

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
State Land Office Building
Santa Fe, New Mexico

14 August 1985

EXAMINER HEARING

IN THE MATTER OF:

Application of Wilton Scott to vacate CASE
and void Division Order No. R-7983, 8678
Lea County, New Mexico.

BEFORE: Michael E. Stogner, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

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MR. STOGNER: Call next Case
3678.

MR. TAYLOR: The application of
Wilton Scott to vacate and void Division Order No. R-7983,
Lea County, New Mexico.

MR. STOGNER: We will now call
for appearances in this matter.

MR. PADILLA: Mr. Examiner, Er-
nest L. Padilla, Santa Fe, New Mexico, for the applicant.

I have two witnesses to be
sworn.

MR. STOGNER: Call for any more
appearances.

MR. KELLAHIN: If the Examiner
please, I'm Tom Kellahin of Santa Fe, New Mexico, appearing
on behalf of APC Operating Partnership.

MR. CARR: Mr. Examiner, my
name is William F. Carr with the law firm Campbell and
Black, P. A., of Santa Fe.

We represent Union Texas Petro-
leum Corporation.

We do not intend to call a wit-
ness.

MR. STOGNER: Are there any

1 other appearances in this matter?

2 Will the witness please stand
3 and be sworn at this time?

4

5 (Witnesses sworn.)

6

7 MR. PADILLA: Mr. Examiner, I
8 call Wilton E. Scott as my first witness.

9

10 WILTON E. SCOTT,
11 being called as a witness and being duly sworn upon his
12 oath, testified as follows, to-wit:

13

14 DIRECT EXAMINATION

15 BY MR. PADILLA:

16 Q Mr. Scott, would you please state your
17 name and where you reside?

18 A Wilton E. Scott, Houston, Texas.

19 Q Are you the applicant in this case?

20 A I am.

21 Q Can you -- well, let me ask, have you
22 previously testified before the Oil Conservation Division in
23 the past?

24 Q Quite past, yes.

25 Q How long ago was that?

- 1 A Probably over forty years ago.
- 2 Q What is your educational background?
- 3 A I'm a geologist.
- 4 Q Where did you get your degree in geology?
- 5 A University of Texas.
- 6 Q Can you give us your background in the
- 7 oil and gas industry?
- 8 A I moved to New Mexico in 1938, working as
- 9 a geologist for Cities Service Oil Company. I remained with
- 10 them as District Geologist in New Mexico through about 1943,
- 11 at which time I left their employment and went to work for
- 12 Buffalo Oil Company, where I resided in Artesia, New Mexico,
- 13 as an Exploration Manager.
- 14 I stayed there until -- I stayed with
- 15 Buffalo until 1955 when I left their employment and moved to
- 16 Houston and joined Tennessee Gas Transmission, which is the
- 17 predecessor to Tenneco, Inc., as Exploration Manager.
- 18 I held various positions with Tenneco,
- 19 Inc. over the years and retired in 1978 as Chairman of the
- 20 Board and Chief Executive Officer, but I remained on the
- 21 Board and Chairman of the Management Development Committee
- 22 until 1983 when I retired from the Board.
- 23 I have no further connection with Ten-
- 24 neco.
- 25 Q What is your -- can you give us a brief

1 background of your involvement with the Northeast Caudill
2 Wolfcamp Pool?

3 A I first became involved in this area --
4 well, I became involved because my wife and her two sisters
5 own practically all the minerals under Section 1 of 15
6 South, 36 East, and I put together a number of years ago
7 those leases that turned into Tipperary Oil Company, who
8 drilled a well in the northwest quarter of Section 1.

9 That well encountered some apparent pay
10 in the Wolfcamp Reef and were drilled on down to the Penn-
11 sylvanian and plugged back and was completed as a producer
12 for a short time. The bottom hole pressure depleted very
13 quickly and the well was plugged after producing about 1000
14 barrels of oil.

15 Nothing more was done until some while
16 later I again put the leases together in that immediate area
17 and joined with V-F Petroleum. I think I had a third work-
18 ing interest in that well, and we drilled a well south of
19 the Tipperary Well and though that well had a very thin
20 streak of porosity at the top of the reef, it obviously at
21 that time was not commercial. We did not test and we plug-
22 ged it, and the leases expired.

23 Somewhat later I again collected leases
24 in the area and then drilled, along with Frank Late of Dal-
25 las, L-A-T-E, Frank Late of Dallas, we drilled a well in the

1 south half of Section 1, which also was dry and was plugged.

2 That well completely missed the reef and
3 it was after the drilling of that it became apparent that
4 the reef did fall in the west, not the east side of the V-P
5 Petroleum well, so I made a deal with Robert Edsel -- that's
6 E-D-S-E-L -- of Dallas. He in turn sold some interest in
7 the leases that I farmed out to him and drilled a well in
8 the northwest of the southwest quarter of Section 1, and
9 that was completed as a producer in the Wolfcamp Reef as the
10 Scott No. 1.

11 Q You are familiar with the land positions
12 of the various parties in Sections 1 and 2 of the subject
13 area?

14 A Yes, I am.

15 MR. PADILLA: Mr. Examiner, we
16 offer Mr. Wilton Scott's credentials as a land manager and
17 his background in the oil and gas business and tender him as
18 an expert in that regard.

