

BEFORE THE
NEW MEXICO OIL CONSERVATION COMMISSION
CONFERENCE ROOM, STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO
September 27, 1972

EXAMINER HEARING

IN THE MATTER OF:

Application of D. L. Hannifin for
compulsory pooling, Eddy County,
New Mexico, Case 4819; and
Application of Michael P. Grace, II,
and Corinne Grace for compulsory
pooling, Eddy County, New Mexico,
Case 4836.

Cases 4819 & 4836
(Consolidated)

BEFORE: Elvis A. Utz
Examiner

TRANSCRIPT OF HEARING

dearnley, meier & mc cormick

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1 MR. UTZ: The Commission will consolidate the last
2 two cases of the hearing today and now hear Cases 4819 and
3 4836. 4819 testimony will be heard first since that was the
4 application that was filed first.

5 MR. HATCH: Cases 4819, Application of D. L.
6 Hannifin for compulsory pooling, Eddy County, New Mexico, and
7 Case 4836, Application of Michael P. Grace, II, and Corinne
8 Grace for compulsory pooling, Eddy County, New Mexico.

9 MR. KELLAHIN: Tom Kellahin, Kellahin and Fox,
10 Santa Fe, New Mexico, appearing for the applicant D. L.
11 Hannifin and I have two witnesses to be sworn.

12 MR. COOLEY: William J. Cooley, Burr & Cooley,
13 Farmington, New Mexico, appearing on behalf of the applicants
14 Michael P. Grace, II, and Corinne Grace.

15 MR. UTZ: Are there any other appearances?

16 Mr. Cooley, do you have some witnesses here to be
17 sworn?

18 MR. COOLEY: We have three witnesses, two of whom
19 are present.

20 (Whereupon, Mr. Bill LeMay was called to the stand
21 and sworn.)

22 * * * * *

23 WILLIAM J. LeMAY,
24 having been first duly sworn according to law, upon his oath,
25 testified as follows:

DIRECT EXAMINATION

BY MR. KELLAHIN

Q Mr. LeMay, will you please state your name and occupation?

A William J. LeMay, consulting geologist, Santa Fe, New Mexico.

Q What is your involvement with Mr. D. L. Hannifin with regard to this application?

A I was asked by Mr. Hannifin to make a geological study of South Carlsbad Pool, especially in the vicinity of Section 24, Township 22 South, Range 26 East, where he owns acreage.

Q Have you made that study?

A Yes, I have.

Q Have you previously testified before this Commission and had your qualifications as a geologist accepted and made a matter of record?

A Yes, sir.

MR. KELLAHIN: Mr. Examiner, are the witness' qualifications acceptable?

MR. UTZ: Yes, sir, they are.

MR. COOLEY: Mr. Examiner, I have a question at this point as to who the real party in interest is in this case, whether it be Mr. Hannifin or whether it be some other group. Could I inquire of counsel?

1 MR. KELLAHIN: Mr. Hannifin desired to be
2 designated the operator of this particular well.

3 MR. UTZ: Does he have controlling interest in the
4 acreage?

5 MR. KELLAHIN: Yes, sir, he does.

6 MR. COOLEY: It was my impression from speaking
7 with Mr. Hannifin this morning that he had in some fashion
8 contractually dealt with this acreage to another company and
9 that he was not the real party at interest.

10 MR. KELLAHIN: Well, his intent is to be the real
11 party in interest. He has obtained expertise from other
12 individuals to assist him in the operation of this well and
13 he intends to rely on those individuals, but he still retains
14 his interest. He still had the right to drill and he retains
15 the right to assign the interest.

16 MR. UTZ: Does he intend to operate the well
17 himself?

18 MR. KELLAHIN: Yes, sir.

19 Q (By Mr. Kellahin) Mr. LeMay, directing your attention
20 to this particular application, I assume you have
21 prepared some exhibits with regard to this application?

22 A Yes, I have.

23 Q Will you please refer to what has been marked as
24 Applicant's Exhibit Number 1 and identify it and
25 describe what information it contains?

1 A Exhibit 1 is a well location map in the South Carlsbad
2 field area. You will notice the circles around the
3 various completed wells. They are color coded according
4 to the formations that are productive and are being
5 produced within that well.

6 The area of interest is in the extreme northwest
7 part of the South Carlsbad Pool, between two wells which
8 Grace is currently drilling and I assume in the process
9 of completing.

10 Basically, what this map shows, is the proration
11 unit which would be assigned to a well in the South
12 Carlsbad Pool, being the south half of Section 24,
13 Township 22 South, Range 26 East. To date, the
14 majority of completions are from the Morrow sand within
15 the Morrow formation.

16 Numerous cases have been brought before the
17 Commission and there is quite a bit of evidence in here
18 in the case files for the type of accumulation in the
19 Morrow sand zones and in the Strawn lime and in the
20 canyon and Atoka also.

21 However, on the basis of the completed wells, this
22 indicates this portion of the field has its main
23 objective for commercial gas production in the Morrow
24 sandstones.

25 Exhibit Number 2 is a structure map drawn on the

1 top of the Chester shale. Now, the Chester is the
2 lowermost shale and some operators pick it as the top
3 of the Missippian. It was chosen as a structure datum
4 because it is the lowest marker that has been penetrated
5 by the wells in the South Carlsbad Pool, as well as
6 being a good structural marker and being the lowest
7 marker that geologists draw, and would reflect the
8 maximum structure that is present in the field area.

9 As shown in the South half of the map, I have drawn
10 a fault between two wells with approximately 150 feet
11 of dip. I have seen maps which contour this anomaly as
12 a very steep dip, but I prefer to show it as a fault.

13 You will note that the general trend of production
14 has been in a north-south direction and is probably,
15 at least in the Morrow formation, controlled somewhat
16 by the structural nose coming down in the vicinities of
17 Section 19, 30 and 31, and of course, leading into the
18 close tie adjacent to the fault in the vicinities of
19 Sections 6, east half of Section 1, east half of Section
20 12.

21 However, the area of interest is to the north in the
22 north end of the field and is between the two wells that
23 Mr. Grace and Mrs. Grace have drilled. The two wells are
24 the Go Po Go Number 1, located 1,980 feet from the north
25 and east lines of Section 25.

1 The Go Po Go Number 1 would be right opposite my
2 numeral A on the cross-section and the Go Po Go Number
3 2 would be located 1,980 feet from the north and east
4 lines of Section 24, Township 22 South, Range 26 East.

5 Mr. Hannifin supplied me logs on these two wells
6 and drill stem test data and I have my Exhibit Number 3
7 which is a cross-section from the Go Po Go Number 1 to
8 the Go Po Go Number 2.

9 Referring now to Exhibit Number 3, the cross-section,
10 this shows, my map datum, the Chester formation colored
11 in blue on the bottom. It shows a predominant shale
12 marker present throughout the field and also a
13 correlation marker colored olive green on Exhibit 3, and
14 it shows the main pay sand in the field as encountered
15 in both the Go Po Go Number 1 and Go Po Go Number 2.

16 On the basis of drill stem tests, this main pay
17 sand was -- had excellent development -- eighteen feet
18 at twenty to twenty-four percent porosity in the Go Po Go
19 Number 2 and drill stem tested 18,250 MCF, GPD. In the
20 Go Po Go Number 1, however, the sand was basically tight
21 and I drill stem tested that interval and recovered
22 eighty feet of drilling mud.

23 This is not only pay sand in the field, but by far
24 this development in the Go Po Go Number 2 is one of the
25 best, if not the best development, from that particular

1 pay sand that I have seen.

2 There are other pay sands indicated that did test
3 quantities of gas in the Go Po Go Number 2. A large
4 drill stem test, -- I say a large one -- covering more
5 than one sand from 11,412 to 11,503 on a flow rate there,
6 they flowed 2,629.2 MCF, GPD and it shows there is
7 some small porosity present in two sands there.

8 Correlating the results of this well with the
9 Number 1 with the drill stem tests that are shown, there
10 is some gas present in the Number 1, and in analyzing
11 the log, I found the scattered sections of two to four
12 feet of sand average porosity.

13 Sometimes you get nineteen percent, but there are
14 real thin sands. There is nothing qualitywise to
15 compare to that beautiful sand development that was
16 present in the Number 2.

17 I might mention this is the Morrow only. The
18 Go Po Go Number 1 did drill stem test the Strawn and
19 tested at 230 MCF, GPD which is some gas, but it is not
20 substantial. I wouldn't be surprised if the Number 1
21 didn't make a well, but I would expect it to be a much
22 poorer well, certainly, than the Number 2.

23 Again referring back to Exhibit 2, my recommended
24 location for a well to be drilled in the proration unit
25 being the south half of Section 4 would be a well

1 located 1,980 from the south and east lines. This would
2 be a standard unit and a standard location according to
3 the South Carlsbad field rules.

4 I do this for the reason that I think just good oil
5 field practice, Number 1 dictates crowding the best
6 production, especially with a stratigraphic type of
7 accumulation somewhat controlled by structure, but still
8 the porosity and permeability developments in these
9 sands come and go, so it is expensive and it is risky.

10 Any of these wells are because they cost over
11 \$200,000 and you want to minimize the risk and this would
12 be the minimal risky location. If you could go over to
13 the southwest quarter, I show a sinclinal dip in there.

14 I might say I can justify that sinclinal area on
15 the basis of a well which doesn't show on this map, but
16 it is located in Section 22 of 22 South, 26 East. That
17 well only went to the canyon, but projecting the section
18 below the canyon, it is about 250 feet high to the
19 Go Po Go Number 2 well and therefore, somewhere in here
20 you have got to get back a regional dip and that would
21 be back on regional dip.

22 I have seen some maps which show nothing but west
23 or northwest dip from this structure and it is fine when
24 you are just dealing with the structure itself, but when
25 you look at the map in a regional sense, you have to get

1 back on the regional dip which is dip to the southeast.

2 Q What is the potential risk of obtaining a noncommercial
3 well at your particular location?

4 A Well, I think any of these wells are risky. I think this
5 is the least risky location and therefore, the risk
6 wouldn't be too great. I have a hard time estimating a
7 noncommercial well.

8 Probably maybe thirty percent risk factor.

9 Q Do you have anything else you would like to add, Mr.
10 LeMay, at the present time?

11 A I might say that in terms of risk, that on a forced
12 pooling, the Commission always requests that you make a
13 recommendation for a penalty factor, and I would say in
14 this particular case that 125 percent probably would be
15 a good bet.

16 It is certainly a field location, but with the
17 expense involved and the chance for a marginal completion,
18 I think 125 percent would be a good average figure.

19 Q Were Exhibits 1 through 3 prepared by you?

20 A Yes, they were.

21 MR. KELLAHIN: I move for the introduction of
22 Exhibits 1 through 3.

23 MR. UTZ: Without objection, Exhibits 1 through 3
24 entered into the record of this case.

25 MR. KELLAHIN: I have no further questions on

1 Direct Examination.

2 CROSS-EXAMINATION

3 BY MR. UTZ

4 Q Mr. LeMay, I want to clarify the location of this well.
5 I think I found it in your Application where it is
6 1,980, 1,980 from the south and east, is that correct?

7 A That is correct.

8 MR. UTZ: Questions of the witness?

9 CROSS-EXAMINATION

10 BY MR. COOLEY

11 Q Mr. LeMay, what geological difference would there be in
12 your opinion if the location were moved from the 1,980,
13 1,980 as proposed to a 1,980 from the east and 660 from
14 the south?

15 In other words, moving the well 1,320 feet south?

16 A You are adding to the risk of holding the porosity on
17 that good sand. You are also encountering this optional
18 location. You suggested at a structurally lower position
19 which, there again, I think would increase the riskiness
20 of that location.

21 Q Do you have any estimate of how much lower it would be?

22 A According to my map, I show it -- this is a fifty foot
23 contour. I show it to be approximately twenty-five feet
24 lower on the top of the Chester which is a good mapable
25 horizon.

1 Q Structurally, how would that compare to the Go Po Go
2 Number 1?

3 A It would be high to the Go Po Go Number 1.

4 Q Approximately how much?

5 A Here again, it would be thirty-five feet high.

6 Q So that location would be high to the Go Po Go 1, and
7 low to the Go Po Go Number 2?

8 A That's correct.

9 Q Is structure the only controlling factor that dictates
10 the location that you have chosen?

11 A No. I think there are many factors. I think structure
12 does have an influence on the accumulation, possibly
13 influencing the environment of deposition of these sands.

14 You have thicker sands and more porous sands
15 accumulate on the structural nose than on the highs or
16 on the flanks or on the structural highs. I think the
17 thick development of sandstone in the main pay sand
18 encountered in the Go Po Go Number 2 dictates crowding
19 that well as much as legally possible to try and hold
20 that sand.

21 That is the one best pay sand I have seen in the
22 field.

23 Q So it is a combination of structure and possibly structure
24 might effect even the lithology?

25 A Correct.

- 1 Q As you pointed out, there is a considerable lithological
- 2 difference in the two wells?
- 3 A The sands come and go.
- 4 Q Do you feel that is directly related to structure or
- 5 incidental to structure?
- 6 A I think structure has a part in it. You can't say that
- 7 it is strictly a matter of structure. I think it is a
- 8 matter of also the sorting of the sands due to wave
- 9 action which is a highly unpredictable matter.
- 10 Q If the well that is to be drilled on this south half of
- 11 24 were to be located 660 feet from the south line,
- 12 instead of 1,980 feet from the south line, it would be
- 13 exactly equidistant between the Go Po Go 1 and 2, would
- 14 it not?
- 15 A It looks like that is correct, Mr. Cooley.
- 16 Q The location that you propose is within 1,320 feet of
- 17 the Go Po Go Number 2?
- 18 A Again, I would have to scale it off, but I will scale it
- 19 off if you wish.
- 20 Q The Oil Conservation Commission requires that it be not
- 21 closer than 1,320, that is why I am inquiring of you.
- 22 A It is 1,320. Both those wells, Go Po Go Number 2 and
- 23 my proposed location are 660 from the east-west division
- 24 line.
- 25 Q Do you feel qualified to testify with respect to

1 drainage efficiencies and with respect to the various
2 locations that are available there, or is this an
3 engineering problem rather than a geological one?

4 A We tend to do a little bit of both. Perhaps if you ask
5 me a specific question I could say if I was qualified to
6 answer or not. That generality leaves me kind of
7 hanging.

8 Q Do you feel that from a standpoint of efficiency of
9 drainage that the location in the southwest of the
10 southeast or 660 feet from the south, and 1,980 from the
11 east would be a more efficient location from the
12 standpoint of over-all drainage of the pool than the
13 location which you propose?

14 A If you are talking about a uniform reservoir, I think
15 that we could go after it in that respect, but we are not
16 talking about a uniform reservoir. These sands are not
17 continuous as shown.

18 The development in the Number 2 was not present in
19 the Number 1, so as far as field drainage, I don't think
20 you have that kind of concept going for you in the
21 Morrow field, wide drainage from a single reservoir.
22 That is not the distribution of the pay sands within the
23 South Carlsbad Morrow field.

24 Q Isn't it true that numerous stringers or sands
25 development have occurred in the various Morrow wells

1 that have been drilled in the South Carlsbad area?

2 A That's true.

3 Q On a more uniform spacing pattern, aren't you more
4 likely to encounter all those stringers that are present
5 and more efficiently drain them than you would be on a
6 pattern that was not uniform?

7 A If they extended over the entire area, I think you are
8 dealing with two hypothetical a question to really get
9 into it. These stringers are not uniform throughout the
10 field. The chances of encountering a lot of stringers,
11 we will say, in my proposed location as compared to a
12 lot of stringers in a location 660 from the south, I
13 think is a guessing game and that we can't say by
14 splitting the difference between those two wells that
15 we are going to encounter more stringers and therefore
16 have better field drainage because you just don't know
17 how many stringers you are going to encounter.

18 We do have a tie on that main sand which is a good
19 pay zone. Now, we could, at my proposed location
20 encounter other sands that are not developed in the
21 Go Po Go Number 2 and therefore have better drainage
22 because we encountered these numerous sands.

23 I think it is a toss-up whether we would get better
24 sand development, we will say more stringers, in my
25 proposed location or the one you suggested, 660 feet from

1 the south line.

2 Q Have you been retained by Mr. Hannifin and/or his
3 associates to personally supervise the drilling of the
4 proposed well?

5 A He hasn't contacted me in that regard. We haven't even
6 discussed it, sir.

7 Q Do you have any personal interest in the well?

8 A I have none.

9 Q Do you contemplate acquiring any?

10 A No.

11 Q Do you make it a general practice to do field work such
12 as would be required to supervise the drilling of this
13 well on wells that you do not own an interest in?

14 A Normally, I don't do field work on wells I do not have
15 an interest in, no.

16 Q Then the matter not having been discussed, do you have
17 any assumption as to whether you would or would not be
18 supervising this well?

19 A I am assuming I would not be, mainly because I haven't
20 been contacted and my schedule is full.

21 Q Do you have any idea who would be the geologist in
22 charge?

23 A No, I don't.

24 Q Mr. LeMay, you say you were furnished logs on the
25 Go Po Go Number 1 and Number 2 wells by Mr. Hannifin?

1 A That's correct.

2 Q Do you know the source of those?

3 A No, sir, I don't. I had to have those logs to do the
4 evaluation I told you about.

5 MR. COOLEY: No further questions of this witness.

6 MR. KELLAHIN: No Redirect.

7 MR. UTZ: Further questions?

8 CROSS-EXAMINATION

9 BY MR. UTZ

10 Q Mr. LeMay, in accordance with the Carlsbad South Morrow
11 or South Carlsbad Morrow Pool rules, is the Go Po Go
12 Number 2 a standard location?

13 A I have to say I think it is, sir, because the Number 1
14 appears to be standard.

15 Q Is your proposed location a standard location then?

16 A Yes, sir.

17 MR. UTZ: Other questions of the witness?

18 You may be excused.

19 Do you have another witness?

20 MR. KELLAHIN: Yes, Mr. Examiner. Call Mr.

21 Hannifin.

22 (Whereupon Mr. D. L. Hannifin was called to the
23 stand and duly sworn.)

