

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 STEVENS AND TULL, INC.,)
FOR COMPULSORY POOLING, LEA COUNTY,)
NEW MEXICO)

CASE NO. 11,866

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

RECEIVED

October 23rd, 1997

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Santa Fe, New Mexico

Oil Conservation Division

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, October 23rd, 1997, at the New Mexico Energy, Minerals and Natural Resources Department, Porter Hall, 2040 South Pacheco, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

I N D E X

October 23rd, 1997
Examiner Hearing
CASE NO. 11,866

	PAGE
EXHIBITS	3
APPEARANCES	3
APPLICANT'S WITNESSES:	
<u>JERRY L. WEANT</u> (Landman)	
Direct Examination by Mr. Kellahin	7
Examination by Mr. Carr	28
Examination by Examiner Stogner	29
<u>GEORGE J. ULMO</u> (Geologist)	
Direct Examination by Mr. Kellahin	32
Examination by Examiner Stogner	40
REPORTER'S CERTIFICATE	43

* * *

E X H I B I T S

Applicant's	Identified	Admitted
Exhibit 1		
"Plat/DOI"	8	28
"Chronology"	12, 13	28
"Operating Agreement"	9	28
"AFE"	26	28
"Geology"	33	40
"Engineering"	34	40
Exhibit 2	43	-

* * *

A P P E A R A N C E S

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By: WILLIAM F. CARR

* * *

1 WHEREUPON, the following proceedings were had at
2 9:00 a.m.:

3 EXAMINER STOGNER: At this time I'll call Case
4 Number 11,866.

5 MR. CARROLL: Application of Stevens and Tull,
6 Inc., for compulsory pooling, Lea County, New Mexico.

7 EXAMINER STOGNER: 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 MR. CARR: May it please the Examiner, my name is
14 William F. Carr with the Santa Fe law firm Campbell, Carr,
15 Berge and Sheridan. I would like to enter our appearance
16 in this case for Michael T. Morgan and James R. Leeton,
17 Jr., that's L-e-e-t-o-n, Jr. We do not have a witness.

18 EXAMINER STOGNER: Any other appearances?

19 Will the witnesses please stand to be sworn at
20 this time?

21 (Thereupon, the witnesses were sworn.)

22 EXAMINER STOGNER: Mr. Kellahin?

23 MR. KELLAHIN: Thank you, Mr. Examiner.

24 Mr. Examiner, we're presenting two witnesses this
25 morning.

1 Mr. Jerry Weant is a landman. In fact, he is the
2 landman for Stevens and Tull. He is the land department.
3 And he's here today to present his part of efforts to
4 consolidate the interest owners for a oil well which is
5 drilling now on a 40-acre tract.

6 Mr. George Ulmo is a geologist, and he will
7 present his testimony concerning the status of the wellbore
8 and his recommendation as to risk factor penalty.

9 The exhibit book is organized as Stevens and Tull
10 Exhibit 1. Within the book, then, it is subdivided by
11 tabs, and each of the tabs are identified by a particular
12 topic.

13 If you'll open the exhibit book and turn to the
14 first tab you'll see a plat, and in Section 25, in the east
15 half, it is shaded yellow. That is one of the Stevens and
16 Tull leaseholds in the section. The oil wells being
17 drilled in the east half are part of a continuing
18 development plan. They are numbered 1 through 6, and they
19 have been drilled in that sequence.

20 The current issue is the Number 6 well. It's
21 located on the 40-acre tract in the southeast of the
22 southeast of 25.

23 If you'll turn to the next page, you can see a
24 division of interests. The parties to be pooled by this
25 Application are Mr. James Leeton and Mr. Michael Morgan.

1 This is a drilling well. After it was commenced,
2 both Mr. Leeton and Mr. Morgan were invited to participate.
3 They were provided access to the technical data. And by
4 letter they have notified Stevens and Tull that they have
5 decided not to participate in the drilling well.

6 In addition, Mr. Carr, on behalf of those two
7 individuals, has agreed with me that we will do as follows:
8 that we will provide his clients with the daily drilling
9 reports from the inception of the well until October 21st.
10 In addition, we will provide them a complete set or suite
11 of the logs, including the mud log, and with that
12 information, then, they will have the ability to determine
13 whether or not they want to make an election under a
14 compulsory pooling order.

15 The well is being tested as we speak, and it is
16 my belief that by the time an order is issued and by the
17 time these two gentlemen are provided their 30-day election
18 period, they will have substantial information about which
19 to make an election to participate. In the event they do
20 not do so, Mr. Carr and I have agreed that it's appropriate
21 to impose a 200-percent penalty as to that interest.

22 That is my introduction, and with that
23 explanation, then, we will proceed with Mr. Weant's
24 testimony concerning the factual sequences that support my
25 statement.

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JERRY L. WEANT,

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

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q. Mr. Weant, for the record, sir, would you please state your name and occupation?

A. My name is Jerry and I'm the Vice President of Land for Stevens and Tull, Inc.

Q. Where do you reside, sir?

A. Midland, Texas.

Q. As part of your duties as the landman for Stevens and Tull, have you been involved in consolidating interests for this well and other wells that have been drilled in Section 25?

A. Yes, I have.

Q. You're knowledgeable about the operating agreement that affects some of those wells?

A. Yes, sir.

Q. Are you also knowledgeable about the chain of ownership through the course of participating in these various wells?

A. Yes, sir.

Q. And have you been negotiating with Mr. Morgan and Mr. Leeton concerning their interests?

1 A. Yes, sir.

2 MR. KELLAHIN: We tender Mr. Weant as an expert
3 petroleum landman.

4 EXAMINER STOGNER: Any objections?

5 MR. CARR: No objection.

6 EXAMINER STOGNER: Mr. Weant is so qualified.

7 Q. (By Mr. Kellahin) Mr. Weant, let's turn to the
8 exhibit tab that shows the land plat, and let's look at the
9 plat I was describing to Examiner Stogner. Explain to us
10 the color code, sir.

