

CASE 6650: DOYLE HARTMAN FOR COMPULSORY
POOLING, NON-STANDARD GAS PRORATION UNIT,
AND UNORTHODOX WELL LOCATION, LEA COUNTY,
NEW MEXICO

6650

Application

Transcripts.

Small Exhibits

ETC.

CAMPBELL AND BLACK, P.A.

LAWYERS

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WILLIAM F. CARR
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October 3, 1979

Mr. Richard L. Stamets
Technical Support Chief
New Mexico Oil Conservation Division
Post Office Box 2088
Santa Fe, New Mexico 87501

Re: Oil Conservation Division Case 6650

Dear Mr. Stamets:

This letter is to advise you that no agreement has been reached between Doyle Hartman, applicant in the above referenced case, and representatives of Millard Deck for the development of the SW/4 NE/4 and the SE/4 NW/4 of Section 36, Township 24 South, Range 36 East, Lea County, New Mexico. As you will recall, at the hearing on September 5, 1979, we agreed with representatives of Mr. Deck to a ten day period within which to negotiate an agreement whereby Mr. Deck would obtain a farmout from Shell to the SE/4 NE/4 of this section.

It was my understanding that you would not take any action on Mr. Hartman's application until we had attempted to resolve this matter with Mr. Deck. It does not appear to me that we are going to be able to reach an agreement and we, therefore, ask that you enter an order in the above referenced case.

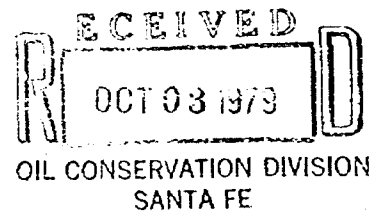
Your attention to this matter is appreciated.

Very truly yours,

William F. Carr
William F. Carr

WFC:lr

cc: Mr. Doyle Hartman
Mr. James A. Davidson
Mr. W. Thomas Kellahin
Mr. Phillip Bishop





BRUCE KING
GOVERNOR
LARRY KEHOE
SECRETARY

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

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November 19, 1979

Mr. William F. Carr
Campbell and Black
Attorneys at Law
Post Office Box 2208
Santa Fe, New Mexico

Re: CASE NO. 6650
ORDER NO. R-6181

Applicant:

Doyle Hartman

Dear Sir:

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

Yours very truly,


JOE D. RAMEY
Director

JDR/fd

Copy of order also sent to:

Hobbs OCD x
Artesia OCD x
Aztec OCD

Other Thomas Kellahin

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. 6650
Order No. R-6181

APPLICATION OF DOYLE HARTMAN FOR
COMPULSORY POOLING, NON-STANDARD
GAS PRORATION UNIT, AND UNORTHODOX
WELL LOCATION, LEA COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on September 5, 1979, at Santa Fe, New Mexico, before Examiner Richard L. Stamets.

NOW, on this 16th day of November, 1979, the Division Director, having considered the record and the recommendations of the Examiner, and being fully advised in the premises,

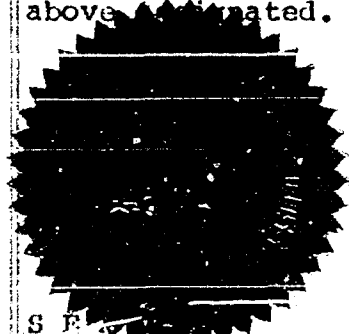
FINDS:

That the applicant's request for dismissal should be granted.

IT IS THEREFORE ORDERED:

That Case No. 6650 is hereby dismissed.

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



STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

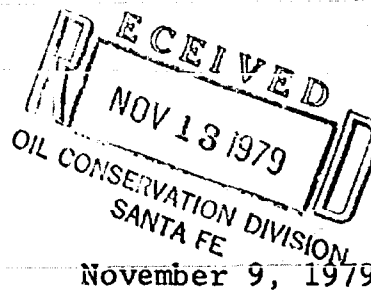
Joe D. Ramey
JOE D. RAMEY
Director

S F
fd/

CAMPBELL AND BLACK, P.A.

LAWYERS

JACK M. CAMPBELL
BRUCE O. BLACK
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WILLIAM F. CARR
PAUL R. CALDWELL



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November 9, 1979

Mr. Richard L. Stamets
Technical Support Chief
Oil Conservation Division
New Mexico Department of Energy & Minerals
Post Office Box 2088
Santa Fe, New Mexico 87501

Re: Case 6650: Application of Doyle Hartman
for Compulsory Pooling, Non-Standard Gas
Proration Unit and Unorthodox Well
Location, Lea County, New Mexico.

Dear Mr. Stamets:

This letter is to advise you that on November 8, 1979, Doyle Hartman received a Farmout Agreement from Millard Deck to the SE/4 NW/4 of Section 36, Township 24 South, Range 36 East, N.M.P.M. Lea County, New Mexico. On the same date, Mr. Hartman delivered to Mr. Deck a waiver of any objection to the well which Mr. Deck proposes to drill in the NW/4 NE/4 of said Section 36.

This letter is to request that the application of Mr. Hartman in the above-referenced case be dismissed.

Your assistance with this matter has been greatly appreciated

Very truly yours,

A handwritten signature in cursive script, appearing to read "William F. Carr".

William F. Carr

WFC:lr

cc: Mr. Doyle Hartman
W. Thomas Kellahin, Esq.
Philip Bishop, Esq.

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
Oil Conservation Division
State Land Office Building
Santa Fe, New Mexico
5 September 1979

EXAMINER HEARING

IN THE MATTER OF:

Application of Doyle Hartman for com-) CASE
pulsory pooling, non-standard gas pro-) 6650
ration unit, and unorthodox well loca-)
tion, Lea County, New Mexico.)

BEFORE: Richard L. Stamets

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation Division: Ernest L. Padilla, Esq.
Legal Counsel for the Division
State Land Office Bldg.
Santa Fe, New Mexico 87503

For the Applicant, Doyle Hartman: William F. Carr, Esq.
CAMPBELL & BLACK P. A.
Jefferson Place
Santa Fe, New Mexico 87501

For the Millard Deck, et al: W. Thomas Kellahin, Esq.
KELLAHIN & KELLAHIN
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1
2 MR. STAMETS: We'll call next Case Number
3 6650.

4 MR. PADILLA: Application of Doyle Hartman
5 for compulsory pooling, non-standard gas proration unit, and
6 an unorthodox well location, Lea County, New Mexico.

7 MR. STAMETS: Call for appearances in the
8 case.

9 MR. CARR: Mr. Examiner, I'm William F.
10 Carr, Campbell and Black, P. A., appearing on behalf of the
11 applicant. I have two witnesses.

12 MR. KELLAHIN: I'm Tom Kellahin of Santa
13 Fe, New Mexico, appearing on behalf of Millard Deck, and I
14 have one witness.

15 MR. STAMETS: I'd like to have all wit-
16 nesses stand and be sworn at this time.

17
18 (Witnesses sworn.)
19

20 JAMES A. DAVIDSON
21 being called as a witness and having been duly sworn upon
22 his oath, testified as follows, to-wit:
23

24 DIRECT EXAMINATION

25 BY MR. CARR:

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Q Will you state your full name and place of residence?

A James A. Davidson, Midland, Texas.

Q Mr. Davidson, by whom are you employed and in what capacity?

A I'm an independent landman retained by Mr. Hartman.

Q Have you previously testified before this Commission and had your credentials accepted and made a matter of record?

A Yes, sir.

Q Are you familiar with the application in this case?

A Yes, sir.

MR. CARR: Mr. Examiner, are Mr. Davidson's qualifications as an independent landman acceptable?

MR. STAMETS: They are.

Q (Mr. Carr continuing.) Mr. Davidson, will you briefly summarize what Mr. Hartman seeks with this application?

A He seeks approval for compulsory pooling, a non-standard proration unit, and an unorthodox location, all pertaining to the west half northeast quarter, Section 36, Township 24 South, Range 36 East, Lea County, New Mexico.

Q Now, by way of background, Mr. Davidson,

1 I'd like to ask you some more questions.

2 First of all, what interest does Mr. Hart-
3 man have in the proposed unit?

4 A He has a farmout from Phillips Petroleum
5 Company covering 50 percent of the unit, being the southwest
6 quarter of the northeast quarter.

7 Q When was this farmout obtained?

8 A In 1978, and it's been extended currently.

9 Q Now, Mr. Davidson, I believe there's been
10 some confusion as to the ownership of the leasehold rights
11 in the northwest quarter of the northeast quarter. Could
12 you explain what has transpired in that regard?

13 A The problem with ownership occurs in the
14 chain of title from Shell Oil Company, the original owner,
15 to John Yuronka, et al, and a later assignment to a group,
16 which Mr. Deck is one of them, and in the farmout agreement
17 it states that if a well ceases to produce on the farmed out
18 acreage Shell can give telegraphic notice and reassignments
19 will be made to them, and we've never been able to determine
20 from any of these parties, including Shell, whether this
21 notice has been given.

22 So the title to that 40 is either owned by
23 Shell 100 percent or by Mr. Deck, et al, 100 percent, and we
24 don't know which.

25 Q But notice was given to Shell and to the

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1 other interest owners, no matter which way this goes?

2 A. Yes.

3 MR. STAMETS: The northwest of the north-
4 east, then, was a farmout from Shell to who?

5 A. It first went to John Yuronka in Midland
6 and he assigned it to Mr. Deck and three or four other
7 parties, the parties named in this, in our application.

8 MR. STAMETS: Okay, thank you.

9 Q. Mr. Davidson, what efforts have been made
10 to drill a well on this 80 acres?

11 A. We've been trying to get this well drilled
12 since pretty early in 1978, and shall I go into the previous

13 Q. Yes.

14 A. We appeared one other time in 1978 at this
15 Commission for forced pooling and we failed to have named
16 in that one of the parties that would own under the Deck
17 interest because we thought we had a deal made with him.
18 Our understanding of the reducing the override, proportionate
19 reduction of the override, and his understanding differed,
20 and we were never able to resolve it, and so we couldn't
21 drill the well with -- until -- we had not force pooled him.
22 Our agreement cratered, our understanding of it, so the time
23 ran out, even though it was extended one time by the Commission
24 while we were trying to work that out.

25 Q. And you did receive an order force pooling

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1 the acreage but you did omit one party?

2 A Yes, sir.

3 Q And you're seeking --

4 A With a large interest.

5 Q And you're seeking approval of the same
6 acreage in this order today?

7 A Yes, sir.

8 Q Mr. Davidson, will you refer to what has
9 been marked for identification as Exhibit Number One.

10 A Exhibit One is just simply a land map that
11 shows the proposed 80-acre unit that Mr. Hartman would like
12 to drill on, and it's contoured on the top of the Yates.

13 Q And what are the green traces?

14 A The green traces are a line of cross sec-
15 tions that Mr. Hartman will testify to subsequently.

16 Q Mr. Davidson, could you have put together
17 a larger unit?

18 A We are unable to put a larger together
19 because of our -- the terms of our Phillips farmout. The
20 Phillips farmout limits us to this 80-acre unit.

21 Q And what is the standard spacing in this
22 zone?

23 A It's 640.

24 Q And are there other non-standard proration
25 units in this pool?

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1 A Yes, sir, there are a great number of non-
2 standard proration units.

3 Q Mr. Davidson, have you reviewed Exhibit
4 Number One and can you testify as to its accuracy?

5 A Yes, sir.

6 MR. CARR: At this time, Mr. Examiner, we
7 would offer Applicant's Exhibit Number One.

8 MR. STAMETS: It will be admitted.

9 MR. CARR: I have nothing further of this
10 witness on direct.

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

13 MR. KELLAHIN: Yes, sir.

14

15

CROSS EXAMINATION

16

BY MR. KELLAHIN:

17

18 Q Mr. Davidson, at the time Mr. Hartman ob-
19 tained the farmout from Phillips in 1978 for the southwest
20 quarter of the northeast quarter had Phillips already
21 drilled that well located in the northwest quarter of the
22 southeast quarter of Section 36?

23

24 A No, I don't believe so. I'm not really in
25 a position to answer that. We may have to get Mr. Hartman
to, but we can answer it. We'll get it answered for you.

25

Q What is the basic lease for which the 40

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1 acres was a part of it?

2 A. The basic Phillips lease?

3 Q. Yes, sir.

4 A. It's just a State lease that Phillips owns.

5 Q. And what acreage is in that State lease?

6 A. As far as I know, just the southwest of
7 the northeast. Let me look.

8 MR. CARR: A number of these questions
9 might be more appropriately directed to Mr. Hartman.

10 MR. KELLAHIN: All right.

11 A. Okay, the total Phillips lease covers the
12 southwest quarter of the northeast quarter and the northwest
13 quarter of the southeast quarter of Section 36, Township 24
14 South, Range 36 East.

15 We -- Mr. Hartman only has the one 40. He
16 does not have the other.

17 Q. Was there anything in the farmout from
18 Phillips Petroleum to Mr. Hartman that precluded him, Mr.
19 Hartman, from drilling a Jalmat gas well in this particular
20 lease?

21 A. You mean drilling it on this? I don't
22 understand the question. You mean drilling it on the 40 that
23 he has under farmout?

24 Q. Yes, and dedicating the other 40 acres
25 that --

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1 A Yes, his farmout agreement covers only the
2 southwest of the northeast, and it anticipates a unit to be
3 formed of the east half of the north -- the west half of the
4 northeast.

5 Q So at the time Mr. Hartman took this lease
6 or farmout from Phillips in '78 he knew that he only had
7 40 acres to dedicate to either an oil well or gas well in --

8 A He knew he had to get either voluntary --
9 try to get voluntary agreement out of the owners of the
10 other 40.

11 Q You've indicated in your testimony, Mr.
12 Davidson, that Mr. Hartman has selected an 80-acre non-standard
13 proration unit. Do you know why 80 acres was chosen and not
14 some other acreage factor?

15 A Yes. He's made a diligent effort to get
16 other acreage in the area. Are you, in other words, are you
17 saying why he chose this 80 or only an 80?

18 Q Why did he choose only an 80?

19 A Because Phillips' farmout requires only an
20 80. It can't be larger. It dilutes the Phillips override.

21 Q The Phillips' farmout, if I understand you,
22 if Mr. Hartman was to drill a Jalmat gas well, that in ap-
23 plying to the Commission for a non-standard proration unit
24 to dedicate to that Jalmat gas well, it could not be for more
25 than 80 acres?

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1 A. That's right.

2 Q. All right.

3 A. And Mr. Hartman is willing to drill it on
4 that -- on that short proration unit.

5 Q. At the time Mr. Hartman took the farmout
6 from Phillips did he have any other acreage available to him
7 by which he could compose an 80-acre non-standard proration
8 unit?

9 A. He did not.

10 Q. Have you, or Mr. Hartman to your knowledge,
11 examined the possibility of dedicating the 40-acre tract
12 immediately to the east of the 40 acres held by Mr. Hartman?

13 A. Yes. Yes.

14 Q. And what were the results of that investi-
15 gation?

16 A. We were turned down by the owners of it,
17 Petroleum Company of Texas, I believe.

18 Q. He's not sought to force pool that 40-acre
19 tract?

20 A. No.

21 Q. Okay. And how about the 40-acre tract
22 immediately to the west of the 40 acres of Mr. Hartman, that
23 40-acre tract in the southeast quarter of the northwest
24 quarter?

25 A. Let's see, that's right, that's owned by

1 either Shell or by Mr. Deck, et al. It's the same chain of
2 title.

3 Q To your knowledge, did you contact Mr.
4 Decek and the owners of that 40-acre tract with regards to
5 forming a non-standard proration unit for the drilling of
6 this well?

7 A To include the 40 west of the Phillips' 40?

8 Q Yes, sir.

9 A No, we did not.

10 Q Do you know why you've not done that?

11 A Well, for one reason, when we started here
12 over worrying about the geology of the area, we were first
13 going to drill the well on the Deck-Shell 40, the northwest
14 of the northeast. We later changed our minds, but that's
15 one reason.

16 Q Are you aware that the 40-acre tract that
17 you propose to force pool, being the northwest quarter of
18 the northeast quarter of Section 36, is already dedicated to
19 a Jalmat gas well?

20 A It's -- that it was subject to a communi-
21 tization agreement which has been terminated on the State
22 records, and that well hasn't produced in quite some time.
23 Now that's something Mr. Hartman can testify to better than
24 I, but we've got a copy of the cancellation on the State re-
25 cords downstairs.

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1 Q And which well was that? Where is the well
2 located?

3 A The well is in the southeast quarter of
4 the northwest quarter.

5 Q And that was a Jalmat gas well, wasn't it?

6 A Yes.

7 Q And what is the ownership of that 40-acre
8 tract? Do you know?

9 A As far as we know, it's exactly the same
10 as the ownership of the northwest of the northeast quarter.
11 Both the Shell interest and the Mr. Deck, et al.

12 Q You indicated, Mr. Davidson, that you gave
13 notice both to Shell and Mr. Deck with regards to the forced
14 pooling of that 40-acre tract. Now, do you have return re-
15 ceipts from both parties indicating service of the notice?

16 A No, I don't think we have return receipts.
17 We sent out these notices in 1978 and --

18 Q But those notices in '78, Mr. Davidson,
19 were for the last hearing.

20 A That's right, and we sent them out again.
21 Now, we have talked to Mr. Deck. We've got them from Shell
22 and Mr. Nelson, but we don't have one from Mr. Deck.

23 Q Who signed for the Shell return receipt?

24 A J. C. Michaels, M-I-C-H-A-E-L-S.

25 Q And to what Shell office was that mailed?

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1 A. P. O. Box 1509, Midland, Texas.

2 Q In dealing with Shell with regards to that
3 40-acre tract, had you been dealing with the Midland office?

4 A We've been dealing with the Midland office
5 and the Houston office, but primarily the Houston office.

6 Q Primarily you've been dealing with the
7 Houston office but you sent the notice to the Midland office.

8 A Well, I don't think that makes any differ-
9 ence.

10 Q Who is the gentleman in the Shell Houston
11 office that you've been dealing with, Mr. Davidson?

12 A Norman Hrachovy in the land department.

13 Q And that's H-R-A-C-H-O-V-Y?

14 A H-R -- yes, yes, sir.

15 Q You didn't send a notice to Mr. Hrachovy?

16 A Are you -- may I ask a question? Is he
17 representing Shell or Mr. Deck?

18 MR. CARR: I think you can just go ahead
19 and answer the questions.

20 A Okay. Okay, excuse me, counsellor.

21 Q Did you send a notice to Mr. Hrachovy?

22 A Yes, we did. You mean a registered notice
23 with a return receipt requested?

24 Q Yes.

25 A No, we did not. No, it went to the Midland

1 office and Mr. Hrachovy is in the Houston office.

2 Q What, if any, correspondence or telephone
3 calls did you have with Mr. Deck concerning his interest in
4 the 40-acre tract prior to sending him the notice of the
5 hearing?

6 A Well, we've had a number of talks with both --
7 mainly Mr. Philip Bishop, his attorney, in Ft. Worth, and
8 one or two with Mr. Deck, and we've had a lot of correspondence
9 with Mr. Bishop with copies of all those letters to Mr. Deck.
10 And this has gone on, like you say, before the first hearing
11 in '78 and it's carried on through -- up to date.

12 Q Tell me again, Mr. Davidson, why you aban-
13 doned your efforts under the forced pooling order in '78?

14 A We had a phone call with Mr. Deck wherein
15 we had an agreement that he would make a farmout on a 70
16 percent revenue interest to his interest, so the operator
17 would get a -- the operator would get 70 percent and he
18 would retain a 30 percent override and absorb his -- his
19 burdens.

