

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING CALLED BY)
THE OIL CONSERVATION DIVISION FOR THE)
PURPOSE OF CONSIDERING:)
APPLICATION OF FASKEN OIL AND RANCH,)
LTD., FOR COMPULSORY POOLING, LEA)
COUNTY, NEW MEXICO)

CASE NO. 13,106

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

July 24th, 2003

Santa Fe, New Mexico

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Oil Conservation Division

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, July 24th, 2003, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

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July 24th, 2003
Examiner Hearing
CASE NO. 13,106

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A P P E A R A N C E S

FOR THE APPLICANT:

KELLAHIN & KELLAHIN
 117 N. Guadalupe
 P.O. Box 2265
 Santa Fe, New Mexico 87504-2265
 By: W. THOMAS KELLAHIN

* * *

1 WHEREUPON, the following proceedings were had at
2 8:25 a.m.:

3 EXAMINER STOGNER: Okay, at this time I'll call
4 Case 13,106. This is the Application of Fasken Oil and
5 Ranch, Ltd., for compulsory pooling, Lea County, New
6 Mexico.

7 Call for appearances.

8 MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin of
9 the Santa Fe law firm of Kellahin and Kellahin, appearing
10 on behalf of the Applicant, and I have two witnesses to be
11 sworn.

12 EXAMINER STOGNER: Any other appearances?

13 Will the witnesses please stand to be sworn at
14 this time?

15 (Thereupon, the witnesses were sworn.)

16 EXAMINER STOGNER: Just procedurally speaking,
17 Mr. Kellahin, I know that there's been a recent rule
18 promulgation concerning compulsory pooling, however that's
19 not in effect yet.

20 MR. KELLAHIN: Yes, sir.

21 EXAMINER STOGNER: Just wanted to go on the
22 record at this point.

23 MR. KELLAHIN: Thank you. We've made the same
24 assumption, that we're proceeding under the old process.

25 EXAMINER STOGNER: Okay, you may proceed.

1 So with that you also understand that I have
2 leeway on risk penalty; is that correct?

3 MR. KELLAHIN: Yes, sir.

4 EXAMINER STOGNER: Zero to 200; is that your
5 understanding?

6 MR. KELLAHIN: Yes, sir.

7 EXAMINER STOGNER: Okay.

8 SALLY M. KVASNICKA,

9 the witness herein, after having been first duly sworn upon
10 her oath, was examined and testified as follows:

11 DIRECT EXAMINATION

12 BY MR. KELLAHIN:

13 Q. Would you please state your name and occupation?

14 A. Yes, my name is Sally Kvasnicka. I'm the land
15 manager for Fasken Oil and Ranch in Midland, Texas.

16 Q. For the record, Ms. Kvasnicka, would you spell
17 your last name?

18 A. My last name is spelled K-v-a-s-n-i-c-k-a.

19 Q. On prior occasions have you qualified as an
20 expert petroleum landman before the Division in other
21 matters?

22 A. Yes, I have.

23 Q. What has been your role with regards to Fasken's
24 Application before Examiner Stogner this morning?

25 A. Contacting ExxonMobil in discussions with them

1 regarding joining in participation of drilling this well.

2 Q. Is the activity you've engaged on for Fasken one
3 that is customarily performed by you within your company?

4 A. Yes.

5 Q. Are you responsible for researching or having it
6 researched to determine the ownership involved in
7 consolidating the working interest owners on a voluntary
8 basis for a well?

9 A. Yes.

10 Q. And have you done so in this case?

11 A. Yes, I have.

12 MR. KELLAHIN: Mr. Examiner, we tender Ms.
13 Kvasnicka as an expert petroleum landman.

14 EXAMINER STOGNER: Ms. Kvasnicka is so qualified.
15 Ms. Kvasnicka, is this your maiden name?

16 THE WITNESS: No, this is a married name.

17 EXAMINER STOGNER: What's your maiden name?

18 THE WITNESS: Muire, M-u-i-r-e.

19 EXAMINER STOGNER: The ex-Ms. Muire is so
20 qualified.

21 Q. (By Mr. Kellahin) Before we look at the specific
22 exhibits, let's talk about some general background
23 information. When we look at this township and we look at
24 the west half of Section 23, what's your understanding of
25 the closest pool that the Division has established for

1 production out of the Atoka-Morrow?

