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To

Name: Dr. Robert Lee
Company: PRRC Director
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From

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☐ Urgent
☐ For Review
☐ Please Comment
☐ Please Reply

Date sent: March 14, 2003
Time sent: 13:40 pm
Number of pages including cover page:

10 pages

Dear Dr. Lee:

Attached is a copy of TMBR/Sharp's pre-Hearing statement for the Commission's hearing on Thursday. The exhibit book was sent directly to you by Federal Express for delivered today.

Best Regards,

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

APPLICATION OF TMBR/SHARP DRILLING, INC. **CASE NO. 12816**
FOR COMPULSORY POOLING
N/2 (UNIT E) SECTION 25, T16S, R35E
LEA COUNTY, NEW MEXICO

APPLICATION OF OCEAN ENERGY, INC. **CASE NO. 12841**
FOR COMPULSORY POOLING,
W/2 (UNIT E) SECTION 25, T16S, R35E
LEA COUNTY, NEW MEXICO

APPLICATION OF DAVID H. ARRINGTON **CASE NO. 12859**
OIL & GAS INC. FOR COMPULSORY POOLING
E/2 (UNIT A) SECTION 25, T16S, R35E
LEA COUNTY, NEW MEXICO

APPLICATION OF OCEAN ENERGY, INC. **CASE NO. 12860**
FOR COMPULSORY POOLING,
W/2 (UNIT K) SECTION 25, T16S, R35E
LEA COUNTY, NEW MEXICO

ORDER R-111700-C

TMBR/SHARP DRILLING, INC.
PRE-HEARING STATEMENT

This pre-hearing statement is being submitted by TMBR/Sharp Drilling, Inc. as required by the Oil Conservation Commission.

APPEARANCE OF PARTIES

APPLICANT

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ATTORNEY

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OPPOSITION OR OTHER PARTY	ATTORNEY
Ocean Energy, Inc.	James Bruce, Esq.

SUMMARY OF PROCEEDINGS

(1) The following four (4) compulsory pooling applications, which involved Section 25, T16S, R35E, were set for an Examiner Hearing on May 2, 2002 but were continued until May 16, 2002 to be heard after the Commission entered its Order R-11700-B on April 26, 2002:

(a) Case 12816, filed January 25, 2002: TMBR/Sharp's application for compulsory pooling of the N/2 of Section 25 for its Blue Fin 25 Well No. 1 in Unit E of that section.

(b) Case 12841, filed February 2, 2002: Ocean Energy, Inc.'s ("Ocean") application for compulsory pooling of the W/2 of Section 25 for its Triple Hackle Dragon 25 Well No. 1 in Unit E of that section.

(c) Case 12860, filed April 9, 2002: Ocean's application for compulsory pooling of the W/2 of Section 25 for its Triple Hackle Dragon 25 Well No. 2 in Unit K of that section.

(d) Case 12859, filed April 9, 2002:Arrington's application for compulsory pooling of the E/2 of Section 25 for its Glass-Eye Midge 25 Well No. 1 in Unit A of that section.

THE COMMISSION'S PERMIT ORDER R-11700-B

(2) On December 27, 2001, the Lea County District Court, exercised its jurisdiction, and ruled that TMBR/Sharp's Hamilton/Stokes leases are still valid and in effect and Arrington's Hamilton/Stokes top lease are not in effect.

(3) On March 26, 2002, the Commission held a De Novo hearing concerning the Division's Order R-11700-A that decided the permit dispute.

(4) On April 26, 2002, the Commission entered Order R-11700-B, which rescinded the Division's approval of Arrington's APDs and ordered that the Division's District Supervisor approve TMBR/Sharp's two APDs filed on August 6, 2002 (Section 25) and August 7, 2001 (Section 23).

(5) On May 1, 2002, Chris Williams, Supervisor of the Hobbs Division of the OCD, voided the W/2 of Section 25 and E/2 of Section 23 APD of Arrington and granted the two APD's requested by TMBR/Sharp in August of 2001.

(6) On May 7, 2002, TMBR/Sharp commenced drilling its Blue Fin "25" Well No. 1

THE DIVISION'S COMPULSORY POOLING ORDER R-11700-C

(7) On May 16, 2002, the Division held a consolidated hearing for the four compulsory pooling cases.