20 We mailed the farmout letter to Mr. Deck,
21 which we introduced it as an exhibit in the 1978 hearing,
22 and it was re-drafted by Mr. Bishop and the net effect of
23 the proportionate reduction clause was that instead of it
24 being a 70 percent net revenue interest it was 52-1/2, and
25 we never resolved that problem. It was a simple misunder-

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1 standing between us and Mr. Bishop.

2 Q I believe you told me already, Mr. David-
3 son, but you do not know why Mr. Hartman has picked this
4 particular configuration for the 80-acre tract?

5 A Not -- no, I'll let him testify to that
6 since he's here.

7 MR. KELLAHIN: I have no further questions.

8 MR. CARR: I have nothing further on re-
9 direct.

10
11 CROSS EXAMINATION

12 BY MR. STAMETS:

13 Q Who has not agreed to the communitization
14 of this 80-acre tract?

15 A None of these parties that were named in
16 the notice, Shell on the one hand, and the Deck group on
17 the other. We've not had agreement from any of them.

18 The only party that's agreed is Phillips
19 that has the other half that we have under the farmout, that
20 Mr. Hartman has under farmout.

21 Q And you have contacted everybody and there
22 was evidence that you had done this in a previous hearing?

23 A Yes, sir, in 1978.

24 Q And you've indicated that you have re-
25 contacted everybody before today's date?

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1 A Yes, sir.
2 Q And they still don't agree with it.
3 A No, sir. No, none of them have agreed.
4 We have --
5 Q You have copies of the correspondence
6 that you sent requesting their agreement?
7 A Yes, sir.
8 Q Will those copies be made part of the re-
9 cord?
10 A Yes, we --
11 MR. CARR: They will be.
12 MR. STAMETS: At a later time in today's
13 hearing?
14 MR. CARR: We have copies of them now.
15 We also have return receipts on all but one or two of them
16 at this time, and we will offer those.
17 MR. STAMETS: Okay, you can offer them
18 now or --
19 MR. CARR: Well, we can offer them now.
20 Why don't you let me ask Mr. Davidson a couple more questions
21 on direct?
22 MR. STAMETS: Okay.
23
24 REDIRECT EXAMINATION
25 BY MR. CARR:

1 Q Mr. Davidson, would you identify what
2 I've just handed you marked as Exhibit One-A in this case?

3 A One-A is a summary with copies attached
4 of all the pertinent correspondence in this case with both
5 Shell and Mr. Deck, et al.

6 Q And will you identify what has been marked
7 for identification as Exhibit One-B?

8 A One-B is a copy addressed to Shell Oil
9 Company of the notice of the -- of this hearing in Case 6650.

10 Q All right.

11 MR. CARR: And if the Commission would
12 like, we'll be happy to supply the return receipts as we get
13 them.

14 MR. STAMETS: Where in this stack of in-
15 formation is any particular letter to any of these companies
16 saying we would like you to join us in the drilling of this
17 well?

18 A Well, the final letters are on the first
19 page and they're the latest letters in chronological order,
20 and they would be the first to appear under that summary.

21 For instance, the letter of 8-3-79 to Mr.
22 Hrachovy of Shell is one of our many, and I guess last, re-
23 quests that they farmout or join.

24 And the letter of 8-1-79 is a final letter
25 to Mr. Deck, et al, about this problem.

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1 They are listed at the bottom of the sum-
2 mary and they'll fifth and sixth in the correspondence at-
3 tached.

4 MR. STAMETS: Okay. That's fine.

5 Any other questions of this witness?

6 MR. KELLAHIN: I may have some more, Mr.
7 Stamets, if I may have a moment to look through the corres-
8 pondence here.

9
10 RECROSS EXAMINATION

11 BY MR. KELLAHIN:

12 Q Mr. Davidson, I can't find your October
13 1st -- I mean your August 1st, '79 letter listed as the
14 last entry on Exhibit One-A; Davidson did that.

15 A Here's a separate copy, if you'd like to
16 see it.

17 MR. CARR: And it's addressed to all
18 owners.

19 A In that letter we asked for a farmout on
20 a very, very low revenue interest, or we asked that they
21 sign the AFE which was attached, and we told them that much
22 to our distaste, we would have to docket the forced pooling
23 if we didn't hear from them. So we gave them the three
24 possibilities.

25 MR. STAMETS: I presume you'll make a

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1 copy of that for our copies.

2 MR. CARR: It is included, I believe, Mr.
3 Stamets.

4 A. If it's not in there, we've got it, and
5 we'll make a copy and submit it.

6 I might point out, since we're talking
7 about that last letter, that the farmout with Phillips is
8 on a 70 percent net revenue interest to Mr. Hartman, with
9 Phillips to retain the difference, 30 percent, and absorb.
10 And we offered Mr. Deck, et al, what amounted to a consider-
11 ably bigger override, or lower revenue interest, to put it
12 another way, to Mr. Hartman, which was 65.625, in an effort
13 to try to work out a voluntary agreement.

14 Or if those parties pay their way, with
15 an AFE attached.

16 Q (Mr. Kellahin continuing.) When does your
17 farmout with Phillips expire, Mr. Davidson?

18 A. It expires whenever we resolve this matter
19 with OCC. We have a letter that allows us enough time to
20 have this hearing and receive a ruling. And that's from
21 their Houston office.

22 Q The original farmout has expired and has
23 been extended?

24 A. It's not; it's been extended. It's never
25 expired. It was dated in 1978 and it's extended through the

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1 time it takes to get an order from this hearing.

2 Q Did the '78 farmout provide for a fixed
3 primary term for the farmout?

4 A It has been extended by Phillips.

5 Q Well, what was the original expiration
6 date?

7 A The well to be commenced within ninety
8 days from I'm going to say March of 1978, but that's been
9 extended by Phillips through now, so it's still acting.

10 MR. KELLAHIN: I have nothing further.

11 Thank you.

12 MR. STAMET: Any other questions of the
13 witness?

14 MR. CARR: Nothing further of this wit-
15 ness.

16 MR. STAMETS: He may be excused.

17 MR. CARR: Mr. Examiner, before Mr. David-
18 son leaves, Mr. Davidson, did you participate in assembling
19 Exhibit One-A?

20 A Yes.

21 MR. CARR: And are you familiar with Ex-
22 hibit One-B?

23 A Yes, sir.

24 MR. CARR: At this time, Mr. Examiner, I
25 will offer Exhibits One-A and One-B into evidence.

1 MR. STAMETS: These exhibits will be ad-
2 mitted.

3 MR. CARR: I will call Mr. Doyle Hartman.
4

5 DOYLE HARTMAN

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

8
9 DIRECT EXAMINATION

10 BY MR. CARR:

11 Q Will you state your full name and place
12 of residence?

13 A Doyle Hartman. I'm a resident of Midland,
14 Texas.

15 Q You are the applicant in this case?

16 A That's correct.

17 Q Mr. Hartman, have you previously testified
18 before this Commission, had your credentials as a petroleum
19 engineer accepted and made a matter of record?

20 A That is correct.

21 MR. CARR: At this time we tender Mr. Hart-
22 man as an expert petroleum engineer.

23 MR. STAMETS: The witness is considered
24 qualified.

25 Q (Mr. Carr continuing.) Mr. Hartman, will

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1 you refer to what has been marked for identification as Ex-
2 hibit Number Two and explain to the Examiner what it is and
3 note how it differs from Exhibit Number One?

4 A. Well, Exhibit Number Two is another land
5 plat that's been contoured on a contour point that we use to --
6 that we can use here to identify the base of the Jalmat. The
7 Jalmat is approximately 45 feet above the top this we're
8 contouring on.

9 The reason we're including that is, if
10 you'll notice the two different maps, we're getting a con-
11 siderable thickening in the geologic section in this area
12 as you get towards the reef, and just to show that we have
13 done studies of the area and we felt we understand the
14 geology involved in drilling the well, and in the event, you
15 know, our ability to operate is being contested, we wanted
16 to show that we have probably put forth more preparation
17 than anyone else in this case.

18 Q. Mr. Hartman, will you now refer to what
19 has been marked for identification as Exhibit Number Three?

20 A. Okay. Exhibit Number Three is an east/
21 west cross section through the area.

22 I present to make that -- just to give a
23 brief summary, the east/west cross section indicates that
24 we're dealing in an area that is predominantly a Jalmat gas
25 area. It was also prepared to show the risk that may be in-

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1 involved in drilling this well, and to explain our choice of
2 locations at this particular point in time.

3 I think you'll notice that there are con-
4 siderable water problems involved in the entire Jalmat in-
5 terval. For example, starting from left to right, Well No.
6 1, a well drilled by Shell Oil Company originally completed
7 as a Jalmat gas well, it's 1978 production if 14 barrels of
8 oil per day, 376 gas, 167 water.

9 When this well was originally drilled it
10 was completed as a gas well. The water has now influxed, as
11 well as oil had influxed into the area, and the well has
12 been reclassified as a Jalmat oil well.

13 But as you can see, this particular well
14 is producing a considerable amount of water.

15 Well No. 2 is a well that was drilled by
16 Burleson and Huff in early '68. It was originally completed
17 as a Langlie Mattix oil well, and I think optimistically
18 potentialed for 53 barrels a day. I don't think the thing
19 has made over 500 barrels of oil, the total, and it went to
20 water very rapidly, and Burleson and Huff has now plugged
21 the well back and completed the well as a Yates Jalmat Yates
22 gas well.

23 The well in July was producing approximately
24 116 Mcf of gas with 50 barrels of water.

25 The third well in the cross section is

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1 Texas Pacific Oil Company McKinney. It was originally
2 drilled R. Olsen. It tested 9 barrels of oil per day and
3 2-million, or potentialed for 9 oil and 2-million gas out of
4 the Seven Rivers section.

5 I'm not sure when this happened, but the
6 well was later converted to the water disposal well in the
7 lower part of the Jalmat interval and has a cumulative water
8 injection of about 7.8-million barrels of water, so that's
9 the reason we're trying to move as far, one of the things
10 we're trying to get away from in drilling this well, is to
11 get as far away as we can from this particular well, as far
12 as the effects it may have on us in the Seven Rivers section.

13 And Well No. 4 is a Jalmat gas well drilled
14 by Culberson and Irwin and Well No. 5 is a Langlie Mattix
15 water injection well that's also injecting some water in the
16 lower portion of the Jalmat gas interval.

17 So I think this cross section indicates
18 all the way across this whole area it's sort of spooky and
19 there are some risks involved in drilling this particular
20 well.

21 Q Will you now refer to what has been marked
22 for identification as Exhibit Number Four and explain this
23 to the Examiner?

24 A Exhibit Number Four, which is a north/
25 south cross section through the area, shows -- starts from

1 the north and goes south. It shows the Van Zandt No. 1. It
2 was completed as a Jalmat gas well for 7.8-million and has
3 subsequently been recompleted by Texas Pacific as a Langlie
4 Mattix producer.

5 Number two is the same disposal well that
6 we discussed in the last cross section.

7 Well number three there, which is Petco
8 Shell "A" State, was originally completed as a Langlie
9 Mattix producer and then has -- at a latter date was recom-
10 pleted to the Jalmat in the Upper Yates. A DST taken in
11 the Jalmat section, the Yates Jalmat section, showed that
12 it had good productive, you know, potential when the well
13 was originally completed but at this point in time it's a
14 very poor producer, also.

15 The next well is a well drilled by Texaco
16 and has been converted or has been turned over to Union Texas
17 as the Langlie Jal Unit No. 15, as a water injection well
18 in that project. But it shows good gas tests all the way
19 from the Yates section down through the Queen section, and
20 the water injection in that particular well is in the Queen
21 section only.

22 The next cross section is another injection
23 well in the Langlie Jal Unit showing water injection into
24 the lower part, also, of the Jalmat interval. So -- but
25 again showing that there are several problem wells in this

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1 particular area, also, on this particular cross section.

2 Q Mr. Hartman, do you believe you're assuming
3 a fairly substantial risk in drilling this well?

4 A Yes, we do.

5 Q Do you have a recommendation to make to
6 the Examiner as to what risk factor should be applied against
7 those who do not participate?

8 A Well, I feel like the risk factor should
9 be 200 percent, due to the amount of risk involved.

10 Q Will you please refer to what has been
11 marked for identification as Exhibit Number Five and ex-
12 plain this to the Examiner?

13 A Okay, Exhibit Number Five is a copy of an
14 AFE which was submitted to all of the parties who we felt
15 would possibly have working interests in the northwest of
16 the northeast, and those were sent out, I think, in our
17 letters of August 1st and August 3rd to Shell and Deck, et
18 al.

19 Okay, the AFE is based on drilling costs
20 that we have experienced in the area. They reflect New
21 Mexico state sales tax, which are part of your actual cost
22 of drilling. They also, we've included such items as pump
23 and equipment, electrical equipment and what have you, due
24 to the fact we feel like we'll probably have to lift some
25 water, even with a gas completion.

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1 Q Mr. Hartman, in your opinion, are these
2 costs in line with other wells drilled to this depth in the
3 area?

4 A Very close.

5 Q Are you prepared to make a recommendation
6 to the Examiner as to the overhead and administrative costs
7 to be assessed while the well is drilling and while producing
8 if it is in fact a commercial producer?

9 A Okay, we're proposing \$225 per well per
10 month fixed well monthly overhead rate and a drilling well
11 rate of \$2250, which is a 10-to-1 factor and a factor com-
12 monly used in the oil industry.

13 Q And are these figures comparable to what's
14 being charged by other operators?

15 A That is correct, and actually, they don't
16 reflect total or nearly even true, or actual costs. We lose
17 money operating at those costs.

18 Q Mr. Hartman, how many wells have you
19 drilled in this area to the Jalmat?

20 A Well, not only Jalmat, we have drilled,
21 or shallow wells in this area, we have approximately forty.

22 Q And do you request to be designated oper-
23 ator of the proposed well?

24 A That is correct.

25 Q Now why are you proposing to drill at this

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1 particular unorthodox location?

2 A The reason we're proposing to drill at this
3 unorthodox location is to move as far as possible away from
4 the McKinney, Texas Pacific McKinney disposal well, but also
5 stay away as far as we can from the acreage in the west half
6 or the east half of the northwest. The shallow wells that
7 have been drilled in that area, along in that row of 40's
8 is all -- they have been disastered and shown, you know,
9 particular water problems in the past, so we've chosen
10 where we thought is probably the safest of, you know, the
11 locations, even though I'm not saying it's safe.

12 Q Are there other unorthodox locations in
13 the area?

14 A Yes, there are other -- many unorthodox
15 Jalmat locations that we know of.

16 Q Mr. Hartman, will, in your opinion, the
17 creation of the non-standard proration unit and the drilling
18 of the proposed well result in the recovery of hydrocarbons
19 that would otherwise not be recovered?

20 A It's the only way it's going to be recovered.

21 Q In your opinion will granting this appli-
22 cation be in the interest of conservation, the prevention
23 of waste, and the protection of correlative rights?

24 A Yes.

25 Q And did you prepare or have you reviewed

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1 and can you testify as to the accuracy of your Exhibits Two,
2 through Five?

3 A. These exhibits were prepared under my
4 supervision.

5 MR. CARR: At this time, Mr. Examiner, we
6 would offer into evidence Applicant's Exhibits Two through
7 Five.

8 MR. STAMETS: These exhibits will be ad-
9 mitted.

10 MR. CARR: I have nothing further on
11 direct.

12 MR. STAMETS: Any questions of the witness?

13 MR. KELLAHIN: Yes, sir.

14 MR. STAMETS: Mr. Kellahin.

15

16

CROSS EXAMINATION

17

BY MR. KELLAHIN:

18

Q Mr. Hartman, you've indicated you've

19

drilled about forty shallow wells in this area.

20

A. That is correct.

21

Q Of that forty, how many were Jalmat gas

22

wells?

23

A. Let's see, oh, I'd have to say about

24

eight or nine. Or I'd have to stop and count, to be honest

25

with you.

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- 1 Q Approximately eight or nine, give or take?
- 2 A Yeah, it would maybe be close to that
- 3 point.
- 4 Q And of those forty wells how many were
- 5 Jalmat oil wells?
- 6 A We've got one Jalmat oil well.
- 7 Q Where is the closest Jalmat gas well to
- 8 your proposed location that you operate?
- 9 A The closest Jalmat -- there's two of them, I guess,
- 10 would look like to me would be sort of equal distance,
- 11 Phillips Vernon No. 1 and Petco's State 2-Y, located in
- 12 Unit H and Unit J.
- 13 Q In Section 36?
- 14 A In Section 36.
- 15 Q Where is the Phillips well?
- 16 A The Phillips well is the Vernon No. 1 and
- 17 it's located in Unit J, and the Petco Shell, or the State
- 18 2-Y is located in Unit H.
- 19 Q What's the proration unit assigned to the
- 20 gas well, the Vernon J, is it?
- 21 A They have 40 acres assigned, consisting
- 22 of the northwest/southeast 36.
- 23 Q Only have 40 acres assigned to that Jalmat
- 24 gas well?
- 25 A That's correct.

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1 Q Okay. And then the oil well only has a
2 40-acre acreage dedication to that well?

3 A Well, would you give me that again?

4 Q Yeah.

5 A I'm sorry.

6 Q What's the proration unit for the gas well?

7 A Which gas well?

8 Q The Vernon.

9 A The Vernon No. 1 has the northwest of the
10 southeast dedicated to it.

11 Q And that's a gas well?

12 A That's correct.

13 Q Okay.

14 A Well, I don't even know what it is right
15 now. It's been gas and oil, at various points in time.
16 But our most recent check, I believe it is a gas well.

17 Q Is there any reason why you can't simply
18 dedicate your 40-acre tract to a Jalmat gas well?

19 A I believe that the drilling on a 40-acre
20 location is going to make the economics very unattractive.

21 Q Tell me how that will happen.

22 A Well, at the best, assuming a top allowable
23 well, and the allowable that -- the historical allowable,
24 I'd say, for the year, year and a half, you're looking at
25 approximately a three-year payout.

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1 Q On a 40-acre allowable?

2 A Yes. In addition to that you've also
3 got other problems involved. If water problems do exist and
4 we're restricted to that low a flow rate, we may incur
5 damage by producing at that low a flow rate, and we would be
6 unable to keep the well cleaner due to the fact we'd be
7 restricted on our allowable.

8 Q This is a prorated gas pool for the Jalmat
9 gas?

10 A That's correct.

11 Q And how -- and how is it prorated, straight
12 acreage factor?

13 A It is prorated by acreage.

14 Q Generally a Jalmat gas well to be marginal
15 would produce how much gas?

16 A Well, a marginal well is a well that
17 produces, my understanding of it, that produces less than
18 the -- than the allowable. And the allowable does fluctuate
19 from month to month. I would assume, and I'd probably be
20 fairly close, that 550 Mcf per day would probably be a good
21 average for a full year, and you are allowed to -- you can
22 overproduce some months and underproduce in some months.
23 But you eventually have got to make it up, assuming you re-
24 main top allowable.

25 Q What would your payout be based upon 120-

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1 acre proration unit?

