

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:)

) CASE NO. 13,081

APPLICATION OF DAVID H. ARRINGTON OIL)
AND GAS, INC., FOR COMPULSORY POOLING)
AND UNORTHODOX WELL LOCATIONS,)
LEA COUNTY, NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

RECEIVED

BEFORE: DAVID R. CATANACH, Hearing Examiner

SEP . 4 2003

Oil Conservation Division

August 21st, 2003

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, August 21st, 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.

* * *

STEVEN T. BRENNER, CCR
(505) 989-9317

I N D E X

August 21st, 2003
 Examiner Hearing
 CASE NO. 13,081

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A P P E A R A N C E S

FOR THE DIVISION:

GAIL MacQUESTEN
Deputy General Counsel
Energy, Minerals and Natural Resources Department
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

FOR THE APPLICANT:

HOLLAND & HART, L.L.P., and CAMPBELL & CARR
110 N. Guadalupe, Suite 1
P.O. Box 2208
Santa Fe, New Mexico 87504-2208
By: WILLIAM F. CARR

* * *

1 WHEREUPON, the following proceedings were had at
2 9:02 a.m.:

3 EXAMINER CATANACH: Call Case 13,081, Application
4 of David H. Arrington Oil and Gas, Incorporated, for
5 compulsory pooling and unorthodox well locations, Lea
6 County, New Mexico.

7 Call for appearances.

8 MR. CARR: May it please the Examiner, my name is
9 William F. Carr with the Santa Fe office of Holland and
10 Hart, L.L.P. We represent David H. Arrington Oil and Gas,
11 Inc., in this matter, and I have two witnesses.

12 EXAMINER CATANACH: Additional appearances?

13 Okay, will you swear in the witnesses?

14 (Thereupon, the witnesses were sworn.)

15 MR. CARR: At this time we call Dale Douglas.

16 DALE DOUGLAS,
17 the witness herein, after having been first duly sworn upon
18 his oath, was examined and testified as follows:

19 DIRECT EXAMINATION

20 BY MR. CARR:

21 Q. Would you state your name for the record?

22 A. Dale Douglas.

23 Q. Mr. Douglas, where do you reside?

24 A. Midland, Texas.

25 Q. By whom are you employed?

1 A. I'm an independent contractor.

2 Q. What is your relationship with David H. Arrington
3 Oil and Gas, Inc.?

4 A. I provide land-consulting services to Mr.
5 Arrington.

6 Q. Have you previously testified before the New
7 Mexico Oil Conservation Division?

8 A. Yes, sir, I have.

9 Q. At that time, were your credentials as an expert
10 in petroleum land matters accepted and made a matter of
11 record?

12 A. Yes, they were.

13 Q. Are you familiar with the Application filed in
14 this case?

15 A. Yes, sir.

16 Q. Are you familiar with the status of the lands
17 that are the subject of this Application?

18 A. Yes, sir.

19 Q. In fact, you've testified in this case actually
20 twice before, have you not?

21 A. That's correct.

22 MR. CARR: Are Mr. Douglas's qualifications
23 acceptable?

24 EXAMINER CATANACH: They are.

25 Q. (By Mr. Carr) Could you briefly summarize for

1 Mr. Catanach what it is that Arrington seeks with this
2 Application?

3 A. Arrington seeks an order pooling all minerals
4 from the surface to the base of the Morrow formation under
5 the west half equivalent of Irregular Section 31, Township
6 15 South, Range 36 East, Lea County, New Mexico, in the
7 following manner: Lots 1, 2, 3, 4 and the east half of the
8 west half, which is the west-half equivalent, for all
9 formations developed on 320-acre spacing, the southwest
10 quarter equivalent for all formations developed on 160-acre
11 spacing, the southwest quarter of the northwest quarter for
12 all formations developed on 40-acre spacing, to be
13 dedicated to our proposed Royal Stimulator Number 2, to be
14 drilled at a standard surface location of 2235 feet from
15 the north line and 330 feet from the west line of Section
16 31.

17 At a depth of 8800 feet the well will be
18 directionally drilled to a depth sufficient to test the
19 Wolfcamp formation at an unorthodox location 2471 feet from
20 the north line and 527 feet from the west line of the
21 section.

22 The well will then be drilled in a southeasterly
23 direction, intersecting the Strawn formation at an
24 unorthodox location of 2305 feet from the south line and
25 888 feet from the west line of Section 31, and then the

1 Atoka formation at an unorthodox bottomhole location in the
2 Atoka-Morrow formation at a point 2192 feet from the south
3 line and 1038 feet from the west line.

