspelled and that his wife, Clare Ann Garrett is the same person and Clare Anne Garrett who joined in Lease 10.

REQUIREMENT

Obtain and submit for our examination a recordable affidavit of identity stating, if true, that Michael T. Garrett and wife, Clare Anne Garrett, the lessors of Lease 10, are the same persons as the grantees in the above described Mineral Deed recorded at 138/965.

10.

We have not examined copies of delay rental receipts for the delay rentals payable under Leases 1, 2, 3, 4, 5, 6, and 9, and your attention is directed to our discussion under Lease 8 above which was executed on a paid-up lease form, but the lessors thereafter executed a rental division order which would apparently amend the lease to provide for payment of delay rentals.

REQUIREMENT

In the event that you obtain any interest under the above leases, you should satisfy yourself that all of these leases have been maintained by the timely and proper payment of delay rentals, or, in the alternative, obtain delay rental receipts and submit the same for our examination. Lease 1 is beyond its primary term and is apparently held by production and you should satisfy yourself that this is the case.

11.

The interest owned by Energy Reserves Group, Inc. in Leases 1, 5 and 6 is subject to the terms of a letter agreement dated 12/20/78, between Jerry V. Atkinson et ux, and Energy Reserves Group, Inc.

REQUIREMENT

Advisory only and if you obtain any interest under these leases, you should obtain a copy of the above described letter agreement.

12.

R. E. Smith acquired an undivided 1/4 mineral interest in SE/4 Section 11 by Mineral Deed dated 12/6/71, and we assume that this was community property with his wife, Vivian L. Smith. Ancillary probate proceedings were conducted upon the Estate of R. E. Smith, deceased, in Cause No. 6920 in the Probate Court of Chaves County, New Mexico, but we have not examined copies of these proceedings.

REQUIREMENT

Obtain and submit for our examination certified copies of the Will, order admitting Will to probate and final decree in the ancillary probate proceedings conducted upon the estate of R. E. Smith, deceased, in Cause No. 6920 in the Probate Court of Chaves County, New Mexico.

13.

The prior opinion notes that Edwin F. Alstrin owned, presumptively as community property, an undivided 1/16 mineral interest in SE/4 Section 11 and the supplemental abstract reflects that copies of his probate proceedings from Cause No. 3377 in the County Court of Midland County, Texas, have been filed for record in Roosevelt County, New Mexico, although no New Mexico ancillary proceedings have been conducted. Edwin F. Alstrin died 5/20/66, leaving a Will in which he devised his entire estate to his wife, Gertrude G. Alstrin. However, the interest passing under his Will is not legally merchantable under New Mexico law until his heirship has been determined of record.

REQUIREMENT

Ancillary probate proceedings upon the Estate of Edwin F. Alstrin, deceased, should be conducted in the State of New Mexico.

14.

The prior opinion credits an undivided 1/32 mineral interest in SE/4 Section 11 to C. V. Lisman, husband of Nelle Lisman, and an undivided 1/32 mineral interest in SE/4 Section 11 to C. V. Lisman, Jr., husband of Marian Lisman. C. V. Lisman, Sr. is apparently deceased, but we have not examined copies of the probate proceedings upon his estate, and apparently no ancillary proceedings have been conducted in New Mexico. We assume that Richard A. Lisman, the lessor of Lease 3, is one of the devisees of C. V. Lisman, Sr., deceased, and that Richard A. Lisman owns an

undivided 1/64 mineral interest in SE/4 Section 11. However, there is nothing of record to substantiate this and, in addition, we are not aware of the fate of Nelle Lisman, the wife of C. V. Lisman, Sr.

By Mineral Deed dated 5/23/80, C. V. Lisman, Jr., et ux, Marian B. Lisman, conveyed an undivided 3/64 mineral interest in SE/4 Section 11 to E. Diane Lisman. We assume that the interest conveyed was all of the C. V. Lisman, Jr.'s original 1/32 mineral interest and 1/2 of the 1/32 mineral interest credited in the prior opinion to C. V. Lisman, Sr., but there is nothing of record to reflect that this is the case. The interest conveyed to E. Diane Lisman was not conveyed to her as her separate property and she was not joined by any spouse in executing Lease 4.

REQUIREMENT

- (a) Obtain and submit for our examination certified copies of the probate proceedings conducted upon the Estate of C. V. Lisman, Sr., deceased. Until his heirship is determined of record in the State of New Mexico, the interests passing under his Will are not legally merchantable.
- (b) Investigate the fate of Nelle Lisman, the wife of C. V. Lisman, Sr., and if she is deceased, we should be furnished with certified copies of the probate proceedings conducted upon her estate.
- (c) Obtain and submit for our examination recordable evidence as to the marital status of E. Diane Lisman on 5/23/80, the date that she acquired her mineral interest in SE/4 Section 11. If she was married on such date, then a ratification of Lease 4 should be obtained from her and her husband.

COMMENTS

This opinion cannot cover the question of possible dedication to interstate commerce of natural gas underlying captioned land. Although the abstracts and other materials examined do not contain a gas contract covering captioned land in favor of an interstate gas company, nor any memorandum of such a contract, recent judicial holdings indicate that the absence of such a contract is not sufficient to guarantee the freedom from interstate dedication of the gas underlying captioned land.

The materials submitted for examination are returned herewith.

Very truly yours,

COTTON, BLEDSOE, TIGHE & DAWSON

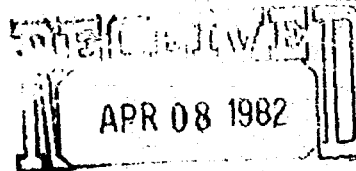
By:

Tevis Herd
Tevis Herd

TH:cm

H. L. BROWN, JR.

323 WEST MISSOURI
POST OFFICE BOX 2237
MIDLAND, TEXAS 79701
915 683-5216



April 6, 1982

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

Energy Reserves Group
1509 West Wall
Midland, Texas 79701

Mrs. Vivian L. Smith
2000 West Loop South, Suite 1900
Houston, Texas 77027

Phillips Petroleum Company
4001 Penbrook
Odessa, Texas 79762

Re: Our Ls. #1665-1, Prospect
#396
S/2 Sec. 11, T-6-S, R-33-E,
Roosevelt Co., N.M.

Ladies and Gentlemen:

I propose to drill a 7900' Granite Wash test to be located 660' FEL and 1300' FSL of captioned section. We plan to commence this well immediately.

On March 30, 1982 the New Mexico Oil Conservation Division entered order #R-6931, appointing H. L. Brown, Jr. as Operator and pooling all mineral interests from the top of the Wolfcamp to the base of the Granite Wash formation for the S/2 of Sec. 11, T-6-S, R-33-E, Roosevelt County, New Mexico.

In accordance with that Division Order we are enclosing original and one copy of an itemized schedule of estimated well costs (AFE) for this well dated April 2, 1982.

The Division Order requires that within 30 days from your receipt of this letter you shall pay to me your share of the estimated costs for this well and that if you fail to do so we are authorized to collect your share of costs out of production plus an additional 150% as a penalty.

According to my records the ownership is as follows:

Phillips Petroleum Co.	40/320.....	12.5%
Energy Reserves Group	200/320.....	62.5%
Vivian L. Smith	40/320.....	12.5%
H. L. Brown, Jr.	40/320.....	12.5%

Please be advised that the interest of any party not agreeing to join within the specified time will be the exclusive responsibility of the Operator and Vivian L. Smith.

Energy Reserves Group, et al - Page Two

If you wish to join, please accept a copy of the AFE and return it along with your check. Here's hoping we have success in this venture.


Thanking you in advance, I remain

Very truly yours,


H. L. Brown, Jr.

HLB:mh

Encl.

cc: New Mexico Oil Conservation Division 

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO
6 January 1982

EXAMINER HEARING

IN THE MATTER OF:

Application of H. L. Brown, Jr.,
for compulsory pooling at an
unorthodox location, Roosevelt
County, New Mexico.

CASE
7455

BEFORE: Daniel S. Nutter

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation
Division:

W. Perry Pearce, Esq.
Legal Counsel to the Division
State Land Office Bldg.
Santa Fe, New Mexico 87501

For the Applicant:

W. Thomas Kellahin, Esq.
KELLAHIN & KELLAHIN
500 Don Gaspar
Santa Fe, New Mexico 87501

A P P E A R A N C E S

For Energy Reserves Group: T. Calder Ezzell, Esq.
 HINKLE LAW FIRM
 600 Hinkle Bldg.
 Roswell, New Mexico 88201

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A P P E A R A N C E S

For Energy Reserves Group: T. Calder Ezzell, Esq.
 HINKLE LAW FIRM
 600 Hinkle Bldg.
 Roswell, New Mexico 88201

I N D E X

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1
2 MR. NUTTER: Call Case Number 7455.

3 MR. PEARCE: Application of H. L. Brown,
4 Junior, for compulsory pooling at an unorthodox location,
5 Roosevelt County, New Mexico.

6 MR. KELLAHIN: If the Examiner please,
7 I'm Tom Kellahin of Santa Fe, New Mexico, appearing on be-
8 half of the applicant, and I have two witnesses.

9 MR. EZZELL: Mr. Examiner, my name is
10 Calder Ezzell, with the Hinkle Law Firm of Roswell.

11 I represent Energy Reserves Group, and
12 I have two witnesses.

13 MR. NUTTER: Would all the witnesses
14 stand and be sworn, please?

15
16 (Witnesses sworn.)

17
18 MR. NUTTER: Before you start, Mr.
19 Kellahin, Mr. Ezzell, you've made an appearance in this
20 case. Are you in opposition or in support of the applica-
21 tion?

22 MR. EZZELL: We are in opposition to
23 this application.

24 MR. NUTTER: Okay, the application is
25 for compulsory pooling at an unorthodox location. Are you

1
2 in opposition primarily to the compulsory pooling or to the
3 unorthodox location?

4 MR. EZZELL: We are in opposition to
5 both.

6 MR. NUTTER: To both, okay. I thought
7 maybe if one or the other was all right we could have the
8 primary, or the applicant's testimony directed to whatever
9 he needed, then.

10 Go ahead, Mr. Kellahin.

11 MR. KELLAHIN: Did you call for any
12 other appearances? I'm not sure if there are.

13 MR. NUTTER: Are there other appearances
14 in the case?

15 MR. KELLAHIN: All right, sir.

16
17 WEBB WALKER

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

20
21 DIRECT EXAMINATION

22 BY MR. KELLAHIN:

23 Q Mr. Walker, for purposes of the re-
24 cord, would you please state your name and occupation?

25 A Webb Walker, Junior, attorney and land-

1
2 man for H. L. Brown, Junior, Midland, Texas.

3 Q Mr. Walker, have you previously testi-
4 fied before the New Mexico Oil Conservation Division as a
5 petroleum landman?

6 A Yes.

7 Q Have those qualifications been accepted
8 and made a matter of record?

9 A Yes.

10 Q Pursuant to the application of Mr.
11 Brown today for compulsory pooling and an unorthodox loca-
12 tion, have you examined, under your direction and supervision
13 had examined, the title information with regards to the
14 south half of Section 11?

15 A Yes, I have.

16 MR. KELLAHIN: We tender Mr. Walker as
17 an expert petroleum landman.

18 MR. NUTTER: Mr. Walker is so qualified.

19 Q Mr. Walker, I show you what we have
20 marked as Applicant Exhibit Number One, which is a location
21 plat, and if you'll identify the proposed proration unit for
22 me, Mr. Walker, and tell me generally what Mr. Brown is
23 seeking to accomplish.

24 A We're proposing a location for the --
25 or a location unit for the south half of 11 in 6, 33, and

1
2 the location would be 660 from the east line of 11 and 1300
3 from the south line of 11.

4 Q All right, sir, I note that over in the
5 south half of Section 12, that there is an Energy Reserve
6 well. I believe it's called the Miller Well.

7 A Yes.

8 Q Are you familiar with the proration
9 unit in the south half of 12 --

10 A Yes.

11 Q -- insofar as Mr. Brown's interest is
12 concerned?

13 A Yes, I am. That well -- that proration
14 unit is the south half of 12, and the, I believe that's
15 called the Com Miller or Miller Com, I forget which it is,
16 that is located 660 from the west and south lines of 12.

17 Q Do you know what the principal pro-
18 ducing formation is in that Energy Reserves Group well?

19 A I believe it's the Cisco.

20 Q Okay, and you've said that that well is
21 660 feet from the common section line?

22 A Yes, sir.

23 Q And that your proposed location is also
24 660 feet from the common section line?

25 A 660, yes, from the common section line,

1
2 right.

3 Q Can you generally describe for us what,
4 if any, interest Mr. Brown has in the proration unit in the
5 south half of Section 12?

6 A In Section 12 Mr. Brown owns a quarter --
7 or owns a quarter mineral interest in the southwest quarter,
8 which is leased to Energy Reserves. Also, -- back up, that's
9 all he owns there.

10 Q All right, sir.

11 All right, Mr. Walker, let me direct
12 your attention to what we have marked as Applicant Exhibit
13 Number Two.

14 A Uh-huh.

15 Q And using that exhibit, generally de-
16 scribe for us the ownership interests in the south half of
17 Section 11.

18 A Well, this exhibit, I have, as you can
19 see, it was a take-off made on November the 12th, and since
20 that time I have a title opinion that's been prepared on
21 abstracts down through December the 7th of 1981, and would
22 you rather for me to go from the abstracts or from this ex-
23 hibit that -- well, there would only be one change that I
24 recall just right now that would have any --

25 Q All right.

1
2 A -- difference between the title opinion
3 that was prepared by attorneys in Midland and this take-off
4 of November the 12th.

5 Q Well, because we have Exhibit Number
6 Two before us --

7 A Okay.

8 Q -- if we'll use that, and if you'll show
9 us at what point there is to --

10 A Okay.

11 Q -- be an addition or correction.

12 A Okay.

13 Q Let me first of all direct your attention
14 to the leasing configuration in the south half of 11.

15 A Uh-huh.

16 Q First of all, is this Federal, fee, or
17 State acreage?

18 A This is fee acreage.

19 Q And how is the fee acreage in the south
20 half of 11 divided in terms of ownership?

21 A Well, it's divided in the southeast
22 quarter and the southwest quarter.

23 Q All right, sir, directing your attention
24 first of all to the southeast quarter --

25 A Okay.

Q -- can you generally summarize for us what the ownership is with regards to the southeast quarter?

A Well, in the southeast quarter Mr. Brown has a one-quarter unleased mineral interest. Vivian L. Smith, individually, and as ancillary executrix of the estate of R. E. Smith, deceased, has an unleased one-quarter of mineral interest.

The rest of the mineral interest is held 7-16ths by Energy Reserves Group, Inc., and a 1-16th, Phillips Petroleum.

Q All right, sir, now going over to the southwest quarter of that section, would you describe generally what the ownership is?

A In the southwest quarter, since the date of the take-off, it appears that Malcolm G. Garrett and Michael T. Garrett, their interest shows on the take-off to be unleased and that is now leased to Energy Reserves Group.

That lease, or assignment, was put on -- I suppose was put on record between the 12th of November and the 7th of December.

In the southeast quarter Energy Reserves Group owns a 26/32nds. The Curry County Oil Company owns a 6/32nds leasehold interest.

Q I note in the south half of Section 11

1
2 that there appears to be an abandoned well location shown
3 as Energy Reserves Group Miller 1-A.

4 A Yes, sir.

5 Q What, if any, knowledge do you have on
6 the ownership for that well?

7 A Well, that well -- you mean as to who
8 drilled it?

9 Q Who drilled it and under what kind of
10 leasing arrangement.

11 A Energy Reserve Group drilled that well
12 and as I understand it, they were trying for completion and
13 had mechanical problems and had to junk the hole.

14 At that time Mr. Brown -- are you
15 speaking of Mr. Brown's interest?

16 Q Yes, sir.

17 A Mr. Brown's interest was leased to the
18 Energy Reserve Group when that well was spudded.

19 Q Is Mr. Brown's interest still leased
20 to Energy Reserves Group under that lease?

21 A No, sir, not his nor Mrs. Smith's.

22 Q As of today, Mr. Walker, what, if any,
23 interests are committed to Mr. Brown's proposed proration
24 unit for the drilling of this well?

25 A Mrs. Smith's, Vivian L. Smith's interest

1
2 and said she would join in the drilling of the well.

3 Q And Mrs. Smith's interest was the quarter
4 interest in the --

5 A In the southeast.

6 Q -- quarter.

7 A Yes, sir.

8 Q That coupled with Mr. Brown's interest?

9 A Yes, sir, a quarter each.

10 Q None of the other individuals that have
11 interests in the south half of Section 11 have at this point
12 agreed to participate in the well.

13 A No, sir.

14 Q All right, sir. Let me direct your
15 attention, Mr. Walker, to what we've marked as Exhibit Number
16 Three, and have you identify that for us, sir.

17 A It's a letter written by Thomas Kellahin
18 to the various interest owners in the south half of Section
19 11, stating that Mr. Brown's applying for an unorthodox
20 location and a communitization of a proration unit in the
21 south half of 11.

22 Q Was that letter issued under your
23 direction?

24 A Yes --

25 Q On behalf of Mr. Brown?

1
2 A Yes, sir.

3 Q All right, sir.

4 A I requested you to do it.

5 MR. KELLAHIN: If the Examiner please,
6 attached to that letter are the copies of return receipt
7 cards, indicating receipt of the letter by all of the indi-
8 viduals listed on the Exhibit Number Two, with the exception
9 of the Vivian L. Smith, for whom Mr. Walker's already testi-
10 fied she's agreed to participate.

11 Q Now, Mr. Walker, with regards to the
12 formation of a spacing and protraction unit for the drilling
13 of this well, subsequent to the December 8th letter what, if
14 any, response have you received from any of these individuals
15 other than Mrs. Smith with regards to their participation in
16 this project?

17 A I had a phone call from a Mr. Elliott
18 with Energy Reserves.

19 Q All right, do you recall when that took
20 place?

21 A December the 16th.

22 Q All right, sir, what, if any, other
23 correspondence or communications have you received from
24 Energy Reserves with regards to their participation in the
25 well?

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A. None, sir.

Q. In that telephone conversation of December 16th, 1981, what, if any, indication did you receive from Energy Reserves with regards to their agreement about participating in the project?

A. Well, I believe Mr. Elliott said that they were going to oppose the location but felt, without obligating its company, that they would join in the proration unit.

Q. What, if any, other correspondence or communications or conversations have you had with any other operators or individuals other than Energy Reserves?

A. I spoke with Mr. Bill Luck with the Phillips Petroleum yesterday morning and at that time he said that they -- that Energy's Group was the operator and that they were going to keep a low profile.

Q. They would support their operator?

A. Yes, sir.

Q. All right, sir.

MR. NUTTER: They would support who?

