

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 THE WISER OIL COMPANY)
 FOR COMPULSORY POOLING, LEA COUNTY,)
 NEW MEXICO)

CASE NO. 12,366

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

April 6th, 2000

Santa Fe, New Mexico

OIL CONSERVATION DIV.
00 APR 21 AM 10:58

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, April 6th, 2000, 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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Examiner Hearing
CASE NO. 12,366

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A P P E A R A N C E S

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* * *

1 WHEREUPON, the following proceedings were had at
2 8:23 a.m.:

3 EXAMINER STOGNER: Case Number 12,366, the
4 Application of Wiser Oil Company for compulsory pooling,
5 Lea County, New Mexico.

6 Call for appearances.

7 MR. BRUCE: We are here, Mr. Examiner.

8 EXAMINER STOGNER: Well, wonderful.

9 MR. BRUCE: Jim Bruce of Santa Fe representing
10 the Applicant. I have three witnesses to be sworn.

11 EXAMINER STOGNER: Any other appearances?

12 Will the witnesses please stand to be sworn at
13 this time.

14 (Thereupon, the witnesses were sworn.)

15 EXAMINER STOGNER: Mr. Bruce?

16 WILLIAM B. PHILLIPS,
17 the witness herein, after having been first duly sworn upon
18 his oath, was examined and testified as follows:

19 DIRECT EXAMINATION

20 BY MR. BRUCE:

21 Q. Would you please state your name and city of
22 residence for the record?

23 A. Yes, sir, my name is William B. Phillips, two L's
24 in Phillips. City of residence is Richardson, Texas.

25 Q. Who do you work for and in what capacity?

1 A. I work for the Wiser Oil Company in the capacity
2 of manager of land.

3 Q. Have you previously testified before the
4 Division?

5 A. No, sir, I have not.

6 Q. Would you please summarize your educational and
7 employment for the Examiner?

8 A. Yes, sir. I'm a graduate of the University of
9 Texas at Austin, with a degree in petroleum land
10 management, 1976. Also a certified professional landman
11 with 25 years of experience.

12 I've worked for companies beginning with Cities
13 Service Oil Company, Mesa Petroleum, American Quasar
14 Petroleum of New Mexico, Maralo, and most recently, the
15 last ten years, with the Wiser Oil Company.

16 Q. Does your area of responsibility at Wiser include
17 southeast New Mexico?

18 A. Yes, sir, it does.

19 Q. And are you familiar with the land matters
20 involved in this Application?

21 A. Yes, sir, I am.

22 MR. BRUCE: Mr. Examiner, I tender Mr. Phillips
23 as an expert petroleum landman.

24 EXAMINER STOGNER: Mr. Phillips is so qualified.

25 Q. (By Mr. Bruce) Mr. Phillips, would you identify

1 Exhibit 1 for the Examiner and describe what Wiser seeks in
2 this case?

3 A. Yes, sir, Exhibit 1 is a plat, and it's
4 reflecting Section 33, Township 16 South, Range 32 East.
5 And on this plat and in this hearing we attempt to seek an
6 order for pooling, compulsory pooling the southwest quarter
7 of the southwest quarter of Section 33, from the surface to
8 the base of the San Andres.

9 On the plat you'll notice the southwest southwest
10 is colored yellow and outlined in red, and there's a little
11 dot that shows or reflects the orthodox location of our
12 well, which is 660 from the south line and 560 from the
13 east line.

14 Q. What pool is this well projected to be in?

15 A. We're projecting this well to be in the Maljamar-
16 Grayburg Pool at a standard location.

17 EXAMINER STOGNER: Why don't you give me that
18 surface location again on that well?

19 THE WITNESS: Yes, sir. It is 660 from the south
20 line, 560 from the west line. Did I say east before? If I
21 did, I misspoke. It's 560 from the west, pardon me.

22 Q. (By Mr. Bruce) Mr. Phillips, could you move on
23 to your Exhibit 2 and identify the mineral interest or
24 leasehold ownership in this quarter-quarter section?

25 A. Yes, sir. Exhibit 2 is a reflection of the

1 leases, mineral owners that we were able to lease. The top
2 portion lists three parties that we were unable to either
3 lease or locate, which we'll refer to later, and their net
4 mineral interest in this 40 acres covered 7.79 acres.