2 A. To the northwest, I believe there's a spacing
3 unit in Section 15.

4 Q. And what is the name of that pool?

5 A. The North Vacuum-Atoka-Morrow.

6 MR. KELLAHIN: Mr. Examiner, I've pulled out a
7 copy of the Division map showing the relationship to this
8 section.

9 Q. (By Mr. Kellahin) I've also showed you that same
10 map, have I not, Ms. Kvasnicka?

11 A. Yes, you have.

12 Q. Has there been an addition to the map that you
13 need to identify for the Examiner?

14 A. Yes, we have, Fasken Oil and Ranch, drilled a
15 well with a standup spacing unit, being the west half of
16 Section 26. That well was commenced in January of this
17 year, and it's called the Kirby 26 State Number 1.

18 Q. Let's talk a moment about the current proposed
19 spacing units, the west half of Section 23.

20 A. Yes.

21 Q. How is that spacing unit subdivided into the
22 various tracts?

23 A. ExxonMobil holds the northwest quarter, and
24 Fasken Oil and Ranch has acquired a farmout from Prize
25 Energy Resources in the southwest quarter.

1 Q. So when we look at Exhibit 1, that depicts the
2 various lots or tracts within the west half of the section?

3 A. Yes, it does.

4 Q. Let's turn to Exhibit Number 2 and have you
5 identify that exhibit for us.

6 A. This is an ownership tabulation of the ownership
7 comprising the west half of 23.

8 Q. When we look at the tabulation, have you
9 indicated the appropriate percentage interest in the
10 spacing unit?

11 A. Yes, this is the spacing unit.

12 Q. With the exception of ExxonMobil's 50-percent
13 interest, which is in the northwest quarter of the section,
14 has all the other interest owners reached a voluntary
15 agreement?

16 A. Yes, they have.

17 Q. Have they designated Fasken as the operator?

18 A. Yes, they have.

19 Q. Have they agreed to an AFE proposed by Fasken?

20 A. Yes, they have.

21 Q. Have they committed to a joint operating
22 agreement?

23 A. Yes, they have.

24 Q. Have they committed to overhead rates?

25 A. Yes, and those rates are \$6000 for drilling and

1 \$600 for operating.

2 Q. Are those the rates you recommend to Examiner
3 Stogner be included in the pooling order?

4 A. Yes.

5 Q. Have you exhausted all reasonable efforts to
6 obtain ExxonMobil's voluntary commitment of their interest
7 to this well?

8 A. Yes, I believe we have.

9 Q. Let's talk about what has happened. Let's start
10 back with the arrangement with Griffin Petroleum and Fasken
11 to attempt to explore and develop Atoka-Morrow production
12 in this particular area. Set the stage for us. What's
13 occurred?

14 A. Fasken acquired -- We've acquired this prospect,
15 it was generated by Griffin Petroleum Company. We drilled
16 our first well in the west half of Section 26. The Morrow
17 channels are north-trending, and the next obvious location
18 is in the west half of Section 23. In order to do that, we
19 have acquired a farmout from Prize Energy of its interest
20 in the southwest quarter of Section 23.

21 Q. When we look at Exhibit 3, what are we seeing?

22 A. You have a copy of the farmout agreement, dated
23 February 3rd, 2003.

24 Q. Does Fasken currently control a working interest
25 ownership in the west half of Section 23?

1 A. Yes, we do.

2 Q. Have you permitted the Dirt Devil well for the
3 west half of 23?

4 A. Yes, we have, and the APD was approved June 22nd,
5 2003.

6 Q. Have you enclosed in your exhibits an Exhibit 4
7 that is the approved APD?

8 A. Yes.

9 Q. What's your understanding of the principal
10 targets for this well?

11 A. To be Atoka and Morrow.

12 Q. Let's turn to your efforts to obtain ExxonMobil's
13 voluntary participation. Have you summarized your contacts
14 with them?

15 A. Yes, if you'll look at Exhibit 5, those are my
16 contacts with ExxonMobil. David Griffin with Griffin
17 Petroleum began his contacts with ExxonMobil in March of
18 2003, which is Exhibit 9.