MR. KELLAHIN: Their operator is Energy Reserves.

A. That is the operator of their -- in the south half of 12, Mr. Nutter.

1
2 A None, sir.

3 Q In that telephone conversation of De-
4 cember 16th, 1981, what, if any, indication did you receive
5 from Energy Reserves with regards to their agreement about
6 participating in the project?

7 A Well, I believe Mr. Elliott said that
8 they were going to oppose the location but felt, without
9 obligating its company, that they would join in the production
10 unit.

11 Q What, if any, other correspondence or
12 communications or conversations have you had with any other
13 operators or individuals other than Energy Reserves?

14 A I spoke with Mr. Bill Luck with the
15 Phillips Petroleum yesterday morning and at that time he said
16 that they -- that Energy's Group was the operator and that
17 they were going to keep a low profile.

18 Q They would support their operator?

19 A Yes, sir.

20 Q All right, sir.

21 MR. NUTTER: They would support who?

22 MR. KELLAHIN: Their operator is Energy
23 Reserves.

24 A That is the operator of their -- in
25 the south half of 12, Mr. Nutter.

1
2 MR. NUTTER: Okay.

3 Q All right. What, if any, indication
4 did Phillips give you as to whether or not they opposed or
5 agreed with either the pooling or the location?

6 A I don't recall him stating either way
7 that he --

8 Q Well, let me ask you this. There's been
9 no decision, as far as you know, on their part --

10 A Oh, no, sir.

11 Q -- as to what they intend to do?

12 A No, sir, he did not convey that to me
13 at all, no, sir.

14 Q All right, sir.

15 MR. NUTTER: Mr. Walker, while we're on
16 this Exhibit Number Two, I'm not really clear on all of this.

17 A All right, sir.

18 MR. NUTTER: Now, the lefthand column
19 with all these names on it, those are the one that own the
20 land in fee, is that correct?

21 A All mineral interests, yes, sir.

22 MR. NUTTER: Or they own the mineral
23 interests.

24 A Yes, sir.

25 MR. NUTTER: And then the middle column

1
2 gives what their interest is.

3 A Yes, sir.

4 MR. NUTTER: And the righthand column
5 is who it's leased to.

6 A Yes, sir.

7 MR. NUTTER: Okay, so if we go to the
8 southwest 160 --

9 A All right, sir.

10 MR. NUTTER: -- does H. L. Brown have
11 any of that under lease?

12 A No, sir.

13 MR. NUTTER: Then we go to the southeast
14 160 --

15 A Yes, sir.

16 MR. NUTTER: -- and he's got a fourth
17 interest in the 160-acre tract.

18 A Yes, sir.

19 MR. NUTTER: Or 40 net acres.

20 A Yes, sir.

21 MR. NUTTER: And that's open, so he's
22 the --

23 A Yes, sir.

24 MR. NUTTER: He's the royalty owner as
25 well as the mineral owner.

1

2

A Yes, sir.

3

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MR. NUTTER: Or the lessee as well as
the lessor.

5

A Yes, sir.

6

7

MR. NUTTER: And Vivian Smith is in the
same position that he's in.

8

A Yes, sir.

9

10

MR. NUTTER: And she has agreed with
him to drill the well.

11

A Yes, sir.

12

13

MR. NUTTER: Now the rest of it is
either owned by Phillips or Energy Reserves as lessees.

14

A Yes, sir.

15

16

MR. NUTTER: So in effect, H. L. Brown
here has 80 net acres in this 320, is that correct?

17

A Yes, sir.

18

19

MR. NUTTER: That's committed to the
well.

20

A Yes.

21

22

MR. NUTTER: His own 40 and the --

23

A And Mrs. Smith's 40.

24

A Yes, sir.

25

MR. NUTTER: Okay. I just wanted to be

1
2 clear on that.

3 A Yes, sir.

4 Q Mr. Walker, I now give you a copy of
5 what we've marked as Exhibit Number Four, I believe, and ask
6 you if you can identify this exhibit?

7 A That is the -- an AFE that was mailed
8 out with the -- attached to a copy of the application for
9 the -- in this matter.

10 Q And the estimated costs for the proposed
11 well show what for a producing well and a dry hole cost?

12 A \$660,720.

13 Q Based upon your knowledge and experience
14 with drilling wells in this area, Mr. Walker, in your opinion
15 are those costs reasonable?

16 A Yes, sir.

17 Q Now, with regards to the operations of
18 this proration and spacing unit, does Mr. Brown desire to
19 be designated the operator?

20 A Yes, we requested that.

21 Q In the event the Examiner elects to
22 compulsory pool this acreage, do you have a recommendation
23 to him as to what, if any, overhead charges ought to be in-
24 cluded in the pooling order?

25 A Well, we -- \$3700 for a drilling well,

1
2 and \$435 a month for a producing well.

3 Q Excuse me, what was the first figure?

4 A \$3700.

5 Q And what is the producing well rate?

6 A \$435; \$435 for a producing well.

7 Q How did you arrive at those figures,
8 Mr. Walker?

9 A Well, we have wells in -- just south of
10 this in 7 and 8, 37, down in the Bluett area. In fact we're
11 getting ready to drill another well down there, and those
12 are the charges we have down there, and have charged.

13 Of course this is subject to the change
14 of COPAS on April the 1st of this year.

15 Q Those wells in which you operate to the
16 south, are those also Pennsylvanian wells?

17 A They're Wolfcamp wells.

18 MR. NUTTER: Gas wells?

19 A Yes, sir.

20 Q Okay.

21 MR. KELLAHIN: I believe that concludes
22 my examination of Mr. Walker.

23 MR. NUTTER: Are there any questions of
24 Mr. Walker?

25 Mr. Ezzell?

MR. EZZELL: Yes, sir.

CROSS EXAMINATION

BY MR. EZZELL:

Q Mr. Walker, where did you say the -- the nearest well is that Mr. Brown operates in the area?

A They're down in -- well, now wait a minute.

Okay, I believe there's one just south of this, south and a little bit east, but I'm -- I think that's called the -- damn, I've forgotten that -- No. 1 Martin Baker, I believe.

Q No. 1 Martin Baker?

A I believe that's right, M-A-R-T-I-N.

Q Do you know the --

A No, I don't.

Q -- township and range?

A No, I just -- no.

Q But it's within the --

A It's back --

Q -- general area and almost in the Peterson area?

A Yes, sir, it's back in -- it's several miles, I believe, it's several miles southeast of the Peter-

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son area.

3

MR. EZZELL: I have no further questions.

4

A

Thank you for reminding me. I flat for-

5

got that well there.

6

MR. NUTTER: Are there any further

7

questions, Mr. Ezzell?

8

MR. EZZELL: No, sir.

9

MR. NUTTER: Are there any further

10

questions of Mr. Walker? He may be excused.

11

MR. KELLAHIN: Mr. Examiner, we'd call

12

at this time Mr. Bill Wells.

13

14

BILL WELLS

15

being called as a witness and being duly sworn upon his oath,

16

testified as follows, to-wit:

17

18

DIRECT EXAMINATION

19

BY MR. KELLAHIN:

20

Q

Mr. Wells, would you please state your

21

name and occupation?

22

A

Bill Wells. I'm Development Geologist

23

in Midland for H. L. Brown, Junior.

24

Q

As a geologist have you previously

25

testified before the Oil Conservation Commission of New Mexico?

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A Yes, I have.

Q And were your qualifications as a geologist accepted and made a matter of record?

A They were.

Q Have you made a study of the geology surrounding this particular application, Mr. Wells?

A Yes, I have.

MR. KELLAHIN: We tender Mr. Wells as an expert geologist.

MR. NUTTER: Mr. Wells is qualified.

Q Mr. Wells, let me direct your attention first of all to what we've marked as Exhibit Number Six.

A Right. Exhibit Number Six is a structure --

Q Let me ask you this before we start looking at the exhibits.

Mr. Wells, the application requests the pooling of the south half of 11 for purposes of a gas well from formations from the top of the Wolfcamp to the base of the Granite Wash. Is that your understanding of the proposed gas formations to be tested?

A Yes, it is.

Q All right. With regards to those potential formations, Mr. Wells, have you made an examination of formations that are more likely to be gas productive than

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others?

A. Yes, the study that was done which was aimed at the Cisco, which is producing, gas producing zone in this area.

Q All right, sir, what, if any other potentially gas productive zones were examined?

A The Granite Wash was looked at primarily because there is one well that did produce, I think, for a short time only, from that -- from that formation.

Q All right, sir. Were there any other gas producing horizons specifically studies other than those two?

A No, not in this -- not in this state.

Q Let me direct your attention now to Exhibit Number Six and have you generally tell me what the purpose is of the exhibit.

A The purpose primarily is to show the structure over the prospective area, the area in question, to show for one thing the, one of the trapping agents, namely structure, closure, structural closure. The Three Brothers zone was chosen because it is a good mappable horizon in the area.

Q What do you generally conclude from the mapping of the Three Brothers structure?

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A. That there is closure over the prospect in the magnitude, perhaps, of 15 feet or more.

Q In order to form a standard proration unit for gas production in Section 11 you'll have to dedicate some 320 acres to any particular well. Why have you chosen to use the configuration of the south half of Section 11?

A. It, actually, because, of course, our mineral ownership in the area and the fact that there are producing wells on the -- the other possibility, of course, would be the east half, and --

Q All right, do you see any indications that there are any structural barriers that would preclude the south half of Section 11 from being gas productive?

A. No, I do not.

Q Would you generally identify for us the well control used in mapping the structure for this exhibit?

A. Well, the wells, of course, are shown on there that went deep enough to penetrate the mapped horizons, and the datum points, data points are indicated for those wells, and it is fairly well controlled around, perhaps with the exception to the northwest.

As indicated, we've got to the south a well drilled by Mr. Brown in the southwest corner of 13; two

1
2 wells in Section 14, both of which have produced at one time
3 or another; one well in Section 15; and the Peterson Field,
4 of course, to the north, as well as some wells drilled by
5 Enserch to the east in Section 8.

6 Q In your opinion does structure play an
7 important -- any importance in determining the gas production
8 from the Cisco formation?

9 A Yes, I think it definitely is -- is one
10 of the trapping agents; one of -- there are -- not the only
11 but one.

12 Q All right, sir. Let's go on to Exhibit
13 Number Seven, then, and have you discuss that for us.

14 A Is that the Granite Wash?

15 Q That's the Granite Wash.

16 A Essentially it was, the Granite Wash
17 structure shows the same thing as did the -- the Three
18 Brothers, with approximately 50 feet of closure, more or
19 less, over the area, with approximately the same configuration.

20 Q All right. Do you have an opinion as
21 to whether or not the orientation of a proration unit from
22 the two choices, one the south half of 11, or the east half
23 of 11, which of those two would more closely correlate to
24 the Granite Wash structure?

25 A It would appear that the south half would

1
2 probably configurate (sic) with -- would fit better.

3 Q Is that opinion also the same with re-
4 gards to the Three Brothers structure?

5 A Yes.

6 Q All right, sir. Now are there any wells
7 in the area that have tested the Granite Wash?

8 A As I indicated before, the Warner Harris
9 in Section 14, there in the northeast quarter, actually was
10 completed from the Granite Wash and produced gas for a fairly
11 short period of time, and I don't have production figures on
12 that, but it was not an economical well, I understand.

13 Q Do you know who the operator was of that
14 well?

15 A Ted Warner (sic).

16 Q All right, sir, let's go on to Exhibit
17 Number Eight.

18 MR. NUTTER: Mr. Wells, before you go
19 on, now that first exhibit was on the Three Brothers. Is
20 that Cisco formation?

21 A No, it's in the Wolfcamp. I believe it's
22 Wolfcamp.

23 MR. NUTTER: That's Wolfcamp on that.
24 Okay.

25 A It's easily recognizable and mappable

1 horizon in the area.

2
3 Q Now would you just generally identify
4 what is Exhibit Eight?

5 A Exhibit Eight is a -- is a porosity
6 isopach, an isopach of the porosity, productive porosity,
7 as we know it at this time in the area of -- under discus-
8 sion.

9 Q All right, sir. Why have you not pre-
10 sented us with a structure map of the Cisco?

11 A Well, I think that in looking at the --
12 at the Cisco, it is -- and the producing zone of the Cisco
13 in this area, it's a very thin member, lying right on top
14 of the Granite Wash. It does not -- it's not consistent in
15 thickness and probably does not show any more, and perhaps
16 not as much as a structure map of those zones shown, and
17 particularly the Granite Wash.

18 Q Will the structure as mapped on the
19 Granite Wash kind of like correlate to the structure of the
20 Cisco, if at all?

21 A Reasonably so. I have not personally
22 mapped this on the Cisco. I have seen a map and it seems
23 to configure reasonably well.

24 Q Is structure of any importance with
25 regards to the Cisco production?

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A Yes, as I said already, I think that it is.

Q In orienting the proration unit using the various choices for a 320-acre proration unit for Section 11, in your opinion which is the -- the orientation that will more closely overlie the potential Cisco production in Section 11?

A Well, we believe at this time that the south half will.

Q All right, sir, let's look at some of the wells in Exhibit Number Eight.

First of all, directing your attention to the south half of Section 12, the Energy Reserves Miller Well, do you know when that well was completed, Mr. Wells?

A I believe it was March. I believe it was March of '81.

Q What, if any, knowledge do you have of the status of that well now?

A Well, my understanding is that it was shut-in some time ago for bottom hole pressures, and that it actually has not produced for any reasonable or for any length of time. It's not been on production very long at this time.

Q To your understanding and knowledge, Mr.

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2

Wells, what is the proration unit for that well?

3

A. The south half of 12, I believe.

4

Q All right, sir. Next to that well there

5

is some information. There is a 12-foot number. What does

6

that number mean?

7

A That is the feet of effective pay that

8

has been assigned to this well in -- on our Isopach, our

9

Cisco Isopach map.

10

Q And there's also an indication here

11

about a calculated absolute open flow.

12

A Yes, there is.

13

Q And is that the number for this well?

14

A That's the number for the Miller, right.

15

Q Okay, what is that number?

16

A 12,700,000 cubic feet per day.

17

Q All right, sir. Let's go on to Section

18

13. There's an Energy Reserves Group Crume Well. What is

19

the proration unit assigned to that well?

20

A My understanding is that it's the north

21

half of Section 13.

22

Q All right, sir, and looking at the num-

23

ber of net feet mapped on the Isopach, how many feet have

24

been assigned to that well?

25

A Five feet.

1
2 Q And again there's a calculated absolute
3 open flow.

4 A Of 26.9 million.

5 Q What's your knowledge about the status
6 of that well?

7 A I understand it also has been shut-in
8 and whether it is still shut-in at this point or not, I don't
9 know, but it has been shut-in for some time.

10 Q All right. The well in the south half
11 of 11 is the Energy Reserve Miller Well. Tell us what you
12 know about that well, insofar as this exhibit is concerned.

13 A Well, the well was drilled in -- and
14 the completion attempted, I believe, beginning in July or
15 perhaps August of 1981; drilled to the Cisco pay of the area;
16 pipe was set; perforation. It was perforated and I believe,
17 I'm not -- I don't remember if it was the first treatment,
18 but at one of the treatment -- on one of the treatment stages
19 there appeared to be a casing separation or a split in the
20 casing, something; anyway, at one time the operator started
21 having difficulty and problems and eventually did have to
22 junk and abandon the well.

23 MR. NUTTER: Which well was that?

24 A That's the Miller 1-A in the south half
25 of 11. The Energy Reserves Group Miller 1-A.

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Q

There is a well in Section 14 that's colored red, the Weiner Well. What do you know about that?

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A

Well, that well was drilled, I believe, in 1971 and was completed from the same -- the Cisco pay -- the same Cisco stringer that is producing in the Crume and the Miller, and that was tested in the Miller 1-A.

7

8

The well, I understand, I think that the

9

well is still producing and has produced some 4-or-500,000,

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4-or-500-million cubic feet of gas to this point in time.

11

Q

Why -- what is the purpose of the Exhibit, Mr. Wells?

12

13

A

The map was prepared primarily to choose the -- the best location that we could find on this acreage for the drilling of a gas well.

15

16

Q

In your opinion what is that location?

17

A

It's as indicated there, 1300 feet from the south and 660 feet from the east line of Section 11.

18

19

Q

Do you have an opinion as to what will happen if Mr. Brown does not drill a well at that location in terms of the Cisco production underlying the south half of Section 11?

22

23

A

Yes. We feel very strongly that it would be drained by the well, the Energy Reserves well, which is 660 feet from that common line, the well in Section 12.

25

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2 Q Do you have an opinion as to whether or
3 not correlative rights would be protected if this proposed
4 location is approved as requested?

5 A Yes, I believe they would be.

6 Q Your Isopach shows a zero line running
7 through a portion of the western end of the Section 11 pro-
8 ration unit. Can you indicate for us, generally, what you
9 used for a porosity cutoff number in the preparation of the
10 Isopach?

11 A Yes. Probably somewhere in the neigh-
12 borhood of five porosity, four or five percent porosity.
13 Of course, that -- that zero line on the west end of this
14 half section is purely speculation and interpretation and
15 could be put almost any place, because we do not have con-
16 trol to the northwest.

17 Q In your opinion is that zero line indi-
18 cative of a lack of gas productive acreage in this section?

19 A Not necessarily, no. It's just a fact
20 that -- well, it could be -- it could be the other side of
21 Section 10. It's purely a matter of, you know, of interpre-
22 tation, and this was -- it was put there -- well, of course,
23 normally in, I guess, in contouring you try to sort of
24 equally space, but it does not always work that way, cer-
25 tainly.

1
2 Q In your opinion is it fair to equate
3 the net feet represented on the Isopach here with net pro-
4 ductive acre feet?

5 A No, I don't think we've got enough in-
6 formation at this point in time to say, you know, definitely
7 about that.

8 Q Do you have any opinion with regards to
9 whether or not you can directly correlate the number of net
10 productive feet indicated on the Isopach with the productivity
11 of the wells?

12 A Well, it would appear from looking at
13 the -- at the data here that no, you can't do that.

14 We're looking at the Crume Well with
15 five feet, approximately five feet of effective pay, and
16 almost 27-million cubic feet as a calculated absolute open
17 flow, while we have approximately 13-million with 12 feet
18 of pay. So generally, of course, in -- it's good engineering
19 and so forth to say that you can do that, but when you use
20 a cutoff that five feet may be five feet of 20 percent poro-
21 sity and I don't know at this point if that happens to be the
22 case, and the 12 feet may be 12 feet of 6 percent porosity,
23 but when you have a cutoff that's kind of -- the data doesn't
24 tell all. The maps do not tell all.

