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Per instructions from Tom Kellahin, attached to this facsimile is TMBR/Sharp Drilling Co.'s Closing Argument. If you have any questions, comments or need additional information, please feel free to call our office. Thank you. Rick Montgomery

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

APPLICATION OF TMBR/SHARP DRILLING, INC.  
FOR COMPULSORY POOLING  
N/2 (UNIT E) SECTION 25, T16S, R35E  
LEA COUNTY, NEW MEXICO

CASE NO. 12816

APPLICATION OF OCEAN ENERGY, INC.  
FOR COMPULSORY POOLING,  
W/2 (UNIT E) SECTION 25, T16S, R35E  
LEA COUNTY, NEW MEXICO

CASE NO. 12841

APPLICATION OF DAVID H. ARRINGTON  
OIL & GAS INC. FOR COMPULSORY POOLING  
E/2 (UNIT A) SECTION 25, T16S, R35E  
LEA COUNTY, NEW MEXICO

CASE NO. 12859

APPLICATION OF OCEAN ENERGY, INC.  
FOR COMPULSORY POOLING,  
W/2 (UNIT K) SECTION 25, T16S, R35E  
LEA COUNTY, NEW MEXICO

CASE NO. 12860

ORDER R-111700-C

**TMBR/SHARP DRILLING, INC.**  
**CLOSING ARGUMENT**

This written Closing Argument is being submitted by TMBR/Sharp Drilling, Inc., in lieu of oral arguments before the Commission at the hearing held in Santa Fe on March 20, 2003.

**CLOSING ARGUMENT OF TMBR/SHARP DRILLING, INC.:**

These consolidated proceedings are the culmination of a complicated, multi-jurisdictional dispute concerning ownership of, and entitlement to the oil and gas reserves underlying the NW/4 of Section 25. The final issue that the Commission must now resolve is the orientation of the spacing unit for the Blue Fin 25 #1 Well, drilled by TMBR/Sharp on a permit obtained from the Commission after a lengthy dispute over an invalid permit acquired by Arrington Oil and

Gas, Inc. at a location in the NW/4 (on lands not owned by Arrington) for a W/2 drilling unit. TMBR/Sharp's competing permit application dedicated the N/2 of Section 25 for the drilling of the well. After Arrington abandoned the dispute over ownership in the N/2, Ocean continued the battle to re-orient the spacing unit for this well, asking the Commission to reallocate ownership of fifty percent (50%) of the production from this well from the NE/4 owners to the SW/4 owners where Ocean claims its interest.

The theory proffered by Ocean to justify reallocation of the oil and gas produced from this well is that the reservoir from which the well is producing is a continuous channel extending from the W/2 of Section 24, through the NW/4 of Section 25, and well into the SW/4 of Section 25. Ocean claims that its reserves in the SW/4 of Section 25 are being drained by this well. Not only does the evidence presented to the Commission at this hearing contradict this theory, it overwhelmingly establishes a completely different reservoir structure that exists for these two wells. Two premises are clear from the evidence:

1.    **The Blue Fin 24 #1 and Blue Fin 25 #1 wells are producing from separate, isolated, non-communicating reservoirs; and**
2.    **The reservoir for the Blue Fin 25 #1 well is limited in lateral extent, and confined to the NW/4 of Section 25.**

These two premises are clearly established by the geological, geophysical and actual production and pressure data from the two producing wells. The geological and geophysical data presented to the Commission indicate two separate and distinct reservoirs, one each in Section 24 and the NW/4 of Section 25. Subsurface mapping indicates two reservoirs with the lateral extent of the Section 25 reservoir limited to the NW/4. The geophysical data does not support the

theory of a continuous reservoir, and also does not support the presence of this reservoir in the SW/4 of Section 25. The evidence offered by Ocean that the reservoir extends to the SW/4 is not supported by either the geophysical data, or the production and pressure data. The interpretation of Louis Mazzullo concerning the "best case" for mapping the reservoir in the NW/4 of Section 25 (See TMBR Exhibit 15C) as being a small, modular reservoir of limited lateral extent is strongly supported by the production and pressure data from the 24-1 and 25-1 wells. The approximate 1,200 pound pressure differential, which has remained constant while these two wells are producing, and the different characteristics of the oil and gas produced from these wells, establish conclusively the separate, distinct nature of these reservoirs as mapped by Mazzullo. The only discrepancy between the subsurface mapping by Mazzullo and the production and pressure data is the suggestion that Mr. Mazzullo was overly optimistic in mapping the extent of the productive reservoir. With the actual data from the 25 #1 well, it is apparent that the reservoir in the NW/4 is more limited than originally mapped by Mr. Mazzullo, which strengthens the case presented by TMBR that no part of the productive reservoir extends to the SW/4 of Section 25. The only evidence presented by Ocean to contradict Mr. Mazzullo's testimony is the interpretive subsurface isopach map (See Ocean Exhibit 9), which does not incorporate the actual seismic data.