19 MR. STOGNER: Are there any ob-
20 jections? He is so qualified, Mr. Padilla.

21 Q Mr. Scott, I hand you what we have marked
22 as Exhibit Number One in this case and ask you what it is
23 and what it contains.

24 A This is a letter dated June 31st of this
25 year, which I wrote to Mr. James H. Edsel, who is the Vice

1 President with his brother's firm, Robert M. Edsel, whereby
2 I advised them how I wanted the leases reassigned to me that
3 they had failed to validate under their commitment under the
4 farmout that I made to them a --

5 Q Let me --

6 A -- couple years prior.

7 Q Let me ask you first of all to -- before
8 we move on, what is your specific interest in, say, Section
9 -- Section 1?

10 A You mean as to the leases --

11 Q Yes.

12 A -- covering Section 1? I own, along with
13 Mr. Late, I own two-thirds, Mr. Late owns one-third, inter-
14 est in the leases covering all of the Allen minerals under
15 Section 1, which is all of the section except the west half
16 of the northwest quarter, and I, because of that ownership
17 and the farmout that I made to the Edsels, I own 25 -- two-
18 thirds interest and Mr. Late owns one-third interest of 25
19 percent of the Scott No. 1.

20 Q Do you represent Mr. Late here today?

21 A Yes, I do.

22 Q What other interest do you represent?

23 A I also represent my wife and her two sis-
24 ters, who own all of the minerals under that lease.

25 Q What is their royalty interest?

1 A 3/16ths.

2 Q Are you the largest working interest
3 owner, together with Mr. Late, in the area?

4 A I believe I am. Robert Edsel owns about
5 the same as we do; approximately 25 percent, I'm not sure.
6 It has been divided a number of times and I'm not just cer-
7 tain what he owns.

8 Q Coupled with the royalty interest of
9 3/16ths that you also represent, would that represent the
10 largest share --

11 A That would represent over 30 percent of
12 the interest of the well and certainly the largest interest
13 of anybody.

14 Q Let me hand you what we have marked as
15 Exhibit Number Two and have you identify that for the Exam-
16 iner and tell him what it is.

17 A This is the farmout agreement that I
18 made, or Mr. Late and I made, with Robert Edsel Company in
19 Dallas, and it lists the acreage that was involved in that
20 farmout that was covering most of Section 1, parts of Sec-
21 tion 12, 15 South, 36 East.

22 Q Now referring back to Exhibit Number One,
23 what resulted as a result of your letter to -- for reassign-
24 ment?

25 A I had in this farmout agreement as one of

1 as one of the terms that these people would conduct a con-
2 tinuous drilling operation on the farmout acreage, drilling
3 a well within 120 days of the completion of the previous
4 well, or surrendering to me any undrilled production units,
5 and the deep rights 60 feet below any depth of any producing
6 wells.

7 I also had a requirement that they would
8 reassign to me within 180 days interest in any expiring
9 lease.

10 Q What was the date on which reversion of
11 those lands was to be made or what was the effective date of
12 the --

13 A The last well that these people drilled
14 under this farmout agreement was plugged and abandoned 120
15 days prior to June the 15th of this year, and I wrote at the
16 time that that well was plugged, which was the No. 3-Y
17 Scott, at the time that well was plugged I wrote to Mr. Ed-
18 sel, with whom I made the deal originally, notified him that
19 their termination of rights would be June the 15th of this
20 year, and if there was any disagreement as to that date on
21 anybody's part to please notify me.

22 There was no notice coming back. In
23 fact, Mr. Edsel had verbally advised me that they did not
24 propose to do any further drilling on those leases.

25 Q Was a reassignment made to you?

1 A I, by this letter, called for a reassign-
2 ment. That letter is dated June 31st. I called for a reas-
3 signment as of June 15th as per the agreement, and I did --
4 I have not yet received that reassignment.

5 Q Was -- let me hand you Exhibit Number
6 Three and have you identify that.

7 A As you can see in this letter, I advised
8 Mr. Edsel to reassign all fo the --

9 Q You're referring to Exhibit Number One
10 now, is that correct?

11 A That's right. Reassign to me all of the
12 acreage including the southwest of the southwest quarter of
13 Section One, which was the south offset to the No. 1 Scott,
14 an the only direct offset that had not been validated or
15 drilled on.

16 And he in turn wrote to the other partners
17 and advised them that he had received this notice that I was
18 due this reassignment and to please complete the reassign-
19 ments and forward them to me, the reassignment being two-
20 thirds to myself an done-third to Mr. Late.

21 I received one reassignment, that from
22 Mr. William C. Bahlburg.

23 Q Who is Mr. Bahlburg?

24 A He is a working interest owner in the --
25 in the farmout. He was a geologist that worked for Edsels

1 and participated in this farmout and drilling these wells.

2 He sent me his reassignment.

3 Then on -- and this exhibit here is a
4 Mailgram that I received from him advising me that he was
5 unaware that the proration unit for the Scott No. 1 Well
6 had been changed from 40 acres to 80 acres by order of the
7 New Mexico Oil and Gas Conservation Commission as of June
8 1st, and accordingly, asked for me to return his assignment
9 to him, which obviously I did.

10 When I received this Mailgram, that was
11 the first indication that I had that the 40-acre proration
12 units had been changed.