25 Q Do you have an opinion, Mr. Brown, as

1
2 to whether or not the proposed location for Mr. Brown ought
3 to be penalized in any way?

4 A Pardon?

5 Q Do you have an opinion, Mr. Wells, as
6 to whether or not Mr. Brown's proposed location, unorthodox
7 location in Section 11 ought to be subject to any type of
8 penalty?

9 A No, I don't believe that it should be.

10 Q Why not?

11 A Well, first of all, the location that
12 we're proposing is one that -- that -- which will help us
13 protect the rights of our lease owners, and I don't know why,
14 you know, I really don't see any reason why there should be
15 a penalty.

16 Q Let's go on -- sir?

17 A Well, I started to say, in terms of
18 whether or not the whole 320 does have producible gas under
19 it, again, we don't know that. We don't have the control to
20 the northwest to tell us whether that's the case or not.

21 Q Okay. Let's go on to Exhibit Number
22 Nine and have you identify that for us.

23 A It's a cross section prepared for the
24 line of section shown, starting to the south at the H. L.
25 Brown, Junior, No. 1 Sutphin Well and including the Energy

1
2 Reserves No. 1 Crume, No. 1 Miller, and the No. 1-A Miller,
3 and the No. 1 Bledsoe, showing the mapped horizons; also
4 showing the producing intervals, drill stem tests, where
5 applicable, producing zones, and so forth, and with the --
6 what we consider to be the effective pay zones shown in red.

7 Q Let's put this on the wall here, Mr.
8 Wells, and have you come over here and discuss this for us.

9 A We start at the south with the Brown
10 Sutphin and with an indication that we actually do not have
11 this Cisco member present down there, probably. If so, not
12 with any porosity.

13 Coming up then to the Crume Well in Sec-
14 tion -- the Energy Reserves Crume in Section 13. You can
15 see the thin member of Cisco, the productive member there,
16 with about 5, around 5 to 6 feet, perhaps, of pay.

17 Then to the Miller No. 1 in the southwest
18 corner here, showing a thickened section of pay.

19 And our proposed location, which we have
20 chosen, understandably, I think, to be economical. We want
21 to make money out of the thing. We don't want to drill a
22 well and -- and it not be profitable. Therefor our concern
23 is to have a location in which we have the best chance of
24 making a reasonable profit.

25 The junked and abandoned well, showing

1
2 the pay zone, or the zone that was perforated and was the
3 potential pay for the well, although at this point in time
4 we don't know whether it was -- whether it produced or not.
5 It did produce some gas and some condensate before it was --
6 started having problems and was junked and abandoned.

7 And finally on into the Bledsoe Well,
8 No. 1 Bledsoe, which is an oil producer and is producing from
9 a zone below where we're talking about and with no apparent
10 porosity or the zone not being present that we're looking at
11 for our well.

12 Q If you'll go back to the cross section
13 and look at wells two and three, which are the Crume and
14 Miller Wells, the Crume well you've indicated has the 5 feet?

15 A Yes.

16 Q And the Miller Well has the 12 feet?

17 A Right.

18 Q Within those intervals, then, as identi-
19 fied on your exhibit, can you make any conclusions with re-
20 gards to the degree of porosity?

21 A Well, it would appear that -- that the
22 5 or 6 feet in the Crume Well is probably all of fairly equal
23 quality. There's one, almost a two foot zone in the base
24 here of the Miller that looks to have a porosity of the same
25 magnitude as that -- that 5 feet, and then a lesser -- the

1
2 rest of the zone having some lesser amount of porosity, but
3 still considered to be an effective producing porosity.

4 MR. NUTTER: So the Miller well has just
5 a small section of high porosity.

6 A This is what it appears, yes, sir, per-
7 haps a little -- perhaps somewhat less than the Crume but
8 still overall a thickness that is more than that, more than
9 the Crume Well, but not as much of -- of a good, high quali-
10 ty.

11 MR. NUTTER: So this would be your ex-
12 planation as to why the one well had a CAOF of 29 compared
13 to the --

14 A That would be a reasonable -- although
15 that's again completions, a good many things can control a
16 calculated absolute open flow, but that would be a possible
17 explanation.

18 The quality, now, of the porosity in the
19 Miller Well probably is not quite that of either of these
20 wells, and therefor, does -- even though it did appear on
21 completion that it might end up making a well, it doesn't
22 look like a good cinch, and does not look like at this point
23 to me it would probably be -- or perhaps might not be the
24 same quality as the two.

25 Q While you're up here at this exhibit, Mr.

1
2 Wells, apart from the location portion of the application,
3 Mr. Brown has also sought to pool those interests that don't
4 voluntarily join in drilling of this well. With that thought
5 in mind, as you may know, the statute provides for a maximum
6 risk factor penalty of 200 percent to be assessed against
7 any of those working interest owners.

8 Do you have any opinion with regards to
9 what would be an appropriate risk factor penalty to assess
10 in the event an order is -- or the pooling is ordered?

11 A Yes, I feel that a 200 percent penalty
12 would be appropriate. I, obviously, as I've already stated,
13 we want a location where we have the best chance of making
14 a well. It's not a risky location, as none is; witness the
15 Energy Reserve Well, you always have a risk of losing a hole,
16 of the things that can happen to you.

17 Also, here we do have 7 feet of porosity
18 off down here and 8 feet of porosity up here, and in between
19 we've got a well that essentially had no porosity. We show
20 3 feet there --

21 Q Are you referring to the Weiner Well
22 in the north half of 14?

23 A I'm referring to the Weiner Harris Well
24 in the north half of 14. It -- it -- strange things can
25 happen to you, even though we're in between, it could be there

1
2 and it might not be there.

3 Q Thank you. Mr. Wells, in your opinion
4 have a sufficient number of wells been drilled west of the
5 Energy Reserves Group Miller 1-A Well to determine the extent
6 of the Cisco reservoir in this area of the pool?

7 A No, I do not believe that it can be
8 exactly, it cannot be exactly delineated from the control that
9 we now have.

10 Q In your opinion, Mr. Wells, will approval
11 of this application be in the best interests of conservation,
12 the prevention of waste, and the protection of correlative
13 rights?

14 A In my opinion, yes.

15 MR. KELLAHIN: If the Examiner please,
16 we'd move the introduction of Exhibits One through Nine.

17 MR. NUTTER: Exhibits One through Nine
18 will be admitted in evidence.

19 MR. KELLAHIN: That concludes our exam-
20 ination of Mr. Wells.

21 MR. NUTTER: Are there any questions of
22 Mr. Wells?

23 MR. EZZELL: Yes, Mr. Examiner, a few.

24 MR. NUTTER: Okay.
25

CROSS EXAMINATION

BY MR. EZZELL:

Q Back to your exhibits, I'll just take them in the same order that they were presented, starting with Number Six. Is your presentation of this exhibit and the structure map an attempt to establish the Three Brothers zone is potentially productive, or just --

A No.

Q -- to give us an overview of the structure in the area?

A It's just a structure because it is a recognizable, mappable horizon in the area.

Q And by the same token, when we go to the Granite Wash, you are showing -- the purpose of this exhibit is to establish that the structure of the area generally supports a south half proration unit as opposed to an east half proration unit.

A Yes.

Q Then when you get to, let's see, your Exhibit Eight is not a structure map, but you testified that you felt that the Cisco structure had, I believe you said, a reasonable -- reasonably well correlation from the Granite Wash --

1
2 A That's -- that's purely from memory on
3 my part. As a matter of fact, the only Cisco structure map
4 that I've seen, I think was just the one that was introduced
5 here on December 16th is support of another matter.

6 Q But -- and it is your expert opinion
7 that the -- in this area the Cisco formation is closely as-
8 sociated with the Granite Wash and is always --

9 A Yes, I would believe --

10 Q -- (Interrupted).

11 A -- (Interrupted).

12 Q You had -- you had noted that you have
13 a line for correlation purposes of zero porosity coming
14 through the center of Section 11 and then cutting through
15 the west half.

16 A Would you say again, please?

17 Q Your zero feet of porosity --

18 A Okay, of net pay.

19 Q Right, of net pay, excuse me. What --
20 what basis do you -- did you use for drawing that -- that
21 line representing zero feet of net pay?

22 A Well, again, as I stated earlier, you --
23 somewhere out there there is a zero feet. Generally in a
24 good mapping practice you try to set up a fairly equal spaced
25 contours, but again, it is purely -- it is totally an inter-

1
2 pretation of the thing and without control to the northwest,
3 you have to close it off somewhere.

4 Q And you had -- you had, well, no control
5 to the west and no control to the northwest, and only the
6 Bledsoe No. 1 Well as a control to the northeast?

7 A Right, the Bledsoe 1 and 2 and the
8 Phillips, you know; there are three, four wells to the north
9 up there that have shown zero porosity in the --

10 Q On your Exhibit Nine, the log of the
11 Bledsoe indicates that a drill stem test was conducted and
12 does indicate a section of porosity. What -- how did that --
13 how did that come into play in your -- in your drawing that
14 zero feet of pay line south of the -- south of the Bledsoe
15 Well?

16 A Well, I think that -- that --

17 Q It's giving a drill stem test from 7575
18 to 7900 feet.

19 Q Well, of course that's covering a zone,
20 a long zone there, and I'm not even sure where the top of the
21 Cisco is in here. It's indicated here as the top of the pay
22 zone of the Cisco. I think that probably there is none there
23 that's why the zero porosity.

24 Q From what formation do you think the
25 drill stem test indicated 2.6 million cubic feet a day poten-

1
2 tial?

3 A Well, I really don't know. I don't have
4 an opinion as to --

5 Q But it could be very --

6 A It could come, yes, it could come any-
7 where in there.

8 Q Okay, thank you. And you -- you don't
9 have anything on the Bledsoe to -- or the Phillips?

10 A No, we stopped the cross section at the
11 Bledsoe.

12 Q You've indicated that structure is im-
13 portant in -- in Cisco --

14 A Well, I believe that it is a contri-
15 buting factor to this accumulation, yes.

16 Q And further with your indication of the --
17 of the Cisco structure reasonably correlates with the Granite
18 Wash structure, which you have -- which you have mapped for
19 us on your Exhibit Seven, why is it imperative that your
20 proposed location be unorthodox as opposed to orthodox?

21 A Well, as I have already stated, our --
22 we chose the location with the big dollar sign, as you would
23 expect, foremost in our mind. We want to make money out of
24 the thing, and we feel like that this location is the one
25 that would offer us the best chance of making a good comple-

1
2 tion in the Cisco pay.

3 Q You've indicated --

4 A That's not to say that a location some
5 place else would not produce, but our concern is not with
6 just producing but with making a reasonable profit on our --

7 Q You'd indicated --

8 A -- investment.

9 Q You'd indicated that there are not enough
10 Cisco wells west of the Miller A-1. In fact, there are none,
11 to indicate the limits of the -- of the Cisco, or the presence
12 of the --

13 A That's correct.

14 Q -- Cisco structure or the thickness of
15 pay. So -- so the location that you have selected is not --
16 you have not selected that location for the reason that it
17 is the only location that could possibly be productive in
18 the area.

19 A As I previously stated, the one reason
20 I just said. The other reason is that we're being drained
21 and we want to protect our -- our interests from being
22 drained. Or will be if that well is producing or whenever
23 it does go on production. We very definitely are going to
24 be drained by it.

25 Q Although Mr. Brown owns the same interest

1
2 in the southwest of 12 as he does in the southeast of 11;
3 he is benefitting from the production from the Energy Reserves
4 Miller Well?

5 A Yes.

6 Q He has leased to them his mineral in-
7 terests there.

8 A Right.

9 MR. EZZELL: Mr. Examiner, that con-
10 cludes my examination of this witness.

11 MR. KELLAHIN: We have nothing else.

12
13 CROSS EXAMINATION

14 BY MR. NUTTER:

15 Q Mr. Webber, I'd like to ask you a
16 question now.

17 MR. WALKER: Yes, sir.

18 MR. NUTTER: Is Mr. Brown's interest
19 in the southeast quarter of Section 11 an undivided interest
20 throughout the entire 160?

21 MR. WALKER: Yes, sir.

22 MR. NUTTER: And is that the same --

23 MR. WALKER: Yes, sir.

24 MR. NUTTER: I mean is it true over in
25 Section 12?

1
2 MR. WALKER: It's undivided in the
3 southwest.

4 MR. NUTTER: In the southwest. Right.

5 Q Now, Mr. Wells, you reject the idea that
6 any penalty should be placed on the production for this unorthodox
7 location. Would you elaborate a little bit on why
8 you think that should not be the case?

9 A Well, I might sort of turn that around.
10 Why should there be? We don't know the -- the productive
11 limits at this point. We don't know that that entire 320
12 is, you know, even though this map would indicate perhaps
13 that it isn't, we don't know that for sure. And --

14 Q Well, even assuming that the entire 320
15 is productive, it would be a normal procedure in an unorthodox
16 location case in which there's opposition that there
17 should be some kind of penalty imposed on the well, because
18 of -- not by virtue of its nonproductive acreage but by virtue
19 of its unorthodox location.

20 So why shouldn't this well that's
21 located --

22 A And by the same -- by the same token,
23 should there not be then a penalty assessed against the
24 Energy Reserves No. 1 Miller and the Energy Reserves No. 1
25 Crume? They're at unorthodox locations.

1
2 Q That's what I was coming to. Has there
3 ever been a penalty imposed on that well?

4 A I'm not aware of it if there has been.

5 Q As a matter of fact, wasn't that well
6 the subject of a -- isn't that well the subject of part of
7 a Case Number 7448 that was heard this morning and has been
8 heard previously?

9 A I believe so.

10 Q Where they're seeking approval of the
11 unorthodox location of that well.

12 MR. KELLAHIN: Mr. Nutter, that's not
13 quite right.

14 MR. EZZELL: There's a typographical --
15 that was advertised wrong -- was put wrong on the docket.
16 The unorthodox location was approved in Case 6520, or some-
17 thing, I don't remember what.

18 MR. NUTTER: That location has been ap-
19 proved?

20 MR. EZZELL: That location has been ap-
21 proved several months ago, before you, I believe.

22 MR. NUTTER: Okay, and was any -- was
23 any penalty imposed on the well at that time?

24 MR. EZZELL: No, sir.

25 MR. NUTTER: Did anyone appear in oppo-

sition to the approval of the unorthodox location?

MR. KELLAHIN: There was no opposition.

MR. NUTTER: Was that well originally drilled as an oil well and then completed as a gas well?

MR. EZZELL: Yes, sir.

MR. NUTTER: And this well is being proposed as a gas well at the proposed unorthodox location here today, is it not, Mr. Wells?

A. It is.

Q Now, is there any Wolfcamp production in the south half of Section 12 or -- 11 or 12, or in Section 13 and 14, Mr. Wells?

A. Not to my knowledge, no.

Q The Wolfcamp production is in the north half of Section 11, is that it?

Are those wells, those oil wells Wolfcamp wells?

A. I believe they're Granite Wash.

MR. EZZELL: The Bledsoe No. 1 is Granite.

MR. NUTTER: Is there any Wolfcamp production in this area, then?

A. I'm not -- I'm not aware if there is.

MR. NUTTER: Okay.

Q So the only reason you used this Three

Brothers exhibit was to show the structure of the Wolfcamp formation but not to indicate -- without indicating there is any productivity in the immediate area.

Now on the question of Mr. Ezzell regarding that drill stem test on that Bledsoe Well, actually the drill stem test, according to Exhibit Nine, was from 7575, which is 100 feet above the top of the -- I guess that is the top of the Granite Wash if the Cisco is absent.

But it would be from 100 feet above the top of the Granite Wash to a couple of hundred feet down into the Granite Wash.

A. True.

Q But the well was completed as a gas -- as an oil well in the Granite Wash, wasn't it?

A. Yes, that's what my record -- what this indicates.

Q So isn't the -- do you know what the gas/oil ratio was on the well?

A. No, I sure don't.

Q That's a pretty substantial flow of gas through a 3/8ths inch choke there on that drill stem test, 2.6 million a day. Has any study been made by anyone to try to determine where that gas came from, to your knowledge?

A. Not by us, as far as I know. I have

1
2 not and Mr. Jack Wells, who's my boss, who really works this
3 area, he didn't -- has not mentioned it to me.

4 Q Do you have any idea where the top of
5 the Pennsylvanian formation is on this cross section on the
6 wall?

7 A No, I do not. I mean if you're talking
8 about where the tops of the --

9 Q Where the Wolfcamp ceases and the Penn
10 starts?

11 A No, I do not have that. I do not recog-
12 nize where that might be.

13 I offer this just purely as information.
14 I have a scout ticket on the -- wait a minute, the Energy
15 Reserve Bledsoe No. 1, in which they -- which the top of the
16 Cisco is picked at 7563, which would be -- let me see where
17 it is up there. There would be a hundred-something feet of
18 Cisco, perhaps, included in that drill stem test, but again,
19 where the gas came from, I certainly couldn't testify to.

20 Q 7563, you say?

21 A Yes, that's the --

22 Q That was where some geologist reported
23 to the scout.

24 A Yeah, on the scout ticket; on the com-
25 pletion ticket that's where they reported the top.

1
2 Q So that would be just below where the
3 test started, then.

4 A Just --

5 Q Right? Well, the drill stem test started
6 just above where that 75 -- oh, okay.

7 MR. NUTTER: Are there any further ques-
8 tions of Mr. Wells?

9 MR. REEDAHIN: NO, Sir.

10 MR. NUTTER: He may be excused, and
11 we'll take a fifteen minute recess.

12
13 (Thereupon a recess was
14 taken.)

15
16 MR. NUTTER: Are you ready, Mr. Ezzell?

17 MR. EZZELL: Yes, sir.

18 MR. NUTTER: The hearing will come to
19 order, please. Mr. Ezzell, I believe you had witnesses to
20 call?

21 MR. EZZELL: Yes, sir. I'd like to call
22 Mr. Elliott.

23
24
25

ROBERT G. ELLIOTT

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

DIRECT EXAMINATION

BY MR. EZZELL:

Q Mr. Elliott, for the record would you
state your name and your occupation and your residence?

A Robert G. Elliott. I'm a Land Manager,
Energy Reserves Group in Midland, Texas.

Q Have you previously testified before
the Oil Conservation Division of the State of New Mexico?

A No, I have not.

Q Would you give us a brief outline of
your educational history and work experience?

A I have a Bachelor of Arts degree from
the University of Kansas in geography and a Master of Science
degree in geology from the University of Kansas. I have a
JD degree from the University of Missouri at Kansas City.

I worked approximately two years for
Texas Oil and Gas as a landman from '75 to '77; approximately
two years as a land title attorney with Stokes, Wagner, and
Brown in Midland, Texas, '77 through '79, and I'm currently
Land Manager, Energy Reserves Group, since 1979.

