

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 KCS MEDALLION )  
 RESOURCES, INC, FOR COMPULSORY )  
 POOLING, EDDY COUNTY, NEW MEXICO )  
 )

CASE NO. 11,926

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

February 19, 1998

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, February 19th, 1998, 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.

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## I N D E X

February 19th, 1998  
Examiner Hearing  
CASE NO. 11,926

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\* \* \*

## 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   8:21 a.m.:

3           EXAMINER STOGNER: At this time I'll call Case  
4   Number 11,926.

5           MR. CARROLL: Application of KCS Medallion  
6   Resources, Inc., for compulsory pooling, Eddy County, New  
7   Mexico.

8           EXAMINER STOGNER: Call for appearances.

9           MR. BRUCE: Mr. Examiner, Jim Bruce on behalf of  
10   the Applicant.

11          EXAMINER STOGNER: Any other appearances?

12          MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin of  
13   the Santa Fe law firm of Kellahin and Kellahin, appearing  
14   on behalf of OXY, USA.

15          EXAMINER STOGNER: Do you have any witnesses?

16          MR. KELLAHIN: No, sir.

17          EXAMINER STOGNER: Any other appearances?

18          MR. CARR: May it please the Examiner, my name is  
19   William F. Carr with the Santa Fe law firm Campbell, Carr,  
20   Berge and Sheridan. We represent ARCO Permian in this  
21   matter, and I have do not intend to call a witness.

22          EXAMINER STOGNER: Mr. Bruce?

23          MR. BRUCE: Mr. Examiner, I do not have a  
24   witness. Mr. Kellahin has filed a Motion to Dismiss, and  
25   so I guess you'll let him go first and argue.

1 EXAMINER STOGNER: Mr. Kellahin?

2 MR. KELLAHIN: Mr. Examiner, by agreement with  
3 Mr. Bruce, Mr. Carr and I are here today to discuss the  
4 Motion to Dismiss. You should have a copy of that Motion  
5 to Dismiss before. If you don't, I'll have to make some  
6 extra copies.

7 EXAMINER STOGNER: Your request to dismiss was  
8 dated February 13th?

9 MR. KELLAHIN: Yes, sir.

10 EXAMINER STOGNER: Okay, then I do have a copy.

11 MR. KELLAHIN: Mr. Examiner, we're here to ask  
12 your interpretation of a statute. It's 70-2-17 C, and it  
13 deals with the first two sentences of paragraph C. I'll  
14 give you a copy of that so that we can talk about it.

15 Paragraph C says in the first sentence that when  
16 two or more separately owned tracts of land are embraced  
17 within a spacing or proration unit, or where there are  
18 owners of royalty interests or undivided interests in oil  
19 and gas minerals which are separately owned, or any  
20 combination thereof, embraced within such spacing unit, the  
21 owners thereof may voluntarily pool their interest and  
22 develop their lands as a unit.

23 If you'll turn to the Motion to Dismiss, I can  
24 summarize for you the fact situations that demonstrate that  
25 the owners in the south half of Section 33 have already

1 voluntarily committed their interests to spacing units  
2 involved.

3           You'll find that attached to the Motion to  
4 Dismiss is a copy of a joint operating agreement. That  
5 agreement is dated December of 1975. It originally  
6 involved Penroc Oil Corporation, Atlantic Richfield  
7 Company. And back in 1975, they entered into a joint  
8 operating agreement for the south half of Section 33 where  
9 they committed on a voluntary basis their working interest  
10 in that 320-acre spacing unit.

11           It was originally developed for the drilling of a  
12 Penroc well. That well was drilled in Unit J, in Section  
13 33, and it controlled that well and all subsequent wells in  
14 the south half of 33.

15           That joint operating agreement is still in full  
16 force and effect, and it governs the drilling of all wells  
17 in the south half of 33.

18           In January of 1996, and in accordance with that  
19 operating agreement, OXY succeeded Penroc Oil Corporation  
20 as the operator of the south half.