5 Below that is list of mineral owners which we
6 acquired oil and gas leases from that cover 32.210 acres.
7 And of course you add those together and you come up with
8 40 acres.

9 I may want to point out here, so there's not any
10 confusion, the lease number to the left of the name is a
11 Wiser internal lease number and is not a federal or state
12 lease number.

13 Q. So there were what, about two dozen mineral
14 owners in this particular tract?

15 A. Yes, sir.

16 Q. Okay. And the only parties you seek to pool are
17 the unleased mineral interest owners at the top, they or
18 their heirs, Mr. Heil, Dessa Ring and Nettie Louise Belfi?

19 A. Yes, sir, that's correct.

20 Q. Okay. Would you identify Exhibit 3 for the
21 Examiner and describe what that is?

22 A. Yes, sir, Exhibit 3 is a copy of a couple letters
23 that we sent to attempt to locate the heirs of Nettie
24 Louise Belfi, who has since passed away, and many of her
25 heirs have passed away. We did find a law firm up in New

1 Jersey that represented them, however they were pretty
2 uncooperative in assisting us, helping to locate the heirs.

3 Another expert witness will testify a little
4 later in greater detail as to the extreme wherewithal we
5 went to try to find these folks. It was very, very
6 difficult to locate the heirs of the Belfis.

7 Q. Okay, so the next witness will testify in more
8 detail about the efforts to locate the heirs of these three
9 people?

10 A. Yes, sir.

11 Q. And you sent this letter out because this was the
12 only address you had for the heirs of Nettie Belfi?

13 A. Yes, sir. And if you read through the
14 correspondence, at first we sent -- gave them an offer to
15 lease, gave them an offer to participate, sent them an AFE.
16 If they wanted to participate, we would have gladly sent
17 them a joint operating agreement, and no response,
18 basically, is what we got.

19 Q. Based on what you know, that Mr. Hammonds, the
20 next witness, did try to locate these people, and your
21 correspondence with these people, do you believe that Wiser
22 has made a good-faith effort to locate these people and to
23 attempt to lease these interest owners?

24 A. Yes, sir. I can assure you and the Examiner that
25 Mr. Hammonds did an extensive amount of research and a lot

1 of detective work to find these folks. Their mineral
2 interest originated back in the mid-Twenties, and he can
3 tell you better than I the extent of man-days and hours
4 that he spent trying to locate these folks.

5 Q. Okay. Well, we'll let Mr. Hammonds talk about
6 that, then.

7 Does Wiser request that it be designated operator
8 of the proposed well?

9 A. Yes, sir, we do.

10 Q. And do you have a recommendation for the amounts
11 which Wiser should be paid for supervision and
12 administrative expenses?

13 A. Yes, sir, we'd like for the overhead drilling
14 well rates per well, per month, to be \$4500 and a producing
15 well rate, \$450 per well, per month. And this is in line
16 with the published Ernst and Young overhead rates.

17 Ernst and Young puts out a publication yearly.
18 We just received one for the 1999-2000 year, and for the
19 State of New Mexico, these are actually in the lower
20 quartile. So we're below the average.

21 Q. Okay. And are also -- Besides the Ernst and
22 Young rates, are these amounts equivalent to those normally
23 charged by Wiser and other operators in this area for wells
24 of this depth?

25 A. Yes, sir.

1 Q. And does Wiser request that these rates be
2 adjusted according to the COPAS accounting procedure if
3 necessary?

4 A. Yes, sir, we do.

5 Q. And were the interest owners being pooled
6 notified of this hearing to the best extent we were able?

7 A. Yes, sir.

8 Q. Is Exhibit --

9 A. -- 4?

10 MR. BRUCE: Mr. Examiner, Exhibit 4 is simply --
11 I think the original is in your file. It's an affidavit of
12 notice. Notice was published in the *Hobbs News Sun* giving
13 notice of the compulsory pooling. When you look at it, a
14 couple of additional parties were notified. Nancy Carter
15 and Henry Belfi, those were excess names, but our next
16 witness can testify more about that.