13 Q Let me hand you what we have marked as
14 Exhibit Number Four and have you tell us what that is.

15 A This is a letter from James Edsel on the
16 stationery of Robert M. Edsel Company, directed to all the
17 working interest owners and in which he says, "By telegram
18 dated July 17th we advised each of you we were reviewing the
19 issue of reassignment to the Scott-Late of certain acreage
20 within the captioned prospect and in light of our learning
21 about the recent establishment of 80-acre proration units in
22 the Northeast Caudill Wolfcamp Pool."

23 And he goes on and says, after examining
24 this evidence he is of the opinion that I am entitled to a
25 reassignment of -- they are to keep and not reassign the 80

1 acres instead of the 40 acres originally thought to be reas-
2 signed.

3 Q When -- can you pinpoint a date when you
4 first learned of 80-acre spacing?

5 A He says in this letter, the last para-
6 graph, "I am advising Mr. Scott and Late by telephone and a
7 copy of this letter of our position in this regard. Please
8 feel free to contact me on this matter."

9 But that, I think, was immediately after
10 I'd received this Mailgram from Bahlburg, and I don't see a
11 date on it, but it was approximately the same date, early
12 part of August.

13 Q And that was after the order had been en-
14 tered.

15 A That's right.

16 Q Let me hand you Exhibit Number Five and
17 have you tell us what that is.

18 A This is a copy of an oil and gas -- oil
19 and gas and mineral lease on a producer 88 form from a land-
20 owner owned Gilliam to Philip A. Hancock, dated November
21 18th, 1981. It is one of several leases all on the same
22 form that were later assigned to Florida Oil and Gas Com-
23 pany.

24 Q Does that lease contain a continuous
25 drilling provision in it?

1 A It does not.

2 Q What is the difference between your farm-
3 out agreement and -- the terms of your farmout agreement to
4 Edsel and this oil and gas lease insofar as continuous drill-
5 ing is concerned?

6 A Well, this is a normal, as I said, a pro-
7 ducer 88, (not understood) oil and gas lease, which conveys
8 to -- which did convey to Florida Oil and Gas Company -- Oil
9 and Gas Exploration, the rights under the east half of Sec-
10 tion 2.

11 It contains no clause or stipulation for
12 continuous drilling, whereas, I made a farmout of leases I
13 owned, a number of leases I owned, to Edsel with a contract
14 specifically calling for continuous drilling operation or
15 reassignment of those leases.

16 Q Under that producer 88 lease marked Exhi-
17 bit Number Five, what advantage or disadvantage would you
18 have under 40 or 80-acre spacing, or would it make any dif-
19 ference whether you had 40 or 80-acre spacing?

20 A So long as they paid royalty amounting to
21 \$320 a year and were prudent operators, there would be no
22 requirement of future of development under that contract.

23 Q How about applied covenants under general
24 oil and gas law?

25 A Obviously.

1 Q There is no express provision in --

2 A There is no express provision whatsoever.

3 Q What motivation do you speculate, or what
4 reason do you believe the application was brought for 80-
5 acre spacing?

6 MR. KELLAHIN: Objection, Mr.
7 Examiner. It calls for a speculative answer from this wit-
8 ness. It's argumentative and improper.

9 MR. PADILLA: Mr. Examiner, I
10 just simply asked -- I've developed a foundation here on the
11 east half of Section 2 and I am asking what the witness --
12 tendered him as an expert in land management. I believe he
13 can answer that.

14 MR. STOGNER: Mr. Kellahin, ob-
15 jection overruled.

16 Mr. Padilla, would you please
17 restate your question.

18 Q Mr. Scott, what advantage would APC have
19 in 80-acre spacing with respect to its lease?

20 A Well, I don't really know. APC was not a
21 party to my contract and they had one well on the east half
22 of Section 2 producing. They had not drilled any other well
23 in that section. That well was not making its allowable. I
24 don't think it ever made its allowable. They would get an
25 additional allowable. They had no contractual obligation to

1 do further drilling under a 40-acre spacing. So I assume
2 that they had some reason for making this application I
3 don't know.

4 It -- they own half interest in that
5 well.

6 Q Who does?

7 A APC.

8 Q Who owns --

9 A Apache.

10 Q Who owns --

11 A The other half is owned by Union of Texas
12 and Union of Texas is a party to my contract in Section
13 One, and obviously, Union of Texas would have a great deal
14 of interest in going to 80 versus 40 because their contract
15 was going out with me and they could hold the -- an 80 in-
16 stead of a 40 if they got the rules changed at the last
17 minute, even though they had been operating for a year and a
18 half under 40-acre spacing.

19 Q Would that include the -- are you talking
20 specifically about the southwest quarter of the southwest
21 quarter of the Section 1? Is that on a stand-up 80?

22 A Specifically I'm talking about the west
23 half of the southwest quarter as an 80 versus a northwest of
24 the southwest, which is a 40 that they did have held by
25 production and under contract with me.

1 Q Do you recall having opposed 80-acre
2 spacing for this area previously?

3 A I did at the time that Robert Edsel was
4 drilling and attempting completion on the Edsel 2-SW side-
5 track, which was extended; the well -- the surface location
6 was in the northeast of the southwest of Section 1. It was
7 a dry hole at the regular depth.