21           In a hearing before you, OXY requested approval  
22 of an unorthodox well location. The Division entered that  
23 order on March 18th of 1996. It's Order Number R-10,561.  
24 It approves OXY's application for a well location. It's  
25 the OXY 33 Federal 1 in the southeast quarter of the

1 spacing unit. And it authorized an order that a standard  
2 320-acre spacing unit be dedicated to all the pools  
3 described therein, including the Wolfcamp, the Strawn, the  
4 Atoka and the Morrow.

5 In April of 1996, OXY obtained approval of an  
6 APD, and they dedicated the south half of Section 33 to the  
7 subject well.

8 In June of 1996, on behalf of all the interest  
9 owners, and for an actual well cost of more than \$670,000,  
10 OXY drilled the Federal 33-1 well to a total depth to  
11 penetrate the base of the Morrow formation.

12 They completed the well in August of 1996. They  
13 set casing through the base of the Morrow formation. That  
14 well is currently producing from the Wolfcamp formation and  
15 is designated as a Winchester-Wolfcamp Gas Pool well at  
16 this time.

17 There are currently behind-the-pipe potential in  
18 the Morrow formation that has been untested at this point.  
19 The working interest owners in the south half have not yet  
20 recovered the costs from this well, and they are proposing  
21 to continue the historic development of these 320 gas-  
22 spacing units using a south-half dedication, and they have  
23 initiated plans to drill a subsequent well in the southwest  
24 quarter of Section 33.

25 In October of 1997, Medallion proposed to OXY

1 that the orientation of this spacing unit, instead of being  
2 a south-half, be turned to a west-half standup. Medallion  
3 proposes to have a Morrow well drilled within the south  
4 half, in the southwest quarter of Section 33. They have  
5 submitted to us a request to dedicate the west half.

6 We have advised them that the south half is  
7 already dedicated, it has been consolidated, and it is  
8 being pursued by those working interest owners for the  
9 development of south-half spacing.

10 Medallion refuses to take our position that the  
11 south half is committed to these deep gas spacing wells and  
12 has filed an Application for compulsory pooling to now  
13 dedicate the west half.

14 Historically, Mr. Examiner, the Division has not  
15 utilized compulsory pooling where the parties have  
16 voluntarily agreed, and that's just exactly what the first  
17 sentence of subparagraph C of this statute intends to  
18 happen.

19 We have consolidated the interest owners, we  
20 should be entitled to go forward with the development of  
21 the south half.

22 If Medallion feels that they have potential  
23 opportunities in the remaining of this section, then the  
24 remaining orientation that's available to them is a north-  
25 half spacing unit. That's all that's left.

1           When you look at the opportunities for  
2 development, we should not be using compulsory pooling as a  
3 means to disrupt the organized orderly contractual  
4 voluntary participation that the working interest owners  
5 have committed themselves to for the development of this  
6 spacing unit.

7           Mr. Bruce contends that compulsory pooling is  
8 still available because the owners in the south half of  
9 Section 33 are not currently producing any other formation  
10 but the Wolfcamp.

11           Recognize the implication of that position.

12           He is contending that if you drill a well to the  
13 base of the Morrow and if you select, of all the formations  
14 to be produced, only one, that you thereby forfeit the  
15 opportunity in that wellbore or in subsequent wellbores in  
16 that spacing unit to look for other formations that may  
17 have behind-the-pipe potential.

18           So for example, if we drill our Morrow well and  
19 choose to produce only the Wolfcamp at this time, are we  
20 thereby required to forfeit all other remaining deep gas  
21 spacing units?

22           Do you see the opportunity for foolishness, the  
23 fact that if I drill my Morrow gas well and I choose to  
24 produce the Morrow, then I lose all uphole potential or  
25 further potential, and someone, an opportunist like

1 Medallion, can come in and suggest that another well be  
2 drilled, located on my spacing unit, and to reorient that  
3 spacing unit so they now have a greater share of potential  
4 production and taking advantage of the risk that we assumed  
5 and otherwise undertook to accomplish?

6 We contend the problem with Medallion's  
7 Application is, they're seeking to compulsory pool  
8 formations that have already been approved and ordered by  
9 this Division for a spacing unit in the south half of  
10 Section 33.

