

STATE OF NEW MEXICO
 ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
 OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING CALLED BY)
 THE OIL CONSERVATION DIVISION FOR THE)
 PURPOSE OF CONSIDERING:) CASE NO. 12,195
)
 APPLICATION OF SHACKELFORD OIL COMPANY)
 FOR COMPULSORY POOLING, LEA COUNTY,)
 NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MARK ASHLEY, Hearing Examiner

June 24th, 1999

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MARK ASHLEY, Hearing Examiner, on Thursday, June 24th, 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.

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I N D E X

June 24th, 1999
 Examiner Hearing
 CASE NO. 12,195

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APPLICANT'S WITNESSES:	
<u>DON G. SHACKELFORD</u> (President, Shackelford Oil Company; Landman)	
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<u>BOB SHACKELFORD</u> (Geologist)	
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E X H I B I T S

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* * *

A P P E A R A N C E S

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FOR THE APPLICANT:

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By: WILLIAM F. CARR

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

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P.O. Box 1056
Santa Fe, New Mexico 87504

* * *

1 WHEREUPON, the following proceedings were had at
2 8:15 a.m.:

3 EXAMINER ASHLEY: This hearing will now come to
4 order for Docket Number 19-99. Please note today's date,
5 June 24th, 1999. I'm Mark Ashley, appointed Hearing
6 Examiner for today's cases.

7 And before we call the first case, I want to go
8 over the docket and point out the continuances and
9 dismissals.

10 (Off the record)

11 EXAMINER ASHLEY: The Division calls Case 12,186.

12 MR. CARR: My it please the Examiner, that case
13 is going to take -- it has got several different parties
14 involved in it and will take longer than the other case on
15 today's docket, Case 12,195.

16 With your permission, we'd request that Case
17 12,195 be called first.

18 EXAMINER ASHLEY: That would be fine. Case
19 12,195 will be called at this time.

20 MR. CARROLL: Application of Shackelford Oil
21 Company for compulsory pooling, Lea County, New Mexico.

22 EXAMINER ASHLEY: Call for appearances.

23 MR. CARR: May it please the Examiner, my name is
24 William F. Carr with the Santa Fe law firm Campbell, Carr,
25 Berge and Sheridan. We represent Shackelford Oil Company

1 in this matter, and I have two witnesses.

2 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe.
3 I'm here representing Nearburg Exploration Company, L.L.C.;
4 EGL Resources, Inc.; and Samson Resources Company. I have
5 no witnesses.

6 EXAMINER ASHLEY: Nearburg, EGL and Samson?

7 MR. BRUCE: (Nods)

8 EXAMINER ASHLEY: Any additional appearances?

9 Will the witnesses please stand to be sworn in?

10 (Thereupon, the witnesses were sworn.)

11 EXAMINER ASHLEY: Mr. Carr?

12 DON G. SHACKELFORD,

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 for the record, please?

18 A. Don G. Shackelford.

19 Q. Mr. Shackelford, where do you reside?

20 A. Seminole, Texas.

21 Q. By whom are you employed?

22 A. Shackelford Oil Company.

23 Q. And what is your position with Shackelford Oil
24 Company?

25 A. I'm president.

1 Q. Have you previously testified before this
2 Division and had your credentials as a practical oilman
3 accepted and made a matter of record?

4 A. Yes, sir.

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

7 A. Yes, sir.

8 MR. CARR: Mr. Examiner, are the witness's
9 qualifications acceptable?

10 EXAMINER ASHLEY: Yes, they are.

11 Q. (By Mr. Carr) Mr. Shackelford, would you briefly
12 state what it is that Shackelford seeks with this
13 Application?

14 A. We seek to pool from the surface to the base of
15 the Delaware formation underlying the northeast southeast
16 of Section 3, Township 20 South, Range 33 East, forming a
17 standard 40-acre spacing proration unit for all formations
18 and pools developed on 40-acre spacing.

19 Q. Does this include the Undesignated Teas-Yates-
20 Seven Rivers Pool?

21 A. Yes, it does.

22 Q. And also the Undesignated West Teas-Yates-Seven
23 Rivers Pool?

24 A. Yes, sir.

25 Q. This acreage is to be dedicated to a well that

1 you propose to drill at a standard location on that tract?