8 Edsel took the well over, sidetracked it,
9 and moved it to test the Wolfcamp Reef in the 40 acres di-
10 rectly north of where the surface location was, and when
11 they were testing that well, they applied for forced uniti-
12 zation across the half section line, that being the 40 acres
13 in the southeast of the northwest and the northeast of the
14 southwest.

15 Q Are you saying --

16 A And they made application to join these
17 two in a 40-acre -- in an 80-acre spacing.

18 Q When you say forced unitization, you
19 really mean compulsory pooling.

20 A I mean compulsory pooling, you're right,
21 because there was some difference in some royalty interest
22 between those two parties.

23 Q And do you recall whether that applica-
24 tion also asked for special pool rules establishing 80-acre
25 proration units?

1 A I believe they did.

2 Q And did you --

3 A I know they did.

4 Q And did you oppose that application?

5 A Yes. I was given notice of the pending
6 application and I contacted you and hired you to help me op-
7 pose that 30-acre spacing at that time.

8 MR. PADILLA: Mr. Examiner, we
9 request that you take administrative notice of Case 9070,
10 which was the case brought by Robert M. Edsel, Inc., last
11 year, sometime in March, I believe.

12 MR. KELLAHIN: We would object,
13 Mr. Examiner. It's our contention that it's not necessary
14 to take administrative notice of that case. It's irrelevant
15 to this case.

16 If you'll look at the tran-
17 script for that case it will show that it never came to
18 hearing; that it was voluntarily dismissed by the applicant
19 and there is no conclusions or inferences that could be
20 drawn from that action that would aid you in deciding this
21 case.

22 We therefore think that it's
23 irrelevant.

24 MR. PADILLA: Mr. Examiner, for
25 the purpose of establishing the fact that mr. Scott opposed

1 the case I think it's important to take administrative no-
2 tice, and that the case was actually brought for 80-acre
3 spacing.

4 I think it would be proper for the --

5 MR. STOGNER: Overruled, be-
6 cause I'm going to have to take a look at it to see what
7 happened in --

8 MR. KELLAHIN: Mr. Examiner,
9 the proper procedure would be for you to look at the docu-
10 ments to determine whether or not you could take administra-
11 tive notice of their contents for purposes of deciding this
12 case.

13 That does not preclude you from
14 examining the transcript to see whether or not you will rule
15 one way or another on the threshold question.

16 We would invite you, sir, to
17 look at that transcript and then to rule in our favor that
18 it is irrelevant, and that is the purpose of my objection.

19 MR. STOGNER: Mr. Kellahin,
20 would you please restate your objection?

21 MR. KELLAHIN: Mr. Examiner, I
22 object on the grounds that it's irrelevant, the case Mr.
23 Padilla asked you to take administrative notice of, we be-
24 lieve is irrelevant; therefore you ought not to take admini-
25 strative notice in this proceeding.

1 MR. STOGNER: I'm going to de-
2 fer the objection at this time.

3 Mr. Padilla, please continue.

4 Q Mr. Scott, I hand you what we have marked
5 as Exhibit Number Six and have you tell us what that is and
6 what its contents are?

7 A This is a copy of a letter to Mr. Joe D.
8 Ramey of the Oil Conservation Division by Mr. Kellahin, in
9 which he sent copies to James Edsel, myself, and to Mr. Pa-
10 dilla, a copy of the application for the approval of this 80
11 acres we were referring to.

12 Q What's your recollection of what happened
13 to this case?

14 A Well, they made application. The side-
15 tracked hole did encounter the Wolfcamp Reef and at the time
16 they made this application they thought that it would prob-
17 ably produce in the 40 above the dry hole that they origin-
18 ally drilled to the south.

19 Actually, it did not produce and they
20 plugged the sidetracked hole and dropped the application be-
21 cause it was of no interest, since both of those parties
22 were dry in the reef.

23 MR. TAYLOR: Excuse me, Mr.
24 Scott. Does this Exhibit Six, does that relate to Case
25 8070?

1 is that an application to
2 drill?

3 MR. PADILLA: No, it doesn't.

4 A No.

5 MR. TAYLOR: It's a different
6 case?

7 MR. PADILLA: It's a different
8 case.

9 MR. TAYLOR: Okay.

10 Q Mr. Scott, is it your recollection that
11 the case made -- as shown by Exhibit Number Six related to
12 the 80-acre spacing in -- under Case 8070?

13 A Yes.

14 Q Are you familiar with the economics of
15 the two wells that are producing in the Northeast Caudill
16 Wolfcamp Pool?

17 A Well, I'm certainly familiar with the
18 economics of the Scott No. 1 and to a lesser degree of the
19 Gilliam No. 1.

20 Q What kind of a well is the Scott No. 1?

21 A That well is not yet 24 months old and it
22 has produced approximately 120,000 barrels to date.

23 Q You've reviewed the transcript of the
24 case resulting in Order R-7983?

25 A Yes.

1 Q What kind of production was estimated in
2 that case for wells in the pool? Ultimate recovery?

3 A The engineer who gave testimony in that
4 case entered figures of approximately 44,000 barrels of re-
5 coverable oil from 40-acre spacing and approximately 65,000
6 barrels of oil from 80-acre spacing.

7 Q Do you recall whether that engineer gave
8 actual production figures of the Scott No. 1 Well in that
9 case?

10 A No, he did not. At that time the Scott
11 had already produced over 100,000 barrels of oil.

12 Q How quick did the Scott No. 1 pay out?

13 A First production was run on September the
14 29th, 1983. The well reached payout status on January the
15 22nd, 1984, or less than four months later.