19 Q. So your efforts and that of Griffin Petroleum
20 have been towards the goal of having ExxonMobil
21 participate?

22 A. Yes.

23 Q. Let's start off with the well-proposal letter.
24 Can you identify for us the well that specifically proposed
25 this spacing unit and the drilling of the Dirt Devil well?

1 A. Excuse me, say that -- Can you ask that again?

2 Q. Do you have a letter from Fasken proposing the
3 well to Exxon?

4 A. Yes, on May 23rd, Fasken proposed the well to
5 ExxonMobil, the Dirt Devil 23, for a standup west half.

6 Q. And that is Exhibit 6?

7 A. Yes.

8 Q. And did you provide them with a proposed plan of
9 operation for the well?

10 A. Yes.

11 Q. And did you also include an AFE?

12 A. Yes.

13 Q. What if any response did you receive from
14 ExxonMobil?

15 A. We've not received any response, and the --

16 Q. No written response?

17 A. No written response.

18 Q. Have you had telephone conversations with Mr.
19 Keffer, who is the land person with Exxon?

20 A. Yes, on multiple occasions.

21 Q. When is the last contact that you or Mr. Griffin
22 had with ExxonMobil about their participation in the well?

23 A. It was on July the 22nd, by David Griffin.

24 Q. Were you able to reach an agreement?

25 A. No, we were not.

1 Q. Let's turn to Exhibit 7. Identify and tell us
2 what this is.

3 A. This is an extension whereby Griffin Petroleum
4 acquired the right to extend the farmout from August 3rd to
5 November 3rd of this year.

6 Q. This would represent authority for Fasken to
7 continue to have an interest earned under a farmout and to
8 drill and operate the well?

9 A. Yes.

10 Q. Identify for us what Exhibit 8 is.

11 A. Exhibit 8 is the well proposal to the remainder
12 of the owners in the west half of Section 23.

13 Q. And as a result of this proposal, then, you have
14 full commitment by all interest owners, with the exception
15 of ExxonMobil?

16 A. That's correct.

17 Q. Exhibit 9, please, identify this for me.

18 A. Exhibit 9 is David Griffin's telephone records of
19 his contact in the discussions with ExxonMobil. He had a
20 further discussion with them on July 22nd, which is not
21 reflected.

22 Q. As a result of all these contacts and efforts to
23 obtain ExxonMobil's participation, do you now have an
24 understanding of what they tell you is the reasons they've
25 chosen not to sign these documents?

1 A. At this point in our discussions, they have said
2 that they would agree to allow Fasken to drill and complete
3 the well, but yet they would want to take over the well and
4 operate it. But at this point Paul Keffer has been unable
5 to find the right person within ExxonMobil organization to
6 determine what their operating costs might be so we could
7 discuss operating costs. And so at this point, because of
8 our pending farmout agreement with Prize Energy, we have no
9 choice but to continue this force-pooling case.

10 Q. What's the expiration date for your farmout
11 extension?

12 A. November 3rd, 2003.

13 Q. Has ExxonMobil provided you with any plan for
14 their operation and costs for the well?

15 A. No, they have not.

16 Q. Has Mr. Keffer identified for you the specific
17 individual with ExxonMobil that's responsible for making
18 decisions about this?

19 A. He is at this point unable to determine who that
20 individual is. He's trying to find the right person that
21 could give him those costs.

22 Q. Let's turn to Exhibit 10. Identify for me what
23 Exhibit 10 is.

24 A. Exhibit 10 is the AFE that we prepared for the
25 drilling of our Kirby 26 State Number 1 well in the west

1 half of Section 26.

2 Q. Is the proposed AFE for the Dirt Devil well based
3 upon the estimated and actual costs of the Kirby well that
4 was drilled to the south?

5 A. Yes, it is.

6 Q. Have there been appropriate adjustments made in
7 the current AFE for the Dirt Devil well --

8 A. Yes.

9 Q. -- to reflect alterations and changes?

10 A. Yes.

11 Q. Do you recommend to the Examiner that he adopt
12 the proposed AFE for the Dirt Devil well in this pooling
13 case?

