STATE OF NEW MEXICO

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING CALLED BY THE OIL CONSERVATION DIVISION FOR THE PURPOSE OF CONSIDERING:	)	
APPLICATION OF OCEAN ENERGY RESOURCES, INC., FOR COMPULSORY POOLING AND FOUR NONSTANDARD OIL AND GAS SPACING AND PRORATION UNITS, LEA COUNTY, NEW MEXICO	)	CASE NO. 12,535
APPLICATION OF OCEAN ENERGY RESOURCES, INC., FOR COMPULSORY POOLING AND FOUR NONSTANDARD OIL AND GAS SPACING AND PRORATION UNITS, LEA COUNTY, NEW MEXICO	)	CASE NO. 12,567
APPLICATION OF YATES PETROLEUM CORPORATION FOR COMPULSORY POOLING AND THREE NONSTANDARD OIL AND GAS SPACING AND PRORATION UNITS, LEA COUNTY, NEW MEXICO	)	CASE NO. 12,569
	)	(Consolidated)

REPORTER'S TRANSCRIPT OF PROCEEDINGS
EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

January 11th, 2001
Santa Fe, New Mexico

These matters came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday January 11th, 2001, at the New Mexico Energy, Minerals and Natural Resources Department, Porter Hall, 2040 South Pacheco, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

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I N D E X

January 11th, 2001
Examiner Hearing
CASE NOS. 12,535, 12,567 and 12,569 (Consolidated)

(Continued...)

YATES WITNESSES (Continued):

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E X H I B I T S

Ocean Energy	Identified	Admitted
Exhibit 1	10	20
Exhibit 2	11	20
Exhibit 3A	13	20
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Exhibit 4	17	20
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* * *

Yates	Identified	Admitted
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Exhibit 3	53	56
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Exhibit 12	87	97
Exhibit 13	90	97
Exhibit 14	92	97
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A P P E A R A N C E S

FOR THE APPLICANT:

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

FOR YATES PETROLEUM CORPORATION
and DAVID H. ARRINGTON OIL AND GAS:

HOLLAND & HART, P.A.
Suite 1 - 110 N. Guadalupe
P.O. Box 2208
Santa Fe, New Mexico 87504-2208
By: WILLIAM F. CARR

ALSO PRESENT:

DAVID R. CATANACH, NMOCD Hearing Examiner

BILL WHITE
Blanco Company

* * *

WHEREUPON, the following proceedings were had at 11:02 a.m.:

EXAMINER STOGNER: This hearing will come to order.

At this time I'll call Case Number 12,535, which is the Application of Ocean Energy Resources, Inc., for compulsory pooling and four nonstandard oil and gas spacing and proration units, Lea County, New Mexico

At this time I'll call for appearances.

MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe, representing Ocean Energy Resources, Inc. I have three witnesses.

MR. CARR: May it please the Examiner, my name is William F. Carr with the Santa Fe regional office of the law firm Holland and Hart. We represent Yates Petroleum Corporation, and I have three witnesses.

MR. BRUCE: Mr. Examiner, I think with Mr. Carr's concurrence, if we could ask that this matter be consolidated with Case Numbers 12,567 and 12,569.

MR. CARR: I concur in that request.

EXAMINER STOGNER: At this time for the record I'll call Cases Number 12,567, and that's the Application of Ocean Energy Resources, Inc., for compulsory pooling and four nonstandard oil and gas spacing and proration units, Lea County; and Case Number 12,569, which is the

Application of Yates Petroleum Corporation for compulsory pooling and three nonstandard oil and gas spacing and proration units, Lea County, New Mexico.

Other than Jim Bruce for Energy and Mr. Bill Carr for Yates, are there any appearances in these cases?

At this time I want to ask all six witnesses to please stand to be sworn.

MR. CARR: Mr. Stogner, I would also like the record to note the entry of my appearance for David Arrington Oil and Gas.

EXAMINER STOGNER: Now, will Arrington have any witnesses?

MR. CARR: No, sir.

(Thereupon, the witnesses were sworn.)

EXAMINER STOGNER: Mr. Carr, Mr. Bruce, do we need any opening statements at this time?

MR. BRUCE: I don't have an opening, I just want to mention a couple of things. There's one other person in the audience, Mr. Examiner, and that is --

EXAMINER STOGNER: Well, there's several. Which one are you talking about?

MR. BRUCE: Mr. Bill White of the Blanco Company. He is one of the mineral interest owners in this particular tract of land, just for the record.

And the other thing I want to mention is, all

three Applications involve what is the north one-third of irregular Section 3, 16 South, 35 East. All of the nonstandard oil and gas spacing and proration units are simply due to variations in the government survey.

EXAMINER STOGNER: Okay.

MR. BRUCE: That's all I have as far as opening.

EXAMINER STOGNER: Just for the record too, Ocean Energy has two cases and they look almost alike. Do you want to address that?

MR. BRUCE: Yeah, Mr. Examiner, I was going to explain that later. But there are two groups of parties being pooled. One is the Yates group and David H. Arrington Oil and Gas, Incorporated, who are oil and gas lessees. We had been negotiating with them, Ocean had been negotiating with them for some time and filed the pooling Application against them.

There are several unleased mineral interest owners who -- I think not only Ocean but Yates, and Arrington had been trying to lease for a number of months, could not come to terms with most of the parties, and then subsequently Ocean sent out a well proposal to these unleased interests and then filed its second pooling Application, 12,567, as against those unleased mineral interest owners. But the Applications in all respects are the same.

EXAMINER STOGNER: Would you like to start, if that's okay with Mr. Carr?

MR. CARR: That's all right with Mr. Carr.

MR. BRUCE: Call my first witness, Mr. Maney.

DEROLD MANEY,

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

DIRECT EXAMINATION

BY MR. BRUCE:

Q. Would you please state your name and city of residence?

A. Derold Maney, Houston, Texas.

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

A. I work for Ocean Energy as a landman.

Q. Have you previously testified before the Division as a landman?

A. Yes, I have.

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

A. Yes, they were.

Q. And are you familiar with the land matters involved in these Applications?

A. Yes, sir.

MR. BRUCE: Mr. Examiner, I tender Mr. Maney as an expert petroleum landman.

EXAMINER STOGNER: Any objection?

MR. CARR: No objection.

EXAMINER STOGNER: Mr. Maney is so qualified.

Q. (By Mr. Bruce) Mr. Maney, briefly, what does Ocean Energy seek in its two cases? And I refer you to Exhibit 1.

Well, what we want to do is, we want to pool the north one-third of Section 3 for an Atoka-Morrow test well.

Q. Okay. And as I mentioned briefly, Section 3 is an irregular section, correct?

A. Yes, sir.

Q. And it's comprised of lots 1 through 8, which is, in effect, the north one-third?

A. Yes, sir.

Q. And if I can briefly, what Ocean seeks is to pool lot 4 for 40-acre wells, lots 3 and 4 for 80-acre well units, lots 3 through 6 for 160-acre well units, and then the entire north third for 320-acre well units; is that correct?

A. Yes, sir.

Q. What is the status of the south two-thirds of Section 3 with respect to wells and well production?

A. Those are producing Morrow wells. There's the Panther Martin and then the Parachute Adams.

Q. Okay, so that acreage is already dedicated to

Morrow wells?

A. Yes.

Q. Okay. And briefly, what is the difference between the Ocean Applications and the Yates Application?

A. We want to drill a well in lot 4, and Yates wishes to drill a well in lot number 1.

Q. Okay. What is the status, just briefly, of the mineral interest ownership in what -- I'm going to refer to it, maybe, throughout the hearing as the northeast quarter and the northwest quarter of this particular tract?

A. The northeast quarter is owned by Yates, Yates Petroleum --

Q. Or no, I mean the underlying mineral interest.

A. Okay.

Q. Is it --

A. State and fee.

Q. Okay, so the lots 1, 2, 7 and 8, which is the northeast quarter, are state minerals?

A. Yes.

Q. And lots 3 through 6 are fee minerals --

A. Yes, sir.

Q. -- is that correct? Okay.

Now, let's move on to Exhibit 2 and identify that for the Examiner.

A. It's a list of the owners, ownership north one-

third.

Q. Okay, and again Ocean Energy is an oil and gas lessee, correct?

A. Yes.

Q. As is the Yates group and David H. Arrington Oil and Gas?

A. Yes, that's correct.

Q. And then all the parties listed below are all at this time unleased mineral interest owners?

A. That's correct.

Q. Okay. And at this time Ocean has approximately 41 percent of the well unit and Yates has approximately 50 percent?

A. Correct.

Q. Okay. Of these parties on Exhibit 2, who does Ocean seek to force pool?

A. Well, we'd like to force pool everyone on the list.

Q. Other than yourselves?

A. Right.

Q. With respect to the unleased interest owners, have you preliminarily come to terms with a couple of them?

A. Well, Tom Cone has signed the AFE, has not signed the operating agreement yet. And --

Q. He's signed Ocean's AFE, correct?

A. Yes, sir, correct. And Keith Pratt Daniels and Linda Pratt Rast have indicated that they will lease to Ocean. We have not got the signed lease back, so I'd like to keep all of those people on the pooling. If we get those in hand, we can advise the Commission.

Q. Okay, so if they do sign leases or sign JOAs, you will notify the Division at that time?

A. Yes, sir.

Q. Okay. Now, let's discuss your efforts to obtain the voluntary joinder of the interest owners. When did you first propose this well to the other oil and gas lessees? And I refer to your Exhibit 3A.

A. I sent the letter to David Arrington Oil and Gas and Yates Petroleum on May 31st, 2000.

Q. Okay, and what happened subsequent to that? What other meetings were there, letters, follow-up calls?

A. We had -- There were telephone conversations back and forth, and then there was a meeting in August in Houston where we discussed the location of our proposed well, and subsequent conversations back and forth with various individuals, trying to resolve it.

Q. Were a lot of the discussions between the geologists for the various companies?

A. Most of them were.

Q. Okay, so there have been in effect, what, about

seven months of negotiations between the parties?

A. Yes, sir.

Q. Okay. And on June 26th -- that's part of your Exhibit 3A -- you did forward a proposed JOA to the Yates group and to David H. Arrington Oil and Gas?

A. Yes, sir.

Q. And have you had a title opinion prepared on this tract?

A. Yes, we had a drilling title opinion prepared.

Q. Okay. Also, as part of your Exhibit 3A, you've included a September 29th letter from David H. Arrington Oil and Gas. Could you explain briefly what that is?

A. That's proposing to drill a well.

Q. Okay. They proposed a well in -- Where was it located?

A. Let's see, here. 660 from the north line and 1980 from the west.

Q. Okay, so that was in lot 3, which --

A. Yes.

Q. -- we're kind of referring to as the northwest quarter?

A. Northwest quarter.

Q. Okay. Now, during these meetings, when -- Insofar as a well location goes, what locations were being looked at, say, from June through this fall?

A. The proposal that Ocean had proposed, and then I believe it's the same proposal that Arrington had proposed.

Q. So for a number of months all of the well proposals were for a well in the northwest quarter?

A. Yes, sir.

Q. When was the first proposal received by Ocean with respect to a well in the northeast quarter?

A. I believe that was the Yates proposal which was dated December 21st and received in our office on the 28th.

Q. Or December 27th, excuse me? Or --

A. Yes.

Q. Yates' proposal letter?

A. Yes, the well proposal was the 27th.

Q. Okay.

A. And received January -- or --

Q. Okay. And that was the first proposal Ocean received regarding a well in the northeast quarter?

A. Yes, sir.

Q. And that is Yates' lot 1 well proposal?

A. Yes, sir.

Q. Okay. So then next, I believe, in October, late October of 2000, Ocean filed its pooling Application as against Yates Petroleum and its partners and David H. Arrington Oil and Gas?

A. Yes, sir.

Q. And that hearing was continued until today; is that correct?

A. Yes, sir.

Q. Let's move on to your Exhibit 3B. As we've already discussed, there are a number of unleased mineral interest owners, and this exhibit contains a package of letters. Who is Blaine Hess?

A. Blaine Hess is an independent lease broker, landman, that's in Roswell, New Mexico, that I employed at various times.

Q. So in this matter he was working on behalf of Ocean Energy?

A. Yes, sir.

Q. And once the names of the mineral interest owners were known sometime in the summer, I believe Mr. Hess started contacting those interest owners, seeking oil and gas leases from them?

A. Yes, sometime in July, I believe.

Q. Okay. And then he followed that up in September with letters to the various parties asking for leases?

A. Yes, sir.

Q. Okay. Again, he was not fully successful in obtaining those leases, was he?

A. Correct.

Q. And as a result, if you go about midway through

the exhibit, he on behalf of Ocean, then, sent a well proposal with an AFE to the various unleased mineral interest owners?

A. Yes, sir.

Q. Okay. And I believe, as you said now, eventually a couple of them have apparently agreed to lease?

A. Yes, sir.

Q. And Tom Cone, one of these parties, has signed your AFE?

A. Yes, sir.

Q. Okay. And then the second pooling Application on behalf of Ocean, Case 12,567, was filed in December, was it not?

A. Yes, sir.

Q. Okay. In your opinion, has Ocean made a good-faith effort to obtain the voluntary joinder of all the interest owners in the proposed well?

A. I believe we have.

Q. Will you please identify Exhibit 4 for the Examiner?

A. It's Ocean's AFE covering the drilling of the well.

Q. This one was just prepared a day or so ago?

A. Right, it was actually faxed to me up here; I didn't have it when I left. We wanted to update the AFE

due to the escalation in cost of drilling, because the initial AFE was prepared in May, early May, of 2000.