17 And finally -- Yes, sir?

18 EXAMINER STOGNER: I'm sorry, go ahead.

19 MR. BRUCE: Just a couple of final questions to
20 the witness, Mr. Examiner.

21 Q. (By Mr. Bruce) Is Exhibit 5 my affidavit of
22 notice to the persons for whom we had addresses?

23 A. Yes, sir, it is.

24 Q. And once again, we notified a couple of people
25 that you later came to terms with, I believe, Mr.

1 Schellinger and Branex Resources?

2 A. Yes, sir, we have oil and gas leases from those
3 folks as we speak.

4 Q. Were Exhibits 1 through 5 prepared by you or
5 under your supervision or compiled from company business
6 records?

7 A. Yes, sir.

8 Q. And in your opinion is the granting of this
9 Application in the interests of conservation and the
10 prevention of waste?

11 A. Yes, sir.

12 MR. BRUCE: Mr. Examiner, at this time I'd move
13 the admission of Exhibits 1 through 5.

14 EXAMINER STOGNER: Exhibits 1 through 5 will be
15 admitted into evidence.

16 EXAMINATION

17 BY EXAMINER STOGNER:

18 Q. Mr. Phillips, in looking at Exhibit Number 2, let
19 me make sure that -- It's just the Belfi interest that is
20 being force pooled?

21 A. It's the Belfi, Heil and Ring interests.

22 Q. Okay.

23 A. There's three interests, combining 7.79 acres.

24 Q. Now, the copies of the letters, it appears just
25 to be to the Belfi family. Were similar letters sent out

1 to the Ring, or is your next witness going to discuss these
2 matters?

3 A. Yes, sir, they were. And our next witness will
4 describe those in detail.

5 Q. All right. Now, you had mentioned the Ernst and
6 Young publication; is that correct?

7 A. Yes, sir.

8 Q. And what's your opinion of the new format?

9 A. I like the old format better, because it
10 described regions of the country perhaps a little better
11 and gave depth restrictions. Not restrictions, but it
12 reflected rates above and below certain depths.

13 This will just take a little getting used to. It
14 described drilling and producing well rates in quartiles,
15 which is a little different. It will just take some
16 getting used to.

17 But the old way was a little easier to read for
18 us, but the new way will work.

19 Q. Any thoughts on, since it was -- It used to be
20 New Mexico was in regions, there were two regions, and
21 historically the northwest was a little bit cheaper than
22 the southeast rates. Now that they're combined, there
23 might be some problems on that, but I wanted to hear your
24 opinion of --

25 A. Well, I don't know exactly how to address that.

1 We felt like we were fair. These are rates that we have
2 also negotiated with other operators in the area, and seem
3 to be pretty much the industry standard for this depth of
4 well.

5 Q. Well, I guess change is good. That's what they
6 tell me.

7 A. I guess the telltale test would be if we would
8 accept a similar rate, and we would.

9 EXAMINER STOGNER: Good. Thank you very much. I
10 have no other questions of Mr. Phillips at this time. In
11 light of your next witness doing some more presentation on
12 the land issues, I may have some additional questions.

13 THE WITNESS: All right, thank you.

14 KENTON A. HAMMONDS,
15 the witness herein, after having been first duly sworn upon
16 his oath, was examined and testified as follows:

17 DIRECT EXAMINATION

18 BY MR. BRUCE:

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

20 A. Kenton A. Hammonds.

21 Q. And where do you reside?

22 A. Roswell, New Mexico.

23 Q. What is your occupation?

24 A. A certified professional landman. I'm a land
25 consultant in Roswell.

1 Q. Okay. And so you are on contract to Wiser on
2 this matter?

3 A. That's correct.

4 Q. Have you previously testified before the
5 Division?

6 A. I have.

7 Q. And were your credentials as an expert petroleum
8 landman accepted as a matter of record?

9 A. Yes, sir, they were.

10 Q. And are you familiar with the problems involved
11 in this case in locating and leasing mineral interest
12 owners in this particular well unit?

13 A. Yes, sir, I am.

14 MR. BRUCE: Mr. Examiner, I'd tender Mr. Hammonds
15 as an expert petroleum landman.

16 EXAMINER STOGNER: Mr. Hammonds is so qualified.

17 Q. (By Mr. Bruce) Mr. Hammonds, could you refer to
18 your Exhibit 6 and talk about your efforts to locate and
19 lease the interests of C.W. Heil, Nettie Louise Belfi and
20 Dessa Ring? And as you're going through this, could you
21 also tell the Examiner maybe a little bit about how much
22 time was involved in trying to locate these people, and
23 also go through what sources of information, phone books,
24 et cetera, that you went through in order to try to track
25 down these people and their heirs?

