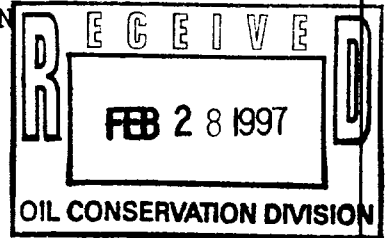


STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION COMMISSION



IN THE MATTER OF THE HEARING CALLED BY)
THE OIL CONSERVATION COMMISSION FOR THE)
PURPOSE OF CONSIDERING:)

APPLICATION OF INTERCOAST OIL AND GAS)
COMPANY FOR COMPULSORY POOLING AND)
UNORTHODOX GAS WELL LOCATION, EDDY)
COUNTY, NEW MEXICO)

CASE NOS. 11,666

APPLICATION OF YATES PETROLEUM)
CORPORATION FOR COMPULSORY POOLING AND)
AN UNORTHODOX LOCATION, EDDY COUNTY,)
NEW MEXICO)

and 11,677

(Consolidated)

REPORTER'S TRANSCRIPT OF PROCEEDINGS

COMMISSION HEARING

BEFORE: WILLIAM J. LEMAY, CHAIRMAN
WILLIAM WEISS, COMMISSIONER
JAMI BAILEY, COMMISSIONER

February 13th, 1997

Santa Fe, New Mexico

This matter came on for hearing before the Oil Conservation Commission, WILLIAM J. LEMAY, Chairman, on Thursday, February 13th, 1997, 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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February 13th, 1997
 Commission Hearing
 CASE NO. 11,666

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(Exhibits 1, 2A through 2F, 3, and 7 through 11 were provided as extra copies of exhibits from the Division file. They were not offered into evidence, and Exhibits 2A through 2F were taken back by Mr. Bruce during the hearing.)

* * *

Yates	Identified	Admitted
Exhibit 1	75	85
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* * *

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By: W. THOMAS KELLAHIN

* * *

1 WHEREUPON, the following proceedings were had at
2 1:36 p.m.:

3 CHAIRMAN LEMAY: Okay, we shall continue, Oil
4 Conservation Commission, and we will now call case Number
5 11,666, which is the Application of InterCoast Oil and Gas
6 Company for compulsory pooling, and call Case 11,677, which
7 is the Application of Yates Petroleum Corporation for
8 compulsory pooling.

9 These cases, of course, will be -- combined
10 testimony will be received, just in one hearing here.

11 So we shall begin with appearances in these
12 cases.

13 MR. BRUCE: Mr. Examiner, Jim Bruce from Santa
14 Fe, representing InterCoast Oil and Gas Company, which, by
15 the way, is now known as KCS Medallion Resources, Inc. I
16 have one witnesses.

17 CHAIRMAN LEMAY: Okay.

18 MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin of
19 the Santa Fe law firm of Kellahin and Kellahin, appearing
20 on behalf of Yates Petroleum Corporation, and I have two
21 witnesses.

22 CHAIRMAN LEMAY: Okay, will those witnesses that
23 will be giving testimony, would you kindly stand, raise
24 your right hand?

25 (Thereupon, the witnesses were sworn.)

1 MR. KELLAHIN: Mr. Chairman, when it's
2 appropriate for the Commission, I'd like to make a brief
3 opening statement --

4 CHAIRMAN LEMAY: Yes.

5 MR. KELLAHIN: -- before we proceed.

6 MR. BRUCE: Let me just hand out my exhibits, Mr.
7 Chairman.

8 CHAIRMAN LEMAY: Okay.

9 We shall continue with opening statements.

10 MR. KELLAHIN: Thank you, Mr. Chairman. I'm the
11 appellant, if you will, to the Commission, having lost
12 before Examiner Catanach in December. I'm sure you're as
13 tired of competing pooling cases as I am, and I'll explain
14 why we're here with this one.

15 The method by which Mr. Bruce and I have agreed
16 to present this case is to expedite the presentation so
17 that you can focus on what he and I agree to be the issues
18 for the Commission to decide.

19 As part of that expedited presentation, he and I
20 have agreed to submit to you copies of the geologic
21 displays that were used before Examiner Catanach. I do
22 have my geologist present, Mr. Bruce does not have his. I
23 think it would be unfair to ask my geologist questions.

24 The point is that in deciding this case, Mr.
25 Catanach and Mr. Bruce and I both agree that geology was

1 not the deciding factor for Mr. Catanach to resolve who
2 operated the spacing unit. And you can see for yourself
3 very quickly the similarity in the geology.

4 In addition to expediting the matter, he and I
5 have agreed to stipulate that the risk factor penalty, the
6 maximum, is appropriate. Regardless of what you decide to
7 do, that's the number that ought to be utilized.

8 We're dealing with the Burton Flat-Morrow Gas
9 Pool. This is not a new discovery; this pool has been
10 around for a while. And we're talking about competition
11 between Intercoast, now Medallion, and Yates to develop
12 Section 20.

13 We have presented Mr. Bob Fant to Examiner
14 Catanach, who demonstrated the comparisons of cost, and we
15 will give you that comparison and show you that when you
16 look at the bottom line of the dollars you can't decide
17 this case based upon a difference in well cost.

18 Now, I will call Mr. Fant to have him discuss
19 with you his concerns about the casing program for the
20 well. He concludes that there's a material difference in
21 the plan that Medallion proposed and which they are
22 initiating, versus the well plan that Yates proposed. It
23 comes down to Yates' desire to have 5-1/2-inch casing set
24 in the well. This is targeted as a Morrow gas well.

25 But Yates wanted the opportunity to have larger

1 casing in the lower interval so that they would have a
2 useful wellbore to facilitate testing shallower gas zones
3 as they backed out of the wellbore.

4 Medallion's preference was to use a smaller
5 casing, and so that is a small item we want to talk to you
6 about today. It is a big item for Yates in determining who
7 operates.

8 You often asked, If both parties want the well
9 drilled and if the location is the same, why in the world
10 are we fussing over who operates? I tell you, it matters
11 considerably.

12 As you know and as we know, the party operating
13 the well make significant, important decisions during the
14 drilling and completion, many of which are judgment calls
15 made by the experts on the well and are not subject to --
16 simply because of timing, not subject to polling all the
17 working interest owners that participate.

18 So there is incredible discretion with the
19 operator.

20 Our position is that the group that collects
21 together the largest percentage and therefore has the
22 greatest financial risk in the well should be allowed to
23 operate.

24 Our position is, by human nature it is common
25 that you pay closer attention to those investments where

1 you have more dollars at risk. And in today's busy world,
2 if you have a small interest you tend to defer to others to
3 take care of it because they have a larger interest.

4 That's simply the way we've structured our industry in most
5 instances. Our operating agreements are often decided on
6 majorities. A majority may be 50, 75, or there's a number.

7 Why we are here today is that my contention is,
8 Examiner Catanach has departed from precedents established
9 by the Division in deciding competing pooling cases.

10 In this case you will soon see that Medallion
11 filed a force-pooling application prior to the time they
12 specifically offered Yates the opportunity to participate
13 in the well, identifying for them the spacing unit and
14 providing them an AFE. That did not happen in this case.

15 In past cases, unlike this case, that has caused
16 the Division to dismiss cases, simply by filing your
17 pooling case prior to proposing the well formally.

18 In this case, unlike other cases, Mr. Catanach
19 decided that was not the deciding issue. He awarded
20 operations to Medallion and did not account for the fact
21 that they had used the force pooling prior to exhausting
22 reasonable efforts to negotiate.

23 The other item is that there is a substantial
24 difference in percentage of ownership. When you look at
25 the east half of the section, it's consolidated in such a

1 way that Medallion obtained one farmout from one interest
2 owner, which gives them 24-percent working interest in the
3 spacing unit.

4 The Yates group, all the Yates entities that
5 we're familiar with, have 37.5 percent, and they've
6 obtained the agreement pursuant to -- a Stonewall Unit
7 operating agreement, such that they control 52.5 percent of
8 the spacing unit. So there's a substantial disparity in
9 ownership.

10 After we conclude the presentation of the
11 witnesses, I want to show you examples of what I think is
12 the Division's action in these matter, so that you can
13 decide as a matter of policy whether there should be a
14 substantial benefit to the party that collects the greatest
15 percentage.

16 And if that is not to be an important deciding
17 factor we would like to know that, because I and others in
18 the industry have been settling disputed pooling cases
19 based upon my perception from looking at these past
20 decisions that majority is an important deciding factor.

21 The only time it's an exception is if there's a
22 substantial technical difference in the geology where there
23 is a significant disagreement over well locations, and then
24 the case is decided on the science.

25 But if the science is generally in agreement, the

1 location is the same, then regardless of who proposes the
2 well first or who develops the prospect, the practice has
3 been, at least from my perception, one where you acquiesce
4 to the majority and the majority then drills the well.
5 There are some exceptions, and I will describe what those
6 are later for you. But that is our presentation.

7 The other dilemma that we have for you today
8 requires some decision by you, is that Examiner Catanach
9 entered the order in January -- I think it was the 13th of
10 January, 1997.

11 Soon after that, on the 21st, I filed a motion to
12 stay the force-pooling order, the purpose of which was to
13 stay the running of the elections under the order and stay
14 having InterCoast/Medallion commence drilling the well
15 until this Commission had a chance to pass judgment on
16 these issues.

17 That stay was denied on January 31st. Mr. Bruce
18 on -- I believe it was the 28th -- filed a response to the
19 stay in which he opposed the stay. His position in that
20 response is that Medallion had an expiring farmout that was
21 going to expire on the 18th of February.

22 The fact of the matter is that Medallion had
23 obtained another extension of this farmout. My stay was
24 denied on the basic contention that they were losing a
25 valuable farmout.

1 The truth of the matter is that that farmout had
2 been extended and does not now expire until the 20th of
3 March. You had an opportunity then and you have an
4 opportunity now to make a decision in this case.

5 On Saturday, Medallion rigged up on the location,
6 and they're drilling the well. So we have a problem from
7 my perspective about a drilling well taking place as we
8 speak and the issue of deciding who operates that well.

9 And to resolve that issue we have agreed to
10 summarize the facts as quickly as we can. Mr. Bruce has
11 given you a summary of facts from his point of view. He
12 and I were unable to stipulate on those facts because I
13 disagree with some of the items in it.

14 I have chosen to call Mecca Mauritsen when it's
15 my turn, and I will go through the factual chronology as
16 she contends it is, and you'll see the two positions in the
17 next hour. And by then I can call Mr. Fant and we can
18 conclude this matter.

19 I have agreed to let Mr. Bruce go first. Mr.
20 Quinn has a flight schedule and weather's deteriorating,
21 and we've accommodated his desire to try to return to Tulsa
22 this afternoon.

23 So with those comments we're ready to proceed,
24 Mr. Chairman.

25 CHAIRMAN LEMAY: Thank you, Mr. Kellahin.

1 Mr. Bruce?

2 MR. BRUCE: Just a couple of quick comments, Mr.
3 Chairman. I think Mr. Quinn will get into this, but as of
4 now, these parties have been negotiating, trying to come to
5 terms for five months.

6 Really, everybody has agreed to drill the well at
7 the same location. The only issue is operatorship. Mr.
8 Kellahin mentioned untimely or perhaps precipitous filing
9 of a force-pooling application. That was back in
10 September. If there were any defects, that has long since
11 been cured. The parties have been negotiating for months.

12 Mr. Kellahin would have you think that the
13 majority ownership in a well is the only factor to decide
14 this case. I think I'll have a few closing remarks about
15 that. I think that is only one factor.

16 As Mr. Quinn will get into in his testimony,
17 really, we wouldn't be here today with not only this well
18 but a well in the northwest quarter of Section 20 being
19 drilled to the Morrow, without the efforts of Medallion.
20 They're the ones who initiated efforts to get a well
21 drilled.

22 We think that the order issued by the Division,
23 in essence, giving Medallion a pat on the back, saying,
24 Yes, you initiated efforts, you should get to operate the
25 well, is correct.

1 And there have been other examples of this. I
2 think one was at the last Commission meeting, the Penwell-
3 Burlington fight. The Division granted operatorship to
4 Burlington because Burlington had been fighting for months,
5 if not years, to get a well drilled. This case is the same
6 way.

7 And a couple of days after we got the order in
8 this case, the Division ordered another order, R-10,742,
9 similar to the Burlington-Penwell, similar to this case.
10 That case was between Penwell and Santa Fe Energy. I lost
11 that one. But the reasoning among all those three cases is
12 the same.

13 Someone who takes the effort to get that well
14 drilled and who has a substantial interest should be given
15 the benefit of the doubt and allowed to operate the well.

16 I would also point out that the largest single
17 interest is owned by Medallion, the largest single interest
18 in this well. The second-largest interest in this well has
19 signed the operating agreement proposed by Medallion.

20 So at this point, almost 50 percent of the well
21 is committed to the well proposed by Medallion.

22 The final issue is the stay that was denied by
23 the Division. And at this point, Mr. Chairman, I have to
24 do a -- I never took Latin, but I think the term is *mea*
25 *culpa*.

1 Mr. Kellahin, as he said, did file for a stay.
2 And when I drafted the response to that stay motion, I
3 based it on the facts as I knew them at that time. At that
4 time I knew that the -- The only knowledge I had was that
5 the farmout expired in mid-February, and I did state that
6 in the motion.

7 At that time I was moving into, I think, a --
8 You've heard me talk in your office, Mr. Chairman. I was
9 moving into new offices, I was preparing for the Avalon
10 Unit hearing. Unfortunately, I didn't have much contact
11 with Medallion regarding my response to that stay.

12 So if the fault is here, it's mine. It's not my
13 client's, it's mine. I did make a misstatement, to which I
14 apologize to the Commission. There was nothing intentional
15 or evil here. I make a living here and I can't afford to
16 lie to the Commission and expect to continue to come here
17 month after month.

18 The well has commenced. Mr. Quinn will talk
19 about that.

20 But really, if you look at my response to that
21 stay motion, the main argument is rig availability, and
22 we'll get into that. And those statements are completely
23 accurate. As Mr. Quinn will testify, rig availability is
24 very, very tight in today's market. If they had not gotten
25 this rig, the next firm available date is in April of 1997,

1 which would be beyond their farmout extension.

2 My final comment is, who is harmed? In our view,
3 who is harmed by the well commencement? We don't think
4 anyone. Virtually everyone wants this well drilled. They
5 want it at the location that's being drilled. And that's
6 what's happening; the well is being drilled.

7 If the Commission decides to award operations to
8 Yates, which, of course, I don't think is proper, but if
9 the Commission decides that, the drilling contract can be
10 assigned.

11 The well is only down a few hundred feet. I
12 think that's a side issue that really has nothing to do
13 with operatorship, but I did want you to know what my
14 position was on that.

15 We'll have Mr. Quinn testify about some basic
16 land matters. I've got a few exhibits to present with
17 really no testimony, just for the information of the
18 Commission.

19 And at that point we would request that the
20 Commission affirm the order of the Division.

21 Thank you.

22 CHAIRMAN LEMAY: Thank you, Mr. Bruce.

23 Okay, I think we're ready. You may --

24 MR. BRUCE: Okay.

25 CHAIRMAN LEMAY: -- proceed.

1 ROCK A. QUINN,
2 the witness herein, after having been first duly sworn upon
3 his oath, was examined and testified as follows:

4 DIRECT EXAMINATION

5 BY MR. BRUCE:

6 Q. Would you please state your full for the record?

7 A. Rock Quinn.

8 Q. And who do you work for and in what capacity?

9 A. I work for KCS Medallion Resources, Inc., as a
10 petroleum landman.

11 Q. And KCS Medallion was formerly known as
12 InterCoast Oil and Gas Company?

13 A. Yes, that is correct.

14 Q. And that was simply a name change, I believe; is
15 that correct?

16 A. That is correct. We had a change of ownership
17 which precipitated the change from InterCoast to KCS
18 Medallion.

19 Q. Okay. Have you previously testified before the
20 Commission?

21 A. No, I have not.

22 Q. Would you please outline your educational and
23 employment background?

24 A. Yes, I have a bachelor's degree, a BBA, in
25 petroleum land management from the University of Oklahoma.

1 I graduated in 1980.

2 At that point in time I went to work for Texas
3 Oil and Gas Corporation, whom I worked for for ten years,
4 Shreveport, Louisiana. Subsequently worked for Marathon
5 Oil Company in Houston, from 1990 to 1994.

6 And I have been employed with InterCoast/KCS
7 Medallion from that time, from 1994 to the present.

8 Q. And does your area of responsibility include
9 southeast New Mexico?

10 A. Yes, it does.

11 Q. And are you familiar with the land matters
12 involved in these two cases?

13 A. Yes, I am.

14 MR. BRUCE: Mr. Chairman, at this time I'd tender
15 Mr. Quinn as an expert petroleum landman.

16 CHAIRMAN LEMAY: His qualifications are
17 acceptable.

18 MR. BRUCE: Okay. Before we begin, Mr. Chairman,
19 I've handed you two exhibits. The first one is marked on
20 the back as Exhibit B -- I mean, excuse me, as Exhibit A.
21 This is an outline of facts I put together.

22 I essentially took what you have before you from
23 the Division's Order, and in the interests of making this
24 as short as possible I'm just going to have Mr. Quinn
25 testify on a few of the items that are set forth here.

1 The first section, I A, just simply summarizes
2 the applications filed by Medallion and filed by Yates. As
3 we stated, both Medallion and Yates seek to be named
4 operator of the well. And as Mr. Kellahin said, the
5 Division ruled against Yates, and Yates has appealed *de*
6 *novo*.

7 Let me give you one -- I'm going to hand out a
8 couple of exhibits to you. The first one is simply Exhibit
9 1 from the Examiner Hearing, or at least the land plat from
10 Exhibit 1 from the Examiner hearing, in looking at that.

11 Q. (By Mr. Bruce) Now, Mr. Quinn, in looking at
12 Exhibit 1 and the Exhibit A that I've marked, could you
13 describe, just very briefly, land ownership and perhaps
14 reference the Stonewall Unit that Mr. Kellahin referred to
15 as affects Section 20 or the east half of Section 20?

16 A. Yes, our proposed unit is the east half of
17 Section 20. You'll note the well location, unorthodox
18 located 990 out of the northeast corner there.

19 The offset producing unit, you will note, OXY to
20 the north, being the south half of Section 17. Also they
21 operate a well, west half of Section 16. And in the north
22 half of Section 21 Petroleum Reserve Corporation operates a
23 well covering that particular unit.

24 Q. And these parties were given notice of the
25 original hearing?

1 A. Yes, they were, in addition to the mineral owners
2 within the southeast quarter of Section 21.

3 Q. And the parties, both Yates and Medallion, have
4 come to terms with OXY regarding this unorthodox location,
5 giving information, et cetera?

6 A. Yes.

7 Q. Okay. Now, just looking at -- ignore the -- Or
8 looking at Section 20, except for the northeast quarter,
9 what is the ownership there? I mean in general terms.

10 A. Well, the Stonewall operating agreement itself,
11 for which Yates is designated operator under, covers entire
12 Section 20, with the exception of the northeast quarter of
13 Section 20. However, that operating agreement does cover
14 an undivided 5-percent interest in the northeast quarter.

15 In addition to that, the Stonewall -- the heart
16 of the Stonewall operating agreement takes in portions of
17 19, 30 and I believe Section 29 to the south. And I
18 believe it covers in excess or around 1500 total surface
19 acres.