Q. Okay, and there have been changes in well costs since then?

A. Yes, sir.

Q. And what is the approximate depth of this well again, Mr. Maney?

A. 12,950 feet.

Q. Okay, and what are the estimated costs?

A. Dryhole cost of $1,169,000, with the completed well at $1,593,010.

Q. Okay. In your opinion are these costs in line with the cost of other wells drilled to this depth in this area of New Mexico?

A. Yes, sir.

Q. Does Ocean Energy request that it be designated operator of the well?

A. Yes, sir.

Q. And do you have a recommendation for the amounts which Ocean Energy should be paid for supervision and administrative expenses?

A. Yes, sir, $6000 for drilling and $700 for producing.

Q. Are these amounts equivalent to those normally charged by Ocean Energy and other operators in this area

for wells of this depth?

A. I believe they are.

Q. And are they comparable to or less than the Ernst and Young rates?

A. Yes, sir, they are.

Q. And finally, were all of the interest owners in this well notified of the hearing?

A. Yes, sir.

Q. And are Exhibits 5A and 5B my affidavits of notice for each of the Ocean Energy cases? Mr. Maney?

A. Oh, I'm sorry, yes. I'm sorry, caught me sleeping.

Q. We'll turn the heat up a little bit.

(Laughter)

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

A. Yes, sir.

Q. And in your opinion, are the granting of Ocean Energy's Applications in the interest of conservation and the prevention of waste?

A. Yes, they are.

MR. BRUCE: Mr. Examiner, I tender the admission of Ocean Energy's Exhibits 1 through 5B.

MR. CARR: No objection.

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

Thank you, Mr. Bruce.

Mr. Carr, your witness.

CROSS-EXAMINATION

BY MR. CARR:

Q. Mr. Maney, how long has Ocean actually been working in the Lovington area, trying to put together a drillable proposal?

A. I've only been involved in the Permian Basin area for a couple years now, but General Atlantic, I don't know the exact date that they got into this particular area, but I would guess for at least three or four years.

Q. The original proposal for a well in the north half of this section was from Ocean in May of this year; is that correct?

A. Of last year.

Q. Of last year, yes, sir.

A. Correct.

Q. And then you indicated that during the summer there were meetings on a technical level concerning the proposal; is that right?

A. Yes, sir.

Q. Were you involved in those meetings?

A. Not to a great extent, no.

Q. And are you aware of them?

A. Yes, sir.

Q. Wasn't the issue in those meetings actually the proper location for a well in the north half of the section?

A. Yes, it was.

Q. And it was only recently that you received proposals by Yates to move a well and place it in the northeast quarter; isn't that right?

A. Yes, sir.

Q. Recently there have been efforts to try and settle these proposals from Yates; is that correct?

A. Yes, sir.

Q. Yates proposed an exchange of farmouts at one point, did they not, recently?

A. Yes, sir.

Q. They also suggested that perhaps the Division should be approached about two unorthodox -- or nonstandard units; isn't that right?

A. That's right.

Q. Was Ocean interested in any of those proposals?

A. No, sir. We were interested in a farmout or a term assignment, but not going for an unorthodox spacing unit.

MR. CARR: That's all I have. Thank you.

EXAMINATION

BY EXAMINER STOGNER:

Q. Referring to Ocean Exhibit Number 4, second page, down toward the middle you list the working interest owners and the working interest percentage.

A. Yes.

Q. There's Ocean Energy, and under that is Fidelity and Energen.

A. Yes, sir.

Q. Now, could you explain their interest and when did they sign, or about when?

A. Yes, sir, they are internal partners. It's a -- They pretty much are in the well when we propose it. There's dollar amounts and there's program partners, and I believe it was way back in 1993 or 1995 when this deal was done.

So we have to propose a well to them, and the have already agreed to participate. But it's not a situation where we have to pool them in any way.

Q. They're essentially interest owners with Ocean, as opposed to a mineral interest owner within this property?

A. Yes, sir.

Q. Okay. When I'm referring to Exhibit Number 1, all of what we're calling the northeast quarter, that's

state land?

A. Yes, sir.

Q. Okay. Now, over in the northwest quarter, is that one fee lease?

A. No, sir, there's several fee leases in there. If you'll look at Exhibit 2, it tells you which lots are there. Lots 3 through 6 are fee lease.

Q. So in looking at that I can tell who the fees --

A. Yes, sir.

Q. And it looks like it's cut up in 40-acre tracts; is that --

A. Yes, sir. Yes, sir, they are.

MR. BRUCE: Mr. Examiner, Lots 3, 4 and 6 are fairly common in mineral ownership. Lot 5 is slightly different, but it's generally the same parties.

THE WITNESS: Yes, sir.

MR. BRUCE: And there are about a dozen different leases covering the various leased mineral interests, which we haven't listed.

Q. (By Examiner Stogner) But regardless of the size of the unit, whether it be the 320, the 160, 80 or a 40, there's somebody in there, in each of those, that needs to be pooled?

A. Yes, sir.

Q. Okay, on the bottom of Exhibit Number 2, the

Sonic Oil and Gas, Wolfcamp formation only --

A. Right, they have some token agreement that they only own Wolfcamp rights.

MR. BRUCE: And Mr. Examiner, I believe the closest pool is the Townsend-Permo-Penn Pool, which is an oil pool spaced on 40 acres.

EXAMINER STOGNER: Mr. Carr, I'm assuming your landman has essentially the same percentage shown on theirs. Is there any dispute?

MR. CARR: I don't believe there is any dispute concerning percentages. I haven't checked them all, but they look like they're in line with what we understand them to be.

I would point out, Mr. Stogner, that Yates and the Yates companies do have 100 percent of the interest in what is the northeast quarter, and we will ask that you dismiss the portion of the case that relates to pooling of any unit other than 320 acres, because anything smaller than that, we would own 100 percent of the working interest.

I was going to have Mr. Bullock explain that, but we can request that now.

As to the other percentages shown, as they apply to a north-half unit, I believe they're correct.

EXAMINER STOGNER: Now, repeat that request

again.

MR. CARR: Yates companies have 100 percent of the working interest in what is the northeast quarter equivalent of this irregular section.

That east half of the spacing unit, accordingly, when we got to our portion of the presentation -- and I can do it now -- we would request that the portion of our Application seeking pooling of anything on 160s, 80s or 40s be dismissed, because we would own all of that, should we drill a well in the northeast and be in a pool developed on one of those spacing patterns.

EXAMINER STOGNER: So noted.

MR. CARR: Thank you.

EXAMINER STOGNER: Mr. Catanach, do you have any questions?

MR. CATANACH: I do, just a couple.

EXAMINATION

BY MR. CATANACH:

Q. What is the status of the well proposed by David Arrington at this time?

A. I don't know. I mean...

Q. David Arrington, was he not going to pool that north third of that section as well, or --

A. Right, yes, I've got the letter, and that's it.

Q. But that was for a Mississippian test; is that

your understanding?

A. Right. I think we're talking about the same thing.

We were going to drill an Atoka-Morrow test well, and we would take it down to at least get down to there. But the geologist can go into that.

Q. So as far as you know, David Arrington is not going to pursue his intent to drill this well?

A. I don't know that. You'd have to ask him.

Q. But you're trying to pool his interests today?

A. Yes.

Q. And I just want to verify, there is a December 27th letter from Yates Petroleum whereby they propose drilling their well. Is that the first well proposal that you've received from Yates?

A. Yes, it is.

Q. On December 27th, and it was received by you on January the 3rd?

A. Correct.

Q. I also note that there is a letter dated December 21st in which Yates states that they are filing a compulsory pooling Application for this tract, which appears to be before their well proposal letter.

I just want to make note. Is that your understanding of that?

A. Yes, sir.

MR. CATANACH: Okay, I have no further questions.

MR. BRUCE: I have no further questions of the witness, Mr. Examiner.

FURTHER EXAMINATION

BY EXAMINER STOGNER:

Q. Okay, let's go over this $6000/$700 overhead charge. That was correct, right?

A. Yes, sir.

Q. Do you want to go into a little bit more detail? Is that what's being charged in the area?

A. Well, what I did is, I called the accounting group and got them to give me the Ernst and Young median rates, and the rates were $6000 for a drilling well and $750 for a producing well. And I just arbitrarily picked $700 and...

I mean, if someone objects to it, we could discuss it. It's...

EXAMINER STOGNER: I just wanted a little more detail. Obviously nobody's objecting or they would have said something by now.

MR. CARR: Would have.

EXAMINER STOGNER: No other questions of this witness, you may be excused.

Mr. Bruce?

FRANK MESSA,

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

DIRECT EXAMINATION

BY MR. BRUCE:

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

A. My name is Frank Messa.

Q. Where do you reside?

A. I reside in Houston, Texas.

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

A. I work for Ocean Energy as a petroleum geologist.

Q. And have you previously testified before the Division?

A. Yes, I have.

Q. And were your credentials as a petroleum geologist accepted as a matter of record?

A. Yes, they were.

Q. And are you familiar with the geology involved in these cases?

A. Yes, I am.

MR. BRUCE: Mr. Examiner, I'd tender Mr. Messa as an expert petroleum geologist.

EXAMINER STOGNER: Any objection?

MR. CARR: No objection.

EXAMINER STOGNER: Mr. Messa is so qualified.

Q. (By Mr. Bruce) Mr. Messa, what is the primary zone of interest in your proposed well?

A. Primary zone of interest is the Morrow, with the local term, the Mesa sand, is the primary zone we're looking for.

Q. Okay. Could you identify Exhibit 6 for the Examiner, discuss the Morrow geology in this area a little bit more and the Morrow wells in the area of interest?

A. Okay. This is a net isopach on the Mesa sand. It's based on a density neutron cutoff of 8 percent, and I'm netting out the sands that have porosity greater than 8 percent, and then mapped the outline of this sandbody on the map here.

And I'm also showing -- Each well symbol that has a yellow indicates that it is a Morrow producer. The gray bubble outline is a relative picture of how much gas that well has produced.

Q. Could you in discussing these wells start with maybe the earliest well drilled on this map and proceed through how the wells were drilled and the results of those wells?

A. Okay. The first well drilled out here to the Morrow -- and I'm only showing Morrow penetrations on this map; there are shallower penetrations out here. But the Number 1 Townsend State has the largest bubble symbol on

it. It was drilled, I believe, in 1985 and has produced -- the production numbers underneath, it says it's made 1.544 BCF and is currently producing at a rate of 270 MCF per day.

The timing, I'm not sure. The Daisy, the Yates Daisy well just north of it, in the northwest quarter, was drilled to the Morrow, penetrated and found no sand and has been since plugged back, and I believe it is a Wolfcamp producer.

I'm not sure of the Panther Martin or the Parachute Adams, what the timing was on those, but they're relatively within the same time period, fairly recent wells. Ocean Energy operates and drilled the Panther Martin, and it's currently produced about 523 -- almost half a B, a little over half a B, and currently making 3.5 million a day.

And the Parachute Adams, drilled by David Arrington, currently has a cum of 243 million. And at the time, the published data that I have for this shows that that well was producing 506 MCF per day, and I believe that is September's production figures, 2000.

Q. Why don't you move on to your Exhibit 7 and identify that for the Examiner?

A. Exhibit 7 is a simple cross-section. I apologize for the -- it's not -- Well, I made it fit onto an 8-1/2-

by-11 piece of paper to make it easy to see. But it shows -- It's a stratigraphic cross-section that is hung on the top of the Morrow lime, the datum there in red. It shows the Mesa sand in green, and the line of cross-section is shown on the map.

It starts at the Daisy on the left, goes through our Townsend 10 proposed location and then to the Mesa Townsend State and then down to the Panther Martin.

And it shows the discontinuous nature of the sand, how it is thin and it is not always present, and it shows that the sand has a very limited extent, and I think it kind of follows with the map that I have shown.

Q. Are there any secondary objectives in your proposed well?

A. Secondary objectives, yes. There's the Brunson, which is an Atoka gas zone, and the Austin, which is a lower Mississippian zone.

Q. But they're strictly secondary?

A. Strictly secondary, as well as the Carlisle, which is a lower Mississippian.

Q. Now, this map really only shows Section 3. Is there any well immediately to the north, within a mile of the north boundary of your map here?

A. There are no deep penetrations within a mile north of this map.

Q. Okay. And I believe if you move to the west of your location, there's nothing for a mile or so, is there? Or more?

A. No.

Q. Okay.

A. No, there's nothing.

Q. There are some Morrow wells over in Section 2, are there not?

A. Yes, there are in 2.

Q. Okay. Looking at your maps, could you summarize the reasons why you selected this well location and why you prefer your location over the location now proposed by Yates?

A. This map was prepared using well control, subsurface well control, and 3-D seismic. And the strongest indicator, to me, to drill in the northeast quarter would be the fact that we see this sand trend on our seismic, and we see that a well essentially dry in the Morrow was drilled in the northwest quarter already. And we feel like the lower risk location would be in the northwest quarter.

Q. Regarding a penalty to be assessed against any nonconsenting interest owner in this well, do you believe that the risk involved justifies the maximum cost-plus-200-percent penalty?

A. Yes, I do.

Q. These Morrow wells out here are risky, are they not?

A. They are very risky, yes.

Q. Were Exhibits 6 and 7 prepared by you or under your supervision?

A. Yes, they were.

Q. And in your opinion is the granting of Ocean's Applications in the interest of conservation and the prevention of waste?