11 A. Okay. The acreage in the east half of Section
12 25, which is shaded yellow, represents acreage which
13 Stevens and Tull, Inc., Marathon Oil Company, Fina Oil and
14 Gas and the Leeton family owned jointly in this acreage.

15 The orange-hached acreage represents acreage
16 which has been contributed to an operating agreement that's
17 labeled here, dated 1987. The original operating agreement
18 covered just the entire northeast quarter of Section 25.

19 Q. All right, we'll come back to the operating
20 agreement in a minute. What is the purple color code?

21 A. The purple acreage represents other leasehold in
22 which we operate. The solid color represents Stevens and
23 Tull operations. The purple hached is acreage in which
24 Collins and Ware, Inc., of Midland, operates wells in which
25 we own a working interest.

1 Q. What kind of wells are these, Mr. Weant?

2 A. The wells vary. There's production in Section 25
3 from the Abo-Tubb-Drinkard at this time. Up in Section 24
4 and 23, those are Tubb-Blinebry wells.

5 Q. You made reference to the operating agreement.
6 If we turn behind the tab that says "Operating Agreement",
7 what do we find?

8 A. That is the original operating agreement entered
9 into between Stevens and Tull, Inc.; TXO Oil Corporation,
10 at the time it was entered into, now Marathon Oil Company;
11 and Mary E. Leeton, who is James Leeton's mother.

12 Q. All right. It originally covered the northeast
13 quarter of 25?

14 A. That is correct.

15 Q. And it was put into effect before any of the
16 wells drilled in the northeast quarter had been drilled?

17 A. That is correct.

18 Q. Let's go back and talk about the Leeton interest.
19 At the time these agreements were put in place, did Mary
20 Leeton have a mineral interest?

21 A. Mary Leeton is a family member of a family
22 referred to as the Christmas family, who actually owned the
23 mineral interest. The Christmas family owns -- There's
24 four or five separate entities in which they own ownership.

25 Q. All right, let me ask you this. In the northeast

1 quarter, then, when that interest was held by the Christmas
2 family, it was a mineral interest?

3 A. That is correct.

4 Q. And it was not subject to leases?

5 A. That is correct.

6 Q. And what percentage interest did they have?

7 A. They had 6.25 percent of the minerals.

8 Q. All right. What, then, happened to their
9 interest in terms of committing it under the original
10 operating agreement?

11 A. That interest was leased to Mary Leeton --

12 Q. Okay.

13 A. -- who is a family member. The lease that was
14 given provided for a 30-percent royalty.

15 Q. Mary Leeton was part of the family?

16 A. Yes.

17 Q. And as part of the lease arrangement, she
18 burdened the lease with a 30-percent royalty back to the
19 Christmas family?

20 A. That is correct.

21 Q. Then what happened?

22 A. We entered into negotiations with Ms. Leeton and
23 her husband, James Leeton, Sr., who is an attorney in
24 Midland. We presented them with our operating agreement.
25 Essentially, the operating agreement was accepted as is,

1 with only a couple of minor revisions, which in this case
2 are critical.

3 They deleted the preferential right to purchase,
4 which reflects, and in the operating agreement, in the back
5 under Article 15, Stevens and Tull in all of its operating
6 agreement customarily provides a provision that states, If
7 a party elects to participate in a well and does not pay
8 their billing timely, then that interest would be declared
9 to be nonconsent, as if they had never responded to
10 participate in the well.

11 During the negotiations with the Leetons, we
12 conceded and removed that particular provision from the
13 operating agreement, and so it is not under the Article XV,
14 "Other Provisions", at this time.

15 Q. All right. Within the northeast quarter then,
16 did Stevens and Tull commence to drill the Number 1 well?

17 A. Yes, sir.

18 Q. How did Mary Leeton exercise her opportunity to
19 participate in that well?

20 A. They elected to participate and --

21 Q. And how did they do that? How did they make that
22 election?

23 A. They were -- They well was proposed, and they
24 executed the AFE to drill the D-K Number 1 well.

25 Q. Okay. As part of her participation, did she

1 prepay any of her share of the costs of that well?

2 A. No, she didn't.

3 Q. How did she reimburse you for her share of costs?

4 A. Her cost -- their -- The Leeton interest was
5 basically put into a net check position, meaning that they
6 did not pay any of their JIBs that were billed to them for
7 the drilling of the well, and we recouped their share out
8 of the production attributable to their interest.

9 Q. All right. Did that method of participation
10 continue with the remaining three wells in the northeast
11 quarter?

12 A. Yes, it did.

13 Q. Okay. For the drilling of the fifth well in the
14 northeast of the southeast, which is not covered by the
15 operating agreement, how did you obtain the commitment of
16 Mary Leeton's interest for that well?

17 A. We sent them a letter with an AFE proposing to
18 drill the D-K Number 5 well. In the letter we also
19 requested that by their acceptance and participation in
20 this well, they would agree to amend the operating
21 agreement to include that 40-acre tract. They subsequently
22 elected to participate in the well.

23 Q. Okay. Let's pick up the chronology at this
24 point, Mr. Weant. Let's turn to the exhibit tab that says
25 "Chronology". There is a typed chronology that begins on

1 September 7th. Is this a chronology that you prepared?

2 A. Yes, it is.

3 Q. All right. Let's skip past the chronology for
4 just a moment and pick up the March 13th, 1997, letter.

5 What does this address? What's the subject?

6 A. Marathon Oil Company, who succeeded TXO Oil
7 Corporation in the leasehold interest, owned a 24-plus-
8 percent interest in this acreage. This acreage was not
9 committed to the operating agreement, as we stated earlier.