11 It is our contention that under the first  
12 paragraph of subsection C of this statute we have no  
13 obligation to have a producing well. There's nothing in  
14 this statute that requires us to have actual production  
15 from a producing well. It simply says that we will  
16 voluntarily form a spacing unit.

17 We have done that. We have executed that  
18 opportunity. And all Medallion seeks to do is disrupt the  
19 orderly course of our development of our resources for that  
20 south-half spacing unit.

21 Our contention is that Medallion's Application  
22 violates the compulsory pooling statute and seeks a pooling  
23 order to include the south half of Section 33, which is  
24 already dedicated to an established spacing unit and which  
25 was formed on a voluntary basis.

1           We're asking you at this point to dismiss the  
2 compulsory pooling Application of Medallion.

3           Thank you, Mr. Examiner.

4           EXAMINER STOGNER: Thank you, Mr. Kellahin.

5           Mr. Bruce? Mr. Carr?

6           MR. CARR: May it please the Examiner, attached  
7 to the joint operating agreement is an ownership schedule,  
8 and it shows that ARCO Permian, in fact, owns an undivided  
9 interest throughout the south half of this section.

10           All of the working interest owners in the south  
11 half of this section, Mr. Stogner, have, in fact, agreed to  
12 combine their interests for the development of these lands.

13           In the past there have been questions brought  
14 before you where an operator has filed a compulsory pooling  
15 application and someone else in the section has run out and  
16 gotten an approved APD, they've come before you and they've  
17 said, Look, we have an APD, the acreage isn't available.

18           And the Division recently has not accepted that  
19 argument because they say more is required. You can't just  
20 get an APD; you must actually go out and attempt to develop  
21 the lands.

22           But what we have here is a standard south half  
23 spacing unit. All owners in that working interest, in that  
24 spacing unit, have reached a voluntary agreement for the  
25 development of that land.

1           But we have done more. We have also gone out,  
2 not just agreeing to develop the land, but we have drilled  
3 a well, we have incurred those costs, and that well  
4 penetrates all the zones which are at issue in this case.  
5 We're now producing the Wolfcamp in an attempt to recover  
6 those costs.

7           The issue before you is one of correlative  
8 rights. Statute gives us the right to go out and explore  
9 for our own minerals. We're given an opportunity to  
10 develop our lands, and we have done that in this case by  
11 drilling a well.

12           KCS Medallion has no well. What they want to do  
13 is share its south-half reserves, an area where they own  
14 nothing at all.

15           If you look at the response filed by Mr. Bruce,  
16 you will see that they state that if they are not allowed  
17 to pool the west half, two wells will be required.

18           Well, what that suggests to me is, if they think  
19 two wells will be required in the west half, they should go  
20 forward and drill a well in the northwest quarter. If they  
21 did that, they could produce their reserves and not ours.

22           What they're suggesting, I submit, makes a joke  
23 of our rules and our regulatory system, for what it would  
24 mean is, I could go out, I could drill a well at a standard  
25 location on a standard spacing unit, I could penetrate all

1 zones, and I could determine which zone was the best zone  
2 for me to first penetrate so I could recover my costs of  
3 drilling.

4 And anyone else in the area could then run in and  
5 they could second-guess me as to whether or not I have  
6 behind-the-pipe potential in any zone and then attempt to  
7 horn in on what we have developed by then attempting to  
8 force pool that acreage with acreage not in the current  
9 spacing unit.

10 I submit we see here what we've been seeing all  
11 too much of lately, an effort by an operator not to explore  
12 for and develop their minerals, but to exploit the efforts  
13 of their neighbor.

14 If they want to explore for and develop their  
15 minerals, KCS Medallion can drill a well in the northwest  
16 quarter, and in their response to Mr. Kellahin's Motion  
17 they have suggested that they could do that.

18 If, on the other hand, they come forward and are  
19 successful with this Application, all they've been allowed  
20 to do is second-guess the operator and exploit the efforts  
21 of the offsetting operator and property owner.

22 We ask that the Motion to Dismiss be granted and  
23 that KCS Medallion then be permitted to go forward and  
24 develop the reserves under its tract, instead of exploiting  
25 the efforts we've undertaken to develop our own.