2 A. Yes.

3 Q. Have you prepared exhibits for presentation in
4 this case?

5 A. Yes, we have.

6 Q. Would you refer to what has been marked for
7 identification as Shackelford Exhibit Number 1 and identify
8 this for the Examiner?

9 A. Yes, sir, that's a land plat that indicates the
10 case number in the northeast southeast.

11 Q. You previously obtained a compulsory pooling
12 order pooling the same interests in the southeast southeast
13 of this section, did you not?

14 A. That's correct.

15 Q. And that was also for a well at a standard
16 location to the Delaware formation?

17 A. That's correct.

18 Q. What is the status of the acreage in the
19 northeast of the southeast of Section 3?

20 A. Shackelford Oil Company, through various
21 contracts or arrangements, currently owns 70 percent, and
22 Samson Resources owns 30 percent.

23 Q. And what you propose to drill on that tract will
24 be -- the principal objective will be what formation?

25 A. The Delaware.

1 Q. At this point in time, are you before this
2 Division seeking an order pooling the 30-percent interest
3 of Samson Resources?

4 A. Yes, sir.

5 Q. Could you initially review for the Examiner the
6 status of the agreement which you were recently able to
7 reach with Nearburg and EGL for the development of the
8 interests in the south half of the section?

9 A. Shackelford Oil Company, Nearburg and EGL have,
10 within the last two weeks, entered into a letter agreement
11 related to the acreage and the ownership that we had in
12 various tracts in the south half of that section, in which
13 we exchanged our interest in some portions of the section
14 to Nearburg and EGL in exchange for their interest in other
15 portions of the section.

16 Q. And by virtue of that agreement have you --
17 you've acquired the Nearburg and EGL interest in the
18 northeast and the southeast?

19 A. That's correct, we're in the process of drawing
20 assignments currently.

21 Q. And when those assignments are executed, in fact,
22 you will be able to dismiss the pending applications in the
23 south half of this section; is that correct?

24 A. Yes, on the either west half or the southeast
25 quarter.

1 Q. Let's go to what's been marked Exhibit Number 2.
2 Can you identify that, please?

3 A. That's the AFE which we submitted on this Tonto
4 Federal Number 4 proposed well.

5 Q. And what are the totals as set forth on that
6 exhibit?

7 A. The total dryhole cost is \$317,748, the
8 completion cost is \$238,350, for a total of \$546,438.

9 Q. Is this well located in within the potash area,
10 as defined by the Oil Conservation Division?

11 A. It is.

12 Q. And does the AFE include costs associated with
13 additional casing requirements necessary to comply with
14 Division requirements for wells drilled within the potash
15 area?

16 A. It does not, and we've discussed with and
17 received a waiver from Chris Williams, the Director for the
18 Hobbs District, related to this protection string.

19 Q. Other than that, are these costs similar, or in
20 line with what's charged by other operators for wells to
21 this depth?

22 A. It is.

23 Q. Could you identify what has been marked as
24 Exhibit Number 3?

25 A. That's correspondence that we've entered into

1 with Samson Resources over the past two years, related to
2 various -- the south half of Section 3.

3 Q. These efforts go back to April of 1977 [sic]?

4 A. Yes, we began in April, 1997, and it goes through
5 current time.

6 Q. In your opinion, have you made a good-faith
7 effort to obtain the voluntary participation of Samson
8 Resources in this prospect?

9 A. Yes, sir.

10 Q. Have you made an estimate of the overhead and
11 administrative costs to be incurred while drilling the well
12 and also while producing it if, in fact, it is successful?

13 A. Right, the drilling well overhead rate is \$4500
14 and the producing overhead rate is \$450.

15 Q. And how do these figures compare with the figures
16 for wells to this depth set forth in the *Ernst and Young*
17 survey?

18 A. Under the *Ernst and Young* survey, the \$4500 is
19 the median for this depth.

20 Q. And that's the 1998-99 survey?

21 A. Yes, sir.

22 Q. Do you recommend that these figures be
23 incorporated into the order that results from this hearing?

24 A. I do.

25 Q. Is Shackelford Oil Company seeking to be

1 designated operator of the proposed well?

