

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

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

CASE NO. 12,752

APPLICATION OF DAVID H. ARRINGTON OIL)
AND GAS, INC., FOR COMPULSORY POOLING,)
LEA COUNTY, NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID K. BROOKS, Hearing Examiner

November 1st, 2001

Santa Fe, New Mexico

01 NOV 15 PM 2:08

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID K. BROOKS, Hearing Examiner, on Thursday, November 11th, 2001, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, 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

November 1st, 2001
Examiner Hearing
CASE NO. 12,752

	PAGE
EXHIBITS	3
APPEARANCES	3
APPLICANT'S WITNESSES:	
<u>DALE DOUGLAS</u> (Landman)	
Direct Examination by Mr. Feldewert	4
Examination by Examiner Brooks	14
<u>BILL D. BAKER, JR.</u> (Geologist)	
Direct Examination by Mr. Feldewert	22
Examination by Examiner Brooks	30
REPORTER'S CERTIFICATE	32

* * *

E X H I B I T S

Applicant's	Identified	Admitted
Exhibit 1	7, 24	14
Exhibit 2	8	14
Exhibit 3	9	14
Exhibit 4	11	14
Exhibit 5	12	14
Exhibit 6	14	14
Exhibit 7	24	30
Exhibit 8	28	30

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A P P E A R A N C E S

FOR THE APPLICANT:

HOLLAND & HART, L.L.P., and CAMPBELL & CARR
 110 N. Guadalupe, Suite 1
 P.O. Box 2208
 Santa Fe, New Mexico 87504-2208
 By: MICHAEL H. FELDEWERT

ALSO PRESENT:

DAVID R. CATANACH
 Hearing Examiner
 New Mexico Oil Conservation Division
 1220 South Saint Francis Drive
 Santa Fe, NM 87501

* * *

1 WHEREUPON, the following proceedings were had at
2 11:22 a.m.:

3 EXAMINER BROOKS: Call Case Number 12,752,
4 Application of David H. Arrington Oil and Gas, Inc., for
5 compulsory pooling, Lea County, New Mexico.

6 Call for appearances.

7 MR. FELDEWERT: Mr. Examiner, Michael Feldewert
8 with the Santa Fe office of Holland and Hart and Campbell
9 and Carr, on behalf of the Applicant, David H. Arrington
10 Oil and Gas, Inc. I have two witnesses here today.

11 EXAMINER BROOKS: Will the witnesses please
12 identify themselves for the record?

13 MR. BAKER: Bill Baker, Jr.

14 MR. DOUGLAS: Dale Douglas.

15 (Thereupon, the witnesses were sworn.)

16 EXAMINER BROOKS: You may proceed, Mr. Feldewert.

17 MR. FELDEWERT: We call Dale Douglas to the
18 stand.

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

22 DIRECT EXAMINATION

23 BY MR. FELDEWERT:

24 Q. Mr. Douglas, would you please state your full
25 name and address for the record?

1 A. Dale Douglas, Midland, Texas.

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

4 A. I'm an independent landman doing contract land
5 services for Arrington.

6 Q. Have you previously testified before this
7 Division and had your credentials as an expert in petroleum
8 land matters accepted and made a matter of record?

9 A. Yes.

10 Q. And are you familiar with the Application that
11 has been filed by Arrington in this case?

12 A. Yes, sir.

13 Q. And are you familiar with the status of the lands
14 in the subject area?

15 A. Yes, sir.

16 MR. FELDEWERT: Mr. Examiner, are the witness's
17 qualifications acceptable?

18 EXAMINER BROOKS: The witness's qualifications
19 are accepted.

20 Q. (By Mr. Feldewert) Mr. Douglas, would you
21 briefly state what Arrington Oil and Gas seeks with this
22 Application?

