

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 SHACKELFORD OIL COMPANY)
FOR COMPULSORY POOLING, LEA COUNTY,)
NEW MEXICO)

CASE NO. 12,103

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MARK ASHLEY, Hearing Examiner

January 7th, 1999

Santa Fe, New Mexico

OIL CONSERVATION DIV.
99 JAN 21 PM 2:42

This matter came on for hearing before the New Mexico Oil Conservation Division, MARK ASHLEY, Hearing Examiner, on Thursday, January 7th, 1999, 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

January 7th, 1999
 Examiner Hearing
 CASE NO. 12,103

	PAGE
APPEARANCES	3
APPLICANT'S WITNESSES:	
<u>DON SHACKELFORD</u> (President, Shackelford Oil Company; Landman)	
Direct Examination by Mr. Carr	5
Examination by Mr. Bruce	17
Examination by Examiner Ashley	18
Examination by Mr. Carroll	20
<u>BOB SHACKELFORD</u> (Geologist)	
Direct Examination by Mr. Carr	23
Examination by Mr. Bruce	28
Examination by Examiner Ashley	29
REPORTER'S CERTIFICATE	32

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E X H I B I T S

Applicant's	Identified	Admitted
Exhibit 1	7	16
Exhibit 2	8	16
Exhibit 3	10	16
Exhibit 4	11	16
Exhibit 5	25	28

* * *

A P P E A R A N C E S

FOR THE DIVISION:

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FOR THE APPLICANT:

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Santa Fe, New Mexico 87504-2208
By: WILLIAM F. CARR

FOR SAMSON RESOURCES COMPANY;
NEARBURG EXPLORATION COMPANY, L.L.C.;
and EGL RESOURCES, INCORPORATED:

JAMES G. BRUCE, Attorney at Law
612 Old Santa Fe Trail, Suite B
Santa Fe, New Mexico 87501
P.O. Box 1056
Santa Fe, New Mexico 87504

* * *

1 WHEREUPON, the following proceedings were had at
2 8:56 a.m.:

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5
6 EXAMINER ASHLEY: The Division now calls Case
7 12,103.

8 MR. CARROLL: Application of Shackelford Oil
9 Company for compulsory hearing, Lea County, New Mexico.

10 EXAMINER ASHLEY: 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 Shackelford Oil Company in this
15 matter, and I have two witnesses.

16 EXAMINER ASHLEY: Any additional appearances?

17 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe,
18 representing Samson Resources Company; Nearburg Exploration
19 Company, L.L.C.; and EGL Resources, Incorporated.

20 I do not have any witnesses.

21 EXAMINER ASHLEY: Any additional appearances?

22 Mr. Carr?

23 MR. CARROLL: Will the witnesses please stand to
24 be sworn?

25 (Thereupon, the witnesses were sworn.)

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DON SHACKELFORD,

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 name for the record, please?

A. Don Shackelford.

Q. Mr. Shackelford, where do you reside?

A. Seminole, Texas.

Q. By whom are you employed?

A. Shackelford Oil Company.

Q. And what is your president -- What is your
position with Shackelford Oil Company?

A. President.

Q. As president of this company, what do you do?

A. Like most small independents, just about
everything.

Q. In your role with the company, are you the person
who does the land work for your company?

A. Yes.

Q. Have you previously testified before this
Division?

A. No.

Q. Could you review your educational background for
Mr. Ashley?

1 A. BBA, MBA from Eastern New Mexico University.

2 Q. And what is your profession?

3 A. CPA.

4 Q. Would you now review your job experience and
5 focus on the jobs that you have held in which you were
6 involved with the oil and gas industry?

7 A. I was vice president of finance for a NASDAC-
8 traded oil and gas company, Tucker Drilling Company;
9 executive vice president for a New York Stock Exchange oil
10 and gas company, Syntex Oil and Gas; president and co-owner
11 of an independent oil company, Canyon Energy, Inc.;
12 president and owner of Shackelford Oil Company; executive
13 vice president of Woodbine Petroleum, a NASDAC-traded oil
14 and gas company.