A. I do.

MR. BRUCE: Mr. Examiner, I'd move the admission of Ocean Energy's Exhibits 6 and 7.

EXAMINER STOGNER: Exhibits 6 and 7 will be admitted into evidence. Thank you, Mr. Bruce.

Mr. Carr?

MR. CARR: Thank you, Mr. Stogner.

CROSS-EXAMINATION

BY MR. CARR:

Q. Mr. Messa, if we look at Exhibit Number 6, you testified you used both well control and seismic to construct these maps; is that fair?

A. Yes.

Q. When we look at the sand thickness around your proposed location in the northwest quarter, what did you

use to map the sands in that area and show this thickness?

A. We used the subsurface and, specifically with the seismic we used a discrete isochron interval.

Q. When I look at your exhibits, you have the isopach map. You don't have a structure map. Is structure significant, or a significant factor, in picking a well location in this area?

A. No, not in my opinion.

Q. If we look at Exhibit Number 7, you testified that the sands in the area, in your opinion, are discontinuous. Upon what do you base that statement?

A. Well, the fact that you don't see it in the Daisy. In other words, it's not a blanket sand; it's a very narrow, channelized sand.

Q. When you look at this area, do you not find channels that extend over a fairly large area --

A. Yes --

Q. -- where the sandbodies --

A. -- yes, you do.

Q. -- are continuous?

A. Yes.

MR. CARR: That's all I have. Thank you.

EXAMINATION

BY EXAMINER STOGNER:

Q. Let's see. First of all, are you saying Mesa

sand or Messa sand?

(Laughter)

A. I can't claim that, just -- The Mesa sand named for the company that drilled the well to begin with.

Q. Okay, this Mesa sand, is it recognized outside of Ocean Energy?

A. Yes, with Yates and Arrington. It's very local to this Townsend area.

Q. Okay. Referring to Exhibit Number 6, the two wells in that bottom two-thirds of Section 3, who is the operator?

A. The Panther Martin is operated by Ocean Energy, and the Parachute Adams operated by David Arrington.

Q. I'm sorry, who?

A. David H. Arrington Oil and Gas.

Q. Okay, how about that Townsend State Number 1 up in that middle one-third?

A. That well is operated by Five States Petroleum.

Q. Five States Petroleum. Are all of these wells currently producing from the Morrow?

A. Yes, I believe the Panther may not be -- I'm sorry, the Parachute Adams may not be producing anymore.

Q. Okay, so what is the proration unit dedicated to your Panther Martin well?

A. It is a standup 320-acre unit.

Q. And David Arrington's Parachute Adams, that's to be a standup also, I assume?

A. Yes.

Q. Okay, what's some of the nearest Morrow production up to the north of Section 3?

A. I believe Yates's Our Guys is their -- is one of the newest wells producing, but it's about a mile and a half, two miles north.

Q. Now, did you look at that in preparation of your geological information?

A. No, those logs are not released.

Q. Okay, over there in that north -- and we're going to call it that northeast quarter of Section 3 on Exhibit Number 6, that Daisy "AFS" Well Number 1, now that evidently penetrated the Morrow?

A. Yes, it did.

Q. And who did that, who drilled that well?

A. Yates did.

Q. Yates. I take it this well did not produce and is now plugged and abandoned?

A. No, I think it's producing from the Wolfcamp, but it's there on the cross-section, Exhibit 7, first well.

Q. Now, when I look at Exhibit Number 1, there are a couple of other wells, old plugged and abandoned wells. I'm assuming those are shallow wells?

A. Yes, I'm only showing wells that are 12,000 feet and deeper, basically all of the Morrow penetrations.

Q. Okay. Now, with that information in mind, going back to that lower one-third --

A. Yes.

Q. -- it looks like that Panther Martin was a directional drill; is that correct?

A. Yes.

Q. But the original well did penetrate into the Morrow before it was recompleted uphole and sidetracked?

A. Yes. You're referring to the dryhole that connects the Panther Martin?

Q. Yes.

A. Yeah, the Chevron Bridge State.

Q. Now, did Ocean originally drill that vertical well?

A. No, no.

Q. Who did?

A. Chevron, I believe. Chevron -- Bridge Petroleum? Bridge.

Q. So when Ocean Energy took that wellbore over, that was a re-entry of a plugged-and-abandoned well?

A. Yes, that is correct.

Q. Okay, now this proposed well depth, I believe, is what? 12,950?

A. Yes.

Q. Okay, what is the base of the Morrow?

A. Depthwise?

Q. Yes.

A. I'm not sure. I'd have to look.

Q. Okay, because you mentioned --

A. I mean, I could give you an estimate.

Q. Okay, just roughly.

A. Yeah, it's going to be somewhere in the neighborhood of 12,250.

Q. 12,250.

A. Uh-huh.

Q. Now, you mentioned that one of your secondary objectives was the Mississippian?

A. Yes.

EXAMINER STOGNER: Okay. Mr. Bruce, I don't see that the Mississippian is included in here today.

MR. BRUCE: Yes, Mr. Examiner, and that would be my fault. If necessary, we could amend the Application.

I think Yates also -- If you look at their proposal letter, they also propose to the Mississippian, if I'm correct. Their application also goes just to the Morrow. So if necessary, we would have to correct those.

EXAMINER STOGNER: Mr. Carr, is that what is -- I haven't heard anything from your testimony, but what

brought this up -- is Yates proposing to check out the Mississippian?

MR. CARR: Yes, we are planning to go enter the top of the Mississippian, and our Application would suffer the same defect and would need to be corrected.

Q. (By Examiner Stogner) Okay, is there any Mississippian production around in this area?

A. The nearest Mississippian production is south at Section 10, the Ocean Carlisle. There's also production in Section 3 from the Yates Gallagher -- sorry, Section 2, in the Gallagher and the Field. So there is Mississippian production nearby.

EXAMINER STOGNER: Mr. Catanach, do you have any questions?

MR. CATANACH: A couple.

EXAMINATION

BY MR. CATANACH:

Q. Mr. Messa, the data that you used to generate the isopach map in the quarter section in which you intend to drill the well, was that primarily based on seismic data?

A. I think -- Well, yes.

Q. And is there any well control to the north of here that you utilized to generate that --

A. There's really no well control north, not close enough north to affect the contour map.

Q. And is that seismic data something that is just available to Ocean at this time?

A. No, I believe Yates has the same data set.

Q. Okay. And I guess on the east side of this sandbody -- Is that a zero line which essentially cuts off that northeast quarter from being productive in this interval?

A. Yes.

Q. And that's your opinion?

A. That's a zero contour.

Q. Okay.

A. Yeah.

Q. So it's your opinion a well drilled in that quarter section would not be productive from this Mesa interval?

A. Yes, that is true.

MR. CATANACH: All right, that's all I have.

EXAMINER STOGNER: Mr. Carr?

MR. CARR: May I ask a question to follow up on that?

EXAMINER STOGNER: Please.

FURTHER EXAMINATION

BY MR. CARR:

Q. Mr. Messa, you indicated that based on this interpretation you do not believe that there could be a

commercial well in the northeast quarter of the section; is that correct?

A. Yes, that's correct.

Q. And if your Application was granted it would be -- Based on what you know today, would Ocean be willing to drill a well in the northeast quarter of the section, or do you know at this time?

A. I would probably wait till we drilled on the northwest and see how it would affect.

Q. During the meetings this summer, were you involved in the meetings between Yates and Ocean?

A. Yes, I was.

Q. And wasn't the issue during those meetings actually the location of the well?

A. Yes, it was.

Q. And Yates at that time was proposing moving the well from your proposed location about 1000 to 1400 feet to the east; isn't that right?

A. That is correct.

Q. If I look at this map, wouldn't a well at that location be -- and I'm looking at Exhibit 6 -- be equally as good a location?

A. Yes, it would.

Q. And why were you unwilling to move the well to that location?

A. The primary reason is, the seismic data shows a strong amplitude anomaly there, and that's what we feel is a good indicator of...

Q. You're looking at the same data set that Yates is looking at, correct?

A. Yes, although processed slightly --

Q. And so you've each interpreted them or processed them differently?

A. Yes.

MR. CARR: Thank you.

MR. BRUCE: Nothing further.

EXAMINER STOGNER: Any other questions?

You may be excused, Mr. Messa.

ROBERT SILVER,

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

DIRECT EXAMINATION

BY MR. BRUCE:

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

A. Robert Silver, Houston, Texas.

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

A. I work for Ocean Energy in the capacity of an exploration geophysicist.

Q. Have you previously testified before the

Division?

A. Yes, I have.

Q. And were your credentials as an expert geophysicist accepted as a matter of record?

A. Yes, they were.

Q. And are you familiar with the geophysics involved in these Applications?

A. Yes, I am.

MR. BRUCE: Mr. Examiner, I'd tender Mr. Silver as an expert geophysicist.

EXAMINER STOGNER: Any objection?

MR. CARR: No objection.

EXAMINER STOGNER: Mr. Silver is so qualified.

Q. (By Mr. Bruce) Mr. Silver -- and Mr. Examiner, maybe if you could keep Ocean's Exhibit 6 in front of you -- Mr. Silver, if you could look at Exhibits 6 and 7 and identify -- or excuse me, Exhibit 8, your Exhibit 8, Exhibits 6 and 8, and tell the Examiner from a geophysics standpoint why you want to locate the well over in lot 4.

A. Okay. First of all, let me explain what the seismic line is that we're looking at. It's basically the same line that is shown on the map as the cross-section, with a little bit of extension on either end, just so that you can see the details.

The wells are listed up on the top. You can see

we start out on the left with the Daisy "AFS" State, go to our Townsend 10 location, go back down to the Townsend State well and then over to the Panther Martin and then cut back over to the Bridge Chevron State dry hole. And that's essentially the line that the seismic line follows, the cross-section that Frank produced.

Now, the reason that we chose the location in lot 4 is what I have labeled there as the Mesa sand event, and I have an arrow pointing to the Panther Martin well where you can see a little peak, and it's colored in purple on your line there, and then another arrow close to the Townsend State where you can see a little bit weaker event showing the same thing, and then a much stronger event over where the Townsend 10 is, and showing a peak event that we have interpreted as indicating the presence of the Mesa sand.

And that has largely dictated our selection of lot 4 as a location, by the amplitude of that event.

Q. Okay, Mr. Silver, in going over your Exhibit 8, once again, the Chevron State well, that is what is now the Panther Martin, correct?

A. Yes, right. The original Chevron state well had just a very small amount of sand in it, and by deviating over, we --

Q. That was a vertical well which --

A. Right.

Q. -- Ocean Energy re-entered and drilled as the Panther Martin?

A. Right.

Q. And that's the best well in this area?

A. Yes.

Q. In the Morrow?

A. Uh-huh.

Q. So what you're showing here, then, for the Chevron State well, where it shows nothing, is really just that vertical hole; is that correct?

A. That is correct.

Q. Okay. And so you deviated it and hit what you believe you have the chance to replicate at the Townsend Number 10 location?

A. Correct.

Q. Okay. In looking at this data again, you know, in your opinion, why should not a first well drilled in this particular deep gas well unit be in the northeast quarter?

A. Why -- Let me make sure I understand that. Why shouldn't the well be --

Q. You know, Ocean Energy wants to drill in the northwest quarter?

A. Right.

Q. After that, it will consider looking at the northeast quarter; is that correct, depending on the data you get from this well?

A. That's correct.

Q. Why do you prefer at this point to drill in the northwest quarter versus the northeast quarter?

A. For two reasons. First of all, the seismic, the way we've interpreted the seismic, indicates that that has lower risk. Second of all, the dry hole in the northeast quarter also reduces the chance of success there, and so we feel that has a higher risk drilling over there.

So both those items taken together, we feel that the most efficient and the best place to drill our first well is in the northwest quarter.

Q. Was Exhibit 8 prepared by you or under your supervision?

A. Yes, it was.

Q. And in your opinion, is the granting of Ocean Energy's Applications in the interest of conservation and the prevention of waste?

A. Yes.

MR. BRUCE: Mr. Examiner, I move the admission of Ocean's Exhibit Number 8.

MR. CARR: No objection.

EXAMINER STOGNER: Exhibit Number 8 will be

admitted into evidence at this time.

Thank you, Mr. Bruce.

Mr. Carr, your witness.

CROSS-EXAMINATION

BY MR. CARR:

Q. Mr. Silver, you've looked at seismic data on the entire north half of this section, have you not?

A. Yes, I have.

Q. When you look at the northeast quarter, do you see, based on the data you have now, potential locations for a Morrow well?

A. When I look at the northeast quarter, I could see a -- potentially a location, but a higher risk.

Q. And the higher risk is based on what? The existence of the dry hole in that --

A. Yes.

Q. -- acreage?

A. The dry hole does make that much higher risk.

Q. If we look at just the seismic information -- and I know we've got the dry hole --

A. Uh-huh.

Q. -- but I mean when you look at the seismic data, does it indicate to you that there is a potential for a well in that quarter?

A. Yes, I said that, there's a potential at a higher

risk.

MR. CARR: That's all I have, thank you.

EXAMINER STOGNER: Mr. Catanach, any questions?

MR. CATANACH: No.

EXAMINER STOGNER: I have no questions at this time. The witness may be excused.

MR. BRUCE: At this time I have nothing further, Mr. Examiner.

EXAMINER STOGNER: Okay, Mr. Carr?

MR. CARR: At this time, Mr. Stogner, we call Robert Bullock.

EXAMINER STOGNER: Mr. Carr?