20 Q. And of the -- In the northeast quarter where the
21 well is located, 95 percent of that northeast quarter is
22 not committed to the Stonewall Unit; is that correct?

23 A. Yes, that is correct.

24 Q. And who owns that 95 percent?

25 A. That is owned by -- KCS Medallion has obtained a

1 farm-in from Kerr-McGee. Kerr-McGee has recently sold
2 virtually all their assets in this area to Devon Resources,
3 or Devon Oil Company.

4 Q. Devon Energy?

5 A. Devon Energy. And so the ownership in the
6 northeast quarter is Devon, approximately 48 percent, and
7 Diamond Head properties, approximately 47 percent, as to
8 the northeast quarter.

9 Q. The Diamond Head properties, that comes out of
10 John Redfern, does it not?

11 A. That is correct. That's part of the Redfern
12 family, with the remaining 5 percent is owned by Claremont
13 Corporation, which is committed to the Stonewall operating
14 agreement, for which Yates operates.

15 Q. In looking at page 2 of Exhibit A, paragraph B
16 (4), it lists some rough interests owned by these parties.
17 That was taken from the Division order, was it not, Mr.
18 Quinn?

19 A. The Exhibit A?

20 Q. Exhibit -- Page 2 of your Exhibit A.

21 A. Yes, with the exception of Diamond Head and
22 InterCoast, the Yates interests and thereafter are
23 contractual interests. Those interests were provided to me
24 by Yates Petroleum, as they are the operator and are --

25 Q. Okay.

1 A. -- aware of the contractual ownerships within
2 that operating agreement.

3 Q. And so Medallion, Diamond Head and Yates
4 Petroleum are the largest interest owners; is that correct?

5 A. Yes, that is correct.

6 Q. And then of course there are some other -- three
7 other Yates entities who also own a fairly substantial
8 interest?

9 A. Yes.

10 Q. Okay. As of this point, what percentage interest
11 is committed to Medallion's well?

12 A. At this point, in excess of 48 percent of the
13 proposed unit area is committed to Medallion.

14 Q. Okay, the Diamond Head interests have committed
15 to your --

16 A. The Diamond Head interest interests have signed.

17 Q. Okay. Now, let's start with the chronology of
18 events, starting at page 3 of the Exhibit A I handed the
19 Commissioners, Mr. Quinn.

20 Medallion first contacted Yates and the other
21 interest owners in August and September of 1996; is that
22 correct?

23 A. Yes, by letter dated August the 26th we initially
24 contacted Yates, requesting a farmout.

25 Q. Okay. Yates soon informed you that they were not

1 interested in farming out; is that correct?

2 A. That is correct, by telephone conversations on
3 September the 4th I got a strong impression that Yates
4 would -- if they were interested, they would likely
5 participate in this well, which was confirmed on September
6 the 17th.

7 Q. Now, your first letter to Yates didn't specify a
8 north- or east-half unit, did it?

9 A. No, it did not.

10 Q. Okay. It did specify a well at the current
11 location?

12 A. Yes, it did, and I neglected to point out what
13 particular proration unit we had in mind there.

14 Q. Okay. At that point you thought the south half
15 was dedicated to a well, did you not?

16 A. That is correct, Yates operated a well in the
17 south half for which I was not sure of the status of that
18 particular well. I know that at the time it was shut in
19 and we were not aware of what zone or whether or not the
20 com agreement which was filed on behalf of that well was
21 still effective or not --

22 Q. Okay.

23 A. -- for the south half of Section 20.

24 Q. Now, shortly after that you filed a pooling
25 application, or Medallion filed a pooling application, on

1 the north half of Section 20; is that correct?

2 A. Yes, we did.

3 Q. Was that necessitated because of your short-term
4 farmout?

5 A. Yes, we had obtained farm-in, like I mentioned,
6 from Kerr-McGee, and we wanted to immediately initiate
7 efforts to bring all the parties together for the drilling
8 of the well within the time frame provided by the farm-in
9 agreement.

10 Q. Okay, and after that you did send out a
11 correspondence to all of the interest owners with AFEs, et
12 cetera, did you not?

13 A. Yes, I did.

14 Q. Okay. Now, the hearing was first scheduled for
15 what? October --

16 A. October the 17th, initially.

17 Q. Okay, and why was that continued?

18 A. Yates indicated that they needed additional time
19 with which to evaluate the prospect, to decide what their
20 decision was going to be.

21 Q. Okay.

22 A. And furthermore, Yates pointed out that -- the
23 flaw in our original proposal to them, the fact that I did
24 not provide them with an AFE. However, I did include well
25 costs. I did not specifically state in my farmout request

1 that Yates has the opportunity to participate in the
2 drilling of this well.

3 Q. Okay.

4 A. But I in no way meant to imply that that
5 opportunity was not available to them.

6 Q. Okay.

7 A. But the reason it got postponed was because of
8 their threat to file for a motion to dismiss it because of
9 that, that particular flaw.

10 And so we agreed to -- And by that time I had
11 provided them with an operating agreement, an AFE, they had
12 it in their hands, they were looking at it, and we agreed
13 to continue it to November the 7th.

14 Q. Okay.

15 A. In return, Yates represented to my counsel that
16 they would not raise that issue again if we agreed to go on
17 and continue that matter to the next -- to the November 7th
18 hearing date.

19 Q. Now, shortly thereafter Yates proposed a well
20 with a north-half unit, but the well was in the northwest
21 quarter, as opposed to the northeast quarter; is that
22 correct?

23 A. Yes, that is correct.

24 Q. Okay. Now, this hearing was scheduled for
25 November 7th. Actually on that date, you traveled to

1 Artesia with your geologist to meet with Yates, did you
2 not?

3 A. Yes, we did. We lined up a meeting which turned
4 out to be -- The earliest we could get to Artesia from
5 Tulsa was November the 7th, as it turned out. That was the
6 date.

7 So of course we voluntarily continued that so
8 that we could get together with them, discuss the issues
9 and see if we could not reach a compromise or a resolution
10 with regard to getting a well drilled in here.

11 Q. What was the sum of that meeting in Artesia on
12 November 7th?

13 A. Well, basically, the parties were at an impasse,
14 because Yates wanted to drill the well for the north-half
15 unit in the northwest corner, unorthodox location. Of
16 course, our location was in the northeast corner.

17 We suggested, in the spirit of compromise, that
18 instead of having a laydown unit here for purposes of the
19 drilling of the well we originally proposed in the
20 northeast quarter, to re-orient the units, since that
21 option was available, to standup units, make it for a west-
22 half unit for the location that Yates preferred to drill
23 and an east-half unit for the location that Medallion
24 preferred to drill.

25 During that meeting Yates was adamant about their

1 location being -- the best location being the northwest
2 corner. They felt that a well to be located in the
3 northeast corner was too risky, and they just could not
4 agree to consent to that.

5 Q. Okay. So as a result, did you come back and
6 re-propose the well with an east-half unit?

7 A. Well, we proposed that east-half/west-half idea,
8 and for the people present in the meeting for Yates, they
9 felt that that was a workable plan. It appeared to address
10 both parties' concerns for where they wanted their wells
11 drilled.

12 However, Yates indicated that they would need
13 upper management approval on this but felt it was a
14 workable plan, and they would get back to us.

15 So we left that particular meeting thinking that
16 we had us a deal, a workable deal. Yates could drill their
17 preferred location, we could drill ours, which they felt
18 was much too risky, and both parties could accomplish their
19 goal of drilling their particular locations.

20 Q. Okay. Then you did -- What happened after that?

21 A. Well, we went back to our office, discussed the
22 situation with our management. A decision looked positive
23 by us because -- The ownership for Medallion was not
24 impacted by the reconfiguring of the units.

25 We immediately put together the necessary

1 paperwork and the proposals to re-propose the well, based
2 on an east-half unit, for which is what we did, and we also
3 filed for a hearing date for the east-half unit.

4 Q. Okay. Now, one thing -- This is kind of a side
5 issue here, Mr. Quinn. At one point you thought that --
6 based on a report you received from a broker, I believe,
7 that Kerr-McGee had the entire 95-percent interest in the
8 northeast quarter?

9 A. Yes, this -- That is true. Our broker report
10 incorrectly interpreted the assignment from the Redfern
11 family or the Redfern Oil Company to Kerr-McGee as covering
12 the full 95-percent interest in that.

13 In reality, the Rosalind Redfern interest was
14 excepted out of that assignment. So we were under the
15 impression that we had a 95-percent interest in that
16 northeast quarter.

17 Mecca Mauritsen mentioned to me that she believed
18 that Rosalind Redfern and Diamond Head Properties was the
19 owner of that interest. I immediately checked into that
20 and verified she was correct as to that matter. And so we
21 were -- we did stand corrected on that particular matter.

22 Q. And as you said, as this point the Diamond Head
23 interests have committed to your well?

24 A. Yes, they have.

25 Q. Okay, and you repropose the well as an east-half

1 unit and filed the application at this point. At this
2 point, mid-November, when you did that, what was the
3 farmout deadline you had.

4 A. The farmout deadline was January the 18th.

5 Q. Okay. Now, after this, what did Yates inform you
6 about operatorship?

7 A. Yates, within -- I've got dates here -- within a
8 couple weeks of our meeting, indicated that management was
9 agreeable to the reorientation of the units and, in the
10 same conversation, asked what we would think about them
11 operating the east-half unit.

12 I indicated to Ms. Mauritsen that we found that
13 unacceptable, that this was a prospect we had generated and
14 had worked, we had met with them on, they were not in
15 agreement with our location, and we had been the moving
16 force in getting wells drilled in here, and we just were
17 not agreeable, voluntarily agreeable, to allowing them to
18 operate the east-half unit.

19 Q. Okay. And Yates subsequently sent out a proposal
20 of its own for an east-half unit, did it not?

21 A. Yes, they did.

22 Q. And filed their own application?

23 A. And filed an application for a December 19th
24 hearing on that particular one. At that time, our east-
25 half hearing was coming up for December 5th hearing, and so

1 with the competing application we realized that it would do
2 no good to go forward with it, so we voluntarily agreed to
3 continue it to December 19th, so both applications could be
4 heard simultaneously.

5 Q. Now, you still have this north-half application.
6 That application was dismissed, was it not?

7 A. Yes, it was.

8 Q. Okay. So as of the hearing date back in
9 December, essentially the parties have been negotiating
10 over this same specific well in the northeast quarter of
11 the northeast quarter for two to three months, have they
12 not?

13 A. At the time of that hearing, yes.

14 MR. BRUCE: Mr. Chairman, this is simply -- This
15 in the Division's file. It's an extra copy of Exhibit 2A
16 through 2F, which is simply the correspondence from
17 InterCoast and various parties. It's already in the
18 Division file. I would just submit that for weight, if
19 nothing else. I don't want -- I didn't want to make copies
20 of everything and go through it in detail.

21 Q. (By Mr. Bruce) Just a couple of follow-up
22 things, Mr. Quinn. You mentioned the initial farmout date
23 was January 18th. When was it extended the first time?

24 A. Well, the initial expiration date of the farmout
25 was January the 18th. We had -- We were able to obtain a

1 30-day extension to that farmout to a February the 17th
2 date.

3 Q. Okay. Then, as Mr. Kellahin mentioned, it was
4 extended a second time, was it not?

5 A. Yes, it was. On -- The OCD issued its order on
6 January the 16th. We immediately proceeded to locate an
7 oil and gas drilling rig which would be available by the
8 February 18th date.

9 In our effort to do that, we realized rigs were
10 very tight out here. We were unable to immediately locate
11 a rig which would be available to us by that date. I
12 called Devon, who was successor in title to Kerr-McGee. I
13 told them that we were searching diligently to find the rig
14 to drill it in time.

15 But out of an abundance of caution -- We felt
16 that we had a good chance of making the expiration date,
17 spudding on that date, but I requested additional time
18 under that farmout, in the event we were not able to get
19 the rig in there in time.

20 Devon's response was that we -- it's not their
21 intention to pull the rug out from under us. If we're out
22 there searching for a rig, they were not going to deprive
23 us of an extension.

24 And in that representation to us, I thought that
25 I would go on and write a letter to them and immediately

1 get him signed up for an additional 30-day extension to the
2 February 18th commencement date under the farmout
3 agreement, which I received from Devon. They signed up on
4 the 21st.

5 Q. If you had not gotten the rig that's on there
6 now, what was the next firm available date?

7 A. Well, according -- and I've spoken with our
8 drilling engineers. The last available -- Unless we were
9 able to slot into somebody else's spot who dropped out of
10 the sequence of wells to be drilled, it was going to be
11 April.

12 Now, we felt like we could -- there would be a
13 slot that would open up in there, and we had an opportunity
14 to get a rig in mid-January. We told them we were
15 interested in it, and we went ahead and committed to taking
16 that particular rig. This was Peterson rig.

17 Q. Okay. If drilling had ceased, what were the
18 standby charges?

19 A. \$5000 a day.

20 Q. Okay. Now look at your Exhibit B, Mr. Quinn, a
21 little land plat with a few wells on it. What does --
22 What's represented on that Exhibit B?

23 A. This is a shot of the Stonewall Unit area.
24 Actually, the Section 20, 19, 30 and 29 are parts of the
25 Stonewall Unit area.

1 You will note that the wells and the numbers next
2 to the wells are years that Yates has last drilled any
3 wells in the Stonewall Unit area. You will note there that
4 the last time Yates has drilled any Pennsylvanian-age well
5 in the Stonewall Unit area has been almost 20 years, 1978.

6 Q. Okay. And as I think you can agree -- Would you
7 agree, Mr. Quinn, that since the summer of 1996 Medallion
8 has been the moving force in getting a well or wells
9 drilled in this Section 20?

10 A. Yes, I believe we have. And in fact, if we had
11 not taken the initiative out here and been a moving force,
12 the likelihood is that there would be no wells drilling,
13 whereas now there's going to be two wells drilled in
14 Section 20.

15 Q. Mr. Quinn, in your opinion is the granting of
16 Medallion's Application and the denial of Yates'
17 Application in the interest of conservation, the prevention
18 of waste and the protection of correlative rights?

19 A. Yes.

20 Q. And were Exhibits A and B prepared by you or
21 compiled under your direction?

22 A. Yes, they were.

23 MR. BRUCE: Mr. Examiner [sic], I'd move the
24 admission of Medallion's Exhibits A and B into the record.

25 CHAIRMAN LEMAY: Without objections, Exhibit A

1 and B will be admitted into the record.

2 MR. BRUCE: And my final thing, Mr. Chairman, is,
3 as Mr. Kellahin said, there's -- I think Mr. Kellahin has
4 extra sets of Yates' geologic exhibits. These are just
5 extra sets of the geologic exhibits from the Examiner
6 hearing submitted by Medallion. I think both geologists
7 agreed that the location at 990 feet from the north and
8 east lines is the preferable location. They might have had
9 difference of interpretation. Yates' geologist here can
10 speak to that. But they essentially agreed on the well
11 location. And just if the Commission wants it, these are
12 just simply a set from the prior hearing. I do not have a
13 geologist handy.

14 And the final thing is, I think Mr. Fant of Yates
15 will get up and discuss AFEs. I think his testimony at the
16 last hearing was that when comparing apples to apples, AFE
17 costs are not different between the two parties. And this
18 is simply Exhibit 3 from the Examiner hearing. It's just a
19 copy of Medallion's AFE, and I have no further comment on
20 that.

21 And then the final thing, Mr. Chairman, is,
22 because under the incorporating parts of the prior record,
23 I would ask the Commission's indulgence and incorporate the
24 record of the Examiner case.

25 CHAIRMAN LEMAY: Is it agreeable to incorporate

1 the record --

2 MR. KELLAHIN: I have no trouble with that, Mr.
3 Chairman.

4 CHAIRMAN LEMAY: Okay. Let the record show the
5 record of the previous Examiner hearing is incorporated
6 into this record.

7 And does that conclude your --

8 MR. BRUCE: And that concludes my presentation --

9 CHAIRMAN LEMAY: -- presentation?

10 MR. BRUCE: -- Mr. Chairman.

11 CHAIRMAN LEMAY: Okay. Mr. Kellahin?

12 CROSS-EXAMINATION

13 BY MR. KELLAHIN:

14 Q. Mr. Quinn, you don't intend the Commission to
15 believe that Yates's desire to be the operator of the well
16 in the northeast quarter is an indication that they think
17 your location is too risky for a well?

18 A. Could you repeat the question?

19 Q. Yes, sir. We were talking about risk a while
20 ago. Isn't Yates' assertion of the right to operate the
21 well in the northeast quarter a strong indication of their
22 faith that a well ought to be drilled in the northeast
23 quarter?

24 A. Yes, they've obviously changed their mind.

25 Q. Okay. And they changed their mind since this

1 November 7th meeting?

2 A. Yes.

3 Q. And you had the impression in that meeting that
4 Yates did not want a well drilled in the northeast quarter?

5 A. A very strong impression.

6 Q. And who was in that meeting with you?

7 A. Mr. Ray Beck, geologist for Yates Petroleum; Bill
8 Siruta, geologist for Medallion; Mecca Mauritsen; John
9 Yates; Randy Patterson and myself.

10 Q. None of those individuals at that meeting raised
11 with you or discussed with you who was going to operate the
12 well in the east half, right?

13 A. No.

14 Q. That's right, there was no agreement and no
15 discussion on who operates the well in the east half of the
16 section at the meeting on November 7th; is that not true?

17 A. That is true. If it was up to Yates, there would
18 be no well drilled in the northeast quarter, at that
19 meeting.

20 Q. So if Mecca Mauritsen testifies in a few minutes
21 to the opposite recollection, then she would not be
22 truthful in her testimony?

23 A. It is not how I recollect it.

24 Q. Do you recall your testimony on December 19th
25 before the Examiner? You testified in that case, did you

1 not?

2 A. Yes.

3 Q. At that hearing you testified that InterCoast,
4 now Medallion, had a farmout from Kerr-McGee, the net
5 result of which is, in the east half of the section your
6 gross working interest, if you will, is 24 percent, right?

7 A. Yes.

8 Q. Okay. You have no interest either then or now in
9 the west-half of the section, right?

10 A. No, I do not.

11 Q. Okay. In your summary that Mr. Bruce provided
12 you, when we look on the page number 2, under B (5), you've
13 made a point here this morning -- or this afternoon -- that
14 Diamond Head has now joined you with their 23 percent, and
15 that now Medallion has in combination about 47.5 percent
16 committed to it?

17 A. Yes, that is correct.

18 Q. All right. Do you see (5), Mr. Bruce's summary,
19 (5), where it says "Diamond Head..."

20 A. Yes.

21 Q. "...was neutral in this matter, and indicated its
22 desire to join whichever well was approved by the
23 Division"? Do you see that?

24 A. Yes.

25 Q. Is that a truthful statement?

1 A. "Whichever well" there meaning -- Actually, I
2 think that was -- that's incorrectly stated. It's
3 whichever operator operated the well in northeast quarter.

4 Q. Based upon the decision of the Examiner, right?

5 A. That is correct.

6 Q. Yeah. And so once the Examiner order was
7 entered, Diamond Head signed your AFE and your agreements,
8 I assume?

9 A. Yes, they did.

10 Q. All right. Are you suggesting to this Commission
11 that now in combination with Diamond Head they should
12 decide this case, based upon the fact that Diamond head is
13 now committed to Medallion?

14 A. Could you repeat the question?

15 Q. Let me turn it the other way: Did you not know,
16 and did we not discuss at the last hearing the fact that
17 Ms. Redfern for Diamond Head was going to sign with Yates
18 if Yates was to be operator of the well?