23 A. Yes, sir, Arrington seeks an order pooling all
24 minerals from the surface to the base of the Mississippian
25 formation under Lots 1 through 4 and the east half of the

1 west half, which is the west-half equivalent of irregular
2 Section 31, Township 15 South, Range 36 East, in the
3 following manner:

4 The west-half equivalent to form a standard
5 320.56-acre standup gas spacing unit for all formations in
6 the pools developed on 320-acre spacing within that
7 vertical extent;

8 The southwest quarter for all formations and/or
9 pools developed on 160-acre spacing within that vertical
10 extent;

11 And the southwest quarter of the northwest
12 quarter, which is Unit E, for all formations and/or pools
13 developed on 40-acre spacing within that vertical extent,
14 which presently includes the Undesignated Caudill-Permo
15 Upper Penn Pool and the Undesignated Townsend-Permo Upper
16 Penn Pool.

17 This will be dedicated to Arrington's proposed
18 Royal Stimulator 31 Well Number 2, to be drilled as a
19 straight hole at a surface location 2235 feet from the
20 north line and 330 feet from the west line in Section 31 to
21 a depth sufficient to test the Wolfcamp formation, then
22 directionally drill the well in a southeasterly direction
23 to a standard bottomhole location 1900 feet from the south
24 line and 1300 feet from the west line of Section 31, at a
25 depth sufficient to test the Mississippian formation.

1 Q. Would you identify for the Examiner and review
2 Arrington Exhibit Number 1?

3 A. Yes, sir, Arrington Exhibit Number 1 is a land
4 map which illustrates where the property is located. It's
5 just north of the Lovington town site. The red outline is
6 the west half of Section 31. And they're not clear on the
7 plat, but Lots 1 through 4 start at the northwest corner of
8 Section 31 and run south along the west line. So that's a
9 regular 320.56-acre tract.

10 Also you'll notice there's the surface location
11 for this well, which is in this equivalent southwest
12 quarter of the northwest quarter. There's a diagonal
13 southeast line which also will show the bottomhole location
14 in the southwest quarter of Section 31.

15 Q. Okay, so your surface location is in Unit E of
16 the northwest quarter?

17 A. That is correct.

18 Q. And your bottomhole location is going to be in
19 Unit L of the southwest quarter?

20 A. That's correct.

21 Q. Okay. What's the status of the acreage in the
22 west half of Section 31?

23 A. It's fee acreage.

24 Q. Okay, would you identify, then, Arrington Exhibit
25 Number 2 and review that for the Examiner, please?

1 A. Arrington Exhibit Number 2 is a recap showing the
2 ownership and the status of that ownership in the west-half
3 unit. The recap on the front page basically breaks down
4 the net acres within that 320.56-acre unit, with Arrington
5 owning 80 percent, Anson a little over 5 percent,
6 Chesapeake Exploration 11.7 percent, James R. Leeton 2.4
7 percent. All of that is leasehold ownership, and then
8 there are a few unleased mineral owners which constitute
9 .68 percent of the unit.

10 Q. Now, some of this acreage is City of Lovington,
11 right?

12 A. Yes, it's just on the northwest side, they're
13 housing developments here.

14 Q. Okay, so you have some small tracts within the
15 city area?

16 A. That's correct. The unleased mineral owners are
17 extremely small.

18 Q. And then behind this you just show the interest
19 breakdown by tract; is that correct?

20 A. That is correct. Each of the individual tracts
21 with common ownership is broken down into subsequent pages
22 that will show the owner, the net acres and whether it's
23 leasehold or mineral interest.

24 Q. Okay, would you identify for the Examiner
25 Arrington Exhibit Number 3?

1 A. Arrington Exhibit Number 3 was prepared -- these
2 were the list of parties that at the time we had been
3 unable to reach agreement with to drill this well and/or
4 acquire leases or to participate. All of these parties
5 have been contacted with the exception of four, with whom
6 we've not been able to obtain valid addresses.

7 Q. And are they identified with a dot to the left of
8 their names?

9 A. Yes, they are.

10 Q. Okay. Now, the slashes to the left of the names
11 on here, there's three of them. What do they indicate?

12 A. Those were folks that, as a result of our well
13 proposal, we were able to obtain oil and gas leases.

14 Q. Okay. So are the remaining parties on here
15 subject to this pooling Application?

16 A. Yes, they are.

17 Q. And I count 11; is that right?

18 A. That's correct.

19 Q. Okay. Now, these interest owners that you've
20 been unable to locate and that are designated with a dot
21 next to their name on this list, could you identify for the
22 Examiner the efforts that David Arrington undertook to
23 contact these people?