1 A. Yes, certainly. Referring to Mr. Heil, in the
2 first case, he received record title in 1927, and the title
3 changed stocks at that point in time with a 6.25-percent
4 interest.

5 I don't recall exactly how I stumbled onto one of
6 his grandchildren, a man by the name of Mr. Joe Kull,
7 pronounced "cool". Mr. Kull lived in Yorkville, Ohio. He
8 was -- And the information that I have was from him
9 verbally.

10 Mr. Heil is deceased. He had five children, all
11 of whom are deceased, Mr. Kull being a grandchild, having
12 several brothers and sisters. His cousins, some of them
13 were deceased. Many of them, he no longer knew where they
14 were. The initial five net mineral acre interest was now
15 down to fractional interests of one acre.

16 My attempts to document through affidavit of
17 heirship information through Mr. Kull and get it in a
18 formal sense for the benefit of my client, I was unable to
19 do that. He became uninterested and didn't want to put
20 forth the time, and that's the end of the effort regarding
21 the Heil interest.

22 Q. Now in going through this, the next, what, two or
23 three pages are letters that you sent to Mr. Kull, together
24 with this affidavit of heirship? This is something you
25 drafted up and sent to him for correction?

1 A. A questionnaire to obtain information for an
2 affidavit of heirship was sent. And yes, I believe his
3 wife filled this out for me.

4 Subsequently, I returned to them a formal
5 affidavit, which was never returned, and I believe the next
6 letter includes questions to attempt to gain information
7 regarding the heirs of the heirs for affidavit purposes,
8 and they simply were uninterested in participating, didn't
9 fully appreciate what we were after and the necessity of
10 having it, and correspondence just stopped.

11 Q. So in other words, you didn't receive much
12 cooperation in locating the heirs of Mr. Heil?

13 A. That's correct.

14 Q. Were there any probates that you could locate on
15 this, other than Mr. Heil's?

16 A. No, sir.

17 Q. Okay. Let's move on next, I think it's the
18 fourth page in, to Nettie Louise Belfi. I think you had a
19 little more contact with people on this estate, did you
20 not?

21 A. Yes, sir. The initial letter of offer that I
22 sent to the record title address for Mrs. Belfi was
23 returned to me as undeliverable, and in the process of
24 contacting other mineral owners I bumped into the Webber --
25 what I refer to as the Webber boys. We obtained leases

1 from these gentlemen. They are brothers to Mrs. Belfi, and
2 from them I learned that Mrs. Belfi had passed away
3 intestate, and she had no children.

4 Her husband survived her, Mr. Henry Belfi, and
5 his estate was probated in New Jersey by a law firm, Friend
6 and Friend. A Mr. Gerald G. Friend was the specific
7 attorney who handled Mr. Belfi's estate.

8 I was informed verbally by the Webbers that Mr.
9 Belfi's last will and testament provided that the property
10 that was the sole and separate property of his deceased
11 wife, Mrs. Belfi, he had left to her surviving siblings,
12 being the Webbers.

13 I attempted to learn the whereabouts of Mr.
14 Belfi's last will and testament and his probate. The law
15 firm of Friend and Friend did not seek to help me. I never
16 learned where that probate was at and was never able to
17 obtain it.

18 Q. You did write to one county in New Jersey seeking
19 the probate, did you not?

20 A. I did, guesswork. The county that Friend and
21 Friend was located in was Passaic County, is how I
22 pronounce that. I did request a search, and Mr. Belfi's
23 probate was not in that county.

24 Q. What you're saying also is, it's possible -- you
25 did locate these three -- as you said, the three Webber

1 boys?

2 A. Yes.

3 Q. And they are leased?

4 A. Yes, sir, they are.

5 Q. And it's possible that Mrs. Belfi's estate
6 interest may be covered by those leases?

7 A. Yes, sir, it is. But I can't document that.

8 Q. And so you left her separate as an interest
9 owner?

10 A. That's correct.

11 Q. Okay. Did you ever talk to Gerald Friend?

12 A. I did, yes, sir, one time, one telephone
13 conversation.

14 Q. Okay. And the net result of your letters and
15 phone call were apparently a lack of cooperation?

16 A. Yes, he was very unfriendly.

17 (Laughter)

18 MR. BRUCE: Sorry about that, Mr. Examiner.

19 Q. (By Mr. Bruce) Finally, Mr. Hammonds, what about
20 your efforts to locate, even locate, Dessa Ring or her
21 heirs?