24 * * * * *

25

D. L. HANNIFIN

having been first duly sworn according to law, upon his oath,
testified as follows:

DIRECT EXAMINATION

BY MR. KELLAHIN

Q Mr. Hannifin, will you please state your name and
occupation?

A D. L. Hannifin. I am an independent oil operator in
Roswell, New Mexico.

Q Have you previously testified before this Commission?

A No, I haven't.

Q Are you the Applicant in this case?

A I am the Applicant.

Q What are you seeking by this Application, Mr. Hannifin?

A I am seeking to be the operator of the proposed well.

Q Anything else?

A To maintain the operation, to drill, test and completion
thereof.

Q To force compulsory pooling of those people that haven't
joined you?

A That's correct.

Q On what acreage do you own the operating rights?

A Southeast quarter of Section 24/22 South, 26 East.

Q Are you familiar with the lease and the mineral
ownership and the operator rights on the south half of

1 Section 24?

2 A Yes, I am.

3 Q Can you describe briefly the ownership that has not

4 joined you with regard to this pooling?

5 A On the operating?

6 Q Yes, sir.

7 A Operating rights are owned under farm-out from Atlantic.

8 I have Atlantic Richfield by Michael P. Grace.

9 Q Have you contacted all interest owners about pooling

10 and designation of an operator for this?

11 A I contacted Mr. Grace. I think you have the letter on

12 the date I sent him the registered letter in your file.

13 My registered letter is dated August 21, 1972, and then

14 additionally on August 30, I phoned Mr. Grace's office

15 in Carlsbad and then Mrs. Grace called me back that

16 time.

17 Q What were the results of your efforts to obtain

18 voluntary pooling of the Grace's interest?

19 A I was unsuccessful.

20 Q What interest does Mr. Grace own in this acreage?

21 A As I stated before, he has a farm-out from Atlantic

22 Richfield, I believe, with an overriding royalty.

23 Q On the southwest quarter?

24 A On the southwest quarter of Section 24, 22/26.

25 Q Have you had any response from others that have

1 ownership with regards to the interest to be pooled
2 here and any indication of what they wish with regard
3 to designation of an operator?

4 A I have from the Merland and Incorporated, or the mineral
5 owners under the southeast Section of Section 24,
6 requesting that I be appointed the operator of the well.
7 I have contacted two of the mineral owners under the
8 southwest quarter of Section 24, Mr. W. E. Walling of
9 Ropesville, Texas, and Mr. Jack Ingram and his mother,
10 Mrs. Audrey Ingram, of Carlsbad, New Mexico.

11 Q What were the results of those conversations?

12 A The Ingrams, both Mr. Jack Ingram and his mother, also
13 requested that I be designated as the operator. Mr.
14 Walling wanted to come down to Carlsbad and consult with
15 Mr. Don McCormick before he made a decision.

16 Q I show you what has been marked Hannifin Exhibit 4 and
17 ask you to identify that.

18 Is this the letter you received from Mr. Merchant
19 of Merland, Incorporated?

20 A It is.

21 Q Mr. Hannifin, you desire to be designated the operator
22 of this unit; is that correct?

23 A That is correct.

24 Q What experience have you had in this particular area?

25 A My experience has been purely limited to the land

1 experience, the purchase and sale of oil and gas leases
2 over the past few years in this area.

3 Q How do you intend to compensate for the fact that you
4 do not have experience in this area?

5 A I made arrangements with Samedan Oil Corporation of
6 Midland, Texas, for the supervision of the drilling
7 completion and operating of the proposed well. I think
8 the Commission is acquainted with Samedan's experience
9 in both New Mexico and Eddy County.

10 Q With regard to completion of a well on this acreage, what
11 if any proposed well costs have you obtained?

12 A I obtained an A.F.E. from Moran Production Company of
13 Hobbs, New Mexico, for both the dry hole and successful
14 completion well costs.

15 Q I show you what has been marked as Exhibit 5 and ask
16 you to identify that.

17 Will you indicate for the Examiner's benefit the
18 total proposed cost at this particular time?

19 A Their proposed cost or estimated dry hole cost was
20 \$209,100. Their total completed well cost is \$290,725.
21 This is for 11,800 foot Morrow test.

22 Q Subsequent to receiving that A.F.E. from Moran, have
23 you received any other revised estimates on the cost?

24 A Yes, I did. I questioned Mr. McPeter with Moran as to
25 his estimated well cementing cost on his pipe.

1 Q I show you what has been marked Hannifin Exhibit 6 and
2 ask you to identify that.

3 A This is the estimated A.F.E. cost with the additional
4 cost of well cementing, showing estimated dry hole cost
5 of \$216,807 and total cost of the completed well
6 \$305,162. This is for the same depth.

7 MR. UTZ: What were the revised figures on Exhibit
8 Number 5?

9 MR. KELLAHIN: I think I might have another set of
10 those, Mr. Utz.

11 MR. UTZ: You may proceed.

12 Q (By Mr. Kellahin) Have you had an opportunity to
13 obtain any other well costs in this area, Mr. Hannifin?

14 A Yes, I have. I requested from Cities Service Oil
15 Company, Mr. Tex Hartman, of Midland, Texas, their
16 estimated well costs and they had prepared an estimated
17 A.F.E. on this location, dated 3-12-71.

18 Q You have then obtained from Cities Services their
19 estimated A.F.E.?

20 A This was their estimated A.F.E. of 3-12-1971 on this
21 location and they furnished me a copy of it. Their
22 estimate for completed well was \$287,184 and for an
23 estimated dry hole of \$205,692.

24 This you realize was over a year ago. At that time
25 they did, in fact, own the lease on the southeast

1 quarter of Section 24.

2 MR. KELLAHIN: Cities Service A.F.E. has been marked
3 as Hannifin Exhibit Number 7.

4 Q (By Mr. Kellahin) Now, in attempting to obtain a
5 voluntary pooling agreement with the Graces, did you
6 receive a counter-proposal from them?

7 A No, I did not.

8 Q What I am trying to say, Mr. Hannifin, is did they
9 forward to you an estimate of their proposed cost for
10 completion of a well on this acreage?

11 A Yes. I did receive an estimated A.F.E. from them.

12 Q I show you what has been marked Hannifin Exhibit 8 and
13 ask you to identify it.

14 A This is identified as an A.F.E. which was prepared
15 evidently for the Grandonoco well. I see a date up at
16 the top, date of work to begin, but I don't see when it
17 was dated. It says date of work to begin 6-24-1971.

18 This is one they sent to me. It shows an estimated
19 well cost, completed well cost, of \$404,702.85. I don't
20 find a dry hole cost on here.

21 Q If the Commission designates you as the operator, Mr.
22 Hannifin, would you prefer that the Graces join you in
23 the cost of drilling if they desire?

24 A Certainly. They have every right to do that. I am not
25 too familiar with the Commission's hearings, but I

1 understand that they have a period of time after the
2 hearing to join.

3 Q Should they refuse to join in and contribute to the cost
4 of the well, do you propose then that their share of the
5 cost be made out of production plus a risk factor and
6 supervision cost?

7 A Yes, sir.

8 Q Do you have any understanding at this point as to what
9 can be contemplated as a supervision cost for a well in
10 this area?

11 A What seems to be reasonable in the area is in the range
12 of \$135 a month. That is for your foreman cost and your
13 operating cost.

14 Q In your opinion, will approval of your Application
15 prevent waste and protect correlative rights of others?

16 A Yes, sir.

17 Q Do you have anything else you would like to add at this
18 time, Mr. Hannifin?

19 A I can't think of anything further at the moment.

20 MR. KELLAHIN: I move the introduction of Exhibits
21 4 through 8, Mr. Examiner. That is all the questions I have
22 on Direct Examination.

23 MR. UTZ: Without objection, Exhibits 4 through 8
24 will be entered into the record of this case.

25 Any questions of the witness?

CROSS-EXAMINATIONBY MR. UTZ

Q You mentioned during your testimony that you had received a request or approval or either or both for you as an operator of the well in this unit. Merland, Incorporated, was one. What interest do they have?

A They own all the minerals under the southeast quarter of Section 24, 22/26.

Q All the southwest?

A Southeast.

Q Now, by total mineral owner, you mean twelve and a half percent?

A Well, they own all the minerals. My lease is from them.

Q Who else did you mention?

A I mentioned Mr. Jack Ingram and his mother, Mrs. Audrey Ingram.

Q What interest do they have?

A Mrs. Ingram owns a 16.6 acre interest and Mr. Ingram, I believe, owns a 1 acre interest under the southwest quarter of Section 24, 22/26.

Q Mrs. Ingram owns a one acre interest?

A No. Mrs. Ingram owns a 16.6 acre interest and Mr. Ingram owns a one acre interest, I believe. I talked to Mr. Walling, but he was unable to make a decision either way at this time. He owns 118 acres under the southwest

1 quarter.

2 Q He owns how much again?

3 A He owns a 118 acre mineral interest.

4 Q Under the southwest?

5 A Yes, sir.

6 Q And the 16.6 of Ingram's is under the southwest?

7 A Yes, sir.

8 Q And one acre is under the southwest?

9 A Yes, sir.

10 Q You have a letter here from Merland in regard to their
11 request. Do you have anything from the other people?

12 A No. I have just talked to them by telephone. That just
13 has to be under direct testimony.

14 Q Verbal, then?

15 A Yes, sir.

16 MR. UTZ: You may proceed, Mr. Cooley.

17 CROSS-EXAMINATION

18 BY MR. COOLEY

19 Q Mr. Hannifin, I believe in answer to your counsel's
20 question, you freely admit that you have no personal
21 expertise in drilling and completion of wells in the
22 nature that you propose to drill?

23 A That's correct.

24 Q You intend to rely entirely upon Samedan. Is that an
25 oil corporation or what is it?

- 1 A Samedan Oil Corporation.
- 2 Q They will provide this expertise?
- 3 A That's correct.
- 4 Q Are you familiar with their experience, if any, in the
- 5 South Carlsbad Morrow area?
- 6 A No, I am not, except for their dry hole that they had
- 7 drilled on the edge of the field.
- 8 Q Samedan did drill a dry hole in the Carlsbad area?
- 9 A Right, south of the field, I understand.
- 10 Q That would the Union State Number 1 well, would it not,
- 11 in Section 19/23 South, 26 East?
- 12 A I have no idea. I don't have my land map with me.
- 13 Q Do you have any idea of what Samedan's actual cost was
- 14 in the drilling of that well?
- 15 A None at all.
- 16 Q Are you aware, for instance, that their mud bill was
- 17 \$21,700 alone?
- 18 A No, I am not.
- 19 Q Would you be able to obtain actual cost of that well in
- 20 order that the Commission might have some idea of
- 21 Samedan's efficiency?
- 22 A That would really have to be a matter of Samedan's, Mr.
- 23 Cooley.
- 24 Q I am asking if you can obtain that from Samedan?
- 25 A I have no idea. I haven't asked them.

- 1 Q Would you attempt to?
- 2 A Certainly. I will be glad to ask them.
- 3 Q You would furnish that to the Commission if Samedan will
- 4 furnish it to you?
- 5 A Yes.
- 6 Q Isn't it true that that is the only experience that
- 7 Samedan has had in the entire South Carlsbad area, is
- 8 the drilling of one dry hole?
- 9 A I don't know the participation in the other wells in
- 10 there, Mr. Cooley.
- 11 Q Well, you are placing your entire trust in Samedan and
- 12 what I am asking you is what basis do you have for doing
- 13 so as far as attaining any particular expertise that
- 14 they may have in this area?
- 15 A Their general experience in the oil industry for a great
- 16 many years.
- 17 Q You are aware, are you not, that they are a very large
- 18 gas operator?
- 19 A Yes, they are. I understand most of their gas is
- 20 intrastate, rather than interstate, and does not bother
- 21 their qualifications as a small producer. If that was
- 22 your question, sir.
- 23 Q You are aware that there are multiple, peculiar problems
- 24 about drilling and completing wells in the South Carlsbad
- 25 Morrow Gas Pools, are you not?

- 1 A Yes, sir. I have a royalty interest under Mr. Grace's.
- 2 Q That general oil field practices elsewhere have in fact
- 3 proven to be disastrous when applied in certain
- 4 instances in the South Carlsbad Morrow Gas Pools?
- 5 A I am not qualified on that, as far as the certain
- 6 instances. The wells that I am acquainted with as far
- 7 as their production, I am a royalty owner under the
- 8 Cities Service wells and I have not noticed that problem.
- 9 Q They haven't been very good wells, have they, these
- 10 Cities Service?
- 11 A They are quite good wells.
- 12 Q Compared with other wells in the field, they are far
- 13 from the best, are they not?
- 14 A You mean on the section, or what? I am not qualified.
- 15 Q On the basis of productivity?
- 16 A You mean as far as the gas production?
- 17 Q Yes.
- 18 A By your production figures, you can show other wells that
- 19 are producing more gas, that's true.
- 20 Q Mr. Hannifin, you said that to confirm your thoughts
- 21 about what the proposed well should cost, you consulted
- 22 Cities Service?
- 23 A That's correct.
- 24 Q They in fact dropped the lease in question, did they not,
- 25 the lease that you now hold?

1 A That is correct.

2 Q You acquired it then directly?

3 A From Merland, that's correct.

4 Q So they never had an opportunity to possibly revise that
5 in the light of intention to actually drill?

6 A That is correct. You will note the date stated on
7 there. That was done over a year ago. That is why I
8 did not rely only upon the A.F.E. by Cities Service.

9 Q Are you aware that Cities Service brought a forced
10 pooling action before this Commission for a well in the
11 south half of Section 19, 22 South, 27 East?

12 A No.

13 Q Called the Merland C Number 1?

14 A No, I wasn't.

15 Q In connection with that application, Mr. Hannifin,
16 Cities Service filed an estimate on well costs for that
17 well to test the same zone, and I hand you a copy of
18 that and I ask you to read from that exhibit.

19 A I will try to.

20 Q It is very vague. I apologize for the reproduction.

21 That estimate of well costs, reflects, does it not,
22 that Cities Service in February of 1972 estimated the
23 complete well to the Morrow to be \$338,442, does it not?

24 A That's correct.

25 Q Are you aware that since February of 1972 that there

1 have been substantial increases in the cost of the
2 necessary equipment to drill such a well?

3 A No, I am really not. I have bids from various comapnies.
4 I haven't compared them to your cost sheet. You have
5 just furnished this to me, of course.

6 Q You would not expect that Moran would complete your
7 well. Samedan would do that, would they not?

8 A Samedan will supervise the drilling completion and
9 operation.

10 Q You, in fact, don't anticipate using Moran Drilling
11 Company at all to drill this well?

12 A As I stated, Samedan would be supervising the operation,
13 so they would take all drilling bids.

14 Q They would hire the driller?

15 A They would take the drilling bids, I presume.

16 Q Does Samedan have any connection, direct or indirect,
17 with the drilling company?

18 A I don't know if indirect. I presume you could say that
19 they did. Samedan are the sons of the Noble family and
20 they own the drilling company.

21 Q They own the drilling company and they own Samedan, don't
22 they?

23 A I don't know what their corporate structure is at all,
24 Mr. Cooley.

25 Q Are you aware that Noble Drilling Company has a rig

1 which is presently drilling on a well for Midwest in
2 Section 3 of Township 23 South, Range 26 East?

3 A No. You asked me that this morning and I didn't know
4 then either, sir.

5 Q Do you have any idea how long that particular well has
6 been drilling?

7 A It has been there quite sometime as they are having, I
8 understand, gas kickout of the Atoka and that seems to
9 be bothering their drilling operations. At the time I
10 was out there last week, or a couple of weeks ago, they
11 were having drilling problems.

12 Q Do you have any idea whether this well would be
13 turn-keyed or whether it would be on a straight footage
14 rate?

15 A I presume it would be on a straight footage rate as it
16 is a field well between two wells. I presume a
17 competent operator would be able to ascertain the
18 problems or anticipate the problems they might
19 encounter.

20 I don't know that that also would be under Samedan's
21 supervision.

22 Q That would be under Samedan?

23 A Under their supervision.

24 Q Would you tell the Examiner, please, what your exact
25 contractual arrangement is with Samedan?

1 A If the Examiner would care to have that.

2 MR. UTZ: I think it would be pertinent.

3 THE WITNESS: My contractual agreement with them
4 will be that he will have a seventy percent net revenue
5 interest until payout, at which time I will convert a five
6 percent overriding royalty interest into a fifty percent
7 working interest. We are talking about a lease interest here,
8 not the proration unit, naturally.

9 Q (By Mr. Cooley) Now, has this agreement already been
10 entered into?

11 A It has.

12 Q Signed, sealed and delivered?

13 A Letter of Intent. It is now oral, but we have not signed
14 a Letter of Intent, but we will.

15 Q This is just a proposed contractual arrangement?

16 A No, it isn't proposed. We both agreed orally. I don't
17 consider their word to be bad, nor do they consider mine
18 to be.

19 Q I am not implying that. I am just trying to find out,
20 Mr. Hannifin, whether you do have a firm deal?

21 A We have a firm contractual arrangement.

22 Q That arrangement is that they put up all the money to
23 drill the well?

24 A That's correct.

25 Q You have a backing interest?

1 A That's correct.

2 Q In that contractual arrangement, do you not assign the
3 operating rights in order that they have the right to
4 drill?

5 A No, an operating agreement.

6 Q They put up all the money and they will be the operator
7 as far as the Oil Commission is concerned, and if any
8 Federal leases are involved, the U.S.G.S. and so forth--

9 A There is no Federal. We really didn't get into the
10 details of that that much, so I really don't quite
11 understand what your question is. They will take care
12 of the paper work, if that is what you mean.

13 They will take care of the paper work and the
14 supervision through their office by filing the forms,
15 using their secretarial help, if that is what you are
16 referring to, sir.

17 Q The first thing that they are going to have to do is
18 to file a Notice of Intent to Drill with the Oil
19 Conservation Commission; right?

20 A That wouldn't especially be necessary because I had
21 filed an Intent to Drill with the Conservation
22 Commission and posted bond for this location. They may
23 wish to, at this time, I do not know, but they would not
24 have to.

