

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 DAVID H. ARRINGTON OIL)
AND GAS, INC., FOR COMPULSORY POOLING,)
LEA COUNTY, NEW MEXICO)

CASE NO. 11,994

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

July 9th, 1998

Santa Fe, New Mexico

OIL CONSERVATION DIV.
98 JUL 23 AM 8:27

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, July 9th, 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

July 8th, 1998
 Examiner Hearing
 CASE NO. 11,994

	PAGE
APPEARANCES	3
APPLICANT'S WITNESSES:	
<u>DALE DOUGLAS</u> (Landman)	
Direct Examination by Mr. Carr	7
Examination by Examiner Stogner	15
<u>BILL D. BAKER, JR.</u> (Geologist)	
Direct Examination by Mr. Carr	16
Examination by Examiner Stogner	21
REPORTER'S CERTIFICATE	24

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E X H I B I T S

Applicant's	Identified	Admitted
Exhibit 1	8, 9	15
Exhibit 2	9	15
Exhibit 3	10	15
Exhibit 4	11	15
Exhibit 5	13	15
Exhibit 6	17	21
Exhibit 7	18	21

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A P P E A R A N C E S

FOR THE DIVISION:

RAND L. CARROLL
Attorney at Law
Legal Counsel to the Division
2040 South Pacheco
Santa Fe, New Mexico 87505

FOR THE APPLICANT:

CAMPBELL, CARR, BERGE and SHERIDAN, P.A.
Suite 1 - 110 N. Guadalupe
P.O. Box 2208
Santa Fe, New Mexico 87504-2208
By: WILLIAM F. CARR

FOR JIMMY J. HOOPER and JERRY L. HOOPER:

ROBERT G. HOOPER
Roswell, New Mexico

ALSO PRESENT:

MARK W. ASHLEY
NMOCD Environmental Geologist
2040 South Pacheco
Santa Fe, New Mexico 87505

* * *

1 WHEREUPON, the following proceedings were had at
2 10:20 a.m.:

3
4 EXAMINER STOGNER: This hearing will come to
5 order.

6 At this time I'll call Case Number 11,994.

7 MR. CARROLL: Application of David H. Arrington
8 Oil and Gas, Inc., for compulsory pooling, Lea County, New
9 Mexico.

10 EXAMINER STOGNER: Call for appearances.

11 MR. CARR: May it please the Examiner, my name is
12 William F. Carr with the Santa Fe law firm Campbell, Carr,
13 Berge and Sheridan.

14 We represent David H. Arrington Oil and Gas,
15 Inc., in this matter, and I have two witnesses.

16 EXAMINER STOGNER: Any other appearances?

17 MR. HOOPER: **Robert G. Hooper on behalf of Jimmy**
18 **J. Hooper, appearing pro se.**

19 EXAMINER STOGNER: Any other appearances?

20 Mr. Hooper, are you going to be presenting
21 evidence --

22 MR. HOOPER: We --

23 EXAMINER STOGNER: -- or just making a statement?

24 MR. HOOPER: We just got through making a deal on
25 this.

1 EXAMINER STOGNER: Okay, well --

2 MR. HOOPER: So I just want to, I guess, go on
3 the record and say we've made a deal, and I really don't
4 need to be here.

5 MR. CARROLL: Mr. Hooper, I'm a little confused.
6 *Pro se* is on behalf of yourself, but you're appearing on
7 behalf of your uncle?

8 MR. HOOPER: Yeah, yeah, Jimmy Hooper.

9 MR. CARROLL: Do you have any objection, Mr.
10 Carr?

11 MR. CARR: No, I do not.

12 EXAMINER STOGNER: Well, in that case, I'm going
13 to have the two witnesses stand up and be sworn.

14 (Thereupon, the witnesses were sworn.)