2 A. We do.

3 Q. Will Shackelford call a geological witness to
4 review the risk associated with the drilling of this well?

5 A. We will.

6 Q. Were Exhibits 1 through 4 either prepared by you
7 or prepared at your direction?

8 A. Yes.

9 Q. Will you testify as to the accuracy of the
10 exhibits?

11 A. Yes, they are accurate.

12 MR. CARR: Mr. Examiner, at this time we would
13 move the admission into evidence of Shackelford Exhibits 1
14 through 4.

15 EXAMINER ASHLEY: Exhibits 1 through 4 will be
16 admitted as evidence.

17 MR. CARR: And that concludes my examination of
18 this witness.

19 EXAMINER ASHLEY: Mr. Bruce?

20 MR. BRUCE: I have no questions.

21 EXAMINATION

22 BY EXAMINER ASHLEY:

23 Q. Mr. Shackelford, can you explain again what you
24 were talking about regarding the potash casing string and
25 not including that in the AFE?

1 A. We -- This is in the potash area, but it's not in
2 life-of-mine reserves, and so there's a provision that
3 allows the District Director to give waiver. And based on
4 the number of other wells that have been drilled in that
5 area, Mark, there's been a number that did not have the
6 protection string, and we went over that with Chris and
7 showed him all that, and he gave us a waiver for that.

8 Q. Was the waiver in the form of the approved APD,
9 or was there some other kind of --

10 A. Well, we don't have an approved APD on this
11 particular tract yet. But like in the southeast southeast,
12 we did the very same thing in there, and we have received
13 an approved APD, and he sent a letter to the BLM and a
14 letter to us related to that.

15 Q. Okay. What is the status of the well in the
16 southeast of the southeast?

17 A. We've currently built location and are preparing
18 to drill. We have an extension to August 15th under our
19 previous hearing that we have, and so we built location and
20 are preparing to get a rig on there pretty soon.

21 Q. The 70 percent that you now control, how did that
22 break down before you worked out your --

23 A. The original ownership in this tract was, Samson
24 Resources owned 75 percent, Burlington Resources owned 18
25 point -- I want to say it's 18.67 -- and Merit Energy owned

1 6.33, I believe is what they owned, for the 100 percent.

2 And we originally acquired a farmout from
3 Burlington Resources for the 18 percent. Then we made a
4 purchase from -- or term assignment from Merit Energy for
5 their 6 percent. Then we made an exchange with Nearburg
6 and EGL.

7 Basically what we did in the south half of that
8 section, we had ownership all through the section, we
9 exchanged part of our ownership in the north half and our
10 ownership in the west half of the southeast quarter for
11 their ownership in the east half of the southeast quarter
12 and then the south half of the southwest quarter, and they
13 kept the north half of the southwest quarter. And we also
14 exchanged some rights we have in Section 10.

15 EXAMINER ASHLEY: Okay.

16 MR. CARROLL: So Merit and EGL interests were
17 part of the Samson 75 percent?

18 THE WITNESS: Merit was not. EGL and Nearburg
19 were originally part of the 75 percent. They entered into
20 an arrangement with Samson whereby they got 45 percent,
21 Nearburg and EGL, and they drilled a well to the Morrow in
22 the northeast of the southeast, the surface location, which
23 wound up in the southwest of the northeast bottomhole
24 location, directional because of potash requirements in
25 that area.

1 So they -- By virtue of their agreement with
2 Samson, they own 45-percent interest there, and Samson then
3 retained 30 percent interest, is how that worked out.

4 EXAMINER ASHLEY: I have nothing further, Mr.
5 Shackelford. Thank you.

6 MR. CARR: At this time we call Bob Shackelford.

7 BOB SHACKELFORD,

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

10 DIRECT EXAMINATION

11 BY MR. CARR:

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

13 A. Bob Shackelford.

14 Q. Where do you reside?

15 A. Midland, Texas.

16 Q. By whom are you employed?

17 A. I'm self-employed.

18 Q. And what is your relationship with Shackelford
19 Oil?

20 A. I'm separate from Shackelford, but I generated
21 this prospect.

22 Q. Have you previously testified before this
23 Division?

24 A. Yes, I have.

25 Q. At the time of that testimony, were your

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

3 A. Yes, they were.

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

6 A. Yes, I am.

7 Q. Have you made a geological study of the area that
8 is the subject of the Application?

9 A. Yes.

10 Q. And are you prepared to share the results of your
11 work with Mr. Ashley?

12 A. Yes.

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

15 EXAMINER ASHLEY: They are.

16 Q. (By Mr. Carr) Mr. Shackelford, has Shackelford
17 Oil Company drilled other Delaware wells in the immediate
18 area?