1

2

Q Are you familiar with Mr. Brown's appli-

3

cation in this case?

4

A Yes, I am.

5

Q Are you familiar with the area covered

6

by the application?

7

A Yes, I am.

8

MR. EZZELL: We would tender Mr. Elliott

9

as an expert landman.

10

MR. NUTTER: Mr. Elliott is so qualified.

11

Q You've heard the previous testimony as

12

to the acreage controlled by various parties in the area on --

13

well, my exhibit isn't marked -- on Exhibit Number One. I'll

14

give it to you to refer to.

15

It was -- we heard testimony that the

16

interests of Malcolm Garrett and Michael T. Garrett in the

17

southwest quarter of the section had been leased to Energy

18

Reserves, is that correct?

19

A That's correct.

20

Q There is some interest credited to

21

Curry County Oil Company.

22

MR. NUTTER: Are you referring to Brown

23

Exhibit Two?

24

MR. EZZELL: Brown Exhibit -- oh, this

25

one's marked One, I'm sorry.

1
2 MR. NUTTER: Yeah, that's Exhibit Number
3 Two.

4 MR. EZZELL: I apologize.

5 Q There are other interests shown as being
6 lease interests held by Curry County Oil Company and J. B.
7 Atkinson. Are you familiar with those interests?

8 A Yes, I am.

9 Q Have they been acquired by Energy Re-
10 serves Group, as well?

11 A Yes, they have.

12 Q So what is the total acreage controlled
13 by Energy Reserves Group in the southwest quarter of the
14 section?

15 A 160 acres.

16 Q And in the southeast quarter of the
17 section we've seen that Mr. Brown and the Smith Estate each
18 hold 40 acres that are currently unleased, and how is the
19 remainder of that section held?

20 A Energy Reserves Group owns 70 net acres
21 and Phillips Petroleum owns 10 net acres in the southwest --
22 southeast quarter of Section 11.

23 Q Okay. Were you involved in any of the
24 land work or leasing negotiations with Mr. Brown for the
25 lease that was given to Energy Reserves by Mr. Brown when the

1
2 Miller A-1 Well was drilled?

3 A I was involved in -- with the lease after
4 it was acquired prior to my association with Energy Reserves,
5 but it was my responsibility to handle the obligations under
6 that lease as far as land responsibilities.

7 Q What happened to Energy Reserves Group's
8 leasehold interest in the Brown lease after the junking and
9 abandonment of the Miller A Well?

10 A Mr. Brown's lease, along with the Smith
11 Estate lease, expired upon the junking and abandoning of that
12 well.

13 Q Were any efforts made to obtain exten-
14 sions or renewals or new leases?

15 A Yes, there were. We made an offer to
16 Mr. Brown for a one year renewal of that lease, with the
17 same, basically the same lease form, same royalty, and \$250
18 an acre bonus consideration for that extension.

19 Q Why was the extension of such a short
20 duration, only one year?

21 A We had planned to twin this well at that
22 time at a location close to the junked and abandoned loca-
23 tion.

24 Q All right, so it was -- what was the
25 proration unit to be dedicated to the -- to the junked well

1
2 and to the twin?

3 A The south half of Section 11.

4 Q So your company has no objections to the
5 south half of the section as being the proration unit for
6 any well drilled to the Cisco formation there?

7 A No, sir.

8 Q When did you first learn of this appli-
9 cation for unorthodox location and compulsory pooling?

10 A We received a certified letter on De-
11 cember the 14th. The letter was dated December the 8th,
12 which notified us of this hearing and asked us to-- to respond
13 to their proposal for drilling this well and to be aware of
14 this hearing that had been pending.

15 Q Had you received any other correspon-
16 dence or had you had any personal contact with Mr. Brown or
17 any of his personnel with respect to the drilling of a well
18 in the south half of Section 11?

19 A Mr. Brown, I talked, after I offered the --
20 for a renewal lease, we talked on the telephone about what
21 our plans were and what his plans were in the southeast of
22 Section 11. I, of course, had no authority to commit us to
23 an additional well at any particular location. He asked me
24 if we intended to drill another well. I told him that with-
25 out his lease we had no authority to drill another well.

1
2 Our twin was based on having his lease back.

3 He did not indicate he would drill a
4 well; I did not indicate we would drill a well at that time.
5 He did complain about the drainage and I suggested to him that
6 he had a similar problem in the northwest section of 12, and
7 asked him if he had any intention to participate in that
8 area, and he had no -- no -- he indicated neither would he
9 participate in that area or would he farm out or lease.

10 MR. NUTTER: Who was this you were
11 talking to?

12 A. Mr. Brown.

13 MR. NUTTER: Mr. Brown himself?

14 A. Yes, sir.

15 So it was a conversation where our offer
16 to lease was rejected but nothing was resolved as to any
17 future drilling.

18 Q And from that point on the matter was
19 dropped --

20 A. Yes.

21 Q -- until the application was filed?

22 A. That is correct.

23 Q Did you have any -- any knowledge of
24 the application prior to -- prior to your receiving a copy
25 of it in the mail?

1

2

A No, we did not.

3

Q So no other effort was made by Mr. Brown or his -- or his people to get you to lease, to assign your leases, to farm out, or to join?

4

A None.

5

Q Since the filing of the application has any effort been made to get Energy Reserves to assign leases, farm out, or join?

6

A We received a letter -- let me retrace my former testimony.

7

The first letter received was the 11th, which is what the exhibit shows on the receipt, return receipt. I read one line down in my notes.

8

That was on a Friday, the 11th, we received a proposal, and on the 14th we received an additional letter, which enclosed the second amended petition and AFE for the well.

9

Q Did you ever get a copy of the original petition or --

10

11

A No.

12

Q -- amended petition prior to the second amended --

13

14

A No. The second amended petition was attached to a letter telling us that the AFE is enclosed. We

15

1
2 received that on the 14th; the letter was dated the 9th,
3 which would be prior to the receipt of the first letter.

4 That petition, paragraph three, states
5 that they were unable to receive any cooperation with --
6 with the owners, or something to that effect, which surprised
7 me since we had not had time to receive the letter prior to
8 that letter being written. We received the letter proposing
9 the well two days after that letter was put in the mail.

10 In addition to that, there's a paragraph
11 ten calls for, I believe it should read, reasonable super-
12 vision costs, but it's written as unreasonable supervision
13 costs, so I think there's something -- we might call the at-
14 tention of the Commission on that in the second amended
15 petition.

16 Following receipt of that letter, I
17 called Webb Walker, I think, at H. L. Brown's office, which
18 was in accordance with the first letter request, either write
19 or call Webb Walker and tell him what our desires were. I
20 called him to tell him we would not support this unorthodox
21 location.

22 Q. For what reason?

23 A. We thought it would damage the well
24 that's in the southeast, southwest southwest of Section 12,
25 the Miller Com. We think it's too close to that well and I

1
2 told him so.

3 I also told him that I was somewhat
4 surprised to learn of his proposal through compulsory pooling
5 application rather than receiving some earlier telephone or
6 letter proposing a joint well, as most operators do initially.

7 Q Other than --

8 A So that's --

9 Q Other than receiving the -- a copy of
10 an AFE in a letter after the application or -- or notifying
11 you of the application, had any effort ever been made, had
12 any dollar figures been offered from Mr. Brown to buy your
13 interest?

14 A He offered to buy everybody's interest
15 at \$250 an acre, even our leased mineral owners.

16 Q When was that?

17 A It was in his original letter of Decem-
18 ber 8th, which we received the 11th. It did cause some in-
19 teresting comments from mineral owners thinking they were
20 going to get some money prior to Christmas that they could
21 spend, but I assured them that our leases were valid and it
22 did cause us some problems in dealing with our mineral and
23 royalty owners, but it's all been taken care of.

24 Q What -- what is the distance -- you're
25 aware of the location of the -- of the proposed --

1

2

A Yes.

3

Q -- Brown well. What is the distance be-

4

tween the proposed location and your Miller Com Well on the

5

southeast of --

6

A It's --

7

Q -- 12?

8

A -- approximately 1465 or give or take

9

a few feet from our location in the southeast -- southwest

10

of Section 12.

11

Q Okay.

12

MR. EZZELL: I have no other questions

13

of this witness.

14

MR. NUTTER: Okay.

15

16

CROSS EXAMINATION

17

BY MR. NUTTER:

18

Q Now, Mr. Elliott, this letter that was

19

written by Mr. Kellahin on December the 8th, you say you re-

20

ceived it on December the 11th.

21

A That's correct.

22

Q And it did enclose an estimated --

23

A No, sir.

24

Q -- AFE.

25

A No, it was just the two pages of the

1 letter and nothing enclosed.

2 Q Well, he says here, I've enclosed a copy
3 of an estimated drilling and completion cost summary.

4 A I told that -- I commented on that to
5 Webb Walker. We received the AFE under the second letter,
6 dated November -- I mean December the 9th.

7 Q Then on December the 9th. Well now, was
8 that letter also from Mr. Kellahin?

9 A Yes, sir.

10 Q So he wrote you again on December the
11 9th and enclosed a --

12 A AFE and a --

13 Q An AFE.

14 A And a petition. We received that on the
15 14th.

16 Q Now a petition for what? For the hearing?

17 A Yes. It was the second -- we don't have
18 copies of the original petition or any others, other than
19 the second amended petition.

20 MR. EZZELL: Application.

21 A Application.

22 Q Now he filed his application, or his
23 letter of application, letter of transmittal with his appli-
24 cation is dated December the 9th.

1

2

A Yes, sir.

3

Q And he's requesting a hearing there.

4

A Yes, sir.

5

Q And --

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7

8

MR. KELLAHIN: For the record, Mr. Nut-
ter, there is no other application. That's a typographical
error.

9

10

MR. EZZELL: Oh, it wasn't a second
letter at all.

11

12

13

MR. KELLAHIN: The second -- captioned
Second Amended Application. There is no other application.
That is the single, sole application.

14

15

16

MR. NUTTER: That is the application.

MR. KELLAHIN: Yes, sir, it's an error
to refer to it as the second application.

17

18

19

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21

MR. NUTTER: Okay. And although your
letter, Mr. Kellahin, on December the 8th said you were en-
closing an estimated drilling cost summary, did you fail to
enclose that and that's the reason you wrote to them on
December the 9th and sent them an AFE?

22

23

24

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MR. KELLAHIN: Well, I had thought it
was in that letter, when Mr. Walker called me and said that
Energy Reserves had not gotten it. We had included it with
the application, too, so our letter was -- was to correct

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any oversight if that was omitted from their docket.

Apparently they in fact got the AFE sometime in December.

Q Now, Mr. Ellicott, do you know of any plans that H. L. Brown has for drilling another well in the south half of Section 11 at this time?

A Only this location.

Q He doesn't have any plans for drilling a well --

A None that I know of.

Q -- in the south half?

A No, sir.

Q So the only well you know of that's being proposed for the south half is the one that's being proposed by H. L. Brown?

A Yes, sir.

Q I mean does Energy Reserves have any plans for drilling a well, that's what I meant to say.

A We have some plans in our -- in our budget to drill a well in the south half but it has not been authorized by management, but we do have a -- it is scheduled to be drilled in 1982, pending on the rig availability and other -- and budgetary matters.

Q Do you have any wells drilling in this general area at this present time?

1

2

A. We are not operating any wells drilling

3

this area. We are participating in 6, 34, in Section 17,

4

operated by American Crude, and we are still attempting a

5

completion in 4, 34, Section 20, which we operate, the

6

Fleming No. 1.

7

But in this general --

8

Q Do you have --

9

A. This specific --

10

Q Have you got a drilling rig on that

11

well now?

12

A. No, it's a completion rig. The drilling

13

rig we had, had to be moved to Lea County to meet other

14

drilling commitments.

15

Q So you don't have a rig under contract

16

in this area right now?

17

A. Not, no, sir.

18

Q And no concrete plans for drilling in

19

the south half of Section 11?

20

A. Not today.

21

MR. NUTTER: Are there any further

22

questions of the witness?

23

MR. KELLAHIN: No, sir.

24

MR. NUTTER: He may be excused.

25

MR. EZZELL: I'd like to call Mr. Green.

1
2
3
4 WILLARD R. GREEN

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

8 DIRECT EXAMINATION

9 BY MR. EZZELL:

10 Q Mr. Green, for the record would you
11 state your name, occupation, place of residence, and employer?

12 A Willard R. Green, Midland, Texas, Ex-
13 ploration Manager for Energy Reserves Group.

14 Q And your area of expertise is?

15 A Geology, petroleum engineering.

16 Q Have you testified before the Oil Con-
17 servation Division of the State of New Mexico on other occa-
18 sions?

19 A Yes, I have.

20 Q And your qualifications as an expert
21 have been accepted?

22 A Yes.

23 Q Are you familiar with the area involved
24 in this matter and the -- from an engineering and geological
25 standpoint?

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A. Yes, I am.

MR. EZZELL: We would offer Mr. Green as an expert engineer and geologist.

MR. NUTTER: Mr. Green is so qualified.

Q How long has your company, Energy Reserves Group, been participating in exploration activities in this general area?

A From the onset, initial leasing, approximately two and three-quarters years, three and three-quarters years.

Q About how many wells have you all drilled up there?

A In 1981 we completed eight wells in Roosevelt County, six of them in the immediate area of South Peterson, and -- or seven of them, and the other two in -- also in Roosevelt County.

Q Of the wells that we've looked at today, your Bledsoe, the Miller A, the Miller, and the Crume, which was drilled first?

A The Bledsoe No. 1 was drilled first in the northeast quarter of Section 11.

Q As an oil producer?

A Yes, from the Granite.

Q And the second was the Bledsoe No. 2?

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A. Correct.

Q. Also an oil producer?

A. An oil producer from the Cisco formation.

Q. And then what was the third well?

A. The third well was the Miller No. 1.

Q. And that is in the southwest quarter of
Section 12?

A. Correct, a gas discovery. Drilled as
an oil well for Granite but completed as a gas well in the
Cisco.

Q. Okay. What -- what did you encounter
in the Granite when you drilled that, the Miller Well, the
Miller No. 1?

A. Instead of Granite we found quartzite,
which had no shows in it.

Q. And you came up the hole and completed
it --

A. In the Cisco.

Q. -- in the Cisco. And the logs and the
initial completion indicated this was a good well?

A. Right.

Q. Did it change you all's focus from
Granite oil to Cisco gas in the area?

A. Yes, it did.

1

2

Q And what was the next well you drilled?

3

A We then drilled the step-out offsetting

4

well at an orthodox location in the south half of Section 11,

5

the Miller A-No. 1.

6

Q As a westerly offset?

7

A Right.

8

Q Again seeking Cisco gas?

9

A Yes.

10

Q What happened to that well?

11

A The well was drilled into the Granite.

12

Production casing was run. We perforated the Cisco, which

13

indicated reasonable log porosity, and at some point during

14

the testing procedure we had mechanical failure, collapsed

15

casing, and after considerable efforts to restore the mechan-

16

ical condition of the well, we had to abandon it.

17

Q And the abandonment of that well cost

18

you one of the leases in the area.

19

A That's right, the lease provided for

20

no workover clause.

21

Q So at that point you were unable to --

22

to twin that well, so you then drilled another development

23

well?

24

A At that point we were -- at that point,

25

actually, we were already drilling a second development

1
2 effort, the Crume No. 1, in the north half of Section 13 at
3 an orthodox location.

4 Q An orthodox gas location?

5 A Yes.

6 Q So after your discovery of the Cisco
7 gas well in the Miller, you proceeded to commence a develop-
8 ment program.

9 A That's right.

10 Q First in the west and then to the south.
11 What does the -- you say the Miller Well was junked and
12 abandoned only after mechanical failure after -- after casing
13 was run?

14 A Yes, that's the Miller A.

15 Q The Miller A, excuse me, so you did have
16 an opportunity to evaluate the Cisco formation penetrated by
17 the Miller A?

18 A We evaluated by electrologs which were
19 run in the open hole prior to running casing. We did not
20 have an opportunity to evaluate it through testing prior to
21 mechanical failure.

22 Q What can you tell us about the Cisco
23 formation present there?

24 A It does have porosity and similar to the
25 porosity in the -- in the Cisco in the other wells in the

1
2 area.

3 Q We have heard testimony that in the
4 Bledsoe No. 1 the Cisco is not present at all, nor is -- there
5 is no -- there is no porosity or pay, no pay zone present.
6 Do you agree or disagree with that?

7 A I certainly do not, and I enter this
8 interpretation as evidence.

9 This cross section includes four of the
10 wells which were on the cross section that was previously
11 introduced, plus some others. It does not include Mr. Brown's
12 dry hole in the southwest corner of Section 13.

13 On the far right side, or south end of
14 our cross section, we have the Crume No. 1. Then we go to
15 the Miller No. 1. And then we have projected in the Weiner
16 Well in the south half of Section 14. The next well is our
17 Miller A No. 1, the one that we had to junk and abandon.
18 Then we go to our Bledsoe No. 1, the Granite producer; Bled-
19 soe No. 2, and then to the Phillips Lambirth B-1, Section 2.

20 Five of those wells are Cisco producers;
21 three of them gas; two oil; one junked-abandoned; and one
22 Granite oil.

23 We do have marked at the top of our cor-
24 relations the top of the Three Brothers, which is the same
25 mapping horizon used by Mr. Brown's staff. We also have two

1
2 other or three other correlations below that and above the
3 Granite Wash. The Bough A is a reasonable correlation marker
4 which can be carried regionally. The top of the Cisco, Upper
5 Penn Cisco, is shown, and the Lower Cisco is shown in the --
6 on the north part of the section. We interpret that the
7 Lower Cisco pinches out over the top part of the structure
8 and is not present in the Miller and the Crume.

9 The black rectangular markings on the
10 right side of the log columns are the log porosity zones,
11 solid black, and starting over on the Crume side in the Cisco,
12 well, first I should say that the zones perforated are shown
13 with the open rectangular marking on the left side of the
14 log column.

15 So in the Crume we have the two porosity
16 zones, the lower one being the most effective, and they are --
17 that's the same as in the Miller.

18 And then the next well is the Weiner
19 well to the south, which has very little porosity in it and
20 we correlated with the Lower Cisco and not present on the
21 Upper, on the -- in the Crume or the Miller.

22 In the Miller A it shows the porosity
23 that we did penetrate and perforated and tried to complete
24 in.

25 The Bledsoe No. 1, which is the next

1
2 one to the north, the total Cisco section is thicker compared
3 to the Miller A. The porosity zone, which is included by
4 the drill stem test, is shown, and in our interpretation the
5 2.6 million cubic feet a day from the drill stem test came
6 from those porosity zones shown in the Cisco, which, the best
7 of which is correlatable on our interpretation with the zone
8 in the Miller A.