4 The well will intersect the Morrow formation,
5 which is the primary target, at a standard location of 1979
6 feet from the south line and 1218 feet from the west line,
7 and then continue drilling to a standard bottomhole
8 location 1900 feet from the south line and 1300 feet from
9 the west line of the section.

10 Q. Now, because of the irregular section, we have
11 slightly more acres than allowed in each of the spacing
12 units, correct?

13 A. That's correct.

14 Q. They still fall within the tolerance and will be
15 standard units?

16 A. Correct, the --

17 Q. Do you know the number of acres in the 320-acre-
18 spaced pool?

19 A. It's 320.56 acres.

20 Q. And in the 160-acre pool

21 A. The 160-acre pool is 160.13 acres.

22 Q. And as to 40-acre pool?

23 A. 40.17 acres.

24 Q. This acreage has previously been pooled for this
25 well, has it not?

1 A. Yes, it has. It was previously pooled under Case
2 Number 12,752 with Order Number R-11,690, also in Case
3 Number 12,858 with Order Number 11,776, and these orders
4 expired under their own terms, and this is an amended
5 Application primarily to show the unorthodox well locations
6 in these various formations.

7 Q. At all times the objective has been the Morrow,
8 correct?

9 A. That is correct.

10 Q. And the costs for drilling a well of this nature,
11 directionally drilling as you propose, are substantial?

12 A. That is correct.

13 Q. And after they'd been previously approved, that
14 has been one of the factors that has resulted in the delays
15 in proceeding under the prior orders, and that has recently
16 expired?

17 A. That's correct.

18 Q. Let's go to what's been marked Exhibit Number 1.
19 Would you identify that and review it for Mr. Catanach?

20 A. Yes, sir, the Exhibit 1 is a land plat
21 identifying the lands that we're seeking to pool. The red
22 outline is the proposed west-half equivalent of Section 31.
23 Lots 1 through 4 start in the northwest quarter and run
24 down the west boundary of that standup 320-acre unit.

25 Also shown on the map, there are two red circles,

1 one with the surface location and the second being the
2 bottomhole location for this proposed well.

3 Q. What is the status of the lands in the west half
4 of Irregular Section 31?

5 A. All of this acreage is fee acreage.

6 Q. Now, you stated the primary objective was the
7 Morrow formation. Are there secondary targets in this
8 well?

9 A. Yes, there are. The other secondary targets are
10 the Atoka formation which would also be on a 320-acre
11 spacing, and the Wolfcamp formation which would be on 40-
12 acre spacing.

13 Q. The Strawn has been included, but that is not
14 really a secondary target?

15 A. No.

16 Q. That will be reviewed by Mr. Baker?

17 A. That's correct.

18 Q. Let's go to what is marked Arrington Exhibit
19 Number 2. Would you identify and review this?

20 A. Yes, sir, Exhibit Number 2 is a breakdown of the
21 ownership, the mineral ownership, in the west half of this
22 section, and these are the parties which we have not been
23 able to seek -- or to obtain a voluntary agreement for the
24 drilling of this well.

25 Each of these parties that we have listed, in the

1 right-hand column we also list the lands where their
2 mineral ownership is and how many net mineral acres each of
3 these parties own.

4 Q. So for the estate of Rada Jackson and the unknown
5 heirs of Thelma Champion and Mattie Pou, they have
6 interests in Lots 1 and 2 in the east half of the
7 northwest, and their interest is what, 12 --

8 A. It's twelve-tenths [sic] of an acre, of a net
9 mineral acre.

10 Q. Okay. And then you go down through, and these
11 are just the interest owners who are not committed?

12 A. That's correct. The total number of acres of
13 these 7 parties is 2.2 acres.

14 Q. And so what percent of the working interest are
15 we here attempting to pool today?

16 A. It's .68 percent, less than 1 percent.

17 Q. Are there owners on this list who you've been
18 unable to locate?

19 A. Yes, several of the folks we've been unable to
20 locate. Some of them we have been able to locate and there
21 are some family issues that are unsolvable, and they are
22 unwilling to execute leases.

23 Q. Could you summarize for Mr. Catanach the efforts
24 that have been made to locate and obtain the voluntary
25 participation of each of these interest owners?

1 A. Yes, sir, our first contact was in August, August
2 15th of 2001. I will point out that the mineral ownership
3 under this west half of 31 is quite complex, being that
4 close to the City of Lovington. We have a lot of city lots
5 and whatnot.

6 We acquired leases on the majority of the owners.
7 There was another company -- two other companies involved,
8 Chesapeake and AnSon, in which we have since gained their
9 voluntary joinder.

10 The folks that we have been unable to locate,
11 we've used most of the resources available to us, public
12 records, Internet searches and what not. We've found
13 either parties or family members of the majority of these
14 people but have been unable to reach an agreement with
15 them.