19 A. That is correct.

20 Q. Okay. So when we find this statement in here
21 about Diamond Head being neutral, in fact, they intended to
22 be neutral as to this dispute?

23 A. Yes.

24 Q. You testified on December 19th that at that point
25 in time, the farmout with Kerr McGee expired on February

1 17th?

2 A. That is correct.

3 Q. Okay. You testified a while ago that the order
4 was entered on the 16th of January, 1997. I think, in
5 fact, it's the 13th, is it not, sir?

6 A. I became aware of it on January the 16th. I'd
7 have to look at that order, but my recollection is it's
8 January the 16th.

9 MR. KELLAHIN: All right.

10 MR. BRUCE: I think I received it on the 16th,
11 Mr. Kellahin.

12 Q. (By Mr. Kellahin) For the record, sir, the order
13 is dated and issued on the 13th, but apparently you got it
14 on the 16th?

15 A. Yes, it was faxed to me the day that Mr. Bruce
16 received it.

17 Q. Okay. Were you aware that Yates filed a request
18 that the Commission or the Division stay that order and
19 that we file that request on January 24th? Were you made
20 aware of that, sir?

21 A. Yes.

22 Q. When did you become aware of that?

23 A. At some time subsequent to that date, within a
24 day or so.

25 Q. Okay. And by the 24th, when Yates is requesting

1 a stay of the order, you already had in hand an extension
2 of the expiring farmout which now extended into March 20th,
3 1997; is that not true?

4 A. That is correct. As I've testified, I got that
5 extension on January the 21st.

6 Q. Let me show you a copy, Mr. Quinn, of that
7 extension letter and ask if you can authenticate it.

8 A. That's it.

9 MR. KELLAHIN: All right, sir.

10 Mr. Chairman, this is my only copy Mr. Bruce
11 provided to me --

12 MR. BRUCE: I have extra copies, Mr. --

13 MR. KELLAHIN: I'd ask that it be submitted, and
14 I'll have to find the number for it. We'd like to mark it
15 as Yates Exhibit Number 11 to the Commission hearing today,
16 and that will give us a sequence that stays in line with my
17 exhibits, so that at an appropriate time I'll mark that as
18 a Commission exhibit, Yates Exhibit Number 11.

19 Q. (By Mr. Kellahin) Mr. Quinn, did you assist Mr.
20 Bruce in preparing Meridian's response requesting that the
21 stay be denied?

22 A. Medallion's response --

23 Q. Yes, sir.

24 A. -- to that stay? I did -- I looked at it, yes, I
25 did. She drafted it, I took a quick look at it.

1 Q. All right, and you looked at it before it was
2 filed on January 28th?

3 A. Yes, I did.

4 Q. Did you recognize that the statements that he had
5 made on your behalf were not truthful with regards --

6 A. No, I did not.

7 Q. -- to the extension? You did not see that?

8 A. I did not see that.

9 Q. Did you have the opportunity to make that
10 judgment for yourself, had you thoroughly read the filing
11 he was making for you?

12 A. If I would have noticed that on there, that
13 particular footnote that you are referring to --

14 Q. Yes, sir.

15 A. -- I would have pointed that out.

16 Q. Do you recall at the last hearing the
17 representations made by Yates that they would commit to
18 having a rig available so that that well could be commenced
19 prior to the expiration of the farmout which was then
20 scheduled to expire on February 18th?

21 A. Yes.

22 Q. In your efforts to obtain a rig, did you contact
23 Mecca to see if Yates had available a rig that might be
24 utilized for this well?

25 A. On January the 22nd, I put a call to Mecca

1 Mauritsen. I was informed that -- And this was one day
2 after I had received the farmout extension. I was informed
3 that Mecca was in a meeting and she was unavailable. I
4 left a message to please have her contact me, I needed to
5 speak with her.

6 I have to this time not had my telephone call
7 returned to me.

8 Q. Did you indicate to her or to a messenger the
9 urgency of the call, that you were searching for a rig?

10 A. I don't leave those kind of messages with
11 secretaries.

12 Q. Did you fax to Mecca's attention the fact that
13 you needed a rig and wanted to know if they had one
14 available for your use?

15 A. It was not my intention to rely upon Yates to
16 help us out in a bitter operator dispute battle, to provide
17 us an oil and gas rig in a timely manner to drill the well.

18 Q. Was it Medallion's purpose to rig up on the
19 location on Saturday, February 8th, in order to preclude
20 Yates from having an opportunity for a hearing before this
21 Commission today?

22 A. Absolutely not.

23 Q. That was not your purpose?

24 A. It absolutely was not our purpose.

25 Q. Have you modified the well program for the well

1 to substitute in the 5-1/2-inch casing that Mr. Fant had
2 requested be put in the well, or are you still pursuing a
3 4-1/2-inch program?

4 A. At this point I'm only aware of the 4-1/2-inch
5 casing program.

6 Q. Okay. On the 24th of September, 1996, you caused
7 -- I believe your attorney at that point was Mr. Carr, was
8 it not?

9 A. Yes, it was Bill Carr.

10 Q. All right. You caused Mr. Carr on February 24th
11 to file a force-pooling case to force-pool Yates with
12 regards to the well at the location you were suggesting in
13 the northeast quarter, right?

14 A. That is correct.

15 Q. Okay. And that filing was made before you
16 provided Yates with an itemized AFE, an operating agreement
17 or an opportunity to participate in the well, and in
18 addition you had not yet specified the spacing unit had
19 you?

20 A. We had discussed the spacing unit with Yates over
21 the telephone. It had not been specified in any written
22 correspondence to Yates, between Yates and Medallion.

23 Q. In fact, on the 17th of September Janet
24 Richardson for Yates -- In fact, you offered to send her an
25 AFE an and operating agreement in your conversations with

1 her on the 17th of September, right?

2 A. Yes, which we did.

3 Q. And on September 14th you filed a force-pooling
4 case against her, and then on October 9th you finally get
5 around to sending her the AFE?

6 A. We did not file on September 14th.

7 Q. 24th?

8 A. Yes.

9 Q. All right. Am I right in understanding you --
10 Yates did not receive your proposal until the month of
11 October, the 9th of October?

12 A. That is correct, they -- They represent that it
13 took the full nine working days to receive -- not working
14 days, nine days to receive that letter from Tulsa, that is
15 correct.

16 Q. Do you have a copy of the farmout proposal that
17 dealt with the northeast quarter of Section 20, the August
18 30th letter? Do you have that in your file?

19 A. The August --

20 Q. -- 30th, 1996, letter, from you to Yates?

21 A. Yes, I'm sure I do.

22 Q. The farmout request.

23 A. Yes, yes.

24 Q. All right. Do you want to get a copy of that out
25 for me, sir?

1 A. Let me make sure --

2 Q. I've got one here.

3 A. Okay.

4 Q. A while ago, Mr. Quinn, you testified that apart
5 from the fact that you hadn't specified in the farmout
6 agreement the spacing unit or given them an AFE, you had,
7 in fact, disclosed to them what you thought the total well
8 costs were going to be. The letter says \$697,000, right?

9 A. Yes.

10 Q. That, in fact, is the wrong number, isn't it?

11 A. Well, that was in August, so --

12 Q. And by the time we're hearing, your well costs
13 are now \$775,000 and change?

14 A. Whatever we represented it to be. But at the
15 time that was our best estimate of the cost of drilling
16 that particular well. They subsequently -- "they" being
17 Yates -- were subsequently provided with AFEs. So I
18 imagine the costs are different.

19 Q. When you talked a while ago about what you
20 believed was a commitment by Yates not to file a motion to
21 dismiss your Application, which was filed on December 24th,
22 the grounds being that it had been filed before you had
23 properly proposed the well, that you got that information
24 from your counsel, that in exchange for a continuance Yates
25 was not going to file a motion to dismiss?

1 A. That's correct.

2 Q. That was your testimony?

3 A. Yes, it was.

4 Q. And you got that information from Mr. Carr?

5 A. That is correct.

6 MR. KELLAHIN: Okay. Mr. Chairman, I would
7 appreciate your indulgence to get an affidavit from Mr.
8 Carr subsequent to the hearing and submit it in the record.

9 Q. (By Mr. Kellahin) When we look at the -- I'm
10 sorry.

11 CHAIRMAN LEMAY: Just hold on a second.

12 (Off the record)

13 MS. HEBERT: Mr. Kellahin --

14 MR. KELLAHIN: Yes, ma'am.

15 MS. HEBERT: -- what do you think Mr. Carr will
16 be able to put in his affidavit that wouldn't be attorney-
17 client privilege?

18 MR. KELLAHIN: This gentleman has just released
19 Mr. Carr from the attorney-client privilege by his
20 testimony, saying his counsel had told him that Yates was
21 not going to file a motion to dismiss, when, in fact, I
22 filed a motion to dismiss when Mr. Carr recused himself,
23 and I made that filing on November 1st. And I think they
24 have released the attorney-client privilege as to that
25 topic, and I want an affidavit from Mr. Carr as to whether

1 or not he had a commitment from Yates as to not filing a
2 pooling dismissal case, because I did it, and I need to
3 clarify that point.

4 THE WITNESS: You may not -- if I can --

5 CHAIRMAN LEMAY: Just hold on a second.

6 THE WITNESS: Okay.

7 CHAIRMAN LEMAY: Is that appropriate?

8 MS. HEBERT: Mr. Bruce, would you like to address
9 this?

10 MR. BRUCE: Well, you know, I'm willing -- I've
11 been letting Mr. Kellahin go on because most things are
12 allowed in this case. I think these are nonissues.

13 I mean, the parties have been negotiating for
14 five months and they can't agree on one thing. Who
15 operates? I suppose we could go on for another three hours
16 and discuss this, number one.

17 But number two, why? Everybody wants to drill
18 the well, they've been negotiating for five months. We're
19 bringing up all these defects in a proposal letter that was
20 sent out in August. Who cares, number one. Number two,
21 Mr. -- I'm not accusing, or neither is Mr. Quinn, Mr.
22 Kellahin of doing anything but his job. Mr. Quinn is
23 talking about what he perceived to be Yates' agreement.

24 We've been -- As Mr. Quinn testified, this
25 hearing was continued four or five times before we finally

1 got to hearing, because every time we turned around Yates
2 was seeking a continuance, filing a motion to dismiss,
3 requesting to be operator, changing the unit, you name it.
4 I think most of it's irrelevant to this case.

5 I suppose Mr. Quinn has informed the Commission
6 of a communication he had with his attorney who Yates later
7 made recuse, and I suppose Mr. Kellahin could get an
8 affidavit giving Mr. Carr's recollection of the idea. But
9 frankly, we need a decision today on this matter.

10 MS. HEBERT: So do you object or not object? I
11 understand you --

12 MR. BRUCE: I object, just because he could have
13 had Mr. Carr over here today, I suppose.

14 CHAIRMAN LEMAY: Give us a couple minutes here.

15 (Off the record)

16 MR. BRUCE: Ms. Hebert, my final comment is, this
17 was brought up in the Division hearing also.

18 MR. KELLAHIN: If I might be heard, Mr. Chairman,
19 before you rule, I have a small point.

20 CHAIRMAN LEMAY: Sure.

21 MR. KELLAHIN: I think Mr. Bruce misses the point
22 of my discussion, and perhaps it's escaped you.

23 This is important for the Examiner decisions
24 because it is the consistent practice of your Examiners to
25 dismiss pooling cases, even after they've been continued,

1 if the applicant has prematurely filed to force-pool. Mr.
2 Stogner did it to me in a Meridian case. It's Order
3 R-10,545. That application was filed on November 8th of
4 1995 based upon a well proposal of October 31st of 1995.
5 He said we had not given the parties enough time.

6 He made that decision, however, after the case
7 had been continued repeatedly to January 11th.

8 So the practice in one case is, despite
9 continuances, you get thrown out of here. And yet here's a
10 case where it didn't happen.

11 Now, I don't care which way it is, but let's do
12 it the same way. That's my point.

13 CHAIRMAN LEMAY: Well, you're coming before the
14 Commission to get a precedent set --

15 MR. KELLAHIN: Exactly right, Mr. Chairman.

16 CHAIRMAN LEMAY: I understand your reasons in the
17 past for honoring Examiner priorities and precedents, but I
18 understand you're looking for some criteria for not only
19 this case but future force-pooling cases to -- that's
20 relevant.

21 We don't consider this affidavit relevant to our
22 decision, so if you -- There's no reason to get it,
23 Counselor, that's all.

24 MR. KELLAHIN: All right, thank you, Mr.
25 Chairman.

1 Q. (By Mr. Kellahin) Mr. Quinn, am I correct in
2 understanding that your experience is in Oklahoma with
3 regards to regulatory practices? Is that not where you
4 have had your experience?

5 A. Oklahoma, Louisiana, yes.

6 Q. This pooling case before the Commission today is
7 your first experience in a compulsory pooling case in New
8 Mexico, is it not?

9 A. Yes, it is.

10 Q. Okay. When we look at the orientation of the
11 spacing unit, whether it was north half or east half, that
12 was not going to reduce Medallion's working interest share;
13 is that not true?

14 A. That is correct, but I don't believe it was going
15 to reduce Yates' either.

16 Q. That was not my question, you heard my question.
17 It's not going to reduce the Medallion interest, is it?

18 A. I answered yes.

19 Q. Okay. Am I also correct in understanding that if
20 Yates is allowed to operate, it does not reduce Medallion's
21 interest?

22 A. No, it does not.

23 Q. Your farmout is not at risk if Yates is awarded
24 the right to operate the well at this point; is that not
25 true?

1 A. No.

2 Q. Okay. It is true? We've got a double negative
3 here, let me try again.

4 A. I meant to agree with what your statement was.

5 Q. I thought you did.

6 Is your personal compensation affected upon
7 whether or not Medallion operates or Yates operates?

8 A. No, it is not.

9 Q. Are you compensated based upon whether a well is
10 drilled or not?

11 A. No, I am not.

12 Q. So that's not an issue for us?

13 A. It is not an issue.

14 Q. Have you kept track of the recent activities in
15 Burton Flat-Morrow with regards to the renewed interest in
16 that reservoir?

17 A. I'm aware of our interest in that particular
18 reservoir but --

19 Q. No others?

20 A. (Shakes head)

21 Q. You're not aware, then, that the recent price
22 escalation of gas in the last five or six months has
23 resulted in OXY and Penwell and Mewbourne and Yates and you
24 all looking for additional gas reserves out of this pool?

25 A. Oh, yes.

1 Q. Okay. So you're not representing that you found
2 some new source of supply that no one else knows is there,
3 and you ought to be rewarded for doing so?

4 A. No, I'm representing that we generated the
5 prospect and we pursued it, and we have been the moving
6 force in getting it accomplished.

7 Q. Let me see if there's any unsettled issues here,
8 Mr. Quinn. I believe that Mecca and Yates have
9 participated with you in discussing and resolving what I
10 would characterize to be title issues; is that not true?

11 A. I guess you could put it that way. She's
12 provided me with the list of the contractual owners under
13 that Stonewall agreement, yes.

14 Q. Were you aware that Yates had title documents and
15 abstracts and information with regards to most if not all
16 of that section?

17 A. No.

18 Q. Okay. You then -- Did you make inquiry for that
19 information?

20 A. With regard to Yates having --

21 Q. With regards to the balance of the section and
22 Yates having the title documents that would assist you or
23 anyone else in identifying and being able to pay all the
24 proper parties for an east-half spacing unit?

25 A. Well, she testified that she had that information

1 available, yes, in the December 19th hearing.

2 Q. All right. When you made the farmout request on
3 August 30th, 1996, you're only discussing the northeast
4 quarter; is that not true?

5 A. I'm only discussing a well to be located in the
6 northeast quarter.

7 Q. Well, you're discussing a Morrow attempt, though,
8 are you not, sir?

9 A. Yes.

10 Q. Were you aware then that spacing rules in New
11 Mexico required 320-acre gas dedications for a Morrow Gas
12 well in Burton Flat-Morrow?

13 A. Yes, I was aware of that.

14 Q. But you didn't pursue a farmout request for any
15 other additional acreage within the section?

16 A. Outside of our initial proration unit?

17 Q. Well, the northeast quarter is not a proration
18 unit, sir. The proration unit would --

19 A. Repeat the question. I don't understand your
20 question.

21 Q. Other than the northeast quarter, which is half a
22 proration unit, did you attempt or pursue farmouts for the
23 balance of another 160 acres so that you could form a
24 standard spacing unit?

25 A. Yes, yes, I did.

1 Q. And that occurred after the pooling application
2 was filed?

3 A. With regard to Yates? I guess I'm not
4 understanding your question.

5 Q. Well, let me keep it real simple. Other than the
6 farmout request for the northeast quarter, is there another
7 farmout request for the northwest quarter?

8 A. I don't know where you get that that farmout
9 request is limited to the northeast quarter.

10 Q. Well, if you'll read it, you're looking at the
11 northeast quarter --

12 A. Yes.

13 Q. -- and you don't identify anywhere in here any
14 other acreage in Section 20?

15 A. I captioned Section 20, not northeast quarter of
16 Section 20. It was an oversight.

17 MR. KELLAHIN: All right. I have no more
18 questions, Mr. Chairman.

19 CHAIRMAN LEMAY: Thank you.

20 Commissioner Bailey?

21 COMMISSIONER BAILEY: I think Mr. Bruce had some.

22 MR. BRUCE: Just a couple --

23 CHAIRMAN LEMAY: Oh, I'm sorry. Go ahead, Mr.
24 Bruce.

25 MR. BRUCE: Just a couple of things.

REDIRECT EXAMINATION

BY MR. BRUCE:

Q. The case Mr. Kellahin was questioning you about, the pooling application that was filed in September of 1996 for a north-half unit, that was -- that's been dismissed, hasn't it?

A. Yes, it has.

Q. And we're here today on the east half, aren't we?

A. Yes, we are.

Q. And one final thing brought up, something about the casing. I mean, is Medallion willing to discuss with Yates 5-1/2-inch casing, as opposed to 4-1/2-inch?

A. I'm sure we're willing to discuss that with Yates.

Q. To the best of your knowledge has anyone from Yates --

A. To the best --

Q. -- called about that?

A. No, they have not.

MR. BRUCE: Thank you.

CHAIRMAN LEMAY: Thank you.

Commissioner Bailey?

EXAMINATION

BY COMMISSIONER BAILEY:

Q. It appears as though both the northeast quarter

1 and the southeast quarter are held under state leases. Who
2 are the lessees of record?

3 A. The record title owners in the northeast quarter
4 is Kerr-McGee and Diamond Head Properties. I'd have to
5 look at -- I believe it's Kerr-McGee and Diamond Head
6 Properties. And in the southeast quarter it's Pennzoil.

7 Q. Has there been any attempt to have an assignment
8 made of either one of those quarters?

9 A. Excuse me, I don't understand the question.

10 Q. An assignment of that lease for the records with
11 the State Land Office, as to the ownership of that lease?

12 A. That was record title ownership. The operating
13 rights are somewhat different than that, and --

14 Q. Exactly. We don't deal with the operating rights
15 with the Land Office. We look at record title ownership.
16 However, we do have assignments of that record title
17 ownership. Has there been any discussion concerning that
18 assignment process?

19 A. No, there has not. We would expect to have an
20 assignment of that in the event that we earn under the
21 farmout agreement.