9 So based on that, we felt that we -- we
10 would have made a commercial gas well from the Miller A.

11 Q Do you have any way of correlating the
12 Miller A with the Miller or the Crume?

13 A Yes.

14 Q As far as potential thicknesses of the
15 pay zone, porosity, or potential for production?

16 A The Miller A and the Crume are essen-
17 tially the same in net pay and the Miller has slightly
18 thicker net pay but on the other hand thickness of net pay
19 and productive capacity are not directly correlatable.

20 This cross section shows that the poro-
21 sity in the Cisco, some zones are correlatable from well to
22 well and others are different geologic units within the
23 Cisco, and in the testimony in an earlier case this morning
24 we presented some pressure information taken from our Crume
25 No. 1, Miller No. 1, and the Bledsoe No. 2, and the conclusion

1
2 from this bottom hole pressure test was that the shut-in
3 pressures are essentially the same from those three wells,
4 and the conclusion from that is that these Cisco reservoirs
5 are most likely in communication with each other, even though
6 they are not exactly the same geologic units in all cases
7 from one well to the other.

8 MR. EZZELL: We would refer the Examiner
9 to the exhibit tendered in Case 7448 for the bottom hole
10 pressures.

11 MR. NUTTER: I'll incorporate that ex-
12 hibit by reference in this case.

13 MR. EZZELL: Yes, sir, please.

14 MR. NUTTER: The exhibit will be incor-
15 porated.

16 Q We have -- we have heard the testimony
17 that Mr. Brown has the same interest both in the southwest
18 quarter of Section 12 and the southeast quarter of Section
19 11. We have also heard testimony that Energy Reserves Group
20 has roughly the same interest in those -- in the half sec-
21 tions that would comprise the proration units in the south
22 half of 12 and the south half of 11. That the proposed well
23 that Mr. Brown is suggesting in Section 11 would be in a
24 proration unit where Energy Reserves controls 72 percent of
25 the acreage. We have also established that the proposed

1
2 location is some 1465 feet from the existing Miller No. 1
3 Well.

4 What is the -- what is your company's
5 position, in your opinion as a -- as an engineer and a
6 geologist of the effect of having two wells producing from
7 the same formation within 1500 feet of each other?

8 A Our position is that it's -- it's waste-
9 ful; that wells are not needed that close together to drain
10 the Cisco in this area.

11 Q What would the effect if in fact Energy
12 Reserves continued to operate the Miller No. 1 and this ap-
13 plication was granted and Mr. Brown operated the proposed
14 well 1500 feet away in Section 11, would there be any compe-
15 tition that could be logically expected between the two
16 wells for the same gas?

17 A I think that's a very logical situation
18 that might develop. There would be incentive for one oper-
19 ator to -- to produce his own operated well at a maximum
20 capacity under the allowable without regard to conservation.

21 Q Can overproduction in this manner have
22 any detrimental effect on the formation itself, as far as
23 ultimate recovery is concerned?

24 A I think so.

25 Q On this reservoir?

1

2

A Yes, I do.

3

Q We have also heard testimony from Mr.

4

Brown's personnel that the location they've selected is based

5

on a monetary standpoint as offering the opportunity for the

6

maximum recovery, and they have also stated that other loca-

7

tions exist in the south half of 11 which are quite possibly

8

productive of oil -- of gas from the Cisco formation. Do

9

you agree with this?

10

A Yes, I do.

11

Q Do you in fact think that the existence

12

of the Miller A-1 is testimony to the -- to the presence of

13

productive Cisco zone at an orthodox location in the south

14

half of 11?

15

A I certainly do, and it certainly demon-

16

strates Energy Reserves' good faith in wanting to develop

17

the reservoir in an orderly manner.

18

Q Do you feel that the granting of this

19

application would cause the drilling of unnecessary wells

20

or cause -- would also cause waste as far as the ultimate

21

recovery from the Cisco reservoir?

22

A Yes, I do.

23

MR. EZZELL: We have no further ques-

24

tions.

25

MR. NUTTER: Are there any questions of

1
2 the witness?

3 MR. KELLAHIN: Yes, sir.

4
5 CROSS EXAMINATION

6 BY MR. KELLAHIN:

7 Q Mr. Green, are the lessors for your well
8 in the south half of 12 the same lessors for the south half
9 of 11?

10 A Some of them are the same.

11 Q Are there some that are different?

12 A Yes. For example, one 80-acre tract,
13 we -- we farmed in from another operator, other operators.
14 We did not have a lease until we proposed the well.

15 MR. NUTTER: That's an 80-acre tract in
16 Section 12?

17 A Yes, it's the north half of the southeast
18 quarter. It was -- at that time it was leased to Enserch
19 and they had a partner.

20 Q Mr. Ezzell posed you a question. As-
21 suming that the ownership interest for Brown and the working
22 interest of Energy Reserves was the same for the south half
23 of 12 and the south half of 11, and you ultimately reach the
24 conclusion that it was detrimental to have two wells this
25 close together competing in which the interests were the

1 same. My question is whether in fact all the interests, in-
2 cluding the lessors and the lessees, and the percentages are
3 identical between the south half of 12 and the south half
4 of 11?

5
6 A Not necessarily. They're not identical
7 but essentially very -- very similar. Generally the same.

8 Q So in fact the proceeds paid from the
9 sale of production for a proration unit in the south half of
10 11 will be distributed differently than the monies received
11 from the sale of production in the south half of 12.

12 A In -- not -- yes, to some minor extent.

13 Q If a well is not drilled as proposed by
14 Mr. Brown in the south half of 11, then the well that you
15 operate in the south half of 12 is going to recover some
16 portion of the Cisco production that underlies the acreage
17 in the south half of 11.

18 A Are you asking me a question?

19 Q Yes, sir, I am. That was a question.

20 A My exhibit demonstrates the nature of
21 distribution of the porosity in those locations where it's
22 been penetrated. And my conclusion from that is that this --
23 this porosity is very, shall we say tortuous. It's been
24 treated by leaching of skeletal material and carbonate rock,
25 and we have cored it in our Bledsoe No. 2 Well, and my inter-

pretation and visual image of the porosity within the Cisco is that it is -- is connected but it is not the same in any one particular spot.

So where the gas really is beneath any surface area is -- is going to vary considerably, or at least to some extent, either from one acre to the next, because of the cavernous nature, semi-cavernous nature of the porosity.

So I can't say. It may well be that there's none of this good porosity under Mr. Brown's location. Or there may be. It's a geologic phenomenon that can't be resolved.

Q You have the three wells you mentioned in the earlier hearing today that showed a comparable bottom hole pressure.

A Right.

Q And you concluded that those three wells were probably in pressure communication with each other.

A Right.

Q You have studied the geology and determined that the Cisco reservoir extends into some portion of the south half of section 11, and it is the same Cisco reservoir that is now being produced by the well in the south half of 12. Do you agree with all that?

A Yes.

1
2 Q Having agreed to that, in the absence
3 of a well producing from the Cisco formation in the south
4 half of 11 will not the Cisco well in the south half of 12
5 drain the Cisco reservoir in the south half of 11?

6 A It would probably drain a portion of
7 it.

8 Q In order to offset the drainage that
9 occurs by that well in the south half of 11 it would be
10 necessary to drill a well in the south half of 11, would it
11 not?

12 A Yes.

13 Q The Energy Reserves Group Miller 1-A
14 Well that was junked, when did you abandon that well? Do
15 you remember the approximate dates?

16 A In August, 1981.

17 Q Except for the lease termination ques-
18 tion on the Brown interest, that Brown lease business, was
19 there any way to salvage that well?

20 Let me ask it a different way. Was the
21 mechanical difficulty encountered in that well such that
22 even with the period of time to undertake repairs, or what-
23 ever was necessary, it could not have been salvaged?

24 A In the opinion of our production people
25 it was not.

1
2 Q All right. At that time, if I understood
3 correctly from Mr. Elliott's testimony, he had sought an ex-
4 tension of the Brown lease from Mr. Brown.

5 A That's right.

6 Q All right, sir.

7 A Approximately that time.

8 Q All right, that's about when this oc-
9 curred.

10 At this time or any time thereafter did
11 Energy Reserves seek to compulsorily pool Mr. Brown's interest
12 in the south half of 11 in order for you to continue your
13 development of your Cisco formatin in this area?

14 A No, and the reason for that is at that
15 time the rig had already moved to the Crume location in the
16 north half of 13, and we had -- it was committed for two
17 other wells after that. So we had no drilling rig to drill
18 immediately.

19 Q The proration unit for the Crume Well
20 is the north half of 13?

21 A That's correct.

22 Q You've indicated in response to Mr.
23 Ezzell's question that you thought it was inappropriate to
24 locate these wells this close to each other. Have you come
25 up with a method that would fairly allocate the reserves

1
2 among all the wells that would be producing from this Cisco
3 Pool?

4 A That are producing now?

5 Q Well, that would be if this well is
6 drilled by Mr. Brown. In other words, we're going to have
7 three wells competing in this area for the Cisco production.

8 A I, of course, am very firmly opposed
9 to that location, so I can't tell you what I'm going to allo-
10 cate the production from.

11 Q So you have not made any study or deter-
12 mination of how it might be fair to allocate the reserves
13 underlying the north half of 13, the south half of 12, and
14 the south half of 11?

15 A I think that the reservoir would be
16 most practically developed and drained if the next well in
17 the pool were drilled at an orthodox location in the south
18 half of Section 11.

19 Q Yes, sir. My question was whether or
20 not, though, you had made any calculations to determine how
21 to come up with a formula that will show what the reserves
22 under each tract are and how best to produce them by wells
23 at those locations.

24 A Well, we have calculated reserves
25 under -- under our -- our two wells. We have not, as I

1
2 stated earlier, considered any allocation that are proposed
3 with a well that we don't think should be drilled.

4 Q So if I understand, you're opposed to
5 the location and you're also opposed to the compulsory
6 pooling of the south half of your interest.

7 A Absolutely.

8 MR. KELLAHIN: I have nothing further.

9 Thank you.

10
11 CROSS EXAMINATION

12 BY MR. NUTTER:

13 Q Mr. Green, Mr. Wells didn't know where
14 the gas came from that was recovered on the drill stem test
15 of the Bledsoe No. 1. Now that well was completed as an oil
16 well in the Granite Wash, is that correct?

17 A Yes, sir, except we prefer to call it
18 Granite, actually Granite.

19 Q But what is the gas/oil ratio on that
20 well? I believe this exhibit shows that -- or one of the
21 exhibits showed that it made oil and water, but you mentioned
22 gas.

23 A I don't have that data with me, but my
24 memory is that it was a very low gas/oil ratio.

25 Q It's a low ratio oil well, then, in the

Granite or Granite Wash.

Okay, but the well on the drill stem test recovered 2.6 million cubic feet of gas. Would you estimate where that came from?

A Yes. Because the test did include nearly all of the Cisco and a portion -- and the Granite Wash and a portion of the Granite, and then after completing in the Granite got very little gas, by a process of deduction the gas must have come from the Cisco, and we do have porosity from the neutron density log in the Cisco, as indicated on the cross section, where the gas most likely did come from, the main zone being at approximately 7630 to 40.

Q And that's this black interval that you've got colored on your exhibit?

A Yes.

Q Okay. Now I asked Mr. Elliott about plans that ERG may have to drill a well in the south half of Section 11, and he knew of none. Do you know of any plans your company may have for drilling a well in the south half of Section 11?

A We have indicated in our proposed drilling schedule, which I have prepared for 1982, for a well in the south half. This schedule is just now being submitted to management and we will receive approval or disapproval at

1
2 some point later in the year.

3 MR. NUTTER: Do you have any idea as
4 to what part of 1982 that well will be --

5 A Probably in the last half because of
6 rig scheduling. We -- we plan to move the rig from Lea
7 County back to Roosevelt when we complete our obligations in
8 Lea.

9 Q Now, you don't control all of the south
10 half of Section 11, obviously, so you would ask participation
11 by the other interest owners that you don't own their in-
12 terests --

13 A Right.

14 Q -- to participate in the well, I pre-
15 sume.

16 Q And if you didn't get that, you'd
17 come in for a hearing similar to this today?

18 A Yes, sir.

19 Q Except I take from your testimony that
20 the location will be a standard location, not an unorthodox
21 location.

22 A That is correct.

23 Q Have you ever picked a location for a
24 second well here?

25 A We --

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Q In the south half?

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A We have two under consideration. One

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would be a twin to the Miller A, which was junked and abandoned.

5

6

Q Which would mean a well drilled maybe

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200 feet away, or something like that.

8

A In the limits of approximately 200 feet

9

away.

10

Or another one would be approximately

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1980 from the south and west lines of that section.

12

Q Well, that's over in the southwest

13

quarter.

14

A Right, but the proration unit would re-

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main the same.

16

Q I see.

17

A In our opinion those are the two best

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locations to develop that proration unit.

19

MR. NUTTER: Are there any further ques-

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tions of the witness?

21

MR. EZZELL: You did prepare this ex-

22

hibit yourself?

23

A I --

24

MR. EZZELL: Or was it done under your

25

direction?

1
2 A It was a joint project between myself
3 and our consultant.

4 MR. EZZELL: The exhibit was never of-
5 fered into evidence but I do so now.

6 MR. NUTTER: Energy Reserves Exhibit
7 Number A will be admitted in evidence.

8 You have no further questions of the
9 witness?

10 MR. EZZELL: Just that it is Energy
11 Reserves position that their opposition to this hearing is
12 based on the location itself and the fact that the applicant
13 sought compulsory pooling without negotiating terms of a
14 deal with you.

15 A Correct.

16 Q That is the basis of your company's
17 objections.

18 No further questions.

19 MR. NUTTER: And also, Mr. Green, you
20 answered Mr. Kellahin's question that you have not prepared
21 any formula for allocation of reserves between the south half
22 of Section 11 and the south half of 12 and the north half
23 of 13. Have you made any estimate as to if this location
24 were to be approved how a penalty formula would be adopted
25 for the well?

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A. No, I haven't.

MR. NUTTER: Are there further questions of the witness? He may be excused.

Do you have anything further, Mr. Ezzell?

MR. EZZELL: No, sir.

MR. NUTTER: May we have closing statements? Mr. Kellahin, you may go last.

MR. EZZELL: Mr. Examiner, the testimony, I believe, speaks for itself. It is simply Energy Reserves contention that an unorthodox location, such as has been proposed by Mr. Brown, will not serve the best interests of either the mineral owners, the working interest owners, or will not be in the best interest of conservation, and in fact, may cause -- have detrimental effects to the ultimate recovery from the Cisco Pool.

They have engineering and geological data which supports the drilling of a well in the southwest quarter, which would be in violation of the Commission's regulations on 320-acre spacing for Pennsylvanian or older formations, absent penalties for both the proposed Brown well if it is approved, and the subsequent -- any subsequent well in the southwest quarter.

This to me seems like it is very wasteful and it is encouraging the drilling of unnecessary wells.

1
2 In addition, we have heard testimony
3 that the production practices of both operators, if they in
4 fact have the well within 1464 feet of each other, would
5 probably not be in the best interests of conservation and
6 would probably not be prudent.

7 By the same token we have not prepared
8 any position as to a penalty that should be imposed on Mr.
9 Brown's location or any allocation as to reserves, because it
10 is our position that if the, that if two of the three wells
11 drilled in the area that we've been discussing are at ortho-
12 dox locations there will not be that much of an undue compe-
13 tition from the wells for the same gas reservoir.

14 And therefor it is our position simply
15 that the unorthodox location should be disapproved by virtue
16 of the production practices that it would stimulate and that
17 the compulsory pooling should also be disapproved by virtue
18 of the fact that contrary to statutes, no effort was made
19 to -- no reasonable effort was made to negotiate with Energy
20 Reserves, or the other working interest owners to plan a
21 joint venture to reasonably develop the south half of Sec-
22 tion 11, as Energy Reserves has tried to do on the well that
23 was subsequently junked and abandoned, and that is simply
24 the position of my client.

25 MR. NUTTER: Thank you.

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3 MR. KELLAHIN: Mr. Nutter, concerning
4 the compulsory pooling portion of the application, we had
5 testimony from Mr. Elliott that he and Mr. Brown had talked
6 about this area for some period of time. There has been no
7 request for a continuance in this case to allow the parties
8 further time to negotiate to see if they could reach some
9 agreement as to commitment of Energy Reserves Interest in
10 the south half of 11.

11 And in fact there was no testimony to-
12 day that any further delay in pooling this acreage will re-
13 sult in the parties coming to any agreement.

14 Energy Reserves has had their chance
15 at developing this acreage. They have a chance at the Miller
16 1-A Well. They junked and abandoned it.

17 They had some lease problems with Mr.
18 Brown. They very well could have pooled his interest from
19 August till now, some five months, and elected not to do so.

20 We have a very serious problem that
21 Energy Reserves has set into action, perhaps through no
22 fault of their own, but they are the operator. When they
23 attempted to drill the oil well at the location in the south
24 half of 12 and it turned out to be a gas well, that, as you
25 know, has set our course of action to offset that well. We

1
2 must do that. The location is so close that it's reasonable
3 to conclude that gas will be produced out of that well that
4 underlies the south half of 11.

5 Energy Reserves says they are perhaps
6 10 months away from their plans of drilling a well in the
7 south half of 11. In that period of time Mr. Brown's acreage
8 is going to be subject to drainage. As you can see from the
9 ownership interest, Mr. Brown's 50 percent is located entirely
10 in the southeast quarter and if there is any suspect acreage
11 being dedicated to the proration unit it is that entirely
12 controlled by Energy Reserves in the southwest quarter.

13 We believe that it's appropriate in this
14 case to impose no penalty based upon location. We are no
15 closer to the common line than they are.

16 We believe that there is no basis for
17 developing a penalty on acreage that is not productive; that
18 there's absolutely no testimony that would support an order
19 based upon nonproductive acreage.

20 Indeed, any penalty of that sort is going
21 to have to address all three wells, Mr. Brown's proposed
22 well, the Energy Reserves Miller Well, and the Crume Well,
23 and as you can see from the Isopach, if you use the Isopach
24 itself, the Crume Well probably has less porosity feet
25 credited to its proration unit than the one in the south half

1
2 of 11.

3 In short, I guess, coming back at some
4 future date and determining the actual reserves underlying
5 each proration unit, and setting up an allowable schedule
6 and a production rate that will allow each well to accurately
7 and reasonably recover the reserves under the proration units,
8 it's best to leave it as it is without a penalty and allow
9 the operators to continue as we propose.

10 Mr. Green's testimony on the fact that
11 there's two wells with virtually identical interests com-
12 peting for the same gas is simply not true. We have found
13 from his testimony that the interests are not identical in
14 the two proration units.