The basis for the Commission to decide the competing pooling orders is founded upon the conservation of oil and gas, and the protection of correlative rights. The seismic data demonstrates the existence of a third potentially productive reservoir situated centrally in the S/2 of Section 25. Because this reservoir is clearly not connected to the reservoir for the Blue Fin 25 #1 well, and whether or not it is currently economically viable or desirable for Ocean to drill in this reservoir, does not raise a conservation issue. No evidence was presented to the

Commission that reserves recoverable through the Blue Fin 25 #1 well will be lost, wasted, or otherwise not produced and saved to the owners. Compelling in this case, however, are the correlative rights issues. In order to grant the relief requested by Ocean, the Commission will be required to allocate to the owner of acreage in the SW/4, that did not participate in the drilling of the well, or assume any risk associated with this venture, fifty percent (50%) of reserves wholly confined to the N/2 of the Section. The TMBR working interest group, which assumed all costs and risks for the drilling of this well, (and its NE/4 lessors) will be deprived of fifty percent (50%) of the production obtained from a reservoir situated entirely within the lands owned and controlled by the TMBR group, notwithstanding that the TMBR group owns and controls sufficient acreage to drill and produce the well. Ocean has not presented to this Commission credible evidence to establish that any of the productive reservoir associated with this well is situated on the SW/4 of Section 25, the only lands in which Ocean owns an interest. Accordingly, Ocean is seeking to obtain fifty percent (50%) of the production associated with the reservoir situated in the NW/4, by contributing non-productive acreage to the spacing unit for the well.

Ocean has argued to the Commission that the inclusion of non-productive NE/4 acreage amounts to a windfall to the owners in the NE/4. The same may be said as to the inclusion of the SW/4 in the producing unit for this well, however, one interesting distinction is worthy of note. The owners of the operating rights in NE/4 of Section 25 are the same owners who invested risk capital, and developed the productive reservoir in the NW/4. Because 320 acres are required to drill and produce a well at this location, from this depth, the working interest owners, and risk takers, should not be penalized for selecting a N/2 spacing unit as opposed to any other orientation for the unit for this well. The non-existent correlative rights of Ocean, which owns

no productive acreage, and has not invested in the drilling of this well, in the absence of compelling evidence to the contrary cannot be paramount to the correlative rights of the working interest owners that made the investment, and took the risk. This is especially compelling in the case, where the undisputed evidence presented to the Commission shows that Ocean was offered an opportunity to participate in the drilling of this well by purchasing an acreage position from TMBR, and declined that opportunity.

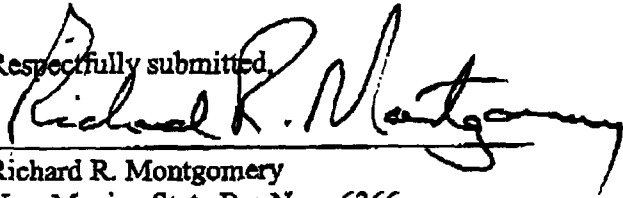
Much to do was made to the Commission regarding the timing of the proposal and request for N/2 pooling by TMBR and the timing of the Ocean proposal and request for W/2 pooling. Ocean asserts it was first with its proposal. The evidence in this case, and the related proceedings, clearly shows that the initial attempt by TMBR to obtain a drilling permit was made immediately after the 24 #1 well was established as commercial producer. Continuous development obligations in the leases common to Sections 24 and 25 required that a development well be drilled within 180 days of the completion of the prior well, or the acreage lost. The permit application of TMBR, which would have permitted TMBR to drill the 25 #1 well without a pooling order several months prior to the proposal made by Ocean, was delayed by the granting of an invalid permit to Arrington. Arrington and Ocean soon thereafter entered into a contractual agreement to drill the well on a W/2 unit. Thus Ocean, while claiming the benefits of the invalid permit, which delayed TMBR's ability to obtain a permit and drill the well, now seeks to use the delay tactic of Arrington to its benefit, in order to represent to the Commission that it was first in time with a proposal. The evidence clearly establishes that the TMBR interest in its prospect, which included a portion of Section 23, Section 24 and the N/2 of Section 25, was in place well before Ocean developed an interest in NW/4 of Section 25. The success achieved by the TMBR group with the drilling of the 24 #1 well is Ocean's only motive

for trying to dedicate the SW/4 of Section 25 as part of the spacing unit for TMBR's Blue Fin 25 #1 well. Ocean was given an opportunity to purchase an interest in the prospect, but instead chose to maneuver through the courts and Commission to obtain that interest without compensating the TMBR group.

TMBR asserts that the findings and order of Division Examiner Stogner after the initial hearing on this matter are sound, and achieve the proper result in this case. Ocean is asking the Commission to grant it an interest in a producing well drilled with the TMBR group's money. Top leases, district court judicial proceedings, competing permits, competing pooling requests and the Oil Conservation Division and Oil Conservation Commission administrative process are being embraced by Ocean as exploration tools. Ocean has now testified that it will not drill a well on its permit and request for pooling on the SW/4 of Section 25. This is the third permit obtained by Ocean and Arrington collectively that did not result in a well being drilled. Ocean has offered no compelling geological, geophysical or engineering data to entitle it to a share of reserves it does not own. Ocean has engaged in "administrative drilling" and if successful, will encourage operators in southeastern New Mexico to shift resources from the legitimate development of geological and geophysical prospects, and drilling efforts, and focus instead on opportunities for participation through this administrative drilling process.

For the reasons set forth herein, and on the basis of all of the evidence before the Commission in this proceeding, TMBR requests that the Commission grant its requested relief, and establish a force pool unit for the N/2 of Section 25, designate TMBR as the permanent operator and grant all other relief requested in the application of TMBR pending before this commission.