16 Q In your opinion is -- and that was on 40-
17 acre spacing?

18 A That was on 40-acre spacing.

19 Q In your opinion is that economic on 40-
20 acre spacing?

21 A It certainly is. I really don't see how
22 anybody could argue that the Scott No. 1 was not an economi-
23 cal well.

24 Q Let's go on and focus in on the southwest
25 quarter of the southwest quarter and how your rights are im-

1 paired insofar as those lands are concerned.

2 Q Would you give us a --

3 A Well, in my opinion there is absolutely
4 no reason whatsoever to go to forced 80-acre spacing on the
5 Scott No. 1 Well. It's an economical well on 40-acre
6 spacing. It has been a very good investment.

7 Q The -- I had contractual obligations on
8 the working interest, other working interest owners, that
9 they would develop this field on a continuous drilling obli-
10 gation, and going ^{to 80} ~~of~~ 80-acre spacing allowed them to breach
11 that contract.

12 A And going to 90-acre spacing, in my opin-
13 ion, did nothing but exactly that.

14 Q Well, Mr. Scott --

15 A Didn't increase the allowable or anything
16 else. It merely gave the operator the right to void a con-
17 tract.

18 Q Well, these rules are temporary in na-
19 ture. How would that affect your position?

20 A Well, the temporaryness (sic) of the rule
21 doesn't have a thing to do with my position insofar as my
22 contract is concerned, because as of January -- as of June
23 the 15th if 80-acre spacing is allowed to prevail, the oper-
24 ator can void his contract with me and hold 80 acres instead
25 of 40 acres, which he would have held only previous to the

1 80-acre spacing.

2 Then if they allow 80-acre spacing under
3 temporary rules, at the expiration of the temporary rule,
4 the operator has already earned his interest in the 80, he
5 could then go and drill forties and I'd have to either pay
6 my 25 percent or take a back-in position.

7 Q Is time --

8 A In other words, what governs that con-
9 tract is what the spacing was as of June the 15th, that spe-
10 cific date.

11 Q Is time important to you insofar as
12 changing or vacating this order?

13 A Well, it certainly is and the operator of
14 the well and all the other interest owners are aware of
15 that.

16 I also own, and it was a part of this
17 farmout originally, leases covering the northwest quarter of
18 Section 12.

19 Q Is that Section 12 below --

20 A That was 15 South, 36 East, immediately
21 south of Section 1.

22 That lease was expiring in March of 1985.
23 It was reassigned to me under the terms of my farmout agree-
24 ment with Edsel and his parties and I secured a one-year ex-
25 tension so that that lease would extend beyond the drilling

1 commitment on the southwest of the southwest of 1 if they
2 chose to drill it or the reassignment if they chose not to
3 drill it.

4 They are aware of this short term lease
5 that I now hold. I have seven months to go on that lease
6 and if they persist on stalling on my reassignment, it sim-
7 ply damages me appreciably on the value of the northwest
8 quarter of Section 12.

9 Q Do you know of any drilling plans by APC
10 or Union Texas to drill further -- more wells in the --

11 A No, I do not.

12 Q Do you know whether -- in your communica-
13 tions with Edsel were there any plans to further develop
14 that pool?

15 A Edsel advised me that they had no plans
16 to do any further drilling, and in fact, they thought that
17 the lease contract had expired and were preparing to reas-
18 sign me all, except the one party, when they discovered that
19 the operator had applied for this 80-acre spacing. They
20 were not aware that that had even happened.

21 Q Let me go back and ask you what the cost
22 of the Scott No. 1 Well was.

23 A The Scott No. 1 Well penetrated the Wolf-
24 lamp Reef at approximately 10,800 feet. It was a wildcat.
25 It was drilled on down to 13,200 feet to test some Lower

1 Pennsylvania prospects.

2 It was plugged back then and completed in
3 the Wolfcamp. It had charged to it the tank battery and
4 completed and put on production for a total of approximately
5 \$700,000.

6 Q What was the cost given by the engineer
7 in Case 8595 for the drilling of --

8 A He testified that it would cost
9 \$1,100,000 to drill a well.

10 Q What's your opinion of that figure?

11 A I think it's absurd and very misleading.

12 Q Let me ask you about the June 1st effective
13 date of Order R-7993.

14 A You might note that the APC, who had the
15 hearing, did not drill that well. It was actually drilled
16 by Union of Texas under a farmout agreement with Florida Exploration
17 Company, and APC later bought that well.

18 Q What relevance does that have?

19 A Well, I question that they know how much
20 it did cost to drill it.

21 Q Let me go back now and re-ask the question
22 on June 1st, the effective date of Order R-7993.

23 What -- do you find any reason for moving
24 back to June 1st, 1985?

25 A The hearing was held in May. The order

1 was issued in July, I think July the 12th, but was made re-
2 troactive to June 1, 1985, for what reason, I don't know,
3 except that by making that order retroactive to June 1 you
4 allowed the operator of the Scott No. 1 to void his contract
5 with me, and that to me is the only thing that could pos-
6 sibly benefit from making an order retroactive from the date
7 it was issued.

8 There was no allowables involved, produc-
9 tion, anything else. The only thing involved was the con-
10 tract that these people had with me, which called for drill-
11 ing by June 15th.