ROBERT BULLOCK,

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

DIRECT EXAMINATION

BY MR. CARR:

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

A. Robert Bullock.

Q. Where do you reside?

A. In Hope, New Mexico.

Q. By whom are you employed?

A. Yates Petroleum Corporation.

Q. And what is your position with Yates?

A. Petroleum landman.

Q. Mr. Bullock, have you previously testified before this Division and had your credentials as an expert in petroleum land matters accepted and made a matter of record?

A. Yes, sir.

Q. Are you familiar with the Applications --

A. Yes --

Q. -- filed in these consolidated cases?

A. -- I am.

Q. And are you familiar with the status of the lands in the subject acreage?

A. Yes, sir.

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

EXAMINER STOGNER: Any objection?

MR. BRUCE: No, sir.

EXAMINER STOGNER: Mr. Bullock is so qualified.

What is the population of Hope these days, Mr. Bullock?

THE WITNESS: Oh, about 200.

EXAMINER STOGNER: Two hundred, okay. Hasn't grown, hasn't gotten any smaller. Okay.

Mr. Carr?

Q. (By Mr. Carr) Mr. Bullock, would you briefly

summarize for the Examiner what it is that Yates seeks with this Application?

A. We're seeking an order pooling all the minerals in this nonstandard proration unit on formations developed on 320-acre spacing. This is the north one-third of Section 3 of 16-35.

Q. And you are proposing to dedicate this acreage to what well?

A. To our Daisy "AFS" State Number 2 well.

Q. And do you know where that well is proposed to be drilled?

A. It's proposed 660 feet from the north and east lines of Section 3.

Q. Let's go to what has been marked Yates Exhibit Number 1. Would you briefly just identify what that exhibit is and what it shows?

A. This is the land plat, designated the spacing unit in yellow, and the red dot indicates Yates' proposed location, 660 from the north and east.

Q. You were present for Mr. Maney's testimony, were you not?

A. Yes.

Q. Do you agree with him that the character of the land is state and fee in the north half of the section?

A. That's correct.

Q. Do you have any disagreement with Mr. Maney on the percentages of the ownership in this north-half section?

A. Sounded like we were pretty close.

Q. The primary objective in the well in that Yates is proposing is also the Morrow formation, is it not?

A. That's correct.

Q. Let's go to Exhibit Number 2, the JOA for this well, and I would ask you to turn to Exhibit A, which is about ten pages back in the exhibit, and ask you to refer to that.

A. Exhibit A, I think, particularly we go down to item III that sets out the percentage interest of parties under the agreement, and it sets up in that deep unit, is where we're talking about, the interest of the parties, it shows that Ocean has a little over 41 percent, David H. Arrington has -- we show a little over 5 1/3 percent, and the Yates Companies a little over 50 percent, and then the balance are the unleased mineral owners in that section. Some have committed and some have not.

Q. And who has committed to a Yates-proposed well?

A. David H. Arrington has committed to the Yates well, also Clifford Cone and the Clifford Cone Trust have signed our AFE.

Q. Okay. You were present for Mr. Maney's testimony

as he reviewed their proposal for the well and the negotiations during the summer. Do you concur with his presentation --

A. Yes.

Q. -- on those points?

Recently, have there been efforts by Yates to try and reach an agreement for the development of this acreage?

A. Yes, Yates tried to suggest that the companies exchange farmouts with respect to the drilling of each of the wells, of each location, and -- on similar or like terms, and Ocean declined that proposal.

Yates also recommended two nonstandard proration units whereby Ocean would drill and operate the northwest quarter, and Yates would drill and operate the northeast quarter, and that was also turned down by Ocean.

Q. And what has Ocean proposed to Yates? They've proposed the well?

A. Yes, the -- just the opportunity to participate at their location, that's it.

Q. Now, during the negotiations, Yates recently moved the location to the northeast quarter; is that correct?

A. Yes.

Q. And why was that?

A. Well, we were -- had been trying to negotiate

with some other interest owners in the area, and that's how the negotiation process was discontinued here.

Q. Were the negotiations, as you were aware of them, concerned principally with moving the location of the well?

A. Yes.

Q. And did it become apparent that the location would not be moved but that Ocean intended to drill where they proposed the well?

A. That did become apparent, yes, sir.

Q. Are the geological issues going to be reviewed by a subsequent witness?

A. Yes.

Q. When you decided to move the well, did you notify other interest owners in the unit of your proposal to drill in the northeast quarter?

A. We have just made one proposal, and that was with our letter of December 27. That's the only proposal that we have made.

Q. And that is when you notify people you intended -- or were proposing a well in the northeast quarter; is that right?

A. That's correct, yes.

Q. Did you send an AFE with that letter?

A. Yes.

Q. Is that AFE what has been marked as Yates Exhibit

Number 5 [*sic*]?

A. Yes, sir.

Q. Would you refer to that, please, and review the totals set forth on that exhibit?

A. That AFE sets out a dryhole cost of $867,500 and a completed well cost of a little over $1.4 million.

Q. And how do these costs compare with the costs set forth in the Ocean AFE that was presented here today?

A. They're comparable, slightly lower than the cost Ocean presented.

Q. And are these costs in line with the costs incurred by Yates in drilling other similar wells in this area?

A. Yes, sir.

Q. Is Yates Petroleum Corporation Exhibit Number 6 [*sic*] an affidavit with letters attached confirming that notice of this hearing has been provided in accordance with OCD rules?

A. Exhibit 5, yes.

Q. Exhibit 5, correct.

What is Exhibit Number 6?

A. Exhibit 6 is a letter from David H. Arrington Oil and Gas, hand-delivered to the Commission, indicating that David H. Arrington supports the Yates location and recommends that Yates be the operator of this well.

Q. Can you tell me approximately what percentage of the working interest in the north half you represent here today?

A. It would be approximately 55 -- a little over 56 percent.

Q. Have you made an estimate of the overhead and administrative costs to be charged while drilling the well and also while producing it?

A. We recommend $5400 and $540.

Q. And how do these compare to the cost being advanced by Ocean?

A. I think our costs are slightly lower.

Q. And are these consistent with the costs you've incurred in similar wells in the area?

A. Yes.

Q. And do you recommend that these costs be incorporated into any order which results from this hearing?

A. Yes.

Q. Does Yates Petroleum Corporation seek to be designated operator of the north half of this section?

A. Yes, sir.

Q. Will you call technical witnesses to review the geological reasons for Yates' proposal --

A. Yes.

Q. -- to move the well to the northeast quarter?
A. Yes, sir.
Q. Were Exhibits 1 through 6 either prepared by you or compiled under your direction?
A. Yes.
MR. CARR: At this time, Mr. Examiner, we move the admission into evidence of Yates Petroleum Corporation Exhibits 1 through 6.
EXAMINER STOGNER: Any objection?
MR. BRUCE: No objection.
EXAMINER STOGNER: Exhibits 1 through 6 will be admitted into evidence.
Was that $5500 or $5400?
THE WITNESS: $5400, $540.
MR. CARR: And that concludes my direct examination of Mr. Bullock.
EXAMINER STOGNER: Thank you, Mr. Carr.
Mr. Bruce?
MR. BRUCE: No questions of Mr. Bullock.

EXAMINATION

BY EXAMINER STOGNER:
Q. When did David H. Arrington commit to Yates?
A. Well, I think verbally he committed some time ago. The letter that you see there in front of you, I think, was a commitment made on January 9.

Q. January 9 is some time ago?
A. No, but a verbal commitment has been --
Q. Oh, okay.
A. -- at some point several months ago.
Q. And how about the Clifford Cone interest? When did they commit?
A. I've got the AFE signed here, I believe it was Monday of this week.
EXAMINER STOGNER: Mr. Catanach, do you have any questions?
MR. CATANACH: Yes.

EXAMINATION

BY MR. CATANACH:

Q. Mr. Bullock, with regards to the timing of the Yates negotiations, let me make sure. The December 27th letter that you sent to the working interest owners, that was your first attempt to form this unit --
A. Yes, sir.
Q. -- for the drilling of the well?
A. Yes.
Q. And that was sent to all the working interest owners in the unit?
A. Yes.
Q. You don't have it listed here, but I had a prior one of Ocean's exhibits, shows where Yates filed for

compulsory pooling December 21st; is that your understanding?

A. That's my understanding.

Q. Can you comment on the timing of that filing of that Application?

A. Well, I think it was just kind of a defensive move.

We've been operating under the assumption that we would arrive at a location that both parties could agree on, and it became apparent just about that time that that wasn't going to happen. And so this is just the way it came down.

MR. CATANACH: I have no further questions.

FURTHER EXAMINATION

BY EXAMINER STOGNER:

Q. During these negotiations -- This brings up an interesting point, because we're essentially talking about the first well. Is that under the general rules now, infill well is -- can be drilled --

A. That's my understanding.

Q. How did those negotiations end up, is your understanding, at the negotiating table about the new rules and -- or -- They're not new anymore, they've been around for a while. But that two wells being up in that north one-third?

A. Most likely here, I guess whoever prevails here gets to drill both of them.

EXAMINER STOGNER: Okay, no other questions.

MR. BRUCE: Mr. Examiner, if I could, I just have one quick question --

EXAMINER STOGNER: Sure.

MR. BRUCE: -- of Mr. Bullock on something you brought up.

FURTHER EXAMINATION

BY MR. BRUCE:

Q. With respect to Arrington Oil and Gas's letter supporting your position, have you come to some arrangement with them, or did you show them certain data, or what was the basis for obtaining their approval of your location?

A. I'll let him answer that question, I don't know.

Q. The geologist?

A. Yeah.

MR. BRUCE: Mr. Cummins, okay.

That's all I have.

EXAMINER STOGNER: Thank you. You may be excused.

Mr. Carr?

MR. CARR: Mr. Examiner, at this time we would call Eric Cummins.

EXAMINER STOGNER: Mr. Carr?

ERIC CUMMINS,

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

DIRECT EXAMINATION

BY MR. CARR:

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

A. Eric Cummins, Artesia, New Mexico.

Q. Mr. Cummins, by whom are you employed?

A. Yates Petroleum Corporation.

Q. And what is your position with Yates Petroleum Corporation?

A. Geologist.

Q. Have you previously testified before this Division?

A. Yes, I have.

Q. At the time of that testimony, were your credentials as an expert witness in petroleum geology accepted and made a matter of record?

A. Yes, they were.

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

A. Yes, sir, I am.

Q. Have you made a geological study of the area which is the subject of this hearing?

A. Yes.

Q. And are you prepared to share the results of your work with the Examiners?

A. Yes, I am.

Q. Are Mr. Cummins' qualifications acceptable?

EXAMINER STOGNER: Any objection?

MR. BRUCE: No, sir.

EXAMINER STOGNER: Mr. Cummins is so qualified.

I do have one quick question. Do you interview any potential new geologists in Yates Petroleum?

THE WITNESS: Do I?

EXAMINER STOGNER: Yes.

THE WITNESS: No.

(Laughter)

EXAMINER STOGNER: So you didn't have anything to do with the hiring of Mr. Mark Ashley?

THE WITNESS: I'd like to state for the record that that was not my doing.

EXAMINER STOGNER: I will neither say that was a good or a bad choice.

Q. (By Mr. Carr) Have you prepared exhibits for presentation here today?

A. Yes, I have.

Q. I think initially I would like to ask you several questions about the efforts of Yates and Ocean to develop

the area, to the extent you were involved. Has Yates drilled other Morrow wells in the immediate area?

A. Yes, we have.

Q. Let's refer to what has been marked as Yates Exhibit 7. Does everyone have Yates Exhibit 7? It's a plat.

All right, would you refer to that exhibit and review Ocean's efforts to develop this play?

A. Sure. Exhibit 7 is a land plat, and for reference you'll see the northern third of Section 3 highlighted, the unit in question.

There are -- If you look on the southern end of Section 3, in the southwest corner, that is the Ocean Energy Panther Martin well.

Over to the east in Section 2, there are four highlighted wells. The two middle wells were drilled by Ocean Energy. The one to the north is the Townsend Number 9, the one to the south is the Townsend 2 State Number 1.

The Panther Martin well over in Section 3 was a re-entry of an old Bridge well that was a dry hole. Ocean re-entered that well, sidetracked down to the southeast, into a structural low position and made a good well.

The two wells in Section 2, the Townsend Number 9, which is the second well from the top that's highlighted, that well is actually a Mesa sand producer.

It's currently making approximately five barrels of oil a day, 180 MCF a day. Yates is -- We do have an interest in that well.

The Townsend 2 State Number 1 had absolutely no sand whatsoever in the Morrow-Mississippian sections.

When Ocean proposed the Townsend Number 9 to us originally, we requested that that location be moved over to the east, to -- in what we call another ditch, is the term that we used. We wanted it to be in another structurally low position, as the Gallagher well is, which is the northern well, highlighted in Section 3, and as the Field 3 well, which is the southern well highlighted in Section 3.

Ocean declined to do that. They said they preferred to drill that well at that location because it was closer to the Gallagher well, which is a good well, and I'll get into some production numbers here later.

Q. Are these the only Ocean deep gas wells in this area?

A. Yes, they are, with the exception of the Carlisle well in Section 10 to the south.

Q. Let's now review the efforts of Yates Petroleum Corporation to develop the Morrow formation in this immediate area.

A. We've been working this play for a little over

two and a half years in this area and the area to the north. After the Carlisle well was drilled in Section 10 and blew out, we started chasing this play, looking at things a little bit differently.