Respectfully submitted,



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**CERTIFICATE OF SERVICE**

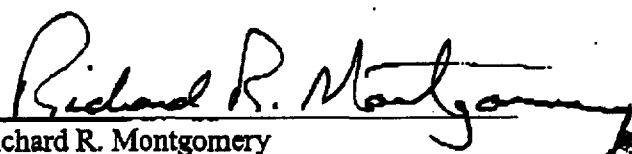
I hereby certify that a copy of the foregoing Closing Argument was served upon the following counsel of record via facsimile transmission and U.S. Mail this 4<sup>th</sup> day of April, 2003.

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

**RECEIVED**

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

APR 4 2003

Oil Conservation Division

APPLICATION OF TMBR/SHARP  
DRILLING, INC. FOR COMPULSORY  
POOLING, LEA COUNTY, NEW MEXICO.

Case No. 12816 (*de novo*)

APPLICATION OF OCEAN ENERGY,  
INC. FOR COMPULSORY POOLING,  
LEA COUNTY, NEW MEXICO.

Case No. 12841 (*de novo*)

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

Case No. 12859 (*de novo*)

APPLICATION OF OCEAN ENERGY,  
INC. FOR COMPULSORY POOLING,  
LEA COUNTY, NEW MEXICO.

Case No. 12860 (*de novo*)

CLOSING STATEMENT

(Submitted by Ocean Energy, Inc.)

1. EFFECT OF DECISION - PARTIES TO DISPUTE.

These cases will determine whether a W½ standup unit or a N½ laydown unit will be dedicated to the existing Blue Fin 25 Well No. 1 (the "25-1 well"), located in the SW¼NW¼ of Section 25, Township 16 South, Range 35 East, N.M.P.M. The 25-1 well is completed in and is producing from the Chester (Mississippian) formation.

For ease of reference, in this closing statement Ocean Energy, Inc. is referred to as "Ocean," TMBR/Sharp Drilling, Inc. is referred to as "TMBR/Sharp," and David H. Arrington Oil & Gas, Inc. is referred to as "Arrington."

## 2. LEASEHOLD OWNERSHIP.

The leasehold working interest in the area of interest (as to the Chester formation) is owned as follows:

|     |                |                   |
|-----|----------------|-------------------|
| (a) | <u>SW¼ §25</u> |                   |
|     | Ocean          | 70%               |
|     | Arrington      | 30%               |
| (b) | <u>NW¼ §25</u> |                   |
|     | TMBR/Sharp     | 100%              |
| (c) | <u>NE¼ §25</u> |                   |
|     | TMBR/Sharp     | 100% <sup>1</sup> |
| (d) | <u>W½ §24</u>  |                   |
|     | TMBR/Sharp     | 100%              |

These interests are important in the discussion below.

TMBR/Sharp, in Case No. 12816, requests a N½ unit for the 25-1 well. Ocean, in Case No. 12841, requests a W½ unit for the 25-1 well.<sup>2</sup>

## 3. FACTUAL SUMMARY.

The geological and engineering testimony show that: (1) the Chester reservoir in this area runs north-south; (2) there is virtually no Chester reservoir in the E½ §25; (3) another Chester well is not needed in §25 to produce the reserves; (4) another Chester well in §25 is not economically justified; and (5) the Chester reservoir in the W½ §25 is being drained by a well in the

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<sup>1</sup>Including unlocatable owners who TMBR/Sharp is seeking to pool.

<sup>2</sup>Arrington has withdrawn its application in Case No. 12859. In addition, Ocean has withdrawn its application in Case No. 12860. Case No. 12860 was filed only because TMBR/Sharp asserted that Ocean could not force pool a well unit unless the well was located on Ocean's lease. As noted in Part 6 below, that assertion is without legal basis. In addition, because only one well is needed in §25, Case No. 12860 is unnecessary. As a result, only Case Nos. 12816 and 12841 are at issue before the Commission.

SW¼SW¼ §24 (TMBR/Sharp's Blue Fin 24 Well No. 1 (the "24-1 well"))).

4. PREVENTION OF WASTE AND PROTECTION OF CORRELATIVE RIGHTS.

The Commission is charged with preventing waste and protecting correlative rights. NMSA 1978 §70-2-11. These issues are squarely presented by the testimony in this case, for the following reasons:

(a) Denying Ocean's application will require Ocean to drill a well in the SW¼ §25 to protect its correlative rights. Even TMBR/Sharp admits that a third well in the reservoir is unnecessary. See Testimony of Mr. Phillips (attached as Exhibit A). Thus, denying Ocean's application will cause waste by requiring the drilling of an unnecessary well.

(b) Correlative rights is defined as:

... [T]he opportunity afforded ... the owner of each property in a pool to produce without waste his just and equitable share of the [hydrocarbons] in the pool, being an amount, so far as can be practicably determined ... substantially in the proportion that the quantity of recoverable [hydrocarbons] under the property bears to the total recoverable [hydrocarbons] in the pool ...

NMSA 1979 §70-2-33.H. Again, the testimony (not disputed by TMBR/Sharp) is that there is virtually no Chester reservoir in the E¼ §25, but there is substantial Chester reservoir in the SW¼ §25. Because another Chester well is not justified in §25, the only way to protect Ocean's right to produce that portion of the reserves under its tract is to form a W¼ unit.