2 A Well, based on 120 acres it would be
3 larger; I mean less; shorter.

4 Q Do you have an estimate of how long it
5 would pay out based upon 120 acres?

6 A I would say just divide three years by
7 three; approximately a year, assuming a top allowable well.

8 Q This Petco Well 2-Y in Section 36, in the
9 southeast of the northeast quarter, is that a Jalmat gas
10 well?

11 A That is a gas well.

12 Q It's still classified as a Jalmat gas well?

13 A As far as I know it is.

14 They have one well that's abandoned and
15 one well that's producing.

16 Q What's the acreage dedication to that well?

17 A Okay, it has 80 acres dedicated to it,
18 consisting of the southeast of the northeast and the north-
19 east of the southeast.

20 As you can see, I think you can see we're
21 hemmed in here.

22 Q Let's look at the 40 acres to the west,
23 Mr. Hartman. Is there any producing Jalmat gas well on that
24 40 acres?

25 A No, there is not.

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1 Q So that would be a 40-acre tract that's
2 still open from which you could form an 80-acre non-standard
3 gas proration unit?

4 A I'd be glad to do that.

5 Q May we now dismiss your application for
6 forced pooling of Mr. Deck so that you can go ahead and
7 force pool the southeast of the northwest quarter of Section
8 36?

9 A Are you asking me that?

10 Q Yes, sir.

11 A Nope.

12 Q I thought you just told me you'd be glad
13 to.

14 A I'd be glad to if we had something in
15 writing.

16 Q In writing from whom for what purpose?

17 A From Mr. Deck and Shell Oil Corporation.

18 Q To what extent?

19 A Well, to the extent that someone would
20 cooperate with us.

21 Q I'm sure Mr. Deck and the Shell Company
22 would be happy to cooperate with you to let you form a non-
23 standard gas proration including that 40 acres to the west.

24 A Well, we are not aware of their coopera-
25 tion, since we get very little correspondence from either

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1 party.

2 Q If I can -- excuse me for interrupting
3 you, but if I can obtain that correspondence for you, would
4 you agree to the dismissal of this forced pooling application?

5 A I would agree to it once I saw the corres-
6 pondence because we've been down this road before of going
7 on someone's word.

8 Q Who are the interest owners in that 40-
9 acre tract to the west?

10 A As far as we can tell, and I did not do
11 the land work, but J. A. Davidson did that, we feel like the
12 ownership is the same in the 40 to the west as it is in the
13 40 we're attempting to force pool.

14 Q And what is the status of that old Jalmat
15 well in that 40-acre tract?

16 A The status, as far as we can tell from
17 I would say the engineering committee records, is that the
18 well last produced prior to 1973.

19 Q Has it been plugged and abandoned?

20 A No, I didn't say that. I said last pro-
21 duced prior to 1973.

22 Q I understand. I just wanted to clarify
23 it.

24 What acreage is dedicated to that Jalmat
25 gas well?

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1 A. Okay, it originally had 160 acres dedicated
2 to it consisting of the east half northwest, northwest north-
3 east, northeast southwest.

4 But our --

5 Q Is that still the acreage dedicated to it?

6 A. Our check of the records indicated that
7 that communitization agreement which tied all this together,
8 had been terminated. It was terminated in 1972.

9 Q Do you have a copy of that termination?

10 A. My attorney does. There is one in existence
11 in the files.

12 MR. CARR: We'll get another copy from the
13 Land Office and bring it.

14 Q Mr. Hartman, let me ask you about the well
15 that's located in the northeast quarter of the northwest
16 quarter.

17 A. Yes.

18 Q What is that well?

19 A. My understanding, it's an Ellenburger gas
20 well.

21 Q That 40-acre tract, then, is not now dedi-
22 cated to any Jalmat gas well?

23 A. Well, assuming that the Jalmat -- 160-acre
24 Jalmat gas proration unit ceased to exist, that's correct,
25 but again, we can't go in that direction because it's non-

1 contiguous.

2 Q You indicated that you drilled some eight
3 or nine Jalmat gas wells. How many of those wells, Mr.
4 Hartman, were dry holes?

5 A Well, none were dry.

6 Q How many Jalmat gas wells have you drilled
7 that were dry holes?

8 A None. Oh, hold it. Since when? Okay, I
9 do not operate any, you know, that are dry. We have a very
10 poor Jalmat gas well we have sold.

11 Q I'm trying to determine some basis for
12 your opinion that there is a substantial risk involved, Mr.
13 Hartman. My question is, of the number of Jalmat gas wells
14 that you have drilled, you've indicated to me you have eight
15 or nine wells. I assume those were eight or nine producers
16 and that you've been 100 percent successful.

17 A That's correct, but we would like -- I
18 would also like to state that if we'd shown the water prob-
19 lems that exist in the area, we have experienced water prob-
20 lems on several, severe water problems on several of these
21 Jalmat wells. One of them drove our costs up very substan-
22 tially. So if we want to take that approach, I think we've
23 got a -- you've got to inflate your cost, also, corresponding-
24 ly.

25 Q But this proposed well is being drilled

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1 with the benefit of that prior knowledge about the water/oil
2 or the water/gas contact.

3 A That's right, and someone needs to drill
4 the well.

5 Q I understand that. Would you identify for
6 me any of the Jalmat gas wells in the immediate area that
7 have been dry holes?

8 A Okay. Let's -- I think to be honest, you
9 cannot -- you're not going to get what is considered an out-
10 right dry hole in this area. You are going to get wells that
11 are considered uneconomic, and that's the same situation.

12 Q What is your definition of an uneconomic
13 well?

14 A A well that's not going to pay out. Now,
15 to me, I'd rather have an outright dry hole than one that
16 is not going to pay out, and when you drill one in this area,
17 you're probably going to -- you're going to run pipe no
18 matter what the logs say.

19 Q You'd rather lose all your money than some
20 of your money?

21 A No. I don't think things have progressed that
22 far that you can tell.

23 Q All right. Would you identify for me the
24 Jalmat gas wells in the immediate area you consider unecono-
25 mic?

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1 A. Well, okay, if you want to consider the
2 ones in the southeast of the northeast as uneconomic, I
3 would say the one in the southeast of the northeast is un-
4 economic. I would say the one in the northeast of the -- or
5 northwest of the southeast is uneconomic. You've got one
6 over in Section 31 in the southwest of the -- or southeast
7 of the northwest. You've got a Jalmat gas well in the west
8 half of the southwest of 31. So they're -- they're all
9 around, really. I would say the one that Burleson and Huff
10 have in the southeast of the southwest will have an extremely
11 long payout.

12 Q. It appears from your plat, Mr. Hartman,
13 that of all these 40-acre tracts that offset your proposed
14 location, either diagonally or horizontally or vertically,
15 there are only two of those 40-acre tracts in which wells
16 have not been drilled to test the Jalmat, is that not true?

17 A. That is true.

18 Or, well, I would say you would have to
19 say three. Where the Devonian well is that's never been
20 tested in the Jalmat.

21 Q. All right, that's the first one I was
22 thinking about.

23 The Deck 40-acre tract has not been tested.
24 That's the second one.

25 A. That's right.

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1 Q Show me any others.

2 A Okay, the one that we're proposing hasn't
3 been drilled, either.

4 Q All right.

5 A And then also you've got acreage over in
6 the west half of the southwest of 36 that's undrilled.

7 Q Would you drill a location in the Deck
8 40-acre tract?

9 A Well, based on my experience now, or our
10 knowledge of the Burleson and Huff Well in 25, I think that
11 has to make that look like a poor shot, also. That was ori-
12 ginally our idea as being a better location.

13 Q That's why I asked the question. What
14 has occurred to change your mind, Mr. Hartman, from --

15 A The Burleson.

16 Q -- north to south?

17 A It's the Burleson - Huff well in the south-
18 east of the southwest of 25.

19 Q So in the last year, based upon that addi-
20 tional information, you have now perfected what you believe
21 to be a less risky location?

22 A Slightly less, but the only reason we can
23 say that is in view of the fact that it hasn't been drilled.
24 It's just a -- you have two shots there; you don't want to
25 take the riskier of the two.

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1 Q What do you figure, you've got a 50-50
2 chance of an economic well at that location?

3 A I think you've got a pretty good chance of
4 having a poor well due to the fact that there are such
5 numerous water problems. If locations were more plentiful,
6 we probably wouldn't even be looking at it.

7 Q Where is the water contact?

8 A The original --

9 Q Is that shown on any exhibits?

10 A Probably the original water contact was
11 -300, but there's a lot of things that have gone on in this
12 area. You're dealing -- you're close to the reef, that makes
13 it different. There's been water injection and water dis-
14 posal in the area, also. All three of those factors drive
15 up the risk.

16 I think you can tell by the Shell well in
17 the northwest of the northwest, it was a very high structural
18 well.

19 Q Now when was that well drilled?

20 A That well was drilled in 1953 but even it
21 makes a considerable amount of water; probably coming out
22 of the reef.

23 Q Well, that was 25 years ago, though, Mr.
24 Hartman. You're going to drill one here in '79 with the
25 benefit of all that additional information, aren't you?

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1 And that's going to diminish your risk, isn't it?

2 A No, as a matter of fact, it drives it up,
3 because of what's happened in the area. It's just -- when
4 you get close to the Yates Seven River reef there, the loca-
5 tions get a little bit riskier.

6 Q Is this risky enough that you're going to
7 abandon your farmout from Phillips?

8 A No.

9 Q Okay. What was the date of the completion
10 of your last Jalmat gas well, Mr. Hartman?

11 A Oh, let's see, we completed a Jalmat gas
12 well, let's see, approximately three or four weeks ago.

13 Q And where is that Jalmat gas well?

14 A It's located in Section 9. Let's see,
15 the northwest of the southeast of Section 9, 25, 37.

16 It's called the El Paso Pritchard Federal
17 No. 1.

18 Q And that's been an economic well?

19 A Yes, but we're -- today or yesterday we
20 set a pumping unit on it.

21 Q And what was your cost on that well?

22 A Well, I would say the cost is going to be
23 approximately \$225,000 including pumping equipment.

24 Q Who are your partners in that well?

25 A I'm the operator.

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1 Q Do you have the entire interest in it?

2 A Well, we have some working interest owners
3 in addition to myself.

4 If you'd like to review the drilling
5 footage cost, the costs are \$9.89 a foot; \$1.05 tax; our rig
6 move on the Pritchard was \$9,500; bringing the cost well
7 over \$12.00 a foot.

8 Q You've indicated on your AFE that the cost
9 per foot is \$12.97?

10 A That's correct.

11 Q And the cost on your El Paso well was what?

12 A It's right in that area.

13 Q I thought you said it was \$9.80?

14 A No, I said \$9.89 plus five percent sales
15 tax, plus rig move, and there's other factors that the oper-
16 ator has to furnish that you've got to bill into the footage
17 cost.

18 Q And those factors have been built into
19 this footage cost --

20 A That's correct.

21 Q -- on this AFE.

22 A And that's Capitan Drilling.

23 Q Is it common to fracture and acidize the
24 Jalmat gas zone?

25 A I believe that's about the only way you're

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1 going to get a successful well.

2 Q You've indicated \$15,000 for a pumping
3 unit. Is it common practice to pump the Jalmat gas zone?

4 A Well, when you have to move water, it is.
5 Because you're dealing with bottom hole pressures at as low
6 as, I'd say, 150 pounds, and if you move much water, you're
7 not going to lift that by flowing.

8 Q How many of your other Jalmat gas wells do
9 you pump?

10 A We've got, I would say, the majority of
11 them.

12 MR. KELLAHIN: I have nothing further,
13 thank you.

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

16 Oh, Mr. Carr, how do you wish to offer
17 these?

18 MR. CARR: If it's your desire, Mr. Examiner,
19 we would offer that as Applicant Exhibit Number Seven.

20 MR. STAMETS: Would you like to have your
21 first witness, Mr. Davidson, testify to that?

22 MR. CARR: I'd be glad to call him. It's
23 an official public record and you certainly could take note
24 of it, but -- from the records of the State Land Office -- if
25 Mr. Davidson would like to re-take the stand.

JAMES A. DAVIDSON

resuming the witness stand, testified as follows, to-wit:

REDIRECT EXAMINATION

BY MR. CARR:

Q Mr. Davidson, I refer you to what has been marked as Applicant's Exhibit Number Seven and ask where you obtained this?

A This is a Xeroxed copy of a part of the record out of the State Land files, case file, and one of the employees accompanied me to your reproduction room to shoot it and then return the file.

Q Is this a true and correct copy of the document in the State Land Office files?

A Yes, sir.

MR. CARR: At this time, Mr. Examiner, we would offer into evidence Applicant's Exhibit Number Seven.

MR. STAMETS: Exhibit Seven will be admitted.

Do you have anything further, Mr. Carr?

MR. CARR: I have nothing further.

MR. KELLAHIN: May we have a minute?

MR. STAMETS: Sure.

(Thereupon a recess was taken.)

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1
2 MR. KELLAHIN: If the Examiner please, on
3 behalf of Mr. Deck, we propose to take Mr. Hartman up on
4 his offer to obtain waivers as to that 40-acre tract to the
5 west, and therefore, based upon our efforts to accomplish
6 that end, we will not put on our witness at this time.

7 MR. STAMETS: How much time should be
8 required to resolve that matter?

9 MR. KELLAHIN: I would expect ten days
10 ought to be enough to get the mail circulated.

11 MR. DAVIDSON: We have to get Deck, et al,
12 and Shell.

13 MR. CARR: We have to have that question
14 resolved, but if that other 40 is available and it can be
15 put together, I don't believe we have any objection to that.

16 MR. HARTMAN: And we can get a non-standard,
17 you know, proration unit approval.

18 MR. CARR: We would still be looking at
19 a non-standard proration unit and the same well location,
20 but I think in terms of the particular acreage involved,
21 we can resolve that.

22 MR. STAMETS: All right, the Examiner will
23 take no action in this case for two weeks and I would hope
24 that the attorneys will keep me advised in whether or not
25 this case needs to be dismissed or whether or not there is

1 a solution.

2 Is there anything further in this case?

3 The case will be taken under advisement.

4
5 (Hearing concluded.)
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REPORTER'S CERTIFICATE

I, SALLY W. BOYD, a court reporter, DO HEREBY CERTIFY that the foregoing and attached Transcript of Hearing before the Oil Conservation Division was reported by me; that the said transcript is a full, true, and correct record of the hearing, prepared by me to the best of my ability from my notes taken at the time of the hearing.

Sally W. Boyd C.S.R.
Sally W. Boyd, C.S.R.

I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 6650
heard by me on 9-5-19 27.
Richard L. Plunk Examiner
Oil Conservation Division

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STATE OF NEW MEXICO
 ENERGY AND MINERALS DEPARTMENT
 Oil Conservation Division
 State Land Office Building
 Santa Fe, New Mexico
 5 September 1979

EXAMINER HEARING

IN THE MATTER OF:

Application of Doyle Hartman for com-) CASE
 pulsory pooling, non-standard gas pro-) 6650
 ration unit, and unorthodox well loca-)
 tion, Lea County, New Mexico.)

BEFORE: Richard L. Stamets

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation Division:	Ernest L. Padilla, Esq. Legal Counsel for the Division State Land Office Bldg. Santa Fe, New Mexico 87503
For the Applicant, Doyle Hartman:	William F. Carr, Esq. CAMPBELL & BLACK P. A. Jefferson Place Santa Fe, New Mexico 87501
For the Millard Deck, et al:	W. Thomas Kellahin, Esq. KELLAHIN & KELLAHIN 500 Don Gaspar Santa Fe, New Mexico 87501

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1
2 MR. STAMETS: We'll call next Case Number
3 6650.

4 MR. PADILLA: Application of Doyle Hartman
5 for compulsory pooling, non-standard gas proration unit, and
6 an unorthodox well location, Lea County, New Mexico.

7 MR. STAMETS: Call for appearances in the
8 case.

9 MR. CARR: Mr. Examiner, I'm William F.
10 Carr, Campbell and Black, P. A., appearing on behalf of the
11 applicant. I have two witnesses.

12 MR. KELLAHIN: I'm Tom Kellahin of Santa
13 Fe, New Mexico, appearing on behalf of Millard Deck, and I
14 have one witness.

15 MR. STAMETS: I'd like to have all wit-
16 nesses stand and be sworn at this time.

17
18 (Witnesses sworn.)
19

20 JAMES A. DAVIDSON
21 being called as a witness and having been duly sworn upon
22 his oath, testified as follows, to-wit:
23

24 DIRECT EXAMINATION

25 BY MR. CARR:

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1 Q Will you state your full name and place
2 of residence?

3 A James A. Davidson, Midland, Texas.

4 Q Mr. Davidson, by whom are you employed
5 and in what capacity?

6 A I'm an independent landman retained by Mr.
7 Hartman.

8 Q Have you previously testified before this
9 Commission and had your credentials accepted and made a
10 matter of record?

11 A Yes, sir.

12 Q Are you familiar with the application in
13 this case?

14 A Yes, sir.

15 MR. CARR: Mr. Examiner, are Mr. Davidson's
16 qualifications as an independent landman acceptable?

17 MR. STAMETS: They are.

18 Q (Mr. Carr continuing.) Mr. Davidson, will
19 you briefly summarize what Mr. Hartman seeks with this ap-
20 plication?

21 A He seeks approval for compulsory pooling,
22 a non-standard proration unit, and an unorthodox location,
23 all pertaining to the west half northeast quarter, Section
24 36, Township 24 South, Range 36 East, Lea County, New Mexico.

25 Q Now, by way of background, Mr. Davidson,

1 I'd like to ask you some more questions.

2 First of all, what interest does Mr. Hart-
3 man have in the proposed unit?

4 A He has a farmout from Phillips Petroleum
5 Company covering 50 percent of the unit, being the southwest
6 quarter of the northeast quarter.

7 Q When was this farmout obtained?

8 A In 1978, and it's been extended currently.

9 Q Now, Mr. Davidson, I believe there's been
10 some confusion as to the ownership of the leasehold rights
11 in the northwest quarter of the northeast quarter. Could
12 you explain what has transpired in that regard?

13 A The problem with ownership occurs in the
14 chain of title from Shell Oil Company, the original owner,
15 to John Yuronka, et al, and a later assignment to a group,
16 which Mr. Deck is one of them, and in the farmout agreement
17 it states that if a well ceases to produce on the farmed out
18 acreage Shell can give telegraphic notice and reassignments
19 will be made to them, and we've never been able to determine
20 from any of these parties, including Shell, whether this
21 notice has been given.

22 So the title to that 40 is either owned by
23 Shell 100 percent or by Mr. Deck, et al, 100 percent, and we
24 don't know which.

25 Q But notice was given to Shell and to the

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1 other interest owners, no matter which way this goes?

2 A. Yes.

3 MR. STAMETS: The northwest of the north-
4 east, then, was a farmout from Shell to who?

5 A. It first went to John Yuronka in Midland
6 and he assigned it to Mr. Deck and three or four other
7 parties, the parties named in this, in our application.

8 MR. STAMETS: Okay, thank you.

9 Q. Mr. Davidson, what efforts have been made
10 to drill a well on this 80 acres?

11 A. We've been trying to get this well drilled
12 since pretty early in 1978, and shall I go into the previous

13 Q. Yes.

14 A. We appeared one other time in 1978 at this
15 Commission for forced pooling and we failed to have named
16 in that one of the parties that would own under the Deck
17 interest because we thought we had a deal made with him.
18 Our understanding of the reducing the override, proportionate
19 reduction of the override, and his understanding differed,
20 and we were never able to resolve it, and so we couldn't
21 drill the well with -- until -- we had not force pooled him.
22 Our agreement cratered, our understanding of it, so the time
23 ran out, even though it was extended one time by the Commission
24 while we were trying to work that out.

25 Q. And you did receive an order force pooling

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1 the acreage but you did omit one party?