16 Q. Is Exhibit Number 3 a copy of the August, 2001,
17 letter when you initially contacted the interest owners?

18 A. Yes, it is.

19 Q. And since that time you've been following up by
20 telephone or personal contacts?

21 A. Yes, sir, with all of the parties that are listed
22 on this.

23 Q. And when were your most recent contacts with
24 these individuals?

25 A. The ones that we've been able to locate within

1 the last two weeks, we've made phone calls to all of those
2 parties and have left messages, detailed messages, on
3 answering machines and with other family members, only one
4 of whom has bothered to respond to the call.

5 Q. Has any interest owner who cannot be located and
6 is pooled -- will the share of any proceeds attributable to
7 those interests be escrowed in the bank in Lea County, New
8 Mexico?

9 A. Yes, sir, they will.

10 Q. Let's go to what has been marked as Arrington
11 Exhibit Number 4. Would you identify that, please?

12 A. Yes, sir, Arrington Exhibit Number 4 is the AFE
13 for the drilling of this well, which sets forth the
14 anticipated cost.

15 Q. And what are the dryhole and completed well
16 costs?

17 A. The estimated dryhole costs for this well are
18 \$1,457,000, and the completed well cost is \$1,979,000.

19 Q. And have you made an estimate of the overhead and
20 administrative costs to be incurred while drilling the well
21 and also while producing it if it is successful?

22 A. Yes, sir, we have, and the rates that we would
23 propose are \$6000 a month for the drilling well rate and
24 \$600 a month for the producing well rate.

25 Q. Are these the rates that were approved in the

1 prior pooling order?

2 A. Yes, sir, they were.

3 Q. And these are the figures that are included in
4 the joint operating agreement for this well?

5 A. That's correct.

6 Q. Have they been accepted by Chesapeake?

7 A. That's correct, they have.

8 Q. And AnSon?

9 A. (Nods)

10 Q. Are these costs also in line with what's charged
11 for similar wells, to the extent there is a similar well in
12 the area?

13 A. As far as the drilling and overhead rates, yes,
14 they are.

15 Q. And do you recommend that these figures be
16 incorporated into the order that results from today's
17 hearing?

18 A. Yes, sir, we do.

19 Q. Would you identify what's been marked as
20 Arrington Exhibit Number 5?

21 A. Arrington Exhibit Number 5 is the form -- COPAS
22 accounting procedure, it's the 1984 onshore form, which is
23 also attached to the joint operating agreement that we have
24 in place with Chesapeake.

25 Q. And does this accounting procedure provide for

1 the periodic adjustment of the overhead charges?

2 A. Yes, it does.

3 Q. Do you request that the order that results from
4 today's hearing provide for the same sort of adjustment in
5 the overhead charges that are set by the order?

6 A. Yes, we do.

7 Q. Is Arrington Exhibit Number 6 an affidavit
8 confirming that notice of today's hearing has been provided
9 to the interest owners subject to the pooling to the extent
10 we can locate them, in accordance with the Rules of the Oil
11 Conservation Division?

12 A. Yes, they do.

13 Q. And to whom was notice given?

14 A. The notice was given to all interest owners
15 subject to the pooling for the pooling portion of the case,
16 and it was also submitted to the -- for the unorthodox-
17 location portion of the case, it was submitted to all the
18 offset working interest owners.

19 Q. To those who haven't joined in the well?

20 A. That's correct.

21 Q. Does Mr. Arrington seek to be designated operator
22 of the proposed well?

23 A. Yes, he does.

24 Q. Were Exhibits 1 through 6 prepared by you or
25 compiled under your direction and supervision?

1 A. Yes, they were.

2 MR. CARR: May it please the Examiner, at this
3 time we would move the admission of David H. Arrington Oil
4 and Gas, Inc., Exhibits 1 through 6.

5 EXAMINER CATANACH: Exhibits 1 through 6 are
6 admitted.

7 MR. CARR: And that concludes my direct
8 examination of Mr. Douglas.

9 EXAMINATION

10 BY EXAMINER CATANACH:

11 Q. Mr. Douglas, can you identify for me which
12 parties you have been able to locate?

13 A. Yes, I can. The ones that we have been able to
14 locate, if you'll look at Exhibit Number 2 where I have the
15 parties listed --

16 Q. Uh-huh.

17 A. -- I'll just go through each one of those. The
18 Estate of Rada Jackson, it's our belief that the heirs are
19 Thelma Champion and Mattie Pou. We have located those two
20 ladies, they refuse to execute a lease.

21 Jerry Billington we have located. We actually
22 even spoke to him yesterday, and there's a 50-50 chance
23 we're going to get him leased.