14 A. Yes, I do.

15 Q. Would you also request that he provide you with a
16 method of escalating or adjusting the overhead rates, as
17 you do pursuant to the COPAS provision?

18 A. Yes, sir.

19 Q. Let me direct your attention to Exhibit Number
20 11. Exhibit 11 is my affidavit on certificate of
21 notification to Mobil. If you'll turn to the last page, am
22 I using the same address for Mobil, ExxonMobil, that you,
23 in fact, have used?

24 A. Let me make sure. Yes, P.O. Box 4697, Houston,
25 Texas.

1 Q. Are you aware of any objection filed by
2 ExxonMobil to having their interests pooled?

3 A. No, I'm not.

4 MR. KELLAHIN: Mr. Examiner, that concludes my
5 examination of Ms. Kvasnicka. We move the introduction of
6 Exhibits 1 through 11.

7 EXAMINER STOGNER: Exhibits 1 through 11 will be
8 admitted into evidence.

9 EXAMINATION

10 BY EXAMINER STOGNER:

11 Q. Ms. Kvasnicka, has Fasken joined with other
12 operations in this area in the last couple of years with
13 ExxonMobil?

14 A. Well, the well drilled in Section 26, Griffin
15 Petroleum acquired a three-year term assignment from
16 ExxonMobil for the drilling of that well. They hold 100
17 percent of that acreage. And that was our initial intent,
18 was to reach the same sort of agreement with ExxonMobil for
19 the south -- or their ownership of the northwest quarter of
20 23.

21 And if you'll look at our well proposal, we
22 allowed, or we discussed joining and/or entering into a
23 term assignment on the same terms in which they granted the
24 term assignment in Section 26.

25 Q. And which exhibit was that again?

1 A. I believe that was Exhibit Number 6. We gave
2 them several options, joint, grant a term assignment or
3 farm out its interest.

4 Q. Does ExxonMobil, in this general area -- do they
5 operate any wells out there in this area?

6 A. I believe they do in the Abo formation.

7 Q. The Abo being a gas-oil -- or, I'm sorry -- well,
8 anyway, a shallower formation?

9 A. A shallower formation, yes.

10 Q. Shallower formation. I'm looking now at Exhibit
11 Number 10 and the last page of Exhibit Number 8, and this
12 is the cost estimate with the -- the one on the last page
13 of Exhibit Number 8. This was for the Dirt Devil 2- --
14 your proposed well, and it was prepared on May 5th --

15 A. Yes.

16 Q. -- 2003, and --

17 A. Yes, sir.

18 Q. -- on Exhibit Number 10, when was that prepared?

19 A. Exhibit 10 was prepared, if you'll look -- It was
20 prepared on November 8th, 2002 --

21 Q. Okay --

22 A. -- and the well was drilled in January of '03.

23 Q. Could you point out some significant differences
24 between the two? What made the bottom line different? Or
25 first of all, let's take a look at the bottom line of both

1 of these. For the record, could you state what those are?

2 A. Let's see, they...

3 Q. Just the total cost.

4 A. Well, the total cost of the Kirby 26 was
5 \$1,052,950 to drill and complete, and the total cost of the
6 Dirt Devil was \$1,215,400.

7 Q. Okay, what are some -- Do they escalate all
8 prices, or were there just a couple of items that you're
9 aware of that made the difference significant?

10 MR. KELLAHIN: Mr. Examiner, if it will aid you I
11 have a copy of handwritten notes that Ms. Kvasnicka
12 provided me that show the differences.

13 THE WITNESS: Right. If you look on the far
14 right, those are the actual drilling costs of our Kirby 26
15 well.

16 Q. (By Examiner Stogner) Okay, when you say the far
17 right, you're talking about this --

18 A. -- handwritten notes.

19 Q. -- handwritten notes that was provided me?

20 A. Right.

21 Q. Okay, I'm looking at that now, I'm sorry, go
22 ahead.

23 A. And if you will see, you know, some costs were --
24 you know, we achieved a lesser rate. Some were wellhead
25 equipment, there was an increase.