22 Q. Is Medallion an operator for other Morrow wells
23 in the area?

24 A. Not in this particular area. We -- Medallion is
25 relatively new to the Permian Basin, or New Mexico. We

1 have been active for the past three years. Medallion does
2 operate over 700 wells nationwide, and we have an interest
3 in over 1200 wells.

4 COMMISSIONER BAILEY: That's all I have.

5 CHAIRMAN LEMAY: Commissioner Weiss?

6 EXAMINATION

7 BY COMMISSIONER WEISS:

8 Q. It's not clear to me why you guys want to operate
9 this well. Can you tell me?

10 A. Well, we generated the prospect, we've been the
11 moving force on it, we have the single highest cost-bearing
12 interest on it, we have a farm-in agreement with the term
13 expiration on it. We feel like all those issues add up to,
14 we need to protect our best interests here by ensuring that
15 we're able to get the well commenced in time.

16 Q. Your farm-in agreement, if it had expired, what
17 happens then? I don't understand.

18 A. Well, then we just -- we're just out --

19 Q. You're out --

20 A. -- of the interest, we're completely out of the
21 unit.

22 Q. And you --

23 A. And we --

24 Q. -- you've showed your cards and you don't get
25 anything?

1 A. That's right, we go away and we go look for a
2 prospect elsewhere.

3 COMMISSIONER WEISS: I have no other questions,
4 thank you.

5 EXAMINATION

6 BY CHAIRMAN LEMAY:

7 Q. I'm trying to get down -- I've got the order
8 here, the Examiner order. I know you've said more than
9 once that you've taken the initiative and you're the moving
10 force in the area.

11 I notice the Examiner also used that, it seemed
12 like, as the critical point, the turning point in his
13 decision by awarding you the operations.

14 Do you want to, just for the record -- How were
15 you the moving force or the initiator? Which wells are you
16 responsible for in the area? Do you want to just tell us a
17 little about that?

18 A. Yes, Mr. Chairman, only -- This is the only
19 prospect that we have in this particular area. We
20 identified an opportunity to drill in Section 20. We
21 pursued the owners of those interests, we acquired -- and
22 we realize that all of the acreage was held by production,
23 either on that or on other lands, but the leases were HBP.

24 We pursued interests, were able to make a deal
25 for a farm-in of those interests in Section 20 and to

1 propose a well to the other owners of interests in there,
2 and the moving force being that we have proposed it and we
3 have generated the prospect and we have pointed it out to
4 people, the merits of drilling a well in here.

5 And we believe -- When we say "moving force", we
6 believe that without us being the moving force in here,
7 there would not have been a well proposed or drilled in
8 here, quite likely. Now, I could be wrong there, but it
9 has been since 1978 that Yates has drilled any
10 Pennsylvanian-age well in the Stonewall Unit area.

11 Q. You mentioned a well in, I guess, the northeast
12 northeast of 21, the Petroleum Reserve. Were you involved
13 in that or having something to do -- I thought you
14 mentioned you had something to do with that one?

15 A. No, sir, I did not.

16 Q. That was my mistaken -- All right.

17 When you speak "moving force", you're speaking
18 specifically to this proration unit, to this prospect, not
19 necessarily developing other wells in the area. This is
20 your first development, your first involvement?

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

22 Q. What prompted you to get involved in the area?

23 A. We have an office in Midland, and a couple of
24 geologists -- Bill Siruta works this particular area, and
25 he stumbled upon this particular area, started looking at

1 it, correlating logs, looking at production, and came up
2 with this geologic idea to drill a well in the northeast
3 quarter.

4 And we subsequently pursued it from that point,
5 the land.

6 Q. In terms of pursuing it, is your company policy
7 generally to -- I guess for lack of a better expression,
8 take it on the streets and sell interest in it, expose your
9 geology, you know, when you're in the process of trying to
10 sell the deal or not?

11 A. No, sir, we do not sell deals --

12 Q. Okay.

13 A. -- we take a hundred percent, and it's all
14 internal. We do not shop deals.

15 Q. Okay. Well, I'm curious.

16 That's not necessarily -- I used to shop for a
17 living. I mean, I --

18 A. Yeah.

19 Q. -- I understand the situation. If you have a
20 deal, you've got to sell it. It wasn't a criticism.

21 MR. KELLAHIN: My wife, Mr. Chairman, she shops
22 for a living too.

23 CHAIRMAN LEMAY: My former life, I should say, I
24 don't do that now, or I'd be in trouble.

25 THE WITNESS: Well, it's a very competitive

1 situation and we are hungry for deals, and we look in
2 producing old producing areas for prospects. This was
3 generated by our geologist and, as you can tell, it's a
4 very land-intensive deal.

5 Q. (By Chairman LeMay) Well, it is, and sometimes
6 it's easy -- It's hard to understand for some people who
7 has the interest. Example: The Yates group, they're all
8 separate individuals who have their own corporations that
9 participate, as I understand it. They can testify as to
10 what the Yates group is. That's my understanding of the
11 Yates group.

12 The Medallion -- Is it a stock company, is it a
13 limited partnership, is it -- What participation does the
14 ownership have in Medallion, or what is now --

15 A. We are a publicly traded company owned by KCS
16 Energy Company, and so we are public, our stock is traded
17 public on the New York Stock Exchange under KCS.

18 Q. Okay, so you'd be using capital assets to
19 participate in the drilling of the well, not partnership-
20 type --

21 A. Program-type thing, yes, sir, that's correct.

22 CHAIRMAN LEMAY: Well, it helps to understand, I
23 think, from a deal point of view.

24 That's the only question I had, thank you. You
25 may be excused.

1 Any other questions?

2 MR. BRUCE: I have nothing further of Mr. Quinn.
3 Mr. Quinn may have already missed his plane, but with the
4 Commissioners' approval, if necessary, could he be excused
5 from this hearing?

6 CHAIRMAN LEMAY: Sure, it's all right with me.
7 Is it all right with you, Tom?

8 MR. KELLAHIN: Yes, sir.

9 CHAIRMAN LEMAY: Okay. Careful driving, it's a
10 snowy day out there.

11 THE WITNESS: Thank you.

12 CHAIRMAN LEMAY: Thank you.

13 Want to take a little break before you -- You've
14 got two witnesses, Tom?

15 MR. KELLAHIN: Yes, sir.

16 CHAIRMAN LEMAY: That's -- You have the one
17 witness?

18 MR. BRUCE: Yes, all I have. I rest the case.

19 CHAIRMAN LEMAY: Let's just take about a ten-
20 minute break.

21 (Thereupon, a recess was taken at 2:59 p.m.)

22 (The following proceedings had at 3:14 p.m.)

23 CHAIRMAN LEMAY: We shall continue.

24 Mr. Kellahin?

25 MR. KELLAHIN: Mr. Chairman. I'd like to call

1 Mecca Mauritsen, Mr. Chairman.

2 I have distributed somewhere in front of you,
3 members of the Commission, the Yates exhibits. There
4 should be a set immediately on top of the pile or some
5 AFEs, but below that, then, are going to be some geologic
6 displays that Michael Hayes sponsored at the Examiner
7 hearing.

8 And then below that, at the bottom of the pile,
9 are Ms. Mauritsen's chronologies. There will be a tabbed
10 set of legal-size documents, the first page of which has
11 her chronology of events.

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

15 DIRECT EXAMINATION

16 BY MR. KELLAHIN:

17 Q. Ms. Mauritsen, for the record, ma'am, would you
18 please state your name and occupation?

19 A. Yes, my name is Mecca Mauritsen, and I'm landman
20 for Yates Petroleum Corporation.

21 Q. On prior occasions, Ms. Mauritsen, have you
22 testified before the Division and qualified as an expert in
23 the area of petroleum land management?

24 A. Yes, I have.

25 Q. And you've qualified and testified on behalf of

1 Yates Petroleum Corporation before Examiner Catanach back
2 on December 19th in this case, as you know?

3 A. Yes, that's correct.

4 MR. KELLAHIN: We tender Ms. Mauritsen as an
5 expert petroleum landman.

6 CHAIRMAN LEMAY: Her qualifications are
7 acceptable.

8 Q. (By Mr. Kellahin) Are you knowledgeable about
9 and are you familiar with the Stonewall Unit documents and
10 agreements insofar as they affect Section 20?

11 A. Yes, I am.

12 Q. In addition, have you been the principal landman
13 assigned by Yates Petroleum Corporation to deal with the
14 request by InterCoast, now Medallion, with regards to wells
15 in Section 20?

16 A. Yes.

17 Q. In addition, have you been the landman on behalf
18 of your technical group to discuss with and attempt to
19 resolve with InterCoast the operations of Section 20?

20 A. Yes, I have.

21 Q. We tender Ms. Mauritsen as an expert witness.

22 CHAIRMAN LEMAY: Her qualifications are
23 acceptable.

24 Q. (By Mr. Kellahin) Let's start at the end. Let
25 me have you describe for us at this point in time what is

1 the collective percentage in the east half of Section 20
2 that you have been able to consolidate on behalf of Yates
3 Petroleum Corporation for Yates to be the operator of the
4 well in the east half.

5 A. Okay, the Yates group, et al, has 37.6 percent.
6 Also, besides Medallion's interest and Diamond Head
7 Properties interests that are not committed to the
8 operating agreement, all the other interests are committed
9 to the Stonewall operating agreement, and that's a total of
10 about 52 percent of the east half.

11 And of that group, when we initially proposed our
12 east-half well, 13 of the people either wrote letters in
13 support of us or sent AFEs back to us. The interests are
14 small. You've got a few large owners, and everybody else
15 is really small. We actually got about 42 percent signed
16 up, two AFEs or letters or otherwise, before the December
17 19th hearing.

18 Q. Let's start with the September 3rd date on
19 Exhibit Number 3, all right?

20 A. Okay.

21 Q. That is the date in your chronology that Yates
22 received the Medallion farmout request in Section 20?

23 A. That's correct.

24 Q. What then transpired with Yates concerning this
25 farmout and others? How do you handle this stuff?

1 A. The farmouts come in they're logged in, they're
2 assigned to a landman to take care of. The landman will
3 normally make a plat of the area off our lease maps and
4 send the request and the plat down to our geologists for
5 review.

6 Q. All right. You are the point person, if you
7 will, to negotiate with other companies and to discuss
8 things like farmout requests and well proposals?

9 A. That's correct.

10 Q. The technical decision and the management
11 decision for those judgments are made by others, are they
12 not?

13 A. Oh, yes.

14 Q. For this particular area, when we look at the
15 Yates group, all the Yates entities' operations within the
16 Burton Flat-Morrow Pool, is there a principal geologist
17 among the group that is knowledgeable and experienced in
18 this area?

19 A. Yes, Mr. Ray Beck handles this area, and he's
20 been with Yates for, I think, around 20, 25 years.

21 Q. Okay. Were you in meetings with Mr. Beck and Mr.
22 Quinn and other representatives of your company on November
23 7th of 1996?

24 A. Yes, I was.

25 Q. And that meeting occurred in Artesia?

1 A. Yes, it did.

2 Q. Okay. Mr. Quinn has characterized that meeting
3 in a particular way, and you heard his testimony?

4 A. Right.

5 Q. Do you agree or disagree with his
6 characterization of that meeting?

7 A. I disagree with part of it as far as the
8 recollection of the way we felt about the well being
9 drilled.

10 Q. Let's talk about that. Let's talk about how
11 Yates felt about this asset. Mr. Quinn pulls out a display
12 and says there's been no activity in this area in years,
13 and we ought to be rewarded, Medallion, rewarded for
14 initiating this prospect.

15 How did Yates feel about this property?

16 A. When the initial request went down to Ray Beck
17 for the farmout, he immediately said, No, we're not going
18 to farm anything out. I mean, we've --

19 Q. Well, why would he say that?

20 A. -- been operating this area since 1973, and he
21 has always like this area and has always thought there was
22 deep prospects, and he just said no pretty quickly.

23 Q. Well, why have not Yates and the other historical
24 operators in the pool drilled additional wells until
25 recently?

1 A. The main reason is price. Most of these wells --
2 I did a little research. Most of the wells were drilled
3 late Seventies, early Eighties, before the price was
4 deregulated. Once that happened, the -- you know, price of
5 gas just dropped and everybody out there quit drilling.

6 In fact, from what I looked at, I think 93
7 percent of the wells still producing in that field were
8 drilled before 1995. There's only been eight drilled since
9 like 1989. There just hasn't been much activity, mainly
10 due to price. It's just not economic.

11 Q. Had you or Yates any experience with InterCoast
12 or Medallion operating in this area before?

13 A. No, we have not.

14 Q. No exchanges, no discussions, this is the first
15 deal you've had with them?

16 A. That I'm aware of. We might have had some a
17 couple years ago, but in this area this is the only one
18 that I'm aware of.

19 Q. Okay. In your opinion, do you believe Medallion
20 should deserve credit or some initiative for proposing a
21 well in this section?

22 A. I honestly don't know if they -- I mean, they
23 obviously have done some work to get it done, but if this
24 was 1988, 1989, nobody would be drilling out here. And I
25 do believe that eventually Mr. Beck would have looked at

1 this area again with the prices up and would have probably
2 come up with this prospect.

3 Q. The catalyst, then, is the recent price increase
4 and not the initiation by Medallion, in your opinion?

5 A. It seems to be. There are several -- There's, I
6 think, five or six wells posted right now to be drilled to
7 the Morrow in this particular area, more than there've been
8 in the last several years.

9 Q. Mr. Quinn was discussing his recollection of Mr.
10 Beck's conversations at the November 7th meeting, and he
11 characterized Yates' position as assertion that the
12 northeast-quarter location was too risky?

13 A. That's correct, that's what he states.

14 Q. And is that true?

15 A. No, the one problem he had, the whole sticking
16 problem was, they wanted a north-half spacing. That's what
17 they told us, that's what they pooled us on. He preferred
18 a northwest quarter over a northeast quarter, and if you
19 drill north half, you're going to drill one well, and that
20 will be it, at this time. So --

21 Q. He was not suggesting that only one well in the
22 section be drilled?

23 A. No, he wasn't. He just said, If you're going to
24 do north half, I want this location.

25 When they suggested splitting it east half/west

1 half, he said, Well, I don't think that's a problem, I
2 think you've got room for two wells out there, and we'll
3 visit with management about it.

4 Q. Was there any discussion agreement or settlement
5 with regards to who should operate the wells in Section 20
6 as a result of the meeting on November 7th?

7 A. No, they did say, you know -- There was no
8 question who was going to drill a west half. West half is
9 completely under the Stonewall operating agreements. It's
10 one state lease. We won't have anything com'd, it's one
11 lease. There was no doubt who would be operating that.
12 The east half --

13 Q. Well, who operates that?

14 A. Yates Petroleum will operate that.

15 The east half, they mentioned they wanted to
16 operate, but there was no discussion about it, because
17 until we talk to management we don't usually discuss issues
18 like that.

19 Q. When we look at Yates Petroleum Corporation and
20 Yates Drilling, Myco Industries, collectively, what is
21 their percentage in the spacing unit?

22 A. It's about 37.5 percent.

23 Q. All right. Are those companies arranged in such
24 a way that they support each other in terms of developing
25 prospects and participating in wells?

1 A. Oh, yes, they almost always support each other.

2 Q. In the recent past this Commission, and
3 particularly the Examiners, have dealt with what I have
4 characterized as the force-pooling wars between Yates and
5 Nearburg in Dagger Draw. Do you remember those, Mecca?

6 A. Yes, I'm aware of those.

7 Q. All right. And you know why we don't do those
8 here anymore?

9 A. Yes, I do.

10 Q. Tell the Commission why we have not brought those
11 to --

12 A. We've pretty much made an agreement with Nearburg
13 that from now on whoever had the largest percentage would
14 operate. And that just saves us both a lot of time and
15 effort and saves you all time and effort also.

16 Q. And when you talked about the largest percentage,
17 you're talking about the Yates groups as a collective
18 group?

19 A. Oh, that's correct, Nearburg recognizes that.

20 Q. So to single out Yates Petroleum and suggest they
21 have a small interest in relation to Medallion is not how
22 these things are being settled out in the field, is it?

23 A. No, and that's not how we talk about it
24 ourselves. When we represent ourselves to anybody, we say
25 we have this much, we mean totally Yates. We always add it

1 up and take care of it. One landman takes care of all the
2 interests at one time. We don't assign them to different
3 landmen.

4 Q. Okay. When you deal with your experience and
5 expertise with agreements, trying to reach a voluntary
6 agreement, do those unit agreements and operating
7 agreements provide for the majority operating?

8 A. Yes, they do.

9 Q. The industry is organized in that way, is it not?

10 A. Yes, normally it's a majority of one or two
11 people, so one with the majority won't get the votes; you
12 have to have at least one person in support of yourself.

13 Q. Why does the industry do that?

14 A. I just think that's the most logical way to do
15 it.

16 Q. And why?

17 A. Normally if you have the largest interests,
18 you're going to be more apt to pay more particular
19 attention to what's going on and because you're the one
20 with the most money at risk.

21 Q. Mr. Quinn described for the Commission his
22 anxieties and difficulties in obtaining a rig for this
23 particular well, and he finally ended up with some Peterson
24 rig, right?

25 A. That's correct.

1 Q. Did Yates have available then, now, a rig that we
2 could have put on this well --

3 A. Yes.

4 Q. -- in order to save their farmout?

5 A. We -- When the hearing came up, we -- I contacted
6 the gentleman who takes care of our rigs and lines them up
7 and told him what was going on; if we were awarded
8 operations in this case, we would have to immediately get
9 on it.

10 And he subsequently called me almost every week
11 to see how it was going, if we got an order so that he
12 would be sure to have a rig available.

13 Q. And you made that commitment to Medallion to get
14 the well spudded in order to save their farmout?

15 A. Yes, we did it to them. We also did in writing
16 to Diamond Head Properties. They were concerned about us
17 dragging our feet and losing the farmout for Medallion, and
18 we put it in writing to her -- I think the letter is in
19 here -- that we would -- no other farmout, they would not
20 have to be concerned about that.

21 Q. You're talking about Ms. Redfern. She's got
22 another name now?

23 A. Mrs. Grover.

24 Q. Mrs. Grover is former Ms. Redfern --

25 A. That's correct.

1 Q. -- and she is Diamond Head?

2 A. That's correct.

3 Q. All right. And you've had communications with
4 her?

5 A. Yes, I have.

6 Q. And she elected to stay neutral on this topic?

7 A. Yes. She just finally called and just said,
8 Look, I just -- We want the well drilled, we don't care who
9 operates, and we're going to stay neutral until it's
10 decided by the Commission.

11 Q. Okay. And you want the well drilled in the
12 northeast quarter too, don't you?

13 A. Yes.

14 Q. Let's turn to the Exhibit 1. It's the plat.

15 A. Right. This is just a plat of the area of the --
16 All leases that Yates Petroleum or Yates, et al., has an
17 interest in are shaded in yellow, the green outline is the
18 outline for the Stonewall operating agreement, and of
19 course is the red outline for the proposed spacing unit.

20 Q. This is a one-time deal for Medallion, isn't it?

21 A. Yes.

22 Q. To the best of your knowledge, they have no other
23 interest in this area, do they?

24 A. Not that I'm aware of.

25 Q. This well gets drilled, and they're done for now?

1 A. That's correct.

2 Q. They have no development prospects and no
3 ownership to drill subsequent wells?

4 A. As far as I know, as at this time.

5 Q. All right. Let's look at Exhibit 2 and have you
6 describe for me what you've tabulated here, Ms. Mauritsen.

7 A. Exhibit 2 is just a list of all the parties and
8 our working interests for an east-half spacing unit. I've
9 shaded in the people who either sent their AFEs back or
10 sent us letters of support for operations, and then I then
11 totaled the interest at the bottom.