24 A. Yes, as normally we would, we checked all the
25 county records in Lea County, both the Clerk's office and

1 the tax office, to see if we could find valid addresses.
2 The addresses that we have -- and they're also listed on
3 this Exhibit 3 -- are the last addresses of record.

4 And you will notice that there are handwritten
5 notes there that all of those, Robert Freck, Shawn Freck,
6 Estate of Thelma Turner, and James E. Bailey, all of those
7 were returned as not being a valid address or that those
8 folks were no longer there.

9 In addition, we do -- as a matter of course,
10 we'll do Internet searches, type in these names and see if
11 we can locate folks that have similar names. We did that,
12 obtained several leads, all of which failed to turn up
13 these particular people who claim this property.

14 Q. Now, these four interest owners you've been
15 unable to locate, are they part of the unleased mineral
16 owners shown on Exhibit Number 2?

17 A. Yes, they are.

18 Q. Okay. So their interests, for the most part, are
19 tracts within the City of Lovington?

20 A. Yes, just there in the southwest quarter.

21 Q. Okay. Why don't you summarize for the Examiner
22 your efforts to obtain voluntary joinder of the interest
23 owners that you've been able to locate?

24 A. Of the folks that are listed on the list, you'll
25 see a few that we've already talked about that we've

1 acquired leases from. The other folks on here, since these
2 wells were proposed we have reached agreements with. They
3 are still in the documentation stage.

4 Anson Gas Corporation has agreed to farm out
5 their interest. Chesapeake Exploration has agreed to
6 participate. They have been furnished an operating
7 agreement, and we're awaiting the signature page to that.

8 Chalfant Properties, Inc., acquired its leases on
9 behalf of Chesapeake. They're still in the public record
10 as Chalfant properties, but that interest is represented by
11 Chesapeake.

12 The next interest, the Estate of Rada Jackson, we
13 at one time thought we had a deal with them, and they've
14 determined that the size of the interest is not worth their
15 time to execute the lease, go to the notary, et cetera.

16 Same with Jerry Billington and then Vera Selman,
17 same response, not interested, it's too small.

18 Q. Okay. Have you sent -- You proposed this well
19 when?

20 A. The well was formally proposed, although we've
21 been in contact with the majority of these people for quite
22 some time, we formally proposed it with our letter of
23 August the 15th.

24 Q. Okay, and has that letter been marked as
25 Arrington Exhibit Number 4?

1 A. Yes, it has.

2 Q. And it's a package that includes the same letter
3 that was sent to all of the interest owners shown on
4 Exhibit Number 3?

5 A. That's correct.

6 Q. Okay, and did this well proposal include an AFE?

7 A. Yes, it did.

8 Q. Okay, and then after sending this letter you
9 indicated, I think, that you undertook some additional
10 efforts to reach an agreement with these parties?

11 A. Yes.

12 Q. Okay. And at this point you have tentative
13 agreements with a number of them, but they're not yet
14 signed up?

15 A. Documentation is being circulated for execution.

16 Q. Okay. In your opinion, has Arrington Oil and Gas
17 made a good faith effort to obtain the voluntary joinder of
18 all of the interest owners that are shown on Exhibit Number
19 3?

20 A. Yes, we have.

21 Q. Would you turn to Arrington Exhibit Number 5,
22 identify that and review that for the Examiner, please?

23 A. Exhibit 5 is a copy of the AFE which has been
24 prepared for drilling this Royal Stimulator Number 2 well.
25 It's a 13,400-foot test. The estimated dryhole cost for

1 this well is \$1,457,245. The completion cost would be an
2 additional \$521,856, for a total completed well cost of
3 \$1,979,101.

4 Q. Mr. Douglas, is this the AFE that was sent with
5 the well proposal letter that's been marked as Arrington
6 Exhibit Number 4?