25 Q Are they going to drill on the Intent that you filed, or

1 are they going to submit a new one?

2 A I don't know.

3 Q They will be the actual operator of the well, will they
4 not?

5 A They will be the supervisor of the well.

6 Q They will carry on all field operations?

7 A They will carry them on.

8 Q They will do all reporting to the State agencies and any
9 other agencies?

10 A They have an office set up for that.

11 Q You don't know whether they are going to drill with their
12 bond or yours?

13 A I don't know.

14 Q Is this a binding agreement between you and Samedan?

15 A Yes, sir.

16 Q Then you haven't, in fact, Mr. Hannifin, already granted
17 and sent over on to Samedan the right to drill and they
18 have assumed the risk of drilling?

19 A No. They have acquired a part interest in it. As you
20 noticed, I still own an interest in it and still have
21 rights under the operator agreement, the same as they
22 do.

23 They have agreed to put up the money and to do the
24 supervision at my request.

25 Q Are you retaining a working interest before payout, or

1 an overriding royalty or how did they get from
2 eighty-seven and a half down to seventy, or do you have
3 an eighty-seven and a half interest?

4 A I have an eighty-two and a quarter percent lease, or
5 81.25.

6 Q You have an eighty-one and a quarter percent lease from
7 the landowners?

8 A That's correct.

9 Q Now, there is this difference --

10 A 11.25.

11 Q 11.25. Is that override?

12 A That would be overriding royalty in this particular
13 arrangement and at payout, five percent of that converts
14 in half the work. I would still retain a 6.25.

15 Q All of the working interest in this well will be owned
16 by Samedan until payout, at which time you have the
17 option to convert five percent override into fifty
18 percent working?

19 A That's correct.

20 Q Well, the primary, if not the sole controversy here
21 today, is whether you should be designated as operator
22 under your application, or whether Mr. Grace should be
23 designated as operator.

24 As it now develops as far as all the practical
25 matters are concerned, Samedan is going to be the real

1 operator. Is there anyone here in Samedan that can
2 testify with respect to their qualifications to act as
3 operator?

4 A Mr. Martin is here with the Samedan. Whether he can
5 testify to their qualifications or wishes to, I have no
6 idea.

7 Q The cost figures that you received from Mr. Grace with
8 respect to the Grandonoco well were the actual costs of
9 drilling that well, were they not, as reflected on the
10 information that was sent you?

11 A I don't know.

12 Q Rather than an A.F.E.?

13 A I don't know. I really can't tell from this sheet. It
14 says date of completion, so I presume maybe they were.

15 Q You did receive a communication from Mr. Grace, did you
16 not, in fact, numerous communications requesting that
17 you join him?

18 A I received two.

19 Q In voluntary pooling with him as the operator?

20 A I received two letters on the same day. One letter was
21 dated August 23, '72, and the other September 8. I
22 received them on the same date, September the 12th.

23 Q Your initial written notice to Mr. Grace was sent after
24 you filed your Application for forced pooling, was it
25 not?

1 A I think that is August the 21st, and the forced pooling
2 date was the 22nd.

3 Q When you say the pooling, the Application was filed with
4 this Commission on the 22nd; is that right?

5 MR. KELLAHIN: I believe that's correct.

6 MR. COOLEY: Mr. Examiner, is there a date of
7 receipt of the Hannifin Application in the file?

8 MR. KELLAHIN: Mr. Cooley, with all due respect,
9 I don't see how this is really relevant. I don't believe the
10 statute requires we attempt voluntary pooling, either before
11 or after an Application is filed.

12 MR. COOLEY: Mr. Kellahin, as well as the
13 Commission, counsel have heard the pros and cons of that
14 argument for about the last fifteen years. I don't know that
15 it has ever been resolved or ever will be. I am just bringing
16 it out for the record.

17 MR. UTZ: The Application doesn't seem to have a
18 date on it, nor is it stamped in in our office. I have a
19 C-11 which I presume came with it that is dated 8-21. That
20 was stamped in the Artesia office 8-21.

21 MR. KELLAHIN: I filed the Application with the
22 Oil Commission on the 22nd of August.

23 MR. COOLEY: I have no further questions at this
24 time, but I would like to reserve the right to recall Mr.
25 Hannifin at a later point in this hearing if I deem it

1 necessary.

2 MR. UTZ: I think you do have the right.

3 Are there other questions of Mr. Hannifin?

4 MR. KELLAHIN: I have just one further question.

5 REDIRECT EXAMINATION

6 BY MR. KELLAHIN

7 Q We had some discussion about Samedan, Mr. Hannifin, and
8 to the best of your knowledge, what is your opinion of
9 Samedan's reputation as a reliable operator?

10 A Well, my personal opinion is that they are very
11 competent operators and any business which I have had
12 with them in the past, which has been considerable, their
13 operations have been very smooth and according to normal
14 oil field practices.

15 Naturally, mine is mainly experience in the land
16 end of it.

17 MR. KELLAHIN: I have no further questions.

18 MR. COOLEY: In light of that question, I would
19 like to ask one more.

20 CROSS-EXAMINATION

21 BY MR. COOLEY

22 Q Conversely, Mr. Hannifin, you are totally aware or
23 unaware of any particular expertise that Samedan might
24 have with respect to the South Carlsbad Morrow Gas Pool,
25 are you not?

1 A Yes, I am.

2 Q As far as you know, they have no particular expertise
3 in that area?

4 A I know nothing about their expertise one way or the
5 other, Mr. Cooley.

6 MR. COOLEY: Thank you.

7 MR. UTZ: Mr. Hannifan, does Samedan operate oil
8 wells in southeast New Mexico?

9 THE WITNESS: Yes, sir.

10 MR. UTZ: Do they operate any gas wells?

11 THE WITNESS: Yes, sir, they do.

12 MR. UTZ: Do you have any idea how many?

13 THE WITNESS: I could ask Mr. Martin. No, I don't.
14 I know they operate some.

15 MR. UTZ: In talking about whether they are
16 competent or not, I think maybe it might be good to know.

17 THE WITNESS: Yes, sir, they do operate gas wells.

18 MR. UTZ: You may be excused.

19 MR. COOLEY: May it please the Examiner, at this
20 time, I would like to introduce my co-counsel, Mr. Michael
21 Watkins of Albuquerque, New Mexico.

22 Would you give your address?

23 MR. WATKINS: It is Oldaker & Oldaker law firm,
24 1200 Simms Building, Albuquerque, 87101. Again, sir, I would
25 like to apologize for being late to the hearing. Mr. Grace

1 and I were out of the building conferring at the time that
2 the hearing started.

3 MR. UTZ: All right, sir.

4 MR. COOLEY: Mr. Examiner, I would like to briefly
5 recall Mr. Hannifin to the stand.

6 (Whereupon, Mr. Hannifan, having already been
7 previously sworn, took the witness stand.)

8 * * * * *

9 D. L. HANNIFIN,

10 Having already been previously sworn, testified as follows:

11 DIRECT EXAMINATION

12 BY MR. COOLEY

13 Q Mr. Hannifin, with respect to the consents or endorsements
14 that you received and testified to on Direct, from the
15 various parties, would you repeat those again for my
16 benefit?

17 Of course, I have the copy of the letter from
18 Merland.

19 A The others were Mr. Jack Ingram and his mother, Audrey
20 Ingram, that I talked to by telephone. Mr. Jack Ingram
21 requested that I be the operator, rather than Mr. Grace
22 for he and his mother.

23 Q That mother is Audrey?

24 A I think it is Audrey. They are of Carlsbad, New Mexico.
25 I talked to Mr. W. E. Walling of Ropesville, Texas. He

1 is going to confer with an attorney.

2 Q You have no indication one way or the other from him?

3 A No. He is going to confer with Mr. John McCormick in
4 Carlsbad within the next week.

5 Q You were sure you had the support of the Ingrams, Jack
6 Ingram and Audrey Ingram?

7 A Yes. He stated so.

8 Q I hand you what has been marked as Commission's, or as
9 Grace Exhibits 4 and 5 in this case and ask if you would
10 please read those to the Examiner?

11 A "We, the undersigned, as owner or owners of the oil and
12 gas and other mineral rights in and under the south half
13 of Section 24, Township 25, Range 26 East, N.M.P.M., do
14 hereby request that Michael P. Grace, II, and Corinne
15 Grace be made operators of the proposed well which is
16 to be drilled in an orthodox location of Mr. Grace's
17 choice. We feel that Mr. Michael P. Grace, II, and
18 Corinne Grace have proven their ability in this area
19 and that they are best qualified to be operators."
20 Mr. and Mrs. Jack L. Ingram, and the other one is signed
21 by Audrey Ingram.

22 Q Those are identical letters?

23 A Those are identical letters.

24 Q Now, did you say that there was a Samedan representative
25 here today?

1 A Yes. Mr. Martin is employed by Samedan and he is here.

2 MR. COOLEY: I have no further questions at this
3 time. We would still like to reserve the right to call Mr.
4 Hannifin if necessary.

5 CROSS-EXAMINATION

6 BY MR. KELLAHIN

7 Q Mr. Hannifin, when did you talk to Mr. Ingram?

8 A I talked to him yesterday evening or afternoon at his
9 work where he works at the International Mines.

10 Q Grace's Exhibits 4 and 5 you just looked at did not have
11 a date on those letters, did they?

12 A No, they didn't. I don't, of course, know anything
13 about them.

14 Q Thank you.

15 MR. UTZ: You may be excused.

16 MR. COOLEY: At this time, Mr. Examiner, I would
17 like to call Mr. Martin as an adverse witness.

18 MR. UTZ: Is that in order?

19 MR. HATCH: I think so, yes. Hold it, just a
20 minute. Why is he an adverse witness instead of your own
21 witness?

22 MR. COOLEY: Because we consider our position
23 adverse to that of Mr. Hannifin's and I really feel that
24 Samedan is a real party in interest to this thing.

25 MR. KELLAHIN: We would object to the calling of

1 Mr. Martin.

2 MR. COOLEY: Object to the calling of him at all?

3 MR. KELLAHIN: You can call him as your own
4 witness, obviously.

5 MR. COOLEY: I think it has been made quite clear
6 from the testimony of Mr. Hannifin that Samedan's position
7 is adverse to that of the Grace's.

8 MR. KELLAHIN: Yes, sir, simply because Mr. Martin
9 is employed by Samedan is no indication he is an expert and
10 able to qualify as one with regards to this particular
11 hearing.

12 MR. COOLEY: I will be glad to announce why I am
13 calling him. I want to know what, if anything, he knows
14 about the history of his company's operation.

15 MR. HATCH: You can call him as your witness.

16 MR. COOLEY: I call him whatever you want to call
17 him. I have already requested to call him as an adverse
18 witness. You deny that and I will call him as my own
19 witness.

20 (Whereupon, Mr. Mark S. Martin was called to the
21 stand and sworn.)

22 * * * * *

23 MARK S. MARTIN,

24 having been first duly sworn according to law, upon his oath,
25 testified as follows:

DIRECT EXAMINATIONBY MR. COOLEY

Q Mr. Martin, would you state your full name, please, for the record, and your address and employment?

A Mark S. Martin. I am Division Land Man with Samedan Oil Corporation and our office is in Midland, Texas.

Q Mr. Martin, are you familiar with -- how long have you been with Samedan?

A Seven years.

Q Are you, generally speaking, familiar with the areas in which your company has drilled during that seven-year period?

A As far as drilling, there is a lot of old producing areas that Samedan has produced in for years that I am not all that familiar with because I don't get involved in that end of it, unless something comes up that involves the land end of it.

Q You are, generally speaking, familiar with the various areas, if not the specific wells, that your company has drilled in the past seven years?

A That we have drilled, right.

Q Now, has Samedan been the operator of all these wells that they have participated in during that period?

A Oh, no.

Q What percent of those would you say?

1 A I wouldn't have any idea.

2 Q Do you have any idea how many wells Samedan drilled as
3 operator during that period?

4 A No.

5 Q Are you aware of the fact that Samedan drilled a well
6 known as the Union State Number 1 well?

7 A Yes, sir.

8 Q In Section 19, Township 23 South, Range 26 East of Lea
9 County, New Mexico?

10 A I would have to check the description. I know it was
11 in the west side of that Township you are talking about.

12 Q Are you aware of the outcome of that drilling activity?

13 A It was ultimately a dry hole.

14 Q Are you aware of the cost of that well?

15 A No.

16 Q Are those costs available to you in your corporate
17 records?

18 A I am sure they could be arrived at. We keep good well
19 files on everything.

20 Q Ordinary prudent oil operator does keep the file on any
21 well he drills, whether he is successful or unsuccessful?

22 A I don't know how long you keep the dry holes. I assume
23 you keep them for a couple of years afterwards.

24 Q This well was drilled in 1970?

25 A That's right.

1 Q Would you be willing to furnish this Commission the
2 complete itemized actual cost of that well?

3 MR. KELLAHIN: Objection, Mr. Examiner. Mr. Martin
4 has not indicated that he is in any position to bind his
5 corporation with regards to furnishing ^{well} oil costs. I believe
6 the last question Mr. Cooley asked was premature until he
7 establishes that Mr. Martin is in a position to have access
8 to that and have authority of his corporation to release it.

9 MR. COOLEY: I understood his answer to say that
10 he did have access to them.

11 THE WITNESS: I have access to the well files. I
12 don't know whether I have got the authority to divulge the
13 information in the well files.

14 Q (By Mr. Cooley) Would you be willing to seek such
15 authority, and if successful, to forward an affidavit
16 to this Commission with respect to the actual cost of
17 the drilling of the well I just described?

18 A I would have to consult with my superiors on it and also
19 legal counsel. Personally, I can't see any reason not
20 to, but I wouldn't be in a position to commit our
21 company.

22 Q Would you advise this Commission, say, within the next
23 seven days or ten days, whatever is appropriate, as to
24 whether you will or won't submit information so that
25 we have an end to this at some point in time?

1 You will tell us either yes or no that you will or
2 won't supply us, will you not?

3 A If it is required by the Commission, I guess I could.

4 MR. UTZ: I would think that it would be in order
5 for you to either furnish it or deny it, one or the other,
6 and let us know whether you will or will not.

7 THE WITNESS: Within seven days?

8 MR. UTZ: Ten days would be fine.

9 MR. COOLEY: You do understand that it is my
10 request that this be submitted in the form of an affidavit
11 or attached to an affidavit and that it is under oath?

12 THE WITNESS: Yes.

13 MR. COOLEY: Mr. Examiner, if the information that
14 I have requested from Mr. Martin is forthcoming from Samedan
15 Oil Corporation, I request that it be incorporated as a part
16 of this record and move to identify it as Grace Exhibit 6,
17 and I would further request that in the event the information
18 is forthcoming, that we have the opportunity to review it.

19 MR. HATCH: Certainly the other side has a right
20 to object to that being introduced as an exhibit in this
21 case. I don't know if they wish to do that or not.

22 MR. KELLAHIN: We reserve the right to object to
23 the exhibit upon seeing it.

24 MR. COOLEY: If this be the case, we would then,
25 on this particular point, request that Grace Alternative

1 Exhibit 6 be permitted in this record which would be a
2 tabulation of such of the wells costs as we are able to
3 ascertain from independent sources.

4 MR. UTZ: May I ask what your independent sources
5 might be?

6 MR. COOLEY: The mud company that furnished the
7 mud and the drilling company that drilled the wells and there
8 are many of these records available.

9 MR. HATCH: You have not presented that here today
10 and you do not plan to?

11 MR. COOLEY: It is not available. I presumed that
12 this Commission would require Samedan to produce this.

13 MR. HATCH: I don't know that it can be accepted
14 by the Commission if there is no objection to it.

15 MR. COOLEY: Well, if there is an objection --

16 MR. HATCH: If there is an objection, I would say
17 the Commission could not accept something that is sent in
18 here sometime after the hearing, without any authentication
19 here, or without any cross-examination, and it is only to be
20 submitted if something else is not admitted, or --

21 MR. COOLEY: Or required.

22 MR. HATCH: Or required.

23 MR. COOLEY: This goes to the --

24 MR. HATCH: You would be asking the Commission to
25 accept something that you are not even offering here in the

1 hearing today?

2 MR. COOLEY: Mr. Graham, I would point out to you
3 that only today, for the first time, were my clients made
4 aware of the fact that Mr. Hannifin was not going to be the
5 actual operator of his well, but in fact, Samedan was going
6 to be and the very thrust of this case goes to one point,
7 who is the better qualified operator and I submit to the
8 Examiner that the track record, so to speak, of the two
9 conflicting Applicants here is possibly the only evidence or
10 competent evidence on which the Commission could make a
11 determination where both Applicants seek identical relief
12 with the one exception, each desires to be the operator.

13 MR. UTZ: Will the reporter please make the
14 correction that that was Mr. Hatch, rather than Mr. Graham?

15 MR. COOLEY: I have no further questions of Mr.
16 Martin.

17 MR. KELLAHIN: We would have no objection to
18 continuance in order to obtain that testimony and have
19 somebody competent from Samedan to provide that information
20 for the Commission's benefit. I will leave it at that, Mr.
21 Cooley.

22 MR. COOLEY: I have no objection whatsoever to
23 them just submitting it as a late exhibit. It would be the
24 thousandth time that this has happened before this
25 Commission.

1 MR. KELLAHIN: I realize that the problem with this
2 well, if I understand correctly, it did not go just to the
3 Morrow, but it also went to the Devonian. Doesn't that
4 create some problems as to its relevancy to this particular
5 Application?

6 You will have to bear with me. I am not
7 knowledgeable in that area.

8 MR. COOLEY: The Oil Conservation Commission file
9 on that well that I examined earlier did not reflect it was
10 drilled to the Devonian.

11 MR. KELLAHIN: We will defer to the Examiner.

12 MR. HATCH: I think we better understand something
13 here. I am not saying that the Commission cannot accept
14 those. I am saying that as a late exhibit, I am saying that
15 the adversary here cannot be foreclosed from objecting to
16 their receiving them.

17 If you can get a stipulation from the adversary
18 that the Commission can accept it, and use it as part of the
19 evidence in this case, fine.