Based on the foregoing, the Commission must approve Ocean's application for a W¼ unit, in Case No. 12841, to prevent the drilling of unnecessary wells and to allow Ocean and other interest owners in the SW¼ §25 to recover their share of Chester reserves.

5. TECHNICAL EVIDENCE.

Usually, in contested pooling proceedings such as this one, the adverse parties present substantially different geological interpretations. Not in this case. While there is a dispute as to the area being drained by the 24-1 and 25-1 wells, the geology is remarkably consistent. It shows:

(a) The Atoka, Morrow, and Chester reservoirs in this township trend north-south or northwest-southeast.

(b) All well units for Pennsylvanian wells in the township, including for the 24-1 well, are standup units except for the 25-1 well. **Ocean Exhibit No. 7.**

(c) There are no Atoka or Morrow reservoirs in §25. Therefore, the only reserves in §25 are in the Chester formation.

(d) The Chester reservoir in §25 is located in the W½ §25. **See Exhibit A attached hereto, and Ocean Exhibit No. 6** (96% of the Chester reservoir in the §25 is in the W½ §25).

(e) The Chester reservoir is limited in extent.

**See, generally, the testimony of TMBR/Sharp geologist Louis Mazzullo, and Ocean geologist Frank Messa.**

Moreover, Ocean's comprehensive engineering evidence shows the following:

A. Cross-flow seen on two separate pressure build-up tests in the 25-1 well, and a composite P/Z plot (**Ocean Exhibit No. 18**), show the 25-1 and 24-1 wells to be in pressure communication. This data provides additional support for a

north-south trending reservoir.

B. Based upon pressure data, the 24-1 well is draining substantially more acreage than the 35 acres suggested by TMBR/Sharp. The 24-1 well is draining the W½ §25.

C. Only two wells are needed in the Chester reservoir to produce the available reserves. Mr. Phillips, TMBR/Sharp's vice-president, agreed. See Exhibit A attached hereto.

D. A third Chester well in the reservoir will be uneconomic. See the testimony of Ocean witness Ray Payne.

At the hearing, TMBR/Sharp was unwilling or unable to provide the Commission with basic data to support its case.<sup>3</sup> The Commission was told by TMBR/Sharp that net pay maps, volumetric data, and decline curve analyses were not available, even though the 24-1 well is TMBR/Sharp's best well in New Mexico. TMBR/Sharp's only evidence on drainage was geological evidence. Drainage is the province of engineers, not geologists. Moreover, TMBR/Sharp's theory is novel: The Chester "bowls" are like enlarged stock tanks, containing 35-55 acres with uniform thickness and with no contribution to reserves from acreage outside of the stock tank. That theory is baseless, and TMBR/Sharp can point to no other pool which would confirm its theory.

In fact, seismic data, not disputed by TMBR/Sharp, shows that the "bowls" were not formed until after the Chester carbonate sand

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<sup>3</sup>TMBR/Sharp had Roy Williamson, a well-known engineering consultant in Midland, Texas, prepare a reservoir study in connection with its litigation with Arrington. See Exhibit A attached hereto, and Ocean Exhibit No. 15. For unknown reasons, TMBR/Sharp chose not to use that study at the hearing.

was deposited (the seismic bedding planes above and below the reservoir are parallel). As confirmed by the reserve and volumetric estimates, the reservoir is not confined to the "bowls."

The only realistic depiction of the Chester reservoir is shown on Ocean's net pay map. See Exhibit B attached hereto (Ocean Exhibit No. 9 at hearing). Taking Mr. Mazzullo's "bowl" exhibit, and highlighting its contour lines, virtually duplicates Ocean's net pay map. See Exhibit C attached hereto (TMBR/Sharp Exhibit No. 15C at hearing). That is the reservoir's true shape.

Ocean presented a consistent and thorough technical evaluation, including detailed structure and net pay maps, decline curve reserve estimates, volumetric reserve estimates, and P/Z estimates. Based on the evidence, it is impossible to protect Ocean's correlative rights by approving TMBR/Sharp's laydown NW $\frac{1}{4}$  unit. Approving TMBR/Sharp's application will give 50% of production to the NE $\frac{1}{4}$  §25, even though TMBR/Sharp admits there is no Chester reservoir in the NE $\frac{1}{4}$  §25. The only reason for TMBR/Sharp's proposal is simply that it owns 100% of a laydown unit, but only 50% of a standup unit. See ownership data in Part 2 above. Lease ownership is irrelevant to the issues before the Commission.

**6. TMBR/SHARP'S MOTION TO DISMISS.**

Before the hearing, TMBR/Sharp filed a motion to dismiss Ocean's application. The motion asserts that (1) since Ocean owns no interest in the NW $\frac{1}{4}$  §25, it cannot force pool that tract, and (2) TMBR/Sharp has already drilled the 25-1 well, so Ocean's case

is now moot. These assertions are utterly without basis.

First, the pooling statute is designed to allow the pooling of separate tracts, and a well may be located on any tract within a force pooled unit. The statute provides:

When two or more **separately owned tracts of land** are embraced within a spacing or proration unit ... the owners thereof may validly pool their interests and develop their lands as a unit .... Where, however, such owner or owners have not agreed to pool their interests, ... the division, to avoid the drilling of unnecessary wells and to protect correlative rights ... **shall pool** all or any part of such lands ...

