

CASE 6254: READ & STEVENS, INC.  
FOR COMPULSORY POOLING, LEA COUN-  
TY, NEW MEXICO

CASE NO.

6254

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APPLICATION,  
TRANSCRIPTS,  
SMALL EXHIBITS,  
ETC.

STATE OF NEW MEXICO  
ENERGY AND MINERALS DEPARTMENT  
OIL CONSERVATION DIVISION  
State Land Office Building  
Santa Fe, New Mexico  
21 June 1978

EXAMINER HEARING

IN THE MATTER OF:

Application of Read and Stevens,  
Inc., for compulsory pooling, Lea  
County, New Mexico.

CASE  
6254

BEFORE: Richard L. Stamets

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation  
Division:

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Legal Counsel for the Division  
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Santa Fe, New Mexico 87501

For the Applicant:

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For A. L. Hill Trust:

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I N D E XWILLIAM P. AYCOCK

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GENE N. GARNETT

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MR. STAMETS: Call now Case 6254.

MS. TESCHENDORF: Case 6254. Application of Read and Stevens, Inc., for compulsory pooling, Lea County, New Mexico.

MR. STAMETS: Call for appearances in this case.

MR. STEVENS: Mr. Examiner, I'm Don Stevens, attorney from Roswell, representing the applicant in this case. We have one witness to be sworn.

MR. STAMETS: Any other appearances?

MR. KELLAHIN: Tom Kellahin of Kellahin and Fox, Santa Fe, New Mexico, appearing on behalf of the A. L. Hill Trust and the trustees named therein.

MR. STAMETS: Any other appearances in this case? I'd like to have all those who are witnesses or will be prospective witnesses stand and be sworn at this time.

(Witnesses sworn.)

MR. KELLAHIN: If the Examiner please, I have a motion to make prior to taking of testimony.

If you will note the application of Read and Stevens, they are seeking to force pool the west half of the southeast quarter of Section 7 and they name therein as the only non-consenting interest owners the First National Bank of Dallas as trustee for the A. L. Hill and

1 Martha Reese Hill Trust. They are my clients here today.

2 We will move to dismiss the application on the  
3 grounds, Mr. Examiner, that there is no controversy between  
4 the parties; that the Trust and both trustees have signed  
5 and ratified a declaration of pool interest, and have  
6 tendered their proportionate share of the estimated well  
7 cost submitted to them by Read and Stevens, and have signed  
8 the operating agreement.

9 MR. STEVENS: Mr. Examiner, I request you dis-  
10 miss this motion on the grounds that this is an application  
11 for forced pooling.

12 The statute specifically provides for forced  
13 pooling a tract for a well that has been drilled or to be  
14 drilled.

15 It is true that Hill Trust has tendered an  
16 amount of money for the drilling of the well after the  
17 well was completed. The Hill Trust never agreed to join  
18 in drilling the well prior to its completion.

19 There was an unorthodox location application  
20 made before this Commission prior to this, which was un-  
21 opposed by Hill Trust. The proration unit was unopposed  
22 by the Hill Trust, and yet Hill Trust at no time ever  
23 agreed to support drilling of the well prior to its com-  
24 pletion.

25 On that basis we would like to continue this

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1 hearing for the purpose of forced pooling, or in the alter-  
2 native, forced pooling with a provision for risk.

3 The only thing at issue here is the risk in-  
4 volved in the drilling of the well and the penalty which  
5 the Commission might attach to the risk involved on the  
6 part of the nonparticipating working interest owner, the  
7 Hill Trust.

8 MR. KELLAHIN: May I make one further comment?

9 MR. STAMETS: Yes.

10 MR. KELLAHIN: With regards to the only re-  
11 maining issue that Mr. Stevens contends is of interest,  
12 you will know that the statutory provisions provides that  
13 the Commission may impose a risk; however, it has been the  
14 past custom and practice of the Commission that in situa-  
15 tions where the operator does not come before the Commission  
16 for an application for compulsory pooling until after he's  
17 completed his well, in those cases the operator has been  
18 consistently denied any risk factor, because of several  
19 theories.

20 One, he's assumed the entire risk himself.

21 Two, he's obtained a commercial well and there-  
22 fore there is no drilling risk involved, and he's not  
23 sought the protection of the Commission's order through  
24 the statute in order to determine that risk prior to  
25 completion of the well.

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1 I'll cite you to at least two cases I've found  
2 recently. Both of them were heard by this Examiner, the  
3 first of which was in June 8th of 1977, and that was a  
4 C & K Petroleum Case, in Order Number R-5452. The Commission --  
5 in that situation the applicant had requested a risk  
6 factor in the same type of fact situation and the risk  
7 factor was denied.

8 Burleson and Huff before this Examiner, pursuant  
9 to an order entered on the 28th of September, 1976, that's  
10 Order Number R-5286, did the same thing based upon a simi-  
11 lar fact situation.

12 Burleson and Huff had completed their subject  
13 well and asked for a risk factor in that case, and it had  
14 also been denied.

15 MR. STAMETS: I would like to clarify Mr.  
16 Kellahin's opening remarks as to whether or not there had  
17 been negotiations between Read and Stevens and the Hill  
18 Trust, or the trustees, and whether or not a specific offer  
19 was made to the -- between the parties, and if that offer  
20 was accepted -- well, if Read and Stevens made an offer  
21 to Hill Trust and Hill Trust accepted that offer.

22 MR. STEVENS: Who would you like to answer  
23 that?

24 MR. STAMETS: I don't -- I really don't care  
25 who, either one of you would be just fine. Apparently

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1 there's some disagreement on that point.

2 Mr. Kellahin, you brought this up. Do you have  
3 evidence showing or demonstrate that?

4 MR. KELLAHIN: Yes, sir. We intend to intro-  
5 duce and mark a ratification of declaration of pool interest  
6 signed by both the trustees on behalf of the trust, indi-  
7 cating that the west half of the southeast quarter of 7  
8 be pooled.

9 MR. STAMETS: Mr. Kellahin, I believe that  
10 given the questions that we have before us today, it may  
11 be better for us to go ahead and proceed. If the evidence,  
12 of course, is before the Commission so it can be examined  
13 in an orderly manner, and when this evidence is presented,  
14 then we will reconsider your request for dismissal.

15 You may proceed.

16  
17 WILLIAM P. AYCOCK

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

20  
21 DIRECT EXAMINATION

22 BY MR. STEVENS:

23 Q Will you state your name, your residence,  
24 your occupation, and your relationship to the applicants  
25 herein?

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1 A William P. Aycock, Midland, Texas, Consulting  
2 Engineer, representing Read and Stevens.

3 Q Have you previously testified before this Com-  
4 mission and had your qualifications accepted by the Com-  
5 mission?

6 A Yes, sir, I have.

7 MR. STEVENS: Will you accept the qualifications  
8 of the witness, Mr. Examiner?

9 MR. STAMETS: We do.

10 Q (Mr. Stevens continuing.) Briefly would you  
11 state what the applicant seeks herein, Mr. Aycock?

12 A The applicant is seeking a determination of  
13 the risk factor involved in drilling the Read and Stevens  
14 Scharb Communitized Well No. 1, located in the northwest  
15 quarter of the southeast quarter of Section 7, Township  
16 19 South, Range 35 East, Lea County, New Mexico, in the  
17 Scharb Bone Springs Pool.

18 MR. STEVENS: I'd like at this time to ask  
19 the Commission to take administrative notice of the pre-  
20 vious case that was before this Commission. This is Case  
21 6176, Order Number R-5672, wherein the west half of the  
22 southeast quarter of Section 7 was set out as the pro-  
23 ration unit and the unorthodox location was approved by  
24 this Commission.

25 Q (Mr. Stevens continuing.) Mr. Aycock, briefly

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1 would you describe, prior to getting into your exhibits,  
2 the history of this well and why it had to be drilled in  
3 the manner in which it was drilled?

4 A The well that immediately offsets it to the  
5 east, the No. 1-A Well, was lost due to casing collapse,  
6 and I have not seen the oil and gas lease but Mr. Read  
7 tells me they had sixty days to commence operations from the  
8 time that the loss of the Well No. 1-A occurred in order  
9 to perpetuate the leasehold rights, so there was not time  
10 for protracted negotiations that could normally be carried  
11 on under usual conditions. Something had to be done.

12 Mr. Read has told me that he was in communi-  
13 cations with the opposition here on numerous and continued  
14 occasions about what he intended to do. They could not  
15 reach an agreement and in spite of the advice that I gave  
16 him, that I felt he was assuming a great deal of risk,  
17 he thought it was best -- the potential was great enough  
18 to assume the risk and go ahead and drill the well with  
19 the thought that the matter could be settled after the  
20 fact, one way or the other.

21 Q What would have been the effect had he con-  
22 tinued to negotiate with the First National Bank presuming  
23 they had continued the position they subsequently con-  
24 tinued?

25 A Well, he either had to engage a rig and

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1 drill the well or he had to run the risk that they would  
2 get up toward the time that the lease would expire and  
3 he wouldn't be able to get his administrative proceedings,  
4 his location staked, and get a rig in there in time to  
5 perpetuate the lease.

6 A On that basis, then, is that the reason why  
7 no compulsory pooling was filed earlier?

8 A Yes, sir.

9 Q Did Mr. Read, to your knowledge, continue  
10 negotiations up until the time the well was completed?

11 A He has told me he has. I can't testify to  
12 that from personal knowledge, but he has told me that he  
13 has, yes, sir.

14 Q Referring then to what has been marked as  
15 Exhibit Number One, would you explain it, please?

16 A Exhibit Number One is an ownership map which  
17 shows the cross section traces that will be presented as  
18 subsequent exhibits and shows the original oil and gas  
19 leasehold configuration, as well as outlines the proration  
20 unit that was subsequently approved by this Commission  
21 for the subject well.

22 Q Referring you to what has been marked as  
23 Exhibit Two, would you explain it, please?

24 A Exhibit Two is a summary of the well perform-  
25 ance for the surrounding wells at the time that the deci-

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1 sion had to be made on whether or not to drill or let  
2 the leases expire.

3 You can see that a quick examination will  
4 show that all of the -- basically all of the wells that  
5 are towards the south and southeast are -- have had  
6 limited recovery as compared to those to the north and  
7 northwest.

8 Well No. 1-A, of which the subject well was  
9 a replacement, as I recall was producing in the vicinity  
10 of nine barrels of oil a day at the time it was lost due  
11 to mechanical problems, so the well was well nigh de-  
12 pleted, and you can see from the fact that starting on  
13 the north we have wells with a cumulative of 31,000, then  
14 the Read and Stevens 1-B, located in the south half --  
15 or in the southwest quarter of the southwest of Section  
16 7, was never successfully completed in the Bone Springs,  
17 so what you had was one well that would be -- the 1-A,  
18 if you had been able to achieve a well of that stature,  
19 you would have been a marginal economic venture, and  
20 anything else that's more or less on stripe with it  
21 geologically would have been either non-commercial or  
22 a dry hole.

23 A Referring to what's been marked as Exhibit  
24 Number Three, will you explain that, please?

25 A Exhibit Number Three is a map that was drawn

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1 by Mr. E. K. David, which I have checked his points and  
2 with which I substantially agree, that shows the top of  
3 the Scharb pay zone, and I call the Examiner's attention  
4 to the fact that there is no control to the southeast.  
5 There are no wells within a considerable distance, so  
6 there has to be a great deal of inference in the inter-  
7 pretation, at least in the vicinity of the proration unit  
8 that was assigned to the well.

9 Q Referring to Exhibit Four, would you explain  
10 it, please?

11 A Exhibit Four is an isopach of the Scharb  
12 Clean Carbonate, which was also done by Mr. David and with  
13 which I also substantially agree.

14 While a thick clean carbonate section is -- is  
15 one of the conditions necessary to having a commercial  
16 well, it is not the sole condition, as we will establish  
17 in further testimony and with further exhibits, but we --  
18 what we can show here is that if you believe the inter-  
19 pretation, then certainly you would believe that you have  
20 a reason to drill the well, that you were willing to as-  
21 sume some degree of risk in order to drill the well. Both  
22 the structural position and the projected Scharb carbonate  
23 thickness were sufficient to give you a chance that you  
24 might make a commercial well if that were correct.

25 Q Mr. Aycock, are you reconstructing conditions

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1 concerning the drilling of the well prior to the actual  
2 drilling time?

3 A Yes, sir.

4 Q And what's the purpose of this reconstruction  
5 you're making?

6 A In order to try to present the facts to the  
7 Commission so that they can make a determination of  
8 whether there was risk involved in the drilling of the  
9 well and if so, to what degree.

10 Q And that was -- is the risk you're talking  
11 about the risk at the time of the --

12 A Yes, sir.

13 Q -- commencement of the well --

14 A Yes, sir, that's correct.

15 Q -- not the after the fact risk?

16 A That's correct.

17 Q Of today?

18 A That's correct.

19 Q Referring to Exhibit Number Five, would you  
20 explain it, please?

21 A Exhibit Number Five is Cross Section AA Prime,  
22 a trace of which is shown on a prior exhibit, and there  
23 is an index map on the cross section. I would call the  
24 Commission's attention to the fact that the -- along the  
25 area that's represented here, which is in a north-south

1 direction, which is the nearest we would have -- control  
2 we would have in the direction towards which we would be  
3 moving, we see that there is a very great difference in  
4 the apparent pay thickness and quality and it indicates  
5 to me that while the interpretation on which Mr. Read  
6 drilled the well was a valid one, there certainly were a  
7 number of possible other outcomes which he could have ex-  
8 pected from the standpoint of both geology and reservoir  
9 development.

10 Q Referring to Exhibit Number Six, would you  
11 explain that, please?

12 A Exhibit Number Six is a cross section, BB-prime,  
13 which runs in the east-west and northeast-southwest  
14 direction, and it establishes, I think, that across the  
15 field in that direction was the basis on which the inter-  
16 pretation we previously presented was shown and that you  
17 would have anticipated that you would have had a reasonably  
18 thick section in the Scharb pay.

19 One thing, I think, that is of importance  
20 here that the Commission may find interesting, is that  
21 the Read and Stevens well that's on the -- that is the  
22 dry hole over here in Section 8 experienced a great deal  
23 of difficulty in getting a cement job that would allow  
24 them to complete the well successfully.

25 There's at least one other well that is located

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1 high on the structure that shows this, so I think we can  
2 say with safety that experience has demonstrated that there  
3 is a mechanical risk and a financial risk even if you  
4 get a well -- even if you get the structural position in  
5 the thickness necessary and the reservoir development and  
6 it's not drained to the point that you have insufficient  
7 reservoir energy and/or reserves in the area that will be  
8 drained by a prospective well, that there is an additional  
9 financial risk involved in getting an effective completion.

10 Q Referring to Exhibit Number Seven, would you  
11 explain it, please?

12 A Exhibit Number Seven is Cross Section CC-prime,  
13 which parallels to some degree both of the prior ones,  
14 and it shows the experience along the southeast side of  
15 the field, which is the direction toward which you would  
16 be moving from proven production, at least partially, and  
17 I think once again it demonstrates that there is great  
18 variability. You've completely lost the pay at the loca-  
19 tions further to the north and towards the south you  
20 have -- the only well that penetrated fully had a rela-  
21 tively thin section and was one of the wells that was  
22 noncommercial, so I think to me this demonstrates once  
23 again the possibility that numerous outcomes were pos-  
24 sible, and it also shows the same situation on the same  
25 well with regard to the difficulties of affecting a com-

1 pletion on occasion.

2 Q And how about the risk of losing a well after  
3 it's completed on the same basis as --

4 A Well --

5 Q -- the No. 1-A Well?

6 A Of course the 1-A was lost and it is my under-  
7 standing that Exxon has lost either two or three wells to  
8 the north on their Alves lease because of movement in the  
9 salt section, collapsing the production casing.

10 In order to mitigate that there's several  
11 things that could be done. One would be to drill the  
12 section with saturated brine water in order not to leech  
13 out a large volume that would form a cavity into which  
14 would allow the salt to begin to move. That would neces-  
15 sitate substantial additional expense over what the nor-  
16 mal operation procedures would be.

17 The other would be to cement the production,  
18 either set intermediate casing all the way through the  
19 zone and cement back across it, or to set intermediate  
20 casing above it and cement the production casing back  
21 across the zone in order to completely fill the cavity so  
22 that the salt would not move. And anything that you do  
23 in order to attempt to mitigate before the fact is going  
24 to involved additional expense.

25 Q Referring to Exhibit Number Eight, would you

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1 explain it, please?

2 A. Exhibit Number Eight are the rate time be-  
3 havior of the well for which this was drilled as a re-  
4 placement well, the Guy Hooper Communitized well which  
5 offsets it to the -- to the immediate west, and the Gulf  
6 "NU" State, which is further away yet.

7 And I think, once again, what this establishes  
8 in my mind is the fact that quite variable experience is  
9 possible, even if you get a commercial well.

10 The Guy Hooper Communitized 1 has had an  
11 attractive oil production performance. They experienced  
12 mechanical difficulties in the end of 1977, which I under-  
13 stand have been repaired. It was not producing any sub-  
14 stantial volume of water, where on the other hand the  
15 well for which the subject well was a replacement, the  
16 Hooper A, was producing a steady 3000 barrels a month of  
17 water and ever declining oil production at the time that  
18 it was lost, and the Gulf "NU" State, which had the thin  
19 section, has never produced at rates that are attractive  
20 and has produced some amount of water, not a highly sig-  
21 nificant amount of water, but some amount of water along  
22 with it.

23 So I think, once again, what this demonstrates  
24 is there is quite a spectrum of events that can occur  
25 when you drill a well on this side of the field.

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1 Q If Read and Stevens had drilled a dry hole  
2 under the facts as you know that they happened, would they  
3 have contributed -- would the First National Bank of Dallas  
4 have contributed to that dry hole?

5 A My understanding from Mr. Read, that they  
6 were not obligated to do anything at the time he spudded  
7 the well. If they drilled a dry hole, it would have been  
8 a hundred percent his.

9 Q Up until the time the actual pay was drilled  
10 were they obligated to pay anything toward the cost of the  
11 well?

12 A No, sir.

13 Q Are they presently obligated to pay anything  
14 toward the cost of it?

15 A No, sir, not to my knowledge. I think it's --  
16 although I recognize that the statutory requirements are  
17 at variance, I think it's well -- the Commission recog-  
18 nizes this, but I'd like to point out that normal joint  
19 operations between operators, that under joint operating  
20 agreements which include a non-consent clause today, in  
21 fact Mr. Read is operating on one in his partnership with  
22 Holley Energy, that provide for 500 percent, and in fact  
23 there are many of them being signed under joint operations  
24 that do not allow non-consent; that if an operator does  
25 not consent, he gives up all right, title and interest

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1 under the acreage that's assigned to the well. So that  
2 the conditions in the industry are quite a bit different  
3 from what they were a number of years ago, due to the in-  
4 creased expense of drilling wells and the relatively high  
5 prevailing interest rates that we've been faced with for  
6 several years.

7 Q To put this on a parity with the language of  
8 the statute as regards to risk, it allows a maximum of  
9 200 percent, what would 500 percent be in your language  
10 as compared to the statutory language?

11 A Well, it would be 400 percent. In other  
12 words, the statute would be 300 percent as compared to  
13 400 or 500 percent, or if we reduce those down, they would  
14 be 300 or 400 percent as compared to the allowable of the  
15 statute on, well, 200 percent.