15 Q. When did you form Shackelford Oil Company?

16 A. About 1983.

17 Q. And for what period of time have you been
18 involved with the oil and gas business?

19 A. Since about 1973.

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

22 A. Yes, sir.

23 Q. And are you familiar with the status of the lands
24 which are the subject of this pooling Application?

25 A. Yes, sir.

1 MR. CARR: Mr. Ashley, at this time we would
2 tender Don Shackelford as a practical oil man.

3 EXAMINER ASHLEY: Mr. Bruce?

4 MR. BRUCE: No objection.

5 EXAMINER ASHLEY: Mr. Shackelford is so
6 qualified.

7 Q. (By Mr. Carr) Mr. Shackelford, would you
8 summarize for the Examiner what it is that you seek with
9 this Application?

10 A. We wish to pool from the surface to the base of
11 the Delaware formation underlying the southeast southeast
12 of Section 3, Township 20 South, Range 33 East, for a 40-
13 acre spacing and proration unit for all formations.

14 Q. And this spacing unit will be dedicated to an oil
15 well drilled at a standard location?

16 A. That's correct.

17 Q. Have you prepared exhibits for presentation in
18 this hearing?

19 A. Yes, sir.

20 Q. Let's refer to what has been marked for
21 identification as Shackelford Exhibit 1, and I'd ask you to
22 identify this and then just briefly state what this shows.

23 A. It shows our proration unit of the 40 acres,
24 southeast southeast of Section 3.

25 Q. The well is not spotted on this exhibit. What is

1 the proposed footage location for the well?

2 A. 330 from the south and 330 from the east.

3 Q. And what will be the name of the well?

4 A. Tonto Federal Number 3.

5 Q. Tonto Federal Number 3?

6 A. Yes, sir.

7 Q. The status of the lands that you are pooling are
8 all federal lands?

9 A. That's correct.

10 Q. And what will be the primary objective in the
11 well?

12 A. Delaware.

13 Q. Let's go to Exhibit Number 2. Would you review
14 the information on this exhibit for Mr. Ashley?

15 A. According to the record, the ownership is Samson
16 Resource Company, 75 percent working interest. Shackelford
17 Oil Company, through a farmout, has 18.611-percent working
18 interest; Merit Energy Partners 6.389-percent working
19 interest.

20 Q. Now, there are other parties who are interested
21 in the case, namely Nearburg and EGL?

22 A. That's correct.

23 Q. And what is your understanding of their
24 involvement, very briefly?

25 A. Based on information provided us on December 14th

1 from the landman of Samson Resources, Jay Miller, Samson
2 had entered into an agreement to -- with Nearburg, related
3 to the south half of the Section 3.

4 Q. And so their interest springs from a recent
5 agreement with Samson?

6 A. Right.

7 Q. What percentage of the acreage is voluntarily
8 committed to the proposed well?

9 A. The interest that we own.

10 Q. And so 18.61 percent?

11 A. That's correct.

12 Q. What is the -- just in summary form, the status
13 of the Nearburg/EGL interest?

14 A. We've had discussions with Duke Roush, the
15 landman at Nearburg, and he's talked with EGL, and they
16 both have said they're going to agree to -- come to an
17 agreement with us.

18 Q. At this time, though, you have no formal
19 agreement?

20 A. That's correct.

21 Q. What about Samson? Have you been talking with
22 Samson?

23 A. We've talked to Samson a number of times, and
24 they've indicated to us also that they would attempt to
25 work a transaction with us.

1 Q. Could you identify Shackelford Oil Company
2 Exhibit Number 3?

3 A. Is that the AFE?

4 Q. Yes.

5 A. That's our proposed AFE for the drilling of the
6 Tonto Federal Number 3.

7 Q. And what are the totals as set forth on this AFE?

8 A. The total dryhole cost was \$317,748, and total
9 well cost \$546,438.

10 Q. Is this proposed well located within the potash
11 area as defined by the Oil Conservation Division?

12 A. Yes, it is.

13 Q. And does this AFE include costs associated with
14 the casing requirements that are necessary to comply with
15 the Division rules for wells drilled within the potash
16 area?

17 A. Yes, we've met with the engineer at the BLM
18 office in Carlsbad previously and discussed the casing
19 program that we were recommending here, which is the same
20 as the program that was -- for the Tonto Federal Number in
21 Section 10.

22 Q. And have they concurred that the casing program
23 is appropriate?

24 A. They have told us that if we filed our
25 Application on that basis, that it would be acceptable.

1 Q. If there were any other additional casing
2 requirements imposed by the OCD, you're willing to comply
3 with those, are you not?