All operations for the pooled oil or gas, or both, **which are conducted on any portion of the unit shall be deemed for all purposes to have been conducted upon each tract** within the unit by the owners or owners of such tract ...

NMSA 1978 §70-2-17.C (emphasis added). The case law holds that the Commission is authorized to establish a well at any location on a spacing unit, regardless of whether the owner of the land on which the well is located has consented thereto. Texas Oil & Gas Corporation v. Rein, 534 P.2d 1277 (Okla. 1974). TMBR/Sharp's "interpretation" would gut the purpose of the statute.

Second, the fact that the well is already drilled is irrelevant to the Commission's decision. The statute expressly allows pooling after drilling. NMSA 1978 §70-2-17.C; Commission Order No. R-11700-B. Moreover, TMBR/Sharp manipulated the system to permit it to drill the well before the cases were decided. A review of the Division's file will show that: (a) Ocean's pooling application was set for hearing on March 21, 2002; and (b) over Ocean's objection, TMBR/Sharp requested, and was granted, a continuance of the hearing to April 4, 2002, then to May 2, 2002, and then to May 16, 2002. TMBR/Sharp commenced the 25-1 well prior



to May 16th. Based upon the allegations in its motion to dismiss, TMBR/Sharp apparently planned to present its preferred well unit to the Commission as a *fait accompli*. As Ocean stated at hearing, this may be a sharp business practice, but it is contrary to statute, and should not be condoned by the Commission. Drilling a well before a pooling order issues is completely irrelevant to the issues of prevention of waste and protection of correlative rights.

7. OCEAN'S ACQUISITION OF THE SW¼ §25.

TMBR/Sharp has essentially accused Ocean of improperly learning of this prospect at the NAPE Convention in Houston in January 2001, and then buying offset acreage. There are two problems with this assertion: First, TMBR/Sharp wasn't interested in the acreage, and Mr. Phillips, TMBR/Sharp's vice-president, stated that "no harm" was caused by Ocean acquiring the SW¼ §25. See Exhibit A; and second, the geologic model used by TMBR/Sharp was originally developed by Ocean. Louis Mazzullo, TMBR/Sharp's geologist, admitted at hearing that his model was based upon consultation with geophysicist David Scolman, who is an ex-Ocean employee. Ocean already knew the model, and has used this model to drill 35 wells in this area.

Moreover, Ocean had previously purchased two prospects from Mr. Mazzullo's partners in this township, spending \$1.2 million. Ocean acquired the SW¼ §25 with no money up front, whereas TMBR/Sharp's price was \$750/acre. Ocean simply made a good business deal.

8. OCEAN MUST OPERATE THE 25-1 WELL.

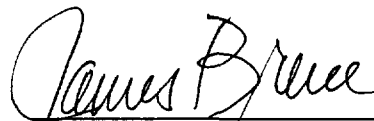
Production data shows that TMBR/Sharp is producing the 25-1 well below its maximum deliverability, while reserves in the W¼ §25 are being drained by the 24-1 well. Ocean must be named operator of the well to insure that all interest owners in the W¼ §25 have an opportunity to recover their fair share of reserves.

9. CONCLUSION.

Both TMBR/Sharp and Ocean agree that (1) there is no Chester reservoir in the NE¼ §25, and (2) a third well is not needed in this reservoir. The only justification for a N¼ unit is to increase TMBR/Sharp's interest in the well. However, geology and engineering dictate that a W¼ unit must be formed to allow the interest owners in the SW¼ §25 to recover their proportionate share of reserves, and protect correlative rights.

The Commission must deny TMBR/Sharp's application, and approve Ocean's application in Case No. 12841.

Respectfully submitted,



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Attorney for Ocean Energy, Inc.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing pleading was served upon the following counsel of record via this 4<sup>th</sup> day of April, 2003:

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

|   |   |                  |
|---|---|------------------|
| IN THE MATTER OF THE HEARING CALLED BY  | ) |                  |
| THE OIL CONSERVATION COMMISSION FOR THE | ) |                  |
| PURPOSE OF CONSIDERING:                 | ) |                  |
|   | ) |                  |
| APPLICATION OF TMBR/SHARP DRILLING,     | ) | CASE NOS. 12,816 |
| INC., FOR COMPULSORY POOLING,           | ) |                  |
| LEA COUNTY, NEW MEXICO                  | ) |                  |
|   | ) |                  |
| APPLICATION OF OCEAN ENERGY, INC., FOR  | ) | 12,841           |
| COMPULSORY POOLING, LEA COUNTY,         | ) |                  |
| NEW MEXICO                              | ) |                  |
|   | ) |                  |
| APPLICATION OF DAVID H. ARRINGTON OIL   | ) | 12,859           |
| AND GAS, INC., FOR COMPULSORY POOLING,  | ) |                  |
| LEA COUNTY, NEW MEXICO                  | ) |                  |
|   | ) |                  |
| APPLICATION OF OCEAN ENERGY, INC., FOR  | ) | and 12,860       |
| COMPULSORY POOLING, LEA COUNTY,         | ) |                  |
| NEW MEXICO                              | ) |                  |
|   | ) | (Consolidated)   |