12 Q When you say -- when you talk about an
13 allowable, are you saying that no additional oil could be
14 produced under 40-acre spacing or 80-acre spacing?

15 A That's right.

16 Q So there was nothing to gain by going to
17 80-acre spacing?

18 A Except to void my contract.

19 Q Mr. Scott, do you have anything further
20 to add to your testimony?

21 A I don't think so.

22 MR. PADILLA: I tender the wit-
23 ness for cross examination.

24 MR. STOGNER: Mr. Kellahin,
25 your witness.

1 MR. KELLAHIN: Thank you, Mr.
2 Stogner.

3 Mr. Scott has indicated that he
4 has reviewed the transcript and exhibits from the May 3th,
5 1985 hearing in Case 8535, sir. I wonder if we might take a
6 moment and get a copy of the transcript and exhibits from
7 the case file, if we have those available.

8 Do we also, sir, have copies of
9 the Exhibits One through Six that were used in that hearing?

10

11 (There followed a discussion off the record.)

12

13 MR. KELLAHIN: I believe every-
14 body has a copy of the transcript, Mr. Examiner.

15 Are there copies of those exhi-
16 bits that were used in that hearing? Are they in your case
17 file?

18 MR. STOGNER: Yes, they are.

19 MR. KELLAHIN: May I borrow
20 those copies?

21

22

CROSS EXAMINATION

23 BY MR. KELLAHIN:

24

25 Q Mr. Scott, Mr. Padilla asked you when he
qualified you as an expert, sir, your background, and I be-

1 believe your educational background was in the field of geol-
2 ogy?

3 A Correct.

4 Q As a geologist, sir, have you reviewed
5 the transcript and the exhibits used by Apache in the hear-
6 ing on May 8th, 1985?

7 A I have.

8 Q With regards to the geologic portion of
9 that hearing, sir, have you come to any different conclu-
10 sions as a geologist than were expressed in that previous
11 hearing?

12 A I don't know what you mean by conclu-
13 sions. There were a number of conclusions drawn.

14 Q All right, sir. In reviewing the tran-
15 script and the exhibits do you have any objection to any of
16 the testimony made on behalf of Apache by their geologic
17 witness?

18 A I'm -- the -- yes.

19 Q All right, sir, and what are those objec-
20 tions?

21 A In his correlations with the -- from his
22 cross section that goes through the well, the -- the Gilliam
23 well over to a well by the -- designated as the No. 1 Alex-
24 ander Well, which was a dry hole, he stated that the Alexan-
25 der Well encountered porosity in the same section, same por-

1 porosity in the Gilliam and in the Scott No. 1, and I do not
2 think that's correct.

3 That porosity is -- it's in the reef, but
4 it obviously is a different porosity. It's not tied to,
5 it's not communicated with either of those other two wells.

6 Also he indicated that the Gilliam Well
7 had exactly the same porosity as in the Enstar Scott No. 1
8 and that is also an inaccuracy. The Gilliam Well had some
9 porosity above that developed in the Scott No. 1 in the
10 Wolfcamp Reef.

11 Q Are there any other observations, com-
12 ments, or objections that you would like to express, Mr.
13 Scott, on behalf of a review of the testimony by the prior
14 geologist?

15 A Let me run through this for just a se-
16 cond. I don't remember all of the things.

17 He -- he indicated that there was a
18 rather homogeneous porosity between the Gilliam and the En-
19 star Wells that -- that I don't agree with. I think that
20 the porosity between the two, those two wells is also rather
21 irregular. Some of it undoubtedly is connected; other parts
22 of it is not --

23 MR. PADILLA: Mr. Examiner.

24 A -- in my opinion.

25 MR. PADILLA: Our next witness

1 will go more into detail on geologic differences and (not
2 understood.)

3 Q Other than those comments, observations,
4 Mr. Scott, do you see any others as a geologist that you
5 would express in terms of a review of the Apache geologist's
6 testimony and exhibits?

7 A Yes. Mr. Brunner testified in response
8 to this question. I quote:

9 Do you see any adverse consequences to
10 any correlative rights of any parties involved in this pool
11 should we now change this from 40-acre dedication to 80-acre
12 dedication?

13 And his answer was, "No, I do not."

14 And that most certainly is an inaccurate
15 statement because if my correlative rights weren't at stake,
16 I can't imagine whose were.

17 Q I believe that's at the end of Mr. Brun-
18 ner's testimony.

19 A That's on page 14.

20 Q All right, sir.

21 MR. KELLAHIN: Mr. Examiner, we
22 would request that you take administrative notice of the
23 transcript and the exhibits in Case 8595.

24 MR. PADILLA: No objection.

25 MR. STOGNER: Administrative

1 notice will be taken of Case Number 8595.

2 Q Mr. Scott, let me ask you some questions,
3 sir, about these -- some specific areas of your direct tes-
4 timony.

5 I'd like to first of all focus in on the
6 June 1st effective date. Does it satisfy your objection to
7 the Division Order if the effective date of the order is
8 made some date other than June 1st of '85?

9 A So long as it was not a retroactive or-
10 der.

11 Q So if the order is modified and made ef-
12 fective as of the date the order was signed, which is the
13 July 12th date, would that satisfy your objection?