4 A. That's correct.

5 Q. Let's now review the efforts you have made to
6 reach voluntary agreement for the development of this well,
7 and in doing this I'd suggest that you refer to Shackelford
8 Exhibit Number 4 and then just summarize your efforts.

9 A. We've had a number of conversations with Samson
10 Resources, beginning back in April 22nd of 1997, where we
11 talked to their landman at that time for New Mexico, Brian
12 Exline, and proposed to acquire all their right, title and
13 interest in the southeast quarter of that section.

14 Then had another letter on September 19th of the
15 same year, requesting to acquire all right, title and
16 interest in the section, entire Section 3.

17 On August 3rd, 1998, we sent a letter to Jay
18 Miller, who is the new landman for New Mexico, proposing to
19 drill the well and to -- we gave them various options, term
20 assignment, purchase, farmout, and also at that time stated
21 that one of the alternatives was that we would go through
22 the pooling proceeding and/or that they could participate
23 their interest.

24 And then on November 30th we filed certified
25 letters to Samson and Merit, enclosing our Application for

1 pooling and AFE.

2 And then on December the 18th we filed certified
3 letters to Nearburg. At the time we didn't know -- I'd
4 talked only to Duke Roush. There's no evidence of record
5 related to the Nearburg interest, nor the EGL interest, and
6 I talked to Duke Roush on the 14th or 15th of December. We
7 were to originally have the hearing on December 17th.

8 At that time, the -- he was telling he was
9 telling me that Wes Perry had an interest through some
10 contractual arrangement that they had for the entire
11 section. He wasn't exactly certain exactly what it was, in
12 the south half. And I wasn't certain what the entity was,
13 the Perry interest that we were talking about.

14 So at that time I just knew Perry and Perry, was
15 who we were talking to. So I filed my letter to Perry and
16 Perry in that circumstance and had tried -- and in my
17 letter with Nearburg, and indicated that I had tried to
18 touch base with him again, to try to determine who that
19 interest was with.

20 And I have had personal visits with Samson on
21 April 20th, 1998, discussing this, in Tulsa. I've had
22 conversations with Theresa Wyrich of Merit Energy Partners,
23 the other owner in there, on March 25th, related to a
24 possible part purchase or farmout of their interest.

25 On March 28th, 1998, she called me back and

1 discussed that they would not be interested in selling or
2 farming out at the current time. And then I discussed that
3 we wanted to drill in the southeast and the possibility of
4 compulsory pooling at that point.

5 Then on November 15th, 1998, I had a meeting with
6 Jay Miller regarding our August 3rd letter in Tulsa. We
7 raised our offer to purchase the acreage that they had
8 there to \$150 per acre, and Mr. Miller indicated he would
9 give us an answer within 30 days.

10 I told him, just as a matter of course, that we
11 were going to go ahead and begin the pooling proceedings in
12 case it didn't -- they decided not to do something with us,
13 and that was the most recent.

14 Q. In addition --

15 A. And we continued to talk up through yesterday.

16 Q. In addition to the items set forth on the cover
17 page of Exhibit 4, you've had a number of telephone
18 conversations with Samson?

19 A. Yes, I've had phone conversations, probably four
20 or five different people at Samson Resources, including
21 their geologists and engineer and the three land people
22 that have been involved in this area.

23 Q. Now, copies of the letters you referenced are
24 attached to this exhibit; is that correct?

25 A. Yes, sir, it is.

1 Q. Was the August 3rd letter the first time you
2 formally proposed the well which is the subject of this
3 hearing?

4 A. That's correct.

5 Q. And at that time did you also provide Samson with
6 an AFE for the well?

7 A. I did.

8 Q. On November 30 when you -- did you -- the letter
9 that is attached that was sent to Merit and to Samson --

10 A. Right.

11 Q. -- you included the Application for this hearing?

12 A. Right.

13 Q. And did that Application state that you were
14 requesting a hearing on December the 17th?

15 A. It did.

16 Q. And why was the hearing continued?

17 A. At the request of both Samson and Nearburg, they
18 called us and talked about it and asked if we would move
19 the time frame back a little bit, and I told them that we
20 had agreed to go to January 7th at that time.

21 Q. When you --

22 A. You talked to their attorney also at that point.

23 Q. When you talked with Duke Roush on December the
24 14th about the Nearburg interest, was it your understanding
25 from that call that the agreement with Samson, the Nearburg

1 agreement with Samson, had it been finalized at that time?