20 MR. COOLEY: Which are we talking about, well cost
21 supplied by Samedan?

22 MR. HATCH: We are talking about both of these that
23 you are talking about.

24 MR. COOLEY: Let's talk first about the well costs
25 supplied by Samedan. Those well costs are available in the

1 offices of Samedan, according to the witness. If they won't
2 furnish them willingly, I presume I will have to subpoena
3 them.

4 We won't talk in terms of alternative exhibits that
5 we might try to put together in pieces. I wish to offer
6 those well costs presented under oath as Grace Exhibit 6 at
7 this time and if counsel for Mr. Hannifin objects, I think
8 we should have a ruling on that objection now.

9 MR. KELLAHIN: For purposes of the record, I do
10 object. I am not informed about this particular well to any
11 extent. I believe it was a wildcat.

12 Naturally, the costs are going to be higher and may
13 not be relevant to the area of operation in question here and
14 we would like to reserve the right to object and
15 cross-examination on the basis of that exhibit.

16 MR. HATCH: Do you deny the motion to have it
17 submitted?

18 MR. UTZ: Yes.

19 MR. KELLAHIN: If the Examiner please, in ruling
20 either way on the objection, I think it would be helpful if
21 the Examiner stated a reason, either a relevancy reason, or
22 some other reason to deny or grant the request of Mr. Cooley,
23 so we will have something on the record.

24 MR. UTZ: Well, I think it is obvious why the
25 objection was sustained, because you will not have the

1 opportunity to cross-examine on it. I think if this is
 2 important enough to you, you might continue the case and
 3 bring a witness in and introduce it, or have it introduced
 4 as you would today.

5 MR. COOLEY: As I said, I have no apologies about
 6 not inquiring into Samedan's qualifications earlier, because
 7 we only found this out this morning in informal conversations
 8 with Mr. Hannifin.

9 MR. UTZ: I think that is understandable.

10 MR. COOLEY: In view of this decision, I recall Mr.
 11 Martin to the stand for one question.

12 MR. UTZ: Yes.

13 (Whereupon, Mr. Martin was recalled to the stand.)

14 MARK S. MARTIN,

15 having already been previously sworn, testified as follows:

16 DIRECT EXAMINATION

17 BY MR. COOLEY

18 Q Have you reviewed the estimate well costs submitted by
 19 the Applicant Hannifin in this case?

20 A Just roughly. I have not studied it in detail by any
 21 means.

22 Q It is your understanding, however, that what money cash
 23 dollars that will be spent doing this well will be
 24 Samedan's under your contractual arrangement with Mr.
 25 Hannifin?

1 A Repeat that, please.

2 Q Well, Mr. Hannifin testified that Samedan would pay the
3 entire cost of drilling this well if he is successful
4 in his Application by virtue of the contractual
5 arrangement between Samedan and himself where he has a
6 reversionary interest and overriding royalty payoff?

7 A You mean is it correct, that that is what he testified
8 to?

9 Q I am asking if that is the correct deal. Is that the
10 deal between Samedan and Hannifin, or are you aware or
11 unaware of it?

12 A I am aware of it. I am aware of our deal.

13 Q Samedan is going to be putting up all the money to drill
14 the well?

15 A Yes.

16 Q Are you, at this time, in a position to authenticate
17 under oath to this Examiner that these are your
18 projected well costs, the ones that were presented by
19 Mr. Hannifin?

20 A Yes. We feel like they are what we would A.F.E. the
21 well for, yes.

22 Q Even though you earlier testified that you had just
23 barely gone through it?

24 A I know that that is our company's position that the
25 A.F.E. that has been presented by Mr. Hannifin is

1 acceptable to us.

2 Q Do you have any knowledge whether you can actually drill
3 the well for that cost or not?

4 A Who knows what you can drill a well for? I sure don't.
5 All I know is that you go on your best estimate and make
6 up an A.F.E. and do the best you can.

7 Q Your company has only drilled one other well in the
8 South Carlsbad area; is that correct?

9 A To my knowledge, that's right.

10 Q The Union State Number 1 in 1970?

11 A That's about ten or twelve miles off the southwest.

12 Q Are you prepared to state whether the cost of Union
13 State Number 1 well was in excess of the projected cost
14 here of Mr. Hannifin?

15 A No, I am not. I have not reviewed the cost of the Union
16 State. It was drilled under entirely different set of
17 circumstances.

18 Q What are the differences?

19 A It was a wildcat and I imagine your drilling conditions,
20 one thing and another, changed from area to area.

21 Q This is in the same immediate area, is it not?

22 A What do you call immediate?

23 Q It is in the same Township?

24 A No, it isn't.

25 Q It is in the Township to the south, I beg your pardon.

1 A Eight or ten or twelve miles. I don't recall exactly.

2 Q The proposed depth was identical, wasn't it?

3 A I don't know.

4 Q I hand you the Commission file on the well in question.
5 Maybe it will refresh your memory.

6 It was projected to the same depth as the well that
7 you propose here today, is it not?

8 A It appears so.

9 MR. UTZ: That is 11,800 feet?

10 MR. COOLEY: Correct.

11 Q (By Mr. Cooley) Mr. Hannifin indicated that Samedan
12 would be the company which would decide which drilling
13 company would be used.

14 If you are the successful Applicant here today, do
15 you have any idea of what company Samedan would select?

16 A None, whatsoever.

17 Q If there any reason to expect that they would favor Noble
18 Drilling Company?

19 A No reason. As I understand the procedure, we get bids
20 and they are approved out of our Ardmore office and all
21 the wells that we have drilled out here, as far as I
22 know, that is our procedure.

23 As I say, that is not something I have firsthand
24 knowledge of.

25 Q You have no firsthand knowledge as to how the drilling

1 contractor will be selected?

2 A I just said it will be put out by bids and selected in
3 the Ardmore office by Vice President in charge of
4 Production.

5 Q What is his name?

6 A Bob Layhe.

7 Q Mr. Martin, what exhibit is this?

8 MR. UTZ: It was not marked. It was offered as an
9 amendment to Exhibit Number 5.

10 Q (By Mr. Cooley) Are you aware of drilling bids that are
11 being submitted currently in the South Carlsbad Morrow
12 area?

13 A Am I personally?

14 Q Yes, sir.

15 A No.

16 Q Do you know whether you can obtain a driller to drill
17 in that area for \$8,90 a foot to 11,800?

18 A I have already stated that I am unqualified in production
19 matters and I would rather not -- I don't have any
20 idea.

21 Q If you are unqualified in production matters, Mr. Martin,
22 are you then not necessarily unqualified to decide
23 whether this proposed A.F.E. is or is not reasonable?

24 A What I said before was that I know that it is our
25 company's position that the A.F.E. is reasonable, yes.

1 They are prepared to accept it.

2 MR. UTZ: In other words, someone of authority in
3 your company has let you know that they think this is
4 reasonable.

5 Q (By Mr. Cooley) Who is that someone, Mr. Martin?

6 A Our Division Manager, Mr. Clifford Mathews.

7 MR. UTZ: Excuse me a moment, Mr. Cooley. Mr.
8 Kellahin, I believe that it would be in order for you to
9 substitute this amended A.F.E. in place of the original which
10 you stated was in error.

11 MR. KELLAHIN: That's correct.

12 MR. UTZ: Do you wish to do that now?

13 MR. KELLAHIN: Yes, sir, if it is acceptable.

14 MR. UTZ: We will make that Exhibit 5 then.

15 Q (By Mr. Cooley) Mr. Martin, you have not compared the
16 proposed A.F.E. which is now Exhibit 5 with any actual
17 cost on the Union State Number 1, have you?

18 A No, sir. I haven't thought of the Union State Number 1
19 for two years, since it was plugged.

20 Q Do you know whether Mr. Mathews has?

21 A I don't know of my own knowledge.

22 Q Do you have any idea on what Mr. Mathews based his
23 opinion with respect to this A.F.E.?

24 A I am sure it is the same basis that anyone uses in
25 drawing up an A.F.E. He checked the area and checked

1 on prices and drilling. I am not sure exactly what
2 procedures he goes through.

3 Q Then your answer is you don't know?

4 A I don't know what basis Mr. Mathews uses.

5 MR. COOLEY: Thank you, Mr. Martin.

6 MR. UTZ: Let the record show that Mr. Martin was
7 excused.

8 MR. COOLEY: Call Mr. Baldwin to the stand.

9 (Whereupon, Mr. Baldwin was called to the stand and
10 duly sworn.)

11 * * * * *

12 THOMAS A. BALDWIN,

13 having been first duly sworn according to law, upon his oath,
14 testified as follows:

15 DIRECT EXAMINATION

16 BY MR. COOLEY

17 Q Mr. Baldwin, state your full name and place of residence
18 and occupation.

19 A Thomas A. Baldwin. I reside in Pasadena, California. I
20 am a petroleum geologist and petroleum engineer employed
21 by the Tetra-tech Company, Service Organization.

22 Q Mr. Baldwin, have you previously testified before this
23 Commission and had your qualifications as a consulting
24 geologist and expert witness in that field accepted?

25 A Yes, I have, sir.

1 Q Have you been retained by Mr. Grace to make a study of
2 the particular area involved in the South Carlsbad
3 Morrow area?

4 A I have.

5 MR. COOLEY: Are the witness's qualifications
6 acceptable?

7 MR. UTZ: Yes, they are.

8 Q (By Mr. Cooley) Mr. Baldwin, I hand you what has been
9 marked as Commission or Grace Exhibit Number 1 and ask
10 if you would please advise the Examiner as to what you
11 intend to portray thereby.

12 A Well, I had intended this as a revision of the Exhibit
13 furnished to the Commission at an earlier date in which
14 a structural high was shown in the vicinity of the
15 Go Po Go 2 in Section 24.

16 At that time, we were projecting a depth of the
17 Go Po Go 2 of 7,910 feet below sea level and we pointed
18 out that it was unusually high for the area and that it
19 was an anomously high location. Actually, the well came
20 in the top of the Morrow and was minus -- or twenty-two
21 feet higher than we had anticipated and of course it
22 did show as Mr. LeMay has stated an unusual good
23 development of porosity and due to its high structural
24 position, apparently will make an excellent well.

25 Q I hand you what has been marked as Grace Exhibit 2 and

1 ask you what you intended to portray by this exhibit?

2 A Grace Exhibit 2 is a rather fast sketch ^{amplifying} and
3 enlarging the picture of Grace Exhibit 1 on a scale of
4 an inch equals a thousand so that we may see the
5 structural relationship a little better.

6 We see here the location of the Go Po Go Number 2
7 and at the south of 1,320 feet, the suggested location
8 for a third well. The swells shown here is essentially
9 the same anticlinal swell or bow as is shown on Grace
10 Exhibit Number 1.

11 Q The well location which you portray on Exhibit 2 is the
12 same location, is it not, that is portrayed or suggested
13 and requested by the Applicant Hannifin?

14 A Yes, it is.

15 Q In your opinion, is this the most desirable location
16 within the 320 acre drilling unit from a geological
17 standpoint?

18 A Strictly from a geological standpoint, I think this is
19 the most desirable location that falls within the location
20 rules permitting a well to be drilled within ^{1320 feet} ~~320 feet~~
21 ~~to be drilled within another well.~~
to another well

22 It is higher structurally than any other position
23 that can be attained in the section, following that rule,
24 yes.

25 Q Is there any other location that might be suggested from

1 a standpoint of engineering and drainage?

2 A As Grace Exhibit Number 1 shows, we suggested, at an
3 earlier time, a location in the southwest corner of the
4 southeast quarter of Section 24 as being halfway between
5 Go Po Go Number 2 and Go Po Go Number 1, and establishing
6 a drainage pattern that possibly might be more
7 economic.

8 I agree with Mr. LeMay, however, that the unusual
9 development of porosity in the Go Po Go Number 2
10 certainly ^{tempts?} attempts to move closer to it.

11 MR. COOLEY: At this point, Mr. Hatch, could I ask
12 for an interpretation by you of the Commission rules and
13 regulations with respect to the proximity of one well to
14 another in the particular pool involved?

15 MR. HATCH: I believe you can read them for
16 yourself, Mr. Cooley. They do not speak of the distance
17 between wells. I believe the standard locations are ^{set} sent
18 out 1,980 from end line and 660 from the side (and at least
19 1,980 and then 330, I believe, from quarter-quarter section
20 line and I don't believe in those rules there is anything
21 specifically of the distance between wells.

22 MR. COOLEY: Implicit in that, however, is that if
23 you cannot get closer than 660 to a side line with a well,
24 that it must necessarily follow that no two wells can be
25 closer than 1,320 feet.

MR. HATCH: I am assuming that if you had a nonstandard in one section, that a person could drill a standard location on another section that would be much closer than 660. 1320

MR. COOLEY: In any event, it is your opinion that the well location shown on Grace Exhibit 2 and that suggested by Mr. Hannifin are both the same location and is an orthodox location.

MR. HATCH: That is my reading from the rules.

MR. COOLEY: That is mine, but I wanted to make sure we were playing with the same ground rules.

Q (By Mr. Cooley) In view of the superior geological location of the well being 1,980 from the ^{South and} 1,980 from the east, is that the location that you would recommend be drilled irrespective of who is named operator?

A That is the location I presently recommend. I recommend it be drilled 1,980 from the east and ¹⁹⁸⁰ 1,990 from the south. OK

Q 1,990?

A 1,980, I apologize. ✓

Q Would this opinion that you have now expressed based upon present information possibly be altered in light of subsequent drilling information?

A Yes. There are two pieces of information pending that could alter very sharply, if you wish me to expand upon

1 them.

2 Q Would you please?

3 A Well, in recent weeks, it would be the first week of
4 September, Mr. Grace, after conferring with me among
5 others, perforated in the Go Po Go Number 1 a small
6 interval in here which is a portion of the Go Po Go
7 Number 2 as correctly shown on Mr. LeMay's cross-section
8 here.

9 MR. UTZ: This is going to be an exhibit that you
10 are going to offer?

11 Well, if you are going to refer to something in
12 relation to the well, please give the depth and don't say
13 just here.

14 THE WITNESS: I do have the depth. I may not have
15 the precise depth of perforation, but approximately 11,463
16 to 11,467. It is a very small interval. I believe that
17 there were two or three intervals perforated after a meeting
18 I had with Mr. Grace on approximately September 2nd or
19 something of that sort and the well is presently being
20 tested now.

21 The results of that testing in this same porous
22 interval, even though it is very small, if it proves
23 substantially to improve its gas production by my
24 recommendation to perforate that interval, then it would
25 quite possibly lead me to think that a well halfway in

1 between would be more desirable than one only 3020 to the
2 south of Number 2.

3 The second thing that certainly could influence me
4 is a critical wellis being drilled by Midwest, of course,
5 down here at the southwest, which is outside of the
6 structural picture that I have been involved in. If it
7 should be completed in the Morrow for a very substantial
8 producer, not only I, but I guess everybody in this room,
9 would have to revise their picture geologically.

10 Q (By Mr. Cooley) Which well was this?

11 A It doesn't show on this map.

12 MR. UTZ: Since you have mentioned it, do you have
13 a location?

14 THE WITNESS: It is in Section 3 of 23 South, 26
15 East.

16 MR. UTZ: That is a Great Western well?

17 THE WITNESS: Midwest Oil Company.

18 MR. UTZ: Would that be the well to the west of the
19 airport?

20 THE WITNESS: Yes. It is a long way away, but if
21 it should make a substantial well and give us a new point
22 on the Morrow at the same time, as I say, I think all
23 geologists involved in the area would tend to revise their
24 pictures.

25 MR. UTZ: Since you mentioned perforations in the

1 Go Po Go Number 2, would you give us the locations of those
2 perforations?

3 THE WITNESS: They are very, very close, at least,
4 to 11,380 and 11,400.

5 MR. UTZ: That is the only perforations?

6 THE WITNESS: No. There are other intervals that
7 are perforated since I was here and I don't have that record
8 with me.

9 MR. COOLEY: Steinhorst can present that at a
10 later time.

11 MR. UTZ: That will be fine.

12 THE WITNESS: I recommended this interval among
13 others and then they have been perforated by Mr. Steinhorst
14 since I left.

15 MR. UTZ: You may proceed.

16 Q (By Mr. Cooley) Mr. Baldwin, how would you evaluate the
17 risk factor with respect to drilling the particular well
18 in question?

19 In terms of allocation of risk, it has been
20 recommended by Mr. LeMay that a risk factor of 125
21 percent be adopted. Do you have any objections to that?

22 A I am not sufficiently acquainted with custom in the
23 area. I would think that there is not too much risk in
24 drilling this well. It will make a gas well of some
25 sort.

1 What your penalty factor would be is more custom
2 than it is economics.

3 Q There is however some risk in drilling any well?

4 A Surely. You may have mechanical failure even though the
5 reservoir is good.

6 MR. COOLEY: No further questions of this witness.

7 MR. UTZ: Are there questions of the witness?

8 MR. KELLAHIN: Just a few points of clarification.

9 CROSS-EXAMINATION

10 BY MR. KELLAHIN

11 Q Mr. Baldwin, you have to bear with me. I don't have too
12 much knowledge of this area. I would like to ask you
13 a question about your Exhibit 1 there and the extension
14 of that south line.

15 What authority do you have for extending the south
16 line as far as you have, or as high as you have?

17 A To the north?

18 Q Yes, sir.

19 A There would be some geological contention about this,
20 but much of geology is subject to an opinion. I feel
21 that I had a cut in this fault at a high interval in
22 the Go Po Go 2 and canyon section, and in the City 1
23 Carlsbad Go Po Go Number 1, I had a weak cut.

24 There were two or three others of this sort. High
25 in this section the fault then necessarily would have to

1 be dipping to the east. You will notice I have dashed
2 it from the City of Carlsbad, or from the Go Po Go
3 Number 1 north.

4 I have dashed the fault as being subject to
5 interpretation.

6 Q What are your control points for your contour line there?

7 A I haven't shown them on here. As I said, this was a
8 rapid sketch. I wanted to enlarge this map so we had
9 some of these to pass around. I have traced from here
10 taking the liberty, however, in revising this map with
11 the new point that we have got on the Go Po Go Number 2.