24 Robert Freck and Shawn Freck, we have been unable
25 to speak to them. We've spoken to family members who have

1 told us that they don't know how to find them either. They
2 know where to find one, he's incarcerated, but the other
3 one they have no way of locating.

4 The Estate of Thelma Ann Turner and the Unknown
5 Heirs we have not contacted -- we have not been able to
6 locate, rather.

7 James E. Bailey is the same.

8 And we have located Vera Selman. She disputes
9 the fact that she owns this interest and does not want to
10 execute a lease.

11 Q. Okay, these are the same parties that have been
12 pooled twice before?

13 A. Yes, they have.

14 Q. And in all that time period when these orders
15 were in effect, did you make any progress toward securing
16 voluntary agreement with these parties?

17 A. With these parties, no. There were several other
18 parties that we had also pooled in the prior orders that we
19 have since been able to reach an agreement with.

20 Q. Okay, so these are the remainders that --

21 A. That's correct.

22 Q. You anticipate maybe the Billington --

23 A. My guess is that there's a chance we'll acquire a
24 lease from Mr. Billington, also Robert Freck. The others I
25 don't expect that we'll make a deal with.

1 Q. Now, you have contacted Robert Freck?

2 A. No, we've talked to his family members. It's a
3 convoluted mess. Some people will talk to you, some people
4 won't, and we've been -- The trail is getting warmer, put
5 it that way.

6 Q. Okay so you might reach an agreement with him?

7 A. Yes.

8 Q. And all of these parties, you've tried to contact
9 these parties, did you say, about two weeks ago?

10 A. No, during this entire time period when this
11 project got put back on the front burner, we attempted to
12 start contacting them at that time. We've only located Mr.
13 Billington -- We've known where he is, he actually would
14 sign green cards and send them back but he would never
15 respond to us, and it's been only within the last couple
16 weeks that he responded.

17 Q. Okay, when you say this was put back on the front
18 burner, when was that, approximately?

19 A. Six months ago.

20 Q. That's after the second order had already
21 expired?

22 A. Yes. Yes, sir.

23 Q. Okay. Now, this is a new drill; is that right?

24 A. That's correct.

25 Q. Now, with regards to the notice, you've attempted

1 to notify all the parties that are being pooled, and then
2 you mentioned something about the unorthodox location or
3 the owners who are affected by the unorthodox location.

4 Can you elaborate on who you notified for that?

5 A. All of the parties that are listed on the -- Let
6 me go back to Exhibit 2. All of the parties that are
7 listed, that encompass acreage in the southwest quarter --
8 As a matter of fact, all of these parties were noticed with
9 the Application of both the pooling and the unorthodox
10 location. The other parties that were affected by the
11 unorthodox location, which would be the offset operators,
12 would be Arrington, Chesapeake and AnSon, all of which have
13 voluntarily agreed to drill this well.

14 Q. Now, does the location encroach on the outside
15 boundaries of the proration unit?

16 A. No, sir.

17 MR. CARR: It does not.

18 EXAMINER CATANACH: Okay, so there are no outside
19 interest owners?

20 MR. CARR: And if it was a well developed on less
21 than the 320 acres, there might be encroachment toward the
22 center of the west half. And so all the working interest
23 was in, but there were a few mineral interest owners that
24 were slightly different on each side of the line, so we
25 notified all of those who hadn't joined.

1 THE WITNESS: Yes, the ownership in the northwest
2 quarter is different than the ownership in the southwest
3 quarter, which constitutes the requirement.

4 EXAMINER CATANACH: Okay, I think that's all I
5 have. Mr. Douglas may be excused.

6 MR. CARR: Mr. Catanach, at this time we would
7 call Bill Baker. Mr. Baker was going to testify as to risk
8 penalty, but he's also providing a drilling plan for the
9 well and has maps on the subject horizons, and I think
10 because we were called back to really explain why the well
11 was being proposed as it is, that it's appropriate that we
12 include portions of his testimony.

13 BILL BAKER, JR.,
14 the witness herein, after having been first duly sworn upon
15 his oath, was examined and testified as follows:

16 DIRECT EXAMINATION

17 BY MR. CARR:

18 Q. Would you state your name for the record, please?

19 A. Bill Baker, Jr.

20 Q. Mr. Baker, where do you reside?

21 A. Midland, Texas.

22 Q. By whom are you employed?

23 A. David H. Arrington Oil and Gas, Inc.

24 Q. What is your position with David H. Arrington Oil
25 and Gas, Inc.?

1 A. Exploration manager.

2 Q. Have you previously testified before the New
3 Mexico Oil Conservation Division?

4 A. Yes, sir, I have.

5 Q. At the time of that testimony were your
6 credentials as an expert in petroleum geology accepted and
7 made a matter of record?