22 A. Yes, sir, extensive search through the Internet,
23 Social Security records, Death Index, and we struck out
24 entirely. Apparently Mrs. Ring probably passed away before
25 Social Security was instituted in, I think, 1935 or 1936.

1 I live in Roswell, which is Chaves County, and
2 this title chain is in Lea County, and I just was in the
3 Clerk's office one day and ran "Ring" in the Probate Index,
4 and I ran into a Ring probate, Cloyd Alexander Ring. So on
5 an outside chance, I pulled that and got names and
6 addresses. They're attached in this particular -- under
7 the Ring -- in the Ring section of Exhibit 6.

8 And mailed letters out and got a response from an
9 elderly lady who was an 81-year-old lady that was a
10 relative through marriage to Mrs. Ring, who had passed
11 away. I learned that Mrs. Ring was deceased, that she had
12 a daughter named Ruth who was married at one time and had
13 children. Ruth was deceased. I did not know her marital
14 name. Her two daughters, she had known of their
15 whereabouts about 20 years ago, did not know their married
16 names. And simply was unable to locate -- or document who
17 the successors in interest may have been to this particular
18 mineral interest.

19 Q. And that copy from that lady in Ohio is included
20 in your correspondence?

21 A. Yes, sir, it is.

22 Q. Okay. Now, you also have some other besides the
23 Ring probate. From Chaves County you have a probate of
24 Florence Ring Potts. Was that some relative of Ms. Ring?

25 A. I think -- No, she was not. Possibly through

1 marriage she was. But a blood relative, no.

2 Q. Okay. Going through these, I notice that it
3 appears that all of these three people acquired their
4 interest in what, 1927, or in the 1920s?

5 A. Yes, that's correct in regards to Mr. Heil's
6 interest and Ms. Ring's interest. The Belfi interest came
7 through her daddy's probate, along with her brothers, and I
8 can't tell you what the date of that was. I don't know
9 right now.

10 Q. And then -- But it was some time ago?

11 A. Yes, sir, it was.

12 Q. And then after you get to their deed into them,
13 there's nothing in the county records?

14 A. That's correct.

15 Q. In your opinion, have you and Wiser made a good-
16 faith effort to locate these people or their heirs in an
17 attempt to lease them?

18 A. Yes, sir, we've exhausted every possible avenue
19 that we could take.

20 Q. Any further effort would be quite expensive and
21 time-consuming?

22 A. Yes, sir.

23 Q. In your opinion -- Excuse me, was Exhibit 6
24 prepared by you or under your direction?

25 A. Yes, sir, it was.

1 Q. And in your opinion, is the granting of this
2 pooling application in the interests of conservation and
3 the prevention of waste?

4 A. Absolutely.

5 MR. BRUCE: Mr. Examiner, I tender the admission
6 of Wiser Exhibit Number 6.

7 EXAMINER STOGNER: Exhibit Number 6 is admitted
8 into evidence.

9 EXAMINATION

10 BY EXAMINER STOGNER:

11 Q. Mr. Hammonds, is this a divided or undivided
12 royalty interest out there in this southwest quarter,
13 southwest quarter?

14 A. Undivided mineral interest in the southwest
15 southwest, yes, sir, undivided.

16 Q. Okay. Now, in looking at the map on Exhibit 1,
17 does this ownership extend to that half section or quarter
18 section or the whole section? What extent is this lease
19 and this ownership?

20 A. It does extend beyond the southwest southwest. I
21 did not bring that information. I believe 120 acres in the
22 southwest quarter is encompassed with this undivided
23 interest. I can't describe that 120 acres to you right
24 now, sir.

25 Q. Okay. But it appears to be more convoluted than

1 what you get from that Midland Map Company?

2 A. Yes, sir. Yes, sir.

3 Q. Is there any indication that these people had
4 ever lived out in New Mexico, or had they acquired their
5 leases whenever they were out in New Jersey and Ohio?