We drilled two successful wells in Section 2, the Gallagher, the northernmost well highlighted I referenced earlier, and the Field 3, the southernmost in Section -- I'm sorry, Section 2 this is. The northern well is the Gallagher, the southernmost well is the Field 3. We drilled those two successful wells. Again, those wells were drilled in structurally low positions.

We've drilled other wells in this play to the north of this area. We're chasing this as a play concept. We don't think it's localized all. We're using our depositional model that we have developed, based on our 3-D seismic, to chase this play outside of this area. We have drilled two other successful wells to the north. One was recently completed about six weeks ago and is a very good well.

We've drilled another well which, in fact, logged yesterday that again appears to be a very successful well based on DST and open-hole log information. It's --

Q. And what is the name of that well?

A. That is the Rock Ridge.

Q. And where is it?

A. That is in Section 10 of 15 South, 35 East.

Q. And that again looks like a successful well?

A. Yeah, it very much looks like a very successful well.

Q. Does Ocean own an interest in that property?

A. Well, Ocean had the opportunity to participate in this well, and they opted to go nonconsent for reasons that I do not know. But it's a play concept, we're chasing it all over the area, and it's worked very well for us so far.

Q. And you're picking these locations based on 3-D seismic; is that correct?

A. That's correct, all of these locations we've drilled for the Morrow section were drilled in structural lows using 3-D seismic data.

Q. And both of these recent wells that were successful, or are successful, were also located in these structural lows --

A. Yes, sir --

Q. -- is that right?

A. -- that's correct.

Q. So how would you characterize your success at this point in time?

A. Well, we're four for four based on this concept, and we have a 100-percent success rate in this play, save for a re-entry that we attempted earlier this last year,

which we'll discuss a little bit more later.

Q. And that was not successful?

A. That was not successful.

Q. What are Yates' future plans for development of the Morrow formation in this immediate area?

A. Because of the success we've had in developing this particular play, we have a major drilling program planned for the area immediately north of this. We have identified approximately 50 locations in this play. The one well that just finished up yesterday, that looks like a real good well. We have seven other wells that are currently on our schedule, awaiting rigs to be drilled.

We plan on running three rigs in this play for the next three to three and a half years, drilling these wells.

Q. Mr. Messa testified about the risk associated with the drilling of the Morrow well in the area. Do you agree with Mr. Messa that the 200-percent risk penalty is appropriate to be assessed against any nonparticipating interest owner in a Morrow well?

A. Yes, I do.

Q. Do you believe there's a chance that, although you've been successful, any Morrow well you could drill in this area might not be a commercial success?

A. Yes, absolutely.

Q. I'm going to ask you some questions concerning why Yates would like to operate and drill a well in the northeast quarter, and I think before we go into the exhibits it would be helpful if you would just summarize and explain why, in your opinion, your location in the northeast is preferable to the location proposed by Ocean in the northwest quarter.

A. Sure. As I said, Ocean has drilled a couple of wells, the Townsend 9 and the Townsend 2 State Com Number 1, that were basically unsuccessful. The Townsend 9, I told you the production numbers; it's an uneconomic well. They drilled a well that was a successful well in a structural low. Their current proposal is on a structural high, and ours is on a structural low, and we think that's what makes it work.

Q. Let's go to Yates Exhibit Number 8. Would you identify that first and then review the information on the exhibit for the Examiners? You might explain the color code to start with.

A. Sure. Exhibit 8 is a time-structure map on top of the Austin Cycle formation, which is the top of the Mississippian section out here. This is the map we use for prospecting for this particular interval.

The color scheme, to the top right you'll see purples and blues, that's deep. As you come down to the

southwest, the greens and reds are high. So it's getting structurally deeper as you go to the northeast.

What this also shows is the production numbers for these wells that have been drilled in this play. And for reference, you'll see the -- up at the upper portion of the map you'll see the three green dots. Those three dots are located within the northern one-third of Section 3 in question. And the westernmost well is Ocean's Townsend Number 10 proposed location.

Approximately 1400 feet to the east of that is the location that we prefer to drill in the northwest quarter, and further over to the east is our proposed Daisy State Number 2, which is our most preferred location.

I'd like to review for a second, if I could, the production numbers from some of these wells.

MR. CARR: Mr. Examiner, may I interrupt? I had two sets of this same exhibit last night when I was marking them. Do your copies of these exhibits have production numbers on them below the well spots?

EXAMINER STOGNER: Mine does. Mr. Catanach?

MR. CARR: Okay.

MR. CATANACH: Uh-huh.

EXAMINER STOGNER: Yes.

MR. CARR: All right. The one I have does not.

Q. (By Mr. Carr) Go ahead, Mr. Cummins --

A. Okay.

Q. I wanted to be sure you had the data you need.

A. Okay, sure.

EXAMINER STOGNER: How about Mr. Bruce?

MR. CARR: Does yours have --

MR. BRUCE: We do not have production data.

EXAMINER STOGNER: Or do you want to keep that from them, Mr. Carr?

MR. CARR: I really would prefer that Mr. Bruce not have the production numbers --

(Laughter)

EXAMINER STOGNER: But in a sense of fairness, let the record show that Mr. Bruce evidently has a copy with production numbers.

THE WITNESS: Okay, first I'd like to point out the structural positions of some of these wells.

If you'll notice, the Ocean proposed location Number 10 -- it's located within the green area -- that is a structural high. If you go over to the east, to our preferred location in the northeast, we drop off of a fault, we go downthrown into a structurally low fault block. That's where we wanted to drill. And then further to the east again, it's located in the blue area. That just indicates that it's in a structural deep, again in a fault block that is structurally low.

If we take a look at some of these production numbers for these wells, you'll see the Mesa Petroleum Townsend Unit Number 1, production numbers listed over on the left-hand side of the map with the orange line going into the well. Mr. Messa had this Section 3 on his previous exhibits. The Mesa well is what originally produced from the Mesa sand. That's where the Mesa sand got its name from.

You can see the cum about a BCF and a half and 191,000 barrels of oil through June of 2000. It's currently producing about 277 MCF, 11 barrels of oil a day.

We believe that this particular location is located on the edge of a structural re-entrant. There's a structurally deep area just to the north of that. We think it caught an edge of that sand that's in that deep.

Down on the southern end of Section 3 you'll see the Ocean Energy Panther Martin Number 1, and the dryhole symbol that's to the west northwest, or the gas symbol, that's the Bridge Oil Chevron dry hole. Ocean re-entered this well, kicked it off over into the structurally low portion. As you can see from the production numbers here, they made a good well, currently producing about 3 1/2 million a day, maybe three barrels of oil per day. Based on the information I had at hand, estimated cum is about 800 million and 23,000 barrels of oil.

Going a little bit further to the east, Arrington Oil and Gas Parachute Adams Number 1, their original location on this area, the surface location of that well, is just slightly to the northeast of that gas well symbol. They deviated that well to get over into a structurally deeper portion of this feature. There is a mistake, I believe, on the production map. It says IP 944 million cubic feet. That's obviously wrong, it should be 944 MCF. 155 barrels of oil. Its cum is about 210 million and 26,000 barrels of oil through October, currently producing 400 MCF, 30 barrels of oil a day.

If you go again over to the east, the Yates Petroleum Field 3, "APK" Number 3, located 1880 from the south, 1650 from the west in Section 2, and this well again is located in a structurally low fault block. We IP'd the well at a million a day, 72 barrels of oil, and it has cum'd 591 million, 42,000 barrels of oil, currently making about 366 MCF and 11 barrels of oil.

A little bit to the northeast of that where you see the A' letter, which is a cross-sectional reference later, that's the Ocean Townsend 2 State Com Number 1. We had no sand in this particular section.

To the north of that is the Ocean Energy Townsend State Number 9.

If you'll look on your maps, there should be a

red dot just to the east of the Townsend State Number 9. That is where we preferred our location to be when Ocean presented us with the Townsend Number 9 location. We wanted to drill it a little bit further over to the east where we could get into a structurally low position. They declined because they wanted to be closer to the Gallagher well, and you'll see why in a second.

But in the Townsend Number 9, they've made 36 million and about 1900 barrels of oil through October, the numbers I have. Current rate, as I mentioned before, about 180 MCF and 5 barrels of oil. And on the structure map the Townsend 2 and Townsend 9 are both located on a structural high ridge between those two structurally low features that fall on either side of it.

Finally the Gallagher Number 1, that is a Yates Petroleum well. We IP'd it for 2 million a day and 113 barrels of oil. It's cum'd almost 2.4 BCF, 107,000 barrels of oil. It's currently producing 6.4 million cubic feet a day and 174 barrels of oil, since December of 1999. This is a very good well, obviously.

And in summary, now, this map shows a couple of things, that the wells that produce very clearly come from the structurally low areas. And the wells that are no good, the Townsend 2 State Com Number 1, the Townsend Number 9, the Chevron Bridge well that was a dry hole, are

all located on structural highs. And in fact, the Chevron Bridge well that Ocean re-entered looks structurally very similar to their proposed location of the Townsend Number 10.

Q. (By Mr. Carr) If we look at the Townsend Number 10 on the cross-section B-B', that's the proposed Ocean location, correct?

A. That's correct.

Q. And we go immediately to the east of that, and we have the Yates Petroleum Corporation Number 10. That is where you were advocating a well in the northwest quarter should be drilled?

A. That's correct.

Q. And then we go farther to the east, and we have the proposed location for the Daisy Number 2?

A. Yes, that's correct.

Q. If you were in control of the entire north half of this section, where would you locate the first well to the Morrow in the north half of the section?

A. We would locate it in the northeast corner at our Daisy location.

Q. Let's go to what has been marked as our Exhibit Number 9, and I'd ask you to first identify it and then review it for the Examiner.

A. I'd like to ask him to keep Exhibit 8 in front of

him. I'll be referring to that when I talk about the next few exhibits.

Exhibit Number 9 is a structural cross-section oriented roughly in a west-to-east direction. If you'll take a look at the previous exhibit, the line of section is marked A-A'. A is way over on the left-hand side of the map, down towards the bottom. It extends east through the Bridge well, the Panther Martin, over to the Field 3 well and up to the Townsend 2 State Com Number 1 well on the right.

And on the cross-section, the first well is in Section 4. It's the Kimbark New Mexico 1-4 State Number 1. It's up high on the structure, it has a very thin section. It's not really in question here, it was a point of reference.

If you go to the east, to the Bridge well, the Bridge Oil Chevron State Number 1, the second well on the cross-section, that is the well that Ocean re-entered. It had, as one of their witnesses testified earlier, it had a very small bit of sand in that wellbore. It was uneconomic, it was drilled and abandoned. Ocean came in and re-entered that well and kicked it off into that structural low, and you can see the structural low fault block depicted here in the middle well on my cross-section, which is the Panther Martin Number 1.

I'd also like to point out that this structural low is slightly exaggerated because this log I have is a measured-depth log. But nonetheless, it shows it to be a little bit deeper than what actual true vertical depth is. But nonetheless, it is in a fault-bounded structural low.

You come out of that structural low, up into another structurally high fault block, over to the Field 3 well. Again, you can see on the cross-section the Field 3 well, which is the second well from the right-hand side. It's in a structurally low fault block. We have the Mesa sand and another Mississippian sand that we call the Field Sand, which is not really in question here.

And then you come out of that fault block, up to the Townsend 2 State Number 1 to the northeast of the Field 3, and there's absolutely no sand whatsoever in that section.

Q. All right, let's now go to Exhibit Number 10. Identify and review this.

A. Exhibit 10 is again a structural cross-section, B-B', and on Exhibit 8 you can see the cross-section starts at the left-hand side with Ocean Energy's proposed location. It extends east through our preferred location in Section -- in the northwest of Section 3, again to the east of the Daisy, our most preferred location in the northeast corner, down to the Gallagher and finally down to

the Townsend State Number 9.

So on the cross-section the left-hand well is their proposed location. And this is a cross-section that's based on our seismic picture, showing the faults in the area, and you can see that it's located in a structurally high position.

The second well is our preferred location in the northwest of 3, in the structurally low position. You come across another structurally high fault block, you drop into the Daisy fault block, which is where we are proposing our well to be.

And then you go further to the east, to the Gallagher well, the second well from the right-hand side, and this is where we have the good Mesa sand in this structural low. It also -- We very strongly believe that this Gallagher well is in the same structural feature as the Field Number 3 well.

And the well on the right-hand side is the Townsend State Number 9, and it has a very small amount of Mesa sand in it. And as I mentioned in the production numbers before, it is just not a good well.

I'd like to draw your attention now to the DST information in the boxes in the upper part of the cross-section next to the wells.

When we drilled the Gallagher, I called a DST in

this Mesa sand. And you can see the pressures up there. I don't need to go through all of them. They're quite high and they're quite good.

We had gas to surface flowing at the rate of 2.6 million cubic feet a day on our DST 14 minutes into the second flow period. The tester on location was so uncomfortable with the high pressures that he abandoned the test. We also had oil to surface from now into the final shut-in.

Take a look at the DST information for the Townsend Number 9. They did have gas to surface. However, their maximum rate was 247 MCF a day, at the rate of 247 MCF a day, after their one-hour final flow period.

And these DST numbers basically are a reflection of the production numbers, the cumulative production numbers and the daily rates that these wells are currently making.

The Townsend Number 9 is on a structurally high fault block, it's no good. And you drop down into the structural low where the Gallagher is, and you have a extremely good well.

Q. Mr. Cummins, let's now go to the log section in the Baer Number 3, Yates Exhibit Number 11. Would you identify and review that?