8 A. Yes, sir, they were.

9 Q. Are you familiar with the Application filed in
10 this case on behalf of Mr. Arrington?

11 A. Yes, sir, I am.

12 Q. And are you familiar with the proposed well, the
13 horizontal drilling and the formations that are the subject
14 of this case?

15 A. Yes, sir, I am.

16 MR. CARR: Are Mr. Baker's qualifications
17 acceptable?

18 EXAMINER CATANACH: They are.

19 Q. (By Mr. Carr) Mr. Baker, let's go to Exhibit 7
20 and let's review it at the same time we look at Exhibit
21 Number 8. I'd like you to take those out, identify them
22 and then review the information on these exhibits for Mr.
23 Catanach.

24 A. Okay. Mr. Carr and Mr. Catanach, what I'd like
25 to do is look at Exhibits 7 and 8 simultaneously. What

1 we're going to be looking at here is a well profile
2 schematic, along with the well profile data sheet that
3 Baker INTEQ has supplied to us for this directional well.

4 On Exhibit Number 7 you will see our proposed
5 320-acre proration unit is outlined in yellow, being the
6 west half of Section 31. I've also identified where the
7 surface location is, which is 2235 from the north and 330
8 feet from the west line. This is designated by a red
9 triangle. And then what I have proceeded to do was spot
10 where we would encounter prospective pay horizons or known
11 other major geological formations en route to our
12 bottomhole location, which is located approximately 1900
13 feet from the south line and 1300 feet from the west line.
14 And you'll see this designated with a red circle down in
15 the southwest quarter.

16 I have also shown which is one of our secondary
17 targets, being the Wolfcamp, along this directional route.
18 We will encounter it at approximately 527 feet from the
19 west line and 169 feet from that center line right there.
20 So we'll be unorthodox there approximately 161 feet. But
21 it's unorthodox to ourselves on the inner, inner line right
22 there.

23 If you move on into the southwest quarter, I've
24 shown where we'll encounter the Strawn formation. And
25 while we do not believe the Strawn is a secondary target in

1 this area, via the seismic that we have along with
2 subsurface well control, because it is a producing horizon
3 in the area, we have shown where this bottomhole -- or this
4 location would intersect it, and that's 888 feet from the
5 west line and 335 feet from that center line. If this were
6 a wildcat 40, I believe that would be an orthodox location.
7 If it was put into a pool, which I think the West Lovington
8 Pool is the nearest pool, then it would be an unorthodox
9 location to the inner line on 80s.

10 Q. But the West Lovington-Strawn Pool is more
11 than --

12 A. Yes, sir.

13 Q. -- a mile --

14 A. Right.

15 Q. -- two miles away?

16 A. Right, so we're saying it would be a wildcat.

17 Then you move on to the Atoka formation, and this
18 would be 1038 feet from the west line and 2192 from the
19 south line, and it is a secondary target as well.

20 And then to the standard location in the Morrow,
21 which is our primary target, and this will be 1218 feet
22 from the west line and 1979 from the south line.

23 Our plan on this will be to drill a vertical hole
24 to an approximate depth of about 8580 feet. At that time
25 we will begin a 2.5-degree-per-100-foot inclination and

1 build to a maximum of 20-degree angle. And then we will
2 hold this angle all the way down to the top of the
3 Mississippian and then really start to kind of drop out
4 angle and just TD the well at that legal location, which is
5 1900 from the south and 1300 feet from the west line.

6 Part of the reason for this directional well is
7 that we're basically drilling under the City of Lovington.
8 Our surface location is located right outside the city in a
9 field, but as you move to the southwest and the southwest
10 quarter there are little ranchettes and some trailer houses
11 and some houses in the subdivision right there. So that
12 necessitates the reason for the directional well.

13 Q. Let's go to Exhibit Number 9, the structure map
14 and the arbitrary seismic line, and I'd ask you to review
15 this information for Mr. Catanach.

16 A. Okay. What I'd like to do over the next several
17 exhibits, Mr. Catanach, is show you our geological picture
18 for the primary target, of which will be the Morrow clastic
19 system along with the Austin Morrow clastics and/or the
20 limestone.

21 What we're basically looking to do is drill into
22 a graben system. It is our belief that this graben system
23 was a low at time of deposition of the Morrow sands,
24 therefore that would be the place most conducive for sands
25 to have been accumulated.

1 What I am showing here is a structure map on the
2 top of the Austin lime. It is indicating a very narrow
3 little graben system that we have in here, and that our
4 proposed bottomhole location will be testing the maximum
5 deepest portion of the graben system.