10 MR. KELLAHIN: Hang on just a minute.

11 EXAMINER STOGNER: I'm getting lost.

12 THE WITNESS: Okay.

13 EXAMINER STOGNER: Okay.

14 THE WITNESS: Right behind the green tab.

15 EXAMINER STOGNER: All right.

16 Q. (By Mr. Kellahin) You're looking at the March
17 13th. This is your letter to Marathon for the Number 5
18 well we've been discussing?

19 A. That is correct.

20 Q. All right. Turn past that letter. On March 13th
21 did you also provide an opportunity to Mary Leeton to
22 participate in the Number 5 well?

23 A. Yes, we did.

24 Q. And did she exercise that opportunity?

25 A. Yes, they did.

1 Q. All right. What happened then concerning this
2 well?

3 A. This well was drilled, once again. The Leetons,
4 as in the past, had exercised to participate in the well.
5 They were billed subsequent to this and, there again, did
6 not tender the moneys for the interest billed to them.

7 Q. And so you net billed her as you had done with
8 the other wells?

9 A. We began to net bill them once again.

10 Q. All right. Turning past the March 13th letter,
11 what do we have here? The C-105?

12 A. This is a C-105 for the D-K Number 5 well, which
13 represents that they were noticed on March 13th and the
14 well was spud on April 7th --

15 Q. All right --

16 A. -- and completed on May 13th.

17 Q. Okay. Then the next letter is April 1st of 1997.
18 What is this?

19 A. This is a letter with Marathon Oil Company, in
20 which Marathon elected not to participate in the well but
21 agreed to sell Stevens and Tull a term assignment on their
22 acreage.

23 Q. All right. Go beyond -- That's an April 15th
24 letter to Marathon?

25 A. Yes, sir. That is the letter wherein we tendered

1 the bonus consideration for the term assignment to
2 Marathon.

3 Q. All right. Then the June 22nd letter to Fina,
4 what's this for?

5 A. That is a proposal to tie up the balance of
6 Fina's acreage, which in the southeast -- for the southwest
7 northeast quarter -- Originally, we had a term assignment
8 with them. It expired before the D-K 4 well was drilled.
9 This letter -- well, this -- in fact, this letter is -- It
10 is placed out of order, I just recognized. It's June 22nd,
11 1996 --

12 Q. All right.

13 A. -- so it should have been earlier. But anyway,
14 this tied up the Fina Oil and Chemical interest in this
15 acreage and committed them, in order that we could develop
16 this property.

17 Q. So in the southeast quarter of the section, you
18 now have the Fina interest committed to you for the -- not
19 only the 5 but the Number 6 well?

20 A. Yes, sir, the balance of the acreage.

21 Q. All right, let's go beyond that, the August 1st
22 letter to Marathon. What are you doing here?

23 A. This August 1st letter is the proposal to drill
24 the D-K Number 6 well or, in light of the participation of
25 Marathon, that they agree to grant us a term assignment

1 similar to previous term assignments granted by Marathon.

2 Q. All right. Were you able to successfully get
3 Marathon's voluntary commitment in the Number 6 well?

4 A. Yes, we were.

5 Q. That's been taken care of?

6 A. Yes, sir.

7 Q. All right. Now, let's pick up the chronology,
8 now, and we'll continue simultaneously with the chronology
9 that you prepared and look at the supporting letters.

10 The chronology says that Stevens and Tull spudded
11 the D-K 6 well on September 7th; is that true?

12 A. That is correct.

13 Q. That was a Sunday and you spudded the well?

14 A. That is correct.

15 Q. At this point, had you consolidated the interests
16 of everyone except Mr. Leeton and Mr. Morgan?

17 A. That is correct.

18 Q. How did you go about contacting them in an effort
19 to consolidate their interest?

20 A. They had purchased -- Mr. Leeton and Mr. Morgan,
21 in July -- or in June, the end of June, essentially paid
22 off Mary Leeton's outstanding balance on this well and at
23 that point in time furnished us with an assignment wherein
24 they acquired the interest previously owned by Mary Leeton.

25 Q. What's the relationship, if any, to Mary Leeton?

1 A. James Leeton is Mary Leeton's son.

2 Q. All right. When the assignment was made to James
3 Leeton, did Mary Leeton retain any interest?

4 A. No, she did not.

5 Q. So she's been substituted for by James Leeton,
6 and he has split his interest with Mr. Morgan?

7 A. Yes, sir.

8 Q. So that same interest is now divided between
9 those two individuals?

10 A. That is correct, they are partners.

11 Q. And they hold a working interest under a lease
12 that still has a 30-percent royalty burden?

13 A. That is correct.

14 Q. To the best of your knowledge, is it burdened
15 with any other overriding royalties?

16 A. No, it is not.

17 Q. All right. Looking at the letter, September 9th,
18 you send Morgan and Leeton a letter and an AFE?

19 A. That is correct.

20 Q. All right. Following the letter did you initiate
21 a conversation with Mr. Leeton?

22 A. Yes, I did.

23 Q. And describe for us what you did.

24 A. As the chronology represents, on September 18th I
25 contacted Mr. Leeton, and at that point in time we were

1 also proposing reworks on some of the D-K wells to the
2 north. I asked him about the D-K 6 well. He had advised
3 me that he had some questions regarding our other proposed
4 reworks, but in the conversation he stated that they would
5 probably participate. He just had to dig out the AFEs and
6 he would get them back to us.