14 A I have no objection but I can't imagine
15 your client being willing to do that because if I would read
16 the contract correctly, they would have to assign me one --
17 an additional one-half interest in the Scott No. 1 Well.

18 Q My client's APC Operating, Mr. Scott.

19 A I'm sorry.

20 Q I don't know if they will do it or not.
21 The purpose of my question is does it satisfy your concerns
22 about the pooling and the spacing --

23 A Not really, though certainly I would
24 benefit from that, but I'm firmly of the conviction that
25 this well, this pool can be economically developed on 40-

1 acre spacing. It has paid out under 40-acre spacing. It
2 has shown a good rate of return under 40-acre spacing, and
3 after a year and a half of history of production, I see no
4 reason whatsoever to now go to 180-acre spacing.

5 What we need to do to insure orderly
6 development of this reservoir is to continue 40-acre spacing
7 and explore the south extension of this pool. It very well
8 may extend for a half or a mile to the south. There is no
9 well that limits the production on the south end of the reef
10 and for conservation purposes, for every logical reason, we
11 should retain 40-acre spacing until we have at least limited
12 the south end of that pool.

13 That's my objection.

14 Q So changing the effective date of the
15 pool rules from June 1st to, say, July 12th of '85 does not
16 satisfy all of your objections.

17 A That's correct, but they would satisfy a
18 helluva lot more than the June 1st date does.

19 Q I believe in your direct testimony you
20 made reference to the V-F Petroleum Allen No. 1 Well --

21 A Yes.

22 Q -- in the southeast of the southwest
23 quarter of Section No. 1.

24 A That's correct.

25 Q And that was a dry hole.

1 A That was a dry hole.

2 Q Does that not define the southern limits
3 of the --

4 A No, it defines the eastern extent of the
5 reef, which runs north/northeast south/southwest, or south.
6 We don't know exactly where it goes to the south.

7 Q Let me have you --

8 A It missed the reef. Excuse me, it missed
9 the reef on the east side, the front side of the reef, the
10 same as the Enstar No. 2 did. Those two wells miss the reef
11 on the east side and are almost identical.

12 The V-F Petroleum did have, according to
13 a log interpretation by Schlumberger, which they did for me,
14 a few feet of pay in the top of the reef. I attempted to go
15 back into that well and with the intent of recompleting it
16 in the very top of that reef and I thought that we probably
17 could make a well. I spent about fifteen days and a lot of
18 money trying to get into that 8-5/8ths inch pipe and
19 couldn't do it, so I backed out and that's when we drilled
20 the Late No. 1.

21 Q All right. Let me direct your attention
22 now to the effect of 40 versus 90 in the west half of the
23 southwest quarter of Section 1.

24 We have in that 80-acre tract, we have
25 under the farmout with Edsel a certain relationship whereby

1 you and your family have a 25 percent working interest if we
2 calculate it --

3 A That's correct.

4 Q -- plus a royalty.

5 A Yes.

6 Q And you would have that share of produc-
7 tion on the Scott No. 1 Well whether it's spaced upon for-
8 ties or eighties.

9 A Yes, sir.

10 Q All right. If the spacing is set up on
11 forties, then we would have the southwest of the southwest
12 of Section 2 that is not dedicated to a well.

13 A That is correct.

14 Q Do you propose to drill a well in that
15 40-acre tract?

16 A I think I probably would, yes.

17 Q Have you made any decision about when you
18 would commence drilling a well?

19 A Actually, when I thought I had a reas-
20 signment coming and the Edsels had actually written a let-
21 ter and asked the other people to reassign to me, I was
22 talking to a drilling contractor about getting started on
23 that well quite soon because of my short term lease to the
24 south of that, which I wanted to evaluate before I ran out
25 of time, and I was at the point of being very serious in my

1 negotiations when the corner of the tent fell in.

2 Q Let's assume that the Edsel farmouts take
3 place and you're reassigned the southwest of the southwest.

4 A All right.

5 Q And let's also assume that the Commission
6 continues 80-acre spacing for the pool. What will be the
7 effect of that fact situation upon your participation in the
8 Scott No. 1 Well?

9 A Well, I don't guess it would be changed.

10 Q Would you not increase your share in the
11 Scott No. 1 Well?

12 A If the June 1 date prevailed?

13 Q No, sir, if the June 1 date does not pre-
14 vail, if Edsels have to make the reassignment.

15 A I'll assume the answer to your question
16 is yes, but that's a legal question and I'm not really qual-
17 ified and I've not had an attorney study that, actually.

18 Q I'm sorry, I didn't mean to make my ques-
19 tion so unclear as to require a lawyer.

20 My purpose was to have you tell me if you
21 calculated what the working interest and royalty interest
22 will be for you and your family and Mr. Late under a fact
23 situation where the Edsels are required to reconvey to you
24 the southwest of the southwest, to dedicate 80 acres, then,
25 to the Scott No. 1 Well, and either have to force pool you

1 to get you to participate with the 40 acres or some volun-
2 tary agreement.

3 My question is whether or not there's a
4 difference in interest between whether you participate with
5 the 80 dedicated to the Scott well under that fact situa-
6 tion.

7 A Well, as I thought I explained in rather
8 detail, we need to extend or to limit this pool to the south
9 and an orderly development of that pool would call for drill-
10 ing of a well in the southwest of the southwest of Section
11 11.