6 I have arbitrary seismic line A-A' on here, which
7 is located on the right-hand side. I have shown where the
8 surface location is, and then you'll see that kind of a
9 green mark on there is our proposed well.

10 As we traverse down through the different
11 formations, I have marked the formations on the right-hand
12 side. You'll see where we will encounter the Strawn, what
13 I call the Strawn B lime. You'll see where we encounter
14 the Atoka, what we call the Brunson, which is the Atoka gas
15 interval that's productive out in this area, along with the
16 top of the Morrow, the top of the Austin and the top of the
17 Chester.

18 And this is a well-known system and exploratory
19 tactic back to the west. It should be noted, and on my
20 next exhibit I'll show you that we're probably five miles
21 from the nearest production out of this horizon, so this is
22 a wildcat, very exploratory.

23 Q. When we look at the arbitrary seismic line, the
24 gas symbols on the projected wellbore are, in fact, what
25 you believe to be the primary targets in this well; is that

1 right?

2 A. Yes, sir. As I mentioned, the Atoka-Brunson is a
3 known pay horizon located back over in 16-35. The Morrow
4 sand systems I'm going to show an arbitrary -- or, excuse
5 me, a type log that will show the sand systems for the
6 Morrow and the Austin on one of my next exhibits.

7 Q. Okay. Go to Exhibit 10. What is this?

8 A. Okay, Exhibit 10 is really a land plat that kind
9 of gives you an idea of how close we are to the nearest
10 analogue. What I have shown here is basically where our
11 Royal Stimulator 31 is located, along with this little
12 graben system.

13 And then I've shown the nearest graben system
14 that is similar to this, which is located back over in
15 Section 2 of 16-35. And you'll see where I have an orange
16 arrow there with a well called the Yates Gallagher Number
17 1. That is our type log for this type of a ditch or graben
18 system. But this basically indicates that we're probably
19 four to five miles from the nearest production in the area.

20 Q. Okay, Exhibit Number 11, that is the type log,
21 the log from the Yates Gallagher --

22 A. Yes, sir.

23 Q. -- ATJ State well --

24 A. Yes, sir, basically Exhibit 11 shows what we hope
25 to encounter, or something similar. The Yates Petroleum

1 Gallagher well was drilled in a similar graben system. The
2 section thickened up, and within that thick section they
3 encountered what we call the Mesa Morrow sand, very
4 prolific producer in that particular well.

5 They also encountered what we call the Austin
6 Morrow, which was a Mississippian channel field. That was
7 also a very prolific producer.

8 And then they also encountered a Chester lime
9 that at today's gas prices would be a commercial producing
10 pay horizon as well. And this is what we're attempting --
11 hoping to encounter at our location.

12 Q. All right, let's go to the Wolfcamp. Let's go to
13 Exhibit Number 12. Would you identify and review this?

14 A. Okay, if we move to Exhibit 12, this is a
15 structure map on the top of the lower Wolfcamp beta marker,
16 and this is basically one of our secondary targets, Mr.
17 Catanach, and this is the one that we will be unorthodox to
18 on our center line. This is also the pay horizon that we
19 ended up making a small well out of there in the northwest
20 quarter under our Royal Stimulator Number 1.

21 And what you'll see is that -- believe that this
22 little lower Wolfcamp zone, there's kind of a little
23 structure has developed in there on a nose, and that's
24 probably what has trapped the oil in there as well, in
25 these little producing carbonates, and it looks like we're

1 going to be slightly high to our Royal Stimulator Number 1.

2 Q. Exhibit Number 13, an isopach map.

3 A. Yes, sir, and really this is kind of a three-well
4 isopach, there's not much well control in the area. But
5 this is our isopach of what we call the Step-Brother pay,
6 which is just a local name that we labeled this particular
7 Wolfcamp interval with. You can see these are very narrow
8 little shelf-margin porosity bands, probably about a
9 quarter mile wide, they get up to about 30 to 40 foot
10 thick.

11 Q. There's a trace on this exhibit for cross-section
12 A-A'?

13 A. Correct, yes, sir.

14 Q. That's Exhibit 14?

15 A. Yes, sir.

16 Q. Could you review that for Mr. Catanach?

17 A. This is cross-section A-A'. Basically this is
18 showing what we anticipate to be where we will encounter
19 the top of the Beta marker and the top of the Step-Brother.

20 It shows the Mallard Petroleum well on the left-
21 hand side, the Bartholomew. You can see here that this
22 well had kind of rolled back over on the structure. the
23 Step-Brother pay, which is the pay horizon in the Royal
24 Stimulator Number 1, is tight and not present in this
25 particular well.