7 Q. Now, he's talking about participating in the
8 Number 6 well?

9 A. That is correct.

10 Q. In addition, you're talking to him about
11 reworking some of the other D-K wells on the northeast
12 quarter?

13 A. That is correct.

14 Q. Under the terms of that operating agreement, is
15 he participating under that agreement for those wells?

16 A. The other wells to the north, yes, sir, he is.

17 Q. And under that agreement, then, if there's
18 workover on the wells it requires unanimous consent,
19 including that of Mr. Leeton?

20 A. That is correct.

21 Q. All right. Subsequent to that conversation, what
22 is the next entry you have?

23 A. In the November 18th discussion, he had indicated
24 that he would like to have his consulting engineer meet
25 with Stevens and Tull's staff to review all of our

1 operations on the east half of Section 25.

2 Q. Did you afford him that opportunity?

3 A. I told him that I would check the schedules of
4 our people and get back with him on that.

5 Q. All right. Let's turn through the chronology of
6 letters. You have one to Marathon; let's disregard that
7 one. The next one I find is a letter from Mr. Leeton back
8 to you of September 22nd. What's going on here?

9 A. This is addressing the proposed reworks of our
10 D-K 1, 3 and 5 wells.

11 Q. It makes reference to a Gerald Brockman --

12 A. That is the --

13 Q. -- to visit you?

14 A. Yes, sir. That is the consultant to whom Mr.
15 Leeton had requested that we meet.

16 Q. On September 25th did you, in fact, meet with Mr.
17 Brockman?

18 A. Yes, we did.

19 Q. Who was present with Mr. Brockman?

20 A. Myself; George Ulmo, our -- Stevens and Tull's
21 geologist; and Jesse Lawson, who is the engineer, the
22 operations engineer, for Stevens and Tull, Inc.

23 Q. All right. Did you provide the information Mr.
24 Brockman asked to review concerning the topics of
25 discussion?

1 A. Yes, we did. Everything Mr. Brockman and Mr.
2 Leeton requested that information was presented to them.

3 Q. Did Mr. Brockman have an opportunity to review
4 Stevens and Tull's geology concerning the position of the
5 D-K 6 well in relation to the other wells?

6 A. Yes, he did. In fact, he had the opportunity to
7 review the updated map on those formations that had just --
8 just had been completed, probably, the day before.

9 Q. Okay. The following day, on September 26th, did
10 you receive two facsimiles from Mr. Morgan and Mr. Leeton?

11 A. Yes, we did.

12 Q. They were facsimiles of letters?

13 A. They were letters indicating that they had
14 elected not to participate in the D-K 6 well.

15 Q. And those are contained in the exhibit book here?

16 A. Yes.

17 Q. All right. Having contacted you that they
18 desired not to participate in the Number 6 well, what else
19 did you do concerning their interest in this well?

20 A. I attempted -- As soon as I received the fax, I
21 attempted to contact them by telephone.

22 Q. With what results?

23 A. Left a message. I was told they were both tied
24 up at the moment. Left a message, did not receive a return
25 call that particular day, which was a Friday. On Monday I

1 again attempted to contact them, and told that they were
2 still not available at that point in time. I left messages
3 for them to call me, and once again no return.

4 Finally, on October 1st, I was successful in
5 speaking to Mr. Leeton, and we discussed the fact that they
6 were not participating in the well. I offered -- At that
7 point in time, I offered \$150 per net acre for their
8 interest, their leasehold interest in that 40-acre tract.
9 Mr. Leeton advised me that the money was, in his opinion,
10 insignificant and that he would rather at that point in
11 time reserve a 5-percent override on their leasehold
12 interest.

13 Q. At any point in the discussions, did Mr. Leeton
14 object to the fact that Stevens and Tull was the proposed
15 operator?

16 A. No, not at all.

17 Q. Did he introduce any objection that you had
18 commenced the well?

19 A. No.

20 Q. Did he object to the anticipated costs of the
21 well?

22 A. No.

23 Q. The issue for him was whether or not you would
24 give him a 5-percent override?

25 A. That is correct.

1 Q. On September 30th, Stevens and Tull filed a
2 compulsory pooling application, did they not?

3 A. That is correct.

4 Q. And after that, you continued to negotiate with
5 him in an effort to consolidate his interest?

6 A. That is correct.

7 Q. And were you successful in doing so?

8 A. No, sir, we weren't.

9 Q. Why were you not able to give him an additional
10 5-percent override?

11 A. As we stated earlier, the lease that was owned by
12 his family members was burdened with a 30-percent royalty.
13 The highest royalty lease in this area, and generally in
14 this area, throughout, in my experience, never goes over a
15 25-percent royalty burden.

16 Q. At this point for the acreage involved with
17 Marathon and Fina, were you able to consolidate interest,
18 retaining a net revenue interest of at least 75 percent?

19 A. Yes, we were.

20 Q. And with the additional 5 for him, it would have
21 reduced his net revenue to 65 percent?

22 A. That is correct.

23 Q. And that was simply something you would not do?

24 A. We felt that that would burden the interest, it
25 would just be too big a burden on the interest.

1 Q. Okay. Did you have any conversations with Mr.
2 Leeton about how compulsory pooling functions, in a general
3 way?

4 A. Yes, I did. When I had contacted him regarding
5 our conversations after we had learned that he had elected
6 not to participate, he had asked me general questions as to
7 the procedures that took place in a compulsory pooling
8 hearing.

9 Q. Did you advise him that he would have an
10 opportunity, once an order was issued, to make an election
11 under that order?