15 Under Jimmie Cook versus El Paso Natural
16 Gas, 10th Circuit Court of Appeals case, even if there is a
17 common lessee, he has an absolute duty and strict obligation,
18 absolute liability, to protect those lessors, even if some
19 of them are the same, so that we in effect aren't drilling
20 an unnecessary well. If, in fact, this well is not drilled,
21 there's going to be gas recovered by an offsetting well that
22 otherwise would not be, and we request that the application
23 be granted.

24 MR. NUTTER: Thank you, Mr. Kellahin.

25 Mr. Walker, I'd like to ask you one more

1
2 question.

3 Mrs. Smith has agreed with H. L. Brown
4 in the drilling of this well, I believe.

5 MR. WALKER: Yes, sir.

6 MR. NUTTER: Does she have an interest
7 in the southwest quarter of Section 12?

8 MR. WALKER: She has an identical inter-
9 est, yes, sir.

10 MR. NUTTER: She has the same interest
11 in 12 that Brown has and also in 11?

12 MR. WALKER: Yes, sir.

13 MR. NUTTER: Okay, thank you.

14 MR. WALKER: Quarter interest each.

15 MR. NUTTER: Another thing, Mr. Kellahin,
16 I'm going through my exhibits here, I don't find a Brown
17 Exhibit Five. Was there a Brown Exhibit Five?

18 MR. KELLAHIN: No, sir, we deleted
19 Number Five. That was the surveyor's plat.

20 MR. NUTTER: So you have Exhibits One
21 through Nine without a Five?

22 MR. KELLAHIN: Right.

23 MR. NUTTER: Does anyone have anything
24 further to offer in Case Number 7455?

25 We'll take the case under advisement.

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 Conserva-
tion Division was reported by me; that the said transcript
is a full, true, and correct record of the hearing, prepared
by me to the best of my ability.

Sally W. Boyd CSR

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

I do hereby certify that the foregoing is
a correct and true transcript of the hearing in
the case of 2455
heard on 1/6 1982.
[Signature] Examiner
Oil Conservation Division



BRUCE KING
GOVERNOR
LARRY KEHOE
SECRETARY

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87301
(505) 827-2434

March 31, 1982

Mr. Thomas Kellahin
Kellahin & Kellahin
Attorneys at Law
Post Office Box 1769
Santa Fe, New Mexico

Re: CASE NO. 7455
ORDER NO. R-6931

Applicant:

H. L. Brown, Jr.

Dear Sir:

Enclosed herewith are two copies of the above-referenced
Division order recently entered in the subject case.

Yours very truly,

JOE D. RAMEY
Director

JDR/fd

Copy of order also sent to:

Hobbs OCD x
Artesia OCD x
Aztec OCD

Other Calder Ezzell

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

CASE NO. 7455
Order No. R-6931

APPLICATION OF H. L. BROWN, JR. FOR
COMPULSORY POOLING AND AN UNORTHODOX
LOCATION, ROOSEVELT COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on January 6, 1982, at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this 30th day of March, 1982, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS:

(1) That due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.

(2) That the applicant, H. L. Brown, Jr., seeks an order pooling all mineral interests from the top of the Wolfcamp formation to the base of the Granite Wash formation underlying the S/2 of Section 11, Township 6 South, Range 33 East, NMPM, Roosevelt County, New Mexico.

(3) That the applicant is an owner as defined in Section 70-2-33, Subsection E, NMSA 1978 Comp., within the aforesaid S/2 of Section 11, and as such has the right to drill a proposed gas well on said lands.

(4) That there are interest owners in the proposed proration unit who have not agreed to pool their interests.

(5) That to avoid the drilling of unnecessary wells, to protect correlative rights, and to afford to the owner of each interest in said unit the opportunity to recover or receive without unnecessary expense his just and fair share of the gas in said pool, the subject application should be approved by

-2-

Case No. 7455

Order No. R-6931

pooling all mineral interests, whatever they may be, within said unit.

(6) That the applicant should be designated the operator of the subject well and unit.

(7) That any non-consenting working interest owner should be afforded the opportunity to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production.

(8) That any non-consenting working interest owner who does not pay his share of estimated well costs should have withheld from production his share of the reasonable well costs plus an additional 150 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(9) That any non-consenting interest owner should be afforded the opportunity to object to the actual well costs but that actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(10) That following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated costs should pay to the operator any amount that reasonable well costs exceed estimated well costs and should receive from the operator any amount that paid estimated well costs exceed reasonable well costs.

(11) That \$3700.00 per month while drilling and \$435.00 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); that the operator should be authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(12) That all proceeds from production from the subject well which are not disbursed for any reason should be placed in escrow to be paid to the true owner thereof upon demand and proof of ownership.

(13) That upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is dedicated on or before July 1, 1982, the order pooling said unit should become null and void and of no effect whatsoever.

-2-

Case No. 7455
Order No. R-6931

pooling all mineral interests, whatever they may be, within said unit.

(6) That the applicant should be designated the operator of the subject well and unit.

(7) That any non-consenting working interest owner should be afforded the opportunity to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production.

(8) That any non-consenting working interest owner who does not pay his share of estimated well costs should have withheld from production his share of the reasonable well costs plus an additional 150 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(9) That any non-consenting interest owner should be afforded the opportunity to object to the actual well costs but that actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(10) That following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated costs should pay to the operator any amount that reasonable well costs exceed estimated well costs and should receive from the operator any amount that paid estimated well costs exceed reasonable well costs.

(11) That \$3700.00 per month while drilling and \$435.00 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); that the operator should be authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(12) That all proceeds from production from the subject well which are not disbursed for any reason should be placed in escrow to be paid to the true owner thereof upon demand and proof of ownership.

(13) That upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is dedicated on or before July 1, 1982, the order pooling said unit should become null and void and of no effect whatsoever.

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Case No. 7455

Order No. R-6931

(14) That the gas spacing and proration unit directly offsetting the spacing and proration unit proposed to be created in the instant case, being the S/2 of Section 12, Township 6 South, Range 33 East, NMPM, is dedicated to a gas well completed in the Cisco formation and located 660 feet from the South line and 660 feet from the West line of said Section 12.

(15) That said well was projected as an oil well at a standard oil well location but was completed as a gas well and the unorthodox location as such subsequently approved by the Division.

(16) That said well is so located as to expose the S/2 of Section 11, Township 6 South, Range 33 East, NMPM, to drainage not equalized by counter drainage.

(17) That a well drilled at the proposed unorthodox location in the instant case, being 1300 feet from the South line and 660 feet from the East line of Section 11, Township 6 South, Range 33 East, NMPM, would be equi-distant from the line separating the two tracts (the S/2 of Section 11 and the S/2 of Section 12) as the well described in Findings Nos. (14) through (16) above, and would also be some 640 feet north of said well, and would tend to equalize drainage between the tracts.

(18) That a well drilled at said location would not cause waste nor impair correlative rights, but in fact would protect correlative rights, and said unorthodox location should be approved.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, from the top of the Wolfcamp formation to the base of the Granite Wash formation underlying the S/2 of Section 11, Township 6 South, Range 33 East, NMPM, Roosevelt County, New Mexico, are hereby pooled to form a standard 320-acre gas spacing and proration unit to be dedicated to a well to be drilled at an unorthodox location 1300 feet from the South line and 660 feet from the East line of said Section 11.

PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the first day of July, 1982, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Granite Wash formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the first day of July, 1982, Order (1) of this order shall be null and void and

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Case No. 7455
Order No. R-6931

of no effect whatsoever, unless said operator obtains a time extension from the Division for good cause shown.

PROVIDED FURTHER, that should said well not be drilled to completion, or abandonment, within 120 days after commencement thereof, said operator shall appear before the Division Director and show cause why Order (1) of this order should not be rescinded.

(2) That H. L. Brown, Jr. is hereby designated the operator of the subject well and unit.

(3) That after the effective date of this order and within 90 days prior to commencing said well, the operator shall furnish the Division and each known working interest owner in the subject unit an itemized schedule of estimated well costs.

(4) That within 30 days from the date the schedule of estimated well costs is furnished to him, any non-consenting working interest owner shall have the right to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production, and that any such owner who pays his share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges.

(5) That the operator shall furnish the Division and each known working interest owner an itemized schedule of actual well costs within 90 days following completion of the well; that if no objection to the actual well costs is received by the Division and the Division has not objected within 45 days following receipt of said schedule, the actual well costs shall be the reasonable well costs; provided however, that if there is an objection to actual well costs within said 45-day period the Division will determine reasonable well costs after public notice and hearing.

(6) That within 60 days following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated costs in advance as provided above shall pay to the operator his pro rata share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator his pro rata share of the amount that estimated well costs exceed reasonable well costs.

(7) That the operator is hereby authorized to withhold the following costs and charges from production:

- (A) The pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.
- (B) As a charge for the risk involved in the drilling of the well, 150 percent of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.
- (8) That the operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs.
- (9) That \$3700.00 per month while drilling and \$435.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); that the operator is hereby authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.
- (10) That any unsevered mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under the terms of this order.
- (11) That any well costs or charges which are to be paid out of production shall be withheld only from the working interest's share of production, and no costs or charges shall be withheld from production attributable to royalty interests.
- (12) That all proceeds from production from the subject well which are not disbursed for any reason shall immediately be placed in escrow in Roosevelt County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; that the operator shall notify the Division of the name and address of said escrow agent within

-6-

Case No. 7455
Order No. R-6931

30 days from the date of first deposit with said escrow agent.

(13) That jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinafter designated.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION


JOE D. RAMEY,
Director

S E

ONLY - OSI :

DESCRIPTION : South-half (S/2) of Section 11 320 acres

TAKEOFF DATE : November 12, 1981

LAST INSTRUMENT:

SW/4 160 acres:

Mark Russell Floyd, single
3219 South Birmingham
Tulsa, Ok. 74100

1/4
40 N/A

Energy Reserves
Group, Inc.
7-21-83 1/8 Roy.

Shelly Louise Floyd, single
3219 South Birmingham
Tulsa, Ok. 74100

1/4
40 N/A

" "

Malcom G. Garrett, etux Donna Jean
Route 2
Clovis, NM
505-769-0100

1/8
20 N/A

1/8 Roy.

Michael T. Garrett, etux Clare Ann
P.O. Box 930
Clovis, NM

1/8
20 N/A

Off. 505-762-4544 Home 505-762-0489

Rush Herefords, Inc.
144 Oklahoma St.
Portales, NM 88130

3/32
15 N/A

Curry County Oil Co.
9-12-85 1/8 Roy.

Marland Davis etux Darlene
712 Walnut St.
Clovis, NM 88101

3/32
15 N/A

" "

Charles Wiseman, etux Mable
210 Ranger St.
Hereford, Texas 79045

1/32
5 N/A

Energy Reserves
Group, Inc.
7-12-83 1/8 Roy.

Gil K. Phares, Trustee & Attorney-in-
Fact for & on behalf of Banker Phares,
Gil K. Phares, E. L. Nolte, & Homer P.
Haber.
P.O. Box 1594
Port Arthur, Texas 77640

1/32
5 N/A

J. V. Atkinson
7-12-83 3/16 Roy.

SE/4 160 acres:

H. L. Brown, Jr.
P.O. Box 2237
Midland, Texas 79702

1/4
40 N/A

Open

ERG now
has these
interests -
Elkton

BEFORE EXAMINER NUTTER
OIL CONSERVATION DIVISION

Brown EXHIBIT NO. 2

CASE NO. 7495

SE/4 cont.

Vivian L. Smith, Individually & as
Independent Executrix of the Est.
of R. E. Smith, dec'd
Houston, Texas

1/4
40 N/A

Open 2000 West Loop
South, Suite 1900,
Houston, Tx. 77027

J. M. Miller etux Lela D.
Route 1
Elida, NM

3/8
60 N/A✓

HBP*- Energy Reserves
Group, Inc.

Gertrude G. Alstin, Individually & as
Independent Executrix of the Est. of
E. F. Alstin, dec'd
1208 Shirley
Midland, Texas

1/16
10 N/A✓

Phillips Petroleum
Company.
7-19-83 3/16 Roy.

E. Diane Lisman
8209 Meadows Rd. Apt. # 2030
Dallas, Texas 75231

3/64
7.5 N/A✓

Energy Reserves
Group, Inc.
5-24-82 3/16 Roy.

Richard A. Lisman, Beneficiary & Co-
Executor, Independent of the Est. of
Clyde V. Lisman, dec'd
423 Colorado Bldg.
Denver, Colorado 80202

1/64
2.5 N/A✓

"
"

*This is held HBP by lease from J. M. Miller, etux to Malcom G. Garrett
etal, dated 5-20-76, & recorded in Vol. 87, Page 891, Oil & Gas Records
of Roosevelt County, New Mexico. The lease covers all of the E/2 of
Section 11.

Curry County Oil Company
P.O. Box 219
Clovis, NM
505-762-2284 or 505-763-6680

J. . Atkinson
904 Blanks Bldg.
Midland, Texas
684-5734

Energy Reserves Group, Inc.
1509 W. Wall
Midland, Texas
682-2591

Phillips Petroleum Company
4001 Penbrook
Odessa, Texas 79762

ERG has
70 net acres
PPCo has
10 net acres
Elliott

KELLAHIN and KELLAHIN

Attorneys at Law

Jason Kellahin
W. Thomas Kellahin
Karen Aubrey

500 Don Gaspar Avenue
Post Office Box 1769
Santa Fe, New Mexico 87501

Telephone 982-4285
Area Code 505

December 8, 1981

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

RE: H.L. Brown, Jr.
T6S, R33E, NMPM
Section 11: S/2
Roosevelt County New Mexico

Dear Interest Owner:

Our firm has been retained by H.L. Brown, Jr. of Midland, Texas to obtain for Mr. Brown approval from the New Mexico Oil Conservation Division for the dedication of the above described acreage to a spacing and proration unit for a gas well at an unorthodox location 1300 feet from the South line and 660 feet from the East line to be drilled to the base of the Granite Wash.

In reviewing the title information supplied to us, we discover that your oil and gas mineral interest in the above acreage has not been committed to this well.

Accordingly, I have been authorized by Mr. Brown to extend to all parties his offer to purchase an oil and gas lease from you or assignment of your oil and gas lease for \$250 per mineral lease acre, 3/16 royalty and a one year term. In addition, should you desire not to grant a lease or assignment, you are invited to join in the drilling of this well by executing an operating agreement and tendering your share of the estimated well costs. I have enclosed a copy of an estimated drilling and completion costs summary for your consideration.

Mr. Brown is anxious to commence this well and has further directed that I apply to the New Mexico Oil Conservation Division, Santa Fe, New Mexico for a compulsory pooling order for any interest not committed to the drilling of this well. For your information the hearing on this application will be on January 6, 1981 in Santa Fe at the office of the Oil Conservation Division.

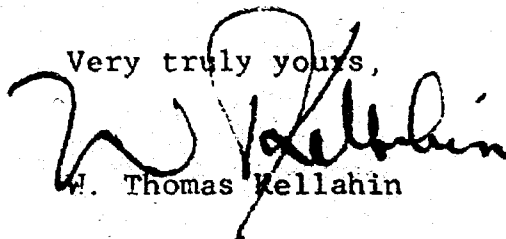
*2/11/04 - Brown
rec'd this letter
12/14/11
rec'd second letter dated 12/19
12/14 enclosing the AFE*

BEFORE EXAMINED	FILED
OIL CONSERVATION	DIVISION
Brown	EXHIBIT NO. 3
CASE NO.	7495

Page two

Because of the pending hearing date, it is necessary for you to act promptly in order to protect your interests herein. Accordingly, please communicate your desires and requests to Mr. Web Walker of H. L. Brown, P.O. Box 2237, Midland, Texas 79702 phone (915) 683-5216.

Very truly yours,

A handwritten signature in dark ink, appearing to read 'W. Thomas Kellahin', written over the typed name.

W. Thomas Kellahin

WTK:jm

cc: Mr. Web Walkeer

PS Form 3811, Aug. 1973

RETURN RECEIPT, REGISTERED, INSURED AND CERTIFIED MAIL

● SENDER: Complete items 1, 2, and 3.
Add your address in the "RETURN TO" space on reverse.

1. The following service is requested (check one).
☒ Show to whom and date delivered
☐ Show to whom, date, and address of delivery
☐ RESTRICTED DELIVERY
Show to whom and date delivered
☐ RESTRICTED DELIVERY
Show to whom, date, and address of delivery \$.....
(CONSULT POSTMASTER FOR FEES)

2. ARTICLE ADDRESSED TO:
**Phillips Petroleum Company
4001 Penbrook
Odessa, Texas 79762**

3. ARTICLE DESCRIPTION:
REGISTERED NO. CERTIFIED NO. INSURED NO.
158 667

4. (Always obtain signature of addressee or agent)
I have received the article described above.
SIGNATURE ☐ Addressee ☐ Authorized agent
Lorna J. J. J.

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE: CLERK'S INITIALS
JK

H. L. Brown, Jr.

☆ GPO: 1978-272-382

PS Form 3811, Aug. 1973

RETURN RECEIPT, REGISTERED, INSURED AND CERTIFIED MAIL

● SENDER: Complete items 1, 2, and 3.
Add your address in the "RETURN TO" space on reverse.

1. The following service is requested (check one).
☒ Show to whom and date delivered
☐ Show to whom, date, and address of delivery
☐ RESTRICTED DELIVERY
Show to whom and date delivered
☐ RESTRICTED DELIVERY
Show to whom, date, and address of delivery \$.....
(CONSULT POSTMASTER FOR FEES)

2. ARTICLE ADDRESSED TO:
**Energy Reserves Group, Inc.
1509 W. Wall
Midland, Texas 79702**

3. ARTICLE DESCRIPTION:
REGISTERED NO. CERTIFIED NO. INSURED NO.
158 666

4. (Always obtain signature of addressee or agent)
I have received the article described above.
SIGNATURE ☐ Addressee ☐ Authorized agent
C. J. J.

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE: CLERK'S INITIALS

H.L. Brown, Jr.

☆ GPO: 1978-272-382

PS Form 3811, Aug. 1973

RETURN RECEIPT, REGISTERED, INSURED AND CERTIFIED MAIL

● SENDER: Complete items 1, 2, and 3.
Add your address in the "RETURN TO" space on reverse.

1. The following service is requested (check one).
☒ Show to whom and date delivered
☐ Show to whom, date, and address of delivery
☐ RESTRICTED DELIVERY
Show to whom and date delivered
☐ RESTRICTED DELIVERY
Show to whom, date, and address of delivery \$.....
(CONSULT POSTMASTER FOR FEES)

2. ARTICLE ADDRESSED TO:
**Richard A. Lisman
423 Colorado Building
Denver, Colorado 80202**

3. ARTICLE DESCRIPTION:
REGISTERED NO. CERTIFIED NO. INSURED NO.
158 663

4. (Always obtain signature of addressee or agent)
I have received the article described above.
SIGNATURE ☒ Addressee ☐ Authorized agent
Richard A. Lisman

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE: CLERK'S INITIALS

H.L. Brown, Jr.