12 And attached to it are the letters or AFEs signed
13 by the parties that sent them in.

14 Q. When we look at the chronology, your chronology
15 sheet shows that on the 17th of September, Mr. Quinn is
16 having conversations with Janet Richardson?

17 A. Yes.

18 Q. During that conversation, you've verified that he
19 proposed to send an operating agreement and an AFE?

20 A. Right, her notes said just, Quinn called, I told
21 him no farmout, and he said he will send an operating
22 agreement and AFE.

23 Q. Okay.

24 A. And it was then -- She took the initial call. It
25 was then turned over to me to handle the OA and AFE when it

1 came in.

2 Q. So after that, you're the land person involved?

3 A. That's right.

4 Q. When you received the force pooling application
5 on the 30th of September, did you note in that application
6 that in the north half of Section 20 Medallion or
7 InterCoast was claiming to have 47.5 percent interest of
8 the spacing unit?

9 A. That's what it stated.

10 Q. That's not right, is it?

11 A. No, it's not right.

12 Q. All right. You brought that matter to Mr.
13 Quinn's attention?

14 A. Yes, I did.

15 Q. And did you aid him in understanding where he had
16 made his mistake?

17 A. Yes, I explained to him who I thought it was.
18 And even at the November 7th meeting, is when we really
19 discussed it, I told him I thought it was Diamond Head
20 Properties, which used to be Mrs. Redfern.

21 Q. And November 7th, they're still insisting they
22 have 47.5 percent of the spacing unit?

23 A. That's what they said, yes.

24 Q. When we go back to the tabulation, some of these
25 interest owners are the Stonewall interest owners under

1 that agreement which Yates operates?

2 A. They all are, except for the InterCoast/Medallion
3 interest.

4 Diamond Head properties actually has less than 1
5 percent interest that is committed to the unit operating
6 agreement.

7 The -- If you look at the plat, the northeast
8 quarter and the northwest -- I mean the northeast of the
9 southeast is the same lease. The committed that 40 acres,
10 but they held out the rest of it. So they have this little
11 tiny interest under the operating agreement.

12 Q. How many of these interest owners are you seeking
13 to be pooled by Yates for the east half of the section?

14 A. Just two, the Diamond Head Properties interest
15 that's not committed and the Medallion interest.

16 Q. All the rest of them are committed to Yates?

17 A. They're committed to the operating agreement,
18 yes.

19 Q. Yeah, and then you can therefore commit their
20 interest to this well?

21 A. Right, we could nonconsent them or let them
22 participate, whatever they prefer.

23 Q. Okay. You have some AFEs in your package, Ms.
24 Mauritsen. I think the first one is Exhibit 4?

25 A. Right, Exhibit 4 is --

1 Q. Let's identify and describe that exhibit.

2 A. It's the Yates Petroleum Corporation AFE. Here
3 it is. This is the AFE that we sent out to all the
4 partners for our Stonewall AQK State Com Number 1.

5 Q. And what's the total completed well cost from
6 your AFE?

7 A. Total cost is \$861,500.

8 Q. Okay. Mr. Quinn testified earlier today that he
9 had submitted the August 30th proposal showing an estimated
10 cost of \$697,000. He later said that when he gave you the
11 actual AFE subsequently, that was -- I forgot the numbers,
12 six hundred and --

13 A. I think it was \$736,000, possibly.

14 COMMISSIONER WEISS: That's Exhibit 12?

15 MR. KELLAHIN: Yes, sir.

16 Q. (By Mr. Kellahin) When they finally got around
17 to submitting you the AFE, the \$697,000 goes up to
18 \$775,425? All right?

19 A. That's correct.

20 Q. Okay.

21 A. That's the initial AFE we received back in
22 October.

23 Q. And that's the one we discussed before Examiner
24 Catanach?

25 A. That's right.

1 Q. Subsequent to having the order issued, did you
2 receive notification pursuant to the pooling order to make
3 an election under that order?

4 A. Yes, we did.

5 Q. And in that package, did you receive from
6 Medallion an AFE that's different than the AFE they
7 submitted to Examiner Catanach?

8 A. Yes, it is different.

9 Q. And do we have a copy of the one they gave you
10 pursuant to the pooling order?

11 A. Right, it's -- Here, the Yates Exhibit Number 12.

12 Q. Okay, and what is the cost now on the AFE they've
13 given you post-order?

14 A. It's \$818,625.

15 Q. \$818- --

16 A. Right, -625.

17 Q. -- -625. All right.

18 Unless the Commission takes action, what is the
19 date at which Yates and the Yates group must make an
20 election to participate pursuant to the pooling order?

21 A. It's going to be February 26th, approximately two
22 weeks.

23 Q. And two weeks from now, you have to make an
24 election, unless the Commission modifies the dates?

25 A. That's right.

1 Q. Okay. Subsequent to that hearing, have you
2 received any additional elections to support Yates for
3 operating the well in the east half of Section 20?

4 A. We received one from Kerr-McGee.

5 Q. I'm sorry?

6 A. We received one from Kerr-McGee about a week
7 after the hearing.

8 Q. Kerr-McGee is the party that farmed out to
9 Medallion?

10 A. That's right.

11 Q. But they've elected to support you as the
12 operator of the well?

13 A. That's right.

14 Q. And that's included as part of the Exhibit 2?

15 A. Right, it's on the back of Exhibit 2.

16 Q. It's the last attachment to Exhibit 2?

17 A. That's right.

18 Q. Okay. You have -- We've identified Exhibit 4.
19 What was Exhibit 5?

20 A. That's Mr. Fant's.

21 Q. All right. So we've completed identifying your
22 exhibits.

23 Exhibit 12 was the post-order AFE that you got
24 from Medallion?

25 A. That's correct.

1 Q. Okay. Now, the original force-pooling by
2 Medallion was a force-pooling application that was filed on
3 the 24th of September of 1996, and after that you got the
4 information concerning the well, the AFE and the spacing
5 unit; is that not true?

6 A. That's right, a couple weeks later.

7 Q. All right. When -- Subsequent to the meeting on
8 November 7th, after the parties have discussed reorienting
9 the spacing units, did you receive any communications from
10 Mr. Quinn on behalf of Medallion before Medallion filed
11 their next force-pooling application on November 12th?

12 A. No, we haven't talked to them, or they did not
13 call us.

14 Q. So they filed again to force-pool you before
15 sending you the information?

16 A. Right, I had not had a chance to talk to
17 management yet, by the time they filed that saying they
18 agreed or disagreed, either way.

19 Q. All right. When after the 24th of November did
20 you then get the information with regards to their modified
21 proposal for Medallion?

22 A. We actually received the proposal --

23 Q. On the 18th of November, right?

24 A. -- on the 18th, right --

25 Q. Okay.

1 A. -- November 18th.

2 Q. All right. Summarize for us what Yates advised
3 you to inform Medallion concerning this dispute over
4 operations in Section 20.

5 A. Okay, after the November 7th meeting where they
6 proposed east half/west half, we visited with management
7 and they said east half/west half was fine, the geologists
8 recommended both wells be drilled.

9 And management said, Please suggest to them
10 that -- to let the largest working interest owner operate,
11 whoever that may be. They thought still they had 47.5.
12 You know, we didn't think they did. And they were thus
13 checking after I told them that I didn't think they owned
14 that. And management just said, Offer that to them.

15 When I asked them that they just said, No, we
16 want to operate.

17 Q. Let's address Commissioner Weiss's question, is,
18 why are we having a dispute over operations? Why is it
19 important to Yates and why do you want to operate?

20 A. I think it's mostly important because we have
21 operated and drilled numerous wells out here, several -- I
22 think five or six -- to the Morrow formation. We have
23 quite a bit of experience out here, and knowing that they
24 have not drilled anything out here, we're real concerned
25 about their lack of experience costing us.

1 And we are the largest owner; we will be paying
2 the majority of the costs if they do operate and if
3 anything goes wrong.

4 Q. Are you also expressing a concern on behalf of
5 your engineering department with regards to the way the
6 wellbore has been designed in terms of its casing program.

7 A. Yes, they are concerned about the casing program.

8 Q. We'll let Mr. Fant describe that.

9 Do you have additional concerns on behalf of your
10 company with regards to how they will attempt to settle and
11 resolve these disputes with other operators so that we can
12 avoid coming to the Commission and have these problems
13 aired here?

14 A. We have a little concern at having somebody with
15 a lot smaller interest force-pooling us right off the bat.
16 That kind of puts us in a position where we feel like we're
17 going to have to react in some manner.

18 We'd prefer they come and talk to us first, and
19 then if we're at odds then, of course, the cases are going
20 to be filed.

21 But we are afraid they're going to be -- we could
22 be -- there are more and more with cases like this, and
23 we'd prefer not to be.

24 MR. KELLAHIN: That concludes my examination of
25 Ms. Mauritsen, and we would move the introduction of her

1 Exhibits 1 through 5, plus 12. Did I get that right?

2 THE WITNESS: One through 4.

3 MR. KELLAHIN: One through 4, plus 12.

4 CHAIRMAN LEMAY: Without objection, Exhibits 1
5 through 4, plus 12, will be admitted into the record.

6 Mr. Bruce?

7 CROSS-EXAMINATION

8 BY MR. BRUCE:

9 Q. Yeah, Mecca, looking at your Exhibit 3, the very
10 first tab --

11 A. Right.

12 Q. -- there's handwriting on there. Is that your
13 handwriting?

14 A. No, that is the handwriting of Janet Richardson.

15 Q. Okay, this prospect was originally assigned to
16 Janet Richardson?

17 A. The farmout request was assigned to her. She's
18 done some work in the Stonewall area, along with me. For
19 some reason she initially got it, but when it came down to
20 actually being a well proposal and being taken care of it,
21 they asked me to take care of it.

22 Q. Okay. Looking at it over on the left-hand side,
23 right by "Gentlemen", somebody obviously understood this
24 would be a north-half unit, don't they? Didn't they?

25 A. Well, I think, from what Janet told me, upon

1 talking to Mr. Quinn, that he indicated it was north half,
2 probably, and that's why she put it --

3 Q. Okay.

4 A. -- but they were considering going north half at
5 that time.

6 Q. Okay. So as of September 3, or soon thereafter,
7 people knew this was a north-half well proposal?

8 A. Actually, we didn't consider it a well proposal,
9 we -- farmout request --

10 Q. Okay.

11 A. -- and we actually don't review them until --

12 Q. Well, okay, I'm not --

13 A. -- the AFEs come.

14 Q. Okay, I'm not --

15 A. Okay.

16 Q. -- meaning to use that term --

17 A. Right.

18 Q. -- I'm just saying, the well was -- They were
19 looking at a north-half unit?

20 A. Right, that's correct.

21 Q. Now, before October, 1996, say for a couple of
22 years before that, did Yates have any internal proposals
23 circulating regarding drilling a well in Section -- a
24 Pennsylvanian-age well, in Section 20?

25 A. No proposals, no.

1 Q. Has, say, during the 1990s, has Yates drilled any
2 other Pennsylvanian-age wells in southeast New Mexico?

3 A. In southeast New Mexico? Oh, yes. I couldn't
4 tell you the number, but yes.

5 Q. Many? Few? More than 10, more than 20?

6 A. I honestly couldn't say. We've drilled hundreds
7 upon hundreds of wells in the 1990s in southeast New
8 Mexico.

9 Q. Okay, many of them are --

10 A. I honestly couldn't pull a figure out of my head.
11 I --

12 Q. Okay. Many of those are gas wells??

13 A. Yes, some.

14 Q. And so you drilled those despite the price of
15 gas?

16 A. Most of the time if we're drilling with low
17 prices, it's because of lease problems, lease expirations,
18 things like that.

19 Q. But not all the time?

20 A. I don't know. I mean, I honestly couldn't say.

21 Q. So you didn't always need these winter, 1996, gas
22 prices to drill Morrow wells in the state?

23 A. I don't know if I can honestly say that. Without
24 really reviewing what all we've drilled, I couldn't tell
25 you.

1 Q. Okay. But I haven't heard you -- You haven't
2 disputed Medallion's Exhibit B which shows that in this
3 area the last Morrow well drilled was 1978?

4 A. No. I believe that's correct, if they've looked
5 at the cards.

6 Q. Now, what -- When did you send on behalf of Yates
7 a well proposal on the east half of Section 20 to
8 Medallion?

9 A. On the east half?

10 Q. Yeah --

11 A. Let me --

12 Q. -- what was the date of your letter?

13 A. Let me look here and I'll make sure.

14 Q. Sure.

15 A. November 22nd.

16 Q. Okay. Do you recall or do you have an idea of
17 when InterCoast, now Medallion, received that?

18 A. Let me look. I think I have the card. That's
19 Number 9. If I remember, I copied the receipt here.
20 November 25th.

21 Q. And when was Yates' application for compulsory
22 pooling of the east half filed?

23 A. I honestly don't recall the date. It was in
24 November, but I don't recall the date.

25 MR. BRUCE: I'm sure that's in the record, Mr.

1 Chairman. I believe it was around November 26th.

2 THE WITNESS: 25th, 26th, sticks in my mind, but
3 I don't recall because I don't have it here.

4 Q. (By Mr. Bruce) So Medallion at most had one day
5 to consider this before Yates filed this pooling
6 application?

7 A. That's correct.

8 Q. Okay. So really on these east-half proposals,
9 there's no difference between the two companies: They both
10 wanted a well drilled and they both sent out proposal
11 letters, and they both filed pooling applications; is that
12 correct?

13 A. That's correct?

14 Q. And one of the reasons -- And one of reasons is
15 Medallion's farmout; is that correct? I mean, Medallion
16 had to file because it did have a farmout?

17 A. That's correct, yes.

18 Q. Your leases were HBP?

19 A. Well, actually all the leases are HBP, but they
20 do have that farmout date.

21 Q. All right, excuse me. Excuse me.

22 A. Yeah, the farmout date is the critical date.

23 Q. But you don't have to worry about any lease or
24 farmout expiration?

25 A. No.

1 Q. Now, Yates did propose a well in the northwest
2 quarter. What is the status of that well at this time?

3 A. We just found out yesterday that our order for
4 the unorthodox location -- Actually, it was dismissed
5 because it wasn't actually unorthodox according to the 1970
6 pool rules. So as soon as I get back, we'll inform
7 everybody and we'll try to get a rig to drill it.

8 Q. Okay. So that hearing also came on --

9 A. December 19th, we just did not know the status of
10 the order until yesterday.

11 Q. It was originally proposed as an unorthodox
12 location, I believe?

13 A. Right, it was.

14 Q. And due to some concern by offsets it was moved
15 back, moved further south?

16 A. Yeah, it was 990/990 out of the corner. We then
17 moved it 1650 and 990.

18 Q. But you have not yet commenced that well?

19 A. No, due to the fact we didn't know anything about
20 the order until yesterday. We could have, we had a rig
21 available, but we went ahead and moved it to another
22 location because we didn't have any order in hand.

23 Q. Now, you stated Medallion doesn't have any other
24 interests in this area. It's certainly possible for
25 Medallion to acquire interests in this area, is it not?

1 A. Through farmouts, acquisitions, yes.

2 Q. Okay. Now, you've got your upcoming election
3 decision under the current order. I guess I'm kind of at a
4 loss. Doesn't Yates want to participate in the well?

5 A. That's a decision to be made by management.

6 Q. But you want to operate the well regardless?

7 A. If it's going to be drilled, we prefer to operate
8 it. The only reason they might consider doing otherwise is
9 having an operator that they're not sure that they want to
10 be participating in with that large an interest.

11 Q. Okay.

12 A. And that decision has not been made.

13 Q. Should Yates be the operator if it's not going to
14 participate in the well?

15 A. I'm not sure I follow your question, Mr. Bruce.

16 Q. I'm just asking your opinion. Do you think Yates
17 should operate the well if it's not participating in it?

18 A. They will participate if they're the operator.

19 The only decision to be made if we're not elected
20 operator is whether they want to put 37.5 percent of their
21 interest into a well operated by an operator that they are
22 not familiar with and not sure about. We're putting quite
23 a bit of money at risk.

24 Q. You don't have anything that Medallion is an
25 unqualified operator, do you?

1 A. No, but we don't have anything saying otherwise
2 either.

3 Q. Did you receive Mr. Quinn's phone call on or
4 about January 22nd?

5 A. I believe so, yes. I believe there was a note.

6 Q. Did -- You never returned the call?

7 A. Obviously, I didn't.

8 Q. Do you know why?

9 A. No, I don't know why. I know I was in meetings
10 that day. I remember seeing the note. Obviously, I
11 misplaced it.

12 Q. Just one final question, Mecca. I mean, you've
13 talked about the Yates group, but Myco, Abo, Yates
14 Petroleum and Yates Drilling Corporation, they're all
15 corporations, are they not?

16 A. Yes, they are.

17 Q. And they're separate legal entities, are they
18 not?

19 A. Yes, they are.

20 MR. BRUCE: That's all I have, Mr. Chairman.

21 CHAIRMAN LEMAY: Thank you, Mr. Bruce.

22 REDIRECT EXAMINATION

23 BY MR. KELLAHIN:

24 Q. Ms. Mauritsen, other than one phone call from Mr.
25 Quinn, did you get any other phone messages from him?

1 A. No, I think he did call about two weeks before
2 that and we discussed a title opinion that they had done,
3 mentioned rigs a little bit, mentioned receiving the order
4 shortly. But other than that, no, we've had no
5 conversations.

6 Q. You were not trying to avoid his phone calls,
7 were you?

8 A. Oh, no. Obviously, I misplaced it. I do
9 remember it when he mentioned it, but I obviously misplaced
10 it.

11 Q. And he did not call you?

12 A. No.

13 Q. And he didn't send you a fax or anything else to
14 communicate anything about the well?

15 A. No, he didn't.

16 CHAIRMAN LEMAY: That's it, Mr. Kellahin?
17 Commissioner Bailey?

18 EXAMINATION

19 BY COMMISSIONER BAILEY:

20 Q. Your Exhibit 1 indicates that the Stonewall Unit
21 boundary incorporates the entire Section 20?

22 A. Yes, I only did that because 5 percent of the
23 northeast is committed, and it's kind of hard to
24 differentiate that since it's a partial commitment.

25 Q. But the unit agreement that was approved by all

1 the regulatory agencies does not use that quarter quarter
2 as committing portion for that unit?

3 A. I'm not sure I understand your question.

4 Q. Is this a state exploratory unit?

5 A. No, no, this is just a working interest unit
6 agreement.

7 Q. Okay, so --

8 A. It's not a federally or state-approved unit.

9 Q. Okay, that answers --

10 A. Yeah, by reference we just call it the working
11 interest unit -- I mean, unit -- but it's just a working
12 interest unit.

13 Q. So you don't submit plans of development to
14 promote this unit to --

15 A. No, ma'am, we don't.

16 Q. -- regulatory agencies?

17 A. No, ma'am.

18 Q. As a communitized well, would that be a portion
19 of this unit operating agreement?

20 A. Yes.

21 Q. Are there any Morrow wells in this Stonewall unit
22 that are producing now? The map was very unclear as to
23 what the producing wells --

24 A. I believe there's -- I believe there's still one
25 producing.

1 I think there were six drilled originally, and I
2 do believe one, if not two, are producing still from the
3 Morrow.

4 MR. KELLAHIN: If I may interrupt, Commissioner
5 Bailey, the geologic displays will show not only the
6 geology but they will show the well status --

7 COMMISSIONER BAILEY: Okay.

8 MR. KELLAHIN: -- by color code, and that may be
9 of assistance.

10 Q. (By Commissioner Bailey) Did you state that you
11 have a rig available now?

12 A. We have three or four rigs that are capable of
13 drilling to this depth.

14 Most of them are on location. Some are almost
15 done, some are starting. But we have the possibility of
16 moving any of those, you know, when they're completed to
17 this location.