12 A. I advised him that we would come to this hearing
13 and that basically he would have a chance to present his
14 side of this case and that we would be seeking the maximum
15 penalty that would be allowed on this -- in this case.

16 Q. All right. Your last contact with him was, then,
17 on October 17th?

18 A. Yes, sir, I had sent him a letter after a prior
19 conversation with Mr. Doug Tull, who is the -- one of the
20 co-owners of Stevens and Tull. I sent him a letter on the
21 10th of October offering him \$200 per acre for his interest
22 and the balance of the southeast quarter, which was not
23 developed at this point in time, with a deadline of October
24 16th.

25 On October 17th I contacted Mr. Leeton and asked

1 him if he had made a decision. He had indicated that once
2 again, the monetary value we offered was not acceptable to
3 him and that he still intended to -- he would negotiate
4 with us, or he would only accept the 5-percent override.

5 Q. At no point, then, did he retract or withdraw his
6 letter saying he did not want to participate in the well?

7 A. No.

8 Q. All right, so that was still the way it is now?

9 A. That's correct.

10 Q. Let's turn to a different subject. Let's talk
11 about the overhead rates.

12 A. Okay.

13 Q. Under your 1987 operating agreement, looking at
14 the COPAS attachment, it indicates on page three that the
15 drilling well rate on a monthly basis is \$4500 and a
16 producing well rate is \$450. Do you find that, sir?

17 A. Yes.

18 Q. What is your recommendation to the Examiner for
19 the appropriate overhead rates on a monthly and on a
20 drilling well and a producing well for this compulsory
21 pooling order?

22 A. What we have done -- because on the division of
23 interest at the first of the -- under the -- behind the
24 plat at the front, the Roy G. Barton interest, who are
25 mineral owners, we entered into a separate operating

1 agreement covering their acreage in the southeast quarter,
2 and with a new operating agreement covering that interest.
3 That interest provided for the same overhead rate as
4 provided in Mr. Leeton's agreement.

5 The agreement with Mr. Leeton, since it was back
6 in 1987, allowed for inflationary escalation of these
7 operating overhead expenses. To date, we can currently
8 charge a monthly operating expense of \$522.74 for a
9 producing well under that 1987 operating agreement.

10 Q. Is that what you propose to charge -- or have the
11 Division adopt as an overhead charge for a producing well?

12 A. No, that is not. What we have done with Mr.
13 Leeton is, we have charged him the same rate we are
14 charging the Barton interest under the newer operating
15 agreement, and -- which that producing rate is currently
16 \$459 per month.

17 Q. Is that the number you propose to use?

18 A. That is the number.

19 Q. All right, \$459. And what about the drilling
20 well rate?

21 A. The drilling well rate customarily is ten times
22 the producing rate, and so we propose to -- the drilling
23 well rate to be \$4590.

24 Q. All right, sir. Let's turn to the subject matter
25 of the AFE. You have provided Mr. Leeton with an AFE.

1 Let's turn to the tab that says AFE, turn past the tab and
2 look at what purports to be an AFE. Is this your AFE?

3 A. This is Stevens and Tull's, Inc's., AFE for the
4 D-K Number 6 well.

5 Q. And is this a copy of the AFE that you sent Mr.
6 Leeton and Mr. Morgan?

7 A. Yes.

8 Q. All right. Have you made a comparison of this
9 AFE to other activities in the immediate area so that we
10 can see if this AFE cost is fair and reasonable?

11 A. Yes.

12 Q. How do we make that comparison?

13 A. The green sheet, if you look directly behind it,
14 there's an AFE behind that for a well that was proposed to
15 Stevens and Tull, Inc., by Collins and Ware, Inc.

16 Q. Are you -- Is Collins and Ware the operator of
17 this well?

18 A. They are the operator of this well. We are --

19 Q. And you're a working interest owner?

20 A. That is correct. As you can see, this well was
21 for a 7000-foot well. It was a development well on their
22 acreage. It had a completion cost of \$469,850.

23 Q. This is a well drilled to a shallower depth than
24 you propose?

25 A. Almost a thousand feet shallower than our

1 proposed well.

2 Q. So what's the point?

3 A. That Stevens and Tull, Inc., is well within the
4 boundaries. Our well was for a 7900-foot well, and our
5 total AFE was \$456,000.

6 Q. Have you subsequently received from Collins and
7 Ware the actual costs of the well that the AFEs report?

8 A. Yes, the -- Behind that tab there is a sheet
9 which is labeled, has highlighted the D-K Number 5 well,
10 which was -- this is Stevens and Tull's actual cost to
11 drill and complete the D-K 5 well due north of the D-K 6.

12 This well was drilled and completed for a total
13 cost of \$469,049.74. This well also included a tank
14 battery of about \$30,000 to \$35,000.

15 Q. So the current AFE for the Number 6 well is less
16 than the actual cost of the Number 5 well?

17 A. That is correct.

18 Q. Let's turn to the next entry, and it says Collins
19 and Ware at the top of that page, highlighted in yellow?

20 A. That is correct. That is the Collins and Ware
21 M&M Number 1 well, in which Stevens and Tull participated.

22 Q. This is the M&M Number 4 -- Oh, it's the Number
23 1?

24 A. Number 1. This is a like kind to our D-K Number
25 5, since it included a tank battery.

1 Q. What were the actual costs of Collins and Ware as
2 to that Number 1 well?

3 A. Their actual cost was \$510,779.04.

4 Q. So what's your conclusion?

5 A. That Stevens and Tull, Inc., is successful in
6 drilling their wells in this area on a very competitive
7 rate.

8 MR. KELLAHIN: Mr. Examiner, that concludes my
9 examination of Mr. Weant.

10 We would move the introduction of his exhibits
11 that start with the tab that says "Land Plat" and that goes
12 through the end of the tab that says "AFE".