7 A. Yes, sir.

8 Q. Okay. Now, are the costs that are shown on this
9 AFE, are they in line with what has been charged by
10 Arrington and other operators in the area for several
11 wells?

12 A. Yes, they are, Arrington has drilled several
13 wells in this area, all of which were drilled under similar
14 AFEs and costs.

15 Q. Okay. Have you made an estimate of the overhead
16 and administrative costs while drilling this well and also
17 while producing if you are successful?

18 A. Yes, sir, we have, \$6000 a month drilling well
19 rate and \$600 a month producing well rate.

20 Q. And are these overhead and administrative costs
21 in line with what is being charged by operators in the
22 area?

23 A. Yes, they are.

24 Q. And do you recommend that these figures be
25 incorporated into any order that results from this hearing?

1 A. Yes, sir, I do.

2 Q. Does Arrington request that the overhead figures
3 approved by the Division be subject to adjustment in
4 accordance with Section 31A3 of the COPAS form entitled
5 Accounting Procedures and Joint Operations?

6 A. Yes, sir.

7 Q. And does Arrington Oil and Gas, Inc., seek to be
8 a designated operator of the proposed well?

9 A. Yes, sir.

10 Q. Is Arrington Exhibit Number 6 an affidavit with
11 attached letters giving notice of this hearing?

12 A. Yes, sir, it is.

13 Q. And were Arrington Exhibits 1 through 6 prepared
14 by you or compiled under your direction and supervision?

15 A. Yes, sir, they were.

16 MR. FELDEWERT: Mr. Examiner, at this time I
17 would move the admission into evidence of Arrington
18 Exhibits 1 through 6.

19 EXAMINER BROOKS: Arrington Exhibits 1 through 6
20 are admitted.

21 MR. FELDEWERT: And that, Mr. Examiner, concludes
22 my direct examination of this witness.

23 EXAMINATION

24 BY EXAMINER BROOKS:

25 Q. Okay, what was the actual acreage on the west

1 half?

2 A. The west half is -- It's 320.56 gross acres.

3 Q. 320.56.

4 A. Yes, sir.

5 Q. And the southwest quarter, you said, was what you
6 wanted for 160-acre, and is that actually 160 or is --

7 A. No, it's -- I'll give you that acreage amount.
8 It's 160.14 acres.

9 Q. 160.14. And the southwest of the northwest, do
10 you have an acreage on that --

11 A. Yes, sir.

12 Q. -- what you want for 40 acres?

13 A. Yes, sir, it's 40.17 acres.

14 Q. 40.17 for 40. Now, you gave some pool
15 designations only for the southwest northwest for the 40
16 acres; is that right, or --

17 A. Just one second, I can tell you.

18 Q. Pool names, I mean --

19 A. Right.

20 Q. -- undesignated --

21 A. Yes, sir, they were for the 40-acre -- the
22 southwest northwest.

23 Q. And what were those again?

24 A. They included the Undesignated Caudill,

25 C-a-u-d-i-l-l --

1 Q. C-a-u-d-i-l-l.

2 A. -- Permo Upper Penn Pool --

3 Q. Okay.

4 A. -- and the Undesignated Townsend,
5 T-o-w-n-s-e-n-d, Permo Upper Penn Pool.

6 MR. FELDEWERT: Mr. Examiner, I think there
7 are -- for ease of reference, I think they're also in the
8 case description.

9 Q. (By Examiner Brooks) Okay. Are those oil pools
10 or --

11 A. It's my belief that they're oil pools.

12 Q. Okay, and are those the only pools that are
13 affected by this Application?

14 A. We think they are.

15 Q. Now, the objective is the Mississippian, primary
16 objective is the Mississippian?

17 A. Yes, sir.

18 Q. And is that a gas prospect?

19 A. It's a gas prospect.

20 Q. Okay. And we have some differing ownerships in
21 portions of this unit, because I believe you said, did you
22 not, that all of the unleased minerals interests are in the
23 southwest quarter? Is that right?

24 A. Let me make certain. No, sir, there are some
25 unleased mineral interests in the southeast of the

1 northwest.