18 I mean, it doesn't matter now, there's a rig out
19 there. But we would have had that possibility before.

20 Q. So what would you assume would be the soonest
21 that you could commit a rig to drilling this well, if
22 you --

23 A. I would have to check with our people and let you
24 know what we're at on the current wells.

25 COMMISSIONER BAILEY: That's all I had.

1 CHAIRMAN LEMAY: Commissioner Weiss?

2 EXAMINATION

3 BY COMMISSIONER WEISS:

4 Q. Does Yates do farmout deals with majors? Do you
5 pursue farmouts with other people?

6 A. We request farmouts? Is that what you're --

7 Q. Yeah, such as --

8 A. Yes, we do.

9 Q. -- such as KCS.

10 A. Yes, we do.

11 Q. How long does it take to get a deal done,
12 normally?

13 A. I would say on average it takes, you know, a
14 month or more, because normally after the first request --
15 you know, very likely with a major you don't response for
16 three or four weeks unless you call them and, you know,
17 push them along quite a bit, and then you've got to
18 negotiate an agreement which could take, you know, a couple
19 weeks to do, if they're agreeable to even farming out to
20 begin with.

21 So I would say average, you know, you're looking
22 at a couple months with one of the majors.

23 Q. I'm surprised it's that fast.

24 And then if you run into trouble, do you force-
25 pool them, you know, if you have arguments? I'm just

1 wondering if the shoe's on the other foot, how do you guys
2 work? Do you follow the same course of business or --

3 A. Normally, if we were in a case like this where we
4 didn't have, we couldn't farm it out all, a lot of times we
5 don't pursue it unless we can get a majority interest,
6 first of all. We prefer to have the majority interest so
7 we can operate.

8 An interest like this, with an old operating
9 agreement in place from an operator, normally, I would
10 think we'd go to the operator first and try to work out a
11 deal with them and get them tied up to maybe farming out or
12 doing something before you pursue any other actions.

13 Q. Does that typically happen? I'm just wondering
14 how this --

15 A. Typically, yes. We usually don't force pool
16 until after some negotiation with everyone, and I've never
17 force-pooled without sending out an AFE, an operating
18 agreement and a proposal.

19 And a lot of times in our proposal we will put
20 a -- farmout terms in there. If you don't want to
21 participate, we'll consider a farmout at these terms.

22 But we usually try to get several letters in and
23 phone conversations in.

24 Q. Maybe you're not the person to ask, but now that
25 there's a drilling rig out there that's --

1 A. Right.

2 Q. -- down several hundred feet, what happens if you
3 win this case here?

4 A. I'm assuming we will take over the operations
5 from Medallion?

6 Q. Go move that rig off?

7 A. No, no. No, we will keep the same rig and use
8 it. It's a Peterson rig. We use Peterson rigs ourselves.
9 We have no problem with the contractor.

10 COMMISSIONER WEISS: I think that's all my
11 questions. Thank you.

12 THE WITNESS: Uh-huh.

13 EXAMINATION

14 BY CHAIRMAN LEMAY:

15 Q. A couple, Ms. Mauritsen.

16 I understand that you either didn't like the
17 prospect or it didn't occur to you to pursue it because --
18 You stated the price of gas was too low up to the fall of
19 this year, so you didn't approach Kerr-McGee on a farmout
20 or anything?

21 A. No, actually what I was trying to refer to --
22 Maybe I misunderstood.

23 Mr. Beck, in working this area with him, has
24 mentioned to me several times that he has always like this
25 area for deep north half. But I believe he hadn't -- or

1 Yates hasn't asked him to pursue it because of price and
2 plus plenty of other areas that we're active in.

3 Q. So if Ray liked it a lot, you would have probably
4 gone after a Kerr-McGee farmout, wouldn't you?

5 A. Well, actually, we would have probably just gone
6 west half and not gone after the northeast quarter at that
7 time. And if successful there, yeah, we probably would
8 have jumped over.

9 Q. The Yates group, I'll get back to that.

10 A. Right, right.

11 Q. It's a common term around here.

12 A. Yes.

13 Q. You mentioned some of the Yates group. Is
14 Explorers or Yates Energy part of the Yates group?

15 A. No, Yates Energy is Mr. Fred Yates in Roswell.
16 It's a different company, different family. I mean --
17 Yates Petroleum has three brothers who have all had their
18 families, and Harvey Yates split off, I think 1960, and
19 went to Roswell to make Heyco, and Fred is on that side of
20 the family. He has Yates Energy.

21 Q. Well, it could be part of the Yates group if you
22 include cousins; that's my point. I didn't know how far
23 the --

24 A. Oh, no, I work --

25 Q. -- I mean, do you go brothers, do you go cousins,

1 what --

2 A. Oh, I see what you're -- No, we talking about
3 Yates Petroleum and their family that operate Yates
4 Petroleum, and they then each have their own companies.
5 That's the Yates group we refer to.

6 Q. Have you ever gone nonconsent on each other, do
7 you know?

8 A. Not of my knowledge. They have farmed out to
9 each other, but I don't think they've ever nonconsented.

10 Q. Your operating concerns, you've mentioned them.
11 Are they concerns more to the casing point through
12 completion, or after the well was completed -- we'll assume
13 it's a gas well -- operations from that point on? Is that
14 a concern? What -- Can you prioritize your concerns?

15 A. Well, I -- I'll do it, but I think Mr. Fant will
16 do a little bit too. I think it's more of just having an
17 unknown operator with no experience out here that we're
18 aware of.

19 There is a problem with the casing program as our
20 engineers see it, and there is some concern that based on
21 the farmout with, I'm assuming, some back-ins and different
22 things, you know, they might have some other reasons for
23 not wanting it to pay out or -- You know, and I'm not
24 accusing them of anything, but we've had people do that to
25 us before, and I'm not -- I don't know of Medallion ever

1 doing that, because we've never dealt with them.

2 Q. Has Yates ever taken a farmout with a back-in?

3 A. Oh, all the time, you have to. I'm just
4 saying --

5 Q. -- other operators that you might --

6 A. No, I'm more --

7 Q. -- postpone the --

8 A. No, our more concern is, I believe there's no
9 back-in on this but I think there's an increased override.
10 And, you know, it's to your negative to have it pay out and
11 get docked another 5 or 10 percent. And I'm not saying
12 they will, I'm not accusing them, but we have had people
13 slow down payouts before by increasing operating costs and
14 different things.

15 Q. Has Yates done that when they've gotten farmouts
16 with excess overrides --

17 A. Not that I'm aware of.

18 Q. Final question --

19 A. Uh-huh.

20 Q. -- Medallion has characterized, and I know the
21 Examiner's order has emphasized, that they were the moving
22 force or they were the initiator of the prospect in the
23 area. Would you characterize them as that?

24 A. That's a hard one. I don't know. I know we have
25 had ideas about deep prospects out here, you know, just in

1 my talking to Mr. Beck. But he has not come forward with
2 any real proposal, you know, up to this date until this
3 came up, and then he automatically said, Yeah, I want to
4 drill up here, because he already had the idea of drilling
5 on that site. But they did work it and did propose first,
6 yes.

7 Q. So that would be a fair statement, you wouldn't
8 challenge that statement?

9 A. Well, I don't if I'd call him the moving force.
10 They did propose it first. The moving force was force-
11 pooling everyone before proposing it, though.

12 CHAIRMAN LEMAY: Okay, thank you. That's the
13 only question I have. You may be excused, Mecca.

14 THE WITNESS: Thank you.

15 MR. KELLAHIN: Mr. Chairman, I'd like to call my
16 last witness, Mr. Bob Fant.

17 ROBERT S. FANT,
18 the witness herein, after having been first duly sworn upon
19 his oath, was examined and testified as follows:

20 DIRECT EXAMINATION

21 BY MR. KELLAHIN:

22 Q. For the record, Mr. Fant, would you please state
23 your name and occupation?

24 A. My name is Robert Fant. I'm a petroleum engineer
25 for Yates Petroleum Corporation.

1 Q. Did you testify in that capacity on behalf of
2 your company before Examiner Catanach on December 19th when
3 he heard the Examiner-level hearing in this case?

4 A. Yes, sir, I did.

5 Q. And as part of your preparation for that case,
6 did you analyze and compare the drilling and completion
7 programs proposed by the two companies, as well as the AFE
8 costs?

9 A. Yes, sir, I did.

10 Q. Based upon that comparison, were you able to
11 conclude that the costs, the bottom-line costs, if you
12 will, at that time, before they submitted to you the
13 revised AFE, were reasonably equivalent?

14 A. Yes, sir, that was one of my conclusions.

15 Q. Before we get into the topic of the latest
16 revised AFE from Medallion, is there a display that you
17 have before you that we've shared with the Commission to
18 show the single entry point which you want to talk about
19 today concerning the 4-1/2-inch casing? Is there a price
20 related to the difference between the 4 1/2 and the 5 1/2?

21 A. Yes, okay, the basic differential cost between
22 the two production casing strings is \$41,700. That's
23 estimated costs on AFEs.

24 Q. Describe for us why you were arguing before the
25 Examiner for having him order that the 5-1/2-inch be put in

1 the wellbore?

2 A. Well, basically what we've talked about here
3 today -- and the prospect was initially generated based
4 upon Morrow gas -- the potential pays in this well, there
5 are seven.

6 You've got the -- You start at the bottom with
7 the Morrow, and forgive me if I get out of order but you've
8 got the Atoka, the Strawn, as you're coming up the hole
9 you've got the Wolfcamp, you've got Bone Spring, two
10 separate Delaware zones, which I'm lumping into one, and
11 then you've got potential in the Yates formation.

12 You have seven potential pays in this well.

13 Q. When you look at the Medallion design, they are
14 focusing only on the single deepest, the Morrow zone?

15 A. That is my conclusion, and that's all that has
16 been talked about from their standpoint, is the Morrow.

17 These other zones, several of these other zones,
18 especially the Bone Spring, Delaware and Yates formations,
19 are oil-bearing formations that also produce water. You
20 must move large volumes of water, generally, in association
21 to get the oil and the gas out.

22 4-1/2-inch casing restricts that. It limits your
23 ability to move fluid. 5-1/2 is the standard in the
24 industry, and it will allow you to move the fluid volumes
25 necessary to efficiently complete those zones.

1 And it's these other zones that help make this
2 particular prospect attractive. It's not just the Morrow.
3 It's -- In the last few years, we've had the growth of the
4 Delaware formation within our state. Not -- The formation
5 has always been there, but the activity within the Delaware
6 formation has increased.

7 Just recently we have had a tremendous amount of
8 interest in the Bone Spring formation and increased
9 activity in the Bone Spring and learning how to complete in
10 the Bone Spring and make wells there.

11 So it's the increased interest in other zones,
12 along with the Morrow. The Morrow is there and it's been
13 there, but the additional gas prices help to bring the
14 whole package to economic.

15 And you need a well plan that can tap all of
16 those reserves, not just one of them, not just the Morrow.
17 The Atoka is gas too. I mean, it's not going to affect
18 that much either.

19 But when you get into those oil-bearing liquid-
20 production zones, it's very important to have the larger
21 casing.

22 Q. Let's talk about the relative potential of this
23 Morrow gas area in 20, as opposed to other deep gas areas
24 in terms of sequencing how Yates has drilled for those
25 wells with escalating prices.

1 A. Oh, well, there are other areas that -- and Ms.
2 Mauritsen spoke of several -- or another type of concern.
3 She spoke of a concern in terms of whether we drill wells
4 at low gas prices. She said, we drill some -- that we have
5 drilled some Pennsylvanian wells, Pennsylvanian Morrow gas
6 wells, when prices were lower, due to lease considerations.

7 But -- And we have also drilled other Morrow
8 targets that were -- when the -- that were not lease
9 considerations. Those were larger targets. The potential
10 gas that we were going for was larger. If your target's
11 larger, you can survive a lower gas price if you have more
12 gas that you can get out of the well.

13 Q. And that was not the case in this particular area
14 of Section --

15 A. This particular area has had several wells
16 drilled in it, and there are some wells with some very good
17 cums.

18 But the potential that's left out there is not
19 the 2.5 or 3 BCF of many of these wells. The potential out
20 here is a BCF or less, in which case, in low gas prices,
21 it's not very attractive.

22 Q. Yates has learned that over time by being an
23 operator in the pool?

24 A. Being an operator in the pool and being an
25 operator in the Morrow in southeast New Mexico. I mean, we

1 not only do that, but -- I mean, we not only drill here,
2 but we drill a tremendous -- we operate in the Delaware
3 Basin, where a lot of this Morrow is.

4 Q. Let's touch on the subject of the latest revised
5 AFE from Medallion that was received with your post-order
6 election. That's Exhibit Number 12, is it?

7 A. Yes, sir, it is.

8 Q. What's the bottom line on that exhibit?

9 A. The bottom line, total well cost, \$818,625.

10 Q. What's the comparison and how did it get to be
11 different? Have you analyzed that to figure that out?

12 A. Where the differences are in their two AFEs? Is
13 that what you're asking?

14 Q. Yes, sir.

15 A. Okay, going from the Division hearing to the *de*
16 *novo* hearing here, they increased their footage costs, they
17 went up by approximately \$56,000 for the rig costs. That's
18 one major item where they went up.

19 There are -- There's at least one more item, that
20 is unusual to me, that went up and that was their
21 intermediate casing string. On their original proposal --
22 and I believe they submitted that AFE to you as one of
23 their exhibits in the Division hearing -- they proposed
24 running 8-5/8-inch intermediate casing to 3000 feet.
25 That's what we had proposed.

1 On their revised AFE that they sent us in
2 January, after the Examiner hearing, it suddenly has 9-5/8-
3 inch intermediate casing to 3000 feet. So now we're
4 running a bigger string of casing that costs more, and
5 we're still putting 4-1/2-inch casing inside of that. That
6 doesn't make much sense, really, unless that's all the
7 casing you happen to have around. But there is 8-5/8-inch
8 casing in the market today that can be bought. And 8-5/8
9 is all that's necessary for that.

10 The standard casing program for this type of well
11 would be 13-3/8 surface casing, 8-5/8-inch intermediate
12 casing and 5-1/2-inch production casing.

13 We have gone to a larger intermediate string,
14 which doesn't make any sense, but it does increase the
15 costs.

16 Q. Commissioner Weiss and others have asked, Why is
17 Yates so concerned about operations, and why do they want
18 to operate this well?

19 A. Well, I believe --

20 Q. What does that mean here?

21 A. Yeah, I believe I've covered a few of those. We
22 don't have a historical basis in dealing with them, but
23 what experience we do have relates to these AFEs.

24 They're running too small a casing to the bottom
25 of the well, and now they want to put too big a casing in

1 the intermediate string.

2 And there's one more thing with regards to
3 running small casing to the bottom of the string. You
4 drill the same size hole to put 5-1/2-inch or 4-1/2-inch
5 casing in. You drill a 7-7/8-inch hole, or you use a
6 7-7/8-inch bit. Which means you're going to spend more
7 money to cement that 4-1/2-inch casing in the ground. This
8 is just -- You've got more volume to fill up, it take more
9 cement to fill it. So you're going to spend more money.

10 So the cost differential between 4-1/2-inch and
11 5-1/2-inch is smaller than it looks. It's not just the
12 difference in cost between the casings.

13 Q. When Yates as an operator operates a well and is
14 responsible for drilling it and completing it, are there
15 decisions made by you as the operator, or any operator,
16 that are independent of and free from prior approval of the
17 other working interest owners? You're going to make
18 decisions in the field by those technical people, are you
19 not?

20 A. There's decisions that are going to be made on
21 the -- quote, unquote, on the fly, that as the well is
22 being drilled that are being done and --

23 Q. That's simply the nature of the business?

24 A. That is the nature of the business. InterCoast
25 -- or, excuse me, Medallion, would make those decisions

1 while they're drilling.

2 They made those decisions already by obtaining --
3 When they built the location, they decided how they were
4 going to build it and may have spent more money than
5 somebody else might have spent, based upon decisions that
6 they made.

7 Q. And those are all decisions the operator gets to
8 make, which are free from prior approval of the working
9 interest owner?

10 A. Pretty muchly, yes, sir.

11 Q. And so you become concerned when there is an
12 inexperienced party operating the well?

13 A. Yes.

14 Q. And your anxiety level increases where your
15 collective group of owners has a substantially larger
16 investment in the outcome than the party operating the
17 well?

18 A. Yes. Our interest, in terms of how we watch
19 things, is directly proportional to our financial burden
20 there. And when we have a larger financial burden but
21 don't have any say in what's going on, it is a concern,
22 when we have the largest financial burden.

23 Q. If you are allowed to operate the well, will you
24 commit your interest and the Yates group commit its
25 interest to participating in the well?

1 A. Absolutely.

2 Q. The question was raised about changing the rig.
3 What is the obvious first choice, and what does your
4 experience tell you you ought to do if Yates is allowed to
5 be operator?

6 A. We would prefer to just assume the operations
7 with Peterson and allow Peterson to continue drilling the
8 well.

9 Q. They would be the drilling contractor, and then
10 you would put your own geologist and technical people that
11 are appropriate on the site and take over from there?

12 A. Yes, sir.

13 MR. KELLAHIN: That concludes my examination of
14 Mr. Fant.

15 CHAIRMAN LEMAY: Thank you.

16 Mr. Bruce?

17 MR. BRUCE: Just a couple questions, Mr.
18 Chairman.

19 CROSS-EXAMINATION

20 BY MR. BRUCE:

21 Q. Mr. Fant, looking at your Exhibit 5, are you
22 saying that if Medallion uses 5-1/2-inch casing the costs
23 are equivalent?

24 A. I believe that -- I'm saying basically the costs
25 are equivalent either way. \$42,000 difference in AFEs on

1 this size is not a major difference. I'm not saying that
2 that's a difference that -- the one item -- You look,
3 there's \$43,000 difference in total well costs, and \$42,000
4 of that is that 5-1/2-inch versus 4-1/2 inch.

5 Q. It's a few percent. I mean, it's a lot of money,
6 but they're roughly equivalent?

7 A. Yes, when you're dealing in this scale.

8 Q. Okay. I'm sorry, Mr. Fant, I don't have anyone
9 here. I mean, the printout on 9-5/8-inch casing, could
10 that be a typo?

11 A. No, I don't believe so, because they changed the
12 costs.

13 Q. Oh, okay.

14 A. That was my first question.

15 Q. Okay. On their footage rate, I mean, that's gone
16 up. Have -- Rig availability has been a problem recently,
17 hasn't it?

18 A. Oh, yeah, I'm not saying that -- I think they're
19 getting more in line with that footage rate. I'm thinking
20 they did the right thing in changing that number.

21 Q. Costs have gone up quite recently?

22 A. Costs have gone up recently, with the increase in
23 the price of gas and oil.

24 Q. More activity, supply and demand?

25 A. Supply and demand, absolutely.

1 Q. Have you ever called any drilling engineer,
2 drilling people, at Medallion to discuss your concern about
3 5-1/2-inch casing?