1 EXAMINER STOGNER: Thank you, Mr. Carr.

2 Mr. Bruce?

3 MR. BRUCE: Mr. Examiner, we're not here seeking  
4 a pooling of the south half. We're here seeking an order  
5 pooling the west half, and the west half is not subject to  
6 a voluntary agreement.

7 And I submit that the south half, as to the  
8 Morrow formation, is not subject to any voluntary agreement  
9 covering all interests in the south half.

10 They say it's dedicated to the Morrow. There's  
11 no Morrow production in the south half. You can't have a  
12 well dedicated to the south half if there's no Morrow  
13 production.

14 OXY states that the unorthodox location order  
15 prevents the Division from granting KCS's Application.  
16 That order only approves the unorthodox location. As part  
17 of that hearing, OXY came in and said, Yeah, we're going to  
18 dedicate a south-half unit.

19 The OCD's order does not pool anyone, nor does it  
20 dedicate all of the interests in the south half to that  
21 well. Therefore, the Division has the authority under the  
22 statute Mr. Kellahin gave you, to pool a west-half unit.

23 As I've noted in my memo, a compulsory pooling  
24 order by the Division supersedes a voluntary agreement  
25 among the interest owners, and I cite a case to you. The

1 same principle as in that Louisiana case applies in New  
2 Mexico.

3 In fact, if a private contract was not subject to  
4 the orders of the Division, the Division would not have any  
5 authority to pool any leases at all. Every contract is  
6 issued subject to the valid orders of the Division.

7 And even if there was a voluntary agreement  
8 covering the Morrow -- which there's not because there's no  
9 Morrow production -- the Division has the authority to  
10 reorient the well unit.

11 Let me give you a little handout, Mr. Examiner,  
12 to explain why Medallion is seeking what it seeks.

13 What I've handed you is a production map of the  
14 area. The proposed west-half unit is outlined, as are all  
15 of the Morrow test wells in that area.

16 If you'll look at the northeast quarter, there's  
17 already been a well in there that has produced 2.2 BCF.  
18 It's been plugged and abandoned for 12 years now. The  
19 Penroc ARCO Fed well, not productive in the Morrow. No  
20 one's ever tried to produce that in the Morrow.

21 The OXY Fed well in the southeast of the  
22 southeast, that is not productive in the Morrow. That's  
23 the well Mr. Kellahin mentioned. He says there's potential  
24 behind pipe. You know, I'm no genius but I believe the  
25 normal course of events in producing a well is to produce

1 the deepest zone first, come uphole and produce the other  
2 zones.

3           They didn't do that here. Why? Because there's  
4 nothing down there in the Morrow. In fact, in Mr.  
5 Kellahin's memo it says, On February 12th, 1998, OXY staked  
6 a well location in the southwest quarter of Section 33 for  
7 a Morrow test well. Why would they need to do that if  
8 there's Morrow behind pipe up in the southeast quarter?  
9 They know there's no Morrow potential in that east half at  
10 all.

11           And what needs to be done is just one well, one  
12 more well, in that west half. And that's what KCS  
13 Medallion seeks to do in this case.

14           This is similar to the Phillips-Santa Fe argument  
15 we had about a month ago here, where after Santa Fe had  
16 filed a force pooling Application and negotiated with the  
17 parties for some time, Phillips ran out and staked a well  
18 and said, No, you can't do anything, we've staked a well.

19           We submit that that's incorrect. In order to  
20 prevent waste, only one well should be drilled in that west  
21 half, and all the parties should share in that production.  
22 And I would point out that KCS Medallion has acquired  
23 interest in the southwest quarter, as well as the northwest  
24 quarter.

25           Now, Mr. Examiner, you weren't involved in this

1 case, but Case 11,877, an application by Fasken Land and  
2 Minerals to pool a section of land for a Morrow well in  
3 Eddy County, this was argued in front of Mr. Catanach a  
4 couple weeks ago -- or maybe more than that, maybe six  
5 weeks ago.