2 Q. The southeast of the northwest.

3 A. Yes.

4 Q. Now, the unit you'd requested was the southwest
5 of the northwest; is that right?

6 A. For the 40 acres, that is correct.

7 Q. For the 40 acres. So your unleased mineral
8 owners are going to be in the 320, and are they also going
9 to be in the 160?

10 A. There will be unleased mineral owners in the 320,
11 there will be unleased mineral owners in the 40-acre unit.

12 Q. In the 40-acre unit?

13 A. Yes, sir, which is the southwest northwest.

14 Q. Southwest northwest --

15 A. Correct.

16 Q. -- okay.

17 A. And then there will be unleased mineral interests
18 in the southwest quarter as well.

19 Q. There will be some differences in the unleased
20 mineral interests, will there not, between the various
21 units?

22 A. Yes.

23 Q. And I raise that because this is something we've
24 been discussing in the Division, but it seems to me that
25 there's a necessity to make some kind of provision for that

1 when we draw different units, because I assume one reason
2 you want these different units is that you may find it
3 advisable at some point to complete the proposed well in
4 some formation other than the primary objective formation,
5 correct?

6 A. That is correct.

7 Q. And we need to deal with the issue of, one --
8 well, from the Division standpoint we only need to deal
9 with the sharing of expenses, because the sharing of
10 revenues will result from the ownership.

11 But if you drill to the -- Since you're drilling
12 in what you assume to be a 320-acre spacing pattern,
13 presumably the expenses would be shared, the cost of
14 drilling and the cost of attempted completion in the
15 objective formation, would be shared on the basis of the
16 ownership in the 320, whereas if you went uphole and
17 completed in something that was in a 40, then the
18 production is going to be based on the ownership in that
19 40.

20 I just raise that because the way I've been doing
21 these here recently, because I felt the necessity to be
22 alert to this problem, was to provide that the expenses are
23 recoverable in proportion to the ownership in the objective
24 formation, regardless of where production eventually comes
25 from, which makes a little bit of a -- it involves some

1 squiggling on the formulas, but it seems to me to be the
2 appropriate way to do it.

3 But if you or your counsel has any other thinking
4 on how that ought to be done, I would appreciate being
5 advised on the subject.

6 A. I'll say our general rule of practice is, the
7 primary objective for this well is the Mississippian
8 formation. All mineral owners, regardless of where they're
9 divided within this west-half unit, will reap the benefits
10 of that production. If that is unsuccessful or if it's
11 subsequently plugged back, that wellbore is available --

12 Q. Right.

13 A. -- for recompletion.

14 Q. Right. But of course if you get someone who goes
15 nonconsent, as most of these -- as these unleased mineral
16 interest owners undoubtedly will, and if they don't have
17 any interest in the formation that you eventually complete
18 in, then their share of expenses is never going to get
19 recovered unless you complete in something they've got an
20 interest in.

21 A. That's correct. It's unfortunate that they won't
22 own minerals under where you complete.

23 Q. Right. But you can't move in and impose a higher
24 share of costs on people in the other wells, as I see it.
25 You know, the cost of recovery is going to necessarily be

1 proportional to the interests in the 320, that is, as to
2 the cost through the first attempted completion.

3 A. That's correct.

4 Q. Okay, that's my understanding of the way it ought
5 to work. Let's see if I had any other questions here.

6 What is the depth?

7 A. 13,400 feet.

8 Q. Yeah. I ask this question because, you know,
9 I've never -- each area is different, and I'm not familiar
10 with this specific area, but this AFE is -- I know they're
11 going up, but I don't recall having seen any quite this
12 high, \$1.9 million for a completed well. Why is this
13 running higher than most of the --

14 A. Well, there's --

15 Q. -- or is that something I should ask the next
16 witness?

17 A. Well, these are all -- I mean, the AFE, I think,
18 would speak for itself as far as the categories of where
19 these costs are. Obviously rigs and services --

20 Q. Right.

21 A. -- have gone up tremendously this year --

22 Q. Yes, I'm aware of that.

23 A. -- to the point of a lot of rigs being laid down
24 now. But these numbers are based on wells that we've
25 drilled in the last year --

1 Q. Right.

2 A. -- in this -- you know, within five to six miles
3 of this location, and these costs are in line with those.

4 Q. Does it turn out to be higher because it's
5 directional drill?

6 A. There is some additional cost because of the
7 directional drilling which you have to do, because of the
8 culture out there in that southwest quarter, there's a lot
9 of homes, subdivisions.