1 Q. One of the things that stands out, it looks like
2 the mud and chemical cost was almost doubled. The mud and
3 chemical shows to be \$65,000 for the Dirt Devil, and --

4 A. And the Kirby was \$77,175, is what the actual
5 cost --

6 Q. But the estimate was \$35,000. Okay. Will your
7 technical representative discuss that or --

8 MR. KELLAHIN: I'm sorry, we don't have the
9 drilling engineer here to be able to tell you the answers
10 to those.

11 Q. (By Examiner Stogner) Okay, were you provided an
12 explanation of that particular --

13 A. No, I was not.

14 Q. But these are based on what the Kirby actually
15 cost?

16 A. These are actual costs of the Kirby drilling.

17 EXAMINER STOGNER: Mr. Kellahin, could we mark
18 this as Exhibit 10-A?

19 MR. KELLAHIN: All right, sir.

20 EXAMINER STOGNER: And I'm handing you -- I'll
21 let you present it after you mark it. Is the stamp there?

22 MR. KELLAHIN: No, I have -- Mr. Stogner, I've
23 taken the handwritten notations on the estimated well costs
24 for the Dirt Devil 25 well and marked in accordance with
25 your instructions as Exhibit 10-A. We would move its

1 introduction.

2 EXAMINER STOGNER: Exhibit 10-A will be admitted
3 into evidence. Are you going to need, by chance, a copy of
4 this?

5 MR. KELLAHIN: I have other copies, thank you.

6 EXAMINER STOGNER: Okay, 10-A will be admitted
7 into evidence.

8 Q. (By Examiner Stogner) I don't have any questions
9 on 10-A. Do you have anything further, Ms. Kvasnicka?

10 A. No, I do not.

11 Q. Okay. Ms. Kvasnicka, is there a state lease
12 running out, or what's the expiration dates on these?

13 A. No, these leases are quite old. They're from the
14 1930s, and there's no expiration issues, other than our
15 farmout agreement in the southwest quarter with Prize.

16 Q. Other than the Kirby well, has there been any
17 other working relationship like this with ExxonMobil where
18 Fasken drilled the well or another operator drilled the
19 well, and then ExxonMobil operated it?

20 A. I'm not aware of them.

21 EXAMINER STOGNER: I have no other questions of
22 Ms. Kvasnicka.

23 MR. KELLAHIN: Thank you.

24 EXAMINER STOGNER: You may be excused, thank you.

25 MR. KELLAHIN: Mr. Examiner, we would call at

1 this time Mr. David Sivils. Mr. Sivils is a petroleum
2 geologist with Fasken.

3 EXAMINER STOGNER: Before we continue, what was
4 Exhibit Number 1?

5 MR. KELLAHIN: It was simply to identify the
6 tracts in the section and how they were subdivided.

7 EXAMINER STOGNER: And this was the map that
8 covered about a half of the page?

9 MR. KELLAHIN: Yes, sir.

10 EXAMINER STOGNER: I'm sorry for the
11 interruption, please continue.

12 DAVID J. SIVILS,
13 the witness herein, after having been first duly sworn upon
14 his oath, was examined and testified as follows:

15 DIRECT EXAMINATION

16 BY MR. KELLAHIN:

17 Q. Mr. Sivils, would you please state your name and
18 occupation?

19 A. David Sivils, I'm a senior geologist at Fasken
20 Oil and Ranch, Ltd., in Midland, Texas.

21 Q. On prior occasions, Mr. Sivils, have you
22 testified before the Division?

23 A. No, I have not.

24 Q. For the court reporter, would you spell your last
25 name?

1 A. S-i-v-i-l-s.

2 Q. And you pronounce it Sivils?

3 A. Yes, I do.

4 Q. Mr. Sivils, would you summarize for us your
5 education?

6 A. I have a bachelor's and master's degree of
7 science in geology from the University of Texas at El Paso,
8 1983 and 1988, and I have a doctorate in geology from the
9 New Mexico Institute of Mining and Technology in 1997.

10 EXAMINER STOGNER: You said 1987?

11 THE WITNESS: 1997.

12 EXAMINER STOGNER: 1997.

13 Q. (By Mr. Kellahin) Summarize for us your
14 employment experience.

15 A. I've worked with Texaco Exploration and
16 Production, Permian Basin, and for Fasken Oil and Ranch in
17 the Permian Basin.