☆ GPO: 1978-272-382

PS Form 3811, Aug. 1973

RETURN RECEIPT, REGISTERED, INSURED AND CERTIFIED MAIL

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☐ RESTRICTED DELIVERY
Show to whom and date delivered
☐ RESTRICTED DELIVERY
Show to whom, date, and address of delivery \$.....
(CONSULT POSTMASTER FOR FEES)

2. ARTICLE ADDRESSED TO:
**Mark Russell Floyd
3219 South Birmingham
Tulsa, Oklahoma 74100**

3. ARTICLE DESCRIPTION:
REGISTERED NO. CERTIFIED NO. INSURED NO.
158 650

4. (Always obtain signature of addressee or agent)
I have received the article described above.
SIGNATURE ☒ Addressee ☐ Authorized agent
Mark Russell Floyd

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE: CLERK'S INITIALS

H.L. Brown, Jr.

☆ GPO: 1978-272-382

PS Form 3825, Aug. 1973

1. The following service is requested (check one):
☒ Show to whom and date delivered
☐ Show to whom, date, and address of delivery
☐ RESTRICTED DELIVERY
☐ RESTRICTED DELIVERY
 Show to whom and date delivered
☐ RESTRICTED DELIVERY
 Show to whom, date, and address of delivery \$
 (CONSULT POSTMASTER FOR FEES)

2. ARTICLE ADDRESSED TO:
 J. V. Atkinson
 904 Blanks Building
 Midland, Texas 79702

3. ARTICLE DESCRIPTION:
 REGISTERED NO. 158 665 CERTIFIED NO. INSURED NO.

4. I have received the article described above.
 SIGNATURE ☐ Addressee ☒ Authorized agent
 DATE OF DELIVERY POSTMARK

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE: CLERK'S INITIALS

RETURN RECEIPT, REGISTERED, INSURED AND CERTIFIED MAIL

H.L. Brown, Jr.

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☐ RESTRICTED DELIVERY
 Show to whom and date delivered
☐ RESTRICTED DELIVERY
 Show to whom, date, and address of delivery \$
 (CONSULT POSTMASTER FOR FEES)

2. ARTICLE ADDRESSED TO:
 J. M. Miller and Lela D.
 Route 1.
 Elida, New Mexico

3. ARTICLE DESCRIPTION:
 REGISTERED NO. 158 660 CERTIFIED NO. INSURED NO.

4. I have received the article described above.
 SIGNATURE ☐ Addressee ☒ Authorized agent
 DATE OF DELIVERY POSTMARK

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE: CLERK'S INITIALS

RETURN RECEIPT, REGISTERED, INSURED AND CERTIFIED MAIL

H.L. Brown, Jr.

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☐ RESTRICTED DELIVERY
☐ RESTRICTED DELIVERY
 Show to whom and date delivered
☐ RESTRICTED DELIVERY
 Show to whom, date, and address of delivery \$
 (CONSULT POSTMASTER FOR FEES)

2. ARTICLE ADDRESSED TO:
 Shelly Louise Floyd
 3219 South Brimingham
 Tulsa, Oklahoma 74100

3. ARTICLE DESCRIPTION:
 REGISTERED NO. 158 651 CERTIFIED NO. INSURED NO.

4. I have received the article described above.
 SIGNATURE ☐ Addressee ☒ Authorized agent
 DATE OF DELIVERY POSTMARK

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE: CLERK'S INITIALS

H.L. Brown, Jr.

1. The following service is requested (check one):
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☐ Show to whom, date, and address of delivery
☐ RESTRICTED DELIVERY
☐ RESTRICTED DELIVERY
 Show to whom and date delivered
☐ RESTRICTED DELIVERY
 Show to whom, date, and address of delivery \$
 (CONSULT POSTMASTER FOR FEES)

2. ARTICLE ADDRESSED TO:
 Gil K. Phares
 P.O. Box 1594
 Port Arthur, Texas 77640

3. ARTICLE DESCRIPTION:
 REGISTERED NO. 158 659 CERTIFIED NO. INSURED NO.

4. I have received the article described above.
 SIGNATURE ☐ Addressee ☒ Authorized agent
 DATE OF DELIVERY POSTMARK

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE: CLERK'S INITIALS

H.L. Brown, Jr.

PS Form 3811, Aug. 1978

● SENDER: Complete items 1, 2, and 3.
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☐ Show to whom, date, and address of delivery.
☐ RESTRICTED DELIVERY.
 Show to whom and date delivered.
☐ RESTRICTED DELIVERY.
 Show to whom, date, and address of delivery \$
 (CONSULT POSTMASTER FOR FEES)

2. ARTICLE ADDRESSED TO:
 Charles Wiseman and Mable
 210 Ranger St.
 Hereford, Texas 79045

3. ARTICLE DESCRIPTION:
 REGISTERED NO. CERTIFIED NO. INSURED NO.
 158 658

(Always obtain signature of addressee or agent)

I have received the article described above.
 SIGNATURE ☐ Addressee ☐ Authorized agent

4. DATE OF DELIVERY 12-10-81 POSTMARK

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE: CLERK'S INITIALS

RETURN RECEIPT, REGISTERED, INSURED AND CERTIFIED MAIL

H.L. Brown, Jr.

GPO: 1978-272-342

PS Form 3811, Aug. 1978

● SENDER: Complete items 1, 2, and 3.
Add your address in the "RETURN TO" space on reverse.

1. The following service is requested (check one).
☒ Show to whom and date delivered.
☐ Show to whom, date, and address of delivery.
☐ RESTRICTED DELIVERY.
 Show to whom and date delivered.
☐ RESTRICTED DELIVERY.
 Show to whom, date, and address of delivery \$
 (CONSULT POSTMASTER FOR FEES)

2. ARTICLE ADDRESSED TO:
 Gertrude G. Alstin
 1208 Shirley
 Midland, Texas 79702

3. ARTICLE DESCRIPTION:
 REGISTERED NO. CERTIFIED NO. INSURED NO.
 158 661

(Always obtain signature of addressee or agent)

I have received the article described above.
 SIGNATURE ☐ Addressee ☐ Authorized agent

4. DATE OF DELIVERY 12-11-81 POSTMARK

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE: CLERK'S INITIALS

RETURN RECEIPT, REGISTERED, INSURED AND CERTIFIED MAIL

H.L. Brown, Jr.

GPO: 1978-272-342

PS Form 3811, Aug. 1978

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☐ RESTRICTED DELIVERY.
 Show to whom and date delivered.
☐ RESTRICTED DELIVERY.
 Show to whom, date, and address of delivery \$
 (CONSULT POSTMASTER FOR FEES)

2. ARTICLE ADDRESSED TO:
 Curry County Oil Company
 P.O. Box 219
 Clovis, New Mexico 88101

3. ARTICLE DESCRIPTION:
 REGISTERED NO. CERTIFIED NO. INSURED NO.
 158 664

(Always obtain signature of addressee or agent)

I have received the article described above.
 SIGNATURE ☐ Addressee ☐ Authorized agent

4. DATE OF DELIVERY 12-10-81 POSTMARK

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE: CLERK'S INITIALS

RETURN RECEIPT, REGISTERED, INSURED AND CERTIFIED MAIL

H.L. Brown, Jr.

GPO: 1978-272-342

PS Form 3811, Aug. 1978

● SENDER: Complete items 1, 2, and 3.
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☐ RESTRICTED DELIVERY.
 Show to whom and date delivered.
☐ RESTRICTED DELIVERY.
 Show to whom, date, and address of delivery \$
 (CONSULT POSTMASTER FOR FEES)

2. ARTICLE ADDRESSED TO:
 Malcom T. Garret and Donna Jean
 Route 2
 Clovis, New Mexico 88101

3. ARTICLE DESCRIPTION:
 REGISTERED NO. CERTIFIED NO. INSURED NO.
 158 652

(Always obtain signature of addressee or agent)

I have received the article described above.
 SIGNATURE ☐ Addressee ☐ Authorized agent

4. DATE OF DELIVERY 12-10-81 POSTMARK

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE: CLERK'S INITIALS

RETURN RECEIPT, REGISTERED, INSURED AND CERTIFIED MAIL

H.L. Brown, Jr.

GPO: 1978-272-342

PS Form 3811, Aug. 1978

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Add your address in the "RETURN TO" space on reverse.

1. The following service is requested (check one):
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☐ RESTRICTED DELIVERY
 Show to whom and date delivered _____
☐ RESTRICTED DELIVERY
 Show to whom, date, and address of delivery \$ _____
 (CONSULT POSTMASTER FOR FEES)

2. **ARTICLE ADDRESSED TO:**
 Marland Davis and Darlene
 712 Walnut St.
 Clovis, NM 88101

3. **ARTICLE DESCRIPTION:**
 REGISTERED NO. CERTIFIED NO. INSURED NO.
 158 655
 (Always obtain signature of addressee or agent)

I have received the article described above.
 SIGNATURE ☐ Addressee ☐ Authorized agent
[Signature]

4. **DATE OF DELIVERY** 12-15-81 **POSTMARK**
 12-15-81

5. **ADDRESS** (Complete only if requested)

6. **UNABLE TO DELIVER BECAUSE:** **CLERK'S INITIALS**
 P.D.

RETURN RECEIPT, REGISTERED, INSURED AND CERTIFIED MAIL

H.L. Brown, Jr.

☆ GPO: 1978-272-382

PS Form 3811, Aug. 1978

● **SENDER:** Complete items 1, 2, and 3.
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☐ Show to whom, date, and address of delivery _____
☐ RESTRICTED DELIVERY
 Show to whom and date delivered _____
☐ RESTRICTED DELIVERY
 Show to whom, date, and address of delivery \$ _____
 (CONSULT POSTMASTER FOR FEES)

2. **ARTICLE ADDRESSED TO:**
 Michael T. Garret and Clare Ann
 P.O. Box 930
 Clovis, NM 88101

3. **ARTICLE DESCRIPTION:**
 REGISTERED NO. CERTIFIED NO. INSURED NO.
 158 653
 (Always obtain signature of addressee or agent)

I have received the article described above.
 SIGNATURE ☐ Addressee ☒ Authorized agent
[Signature]

4. **DATE OF DELIVERY** **POSTMARK**
 12-15-81

5. **ADDRESS** (Complete only if requested)

6. **UNABLE TO DELIVER BECAUSE:** **CLERK'S INITIALS**
 P.D.

RETURN RECEIPT, REGISTERED, INSURED AND CERTIFIED MAIL

H.L. Brown, Jr.

☆ GPO: 1978-272-382

PS Form 3811, Aug. 1978

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☐ RESTRICTED DELIVERY
 Show to whom and date delivered _____
☐ RESTRICTED DELIVERY
 Show to whom, date, and address of delivery \$ _____
 (CONSULT POSTMASTER FOR FEES)

2. **ARTICLE ADDRESSED TO:**
 E. Diane Lisman
 8209 Meadows Rd, Apt #2030
 Dallas, Texas 75231

3. **ARTICLE DESCRIPTION:**
 REGISTERED NO. CERTIFIED NO. INSURED NO.
 158 662
 (Always obtain signature of addressee or agent)

I have received the article described above.
 SIGNATURE ☐ Addressee ☐ Authorized agent
[Signature]

4. **DATE OF DELIVERY** **POSTMARK**
 12-15-81

5. **ADDRESS** (Complete only if requested)

6. **UNABLE TO DELIVER BECAUSE:** **CLERK'S INITIALS**
 P.D.

RETURN RECEIPT, REGISTERED, INSURED AND CERTIFIED MAIL

H.L. Brown, Jr.

☆ GPO: 1978-272-382

PS Form 3811, Aug. 1978

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☐ RESTRICTED DELIVERY
 Show to whom and date delivered _____
☐ RESTRICTED DELIVERY
 Show to whom, date, and address of delivery \$ _____
 (CONSULT POSTMASTER FOR FEES)

2. **ARTICLE ADDRESSED TO:**
 Rush Herfords, Inc.
 144 Oklahoma St.
 Portales, New Mexico 88130

3. **ARTICLE DESCRIPTION:**
 REGISTERED NO. CERTIFIED NO. INSURED NO.
 158 654
 (Always obtain signature of addressee or agent)

I have received the article described above.
 SIGNATURE ☐ Addressee ☐ Authorized agent
[Signature]

4. **DATE OF DELIVERY** **POSTMARK**
 12-15-81

5. **ADDRESS** (Complete only if requested)

6. **UNABLE TO DELIVER BECAUSE:** **CLERK'S INITIALS**
 P.D.

RETURN RECEIPT, REGISTERED, INSURED AND CERTIFIED MAIL

H.L. Brown, Jr.

☆ GPO: 1978-272-382

AUTHORITY FOR DRILLING

AC 915 683-5216

DATE PREPARED November 19, 1981

PROSPECT NAME NW Martin Baker #396

LEASE NUMBER _____

LEASE VLS TO DRILL X RECOMPLETE _____
WELL NO 1 LOCATION Sec. 11, T-6-S, R-33-E,
660 FEL & 1320 FSL

Roosevelt COUNTY/PARISH _____ STATE New Mexico
FIELD Tanney Hill (Cisco)

TYPE OF WELL Gas SPACING PATTERN 320 WILDCAT ☐ DEVELOPMENT ☐

PROJECTED DEPTH 7,900' PRODUCTION FORMATION Cisco

AVAILABLE P. L. OUTLET _____ DRILLING CONTRACTOR N/A

MUST COMMENCE OPERATIONS ☐ DRILLING ☐ BY _____

INTANGIBLE DRILLING COSTS

			PRODUCING WELL COST	DRY HOLE COST
1. FOOTAGE	FT. @ \$	PER FT.		
2. DAYWORK	<u>28</u> DAYS WDP @ \$ <u>6,800</u>	DAY	<u>190,400</u>	<u>190,400</u>
	DAYS WOOP @ \$	DAY		
3. CORING	FEET AT \$	PER FT.		
	CORE ANALYSIS \$	SIDE WALL CORES \$		
4. WELL SURVEYS & TEST SERVICES:				
	DRILLSTEM TESTS			
	ELECTRIC LOGGING		<u>16,000</u>	<u>16,000</u>
	MICROLOGGING			
	RADIOACTIVITY LOGGING			
	MUD LOGGING			
	OTHER SURVEYS <u>Temp. Survey</u>		<u>800</u>	
5. EQUIPMENT RENTALS:			<u>5,000</u>	<u>2,500</u>
6. LABOR: CONTRACT \$	<u>7,000</u>	COMPANY \$	<u>7,000</u>	<u>2,500</u>
7. FUEL \$	<u>17,000</u>	WATER \$	<u>10,000</u>	<u>27,000</u>
8. DIGGING PITS \$	<u>2,000</u>	FILLING PITS \$	<u>1,000</u>	<u>3,000</u>
9. GRADING: LOCATION \$	<u>20,000</u>	ROADS \$	<u>20,000</u>	<u>20,000</u>
10. TRANSPORTATION			<u>8,500</u>	<u>5,000</u>
11. CEMENTING: CONDUCTOR			<u>2,000</u>	<u>2,000</u>
	SURFACE \$	INTERMEDIATE \$	<u>3,300</u>	<u>12,000</u>
	PRODUCTION STRING \$	LINER \$	<u>16,000</u>	<u>15,000</u>
12. DRILLING MUD & CHEMICALS			<u>15,000</u>	<u>15,000</u>
13. PERFORATING			<u>5,000</u>	
14. ACIDIZING \$	<u>8,000</u>	FRACTURING \$	<u>30,000</u>	<u>38,000</u>
15. BITS			<u>32,000</u>	<u>32,000</u>
16. SUPERVISION & OVERHEAD:				
	ENGINEERING <u>28 X 350</u>		<u>9,800</u>	<u>9,800</u>
	GEOLOGICAL <u>6 X 300</u>		<u>1,800</u>	<u>1,800</u>
	DISTRICT EXPENSE & OVERHEAD		<u>5,000</u>	<u>3,000</u>
17. LOSS AND DAMAGES			<u>5,000</u>	<u>5,000</u>
18. MISCELLANEOUS:				
	FLOATING EQUIPMENT		<u>2,000</u>	<u>950</u>
	SCRATCHERS & CENTRALIZERS		<u>800</u>	<u>350</u>
	WELDING		<u>3,000</u>	<u>1,000</u>
	COMPLETION UNIT <u>10 X 1600</u>		<u>16,000</u>	
	OTHER			
	<u>Contingencies @ 10%</u>		<u>44,400</u>	<u>35,260</u>
19. CONTRIBUTIONS TO BE RECEIVED				
TOTAL INTANGIBLE DRILLING COSTS			<u>488,800</u>	<u>387,860</u>

BEFORE EXAMINER NUTTER

OIL CONSERVATION DIVISION

Brown EXHIBIT NO. 4

CASE NO. 7455

Dockets Nos. 3-82 and 4-82 are tentatively set for January 20 and February 3, 1982. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: EXAMINER HEARING - WEDNESDAY - JANUARY 6, 1982

**9 A.M. - OIL CONSERVATION DIVISION CONFERENCE ROOM
STATE LAND OFFICE BUILDING, SANTA FE, NEW MEXICO**

The following cases will be heard before Daniel J. Nutter, Examiner, or Richard L. Stamets, Alternate Examiner:

CASE 7410: (Continued from December 16, 1981, Examiner Hearing)

Application of B.O.A. Oil & Gas Company for two unorthodox oil well locations, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of a well to be drilled 2035 feet from the South line and 2455 feet from the East line and one to be drilled 2455 feet from the North line and 1944 feet from the East line, both in Section 31, Township 31 North, Range 15 West, Verde-Gallup Oil Pool, the NW/4 SE/4 and SW/4 NE/4, respectively, of said Section 31 to be dedicated to said wells.

CASE 7448: (Continued and Readvertised)

Application of Energy Reserves Group Inc. for creation of a new gas pool and an unorthodox location, Roosevelt County, New Mexico. Applicant, in the above-styled cause, seeks the creation of a new gas pool for C1500 production comprising the S/2 of Section 12 and the N/2 of Section 13, Township 6 South, Range 33 East; applicant further seeks approval of the unorthodox location of its Miller Com Well No. 1-Y located 660 feet from the South and West lines of said Section 12.

CASE 7451: Application of Yates Petroleum Corporation for compulsory pooling, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests down through the Abo formation underlying the SE/4 of Section 11, Township 6 South, Range 25 East, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well and a charge for risk involved in drilling said well.