6 In that case, Fasken owned some unleased -- or I  
7 should say owned an interest that they said was not subject  
8 to a JOA, and then sought to fool -- sought to pool,  
9 certain acreage that was subject to a JOA.

10 Let me quote something out of Mr. Kellahin's  
11 brief: There is no voluntary agreement covering Section 12  
12 into a 640-acre gas spacing and proration unit for the  
13 drilling of Fasken's proposed well. None of the Fasken  
14 interest in the west half of Section 12 is subject to an  
15 existing voluntary agreement. Accordingly, the Division  
16 has no other choice but to deny Redstone's Motion to  
17 Dismiss and to proceed with the hearing on Fasken's  
18 compulsory pooling Application.

19 If you would just substitute the west half of  
20 Section 33 and KCS's interest in the northwest quarter of  
21 Section 33 for the land descriptions, we're in the exact  
22 same situation here. And the Division in that case refused  
23 to dismiss the pooling application. And we submit that in  
24 order to be consistent, KCS's application should not be  
25 dismissed and we should go to hearing in four weeks' time.

1 MR. KELLAHIN: May I respond to Mr. Bruce?

2 EXAMINER STOGNER: Mr. Kellahin?

3 MR. KELLAHIN: Mr. Stogner, you weren't involved  
4 in the Case 11,877. That's the Fasken-Redstone case. Mr.  
5 Carroll was; I'm sure he'll remember.

6 Mr. Bruce attempts to confuse you about the facts  
7 in that case. They are not the same as this case.

8 The Fasken case involved a proposal in a section  
9 that the Morrow was subject to 640 gas spacing. The  
10 difference in the Fasken case is, Fasken had proposed a  
11 well on the Fasken tract that was outside the joint  
12 operating agreement.

13 To make our facts identical to the Fasken case,  
14 the KCS Medallion well would have to be located in the  
15 northwest quarter. Substantial difference.

16 Mr. Bruce wants to remind you of the Santa Fe-  
17 Phillips case in which Phillips had two State of New Mexico  
18 oil and gas leases in the north half of that section. They  
19 controlled 100 percent of the working interest ownership.  
20 And we're going forward with plans to drill a well on what  
21 they had consolidated for a standard spacing unit on a  
22 voluntary basis. Santa Fe sought a west-half spacing unit.

23 You chose to deny the Motion to Dismiss, and that  
24 matter is still pending hearing.

25 There is a substantial difference between the

1 Santa Fe-Phillips case and the case here today. The  
2 difference is based upon a precedent established in Case  
3 9333, back in 1988. There was a case in which Read and  
4 Stevens was the record lessee of a federal oil and gas  
5 lease that was a single federal oil and gas lease covering  
6 the east half of Section 22.

7 Terra Resources sought to file a compulsory  
8 pooling case for the north half. Reed and Stevens did not  
9 have a well in the east half. It's one federal lease.  
10 They had filed an APD, had intended to drill it. There was  
11 no well drilled. Terra Resources filed their pooling case  
12 for the north half. There is a conflict, as you can see.

13 And Terra Resources filed a Motion to Dismiss.  
14 And in their Motion to Dismiss -- I'm sorry, Read and  
15 Stevens filed a Motion to Dismiss. And in that Motion to  
16 Dismiss they cited a federal regulation, saying federal  
17 regulations regarding communitization of federal leases for  
18 drilling provide, when a lease or a portion thereof cannot  
19 be independently developed and operated in conformity with  
20 an established well spacing or well-development program,  
21 the authorized officer may approve communitization or  
22 drilling agreements for such lands.

23 The citation is 43 CFR 3105.2-2.

24 They argue that because one single federal oil  
25 and gas lease covers the spacing unit and can, in fact, be

1 independently developed in conformance with the established  
2 spacing rules, that Terra Resources is prevented by federal  
3 regulations from pooling the northeast quarter of that  
4 section.

5 We have a similar situation here. If you'll look  
6 at the joint operating agreement, originally between Penroc  
7 and Atlantic Richfield, if you'll look at Exhibit A, you'll  
8 find that the south half of Section 33 is a single federal  
9 oil and gas lease, it's NM-0428657, dated September 1st of  
10 1963.