EXCERPT OF PROCEEDINGS  
TESTIMONY OF JEFFREY D. PHILLIPS  
COMMISSION HEARING

BEFORE: LORI WROTENBERY, CHAIRMAN  
JAMI BAILEY, COMMISSIONER  
ROBERT LEE, COMMISSIONER

March 20th, 2003  
Santa Fe, New Mexico

These matters came on for hearing before the Oil Conservation Commission, LORI WROTENBERY, Chairman, on Thursday, March 20th, 2003, 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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STEVEN T. BRENNER, CCR  
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1 Number 1, and you gave me -- You were looking at your P/Z  
2 plot --

3 A. Okay.

4 Q. -- and you gave me a figure of 1.759 BCF.

5 A. Yes.

6 Q. And then I asked you what your decline curve  
7 analysis was on the Blue Fin 24 Number 1, and I believe you  
8 said that you have approximately, based on decline curve --  
9 and I'm just looking at Exhibit 39 because that's the  
10 decline curve -- you said you have 2.4 BCF remaining, for  
11 an estimated ultimate recovery of 3.2 BCF; is that correct?

12 A. That's to the best of my recollection.

13 Q. Okay, and now I'm looking at the decline curve,  
14 which is Exhibit 38, for the Blue Fin 25 Number 1.

15 A. Okay.

16 Q. What reserves -- What are the decline curve  
17 reserves that TMBR/Sharp has for the 25 Number 1 well?

18 A. The last reserves I saw were no economic  
19 reserves.

20 Q. What number?

21 A. Zero. That's the last number I saw. I'm not  
22 going to say that's what I think it is.

23 Q. Well, how much has it produced to date?

24 A. About 106 million.

25 Q. What is your best guess, your best estimate, your

1 professional estimate on reserves in the 25 Number 1 well?

2 A. I don't have one right now.

3 Q. What is the current production from the 25 Number  
4 1?

5 A. It produces about 550 MCF a day.

6 Q. Then how can you say it has no remaining  
7 reserves?

8 A. I didn't say it had no remaining reserves, I said  
9 that was the last reserve estimate I saw from an SEC third-  
10 party reservoir engineer.

11 Q. Okay. Do you, not your SEC reserve engineer, do  
12 you have an estimate of remaining reserves in the 25 Number  
13 1?

14 A. No.

15 Q. You've never looked at it?

16 A. I've looked at it. I don't currently wish to  
17 speculate on what the remaining reserves in it are. They  
18 are not what our initial volumetric estimates are. We need  
19 another pressure point. The pressure points that we have  
20 indicated are too low and pessimistic, I believe.

21 Q. And Exhibit 36 is your volumetric estimate for  
22 the --

23 A. Yes.

24 Q. -- 25 Number 1?

25 A. That's correct.

1 A. No, sir.

2 Q. Mr. Phillips, I've handed you what's been marked  
3 Ocean Exhibit 15, and this shows volumetric calculation on  
4 the 25-1 well. Was this prepared by Roy Williamson?

5 A. Yes, sir, it was.

6 Q. And he was your consultant, was he not?

7 A. That's correct.

8 Q. Okay. And this is where you get the 5.82 BCF  
9 that is on one of your exhibits?

10 A. Yes, sir.

11 Q. Where did he get the net pay, the acres, the  
12 water saturation, the porosity, et cetera? I mean, excuse  
13 me, the water saturation and the porosity?

14 A. Mr. Williamson determined these values from his  
15 own inspection of the logs and maps.

16 Q. And he calculated a drainage area for this well  
17 of approximately 100 acres, did he not?

18 A. Initially, yes.

19 Q. Now, if the porosity is decreased, how does that  
20 affect the drainage area?

21 A. I'm sorry, if the porosity is decreased?

22 Q. If the porosity is reduced, say, to 10 or 12  
23 percent, how would that affect the calculation of the  
24 drainage area? How would it affect the final number?

25 A. I assume you're asking if you had -- if you used

1 Phillips. I hand you what's been marked -- That was Mr.  
2 Mazzullo's Exhibit 15?

3 A. Yes, sir.

4 Q. You can have it for now.

5 When you were acquiring interest out in this  
6 area, were you aware of that map? In other words, were you  
7 aware of the reservoirs in Sections 24 and 25 when  
8 TMBR/Sharp was acquiring leasehold interest in this area?

9 A. Were we aware of the reservoirs in Sections 24  
10 and 25? These particular reservoirs, no.

11 Q. Okay. What about in the year 2000? You said you  
12 started planning -- drilling this in 2000-2001?

13 A. Yes.

14 Q. Were you aware of Mr. Mazzullo's interpretation  
15 at that time?

16 A. Yes.

17 Q. Now, there's been some questions raised about  
18 Ocean buying acreage in this area. How come TMBR/Sharp  
19 didn't go buy acreage in the south half of Section 25, if  
20 it was aware of the reservoir?

21 A. We didn't think that in the south half of 25 that  
22 the reservoir was big enough to warrant a well in it.

23 Q. Okay, so there was no harm done by Ocean buying  
24 that acreage?

25 A. No. We can still drill a well in the south half.



1 Q. Two final matters. You said that when you were  
2 doing your correlative rights analysis, et cetera, you said  
3 there would be less waste with a laydown unit. How?

4 A. As I see it, and by Lou's map, there are two pods  
5 of reservoir in the Section 25, in the Chester: the one we  
6 have developed, which is fully enclosed in the northwest  
7 quarter, and the one that is smaller and in the south half  
8 of the section. It is split by the north-south centerline  
9 of the section, of which Ocean doesn't own the entire south  
10 half. Yates owns the east half, Ocean owns the -- the  
11 southeast quarter, Ocean owns the southwest quarter.