12 It had to be done in rather a hurry for this
13 particular hearing and I did not carry out the movement
14 of all the contours westerly as I anticipate they could.

15 I moved the 7,900 to honor the 7,888 point in
16 Go Po Go Number 2. I moved the 7,950 because I had
17 to and therefore in the 8,000 and 8,050, I did not move
18 thinking there might be an additional datum later on.

19 Q Would you agree that any location other than your
20 proposed location would unfairly deprive the owners in
21 this particular acreage of recovering the oil or
22 production that they would be entitled to?

23 A I have recommended this location as the best that we
24 know of at this point and I have pointed out that if in
25 testing the Go Po Go Number 1, it should turn out the

1 perforations at this little stretch of the same interval
2 marked increased productivity of the well, it would be
3 entirely possible that we could look at our whole car,
4 so to speak, and recommend a location equidistant
5 between the two.

6 Right now, I most certainly agree with Mr. LeMay's
7 testimony that this particular location is the highest
8 we can get structurally and the closest to the good
9 porous development of the Go Po Go Number 2.

10 MR. KELLAHIN: No further questions.

11 CROSS-EXAMINATION

12 BY MR. UTZ

13 Q Mr. Baldwin, do I recall correctly that Exhibit Number
14 2 indicates your choice of location of the well in the
15 south half of Section 24?

16 A That is correct, sir. I brought alternate locations
17 down here, as you can see, from erasures on these maps
18 and after concurring with others, we have all agreed
19 that the engineering factor of getting that much closer
20 to known porosity has tipped a balance with me and I
21 state that that is my best choice.

22 Q You mentioned the Midwest well in Section 3 of 23 South,
23 26 East. Do you know anything about that well? Does
24 it look like it is going to make a well?

25 A I understand that they have been having difficulty and

1 progress has been very, very slow indeed, but somebody
2 here today said that they had had a substantial gas
3 show.

4 Q But that is hearsay?

5 A We are waiting to get the information.

6 MR. UTZ: Other questions of the witness? You may
7 be excused.

8 Do you have another witness?

9 MR. COOLEY: Mr. Steinhorst, please.

10 MR. UTZ: Mr. Cooley, this witness has formerly
11 been qualified, so you may proceed.

12 (Whereupon, Mr. Steinhorst was called to the stand
13 and sworn.)

14 * * * * *

15 RICHARD STEINHORST,

16 having been first duly sworn according to law, upon his oath,
17 testified as follows:

18 DIRECT EXAMINATION

19 BY MR. COOLEY

20 Q State your name, address, and occupation for the record,
21 please.

22 A Richard Steinhorst, Lafayette, Louisiana, consulting
23 petroleum engineer.

24 Q First of all, Mr. Steinhorst, to clarify this record,
25 would you please delve through your records and state

1 the answer to Examiner's question about the exact
2 perforations in the Go Po Go 2?

3 A The exact interval perforated was 11,460 to 468. That
4 is all the perforations. That is not all the
5 perforations in that area.

6 Q State all of them.

7 A The well was perforated 11,408 to 416, 11,518 to 524,
8 and 11,539. 518 to 524. 11,532 1/2 to 11,538 --

9 MR. UTZ: Mr. Baldwin stated 11,380 to 11,400.

10 THE WITNESS: That was not perforated. That was a
11 recommendation but it was not actually perforated.

12 MR. COOLEY: This is the Go Po Go 2 that he asked
13 about.

14 THE WITNESS: I am sorry. I gave you the Go Po Go
15 1. The Go Po Go 2 is perforated 11,382 to 11,404. I was
16 prepared to answer you on the Go Po Go 1.

17 MR. UTZ: Mr. Steinhorst, if you don't have it
18 available right at the moment, you could write us a letter
19 and tell us.

20 THE WITNESS: I will. I am sorry I don't have that
21 information and I don't have any information on the Go Po Go
22 2 with me, except I do know that that one interval was
23 perforated.

24 MR. UTZ: Mr. Cooley, you may proceed.

25 Q (By Mr. Cooley) Mr. Steinhorst, there has also been

1 some discussion with respect to Midwest well drilling in
2 Section 3 of Township 23 South, 26 East.

3 Are you familiar with that well?

4 A Somewhat.

5 Q Are you also familiar with the average length of time
6 during which it is required to drill a well of that
7 nature?

8 A Yes.

9 Q What is that average?

10 A The average time to drill a well in the South Carlsbad
11 field has been about forty days.

12 Q What has been the history to date of the Midwest well
13 which we were discussing?

14 A They are seventy plus at 11,430.

15 Q Did they encounter any particular difficulties of which
16 you are personally aware?

17 A They have encountered several difficulties which are
18 not uncommon in the field.

19 Q Are you aware of the name of the drilling company that
20 is conducting that operation?

21 A Yes, sir.

22 MR. KELLAHIN: Mr. Examiner, I wonder if I might
23 object at this time. What is the relevancy of the Midwest
24 well with regards to this hearing?

25 MR. COOLEY: The relevancy will be revealed by the

1 answer to the last question, and I request permission that
2 the question be answered.

3 MR. UTZ: You may proceed. Overruled.

4 THE WITNESS: Noble Drilling Company.

5 Q (By Mr. Cooley) What is that answer?

6 A Noble Drilling Company.

7 MR. KELLAHIN: I object again about the relevancy
8 of Noble Drilling Company to this particular Application. I
9 believe Mr. Cooley has not established relevancy at this
10 point.

11 MR. COOLEY: Relevancy of Noble Drilling Company is
12 that Samedan is a spinoff or a sister company of Noble or
13 owned by the same people.

14 MR. HATCH: I don't think that has been established.

15 MR. KELLAHIN: I don't believe we have evidence on
16 the record to establish that point.

17 MR. COOLEY: That was testified to. It surely was,
18 by Mr. Hannifin.

19 MR. HATCH: I think we are through with this line
20 of questioning.

21 MR. COOLEY: I am through with the line of
22 questioning, but if the relevancy isn't understood by the
23 Commission, then it was a useless line. The point of
24 relevancy, if you have a sister company that is in the
25 drilling business, it is quite logical to assume that that is

1 who is going to drill your well.

2 MR. KELLAHIN: I will object to that, because we
3 had the witness from Samedan here saying that there is no
4 indication that Noble is going to drill this well. They put
5 it out for bids, so it is not relevant at this point.

6 MR. UTZ: I think that is a true statement, Mr.
7 Kellahin. I believe that is the way he testified.

8 Q (By Mr. Cooley) Mr. Steinhorst, have you prepared a
9 cost estimate with respect to drilling of the well in
10 question?

11 A I have.

12 Q I hand you what has been marked as Grace Exhibit Number
13 3 and ask you if that is the estimate to which you
14 refer?

15 A It is.

16 Q Would you explain that and do so by way of first
17 explaining it and then do so by way of comparison as to
18 why the discrepancy between the cost that you portray
19 and those which have been portrayed by Hannifin Exhibit
20 5?

21 A I have not had an opportunity to make a direct
22 comparison with the A.F.E. as submitted by Mr. Hannifin.
23 I believe if I recall from my notes they had a dry hole
24 cost of \$216,807 as compared to our dry hole cost of
25 \$245,400 and they had a completed well cost of \$305,162

1 compared to our \$366,030. There is an item in our A.F.E.
2 which perhaps is not pertinent and that is a \$2,800
3 item for title opinion and legal work which may not be
4 pertinent to this particular exhibit.

5 Q No such item appears in the Hannifin Exhibit 5?

6 A This is correct.

7 Q In essence, there is some comparable of apples and
8 oranges there?

9 A Right. I noticed that they have a drilling cost to
10 11,800 feet of \$8.90 a foot. We have not been able to
11 find any contractor that we consider competent to give
12 us a contract price to 11,800 on a footage basis.

13 Q What price are you projecting in your evaluation?

14 A We are projecting a price of \$10.20 a foot to 9,700 feet
15 at which point it is necessary to reach mud weight of
16 somewhere in the neighborhood of, oh, 10.4 to 10.5 and
17 at that point you go on day work.

18 Q This differential in drilling cost represents a very
19 large percent of the differential between the two
20 A.F.E.'s; is that correct?

21 A Yes, sir. In other words, they have a drilling cost of
22 \$105,000 and our drilling cost is somewhere in the
23 neighborhood of about \$150,000 and this is an experienced
24 drilling company's factor.

25 Q That has been the experience that you have encountered

1 in drilling all the wells Mr. Grace has drilled in that
2 area?

3 A Yes.

4 Q Hypothetically, assuming that any independent drilling
5 contractor would drill for Mr. Hannifin at \$8.90 a foot,
6 is there any reason to assume that he would not drill
7 for Mr. Grace for the same price?

8 A No.

9 Q So if there is a drilling contractor available in the
10 area that is competent and will drill for \$8.90 a foot,
11 you of course could hire him?

12 A That's correct.

13 Q Your drilling cost would then be reflected as the same
14 as Mr. Hannifin's?

15 A That is correct.

16 Q And the sole issue is whether there is or isn't someone
17 available to do that. If he is available, he is
18 available to both of you?

19 A He should be.

20 Q Are you familiar with the history of Mr. Grace's drilling
21 operations in the South Carlsbad Morrow Gas field and
22 surrounding areas?

23 A I am.

24 Q Would you please review that for the Examiner?

25 A Well, the first well that Mr. Grace drilled in Carlsbad

1 field was the City of Carlsbad and although I wasn't
2 actually present at the time, I understand for all
3 intensive purposes, it looked like a dry hole to
4 everybody but Mr. Grace, and by his perseverance in
5 trying to learn what he could about the Morrow
6 formation, he started out with a well that was making
7 nothing but water really, to a well that is now
8 producing eleven million cubic feet of gas a day.

9 The next well he drilled was the Panagra, which
10 was not a successful completion in the Morrow. The
11 Morrow at this particular point failed and did not
12 indicate commercial production.

13 Q You say it was not a successful completion. Was it not
14 successful for mechanical reasons, or for the reason that
15 the formation had not developed in the area?

16 A That is what I said, that the Morrow did not indicate
17 commercial production at this point in the field. It
18 has been completed up the hole in the Cisco, actually,
19 but the Morrow was tested and it did test noncommercial.

20 Q Would you proceed then?

21 A The next well drilled was the Humble Grace Number 1 and
22 this well was initialed for a calculated open flow of
23 33,239,000 cubic feet a day. The well has experienced
24 mechanical difficulties and is presently shut-in.

25 The next well drilled was the Grandonoco and this

1 well was, at an absolute flow of 7,794,000. That is a
2 matter of record in the Commission. That well is
3 producing very well.

4 The next well drilled was the Go Po Go Number 1,
5 and this one experienced very severe mechanical problems
6 which were from the service company breakdown and the
7 well is presently being tested.

8 Q The mechanical difficulties have been corrected?

9 A Yes. What actually happened was that the cement flash
10 set way ahead of the time the plug was supposed to hit,
11 and for all intensive purposes, you may say the hole
12 was junked, but it has now been brought back into proper
13 mechanical condition and it is presently being tested.

14 The next well drilled was the Carlshad Grace
15 Number 1, which was the first dual well that Mr. Grace
16 completed and the tests on it so far indicate a
17 14,000,000 absolute open flow capacity on the Strawn
18 and a 2,000,000 absolute open flow capacity on the
19 Morrow.

20 This well is not on production because a gas
21 contract to sell the gas has not been negotiated.

22 The Go Po Go Number 2 was the next well and the
23 last was drilled by Mr. Grace and this well indicates
24 an absolute open flow -- I say indicates because this
25 hasn't been completely made official yet -- of about

1 100,000,000 cubic feet a day.

2 Q All in all, how many wells have been drilled by Mr.
3 Grace in the South Carlsbad area?

4 A Seven.

5 Q Have any of those wells been dry holes?

6 A Not so far.

7 Q None of the seven were dry holes?

8 A None of the seven were dry holes.

9 MR. UTZ: Did you mention the Humble Grace?

10 THE WITNESS: I mentioned the Humble Grace.

11 Q (By Mr. Cooley) What is the status of it?

12 A It is shut-in.

13 MR. UTZ: You haven't started to dual yet?

14 THE WITNESS: No. We haven't started work on it
15 yet. That is being set up and we are trying to get everything
16 lined up before we jump in with both feet.

17 Q (By Mr. Cooley) Over what period of time were the wells
18 that you have just discussed drilled?

19 A Oh, over a period of about two years.

20 Q At what point in time did you become personally involved?

21 A I became personally involved in the early part of this
22 year.

23 Q Have you reviewed the records and the completion
24 methods and drilling methods that were utilized prior
25 to your coming here?

1 A Yes.

2 Q Are you personally now familiar with all the methods of
3 ~~that were used~~ reuse since you came to work for Mr. Grace?

4 A I am not familiar with some of the very early practices
5 that were used on these early wells, but on the last
6 five wells, I have been particularly interested in the
7 completion methods and the drilling methods and the
8 improvements that have been made from one well to the
9 next.

10 Q Do you feel that the experience that Mr. Grace has had
11 in this area has brought about continued improvement
12 in drilling and completion techniques?

13 A Yes, I do.

14 Q Would you describe those as they progressed?

15 A Well, for one thing, let's take the last two wells
16 drilled. The Carlsbad Grace and the Go Po Go Number 2.

17 I believe that any geologist that analyzes these
18 two wells will say that they were very comparable as
19 far as the main zone of porosity and permeability of
20 these two zones.

21 The Morrow formation in the Carlsbad Grace shows
22 an open flow capacity of about 22,000,000. The Go Po Go
23 Number 2 has really no better porous zone and it is
24 about actually -- it is not quite as great an interval
25 as the porous zone in the Carlsbad Grace and the change

1 in the mud program and the approach to completion almost
2 increased the ability of the well to produce by five
3 fold.

4 I think that is very significant.

5 Q Is it your professional opinion that there are many
6 peculiar aspects of drilling and completing wells in
7 the South Carlsbad area?

8 A Very definitely.

9 Q That experience is the best teacher as to how to best
10 drill and complete wells in the area?

11 A It is a very, very big factor.

12 Q Do you know of any improvement that could be brought
13 about, even over present drilling and completion programs
14 that have been utilized?

15 A Well, let's say the last one was pretty good. I am sure
16 that the next one drilled there will be some improvement.
17 I can't tell you at this moment what it would be because
18 we would sit down and look at what we have done and what
19 it accomplished and we would discuss what we might do
20 to improve the places that we don't feel like we are
21 doing the very best job that perhaps can be done.

22 Q You have spoken in terms of the improved productivity
23 as a result of drilling completion methods. What effect
24 if any have these innovations had upon costs of the
25 well?

1 A They have improved the cost of the well as you went
 2 along. I can't give you, off the top of my head, the
 3 improvement in cost, but the Carlsbad Grace was a very
 4 reasonably priced well for a dual, and for a good dual.

5 The Go Po Go 2, while we don't have the totals yet
 6 on the actual completion -- drilling completion costs,
 7 our bills indicate that it has been a considerably
 8 more reasonably priced well than any of the others.

9 Q Even though it is the best of all the wells?

10 A Even though it is the best of all of them. It is a more
 11 reasonably priced well than any of the rest of them.

12 MR. UTZ: You don't know what that figure is yet?

13 THE WITNESS: I don't think all the bills are in.
 14 Those bills that we have, like our mud bills and our
 15 perforating bills and our completion costs, which we know,
 16 because we keep up with them as we go along --

17 Now, we did encounter difficulty on this particular
 18 well which did increase the cost of it over and above what
 19 it should have been and we had about five days of fishing
 20 out some railroad car spikes and chains and bolts and a few
 21 things that somebody had dropped in the hole, and this did
 22 increase the cost over what it should be.

23 Q (By Mr. Cooley) Well, comparing items such as mud,
 24 what improvement, if any, did you notice in the drilling
 25 methods used on the Go Po Go 2 as compared to previous

1 wells?

2 A Quite a considerable improvement. I have shown on my
3 A.F.E. here a mud cost of \$8,000. Our mud cost on the
4 Go Po Go 2 were slightly over \$7,000.

5 Q And the previous wells drilled in the area?

6 A They went up as high as \$27,000.

7 Q So improvement in drilling operations resulted in a very
8 substantial mud savings?

9 A The Grandonoco cost about twenty-seven. The Carlsbad
10 Grace was eighty-three.

11 Q Have you reviewed the Hannifin?

12 A I have looked at it. I have not made a direct comparison.
13 However, I notice a couple of things. It is a little
14 difficult without a straight edge here. They have got
15 drilling mud \$20,000. They have got their logs at
16 \$10,000, which is a little bit cheap, particularly since
17 they have no allowance down here for their completion
18 logs.

19 Your completion logs will run you about \$3,000 and
20 your uphold log will run pretty close to twelve. I say
21 uphold log, your drilling log.

22 They have figured gross stem tests. We figured
23 rate, time and drill stem tests, plus costs of drill
24 stem tests as a separate item.

25 I notice no allowance in here for daylight or

1 anything like that.

2 Q What have you estimated that cost to be?

3 A \$4,650. It takes about three days to log and run
4 casing.

5 Q Then in summary, the difference in the footage rate,
6 foundation of drilling the well, and the items that you
7 have pointed out, account for the difference in your
8 estimates and they are both estimates, are they not?

9 A Yes. They are both estimates. Ours is based pretty
10 close on what we know the actual costs are going to run.

11 Q If you encounter multipays in the drilling of this well,
12 does this increase the cost of testing these pays?

13 A Certainly does.

14 Q Has it been your experience that you should expect to
15 encounter multiple pays in this well?

16 A You have got a good possibility. We didn't allow for
17 it in the drilling A.F.E. as presented, because of the
18 fact that the Go Po Go 2 did not have good shows above
19 the Morrow and we wouldn't contemplate extensive testing
20 of those zones.

21 However, the Go Po Go 1 did have, so you are in
22 between. You could very well increase your cost by
23 having to test those zones.

24 Q You have an item of \$10,000 for contingencies. Would
25 this be one of the contingencies?

1 A Yes.

2 Q Mr. Steinhorst, I hand you what has been marked as Grace
3 Exhibit Number 7, which is a -- I would like for you to
4 briefly explain that for the record.