2 A Yes, sir.

3 Q And you're seeking --

4 A With a large interest.

5 Q And you're seeking approval of the same
6 acreage in this order today?

7 A Yes, sir.

8 Q Mr. Davidson, will you refer to what has
9 been marked for identification as Exhibit Number One.

10 A Exhibit One is just simply a land map that
11 shows the proposed 80-acre unit that Mr. Hartman would like
12 to drill on, and it's contoured on the top of the Yates.

13 Q And what are the green traces?

14 A The green traces are a line of cross sec-
15 tions that Mr. Hartman will testify to subsequently.

16 Q Mr. Davidson, could you have put together
17 a larger unit?

18 A We are unable to put a larger together
19 because of our -- the terms of our Phillips farmout. The
20 Phillips farmout limits us to this 80-acre unit.

21 Q And what is the standard spacing in this
22 zone?

23 A It's 640.

24 Q And are there other non-standard proration
25 units in this pool?

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1 A Yes, sir, there are a great number of non-
2 standard proration units.

3 Q Mr. Davidson, have you reviewed Exhibit
4 Number One and can you testify as to its accuracy?

5 A Yes, sir.

6 MR. CARR: At this time, Mr. Examiner, we
7 would offer Applicant's Exhibit Number One.

8 MR. STAMETS: It will be admitted.

9 MR. CARR: I have nothing further of this
10 witness on direct.

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

13 MR. KELLAHIN: Yes, sir.

14
15 CROSS EXAMINATION

16 BY MR. KELLAHIN:

17 Q Mr. Davidson, at the time Mr. Hartman ob-
18 tained the farmout from Phillips in 1978 for the southwest
19 quarter of the northeast quarter had Phillips already
20 drilled that well located in the northwest quarter of the
21 southeast quarter of Section 36?

22 A No, I don't believe so. I'm not really in
23 a position to answer that. We may have to get Mr. Hartman
24 to, but we can answer it. We'll get it answered for you.

25 Q What is the basic lease for which the 40

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1 acres was a part of it?

2 A. The basic Phillips lease?

3 Q. Yes, sir.

4 A. It's just a State lease that Phillips owns.

5 Q. And what acreage is in that State lease?

6 A. As far as I know, just the southwest of
7 the northeast. Let me look.

8 MR. CARR: A number of these questions
9 might be more appropriately directed to Mr. Hartman.

10 MR. KELLAMIN: All right.

11 A. Okay, the total Phillips lease covers the
12 southwest quarter of the northeast quarter and the northwest
13 quarter of the southeast quarter of Section 36, Township 24
14 South, Range 36 East.

15 We -- Mr. Hartman only has the one 40. He
16 does not have the other.

17 Q. Was there anything in the farmout from
18 Phillips Petroleum to Mr. Hartman that precluded him, Mr.
19 Hartman, from drilling a Jalmat gas well in this particular
20 lease?

21 A. You mean drilling it on this? I don't
22 understand the question. You mean drilling it on the 40 that
23 he has under farmout?

24 Q. Yes, and dedicating the other 40 acres
25 that --

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1 A Yes, his farmout agreement covers only the
2 southwest of the northeast, and it anticipates a unit to be
3 formed of the east half of the north -- the west half of the
4 northeast.

5 Q So at the time Mr. Hartman took this lease
6 or farmout from Phillips in '78 he knew that he only had
7 40 acres to dedicate to either an oil well or gas well in --

8 A He knew he had to get either voluntary --
9 try to get voluntary agreement out of the owners of the
10 other 40.

11 Q You've indicated in your testimony, Mr.
12 Davidson, that Mr. Hartman has selected an 80-acre non-standard
13 proration unit. Do you know why 80 acres was chosen and not
14 some other acreage factor?

15 A Yes. He's made a diligent effort to get
16 other acreage in the area. Are you, in other words, are you
17 saying why he chose this 80 or only an 80?

18 Q Why did he choose only an 80?

19 A Because Phillips' farmout requires only an
20 80. It can't be larger. It dilutes the Phillips override.

21 Q The Phillips' farmout, if I understand you,
22 if Mr. Hartman was to drill a Jalmat gas well, that in ap-
23 plying to the Commission for a non-standard proration unit
24 to dedicate to that Jalmat gas well, it could not be for more
25 than 80 acres?

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1 A That's right.

2 Q All right.

3 A And Mr. Hartman is willing to drill it on
4 that -- on that short proration unit.

5 Q At the time Mr. Hartman took the farmout
6 from Phillips did he have any other acreage available to him
7 by which he could compose an 80-acre non-standard proration
8 unit?

9 A He did not.

10 Q Have you, or Mr. Hartman to your knowledge,
11 examined the possibility of dedicating the 40-acre tract
12 immediately to the east of the 40 acres held by Mr. Hartman?

13 A Yes. Yes.

14 Q And what were the results of that investi-
15 gation?

16 A We were turned down by the owners of it,
17 Petroleum Company of Texas, I believe.

18 Q He's not sought to force pool that 40-acre
19 tract?

20 A No.

21 Q Okay. And how about the 40-acre tract
22 immediately to the west of the 40 acres of Mr. Hartman, that
23 40-acre tract in the southeast quarter of the northwest
24 quarter?

25 A Let's see, that's right, that's owned by

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1 either Shell or by Mr. Deek, et al. It's the same chain of
2 title.

3 Q To your knowledge, did you contact Mr.
4 Decek and the owners of that 40-acre tract with regards to
5 forming a non-standard proration unit for the drilling of
6 this well?

7 A To include the 40 west of the Phillips' 40?

8 Q Yes, sir.

9 A No, we did not.

10 Q Do you know why you've not done that?

11 A Well, for one reason, when we started here
12 over worrying about the geology of the area, we were first
13 going to drill the well on the Deek-Shell 40, the northwest
14 of the northeast. We later changed our minds, but that's
15 one reason.

16 Q Are you aware that the 40-acre tract that
17 you propose to force pool, being the northwest quarter of
18 the northeast quarter of Section 36, is already dedicated to
19 a Jalmat gas well?

20 A It's -- that it was subject to a communi-
21 tization agreement which has been terminated on the State
22 records, and that well hasn't produced in quite some time.
23 Now that's something Mr. Hartman can testify to better than
24 I, but we've got a copy of the cancellation on the State re-
25 cords downstairs.

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1 Q And which well was that? Where is the well
2 located?

3 A The well is in the southeast quarter of
4 the northwest quarter.

5 Q And that was a Jalmat gas well, wasn't it?

6 A Yes.

7 Q And what is the ownership of that 40-acre
8 tract? Do you know?

9 A As far as we know, it's exactly the same
10 as the ownership of the northwest of the northeast quarter.
11 Both the Shell interest and the Mr. Deck, et al.

12 Q You indicated, Mr. Davidson, that you gave
13 notice both to Shell and Mr. Deck with regards to the forced
14 pooling of that 40-acre tract. Now, do you have return re-
15 cepts from both parties indicating service of the notice?

16 A No, I don't think we have return receipts.
17 We sent out these notices in 1978 and --

18 Q But those notices in '78, Mr. Davidson,
19 were for the last hearing.

20 A That's right, and we sent them out again.
21 Now, we have talked to Mr. Deck. We've got them from Shell
22 and Mr. Nelson, but we don't have one from Mr. Deck.

23 Q Who signed for the Shell return receipt?

24 A J. C. Michaels, M-I-C-H-A-E-L-S.

25 Q And to what Shell office was that mailed?

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1 A. P. O. Box 1509, Midland, Texas.

2 Q. In dealing with Shell with regards to that
3 40-acre tract, had you been dealing with the Midland office?

4 A. We've been dealing with the Midland office
5 and the Houston office, but primarily the Houston office.

6 Q. Primarily you've been dealing with the
7 Houston office but you sent the notice to the Midland office.

8 A. Well, I don't think that makes any differ-
9 ence.

10 Q. Who is the gentleman in the Shell Houston
11 office that you've been dealing with, Mr. Davidson?

12 A. Norman Hrachovy in the land department.

13 Q. And that's H-R-A-C-H-O-V-Y?

14 A. H-R -- yes, yes, sir.

15 Q. You didn't send a notice to Mr. Hrachovy?

16 A. Are you -- may I ask a question? Is he
17 representing Shell or Mr. Deck?

18 MR. CARR: I think you can just go ahead
19 and answer the questions.

20 A. Okay. Okay, excuse me, counsellor.

21 Q. Did you send a notice to Mr. Hrachovy?

22 A. Yes, we did. You mean a registered notice
23 with a return receipt requested?

24 Q. Yes.

25 A. No, we did not. No, it went to the Midland

1 office and Mr. Hrachovy is in the Houston office.

2 Q What, if any, correspondence or telephone
3 calls did you have with Mr. Deck concerning his interest in
4 the 40-acre tract prior to sending him the notice of the
5 hearing?

6 A Well, we've had a number of talks with both --
7 mainly Mr. Philip Bishop, his attorney, in Ft. Worth, and
8 one or two with Mr. Deck, and we've had a lot of correspondence
9 with Mr. Bishop with copies of all those letters to Mr. Deck.
10 And this has gone on, like you say, before the first hearing
11 in '78 and it's carried on through -- up to date.

12 Q Tell me again, Mr. Davidson, why you aban-
13 doned your efforts under the forced pooling order in '78?

14 A We had a phone call with Mr. Deck wherein
15 we had an agreement that he would make a farmout on a 70
16 percent revenue interest to his interest, so the operator
17 would get a -- the operator would get 70 percent and he
18 would retain a 30 percent override and absorb his -- his
19 burdens.

20 We mailed the farmout letter to Mr. Deck,
21 which we introduced it as an exhibit in the 1978 hearing,
22 and it was re-drafted by Mr. Bishop and the net effect of
23 the proportionate reduction clause was that instead of it
24 being a 70 percent net revenue interest it was 52-1/2, and
25 we never resolved that problem. It was a simple misunder-

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1 standing between us and Mr. Bishop.

2 Q I believe you told me already, Mr. David-
3 son, but you do not know why Mr. Hartman has picked this
4 particular configuration for the 80-acre tract?

5 A Not -- no, I'll let him testify to that
6 since he's here.

7 MR. KELLAMIN: I have no further questions.

8 MR. CARR: I have nothing further on re-
9 direct.

10
11 CROSS EXAMINATION

12 BY MR. STAMETS:

13 Q Who has not agreed to the communitization
14 of this 80-acre tract?

15 A None of these parties that were named in
16 the notice, Shell on the one hand, and the Deck group on
17 the other. We've not had agreement from any of them.

18 The only party that's agreed is Phillips
19 that has the other half that we have under the farmout, that
20 Mr. Hartman has under farmout.

21 Q And you have contacted everybody and there
22 was evidence that you had done this in a previous hearing?

23 A Yes, sir, in 1978.

24 Q And you've indicated that you have re-
25 contacted everybody before today's date?

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1 A. Yes, sir.
2 Q And they still don't agree with it.
3 A. No, sir. No, none of them have agreed.
4 We have --
5 Q You have copies of the correspondence
6 that you sent requesting their agreement?
7 A. Yes, sir.
8 Q Will those copies be made part of the re-
9 cord?
10 A. Yes, we --
11 MR. CARR: They will be.
12 MR. STAMETS: At a later time in today's
13 hearing?
14 MR. CARR: We have copies of them now.
15 We also have return receipts on all but one or two of them
16 at this time, and we will offer those.
17 MR. STAMETS: Okay, you can offer them
18 now or --
19 MR. CARR: Well, we can offer them now.
20 Why don't you let me ask Mr. Davidson a couple more questions
21 on direct?
22 MR. STAMETS: Okay.
23
24 REDIRECT EXAMINATION
25 BY MR. CARR:

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Q Mr. Davidson, would you identify what I've just handed you marked as Exhibit One-A in this case?

A One-A is a summary with copies attached of all the pertinent correspondence in this case with both Shell and Mr. Deck, et al.

Q And will you identify what has been marked for identification as Exhibit One-B?

A One-B is a copy addressed to Shell Oil Company of the notice of the -- of this hearing in Case 6650.

Q All right.

MR. CARR: And if the Commission would like, we'll be happy to supply the return receipts as we get them.

MR. STAMETS: Where in this stack of information is any particular letter to any of these companies saying we would like you to join us in the drilling of this well?

A Well, the final letters are on the first page and they're the latest letters in chronological order, and they would be the first to appear under that summary.

For instance, the letter of 8-3-79 to Mr. Hrachovy of Shell is one of our many, and I guess last, requests that they farmout or join.

And the letter of 8-1-79 is a final letter to Mr. Deck, et al, about this problem.

1 They are listed at the bottom of the sum-
2 mary and they'll fifth and sixth in the correspondence at-
3 tached.

4 MR. STAMETS: Okay. That's fine.

5 Any other questions of this witness?

6 MR. KELLAHIN: I may have some more, Mr.
7 Stamets, if I may have a moment to look through the corres-
8 pondence here.

9
10 RECROSS EXAMINATION

11 BY MR. KELLAHIN:

12 Q Mr. Davidson, I can't find your October
13 1st -- I mean your August 1st, '79 letter listed as the
14 last entry on Exhibit One-A; Davidson did that.

15 A Here's a separate copy, if you'd like to
16 see it.

17 MR. CARR: And it's addressed to all
18 owners.

19 A In that letter we asked for a farmout on
20 a very, very low revenue interest, or we asked that they
21 sign the AFE which was attached, and we told them that much
22 to our distaste, we would have to docket the forced pooling
23 if we didn't hear from them. So we gave them the three
24 possibilities.

25 MR. STAMETS: I presume you'll make a

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1 copy of that for our copies.

2 MR. CARR: It is included, I believe, Mr.
3 Stamets.

4 A. If it's not in there, we've got it, and
5 we'll make a copy and submit it.

6 I might point out, since we're talking
7 about that last letter, that the farmout with Phillips is
8 on a 70 percent net revenue interest to Mr. Hartman, with
9 Phillips to retain the difference, 30 percent, and absorb.
10 And we offered Mr. Deck, et al, what amounted to a consider-
11 ably bigger override, or lower revenue interest, to put it
12 another way, to Mr. Hartman, which was 65.625, in an effort
13 to try to work out a voluntary agreement.

14 Or if those parties pay their way, with
15 an AFE attached.

16 Q (Mr. Kellahin continuing.) When does your
17 farmout with Phillips expire, Mr. Davidson?

18 A. It expires whenever we resolve this matter
19 with OCC. We have a letter that allows us enough time to
20 have this hearing and receive a ruling. And that's from
21 their Houston office.

22 Q The original farmout has expired and has
23 been extended?

24 A. It's not; it's been extended. It's never
25 expired. It was dated in 1978 and it's extended through the

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1 time it takes to get an order from this hearing.

2 Q Did the '73 farmout provide for a fixed
3 primary term for the farmout?

4 A It has been extended by Phillips.

5 Q Well, what was the original expiration
6 date?

7 A The well to be commenced within ninety
8 days from I'm going to say March of 1978, but that's been
9 extended by Phillips through now, so it's still acting.

10 MR. KELLAHIN: I have nothing further.

11 Thank you.

12 MR. STAMET: Any other questions of the
13 witness?

14 MR. CARR: Nothing further of this wit-
15 ness.

16 MR. STAMETS: He may be excused.

17 MR. CARR: Mr. Examiner, before Mr. David-
18 son leaves, Mr. Davidson, did you participate in assembling
19 Exhibit One-A?

20 A Yes.

21 MR. CARR: And are you familiar with Ex-
22 hibit One-B?

23 A Yes, sir.

24 MR. CARR: At this time, Mr. Examiner, I
25 will offer Exhibits One-A and One-B into evidence.

1 MR. STAMETS: These exhibits will be ad-
2 mitted.

3 MR. CARR: I will call Mr. Doyle Hartman.

4
5 DOYLE HARTMAN

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

8
9 DIRECT EXAMINATION

10 BY MR. CARR:

11 Q Will you state your full name and place
12 of residence?

13 A Doyle Hartman. I'm a resident of Midland,
14 Texas.

15 Q You are the applicant in this case?

16 A That's correct.

17 Q Mr. Hartman, have you previously testified
18 before this Commission, had your credentials as a petroleum
19 engineer accepted and made a matter of record?

20 A That is correct.

21 MR. CARR: At this time we tender Mr. Hart-
22 man as an expert petroleum engineer.

23 MR. STAMETS: The witness is considered
24 qualified.

25 Q (Mr. Carr continuing.) Mr. Hartman, will

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1 you refer to what has been marked for identification as Ex-
2 hibit Number Two and explain to the Examiner what it is and
3 note how it differs from Exhibit Number One?

4 A. Well, Exhibit Number Two is another land
5 plat that's been contoured on a contour point that we use to
6 that we can use here to identify the base of the Jalmat. The
7 Jalmat is approximately 45 feet above the top this we're
8 contouring on.

9 The reason we're including that is, if
10 you'll notice the two different maps, we're getting a con-
11 siderable thickening in the geologic section in this area
12 as you get towards the reef, and just to show that we have
13 done studies of the area and we felt we understand the
14 geology involved in drilling the well, and in the event, you
15 know, our ability to operate is being contested, we wanted
16 to show that we have probably put forth more preparation
17 than anyone else in this case.

18 Q. Mr. Hartman, will you now refer to what
19 has been marked for identification as Exhibit Number Three?

20 A. Okay. Exhibit Number Three is an east/
21 west cross section through the area.

22 I present to make that -- just to give a
23 brief summary, the east/west cross section indicates that
24 we're dealing in an area that is predominantly a Jalmat gas
25 area. It was also prepared to show the risk that may be in-

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1 involved in drilling this well, and to explain our choice of
2 locations at this particular point in time.

3 I think you'll notice that there are con-
4 siderable water problems involved in the entire Jalmat in-
5 terval. For example, starting from left to right, Well No.
6 1, a well drilled by Shell Oil Company originally completed
7 as a Jalmat gas well, it's 1973 production is 14 barrels of
8 oil per day, 376 gas, 167 water.

9 When this well was originally drilled it
10 was completed as a gas well. The water has now influxed, as
11 well as oil had influxed into the area, and the well has
12 been reclassified as a Jalmat oil well.

13 But as you can see, this particular well
14 is producing a considerable amount of water.

15 Well No. 2 is a well that was drilled by
16 Burleson and Huff in early '68. It was originally completed
17 as a Langlie Mattix oil well, and I think optimistically
18 potentialled for 53 barrels a day. I don't think the thing
19 has made over 500 barrels of oil, the total, and it went to
20 water very rapidly, and Burleson and Huff has now plugged
21 the well back and completed the well as a Yates Jalmat Yates
22 gas well.

23 The well in July was producing approximately
24 116 Mcf of gas with 50 barrels of water.

25 The third well in the cross section is

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1 Texas Pacific Oil Company McKinney. It was originally
2 drilled R. Olsen. It tested 9 barrels of oil per day and
3 2-million, or potential for 9 oil and 2-million gas out of
4 the Seven Rivers section.

5 I'm not sure when this happened, but the
6 well was later converted to the water disposal well in the
7 lower part of the Jalmat interval and has a cumulative water
8 injection of about 7.8-million barrels of water, so that's
9 the reason we're trying to move as far, one of the things
10 we're trying to get away from in drilling this well, is to
11 get as far away as we can from this particular well, as far
12 as the effects it may have on us in the Seven Rivers section.

13 And Well No. 4 is a Jalmat gas well drilled
14 by Culberson and Irwin and Well No. 5 is a Langlie Mattix
15 water injection well that's also injecting some water in the
16 lower portion of the Jalmat gas interval.