12 So in a north-half/south-half orientation you  
13 would drill our well, which is already drilled in the north  
14 half, and one well in the south half, which would be  
15 drilled in the center, on the southern structure.

16 Q. How does -- I still don't see the point. How is  
17 waste prevented?

18 A. You drill two wells instead of three wells.

19 Q. Well, didn't you just say you didn't think the  
20 south half was prospective?

21 A. I don't, but you guys permitted a well down there  
22 I wouldn't have drilled either.

23 Q. Okay. Well, how can there be waste if there's  
24 not going to be a second well drilled?

25 A. How can there be waste if there's not going to be

1 a second well drilled? There would be waste if there were  
2 going to be three wells drilled.

3 Q. Okay, one final matter. What is the definition  
4 of correlative rights?

5 A. The definition of correlative rights. That would  
6 be, in my mind, the rights of the mineral owners underneath  
7 -- or above -- the mineral owners in a given reservoir,  
8 that they have to extract value from their portion of those  
9 minerals.

10 Q. Okay.

11 A. How's that?

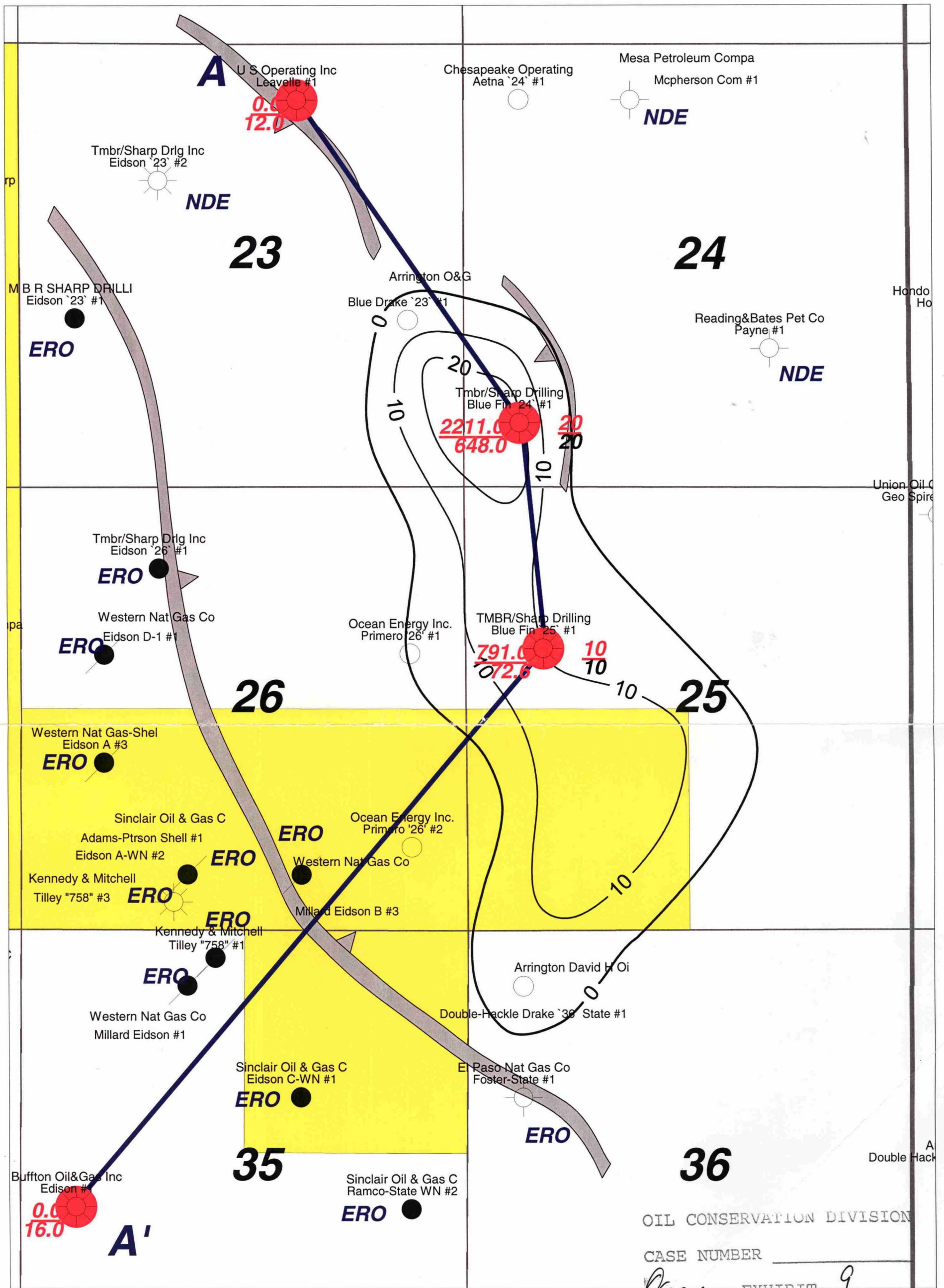
12 Q. That sounds pretty good to me.

13 You guys do not attribute -- TMBR/Sharp does not  
14 attribute any Mississippian reservoir in the northeast  
15 quarter of Section 25, does it?