1 As you move across the cross-section you see
2 where we hope to encounter the Step-Brother pay in the
3 Royal Stimulator Number 2. And as I indicated, I think
4 we're going to be probably 40 to 50 feet high structurally
5 to the Royal Stimulator 31 Number 1, which is the next log
6 on the cross-section. This was the interval that we ended
7 up making our well out of. We never got down in our Royal
8 Stimulator 31 Number 1 because we encountered the actual
9 Townsend Reef right underneath this and stuck our
10 directional tools, ended up having to plug the well back
11 and actually produced this little Wolfcamp interval in
12 here.

13 You can see it came on about 106 barrels of oil a
14 day, but it also produced 22 barrels of water per day. The
15 well has cum'd about 16,000 barrels. It's currently
16 producing at about 10 barrels of oil per day and about 70
17 barrels of water per day. And obviously what our hope is,
18 is to get up out of that water and still maintain some
19 porosity and have a commercial well.

20 The very last well on the cross-section is the
21 Mattie Burns Number 1. This well shows that it did have a
22 little bit of the Step-Brother carbonate in it, but it is
23 tight. It is also in the most downdip position.

24 Q. Does Arrington request the imposition of a 200-
25 percent risk charge to be imposed against those interests

1 who don't voluntarily join in the well?

2 A. Yes, sir, we do.

3 Q. In your opinion, will approval of this
4 Application and the drilling of this well be in the best
5 interest of conservation, the prevention of waste and the
6 protection of correlative rights?

7 A. Yes, sir.

8 Q. Is Mr. Arrington ready to go forward with the
9 drilling of this well at this time?

10 A. Yes, sir, we finally are.

11 Q. Were Exhibits 7 through 14 prepared by you or
12 compiled under your direction?

13 A. Yes, sir, they were.

14 MR. CARR: May it please the Examiner, at this
15 time we'd move the admission into evidence of Arrington
16 Exhibits 7 through 14.

17 EXAMINER CATANACH: Exhibits 7 through 14 are
18 admitted.

19 MR. CARR: And that concludes my direct
20 examination of Mr. Baker.

21 EXAMINATION

22 BY EXAMINER CATANACH:

23 Q. So Mr. Baker, the primary objective is the
24 Morrow?

25 A. Yes, sir. Those Mesa and Austin Morrow systems

1 that the Gallagher had in it, those are going to be the
2 primary targets.

3 Q. And the closest production in the Morrow is to
4 the west, in the Yates Gallagher well?

5 A. Yes, sir.

6 Q. Where's your well in relation to the -- Do you
7 remember the Ocean well that blew out --

8 A. Yes, sir, I do.

9 Q. -- in this area?

10 A. I'm trying to see if I have a map. If you take
11 that Exhibit Number 10 that showed the two little graben
12 systems, the Ocean Gallagher well, which is also in a
13 graben very similar to this one, would be located down here
14 in Section 10. This 16-35 area has been very well
15 developed around this graben system, and it's actually
16 headed north. But at this time nobody has taken it east
17 yet, this concept.

18 Q. Now, are they producing in the Morrow as well?

19 A. The Ocean well, sir?

20 Q. The Ocean and the -- well, the Yates well is.

21 A. The Yates well is producing out of both the Mesa
22 and -- They call this Austin interval down here Morrow as
23 well. It's our belief that this is actually eroded Austin
24 material, Mississippian material, that was dumped in that
25 graben system. This is the stratigraphic interval that was

1 in the Ocean well that blew out.

2 Q. Okay. So do you anticipate anything -- obtaining
3 any production from the Chester?

4 A. There's a possibility. The Chester is extremely
5 erratic in this area. It appears like the Chester
6 production that I have seen in this area was mostly
7 deposited on some type of a localized high that may have
8 been subsequently, you know, downthrown, but that was where
9 the leaching of the limestone was preserved and some
10 porosity was preserved. We don't always target it as a
11 primary objective, because it's so erratic and spotty.
12 Obviously my hope is that we'll find some there as well,
13 because it can yield a half a B to a BCF when you find it.

14 Q. So that's the reason you're taking it down to the
15 Mississippian?

16 A. That, and we also like to tag the top of the
17 Mississippian for our seismic, yes, sir. We'll do a
18 synthetic and we want to make sure our seismic ties.