11 If for no other reason than conformance with  
12 federal regulations, you need to dismiss the Medallion  
13 case.

14 I did not know that before 1988 when this Motion  
15 was filed, but I know that now, and I know that because  
16 this motion was filed by Mr. James Bruce. He's the one  
17 that brought that to our attention. He's now arguing a  
18 position that is inconsistent with the Motion he argued in  
19 1988, if for no other reason than he is precluded from  
20 advancing his position on behalf of his client.

21 It's interesting that he would cite to you a  
22 Louisiana case from 1950. Louisiana is an interesting  
23 state, they do interesting things, you can have fun in  
24 Louisiana. But I'll suggest to you that we ought not to  
25 look to a 1950 Louisiana case to tell us how we conduct

1 business in the State of New Mexico.

2 The interest owners in the south half of 33 are  
3 still enjoying the opportunities to produce this well out  
4 of the Wolfcamp formation. It currently produces a million  
5 MCF of gas a day. We need to recover the costs out of that  
6 Wolfcamp.

7 But more than that, we're entitled to go forward  
8 with subsequent development. We're entitled to do that  
9 under this joint operating agreement. It's a voluntary  
10 agreement in which these parties are going forward on a  
11 voluntary basis.

12 To suggest now that KCS Medallion can come  
13 forward and disrupt that activity is an abuse of the  
14 compulsory pooling statute, and we would ask that you grant  
15 our Motion and dismiss this case.

16 EXAMINER STOGNER: Do you have a copy of that  
17 federal reg that you cited?

18 MR. KELLAHIN: Yes, sir.

19 MR. CARROLL: Mr. Kellahin, what was that case  
20 number? 9333?

21 MR. KELLAHIN: Yes, sir.

22 MR. CARROLL: And that was an application of Read  
23 and Stevens?

24 MR. KELLAHIN: Yes. Here's the copy.

25 MR. CARROLL: Mr. Bruce, on your map here does

1 this show the Morrow production in the area?

2 MR. BRUCE: Yes, sir, it does.

3 MR. CARROLL: And in the northeast quarter of  
4 Section 33, that well has been plugged after producing 2.2  
5 BCF from the Morrow?

6 MR. BRUCE: Yes, sir, it has.

7 MR. CARROLL: What is KCS's interest in the north  
8 half?

9 MR. BRUCE: It has -- it owns -- I can't give you  
10 an exact percentage, but in the northwest quarter it owns  
11 20 -- 30 percent, maybe more, of the working interest in  
12 the northwest quarter.

13 MR. CARROLL: What about the northeast quarter?

14 MR. BRUCE: I do not know. And it does own some  
15 interest in the southwest quarter. I cannot give you a  
16 percentage. I was told, and I just don't remember.

17 MR. CARROLL: KCS has an interest in the  
18 southwest quarter?

19 MR. BRUCE: Yes, it has acquired some interest  
20 over the last couple of -- several months.

21 EXAMINER STOGNER: Isn't that interest subject to  
22 the voluntary agreement of OXY?

23 MR. BRUCE: The interest in the southwest  
24 quarter, yes.

25 I would like to point out one thing regarding

1 Case 9333. We did not have the situation in that case  
2 where half the section was essentially drained or dry in  
3 the Morrow, and I believe there is provision in the federal  
4 rules to allow this regulation which Mr. Kellahin cited to  
5 be abrogated when it was in the interests of all concerned.

6 EXAMINER STOGNER: Mr. Bruce, do you recall or  
7 know -- I know we have it downstairs somewhere -- what the  
8 proration unit or the dedication of the Morrow production  
9 was in that northeast quarter of Section 33?

10 MR. BRUCE: I believe it was the north half.

11 MR. CARROLL: Mr. Bruce --

12 MR. BRUCE: Now, when that well was producing, I  
13 do know that KCS Medallion did not own an interest in that  
14 well.

15 MR. CARROLL: Mr. Bruce, this Penroc well,  
16 though, has that never produced, in the southeast quarter  
17 of 33?

18 MR. BRUCE: No, it did not. And it did penetrate  
19 the Morrow.

20 EXAMINER STOGNER: In your Case 11,926, Mr.  
21 Bruce, what -- could you tell me what you're requesting and  
22 how it's advertised?