10 A. I was trying to figure that out, because --
11 you're doing day work, but -- and let's see, they...

12 Q. There's a directional cost --

13 A. They put \$7300 per day, but since it's all
14 directional they don't break down as to what their day rate
15 would be if it were done -- if it were straight hole, that
16 I see.

17 A. No, that's correct.

18 Q. Can you tell me, based on your experience what
19 would be the -- what the day rate would probably be if it
20 were a straight hole?

21 A. They day rate for the rig will be the same. The
22 additional charges that are included here for the
23 directional cost has to do with the downhole motors, and I
24 believe it's under -- they've got 20 days at \$7300 a day --

25 Q. Yeah.

1 A. -- at that estimated cost. So it's \$146,000
2 during the drilling stage.

3 Q. Okay.

4 A. That's an estimate of the increased cost to get
5 the best bottomhole location.

6 EXAMINER BROOKS: Right. Well, if anything is
7 ever raised -- and it probably won't be -- then it will be
8 referred to somebody that knows more about this, I'm sure,
9 than I do. But it took me back a little because what I've
10 been seeing for these deep holes has been in the range of
11 \$1.6 million, \$1.5 million, \$1.6 million here lately. But
12 we're not talking about this specific area, and like I say,
13 every area is different.

14 I don't believe I have any other questions.

15 MR. FELDEWERT: Okay, Mr. Examiner, we would call
16 Bill Baker.

17 BILL D. BAKER, JR.,

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

20 DIRECT EXAMINATION

21 BY MR. FELDEWERT:

22 Q. Mr. Baker, would you please state your full name
23 and address for the record?

24 A. Bill D. Baker, Jr., Midland, Texas.

25 Q. By whom are you employed and in what capacity?

1 A. I'm exploration manager for David H. Arrington
2 Oil and Gas, Inc.

3 Q. And have you previously testified before this
4 Division as a petroleum geologist?

5 A. Yes, sir, I have.

6 Q. And have your credentials as an expert in
7 petroleum geology been accepted and made a matter of
8 record?

9 A. Yes, sir, they have.

10 Q. Are you familiar with the Application that has
11 been filed by David H. Arrington Oil and Gas, Inc., In this
12 case?

13 A. Yes, sir, I am.

14 Q. And have you made a technical study of the area
15 that is the subject of this Application?

16 A. Yes, sir, I have.

17 MR. FELDEWERT: Mr. Examiner, are the witness's
18 qualifications acceptable?

19 EXAMINER BROOKS: The witness's qualifications
20 are accepted.

21 Q. (By Mr. Feldewert) Mr. Baker, what is the
22 primary target for Arrington's proposed well?

23 A. Actually, the primary target for this particular
24 proposal is the lower Atoka and Morrow gas sands. We were
25 planning on targeting the top of the Mississippian as our

1 TD. But the Morrow sands fall directly on top of the
2 Mississippian. Those are the target pay sands.

3 Q. And those are spaced on 320?

4 A. 320-acre spacing, yes, sir.

5 Q. Why don't you turn to Arrington Exhibit Number 1
6 and Arrington Exhibit Number 7 and describe for the
7 Examiner your drilling plan for the Royal Stimulator 31
8 Well Number 2?

9 A. Mr. Examiner, our plan for the Royal Stimulator
10 31 Number 2 is to drill this well to an approximate depth
11 of about 8000 feet from the proposed surface location and
12 at that time begin a directional kick to the southeast to
13 an approximate bottomhole location that's located 1900 from
14 the south line and 1300 feet from the west line.