16 Q The statute allows recovery cost plus 200 per-  
17 cent.

18 A Yes, sir.

19 Q Your 500 percent, then, would be recovery cost  
20 plus 400 percent?

21 A Yes, sir, that's correct.

22 Q On the basis of that, then, you have a recom-  
23 mendation to this Commission as to risk factor which  
24 should be charged against the non-participating interest?

25 A Well, it would be -- the risk factor under

1 normal industry operating conditions would be the maximum  
2 allowable by the statute under today's normal joint oper-  
3 ating agreement between operators.

4 MR. STAMETS: That would be 10 percent?

5 A Yes, sir.

6 Q Does Read and Stevens wish to remain operator  
7 of this well?

8 A Yes, sir.

9 Q Do you have a recommendation as to administra-  
10 tive overhead which might be charged monthly and for  
11 drilling?

12 A My recommendation would be \$150 a month for  
13 administrative overhead and \$1000 a month during drilling  
14 operation.

15 Q Were Exhibits One through Eight prepared by  
16 you or under your direction?

17 A Yes, sir.

18 MR. STEVENS: I'd like to move the intro-  
19 duction of these exhibits, Mr. Examiner.

20 MR. STAMETS: These exhibits will be admitted.

21 MR. STEVENS: We have no further questions on  
22 direct.

23 MR. STAMETS: Are there questions of this  
24 witness?

25 MR. KELLAHIN: If the Examiner please. Do

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1 you have another witness?

2 MR. STEVENS: No, we don't.

3

4 CROSS EXAMINATION

5 BY MR. KELLAHIN:

6 Q Mr. Aycock, when did you first become retained  
7 by Read and Stevens to make an examination of this parti-  
8 cular proration unit?

9 A Nearest memory serves me, within late October  
10 or early November of last year.

11 Q Have you made a complete study of the circum-  
12 stances surrounding that first well, the L-A Well?

13 You're familiar with that well, are you not?

14 A Yes, sir, I am, and that was my testimony in  
15 the hearing that we originally referred to.

16 Q Did you testify at the hearing before the  
17 Examiner back in March, I believe --

18 A Yes, I did.

19 Q -- of this year, on the unorthodox location?

20 A Yes, sir, I did.

21 Q That was also your testimony?

22 A Yes, sir.

23 Q The proration unit for the 1-A Well in the  
24 northeast quarter of the southeast quarter consisted of  
25 the north half of the southeast quarter, did it not, sir?

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1 A. That is correct.

2 Q. The interest owners in that operating agreement  
3 in addition to Read and Stevens included the First National  
4 Bank in Dallas trust, the Hill Trust.

5 A. That's correct, it's my understanding.

6 Q. When was the 1-A Well drilled?

7 A. I'd have to refer to my records to tell you  
8 exactly. Production began in 1970, I believe, the first  
9 full year's production. If you want to give me some time  
10 I've got the records here; I can pull them if you want the  
11 exact date.

12 Q. That's close enough. What is the cumulative  
13 production to date on that well, do you have that?

14 A. It was 57,560 barrels at the time it was lost.

15 Q. And at what point was it lost?

16 A. The last month's production that was reported  
17 to the Commission, it was in March of 1977.

18 Q. And that was, according to your testimony, was  
19 the result of mechanical failure of the well.

20 A. That's my understanding, yes.

21 Q. In March of 1977.

22 A. Yes, sir.

23 Q. Do you know when Read and Stevens made its  
24 first contact with the First National Bank in Dallas with  
25 regard to the drilling of a replacement well?

1 A No, sir, I do not.

2 Q You haven't had any direct communication with  
3 the bank or any of its employees with regards to this?

4 A No, sir, I have not. As I previously testi-  
5 fied, it was secondhand testimony from my understanding  
6 from Mr. Read.

7 Q Okay. The replacement well in the northwest  
8 of the southeast quarter, when was that well commenced?

9 A If you'll give me a minute and let me get my  
10 file, I can tell you.

11 Q Okay.

12 A It was spudded on January 21st, 1978.

13 Q And when was it completed? I believe it was  
14 April 6, 1978.

15 A I don't have the date immediately available  
16 because I don't have -- currently do not have the complete --  
17 my file doesn't reflect a completed -- that sounds about  
18 correct, but I do not have the final drilling report on  
19 the well.

20 In fact the log was not available in time for  
21 me to put it in the original testimony. Those exhibits  
22 had to be prepared in advance and it was not available  
23 until after I'd already prepared the exhibits for the  
24 previous hearing.

25 Q At the date of the hearing on March 9th, 1978,

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1 what was the status of the well at that point?

2 A. It had been -- the pay had been penetrated.  
3 It had been drill stem tested and they were in the process  
4 of setting production casing. I can't tell you just ex-  
5 actly what they were doing.

6 Let's see, on the 29th of March they were  
7 testing -- okay, they had already completed then.

8 23rd, rigging up pumping unit.

9 Okay, they reached TD on -- wait a minute,  
10 let me see.

11 They ran pipe on the 7th of March.

12 Q Let's mark this as an exhibit, Mr. Aycock.

13 You've been reading from, and I show you what  
14 I've marked as First National Bank Exhibit Number One,  
15 and ask you if you can identify that document?

16 A Yes, it has the -- the first page is similar  
17 to what I had in my file, which was provided to me by Mr.  
18 Read. And it appears that it's genuine and was received  
19 from him.

20 MR. KELLAHIN: If the Examiner please, we  
21 move the introduction of First National Bank Exhibit  
22 Number One, which is Read and Stevens Drilling Report on  
23 the replacement well.

24 MR. STAMETS: This exhibit will be admitted.

25 Q (Mr. Kellahin continuing.) You've indicated

1 that the first well experienced mechanical difficulty in  
2 April, 1977, and the replacement well was not started until  
3 January 21st of 1978, some nine months later, is that  
4 correct?

5 A Right.

6 Q Nothing transpired between that period of  
7 time?

8 A According to what Mr. Read told me, they  
9 spent a considerable amount of time trying to determine  
10 what the difficulty was, until they finally realized what  
11 had happened to them, that they had had a casing collapse,  
12 and could not -- and I cannot give you the exact dates  
13 of those occurrences.

14 Q Do you know what the First National Bank's  
15 working interest is on the north half of the southeast  
16 quarter?

17 A No, I do not. I have not seen a Division order  
18 or division on interest tabulation at all.

19 Q Do you know what the First National Bank's  
20 working interest ownership is for the west half of the  
21 southeast quarter?

22 A No, but it's obviously reduced because the  
23 Read and Stevens were the leasehold owner of the south  
24 half of the southeast quarter.

25 MR. KELLAHIN: I have no further questions.

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CROSS EXAMINATION

BY MR. STAMETS:

Q Mr. Aycock, early in your testimony you, I believe, stated that advised Read and Stevens that they were assuming a great deal of risk by starting this well.

A Yes, sir.

Q How much was a great deal of risk?

A Well, I felt like they had a fifty-fifty chance of making a commercial well.

Q Now the well has been completed at this point?

A Yes, sir.

Q Is it a commercial well?

A Yes, sir, it's a very commercial well; much better than I anticipated it would be.

From what they have told me, I've not seen the daily gauges, the well initially produced in the vicinity of 70 to 80 barrels of oil a day and it improved -- I don't know whether it still is, but it improved over a period of time and got up over 100 barrels a day at one stage in capacity.

Q What is the cost of this well?

A Okay, just a second, if you please, Mr. Examiner. I have a tabulation here of the projected and actual costs of the well.

The well was projected on AFE to cost \$441,300.

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Q Thank you.

A And it wound up costing \$513,956.

Q Have any projections been made on how long it's going to take to pay out?

A I have not done so, no, sir. Mr. Read may have done some but, if so, he's not discussed it with me.

Q In your own mind at this point, have you made an estimate of the risk that this well won't pay out?

A At this stage?

Q Yes.

A I think the risk is low that it won't pay out at this stage.

MR. STAMETS: Any other questions of this witness? He may be excused.

MR. KELLAHIN: I have one witness, Mr. Stamets.

GENE N. GARNETT

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

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q Would you please state your name, by whom you are employed and in what capacity?

A Gene Garnett. I'm employed by First National

1 Bank in Dallas in their Trust Oil Department. I'm a pet-  
2 roleum engineer and manager of oil and gas interests in  
3 various trusts, estates and agencies, including the A. L.  
4 Hill and Martha R. Hill Trust.

5 Q Mr. Garnett, in your capacity as a vice presi-  
6 dent with the First National Bank in Dallas, and as one  
7 of the managing employees for this dual trust, what if  
8 any interest does the Hill Trust have in the north half  
9 of the southeast quarter of Section 7?

10 MR. STEVENS: Mr. Examiner, I would like to  
11 make an objection to this line of questioning, unless it's  
12 going to be shown that the relates to the issues on hand  
13 before this Commission. It appears it's his intent to  
14 re-try the original case we had here for the unorthodox  
15 location on the west half of the southeast some month or  
16 two ago.

17 If I'm in error and it relates to the appli-  
18 cation in issue, fine, continue, but so far it sounds as  
19 if that's what the intent would be.

20 MR. KELLAHIN: I tender proof, Mr. Examiner,  
21 is to show that after January of 1978, after the 1st of  
22 January, 1978, Read and Stevens contacted the trust with  
23 regards to the drilling of a replacement well and that the  
24 only matter in controversy between the parties was the  
25 configuration of the proration unit and that there was no

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1 dispute about the AFE, its reasonableness, the location of  
2 the well, or any other matters, except the configuration  
3 of the proration unit, and that's why I asked what the  
4 trust's interest was in the north half of the southeast  
5 quarter, that portion that was the subject of the original  
6 operating agreement for the first well.

7 MR. STAMETS: Well, we'll allow this line of  
8 questioning.

9 Q (Mr. Kellahin continuing.) All right, Mr.  
10 Garnett, what is the trust's interest in the north half  
11 of the southeast quarter of Section 7?

12 A 1/16th working interest.

13 MR. STEVENS: One what, sir?

14 A 1/16th.

15 MR. STEVENS: Thank you.

16 Q And did the trust participate as a working  
17 interest owner in the drilling of the No. 1-A Well?

18 A That is correct.

19 Q Now, when did you have first contact with Read  
20 and Stevens with regards to the drilling of a replacement  
21 well?

22 A On January the 16th of 1978 I received a  
23 letter so informing me.

24 The letter was dated January 13th.

25 Q And what, if anything, did you do with regards

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1 to that letter, Mr. Garnett?

2 A. We answered that -- in letter form, that we  
3 agreed that the geology that was presented along with the  
4 operator's letter and the reserves that the operator said  
5 that he believed -- or that they believed to be probable,  
6 and that the initial production rate that the operator  
7 said that he believed very possible, we took these as  
8 being adequate justification for the drilling of the well  
9 at the location that the operator had recommended.

10 We did make known our objection to the revision  
11 of the proration unit, which would have the affect of re-  
12 ducing the trust's working interest by one-half or to  
13 1/32nd.

14 Q Do you recall about when Read and Stevens  
15 tendered to you an estimate of the well costs for the  
16 replacement well?

17 A The estimate was tendered with the original  
18 letter. And in my first letter of reply, I said that we  
19 were agreeable to -- to participating to the full extent  
20 of 1/16th but I made this contingent on the fact that the  
21 proration unit not be changed because that was our area  
22 of argument.

23 Q Was there any disagreement about the location  
24 of the well?

25 A. None whatsoever.

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1 Q Was there any disagreement about the estimated  
2 well cost for the replacement well?

3 A None.

4 Q The only disagreement was the configuration  
5 of the proration unit?

6 A That is correct.

7 Q Subsequent to that time, what if anything did  
8 the trust do with regards to consenting to a west half  
9 southeast quarter proration unit?

10 A Well, we continued to oppose it until such  
11 time as we were made aware that the earlier hearing be-  
12 fore this Commission had in fact established the west  
13 half as the revised proration unit. We mistakenly had  
14 been of the opinion that the purpose of the first hearing  
15 was solely for the purpose of obtaining approval of the  
16 unorthodox location and, as stated before, we had no  
17 argument with that application.

18 Q I show you what I've marked as First National  
19 Bank's Exhibit Number Two and ask you if you can identify  
20 that document?

21 A Yes, sir.

22 Q What is it?

23 A It's a ratification of Declaration of Pool  
24 Unit, which we received much -- I don't know that I record  
25 the exact date, but we received it in May and we approved

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1 same on May the 25th, as co-trustee, 1978.

2 We did need -- did have to have the co-trustee's  
3 signature, so we informed the operator that the bank as  
4 co-trustee was approving and that we expected to get the  
5 co-trustee's signature within a matter of days, that we  
6 would recommend that she also approve.

7 Q Who are the necessary parties to the trust,  
8 or the trustees, whose signature is required on any docu-  
9 ment with regards to the oil and gas interests of the  
10 trust?

11 A Would you -- I'm sorry, I didn't catch your  
12 questions.

13 Q Yes, it's not very clear, I'm sorry. On be-  
14 half of the trust what are the necessary parties to sign  
15 any agreement with regards to oil and gas interests?

16 A On the behalf of the bank the vice president  
17 signs as co-trustee and it is attested by an assistant  
18 cashier, and any instrument, any agreement calls also for  
19 the signature of the other co-trustee, who is Marla Reese  
20 Hill.

21 Q Does that document reflect both of those  
22 signatures?

23 A It does.

24 Q I'll show you what I've marked as First  
25 National Bank Exhibit Number Three, Mr. Garnett, and ask

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1 you if you can identify that letter?

2 A Yes, this is the letter that I authored, a  
3 letter dated May the 19th, directed to Read and Stevens,  
4 and --

5 Q Let me see which one I showed you.

6 A Oh, I'm sorry. I'm sorry I --

7 Q What is that document?

8 A This is the prior letter. This is dated, as  
9 I said, May the 19th, but this is the letter from Read  
10 and Stevens to -- to the First National Bank, to my atten-  
11 tion.

12 And this is the letter in which Mr. Read made  
13 known the fact that he was returning our check dated  
14 April 17th in the amount of \$12,860, which we had tendered  
15 as the trust 1/32nd working interest share of the well  
16 cost for the Scharb Com No. 1, as per the original AFE  
17 estimate.

18 MR. KELLAHIN: That concludes my examination  
19 of Mr. Garnett. I move the introduction of First National  
20 Bank Exhibits One through Three.

21 MR. STAMETS: These exhibits will be admitted.  
22 Mr. Kellahin, I wish that you would put these things in  
23 some sort of chronological order for me so that I can  
24 understand this better.

25 I understand now that the first contact was in

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1 January and that there was some disagreement, but the only  
2 disagreement was on the proration unit.

3 MR. KELLAHIN: Excuse me, the initial letter  
4 was received by the bank on the 21st of January. I believe  
5 it was a letter dated about the 13th of January, from Read  
6 and Stevens.

7 MR. STAMETS: Okay.

8 A That was received the 16th, as a matter of  
9 accuracy.

10 MR. STAMETS: Then the Commission -- the  
11 Division, I'm sorry -- approved -- the Commission, okay.  
12 The Commission in March approved the new proration unit.

13 Now, subsequent to that the bank discovered  
14 that the new proration unit had been approved and at that  
15 time they agreed to join in the unit, pay their cost?

16 A Yes. Of course, at that time we did not --  
17 we had not signed the agreement but we, in letter form,  
18 we so informed the operator and we did tender our check.

19 Q Is a copy of that letter in evidence?

20 MR. STEVENS: I've got a copy, if you'd like  
21 it.

22 MR. KELLAHIN: I've got one here.

23 MR. STEVENS: Okay.

24 Q (Mr. Kellahin continuing.) I'll show you what  
25 I've marked as First National Bank Exhibit Number Four,

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1 and ask you if you can identify that, Mr. Garnett?

2 A. Yes.

3 Q. What is it?

4 A. A letter dated April 13th, 1978, from myself  
5 to Mr. Read, in which I said based on the receipt of the  
6 finding and orders of the Commission hearing on May the  
7 8th, that I recognize that we had probably lost our argu-  
8 ment and that the west half of the southeast quarter of  
9 Section 7 was to prevail as the proration unit and that  
10 we were coming forward with our check for the 1/32nd  
11 share of the estimated or AFE well cost.

12 MR. STAMETS: And that you mailed on April  
13 13th. Then subsequent to that date, what was the next  
14 thing that you received from Read and Stevens?

15 A. The earlier -- the May 19th letter from Read  
16 and Stevens in which they say that they will not accept  
17 the check and indeed returned it to us.

18 MR. STAMETS: On May the 19th?

19 A. Yes.

20 MR. STAMETS: Go ahead, Ms. Teschendorf.

21  
22 CROSS EXAMINATION

23 BY MS. TESCHENDORF:

24 Q. Mr. Garnett.

25 A. Yes.

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Q The bank never appealed the Commission order that changed the proration unit, is that correct?

A We did not. Perhaps ignorance was a factor, I suspect.

Q And you don't know what date you received this ratification of declaration of pool unit?

A I'm not certain of the exact date.

Q You said it was sometime in May.

A Definitely.

Q And according to your Exhibit Number Two, Read and Stevens, or Mr. Read on behalf of Read and Stevens, signed this on April 5th, which was approximately a month before you received it.

A I've got to believe that that's factual but I had not noticed the date on this.

Q Do you have a copy of this letter?

I believe on the bottom of page two there it shows that Mr. Read signed this on April 5th, 1978?

A Yes.

Q And you have testified that you didn't see this until sometime in May.

A That is -- I know with certainty that I did not receive it before the last two exhibits, the two letters there between the operator and myself, mine dated April 13th and his dated May the 19th.

1 Q So you received it sometime after May 19th?

2 A Yes.

3 Q Have separate joint operating agreements been  
4 entered into by the parties separate from this declaration?

5 A Yes.

6 Q Does that make any provision for a risk factor?

7 A It does, but in our return letter we said that  
8 we were ratifying same but that we accepted it, all the  
9 terms after the drilling of the well.

10 Q I'm not sure what you mean by that.

11 A Well, when the -- will you restate your ques-  
12 tion? I want to be sure I'm on the right instrument.

13 Q I wanted to know whether or not your separate  
14 joint operating agreement that you have apparently entered  
15 into made any provision for a risk factor.

16 A Yes, it did.

17 Q And you said that you signed the operating  
18 agreement with some proviso. Did that have to do with the  
19 risk factor?

20 A I'd like to back up and say -- I'll answer  
21 that question, but it was received in early January, but  
22 our first reply was that it would not be consistent for  
23 us to ratify the instrument because it was contrary to  
24 our belief that the proration unit should not be revised.

25 Now, in May when we realized that the west

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1 half of the southeast quarter was to prevail, that we had  
2 lost our major argument, then we simply returned the --  
3 Tom, do you have a letter -- let me see, when was this  
4 dated?

5 I believe that the case is that it was re-  
6 turned without a proviso, but the earlier communication  
7 between myself and Mr. Read, I believe it must have been  
8 in the telephone part of our communication, I was -- I  
9 was saying that we were -- we would approve it -- but I  
10 know somewhere in written form I have that.

11 Q I might be able to save you this. What I'm  
12 getting at is that you have signed a joint operating  
13 agreement that makes some provision for risk, you've agreed  
14 to a condition for risk and what was that?

15 That's what I want to know.

16 A Here is the passage, if I may answer this way.  
17 Here's a passage that I had reference to that's in my  
18 April 13th letter to Mr. Read.