5 A Grace Exhibit Number 7 is a letter from Cities Service
6 Oil Company to the Conservation Department of New
7 Mexico setting out an itemized schedule of estimated
8 costs from the drilling of the well at 11,900 feet in
9 Eddy County in Section 19, 22 South, 27 East.

10 Q What does that estimate set forth as being the total
11 cost for producing well?

12 A \$338,442.

13 Q What is the dat of it?

14 A It was received by the Conservation Department on
15 February 4, 1972. I don't particularly see a date.

16 Q Mr. Steinhorst, are you aware of any increases in any
17 items of either tangible or intangible that would cause
18 an increase in the total cost of the well since February
19 of '72?

20 A Yes, for example, they have nine and five-eighths inch
21 casing and if I am reading these figures correctly, it
22 is about \$30,000. There is around 5,300 feet which is
23 normal for the area and the last nine and five-eighths
24 that we purchased cost \$28,000.

25 Q For 5,400 feet?

1 A For 5,400 feet, and this happened to be a very good
2 price. They also are showing five and a half inch, it
3 looks like about \$3.50 a foot and all tubular goods have
4 gone up in the last seven or eight months.

5 Q In fact, there have been two increases since that time?

6 A That's correct.

7 MR. UTZ: Percentagewise, how much?

8 THE WITNESS: I believe the first one was four
9 percent and I can't remember what the last one was. It runs
10 in my mind that there have been a total of about seven percent
11 increase in the price of tubulars.

12 MR. UTZ: That's close enough.

13 Q (By Mr. Cooley) Mr. Steinhorst, I hand you what has
14 been marked Grace Exhibits 8, 9, 10, 11, 12, and 13, and
15 ask you to please identify those.

16 A Exhibit Number 8 is a letter from the State of New Mexico
17 Oil Conservation Commission with reference to compulsory
18 pooling order in South Carlsbad Morrow Gas Pool, Eddy
19 County, New Mexico, "To whom it may concern, we the
20 undersigned, as owner or owners of the oil and gas and
21 other mineral rights in and under the south half of
22 Section 24, Township 22 South, Range 26 East, do hereby
23 request that Michael P. Grace, II, and Corinne Grace
24 be made operators of the proposed well which is to be
25 drilled in orthodox location of Mr. Grace's choice.

1 We feel that Mr. Michael P. Grace, II, and Corinne Grace
2 have proved their ability in this area. They are best
3 qualified to be operators."

4 Q Mr. Steinhorst, Exhibits 8 through 18, inclusive, when
5 taken together with Grace Exhibits 4 and 5, represent
6 identical requests on behalf of mineral owners under
7 the southwest quarter of Section 24 in support of Mr.
8 Grace's Application, do they not?

9 A Yes.

10 Q Mr. Steinhorst, do you have any recommendation with
11 respect to risk factor in light of your experience with
12 respect to this Commission?

13 A As previously stated by Mr. Baldwin, I think it is a
14 pretty good certainty that some kind of a well is going
15 to be made at the location suggested.

16 I would say our risk factor of twenty-five percent
17 or 125 percent of cost would be reasonable.

18 Q Do you have any recommendation with respect to operating
19 charge?

20 A I think the common and accepted operator charge in the
21 field is \$135 per month per well.

22 Q Would you recommend that?

23 A I would recommend that.

24 Q Is it your opinion that the selection of Michael P. and
25 Corinne Grace as operators of this well will result in

1 the prevention of waste and protection of correlative
2 rights in the area?

3 A It is.

4 MR. COOLEY: No further questions of this witness.

5 MR. UTZ: I believe you stated in regard to
6 Exhibit Number 5 of Hannifin's that it did not include logs.
7 I know that item 4 does include logs.

8 THE WITNESS: We said we did not include enough
9 money for completion logs.

10 MR. UTZ: I see. That was your \$3,000?

11 THE WITNESS: That was our \$3,000, yes, sir.

12 MR. UTZ: Questions of the witness?

13 CROSS-EXAMINATION

14 BY MR. KELLAHIN

15 Q Mr. Steinhorst, you ran through for us, a history of
16 Mr. Grace's seven wells in this area?

17 A That's correct.

18 Q Mr. Grace was directly responsible for the supervision
19 and operation of all those wells, I take it?

20 A That is absolutely correct.

21 Q In referring you to some of these wells, I would like
22 to go over them again with you, if I might.

23 You indicated that there was some mechanical
24 difficulties on this Humble Grace Number 1?

25 A That's right.

1 Q Do you recall what the mechanical difficulties were?

2 A I do.

3 Q Would you please tell me?

4 A The first mechanical difficulty was involved with a
5 liner hanger which was improperly, or had the improper
6 identification. In other words, it was improperly made
7 by the manufacturer. This caused mechanical problems.

8 Another liner hanger was gotten and it also was
9 not proper. It didn't have proper identity, so it was
10 machined out and the liner was eventually set. Even so,
11 these faulty liner hangers have caused mechanical
12 difficulties with the well.

13 Right now, there is a four and a half packer loose
14 in that. This has been testified to before the
15 Commission.

16 Q I understand those kind of difficulties. What
17 responsibility does Mr. Grace have as an operator and
18 a supervisor of a well for those kind of problems?

19 A If you are going to do anything on a well, every time
20 you run something below the floor on a rig, you are
21 subject to mechanical difficulty.

22 Q You are telling me that this could happen to any
23 operator?

24 A This could happen to any operator. It could happen to
25 the very best and it could happen to the very worst.

1 Q It is not necessarily reflective of Mr. Grace's
2 competency as an operator?

3 A That is correct.

4 Q You have indicated to us that you have felt Mr. Grace
5 was a competent operator in this area?

6 A That's correct.

7 Q What other factors do you use to arrive at that
8 opinion? What are the factors?

9 A You arrive at that opinion by the results of the
10 operations that the man is conducting. And it is the
11 same way with you as an attorney. How do you determine
12 whether you are a good attorney, by the results that you
13 get.

14 Q Are you talking about the mechanical result on a
15 particular well?

16 A Or a particular case, or however it goes.

17 Q Would you also consider it important that the operator
18 be in compliance with all Commission rules and
19 regulations and orders and things like that?

20 A This goes without saying.

21 Q That would be a factor?

22 A This would be a factor.

23 Q Would you consider management practices as a factor in
24 determining a successful operator or competent operator?

25 A That is also a part of your analysis.

1 Q With regards to management practices, would you consider
2 it a factor whether or not the operator was prompt in
3 payment of his obligations incurred in drilling?

4 You would use that to evaluate him, I assume?

5 A I have got to disevaluate everybody that I work for.

6 Q That answers my question. With regard to these
7 management practices, wouldn't you also consider a
8 competent operator to be one that promptly distributed
9 the earnings from the particular well to all other
10 interest owners?

11 I am talking about royalties and that sort of thing.
12 That would also be a factor, wouldn't it?

13 A This is dependent upon the ~~provision~~ ^{title} orders and the title
14 opinions and the works of the attorneys.

15 Q And the State law?

16 A Well, true, but I mean basically you have got to have
17 title opinion before you do anything. If you can't
18 get your attorney to move --

19 Q I am talking about State royalties and that sort of
20 thing. Do you have any knowledge of any incident
21 involving the Graces as operators which you would
22 personally consider as substandard?

23 A No, sir, not really.

24 Q Were you involved at all with the Graces' City of
25 Carlsbad well that you alluded to earlier?

1 A Not the drilling and completion of it. I have since been
2 in the production of it.

3 Q Have you had any difficulties with regard to production?

4 A We had some for a while.

5 Q What were they?

6 A Water.

7 Q What about water?

8 A We had it.

9 Q What kind of water are we talking about?

10 A We are talking about thirty or forty barrels an hour.

11 Q Salt water?

12 A Salt water.

13 Q What were you supposed to do with the salt water?

14 A It is being flushed in an underground formation.

15 Q You encountered difficulty, didn't you?

16 A Right.

17 Q What did you do with the salt water?

18 A It was hauled off for a while and it went to several
19 different places. It was being used in other wells in
20 the area.

21 Q Was any of it ever disposed on the surface?

22 A Not that I am aware of.

23 Q You are sure of that?

24 A I never saw any of it.

25 Q You told me about the Humble Grace Number 1. Let's go

1 on to the Go Po Go Number 1. You indicated that there
2 was some mechanical problems with that particular well.

3 Would you please tell me again?

4 A Well, as I said before, what happened is they were
5 cementing the oil string --

6 Q Who was cementing?

7 A Dow Chemical Company, I guess they call it. They were
8 cementing the oil string.

9 Q Would you expect the operator to be aware of difficulties
10 in this area and be able to --

11 A No.

12 Q Again the same problem, it could happen to any operator?

13 A You don't usually expect a service company of the
14 quality of Dow Chemical Company to have a failure of the
15 type that occurred. This is not a common failure.

16 Q I understand this is not then the kind of mechanical
17 failure that you would directly attribute to Mr. Grace's
18 ability as an operator?

19 A Wait a minute. I don't quite know as I gather what you
20 are driving at with your questions.

21 Q What I am asking you is, is this the kind of mechanical
22 problem you would expect a competent operator to
23 prevent?

24 A No.

25 Q I believe you told me that these seven wells that the

1 Graces had drilled, none of them were dry holes in the
2 Morrow; is that correct?

3 A No.

4 Q Please correct me.

5 A None of them were dry holes, but one well is not
6 commercial any more.

7 Q Is it commercial anywhere else?

8 A Yes. It is commercial in the Cisco.

9 Q You have alluded to the cost factors to this proposed
10 well and you told us that Mr. Grace is improving with
11 each effort. I would like to go back with you and have
12 you relate to me the best you can, the completion costs
13 for these seven wells.

14 Can you provide me with that?

15 A I can't give you that off the top of my head.

16 Q Would it be possible for you to provide that information
17 to the Commission? I think it would be relevant to
18 their decision.

19 MR. COOLEY: It seems to me like what is good for
20 the goose is good for the gander.

21 MR. HATCH: I believe on the other case, there was
22 a slight difference. It was your witness that you were asking
23 to send something in and this man has requested something
24 from your witness. I don't know how the Examiner will rule.

25 MR. COOLEY: I withdraw my request to submit any

1 exhibit of ours, other than stamping on an affidavit of
2 Samedan's.

3 MR. HATCH: The witness was your witness.

4 MR. COOLEY: Oh, yes, Mr. Martin was my witness.
5 Of course, I got that shoved down my throat. He was
6 obviously adverse, but the Commission can't observe that.

7 MR. KELLAHIN: I believe Mr. Cooley opened the
8 door on this particular subject by asking the witness Mr.
9 Grace's competency and he alluded to the fact that he was
10 improving his cost with each well and he was getting better
11 all the time.

12 He asked him the cost of the Go Po Go Number 1 and
13 he said all the bills weren't in. I think it is relevant
14 that we be able to compare costs because that is going to
15 be one of the major factors in deciding who is the operator.

16 We have one set of A.F.E.'s that proposes a well
17 to be completed at substantially reduced costs than Mr. Grace
18 is capable to furnish and I think it would be important that
19 the Commission have his cost on these other wells.

20 I would again request that the Graces be required
21 to furnish us the cost on the seven wells.

22 MR. COOLEY: We have explained through the direct
23 testimony of Mr. Steinhorst that there is basically no
24 difference in the estimated cost of this well and Hannifin's
25 estimate of the cost of this well.

1 If you start at the same point, assuming that you
2 could use the same drilling contractor at the same price,
3 they are the same. We disagree that you can hire one for
4 \$8.90. If you can, we are positive that we can hire them
5 for the same price.

6 We have set down what we think is a realistic going
7 price that is being paid in the area of \$10.20 a foot. If
8 it can be done for \$8.90, more power to them.

9 Mr. Steinhorst has testified, and I am sure that
10 this Commission can take judicial notice, that a third party
11 drilling contractor under all ordinary circumstances is
12 going to quote the same price to one operator, or to Grace,
13 as opposed to Hannifin.

14 MR. HATCH: I think perhaps there is no problem
15 here. If I understand the question was put to Mr. Steinhorst--
16 he had testified that the price was getting better all along
17 and that the question was put to him "Can you give me the
18 cost of each of these," and Mr. Steinhorst said he could not;
19 is that correct?

20 MR. COOLEY: He can't give the exact cost on wells
21 that he hasn't been involved in. Perhaps if he would give
22 those estimated costs, that might satisfy Mr. Kellahin.

23 MR. HATCH: First, let me ask Mr. Steinhorst if he
24 can supply these costs at a later date.

25 THE WITNESS: Well, I don't see any reason why they

1 can't be. I would like to say that the cost of completion
2 as shown on our A.F.E.'s are essentially those of the
3 Go Po Go 2 and this is realistic and what I am saying is that
4 I don't care what kind of a quotation they give me from a
5 drilling contractor, I am still saying as a professional
6 engineer and a knowledgeable individual that you can't do
7 it for that.

8 MR. UTZ: Does that satisfy you, Mr. Kellahin?

9 MR. KELLAHIN: No, sir.

10 MR. UTZ: Do you still want figures for each year?

11 MR. KELLAHIN: Yes, sir. I think it is relevant.

12 MR. COOLEY: The witness has already testified he
13 sees no reason why they can't be furnished.

14 THE WITNESS: I just can't give them off the top
15 of my head.

16 MR. COOLEY: It just gets back to what is good for
17 the goose is good for the gander. I still suggest Hannifin
18 produce the well costs of the one well that Samedan drilled
19 in the area. Our historical costs are a matter of record.
20 We have to furnish them and I think they should do the same.

21 MR. KELLAHIN: I believe there is one slight
22 difference. Mr. Steinhorst did testify that he had reduced
23 costs by well without any supporting evidence, so to speak.

24 You requested the well cost from Samedan from a
25 person which he really didn't know whether he had the

1 authority to give those or not.

2 MR. UTZ: Wait a minute. I want a clarification.
3 Mr. Martin didn't testify as to well costs at all.

4 MR. COOLEY: He testified that he thought the
5 estimate as presented by Mr. Hannifin was reasonable.

6 MR. UTZ: He can do that.

7 MR. COOLEY: And the same yardstick applies. You
8 can shoot at the moon, but if you only get a half a star in
9 actuality, there is quite a bit of difference and I am asking
10 and am perfectly willing to submit our historical costs from
11 day 1, and we have testified on Direct that they used to be
12 higher and that we have labored to reduce those costs.

13 I think that if we are going to compare historical
14 operations, and there can't be any questions in the
15 Examiner's mind who the real operator is, if Hannifin is
16 successful in this Application, let's look at everybody's
17 track record.

18 MR. UTZ: I don't see any reason why we can't
19 request Samedan --

20 MR. HATCH: I don't think this is the proper place
21 to bring that back up. I think the question here is that
22 Mr. Kellahin asked that in light of Mr. Steinhorst's testimony
23 that the price has gone down with each well, he asked him to
24 back that up with some figures to which Mr. Steinhorst said
25 that he could not give them at this point, if I understand

1 it.

2 THE WITNESS: That's right.

3 MR. HATCH: If I understand his answer, he does not
4 know the cost of those wells. Therefore, really there is
5 nothing to back up his statement. It is not my -- if the
6 Graces want to support his statement with the figures, I have
7 no objection to it.

8 If Mr. Kellahin has asked for it to be submitted,
9 but I don't see that it is your position, whether you care
10 if it is ordered in or not.

11 MR. UTZ: Can you supply that information, Mr.
12 Steinhorst? Would you do so?

13 THE WITNESS: Yes.

14 MR. KELLAHIN: Mr. Examiner, perhaps we could leave
15 it up to Mr. Grace whether he wants to provide those costs
16 or not, and let the Examiner decide if he does have them or
17 if he doesn't have them.

18 MR. UTZ: That's correct. The Examiner will decide.

19 MR. KELLAHIN: Mr. Steinhorst, I have a few more
20 questions for you.

21 Q (By Mr. Kellahin) With regard perhaps to my own
22 education on these tests on your Carlsbad Grace Number 1,
23 you indicated absolute open flow pressures of 14,000,000
24 or something in that neighborhood.

25 I would like you to clear this up for me. How do

1 you use these absolute open flow pressures to determine
2 the well potential?

3 In other words, do you see what I am looking for?

4 A This is the accepted method by the Oil Conservation
5 Commission, State of New Mexico, in evaluating the
6 ability of a well.

7 Q These are reasoned opinions on your part, based on tests
8 and that sort of thing to determine the potential of
9 a particular well based on a certain test; is that
10 correct?

11 A There is a procedure set out in a manual issued by the
12 Oil Conservation Commission of New Mexico which very
13 specifically sets out how these tests are made and how
14 the calculations of these open flows are arrived at.

15 Q Then there is no way, if you follow Commission rules,
16 there is no way to vary --

17 A No.

18 Q We are consistent?

19 A It is all consistent. It is all under the same basis.

20 Q Is it possible for two different engineers to arrive at
21 different calculated open flow potentials?

22 A Not with the same set of data.

23 Q Depending on the use of the Commission rules, if a
24 competent engineer does the work, he should come up with
25 the same result?

1 A That's right.

2 MR. UTZ: The same engineer can test and get a
3 different test at a different time.

4 THE WITNESS: Tests vary, but with the same data,
5 a competent engineer will come up with the same data.

6 MR. UTZ: That's true, unless he makes a mistake.

7 MR. KELLAHIN: Thank you, Mr. Steinhorst. I have
8 no further questions.

9 MR. UTZ: Other questions of Mr. Steinhorst?

10 REDIRECT EXAMINATION

11 BY MR. COOLEY

12 Q Mr. Steinhorst, the difficulties that were encountered
13 in the wells that you discussed under Cross-Examination
14 were caused by service companies, were they not?

15 A Correct.

16 Q Does any oil operator have any control over service
17 companies when it comes on his location?

18 A Not in the sense of what you are trying to imply, if I
19 understand your question.

20 Q Do you have any control over the cement or the way it
21 is made up and the way it is put together or anything
22 else?