A. Exhibit 11 is a portion of the well log for our

Baer Number 3 re-entry. You'll see this well on Exhibit 8 towards the upper right-hand side. It's actually in the southeast corner of Section 32, 15-35. You'll see a dryhole symbol there labeled YPC Baer Number 3.

This is the log section from the Morrow lime down to the top of the Chester formation. There's absolutely no sand in this well, it was a complete dry hole. We plugged and abandoned.

If you take a look at Exhibit 8 and note where that well falls structurally, it is immediately on the northwest side of that structural low. We believe that that structural low is productive, it's the same low that produces in the Gallagher and in the Field 3, and we think it's just a -- it's roughly a three-mile-long -- it's roughly a long, narrow structural low that has sand accumulated in it.

And this shows that you get just out of this fault block on the upthrown, and you're staring a dry hole in the face.

This well, the Baer Number 3, we feel, is basically a look-alike location to what their Townsend Number 10 is. If you'll look at their Townsend Number 10 preferred location, they're perched up on a structurally high fault block, next to a structural low. We think the structural low is productive and the structural high is a

dry hole.

We see the Baer Number 3 perched on a high next to a low. It's a dry hole. We see the original Chevron well in the southwest of 3 that was perched up on a high; that was also a dry hole. And they have in common -- that structural position in common with Ocean's Townsend Number 10 proposed location.

Q. Mr. Cummins, could you summarize the conclusions you have reached from your geological study of this area?

A. In summary, we feel that you need to be in a structurally low position in order to have a producing well. We have seen this not only in this area, but the area to the north where, if you drill on a structurally high position you're not going to make a well, but if you drill in a structural low you will make a well.

And we think it's a very simple, much more straightforward approach than the Ocean interpretation. It's very simple. We think that these lows existed at the time of deposition and that the structural lows acted as pathways for clastic deposition, and that's why we see them in the lows and we see very thin or no sands up on the highs.

Q. If Yates is successful in this matter and designated operator of the north half of the section, do you see a drillable location in the northwest quarter of

this section?

A. Yes, we do.

Q. And is it the location that Ocean has now projected for its Townsend Number 10?

A. No, sir, it's not.

Q. And where would it be?

A. It would be located at our proposed location, roughly 1980 from the west and 660 from the north.

Q. In your opinion, would granting the Yates Application and the development of the north half of this section as proposed by Yates be in the best interest of conservation, the prevention of waste and the protection of correlative rights?

A. Yes, I do.

Q. Were Exhibits 7 through 11 prepared by you or compiled at your direction?

A. Yes, they were.

MR. CARR: At this time, Mr. Examiner, we move the admission into evidence of Exhibits 7 through 11.

EXAMINER STOGNER: Exhibits 7 through 11 will be admitted into evidence, if there's no objection.

MR. CARR: And that concludes my direct examination of Mr. Cummins.

EXAMINER STOGNER: Thank you, Mr. Carr.

Mr. Bruce, your witness.

MR. BRUCE: Just a few brief questions for Mr. Cummins.

CROSS-EXAMINATION

BY MR. BRUCE:

Q. Your Exhibit 8, Mr. Cummins --

A. Yes.

Q. -- this is a structure map on the top of the Austin?

A. Yes, time-structure map, that's correct.

Q. Okay, does it represent the structure at the time of deposition?

A. Yes, we believe it is a reflection of the structure at the time of deposition.

MR. BRUCE: That's all I have.

EXAMINER STOGNER: Mr. Catanach?

MR. CATANACH: Just one

EXAMINATION

BY MR. CATANACH:

Q. Mr. Cummins, the Daisy "AFS" Well Number 1 --

A. Yes, sir.

Q. -- that was drilled in that quarter section, was that drilled based on this evidence also?

A. No, sir, it was not. This was a well drilled back in the early 1980s, before I came to Yates and was working this area.

I believe that the reason that well was drilled, it was actually keyed off of the Mesa Petroleum well that originally produced from the Mesa sand.

But the mode of deposition was not understood at that time, and as you can see, that well was drilled on a structural high, and that's why it was a dry hole.

Q. Are you saying, with regards to Ocean's proposed location, are you saying that there won't be any sand present there? Is that what you're saying?

A. I'm saying that there are two possibilities: either there's no sand at all or a very small amount of sand that you might have, you know, comparable to the Townsend State Number 9 where it's very -- very thin, very limited and incapable of producing good numbers.

Q. What's the structural difference between the Ocean-proposed location and your proposed location in the northwest quarter?

A. We believe it's actually a very small amount, and we might get the subsequent witness to verify this, but I believe it's around 35 feet, 40 feet.

Q. And so you're saying that a small difference like that will make a big difference in the producing capability?

A. Yes, sir, I am.

MR. CATANACH: Okay, I have nothing further.

EXAMINATION

BY EXAMINER STOGNER:

Q. Referring to Exhibit Number 8, the YPC Well Number 10, proposed location that's over there in that northwest quarter --

A. Yes, sir.

Q. -- where did that enter into the negotiation? Is that Yates' first proposed location then?

A. That location was the one we preferred when we got the AFE from Ocean for the Townsend Number 10.

That is the location we discussed with them when we went to Houston to talk about our ideas and try to get them to move it over there, based on what our interpretation was.

When it became apparent that we were not going to be able to come to an agreement, we had actually a superior location in the northwest -- I'm sorry, the northeast of Section 3, being our Daisy Number 2 that we proposed after that.

EXAMINER STOGNER: Any other questions of this witness?

MR. CARR: No.

EXAMINER STOGNER: You may be excused. Thank you, sir.

MR. CARR: At this time we call Frank Scheubel.

EXAMINER STOGNER: Mr. Carr?

FRANK SCHEUBEL,

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

DIRECT EXAMINATION

BY MR. CARR:

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

A. Frank Scheubel.

Q. Could you spell your last name?

A. S-c-h-e-u-b-e-l.

Q. And where do you reside?

A. Artesia, New Mexico.

Q. By whom are you employed?

A. Yates Petroleum Corp.

Q. And what is your position with Yates Petroleum Corporation?

A. I'm a geophysicist.

Q. Mr. Scheubel, have you previously testified before this Division?

A. No, sir, I haven't.

Q. Could you review your educational background for the Examiners?

A. I have a bachelor of science in geology from the University of Iowa and a master of science in geology from the University of Texas, El Paso.

Q. And when were those degrees received?

A. The bachelor's in 1979, and the master's was conferred in May of 1983.

Q. Since graduation, for whom have you worked as a geophysicist?

A. I have twelve years' experience with Exxon Company, USA, in Midland, Texas, two years' experience as a consulting geophysicist, and four years, four and a half years of experience with Yates Petroleum Corp.

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

A. Yes, sir.

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

A. Yes, sir.

Q. And are you prepared to share the results of your geophysical work with the Examiners?

A. Yes, sir, I am.

MR. CARR: May it please the Examiners, at this time we tender Mr. Scheubel as an expert witness in geophysics.

EXAMINER STOGNER: Any objections?

MR. BRUCE: No, sir.

EXAMINER STOGNER: Mr. Scheubel is so qualified.

Q. (By Mr. Carr) Mr. Scheubel, let's refer again to

what has been marked as Yates Petroleum Corporation Exhibit Number 8, the bright-colored map.

A. Yes, sir.

Q. I'd ask you to review the exhibit as it relates to your geophysical presentation and discuss the information on the exhibit with the Examiner.

A. Okay. Referring back to prior Exhibit Number 8 that Mr. Cummins so eloquently spoke from, what I want to point out is the fact that on the southwest portion of this map we have a structural positive, we have regional dip going toward the northeast, we have a series of faults which are identified by the omission of color. These faults appear to have somewhat of a northeast orientation.

Fault cuts I have not annotated as far as relative direction up and down, however due to the color code which Mr. Cummins had elaborated on, it is the same and it's consistent. The green versus the blue is a relative up to down, relative fault motion; the light blue to dark blue is an up-to-down relative fault motion as well.

The major structure to the southwest is your Shoe Bar structural positive.

What is also noted or observed in this mapping style is, aside from the northeast-trending fault system, there are a series of northwest-to-southeast-trending

benches. These benches are more or less relative of minor fault displacement. These benches also parallel the major fault of the Shoe Bar structural positive. So you have this series of benches going downdip that are also intersected at more or less right angles by the northeast-trending fault system as well.

It's these little downdrop benches where we feel you are starting to accumulate your locations for sediment supply. These are your depo centers.

EXAMINER STOGNER: These are your what?

THE WITNESS: Your depo centers. The most likely sediment source is probably that Shoe Bar structural positive. Sediment transport direction is to the northeast, what we are calling upon, and it's accumulating in these little structural lows along trend.

Q. (By Mr. Carr) Mr. Scheubel, let's go to what has been marked as Yates Exhibit 12, the seismic line A-A'. Does the trace for this cross-section -- is it the same as the structural cross-section presented earlier marked A-A'?

A. Yes, sir, it is.

Q. All right, let's go to this exhibit, marked Exhibit 12, and I'd ask you to first explain the exhibit and then review the information on it for the Examiner.

A. Okay, Exhibit Number 12 is an arbitrary seismic line which tracks along the structural cross-section which

was presented by Mr. Cummins. It's labeled A-A'. It trends essentially west to east.

I have the major formation horizons identified from Strawn to Atoka, Morrow lime, Austin cycle and Miss lime. Those are major reflectors, those are major surfaces, major shale-limestone interfaces, which give you a very good reflection. The key horizon on this particular display is the Austin cycle. That is our main mapping horizon.

Tracking along that Austin cycle horizon, along the transect of this seismic line, arbitrary seismic line, one encounters the location, the surface location, of the Bridge Oil Chevron 3-1. That is their surface location. And what is observed is the fact that that well penetrated on the high side of a reverse fault block. Most if not all of these faults are near-vertical reverse faults.

Proceeding further to the east, we encounter the Ocean Panther Martin Number 1 proposed bottomhole location. You'll see where they have deviated approximately by the dashing, the heavy black dashing, the line, in which the bottomhole location is situated within the structural depression.

Proceeding further to the east, we note Arrington Parachute Adams Number 1. That seems to be in a relative nondescript structural -- I'd call it a structural

positive. And the production figures from that well more or less reflects that fact, that it's not in the most ideal location.

Proceeding further to the east, the next location on the map is the Yates Petroleum Field Number 3. Again, we find ourselves to be confined within a five- to six-trace-wide narrow trench system. This five to six traces is approximately 700 to 800 feet wide. So we are looking at a very narrow target.

Further to the east, up onto the next block, the high side of the fault block, to the Ocean 2-1, and Mr. Cummins reviewed the production figures for that particular well.

So this particular seismic line again confirms and reinforces that argument that Mr. Cummins has presented earlier.

Q. And that argument is that structural lows are productive --

A. Yes, sir.

Q. -- structural highs are not; is that correct?

A. That's correct.

Q. This exhibit, this arbitrary seismic line, also would support your interpretation that these lows are fault-bounded --

A. Yes, sir.

Q. -- is that correct?

All right, let's go to arbitrary seismic line B-B', which is Exhibit 13, and I would ask you to again refer to that and review it for the Examiner.

A. Again, arbitrary seismic line B-B' tracks along the same line of section that Mr. Cummins presented in his structural cross-section, same key horizons are identified, they are consistent.

Starting with the Ocean Energy Number 10 proposed location, we have the dashed line for the proposed vertical wellbore tract. What I have identified or what I have interpreted is, that location appears to be perched up on the high side of a fault block. And within 300 to 400 feet I have interpreted a Nearburg reverse fault.

Continuing on approximately another 500, 600 feet, that is the location of Yates Petroleum's Number 10 proposed location, that -- what we feel is to be the most ideal location for this particular quarter section.

Proceeding further to the southeast, we see ourselves popping back up onto the high side of a fault block. And one thing I must point out is, keeping in mind -- looking at all the reflectors from the Morrow lime, Austin cycle, the unidentified Chester horizon and the Miss lime, all these reflectors seem to be popping up and down in unison. That gives you your confidence factor as to

whether or not you're looking at a fault or an erosional surface.

Proceeding again further to the southeast, we encounter the proposed wellbore tract of Yates Petroleum Daisy Number 2, proposed location. That again is in a structural low.

We cross over a small fault sliver, a little pop-up block, and -- which we then encounter the location of the Yates Petroleum Gallagher Number 1. That is in a very narrowly confined 400- to 500-foot-wide trench. We refer to these as trenches.

And again, finally we see ourselves popping back up to the Ocean Number 9.

One thing I might add or also reiterate, which Mr. Cummins had mentioned, that some of these trenches are fairly long, they have very much of a linear extent to them. This trench that we have identified as the Gallagher trench measures in excess of three miles long, and you're only looking at something that's maybe 500, 600, maybe 700 feet at the max, wide. That's a very small target we're shooting for.

Keeping in mind that particular concept, when you look at where we have proposed our Daisy Number 2 location, that too seems to be in a location that is within a linear trench. You can follow that little linear trench to the

south and then to the -- and making a turn to the southwest, and it will essentially track up to the bottomhole location of the Ocean Energy Panther Martin Number 1. It's our understanding that that Panther Martin Number 1, the Mesa Townsend 3-1 and the Daisy Number 2 are all part of the same trench system.

We see that same thing occurring in our proposed Number 10 location, Yates Petroleum Number 10 location, we see that same fault-boundary re-entrant going to a non-fault-boundary re-entrant to the southwest, up onto the Shoe Bar structure.

Q. Mr. Scheubel, let's go now to Yates Exhibit Number 14. I think initially you should explain to the Examiner what this is and what it's designed to show, and then review the information on the exhibit.