19 In anticipation that Read and Stevens will  
20 agree to not penalize the Hill Trust for requiring more  
21 than 100 percent of their pro rata share of well cost,  
22 we will proceed to seek the necessary approval of the new  
23 operating agreement.

24 And we did so. Of course, there's some time  
25 involved because we had to carry it through two levels of

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1 committee and we had to get the co-trustee signature.

2 Q. Has it been signed yet?

3 A. It has been signed and it was returned on May  
4 23rd without any comment in written form.

5 Q. Signed by the trustee and returned?

6 A. Returned after both co-trustees had ratified  
7 same, it was returned to Read and Stevens on May the 23rd.

8 Q. And does that make a provision for a risk  
9 factor or are you just simply under that agreement paying  
10 your share of the cost?

11 A. Well, it has a provision for a risk factor.

12 Q. What is that risk factor?

13 A. Truthfully I'm not sure. I believe it's 300  
14 percent.

15 Q. Okay. In other words they're recovering 100  
16 percent cost plus 200 percent risk factor?

17 A. Yes.

18 Q. Did they make provisions for overhead in that  
19 agreement while drilling and while producing?

20 A. Yes.

21 Q. Do you know those figures?

22 A. I don't remember the magnitude.

23 We were not at issue with anything after the  
24 drilling of the well. We were not at issue with Read and  
25 Stevens being the operator. We think they're a good oper-

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1 ator. We just had this one difference of opinion on the  
2 proration unit.

3 Q Did you return, after you obtained all the  
4 signatures of your ratification of declaration of pool  
5 unit, did you return that to Read and Stevens? Have you  
6 returned it to Read and Stevens?

7 A We have very recently mailed them a copy. I  
8 have the original copy with me today but we had given  
9 several communications to the operator saying that we  
10 were -- that we had approved or first of all that we would  
11 approve, and then we had approved, but that we were at the  
12 mercy of the mails and the location of Mrs. Hill as to  
13 when we could return the fully executed agreement, and  
14 Mrs. Hill, in fact, did sign same only on June 14th.

15 MS. TESCHENDORF: I don't have other questions.

16 MR. STAMETS: Mr. Stevens, you had some  
17 questions.

18 MR. STEVENS: Yes, sir.

19  
20 REDIRECT EXAMINATION

21 BY MR. STEVENS:

22 Q To get things in prospective, Mr. Garnett, if  
23 that well were dry would the First National Bank have been  
24 obligated to pay a cent to Read and Stevens?

25 MR. KELLAHIN: I'm going to object to the

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1 question. It calls for a legal conclusion of the witness  
2 as to interpretation of the unit agreements and interested  
3 parties and I don't think that's important in this case.

4 MR. STEVENS: Well, I don't think it's a legal  
5 conclusion, Mr. Examiner. I think it's a question of the  
6 thought of the documents that they executed as between  
7 themselves or the agreements they made as between them-  
8 selves. It's a factual question.

9 MR. KELLAHIN: The documents will speak for  
10 themselves, Mr. Examiner.

11 MR. STAMETS: I would believe that the witness  
12 would have sufficient expertise in the operation of such  
13 agreements, things that must be paid and things you can  
14 get out of paying as your share of the cost to answer the  
15 question.

16 Perhaps, Mr. Stevens, you'd like to rephrase  
17 the question to the witness.

18 A Please do.

19 Q (Mr. Stevens continuing.) Mr. Garnett, if  
20 that well, the well in question, had of been dry, would  
21 the First National Bank of Dallas as trustee for the Hill  
22 Trust have had any obligation to pay Read and Stevens a  
23 portion of the cost of that dry hole?

24 A I don't believe that there would have been an  
25 instrument that -- we've got to keep in mind when the well

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1 was completed, now. The well was -- was completed and  
2 potential at 100 barrels a day prior to the time that we  
3 were informed that it was indeed completed on the west  
4 half of the southeast quarter.

5 Q If it had been dry would the First National  
6 Bank have been obligated to pay Read and Stevens any por-  
7 tion of the cost of it?

8 A I don't believe that there would have been  
9 any instrument at that time that would have obligated us,  
10 that would have bound us to have paid.

11 Q Was there an oral agreement to that effect?

12 A I beg pardon?

13 Q Was there an oral agreement to have bound you?

14 A No, sir.

15 Q And yet now you seek to get your full interest  
16 without having been exposed to the risk by this hearing  
17 and your objection to it, is that correct?

18 A We made known very early our belief that the  
19 well would be a well of some consequence by our indicated  
20 willingness to pay not 1/32nd of the cost but 1/16th,  
21 provided the proration unit not be changed and cause the  
22 Hill Trust to suffer a very severe penalty, namely re-  
23 duction of their working interest by one-half.

24 Q Did you receive notice of the unorthodox  
25 location and new proration unit hearing?

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CERTIFIED SHORTHAND REPORTER  
730 Bishop's Lodge Road • Phone (505) 988-3404  
Santa Fe, New Mexico 87501

1 A. Not in written form. I did verbally.

2 Q. You did not receive written form notice?

3 A. No, sir.

4 Q. You were aware, were you not?

5 A. I was aware of it. I was not aware of the  
6 fact, though, that it was to decide which 80-acre pro-  
7 ration unit was to prevail. I was led to believe that --  
8 I know there are some letters to this, saying that -- but  
9 you're going to refer to a couple of letters which did  
10 say, did inform that the hearing that you would call  
11 would decide the proration unit, but as the hearing drew  
12 closer and in these, after being postponed one time, the  
13 verbal conversations with Mr. Read inferred that the  
14 first hearing would determine whether or not the unorthodox  
15 location was acceptable.

16 Q. In other words, you were ignorant that the  
17 hearing in fact provided for a proration unit being the  
18 west half of the southeast quarter?

19 Is that correct? I believe that's paraphrasing  
20 your exact statement.

21 A. I did use that, right, and when I said "ignorant"  
22 I hope you will take it as it was intended. This is my  
23 first appearance before the Commission and when I was  
24 considering coming to the first appearance, I did not know  
25 some of the -- did not really know completely what to

1 expect.

2 Q It wasn't meant as a word of deregation. It  
3 was that you weren't aware of it.

4 A Yes, sir. What I'm trying to say is I never  
5 received a copy of Read and Stevens application as to the  
6 Commission and as to what would be covered at that hearing.

7 It's true, I realize that I had at least two  
8 letters from Read and Stevens earlier which said that an  
9 early hearing would consider which proration unit.

10 Q All right, sir, then you were not aware of it  
11 would cover the proration unit. Had you been aware would  
12 you have agreed to pay 3 percent, or the proper figure  
13 thereof, if the Commission ruled against you?

14 What I'm trying to say is -- let me rephrase  
15 the question.

16 Nowhere through here did you ever agree to  
17 pay any proportion of the cost of this well under any  
18 circumstances.

19 A I agreed to paying the cost of a true re-  
20 placement well for the Hooper A-1 on the -- on the original  
21 80-acre tract, and only after the hearing on March the  
22 8th was it determined that the other proration unit was  
23 to prevail.

24 Q But you never agreed to the drilling of the  
25 west half southeast quarter proration unit, or agreed to

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 Santa Fe, New Mexico 87501

1 pay your proportionate part of it?

2 A. No, sir.

3 Q. This subsequent agreement, declaration of  
 4 approved unit ratification, your Exhibit Number Two, that  
 5 was received after the well was completed, was it not?

6 A. Yes.

7 Q. It was received, was it not, as an offer of  
 8 settlement which provided for 150 percent penalty on your  
 9 part, was it not?

10 A. I do not think it was received at the same  
 11 time. I did not --

12 Q. You don't think it was received without any  
 13 penalty on your part?

14 A. Well, I earlier had received the request from  
 15 Mr. Stevens for a settlement at 150 percent.

16 Q. Is that Mr. Read?

17 A. Yes. Yes, sir.

18 Q. Did you think when you received that he had  
 19 changed his mind and decided not to go for the 150 per-  
 20 cent penalty?

21 MR. KELLAHIN: I object; this calls for spec-  
 22 ulation on the part of the witness.

23 MR. STEVENS: I think it is pertinent --

24 MR. KELLAHIN: How would he know what is in  
 25 Mr. Stevens mind?

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1 MR. STEVENS: I think it's pertinent to the  
2 case at hand. We're trying to determine whether this  
3 person, representing the bank, ever agreed to the drilling  
4 of this well or might have agreed had it been presented  
5 differently.

6 MR. KELLAHIN: That's not the question that  
7 was asked.

8 MR. STEVENS: Would you rephrase it for me,  
9 please?

10 MR. KELLAHIN: No, it's your question. You  
11 ask him.

12 MR. STEVENS: I'll be happy to do that.

13 MR. KELLAHIN: I'll do the objections.

14 MR. STAMETS: The objection is sustained.  
15 Let's go off the record a minute.

16 (There followed a discussion off  
17 the record.)

18 MR. KELLAHIN: If the Examiner please, -- is  
19 the cross examination over?

20 MR. STEVENS: I suspect so.

21 MR. KELLAHIN: All right. On behalf of the  
22 bank as trustee for the Hill Trust, I move that this  
23 case be dismissed.

24 MR. STAMETS: Do you have anything you wish  
25 to say, Mr. Stevens?

1 MR. STEVENS: Only in reiterating the point  
2 that the statute certainly provides for a risk and that  
3 when you can forget the statute and the rules and regula-  
4 tions and particular viewpoint of the Examiner of this  
5 Commission, what we have here is a case where a non-working  
6 interest owner rode the coattails of a working interest  
7 owner, who took the risk and drilled the well. There was  
8 not sufficient time to go through the usual negotiations  
9 procedure and get our party to go or not. There was not  
10 sufficient time to call for a compulsory pooling appli-  
11 cation where the risk could be established. The well had  
12 to be drilled or the lease would have been lost.

13 So what we have, then, if this ruling is  
14 agreed to by the Examiner as pointed out by this -- was  
15 put forth by the First National Bank, it's a motion to  
16 prove the deregation of the purpose of that statute.  
17 That statute has a purpose of drilling wells and promoting  
18 the drilling of wells and to protect the correlative  
19 rights of the parties involved.

20 If this Commission approves and the motion is  
21 granted, we'll have a situation where nobody can ever  
22 afford to drill a well without absolutely having agreement  
23 ahead of time or without having a compulsory pooling  
24 hearing with the Commission ahead of time.

25 As this Commission is well aware, there are

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1 many times when this is absolutely impossible. When you  
2 have time delays, especially on Federal leases and on  
3 oil leases, and therefore it would not be possible in a  
4 lot of cases to have a hearing ahead of time.

5 The purpose of the statute would be defeated  
6 by the granting of this motion in that it would inhibit  
7 the drilling of wells. It would certainly not protect the  
8 correlative rights.

9 It's a question on they didn't take the risk  
10 going in but he's getting the benefits coming out without  
11 taking the risk.

12 MR. STAMETS: Mr. Stevens, you've certainly  
13 raised some very interesting points and I think each one  
14 of these cases is unique and I certainly don't feel what-  
15 ever we do here today is going to set a precedent.

16 My interpretation of the statute, my under-  
17 standing of the long term policies of the Commission and  
18 the Division on compulsory pooling, leaves me with no  
19 alternative but to dismiss this case.

20 (Hearing concluded.)  
21  
22  
23  
24  
25

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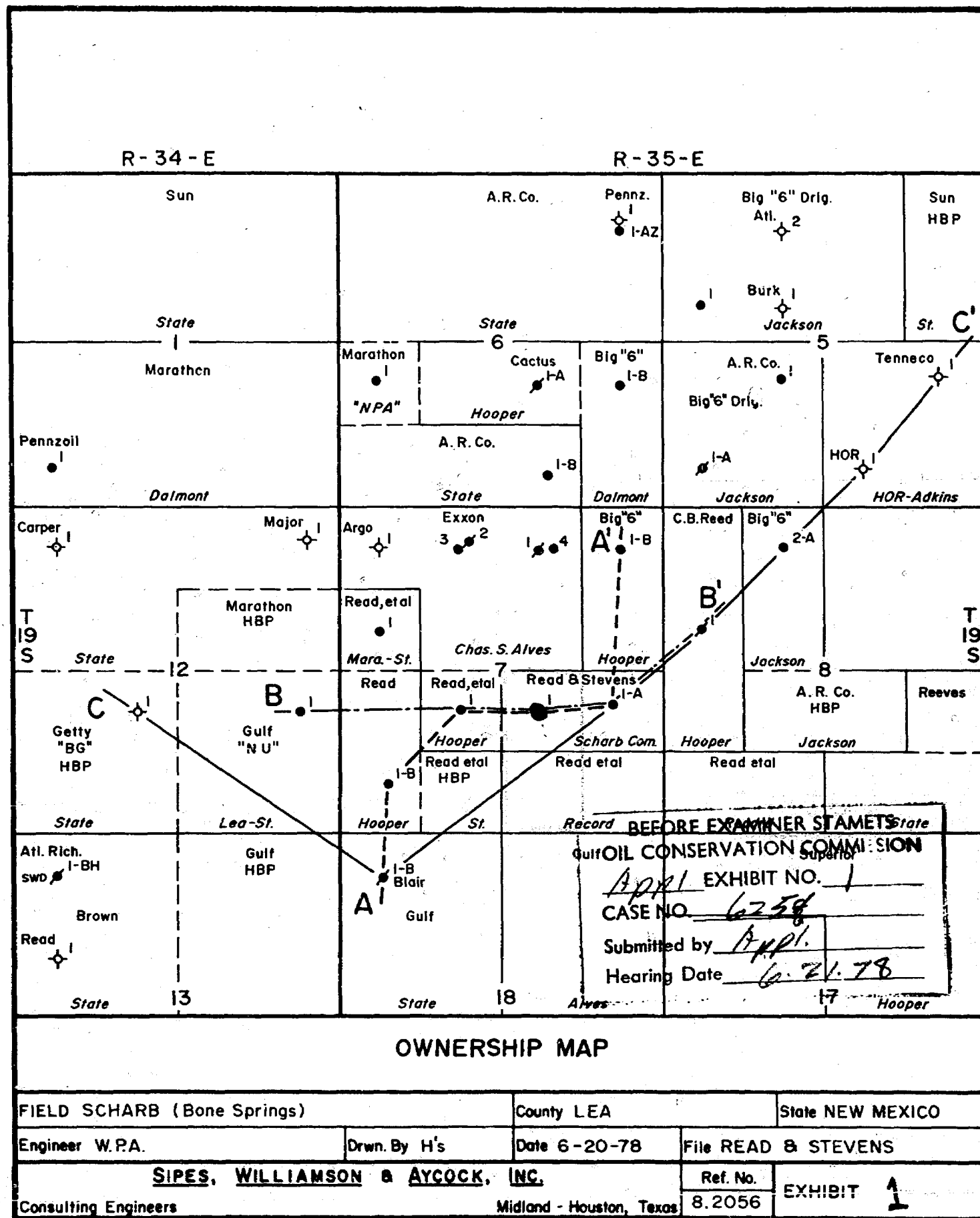
# REPORTER'S CERTIFICATE

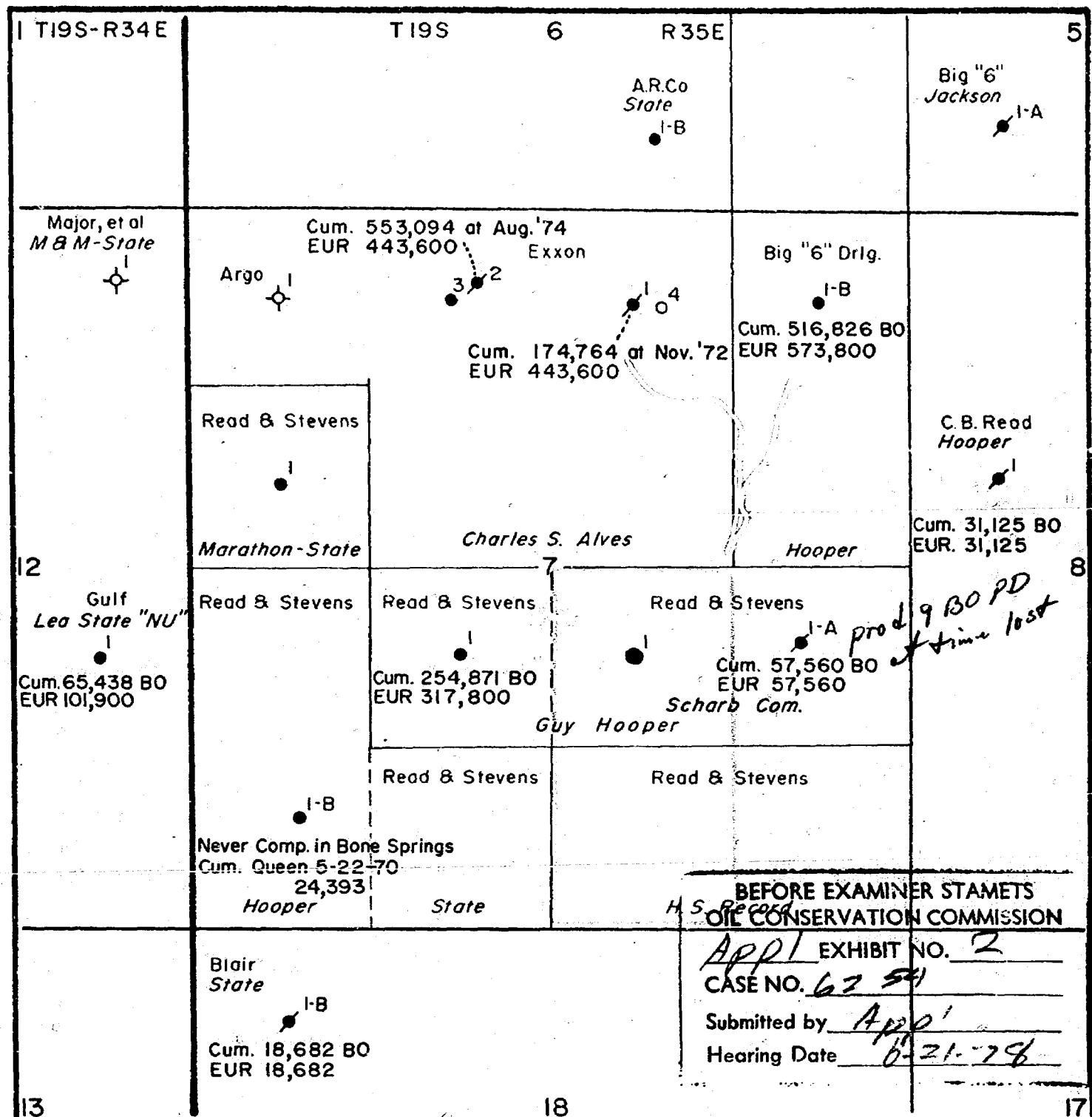
I, SIDNEY F. MORRISH, a Court Reporter, DO HEREBY CERTIFY that the foregoing and attached Transcript of Hearing before the Oil Conservation Division, was reported by me; that said transcript is a full, true, and correct record of the hearing, prepared by me to the best of my ability, knowledge, and skill from my notes taken at the time of the hearing.

*Sidney F. Morrish*  
Sidney F. Morrish, C.S.R.