15 MR. HOOPER: So I take it I'm through here?

16 MR. CARROLL: That's up to you.

17 MR. HOOPER: I have no objections to anything.
18 We have a deal, so I guess I'll leave.

19 EXAMINER STOGNER: Is that the only statement
20 that you wanted to make?

21 MR. HOOPER: Yes, that we've come to an
22 agreement.

23 EXAMINER STOGNER: Okay.

24 MR. CARROLL: And that's -- What's your uncle's
25 name again?

1 MR. HOOPER: Jimmy J. Hooper.

2 MR. CARROLL: Jimmy J. Hooper.

3 MR. HOOPER: And Jerry L. Hooper.

4 MR. CARROLL: And Jerry -- ?

5 MR. HOOPER: -- L. Hooper.

6 MR. CARROLL: Okay, Mr. Hooper, I just got a call
7 from Jerry Hooper. Now who's that?

8 MR. HOOPER: That's my father.

9 MR. CARROLL: So you have a deal for him too?

10 MR. HOOPER: Yes.

11 MR. CARROLL: Okay.

12 MR. HOOPER: You just got a call from him?

13 MR. CARROLL: About five minutes ago. If you
14 want to reach him at his Las Vegas number and tell him you
15 have a deal, I think he'd appreciate it.

16 MR. HOOPER: Okay, I'll call him right now.

17 MR. CARROLL: You can use my office, it's right
18 in there.

19 MR. HOOPER: Okay.

20 MR. CARROLL: Dial 9 to get out.

21 (Off the record)

22 EXAMINER STOGNER: Mr. Carr, I'll turn it over to
23 you.

24 MR. CARR: May it please the Examiner, our first
25 witness is Dale Douglas.

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DALE DOUGLAS,

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

DIRECT EXAMINATION

BY MR. CARR:

Q. Would you state your full name and place of residence.

A. Dale Douglas, Midland, Texas.

Q. By whom are you employed?

A. I'm an independent landman, performing some contract land duties for David Arrington.

Q. Have you previously testified before this Division?

A. No, sir, I have not.

Q. Could you summarize your educational background for Mr. Stogner?

A. Yes, sir, I attended Texas A&M and have a degree, I have a bachelor of science and a master of agricultural degree.

Q. And review your work experience.

A. I started in the land business in 1978, and have worked for two separate companies, and have been an independent for the last three years.

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

1 A. Yes, sir.

2 Q. Are you familiar with the status of the lands in
3 the area that is the subject of this Application?

4 A. Yes, sir, I am.

5 MR. CARR: Mr. Stogner, are Mr. Douglas's
6 qualifications as an expert in petroleum land matters
7 acceptable?

8 EXAMINER STOGNER: They are.

9 Q. (By Mr. Carr) Mr. Douglas, would you briefly
10 state what David H. Arrington Oil and Gas seeks with this
11 Application?

12 A. Yes, sir, an order pooling all minerals from the
13 surface to the base of the Morrow formation under the
14 following spacing units in Section 3, Township 16 South,
15 Range 35 East, of Lea County, New Mexico: Lots 9 through
16 16 for all formations developed on 320-acre spacing, Lots
17 11 through 14 for all formations developed on 160-acre
18 spacing, Lots 13 and 14 for all formations developed on
19 80-acre spacing, and Lot 14 for all formations developed on
20 40-acre spacing, to be dedicated to our Parachute Hopper
21 Well Number 1, to be drilled at a standard location 3510
22 feet from the south line and 1650 feet from the west line
23 of Section 3.

24 Q. Let's go to what has been marked Exhibit Number
25 1, four plats. Would you identify and review these for Mr.

1 Stogner?

2 A. Yes, sir, the first plat, the hached outline of
3 Section 3 in the center 320 acres is the Lots 9 through 16,
4 Lot 9 starting in the northeast corner of that rectangle.
5 That's the 320-acre unit.