(8) On November 27, 2002, the Division entered Order R-11700-C granting TMBR/Sharp's compulsory pooling application and denying the Arrington and Ocean applications based upon the following:

(a) TMBR/Sharp's geological and geophysical evidence demonstrates that the appropriate development of Section 25 is best accomplished by orientating the spacing units N/2 and S/2;

(b) that each of these three Chester Bowls is a separate and distinct reservoir and they are separated by fault blocks;

(c) at least two wells will be needed in Section 25 to adequately drain the potential reserves from the two Chester Bowls; one well in the NW/4 of Section 25 and another for the bowl that more or less straddles the quarter section line between the SW/4 and SE/4 of Section 25;

(d) If these Chester Bowls were developed with two wells in the W/2 of Section 25, that portion of the Southern Bowl that extends into the SE/4 could be drained, and those mineral interests within the SE/4 of Section 25 would not share in production. It is doubtful whether a sufficiently large part of the Southern Bowl is located under the SE/4 of Section 25 to justify an infill well in SE/4 of a S/2 spacing unit. These aspects of the development of the Mississippian formation in Section 25 favor lay-down spacing units.

(e) Considering that TMBR/Sharp was the first to propose development within Section 25 with Mr. Mazzullo's "Big Tuna Prospect" and that the Blue Fin "25" Well No. 1 has been drilled, the deep gas bearing intervals in Section 25 should be developed with lay-down (N/2 and S/2) spacing units.

ACREAGE CONFIGURATION

(9) Section 25 is subdivided as follows:

(a) The NW/4 is fee acreage referred to as the Stokes/Hamilton leases controlled by TMBR/Sharp, which was the subject of litigation with Arrington and Ocean. The Court held that TMBR/Sharp's Stokes/Hamilton leases were valid and that Arrington's top leases were subservient. Arrington has relinquished all interests in the Stokes/Hamilton Lease in the NW/4 of Section 25.

(b) The SW/4 is fee acreage referred to as the Ocean farm-in acreage obtained beginning on and after July 23, 2001; Ocean assigned a partial interest in such acreage to Arrington on November 11, 2001.

(c) The SE/4 is a State of New Mexico lease held by Yates.

(d) The NE/4 is divided between the E/2 and W/2, and TMBR/Sharp now controls under lease 99.7656%, with .07813% participating and .1563% unleased and unable to be located.

TMBR/SHARP'S COMPULSORY POOLING CASE BEFORE THE COMMISSION

TMBR/Sharp's efforts to obtain voluntary agreement:
(Jeffrey D. Phillips)

(10) On January 25, 2002, TMBR/Sharp filed an application for compulsory pooling for the remaining working interest owners in the N/2 of Section 25.

(11) In accordance with NMSA (1978) Section 70-2-17, and Order R-11700-B, on May 7, 2002, TMBR/Sharp spudded the Blue Fin 25 Well No. 1 after filing an application to compulsory pool the remaining working interest owners in the N/2 of Section 25.

(12) TMBR/Sharp originally developed the concept for the exploration of Sections 23, 24, 25 and 26 (Big Tuna Prospect). The project started in 1991 and over time, over $7 million was spent on land, geological, geophysical analysis and drilling.

(13) Prior to commencing the Blue Fin 24 Well No. 1 in the SW/4 of Section 24, TMBR/Sharp offered to Ocean a share of the Big Tuna Prospect on three different occasions, including a January 31, 2001 meeting in Ocean's office in Houston, Texas.

(14) After being afforded an opportunity for a detailed review of TMBR/Sharp's geology including its 3-D seismic data, Ocean declined to participate based on its belief that the Chester formation would be structurally too low and, therefore, too wet (water saturation too high to allow for commercial production of hydrocarbons).

(15) On March 27, 2001, Arrington top leased TMBR/Sharp's Hamilton/Stroke leases, which cover lands in Sections 23, 24 and 25, among others. Arrington was aware that TMBR/Sharp had obtained a drilling permit for the Blue Fin 24 Well No. 1 in November of 2000.

(16) On March 29, 2001, TMBR/Sharp spudded its Blue Fin 24 Well No. 1 in the SW/4 of Section 24.

(17) On June 29, 2001, TMBR/Sharp completed the Blue Fin 24 Well No. 1 for production from the Chester formation at an initial rate of 7 MMCF/day.