6 A. Mr. Heil had -- along the way I learned, had
7 moved and had lived in Amarillo, Texas, in the 1920s, and
8 like a lot of people had moved out here, and apparently oil
9 and gas was starting to become romantic and possibly
10 profitable during that time period. And he acquired
11 mineral interests and would sell them, probably for a
12 profit, and divide his up in additional pieces.

13 But he eventually did move back to the Ohio area
14 and passed away there, is my understanding.

15 Q. Is there any indication -- I'm looking at these
16 old records -- that the people who originally signed them
17 were somewhat knowledgeable in the oil and gas mineral
18 leasing business, since they were from, at that time, old
19 oil and gas areas?

20 A. I can't tell from the documents. Frequently you
21 can tell that they certainly were knowledgeable regarding
22 promotion. But regarding the industry itself and
23 professional expertise, capturing minerals and drilling for
24 oil and gas, you can't tell.

25 Q. Any indication who the promotor was at the time?

1 A. Frequently yes, there will be deeds into them,
2 yes, sir. Mrs. Ring, I think, was a promotee of Mr. Heil.

3 Q. I have no other questions. Oh, I've got lots of
4 questions, but it would be more convoluted than -- No need
5 of muddling the record.

6 No, I think this is a very exhaustive search, and
7 I appreciate the detail that you've gone in.

8 And just for the record, I notice that the dates
9 on many of these letters go as far back as August of last
10 year. So there appears to have been a lot of time and
11 effort -- Is that when this started, was about August --

12 A. Yes, sir --

13 Q. -- of last year?

14 A. -- it was.

15 EXAMINER STOGNER: Okay. Do you have any other
16 questions?

17 MR. BRUCE: No, sir.

18 EXAMINER STOGNER: You may be excused.

19 THE WITNESS: Thank you.

20 MATTHEW A. EAGLESTON,

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

23 DIRECT EXAMINATION

24 BY MR. BRUCE:

25 Q. Would you please state your name and city of

1 residence for the record?

2 A. Matthew Allen Eagleston, Keller, Texas.

3 Q. And by whom are you employed and in what
4 capacity?

5 A. I'm a project engineer for the Wiser Oil Company.

6 Q. Have you previously testified before the
7 Division?

8 A. I have.

9 Q. And were your credentials as an expert engineer
10 accepted as a matter of record?

11 A. Yes, sir, they were.

12 Q. And are you familiar with engineering matters
13 related to this Application?

14 A. Yes.

15 MR. BRUCE: Mr. Examiner, I tender Mr. Eagleston
16 as an expert engineer.

17 EXAMINER STOGNER: Mr. Eagleston is so qualified.

18 Q. (By Mr. Bruce) Mr. Eagleston, could you refer to
19 your first exhibit, Exhibit 7, identify for the Examiner
20 and discuss a little bit the primary zone of interest in
21 your proposed well?

22 A. Exhibit 7 is a structure map of the area around
23 the proposed well and the area in which we are seeking to
24 force pool. And you'll note that the well location --
25 We're calling it the Caswell Number 1, in the southwest of

1 the southwest of Section 33. The blue outline, I'll note,
2 that is the outline of the Wiser-operated Maljamar-Grayburg
3 Unit.

4 And this is a structure map on top of the San
5 Andres formation, which is -- regional dip is from west to
6 east. Generally speaking, this reservoir, this area, is
7 part of a complex of reservoirs commonly known as the
8 Artesia-Vacuum trend, east to west.

9 It's bounded on the southern edge, off the south
10 edge of this map, at a shelf margin. There's a steep dip
11 that forms the southern boundary of the productive area.

12 And then to the north reservoir quality generally
13 deteriorates until you reach the edge of the productive
14 limit. And you note on this map the productive limit is
15 essentially at the north edge of where the Maljamar-
16 Grayburg Unit currently exists.

17 The zones of interest are the Grayburg and San
18 Andres here. The Grayburg is a series of fine-grained
19 dolomitic sandstones with fair porosity development,
20 interbedded with anhydrite and shale stringers.

21 In the San Andres there's subunits that are
22 possible targets here. The Vacuum is a fractured dolomite
23 in the upper portion of the San Andres that is occasionally
24 productive in this immediate area.

25 The Lovington is another fine-grained sandstone

1 that exists within the San Andres interval, just below the
2 Vacuum. It is also productive in the area.