6 The second plat shows in a hached box Lots 11,
7 12, 13 and 14, which would be the 160-acre unit.

8 The third plat with Lots 13 and 14 would be the
9 proration -- or the unit for an 80-acre spacing.

10 And then the fourth plat shows Lot 14 for the 40-
11 acre spacing, all marked similarly with a hached box.

12 Q. What is the primary objective for the proposed
13 well?

14 A. The Morrow formation in the Townsend-Morrow Gas
15 Pool.

16 Q. Let's go to what has been marked Exhibit Number
17 2. Would you identify and review this for the Examiner,
18 please?

19 A. Yes, sir, what I've prepared here is, I have
20 broken down ownership as to the various lots under the four
21 different scenarios, the 320-acre unit, the 160, the 80 and
22 the 40, and I have listed the ownership name, the current
23 status of that interest and what the percentage
24 participation in that particular unit would be.

25 Q. What percentage of the working interest is

1 voluntarily committed to the proposed well?

2 A. 74.3 percent.

3 Q. And is that in the 320-acre unit?

4 A. Yes, sir, it is.

5 Q. Would that be the same in the other spacing
6 units?

7 A. It would be the same for the 160-acre unit.

8 Q. In the 80- and 40-acre units, what is the
9 percentage commitment? Could you just identify those who
10 are not in?

11 A. Yes, sir, I can. In the 80-acre unit, the A.L.
12 Cone Partnership, Jerry Hooper and Jimmy J. Hooper are
13 listed as uncommitted. Under the 40-acre unit, the same
14 three parties are uncommitted to that 40 as well.

15 Q. And is it your understanding that there now is an
16 agreement with the Hooper interests?

17 A. That's correct.

18 Q. Let's go to Exhibit Number 3, the AFE for the
19 proposed well. Could you identify that, please?

20 A. Yes, sir, this is the AFE prepared for the
21 drilling of the Parachute Hopper Well Number 1, which is a
22 12,200-foot Morrow test.

23 Q. And what are the totals as reflected on this
24 exhibit for a completed well?

25 A. The total completed well costs are \$1,051,302.

1 Q. Are these costs in line with what's charged for
2 similar wells in this area?

3 A. Yes, sir, we believe they are.

4 Q. Can you refer to Exhibit Number 4 and summarize
5 the efforts you've made to obtain a voluntary joinder in
6 this project from all interest owners in the subject
7 spacing unit?

8 A. Yes, sir. We had -- In September of 1997 we
9 began our land work here, acquiring oil and gas leases. We
10 required oil and gas leases from all the parties, with the
11 exception of those -- the unleased mineral interests, I
12 should say, with the exception of the ones that I just
13 previously mentioned.

14 Through both phone calls and written letters
15 attempting to acquire the leases, we made proposals to
16 lease the unleased mineral owners or the -- asked them to
17 participate in the drilling of the well, submitted an AFE
18 to them.

19 We -- After several conversations, it was fairly
20 evident that we were not going to reach an agreement with
21 all parties, so we made a formal proposal which we sent out
22 certified mail.

23 All of the unleased or uncommitted interest
24 owners to this 320-acre spacing unit received these
25 letters, as evidenced by the return receipt, which was

1 executed by all parties.

2 Q. In your opinion, have you made a good-faith
3 effort to reach an agreement with all interest owners in
4 the property?

5 A. Yes, sir, we have.

6 Q. I think it might be helpful if we put on the
7 record generally the efforts that were made to provide
8 notice to the Cone interests.

9 You contacted them initially concerning the well,
10 did you not?

11 A. That's correct.

12 Q. When actually notice of this hearing was
13 provided, it was provided to a Roswell address?

14 A. The Hooper interests --

15 Q. Yes.

16 A. -- are you referring to?

17 Q. Yes.

18 A. You stated the Cone interests.

19 Q. I'm sorry, I meant Hooper interests.

20 A. Yes, the two -- Jerry Hooper and Jerry Hooper
21 interests were provided to a Roswell address.

22 Q. And the Jimmy Hooper?

23 A. And the Jimmy Hooper, yes, sir.

24 The Jerry Hooper address was a post office box
25 which was listed on a June 12th, 1995, oil and gas lease.

1 It was returned. His forwarding order had expired. I then
2 obtained a street address for Mr. -- for Jerry Hooper in
3 Roswell, and this offer letter was picked up and signed.