23 MR. BRUCE: Yes, we were requesting pooling of  
24 the west half as to 320-acre zones, the southwest quarter  
25 as to 160-acre gas zones, although I do not know if there

1 were any pools in this area, the north half of the  
2 southwest quarter of the section for 80-acre spacing. This  
3 is within a mile, I believe, of the Old Millman Ranch-Bone  
4 Spring Associated Pool.

5 EXAMINER STOGNER: Okay. Now it is my  
6 understanding as far as 160-acre spacing, does KCS  
7 Medallion have interest in the southeast -- southwest  
8 quarter?

9 MR. BRUCE: Southwest. Yes, they do. And, Mr.  
10 Examiner, I was not aware of the operating agreement when I  
11 filed the Application, so I was, as usual, just asking for  
12 the usual...

13 EXAMINER STOGNER: What disturbs me too, you're  
14 asking that the Winchester-Wolfcamp be force pooled also.

15 MR. BRUCE: We withdraw that portion of the  
16 Application.

17 EXAMINER STOGNER: Are you prepared to withdraw  
18 the 160 and 80?

19 MR. BRUCE: We would only seek pooling of the  
20 320.

21 EXAMINER STOGNER: From the base of the Wolfcamp  
22 down?

23 MR. BRUCE: That is correct, sir.

24 MR. CARROLL: Mr. Kellahin, OXY is the successor  
25 interest to Penroc?

1 MR. KELLAHIN: Yes, sir.

2 MR. CARROLL: Exhibit A to this joint operating  
3 agreement shows -- It says 50 percent of the working  
4 interest in the south half?

5 MR. KELLAHIN: That's the original Exhibit A to  
6 the operating agreement. It doesn't show the current  
7 distribution of working interest ownership.

8 Historically what happened is, ARCO had the oil  
9 and gas lease. They farmed out to Penroc. Penroc drilled  
10 the well in the northwest of the southeast, I believe, and  
11 as a consequence of drilling that well earned an interest.

12 The interest for them divided, Penroc scattered  
13 its interest. OXY acquired some of Penroc's interest.  
14 ARCO's interest remains in place.

15 It is our information that, despite Mr. Bruce's  
16 representations to you, KCS Medallion has no valid interest  
17 in the south half. Under the operating agreement there are  
18 preferential rights to purchase and uniformity-of-interest  
19 provisions, all of which would trigger the situation where,  
20 if Medallion was seeking to acquire an interest from one of  
21 these working interest owners, they would have to offer  
22 that and notify it to OXY. We'd have the right to exercise  
23 the purchase of it. And OXY, in fact, would do so.

24 Be that as it may, though, the issue is whether  
25 or not, when you have this circumstance, if a third party

1 can come in and ask to pool a spacing unit that's not  
2 currently being produced in the south half. I think that's  
3 very dangerous. It disrupts the equities and impairs the  
4 correlative rights of those owners that are developing the  
5 south half. There's nothing in the statute that requires  
6 us to have actual production out of the Morrow.

7 MR. CARROLL: What's the case number of the  
8 Phillips-Santa Fe case?

9 MR. KELLAHIN: It's on the docket for today, it's  
10 on the last page.

11 MR. BRUCE: Yes, it's 11,887, Mr. Carroll.

12 I would state, Mr. Examiner, that the interest  
13 owners under the JOA are not having their correlative  
14 rights impaired. They'll be entitled to half the  
15 production from the well. Seeing as the southeast quarter  
16 is dry in the Morrow, that seems eminently fair.

17 EXAMINER STOGNER: Mr. Bruce, do you know if the  
18 north half of Section 33 is one common lease, one federal  
19 common lease?

20 MR. BRUCE: I have been informed that it is not  
21 one common federal lease.

22 EXAMINER STOGNER: Okay. Has the BLM been  
23 approached on the --

24 MR. BRUCE: I have not --

25 EXAMINER STOGNER: -- communitization agreement?

1 MR. BRUCE: -- so I don't -- At this point I'd  
2 have to say no, Mr. Examiner.

3 EXAMINER STOGNER: Mr. Kellahin --

4 MR. KELLAHIN: Yes, sir.

5 EXAMINER STOGNER: -- on Finding Number 17 on  
6 page 3, on February 12th OXY staked the well. What's the  
7 intent with that well?