19 Q. And you're basing this off of 3-D seismic that
20 you've --

21 A. Yes, sir.

22 Q. -- run in this area?

23 A. Yes, sir.

24 Q. Okay. So the Wolfcamp -- The well that you've
25 got already in the northwest quarter, that's a Wolfcamp Oil

1 Producer?

2 A. Yes, sir, it is.

3 Q. So this has already been defined as an oil pool
4 and spaced on 40 acres?

5 A. Yes, sir, and that -- Mr. Carr, was that the
6 Cauldale? Did we end up putting that in the Cauldale Pool
7 or -- I don't recall --

8 MR. CARR: I can look that up, it's --

9 THE WITNESS: -- which pool it is, sir. Yes,
10 sir.

11 Q. (By Examiner Catanach) So if you do get a
12 Wolfcamp producer, you're going to be too close to that
13 centerline --

14 A. Correct, sir.

15 Q. -- and encroach to the south? Okay.

16 A. Yes, sir.

17 Q. Strawn, really not a lot of potential in this
18 area?

19 A. Once again, the seismic, sir, does not indicate
20 any type of a buildup of any sort, and there is no Strawn
21 producers within a mile and a half. Obviously with Mother
22 Nature, you never know. But nothing that we have in our
23 data set indicates it is a target here.

24 Q. West Lovington-Strawn is to the south and --

25 A. Due west, due west.

1 Q. Due west here, okay.

2 A. Due west of us, yes, sir.

3 Q. And the Atoka, what do you think about the Atoka?

4 A. The Atoka -- actually, depositionally it shows on
5 our seismic, if you'll look at that Exhibit Number 9. It
6 was low as well, and you'll see a thick in there. My hope
7 is that we'll have some sand in that thick. Theoretically,
8 if the Morrow was following this lower system, you would
9 want to believe that the Atoka clastics would have followed
10 suit and followed that depositional low as well. If you
11 get the Atoka, it's known that the Atoka is a 3- to 5-BCF
12 well, so we have a lot of hope for the Atoka as well.

13 Q. What's the plan as far as completing this well?

14 A. Well -- And that's a good question. Generally
15 our engineers would address that, but we would probably --
16 if we encountered both Austin and the Morrow system down
17 there we would probably do basically what Yates did in
18 their original well, and that was complete those two
19 intervals together as, quote, unquote, a Morrow and produce
20 them. And as long as we're in a noncompetitive situation,
21 i.e., somebody doesn't offset us in another direction, I
22 would probably set there on any Atoka reserves until the
23 Morrow was depleted.

24 Q. Okay. Now, you guys are going to run a
25 directional survey?

1 A. Yes, sir, with a Baker on there, there'll be a
2 continuous survey, run the whole time, and we'll be
3 steering it.

4 Q. Okay.

5 A. So that will be something that will be supplied
6 to the Commission as well, the OCD.

7 Q. So those depths that you've got marked, those of
8 course are not going to be exact?

9 A. No, sir, that's kind of what we're projecting,
10 you know.

11 Q. That's what Baker's projected or --

12 A. Yes, sir. Basically, Baker took our anticipated
13 tops, and then they developed that schematic plan.

14 Q. Okay.

15 A. I would say down through the Wolfcamp we have a
16 fairly good hole because of that subsurface well control.
17 After that, you're guessing, yes, sir.

18 Q. I was going to say, what are you basing that on?

19 A. Nothing.

20 (Laughter)

21 EXAMINER CATANACH: Okay, I believe that's all I
22 have of this witness, Mr. Carr.

23 MR. CARR: Mr. Catanach, the only pool that this
24 well will encounter, the only existing pool is the Caudell-
25 Permo-Upper Pennsylvanian Pool. Everything else is

1 Wildcat.

2 EXAMINER CATANACH: Is that the Wolfcamp Pool?

3 MR. CARR: The 40-acre -- Yes, I believe so,
4 right.

5 EXAMINER CATANACH: So it sounds old, it sounds
6 like an old pool.

7 MR. CARR: It's also within a mile of the
8 Townsend-Permo-Upper Penn Pool, but it would be actually
9 within the boundaries of the Caudell.

10 EXAMINER CATANACH: Okay, thank you, Mr. Carr.

11 MR. CARR: Yes, sir. And that concludes our
12 presentation in this case.

13 EXAMINER CATANACH: All right. There being
14 nothing further, Case 13,081 will be taken under
15 advisement.

16 Let's go ahead and take a break here, 15 minutes.

17 (Thereupon, these proceedings were concluded at
18 9:43 a.m.)

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I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 13081,
heard by me on August 21, 1983.
David R. Hibel, Examiner
Oil Conservation Division

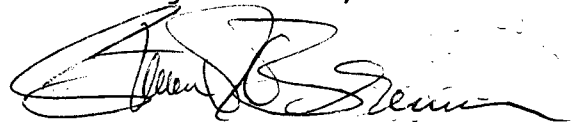
CERTIFICATE OF REPORTER

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 August 22nd, 2003.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2006