4 Q. So the address that you used, that was used to
5 provide notice of today's hearing, is an address to which
6 you have been able to communicate with Mr. Jerry Hooper in
7 the past?

8 A. That's correct.

9 Q. And how recently were you able to contact Mr.
10 Hooper at that address?

11 A. At the address, the last effort we made to reach
12 him at that particular address was when this letter was
13 mailed out, which was May the 21st.

14 Q. And was the May 21st letter accepted at that
15 address?

16 A. Yes, sir, it was.

17 Q. Is Exhibit Number 5 a copy of an affidavit
18 confirming that notice of the hearing was provided in
19 accordance with Oil Conservation Division rules?

20 A. Yes, sir, it is.

21 Q. And there's a returned letter in there from Jerry
22 L. Hooper and wife. Is that the address, 105 West 3rd
23 Street, in Roswell, at which you were able to communicate
24 with him the latter part of May of this year?

25 A. Yes, sir, it is.

1 Q. Okay. Have you made an estimate of the overhead
2 and administrative costs to be incurred while drilling the
3 well and also while producing it if it is successful?

4 A. Yes, sir, our estimates are \$5600 a month for the
5 drilling well rate and \$560 a month for the producing well
6 rate.

7 Q. And what is the source of those figures?

8 A. It's based upon Arrington's experience in
9 operating, the costs associated with those, as well as
10 comparison with the figures that are supplied in the Ernst
11 and Young survey.

12 Q. And are they consistent with the Ernst and Young
13 figures?

14 A. Yes, they are.

15 Q. For what year?

16 A. It was year 1996, which is the most current
17 available, I believe.

18 Q. Do you recommend that these figures be
19 incorporated into the order that results from today's
20 hearing?

21 A. Yes, sir, I do.

22 Q. Will Arrington also call a technical witness to
23 review the portions of this case which relate to the risk
24 associated with drilling the well?

25 A. Yes, sir.

1 Q. Were Exhibits 1 through either prepared by you or
2 compiled under your direction?

3 A. They were compiled by the geologist, Bill Baker.

4 Q. And you --

5 A. Oh, 1 through 5, yes, sir, those were prepared
6 under my direction.

7 MR. CARR: At this time, Mr. Stogner, we'd move
8 the admission into evidence of Arrington Exhibits 1 through
9 5.

10 EXAMINER STOGNER: Exhibits 1 through 5 will be
11 admitted into evidence at this time.

12 MR. CARR: That concludes my direct examination
13 of this witness.

14 EXAMINATION

15 BY EXAMINER STOGNER:

16 Q. Let me make sure on Exhibit Number 2, of the
17 parties that you're requesting to be force-pooled today, or
18 at this point, until agreements. That's the A.L. Cone, the
19 Jerry Hooper and the Jimmy Hooper? Is there any others in
20 that 320 or 160?

21 A. There are two other interests that agreements
22 have been reached, but the formal documents have not been
23 executed yet.

24 Q. And who was that for?

25 A. And those would be Bristol Resources, which --

1 and Mark L. Shidler, Inc --

2 Q. Okay.

3 A. -- and those two interests are on the 320 and the
4 160, so --

5 Q. Okay. But not in the 80 or 40?

6 A. That's correct.

7 EXAMINER STOGNER: No other questions of this
8 witness. You may be excused.

9 THE WITNESS: Thank you, sir.

10 MR. CARR: Mr. Stogner, at this time we would
11 call Mr. Bill Baker.

12 BILL D. BAKER, JR.,

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

15 DIRECT EXAMINATION

16 BY MR. CARR:

17 Q. Would you state your name and place of residence?

18 A. Bill D. Baker, Jr., Midland, Texas.

19 Q. By whom are you employed?

20 A. David H. Arrington Oil and Gas.

21 Q. And what is your current position with Mr.
22 Arrington?

23 A. I'm exploration manager.

24 Q. Have you previously testified before this
25 Division or one of its Examiners and had your credentials

1 as an expert witness in petroleum geology accepted and made
2 a matter of record?