15 And the reason that we're doing this is, our
16 potential target will be Chase Lower Atoka sands and Morrow
17 sands that are located in a graben system. That graben
18 system, the deepest part of that graben appears to be
19 located in the southwest quarter of Section 31, which is
20 situated under town lots in a housing division, making it
21 impossible that we could drill a vertical well over the
22 primary target.

23 Exhibit Number 7 is a well profile data sheet,
24 basically a directional plan that Baker INTEQ has supplied
25 to us, showing the approximate angle and build rate of how

1 we will do the well. We will basically take the well to an
2 approximate depth of about 8000 feet and at that point
3 begin to build angle, and we will just hold it on an
4 approximate angle of about -- I think it gets to a maximum
5 build of 15 degrees, and then move it down to the southeast
6 to our bottomhole target.

7 Q. Mr. Baker, are you familiar with the AFE that was
8 submitted by David H. Arrington in this case --

9 A. Yes --

10 Q. -- and which is marked --

11 A. Yes, sir, I am.

12 Q. -- and which is marked as Exhibit Number 5?

13 A. Yes, sir, I am.

14 Q. Okay, there was a question raised about the cost
15 associated with that AFE. Do you have an additional
16 testimony on that?

17 A. Yes, sir. Mr. Examiner, not only do the
18 directional costs play a big part into this, but our
19 engineer in this particular well -- we're going to be
20 drilling a larger hole in the event that we run into a --
21 There's a lower Wolfcamp zone here that's a depleted zone,
22 it's the Townsend-Wolfcamp zone. This zone caused us an
23 awful lot of problems on the Royal Stimulator Number 1 well
24 and actually prevented us from taking this well on down
25 deep. We basically cemented and differentially stuck our

1 tools in the hole.

2 Well, when you're drilling a 7-7/8-inch wellbore,
3 the only way to get around it is to run casing and case it
4 off. Well, in that particular wellbore we couldn't do
5 that, because our hole was too small.

6 Our engineer has designed this AFE and this well
7 proposal here to drill an 8-3/4-inch hole, and if we
8 encounter that same Wolfcamp zone, we'll run 10,900 feet of
9 intermediate pipe. That's where that additional cost comes
10 from.

11 EXAMINER BROOKS: I didn't see that --

12 THE WITNESS: Yes, sir, normally -- you were
13 quite correct in your numbers of 1.5 to 1.6, but when you
14 add a couple of hundred thousand dollars additional
15 expenses for the casing, along with the \$140,000, there's
16 the numbers of the additional \$300,000, \$350,000.

17 EXAMINER BROOKS: Makes sense.

18 THE WITNESS: Yes, sir.

19 Q. (By Mr. Feldewert) Mr. Baker, are you prepared
20 to make a recommendation to the Examiner as to the risk
21 penalty that should be assessed against nonconsenting
22 interest owners?

23 A. Yes, sir, based upon the wildcat nature of this
24 play and the proximity to a known analogous gas pool, I
25 would recommend the maximum of 200-percent risk penalty.

1 Q. Okay. Now, you explained to the Examiner your
2 problems that you had previously with the Wolfcamp. Would
3 you identify some additional reasons for the Examiner that
4 support your recommendation for a 200-percent risk penalty?

5 A. Yes, sir, and I guess the simplest way to do
6 this, Mr. Examiner, is just to simply take a look at that
7 Exhibit Number 1, your land plat, and if you look at that
8 particular land plat and know where on that land plat, or
9 within three to four miles, is a known analogous Morrow gas
10 producer -- basically our theory here in chasing these
11 graben systems is a very well defined theory, about five or
12 six miles west of here. We're the first to really attempt
13 this exploratory technique this far east.

14 So it's very, very risky in that, while we have
15 identified the graben system that I'm going to show you in
16 Exhibit Number 8, there are no commercial gas producers
17 located anywhere within the immediate area.