3 And then below that, the Jackson, another portion
4 of the San Andres formation, is another dolomite.

5 In this case, the Grayburg is the primary
6 objective, and those San Andres intervals are secondary
7 objectives.

8 Porosities here range from 6 percent to over 23
9 percent. It averages around 10 percent in this area. It's
10 pretty tight rock, permeability less than a millidarcy.
11 Occasionally in those fractured intervals you'll see
12 permeabilities, you know, 10, 20, maybe even 100, but the
13 average is typically less than 5 millidarcies. It requires
14 fracture stimulation to effectively produce these
15 intervals.

16 Q. You mentioned some zones of interest. Could you
17 identify your Exhibit 8 and maybe point those out for the
18 Examiner?

19 A. Exhibit 8 is a type log of a well in the area.
20 In fact, it's Maljamar-Grayburg Unit Number 127, which is
21 the southern offset to the proposed well. And you'll
22 notice the top of the San Andres formation is marked. It's
23 an obvious marker in the area. Those Grayburg sands are
24 above it.

25 Typically, the productive interval from about

1 3850 down to just below 4000. You can see those sands,
2 those are radioactive sands. This particular well had
3 excellent porosity development.

4 That next interval from the top of the San Andres
5 down to about 4140, approximately, that would be the Vacuum
6 section. In this case, this well was not productive in the
7 Vacuum.

8 The Lovington sand begins immediately below that,
9 another radioactive sand. It appears to be porous here,
10 but that interval is extremely tight, and we did not test
11 it in this particular well.

12 And then below that, on down to the bottom of
13 this particular well log, is the Jackson section. The
14 porosity that appears at the bottom, below 4350 in this
15 case, was wet. And there was not sufficient porosity
16 development above that to be productive.

17 Q. You mentioned this Maljamar Pool. Is it an old
18 pool in New Mexico?

19 A. Yes. In fact, the discovery well was drilled in
20 1926 in Section 21 of 17-33 -- or, I'm sorry, 17-32. So
21 just south of the proposed location a couple of miles. If
22 I'm correct, I think that might have been the first oil
23 production in Lea County, 1926.

24 Q. Let's move on to your next exhibit, Mr.
25 Eagleston, and discuss a little bit more of the risk

1 involved in drilling this well.

2 A. Exhibit 9 is another map of the same area as the
3 structure map, but it has the cumulative oil production
4 posted in red for each well.

5 I guess I ought to note here that the pink -- or,
6 I'm sorry, the purple dots are wells that Wiser has drilled
7 recently as part of a 20-acre infill development program
8 within the Maljamar-Grayburg Unit.

9 And what's interesting to note here is the
10 variability that you see from well to well. A good place
11 to notice this would be over on the northeastern portion of
12 the Maljamar-Grayburg Unit, you'll notice the Number 5 well
13 that's marked as an injector. It produced 77,000 barrels
14 prior to being converted to injection.

15 The well immediately north of it made 6554
16 barrels, and the well north of that only 1319. That
17 confirms the general trend in this area that as you go
18 north, reservoir quality deteriorates.

19 However, there are exceptions to that, and
20 occasionally you'll see some good wells in the northern
21 part of the trend. And in fact, in the northwestern part
22 of the Maljamar-Grayburg Unit, the Number 127, which was
23 the type log that we looked at a minute ago, has produced
24 41,000 barrels already and is still a pretty good producer.
25 And that indicates that that area of good reservoir quality

1 may extend to the north.

2 However, all you can see to the north is blank
3 space and a bunch of dry holes, so it is indeed a stepout
4 beyond established production and carries significant risk.

5 Q. You can step out from a good well just one well
6 unit and get an uneconomic well?

7 A. Indeed, as I mentioned over in the northwest
8 corner. You could look all across the trend and see that
9 reservoir quality can deteriorate and, in fact, almost go
10 away one location from a reasonably good well.

11 Q. In your opinion, what penalty should be assessed
12 against nonconsenting interest owners in this well?

13 A. The 200 percent.

14 Q. Cost plus 200?

15 A. That's correct.

16 Q. Let's refer to your final exhibit, the AFE, Mr.
17 Eagleston. What can you tell us about this?

18 A. Exhibit 10 is an AFE I prepared to drill this
19 well, and the total cost is \$306,000. This is -- As I
20 mentioned, we've drilled a number of wells in this
21 immediate area. In fact, we've drilled over 150 wells
22 within a few miles of this location over the last five
23 years, and we believe this cost is fair and, in light of
24 current industry conditions, a little higher than what we
25 drilled a lot of the wells for, but I believe it's a fair

1 cost for today.