3 A. Yes, sir, they have.

4 Q. Are you familiar with the Application filed in
5 this case?

6 A. Yes, sir, I am.

7 Q. Have you made a technical study of the area which
8 is the subject of this Application?

9 A. Yes, sir, I have.

10 Q. And are you prepared to share the results of that
11 study with Mr. Stogner?

12 A. Yes, sir.

13 MR. CARR: Are the witness's qualifications
14 acceptable?

15 EXAMINER STOGNER: They are.

16 Q. (By Mr. Carr) Mr. Baker, let's go to what has
17 been marked David H. Arrington Oil and Gas Exhibit Number
18 6. I'd ask you to identify this and review it for the
19 Examiner.

20 A. Okay, this is an isopach map of what I call the
21 lower Atoka Townsend sand, which is one of the principal
22 producing horizons in the area. These are north-south-
23 trending distributary channel systems, generally a quarter
24 to half-mile wide, very prolific when you can find them,
25 but extremely risky.

1 This particular exhibit right here shows that
2 there appears to be two sands in the immediate area. Both
3 of them are trending north and south. From the well
4 control that we have and a cross-section that I will show
5 you in just a minute, we believe that these sands come in a
6 north-south orientation out of Section 10, across the west
7 half of Section 3.

8 I guess that's about all I have.

9 Q. Okay. On this exhibit is a trace for a
10 subsequent cross-section?

11 A. Yes, sir, cross-section A-A', it's a three-well
12 cross-section.

13 Q. Is that Exhibit 7?

14 A. Yes, sir, it is.

15 Q. Would you review that for the Examiner?

16 A. Okay. Well, like I say, this is a stratigraphic
17 cross-section showing the -- what I consider to be the
18 Atoka interval, through Section 3.

19 If you'll look at cross-section A-A', we'll begin
20 on the left-hand side, which is the Wilshire Townsend
21 Number 1. This well was drilled in 1952. It was drilled
22 deep enough to go into the top of the Morrow limestone.

23 It ultimately produced from the Wolfcamp-Townsend
24 pay interval, but in doing so it did encounter what I
25 consider to be about six feet of ratty, silty lower Atoka

1 sand. It does not appear to have any net porosity, but
2 this is very indicative of an edge channel system.

3 If you will move on to the second well within the
4 cross-section, this is the Bridge Chevron State Number 1,
5 and this well was drilled as a Morrow -- or a Mississippian
6 test, excuse me, a Mississippian test, in 1991, and it did
7 not encounter any Atoka sands, as the cross-section clearly
8 showed. It has all shale in there.

9 From there you move into our proposed location
10 where we hope to encounter about 20 feet of lower Atoka
11 channel system.

12 After that, the last well in the cross-section on
13 the far right-hand side is the Mesa Townsend State Number
14 1. This well was drilled in 1985, I believe, as an Atoka-
15 Strawn test. It was ultimately completed in the
16 Mississippian formation. They encountered about two feet
17 of the lower Atoka-Townsend pay interval.

18 Once again, I believe this defines the edge of
19 the channel system, and so what I think I've done with this
20 cross-section right here is show the western edge of the
21 channel system as well as the eastern edge of the channel
22 system and where we hope to encounter the thick part of the
23 sand.

24 Q. Are you prepared to make a recommendation to the
25 Examiner concerning the risk penalty that should be

1 assessed against any interest that remains nonconsent?