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 6251, heard by me on 6-24-1948.  
*Richard H. Smith*, Examiner  
New Mexico Oil Conservation Commission

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730 Bishop's Lodge Road • Phone (505) 938-3404  
Santa Fe, New Mexico 87501





BEFORE EXAMINER STAMETS  
OIL CONSERVATION COMMISSION

App'l EXHIBIT NO. 2

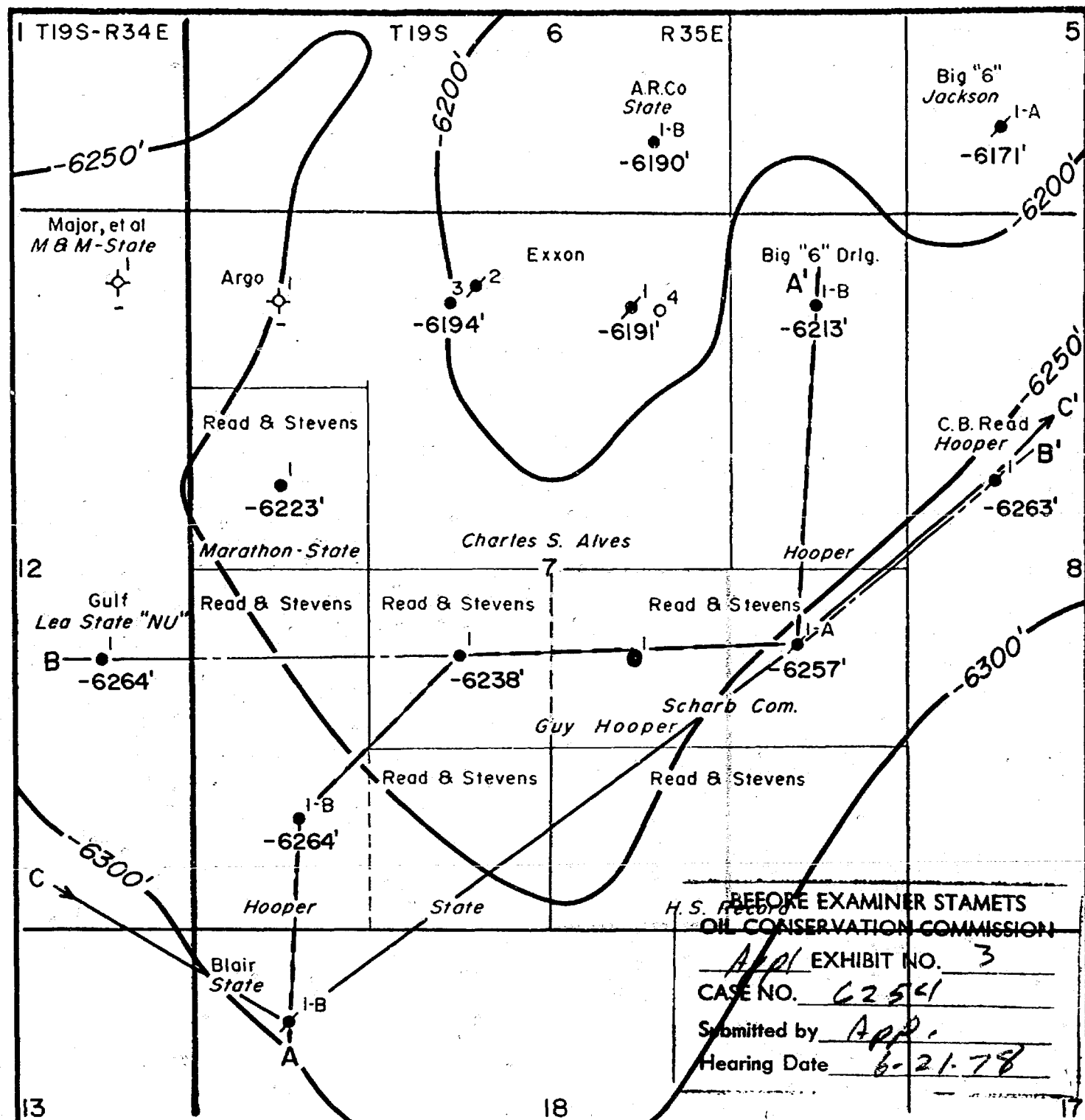
CASE NO. 62 54

Submitted by App'l

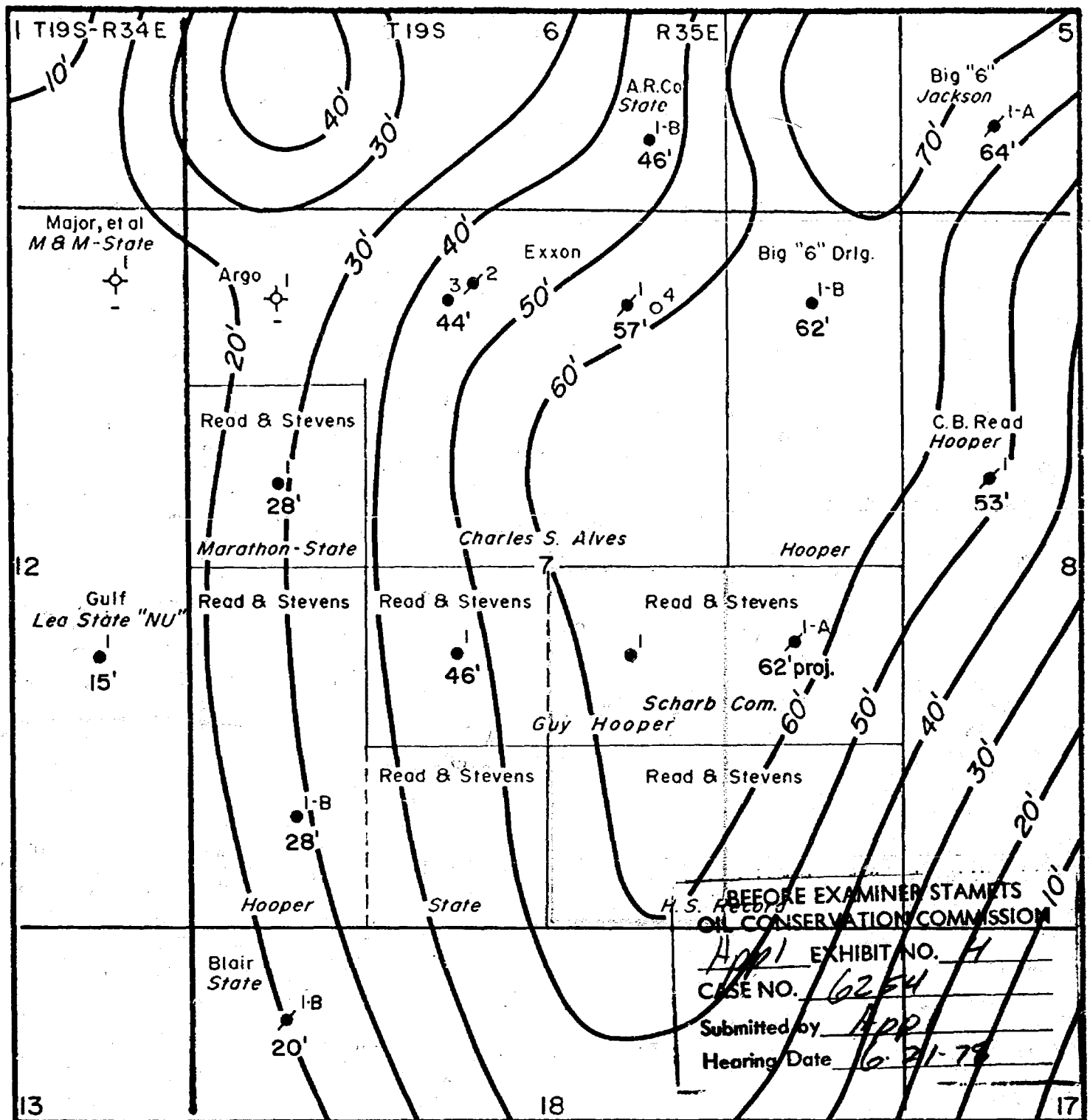
Hearing Date 6-21-78

INDICATED RECOVERY  
Cumulative at 10-1-77 & Ultimate Recovery

FIELD SCHARB (BONE SPRINGS)		County LEA		State NEW MEXICO	
Engineer W. P. A.		Drwn. By H's	Date 3-6-78	File READ & STEVENS	
<u>SIPES, WILLIAMSON &amp; AYCOCK, INC.</u>				Ref. No.	EXHIBIT 2
Consulting Engineers		Midland - Houston, Texas		8.1842	



STRUCTURE				Geology by: E.K. David	
TOP OF SCHARB PAY					
FIELD SCHARB (BONE SPRINGS)		County LEA		State NEW MEXICO	
Engineer W.P.A.	Drwn. By H's	Date 3-6-78	File READ & STEVENS		
SIPES, WILLIAMSON & AYCOCK, INC.				Ref. No.	EXHIBIT 3
Consulting Engineers				8.1842	



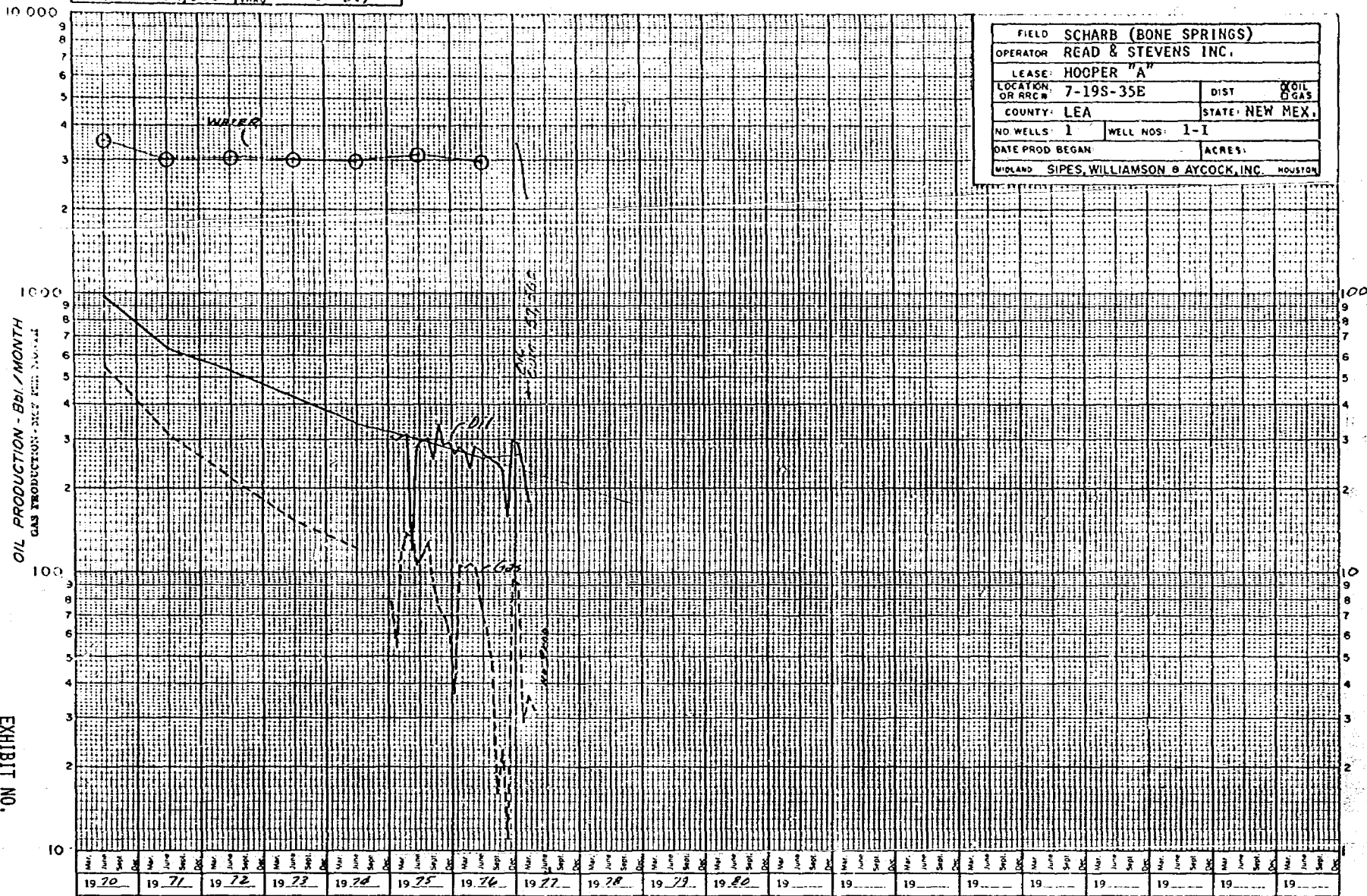
ISOPACH			
SCHARB CLEAN CARBONATE			
			Geology by: E.K. David
FIELD SCHARB (BONE SPRINGS)		County LEA	State NEW MEXICO
Engineer W. P. A.	Drwn. By H's	Date 3-6-78	File READ & STEVENS
SIPES, WILLIAMSON & AYCOCK, INC.			Ref. No.
Consulting Engineers			8.1842
			EXHIBIT 4