13 EXAMINER STOGNER: That portion of Steven's and
14 Tull, Inc.'s, exhibit, from the land plat through the AFE,
15 will be admitted into evidence at this time.

16 Thank you, Mr. Kellahin.

17 Mr. Carr, your witness.

18 EXAMINATION

19 BY MR. CARR:

20 Q. Mr. Weant, at the beginning of the hearing Mr.
21 Kellahin summarized an agreement that had been reached
22 yesterday by Counsel concerning Stevens and Tull's
23 willingness to provide certain data to Mr. Leeton.

24 Were you present when Mr. Kellahin summarized
25 that agreement?

1 A. Yes, sir, I was.

2 Q. Did that summary accurately reflect your
3 understanding of the agreement?

4 A. Yes, sir.

5 Q. And is Stevens and Tull willing to provide that
6 data directly to Mr. Leeton following this hearing?

7 A. Yes, sir, we are.

8 MR. CARR: That's all I have. Thank you.

9 EXAMINER STOGNER: Thank you, Mr. Carr.

10 EXAMINATION

11 BY EXAMINER STOGNER:

12 Q. What was the date, again, that's your
13 understanding that James Leeton and Michael Morgan's change
14 of Mary Leeton's interest goes into effect?

15 A. They provided us in June of 1997, they provided
16 us with a copy of an assignment conveying the interest from
17 Mary Leeton into James Leeton, Jr., and Michael T. Morgan.

18 Q. So you knew about it in June?

19 A. That is correct.

20 Q. Was there any contact with either party prior to
21 September 7th?

22 A. Prior to -- Yes, sir. Yes sir, we had numerous
23 conversations regarding -- We did not have specific dates
24 for additional drilling, but Mr. Leeton and Mr. Morgan were
25 made aware of that our particular leasehold had continuous

1 development, that we would be required to be drilling
2 additional wells on these tracts in order to perpetuate our
3 leases.

4 We had conversations regarding Division orders
5 that we had sent to Mr. Leeton and Mr. Morgan and the
6 changing over of the interest, making sure everything was
7 basically running smoothly with the revenue distribution as
8 well as billing cycles.

9 Q. So the only two parties involved are James Leeton
10 and Michael Morgan. The Barton -- The Roy G. Barton and
11 the -- what, the V.H. Gourley interests --

12 A. V.H. Gourley, yes, sir.

13 Q. -- that has been -- what, leased, farmed out
14 or --

15 A. They are mineral owners, and what they have
16 elected to do is participate with their mineral interest.

17 Q. In the chronology about the D-K Number 6 well,
18 down at the bottom, October 17th, 1997, you stated in there
19 that, "He said they were making arrangements for Compulsory
20 Pooling. hearing."?

21 A. Yes, sir.

22 Q. And what's your understanding of that last entry?

23 A. That they basically -- When they revised it, we
24 were seeking -- they had been given the notice at that
25 point in time that we were going to be coming to this

1 hearing and that they were in the process of contacting
2 someone to represent them here.

3 EXAMINER STOGNER: Mr. Carr, is there a force
4 pooling case coming up that Mr. Leeton is --

5 MR. CARR: No, they're not filing a force pooling
6 case. They contacted me and asked me to appear today on
7 their behalf on this proceeding.

8 EXAMINER STOGNER: Okay, so they were making
9 arrangements for this compulsory --

10 THE WITNESS: Yes, sir.

11 EXAMINER STOGNER: -- pooling case?

12 MR. CARR: There is not --

13 EXAMINER STOGNER: Okay.

14 MR. CARR: -- another case coming, there is not.

15 EXAMINER STOGNER: Okay. You can see where I
16 read it as -- could have read it as such.

17 Okay, thank you.

18 THE WITNESS: I should have said "this compulsory
19 pooling hearing."

20 EXAMINER STOGNER: I have no other questions of
21 this witness. You may be excused.

22 THE WITNESS: Thank you.

23 EXAMINER STOGNER: Mr. Kellahin?

24 MR. KELLAHIN: Thank you. Mr. Examiner, we call
25 Mr. George Ulmo. U-l-m-o is how he spells it.

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GEORGE J. ULMO,

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

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q. All right, sir. Would you please state your name and occupation?

A. My name is George Ulmo, and I'm a petroleum geologist in Midland, Texas.

Q. Mr. Ulmo, on prior occasions have you testified before the Division as a petroleum geologist?

A. Yes, I have.

Q. And have you done the geologic work on the D-K 6 well, as well as the other D-K wells in this area?

A. Yes, I have.

Q. As part of that work product, do you have now opinions and conclusions concerning an appropriate risk factor penalty to be awarded in this case for this well?

A. Yes, I do.

MR. KELLAHIN: We tender Mr. Ulmo as an expert petroleum geologist.

EXAMINER STOGNER: Mr. Ulmo is so qualified.

Q. (By Mr. Kellahin) Let's turn to the rest of the exhibit book, Mr. Ulmo, and have you simply identify very quickly what we're about to look at.

1 Starting with the exhibit tab that says
2 "Geology", what is contained behind that tab?

3 A. There's a two-page geologic report, prepared by
4 me.

5 A map of the Abo structure for the D-K lease
6 area. And on that map is a red line indicating the
7 orientation of the cross-section which was prepared going
8 through this area.

9 The following page is a Tubb structure map.

10 And behind that is a map showing the cumulative
11 production for the area -- the wells in the immediate
12 vicinity.

13 And then there's an orange page, and behind that
14 is a Xerox of the Stevens and Tull D-K Number 6 well log,
15 the density neutron open-hole log, beginning at the
16 Glorieta top, around 5600 feet, down through TD, all the
17 way through the Abo formation.