CASE 7452: Application of Superior Oil Company for an unorthodox well location, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of a Wolfcamp-Penn well to be drilled 1980 feet from the South line and 2480 feet from the East line of Section 14, Township 23 South, Range 32 East, the S/2 of said Section 14, to be dedicated to the well.

CASE 7453: Application of T. D. Skelton for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Devonian and Mississippian formations underlying the NE/4 NW/4 of Section 7, Township 12 South, Range 38 East, to be dedicated to the re-entry of an old well at a standard location thereon. Also to be considered will be the cost of re-entering and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well and a charge for risk involved in re-entry of said well.

CASE 7454: Application of Uriah Exploration, Inc., for approval of an unorthodox gas well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of a well to be drilled 1090 feet from the North line and 560 feet from the East line of Section 30, Township 22 South, Range 25 East, Wolfcamp-Pennsylvanian formations, the N/2 of said Section to be dedicated to the well.

CASE 7455: Application of H. L. Brown, Jr. for compulsory pooling at an unorthodox location, Roosevelt County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests from the top of the Wolfcamp formation to the base of the Granite Wash formation underlying the S/2 of Section 11, Township 6 South, Range 33 East, to be dedicated to a well to be drilled at an unorthodox location 1300 feet from the South line and 660 feet from the East line of said Section 11. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well, and a charge for risk involved in drilling said well.

- CASE 7456: Application of Colonial Production Company for gas well commingling, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks approval for the commingling of Ballard-Pictured Cliffs production from its Jicarilla Apache Wells Nos. 9 and 10, located in Units A and C of Section 15, Township 23 North, Range 4 West, prior to metering.
- CASE 7457: Application of E. T. Ross for nine non-standard gas proration units, Harding County, New Mexico. Applicant, in the above-styled cause, seeks approval for nine 40-acre non-standard gas proration units in the Bravo Dome Carbon Dioxide Area. In Township 19 North, Range 30 East: Section 12, the NW/4 NW/4 and NE/4 NW/4; Section 14, the NW/4 NE/4, SW/4 NE/4, and SE/4 NE/4. In Township 20 North, Range 30 East: Section 11, the NE/4 SW/4, SW/4 SE/4, SE/4 SW/4, and NW/4 SE/4.
- CASE 7458: Application of Marks & Garner Production Company for salt water disposal, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to dispose of salt water into the Bough C formation in the perforated interval from 9596 feet to 9616 feet in its Betenbough Well No. 2, located in Unit M of Section 12, Township 9 South, Range 35 East.
- CASE 7459: Application of Red Mountain Associates for the Amendment of Order No. R-6538, McKinley County, New Mexico. Applicant, in the above-styled cause, seeks the amendment of Order No. R-6538, which authorized applicant to conduct waterflood operations in the Chaco Wash-Mesa Verde Oil Pool. Applicant seeks approval for the injection of water through various other wells than those originally approved, seeks deletion of the requirement for pickers in injection wells, and seeks an increase in the previously authorized 68-pound limitation on injection pressure.
- CASE 7460: Application of Northwest Pipeline Corporation for 13 non-standard gas proration units, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks approval for 13 non-standard Pictured Cliffs gas proration units ranging in size from 142.39 acres to 176.77 acres and each comprised of various contiguous lots or tracts in Sections 4,5,6,7, and 18 of Township 31 North, Range 7 West. Said proration units result from corrections in the survey lines on the North and West sides of Township 31 North, Range 7 West and overlap seven non-standard Mesaverde proration units previously approved by Order No. R-1066.
- CASE 7461: Application of Wainoco Oil & Gas Company for an unorthodox location, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for a well to be drilled at an unorthodox location 660 feet from the South and West lines of Section 18, Township 16 South, Range 37 East, Northeast Lovington Penn Pool, said location being 177.7 feet west of the center of Lot 4 whereas the pool rules specify that well be drilled within 150 feet of the center of the lot. Lots 3 and 4 of said Section 18 would be dedicated to the well.
- CASE 7421: (Readvertised)
- Application of Doyle Hartman for compulsory pooling, unorthodox well location and non-standard spacing unit, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Eumont Gas Pool underlying a 120-acre non-standard spacing unit consisting of the S/2 SW/4 and the NW/4 SW/4 of Section 3, Township 20 South, Range 37 East, to be dedicated to a well to be drilled at an unorthodox location 660 feet from the South line and 330 feet from the West line of Section 3. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well and a charge for risk involved in drilling said well.

Docket No. 2-82

DOCKET: COMMISSION HEARING - MONDAY - JANUARY 11, 1982
9 A.M. - OIL CONSERVATION COMMISSION - ROOM 205
STATE LAND OFFICE BUILDING, SANTA FE, NEW MEXICO

CASE 7393: (DE NOVO)

Application of Uriah Exploration Incorporated for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Cisco, Canyon and Morrow formations underlying the W/2 of Section 13, Township 22 South, Range 24 East, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well, and a charge for risk involved in drilling said well.

Upon application of Supren Energy Corporation, this case will be heard De Novo pursuant to the provisions of Rule 1220.

COMMISSION HEARING - MONDAY - JANUARY 11, 1982

CASE 7194: (DE NOVO)

Application of Supron Energy Corporation for an unorthodox gas well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of a Pennsylvanian well to be drilled 467 feet from the North line and 1650 feet from the West line of Section 13, Township 22 South, Range 24 East, the N/2 of said Section 13 to be dedicated to the well.

Upon application of Supron Energy Corporation, this case will be heard De Novo pursuant to the provisions of Rule 1220.

KELLAHIN and KELLAHIN

Attorneys at Law

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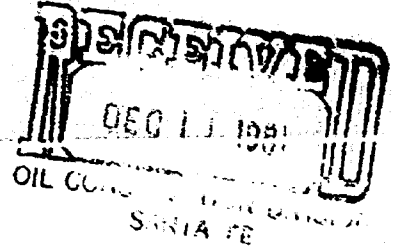
Jason Kellahin

W. Thomas Kellahin

Karen Aubrey

December 9, 1981

Mr. Joe D. Ramey
Oil Conservation Division
P.O. Box 2088
Santa Fe, New Mexico 87501

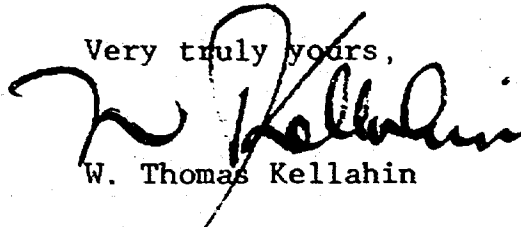


RE: H. L. Brown

Dear Mr. Ramey:

Please set the enclosed application for hearing
on the next available examiner docket now set for January
6, 1982.

Very truly yours,


W. Thomas Kellahin

Case 7455

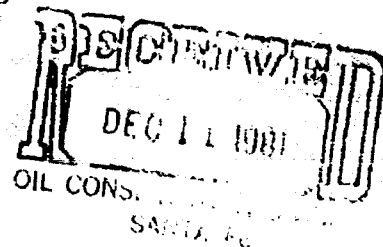
WTK:jm

Enclosure

cc: Mr. Web Walker

All parties with interest

STATE OF NEW MEXICO
DEPARTMENT OF ENERGY AND MINERALS
OIL CONSERVATION DIVISION



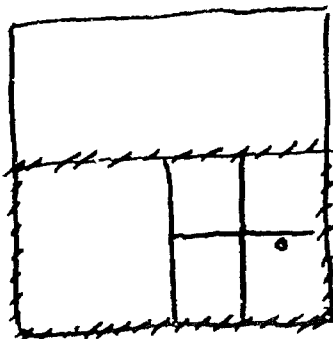
IN THE MATTER OF THE APPLICATION OF
H. L. BROWN, JR., FOR COMPULSORY
POOLING AT UNORTHODOX WELL LOCATION,
ROOSEVELT COUNTY, NEW MEXICO.

Case 7455

SECOND AMENDED APPLICATION

COMES NOW H. L. BROWN, Jr., by and through his attorneys Kellahin & Kellahin, and applies to the New Mexico Oil Conservation Division for an order pooling all interest from the top of the Wolfcamp formation to the base of the Granite Wash formation in the S/2 of Section 11, T6S, R33E, Roosevelt County, New Mexico for a gas well to be located at an unorthodox well location 1300 feet from the South line and 660 feet from the East line and in support thereof would show:

1. Applicant is an oil and gas operator and has acquired the right to drill certain tracts in the S/2 of Section 11.
2. Applicant proposes to drill a well at an unorthodox location 1300 feet from the South line and 660 feet from the East line of said Section 11.
3. Applicant has sought the cooperation of all interested parties involved in the proposed unit and has been unable to obtain the necessary approvals or commitments to form a voluntary unit for this well.
4. Those interested parties who have not joined in the drilling of the well for this unit are as follows:



<u>NAME</u>	<u>INTEREST IN SW/4</u>
Mark Russell Floyd, single 3219 South Birmingham Tulsa, Oklahoma 74100	
Shelly Louise Floyd, single 3219 South Birmingham Tulsa, Oklahoma 74100	
Malcom G. Garrett, etux Donna Jean Route 2 Clovis, New Mexico	
Michael T. Garrett, etux Clare Ann P.O. Box 930 Clovis, New Mexico	
Rush Herefords, Inc. 144 Oklahoma St. Portales, NM 88130	
Marland Davis et ux Darlene 712 Walnut St. Clovis, NM 88101	
Charles Wiseman, etux Mable 210 Ranger St. Hereford, Texas 79045	
Gil K. Phares, Trustee & Attorney-in- Fact for and on behalf of Banker Phares, Gil K. Phares, E. L. Nottle, & Homer P. Haber P.O. Box 1594 Port Arthur, Texas 76640	
Curry County Oil Company P.O. Box 219 Clovis, NM 88101	
J. V. Atkinson 904 Blanks Building Midland, Texas 79702	
Energy Reserves Group, Inc. 1509 W. Wall Midland, Texas 79702	

<u>NAME</u>	<u>INTEREST IN SE/4</u>
Vivian L. Smith, Individually and as Independent Executrix of the Estate of R. E. Smith, dec'd Houston, Texas 77061	
J. M. Miller et ux Lela D. Route 1 Elida, NM	
Gertrude G. Alstin, Individually and as Independent Executrix of the Estate of E. F. Alstin, dec'd 1208 Shirley Midland, Texas 79702	

E. Diane Lisman
8209 Meadows Rd. Apt. #2030
Dallas, Texas 75231

Richard A. Lisman, Beneficiary &
Co-Executor, Independent of the Est.
of Clyde V. Lisman, dec'd
423 Colorado Bldg.
Denver, Colorado 80202

Energy Reserves Group Inc.
1509 West Wolf
Midland, Texas 79701

Phillips Petroleum Company
4001 Penbrook
Odessa, Texas 79762

5. Copies of this application have been mailed to the parties in paragraph 4 above.

6. Applicant desires to be designated operator of the pooled unit.

8. To avoid the drilling of unnecessary wells, to protect correlative rights, and to afford to the owner of each interest in said unit the opportunity to recover or receive without unnecessary expense his just and fair share of the oil in said unit, all mineral interests, whatever they may be, underlying the subject unit, should be pooled.

9. That any non-consenting working interest owner that does not pay its share of estimated well costs should have withheld from production its share of reasonable well costs, plus an additional 200% thereof as a reasonable charge for the risk involved in the drilling of the well.

10. Applicant should be authorized to withhold from production the proportionate share of unreasonable supervision charge for drilling and producing wells attributable to each non-consenting working interest owner.

WHEREFORE, Applicant prays that:

A. This application be set for hearing before an examiner and that notice of said hearing be given as required by law.

B. Upon hearing the Division enter its order granting the application as requested.

C. And for such other relief as may be just in the premises.

KELLAHIN & KELLAHIN

By: 

~~W. Thomas Kellahin~~

P.O. Box 1769

Santa Fe, New Mexico 87501

(505) 982-4285

ATTORNEYS FOR APPLICANT

HERBIE
ORDERS

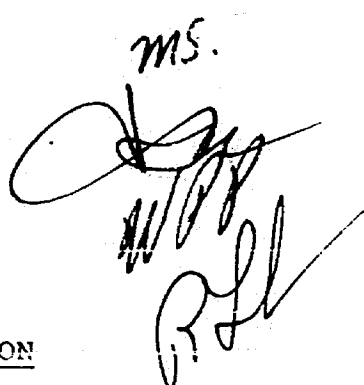
STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

CASE NO. 7455

Order No. R-6931

APPLICATION OF H. L. BROWN, JR. FOR
COMPULSORY POOLING AT AN UNORTHODOX
LOCATION, ROOSEVELT COUNTY, NEW MEXICO.

MS.


ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on January 6,
1982, at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this _____ day of ~~January~~ ^{March}, 1982, the Division
Director, having considered the testimony, the record, and the
recommendations of the Examiner, and being fully advised in the
premises,

FINDS:

(1) That due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.

(2) That the applicant, H. L. Brown, Jr., seeks an order pooling all mineral interests from the top of the Wolfcamp formation to the base of the Granite Wash formation underlying the S/2 of Section 11, Township 6 South, Range 33 East, NMPM, Roosevelt County, New Mexico.

*Subsection E,
is an owner as defined in Section 20-2-33 NMSA 1978*
(3) That the applicant [^]has the right to drill and ~~a well on~~ *a proposed gas well on said lands.*
~~proposes to drill a well at an unorthodox location 1200 feet from the South line and 560 feet from the East line of said Section 11.~~

(4) That there are interest owners in the proposed proration unit who have not agreed to pool their interests.

(5) That to avoid the drilling of unnecessary wells, to protect correlative rights, and to afford to the owner of each interest in said unit the opportunity to recover or receive without unnecessary expense his just and fair share of the gas in said pool, the subject application should be approved by pooling all mineral interests, whatever they may be, within said unit.

(6) That the applicant should be designated the operator of the subject well and unit.

(7) That any non-consenting working interest owner should be afforded the opportunity to pay his share of estimated well

Comp. within the above said 1/2 of Section 11, and as such

costs to the operator in lieu of paying his share of reasonable well costs out of production.

(8) That any non-consenting working interest owner who does not pay his share of estimated well costs should have withheld from production his share of the reasonable well costs plus an additional 450 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(9) That any non-consenting interest owner should be afforded the opportunity to object to the actual well costs but that actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(10) That following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated costs should pay to the operator any amount that reasonable well costs exceed estimated well costs and should receive from the operator any amount that paid estimated well costs exceed reasonable well costs.

(11)) That \$ 3700.00 per month while drilling and \$ 435.00 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); that the operator should be authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what

are reasonable, attributable to each non-consenting working interest.

(12) That all proceeds from production from the subject well which are not disbursed for any reason should be placed in escrow to be paid to the true owner thereof upon demand and proof of ownership.

(13) That upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is dedicated on or before July 1, 1982, the order pooling said unit should become null and void and of no effect whatsoever.

(14) That the gas spacing and proration unit directly offsetting the spacing and proration unit proposed to be created in the instant case, being the S/2 of Section 12, Township 6 South, Range 33 East, NMPM, is dedicated to a gas well completed in the Cisco formation and located 660 feet from the South line and 660 feet from the West line of said Section 12.

(15) That said well was projected as an oil well at a standard oil well location but was completed as a gas well and the unorthodox location as such subsequently approved by the Division.

(16) That said well is so located as to ~~express~~ the S/2 of Section 11, Township 6 South, Range 33 East, NMPM, to drainage not equalizing ~~the~~ drainage.

a well ~~located~~ ^{drilled} at
(17) That the proposed unorthodox location in the instant case, being ~~550~~ 1300 feet from the South line and 660 feet from the East line of Section 11, Township 6 South, Range 33 East, NMPM, ^{would be} ~~is~~ equi-distant from the line separating the two tracts (the S/2 of Section 11 and the S/2 of Section 12) as the well described in Findings Nos. (14) through (16) ^{and will also become 100 feet north of said line} above, and would tend to equalize drainage between the tracts.

(18) That a well drilled at said location would not cause waste nor impair correlative rights, but ~~if~~ in fact would protect correlative rights, and said unorthodox location should be approved.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, from the top of the Wolfcamp formation to the base of the Granite Wash formation underlying the S/2 of Section 11, Township 6 South, Range 33 East, NMPM, Roosevelt County, New Mexico, are hereby pooled to form a standard 320-acre gas spacing and proration unit to be dedicated to a well to be drilled at an unorthodox location 1300 feet from the South line and 660 feet from the East line of said Section 11.

PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the first day of July, 1982, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Granite Wash formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the first day of July, 1982, Order (1) of this order shall be null and void and of no effect whatsoever, unless said operator obtains a time extension from the Division for good cause shown.

PROVIDED FURTHER, that should said well not be drilled to completion, or abandonment, within 120 days after commencement thereof, said operator shall appear before the Division Director and show cause why Order (1) of this order should not be rescinded.

(2) That H. L. Brown, Jr. is hereby designated the operator of the subject well and unit.

(3) That after the effective date of this order and within 90 days prior to commencing said well, the operator shall furnish the Division and each known working interest owner in the subject unit an itemized schedule of estimated well costs.

(4) That within 30 days from the date the schedule of estimated well costs is furnished to him, any non-consenting working interest owner shall have the right to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production, and that any such owner who pays his share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges.

(5) That the operator shall furnish the Division and each known working interest owner an itemized schedule of actual well costs within 90 days following completion of the well; that if no objection to the actual well costs is received by the Division and the Division has not objected within 45 days following receipt of said schedule, the actual well costs shall be the reasonable well costs; provided however, that if there is an objection to actual well costs within said 45-day period the Division will determine reasonable well costs after public notice and hearing.

(6) That within 60 days following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated costs in advance as provided above shall pay to the operator his pro rata share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator his pro rata share of the amount that estimated well costs exceed reasonable well costs.

(7) That the operator is hereby authorized to withhold the following costs and charges from production:

- (A) The pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.
- (B) As a charge for the risk involved in the drilling of the well, 150 percent of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is

furnished to him.

(8) That the operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs.

(9) That \$ 3700.00 per month while drilling and \$ 435.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); that the operator is hereby authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(10) That any unsevered mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under the terms of this order.

(11) That any well costs or charges which are to be paid out of production shall be withheld only from the working interest's share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(12) That all proceeds from production from the subject well which are not disbursed for any reason shall immediately be placed in escrow in Roosevelt County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; that the operator shall notify the Division of the name and address of said escrow agent within 30 days from the date of first deposit with said escrow agent.

(13) That jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

JOE D. RAMEY,
Director

S E A L

COLLIER PRODUCTION COMPANY
FOR GAS WELL COMPLETING, RIO ARriba
COUNTY, NEW MEXICO

12/28/81