A. Exhibits 14 and 15 are frequency-analysis plots of a 3-D data set. It's of a small little area around the proposed wellbores. They are from the same data set, but two different processings.

What they show, for one, is the fact that -- The one diagram that's identified in the red is a frequency plot, and it shows the overall frequency spectrum for the data surrounding that particular wellbore, and what we have identified as a frequency spectrum anywhere from 14 to 70 herz, it's relatively low, it's not something that you

really want to do an awful lot of stratigraphic interpretation on, myself personally, but it's good for identifying major structural events. It eliminates lots -- removes lots of noise.

And looking at the smooth nature of that particular illustration, that to me identifies this as being a fairly clean signal data set. This is the data set that I used for stratigraphic interpretation, for following the faults across -- high side of faults to the low side of faults and pumping back up to the high side of faults.

We subsequently reprocessed that data set when we merged it with an adjacent data set, purposely keeping in the higher frequency content, and I wish to draw your attention to the next frequency plot.

The next frequency plot is the one that has --

Q. That's Exhibit 15?

A. That's Exhibit Number 15, yes, sir. And that appears to have more of a sawtooth, irregular appearance on that red chart.

One thing to observe is the fact that your frequency content has increased from 14 to 70 on the prior plot to 14 to 90 on this particular plot. It is also a lot noisier. You see a lot more reverberations, and it's just not a very -- what we consider to be a very clean data set.

For all practical purposes, this is -- you

probably would want to do more of a structural interpretation on this and not a stratigraphic, because the signal-to-noise ratio is a bit poorer.

And that's what I chose to do. I chose to use the higher frequency content to do the structural framework, and I used the lower frequency content to do the stratigraphic interpretation.

Q. Mr. Scheubel, you were present this morning for the testimony of Mr. Silver, were you not?

A. Yes, sir, I was.

Q. Do you have his Exhibit 8 with you?

A. Yes, sir, I do.

Q. Do you concur in his interpretation of the information on Exhibit 8?

A. No, I don't.

Q. And how do you not, in what way?

A. Well, referring to Mr. Silver's seismic line B, Exhibit Number 8, looking in the vicinity of the Townsend Number 10 well tract, the blue horizon which he has identified as the Austin lime essentially is flat through the area of interest. I disagree with that. I think that blue horizon is, in fact, one cycle higher, giving that a fault-bounded -- creating a fault-bounded appearance.

And when you go from -- If you put that blue reflector one cycle higher, that gives us the exact same

interpretation when you go further to the left, you drop back down to where we would have our proposed location, then you pop back up to the Daisy "AFS".

Q. Does this show the Yates location?

A. This particular diagram does not have Yates proposed location.

Q. How would you compare your use of seismic data generally to that used by Ocean in developing these prospects?

A. I would say that they're probably using a little bit higher frequency data set. We use a little bit lower frequency, 70 herz. I would say they probably had something in the realm of 80 to 85 herz.

Q. Is this the same use you've made of this data in picking the other locations that you've successfully drilled in the area?

A. Yes, sir, it is.

Q. Have the results of drilling confirmed the way you have been picking locations in this area?

A. Yes.

Q. What conclusions can you draw from your geophysical --

A. The conclusions are that we've been very successful in our interpretation. We have been very -- We feel very comfortable in knowing that we have identified

the prospecting style for this area. We prefer to drill the lows, we stay away from the highs.

Q. Based on your geophysical work in the area, would you drill a well at the location proposed by Ocean in the northwest quarter of this section?

A. No, sir, I would not.

Q. In your opinion, will approval of the Yates Application and the drilling of the Daisy Number 2 in the northeast quarter of the section, as proposed, be in the best interest of conservation, the prevention of waste and the protection of correlative rights?

A. Yes, sir, I would.

Q. Based on your review of the area, is there a drillable location available as a second well in the northwest quarter of this section?

A. In the northwest or northeast?

Q. Northwest, a second well.

A. There is a second well location in the northwest quarter.

Q. Were Exhibits 11 through 15 prepared by you or compiled at your direction?

A. Yes, sir.

MR. CARR: At this time we move the admission into evidence of Yates Petroleum Corporation Exhibits 11 through 15.

EXAMINER STOGNER: Any objections?

MR. BRUCE: No, Mr. Examiner.

EXAMINER STOGNER: Exhibits 11 through 15 will be admitted into evidence at this time.

MR. CARR: And that concludes my direct of Mr. Scheubel.

EXAMINER STOGNER: Thank you, Mr. Carr.

Mr. Bruce?

CROSS-EXAMINATION

BY MR. BRUCE:

Q. Looking at -- I know this isn't your exhibit, Mr. Scheubel, but Exhibit 8 --

A. Yes, sir.

Q. Looking at the Section 3, what causes the faulting in that area, north part of Section 3?

A. I would say that you probably had two different structural stress regimes, one that was probably responsible for the uplift of the Shoe Bar, main Shoe Bar structural positive, and one which was later in time, more transpressional, had -- one had a compressional component to it which more or less gave you a ripping, shearing motion and gave you these northeast-southwest-trending fault systems.

Q. Would that regime cause more linear faults rather than anything?

A. I don't understand your question. Would what --

Q. The regime you just talked about, the two different structural stress regimes. Would it result in linear faults or more rounded faults?

A. Well, I think -- I really don't know the answer to that question, it's hard to say. Each area is different, depending upon how detailed you look at it. You look at from a larger scale, all of a sudden a lot of these irregularities become more linear. So you could take any linear fault system, tear it apart, and it's not as linear as you first thought. It will change shape, it will change direction on what -- from reverse fault to normal faults. It depends on how microscopically you're looking at your structural events.

I'm not sure if I'm answering your question or not.

Q. Were any of the faults caused by karsting collapse?

A. I prefer to think that any karsting collapse that occurred was due to faulting, pathways for meteoric fluids to percolate through. If you don't have fractures, you don't have karst; it just sits on top of the surface.

MR. BRUCE: Mr. Examiner, I intend to recall my geophysicist, and so instead of hounding Mr. Scheubel here I'll pass on further questions.

EXAMINATION

BY EXAMINER STOGNER:

Q. Mr. Scheubel, so I can make sure that I'm understanding Exhibit Number 14 and 15, now, was this information taken from a particular wellbore?

A. No, sir, this particular information was taken from a common seismic line from the same data set around the proposed wellbores in question. It was an arbitrary line.

Q. Okay. Based on all the information that you've collected to put -- what? -- 8 together, and then your seismic information --

A. Yes, sir.

EXAMINER STOGNER: Mr. Catanach?

MR. CATANACH: (Shakes head)

EXAMINER STOGNER: Mr. Carr, any redirect?

MR. CARR: No, sir.

EXAMINER STOGNER: You may be excused.

You plan to recall your geophysicist?

MR. BRUCE: Yes, it will be very brief.

EXAMINER STOGNER: Okay.

MR. BRUCE: Mr. Examiner, I recall Mr. Silver. If the record could reflect, he has previously been sworn and qualified.

EXAMINER STOGNER: Mr. Silver?

ROBERT SILVER (Recalled),

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

DIRECT EXAMINATION

BY MR. BRUCE:

Q. Mr. Silver, I'd like you to keep in front of you what's been marked your Exhibits 9 and 10, together with the Yates Exhibit 8, if you will. And first off, does Ocean agree in general with drilling at the lows?

A. Absolutely. That's been a technique that both Ocean, Arrington and Yates have utilized for the last couple of years. The Panther Martin was drilled on that concept, many of the wells out here have been successful based on that concept, and it's not a new concept to us.

Q. Okay. But in the way you look at it, can you simply look at the lows alone?

A. If that's the only information that you have, then that's what you have. But if you can extract some information from the seismic where you can potentially see a direct indicator of the sand, then you would certainly want to use that information as well, in addition to your structural interpretation of the lows.

Q. Okay. So you want to look at the amplitude and the lows together, not either one of them in a vacuum?

A. That's right, you want to utilize all the

information at your fingertips.

Q. Okay. Could you identify your Exhibits 9 and 10 for the Examiners and describe what they show, and maybe as part of that, discuss what your difference of opinion is, or Ocean's difference is, with Yates and Mr. Scheubel?

A. Certainly. The map, Exhibit Number 10, is an isochron map which basically -- Instead of just a straight structure map that was submitted by Yates, this measures the difference between two horizons. And so it -- And in this case, this is the difference between the Morrow lime and the Austin lime horizon. And by doing that small interval, it gets you basically what would be considered a paleostructure map. And this map shows that in the area of the Townsend 10 it is in a structural low.

Now, if I can refer to Exhibit Number 9, basically Frank brought this up. If you'll look in the area where the Townsend 10 is, on the left-hand side of the exhibit there, you'll see up at the top it says Townsend 10, the little circle. And you go down and there's a little purple line that's colored underneath with purple. That event right there is what we interpret on our seismic data, which has a little higher frequency, as the Mesa sand event. And the Austin lime is down below it, which mirrors in this area the Chester and the Mississippian lime and the Woodford down below, and that event right there is the sand

which they have picked as the Austin lime, which then makes their map show a high in the area that we would have a low.

Now, if I can refer back to their map, where they have the yellow dot for the OEI-proposed location for the Townsend 10, that area would, in fact, now be a low if they had taken that pick and gone below that and picked the next event down.

So basically the difference of opinion here is whether that little event right there is the top of the Mesa sand or the top of the Austin lime. Two qualified geophysicists looking at it have come up with two different interpretations. We certainly have our right to our interpretation, and they have the right to their interpretation. But conceptually we're on the same page: We want to drill on the lows, but we think that they've picked their seismic wrong.

Q. Do you believe that your maps are a more accurate representation of where the sand is going to be found?

A. Yes.

Q. Okay. Now, in looking at -- I believe it's Mr. Cummins' Exhibit 8 -- up in the northeast corner of the map, the Yates Baer Number 3, that was drilled at a very low spot, wasn't it?

A. Yes, it was.

Q. And as Mr. Cummins testified, that well was not

successful, was it?

A. Correct.

Q. Now looking over in Section 3 again, the original Mesa sand well out here, the Mesa Petroleum Townsend Number 1 well, if you look at Mr. Cummins' map you would never drill that location, would you?

A. No, you would not.

Q. But that is an economic well?

A. Yes, it is.

Q. It's still producing at a fairly good rate after 15 years?

A. Over 2 1/2 BCF -- no -- that's right --

Q. One and a half?

A. One and a half BCF and 180,000 barrels of oil.

Q. And quite a high amount of condensates in there?

A. Yes.

Q. Yet that location is, even according to Mr. Cummins' map, higher than your proposed location in the northwest quarter of Section 3; is that correct?

A. Yes.

Q. So using Yates' methodology here, they would have never drilled -- they don't want to drill your well, but they never would have drilled the Townsend State well either?

A. That's right.

Q. And in looking at your Exhibits 9 and 10 --

A. Could I say a little bit more about Exhibit 9?

Q. Absolutely.

A. Okay. One other thing on Exhibit 9, if you'll look at that -- You can see the trace for that on the map. It goes from the Townsend 10, to the Daisy "AFS" well, to the Yates Gallagher well, to the Townsend 9. You can see basically the structural high that the Daisy well was drilled on, and if you look at that little purple event you see that that kind of fills in the low. And then if you look over where the Yates Gallagher well is, it's in the low, and there's kind of a little purple event that fills in that low.

Yates would never have drilled the Townsend 9, and they thought that we would have no sand there. We did have sand there. Yes, it's not a great well, but there is sand there, and it was present.

And the difference comes -- over here in the Townsend 10, is that there's a little break in that event that we think is the Mesa sand, and where they want to propose their well, we have no event there, which to me says maybe there's some reason that there's no sand there. So we would prefer to drill where there is an event, where we interpret the sand being. And so we're not ever going to agree, because we've picked the seismic differently.

Q. Okay.

A. And so where we want lot 4, they want lot 3; where we want lot 2, they want lot 1.

Q. In looking at these structure maps, you know, Mr. Cummins' map is on top of the Austin. Could that present-day structure be affected by events that occurred after the deposition of the Mesa sand?

A. Yes. In fact, a lot of the structuring out here did take place after the deposition of the Mesa sand.

Q. And that accounts for a difference of opinion between you and Yates?

A. Right.

Q. So you and Mr. Scheubel have a disagreement, and you still prefer your well location?

A. Right.

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

A. Yes, they were.

MR. BRUCE: And with that, Mr. Examiner, I'd move the admission of Ocean Exhibits 9 and 10.

MR. CARR: No objection.

EXAMINER STOGNER: Exhibits 9 and 10 will be admitted into evidence.

Mr. Bruce, thank you.

Mr. Carr?

CROSS-EXAMINATION

BY MR. CARR:

Q. Mr. Silver, if I look at Exhibit 10, if I understand this right, this is your interpretation of thicks in the area --

A. Yes.

Q. -- is that right?

If I look at the Panther Martin, that was a successful well, and that's in a thick, that's in a blue?

A. Yes.

Q. We come up to your proposed location, that also should be in a thick. It's in the light blue?

A. Uh-huh.

Q. If I then go from the Townsend 10 down to the southeast, there's the Townsend State?

A. Right.

Q. That well is not in a thick, according to this interpretation?

A. But it's close. And that well has acted like it was close to a good thing. It had a little bit of sand and it's produced for a long period of time, and it surprised everybody by how well it's produced.

Q. But this doesn't show it's in a particular thick?

A. It's not in -- No, it's not in the best location, but it hit it, it hit an edge of it, and so it's still

producing.