8 MR. KELLAHIN: As a subsequent development in the  
9 south half, they're going to go ahead and drill a second  
10 well in there and see what happens.

11 It appears that the current well in the southeast  
12 quarter may, in fact, not have the potential to recover all  
13 of its costs, and with a second well pursuant to that joint  
14 operating agreement, then all those interest owners that  
15 paid for the first well will enjoy the opportunity to  
16 hopefully recover the costs of the first and the second  
17 well.

18 EXAMINER STOGNER: I'm not sure what you mean,  
19 drill a well and see what happens. Drill a well where?

20 MR. KELLAHIN: To the base of the Morrow. And  
21 that would expose, then, all of the 320 deep gas spacing  
22 units. So long as they're not concurrently produced, then  
23 I think that's permitted under Division rule.

24 EXAMINER STOGNER: What's the status of that APD  
25 with the BLM?

1 MR. KELLAHIN: The staking hasn't been approved,  
2 and I'm not sure that the APD has been filed. I know the  
3 APD has not yet been approved. The staking has been  
4 accomplished and approved, and OXY is going forward with  
5 plans to drill that well.

6 MR. CARROLL: And what is the exact location of  
7 that well?

8 MR. KELLAHIN: Here's the approved staking  
9 permit. It shows it to be 660 from the south line and 1825  
10 from the west line.

11 EXAMINER STOGNER: Mr. Bruce, when one approaches  
12 the BLM on consolidating the property --

13 MR. BRUCE: Uh-huh.

14 EXAMINER STOGNER: -- does a force-pooling  
15 provision have to be in effect before you even approach  
16 them?

17 MR. BRUCE: No, I think you can approach them at  
18 any time.

19 EXAMINER STOGNER: Okay. What I'd like to do is  
20 continue this case until March 19th. In the interim, I  
21 think the BLM needs to be approached. I'm wondering if  
22 they're even going to allow you to file an APD in this  
23 instance.

24 MR. BRUCE: We'll do that immediately, Mr.  
25 Examiner.

1 EXAMINER STOGNER: And also, I do know that the  
 2 provision that you're discussing, the federal provision  
 3 which was brought up, there is a -- if one can prove  
 4 geologically the necessity to consolidate acreage, with the  
 5 north half already being drained to that Penroc well,  
 6 that's another factor against that.

7 And now that OXY has voluntary agreement once of  
 8 a lease, and then a well also staked for the Morrow, I'm  
 9 wondering if the BLM -- This may be a moot issue with us at  
 10 this point.

11 So with that, this matter will be continued to  
 12 March 19th.

13 Mr. Bruce, anything further? Mr. Kellahin?

14 MR. BRUCE: No, sir.

15 MR. KELLAHIN: No, sir.

16 EXAMINER STOGNER: Okay. Mr. Kellahin --

17 MR. KELLAHIN: Sir.

18 EXAMINER STOGNER: -- could you get you get me a  
 19 full copy of that particular federal provision that  
 20 you're --

21 MR. KELLAHIN: Yes, sir.

22 EXAMINER STOGNER: -- talking about?

23 (Thereupon, these proceedings were concluded at  
 24 9:05 a.m.)

I do hereby certify that the foregoing is  
 a correct and true copy of the proceedings  
 \* \* \* the Examined herein on 11/26/98  
 heard by *[Signature]* February 11, 1998.

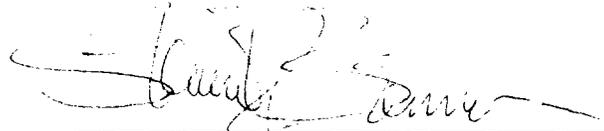
## CERTIFICATE OF REPORTER

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 February 20th, 1998.



STEVEN T. BRENNER  
 CCR No. 7

My commission expires: October 14, 1998