2 A. Yes, sir, and I think that should be around 200
3 percent.

4 Q. And just summarize the basis for that
5 recommendation.

6 A. I think the basis for the risk in here is due to
7 the extreme stratigraphic nature of these channel systems.
8 Because of the three wells in here it's very apparent that
9 it's a highly risky geological target.

10 Q. Is it your opinion that you could drill a well at
11 the proposed location that would not be a commercial
12 success?

13 A. Yes, sir, we could.

14 Q. Does David H. Arrington Oil and Gas, Inc., seek
15 to be designated the operator?

16 A. Yes, sir.

17 Q. In your opinion, will granting this Application
18 be in the best interest of conservation --

19 A. Yes, sir.

20 Q. -- the prevention of waste and the protection of
21 correlative rights?

22 A. Yes, sir.

23 Q. Were Arrington Exhibits 6 and 7 prepared by you?

24 A. Yes, sir, they were.

25 MR. CARR: At this time, Mr. Stogner, I would

1 move the admission into evidence of Arrington Exhibits 6
2 and 7.

3 EXAMINER STOGNER: Exhibits 6 and 7 will be
4 admitted into evidence.

5 MR. CARR: And that concludes my direct
6 examination for Mr. Baker.

7 EXAMINATION

8 BY EXAMINER STOGNER:

9 Q. What's the proposed TD for this well?

10 A. 12,200, sir.

11 Q. That will take you down into the Morrow; is that
12 correct?

13 A. Yes, sir, we're planning to target the Morrow,
14 what I consider to be the Morrow limestone.

15 Q. Okay. And looking at Exhibit Number 6 there
16 seems to be some -- at least some oil tests --

17 A. Yes, sir.

18 Q. -- shallower. What is the primary production
19 from those intervals?

20 A. All of those wells in there produce from the
21 Townsend-Wolfcamp pay interval. There are a few wells that
22 also penetrated through the Strawn in there, but none of
23 them are Strawn producers. It's all Wolfcamp, with the
24 exception of that Mesa Petroleum Townsend well, which is a
25 Mississippian producer; that's what it's classified as.

1 Q. How about the Strawn in the upper Pennsylvanian?
2 Is that prolific in this area, or is that too far back up
3 to the north and --

4 A. Well --

5 Q. -- west of some of that northeast Lovington-Penn?

6 A. -- obviously, if you move one section over, in
7 Section 2 where the Big Dog field is currently being
8 developed by Yates Petroleum and Ocean, those are some
9 fairly prolific wells. And of course one section further
10 to the east, you get into the West Lovington field, which
11 is Gillespie's field, which we know is very prolific.

12 We see the Strawn as a potential target here, but
13 as you move to the west the Strawn is thinning, it is
14 getting much thinner as far as the algal mound, system,
15 i.e., we really don't know what type of reserves to expect
16 when we do encounter it there.

17 Q. Your drilling cost, is that normal for this area
18 out here?

19 A. Yes, sir, we believe so from the wells that have
20 been drilled in the area. I think it's -- under normal
21 drilling situations it should be --

22 Q. -- successfully well drills?

23 A. -- successfully drilled wells.

24 Q. With no problems?

25 A. With no problems, yes, sir.

1 EXAMINER STOGNER: Anything further in this
2 matter?

3 MR. CARR: Nothing further, Mr. Stogner.

4 EXAMINER STOGNER: Okay, then does anybody else
5 have anything further in Case Number 11,994?

6 Then this matter will be taken under advisement.

7 (Thereupon, these proceedings were concluded at
8 10:42 a.m.)

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15 I do hereby certify that the foregoing is
16 a complete and correct transcript of the proceedings in
the Examination of Case No. 11994.
17 heard by me on July 1998.
18 [Signature], Examiner
ON Conservation Division

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25

CERTIFICATE OF REPORTER

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

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

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

WITNESS MY HAND AND SEAL July 13th, 1998.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 14, 1998