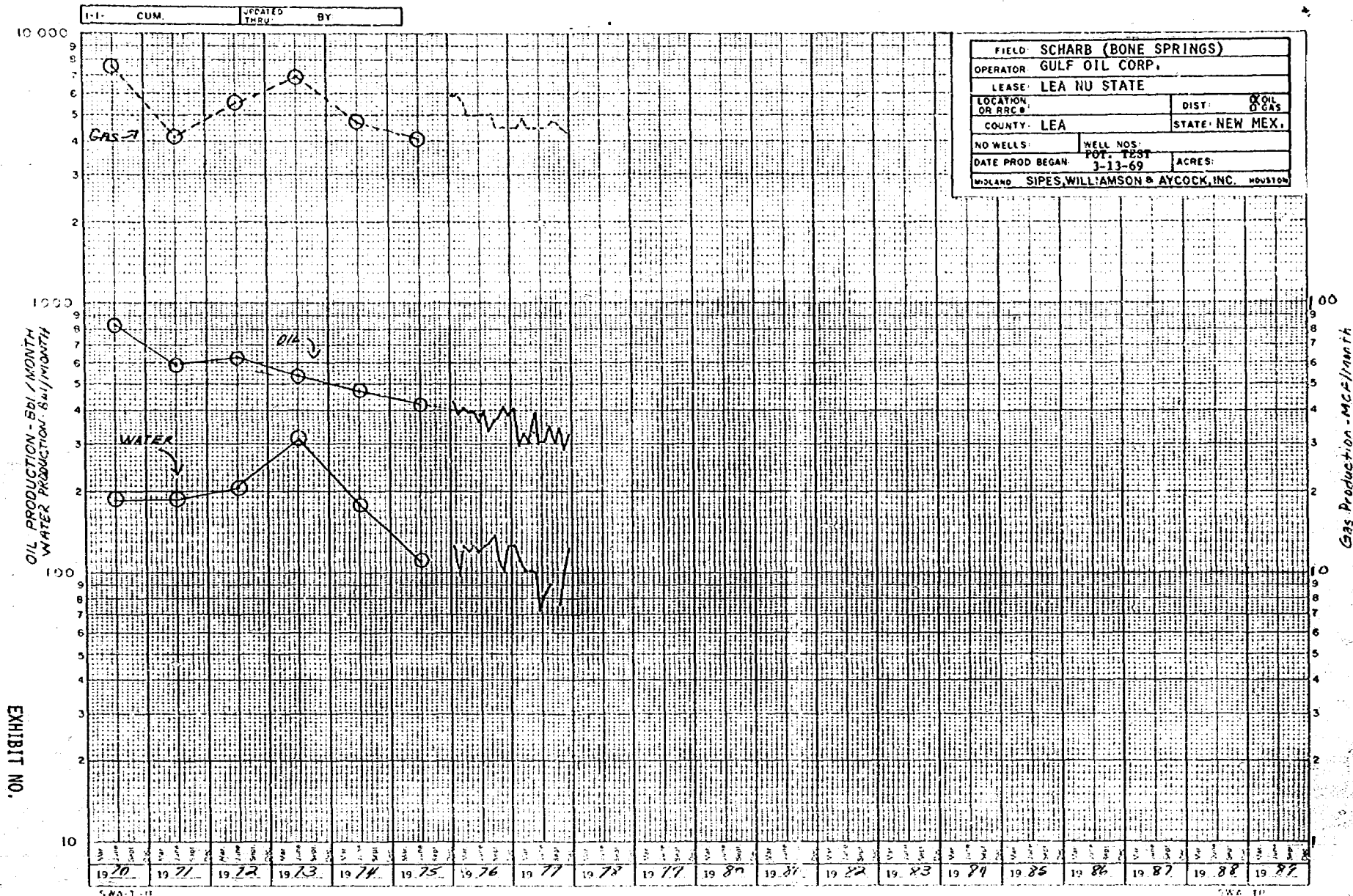


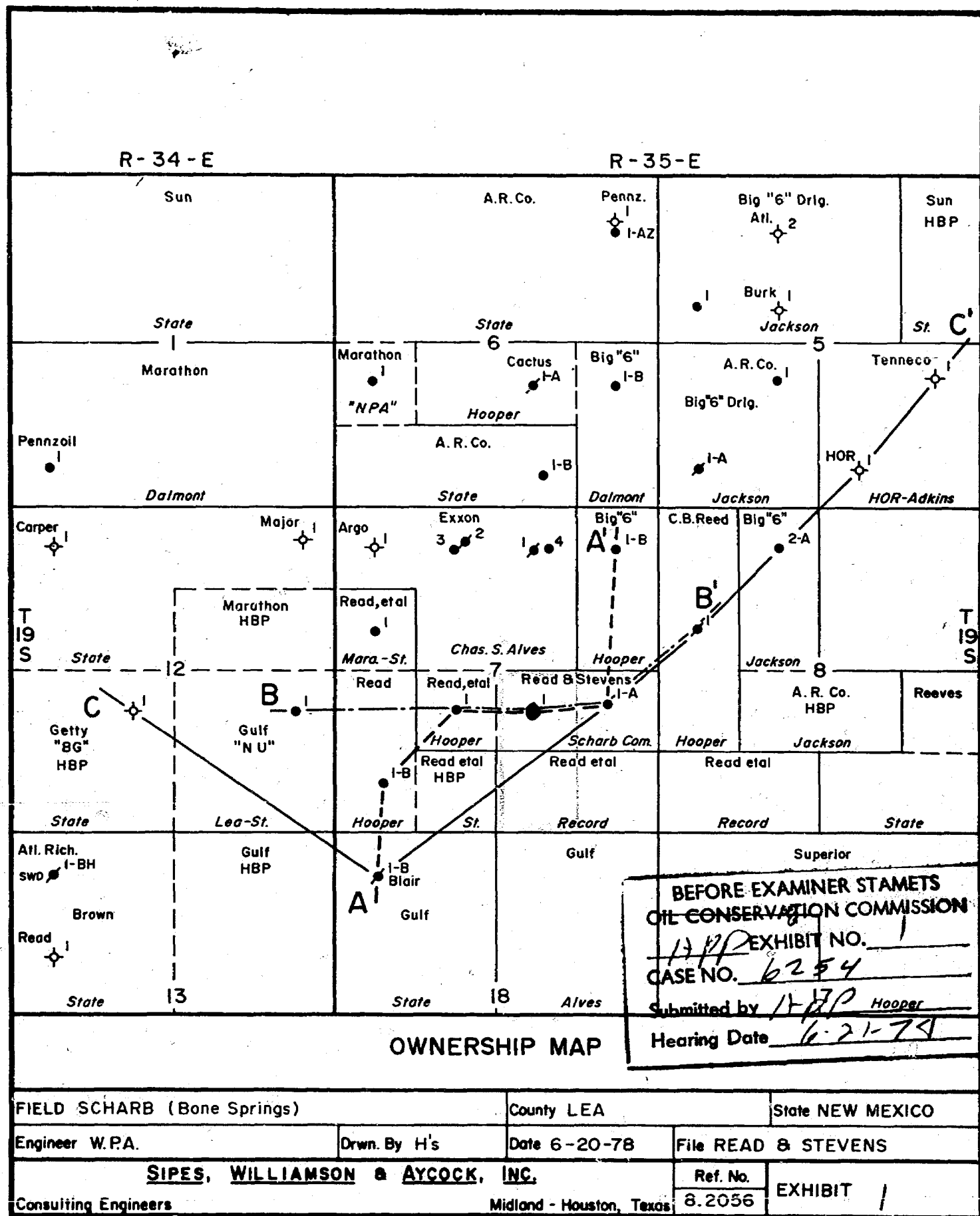


1-7-77 CUM 57,560 UPDATED 1MRV BY Del

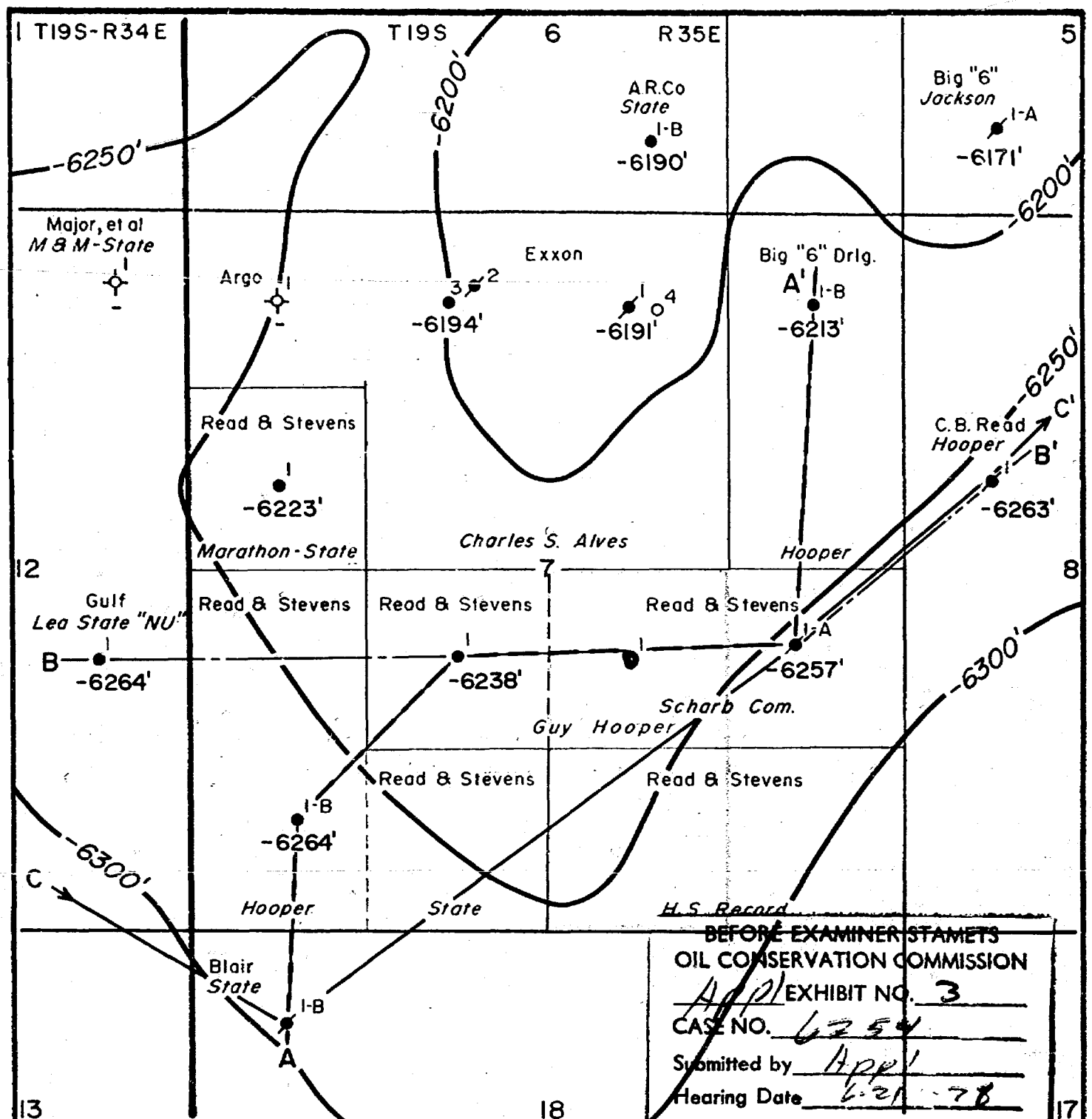
FIELD SCHARB (BONE SPRINGS)	
OPERATOR READ & STEVENS INC.	
LEASE HOOPER "A"	
LOCATION OR ARC# 7-19S-35E	DIST 801
COUNTY LEA	STATE NEW MEX.
NO WELLS 1	WELL NOS 1-1
DATE PROD BEGAN	
ACRES	
MIDLAND SITES, WILLIAMSON & AYCOCK, INC. HOUSTON	





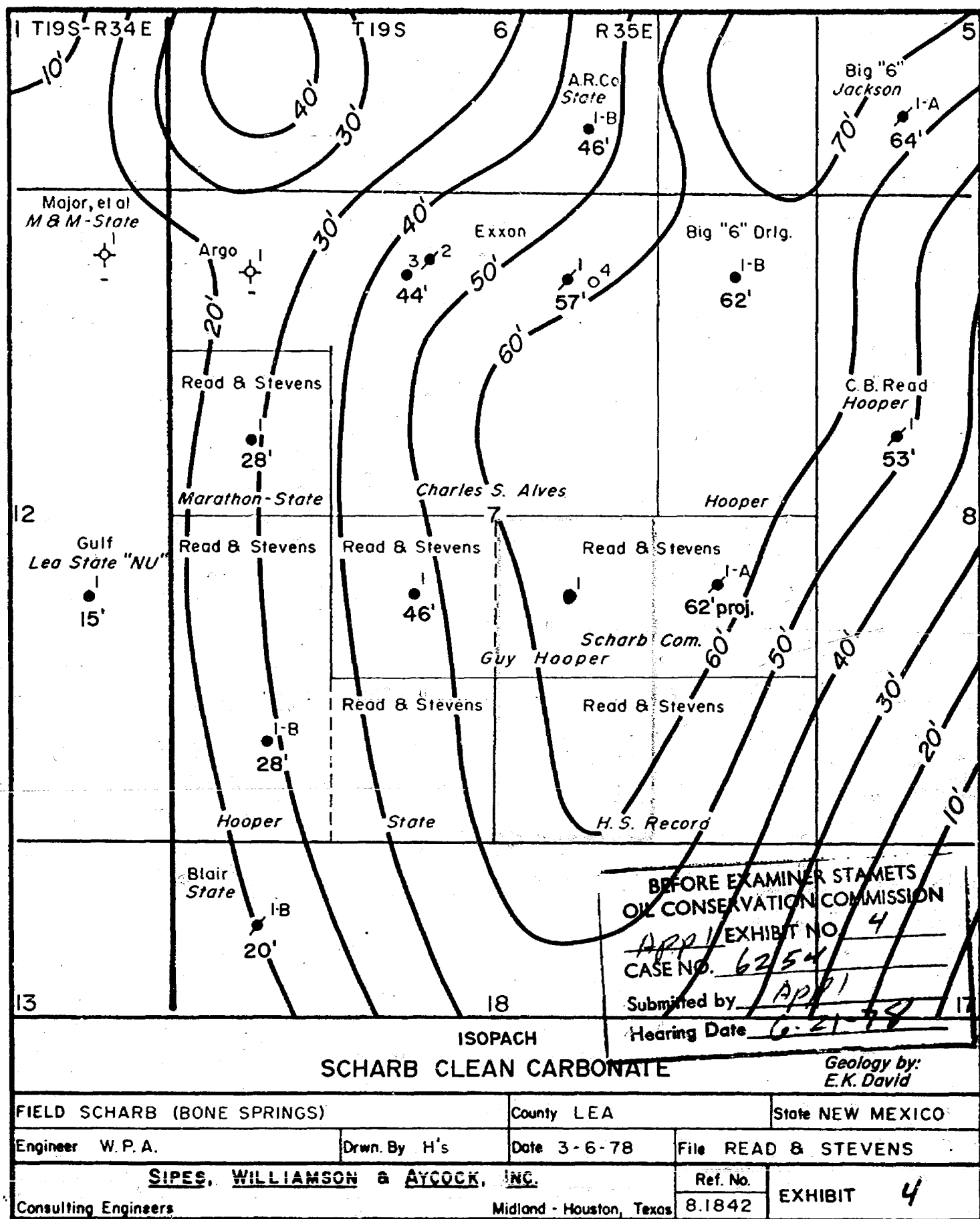


T19S-R34E	T19S	6	R35E	5
			A.R.Co <i>State</i> I-B	Big "6" <i>Jackson</i> I-A
Major, et al <i>M &amp; M-State</i> 	Cum. 553,094 at Aug. '74 EUR 443,600 Argo 		Exxon Cum. 174,764 at Nov. '72 EUR 443,600	Big "6" Drilg. I-B Cum. 516,826 BO EUR 573,800
	Read & Stevens 			C.B. Read <i>Hooper</i> 
12	Marathon-State Gulf <i>Lea State "NU"</i> 	Charles S. Alves Read & Stevens 	Hooper Read & Stevens 	Cum. 31,125 BO EUR. 31,125 8
	Cum. 65,438 BO EUR 101,900	Read & Stevens Cum. 254,871 BO EUR 317,800	Read & Stevens I-A Cum. 57,560 BO EUR 57,560 <i>Scharb Com.</i> Guy Hooper	
	Read & Stevens I-B Never Comp. in Bone Springs Cum. Queen 5-22-70 24,393 <i>Hooper</i>	Read & Stevens State	Read & Stevens H.S. Record	
13	Blair <i>State</i> 		18	
	Cum. 18,682 BO EUR 18,682		17	
<div style="border: 2px solid black; padding: 5px; text-align: center;"> <p><b>BEFORE EXAMINER STAMETS</b></p> <p><b>OIL CONSERVATION COMMISSION</b></p> <p>APPL EXHIBIT NO. <u>2</u></p> <p>CASE NO. <u>62541</u></p> <p>Submitted by <u>APPL</u></p> <p>Hearing Date <u>6-21-78</u></p> </div>				
<p><b>INDICATED RECOVERY</b></p> <p><b>Cumulative at 10-1-77 &amp; Ultimate Recovery</b></p>				
FIELD SCHARB (BONE SPRINGS)		County LEA		State NEW MEXICO
Engineer W.P.A.	Drwn. By H's	Date 3-6-76	File READ & STEVENS	
SIPES, WILLIAMSON & AYCOCK, INC.			Ref. No.	EXHIBIT 2
Consulting Engineers			Midland - Houston, Texas	8.1842



BEFORE EXAMINER STAMETS  
OIL CONSERVATION COMMISSION  
App'l EXHIBIT NO. 3  
CASE NO. 6254  
Submitted by App'l  
Hearing Date 6-21-78

<b>STRUCTURE</b>			
<b>TOP OF SCHARB PAY</b>			
<i>Geology by:</i> <b>E.K. David</b>			
FIELD SCHARB (BONE SPRINGS)		County LEA	State NEW MEXICO
Engineer W.P.A.	Drwn. By H's	Date 3-6-78	File READ & STEVENS
<b>SIPES, WILLIAMSON &amp; AYCOCK, INC.</b>			Ref. No.
Consulting Engineers			8.1842
			<b>EXHIBIT 3</b>



BEFORE EXAMINER STAMETS  
OIL CONSERVATION COMMISSION  
APP1 EXHIBIT NO. 4  
CASE NO. 6254  
Submitted by APP1  
Hearing Date 6-21-78



1-1- CUM UPDATED THRU BY

FIELD SCHARB (BONE SPRINGS)	
OPERATOR READ & STEVENS INC.	
LEASE GUY HOOPER COM.	
LOCATION OR ARC #	DIST: 0000000000
COUNTY LEA	STATE: NEW MEX.
NO WELLS: 1	WELL NOS: 1-K
DATE PROD BEGAN: 6-68	ACRES:
WELAND: SIPES, WILLIAMSON & AYCOCK, INC. HOUSTON	

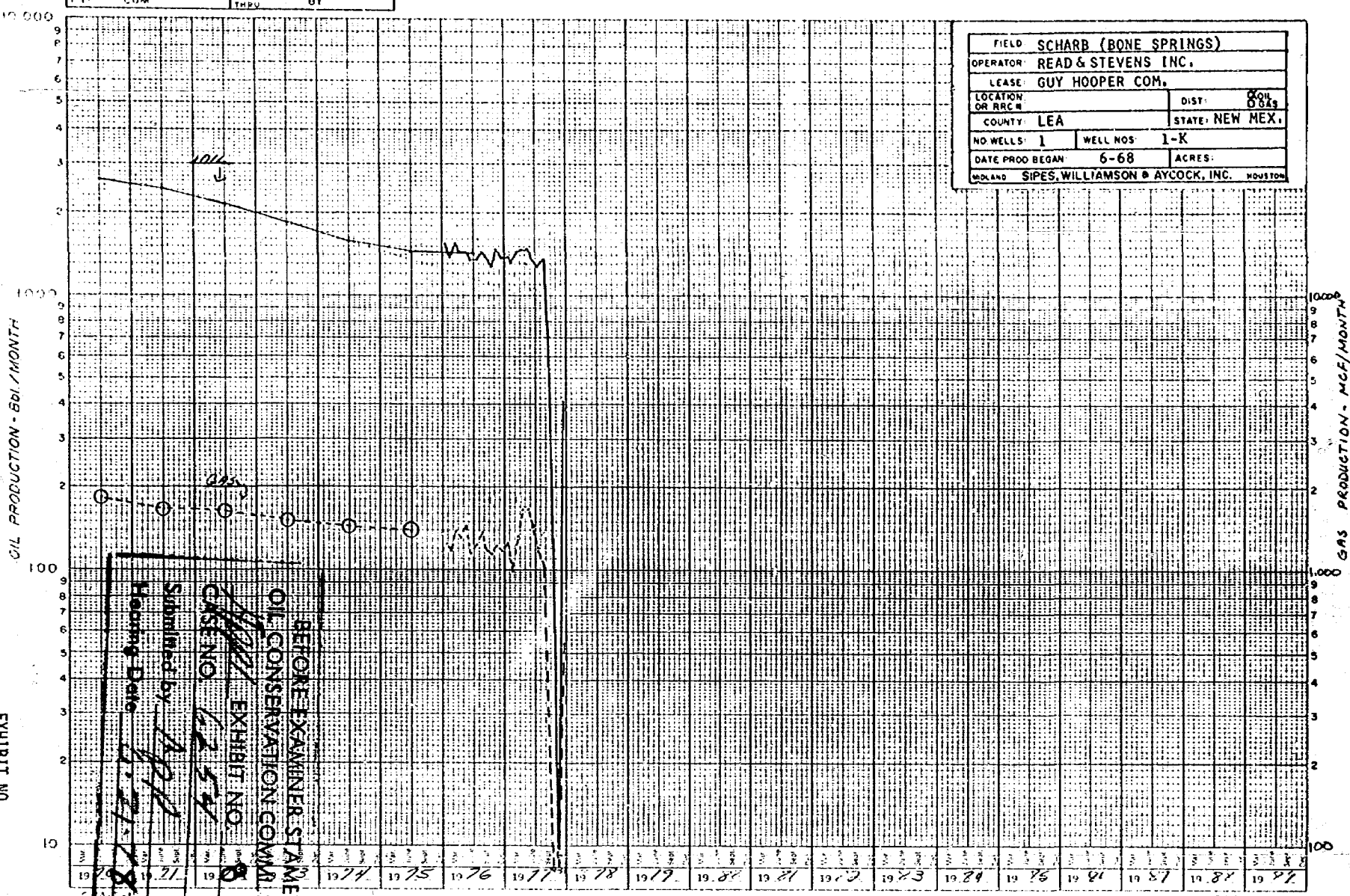


EXHIBIT NO.