17 So I think this cross section indicates
18 all the way across this whole area it's sort of spooky and
19 there are some risks involved in drilling this particular
20 well.

21 Q Will you now refer to what has been marked
22 for identification as Exhibit Number Four and explain this
23 to the Examiner?

24 A Exhibit Number Four, which is a north/
25 south cross section through the area, shows -- starts from

1 the north and goes south. It shows the Van Randt No. 1. It
2 was completed as a Jalmat gas well for 7.8-million and has
3 subsequently been recompleted by Texas Pacific as a Langlie
4 Mattix producer.

5 Number two is the same disposal well that
6 we discussed in the last cross section.

7 Well number three there, which is Petco
8 Shell "A" State, was originally completed as a Langlie
9 Mattix producer and then has --- at a latter date was recom-
10 pleted to the Jalmat in the Upper Yates. A DST taken in
11 the Jalmat section, the Yates Jalmat section, showed that
12 it had good productive, you know, potential when the well
13 was originally completed but at this point in time it's a
14 very poor producer, also.

15 The next well is a well drilled by Texaco
16 and has been converted or has been turned over to Union Texas
17 as the Langlie Jal Unit No. 15, as a water injection well
18 in that project. But it shows good gas tests all the way
19 from the Yates section down through the Queen section, and
20 the water injection in that particular well is in the Queen
21 section only.

22 The next cross section is another injection
23 well in the Langlie Jal Unit showing water injection into
24 the lower part, also, of the Jalmat interval. So -- but
25 again showing that there are several problem wells in this

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1 particular area, also, on this particular cross section.

2 Q Mr. Hartman, do you believe you're assuming
3 a fairly substantial risk in drilling this well?

4 A Yes, we do.

5 Q Do you have a recommendation to make to
6 the Examiner as to what risk factor should be applied against
7 those who do not participate?

8 A Well, I feel like the risk factor should
9 be 200 percent, due to the amount of risk involved.

10 Q Will you please refer to what has been
11 marked for identification as Exhibit Number Five and ex-
12 plain this to the Examiner?

13 A Okay, Exhibit Number Five is a copy of an
14 AFE which was submitted to all of the parties who we felt
15 would possibly have working interests in the northwest of
16 the northeast, and those were sent out, I think, in our
17 letters of August 1st and August 3rd to Shell and Deck, et
18 al.

19 Okay, the AFE is based on drilling costs
20 that we have experienced in the area. They reflect New
21 Mexico state sales tax, which are part of your actual cost
22 of drilling. They also, we've included such items as pump
23 and equipment, electrical equipment and what have you, due
24 to the fact we feel like we'll probably have to lift some
25 water, even with a gas completion.

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1 Q Mr. Hartman, in your opinion, are these
2 costs in line with other wells drilled to this depth in the
3 area?

4 A Very close.

5 Q Are you prepared to make a recommendation
6 to the Examiner as to the overhead and administrative costs
7 to be assessed while the well is drilling and while producing,
8 if it is in fact a commercial producer?

9 A Okay, we're proposing \$225 per well per
10 month fixed well monthly overhead rate and a drilling well
11 rate of \$2250, which is a 10-to-1 factor and a factor com-
12 monly used in the oil industry.

13 Q And are these figures comparable to what's
14 being charged by other operators?

15 A That is correct, and actually, they don't
16 reflect total or nearly even true, or actual costs. We lose
17 money operating at those costs.

18 Q Mr. Hartman, how many wells have you
19 drilled in this area to the Jalmat?

20 A Well, not only Jalmat, we have drilled,
21 or shallow wells in this area, we have approximately forty.

22 Q And do you request to be designated oper-
23 ator of the proposed well?

24 A That is correct.

25 Q Now why are you proposing to drill at this

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1 particular unorthodox location?

2 A. The reason we're proposing to drill at this
3 unorthodox location is to move as far as possible away from
4 the McKinney, Texas Pacific McKinney disposal well, but also
5 stay away as far as we can from the acreage in the west half
6 or the east half of the northwest. The shallow wells that
7 have been drilled in that area, along in that row of 40's
8 is all -- they have been disastered and shown, you know,
9 particular water problems in the past, so we've chosen
10 where we thought is probably the safest of, you know, the
11 locations, even though I'm not saying it's safe.

12 Q Are there other unorthodox locations in
13 the area?

14 A Yes, there are other -- many unorthodox
15 Jalmat locations that we know of.

16 Q Mr. Hartman, will, in your opinion, the
17 creation of the non-standard proration unit and the drilling
18 of the proposed well result in the recovery of hydrocarbons
19 that would otherwise not be recovered?

20 A It's the only way it's going to be recovered.

21 Q In your opinion will granting this appli-
22 cation be in the interest of conservation, the prevention
23 of waste, and the protection of correlative rights?

24 A Yes.

25 Q And did you prepare or have you reviewed

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1 and can you testify as to the accuracy of your Exhibits Two,
2 through Five?

3 A These exhibits were prepared under my
4 supervision.

5 MR. CARR: At this time, Mr. Examiner, we
6 would offer into evidence Applicant's Exhibits Two through
7 Five.

8 MR. STAMETS: These exhibits will be ad-
9 mitted.

10 MR. CARR: I have nothing further on
11 direct.

12 MR. STAMETS: Any questions of the witness?

13 MR. KELLAHIN: Yes, sir.

14 MR. STAMETS: Mr. Kellahin.

15
16 CROSS EXAMINATION

17 BY MR. KELLAHIN:

18 Q Mr. Hartman, you've indicated you've
19 drilled about forty shallow wells in this area.

20 A That is correct.

21 Q Of that forty, how many were Jalmat gas
22 wells?

23 A Let's see, oh, I'd have to say about
24 eight or nine. Or I'd have to stop and count, to be honest
25 with you.

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- 1 Q Approximately eight or nine, give or take?
- 2 A Yeah, it would maybe be close to that
- 3 point.
- 4 Q And of those forty wells how many were
- 5 Jalmat oil wells?
- 6 A We've got one Jalmat oil well.
- 7 Q Where is the closest Jalmat gas well to
- 8 your proposed location that you operate?
- 9 A The closest Jalmat -- there's two of them, I guess,
- 10 would look like to me would be sort of equal distance,
- 11 Phillips Vernon No. 1 and Petco's State 2-Y, located in
- 12 Unit H and Unit J.
- 13 Q In Section 36?
- 14 A In Section 36.
- 15 Q Where is the Phillips well?
- 16 A The Phillips well is the Vernon No. 1 and
- 17 it's located in Unit J, and the Petco Shell, or the State
- 18 2-Y is located in Unit H.
- 19 Q What's the proration unit assigned to the
- 20 gas well, the Vernon J, is it?
- 21 A They have 40 acres assigned, consisting
- 22 of the northwest/southeast 36.
- 23 Q Only have 40 acres assigned to that Jalmat
- 24 gas well?
- 25 A That's correct.

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1 Q Okay. And then the oil well only has a
2 40-acre acreage dedication to that well?

3 A Well, would you give me that again?

4 Q Yeah.

5 A I'm sorry.

6 Q What's the proration unit for the gas well?

7 A Which gas well?

8 Q The Vernon.

9 A The Vernon No. 1 has the northwest of the
10 southeast dedicated to it.

11 Q And that's a gas well?

12 A That's correct.

13 Q Okay.

14 A Well, I don't even know what it is right
15 now. It's been gas and oil, at various points in time.
16 But our most recent check, I believe it is a gas well.

17 Q Is there any reason why you can't simply
18 dedicate your 40-acre tract to a Jalmat gas well?

19 A I believe that the drilling on a 40-acre
20 location is going to make the economics very unattractive.

21 Q Tell me how that will happen.

22 A Well, at the best, assuming a top allowable
23 well, and the allowable that -- the historical allowable,
24 I'd say, for the year, year and a half, you're looking at
25 approximately a three-year payout.

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1 Q On a 40-acre allowable?

2 A Yes. In addition to that you've also
3 got other problems involved. If water problems do exist and
4 we're restricted to that low a flow rate, we may incur
5 damage by producing at that low a flow rate, and we would be
6 unable to keep the well cleaner due to the fact we'd be
7 restricted on our allowable.

8 Q This is a prorated gas pool for the Jalmat
9 gas?

10 A That's correct.

11 Q And how -- and how is it prorated, straight
12 acreage factor?

13 A It is prorated by acreage.

14 Q Generally a Jalmat gas well to be marginal
15 would produce how much gas?

16 A Well, a marginal well is a well that
17 produces, my understanding of it, that produces less than
18 the -- than the allowable. And the allowable does fluctuate
19 from month to month. I would assume, and I'd probably be
20 fairly close, that 550 Mcf per day would probably be a good
21 average for a full year, and you are allowed to -- you can
22 overproduce some months and underproduce in some months.
23 But you eventually have got to make it up, assuming you re-
24 main top allowable.

25 Q What would your payout be based upon 120--

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1 acre proration unit?

2 A. Well, based on 120 acres it would be
3 larger; I mean less; shorter.

4 Q. Do you have an estimate of how long it
5 would pay out based upon 120 acres?

6 A. I would say just divide three years by
7 three; approximately a year, assuming a top allowable well.

8 Q. This Petco Well 2-Y in Section 36, in the
9 southeast of the northeast quarter, is that a Jalmat gas
10 well?

11 A. That is a gas well.

12 Q. It's still classified as a Jalmat gas well?

13 A. As far as I know it is.

14 They have one well that's abandoned and
15 one well that's producing.

16 Q. What's the acreage dedication to that well?

17 A. Okay, it has 80 acres dedicated to it,
18 consisting of the southeast of the northeast and the north-
19 east of the southeast.

20 As you can see, I think you can see we're
21 hemmed in here.

22 Q. Let's look at the 40 acres to the west,
23 Mr. Hartman. Is there any producing Jalmat gas well on that
24 40 acres?

25 A. No, there is not.

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1 Q So that would be a 40-acre tract that's
2 still open from which you could form an 80-acre non-standard
3 gas proration unit?

4 A I'd be glad to do that.

5 Q May we now dismiss your application for
6 forced pooling of Mr. Deck so that you can go ahead and
7 force pool the southeast of the northwest quarter of Section
8 36?

9 A Are you asking me that?

10 Q Yes, sir.

11 A Nope.

12 Q I thought you just told me you'd be glad
13 to.

14 A I'd be glad to if we had something in
15 writing.

16 Q In writing from whom for what purpose?

17 A From Mr. Deck and Shell Oil Corporation.

18 Q To what extent?

19 A Well, to the extent that someone would
20 cooperate with us.

21 Q I'm sure Mr. Deck and the Shell Company
22 would be happy to cooperate with you to let you form a non-
23 standard gas proration including that 40 acres to the west.

24 A Well, we are not aware of their coopera-
25 tion, since we get very little correspondence from either

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1 party.

2 Q If I can --- excuse me for interrupting
3 you, but if I can obtain that correspondence for you, would
4 you agree to the dismissal of this forced pooling application?

5 A I would agree to it once I saw the corres-
6 pondence because we've been down this road before of going
7 on someone's word.

8 Q Who are the interest owners in that 40-
9 acre tract to the west?

10 A As far as we can tell, and I did not do
11 the land work, but J. A. Davidson did that, we feel like the
12 ownership is the same in the 40 to the west as it is in the
13 40 we're attempting to force pool.

14 Q And what is the status of that old Jalmat
15 well in that 40-acre tract?

16 A The status, as far as we can tell from
17 I would say the engineering committee records, is that the
18 well last produced prior to 1973.

19 Q Has it been plugged and abandoned?

20 A No, I didn't say that. I said last pro-
21 duced prior to 1973.

22 Q I understand. I just wanted to clarify
23 it.

24 What acreage is dedicated to that Jalmat
25 gas well?

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1 A Okay, it originally had 160 acres dedicated
2 to it consisting of the east half northwest, northwest north-
3 east, northeast southwest.

4 But our --

5 Q Is that still the acreage dedicated to it?

6 A Our check of the records indicated that
7 that communitization agreement which tied all this together,
8 had been terminated. It was terminated in 1972.

9 Q Do you have a copy of that termination?

10 A My attorney does. There is one in existence
11 in the files.

12 MR. CARR: We'll get another copy from the
13 Land Office and bring it.

14 Q Mr. Hartman, let me ask you about the well
15 that's located in the northeast quarter of the northwest
16 quarter.

17 A Yes.

18 Q What is that well?

19 A My understanding, it's an Ellenburger gas
20 well.

21 Q That 40-acre tract, then, is not now dedi-
22 cated to any Jalmat gas well?

23 A Well, assuming that the Jalmat -- 160-acre
24 Jalmat gas proration unit ceased to exist, that's correct,
25 but again, we can't go in that direction because it's non-

1 contiguous.

2 Q You indicated that you drilled some eight
3 or nine Jalmat gas wells. How many of those wells, Mr.
4 Hartman, were dry holes?

5 A Well, none were dry.

6 Q How many Jalmat gas wells have you drilled
7 that were dry holes?

8 A None. Oh, hold it. Since when? Okay, I
9 do not operate any, you know, that are dry. We have a very
10 poor Jalmat gas well we have sold.

11 Q I'm trying to determine some basis for
12 your opinion that there is a substantial risk involved, Mr.
13 Hartman. My question is, of the number of Jalmat gas wells
14 that you have drilled, you've indicated to me you have eight
15 or nine wells. I assume those were eight or nine producers
16 and that you've been 100 percent successful.

17 A That's correct, but we would like -- I
18 would also like to state that if we'd shown the water prob-
19 lems that exist in the area, we have experienced water prob-
20 lems on several, severe water problems on several of these
21 Jalmat wells. One of them drove our costs up very substan-
22 tially. So if we want to take that approach, I think we've
23 got a -- you've got to inflate your cost, also, corresponding-
24 ly.

25 Q But this proposed well is being drilled

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1 with the benefit of that prior knowledge about the water/oil
2 or the water/gas contact.

3 A That's right, and someone needs to drill
4 the well.

5 Q I understand that. Would you identify for
6 me any of the Jalmat gas wells in the immediate area that
7 have been dry holes?

8 A Okay. Let's -- I think to be honest, you
9 cannot -- you're not going to get what is considered an out-
10 right dry hole in this area. You are going to get wells that
11 are considered uneconomic, and that's the same situation.

12 Q What is your definition of an uneconomic
13 well?

14 A A well that's not going to pay out. Now,
15 to me, I'd rather have an outright dry hole than one that
16 is not going to pay out, and when you drill one in this area,
17 you're probably going to -- you're going to run pipe no
18 matter what the logs say.

19 Q You'd rather lose all your money than some
20 of your money?

21 A No. I don't think things have progressed that
22 far that you can tell.

23 Q All right. Would you identify for me the
24 Jalmat gas wells in the immediate area you consider unecono-
25 mic?

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1 A Well, okay, if you want to consider the
2 ones in the southeast of the northeast as uneconomic, I
3 would say the one in the southeast of the northeast is un-
4 economic. I would say the one in the northeast of the -- or
5 northwest of the southeast is uneconomic. You've got one
6 over in Section 31 in the southwest of the -- or southeast
7 of the northwest. You've got a Jalmat gas well in the west
8 half of the southwest of 31. So they're -- they're all
9 around, really. I would say the one that Burleson and Huff
10 have in the southeast of the southwest will have an extremely
11 long payout.

12 Q It appears from your plat, Mr. Hartman,
13 that of all these 40-acre tracts that offset your proposed
14 location, either diagonally or horizontally or vertically,
15 there are only two of those 40-acre tracts in which wells
16 have not been drilled to test the Jalmat, is that not true?

17 A That is true.

18 Or, well, I would say you would have to
19 say three. Where the Devonian well is that's never been
20 tested in the Jalmat.

21 Q All right, that's the first one I was
22 thinking about.

23 The Deck 40-acre tract has not been tested.
24 That's the second one.

25 A That's right.

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1 Q Show me any others.

2 A Okay, the one that we're proposing hasn't
3 been drilled, either.

4 Q All right.

5 A And then also you've got acreage over in
6 the west half of the southwest of 36 that's undrilled.

7 Q Would you drill a location in the Deck
8 40-acre tract?

9 A Well, based on my experience now, or our
10 knowledge of the Burleson and Huff Well in 25, I think that
11 has to make that look like a poor shot, also. That was ori-
12 ginally our idea as being a better location.

13 Q That's why I asked the question. What
14 has occurred to change your mind, Mr. Hartman, from --

15 A The Burleson.

16 Q -- north to south?

17 A It's the Burleson - Huff well in the south-
18 east of the southwest of 25.

19 Q So in the last year, based upon that addi-
20 tional information, you have now perfected what you believe
21 to be a less risky location?

22 A Slightly less, but the only reason we can
23 say that is in view of the fact that it hasn't been drilled.
24 It's just a -- you have two shots there; you don't want to
25 take the riskier of the two.

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1 Q What do you figure, you've got a 50-50
2 chance of an economic well at that location?

3 A I think you've got a pretty good chance of
4 having a poor well due to the fact that there are such
5 numerous water problems. If locations were more plentiful,
6 we probably wouldn't even be looking at it.

7 Q Where is the water contact?

8 A The original --

9 Q Is that shown on any exhibits?

10 A Probably the original water contact was
11 -300, but there's a lot of things that have gone on in this
12 area. You're dealing -- you're close to the reef, that makes
13 it different. There's been water injection and water dis-
14 posal in the area, also. All three of those factors drive
15 up the risk.

16 I think you can tell by the Shell well in
17 the northwest of the northwest, it was a very high structural
18 well.

19 Q Now when was that well drilled?

20 A That well was drilled in 1953 but even it
21 makes a considerable amount of water; probably coming out
22 of the reef.

23 Q Well, that was 25 years ago, though, Mr.
24 Hartman. You're going to drill one here in '79 with the
25 benefit of all that additional information, aren't you?

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1 And that's going to diminish your risk, isn't it?

2 A No, as a matter of fact, it drives it up,
3 because of what's happened in the area. It's just --- when
4 you get close to the Yates Seven River reef there, the loca-
5 tions get a little bit riskier.

6 Q Is this risky enough that you're going to
7 abandon your farmout from Phillips?

8 A No.

9 Q Okay. What was the date of the completion
10 of your last Jalmat gas well, Mr. Hartman?

11 A Oh, let's see, we completed a Jalmat gas
12 well, let's see, approximately three or four weeks ago.

13 Q And where is that Jalmat gas well?

14 A It's located in Section 9. Let's see,
15 the northwest of the southeast of Section 9, 25, 37.

16 It's called the El Paso Pritchard Federal
17 No. 1.

18 Q And that's been an economic well?

19 A Yes, but we're --- today or yesterday we
20 set a pumping unit on it.

21 Q And what was your cost on that well?

22 A Well, I would say the cost is going to be
23 approximately \$225,000 including pumping equipment.

24 Q Who are your partners in that well?

25 A I'm the operator.

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1 Q Do you have the entire interest in it?

2 A Well, we have some working interest owners
3 in addition to myself.

4 If you'd like to review the drilling
5 footage cost, the costs are \$9.89 a foot; \$1.05 tax; our rig
6 move on the Pritchard was \$9,500; bringing the cost well
7 over \$12.00 a foot.

8 Q You've indicated on your AFE that the cost
9 per foot is \$12.97?

10 A That's correct.

11 Q And the cost on your El Paso well was what?

12 A It's right in that area.

13 Q I thought you said it was \$9.80?

14 A No, I said \$9.89 plus five percent sales
15 tax, plus rig move, and there's other factors that the oper-
16 ator has to furnish that you've got to bill into the footage
17 cost.