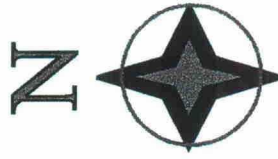
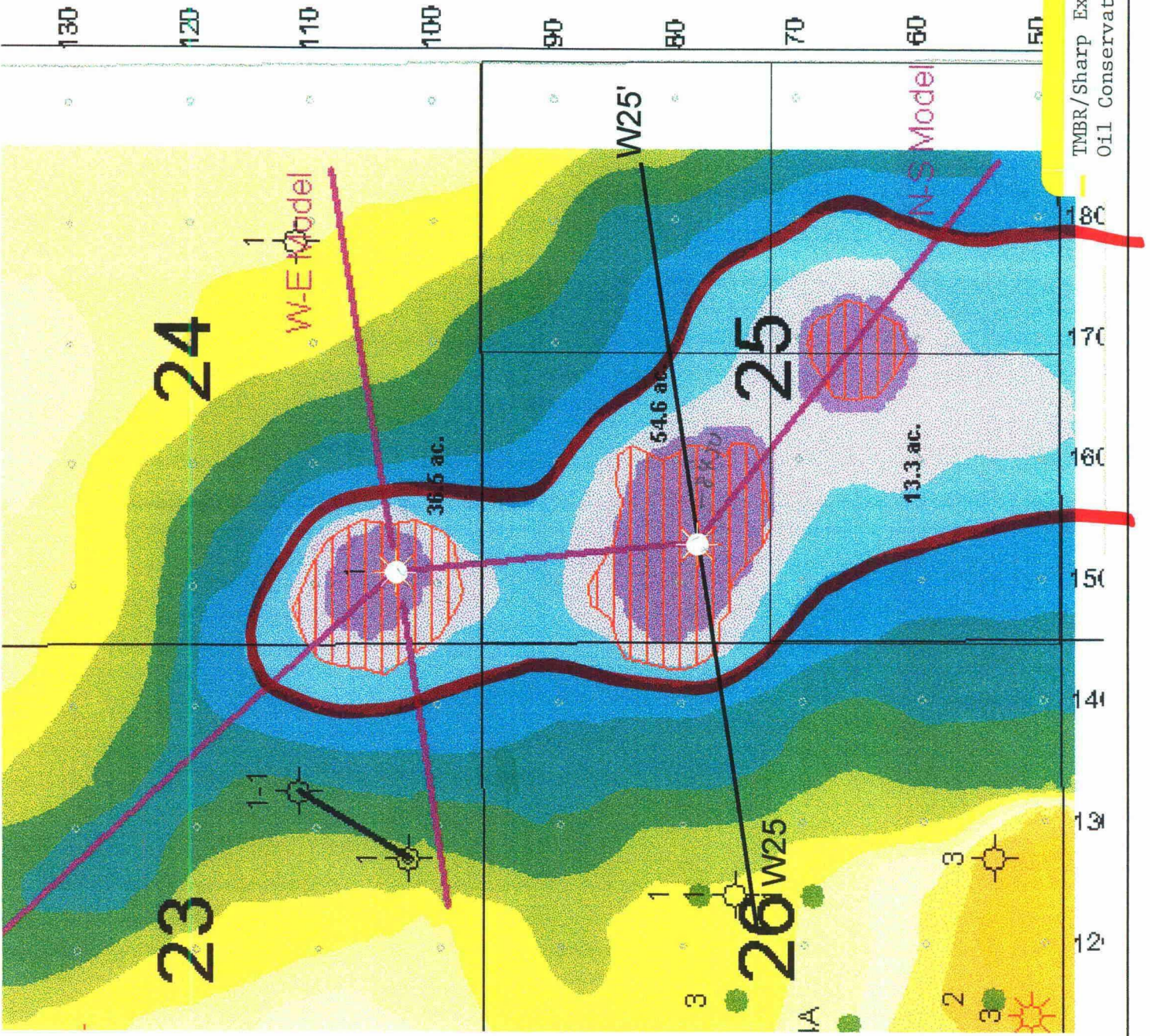
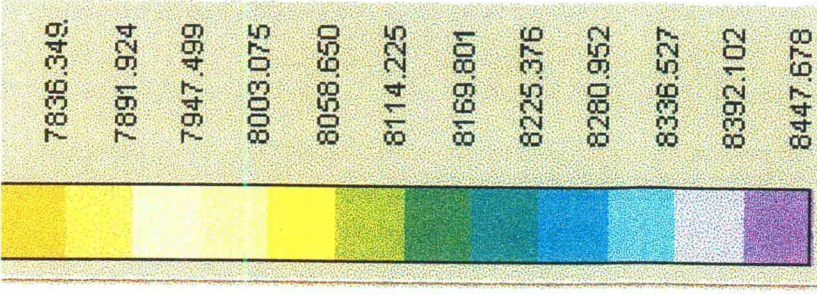
16 A. No.

17 Q. Then how are you protecting correlative rights if  
18 you're giving half of the production to the interest owners  
19 in the northeast quarter of Section 25?

20 A. These reservoirs are spaced on 320-acre units.  
21 So it either had to be a north-half or a west-half unit.  
22 The reservoir is entirely contained in the northwest  
23 quarter. We permitted the well, we owned the leasehold in  
24 the north half, it was logical that we would drill the well  
25 in the north half.







TMBR/Sharp Exhibit No. 15C  
Oil Conservation Commission