19 A. Yes, they have.

20 Q. And why don't we go to Exhibit Number 5, your
21 structure map? I think what you ought to do initially is
22 simply review this for the Examiner, note current
23 development and explain how this exhibit relates to the
24 risk involved.

25 A. This is on top of our Price sand, which is our

1 main zone we're looking for at about 6500 feet. It
2 produces in the Tonto Federal Number 1 in Section 10, which
3 is the only Delaware producer in this area.

4 And what this map is showing, the blue line is
5 our oil-water contact, and we're trying to stay out of the
6 water and in the oil.

7 Q. Is the Tonto Federal Number 1 the only Delaware
8 well in the area?

9 A. Yes, it is.

10 Q. And was that originally drilled as a Delaware
11 well?

12 A. As a Bone Springs test.

13 Q. And then what? Was it depleted in the Bone
14 Springs and then came up and completed in the Delaware?

15 A. We -- Somebody else tried the Bone Springs, and
16 then we bought the well from Samson.

17 Q. And Shackelford is, in fact, operating that well
18 at this time?

19 A. Yes.

20 Q. All the other well spots shown on this exhibit,
21 are any of those Delaware wells?

22 A. No, they're not.

23 Q. So basically the only confirmed production you
24 have is in the southeast of the northeast of 10?

25 A. That's correct.

1 Q. Are you prepared to make a recommendation to the
2 Examiner as to the risk involved in the proposed well?

3 A. Yes, I am.

4 Q. And what is that?

5 A. Two hundred percent.

6 Q. And generally, what do you base that
7 recommendation on?

8 A. We're moving away from our Tonto well which is,
9 like we said, the only Delaware producer in the area.
10 We're moving farther away from it.

11 Q. And basically this is pretty much a wildcat
12 effort for you, is it not?

13 A. Yes, it is.

14 Q. Do you believe there's a chance that you could
15 drill a well at the proposed location that would not be a
16 commercial success?

17 A. Yes.

18 Q. In your opinion, will granting this Application
19 be in the best interest of conservation, the prevention of
20 waste and the protection of correlative rights?

21 A. Yes.

22 Q. Was Exhibit 5 prepared by you?

23 A. Yes, it was.

24 MR. CARR: May it please the Examiner, we'd move
25 the admission into evidence of Shackelford Exhibit Number

1 5.

2 EXAMINER ASHLEY: Exhibit 5 will be admitted as
3 evidence.

4 MR. CARR: And that concludes my examination of
5 Mr. Shackelford.

6 EXAMINATION

7 BY EXAMINER ASHLEY:

8 Q. Mr. Shackelford, what is the current production
9 in that Tonto Federal Number 1?

10 A. It is producing at allowable, which is 142
11 barrels a day.

12 Q. What is the production from in Section 11, and
13 like from Section 2 as well?

14 A. It's Morrow or Bone Springs. The gas wells are
15 Morrow, the oil wells are Bone Springs.

16 Q. Does that apply also in Sections 4 and 9?

17 A. The well in 4 is a Yates-Seven Rivers producer,
18 and the well in 9 is a Morrow producer.

19 This plat -- I might mention, this plat only
20 includes the wells that penetrated the zones of interest --

21 Q. Okay.

22 A. -- so...

23 EXAMINER ASHLEY: I have nothing further. Thank
24 you, Mr. Shackelford.

25 THE WITNESS: Thank you.

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MR. CARR: That concludes our presentation in this case.

EXAMINER ASHLEY: There being nothing further in this case, Case 12,195 will be taken under advisement.

(Thereupon, these proceedings were concluded at 8:35 a.m.)

* * *

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 12195, heard by me on 6-24 1999.

Mark Ashley, Examiner
Oil Conservation Division

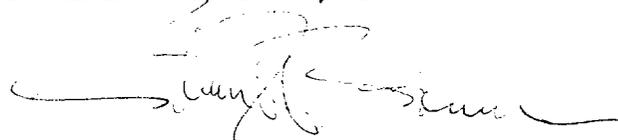
CERTIFICATE OF REPORTER

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 June 24th, 1999.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 14, 2002