18 Q. Mr. Baker, are you familiar with the Division
19 definition of a wildcat well in Rule 104.A?

20 A. Yes, sir, I am.

21 Q. And does this well qualify, in your opinion, as a
22 wildcat well under that rule?

23 A. Yes, sir, it definitely does.

24 Q. Okay. Why don't you turn to Arrington Exhibit
25 Number 8 and identify that for the Examiner?

1 A. Mr. Examiner, Exhibit Number 8 is kind of a two-
2 exhibit montage here, showing the top of the Austin lime
3 structure, and this is a 3-D picture here. As I mentioned
4 earlier, there's very little well control in this immediate
5 -- as a matter of fact, there's no wells in this immediate
6 area that went to this depth in which I could compile a
7 subsurface structure map or a subsurface isopach map. So
8 everything that we have has been generated based on 3-D
9 seismic data.

10 The exhibit on the left, right here, as I
11 mentioned, is a time-structure map on the top of the Austin
12 lime. If you will notice that area kind of in blue, and
13 you'll see kind of some white hachmarks in there, that is
14 our defined graben system, basically a low.

15 Our theory is that sediment was eroded off nearby
16 highs -- nearby being three to five miles -- and deposited
17 out into these lows at the Atoka-Morrow time of deposition.

18 If you'll see on there that there is a line, A-A'
19 on there, that is a seismic arbitrary line. It's located
20 on the right side of that plat right there. On that --
21 This is basically the vertical time section, is what it is,
22 and I have marked different horizon markers on there.

23 EXAMINER BROOKS: Are you talking about the graph
24 over on the right there?

25 THE WITNESS: Yes, sir, on the right side, yes,

1 sir, this right here.

2 EXAMINER BROOKS: The picture on the right?

3 THE WITNESS: Yes, sir, and this is basically
4 just a vertical time slice, or what it is, through the
5 different prospective horizons.

6 We're going to be looking for sands located -- If
7 you will look down and see where it says Brunson interval
8 on the far right-hand side there, and then you'll see where
9 right under it I said MRRW LM, that's an abbreviation for
10 Morrow limestone -- If you will follow those two horizons
11 right across to where I have depicted a gas symbol, if you
12 will notice, that interval thickens in there. That's part
13 of our strategy and exploration play, is that located
14 within that thick amplitude signature would be Atoka gas
15 reservoirs.

16 If you will do the same right below that, from
17 the Morrow lime down to the Austin lime, follow those two
18 markers right on across, down in the graben system, located
19 in between those two black vertical lines, you'll see how
20 that interval thickens dramatically. We're hoping that
21 those thicks in there have prospective porous and permeable
22 Morrow gas sands in them.

23 And that's our theory for drilling this well, I
24 mean...

25 Q. (By Mr. Feldewert) Mr. Baker, you mentioned your

1 theory. Based on your analysis of this theory, do you
2 believe there's a chance you could drill a well at this
3 proposed location that would not be a commercial success?

4 A. Absolutely.

5 Q. Okay. In your opinion will the granting of this
6 Application be in the best interests of conservation, the
7 prevention of waste and the protection of correlative
8 rights?

9 A. Yes, sir, I believe it will.

10 Q. Were Arrington Exhibits 7 and 8 prepared and
11 compiled under your direction and supervision?

12 A. Yes, sir, they were.

13 MR. FELDEWERT: Mr. Examiner, at this time I
14 would move the admission into evidence of Arrington
15 Exhibits 7 and 8.

16 EXAMINER BROOKS: 7 and 8 are admitted.

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

19 EXAMINATION

20 BY EXAMINER BROOKS:

21 Q. It sounds like it's a fairly prospect to me.

22 A. Yes, sir.

23 Q. How would you rate it on a scale of one to ten?

24 A. Knowing general exploratory risk, ten-percent,
25 standard.

1 EXAMINER BROOKS: Okay. Very good, well, I thank
2 you very much.

3 And if there's nothing further, Case Number
4 12,752 will be taken under advisement.

5 MR. FELDEWERT: Thank you.

6 (Thereupon, these proceedings were concluded at
7 11:58 a.m.)

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David K. Brooks
Oil Conservation District

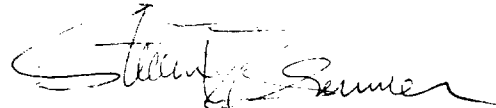
CERTIFICATE OF REPORTER

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 November 5th, 2001.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 14, 2002