(18) On July 24, 2001, David H. Arrington personally told Jeff Phillips, President of TMBR/Sharp, that TMBR/Sharp would not be able to timely drill wells in Section 23 or 25. (TMBR/Sharp's Hamilton/Stokes leases have a 180-day continuous drilling clause between wells.)

(19) On July 19, 2001, Arrington obtained an approved APD from the Division for its well to be drilled in Unit E and dedicated to the W/2 of Section 25. Arrington had no intention of drilling a well but obtained its permit because it wanted to block TMBR/Sharp from obtaining a competing permit, which was denied on August 8, 2001.

(20) TMBR/Sharp was the first working interest owner to propose a well in Section 25.

(21) At the time of filing of its compulsory pooling application, neither Ocean nor Arrington had an interest of record in the N/2 of Section 25. Arrington had no interest in the W/2 of Section 25.

(22) Ocean's farm-ins are confined to the SW/4 of Section 25 and Arrington did not receive an interest in Ocean's various farm-ins in the SW/4 of Section 25 until November 14, 2001.

(23) TMBR/Sharp now controls 99.7656% of the N/2 of Section 25 with 0.1563% unleased and 0.078125% participating by other parties. Ocean owns no interest in the N/2 of this section.

(24) Ocean should not be allowed to take advantage of the fact that TMBR/Sharp had already developed the Big Tuna Prospect and offered Ocean an opportunity to participate.

TMBR/Sharp's Geologic evidence:
(Louis Mazzullo)

(25) TMBR/Sharp's geological and geophysical evidence demonstrates that the appropriate development of Section 25 is best accomplished by orientating the spacing units N/2 and S/2.

(26) Commencing in 1995, Louis Mazzullo, began developing a geological model of a multi-section area known as the "Big Tuna" Prospect which included Sections 23, 24, 25 and 26 of T16S, R35E. This study included the Wolfcamp, Atoka and portions of the upper Mississippi ("Chester") formations.

(27) By 1997, Mr. Mazzullo had included 2-D and 3-D seismic data along with conventional geological (log) data, and concluded that the best opportunity for deep gas production from the "Chester formation" was to locate and drill wells in bowl shaped structure features which could be identified and located using 3-D Seismic data. As a result, Mr. Mazzullo identified "Chester bowls" in the SW/4 of Section 24, the NW/4 of Section 25, and the NE/4 of Section 23.

(28) Mr. Mazzullo shared his geological conclusions with a group of investors (collectively "TMBR/Sharp") who signed a Joint Operating Agreement in 1998.

(29) On January 31, 2001, after being afforded a private, detailed review of TMBR/Sharp's geology including its 3-D seismic data, Ocean declined to participate based on its belief (Mr. John Silver) that the Chester formation would be structurally too low and therefore too wet (water saturation too high to allow for commercial production of hydrocarbons)

(30) On May 29, 2001, TMBR/Sharp, using Mr. Mazzullo's geological interpretation, then successfully drilled and completed the Blue Fin 24 Well No. 1 in the SW/4 of Section 24 for production from one of the low Chester bowls with first production on June 29, 2001.

(31) The success of the Blue Fin 24 Well No. 1, confirmed the accuracy of Mr. Mazzullo's geological model.

(32) From further evaluation, Mr. Mazzullo predicted that a second Chester bowl is located in the NW/4 of Section 25 and that a third bowl is located between the north/south dividing line between the SW/4 and the SE/4 of Section 25.

(33) Mr. Mazzullo further concluded:

(a) that each of these three Chester Bowls is a separate and distinct reservoir and they are separated by fault blocks; and

(b) that it would be necessary to drill a well in each bowl.

(34) The Blue Fin 25 Well No. 1 has been drilled and completed on the N/2 of Section 25. It is a producing well. The data obtained after completing the well show that there is no "link" between the "bowl" located in the NW/4 and any formation in the S/2.

TMBR/Sharp's Petroleum Engineering Evidence
(Jeffrey D. Phillips)

(35) Volumetric calculation of estimated original gas in place based upon Mr. Mazzullo geologic maps have been made and then verified by material balance calculations (P/Z) demonstrating that the gas reservoir being produced from TMBR/Sharp's Blue Fin "25" Well No. 1 is from a reservoir confined to the NW/4 of Section 25. Ocean's acreage in the SW/4 of this section does not contribute gas production to this well.