2 A. No, it had not.

3 Q. By letter of December 18, did you advise Nearburg
4 and Perry and Perry of the January 7 hearing date?

5 A. Yes, I did.

6 Q. And when you notified Perry and Perry, that's how
7 you were notifying the EGL interest?

8 A. Right, I wasn't sure who EGL was, and he just
9 said Wes Perry had an interest, and I didn't have any of
10 the information to tell me who that person was, who that
11 entity was.

12 Q. Is it your understanding that you have notified
13 the principals of EGL?

14 A. Yes.

15 Q. And the notice of the hearing, both the November
16 letter and the December 18, that they were provided by
17 certified mail?

18 A. Yes, sir.

19 Q. Have you made an estimate of the overhead and
20 administrative costs that will be incurred while drilling
21 the well and also while producing it, if it is successful?

22 A. Yes, sir.

23 Q. And what are those numbers?

24 A. \$4500 for drilling and \$450 for producing.

25 Q. And are these figures in line with the figures

1 from the Ernst and Young survey for wells to this depth in
2 southeast New Mexico?

3 A. They are.

4 Q. Do you recommend that these figures be
5 incorporated into the order that results from today's
6 hearing?

7 A. Yes, I do.

8 Q. Does Shackelford Oil Company seek to be
9 designated operator of the proposed well?

10 A. Yes, we do.

11 Q. Will you call a geological witness to review the
12 risk associated with the drilling of the proposed well?

13 A. Yes, sir.

14 Q. Were Exhibits 1 through 4 either prepared by you
15 or compiled under your direction and supervision?

16 A. They were.

17 MR. CARR: At this time, Mr. Ashley, we would
18 move the admission into evidence of Shackelford Oil Company
19 Exhibits 1 through 4.

20 EXAMINER ASHLEY: Exhibits 1 through 4 will be
21 admitted into evidence at this time.

22 MR. CARR: And that concludes my direct
23 examination of Mr. Don Shackelford.

24 EXAMINER ASHLEY: Mr. Shackelford, on Exhibit

25 2 --

1 MR. CARROLL: Jim, do you have any questions?

2 EXAMINER ASHLEY: Mr. Bruce? Excuse me.

3 MR. BRUCE: Just a few, thank you, Mr. Examiner.

4 First of all, Mr. Examiner, I would like to state
5 that regarding the notice to EGL, Inc., we consider the
6 notice to Perry and Perry sufficient. We don't have a
7 problem with that, even though the specific company wasn't
8 named.

9 EXAMINATION

10 BY MR. BRUCE:

11 Q. Mr. Shackelford, what is the footage location for
12 this?

13 A. 330 from the south and 330 from the east.

14 Q. 330 and 330?

15 A. Yes, sir.

16 Q. Has an APD been filed with the Bureau of Land
17 Management for this well?

18 A. No, sir, it has not yet.

19 Q. Has -- Is there any potash lessee in this area
20 that needs to be notified?

21 A. I'd have to look back and see who the potash
22 lessee is.

23 Q. And then just one other question: What casing
24 size will you be using on this one?

25 A. We were -- had a surface casing of 13 3/8, the

1 intermediate casing 8 5/8, and the production string 5 1/2.

2 MR. BRUCE: That's all I have, Mr. Examiner.

3 EXAMINATION

4 BY EXAMINER ASHLEY:

5 Q. Mr. Shackelford, I'm looking at Exhibit Number
6 2 --

7 A. Yes, sir.

8 Q. -- and could you go over the breakdown of the
9 Samson Resource that's been broken down between -- is it
10 Nearburg?

11 A. Nearburg, EGL and Samson. My understanding --
12 And I think they now have an executed agreement between
13 Nearburg and Samson. I think it was executed shortly
14 before Christmas.

15 My understanding is that Samson retained 40
16 percent of the interest that they had, of the 75 percent,
17 60 percent of the interest went to Nearburg, and there was
18 an arrangement -- Nearburg has recently had a proposal to
19 drill the well that would be a directional well starting in
20 the south half of this section, into the north half, that I
21 think you heard here not long ago.