1-7-77 CUM 57,560 UPDATES THRU BY DII

FIELD: SCHARB (BONE SPRINGS)	
OPERATOR: READ & STEVENS INC.	
LEASE: HOOPER "A"	
LOCATION OF RRC# 7-19S-35E	DIST: OIL & GAS
COUNTY: LEA	STATE: NEW MEX.
NO. WELLS: 1	WELL NOS: 1-I
DATE PROD BEGAN	ACRES:
MIDLAND: Sipes, Williamson & Aycock, Inc. HOUSTON	

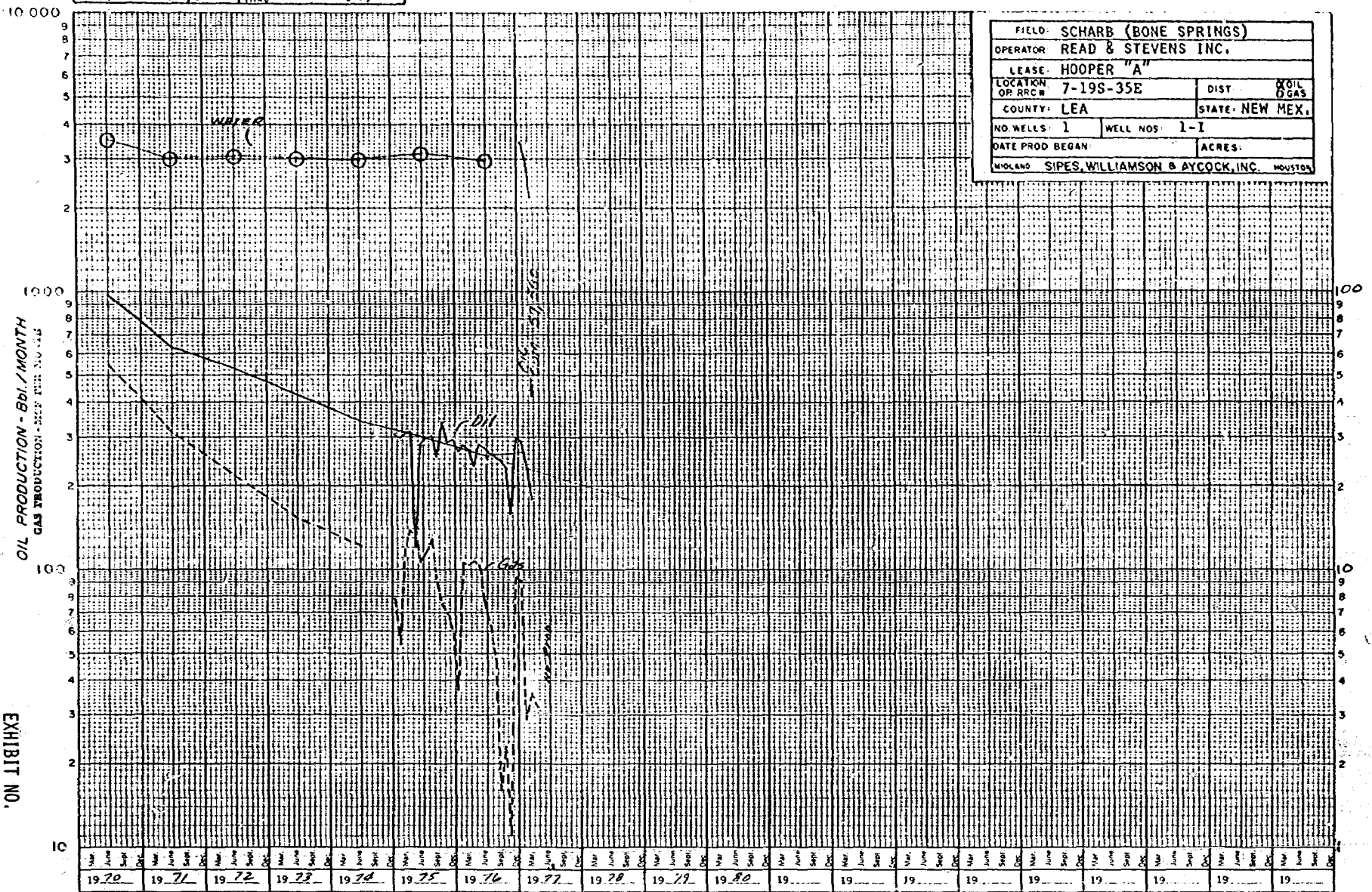
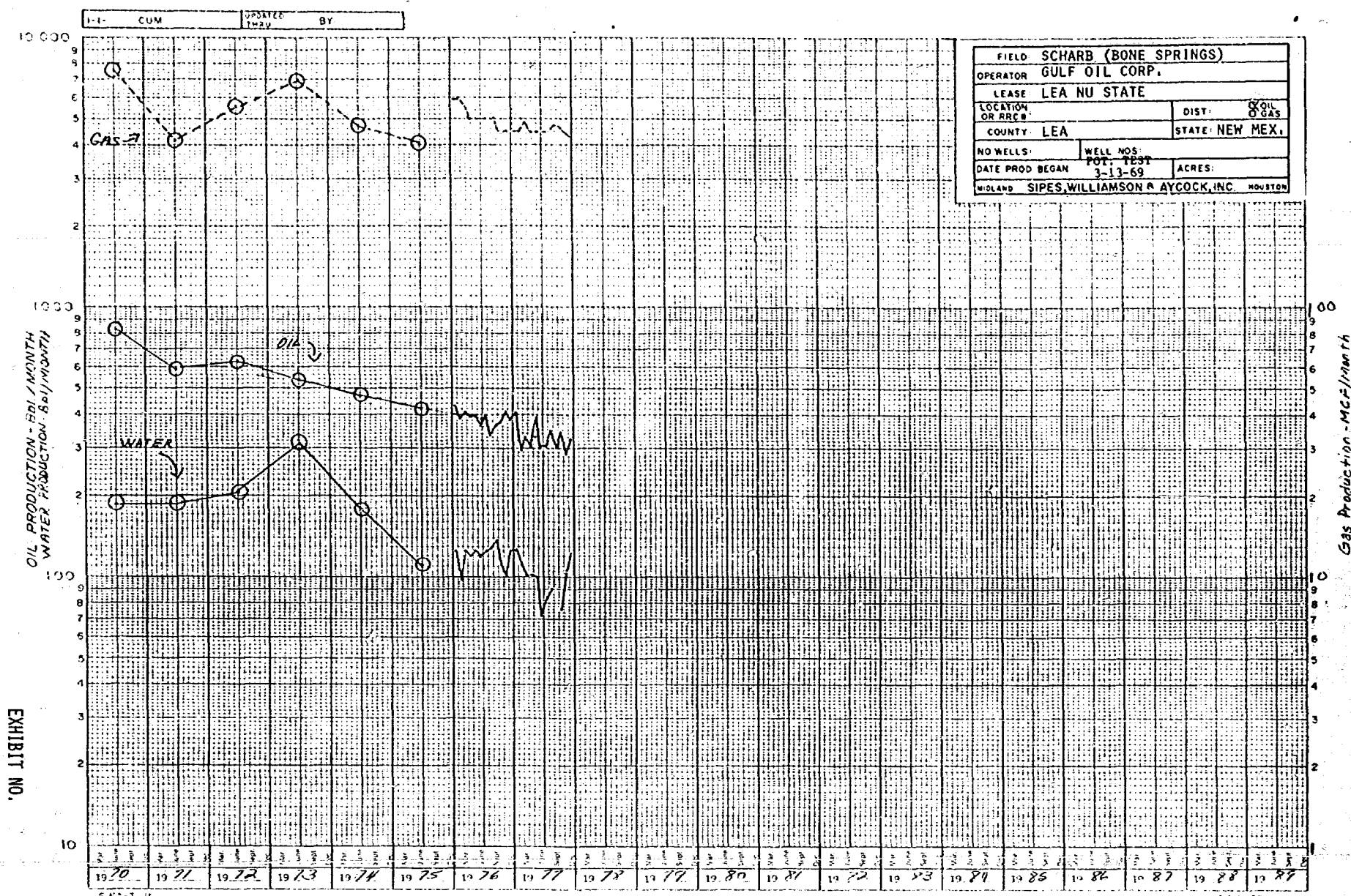


EXHIBIT NO.





STATE OF NEW MEXICO  
ENERGY AND MINERALS DEPARTMENT  
OIL CONSERVATION DIVISION

JERRY APODACA  
GOVERNOR

NICK FRANKLIN  
SECRETARY

July 26, 1978

POST OFFICE BOX 2088  
STATE LAND OFFICE BUILDING  
SANTA FE, NEW MEXICO 87501  
(505) 827-2434

Mr. Donald G. Stevens  
Attorney at Law  
Post Office Box 2203  
Roswell, New Mexico 88201

Re: CASE NO. 6254  
ORDER NO. R-5773

Applicant:

Read & Stevens, Inc.

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 OCC x  
Artesia OCC x  
Aztec OCC       

Other Tom Kellahin

DRAFT

dr/

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. 6254

Order No. R- 5773

APPLICATION OF READ & STEVENS, INC.  
FOR COMPULSORY POOLING, LEA COUNTY,  
NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on June 21,  
19 78, at Santa Fe, New Mexico, before Examiner Richard L. Stamets  
NOW, on this        day of June, 1978, 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, Read & Stevens, Inc.,  
seeks an order pooling all mineral interests in the Bone Spring  
formation underlying the W/2 SE/4  
of Section 7, Township 19 South, Range 35 East  
NMPM, Scharb-Bone Spring Pool, Lea County, New  
Mexico, to be dedicated to its Scharb Con. Well No. 1, located  
in the NW/4 SE/4 of said Section 7.

write dismissed

-2-  
Case No.  
Order No. R-

The evidence presented in this  
case does not demonstrate  
that

~~(3) That the applicant has the right to drill and proposes  
to drill a well at an unorthodox location thereon.~~

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

(4) That Case No. 6254 should be  
dismissed.

IT IS THEREFORE ORDERED:

That Case No. 6254 is hereby dismissed.

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

Dockets Nos. 22-78 and 23-78 are tentatively set for hearing on July 6 and 19, 1978. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: EXAMINER HEARING - WEDNESDAY - JUNE 21, 1978

9 A.M. - OIL CONSERVATION DIVISION CONFERENCE ROOM,  
STATE LAND OFFICE BUILDING, SANTA FE, NEW MEXICO

The following cases will be heard before Richard L. Stamets, Examiner, or Daniel S. Nutter, Alternate Examiner:

- ALLOWABLE: (1) Consideration of the allowable production of gas for July, 1978, from fifteen prorated pools in Lea, Eddy, and Chaves Counties, New Mexico.
- (2) Consideration of the allowable production of gas for July, 1978, from four prorated pools in San Juan, Rio Arriba, and Sandoval Counties, New Mexico.

CASE 6238: (Continued from June 7, 1978, Examiner Hearing)

Application of Barber Oil, Inc., for a unit agreement, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for its Saladar Unit Area comprising 240 acres, more or less, of Federal and fee lands in Township 20 South, Range 28 East, Eddy County, New Mexico.

CASE 6226: (Continued from June 7, 1978, Examiner Hearing)

Application of Barber Oil, Inc., for a waterflood project, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks authority to institute a waterflood project on its Saladar Unit, by the injection of water into the Yates formation through five wells located in Units K, L, N and O of Section 33, Township 20 South, Range 28 East, Saladar-Yates Pool, Eddy County, New Mexico.

CASE 6251: Application of Amoco Production Company for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Pennsylvanian formation underlying the S/2 of Section 27, Township 18 South, Range 26 East, Atoka-Pennsylvanian Gas Pool, Eddy County, New Mexico, 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. Also to be considered will be the designation of applicant as operator of the well and a charge for risk involved in drilling said well.

CASE 6252: Application of Holly Energy, Inc., for an unorthodox gas well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of its State 14 Well No. 1, a Morrow test to be located 990 feet from the North line and 660 feet from the East line of Section 14, Township 18 South, Range 28 East, Eddy County, New Mexico, the N/2 of said Section 14 to be dedicated to the well.

CASE 6253: Application of Merrion & Bayless for a non-standard proration unit, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks approval for 364.44-acre non-standard gas proration unit comprising the W/2 of Sections 30 and 31, Township 26 North, Range 2 West, Blanco Mesaverde Pool, Rio Arriba County, New Mexico, to be dedicated to a well to be drilled at a standard location thereon.

CASE 6254: Application of Read & Stevens, Inc., for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Bone Spring formation underlying the W/2 SE/4 of Section 7, Township 19 South, Range 25 East, Scharb-Bone Spring Pool, Lea County, New Mexico, to be dedicated to a well drilled at an unorthodox 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. Also to be considered will be the designation of applicant as operator of the well and a charge for risk involved in drilling said well.

CASE 6255: Application of Hanagan Petroleum Corporation for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Wolfcamp and Pennsylvanian formations underlying the N/2 of Section 8, Township 19 South, Range 26 East, Eddy County, New Mexico, 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. Also to be considered will be the designation of applicant as operator of the well and a charge for risk involved in drilling said well.



Gene Garnett

214 744-8555

Trust Oil Dept.

First National Bank of Dallas





Page 7  
#1 Scharb Com

3-23-78 TD 10,223' lm, rigging up pumping unit. Moved in and set pumping unit.

3-24-78 TD 10,223' lm., moving in tanks. Rigged up pumping unit.

3-25-78 TD 10,223' lm., connecting tank battery.

3-26-78 TD 10,223' lm., testing. Started pumping @ 4:00 PM, 3-25-78.

3-27-78 TD 10,223' lm., testing. Has not pumped up.

3-28-78 TD 10,223' lm., testing. Rigged up unit. Added 6' pony rod and re-spaced pump. Resumed pumping with good pump action.

3-29-78 TD 10,223' lm., testing. Pumped 40 bbls. load water, no oil in 12-14 hrs.

3-30-78 TD 10,223' lm., testing. Pumped 130 bbls. load water w/ trace of oil in 24 hrs.

3-31-78 TD 10,223' lm., testing. Pumped 50 BO & 20 BLW w/ 50 MCF in 24 hrs.

4-1-78 TD 10,223' lm., testing. Pumped 50 BO & 20 BLW w/ 50 MCF in 24 hrs. Cleared out test tank and moved oil to stock tanks.

4-2-78 TD 10,223' lm., testing. Pumped 80 BO & 13 BLW in 24 hrs.

4-3-78 TD 10,223' lm., testing. Pumped 74 BO & 5 BLW in 24 hrs.

4-4-78 TD 10,223' lm., testing. Pumped 60 BO & 4 BLW in 24 hrs.

4-5-78 TD 10,223' lm., testing. Pumped 90 BO & 4 BLW in 24 hrs.

4-6-78 TD 10,223' lm., completed well. Pumped 100 BO & 4 BLW in 24 hrs. Official completion as of 4-5-78, IPP 100 BOPD, no water, 50 MCFPD, Gr. 38°, GOR 500/1.

	<u>LOG TOPS</u>	<u>FINAL REPORT</u>
T/Rustler Anhy.	1830' (+ 2044)	
B/Salt	3214' (+ 660)	
T/Yates	3486' (+ 388)	
T/Seven Rivers	3956' (- 91)	
T/Queen	4660' (- 786)	
T/Penrose	4914' (- 1040)	
T/Delaware Sand	5774' (- 1900)	
T/Bone Spring	7905' (- 4031)	
T/Scharb Pay	10,132' (-6258)	

*Read & Stevens, Inc.*

Page 2

#1 Scharb Com.

- 1-31-78 TD 4000' anhy. & lm., WOC. Ran 99 joints 8 5/8", 32#, 28# & 24#, J-55, S. T. & C. casing, total of 4001', set @ 4000' RKB. Cemented w/ 650 sx. Halliburton Lite cement w/ 15# salt & 1/4# flocele per sx. and 300 sx. Class C cement w/ 1/4# flocele per sx. Plug down @ 4:10 PM, 1-30-78. Casing equipped w/ guide shoe, insert float & 3 centralizers. Cement did not circulate. Ran temperature survey after 12 hrs. and recorded top of cement @ 1000'.
- 2-1-78 Drlg. 4345' lm. Drlg. w/ fresh water. Mud wt. 8.5#, ph 11. WOC for 18 hrs. Pressure tested casing to 1000# for 30 min., held OK.
- 2-2-78 TD 4660' sd., prep to cut core #1. Mud wt. 8.7#, vis 34, WL 10, Ph 10.5, FC 1/32".
- 2-3-78 Drlg. 4748' lm & sh. Mud wt. 8.8#, Vis. 34, WL 10, Ph 10.5. Core #1, 4660'-4720' (Upper Queen) rec. 60' being 3' sand, gray, fine grn., well sorted w/ dolo. and anhy. cement, no show; 3' gray anhy.; 2' sand as above; 2' anhy.; 11' sand and interbedded anhy., no show; 14' sand, mostly red but w/ some tan, fine grain, no show; 25' interbedded anhy. and dolo.
- 2-4-78 Coring 4930' sd. & dolo. Mud wt. 9.3#, Vis. 34, WL 10, Ph 10, FC 1/32". Commenced Core #2 @ 4906'.
- 2-5-78 TD 5026' dolo., pulling core #3, 4966'-5026'. Mud wt. 9.3#, Vis. 34, WL 10, Ph 10.5, FC 1/32"
- 2-6-78 Coring 5096'. Mud wt. 9.3#, Vis. 35, WL 10, Ph 10.5, FC 1/32".
- 2-7-78 TD 5202', dolo., pulling Core #5. Mud wt. 9.3#, Vis. 34, WL 10, FC 1/32", Ph 10.5. Core #2, 4906'-4966', rec. 60' being: 1' VFG tight sand w/ scat. bleeding oil & spotty flur.; 2' anhy.; 5' VFG-FG sand, no show; 23' anhy. w/ minor beds of tight VFG sand & dns. dolo., no show; 4' VF-FG tight sand, no show; 5' dolo., anhy. & shale; 3' VFG tight sand, no show; 16' dolo.; 1' FG tight sand w/ scattered bleeding oil & spotty flur. Core #3, 4966'-5026', rec. 60' being: 3' FG tight sand w/ fairly even oil stain & flur., bleeding oil; 2' FG anhydritic tight sand, no show; 15' interbedded dolo. & anhy.; 2' FG tight sand, no show; 2' F-MG tight sand w/ slight spotty oil stain & flur.; 36' dolo. w/ occasional interbed of black shale. Core #4, 5082'-5142'; rec. 59' being: 5' F-MG well sorted clean sand, friable, no show; 5' dolo. w/ interbeds of anhy.; 1' VFG well sorted sand w/ fair porosity, slight stain & dull yellow flur.; 1' dolo.; 11' VF-FG well sorted sand w/ dolo. & anhy. cement, mostly tight, no show; 34' dolo. w/ occasional interbeds of anhy. & sh., no show; 2' VFG tight sand, no show.

Page 3  
#1 Scharb

2-8-78 Drlg. 5408' lm. & anhy. Drlg. w/ fresh water, Mud wt. 8.9#, Ph 10. Dev. 3/4° @ 5346'. Core #5, 5142'-5202', rec. 58' being: 4' F-MG sand, bottom 3' clean & well sorted, no show; 28' dolo. w/ occasional interbeds of anhy. & gray shale, no show; 14' VF-MG well sorted, clean, porous sand, no show; 12' dolo.

2-9-78 Drlg. 5850' lm. Drlg. w/ fresh water, mud wt. 8.9#, Ph 10.

2-10-78 Drlg. 6160' lm. Drlg. w/ fresh water, mud wt. 8.9#, Ph 10. Dev. 3/4° @ 5806'.

2-11-78 Drlg. 6370' lm & sh. Drlg. w/ fresh water, mud wt. 8.9#, Ph 10. Dev. 1° @ 6210'

2-12-78 TD 6484' sd., pulling DST #1. Had drlg. break 6404'-84' w/26' drlg. @ 1 min. per ft. Spl. were coarse grain sand w/ slight trace of spotty flur. Mud wt. 8.9#, Ph 10.

2-13-78 Drlg. 6730' lm. & sd. Drlg. w/ fresh water, mud wt. 8.9#, Ph 10. DST #1 (Brushy Canyon) 6390'-6484', open total of 90 min. On 30 min. pre-flow, op w/ weak blow inc. to strong blow in 15 min. On 60 min. final flow, op. w/ weak blow inc. to strong blow for flow period. No GTS. Circulating sub malfunctioned and had no recovery above sub and rec. all salt wtr. w/ no show below sub. IHP 2880#, 30 min. IFP 94#-397#, 60 min. ISIP 2510', 60 min. FFP 444#-654#, 120 min. FSIP 2533#, FHP 2880#, BHT 110°.

2-14-78 Drlg. 7105' lm. & sh. Drlg. w/ fresh water, mud wt. 8.9#, Ph 10. Dev. 1° @ 6712'.

2-15-78 Drlg. 7470' lm. & sh. Drlg. w/ fresh water, mud wt. 8.9#, Ph 10. Dev. 1° @ 6712'.

2-16-78 Drlg. 7775' lm. & sh. Drlg w/ fresh water, mud wt. 8.9#, Ph 10. Dev. 1° @ 7580'

2-17-78 Drlg. 8071' lm. & sh. Drlg. w/ fresh water, mud wt. 8.9#, Ph 10.

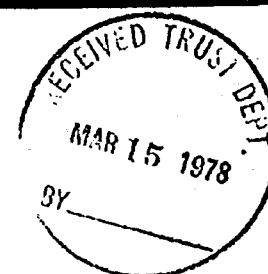
2-18-78 Drlg. 8371' lm. & sh. Drlg. w/ fresh water, Mud wt. 8.9#, Ph 10. Dev. 1°. 8285'.

2-19-78 Drlg. 8652' lm. & sh. Drlg w/ fresh water, Mud wt. 8.9#, Ph 10.

2-20-78 Drlg. 8715' lm. & sh. Drlg. w/ fresh water, mud wt. 8.9#, Ph 10. Dev. 1/2° @ 8663'.