(36) Recent pressure data from the TMBR/Sharp Blue Fin 24 Well No. 1 and the Blue Fin 25 Well No. 1 demonstrate that the Chester Bowls are not connected as assumed by Ocean and that at least two wells will be needed in Section 25.

(37) The chemical composition of the oil and gas produced from the Blue Fin 24 Well No. 1 is different than that of the Blue Fin 25 Well No. 1, further evidencing these two features are not connected.

CONCLUSIONS

(38) If the Commission does not dismiss the Ocean compulsory pooling cases because TMBR/Sharp's has consolidated of the N/2 of this section thus eliminating the need for the Commission to decide the Ocean and Arrington compulsory pooling cases, which attempt to pool spacing units in conflict with TMBR/Sharp's spacing unit, **then the Commission should find**:

(a) TMBR/Sharp's geological and geophysical evidence demonstrates that the appropriate development of Section 25 is best accomplished by orientating the spacing units N/2 and S/2.

(b) Recent pressure data from the TMBR/Sharp Blue Find 24 Well No. 1 demonstrates that the Chester Bowls are not connected as assumed by Ocean and that at least two wells will be needed in Section 25.

(c) Spacing units consisting of the N/2 and the S/2 of Section 25 will afford the opportunity for owners in each of the 4-quarter sections to share equitably in producing their respective shares of production from the reservoirs in question.

(d) Ocean should not be allowed to take advantage of the fact that TMBR/Sharp had already developed the Big Tuna Prospect and offered Ocean an opportunity to participate.

(39) The "New Mexico Oil and Gas Act" allows for the compulsory statutory pooling of interest in a spacing unit after the well has been drilled. TMBR/Sharp obtained the voluntary agreement of 99.7656% of the interest owners; it intended to drill its NW/4 Section 25 well first, and then pool the remaining interest owners in the spacing unit who either have refused to participate on a voluntary basis or who have not yet been contacted because they cannot be located.

(40) But for Arrington's blocking of TMBR/Sharp's permit, TMBR/Sharp would have received its permits to drill and would have already drilled its wells in the N/2 of Section 25 and the E/2 of Section 23.

(41) TMBR/Sharp's application should be approved and TMBR/Sharp be designated the operator of the subject well and the N/2 unit.

WITNESSES

TMBER/SHARP WITNESSES	EST. TIME	EXHIBITS
Jeffrey D. Phillips President TMBR/Sharp	45-60 minutes	All
Louis Mazzullo (geologist)	45-60 minutes	Maps

PROCEDURAL MATTERS

TMBR/Sharp/s Motion to Dismiss Cases 12841 and 12860

Respectfully Submitted,

W. Thomas Kellahin
Kellahin & Kellahin
P. O. Box 2265
Santa Fe, New Mexico

CERTIFICATION OF SERVICE

I, W. Thomas Kellahin, affirm that on this 14th day of March, 2003, I hand delivered a true and correct copy of this pre-hearing statement to James Bruce, Esq. attorney for Ocean Energy, Inc.

W. Thomas Kellahin

KELLAHIN & KELLAHIN
Attorney at Law

W. Thomas Kellahin
New Mexico Board of Legal
Specialization Recognized Specialist
in the area of Natural resources-
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March 13, 2003

Steve Ross, Esq.
Oil Conservation Commission
1220 South Saint Francis Drive
Santa Fe, New Mexico 87505

Re: TMBR/Sharp Motion to Dismiss Cases 12841 and 12860
NMOCD Order R-11700-C
De Novo Hearing

Dear Mr. Ross:

On behalf of TMBR/Sharp Drilling Inc. please find enclosed our motion to dismiss Ocean Energy Inc.'s two referenced compulsory pooling cases now pending a De Novo Hearing before the Commission on March 20, 2003.