18 And behind that is a daily drilling report for
19 the well, beginning on September the 8th and going through
20 October 21st, 1997.

21 Q. And this is the drilling-report documents that we
22 have agreed to provide Mr. Leeton and Mr. Morgan?

23 A. That is correct, and it takes us through our
24 attempt to complete in the Drinkard and, up to the 21st,
25 our attempt to complete in the Tubb formation.

1 Q. In the envelope is a --

2 A. This is a rather large structural cross-section
3 that goes -- oh, it's approximately -- it covers about two
4 or three miles east to west direction.

5 Q. I don't propose that we're going to unfold this
6 thing. We'll talk about the summary in a minute.

7 A. Right.

8 Q. Beyond that tab, then, there's another tab that
9 says "Engineering". What have you included for the benefit
10 of the Examiner and for Mr. Leeton and Mr. Morgan?

11 A. Well, this was prepared by our engineer, Jesse
12 Lawson. He has a short write-up, one page, and then
13 several pages -- two pages of his economic analysis for
14 this well, some decline curves behind the red sheet which
15 are typical of some of our wells out there, the Kyte lease,
16 and I believe the D-K lease is also in there.

17 So it's a summary of his economic evaluation of
18 the viability of the D-K Number 6 well.

19 Q. All right. What I propose to do is to take your
20 three display maps --

21 A. Okay.

22 Q. -- and we'll look at those three in talking about
23 your conclusion.

24 At this point, the well has been drilled, has it
25 not, sir?

1 A. Yes, that is correct.

2 Q. It's been drilled, it's been logged, and its
3 total depth was sufficient to take it through the Abo
4 formation?

5 A. Yes, sir.

6 Q. All right. When we -- When you looked at the mud
7 log for the Abo formation, what did it indicate to you,
8 sir?

9 A. There are a few drilling breaks, but no shows
10 evident in the samples.

11 Q. And as part of testing the well, has Stevens and
12 Tull made any attempt to test the Abo?

13 A. No, we concluded from the mud log and our open-
14 hole logs that we probably were structurally too low to
15 make a commercial completion. So casing was set -- I don't
16 know the exact depth where casing was set; it's in that
17 report. But we did not set pipe to total depth. We
18 elected to set pipe somewhere above the Abo porosity in
19 order to be able to attempt a completion in the Drinkard
20 formation.

21 Q. In this area there are four potential zone that
22 might be oil-productive?

23 A. That's correct.

24 Q. And for this wellbore, the deepest would have
25 been Abo, and you've got no shows?

1 A. That's right.

2 Q. The next in order of depth would be the Drinkard?

3 A. Yes.

4 Q. What did the mud log show you on that well?

5 A. There were three intervals which had shows,
6 hydrocarbon shows. The uppermost interval had the best
7 show. The next one down had a lesser show, and the lower
8 zone had even lesser show than that.

9 Q. How would you characterize the quality of the
10 show on the mud log for the Drinkard? Are these bad -- no
11 shows or

12 A. The upper show --

13 Q. -- good shows or --

14 A. The upper show looks to be equivalent to other
15 zones that we have successfully completed as oil wells, and
16 so we felt the upper zone would be productive, and the
17 two --

18 Q. And did you perforate the Drinkard?

19 A. Yes, we did. We thought the two lower zones
20 would more than likely be wet, so we perforated them to
21 confirm that. We did not frac them, we just perforated and
22 swabbed. And the two lower zones were wet.

23 We then perforated the upper zone, and it also
24 turned out to be wet, to our surprise. And I think the
25 most we ever got was a two- or three-percent oil cut. So

1 we elected not to frac that formation, and plugged back to
2 try to complete in the Tubb formation.

3 Q. Okay. You have -- The Tubb is the next interval,
4 and you're testing that?

5 A. Yes, sir.

6 Q. At this point is it too early to know whether or
7 not you're going to be able to produce commercial oil out
8 of the Tubb formation?

9 A. Yes, it is. We perforated the entire Tubb
10 interval, even where we did not have shows, and we have
11 frac'd the well, and we're currently recovering load with
12 some oil cut.

13 Q. Okay. And then the last zone, which has not yet
14 been tested, would be the Blinebry?

15 A. Yes, sir.

16 Q. At this point, with the information you have, can
17 you reach a conclusion concerning an appropriate risk
18 factor penalty to be assessed against Mr. Leeton and Mr.
19 Morgan?

20 A. I would concur with Jerry's recommendation that
21 the 200-percent penalty would be recommended.

22 Q. And what's the basis for that recommendation,
23 sir?

24 A. That while Stevens and Tull has taken the risk of
25 drilling the well where we knew it was a flank position and

1 that we've attempted to complete in the two most productive
2 zones out there, which are the Abo and the Drinkard, and
3 now we're left with the Tubb and the Blinebry formation,
4 which are really unproven reservoirs in the D-K field.
5 Most of the Tubb production is off to the west of us.

6 Q. Let's look at that. Let's look at the Tubb
7 structure map, which is one of your handouts, and give us a
8 sense of where the Tubb is in the Number 6 well in relation
9 to the other wells.

10 A. Okay, the Number 6 well came in structurally flat
11 to the Number 5, and those wells are both 20, 25 feet or
12 so, low to the highest wells in the D-K Abo field in
13 Section 30, just to the east of our D-K lease.

14 Q. When I look at the map and I see the position of
15 the Number 6 well, I also see north and east of it what are
16 dryhole symbols?