18 Q. How long have you been employed by Fasken?

19 A. I've been employed with Fasken for a little over
20 a year and a half.

21 Q. Has your professional experience included
22 evaluating Morrow and Atoka geologic prospects in
23 southeastern New Mexico?

24 A. It has.

25 Q. And have you done so in this case?

1 A. Yes, I have.

2 MR. KELLAHIN: We tender Dr. Sivils as an expert
3 witness.

4 EXAMINER STOGNER: Dr. Sivils is so qualified.
5 How long were you in Socorro?

6 THE WITNESS: I was in Socorro six -- seven
7 years.

8 EXAMINER STOGNER: Wow. Are you glad to be out?
9 (Laughter)

10 THE WITNESS: Indeed.

11 EXAMINER STOGNER: Most of us who went to that
12 Institute feel the same way. Thank you, Dr. Sivils.

13 Q. (By Mr. Kellahin) Let me direct your attention
14 to what we've marked as Fasken Exhibit 12. If you'll
15 unfold that display, let's talk about it.

16 Are the three exhibits that we're about to look
17 at the geologic exhibits that you have prepared?

18 A. Yes, I have.

19 Q. We're looking at what in Exhibit 12?

20 A. Exhibit 12 is a gross isopach map with Morrow "B"
21 sands.

22 Q. When we're looking at potential targets for
23 development in the west half of this section, what have you
24 identified to be the primary objective?

25 A. The primary objective is, in fact, the lower

1 Morrow "B" sands which we have mapped here as the
2 thickening from our Kirby location 26, direct due north and
3 to the west half of Section 23.

4 Q. When we look at that target, that's the primary
5 formation?

6 A. Yes, it is.

7 Q. When we look at the map in Section 23, are there
8 any other prior penetrations that would have tested the
9 Atoka-Morrow?

10 A. Yes, there is one.

11 Q. Where is that?

12 A. That is in the northwest quarter of -- the
13 southeast part of the northwest quarter, Section 23, is a
14 well drilled by ExxonMobil in 1971.

15 Q. Is that well still producing?

16 A. It is not currently producing?

17 Q. Can you tell us the general time frame of when it
18 was drilled and when it was abandoned in this zone?

19 A. It was drilled to the Morrow in 1971 by Mobil,
20 and it was on production for three years and plugged back
21 in 1973.

22 Q. What is its current status?

23 A. Current status is injection well in the Abo.

24 Q. What is your understanding of the total gas
25 volume produced by ExxonMobil out of the Atoka-Morrow

1 formation in that well?

2 A. The total gas volume produced out of the Atoka-
3 Morrow is, my understanding, 266,525 thousand [sic] MCF.

4 Q. Would that have been a commercial well according
5 to your understanding?

6 A. No, it would not be.

7 Q. In analyzing the geologic opportunities for a
8 well in the west half of Section 23, have you formulated an
9 opinion about the appropriate risk factor penalty to be
10 assessed against ExxonMobil in this Application?

11 A. Yes, I have.

12 Q. And what is that recommendation?

13 A. Cost plus 200 percent.

14 Q. What are the reasons that support that opinion?

15 A. That opinion is based on our current well, the
16 Kirby 26 Number 1. Since being on production for the last
17 month, our flowing tubing pressure has dropped
18 approximately 200-plus pounds.

19 Q. Let's take a moment and find that well. If we
20 look in Section 26, where is the Kirby well, on Exhibit
21 Number 12?

22 A. Exhibit Number 12, the Kirby is located in the
23 northwest quarter of 26.

24 Q. It says the 1- --

25 A. 1-26, yes.

1 Q. And below that is 26 feet of pay?

2 A. And below that is 26 gross feet of pay.

3 Q. When we look at your Morrow isopach, are we
4 looking at the isopach interval that includes what you
5 identify as the top and the bottom of the Morrow "B" sand?

6 A. Yes, it is.

7 Q. And is this a gross or a net map?

8 A. It's a gross map.

9 Q. You've talked about the pressure reduction in the
10 Kirby well. What was its initial rate on a daily basis?

11 A. Initial rate of the Kirby when it was put on
12 production was 2.967 MCF and 399 barrels of oil.

13 Q. At what pressure rate?

14 A. And that was at 2200 pounds.

15 Q. What's the well doing now?

16 A. The well now is flowing just under 2 million a
17 day, about 1.9, and 199 barrels of oil, and a pressure of
18 around 2000 pounds.