23 A You order so many sacks of a certain class cement mixed
24 a certain way and it comes out in a bin and unless you
25 take a sample of it and go take it to a laboratory and

1 have it analyzed, you have to assume that the man gave
2 you what you ordered.

3 Q Do you know any prudent operator that runs such samples
4 of cement or anything like that?

5 A They accept the fact that the order has been filled
6 properly.

7 Q With respect to the packer that was defective, this
8 again was a service company, was it not?

9 A It was a manufacturing problem, yes.

10 MR. COOLEY: No further questions of this witness.

11 CROSS-EXAMINATION

12 BY MR. UTZ

13 Q I think the question came up as to a problem with the
14 cementing job on the Go Po Go Number 1; is that correct?

15 A Yes.

16 Q What was the problem?

17 A The problem was apparently it flashed set.

18 Q It set too quick?

19 A It set with a plug way up the hole.

20 Q With continuous pumping?

21 A It set while they were pumping. In other words, faulty
22 cement.

23 MR. UTZ: The witness may be excused.

24 Do you have another witness, Mr. Cooley?

25 MR. COOLEY: No, I do not. I would like to offer

1 into evidence at this time Applicant's Exhibits 1 through
2 5, 7 through 13, with the understanding that the missing 6
3 is the exhibit that we requested be furnished at this
4 Commission by Samedan.

5 MR. HATCH: Which was ruled against, if I
6 understand it.

7 MR. COOLEY: It is a standard procedure to establish
8 a record with respect to a refused exhibit.

9 MR. UTZ: Exhibits mentioned, with the exception
10 of Exhibit 6, will be accepted into the record of this case.

11 MR. COOLEY: Mr. Examiner, my co-counsel, Mr.
12 Watkins would like to address you at some point.

13 MR. WATKINS: If the Commission please, on behalf
14 of Mr. Grace --

15 MR. KELLAHIN: Excuse me. I am sorry for
16 interrupting. Are you making a summary?

17 MR. WATKINS: I am going to clarify one point before
18 we close.

19 MR. KELLAHIN: I'm sorry.

20 MR. WATKINS: The Examiner did make a statement
21 that the failure of Mr. Grace to produce his cost on each
22 of these wells would be taken into consideration and, as I
23 understand it, Mr. Martin was going to seek advice from his
24 counsel and his company on whether or not Samedan would also
25 submit their cost on the well that was drilled in that area

1 and I would like to know what is the Commission's intention
2 on taking that into consideration if they fail to supply this
3 information?

4 MR. UTZ: Since Mr. Martin testified to the fact
5 that he thought the Moran estimate A.F.E. was proper, I think
6 I would have to consider his failure to supply the information
7 requested the same as I would yours.

8 MR. WATKINS: May we have a short recess so I may
9 confer with Mr. Grace before we close the hearing, or close
10 our evidence and presentation to the Commission.

11 MR. UTZ: How long do you need?

12 MR. HATCH: I would like to ask something here. The
13 request of Mr. Martin to furnish information I don't believe
14 was in support of any question that was asked Mr. Martin.

15 Would you explain why they should be treated the
16 same, Mr. Watkins?

17 MR. WATKINS: As I understand it from the testimony,
18 Samedan is going to be the operator if Mr. Hannifin is
19 awarded the operation and I believe the question asked by Mr.
20 Cooley was what the cost of this well that Samedan had been
21 the operator on was in that same area.

22 He said he did not know. Mr. Cooley asked him if
23 he could get those figures and he said he would have to find
24 out from his counsel. That is the same thing. There have
25 not been an absolute refusal and neither has there been a

1 refusal on the part of Mr. Grace to supply these documents
2 and I would ask that if the actual operator for Mr. Hannifin
3 refuses to supply to the Commission this information on their
4 past performance, would that not be taken into consideration
5 and given the same weight as the failure of Mr. Grace to
6 supply these same type of figures.

7 MR. HATCH: Of course, the final decision here will
8 be by the Examiner, but I think at the time the question was
9 asked to Mr. Martin, he was asked if he knew what the cost
10 was and he indicated that he did not know and then it was
11 asked whether he could furnish those figures and he said he
12 did not know and he was your witness.

13 At the present time, we have a witness who is your
14 witness who testified to certain ranges of figures and on
15 Cross-Examination it appeared that he did not know to what
16 he had testified on which he was asked to furnish some
17 figures that would support his testimony.

18 Now, if my impression is right, Mr. Steinhorst does
19 not know the cost of those now. If you want to furnish
20 information to support that, I have no objection to it. Mr.
21 Kellahin doesn't because he asked for them, so it is your
22 refusal if you do not want to.

23 I don't think the Examiner -- he shouldn't step
24 in and tell you what to put up to support your witness.

25 MR. WATKINS: We asked on both sides and in fact I

1 think the Examiner can see that Mr. Martin certainly is not
2 testifying on our behalf, even though technically under the
3 law he may be classified as our witness because we did call
4 him.

5 However, I believe Mr. Steinhorst was that he did
6 not want to, off the top of his head, give these figures. I
7 think it is in the record that he said that several times.
8 I am not saying at this time we will refuse to supply to the
9 Commission or to the hearing Examiner those figures.

10 All I am trying to determine is will that carry the
11 same weight as Mr. Martin who will be the actual operator,
12 his refusal to submit the same type of figures.

13 MR. HATCH: My recommendation to the Examiner is
14 no.

15 MR. WATKINS: Again we would request a short
16 recess.

17 MR. UTZ: You understand my position in regard to
18 your well cost figures. I would consider it supporting
19 evidence of Mr. Steinhorst testimony.

20 MR. WATKINS: If Mr. Martin decides to supply these
21 figures, would you also consider that in the same way?

22 MR. UTZ: Frankly, I don't see why all the
23 secrecy about supplying the well cost figures. I think that
24 is really the case here, whether it is Mr. Martin, Samedan,
25 or the Graces.

1 (Whereupon, a brief recess was held.)

2 MR. UTZ: The hearing will come to order, please.

3 MR. WATKINS: I have conferred with Mr. Grace and
4 we will supply what Mr. Kellahin requested and a representative
5 history to support Mr. Steinhorst's position on this.

6 MR. UTZ: All right.

7 MR. WATKINS: And Mr. Steinhorst's own estimate,
8 that I believe was asked for also.

9 MR. KELLAHIN: So there is no confusion about this,
10 Mr. Watkins, I asked for the total well completion costs.

11 MR. WATKINS: That is exactly right.

12 MR. KELLAHIN: Thank you.

13 MR. UTZ: The statements are in order.

14 MR. KELLAHIN: Sir, I would like to provide some
15 rebuttal testimony if I might.

16 I would like to recall Mr. Hannifin.

17 (Whereupon, Mr. Hannifin having previously sworn
18 came to the stand.)

19 * * * * *

20 D. L. HANNIFIN,

21 having already been previously sworn, testified as follows:

22 DIRECT EXAMINATION

23 BY MR. KELLAHIN

24 Q Mr. Hannifin, you remember that you are under oath and
25 I would like to ask you what, if any, personal

1 involvement you have had with the Graces as operators
2 of any well?

3 A Only as an overriding royalty owner under the Grandonoco
4 well. My overriding royalty is under the northwest
5 quarter of Section 23 South, 26 East, which well went
6 on the line February 4, according to the Commission.

7 Q Mr. Hannifin, directing your attention back to the
8 Grandonoco, I show you what has been marked Hannifin
9 Exhibit 9 and 10.

10 What if any difficulty did you have with Mr. Grace
11 with regards to the payment of the royalties in this
12 particular well?

13 A As far as my own overriding royalty?

14 Q Yes, sir.

15 A I have had no difficulty. I have received no division
16 order for any royalty.

17 Q Mr. Hannifin, let me ask you that again.

18 A I have received neither a division order nor a royalty
19 from the time I left Roswell yesterday morning.

20 Q When was this well put on the line?

21 A The 4th day of February, 1972.

22 Q It is your understanding that there is no division
23 order?

24 A I have received no division order.

25 Q You have not received any royalty payments?

1 A I have received no royalty.

2 Q Mr. Hannifin, I show you what I propose to mark as
3 Hannifin Exhibits 11 through 21, and I ask you to
4 identify where you got these and what they are.

5 A I acquired these at the County Clerk's office, Eddy
6 County, New Mexico, Carlsbad. The clerk certified to
7 each one. They are liens and judgments against Michael
8 P. and/or Corinne Grace. I think one of them might be
9 on Grace Petroleum Company.

10 MR. COOLEY: I object to the introduction of any
11 such evidence as being immaterial in this case.

12 MR. KELLAHIN: In answer to that, Mr. Cooley, I
13 believe that the last witness for Mr. Grace testified that
14 in his evaluation and opinion of what a competent operator
15 was, he said one of the factors he used to consider it was
16 whether the operator had good management practices, such as
17 prompt payment of obligations incurred in drilling and the
18 distribution of those earnings derived from the well to
19 interest owners.

20 The man answered that question on Cross-Examination.
21 I think not only is it relevant for a competent operator to
22 be able to put a hole in the ground and get oil or gas, but
23 he has got to also be able to pay his bills and efficiently
24 and effectively run his operation and I believe these
25 documents are relative to this.

1 MR. COOLEY: If only those debts which are just and
2 due and a man has a right to contest any bill if he thinks
3 it is not due or is too large. These cases are in litigation
4 and any debts that are due will certainly be paid.

5 MR. HATCH: Excuse me. I think probably some
6 questions could have been directed to Mr. Steinhorst
7 concerning this information. I don't really believe they
8 are relevant to introduce at this time. You may wish to
9 respond to that, Mr. Kellahin.

10 MR. KELLAHIN: I am sorry, Mr. Hatch. I didn't
11 hear you. You do not believe that they are relevant?

12 MR. HATCH: I don't believe they are relevant at
13 this time through this witness. I think perhaps some
14 questions could have been asked Mr. Steinhorst concerning
15 those, but I don't believe the introduction of them is
16 proper.

17 MR. UTZ: You say some of these were judgments?

18 MR. KELLAHIN: Some of these have been reduced to
19 judgments and some are mechanic's liens that have been filed
20 against the Graces. I was under the impression that these
21 would be relevant to the question of competency as an
22 operator.

23 MR. HATCH: I think Mr. Steinhorst answered the
24 question that people are often late. I don't believe that
25 proper foundation has been laid to introduce these.

1 MR. UTZ: What were the Exhibit numbers that you
2 intended to offer, Mr. Kellahin?

3 MR. KELLAHIN: Eleven through 21.

4 MR. UTZ: Eleven through 21 in regard to the
5 offering thereof, Mr. Cooley's objection will be sustained.

6 Q (By Mr. Kellahin) Mr. Hannifin, I would like to draw
7 your attention back to the estimated well costs you
8 received from Moran.

9 MR. UTZ: That was Exhibit 5.

10 Q (By Mr. Kellahin) You heard Mr. Steinhorst's testimony
11 with regard to his estimation of cost?

12 A Drilling cost?

13 Q Drilling cost, yes, sir. This Exhibit indicates a
14 discrepancy between your estimated cost with regard to
15 the footage?

16 A Yes. Cost per foot of drilling.

17 Q On what did you base -- how do you support the item you
18 have there?

19 A I support the drilling cost \$8.90 a foot by a drilling
20 bid from Moran Drilling Company of Hobbs, New Mexico,
21 furnished and signed by Mr. McPeter.

22 Q I propose to have that marked as Exhibit 22 and show it
23 to Mr. Cooley for his possible objection.

24 There was some testimony, Mr. Hannifin, with regard
25 to logging costs. Mr. Steinhorst provided us with one

1 estimation and you have provided us with another. How
2 do you support your A.F.E. there?

3 A On the logging costs, I realize that Mr. Steinhorst
4 might represent a different type of logging program. I
5 am not sure, but mine is made by Dresser Atlas
6 Corporation and it shows a total cost of \$8,596.90.

7 Q Do you have any other testimony or any other
8 clarification you would like to make at this point with
9 regard to your Exhibit Number 5?

10 A Not that I know of.

11 MR. KELLAHIN: That's all the questions I have.

12 MR. HATCH: Mr. Kellahin, I don't know that you
13 moved for the introduction of Exhibits 9 and 10. Do you
14 wish to?

15 MR. KELLAHIN: I move for the introduction of those
16 Exhibits that have been marked 22 through 23 and 9 and 10.

17 MR. UTZ: Without objections, Exhibits 8, 9, 10,
18 22 and 23 will be entered into the record of this case. Do
19 you have anything further, Mr. Kellahin?

20 MR. KELLAHIN: No, sir.

21 MR. UTZ: Questions of the witness?

22 CROSS-EXAMINATION

23 BY MR. COOLEY

24 Q Mr. Hannifin, I know you have previously testified that
25 you wouldn't be supervising the drilling of this well,

1 but do you know whether a line would or would not be
2 set and proposed in the completion method if you drilled
3 the well?

4 A I have no idea.

5 Q You are aware, are you not, that if a liner is set, that
6 another set of logs have to be run?

7 A No, I am not.

8 Q Are you aware that it is standard practice of all
9 operators in the field to do so?

10 A No, I am not.

11 Q Are you aware that it is also standard practice of all
12 operators in the field that if you drill a well down
13 there to run completion logs in addition to the logs
14 that have been quoted by Dresser Atlas?

15 A No, I am not.

16 Q You are aware, are you not, that Mr. Steinhorst has
17 allotted \$3,000-some for the cost of such completion
18 wells?

19 A If it shows on this, you A.F.E.

20 Q With respect to Exhibit Number 22, which is the footage
21 quote, these things are somewhat meaningless unless you
22 have a drilling contract in front of you to go with the
23 quote.

24 Do you know at what point, or at what depth Moran
25 would propose to go on day work?

1 A He shows no depth as his drilling goes. It shows going
2 to 11,800 feet at \$8.90 a foot.

3 Q Are you saying that Moran has offered to go on day work
4 all the way to TD on this well?

5 A It doesn't say that at all, Mr. Cooley.

6 Q Does it offer to go to footage rather than from TD?

7 A Evidently from the bid you are holding in front of you,
8 sir. Of course, all I have is what the bid that was
9 submitted by Moran Drilling Company says.

10 MR. COOLEY: Mr. Examiner, I do object to the
11 introduction of Exhibit Number 22 for the reason that it is
12 vague and ambiguous because I am personally aware that it is
13 standard practice in the industry that at depths such as
14 these, they do not drill footage to total depth, and unless
15 these standard A.P.I. contracts that is utilized in the
16 industry has a point at which there is a switch-over from
17 footage to day work and this not only involves a difference
18 in cost, but it is a complete transfer of the risk of the
19 loss of the hole and any well drilled on a footage to the
20 point where a well is drilled footage, the drilling contractor
21 is fully responsible for the loss of that hole.

22 At the time it goes on day work, the operator
23 becomes responsible for it. Accordingly, I would request
24 that if Exhibit 22 is to be accented, that it be accepted
25 in the light of an Exhibit 22 which would be a form of

1 contract filled in that Moran is willing to undertake in
2 this area because it gives the implication that they are
3 willing to drill to 11,800 feet at \$8.90 a foot but they have
4 a day work quote and I know from experience in the industry
5 that there will be a switch-over at some depth and that is
6 specified in the A.P.I. contract and I would suggest to the
7 Commission that this Exhibit is misleading and ambiguous
8 unless it is read in light of the contract completely filled
9 out with respect to terms that Moran is willing to undertake.

10 This is far below anything that has been offered
11 to us.

12 MR. KELLAHIN: I will have to defer to the
13 Examiner's expertise. If I understand it correctly, Mr.
14 Cooley's objection really goes to one of weight rather than
15 of admissability of a particular document and I will leave
16 it to the Examiner's expertise to determine whether he thinks
17 it carries any weight at all, or whether he thinks it carries
18 the necessary cautions that Mr. Cooley has alluded to.

19 MR. COOLEY: It goes to ambiguity. It is ambiguous
20 as it is written because there is no way that you can
21 determine what the well cost would be until you see the
22 contract.

23 MR. KELLAHIN: Deferred to the Examiner.

24 MR. HATCH: I think he has only offered it as
25 supporting evidence to the A.F.E. figure of drilling costs

1 that was in question in making the estimate. Mr. Cooley has
2 pointed out some problems with it and I think, as Mr.
3 Kellahin says, you can certainly accept it in evidence as
4 some sort of supporting testimony as to the basis of his
5 A.F.E.

6 MR. COOLEY: Is there any objection on the part
7 of Mr. Hannifin to have Moran supply a fully filled out
8 contract as Exhibit 22a?

9 MR. HATCH: I don't believe Mr. Hannifin has
10 testified to having a contract with this person and I think
11 it would be improper for the Commission to require him to
12 make a contract with someone.

13 MR. COOLEY: I don't mean an executed contract, Mr.
14 Hatch, but a proposed contract that would accompany this
15 letter.

16 MR. HATCH: That is up to the Examiner whether he
17 wants to require such a thing. I wouldn't think it would be
18 necessary.

19 MR. UTZ: Mr. Cooley the question that enters my
20 mind as to Exhibit Number 5 which is an A.F.E. which was
21 accepted into the record which states 11,800 feet drilling
22 at \$8.90 a foot.

23 MR. COOLEY: We have most directly attacked that
24 figure because it can't be achieved.

25 MR. UTZ: Did you object to Number 5 also?

1 MR. COOLEY: We attempted to destroy the credibility
2 of that figure through Mr. Steinhorst's testimony and now
3 they are attempting to support it by the letter from Moran
4 which I submit again that a question can be clarified as to
5 what they will or won't drill a well for.

6 I don't mean to require a contract, but require them
7 to submit you a proposed contract.

8 MR. UTZ: The question in my mind, Mr. Cooley, is
9 how much they worked as anyone expects.

10 MR. COOLEY: It has been standard practice of Grace
11 and of Pennzoil and other operators that drill on a footage
12 basis to a given depth to convert to day work as the well
13 gets deeper and more complicated.

14 Pennzoil, for instance, goes on day work below
15 10,000 feet and I am just questioning whether the Exhibit 5
16 in -- if Moran will work for \$8.90 a foot for Mr. Hannifin
17 there is no reason to believe he won't do the same for Mr.
18 Grace.