18 Q And those factors have been built into
19 this footage cost --

20 A That's correct.

21 Q -- on this AFE.

22 A And that's Capitan Drilling.

23 Q Is it common to fracture and acidize the
24 Jalmat gas zone?

25 A I believe that's about the only way you're

1 going to get a successful well.

2 Q You've indicated \$15,000 for a pumping
3 unit. Is it common practice to pump the Jalmat gas zone?

4 A Well, when you have to move water, it is,
5 Because you're dealing with bottom hole pressures at as low
6 as, I'd say, 150 pounds, and if you move much water, you're
7 not going to lift that by flowing.

8 Q How many of your other Jalmat gas wells do
9 you pump?

10 A We've got, I would say, the majority of
11 them.

12 MR. KELLAHIN: I have nothing further,
13 thank you.

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

16 Oh, Mr. Carr, how do you wish to offer
17 these?

18 MR. CARR: If it's your desire, Mr. Examiner,
19 we would offer that as Applicant Exhibit Number Seven.

20 MR. STAMETS: Would you like to have your
21 first witness, Mr. Davidson, testify to that?

22 MR. CARR: I'd be glad to call him. It's
23 an official public record and you certainly could take note
24 of it, but -- from the records of the State Land Office -- if
25 Mr. Davidson would like to re-take the stand.

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JAMES A. DAVIDSON

resuming the witness stand, testified as follows, to-wit:

REDIRECT EXAMINATION

BY MR. CARR:

Q Mr. Davidson, I refer you to what has been marked as Applicant's Exhibit Number Seven and ask where you obtained this?

A This is a Xeroxed copy of a part of the record out of the State Land files, case file, and one of the employees accompanied me to your reproduction room to shoot it and then return the file.

Q Is this a true and correct copy of the document in the State Land Office files?

A Yes, sir.

MR. CARR: At this time, Mr. Examiner, we would offer into evidence Applicant's Exhibit Number Seven.

MR. STAMETS: Exhibit Seven will be admitted.

Do you have anything further, Mr. Carr?

MR. CARR: I have nothing further.

MR. KELLAHIN: May we have a minute?

MR. STAMETS: Sure.

(Thereupon a recess was taken.)

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1
2 MR. KELLAHIN: If the Examiner please, on
3 behalf of Mr. Deck, we propose to take Mr. Hartman up on
4 his offer to obtain waivers as to that 40-acre tract to the
5 west, and therefore, based upon our efforts to accomplish
6 that end, we will not put on our witness at this time.

7 MR. STAMETS: How much time should be
8 required to resolve that matter?

9 MR. KELLAHIN: I would expect ten days
10 ought to be enough to get the mail circulated.

11 MR. DAVIDSON: We have to get Deck, et al,
12 and Shell.

13 MR. CARR: We have to have that question
14 resolved, but if that other 40 is available and it can be
15 put together, I don't believe we have any objection to that.

16 MR. HARTMAN: And we can get a non-standard
17 you know, proration unit approval.

18 MR. CARR: We would still be looking at
19 a non-standard proration unit and the same well location,
20 but I think in terms of the particular acreage involved,
21 we can resolve that.

22 MR. STAMETS: All right, the Examiner will
23 take no action in this case for two weeks and I would hope
24 that the attorneys will keep me advised in whether or not
25 this case needs to be dismissed or whether or not there is

1 a solution.

2 Is there anything further in this case?

3 The case will be taken under advisement.

4
5 (Hearing concluded.)
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REPORTER'S CERTIFICATE

I, SALLY W. BOYD, a court reporter, DO HEREBY CERTIFY that the foregoing and attached Transcript of Hearing before the Oil Conservation Division was reported by me; that the said transcript is a full, true, and correct record of the hearing, prepared by me to the best of my ability from my notes taken at the time of the hearing.

Sally W. Boyd, C.S.R.

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. _____ heard by me on _____ 19____.

_____, Examiner
Oil Conservation Division

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DOYLE HARTMAN

Oil Operator

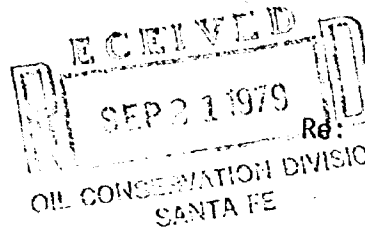
SUITE 508

C & K PETROLEUM BUILDING
MIDLAND, TEXAS 79701

(915) 684.4011

September 17, 1979

Mr. John F. Bookout, President
Shell Oil Company
P. O. Box 2463
Houston, Texas 77001



Re: 3400-foot Jalmat Test
Section 36, T-24-S, R-36-E
Lea County, New Mexico

Dear Mr. Bookout:

Enclosed is an article which appeared yesterday in the Energy section of the MIDLAND REPORTER-TELEGRAM of Midland, Texas. In this article, you are quoted as saying, "the nation must begin a journey toward a more secure energy future." In the same article, you also indicated that this nation, if it is to achieve a secure energy future must start making some tough basic energy decisions as well as overcome some serious existing energy roadblocks, not the least of which are being created by current governmental policies.

I am an independent oil operator in Midland, Texas, and I agree that this nation faces a monumental task if our near-term energy problems are to be solved without our economy and future lifestyle being severely affected. Furthermore, I also believe that a solution to our current energy problem cannot be found unless we achieve the fullest cooperation between the various segments of the energy business, the American public, and the different branches and agencies of the Federal and various state and local governments.

However, at this point in time, I am convinced that the historic division between the major oil companies and the independent oil and gas operators in this country has widened in recent years instead of improving. A good case in point is illustrated by the numerous roadblocks that my associate, Mr. J. A. Davidson, and I have encountered during the past eighteen months in attempting to put together a 3400-foot Jalmat Gas test on State of New Mexico acreage in the W/2 NE/4 Section 36, T-24-S, R-36-E, due to the apparent lack of concern by some members of Shell's Houston staff for this nation's critical energy situation.

Over eighteen months ago, Mr. Davidson and I obtained a 40-acre farmout from Phillips Petroleum Company in the SW/4 NE/4 Section 36, and shortly thereafter contacted Shell's land department in Houston about forming an 80-acre gas proration unit consisting of the W/2 NE/4 Section 36, with the proposed drilling target being the Jalmat (Yates-Seven Rivers)

Mr. John F. Bookout, President
Shell Oil Company
September 17, 1979
Page 2

Gas Pool at an approximate depth of 3400-feet. One and one-half years have now passed since we initially contacted Shell about drilling the proposed well and as far as Shell is concerned, we are no closer to reaching an agreement today than we were in March, 1978. To this date, Shell has refused all reasonable offers by (1) declining to join us as a 50% working interest participant in the drilling of the proposed well and (2) refusing to farmout to us its interest in the 40-acre tract in the NW/4 NE/4 Section 36 (on a 17 1/2% ORRI) so that Shell's tract can be added to our Phillips 40-acre farmout thereby creating an 80-acre proration unit consisting of the W/2 NE/4 Section 36.

Probably even more detrimental to our efforts to put together the proposed well than Shell's refusal to join or farmout has been Shell's refusal to at least help settle a possible title controversy pertaining to its 40-acre New Mexico State tract (B-10709) in the NW/4 SE/4 Section 36. Finally after exhausting all normal channels with Shell in an effort to solve our gas proration unit problem, we were required, for a second time, on September 5, 1979, to bring force-pooling action against Shell before the Oil Conservation Division of the Energy and Minerals Department of the State of New Mexico in Santa Fe, New Mexico. It is our plan, after a much prolonged delay, to spud the proposed 3400-foot Jalmat test as soon as a force-pooling order is issued by the New Mexico Oil Conservation Division.

Upon reviewing our recent experience with Shell Oil Company, it now seems unbelievable the amount of wasted time, energy, and money that we have incurred due to Shell's failure to cooperate in the drilling of the proposed well. Furthermore, we do not consider a force-pooling action before the NMOCD as the best solution, for all concerned parties, when attempting to solve necessary proration unit problems. Even after our September 5 force-pooling hearing against Shell, we would rather have a farmout from Shell than drill the proposed well under the terms of a NMOCD force-pooling order.

I more than realize that as president of Shell Oil Company you cannot be aware of all of the transactions between Shell and the numerous other companies in the domestic exploration and production industry. However, when a petroleum industry spokesman makes a public plea for the removal of governmental roadblocks as a step toward national energy security, he must simultaneously guard against roadblocks to energy independence that his own company may be creating. The petroleum industry in this country will continue to suffer a severe credibility problem with the American public and the various agencies and branches of the government until it is willing to practice the same energy philosophy that it is usually more than eager to preach. To insure that an oil company's actions are in agreement with its pronouncements, an oil company CEO must be responsible

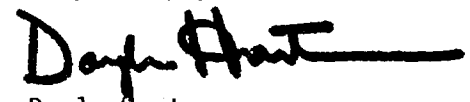
Mr. John F. Bookout, President
Shell Oil Company
September 17, 1979
Page 3

for seeing that his company's operating policies coincide with its statements on energy policy.

In addition to yesterday's article in the MIDLAND REPORTER-TELEGRAM, I am also enclosing for your review copies of our most recent correspondence with Shell Oil Company pertaining to drilling the Jalmat gas well. A brief review of this correspondence should provide an insight into the effort that we have invested with Shell in an attempt to put together the proposed well and thereby make another small contribution toward the solving of this nation's energy problem.

If you, or a member of your staff, need copies of earlier correspondence on this matter, or wish to talk about this problem in more detail in order to arrive at a final solution that is more satisfactory than an NMOC force-pooling order, Mr. Davidson and I would be more than willing to mail to you copies of the requested correspondence or fly to Houston for a meeting.

Very truly yours,


Doyle Hartman

DH/mh

cc: Mr. Bill Carr, Attorney
P. O. Box 2208
Santa Fe, New Mexico 87501

U. S. Senator John Tower of Texas
c/o United States Senate
Washington, D. C. 20510

U. S. Senator Lloyd Benson of Texas
c/o United States Senate
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U. S. Representative Kent Hance of Texas
c/o U. S. House of Representative
Washington, D. C. 20510

U. S. Senator Pete Domenici of New Mexico
c/o United States Senate
Washington, D. C. 20510

U. S. Senator Harrison Schmitt of New Mexico
c/o United States Senate
Washington, D. C. 20510

Mr. John F. Bookout, President
Shell Oil Company
September 17, 1979
Page 4

cc: U. S. Representative Harrold Runnels of New Mexico
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Mr. N. J. Hrachovy, Land Department
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Mr. Alex J. Armijo
Land Commissioner
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Mr. James A. Davidson
P. O. Box 494
Midland, Texas 79701

Shell Oil boss reports search under way for refueling stop

HOUSTON (AP) — John F. Bookout says the nation must begin a journey toward a more secure energy future. "We are looking for the refueling stop for the nation in the 21st century," said Bookout, president of Shell Oil Co.

"It's not a journey measured in miles and distance, but one measured in time. We must move from an era, where oil and gas have been plentiful and have fueled our economy, to a new era, where we must get most of our energy from raw materials in other forms."

To reach the refueling stop destination, Bookout said, there is need for a map, a compass, and a fuel gauge.

"At this point, however, we have problems," he said. "First of all, we're floundering for a sense of direction. We don't have the road map. And the compass can't find true north. Perhaps the needle has been magnetized by shifting political policies."

Bookout said there also is need for the nation to agree on what its fuel gauge is reading.

"Many politicians seem to feel our 'tank' of oil and gas is on empty. But there is much more oil and gas yet to be found in the United States. As much again as we have used to date. And we must get on with finding it now."

Bookout said the nation, every day, consumes 19 million barrels of oil for heating homes, driving cars, running factories, generating electricity.

To meet such demand, he added, the nation must import 8.5 million barrels of oil a day in that domestic production accounts for only 10.5 million a day.

"Our jobs, our businesses, our economy, our lifestyle depend on these imports and we depend therefore on the nations that provide them," Bookout said.

But he said, there is no way to control how much oil those nations, primarily members of the Organization of Petroleum Exporting Countries, will make available.

"That is the root of our problem," Bookout said. "The solution in simple and stark terms is reduce dependence on foreign oil. And the reduction of dependence on foreign oil is quite simply two things, boost domestic production and conserve energy vigorously."

Bookout said he is concerned that President Carter's energy program does not focus sufficiently on the supply problems of the next two decades.

Answers to such problems, he said, involve realistic energy conservation, imaginative use of alternatives to imported oil, and vigorous development of domestic oil and gas.

Bookout said potential supply contracts for natural gas from Mexico and Canada should be finalized promptly and the nation must use its abundant coal resources more extensively.

"As a nation, we must face the problems which have inhibited greater use of coal — environmental concerns, transport problems, plant siting — and deal with them decisively," he said.

On nuclear power, Bookout said the nation must learn from the Three

Mile Island experience.

"But we must go forward from it and not retreat in fear," he said.

Bookout said many of the areas where domestic supplies of oil and gas can be found have been posted by the government and are off limits to the oil and gas industry.

"There is a new term creeping into the oilman's vocabulary, 'icebox'," he said.

"The term refers to a governmental policy which keeps putting more and more land into storage 'safe' from development of any kind. These lands range from Alaska to the Rockies to the Midwest, from onshore to offshore."

Bookout said some of the areas which have been declared off limits by leasing policy, regulation or court blockage could add to domestic supplies very quickly.

As an example, he listed court action by environmentalists in Michigan's Pigeon River area where Shell has had leases and permits to drill a number of years.

"Pigeon River may contain about 20 million barrels of oil," Bookout said. "We could begin producing that energy in months, not years."

SUMMARY OF CORRESPONDENCE

1. James A. Davidson's letter of August 10, 1979, in reply to Shell Oil Company's letter of August 8, 1979.
2. Shell Oil Company's letter of August 8, 1979, in reply to James A. Davidson's letter of August 3, 1979.
3. James A. Davidson's letter of August 3, 1979, to Shell Oil Company.

(915) 682 6482 - OFFICE
694 5472 - RESIDENCE

JAMES A. DAVIDSON
Oil & Gas Properties
P. O. Box 494
MIDLAND, TEXAS 79702

August 10, 1979

Shell Oil Company
P. O. Box 991
Houston, Texas 77001

Attention: Mr. N. J. Hrachovy
Land Department, Mid-Continent Division

Re: W/2 NE/4 Section 36,
T-24-S, R-36-E,
Lea County, New Mexico
(Shell's Nos. NM 5196 and 1206)

Gentlemen:

Reference is made to my efforts since March 7, 1978, to get a 3,400' Jalmat well drilled on the above described 80-acre tract.

I have been trying since the above date to have Shell cooperate, either by farming out (with my latest offer being a 17 1/2% ORRI to Shell) or by participating for a 50% working interest in the proposed well.

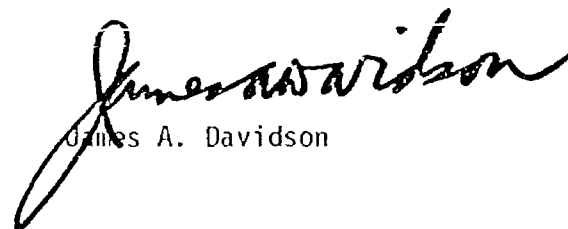
Your letter to me of August 8, 1979 is the first positive indication that I have received in seventeen months of correspondence that Shell actually owns a leasehold position in the subject tract (rather than being an overriding royalty owner).

I do not think it serves any purpose to restate my various proposals that Shell farmout or participate since these letters are already in your files. Furthermore, it is obvious to all concerned that drilling of the proposed well on a 40-acre tract will result in an uneconomical allowable (approximately 115 MCFPD).

I will further simply state that it is extremely hard for me to understand Shell's position in apparently forcing this matter to a distasteful Force Pooling hearing. This is particularly true since all leases involved are on minerals owned by the State of New Mexico.

In closing, it appears to me from your previous position in this matter that Shell Oil Company is not interested in cooperating with independents who are attempting to develop energy sources on risky tracts in this present national energy crisis.

Very truly yours,


James A. Davidson

No reply from Shell Oil Company to this letter.

Shell Oil Company
Page 2
August 10, 1979

cc: Region Vice-President
Shell Oil Company
P. O. Box 576
Houston, Texas 77001

Region Landman
Shell Oil Company
P. O. Box 576
Houston, Texas 77001

Manager
Mid-Continent Division
Shell Oil Company
P. O. Box 991
Houston, Texas 77001



August 8, 1979

Subject: NM-5196 State
NM-1206 State
Jalmat/Custer Area
Section 36-24S-36E
Lea County, New Mexico

James Davidson
P.O. Box 494
Midland, Texas 79702

Dear Mr. Davidson:

In response to your letter dated August 3, 1979, we again wish to advise that Shell is not interested in either joining your proposed well or farming out the Shell lease covering NW/4 NE/4 of Section 36 on the terms set out in your letter. Shell has plans for some wells in the area which will penetrate the Jalmat zone. Accordingly, we will oppose your force pooling action.

Yours very truly,

N. J. Hrachovy
N. J. Hrachovy
Land Department
Mid-Continent Division

NJH:BGR

cc - Phillips Petroleum Company
Attention Mr. E. M. Gorence
311 Phillips Building
Odessa, Texas 79761

Shell Oil Company's reply to James A.
Davidson's letter of August 3, 1979.

(915) 494-6482 - OFFICE
494-5472 - RESIDENCE

JAMES A. DAVIDSON
Oil & Gas Properties
P. O. BOX 494
MIDLAND, TEXAS 79702

August 3, 1979

Shell Oil Company
P. O. Box 991
Houston, Texas 77001

Attention: Mr. N. J. Hrachovy
Land Department - Mid Continent

Re: NW/4 NE/4 Section 36,
T-24-S, R-36-E
Lea County, New Mexico
(Shell # NM-1206)

Gentlemen:

Reference is made to our correspondence in 1978 regarding the inclusion of your above noted lease in the following proposed 80-acre unit and the drilling of a 3,400' Jalmat test on the unit:

T-24-S, R-36-E, Lea County, New Mexico
Section 36: W/2 NE/4

We force pooled this tract last year, but omitted one of the possible working interest owners because at the time of the force pooling hearing we thought we had an agreement with him pertaining to the proposed 80-acre Jalmat proration unit. A later misunderstanding over the terms of the deal with the omitted party cancelled the effect of the force pooling hearing.

As we discussed in several conversations last year, and as is also illustrated by the enclosed title opinion covering the W/2 NE/4 Section 36, it is questionable as to whether Millard Deck et al owns the NW/4 NE/4 Section 36 with Shell having a 1/8 override, or whether Shell owns this tract. The question over ownership partly results from our failure to know if Shell has exercised its right of reassignment under Paragraph 4 of the Farmout Agreement and Assignment dated May 6, 1969 from Shell to R. G. Scheuhle et al. Since we have a drilling commitment to Phillips Petroleum, who has been patient for more than a reasonable period of time, it is our intention to see a Jalmat well drilled in the W/2 NE/4 Section 36. We respectfully request that Shell aid in the drilling of this well by giving Deck et al the above mentioned notice of reassignment (enclosed for this purpose is a list of all other possible working interest owners other than Shell) and then do one of the following:

1. Participate in the drilling of the proposed Jalmat well. If Shell elects to join, enclosed are two copies of an AFE. In this case, please return one signed copy and we will forward an A. A. P. L. Model From Operating Agreement.

Shell Oil Company
Page 2
August 3, 1979

2. Farmout on the basis of commercial production with a producer to earn 100-feet below total depth drilled and with Shell to retain 17 1/2% override (leaving operator with 70% net revenue interest; ie, State--1/8, Shell--17 1/2%).