2-21-78 Drlg. 8965' lm & sh. Drlg. w/ fresh water, mud wt. 8.9#, Ph 10.

- 2-22-78 Drlg. 9180' lm. & sh. Drlg. w/ fresh water, mud wt. 8.9#, Ph 10.
- 2-23-78 Drlg. 9398' lm. Drlg. w/ fresh water, mud wt. 8.9#, Ph 10.  
Dev. 3/4" @ 9276'.
- 2-24-78 Drlg. 9630' lm. & sh. Drlg. w/ fresh water, mud wt. 8.9#, Ph 10.  
Dev. 3/4" @ 9256'.
- 2-25-78 TD 9807' lm., on trip for bit. Mud wt. 8.5#, Vis. 32, WL 9.6, Ph 10.
- 2-26-78 Drlg. 9877' lm. Mud wt. 8.6#, Vis 37, WL 9, FC 1/32.  
Dev. 1/4" @ 9761'.
- 2-27-78 Drlg. 9990' lm. Mud wt. 8.6#, Vis 37, WL 9, FC 1/32.
- 2-28-78 Drlg. 10,095' lm. Mud wt. 8.7#, Vis 36, WL 0.2, FC 1/32".
- 3-1-78 TD 10,150' dolo., on DST #2, (Bone Spring) 10,113'-10,150'.  
Had drlg. break 10,117'-10,150'. Broke from 8-9 min. per ft. to  
2-4 min. per ft. Spls. were dolomite, vuggy w/ flur. and good cut.
- 3-2-78 Drlg. 10,177' lm. Mud wt. 8.9#, vis. 37, WL 10, FC 1/32", Ph 10.  
Dev. 1/2" @ 10,150'. DST #2 (Bone Spring) 10,113'-10,150', open  
total of 90 min. On 30 min. pre-flow, op. w/ weak blow inc. to  
1.5# SFP. On 60 min. final flow, op w/ good blow inc. to strong blow  
w/ 4.8# SFP. Opened choke to 1/2" and had GTS in 51 min. into final  
flow. SFP slowly dec. to 1# at end of test. Reversed out 2100'  
H.O. & GCM. Spl. ch. rec. 1.1 cu. ft. gas, 1700 cc oil, no water,  
no mud @ 1400#. Top chart - IHP 4650#, 30 min. IFP 21#-87#,  
60 min. ISIP 1159#, 60 min. FFP 87#-117#, 120 min. FSIP 1159#,  
FHP 4606#. Bottom chart - IHP 4643#, 30 min. IFP 87#-134#,  
60 min. ISIP 1262#, 60 min. IFP 134#-239#, 120 min. FSIP 4643,  
BHT 148°.
- 3-3-78 TD 10,200' lm., running logs. Mud wt. 8.9#, Vis. 37, FC 1/32",  
Ph 10.
- 3-4-78 TD 10,200' lm, circulating, prep to run casing. Mud wt. 8.7#,  
Vis. 37, WL 8, FC 1/32", Ph 10. Logged total depth was 10,223'.  
Pipe was strapped into hole and total depth was 10,200'. It is  
believed Dresser miscalculated their line stretch.
- 3-5-78 TD 10,200' lm., running 4 1/2" casing. Mud wt. 8.9#, Vis 37, WL 8,  
FC 1/32", Ph 10.



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#1 Scharb

- 3-6-78 TD 10,200' lm. circulating hole clean. Ran 201 joints 4½" casing, total of 7674', and casing dropped out of slips and fell to bottom. Picked up drill pipe and 4½" overshot. Caught top of casing @ 2525' RKB and pulled and laid down 7674' of casing. Picked up drill pipe and ran to bottom.
- 3-7-78 TD 10,223' lm. (corrected depth). Ran 259 joints 4½", 10.5# & 11.6#, J-55, K-55 & N-80, S.T.&C. & L.T.&C. casing, total of 10,239.48', set @ 10,223' RKB. Cemented w/200 sx. Class "C" cement w/ 3/4 of 1% CFR-2 and 8# salt per sx. Plug down @ 4:20 AM, 3-7-78. Tested casing to 1600# for 30 min., held OK. Released rig @ 9:00 AM, 3-7-78. Casing equipped w/guide shoe, float collar, 4 centralizers & 12 scratchers. Casing string as follows:

20 joints 11.6#, N-80, L.T.&C. -	790.66'
67 joints 11.6#, J-55, L.T.&C. -	2701.98'
34 joints 11.6#, K-55, S.T.&C. -	1287.02'
11 joints 10.5#, K-55, S.T.&C. -	418.27'
50 joints 11.6#, J-55, L.T.&C. -	2017.04'
77 joints 11.6#, N-80, L.T.&C. -	3021.51'
Guide shoe & float collar -	3.00'
	<u>10,239.48'</u>

Casing ran to 10,223' which now confirms log depth recorded by Dresser.

- 3-8-78 TD 10,223' lm., WOC. Ran temperature survey w/ top of cement @ 9380'.
- 3-9-78 TD 10,223' lm., WOCU.
- 3-10-78 TD 10,223' lm, Prep to perf.
- 3-11-78 TD 10,223' lm., picking up tbg. Rigged up Well Units. Ran Welex Gamma Collar log. Perf. 10,138'-10,152' w/2 jet shots per ft., total of 28 holes.
- 3-12-78 TD 10,223' lm., prep to swab. Ran 2 3/8", 4.7#, 8 rd., EUE, J-55 & N-80 tubg. w/ RTTS pkr. Spotted acid across perfs. Set pkr. @ 10,102' RKB. Broke down formation @ 5000#. Acidized w/2000 gals. 15% MEA acid. Max. treat. press. 5000#, min. treat. press. 4500#, aver. treat. press. 4750#, aver. inj. rate of 2.8 bbls per min., ISDP 3200#, 5 min. SIP 2600#, 10 min. SIP 1800#. Total load 86.8 bbls. Had good ball action during treatment. Shut-in overnight.
- 3-13-78 TD 10,223' lm., prep to swab. SITP vacuum. Ran swab to bottom, no fluid in hde. Swabbed to 1:00 PM w/no fluid entry into hde.



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#1 Scharb

- 3-14-78 TD 10,223' lm., prep to swab. Ran swab and had 150' fluid in hole. Rec. 50' acid water on first swab run and swab dry. Swab and no fluid recovery remainder of day.
- 3-15-78 TD 10,223' lm., prep to swab. Ran swab to bottom w/ no fluid rec. On 2nd swab run, rec. 500' oil & acid water. Made one swab run each hour and rec. 150' acid water per run. Rec. est. 5 bbls. load.
- 3-16-78 TD 10,223' lm., prep to run tracer survey. Swabbed 50' to 100' acid water each swab run.
- 3-17-78 TD 10,223' lm., swabbing. Ran Western tracer survey. All fluid going into perms. Perf. 10,153'-10,162' w/ 2 shots per ft., total of 20 holes. Acidized perms, 10,138'-10,162' w/ 5000 gals. Mod 202 acid in two stages of 2500 gals. each w/ 500# blocking material between stages. Max. treat. press. 4600#, min. treat. press. 1200#, aver. treat. press. 3500#, aver. inj. rate 5 BPM, ISDP 1800#, 1 min. SIP vacuum. Total load 159 bbls. Shut-in overnight. At 8:00 AM, ran swab to bottom and no fluid in hole.
- 3-18-78 TD 10,223' lm., swabbing. Swab and had gradual fluid entry into hole w/ some acid gas. Fluid level inc. to 8500' from surface at 12:00 noon. Rec. total of 30 bbls. load. Lack 129 bbls. load.
- 3-19-78 TD 10,223' lm., swabbing. FL 8500' FS @ 8:00 AM. On 1st run, rec. 500' fluid w/ show of oil & strong blow of acid gas. Swab & rec. 60 bbls. load w/oil cut of 50%-60% at end of day. Aver. 300' fluid per run. Shut-in @ 5:30 PM. Lack 69 bbls. load.
- 3-20-78 TD 10,223' lm., swabbing. At 8:00 AM SITP 50#. Bled off press and ran swab w/ FL 8500' FS. Swab aver. 150' fluid per run w/fair formation gas on each run. At 4:00 PM, gas decreased & oil decr. to 5%-10% cut. Rec. 42 bbls. load. Shut-in @ 4:00 PM. Lack 27 bbls. load.
- 3-21-78 TD 10,223' lm., prep to run rods and pump. FL 8500' FS. Ran swab 1 time and rec. 500' fluid cut 30% oil. Released RTTS pkr. and pulled tubg. Ran 321 joints 2 3/8", EUE, 8 rd., 4.7#, J-55 & N-80 tubg., total of 10,136.63', set @ 10,148.63' RKB w/ seating shoe @ 10,134' RKB & TM anchor catcher @ 10,006' RKB.
- 3-22-78 TD 10,223' lm., prep to move-in pumping unit. Ran rods and pump.

CHARLES E. READ  
PRESIDENT

NORMAN L. STEVENS, JR.  
VICE-PRESIDENT

JOHN L. ANDERSON, JR.  
EXPLORATION MANAGER

*Read & Stevens, Inc.*

*Oil Producers*

*P. O. Box 2126*

*Roswell, New Mexico 88201*

FEB

OPERATOR: Read & Stevens, Inc.

WELL: #1 Scharb Com.

LOCATION: 1980' FSL & 1980' FEL Sec. 7-19S-35E, Lea Co., New Mexico

FIELD & DEPTH: Scharb Bone Spring - 10,200'

CONTRACTOR: Rial Drilling Co. - Rig #1

ELEVATIONS: 3866.2' GR - 3879' RKB

- 
- 1-20-78 Prep to spud.
- 1-21-78 Drlg. 215' red beds & anhy. Spudded 17 $\frac{1}{2}$ " hole @ 8:00 P.M.  
1-20-78. Drlg. w/ lime gel spud mud, Wt. 9.9#, Vis. 38, Ph 10.5.
- 1-22-78 TD 371' anhy. WOC. Ran 10 joints 12 3/4", 34# Foster, H-40 casing, total of 398', set @ 371' RKB. Cemented w/ 400 sx. Class C cement w/ 2% CaCl<sub>2</sub>. Plug down @ 1:45 P.M., 1:45 P.M., 1-21-78. Cement circulated. Dev. 3/4° @ 371'.
- 1-23-78 Drlg. 1085' red beds & anhy. Drlg. w/ fresh water, Mud wt. 9.8#, Vis. 33. WOC for 18 hrs. Pressure tested casing to 500# for 30 min., held OK. Dev. 3/4° @ 677'.
- 1-24-78 Drlg. 1441' anhy. Mud Wt. 9.8#, Vis. 33, Ph 7. Dev. 3/4° @ 1139', 1/2° @ 1449'.
- 1-25-78 Drlg. 2235' anhy. & salt. Mud wt. 9.8#, Vis. 34, Ph 7. Dev. 1/2° @ 1940'.
- 1-26-78 Drlg. 2970' salt & anhy. Mud Wt. 9.8#, Vis. 33, Ph 7. Dev. 1/4° @ 2235', 1/4° @ 2710'.
- 1-27-78 Drlg. 3420' anhy. Mud wt. 10.8#, Vis. 33, Ph 7. Dev. 1° @ 3200'.
- 1-28-78 Drlg. 3590' anhy. Mud wt. 10.8#, Vis 34, Ph 7.
- 1-29-78 Drlg. 3811' anhy., on trip. Mud wt. 10.8#, Vis. 34, Ph 7. Dev. 1° @ 3700'.
- 1-30-78 TD 4000' anhy. & lm., prep to run 8 5/8" csg. Mud wt. 10.8#, Vis 34, Ph 7.



# RATIFICATION OF DECLARATION OF POOLED UNIT

The undersigned owner of an interest in pooled substances, as defined and specified in that certain Declaration of Pooled Unit, dated April 5, 1978 relating to the production of oil, gas and associated hydrocarbons from the formation underlying the following described lands:

Township 19 South, Range 35 East  
Section 7: W/2SE/4

containing 80.00 acres, more or less, Lea County, New Mexico; does hereby join, ratify and consent to the terms and provisions of said Declaration of Pooled Unit.

First National Bank in Dallas

Date: May 25, 1978

By: Melvin L. May  
 Vice President-Trust

ATTEST:

By: Edwina A. Chamberlain  
 Assistant Cashier

and  
Myrtle Reace Hill  
 Myrtle Reace Hill, Co-Trustees  
 U/W/O A. L. Hill

Date: \_\_\_\_\_

Address: \_\_\_\_\_

STATE OF Minnesota )  
 COUNTY OF Crow Wing )

The foregoing instrument was acknowledged before me this 14<sup>th</sup> day of June, 1978, by \_\_\_\_\_

My Commission expires:

May 22, 1985

Judith K. Hilbert  
 Notary Public

STATE OF TEXAS )  
 COUNTY OF DALLAS )

The foregoing instrument was acknowledged before me this 25<sup>th</sup> day of MAY, 1978, by Melvin L. May, Vice President of First National Bank in Dallas, a National Banking Corporation, on behalf of said corporation.

My Commission expires:

Lillian Grooms  
 Notary Public

LILLIAN GROOMS, Notary Public  
 My commission expires \_\_\_\_\_

BEFORE EXAMINER STAMETS	
OIL CONSERVATION COMMISSION	
FNB	EXHIBIT NO. <u>2</u>
CASE NO.	<u>6257</u>
Submitted by	_____
Hearing Date	<u>21 JUN 78</u>

DECLARATION OF POOLED UNIT

STATE OF NEW MEXICO )  
 )  
COUNTY OF CHAVES )

THAT WHEREAS, the undersigned owns the leasehold estates under that certain Oil, Gas and Mineral Leases described in Exhibit "B" attached and made a part hereof, reference to which Oil, Gas and Mineral Leases, amendments thereto and ratifications thereof is herein made for all purposes, which Oil, Gas and Mineral Leases cover all or a part of, and in some instances other lands not affected hereby, the lands located in Lea County, New Mexico, and described in Exhibit "A", attached and made a part hereof.

WHEREAS, under the terms of the above mentioned Oil, Gas and Mineral Leases the owners of the leasehold estates have the right to consolidate said land and the leasehold estates under the same into one consolidated unit for the purpose of exploration development and production of oil, gas and associated hydrocarbons.

NOW THEREFORE, pursuant to the rights so granted, the undersigned do hereby designate, consolidate and unitize the above described lands and leasehold estates and unleased mineral interests (if any), INSOFAR AND ONLY INSOFAR as such leasehold estates and mineral interests (if any), cover and are included within the land described in said Exhibit "A", for the exploration, development and production of oil, gas and associated hydrocarbons, as set forth in the instruments above referred to.

The Unit hereby created may be amended from time to time to add additional oil, gas and mineral leases, or other interests, INSOFAR AND INSOFAR ONLY, as such additional leases or interests cover lands described in Exhibit "A". Such amendment shall be executed by the undersigned and others who may own operating rights, and shall be duly recorded in the Records of the county wherein this instrument is recorded.

The Unit hereby created shall, unless sooner terminated by the undersigned, remain in force and effect for a term of six (6) months, from the date hereof and so long thereafter as:

- (a) Oil, Gas and Associated Hydrocarbons in paying quantities from the unit, or
- (b) Shut-in well payments are made under the terms of said leases, affected hereby, or
- (c) Drilling or reworking operations are continuously conducted on the unit with cessation of no more than Sixty (60) consecutive days between the completion of one such operation and the commencement of another such operation, or
- (d) Drilling or reworking operations are commenced within Sixty (60) days after production from said unit ceases and such operations are continuously prosecuted.
- (e) If, as a result of operations conducted from time to time under the provisions of (c) or (d) hereof, a well capable of producing is completed or recompleted, said Unit shall then remain in effect so long as the conditions specified in (a), (b), (c) or (d) exist.

Upon termination of the Unit hereby created, the undersigned will cause to be recorded in the Records of said County, an instrument evidencing such termination.

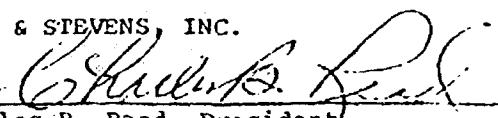
This Declaration of Unit may be executed in any number of counterparts, and each counterpart so executed shall have the same force and effect as an original instrument and as if all of the parties to the aggregate counterparts had signed the same instrument. Should one or more of the parties owning an interest in the operating rights fail to execute this agreement, it shall nevertheless be binding on those who do execute it.

EXECUTED AND EFFECTIVE as of April 5, 1978.

ATTEST

  
Assistant Secretary

READ & STEVENS, INC.

By:   
Charles B. Read, President

NEW MEXICO )  
COUNTY OF CHAVES )

The foregoing instrument was acknowledged before me this 5th day of April, 1978, by Charles B. Read, President of Read & Stevens, Inc., a Delaware corporation on behalf of said corporation.

My Commission expires:

May 31, 1981

James Q. McLaughlin  
Notary Public

EXHIBIT "A"

Attached and made a part of that certain  
Declaration of Pooled Unit dated April 5,  
1978.

Township 19 South, Range 35 East, N.M.P.M.  
Section 7: W/2SE/4

EXHIBIT "B"

- (1) Lease dated April 17, 1974, from New Mexico Baptist Children's Home, as Lessor, unto Donald E. Blackmar, as Lessee, and recorded in Book 287, Page 753 of the Records of Lea County, New Mexico.
- (2) Lease dated June 11, 1974, from Jane B. James, as Lessor, unto Donald E. Blackmar, as Lessee, and recorded in Book 288, Page 127 of the Records of Lea County, New Mexico.
- (3) Lease dated June 11, 1974, from Henry S. Barrett, as Lessor, unto Donald E. Blackmar, as Lessee, and recorded in Book 288, Page 129 of the Records of Lea County, New Mexico.
- (4) Lease dated June 11, 1964 from Wilbur Austin Danley, as Lessor, unto Donald E. Blackmar, as Lessee, and recorded in Book 288, Page 131 of the Records of Lea County, New Mexico.
- (5) Lease dated August 25, 1977, from Alonzo Lee Danley, as Lessor, unto Read & Stevens, Inc., as Lessee, and recorded in Book 304, Page 775 of the Records in Lea County, New Mexico.
- (6) Lease dated April 24, 1958, from Virgil McKnight et ux, as Lessor, unto The Ohio Oil Company, as Lessee, and recorded in Book 167, Page 89 of the Records in Lea County, New Mexico.
- (7) Lease dated April 26, 1958 from Gene Dalmont et ux, as Lessor, unto The Ohio Oil Company, as Lessee, and recorded in Book 167, Page 85 of the Records in Lea County, New Mexico.
- (8) Lease dated April 24, 1958, from Claribel Owens, as Lessor, unto The Ohio Oil Company, as Lessee, and recorded in Book 167, Page 75 of the Records in Lea County, New Mexico.
- (9) Lease dated April 24, 1958, from Sam Owens, as Lessor, unto The Ohio Oil Company, as Lessee, and recorded in Book 167, Page 69 of the Records in Lea County, New Mexico.
- (10) Lease dated September 14, 1963, from Guy H. Hooper et ux, as Lessor, unto Humble Oil & Refining Company, as Lessee, and recorded in Book 224, Page 18 of the Records in Lea County, New Mexico.