Q. If we go over to the Field Number 3, the "APK" Number 3, which is again almost on a straight southeast line from the Townsend State, that's not in a thick at all, is it?

A. On this particular version, no, that does not -- on this map it does not show as a thick.

Q. And that was a very good well, was it not?

A. That is a good well.

Q. I think you testified that with different geophysicists we can have different interpretations?

A. Yes, they can.

Q. We might have as many interpretations as geophysicists?

A. Hopefully they would have some similarities.

Q. How many successful wells have been drilled in this area by Ocean,based on your geophysical interpretation?

A. Five or six.

Q. In this immediate area?

A. One, two, three -- maybe four. I'd have to think back, but yes.

Q. And what are those four?

A. The Panther Martin, the --

Q. Okay. Was the Townsend 9 --

A. -- Townsend 9.

Q. And that is, in your opinion, a good well?

A. I would say it was geophysically a success. We found the sand. It has not produced as good as some of the other wells have.

Q. Five barrels of oil per day, 180 MCF, right?

A. Yes, but the pressures are fairly constant.

Q. Was the Townsend 2 State Number 1 --

A. No, that was prior to my time.

Q. And that's not one of your --

A. No.

Q. -- recommendations, you'd agree that was a failure?

A. I --

Q. In the immediate area, in the sections that are covered on this map, have you been -- other than Panther Martin, which was kicking off from an existing wellbore, have you been involved with any new drills on the wells shown on this map?

A. On this particular two sections --

Q. Yes.

A. -- other than the Panther Martin and the Townsend 9, I have not.

Q. Okay, thank you. That's all.

A. Okay. Wait a minute, I need to --

Q. Okay.
A. The Townsend 11, but that's a different zone.
Q. Okay.
A. Okay.
MR. CARR: Thank you, that's all I have.
EXAMINER STOGNER: Mr. Catanach?
MR. CATANACH: No.
EXAMINER STOGNER: I have nothing either.
Any more redirect?
MR. CARR: No, sir.
EXAMINER STOGNER: Any recalls?
MR. CARR: No, sir.
MR. BRUCE: No.
EXAMINER STOGNER: Okay. Mr. Carr, I'll let you go first with your closing statement. However, it's my understanding that we're going to continue and readvertise --
MR. CARR: Yes.
EXAMINER STOGNER: -- all three of these cases.
MR. CARR: I intend to file an amended Application to pick up the Mississippi. And yes, sir, and I will in that Application --
MR. BRUCE: I intend to file, although I have something to say about the current Application of Yates.
EXAMINER STOGNER: Okay, now, yours will include

getting rid of the request --

MR. CARR: Yes, sir.

EXAMINER STOGNER: -- and continue the smaller --

MR. CARR: Yes, sir, it will.

EXAMINER STOGNER: Okay. What were you going to say about the re-advertisement, or the continuation?

MR. BRUCE: Yes, we plan on drilling to the Mississippian, Mr. Examiner.

EXAMINER STOGNER: Okay, both parties are going to the Mississippian?

MR. CARR: Right.

EXAMINER STOGNER: Okay, then that doesn't change any of my bearings then.

Mr. Carr, you may go first.

MR. CARR: May it please the Examiner, you have competing compulsory pooling Applications before you. I think the evidence is clear and straightforward.

There are certain matters that are not issues in this case. AFE costs are not an issue, overhead and administrative charges are not an issue, a 200-percent risk penalty is not an issue.

Ocean comes before you saying, We proposed a well in May, we're there first, we should prevail.

I think you need to look at the evidence, and I think you need to weigh the evidence in the context of Mr.

Catanach's April 5th, 1995, memorandum which discusses relevant and pertinent evidence when you get into competing compulsory pooling applications.

The first matter is pre-hearing negotiations, willingness to negotiate. We submit if that standard is applied, Yates Petroleum Corporation, Arrington Oil and Gas prevail. From the very beginning we've been talking with them, trying to get them to move the location to what we believe is an essential location if they go forward with the well in the northwest quarter. They have declined to do that.

When it became apparent to us that we couldn't get them to move, we proposed another location, but we still went forward and proposed that we each try and come to you with nonstandard units, so we each could drill our own well, we could each test our own theory.

We offered to have them participate with us. We think there are two locations in the north half, but the northeast should definitely be drilled first.

We talked about exchanging or farming out to each other interests that would facilitate going forward with two wells, based on two interpretations.

Another factor in Mr. Catanach's memo is ownership in the spacing unit. Here again, we prevail. We have 56 percent of the interest, Yates and its partners.

Ocean stands before you in a minority position with 41 to 42 percent.

But I think the critical thing in this case is the geological presentation, how it relates to the proposed well locations. And we submit that on any reasonable interpretation of the geological data we should prevail. Look at our track record, look at ours. Look at the fact that the other active operator in the area, Arrington Oil and Gas, Inc., agrees with us.

And we believe that when you look at the ownership, the efforts to negotiate and the geological presentation, Yates should prevail in this matter.

Another matter referenced in Mr. Catanach's memorandum is the timing when prospects were developed, when they were proposed. Very clearly, ours was proposed very late in the game when, as Mr. Bullock said, we had to do something. Because as our evidence showed, we are absolutely convinced they will drill a dry hole and that we have locations where we can drill successful wells, like the other wells we have drilled.

Ocean suggests, however, that the fact they proposed a well in May should override everything else. Ignore the fact they're in a smaller ownership position, that they're without the support of other interest owners; their track record is simply not as good as ours. And

accept their geological interpretation over one that's been proven by drilling. We submit if you try and decide this case on who has established they can best drill and develop the acreage you'll come down on the side of Yates.

We think you will look at the standards in Mr. Catanach's memo, and you will find Yates should prevail. You will compare geological interpretations, and you will conclude when you compare the interpretations to their drilling success that Yates should prevail.

Yes, our Application is late, very late. We had to do something to avoid the drilling of a dry hole. And that if it is so late that that is a problem that Mr. Bruce now wants to discuss, when we -- instead of simply filing an amended Application, we would dismiss and re-file, correcting any time-frame problems that may exist, but the truth of the matter is, for six months or more we have been trying to figure out how to develop the north half of this section and how to get a well drilled where, in fact, you will drill a well and not a dry hole.

When you look at the presentations, when you weigh the evidence, we are convinced if you're interested in preventing waste, developing resources, protecting the correlative rights of all interest owners, our own and those who have joined with us, you will grant the Application of Yates and you will deny the Application of

Ocean.

Thank you, Mr. Stogner.

EXAMINER STOGNER: Mr. Carr.

Mr. Bruce?

MR. BRUCE: Mr. Examiner, there's only one thing you can do in this matter, and that's to dismiss the Yates Application and approve the Ocean Applications. There are two independent reasons to do so.

Now, first, Mr. Carr has cited from a 1995 memo regarding matters to be considered in competing compulsory pooling cases. I also have that memo somewhere, but I will also cite from a 1997 Commission pooling case, which is Order Number R-10,731-B, which basically discusses the same issues.

I agree with Mr. Carr that for purposes of the hearing today, nobody objects or disputes the risk factor involved in drilling these wells. The differences in the AFEs are meaningless. Both parties are capable of drilling and operating the wells.

In the order I just cited, the Commission said the most important consideration in awarding operations to competing interest owners is geologic evidence as it relates to well location, recovery of hydrocarbons and associated risk.

Looking at Ocean Exhibits 6 through 10, Ocean is

trying to duplicate what it did with the Panther Martin well, which clearly, even from the Yates exhibits, is the best Morrow well in this area.

First off, the Yates Application, the nearest well control is a dry hole.

Second, the Ocean well is near the three producing Mesa sand producers in this section and plays off of those three wells.

Third, it's located at the proper low, the Ocean well, which will, we hope, result in its success, and we think is the best location available in the north one-third of this section to drill the well.

The associated risk -- that is, the risk of drilling a dry hole -- is much greater at Yates' location. Therefore, this factor favors Ocean.

The second factor is good-faith negotiations prior to pooling.

In the first Ocean Case, 12,535, the evidence is clear that with respect to the Yates group and David H. Arrington, Ocean mailed its proposal in May, 2000. It followed up with a letter and JOA in June, 2000. It met with Yates in Houston in July or August to go over the proposal. The parties could not come to terms, and Ocean filed its pooling Application, which was continued to this date at Yates' request.

With respect to the unleased owners, Ocean's landmen have been contacting them since August, 2000, followed up with written offers to lease and written offers to join in the well. That Application was subsequently filed in December. Clearly that meets the requirements of good-faith negotiations. Yates' only proposal was a couple of weeks ago. Clearly Ocean has conducted good-faith negotiations over an extended period of time, and its efforts far exceed those of Yates. Therefore this factor favors Ocean.

The other factor that Mr. Carr mentioned, working interest control. In the Commission's order it says it's only important if geology and other factors are insignificant. Well, as we've just discussed, the other factors are not insignificant, and they favor Ocean.

Even if that was the case, the difference in ownership between Yates and Ocean is 40 to 50 percent. This isn't a case where Ocean only has a few percent and Yates has 90 percent. The interests are roughly equal, and I see that as being a nonissue in this case.

Taking all factors into account, and especially the geology and good-faith negotiations, the two most important factors, Ocean's Applications must be granted and Yates' must be denied.

Now, the second basis for denying the Application

is this: In a case I had about two years ago before the Division, which was a dispute between Redstone Oil and Gas Company, which was my client, and Fasken Land and Minerals, Ltd., which was represented both by Mr. Kellahin and Mr. Carr, the Division, at my opponents' urging, dismissed Redstone's pooling application because it was filed before the well proposal letter was sent. That occurred even though Redstone had been in months of verbal negotiations with Fasken over a well unit and a well location. I don't have that case and order number with me, but I will forward it to you after the hearing.

The Division's reasoning in that case was that there could be no good-faith negotiations if the pooling application was filed before a well proposal was sent. We have the same situation here today. If you refer to Ocean Exhibit 3A, please note that the Yates Application was filed on December 19th, I believe, and Yates sent out its proposal letter on December 27th. Ocean has only had it for about a week. That just doesn't satisfy Division precedent and Division policy, and Yates' Application must be dismissed, really, without a consideration of the evidence.

This leaves only Ocean's Applications which, although they will be amended, must be granted, because it's the only Applications which have complied with

Division policy.

Thank you.

EXAMINER STOGNER: Go on record that we'll take administrative notice of Order Number R-10,731-B. If you could provide a copy of that, at least, somehow, can I obtain that? At this time I don't know when we can.

MR. BRUCE: Probably next month --

EXAMINER STOGNER: Also --

MR. BRUCE: -- maybe later.

EXAMINER STOGNER: Also this Redstone-Fasken matter --

MR. BRUCE: I will provide an order to Mr. Carr and to the Division.

EXAMINER STOGNER: I appreciate that.

And, oh, why not? Why don't one of you provide me, or us, that April 5th letter or -- I'm sorry, what was it?

MR. BRUCE: The memo --

EXAMINER STOGNER: The April 5th memorandum, Examiner Catanach's memorandum.

MR. CARR: Yes.

EXAMINER STOGNER: Yes, Examiner Catanach's memorandum. I guess I don't have that either. Or I'm sure I do, I don't know what box it's in, or whether that box will even make it.

MR. BRUCE: What building it's in.

EXAMINER STOGNER: Maybe Catanach's copy won't make it over there either. We don't know.

MR. CARR: I'll be happy to provide it, I have it framed in my office.

(Laughter)

EXAMINER STOGNER: Regardless, regardless, in light of that, we do -- both parties have been given a 30-day reprieve, and hope some additional negotiations can be made between those 30-day periods, and hopefully both parties can come up with an agreement between themselves, as opposed to here. I'd like for both parties to think about that, and I'm sure, Mr. Bruce and Mr. Carr, you will urge your respective clients to get together on this matter.

Also, let's see, be aware next Tuesday's the deadline for readvertisement, so if you can get that to Ms. Davidson a little bit before then, so neither matter will be held up for any administrative reasons due to the move. Bear that in mind.

Also, go ahead and prepare rough draft orders --

MR. CARR: Okay.

EXAMINER STOGNER: -- to be submitted at the February 8th -- at the time. And it's up to you guys, I'm sure, whether there's any need for additional testimony. I

don't foresee it at this point, but perhaps if there is. But regardless, I'd like to see, or we'd like to see, at the February 8th hearing rough drafts prepared by both parties.

MR. CARR: And Mr. Stogner, if there's a need for additional hearing or testimony, we will advise you three days in advance when the prehearing statements have to be filed. I will advise you in advance of the hearing, no matter what Mr. Bruce says he's going to do.

(Laughter)

EXAMINER STOGNER: Okay, let the record so show.

Thank you, gentlemen. We're going to take a 15-minute recess at this time before we conclude the docket.

(Thereupon, these proceedings were concluded at 1:25 p.m.)

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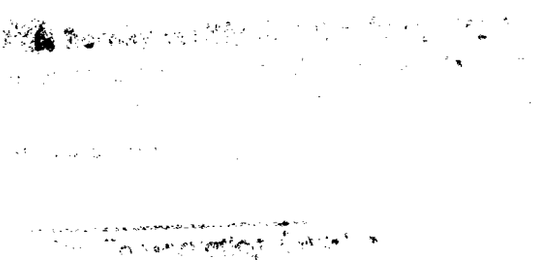

CERTIFICATE OF REPORTER

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 Division was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

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

WITNESS MY HAND AND SEAL January 18th, 2001.

STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 2002