This farmout offer is the same deal we have with Phillips as to the SW/4 NE/4 of Section 36. The override proposed to Shell shall be subject to proportionate reduction as to the 80-acre unit.

By procuring a reassignment from Deck et al, Shell would accomplish the following:

1. Shell would have an opportunity to participate in the proposed Jalmat well for a 50% working interest or gain an additional override of 5% more than it presently has (ie, Shell's override would go from 12 1/2% on the Deck et al lease to 17 1/2% under my offer, subject to proportionate reduction).
2. Shell would help expedite by three or four months the drilling of a well in the middle of the present national energy crisis. This savings of time would be possible since a Force Pooling hearing before the New Mexico Oil Conservation Commission would no longer be necessary.

Please advise should you need any additional data and, if it would be helpful, I will be glad to come to Houston to discuss this matter with you or anyone else with Shell. Please let me hear from you as soon as possible.

Very truly yours,

James A. Davidson

James A. Davidson

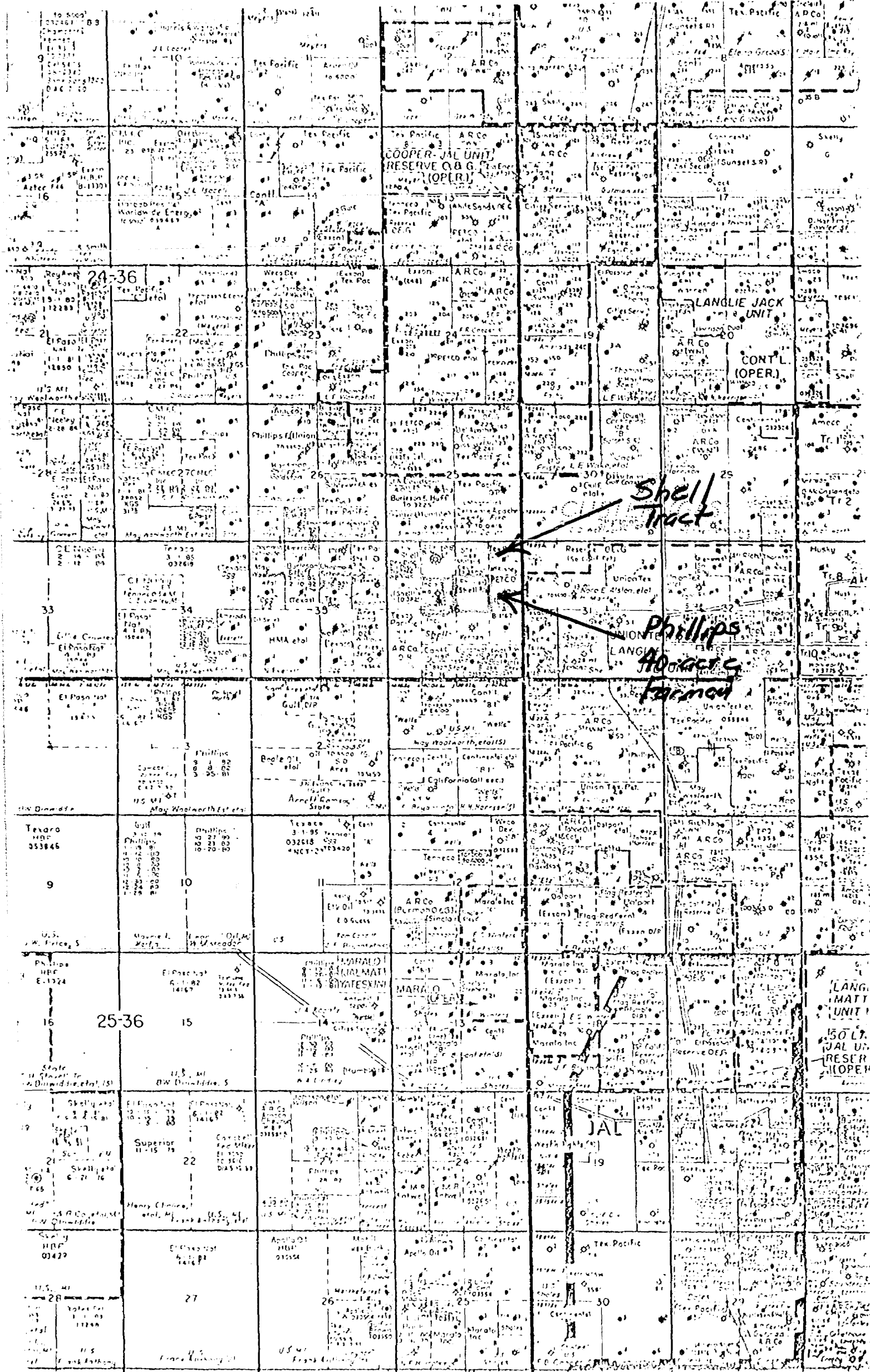
JAD/mh

Enclosures as above

cc: Mr. E. A. Gorence
Phillips Petroleum Company
4001 Pembroke
Odessa, Texas 79762

ADDRESS AND INTEREST LIST

NAME	ADDRESS	WORKING INTEREST
Millard Deck and Millard Deck Oil Company	P. O. Box 1047 Eunice, New Mexico 88231	27/32
General Petroleum, Inc. (Attention: Mr. T. D. Skelton)	P. O. Box 840 Hobbs, New Mexico 88240	1/16
John Bryant	911 Silver Avenue Hobbs, New Mexico 88240	1/16
M. F. Nelson	P. O. Box 603 Hobbs, New Mexico 88240	1/32
		<hr/> 32/32



DETAIL WELL ESTIMATE

LEASE NO. _____ APPR. NO. _____
 LEASE NAME Custer State Com WELL NO. 1 W. I. 100%
 COUNTY Lea STATE New Mexico FIELD Jalmat Gas Pool
 LOCATION: NW/4 NE/4 Section 36, 1-24-S, R-36-E

DRILLING INTANGIBLES:

		PRODUCER	DRY HOLE
1. Drilling Cost	3400 Feet @ 12.97 Per Foot	44,100	44,100
2. Day Work	2 days @ 3200/day	6,400	6,400
3. Coring Service	Well Surveys 6000	6,000	6,000
4. Testing			
5. Fuel	Water	7,000	7,000
6. Mud	5,000 Mud Logging 7000	5,000	5,000
7. Cementing Service	Cement Floats	12,000	3,000
8. Company Labor	Contract Labor	600	300
9. Digging Pits	Filling Pits 700	700	---
10. Roads & Location	6000 Dredging & Grading	6,000	6,000
11. Acidizing	4000 Fracturing 30,000 Perforating 1,700	35,700	---
12. Plugging		---	2,000
13. Trucking Cost		700	300
14. Development Superintendence	20 days @ \$ 250 /day	5,000	2,800
15. Rental Equipment		2,000	500
16. Swabbing and Testing	6 days @ 700/day	4,200	---
17. Other Costs	Abstract, title opinion, etc.	3,000	3,000
	pit lining	1,200	1,200
	other	6,000	6,000
	Total Intangibles	145,600	93,600

WELL EQUIPMENT:

18. Casing	500 Ft. of 8 5/8 @ 6.50 Per Ft.	19,000	3,300
	3450 Ft. of 5 1/2 @ 4.56 Per Ft.	7,900	---
	Ft. of @ Per Ft.	1,200	600
19. Tubing	3400 Ft. of 2 3/8 @ 2.30 Per Ft.	2,800	300
20. Casing Head		15,000	---
21. Xmas Tree or Pumping Connections		11,000	---
22. Pumping Unit		6,000	---
23. Engine Motor, Controller, Transformer, Power line		1,200	---
24. Sucker Rods		8,000	---
25. Pump		2,500	---
26. Tank Battery Water tank and connections		---	---
27. Separator or Dehydration Equip.		1,500	---
28. Metering Equipment		1,000	1,000
29. Flow Lines		---	---
30. Other		---	---
	Total Tangibles	77,100	5,200
	TOTAL COST OF WELL	222,700	98,800

REMARKS: The above cost estimate is based on a Jalmat Gas well completion. Please notice under WELL EQUIPMENT that pumping equipment has been included in the cost estimate. Based on nearby wells, water production has been a problem over the Jalmat interval and a means of handling water should be included in a realistic cost estimate.

Originated by D. J. [Signature] Title _____ Date August 1, 1979
 Approved _____ Title _____ Date _____

Section 36: NW/4 NE/4

Original lease was B-10709-1 dated October 11, 1943, from State to Shell Oil Company.

Rights from surface to 3,400' or base of Seven Rivers whichever is deeper (as Seven Rivers shown on log of Shell State "B-2" in SE/4 NW/4 Section 36, T-24-S, R-36-E) owned as follows:

Millard Deck and Millard Deck Oil Company 27/32
P. O. Box 1047, Eunice, N.M. 88231

Note--Deck was probably single, but may need to name his ex-wife, Helen Deck in force-pooling.

General Petroleum Inc. 1/16
P. O. Box 840, Hobbs, N.M. 88240
T. D. Skelton, President

John Bryant 1/16
911 Silver Avenue, Hobbs

H. F. Nelson 1/32
P. O. Box 603, Hobbs, New Mexico

32/32

John Yuronka. 1/64 override less 1.041663% override
(et ux Donna C.)

Lewis Taman 1.041663% override
4750 N. Clarendon, Chicago, Illinois 60640

R. G. Schuehle 1/64 override less 1.041663% override
(et ux Margaret S.)

H. Wayne Stead 1.041663% override
2889 Millicent Dr., Salt Lake City, Utah 84101

Note: Shell has 1/8 of 8/8ths override and the right to cancel out all above parties by making request for reassignment.

GAS CONTRACTS

Shell subject to El Paso contract until 1-1-80. Deck et al took subject to this contract.

Phillips as to SW/4 NE/4 Section 36, limited its El Paso contract to Ellenburger Gas Only.

WARREN D. BARTON

ATTORNEY AT LAW

315 Petroleum Building

MIDLAND, TEXAS 79701

Telephone 691 6273

1964

P. O. Box 3000

August 15, 1978

STATE OF NEW MEXICO

COUNTY OF LEA

PROPERTY: State of New Mexico, land

ORIGINAL TITLE OPINION

Mr. Doyle Hartman
508 C&K Petroleum Bldg.
Midland, Texas 79701

Dear Mr. Hartman:

I have examined title to the land described below and base my opinion thereto upon the abstracts set out herein. The following opinion is submitted:

PROPERTY

The West one-half of the Northeast one-quarter (W/2 NE/4) of Section 36, T-24-S, R-36-E, NMPM, Lea County, New Mexico, containing 80 acres, more or less.

ABSTRACTS EXAMINED:

1. Original Abstract of Title No. 7-1478-B prepared by Lovington Abstract Company, Inc., consisting of 101 pages, and certified from the inception of the records to July 14, 1978 at 8:00 o'clock a.m.
2. Original Abstract of Title No. 30,418 prepared by Federal Abstract Company, consisting of 76 pages, and certified from the inception of the records to July 25, 1978 at 8:00 o'clock a.m.

INSTRUMENTS EXAMINED:

None.

BASIC LEASES:

Lease No. 1:

Lease No.
Dated:

B-10709.
October 11, 1943.

Lessor:
Lessee:
Land Covered:
Term:

State of New Mexico.
Shell Oil Company, Inc.
The NW/4 NE/4 and W/2 NW/4 of Section
36, containing 120 acres.
Five (5) years from the date of this
lease and as long thereafter as oil and
gas in paying quantities, or either of
them, is produced from said land by
the Lessee. Paragraph 15 of the lease
provides for a second, or additional,
term of five (5) years by paying each
year in advance double the rental pro-
vided for in the primary term.
One-eighth (1/8) on oil and gas.
\$1.00 per acre per year.
October 11, 1978.
Not recorded in Lea County, New Mexico.
This lease has been assigned numerous
times as discussed below.
First production was obtained on Feb-
ruary 24, 1953, in the NW/4 NW/4 of
Section 36. Rentals have been paid to
October 11, 1978, and royalty payments
for the producing well have been paid
to April of 1978.

Royalty:
Rental:
Rental Date:
Recording Date:
Assignments:
Status of Lease:

Lease No. 2:

Lease No.
Dated:
Lessor:
Lessee:
Land Covered:
Term:

E-1734.
February 10, 1948.
State of New Mexico.
Phillips Petroleum Company.
The NW/4 SE/4 and SW/4 NE/4 of Section
36, containing 80 acres.
Five (5) years from the date of this
lease and as long thereafter as oil and
gas in paying quantities, or either of
them, is produced from said land by
the Lessee. Paragraph 15 of the lease
provides for a second, or additional,
term of five (5) years by paying each
year in advance double the rental pro-
vided for in the primary term.
One-eighth (1/8) on oil and gas.
\$1.00 per acre per year.
February 10, 1979.
Book 67 at Page 99 of the Oil and Gas
Records of Lea County, New Mexico.
None.
First production was obtained in May
of 1949, in the NW/4 SE/4 of Section
36. Rentals have been paid to February
10, 1979, and royalty payments for the
producing well have been paid to April
of 1978.

Royalty:
Rental:
Rental Date:
Recording Date:
Assignments:
Status of Lease:

The State of New Mexico acquired title to the captioned land under an Act of Congress approved June 21, 1908, under Patent No. 1154354, approved September 16, 1955. No minerals were reserved by the United States Government. Grazing Lease No. 90-1119 was issued to Henry H. Harrison of Tyler, Texas, and this grazing lease covers other lands and expires on October 1, 1980. Numerous rights-of-way have been granted to El Paso Natural Gas Company, and New Mexico Electric Service Company.

The history of Lease No. B-10709 is that it was assigned first by Shell Oil Company, Inc. to Shell Oil Company, then to R.G. Schuchle and John Yuronka on October 3, 1968, who assigned said lease, as to the NW/4 NE/4 of Section 36, to Millard Deck Oil Company et al on October 18, 1968, who then assigned said lease back to Shell Oil Company on May 2, 1969.

Shell Oil Company then entered into a Farmout Agreement and Assignment with R.G. Schuchle and John Yuronka under the date of May 6, 1969 and followed this up by an assignment in full of Lease No. B-10709 to R.G. Schuchle and John Yuronka on July 2, 1969, insofar as the NW/4 NE/4 of Section 36 is concerned. R.G. Schuchle and John Yuronka then assigned this lease, as to said 40-acre tract, to Millard Deck Oil Company and others, reserving a 1/32 of 8/8 overriding royalty interest which was later assigned in part by each of them to Lewis Taman and H. Wayne Stead. It appears now that this lease is owned of record by Millard Deck Oil Company (27/32), General Petroleum, Inc. (1/16), John Bryant (1/16), and M.F. Nelson (1/32), subject to the overriding royalty interests mentioned above.

The Farmout Agreement and Assignment of May 6, 1969, from Shell Oil Company to R.G. Schuchle and John Yuronka contains provisions to the effect that if after the timely completion of the well in the SE/4 NW/4 of Section 36, there is neither production from said land nor work at a well site in trying to obtain or restore production therefrom, either by re-working a well thereon or drilling a new well, for as many as twenty (20) consecutive days, Shell Oil Company may terminate the assignment in whole or in part by giving written or telegraphic notice to the assignee and thereupon the leasehold estate covered by the assignment, as to the lands described in the termination notice shall revert to and be owned by Shell Oil Company, and the assignee shall execute and deliver a re-assignment thereof to Shell Oil Company. You have advised me that all production from the 120 acres covered by the Farmout Agreement and Assignment of May 6, 1969, has ceased and that there has been no production from such land at least since 1973. However, you have also advised me that you have been unable to ascertain whether Shell Oil Company has given the written or telegraphic notice to Schuchle and Yuronka as to Shell's decision to terminate the assigned leasehold interest, and certainly the records do not contain any evidence of any such notice or any re-assignment from the lease owners or from R.G. Schuchle and John Yuronka to Shell Oil Company. Consequently, it appears that although this 40-acre leasehold interest is owned of record as set out above, these interests may be subject to termination by notice of such intention from Shell Oil Company.

The assignment of July 28, 1969, from R.G. Schuchle and John Yuronka, and their respective wives, to Millard Deck Oil Company and the other record owners is made specifically subject to the terms and provisions of the Farmout Agreement and Assignment of May 6, 1969, but this is somewhat confused by the fact that on July 2, 1969, Shell Oil Company made an outright assignment

of Lease No. B-10700, insofar as the NW/4 NE/4 of Section 36 is concerned, to R.G. Schuchle and John Yuronka without any mention being made of the famous terms and provisions or any overriding royalty reservation. Therefore, I do not believe that you can with safety drill on this property without having some sort of agreement between the parties as to the respective interests of each; such an agreement will have to include R.G. Schuchle, John Yuronka, Shell Oil Company, and the record owners listed above. You may also wish to check with the Commissioner of Public Lands of the State of New Mexico to determine just who their records show to be the owners of this lease, as to this 40-acre tract. By obtaining evidence of who has been making the delay rental payments, you may be able to ascertain who is claiming title.

Lease No. 2 analyzed above is owned of record by Phillips Petroleum Company, as there have been no assignments of this lease. It appears that at one time all of the N/2 of Section 36 was unitized, and this is reflected by a division order which was issued by The Permian Corporation on June 27, 1963. I have assumed that such Communitization Agreement is no longer in effect, or that it has been amended so as to exclude the depths you are interested in, but you should make certain of these facts before entering into any agreement to drill on this land.

I return herewith the abstracts mentioned above. As stated above, I can say with certainty that the oil and gas leasehold estate in the SW/4 NE/4 of Section 36 is owned of record by Phillips Petroleum Company of Bartlesville, Oklahoma, and that such lease is currently held by production with all rentals paid to date, but I cannot advise you at this time as to the ownership of the NW/4 NE/4 of Section 36 because of the confused state of the record. Perhaps there are some unrecorded instruments between the various owners of this lease, and if such are discovered they should be furnished to me for examination, but for the present I can only advise you as stated above.

Very truly yours,

Warren D. Barton

Warren D. Barton

WDB:cfw

37

32300

MA 1114
21-39 (ONE WELL)

FARMOUT AGREEMENT AND ASSIGNMENT

1. On this the 6th day of May 1969 in consideration of the covenants and obligations of the ASSIGNEE herein,

Shell Oil Company, a Delaware corporation, herein called "ASSIGNOR", hereby transfers and assigns unto

R. G. Schuehle and John Yuronka

herein called "ASSIGNEE", subject to the reservations, covenants, conditions and provisions set out below, and without warranty of title, express or implied, all of ASSIGNOR'S right, title and interest in and to the oil and gas rights in and under all oil and gas leases and oil, gas and mineral leases held by it in

so far as they cover the following land in Lea County New Mexico down to and including, but not below, a depth of 100 feet below the greatest depth penetrated, not to exceed 3400 feet or base of Seven Rivers formation, whichever is greater, as defined in Shell-State B-2 located in SE 1/4 NW 1/4 of Section 36, Township 24 South, Range 36 East, To-Wit:

The Northeast 1/4 Northwest 1/4, Southeast 1/4 Northwest 1/4 and the Northwest 1/4 Northeast 1/4 of Section 36, Township 24 South, Range 36 East, N.M.P.M.

The land covered by this assignment (as to the depths or formations covered hereby if this assignment covers less than all depths) is called herein "said land."