22 And I don't -- I'm still not sure exactly what
23 the EGL arrangement is.

24 MR. BRUCE: Mr. Examiner, I think EGL gets 12 1/2
25 percent of the Nearburg interest.

1 THE WITNESS: Okay.

2 Q. (By Examiner Ashley) And is Perry and Perry part
3 of EGL?

4 A. I think Wes Perry is the owner -- or is the
5 president of EGL, is my understanding.

6 MR. BRUCE: They're probably related entities.

7 THE WITNESS: Right.

8 MR. BRUCE: I'm not sure of the exact connection.

9 Q. (By Examiner Ashley) Okay. Now, you mentioned
10 this is a well that's being drilled in the potash area?

11 A. Yes, sir.

12 Q. And the BLM has accepted your casing plan, but
13 you do not currently have an approved APD --

14 A. That's right, we have not filed an APD at the
15 current time. We're in the process of putting together
16 exhibits and so forth to file that APD. But the well to
17 the south in Section 10 has the same casing program which
18 we had.

19 Q. Okay. Have you notified the State Land Office
20 about the drilling in the potash?

21 A. No, we have not.

22 Q. Okay. And any potash lessees in there, you have
23 not notified them?

24 A. No, we have not.

25 EXAMINER ASHLEY: Okay. Mr. Carr, can you

1 provide that information?

2 MR. CARR: Mr. Ashley, what we'll do is, we'll
3 confirm the status of the potash leases in the area, and I
4 will advise you.

5 We'll either provide notice in time for a --
6 before we continue it, or advise you that notice has been
7 provided. But I will cover that and respond to you by
8 letter following the hearing.

9 EXAMINER ASHLEY: Okay.

10 EXAMINATION

11 BY MR. CARROLL:

12 Q. Mr. Shackelford, I have a couple questions
13 regarding Merit.

14 A. Uh-huh.

15 Q. You met with Theresa Wyrich in March?

16 A. Right.

17 Q. You met with her twice?

18 A. I had a conversation with her. I did not meet
19 with her.

20 Q. You didn't meet with her either date, the 25th or
21 28th of March?

22 A. No.

23 Q. You just talked to her on the phone?

24 A. Correct.

25 Q. And you never sent anything in writing to her

1 prior to November 30th --

2 A. No.

3 Q. -- the certified letter with the Application?

4 Do you have a return receipt for the November
5 30th --

6 A. I'd have to look back in my files and see whether
7 I do or not.

8 MR. CARROLL: I'm just curious -- Mr. Bruce,
9 you're not representing Merit today, right?

10 MR. BRUCE: No, sir.

11 THE WITNESS: In my conversations with -- recent
12 conversations with Merit, I talked with Theresa Wyrich
13 again, oh, probably in December --

14 MR. CARROLL: Uh-huh.

15 THE WITNESS: -- and she said that they were just
16 going to go ahead and go through the -- let the pooling
17 order go through and accept it on that basis, that they
18 weren't going to do anything else.

19 Q. (By Mr. Carroll) Oh, so you had a conversation
20 with her that's not on this sheet?

21 A. Yes, sir. After we originally -- have the
22 hearing on December 17th I discussed it with her, and she
23 told me that she had talked to her people at her office
24 once again, and the had decided that they wouldn't --
25 didn't want to do a farmout or do anything like that, it

1 was a small interest, that they would just go through the
2 approving procedures, is what she had indicated to me.

3 Q. Okay, can you provide us with that return
4 receipt --

5 A. Yes, sir.

6 Q. -- or that certified letter of November 30th?

7 That's all I have.

8 Mr. Shackelford, did you testify you didn't know
9 whether there was a potash lessee for this acreage?

10 A. I don't know that. I probably have it in my
11 files, but I don't recall that, yes, sir.

12 Q. But this is in the potash area?

13 A. Yes, it is.

14 MR. CARROLL: Mr. Carr, do you have any --

15 MR. CARR: I think what we have to do is continue
16 the case for four weeks and put it on the docket four weeks
17 from now.

18 I can provide an affidavit that will confirm the
19 identity of the lessee, if there is one. I'll also advise
20 if not. And we'll provide evidence of notification.

21 MR. CARROLL: Okay.

22 MR. CARR: At the same time we'll provide return
23 receipts on the letters.

24 MR. CARROLL: All right.

25 EXAMINER ASHLEY: Okay. I have no further

1 questions.