19 Q. How does that information support your opinion of
20 the appropriate risk factor for the Dust Devil well?

21 A. In my opinion, that may be a reflection or is a
22 reflection of a potentially limited reservoir and/or
23 smaller reservoir.

24 Q. When we're looking for other control points, we
25 have the Kirby well to the south, you have the ExxonMobil

1 old well towards the north.

2 A. That is correct.

3 Q. Are there any other control points on this
4 display in an east-west -- I mean in a north-south
5 direction?

6 A. In a north-south direction there are no other
7 control points.

8 Q. To the west in Section 23, what are you showing
9 in that section?

10 A. To the west of Section 23, in Section 22?

11 Q. I'm sorry, in Section 27.

12 A. In Section 27 there is a well to the west of us
13 that did, in fact, penetrate the Morrow "B" sands, and was
14 also drilled by Mobil Corporation, 1971. It was never
15 produced.

16 Q. And that well showed a gross 24 feet?

17 A. That is correct.

18 Q. Let's look at the next display, the Exhibit 13.
19 Would you identify what this is?

20 A. Exhibit 13 is a subsea structure map on top of
21 the Morrow formation.

22 Q. Is there a structural component to the Atoka-
23 Morrow reservoir here that affects your opinion about the
24 risk factor penalty?

25 A. There is -- Yes, there is. The -- We are

1 basically flat across here, not gaining any structure.
2 However, if we were moving to the west -- or, I'm sorry, to
3 the east half of 23 to drill a well, or to the east half of
4 26, we gain some structure, and it is -- from other
5 information around here, the Morrow becomes tight, as you
6 gain structure.

7 Q. Let's see how these fit together. If you take
8 the cross-section, Exhibit 14, let's unfold that. Starting
9 with the well in 27 at the A location on the left of the
10 cross-section, find for us what you believe to be the
11 correlative zone that you've identified as the Morrow "B".

12 A. The Morrow "B" that I have correlated in the well
13 to the far left is actually highlighted in yellow, and the
14 top of it is just about 12,120 feet.

15 Q. Going from left to right, then, identify for us
16 what you see of significance to you in the Kirby well that
17 helps support your opinion about the risk factor penalty.

18 A. As we move to the Kirby well, we certainly have
19 gained some thickness here. We have an increase in
20 porosity. And as we move across through our location and
21 then over to the Bridges 151, even, indeed, there's a
22 thicker section there. However, porosity is certainly less
23 there in that well. So they have lost a little bit of
24 porosity.

25 Q. Simply by taking the isopach and mapping gross

1 thickness of the Morrow "B" is not a direct reflection of
2 the potential of that well to produce gas?

3 A. That is correct.

4 Q. You can have a zone that's thicker than your
5 target area that is less productive?

6 A. That is correct.

7 Q. Is that a component of the risk?

8 A. And that is also a component of the risk, yes.

9 Q. Were these exhibits prepared by you?

10 A. Yes, they were.

11 MR. KELLAHIN: Mr. Stogner, we move the
12 introduction of Exhibits 12, 13 and 14.

13 EXAMINER STOGNER: Exhibits 12, 13 and 14 will be
14 admitted into evidence at this time.

15 MR. KELLAHIN: That concludes my examination of
16 Dr. Sivils.

17 EXAMINATION

18 BY EXAMINER STOGNER:

19 Q. Dr. Sivils, I'm looking at both Exhibits 12 and
20 13. There shows to be other wells. What -- That's shallow
21 well production, I guess, is depicted?

22 A. Yes, these are shallower wells that are basically
23 Abo penetrations and producing the Abo and/or injection
24 wells in the Abo.

25 Q. Okay, is this a waterflood area?

1 A. It is a waterflood area, yes.

2 Q. Is this a potential later on for this well?

3 A. It is not. Our rights are severed at the base of
4 the Abo.

5 Q. What is the base of the Abo? What's the footage?

6 A. The base of the Abo is approximately -- let's
7 see, top of the Wolfcamp, about 9500 feet, I believe.

8 Q. I know this might be out of your realm of
9 expertise, but as I look at the well symbols on the bottom
10 part of Section 23, can I tell if one of these Abo wells is
11 an injector or a producer?