2. ASSIGNOR hereby reserves unto itself, its successors and assigns an overriding royalty of one eighth (1/8th) of all (8/8) of the oil and gas in and under which may be produced from said land. If on the effective date hereof the leasehold estate herein assigned covers less than the full interest (or no interest) in the oil and gas rights in all or any part of said land, then ASSIGNOR'S overriding royalty shall be proportionately reduced as to the land in which such leasehold estate covers less than the full interest. Said overriding royalty shall be free of all cost to ASSIGNOR of drilling for, producing, treating and separating the minerals to which it applies. ASSIGNOR shall furnish ASSIGNOR complete statements, at such intervals, and on such forms as ASSIGNOR may request, covering the production from said land, measurement thereof, production stored, used, delivered to pipe lines, and sold.

3. ASSIGNEE agrees timely to commence and diligently to drill the following well to completion, to-wit:

Commencement Date: Well has been completed as a Jalmat gas well.

Well Location: Southeast 1/4 Northwest 1/4 Section 36, Township 24 South, Range 36 East.

Well Depth: To a total depth of 3,430 feet from the surface.

4. Whenever ASSIGNOR is in default with reference to drilling and completing the well specified in Section 3 (and suspension of operations timely begun for as much as twenty (20) days shall be considered as a default) or in complying with the provisions in Section 5 or whenever after the timely completion of the said well there is neither production from said land nor work on a well site in trying to obtain or restore production therefrom either by reworking a well thereon or drilling a new well for as many as twenty (20) consecutive days, ASSIGNOR may terminate this assignment in whole or in part by giving written or telegraphic notice to ASSIGNEE thereof, and thereupon the leasehold estate covered by this assignment shall, as to the lands described in the termination notice, revert to and be owned by SHELL and as evidence thereof, ASSIGNEE shall execute and deliver a reassignment thereof to ASSIGNOR. Time is of the essence in the performance of ASSIGNEE'S obligations.

5. ASSIGNOR at all times shall have free access to all wells on the above land to all records pertaining thereto and the production therefrom. As to the well specified in Section 3 ASSIGNOR agrees (a) to notify ASSIGNOR of the beginning thereof; (b) to promptly furnish to ASSIGNOR (1) a copy of each report filed by ASSIGNOR with any governmental agency relating thereto; (2) daily drilling and drilling time reports; (3) complete information as to the results of all tests; (4) upon completion, a complete log thereof; (5) logs of electric, radioactive and other surveys thereof, whether similar or dissimilar; and (6) samples satisfactory to ASSIGNOR of drill cuttings taken at 10 foot intervals; (c) to make available to ASSIGNOR or the well samples of all fluids encountered and of all cores taken; (d) to give ASSIGNOR at least 12 hours notice of the time he expects to set or cement the production string casing or make drill stem tests or to drill into any formation expected to produce or to core any formation; (e) to allow ASSIGNOR to use the hole for the running of velocity and other surveys; or ASSIGNOR'S sole risk and expense; (f) immediately to notify ASSIGNOR if any showing of oil or gas is encountered; (g) to make thorough tests of all formations which contain a showing of oil or gas; (h) to give immediate notice thereof to ASSIGNOR, which shall have a reasonable time thereafter to satisfy itself that the drilling and testing requirements hereof have been fully performed; and (i) properly and lawfully to plug and abandon same if it is a dry hole.

6. All operations conducted by ASSIGNEE shall be at the sole risk and cost and under the exclusive control of ASSIGNEE, and ASSIGNEE shall indemnify ASSIGNOR against all claims for damages of every kind to persons or property arising out of or in connection with the operations of ASSIGNEE on said land.

7. ASSIGNEE shall comply with, and hereby assumes, all express and implied covenants and obligations contained in any lease affected hereby as to the lands covered by this assignment.

8. All rights of ASSIGNOR hereunder shall apply not only to the leasehold interests that are hereby assigned but also to any renewal or extension thereof and to any new lease that covers all or part of said land to the extent that it covers an interest that is covered by any leasehold hereby assigned and that ASSIGNEE may acquire within one year from the expiration of the prior lease covering such interest.

9. If ASSIGNEE at any time intends to surrender or to abandon or to allow to terminate or to be cancelled for non payment of a shut-in royalty or other payment that could be made by ASSIGNEE any portion of the leasehold estate covered by this assignment, ASSIGNEE shall tender to ASSIGNOR a reassignment thereof at least thirty (30) days before making a surrender or abandonment or before the date by which the act which may result in termination or cancellation must be performed.

If ASSIGNOR accepts a reassignment hereunder, ASSIGNOR shall pay to ASSIGNEE the reasonable salvage value of any materials and equipment that it shall elect to take in any wells affected, but whenever the transaction shall be without cost to ASSIGNOR. Wells affected by such a reassignment and not elected to be taken by ASSIGNOR in operating condition shall be plugged and abandoned in a lawful manner by ASSIGNEE.

10. Except as provided in the following sentence, all notices and communications to be given under the terms hereof shall be given by registered or certified mail or telegram addressed to the addresses of the parties as set out on the signature page or pages below provided that either party may effect a

change of address by advising the other party of such desired change. ASSIGNOR designates its Midland Division

Production Department, in the Shell Building, P. O. Box 1509

Midland, Texas 79701 to receive logs, copies of reports to governmental agencies and notices and reports concerning and during the drilling operations until further notice. The provisions hereof shall constitute covenants running with the land and shall extend to and be binding upon the respective heirs, representatives, successors and assigns of the parties herein, but no assignment or transfer shall relieve ASSIGNEE of ASSIGNEE'S obligations hereunder.

last production from well ending farmout tract was prior to 1967.

11. ASSIGNOR shall at all times have preferential right and option to purchase, or to designate a responsible purchaser for, all or any part of the casinghead or gas well gas which ASSIGNEE may produce under the leasehold interests hereby assigned and which ASSIGNEE proposes to sell, on the terms contained in a bona fide offer therefor. ASSIGNEE shall give to ASSIGNOR written, complete and detailed information concerning, and a photostatic copy of, the offer. ASSIGNOR shall have 20 days after receipt thereof in which to exercise its said option by a written notice to ASSIGNEE.

12. In performing all operations and work provided for herein ASSIGNEE agrees to use products manufactured and/or sold by ASSIGNOR, provided such are readily available at competitive prices.

13. SPECIAL PROVISIONS:

A. ASSIGNEE shall run the following surveys after the well has reached total depth:

1. Gamma Ray Sonic from total depth to surface.
2. Laterolog from total depth to base of salt.
3. Microlaterolog from total depth to base of salt.

Other logging company equivalents of the above are also acceptable. If the ASSIGNEE should core any formation covered by this contract, ASSIGNOR shall have call on all portions of the whole core residue after the purposes of the ASSIGNEE have been served.

B. All rentals hereafter becoming due on, or payable in order to prevent termination of the oil and gas leasehold estate on the above described lands shall be paid by ASSIGNOR, and ASSIGNEE, within fifteen (15) days from notice by ASSIGNOR of the making thereof, shall reimburse ASSIGNOR in full therefor; provided that ASSIGNEE may relieve himself of this obligation as to any particular part of said lands by tendering to ASSIGNOR, at least thirty (30) days before the date by which a rental must be paid, an assignment of ASSIGNEE'S rights in said leasehold as to said land. ASSIGNOR agrees to use reasonable diligence in endeavoring to pay such rentals properly, but shall have no liability to ASSIGNEE for failure to do so.

C. ASSIGNOR is contemporaneously herewith assigning to ASSIGNEE on the form required by the State of New Mexico with reference to assignments of oil and gas leases from it, the oil and gas leasehold on the land described above without reference therein to the depth limitation herein made or to the reservations, terms and provisions hereof. However, as between the parties hereto, it is understood that the said assignment is subject to all the terms and conditions hereof and that all rights reserved to ASSIGNOR herein shall be applicable thereto.

D. Notwithstanding anything to the contrary, it is expressly agreed and understood that the ASSIGNEE earns gas rights only to 3400 feet or the base of the Seven Rivers formation, as defined in Shell-State B-2 located in Southeast 1/4 Northwest 1/4 of Section 36, Township 24 South, Range 36 East, in the lands described in Paragraph 1 hereof.

IN WITNESS WHEREOF, the parties have hereunto set their hands as of the day and year first stated above.

R. G. Schuehle
John Yuronka
 John Yuronka
 Address: _____

120-C Central Building
 Midland, Texas 79701

SHELL OIL COMPANY

By E. Pearson
 Attorney in Fact

Address: Petroleum Building
 P. O. Box 1509
 Midland, Texas

STATE OF _____

COUNTY OF _____

Before me, the undersigned authority, on this the _____ day of _____, 19____, appeared

_____ to me personally known, who, being by me duly sworn, did say that he is
 _____ President of _____ that the seal affixed to said instrument is the corporate seal of said corpora-
 tion, that same was signed and sealed in behalf of said corporation by authority of its Board of Directors, and he acknowledged said instrument to be
 the free act and deed of said corporation, same having been executed by him for the purposes and consideration therein expressed and in the capacity
 therein stated.

Witness my hand and official seal the day and year last above written.

Notary Public in and for _____

My Commission Expires: _____

County, _____

STATE OF TEXAS

COUNTY OF MIDLAND

BEFORE ME, the undersigned, a Notary Public in and for said County and State, on this day personally appeared R. G. Schuehle and John Yuronka

known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that they
 executed the same for the purposes and consideration therein expressed.

GIVEN under my hand and seal of office, this the 7th day of May, 1969My Commission Expires: 6-1-69

Dana L. Raper
 Notary Public in and for

Midland County Texas

STATE OF TEXAS
COUNTY OF MIDLAND

Before me, the undersigned authority, on this day personally appeared E. V. Pearson
 known to me to be the person whose name is subscribed to the foregoing instrument as Attorney-in-Fact for Shell Oil Company and acknowledged to me
 that he executed the same for the purposes and consideration therein expressed, and as the free act and deed of said Shell Oil Company in the capacity
 therein stated.

Given under my hand and seal of office this 2nd day of July, 1969My Commission Expires: 6-1-71

Rose Lynn Magee
 Notary Public in and for Midland County, Texas

STATE OF NEW MEXICO
COUNTY OF LEAFILED FOR RECORD on the 21 day of August, 1969 at 9:30 o'clock P.M. and recorded in Book _____

page _____ of the _____ records of my office.

Willard Beck
At 409. Turner

Effie Holman County Clerk
 By Delma C. Boland Deputy.

ASSIGNMENT

THIS ASSIGNMENT, entered into this 28th day of July, 1969, by and between R. G. SCHUEBLE and his wife, MARGARET S. SCHUEBLE and JOHN YURONKA and his wife, DONNA C. YURONKA, hereinafter collectively called "Assignors," and MILLARD DECK OIL COMPANY, GENERAL OPERATING COMPANY, GENERAL PETROLEUM, INC., JOHN BRYANT, DONALD E. BRATTON and ROYCE CROWELL, hereinafter collectively called "Assignees."

WITNESSETH:

WHEREAS, Assignors represent that they are the owners of an undivided full interest in the gas leases described in Exhibits A and B, Farmout Agreement and Assignment and Assignment of Oil and Gas Leases, respectively, which are attached hereto and made a part hereof. Said interest of Assignors, in addition to the hereinafter excepted and reserved overriding royalty, is subject to a royalty of 1/8 of 8/8 reserved to the State of New Mexico and an overriding royalty of 1/8 of 8/8 reserved to Shell Oil Company of all gas produced from the above described land.

NOW, THEREFORE, in consideration of the sum of \$10.00 and other good and valuable consideration, Assignors do hereby convey and assign to Assignees, their heirs, successors and assigns, working interests under the said leasehold estates in the following proportions:

Millard Deck Oil Company	11/16
General Operating Company	1/8
General Petroleum, Inc.	1/16
John Bryant	1/16
Donald E. Bratton	1/32
Royce Crowell	1/32

Assignors except from this assignment and reserve unto themselves, in equal proportions, an overriding royalty interest of 1/32 of 8/8 of the oil and gas production from the SE 1/4, NE 1/4 and the NE 1/4, NW 1/4 of Section 36, Township 24 South, Range 36 East, Lea County, New Mexico. No overriding royalty shall be retained

on the NE/4, NW/4 of said Section 36.

The overriding royalties herein reserved shall be in addition to and over and above all existing royalties and overriding royalties now affecting the working interest herein assigned.

This assignment is made pursuant to and in compliance with that certain Farmout Agreement and Assignment dated May 6, 1969, and made a part hereof as Exhibit A.

This assignment shall be binding upon the parties hereto, their heirs, successors and assigns.

IN WITNESS WHEREOF, this instrument is executed in multiple copies, each of which is to serve as an original.

John Yuronka
John Yuronka

R. G. Schuehle
R. G. Schuehle

Donna C. Yuronka
Donna C. Yuronka

Margaret S. Schuehle
Margaret S. Schuehle

STATE OF TEXAS)
COUNTY OF MIDLAND) ss.

The foregoing instrument was acknowledged before me this 28th day of July, 1969, by R. G. Schuehle and his wife Margaret S. Schuehle.

Dana L. Raper
Notary Public

My Commission expires:
June 1, 1971

STATE OF TEXAS)
COUNTY OF MIDLAND) ss.

The foregoing instrument was acknowledged before me this 28th day of July, 1969, by John Yuronka and his wife, Donna C. Yuronka.

Dana L. Raper
Notary Public

My Commission expires:
June 1, 1971

STATE OF NEW MEXICO
COUNTY OF LEA
FILED

AUG 21-1969

" 9:20" - 91 M
and recorded in Book _____
Page _____
LEA HALLIDAY, County Clerk
by J. E. B. Deputy

42124

PARTIAL ASSIGNMENT OF OIL AND GAS LEASE

STATE OF NEW MEXICO)

COUNTY OF LEA)

For a valuable consideration, receipt of which is hereby acknowledged, GENERAL OPERATING COMPANY, a partnership composed of BINION H. CARR and KENT E. TOLER, said partners being joined herein by their respective wives, hereinafter called "Assignor," does hereby grant, sell, assign, transfer and convey unto MILLARD DECK, Eunice, New Mexico, his heirs and assigns, one-eighth of the working interest in and to the Shell Oil Company-State of New Mexico Leases Nos. B-10709-1 and B-1167-12 under the following described land in Lea County, New Mexico:

The Northwest 1/4 of the Northeast 1/4, the Southeast 1/4 of the Northwest 1/4, and the Northeast 1/4 of the Southwest 1/4, all out of Section 36, T-24-S, R-36-E, containing 120 acres, more or less,

together with a like interest in all leasehold equipment and personal property located on said land and used in connection with said oil and gas leases.

This instrument is executed subject to, and the assigned interests shall bear their proportionate part of all royalties, overriding royalties, production payments and other leasehold burdens now shown of record in the office of the County Clerk of the above County, including, without limitation, the Shell Oil Company Farmout Agreement and Assignment of Leases dated June 12, 1968, the John Yuronka, et ux, et al, Assignment of Leases dated October 18, 1968, and the El Paso Natural Gas Company Gas Purchase Contract dated October 23, 1968, including all amendments and supplements thereto.

Assignor covenants with Assignee that it is the owner of the above leases and that it has neither disposed of nor encumbered the same since acquisition, insofar as the interests hereby assigned are affected.

EXECUTED, this 15th day of June, 1970; but effective as of June 1, 1970, at 7:00 a.m. as to gas and effective as of the date of first runs as to oil.

GENERAL OPERATING COMPANY

By Binion H. Carr
Binion H. Carr, Partner

By Kent E. Toler
Kent E. Toler, Partner

Patsy Ruth Carr
Patsy Ruth Carr

Ruby Merle Toler
Ruby Merle Toler

2427

ASSIGNMENT OF INTEREST IN OIL AND GAS LEASES

This Assignment, entered into this 1 day of February, 1971, by and between ROYCE E. CROWELL and JO CROWELL, his Wife, hereinafter called "Assignors," and MILLARD DECK OIL COMPANY, hereinafter called "Assignee."

WITNESSETH:

Whereas, Assignors represent that they are the owners of an undivided .02246094 working interest of the oil and gas and other minerals in and under and that may be produced from Shell State Leases #1 and #2, covering 120 acres described as the NW/4 of the NE/4, the NE/4 of the SW/4, and the SE/4 of the NW/4 of Section 36, Township 24 South, Range 36 East, N.M.P.M., Lea County, New Mexico, subject to various overriding royalties and conditions contained in said recorded instrument,

Now, Therefore, in consideration of the sum of \$10.00 and other good and valuable consideration, Assignors do hereby convey and assign to Assignee, its heirs, successors and assigns, said working interest. All funds attributable to this working interest from the sale of oil, gas or casinghead gas from the 1 day of Feb., 1971, are hereby conveyed with this instrument. This Assignment shall be binding upon the parties hereto, their heirs, administrators, personal representatives, executors, assigns and successors.

In Witness Whereof, this instrument is executed in, multiple copies, each of which is to serve as an original on the day and year in this Assignment first above written.

STATE OF NEW MEXICO
COUNTY OF LEA
FILED
FEB 12 1971
JO CROWELL, his Wife
JANE RICH SMITH, County Clerk
By [Signature] Deputy

STATE OF NEW MEXICO)
COUNTY OF LEA) ss

The foregoing instrument was acknowledged before me this 1st day of February, 1971, by ROYCE E. CROWELL and JO CROWELL, his Wife.

[Signature]
NOTARY PUBLIC

My Commission Expires:

Sept 12, 1973

RETURN TO H. RANDOLPH REESE
P.O. Box 1619 Hobbs, NM 88240

2427

$dr/$

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

Order No. R-

ORDER OF THE DIVISION

This cause came on for hearing at 9 a.m. on September 5,
19 ⁷⁹, at Santa Fe, New Mexico, before Examiner Richard L. Stamets.

FINDS:

(2) That the applicant, Doyle Hartman,
seeks an order pooling all mineral interests in the Jalmat Gas Pool
underlying the W/2 NE/4
of Section 36, Township 24 South, Range 36 East,
NMPM, Lea County, New
Mexico.

(3) That the applicant has the right to drill and proposes to drill a well ^{at an unorthodox location 2310 feet from the North line and} 1650 feet from the East line of said Section 36 on an 80-acre non-standard gas proration unit.

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

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

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

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

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

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

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

(11) That _____ 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.

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

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

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, in the Jalmat Gas Pool _____ ~~formation~~ underlying the W/2 NE/4 of Section 36 _____, Township 24 South _____, Range 36 East _____, NMPM, _____, Lea County, New Mexico, are hereby pooled to form a standard 80-acre gas spacing and proration unit to be dedicated to a well to be drilled at an unorthodox location 2310 feet from the North line and 1650 feet from the East line of said Section 36.

PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the _____ day of _____, 1979, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the _____ formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the _____ day of _____, 1979, Order (1) of this order shall be null and void and of no effect whatsoever, unless said operator obtains a time extension from the Division for good cause shown.

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

(2) That Doyle Hartman is hereby designated the operator of the subject well and unit.

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

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

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

(6) That within 60 days following determination of reasonable well costs, any non-consenting working interest owner that has paid his share of estimated costs in advance as provided

above shall pay to the operator his pro rata share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator his pro rata share of the amount that estimated well costs exceed reasonable well costs.

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

(A) The pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

(B) As a charge for the risk involved in the drilling of the well, _____ of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

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

(9) That _____ 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.

-6-
Case
Order No.

(10) That any unsevered mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under the terms of this order.

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

(12) That all proceeds from production from the subject well which are not disbursed for any reason shall immediately be placed in escrow in Lea County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; that the operator shall notify the Division of the name and address of said escrow agent within 30 days from the date of first deposit with said escrow agent.

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

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