17 A. Yes, sir.

18 Q. Are those wells deep enough to have penetrated
19 all of these four reservoirs?

20 A. Yes, they are, and they were drilled -- I'm not
21 exactly sure of the dates, but probably 20 years ago, when
22 the D-K field was initially just being developed.

23 Q. When you look at the relationship of the Number 6
24 well to those successful wells in the northeast of 25, what
25 is that relationship?

1 A. The Number 6 well is downdip to most of those
2 wells, with the exception of the Number 4 D-K, which is the
3 lowest well on our lease. So we concluded that the Number
4 6 would more than likely be flat to the Number 5 or
5 possibly slightly low to the Number 5 but high to the
6 Number 4 well.

7 Q. Is that an opinion that you shared with Mr.
8 Brockman when you met with him on September 25th when he
9 came to represent Mr. Morgan and Mr. Leeton at your office?

10 A. Yes, when he came he actually saw this Tubb
11 structure map, which had been updated after the Number 6
12 well was logged.

13 Q. And so you shared with him your opinion
14 concerning that well and its position in the Tubb?

15 A. Yes, and actually I referred to the Abo structure
16 map too and told him that it was slightly low to the Number
17 5 in the Abo. We did not see the Abo map.

18 Q. And the next day, then, Stevens and Tull received
19 a letter from Leeton and Morgan saying they had chosen not
20 to participate?

21 A. That's correct.

22 MR. KELLAHIN: Okay. Mr. Examiner, that
23 concludes my examination of Mr. Ulmo.

24 We move the introduction of the exhibits shown in
25 the balance of the exhibit book, starting with the

1 "Geologic" tab and going through the book.

2 That would constitute Stevens and Tull Exhibit
3 Number 1, and I will mark you book accordingly following
4 the hearing.

5 EXAMINER STOGNER: That portion of the --
6 subtitled "Geology" and "Engineering" of Exhibit Number 1
7 of Stevens and Tull will be admitted into evidence at this
8 time.

9 Mr. Carr, your witness.

10 MR. CARR: I have no questions, Mr. Stogner.

11 EXAMINATION

12 BY EXAMINER STOGNER:

13 Q. Do you have any report on yesterday and today of
14 what the well is doing?

15 A. I don't have today's report. Yesterday's report
16 was that they were swabbing -- I guess they had swapped
17 approximately 150 or 200 barrels of load water with
18 approximately a 10-percent oil cut, and they were going to
19 release the completion unit and run rods on the well to
20 pump back the rest of the load, which is -- I believe
21 approximately 1000 barrels of load was used, and it was
22 cheaper to pump it back than to swab continually.

23 So we're going to complete the well with the pump
24 and see what it would do.

25 The well is still not flowing yet. It's just

1 gradually cleaning up, and we're not sure how good it's
2 going to be.

3 Q. Is there any other potential uphole from the
4 Tubb?

5 A. The Blinebry formation, the top of the formation
6 is somewhere around 6050 feet, and there is a zone in the
7 Blinebry which we think is going to be productive. We had
8 a pretty good mud log show there. That would be between
9 6050 and 6070, roughly. It's about an eight-foot-thick
10 porosity zone, and that would eventually be tested.

11 Above that, up in the San Andres, there's some
12 minor shows. But there's no production around us in the
13 San Andres, so we don't really think that has much chance
14 of making a well in the San Andres.

15 Q. What is the location of this subject well?

16 A. The well is 940 feet from the south line and 330
17 feet from the east line of Section 25. And the reason it's
18 940 was because at our original location of 990 feet there
19 was a gas line, and we elected to move the well 50 feet
20 away from that gas line, to the south.

21 EXAMINER STOGNER: Mr. Kellahin, in your opening
22 remarks --

23 MR. KELLAHIN: Yes, sir.

24 EXAMINER STOGNER: -- you covered something about
25 the risk penalty, did you not?

1 MR. KELLAHIN: Yes, sir.

2 EXAMINER STOGNER: What's the agreement? What
3 was that again?

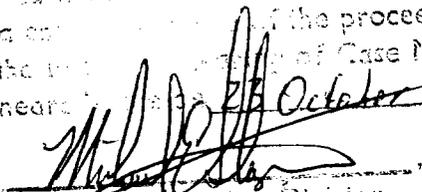
4 MR. KELLAHIN: Our agreement with Mr. Carr was
5 that he would stipulate or agree to the 200-percent risk
6 factor penalty. In exchange, we were going to give him
7 data that he would not otherwise obtain, and the data has
8 been described to you. It consisted of the reports that we
9 have identified, it consists of a suite of logs, including
10 the mud log. With that information, then, the parties were
11 satisfied as to that issue.

12 EXAMINER STOGNER: I have no other questions of
13 this witness. You may be excused.

14 MR. KELLAHIN: That concludes my presentation,
15 with the introduction of a Notice of Hearing, which is
16 marked as Exhibit Number 2.

17 EXAMINER STOGNER: If there's nothing further in
18 Case Number 11,866, then this matter will be taken under
19 advisement.

20 (Thereupon, these proceedings were concluded at
21 9:50 a.m.)

22 * * *
23 I do hereby certify that the foregoing is
24 a true and correct copy of the proceedings in
25 the matter of Case No. 11866,
heard on 23 October 1997.

Examiner
Oil Conservation Division

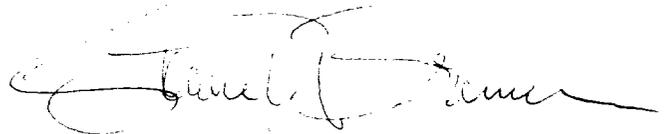
CERTIFICATE OF REPORTER

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 October 27th, 1997.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 14, 1998