12 A. You should be able to, yes. Based on the
13 information that we have to prepare maps, the injection
14 wells should be an open circle with a slash through it,
15 which is actually a small arrow.

16 Q. And it looks like there's one very close to you,
17 back to the east; is that correct? It looks like WI 213?

18 A. That is correct.

19 Q. Could drilling a gas well so close to an injector
20 in an upper zone, could that be construed as risky? Or
21 that might be out of your expertise.

22 A. That is somewhat out of my expertise, yes.

23 Q. Okay. Now, referring to Exhibit Number 12 here,
24 you have limited the scope to a nine-section area. Does
25 this trend -- Did you investigate further north and further

1 south, this trend?

2 A. Yes.

3 Q. And are there examples of where -- I don't know
4 if Fasken or other parties were successful in completing in
5 this Atoka-Morrow zone that's off the scale of this map?

6 A. Yes, there are, these channels continue to the
7 north and there are successful completions in the Morrow
8 north of us, as well as to the south.

9 Q. Well, these -- and to me, I call them pods. That
10 may not be representative here. How would you describe the
11 little --

12 A. Pods are certainly appropriate.

13 Q. Okay, these little pods, then, were they
14 identified through 3-D seismic? Did you do some 3-D
15 seismic out here?

16 A. No.

17 Q. No. So this is all -- I don't want you to be
18 speculative, but what trend is in this area --

19 A. Yes, the --

20 Q. -- pods?

21 A. -- the trend is north-south trend, the Morrow,
22 lower Morrow here, and based on well control.

23 Q. Now, is the Atoka actually productive in this
24 area, in this pool? And when I say "this area", toward the
25 east end?

1 A. Toward the east, no, it is not.

2 EXAMINER STOGNER: Okay, I have no other
3 questions of Dr. Sivils at this time. He may be excused.

4 MR. KELLAHIN: That concludes our presentation,
5 Mr. Stogner.

6 For clarification, Fasken's rights are a footage-
7 based depth of 9000 feet and down. We believe that 9000
8 feet is going to be the approximate top of the Wolfcamp as
9 you move through here. It may be a little deeper, but the
10 farmout agreements use 9000 feet. So we're only pooling
11 9000 feet.

12 Q. (By Examiner Stogner) Well, now that you brought
13 that up, Dr. Sivil, I do have a question.

14 A. Yes.

15 Q. On the Wolfcamp, is there any -- What's some of
16 the closest Wolfcamp production in this area?

17 A. There is Wolfcamp production about a mile east of
18 us, I believe in Section 27.

19 Q. In 27. Is that gas or oil?

20 A. That is --

21 Q. Now, did you say a mile to the east, or to the --

22 A. I'm sorry, to the west.

23 Q. Okay.

24 A. My mistake, there in Section 27. I'm sorry,
25 correct myself. The Wolfcamp was tested there, however I

1 do not have any indication that it was actually productive
2 there.

3 Q. But that is a zone of interest, obviously?

4 A. It is.

5 EXAMINER STOGNER: Okay, if there's no other
6 questions of this witness you may excused.

7 Anything further at this time, Mr. Kellahin, on
8 Case --

9 MR. KELLAHIN: No, sir.

10 EXAMINER STOGNER: -- Number 13,106.

11 MR. KELLAHIN: No, sir.

12 EXAMINER STOGNER: Case Number 13,106 will be
13 taken under advisement at this time.

14 (Thereupon, these proceedings were concluded at
15 9:04 a.m.)

16 * * *

17 I do hereby certify that the foregoing is
18 a complete record of the proceedings in
19 the Examiner hearing of Case No. 13106
20 heard by me on July 22, 1953
21 *[Signature]*
22 Oil Conservation Division, Examiner
23
24
25

CERTIFICATE OF REPORTER

STATE OF NEW MEXICO)
) ss.
COUNTY OF SANTA FE)

I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.

WITNESS MY HAND AND SEAL July 25th, 2003.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2006