2 You may be excused.

3 MR. CARR: At this time I'd call Mr. Bob
4 Shackelford.

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

8 DIRECT EXAMINATION

9 BY MR. CARR:

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

11 A. Bob Shackelford.

12 Q. Where do you reside?

13 A. Midland, Texas.

14 Q. By whom are you employed?

15 A. I'm an independent geologist.

16 Q. And what is your relationship to Shackelford Oil
17 Company?

18 A. I'm really separate from Shackelford Oil Company,
19 but I did generate this prospect.

20 Q. Have you previously testified before this
21 Division?

22 A. I've been here, but I don't believe I testified.

23 Q. All right, let's have you summarize your
24 educational background.

25 A. I have a degree in geology from Eastern New

1 Mexico University.

2 Q. And when did you receive your degree?

3 A. 1981.

4 Q. And since 1981, for whom have you worked?

5 A. From 1981 to 1986 I worked for Earl M. Craig,
6 Jr., Corporation as a geologist. Since that time I've been
7 an independent geologist.

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

10 A. Yes, I am.

11 Q. And you've made a study of the area that's the
12 subject of the Application?

13 A. Yes.

14 Q. You've recommended this prospect to Shackelford
15 Oil Company?

16 A. Yes.

17 Q. Are you prepared to share the results of your
18 work with the Examiner?

19 A. Yes.

20 MR. CARR: We tender Mr. Bob Shackelford as an
21 expert in petroleum geology.

22 EXAMINER ASHLEY: Mr. Bruce?

23 MR. BRUCE: I have no problems with his
24 qualifications.

25 EXAMINER ASHLEY: Mr. Bob Shackelford is so

1 qualified.

2 Q. (By Mr. Carr) Would you -- Has Shackelford
3 drilled or does it produce other Delaware wells in the
4 immediate area?

5 A. Yes, it produces the Tonto Federal Number 1,
6 Section 10.

7 Q. That's the direct south offset to the proposed
8 location?

9 A. Yes, it's south.

10 Q. Let's go to what has been marked as Shackelford
11 Exhibit Number 5. Would you identify and review that for
12 Mr. Ashley?

13 A. This is a structure map on top of our main zone.
14 What we have is, in the Tonto Federal I have three feet
15 written down, and on the BTA Gem Number 5 in Section 2 I
16 have 12 feet. Those numbers are porosity greater than 15
17 percent.

18 Q. What did you use to prepare this exhibit?

19 A. Well control. It's an interpreted map.

20 Q. Did you integrate or have any seismic information
21 available to you in the preparation of this map?

22 A. No, I didn't.

23 Q. If I look at the map, there are limited control
24 points in the Delaware shown on this exhibit. Have you
25 shown all the control points available to you?

1 A. Yes.

2 Q. And why are you proposing to drill a well at this
3 particular location?

4 A. Well, what we're hoping is to get updip from our
5 Tonto well, and we feel like the Tonto Federal Number 1 has
6 three feet of porosity greater than 15 percent. The BTA
7 well has 12 feet. We're hoping to get better reservoir at
8 that location.

9 Q. And if you're able to get a well comparable to,
10 say, the Tonto Federal Number 1 you would have a commercial
11 well, would you not?

12 A. Yes.

13 Q. And if you do not, is it possible at this
14 location you could drill a well that would not be a
15 commercial success?

16 A. Yes, what we're afraid of is, we're moving away
17 from production, and in the Delaware you can move one
18 location and the characteristics of your formation can
19 change, your permeability or something can change.

20 Q. And you're stepping away from your data points;
21 there, in fact, is no control --

22 A. Right.

23 Q. -- either north, northwest or west of the
24 proposed location, or, in fact, of the wells that offset it
25 to the east and south; is that right?

1 A. That's right.

2 Q. Are you prepared to make a recommendation to the
3 Examiner as to the risk penalty that should be assessed
4 against any interest not voluntarily committed to the well?

5 A. Yes, 200 percent.

6 Q. And just summarize what you base that on.

7 A. Like I say, we're moving away from our
8 production, and we feel like we're -- in the Delaware, just
9 one location can change the characteristics of your
10 formation.

11 Q. In your opinion, will approval of this
12 Application and the imposition of the 200-percent risk
13 penalty be in the best interest of conservation, the
14 prevention of waste and the protection of correlative
15 rights?

16 A. Yes.

17 Q. How soon does Shackelford need to actually drill
18 this well?

19 A. Well, we're trying to fairly soon. We've got to
20 deal with the prairie chicken deal from April 1st to June
21 1st, I believe.