CHARLES G. READ  
PRESIDENT

NORMAN L. STEVENS, JR.  
VICE-PRESIDENT

JOHN L. ANDERSON, JR.  
EXPLORATION MANAGER

*Read & Stevens, Inc.*

*Oil Producers*

*P. O. Box 2126*

*Roswell, New Mexico 88201*

May 19, 1978

Mr. Gene N. Garnett,  
V.P., First National Bank  
P. O. Box 6031  
Dallas, Texas 75283

Re: Replacement well Hooper "A" Lease,  
Section 7, Twp. 19 South, Rge 35 East,  
Lea County, New Mexico

Dear Mr. Garnett:

Receipt is acknowledged of your letter dated April 13, 1978, together with your check in the amount of \$12,860, as initial payment, keyed to the operator's estimated well cost. I regret this settlement is not acceptable to us and we are returning your check No. 669283 in even amount, dated April 17, 1978.

I think there has been sufficient correspondence and telephone conversations between us that further negotiations for a settlement cannot be mutually agreed upon by both parties. Since you did not agree to the drilling of the last well covering the pro-ration unit described as the W/2 SE/4 of Section 7, Township 19 South, Range 35 East prior to commencement of drilling operation, it is obvious that if said well had resulted in a dry hole Read & Stevens, Inc. would have been financially responsible for the dry hole costs. It is not customary for owners to accept financial responsibility after the well has been drilled. We feel we are entitled to compensation for the risk involved in addition to recovery of the actual costs of drilling and completing the well.

Inasmuch as you did not agree to the execution of an operating agreement prior to commencement of the test well, we have advised the pipeline company to hold in suspense your oil runs effective April 1, 1978.

We have on this date filed application before the Oil Conservation Commission of New Mexico for a compulsory pooling order covering the drilling of our No. 1 Scharb Com located on the W/2 SE/4 7-19S-35E. Copy of our application for forced pooling is enclosed for whatever further action you deem is necessary. We will advise

BEFORE EXAMINER STAMETS	
OIL CONSERVATION COMMISSION	
FNB	EXHIBIT NO. 3
CASE NO. 6254	
Submitted by _____	
Hearing Date _____	

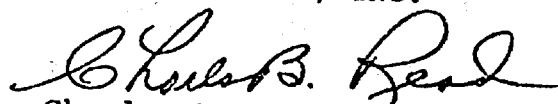
*Read & Stevens, Inc.*

Mr. Gene N. Garnett  
May 19, 1978  
Page 2

you the date the application is set for hearing before the Oil Conservation Commission and suggest you plan to present your testimony before the Commission's duly appointed examiner, as required by law. We further agree to abide by whatever decision is rendered by the Oil Conservation Commission for applicant to recover our cost out of production, including risk factor to be determined by the Commission and with provisions for the payment of operating costs and costs of supervision out of production, to be allocated among the A. L. Hill Trust, as their interest may be proper in the premises.

Yours very truly,

READ & STEVENS, INC.

  
Charles B. Read

CBR/bh

Enclosures



BEFORE THE  
OIL CONSERVATION COMMISSION OF NEW MEXICO

IN THE MATTER OF THE APPLICATION  
OF READ & STEVENS, INC. FOR  
COMPULSORY POOLING OF ITS WELL  
DRILLED IN NW/4 SE/4 SECTION 7,  
TOWNSHIP 19 SOUTH, RANGE 35 EAST,  
LEA COUNTY, NEW MEXICO

A P P L I C A T I O N

COMES NOW Read & Stevens, Inc., as provided by Section 65-3-14, New Mexico Statutes, 1953, as amended, applies to the Oil Conservation Commission of New Mexico for an order pooling all the mineral interests in and under the W/2 SE/4 of Section 7, Township 19 South, Range 35 East, N.M.P.M., Lea County, New Mexico, from the surface to the base of the Bone Spring formation, and in support thereof Applicant would show:

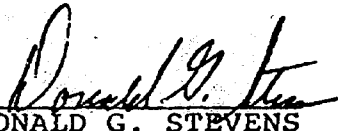
1. Applicant is the owner of the right to drill and develop part of the following described acreage: W/2 SW/4 of Section 7, Township 19 South, Range 35 East, N.M.P.M., Lea County, New Mexico.
2. Applicant and other joining Non-Operators own lease rights to 96.875% of the Working Interest and First National Bank of Dallas, Trustee for A. L. Hill and Myrta Reace Hill Trusts, owns 3.125% under the subject proration unit. The Bank as Trustee refused to pool its ownership with Applicant for the purpose of paying the cost of drilling the well located above prior to the drilling of said well.
3. Applicant requests that it continue to be designated operator of the pooled unit, W/2 SE/4 of Section 7, Township 19 South, Range 35 East, Lea County, New Mexico.
4. For reasons stated in Paragraph 2 above, Applicant was unable to obtain agreement for the pooling of unpooled interests indicated in said Paragraph 2 prior to the drilling of said well and in order to protect correlative rights, and to prevent waste, the Commission should pool all interests in the spacing or proration unit as a unit.

5. The risk and expense of drilling and completing the well is great and if said above described owners in the W/2 SE/4 Section 7 do not choose to pay their share of the cost of drilling and completion, Applicant should be allowed a reasonable charge for the supervision and a charge for the risk involved in addition to recovery of the actual cost of drilling and completing the well.

WHEREFORE, Applicant respectfully requests that the Commission set this matter for hearing before the Commission's duly appointed examiner and that after notice and hearing as required by law the Commission enter its order pooling all interests from the surface to the base of the Bone Spring formation underlying the W/2 SE/4 of Section 7, Township 19 South, Range 35 East, N.M.P.M., Lea County, New Mexico, and designating Applicant operator of the pooled unit, together with provision for Applicant to recover his costs out of production including a risk factor to be determined by the Commission and with provisions for the payment of operating costs and costs of supervision out of production to be allocated among the owners as their interests may be determined and for further orders as may be proper in the premises.

Respectfully submitted,

READ & STEVENS, INC.

By   
DONALD G. STEVENS  
P. O. Box 2203  
Roswell, New Mexico 88201

ATTORNEY FOR APPLICANT

First National Bank in Dallas  
DALLAS, TEXAS

A.L. Hill  
221-09421

Property File

#70-013773

April 13, 1978

Mr. Charles B. Read  
Read & Stevens, Inc.  
P. O. Box 2126  
Roswell, New Mexico 88201

Re: Replacement Well  
Hooper "A" Lease  
N/2 SE/4 Section 719535E  
Lea County, New Mexico

Dear Mr. Read:

We have analyzed the findings and orders of the Oil Conservation Commission of the State of New Mexico in Case No. 6176, Order No. R-5672 dated March 14, 1978, and conclude that there probably is no further recourse through this regulatory body by which we could expect to establish the validity of our original contention that the proration unit for the replacement well for Hooper "A" #1 should not be revised. A communication with Mr. Joe Ramey, Assistant Director of the Oil Conservation Commission, has further reinforced our realization that a hearing for the purpose of force pooling could be expected to confirm the W/2 SE/4 of Section 7, in its entirety, as the acreage dedicated to the replacement well.

In summary, we conclude that any further recourse that we might have would be through the courts. Frankly, at this stage, we are much less sure of the merit of our original contention that the operator was dealing unfairly with the other working interest owners in the Hooper "A" lease by restructuring the proration unit for the replacement well.

Your letter dated April 8, 1978, indicates your recognition of the fact that neither party has a binding agreement covering the drilling of the replacement well, but asks that the Hill trusts pay their share of the costs for such well on the basis of 150% of actual drilling and completion expenses. We believe this to be an unfair request under the circumstances. In any case, we call to your attention the fact that Read & Stevens did not submit a written AFE for the drilling of the Scharb Com Well No. 1 after Case No. 6176 determined that there was formal approval of such well by the regulatory body.

BEFORE EXAMINER STAMETS  
OIL CONSERVATION COMMISSION  
FNB EXHIBIT NO. 4  
CASE NO. 6254  
Submitted by \_\_\_\_\_  
Hearing Date \_\_\_\_\_

First National Bank in Dallas  
DALLAS, TEXAS

Mr. Charles B. Read  
April 13, 1978  
Page 2

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You are fully aware that we have never contested the location of the drill site for the replacement well; being opposed only to the restructuring of the proration unit, and the resultant decrease in the Hill working interest position. From the beginning, we accepted the geology, reservoir information and well data presented by the operator as being sufficient evidence that there was unusually good likelihood that a well drilled at the selected site would have capability of producing at least 50 BOPD per day. Our willingness to approve AFE costs to the extent of 0.0625% of the total outlay, assuming no change in the proration unit, certainly should be recognized by almost anyone in the industry as being overpowering evidence that we were confident of the outcome, and unneeding of the advantages usually attributed to a non-consenting party.

We have not yet acted on the volunteered new operating agreement only because we did not deem it to be appropriate in advance of a final decision on the proration unit. We do not take issue with the individual terms of the agreement in so far as it governs operations following completion of the initial well.

Although being less than completely happy about such outcome, we concede that the W/2 SE/4 of Section 7 will undoubtedly prevail as the proration unit for the replacement well. Assuming Read & Stevens to be reasonable in their negotiations about the Hill trusts' share of the well costs, we will not expect to cause both parties to endure a force pooling hearing. It has never been our purpose to cause the operator any undue expense or problem, although our differences of opinion in this matter may already have led to some burden on the operator.

On behalf of the Hill trusts, we now propose to pay Read & Stevens 3.125% of the invoice cost of drilling and completing the well now formally designated as the Scharb Com #1. Initial payment, keyed to the operator's estimate of well cost, is in the amount of \$12,860. As this payment is enclosed, we ask that you advise the pipeline company not to hold the Hill trusts oil runs in suspense.

In anticipation that Read & Stevens will agree not to penalize the Hill trusts by requiring more than 100% of their prorata share of well costs, we will proceed to seek the necessary approvals for the new Operating Agreement.

First National Bank in Dallas  
DALLAS, TEXAS

Mr. Charles E. Read  
April 13, 1978  
Page 3

We thank you for your recent communications, and for your continuing efforts to bring this matter to a mutually acceptable close.

Yours very truly,

*Gene H. Garnett*

Gene H. Garnett  
Trust Oil Department

GNG/vb  
Enclosure

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BEFORE THE OIL CONSERVATION COMMISSION  
OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE HEARING  
CALLED BY THE OIL CONSERVATION  
COMMISSION OF NEW MEXICO FOR  
THE PURPOSE OF CONSIDERING:

CASE NO. 5940  
Order No. R-5452

APPLICATION OF C & K PETROLEUM, INC.  
FOR COMPULSORY POOLING AND AN UNORTHODOX  
LOCATION, LEA COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on May 25, 1977,  
at Santa Fe, New Mexico, before Examiner Richard L. Stamets.

NOW, on this 8th day of June, 1977, the Commission, a  
quorum being present, 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 Commission has jurisdiction of this cause and the  
subject matter thereof.
- (2) That the applicant, C & K Petroleum, Inc., seeks an  
order pooling all mineral interests in the Morrow formation under-  
lying the S/2 of Section 6, Township 19 South, Range 32 East,  
NMPM, Lea County, New Mexico.
- (3) That the applicant has the right to drill and has  
drilled its Federal "6" Well No. 1 at an unorthodox location  
600 feet from the South line and 2012 feet from the West line  
of said Section 6.
- (4) That there are royalty 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, and by authorizing the aforesaid unorthodox location.

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

(7) 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.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, in the Morrow formation underlying the S/2 of Section 6, Township 19 South, Range 32 East, NMPM, Lea County, New Mexico, are hereby pooled to form a standard 320-acre gas spacing and proration unit to be dedicated to applicant's Federal "6" Well No. 1 drilled at an unorthodox location 600 feet from the South line and 2012 feet from the West line of said Section 6.

(2) That C & K Petroleum, Inc. is hereby designated the operator of the subject well and unit.

(3) That any well costs or charges which are to be paid out of production shall be withheld only from the working interests share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(4) That all proceeds from production from the subject well which are not disbursed for any reason shall be placed in escrow in Lea County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; that the operator shall notify the Commission of the name and address of said escrow agent within 90 days from the date of this order.

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

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

STATE OF NEW MEXICO  
OIL CONSERVATION COMMISSION

*Phil R. Lucero*  
PHIL R. LUCERO, Chairman

*Emery C. Arnold*  
EMERY C. ARNOLD, Member

*Joe D. Ramey*  
JOE D. RAMEY, Member & Secretary

S E A L

dr/



BEFORE THE OIL CONSERVATION COMMISSION  
OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE HEARING  
CALLED BY THE OIL CONSERVATION  
COMMISSION OF NEW MEXICO FOR  
THE PURPOSE OF CONSIDERING:

CASE NO. 5754  
Order No. R-5286

APPLICATION OF BURLESON & HUFF  
FOR COMPULSORY POOLING AND A  
NON-STANDARD PRORATION UNIT, LEA  
COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on September 15, 1976, at Santa Fe, New Mexico, before Examiner Richard L. Stamets.

NOW, on this 28th day of September, 1976, the Commission, a quorum being present, 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 Commission has jurisdiction of this cause and the subject matter thereof.

(2) That the applicant, Burleson & Huff, seeks an order pooling all mineral interests in the Yates-Seven Rivers formation underlying the E/2 NE/4 of Section 21 and the W/2 NW/4 of Section 22, all in Township 25 South, Range 37 East, NMPM, Jalmat Pool, Lea County, New Mexico, to form a 160-acre non-standard gas proration unit.

(3) That the applicant has the right to drill and has drilled its Arco Well No. 2-Y at a point 1770 feet from the North line and 660 feet from the East line of said Section 21.

(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 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.

(8) That \$100.00 per month should be fixed as a reasonable charge for supervision (combined fixed rates); that the operator should be authorized to withhold from production the proportionate share of such supervision charge 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.

(9) 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.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, in the Yates-Seven Rivers formation underlying the E/2 NE/4 of Section 21 and the W/2 NW/4 of Section 22, all in Township 25 South, Range 37 East, NMPM, Jalmat Pool, Lea County, New Mexico, are hereby pooled to form a non-standard 160-acre gas spacing and proration unit to be dedicated to applicant's Arco Well No. 2-Y located 1770 feet from the North line and 660 feet from the East line of said Section 21.

(2) That Burleson & Huff is hereby designated the operator of the subject well and unit.

(3) That the operator shall furnish the Commission 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 Commission and the Commission 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 Commission will determine reasonable well costs after public notice and hearing.

(4) That the operator is hereby authorized to withhold from production the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of well costs.

(5) That the operator shall distribute such costs and charges withheld from production to the parties who advanced the well costs.

(6) That \$100.00 per month is hereby fixed as a reasonable charge for supervision (combined fixed rates); that the operator is hereby authorized to withhold from production the proportionate share of such supervision charge 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.

(7) 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.

(8) That any well costs or charges which are to be paid out of production shall be withheld only from the working interests share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(9) That all proceeds from production from the subject well which are not disbursed for any reason shall be placed in escrow in Lea County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; that the operator shall notify the Commission of the name and address of said escrow agent within 90 days from the date of this order.

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

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

STATE OF NEW MEXICO  
OIL CONSERVATION COMMISSION

PHIL R. LUCERO, Chairman

EMERY C. ARNOLD, Member

JOE D. RAMEY, Member & Secretary

S E A L

dr/

MAY 22 1973

BEFORE THE  
OIL CONSERVATION COMMISSION OF NEW MEXICO

IN THE MATTER OF THE APPLICATION  
OF READ & STEVENS, INC. FOR  
COMPULSORY POOLING OF ITS WELL  
DRILLED IN NW/4 SE/4 SECTION 7,  
TOWNSHIP 19 SOUTH, RANGE 35 EAST,  
LEA COUNTY, NEW MEXICO

Case 6254

A P P L I C A T I O N

COMES NOW Read & Stevens, Inc., as provided by Section 65-3-14, New Mexico Statutes, 1953, as amended, applies to the Oil Conservation Commission of New Mexico for an order pooling all the mineral interests in and under the W/2 SE/4 of Section 7, Township 19 South, Range 35 East, N.M.P.M., Lea County, New Mexico, from the surface to the base of the Bone Spring formation, and in support thereof Applicant would show:

1. Applicant is the owner of the right to drill and develop part of the following described acreage: W/2 <sup>SE/4</sup> ~~SW/4~~ of Section 7, Township 19 South, Range 35 East, N.M.P.M., Lea County, New Mexico.
2. Applicant and other joining Non-Operators own lease rights to 96.875% of the Working Interest and First National Bank of Dallas, Trustee for A. L. Hill and Myrta Reace Hill Trusts, owns 3.125% under the subject proration unit. The Bank as Trustee refused to pool its ownership with Applicant for the purpose of paying the cost of drilling the well located above prior to the drilling of said well.
3. Applicant requests that it continue to be designated operator of the pooled unit, W/2 SE/4 of Section 7, Township 19 South, Range 35 East, Lea County, New Mexico.
4. For reasons stated in Paragraph 2 above, Applicant was unable to obtain agreement for the pooling of unpooled interests indicated in said Paragraph 2 prior to the drilling of said well and in order to protect correlative rights, and to prevent waste, the Commission should pool all interests in the spacing or proration unit as a unit.

5. The risk and expense of drilling and completing the well is great and if said above described owners in the W/2 SE/4 Section 7 do not choose to pay their share of the cost of drilling and completion, Applicant should be allowed a reasonable charge for the supervision and a charge for the risk involved in addition to recovery of the actual cost of drilling and completing the well.

WHEREFORE, Applicant respectfully requests that the Commission set this matter for hearing before the Commission's duly appointed examiner and that after notice and hearing as required by law the Commission enter its order pooling all interests from the surface to the base of the Bone Spring formation underlying the W/2 SE/4 of Section 7, Township 19 South, Range 35 East, N.M.P.M., Lea County, New Mexico, and designating Applicant operator of the pooled unit, together with provision for Applicant to recover his costs out of production including a risk factor to be determined by the Commission and with provisions for the payment of operating costs and costs of supervision out of production to be allocated among the owners as their interests may be determined and for further orders as may be proper in the premises.

Respectfully submitted,

READ & STEVENS, INC.

By

  
DONALD G. STEVENS

P. O. Box 2203

Roswell, New Mexico 88201

ATTORNEY FOR APPLICANT

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. 6254  
Order No. R-5773

APPLICATION OF READ & STEVENS, INC.  
FOR COMPULSORY POOLING, LEA COUNTY,  
NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on June 21, 1978,  
at Santa Fe, New Mexico, before Examiner Richard L. Stamets.

NOW, on this 25th day of July, 1978, 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, Read & Stevens, Inc., seeks an  
order pooling all mineral interests in the Bone Spring  
formation underlying the W/2 SE/4 of Section 7, Township 19  
South, Range 35 East, NMPM, Scharb-Bone Spring Pool, Lea  
County, New Mexico, to be dedicated to its Scharb Com. Well  
No. 1, located in the NW/4 SE/4 of said Section 7.

(3) That the evidence presented in this case does not  
demonstrate that there are interest owners in the proposed  
proration unit who have not agreed to pool their interests.

(4) That Case No. 6254 should be dismissed.

-2-

Case No. 6254  
Order No. R-5773

IT IS THEREFORE ORDERED:

That Case No. 6254 is hereby dismissed.

DONE at Santa Fe, New Mexico, on the day and year herein-  
above designated.

STATE OF NEW MEXICO  
OIL CONSERVATION DIVISION



*Joe D. Ramey*  
JOE D. RAMEY,  
Director

dr/