4 A. No, sir, I have not.

5 Q. One thing, Mr. Fant. You might not have it in
6 front of you, but your Exhibit 12, which is Medallion's new
7 AFE --

8 A. Okay.

9 Q. -- it shows a TD of 11,500 feet. Their first AFE
10 had a different depth, did it not?

11 A. Yes, sir, their first AFE had 11,250. And if you
12 look on the casing programs over in tangible costs, they
13 still -- they're only talking -- they still say 4-1/2-inch
14 at 11,250 feet, so that's kind of --

15 Q. Okay. But Yates would prefer to go to 11,500
16 also?

17 A. Mr. Beck would prefer to go to 11,500 to log-
18 cross an unconformity that exists at that -- near that
19 depth, and wanted to pull logs across it.

20 Q. I know you've expressed your concern about
21 Medallion, but do you have any knowledge of Medallion being
22 a poor operator or an unqualified operator?

23 A. No, sir, I do not. All I have is the experience
24 we have here.

25 Q. And finally, you've mentioned these potential pay

1 zones, Atoka and others. Those are obviously 320-acre
2 spacing, correct?

3 A. No, sir, some of them would be smaller spacing.

4 Q. Okay. But the Atoka, for instance, would be 320?

5 A. I would be beyond my specific knowledge at this
6 point. I would assume so.

7 Q. But some of the shallower ones -- you mentioned
8 Yates, Delaware, Bone Spring -- those are on -- depending
9 on oil or gas, they would be 40- or 160-acre spacing; is
10 that correct?

11 A. Yes, uh-huh.

12 MR. BRUCE: That's all I have, Mr. Chairman.

13 CHAIRMAN LEMAY: Commissioner Bailey?

14 EXAMINATION

15 BY COMMISSIONER BAILEY:

16 Q. With the seven potential zones, with the price of
17 gas, is Yates going to end the preferred location in the
18 northwest quarter? Is Yates going to drill that west half?

19 A. Yes, ma'am. We are going to drill the northwest
20 quarter. I mean, there's potential pays in both wells, and
21 we will drill both -- we will drill the northwest, and we
22 will -- if elected as operator of the northeast, we will
23 drill that.

24 Q. How soon would you expect a well in the northwest
25 quarter?

A. If we had received the order -- I mean -- and, you know, I don't know what process caused us not to receive that order, and it's not relevant in this hearing. It will be placed on our rig list.

My estimate is, if we had received the order, we would probably be building the location right now in preparation to drill the well in the next 30 to 60 days.

COMMISSIONER BAILEY: That's all I had.

CHAIRMAN LEMAY: Commissioner Weiss?

EXAMINATION

BY COMMISSIONER WEISS:

Q. I notice you had three DSTs in your AFE. What were you going to test?

A. Well, that again, the DSTs would be called just based upon the mudlogging and the shows that come up while the well is drilling.

Q. But this is other than the Morrow?

A. No, one of those would most probably include the
Morrow.

Q. Yeah.

A. Uh-huh.

Q. The other two?

A. The other two might be Morrow. It depends on what shows we get coming down the well. Again, that is an estimate, and sometimes more DSTs are called. That is a

1 number that you can put a number down on an AFE, but it's
2 really much more determined by what the well requires.

3 Q. I notice that Medallion only scheduled one.

4 A. Yes, sir. And would, I would suspect, would be
5 for the Morrow zone, and they would not test other zones.

6 But again, that's an AFE number, and it's really
7 something that -- Those things are really driven by what
8 kind of samples and shows you get, coming out of the well.

9 COMMISSIONER WEISS: Okay. Well, that's my only
10 question. Thank you.

11 EXAMINATION

12 BY CHAIRMAN LEMAY:

13 Q. Mr. Fant, I guess I want to -- I had the same
14 question that Commissioner Weiss had, actually, the DST and
15 testing cost.

16 Look at the land map. This gets in the area of
17 operating concern or concern of nonoperators, the fact
18 Yates has acreage both sides of this proration unit, would
19 probably benefit by more tests than fewer tests, because
20 they could test up their acreage as far as other zone.

21 If Medallion comes in with just a 160-acre
22 farmout, they're limited what they can develop, so it may
23 be less incentive to test a lot of zones, especially
24 marginal calls on drill stem tests. Is that a fair
25 characterization?

1 A. We have additional acreage to the west. We're
2 going to drill that. I mean, period. We are going to
3 drill that.

4 So I'm not sure that that's an absolute -- I
5 think I see your concerns that we would be proving up our
6 own acreage with dollars in this particular well.

7 Q. Well, I mean, you know --

8 A. Yeah. Well, it wouldn't be the first time it had
9 happened in the world. I don't know about this particular
10 instance. I do know we are going to drill the west half.

11 If somebody would like to have us run less tests,
12 we could do that. I don't think that's to the benefit of
13 the owners in this particular well.

14 Q. That probably -- I wasn't coming from that. I
15 was trying to come to grips with the idea that it was
16 stated the operator has lots of discretion drilling the
17 well.

18 A. That is --

19 Q. You can call the tests, you're not going to -- I
20 mean, you can expend usually on -- \$15,000 or \$20,000 or
21 something before you get other approvals.

22 A. Uh-huh.

23 Q. There's some discretion given to you in there?

24 A. Yeah, within -- And especially it's much higher
25 during the drilling operations of the well.

1 Q. Yeah, than it would be afterwards.

2 A. Uh-huh.

3 Q. But even afterwards, if you're going to
4 production-test a lot of zones that may be more beneficial
5 to an operator who has lots of acreage in the area than one
6 who doesn't?

7 A. Yes, the production tests of multiple zones,
8 since this is a Morrow test, would probably require a
9 recompletion.

10 Q. Say the Morrow is dry, then --

11 A. Say the Morrow's dry, then --

12 Q. -- you've got all these other zones you might or
13 might not play with?

14 A. Yeah, I mean -- we would -- It's still in our
15 best interest to do what's best for the well.

16 Q. Well, there's so much operator discretion
17 involved that we get conflicting testimony. What's in the
18 best interest of one person may not be another person.

19 A. Yes.

20 Q. I don't know how you could ever weigh all of the
21 competing interests and come up with one, quote -- a fair
22 person who would not -- who could not operate according to
23 their own best self-interest, and maybe at someone else's
24 lesser interest.

25 We're asked to view on these competing force

1 pooling applications. It's very difficult, to be honest
2 with you, because if you look at correlative rights, if you
3 look at waste issues, my own personal view is that -- and I
4 think it's shared by a lot of people -- those aren't
5 paramount in these kind of things.

6 Two operators can operate a well and probably do
7 a pretty good job, it boils down to one of control --
8 wanting to control your own financial interest, that type
9 of thing.

10 So we look at our statutory obligations, they're
11 kind of minimal if you're talking about waste and you're
12 talking about correlative rights, compared to other things
13 we hear. I mean, I hear from Mr. Kellahin all the time
14 that we need to look at our -- how we view these cases so
15 we send signals to the industry, what's important.

16 I can tell you right now, correlative rights and
17 waste, those two issues are very important, and they're
18 always less important, what we've seen in these force
19 pooling cases, than they have been in other types of cases.

20 So we're looking at areas where we can make these
21 kind of decisions as to who should be the best operator.
22 And we come down to interest. In this particular case,
23 Examiner Catanach emphasized the fact that the originator
24 of the prospect should be rewarded or, because they were
25 the movers in the area, should be the operator. That's one

1 aspect under our consideration today.

2 So what I'd like to have is testimony as to
3 input, what's important to you, maybe from our point of
4 view, if you see what I mean.

5 Let me ask you another question in this regard.
6 We're talking about operator discretion, operator
7 priorities. Is it more important for you to operate, if
8 you had the choice, through completion of the well or after
9 -- say it's a gas well in the Morrow -- after the well was
10 completed and on production?

11 A. Boy, that's a tough one. Quite honestly, my
12 experience is, over the life of a well you spend more money
13 operating it than you do drilling it, especially in a
14 multi-pay interval such as we have in this particular case,
15 because we complete in the Morrow, it plays out. You look
16 at many of the wells in this area. They've been completed
17 in the Morrow, then they've been completed in the Atoka,
18 then the Strawn, and maybe they're moved up to the Bone
19 Spring or something.

20 Every time you move -- Every time you change zone
21 you're going to spend some money. I mean, it would not be
22 uncommon to spend \$100,000 each time. Plus operating costs
23 go on top of that.

24 I believe, you know -- This is the opinion of Bob
25 Fant, okay? I can't exactly state this as the opinion of

1 Yates Petroleum, but this is my opinion, that it's more
2 important, the operations of the well day to day for the
3 life of the well, are more important once the well is down
4 and completed.

5 The problem with that here is, we can be left
6 with something that's not in the best of conditions for
7 operating. We could be left with a casing program that is
8 too small.

9 Now, and my experience is, in 4-1/2-inch casing
10 over the life of the well you spend more money than you do
11 in 5-1/2-inch casing, because the tools of the industry are
12 designed to work in 5-1/2-inch casing. 5-1/2-inch tools
13 are cheaper than 4-1/2-inch tools, generally.

14 Q. Where you have -- Have you been involved in
15 relatively inexperienced operators in the past, in the
16 areas?

17 A. I don't get greatly involved in the operation, in
18 those operations of what other people are doing. I work in
19 the -- I'm in the oper- -- I'm in the engineering group,
20 but I work on operated properties. That's where the
21 majority of my experience is.

22 I know what we would do, I know why we would do
23 these things, I know the reasons why we would do these
24 things. And therefore, when I see somebody else doing
25 differently it concerns me.

1 I do not work with the other operators real
2 closely, just in my job.

3 Q. Well, I guess that was where I was going. Is
4 there anything to preclude you from working with another
5 operator, making some recommendations or discussing like
6 the casing program, doing a more cooperative effort, rather
7 than saying, Hey, you're the operator, whatever you do,
8 I've got no input to it?

9 A. Well, we would certainly provide our input if we
10 were not elected as operator. But we believe that the
11 prevailing concern here is the majority of interest, and
12 that -- you know, we believe that is one of the pre-eminent
13 issues.

14 And we have not only the majority of the
15 financial interest, we have the majority of the backing
16 interest in terms of the people who had a choice to go
17 either way, the people who did have a choice of signing one
18 way or the other, supporting us.

19 Q. Meaning who?

20 A. Well, the other people that Ms. Mauritsen had --
21 You know, Kerr-McGee, for instance, could have signed
22 with -- for --

23 Q. I thought they were neutral in this.

24 MR. KELLAHIN: Kerr-McGee?

25 CHAIRMAN LEMAY: Yeah.

1 THE WITNESS: No, Kerr-McGee has signed our AFE.
2 MR. KELLAHIN: They signed our AFE.
3 CHAIRMAN LEMAY: But they're not --
4 THE WITNESS: Ms. Redfern.
5 MS. MAURITSEN: Diamond Head.
6 THE WITNESS: Diamond Head is the one --
7 CHAIRMAN LEMAY: Rosalind Redfern signed your AFE
8 but didn't sign the other AFE?
9 MR. KELLAHIN: We're talking two different --
10 THE WITNESS: No, no, I'm sorry. Rosalind
11 Redfern --
12 CHAIRMAN LEMAY: She married Ivan Grover, didn't
13 she?
14 THE WITNESS: -- Grover. Grover, yes, sir. She
15 was neutral in this. I'm talking about the small Kerr-
16 McGee interests that signed up just after --
17 MS. MAURITSEN: Exhibit 2 --
18 THE WITNESS: Huh?
19 MS. MAURITSEN: Exhibit 2 has --
20 THE WITNESS: Oh, all the people on Exhibit 2,
21 basically.
22 CHAIRMAN LEMAY: Okay, well, I can check that.
23 THE WITNESS: Yeah.
24 CHAIRMAN LEMAY: That's easier.
25 THE WITNESS: Yeah, I apologize for --

1 CHAIRMAN LEMAY: That's fine. I'm kind of
2 exploring these avenues, Mr. Fant. I hope you don't mind.
3 You like to talk and I like to listen a lot of times,
4 but...

5 (Laughter)

6 CHAIRMAN LEMAY: We have these force-pooling
7 cases and they're difficult, I want to tell you they're
8 very difficult for the reasons I've stated, and yet I think
9 the industry deserves some signals out there, what we do
10 prioritize in terms of --

11 THE WITNESS: Yes.

12 CHAIRMAN LEMAY: -- of granting operations to one
13 person or another.

14 THE WITNESS: Yes, and my opinion in looking at
15 -- and when we talk about the signals that are sent to the
16 industry, is that if the signal is, if you get the prospect
17 first you're going to win, there's going to be a lot of
18 force pooling cases up here with somebody with just a small
19 interest. And that's not in the -- I don't know that
20 that's in the interest of everybody.

21 This well -- It was characterized that these
22 wells would not be drilled if it were not for the continued
23 efforts of Medallion. I would disagree with that. Yes,
24 they brought us that, and we would -- we're certainly
25 willing to drill the well in the northeast quarter and to

1 allow them to participate. But we didn't have to come this
2 far. I mean, it's --

3 CHAIRMAN LEMAY: You're right, you didn't have to
4 come this far.

5 (Laughter)

6 THE WITNESS: And I wish it wasn't this way. I
7 think everybody wishes it wasn't this way.

8 CHAIRMAN LEMAY: Okay, okay.

9 THE WITNESS: But I'm concerned -- Personally,
10 I'm concerned about the -- what's going to happen if we do
11 continue to allow -- or if we send the signal that, hey, if
12 you generate it first, you're going to get to operate.
13 Somebody with 2-percent interest and somebody with 98-
14 percent interest -- That one, you know, that's an extreme.

15 CHAIRMAN LEMAY: Well, that's what they do in
16 Oklahoma, they -- 1 percent can force pool 99 percent.

17 THE WITNESS: Yeah, and see, that -- I mean, that
18 may be the way it is. I -- My experience in Oklahoma was
19 in a leased-up area that did not have any of that
20 particular stuff occurring. But I've heard those type of
21 things.

22 CHAIRMAN LEMAY: I have too.

23 THE WITNESS: And I think the way we have -- that
24 it has been handled in New Mexico in the past is a very
25 good way. I think it has provided a lot of order. And I

1 wish we didn't have these force-pooling hearings too, but I
2 haven't been here on many lately either, and I was several
3 years ago here for quite a few.

4 CHAIRMAN LEMAY: Well, fortunately you and
5 Nearburg found a formula that worked for you.

6 THE WITNESS: Yes, and we think that would work
7 well for the industry also, sir.

8 CHAIRMAN LEMAY: Commissioner Weiss, you look
9 like you're --

10 FURTHER EXAMINATION

11 BY COMMISSIONER WEISS:

12 Q. Yeah, I've got another question. I was looking
13 at the AFEs again.

14 Ten years ago, people who knew how to complete
15 Morrow wells made wells. People who didn't -- You know, it
16 was the completion fluids, I think, or something --

17 A. There was a lot of technological advancement in
18 the mid-Eighties in completion fluids with the Morrow, and
19 fracturing techniques and things of that nature.

20 Q. You're all over that hump now, and that's pretty
21 standard? I mean, all the --

22 A. I don't know that it's standard, but the service
23 companies certainly are aware of the -- what needs to be
24 done, and they can make recommendations on those things,
25 and that's -- that's a fact.

1 We have -- You know, we feel we have in-house
2 expertise on knowing how to do that, but you can buy that
3 expertise at the service companies.

4 Q. That was just another thought I had. I was
5 wondering if it was still secret. But apparently it's not.

6 A. No, it's hard to hold much of anything secret in
7 this industry.

8 COMMISSIONER WEISS: That was my only question.
9 Thank you.

10 CHAIRMAN LEMAY: Anything else here?

11 That's all we have. Thank you very much, Mr.
12 Fant.

13 THE WITNESS: Thank you.

14 MR. KELLAHIN: That completes the presentation of
15 my evidence, Mr. Chairman.

16 CHAIRMAN LEMAY: Do you want to wind it up? Any
17 summations?

18 MR. KELLAHIN: Please. Do you want to go first?

19 MR. BRUCE: Sure, you gave me the benefit of
20 going first before.

21 Mr. Chairman, Medallion, of course, asks that the
22 Commission affirm the Division's order, which we believe
23 was consistent with prior Division orders and is based upon
24 logical principles.

25 The principles affecting an award of operations

1 are pretty easily recognized by reviewing prior Division
2 orders. I think Mr. Kellahin has touched on a few of these
3 already. In no particular order, they're percentage
4 interest in the well, well costs, geology, and I think who
5 initiated efforts to get the well drilled.

6 Let's look at each of these briefly.

7 Geology, I don't think we really have to discuss
8 here. Both geologists for Medallion and Yates think this
9 is the optimum well location in -- for an east-half unit.
10 Obviously, if the parties had proposed different locations
11 I think we could look forward to a couple more hours of
12 hearing.

13 On well costs, Mr. Fant likes the 5-1/2-inch
14 casing, but even if you have 5-1/2-inch casing in
15 Medallion's proposal, there's really no dispute here as to
16 well costs between the two parties. The AFEs are
17 comparable, and really that doesn't factor much into a
18 decision, I believe. If the Commission wants to order
19 5-1/2-inch casing, I believe it could do so, and I don't
20 think anybody would have a problem in complying with that.

21 Percentage ownership is the third issue, again an
22 obvious factor. I do not believe it's the controlling
23 factor, which Mr. Kellahin would have you believe. I mean,
24 this isn't the case, but obviously if you had a case where
25 there was one interest owner had a 51-percent interest but

1 who consistently overran AFEs, consistently had problems
2 completing a well, I don't think you could award
3 operatorship just based on percentage interest alone.
4 Again, we don't have that position or problem today.

5 But let's look at the percentage interests. Yes,
6 I know the Yates group has -- whatever it is, 37 percent.
7 But Medallion is the single largest interest owner in the
8 east-half unit. It has 24 percent. That's not a small
9 interest. We're not here, like those stories you heard in
10 Oklahoma with the 1-percent interest pooling 99 percent of
11 the interest.

12 The second-largest interest owner, Diamond Head
13 Properties, the former Redfern interest, has 23.5 percent.
14 That interest has been committed to Medallion as well.
15 Together they have, Diamond Head and Medallion, about half
16 the well.

17 But what if a well was subsequently completed in
18 shallower zones? Mr. Fant was here testifying about these
19 shallower zones. Bone Spring, Delaware, Yates, those are
20 going to be on 40 or 160-acre units. If that's the case,
21 Medallion and Diamond Head together would have 95-percent
22 interest in those zones, versus about 2-percent interest
23 for the Yates group. We think this is a reasonable factor
24 for the Commission to consider.

25 And if you look at all of those together, I think

1 it's reasonable to say that Medallion has the most at issue
2 here today, and just looked at percentage interest,
3 Medallion should be awarded operations.

4 Now, Mr. Kellahin has mentioned certain things,
5 certain cases today where he said, you know, Yates and
6 Nearburg have worked out this or worked out that. But
7 really, if you look at recent decisions by the Division,
8 they do not look strictly at interest ownership.

9 One that Mr. Kellahin had recently in front of
10 the Commission and the Division, the Penwell-Burlington
11 fight, Burlington owned only 13 percent of the operating
12 rights and Penwell had over 85 percent of the operating
13 rights committed to it. But because Burlington had tried
14 for a long time to get a well drilled, the Division awarded
15 operatorship to Burlington. That's Mr. Kellahin's case.