22 Q. You won't be able to be out there from April 1st
23 to June the 1st because of what, prairie chicken --

24 A. Prairie chicken boom season or --

25 Q. So you have to be out of there by the first of

1 April?

2 A. Yes.

3 Q. And your agreement with Burlington runs until --
4 through what date, do you know?

5 A. I think Don would know better. I'm not exactly
6 sure.

7 DON SHACKELFORD: April 1st.

8 THE WITNESS: April 1st.

9 Q. (By Mr. Carr) So we've got an April 1st deadline
10 to be in and out?

11 A. Yes.

12 Q. Was Exhibit 5 prepared by you?

13 A. Yes, it was.

14 MR. CARR: Mr. Ashley, at this time I would move
15 the admission into evidence of Shackelford Oil Company
16 Exhibit Number 5.

17 EXAMINER ASHLEY: Exhibit 5 will be admitted as
18 evidence at this time.

19 Mr. Bruce?

20 MR. CARR: And that concludes my direct of Mr.
21 Don -- Bob Shackelford.

22 EXAMINER ASHLEY: Mr. Bruce?

23 EXAMINATION

24 BY MR. BRUCE:

25 Q. Mr. Shackelford, just a couple of questions.

1 This is on top of the Price sand. Is that a
2 Brushy Canyon sand?

3 A. Yes.

4 Q. And these wells in Sections 2, 3, 10 and 11 that
5 are on this map, are those all Delaware producers?

6 A. No, the only Delaware producer is in Section 10.

7 Q. That Tonto Federal Number 1?

8 A. Number 1, yes.

9 Q. How long has that well been producing?

10 A. Since February of 1998.

11 Q. How much oil has it produced to date?

12 A. Don handles that more than I do.

13 MR. CARR: Can Don answer the question?

14 EXAMINER ASHLEY: That would be fine.

15 DON SHACKELFORD: Let me think here. Probably
16 about 50,000 barrels.

17 MR. BRUCE: 50,000, five zero?

18 DON SHACKELFORD: Yes, sir.

19 MR. BRUCE: That's all I have, Mr. Examiner.

20 EXAMINATION

21 BY EXAMINER ASHLEY:

22 Q. Mr. Shackelford, you said the Tonto Federal
23 Number 1 in Section 10 is the only Delaware producer.

24 What are the wells producing from in the
25 southwest quarter of Section 2 and the northwest quarter of

1 Section 11?

2 A. Some are producing from the Morrow, and some are
3 producing from the Bone Springs.

4 Q. Okay. What about the well in Section 2, in the
5 southwest quarter of the southwest quarter? I can't tell
6 what that -- Is that the Gem Number 5?

7 A. Yes, it is.

8 Q. What does that one produce from?

9 A. The Bone Springs, to the best of my -- The last
10 time I checked, it was Bone Springs.

11 Q. Okay.

12 A. I might point out that not all the wells are on
13 this map, just the wells that penetrated the Delaware
14 formation.

15 EXAMINER ASHLEY: Okay. I have no further
16 questions of Mr. Shackelford.

17 MR. CARR: And that concludes our presentation in
18 this case.

19 EXAMINER ASHLEY: Okay. As I stated earlier,
20 you're going to be providing notification of the potash
21 leasees?

22 MR. CARR: We will do that. We'll provide an
23 affidavit, and we'll be prepared to do that, with your
24 permission, on February the 4, I believe, is the date.

25 EXAMINER ASHLEY: Okay.

1 MR. CARR: And we would request that the case be
2 continued to that date.

3 EXAMINER ASHLEY: Okay. Case 12,103 will be
4 continued to February 4th, 1999.

5 (Thereupon, these proceedings were concluded at
6 9:30 a.m.)

7 * * *

13 I do hereby certify that the foregoing is
14 a complete record of the proceedings in
15 the Examiner hearing of Case No. 12103,
16 heard by me on 1-7, 1999.

17 Mark R. Kelly, Examiner
18 On Conservation Division
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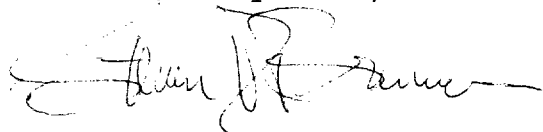
CERTIFICATE OF REPORTER

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 January 13th, 1999.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 2002