19 MR. KELLAHIN: I don't know if we have anything to
20 support that supposition or not. Moran is free to contract
21 with whom they please and set the price at what they mutually
22 agree upon.

23 MR. UTZ: Mr. Hannifin, maybe you can interpret
24 Exhibit Number 22. What does he mean by day work, zero to
25 11,800 feet, do you know?

1 THE WITNESS: To my interpretation, he is going to
2 drill zero to 11,900. Day work, I presume, is during drill
3 stem tests which is normal day work operations. I am not
4 an expert in that field at all.

5 MR. UTZ: I would interpret the Exhibit to say that
6 he would drill for \$8.90 a foot plus day work whenever
7 required.

8 THE WITNESS: That is my interpretation.

9 MR. UTZ: Did Moran tell you how much day work was
10 going to be required?

11 THE WITNESS: I shouldn't think so, sir. I don't
12 think he could tell us how long it would take it to run drill
13 stem tests or logs or various other operations that are on
14 day work.

15 MR. UTZ: What do you think?

16 MR. HATCH: I think it is supporting testimony.
17 You cannot say that this is the price he is going to get a
18 well drilled for. The claim has not been made. He has been
19 putting forth an estimate and one of the estimates was
20 questioned and he put forth some testimony or some evidence
21 as to why he chose that figure.

22 There is no binding contract, of course, but there
23 is not on either side.

24 MR. UTZ: This is true. Mr. Cooley, I will
25 overrule your objection and ~~expect~~ *accept* Exhibit Number 22.

1 Any further examination?

2 MR. COOLEY: No, sir.

3 MR. UTZ: Are through with your witnesses?

4 Other questions of the witness? He may be excused.

5 We are at statements once more.

6 MR. COOLEY: No, we are not. We are at rebuttal
7 testimony now.

8 MR. UTZ: Have you got another witness?

9 MR. COOLEY: Very brief, Mrs. Grace.

10 (Whereupon, Mrs. Grace was called to the stand and
11 sworn.

12 * * * * *

13 CORINNE GRACE,
14 having been first duly sworn according to law, upon her oath,
15 testified as follows:

16 DIRECT EXAMINATION

17 BY MR. COOLEY

18 Q Mrs. Grace, Mr. Hannifin testified on rebuttal that
19 there have been some failure on yourself or Mr. Grace's
20 part with respect to certain persons overriding royalty
21 interests.

22 Do you have anything to say about that?

23 A Yes. When the Grandonoco well went on the line, I
24 immediately called our attorneys Hinkle, Bondurant, Cox &
25 Eaton and asked them to please do the title opinion and

1 draw the division order and they said they would. Once
2 a week for the first few weeks I called them and I said
3 that I have not received it, may I please receive it.

4 They would say that they were very, very busy and
5 that they were going to do it. After that I started
6 calling them three times a week. They were busy and
7 they finally sent me the title opinion without the
8 division order because they had certain requirements.

9 One of those requirements was that there were two
10 people, Mrs. Speena and Barecka Oil Company. They had
11 no record in their title opinion of them owning any
12 interest in this well.

13 In the meantime, because the time had elapsed, Mr.
14 Cuda, an attorney in Roswell, had written me that he
15 represented this gentleman here and Mr. Hannifin and he
16 represented Barecka Oil and Betty Speena and a few other
17 people.

18 They had some small overrides on this well and our
19 attorneys, Hinkle, Bondurant, Cos & Eaton firm, had
20 informed Mr. Cuda that he had no record of Barecka Oil
21 and Betty Speena having any assignment from Pan American,
22 who is now Amoco Oil Company and would he please get
23 hold of Amoco and if they had any assignment or any
24 royalty to please give it to him so he could then
25 prepare the division order.

1 He didn't get this from Mr. Cuda and he finally
2 sent me, in a rough draft, a division order, so he
3 wouldn't keep running up fees and for me, when I got it,
4 to pay the money and first circulate the division order
5 and pay the money.

6 I finally decided that time was going on and I sent
7 Mr. Cuda money for everybody that he had on his list,
8 all of their royalties up to where I had been paid,
9 except for Bareck and Speena and I asked him in a letter
10 that he advised me if I wished to circulate the division
11 order without these two people, or wait until he
12 straightened it out.

13 I have not heard from Mr. Cuda and if Mr. Cuda
14 hasn't distributed the money, it is not my fault.

15 Q You have paid all monies due from Michael P. Grace and
16 Corinne Grace on accounts of overriding royalty that
17 were discussed in his testimony with respect to the
18 Grandonoco well by and through his attorney and agent,
19 Mr. Cuda?

20 A Yes, except for Speena and Barecka. I haven't heard
21 from them.

22 Q Mr. Hannifin?

23 A Yes. Mr. Hannifin, of course.

24 Q When did you do that?

25 A I did it approximately two weeks ago. I have

1 correspondence that gives the date.

2 Q Anything else that you would like to testify to with
3 respect to Mr. Hannifin's most recent testimony?

4 A I have paid every check. One check may have arrived
5 today, as soon as that clears, I will pay it when I get
6 the division order.

7 Q Do you or Mr. Grace owe any just debts for and on
8 account of the drilling of any of your oil and gas
9 properties or production thereof that have not been
10 paid?

11 A None that are over thirty days old.

12 Q Do you have some bills that have been contested?

13 A Yes, I do, and as in any business, there will be
14 dishonest people who try to do things wrong and we don't
15 pay bills that we don't owe.

16 Q You don't allow yourself to be victimized by the service
17 companies or anyone else?

18 A No.

19 Q If it were a joint operation, this would be a joint
20 account and if you settled an account, you contested an
21 account and it would be settled in favor of all the --

22 A We have settled over half of the contested already and
23 our Carlsbad attorneys are in the process of settling
24 the others very well in our favor and whoever belongs
25 to the well's favor.

1 We try to pay our bills in thirty days and get the--
2 you get a -- many of them give you a two percent off if
3 you pay in thirty days. Like on pipe, we pay in ten
4 days to get two percent off.

5 I don't think we could have paid for seven wells if
6 we didn't have credit somewhere.

7 Mr. COOLEY: Thank you very much, Mrs. Grace.

8 MR. UTZ: Any Cross-Examination?

9 MR. KELLAHIN: Yes, sir.

10 CROSS-EXAMINATION

11 BY MR. KELLAHIN

12 Q Mrs. Grace, am I correct in saying that Mr. Hannifin's
13 money is now with the Hinkle firm; is that correct?

14 A It is with Atwood & Malone in Roswell. He is his
15 attorney. He said he represented you.

16 Q What was the difficulty with Mr. Hinkle now?

17 A Mr. Hinkle's firm -- it was Mr. Lewis Cox and his firm
18 and he was traveling a great deal and there was a
19 certain amount of delay in his completing the title
20 opinion and when he did, he had certain requirements
21 in this title opinion that were to be corrected before
22 I circulate a division order and pay any funds, but due
23 to the fact that Mr. Cuda did not furnish me the
24 requirements, I still went ahead wrongfully and paid
25 these people.

1 Q The difficulty with Mr. Hinkle now was with regard to
2 the title and not with regard to any money that might
3 have been owed Mr. Hinkle?

4 A I have paid Mr. Hinkle over \$50,000 in the last year.

5 Q You indicated that you were paying all the bills of
6 those people that you consider the bills just and
7 reasonable. You have just said that; isn't that right?

8 A Yes.

9 Q Do you consider Civils Tank, Incorporated, of honest
10 people that you deal with?

11 A I will ask my attorney if I should go into this.

12 MR. COOLEY: I think that is an improper question.

13 MR. KELLAHIN: I was going to ask her if she has
14 paid Civils Tank, Incorporated.

15 Q (By Mr. Kellahin) Mrs. Grace, have you paid Civils
16 Tank?

17 A I have paid them what I owe them. They dropped a tank
18 and broke it and then sought to charge me over \$400.
19 That is one of the items. There are many of them.

20 Q Have you paid Civils Tank for equipment, tools and
21 supplies furnished you in the claim of \$509.68?

22 A Transwestern is paying some of the bills for Civils
23 Tank.

24 Q Are you paying the bills for B & E, Incorporated, Hobbs?

25 A I think Transwestern is responsible for that.

1 Q Are you paying Gil Supply and Rental, Incorporated,
2 Odessa, Texas? Are you aware of that obligation?

3 A Very much so. Are we going to fight that case here?

4 Q Here?

5 A Yes, are we?

6 Q No, ma'am. I am just asking if you paid it?

7 A You want to know what happened on that? They brought
8 out drilling material three days late. Now, what would
9 happen to a hole if you sat for three days at \$64 an
10 hour rig time?

11 I am not that kind of an operator.

12 Q Don't you think that people you hired to complete these
13 wells for you also reflects upon your ability as an
14 operator?

15 A Wait a minute. I hired these people for one reason,
16 because they had furnished a certain plastic to Pennzoil.
17 Pennzoil got in a lot of trouble in a wildcat well out
18 there and they had terrible circulation and the only
19 people that could correct it was Gil Supply, because
20 they happened to have this certain plastic and they
21 bought it and they got through their law circulation,
22 so we got hold of them in case that we would get into
23 the same trouble, we would be prepared and they told us
24 there was a certain item. What was that stuff?

25 I am telling you how I got hooked up with those

1 crooks. They are the only people that furnish that
2 plastic and if you will just bear with me, I will explain.

3 Q I would be happy to have you tell me.

4 A There was a certain thing that we wanted and I can't
5 remember the name of it right now, calcium carbonate.

6 Q Eighty-three drums to be exact?

7 A I didn't order it in drums, sir. That was the whole
8 problem.

9 Q Okay.

10 A Will you let me explain my case? If you want to fight
11 it here, you brought up the subject about these crooks.

12 Q You have not paid them?

13 A I don't owe them.

14 Q How about Land Marine Rental Company, a corporation? It
15 says that you owe them some money, \$3,000.

16 A They owe me over \$50,000. It was their fault, the fire
17 on the Panagra. They had a faulty blow-out preventer.

18 Q That explains that one. How about this one with
19 Norman and Burnson Company, a New Mexico corporation?

20 A That has been settled and cleared up. It has been
21 removed, paid, settled. It has all been settled.

22 Q This judgment has been paid?

23 A It is settled.

24 Q How about Matt Chase, Incorporated?

25 A It was settled very much in our favor.

1 Q How about your difficulties with Mr. Pomeroy?

2 A It has been settled, very much in our favor.

3 Q You have paid the judgment, then?

4 A No. I said it was settled.

5 Q You have reached an amicable settlement with Mr. Pomeroy?

6 A Very favorably on our side.

7 Q How about Abbet Brothers?

8 A It has been settled in our favor.

9 Q How about Pool Company?

10 A It has been settled in our favor.

11 Q How was it settled in your favor, Mrs. Grace?

12 A Because they billed us more than we owed and we paid them
13 what we owed and they settled for it.

14 Q Thank you.

15 MR. UTZ: Are there other questions of Mrs. Grace?

16 MRS. GRACE: If I could say something to clarify
17 this \$8.90 drilling, they have got, I have been told Cactus
18 Drilling Company for Cities Service. They said somewhere in
19 this testimony they had an estimate from Cities Service.

20 I understand that Cactus Drilling Company drilled
21 Cities Service's first well in the South Carlsbad field for
22 \$8.90 a foot, down to approximately 9,700 feet, and from
23 there when they waited up to seventeen pounds, eight pounds
24 per fifteen hundred, \$50 a day on without drilled pipe, and
25 sixteen hundred, \$75 with drilled pipe and Cactus lost money

1 and they said they would never drill another well in the
2 South Carlsbad for \$8.90 and I notice that Cities Service
3 later put in an A.F.E. and it was for more than that.

4 MR. KELLAHIN: With all due respect, this is all
5 hearsay.

6 MR. COOLEY: It is not at all unusual to take
7 hearsay for whatever it is worth.

8 MR. UTZ: We appreciate the information and we will
9 accept it for what it is worth.

10 REDIRECT EXAMINATION

11 BY MR. COOLEY

12 Q Mrs. Grace, the items that were listed off by Mr.

13 Kellahin were involved in a number of different wells,
14 were they not?

15 A Yes, sir, over a period of several years.

16 Q Several million dollars were spent in drilling?

17 A For those few piddling few, I think that is a mighty few
18 to get in an argument with.

19 MR. COOLEY: No further questions.

20 MR. UTZ: Questions? Witness may be excused.
21 Statements?

22 MR. KELLAHIN: Very briefly, Mr. Utz, I won't take
23 any more of your time. I believe the Examiner is fully
24 competent to evaluate the testimony in evidence on each side.
25 I would like for you to keep in mind that although Mr.

1 Hannifin does not have the experience in this area, he has
2 made his best effort in retaining individuals to represent
3 him and to supervise his operation here.

4 He does seek to be designated the operator. He
5 will be the individual responsible to the Commission
6 regardless of who he hires to supervise. He has made efforts
7 to have the Graces voluntarily join him. They have refused.
8 They, on their part, have made efforts to have him join them.
9 He has refused and the sole single question for you to
10 resolve, then, is who in your estimation, as supported by the
11 facts here, should be designated operator.

12 Mr. Grace has had some experience in this area. He
13 has drilled some seven wells. You have heard the testimony
14 about those particular wells. Some of the wells have reached
15 a state in which they have had mechanical problems.

16 Mr. Steinhorst said that it could happen to
17 anybody. Nevertheless, Mr. Grace has a propensity for having
18 some difficulty in this area.

19 Perhaps we can allude to that as the difficulty in
20 the area itself and perhaps we can attribut that in some part
21 to Mr. Grace's competency. It is for you to decide. I believe,
22 we, in the best effort, have supported Mr. Hannifin's position
23 that he in fact ought to be designated the operator.

24 The single most compelling reason is that his costs
25 are far less than Mr. Grace's costs. That is all I have.

1 Thank you.

2 MR. COOLEY: I would at this time move that the
3 Application of Hannifin be dismissed because from his own
4 testimony, he owns no working interest whatsoever in the
5 south half of Section 24 and I submit that the statutes in
6 the State of New Mexico particularly 65314 requires, as a
7 prerequisite to force pooling, that one be an owner and have
8 the right to drill.

9 He has testified here that he is contractually
10 divested himself of that right to drill and that he has no
11 standing before this Commission at this time nor has he had
12 since he granted that right and privilege to Samedan.

13 MR. UTZ: Even though it was verbal.

14 MR. COOLEY: He said the deal was binding. That
15 was his testimony. I don't know how he is bound. That is
16 the only evidence in this record that he has no working
17 interest. He has got eleven and a quarter percent
18 overriding interest until payout, and five percent if carried
19 and converted with an option to convert five percent so that
20 would be convertible to the fifty percent working interest.

21 The other has nothing to do with interest.

22 MR. UTZ: The motion will be overruled. You may
23 proceed with your statement.

24 MR. COOLEY: It is clear, as Mr. Kellahin has
25 pointed out, that the Applicant Hannifin, by his own

1 admission, has no knowledge or expertise whatsoever with
2 respect to drilling or operating oil and gas wells. He has
3 stated that he has placed his full faith and confidence in
4 Samedan Oil Corporation.

5 Although we had one witness from Samedan, he is
6 not in the operating division or portion of that company, and
7 he too, disclaims any knowledge of the type of expertise that
8 is required to successfully conduct the operation that we are
9 discussing here.

10 In the record we have here presented to you all of
11 the Grace team that will go out and drill and complete the
12 proposed well. They are subject to vigorous cross-examination
13 and inquiry. We have been asked to supply historical cost
14 data, which we have agreed to do.

15 On the other hand, the one outing at the race track
16 that Samedan has had in this particular area resulted in a
17 dry hole which we believe was probably the most expensive
18 well ever drilled in the area. There is no evidence in the
19 record to support that fact and apparently it will never be
20 produced. We have requested it.

21 The gist of it is that our team has been here
22 before this Examiner and this Commission available for any
23 type of cross-examination with respect to their expertise
24 and their knowledge and their experience. The Hannifin team,
25 consisting of Samedan, has not been and we know nothing in

1 this record of their capability.

2 I feel that as it is apparent on this record that
3 there is only one controversy between the parties. Each
4 thinks that it should be force pooled. Each thinks the well
5 should be at an identical location. Each thinks this is a
6 good shot. Who is the better qualified operator?

7 Mr. Grace has drilled more wells in the South
8 Carlsbad area than any other operator. If experience is not
9 the best teacher, I don't know where you get it. There is
10 no point to belabor this any further. I think it is clearly
11 on the record in this case as it is closed here in a few
12 moments, that there is only one operator who can be chosen
13 because the other is a complete unknown quantity.

14 Thank you, Mr. Examiner.

15 MR. UTZ: Other statements?

16 Case will be taken under advisement.

17 MR. HATCH: We have a telegram addressed to the
18 New Mexico Oil Conservation Commission, dated September 26,
19 1972, re Case 4819, "Atlantic Richfield Company, owner of
20 lease in southwest quarter Section 24, 22 South, 26 East,
21 Eddy County, New Mexico, has farmed out this interest to
22 Grace and his wife, Corinne Grace, et al, and will take
23 Atlantic Richfield's position on compulsory pooling of this
24 tract." Signed, J. R. Rhotenberry.

25 MR. UTZ: Other statements?

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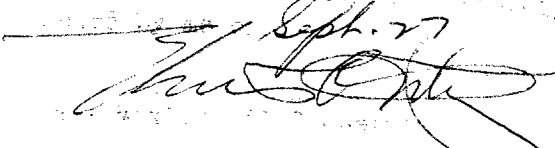
Case will be taken under advisement.

(Whereupon, the hearing was adjourned for the day.)

1 STATE OF NEW MEXICO)
) SS
 2 COUNTY OF BERNALILLO)

3 I, MARCIA HUGHES, a Notary Public, in and for the
 4 County of Bernalillo, State of New Mexico do hereby certify
 5 that the foregoing and attached Transcript of Hearing before
 6 the New Mexico Oil Conservation Commission was reported by
 7 me; and that the same is a true and correct record of the
 8 said proceedings to the best of my knowledge, skill and
 9 ability.

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 13 NOTARY PUBLIC
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