16 Similarly, Order Number R-10,742, that was a
17 fight that I had with Mr. Carr between Santa Fe Energy and
18 Penwell. Santa Fe Energy had 50 percent of that well;
19 Penwell had 8 1/4 percent. And the Division awarded
20 operatorship to Penwell. Why? Because they had taken the
21 initiative in getting wells drilled in the area. And I
22 think that's what you have to look at here today.

23 The record is clear that Yates didn't have any
24 interest in doing anything in Section 20 until contacted by
25 Medallion. Yates hasn't drilled a deep well in the area in

1 almost 20 years.

2 But since Medallion took the initiative in this
3 area, soon two wells will be drilled in Section 20, two
4 Morrow wells. One in the northwest quarter with a west-
5 half unit, and then the one we're here for today with an
6 east-half unit.

7 As Mr. Quinn testified, Medallion was the
8 initiator in getting this well drilled, and I think it
9 deserves a pat on the back for that, and that pat on the
10 back should be an award of operations.

11 I mean, I guess things would be easier if we just
12 let Yates operate the state. But seriously, the Division's
13 order is logical and it's consistent with Division
14 precedent.

15 As I said, two or three days after the case we're
16 here on today I got an order from the Division ruling
17 directly -- ruling against me. But the Division ruled the
18 same on all of the issues in both cases.

19 For those reasons, we ask you to affirm the
20 Division's order.

21 And with that, I'd pass it over to Mr. Kellahin.

22 CHAIRMAN LEMAY: Thank you, Mr. Bruce.

23 Mr. Kellahin?

24 MR. KELLAHIN: Thank you, Mr. Chairman.

25 Members of the Commission, it's obvious to me

1 that you recognize the issue we place before you this
2 afternoon. What you're dealing with is using the
3 incredible police powers of the State of New Mexico to
4 decide over someone's objection what happens with someone's
5 property. And while we do that within the context of
6 prevention of waste and protection of correlative rights,
7 you are doing something more. You are making decisions
8 over the objection of one group of interest owners for
9 another group.

10 Fortunately in New Mexico, we have the
11 flexibility to make decisions on how that is done. The
12 Statutory Unitization Act, when we use the police powers
13 and those concepts, require that the voluntary interest
14 owners collectively must equal 75 percent before they can
15 compel the minority interest owners into their waterflood
16 or pressure-maintenance project.

17 While we don't have a written rule as to a
18 minimum percentage for pooling -- we've escaped thus far
19 the experience Mr. Quinn brings to this state from his work
20 in Oklahoma -- this has the flavor, the feel, the taste, of
21 somebody from Oklahoma using Oklahoma strategies in New
22 Mexico. And that strategy is, to hold a club of force
23 pooling over someone's head and use that as a negotiating
24 tool to get results.

25 Mr. Bruce says Mr. Quinn deserves a pat on the

1 back. Had this been my case the Examiner would have kicked
2 me in the butt, and he's done so frequently. When we file
3 force-pooling cases for a client that has failed to
4 specifically provide a written document with an AFE and
5 giving those parties a reasonable period of time to join,
6 they dismiss those cases.

7 I've given you two examples in the end of the
8 handout I've just given you. One is a Maralo case. They
9 sought to pool Bass without giving them a fair opportunity.
10 It was dismissed.

11 The other case is the Meridian case. I described
12 to you my opening comments. It's the one for Examiner
13 Stogner, who after Meridian had repropose a well and given
14 Doyle Hartman and Texaco a week's notice, they filed a
15 pooling case.

16 In January, after all these continuances and
17 further discussions, he says, You did this wrong, and
18 you're going to be punished for doing it. And he dismissed
19 the case, required us to negotiate for 60 days and then
20 refile.

21 When we look at the issue of taking of property,
22 majority means a lot here. I think all of you have
23 experienced the intricacies and the important
24 responsibilities an operator has.

25 Mr. Fant emphasized some operational problems

1 because that's his point of view.

2 When Mr. Hayes testified before the Examiner he
3 had a different perspective, which was, it was incredibly
4 important to him as a geologist to have his company in
5 control of operations. He is the well-site geologist on
6 location, makes incredibly important decisions. When he
7 sees cuttings and sees informations and sees drilling times
8 and looks at all that kind of stuff, he is making important
9 decisions for everyone.

10 And what is the best way to organize those
11 decisions? You let the people that have collectively
12 agreed on the largest percentage of who operates. And when
13 we look down the list, we can't find anyone else that wants
14 InterCoast to operate.

15 Now, Mr. Bruce wants to capture the fact that Ms.
16 Redfern sat on the sidelines, and only after InterCoast is
17 awarded operations does she elect to participate. She said
18 it then, she says it now. He wants bonus points for it.
19 It's an empty victory, because that's not how this ought to
20 be decided.

21 This case is important to Yates but it's also
22 important to me. I practice a lot of cases before you.
23 This is how I make my living. And we attempt to try to
24 counsel clients on how not to get to this place this
25 afternoon.

1 You may not see it because you see the tip of the
2 iceberg, but we deal with hundreds of these things. And we
3 have learned to coach them into negotiating solutions using
4 what Mr. Catanach developed and which is the first sheet of
5 the handout. It says April 5th, 1995, decision-making-
6 process guideline, if you will, for dispute resolutions of
7 these issues.

8 He says, first of all, relevant, the very first
9 thing he says: Information relating to prehearing
10 negotiation conduct by the parties. In this instance, the
11 conduct by the party that's adverse here has not been fair
12 and appropriate. I'm sorry they had a farmout, but we have
13 seen how easily that farmout is extended.

14 Isn't it interesting that you can construct a
15 time deadline by contract that then becomes the driving
16 force by which you compel the entire deal to move forward,
17 and at the moment of crisis, when their attorney is telling
18 you we have an expiring deadline and can't stay drilling
19 the well, isn't it interesting to find out that he's got a
20 30-day extension in his pocket? That troubles me greatly,
21 when we bring cases before you, to find out the thread of
22 an expiring farmout evaporates when it's convenient to do
23 so.

24 But look what Mr. Catanach lists. He says,
25 second of all, willingness of operator to negotiate a

1 voluntary agreement. They didn't come to us with any
2 willingness; they came to us with a club and beat us on the
3 head with it.

4 Third, third, interest ownership within the
5 particular spacing unit sought. It's the highest priority
6 of selection of any of the items Mr. Catanach selected in
7 this order. If you'll turn to the tab -- I have put a
8 yellow tab on the order he entered, and if you'll turn with
9 me to page 7 of the order, get to the punch line.

10 In prior pages, he has taken care to describe the
11 fact that he has agreed that for purposes of this decision,
12 the control that Yates has consolidated is the 52.5
13 percent. He has concluded that the control that Medallion
14 has is the 24.1 percent.

15 He then goes over and in 23, on page 7,
16 subsection (b), he says, although there is a fairly
17 significant difference in interest ownership in the east
18 half between the Yates group and InterCoast, this criteria
19 should not be the deciding factor in this case.

20 Why? I'm looking at his guidelines and it's the
21 first priority item. Where did this train come off the
22 track? He dismisses it as not being a deciding factor, and
23 we know it's a significant difference.

24 And then he goes down -- and it's cleverly done.
25 He says in 24, then, he says, in absence of other

1 compelling factors. Well, the compelling factor that
2 decides past cases is the one that he dismissed. I'm
3 having trouble with the logic. But that's what he's done.
4 He says, in absence of that factor, then the operatorship
5 should be awarded to the operator who originated the
6 prospect and initially proposed the farmout, et cetera, et
7 cetera.

8 My conclusion from analyzing the orders of
9 significance by the Division is in this package. After the
10 guidelines, I've gone through and found out of the Division
11 records those orders on which the Division begins to
12 initiate the guidelines.

13 And the first one we come to, guidelines are
14 issued in April of 1995, a month later, May 2nd of 1995.
15 We've got an order, R-10,358 -- it's the Fairchild 13 well;
16 this is one of the Nearburg-Yates fights -- and what we're
17 doing here is, we're deciding this case based upon the
18 consolidation of the largest percent in ownership. He
19 decides it on that fact.

20 When you look at the arithmetic you find that the
21 Yates group has consolidated 33 percent, the Nearburg
22 consolidated 50 percent. Both parties contended that
23 Holmquist's 16 percent was in their pocket. That was in
24 dispute in quiet title suit, and he -- in the order, Mr.
25 Catanach ignored that order. He said when you set it

1 aside, it's a dispute I can't resolve and I will not
2 resolve. He says the majority is Nearburg.

3 He then goes through the analysis, and in finding
4 aid, he concludes that he can't decide it based upon where
5 you put the Holmquist interest. He ignores it. He then
6 goes on after excluding it, outlines the interest.

7 And then he says in 27, based upon interest
8 ownership, geologic interpretation, location of operation
9 of facilities, Nearburg wins. That's what he did. It
10 looks to me like he's deciding it on the primary criteria
11 majority controls.

12 We look next at another Nearburg dispute. It's
13 Yates versus Nearburg, it's Order 10,434. This is the Ross
14 EG 14. This is another one that is decided by majority.

15 When you look how that order is organized -- this
16 is Mr. Catanach again. He is organizing this based upon a
17 percentage, and there's a standout. The standout interest
18 is Conoco. They're sitting on the sidelines. Yates is
19 able, through negotiations, persuasions, to get Conoco to
20 support their position. That becomes the deciding factor.
21 Yates wins that case. Why? Majority. That's how that was
22 done.

23 Here's another. This is the one Mr. Stogner did,
24 it's the next one in the package. It's 10,520. This is --
25 We're now dealing in August of 1995. And Mr. Stogner is

1 using the same decision-making process and analysis that
2 Mr. Catanach is using, with the primary criteria being
3 majority.

4 This is an interesting one because we did it
5 twice. Ernie Carroll came in to represent Yates, and I
6 represented Nearburg. We got into this commotion over
7 competing pooling cases.

8 This is one of those Dagger Draw cases that you
9 heard us talk about, and isn't it interesting to find out
10 that the Yates group had 37.5 percent, Nearburg had 37.5
11 percent, everyone was waltzing and romancing Unit Petroleum
12 Corporation. That was the Ms. Redfern in the deal. Too
13 bad she didn't vote and we could all go away. But she sat
14 on the sidelines.

15 In this case, Unit voted for Yates. And what
16 happens? Unit wins. That's how this turned out. You
17 can't tell me we're not deciding these things by majority.
18 And why is it fair? Because the industry does it for
19 themselves.

20 And we ought to do it for them too when they
21 can't agree. And if you decide that that's the pattern of
22 solution, then a lot of these are not going to show up
23 here, because Mr. Bruce and Mr. Carr and I know how to
24 counsel parties on dispute resolution. We now have
25 guidelines for that dispute resolution that makes some

1 sense to the industry and tell us how to encourage them to
2 solve their own problems.

3 The next one is 10,626. It's another one of Mr.
4 Stogner's. This is June of 1996 at this point. This is a
5 Nearburg-Mewbourne decision. And on page 3 of that order -
6 - it's organized in an interesting way -- Nearburg has
7 remembered the lesson they learned from the past disputes
8 with Yates and has recognized that if they come in here
9 with 14 percent, as they did in this case, they were in big
10 trouble.

11 And so what did they do? Nearburg initiated this
12 prospect. They were first to initiate, first to file force
13 pooling application. Mewbourne came along, filed a
14 competing one. And they agreed during the process, as
15 documented in the order, that by acquiescence Nearburg
16 would defer to the majority to have the first chance to
17 drill the well.

18 And that's the way Examiner Stogner organized the
19 order. He gave Mewbourne the first chance to drill the
20 well. If they didn't do it by a certain period of time,
21 then Nearburg had a turn.

22 And that's what happened when you heard the
23 Penwell-Burlington dispute just last month. Mr. Bruce
24 wants you to believe that that was a tiny interest winning
25 over a big interest.

1 But remember the facts. That was a case where
2 the majority interest ownership was controlled by Trainer
3 and his buddy. And after 17 months of begging Trainer to
4 get this well drilled, Burlington finally was fed up and
5 filed a force pooling action against Trainer.

6 After he's served, he jumps and runs and gets
7 Penwell to take his interest at a discount. And they say,
8 Hey, we've got the biggest interest, we ought to win.
9 Well, at least at the Examiner level they didn't, and
10 you're still ready to decide that case.

11 We think that's entirely consistent with what I'm
12 suggesting now. The majority controls, and they're given a
13 reasonable opportunity to act.

14 In this case we had that chance, and we're denied
15 that chance. We promised, we committed, we pledged to
16 commence this well in time to save their farmout. It could
17 have been done, we should have had the chance, we could
18 have done it.

19 The next one in the handout is Examiner
20 Catanach's order that we're talking about now. We get down
21 to Mr. Bruce's favorite one that he just described, having
22 lost before Examiner Catanach recently; it's Order Number
23 R-10,742. This is the Santa Fe Energy-Penwell dispute. He
24 would have you characterize that as an instance where
25 Penwell, with a minority interest share, gets to win.

1 I've examined that transcript, I've looked at
2 those exhibits. I invite you to do so. There was a
3 horrendous fight over geology.

4 Santa Fe proposed a well in the northeast quarter
5 of the east half of this section for a deep gas spacing
6 unit. The southeast quarter was Penwell. They had offset
7 drilling wells going on. Penwell was drilling them. Each
8 had a substantially different point of view on geology.
9 And based upon a geologic preference, geology moved to the
10 head of the list, and rightfully so.

11 When you see a dispute on different locations
12 with substantially different geology, that's where we need
13 the expertise of your Examiners. That's where you need to
14 make judgments for these people on who wins. And that's
15 how that case was won. It wasn't won by Penwell with 8
16 percent. It was won because he liked their geology better,
17 and he gave them the chance to drill their location. And
18 that's what that case is about.

19 And if you analyze these and agree with my
20 analysis, then I'm having trouble rationalizing and
21 understanding and fitting into the logic of this sequence
22 of decision-making how in the world Mr. Catanach put us in
23 the position we're in now with this case. I have great
24 respect for him, he's a good friend of mine, I like him
25 very much; but he's made a mistake here.

1 And the mistake is that he has chosen to go off
2 the train, he has changed the decision-making process from
3 what he's done in the past.

4 I didn't develop his guidelines, these are his
5 guidelines. And the first priority is majority wins, and
6 he goes down the sequence of events.

7 He did not follow that process here. I don't
8 know why he didn't. It doesn't matter. We're asking you
9 to change it and, in doing so, send signals to the industry
10 so that we can solve these things and not burden your time
11 and the industry's time trying to resolve it.

12 You have a chance to set policy. If you want Mr.
13 Catanach and Mr. Stogner to decide cases this way, tell us,
14 because then we need to tell our clients how to work, how
15 to operate and how to function. We're not asking you waste
16 your time, we're asking you to give us help. And we think
17 when you give us that help, you will decide that it's
18 appropriate in this case to award operations to Yates,
19 require Medallion/InterCoast to turn over operations to us,
20 and we'll proceed from there with your assistance and
21 guidance.

22 Thank you very much.

23 CHAIRMAN LEMAY: Thank you, Mr. Kellahin.
24 Anything else in this case?

25 We shall take the case under advisement.

1 And could I request some draft orders from you
2 two gentlemen?

3 MR. KELLAHIN: Yes, Mr. Chairman, we'd be happy
4 to do that.

5 CHAIRMAN LEMAY: Thank you.

6 MR. BRUCE: What time?

7 CHAIRMAN LEMAY: Two weeks?

8 MR. KELLAHIN: I need to do it real quick, and
9 unless we've got -- We've got an expiring commitment --

10 CHAIRMAN LEMAY: You've got the twenty- --

11 MR. KELLAHIN: We've got the 27th.

12 CHAIRMAN LEMAY: You've got the 28th?

13 MR. BRUCE: Next week.

14 MR. KELLAHIN: What's our date? What's
15 Mecca's --

16 MR. FANT: The 26th was the date she quoted as
17 the --

18 MR. KELLAHIN: I can have an order to you on
19 Monday.

20 MR. BRUCE: Sure, that's fine.

21 MR. FANT: I think we would rather -- we would
22 like to have the time --

23 CHAIRMAN LEMAY: You would like --

24 MR. KELLAHIN: I can get you a draft order on
25 Monday.

1 CHAIRMAN LEMAY: -- an order issued before the
2 28th, or give you some -- Let me ask you this --

3 MR. KELLAHIN: What I'm asking --

4 CHAIRMAN LEMAY: Can we extend the election
5 period?

6 MR. KELLAHIN: You can, on your own motion,
7 decide to extend the election period, and it would take the
8 heat off us from making a decision that then had time to --

9 CHAIRMAN LEMAY: I'd like to rule from the bench
10 on that one to extend the election period. As far as you
11 know, there's not going to be anything known in the
12 prospect for a while, is there?

13 MR. BRUCE: I believe -- Although it's not in the
14 testimony, I believe that this well -- and Bob could say
15 more -- is probably going to take 30 to 45 days to reach.

16 MR. FANT: The only consideration is the
17 intermediate casing.

18 MR. BRUCE: Okay.

19 MR. FANT: I'm just laying that on the table --

20 MR. KELLAHIN: It takes 40 days, Mr. Chairman --

21 MR. FANT: -- for you to think about. Once
22 they've put in the hole and cemented it in, it's --

23 CHAIRMAN LEMAY: Why don't you prevail upon them
24 to run eight-and-five and see how that --

25 MR. BRUCE: And I will --

1 MR. KELLAHIN: Mr. Bruce and I will work on that.

2 CHAIRMAN LEMAY: Will you work on that? Okay.

3 The other thing is, what kind of period of time?

4 Do you want a week after or two weeks after that, or what's
5 your --

6 MR. FANT: Forgive me, I'd rather have Mecca
7 answer that. Let me --

8 MR. KELLAHIN: I'm just going to have to find out
9 what --

10 CHAIRMAN LEMAY: Why don't you two get back to us
11 on --

12 MR. KELLAHIN: Can we tell you on Monday --

13 CHAIRMAN LEMAY: -- Monday, their election
14 extension, and we can issue that rather quickly. We hate
15 to have that be the driving force.

16 MR. BRUCE: Yeah. No, we don't have any --

17 MR. KELLAHIN: May we tell you on Monday, Mr.
18 Chairman?

19 CHAIRMAN LEMAY: You certainly may.

20 MR. KELLAHIN: Thank you.

21 CHAIRMAN LEMAY: Yes?

22 MR. FANT: Mr. Gum says he believes they already
23 have intermediate set on the well, which is --

24 CHAIRMAN LEMAY: Nine and five, or eight and
25 five?

1 MR. GUM: I don't know what you -- I think --

2 CHAIRMAN LEMAY: Okay, well, it's a done deal.

3 MR. GUM: They're getting close to it if they
4 haven't already --

5 CHAIRMAN LEMAY: By Monday. Give us an extension
6 date on what's agreeable.

7 MR. KELLAHIN: We'll do that, Mr. Chairman.
8 Thank you.

9 CHAIRMAN LEMAY: Thank you, we'll take the case
10 under advisement.

11 (Thereupon, these proceedings were concluded at
12 4:54 p.m.)

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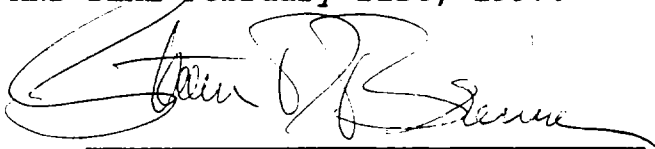
CERTIFICATE OF REPORTER

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 Commission was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

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

WITNESS MY HAND AND SEAL February 21st, 1997.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 1998