2 Q. You have a pretty good handle on well costs
3 because of Wiser's activity in the area?

4 A. That's correct.

5 Q. And in your opinion, are these costs in line with
6 the cost of other wells drilled to this depth in this area
7 of Lea County?

8 A. Yes, they are.

9 Q. Were Exhibits 7 through 10 prepared by you or
10 under your supervision?

11 A. Yes.

12 Q. And in your opinion, is the granting of Wiser's
13 Application in the interests of conservation and the
14 prevention of waste?

15 A. Yes, it is.

16 MR. BRUCE: Mr. Examiner, I'd move the admission
17 of Wiser's Exhibits 7 through 10.

18 EXAMINER STOGNER: Exhibits 7 through 10 will be
19 admitted into evidence.

20 EXAMINATION

21 BY EXAMINER STOGNER:

22 Q. In referring to Exhibit Number 9, these infill
23 wells that you show in purple --

24 A. Yes.

25 Q. -- especially when you get up there in Section --

1 what is that? -- Section 4, just immediately below your
2 area of interest today, what time period are we looking at
3 those infill wells? Last couple of years?

4 A. Right, most of those were drilled in the 1996-
5 1997 time frame.

6 Q. Are you doing -- or is Wiser doing any current
7 drilling in that Maljamar area now?

8 A. No, the last wells that we drilled were in early
9 1998.

10 Q. Now, you had mentioned -- or -- Yeah, you did
11 mention when you were discussing Exhibit Number 10,
12 drilling costs, and that these were a little bit higher.

13 A. They're higher than what we drilled most of our
14 wells for back in the 1996-1997 time frame. However, with
15 the current state of the industry, costs have escalated
16 considerably, and so this is a little bit higher, probably
17 about 15 percent higher, than what we drilled wells for
18 back then.

19 Q. Okay. Now, is Wiser currently drilling some
20 wells in Lea County?

21 A. Well, we're going to -- We have made application
22 to drill a well about six miles to the west in another unit
23 that we operate, the Skelly unit. It's in Eddy County,
24 just across the county line. And we actually intend to
25 drill those two wells back to back, if the approval is

1 granted.

2 Q. Okay. So when was the last well that Wiser
3 drilled in New Mexico?

4 A. That would have been in early 1998.

5 Q. Okay. Jumping back to Exhibit Number 9 again,
6 you were talking about the wide open spaces north of the
7 unit here. Now, you do show some P-and-A'd wells.

8 A. Yes.

9 Q. What era are those plugged and abandoned wells?

10 A. Most of those are old wells, going back into the
11 1940s and 1950s. Most of them targeted the shallow
12 intervals, the Grayburg and San Andres intervals.

13 If you go a little further off the map, there's
14 some Queen production further to the north, another couple
15 of miles, there's another east-west-trending complex of
16 Queen reservoirs.

17 Q. Okay, so if I -- In fact, looking at Exhibit
18 Number 1 --

19 A. Uh-huh.

20 Q. -- about three miles to the north, is that also
21 old activity?

22 A. Yes, sir.

23 EXAMINER STOGNER: I have no other questions of
24 this witness.

25 MR. BRUCE: I have nothing further in this case,

1 Mr. Examiner.

2 EXAMINER STOGNER: You may be excused.

3 If nobody else has anything further in Case
4 Number 12,366, then this matter will be taken under
5 advisement.

6 (Thereupon, these proceedings were concluded at
7 9:04 a.m.)

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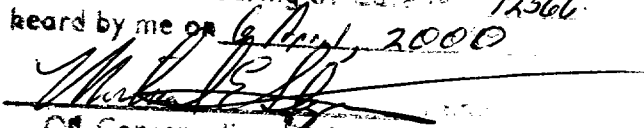
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I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 12366.
heard by me on 6 April 2000

Off. Conservation Division

CERTIFICATE OF REPORTER

[illegible]

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 April 7th, 2000.

Edwin R. Gerner

STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 2002