Very truly yours,

W. Thomas Kellahin

Cc: Counsel of record

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

WTK-Draft-3/13/03

TMBR/SHARP DRILLING, INC.'S
MOTION TO DISMISS
OCEAN ENERGY, INC.S COMPULSORY POOLING CASES

TMBR/Sharp Drilling, Inc. hereby moves that the New Mexico Oil Conservation Commission ("Commission") to dismiss Ocean Energy, Inc.'s ("Ocean") two compulsory pooling cases, Cases 12841 and 12860, because the Ocean cases have been rendered moot and in supports states:

Division Examiner's Order R-11700-C

(1) The following four (4) compulsory pooling applications which involved Section 25, T16S, R35E, were set for an Examiner Hearing in May 2, 2002 but then continued until May 16, 2002 to be heard after the Commission entered it Order R-11700-B on April 26, 2002:

> (a) TMBR/Sharp's application for compulsory pooling of the N/2 of Section 25 for its Blue Fin 25 Well No. 1 in Unit E of that section. Cases 12816 filed January 25, 2002
>
> (b) Ocean Energy, Inc. ("Ocean") application for compulsory pooling of the W/2 of Section 25 for its Triple Hackle Dragon 25 Well No. 1 in Unit E of that section. Case 12841 filed February 2, 2002
>
> (c) Ocean Energy, Inc. ("Ocean") application for compulsory pooling of the W/2 of Section 25 for its Triple Hackle Dragon 25 Well No. 2 in Unit K of that section. Case 12860 filed April 9, 2002
>
> (d) Arrington's application for compulsory pooling of the E/2 of Section 25 for its Glass-Eyed Midge 25 Well No 1 in Unit A of that section. Cases 12859 filed April 9, 2002

(2) Division Cases No. 12816, 12841, 12859 and 12860 were consolidated at the time of the hearing for the purpose of testimony, and, in order to provide a comprehensive decision in these cases, one order should be entered for all four cases.

(3) On November 27, 2002, the Division entered Order R-11700-C, granting TMBR/Sharp's application for compulsory pooling and denying the Arrington and Ocean application.

ACREAGE CONFIGURATION

(4) Section 25 is subdivided as follows:

(a) The NW/4 is fee acreage referred to as the Stokes/Hamilton leases controlled by TMBR/Sharp which were the subject of litigation with Arrington over his top leases. The Court declared that TMBR/Sharp's Stokes/Hamilton leases were valid and that Arrington's top leases have not vested.

(b) the SW/4 is fee acreage referred to as the Ocean farmout acreage obtained on June 30, 2001, in which Ocean assigned a partial interest of Arrington on November 11, 2001

(c) the SW/4 is a State of New Mexico lease held by Yates

(d) TMBR/Sharp controls 99.7656% of the N/2 of Section 25 with 0.1563% unleased and 0.078125% participating by other parties. Ocean owns no interest in the N/2 of this section.

EVENTS AFTER THE ISSUANCE OF ORDER R-11700-C

(5) TMBR/Sharp's pooling order pooling the interest of two minor working interest owners who could not be located.

(6) Subsequent to the entry of the Division order approving TMBR/Sharp's compulsory pooling application, TMBR/Sharp and Arrington reached a settlement and Arrington dismissed its compulsory pooling case and thereby TMBR/Sharp consolidated the N/2 of Section 25 as a 320-acre spacing unit.

(7) Because Ocean has no interest in the N/2 of this section, TMBR/Sharp's compulsory pooling order does not affect Ocean.

OCEAN'S CASES ARE MOOT

(8) The Commission granted TMBR/Sharp a permit to drill this Blue Fin "25" Well No.located in the NW/4 and dedicated to the N/2 of this section. The well has been drilled,completed and is producing in reliance on that permit.

(9) Because of Arrington settlement with TMBR/Sharp, Ocean no longer has any claim of interest in the N/2 of this section, thus TMBR/Sharp's pooling order has no effect on Ocean and does not pool Ocean's interest which is limited the SW/4 of this section.

(10) Ocean seeks a compulsory pooling order in Case 12841, to permit it to drill a well in the NW/4 of this section on acreage Ocean does not have rights to operate.

(11) Ocean's application in Case 12860 seeks an order for an optional infill well located in the SW/4 of this section to be dedicated to a W/2 spacing unit that conflicts with the spacing unit already formed and approved by the Division for TMBR/Sharp's Blue Fin "25" Well No. 1

WHEREFORE, TMBR/Sharp Drilling,Inc. requests that the Commission dismiss Division cases 12841 and 12860.

Respectfully submitted,

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ATTORNEYS FOR TMBR/Sharp Drilling, Inc.

AFFIDAVIT OF SERVICE

I, W. Thomas Kellahin, state that on March 13, 2003, I sent a true and correct copy of the foregoing pleading to James Bruce, Esq by facsimile.

W. Thomas Kellahin