12 If you go to the 80-acre spacing as ap-
13 proved, it would force the next location to move a half a
14 mile to the south in an attempt to establish south limits of
15 the pool and as narrow as that reef is, that's a very
16 treacherous distance to be moving.

17 Q Do you or your family have any Wolfcamp
18 rights in Section 11, the section southwest of Section 27

19 A Section 11, no, we do not have.

20 Q Mr. Scott, have you had any -- with re-
21 gards to this specific area, Sections 1 or 2 in the Wolfcamp
22 -- have you had any correspondence or communications either
23 from you or to you from Apache or APC Operating Partnership?

24 A No, sir, I don't think so.

25 MR. KELLAHIN: I have nothing

1 further, thank you.

2 MR. STOGNER: Mr. Carr, your
3 witness.

4
5 CROSS EXAMINATION

6 BY MR. CARR:

7 Q Mr. Scott, just a few questions.

8 At the prior hearing you testified that
9 production information was given on the Scott No. 1 Well,
10 which was apparently in error.

11 A No, I did not say that.

12 Q All right, what did you say?

13 A I said that the testimony was that this
14 field would recover 44,000 barrels if it were developed on
15 40-acre spacing, and that recovery would go to 65,000 bar-
16 rels if 80-acre spacing prevailed, and I said at that -- and
17 there was no testimony whatsoever about how much oil the
18 Scott No. 1 would produce. Actually, at that time, early
19 part of May, that well had already produced over 100,000
20 barrels of oil.

21 Q Do you know what the production from the
22 Gilliam Well was at that period in time?

23 A No, I do not.

24 Q Do you know generally how the -- that
25 well compares to the Scott well in terms of its producing

1 capability?

2 A It has approximately one-half of the net
3 pay in the reef. It's on the -- it's back of the reef front
4 and as you back into the lagoonal facies of a reef your
5 porosity begins to pinch out and actually that's what causes
6 the back side of a reservoir, and in this case it had -- the
7 porosity in the No. 1 Scott had pinched down to approxi-
8 mately half of what was in the Gilliam, however, again you
9 can't really correlate those streaks of porosity with any
10 great deal of accuracy.

11 Q In correlating those streaks of porosity
12 you testified that you have looked at the testimony pre-
13 sented on May the 8th and that there appeared to be in the
14 Gilliam Well above that that was encountered in the Scott
15 No. 1.

16 Now --

17 A That's my opinion, yes.

18 Q Now my question is, that porosity in the
19 Gilliam that's above the porosity in the Scott No. 1, is
20 that a separate zone or is that an additional zone?

21 A In addition to what?

22 Q In addition -- are there also zones that
23 do correlate between the two wells.

24 A There are zones that do correlate, yes.

25 Q So your testimony wasn't that there were

1 different porosity zones, it's just that there is an --

2 A No.

3 Q -- additional higher --

4 A Yes, you're correct.

5 Q All right. Your testimony was that in
6 your opinion the area could be economically developed on 40-
7 acre spacing. Have you prepared, or has anyone prepared
8 drainage calculations that would show the area that would be
9 drilled by a well at the Scott No. 1?

10 A I believe we will present sufficient evi-
11 dence for you with the next witness.

12 Q All right. Now when we look at the ac-
13 reage available to be dedicated to the Scott No. 1, if we
14 assume just for the purpose of the question, that it's 80-
15 acre spacing, I just don't know, is there something that
16 would control what acreage would be dedicated? Would it
17 have to be the southwest of the southwest of Section 2 or
18 would it be --

19 A In my opinion, yes.

20 Q And why is that?

21 A Because it's really the only offset loca-
22 tion to the Scott No. 1 that's untested.

23 Q There would be a possibility, however, to
24 orient the 80-acre spacing unit in another fashion, is that
25 not true?

1 A I suppose so, but you'd have to include a
2 dry hole in a producing 80 acres.

3 Q If that was done, would that then trigger
4 a reassignment of -- of the acreage to you that you would
5 need for a drilling location?

6 A No, it would not.

7 Q It would not.

8 A I'm sorry, I'm not sure I answered your
9 question. It would trigger reassignment to me of another 40
10 that would go with the 40 that the No. 1 Scott is on. It
11 would trigger the reassignment to me of the southwest of the
12 southwest, which is really the 40 that I think should be
13 reassigned, I think has potential.

14 Q So if a new C-102 was filed dedicating to
15 the Scott No. 1 the northwest of the southwest and also the
16 northeast of the southwest, albeit the dry hole there, you
17 would then be under your agreements with all the parties in
18 a position where they would be required to reassign to you
19 the southwest of the southwest.

20 A That's correct.

21 Q Okay. And to your knowledge has
22 anything been done to indicate which of those tracts will in
23 fact be added to a spacing unit, if in fact additional
24 acreage must be added to the Scott No. 1?

25 A No. Of course in the hearing they asked

1 for the southwest of the southwest to be assigned on stand-
2 up eighties.

3 Q Do you operate other properties or have
4 interest in other properties in New Mexico?

5 A Yes, I do.

6 Q Do you have -- are you on the Oil
7 Commission's mailing list?

8 A No, I am not. I asked if I operated any,
9 I have interest in other production. I don't operate any
10 properties.

11 Q Right. How many other wells do you have
12 an interest in in New Mexico, just as --

13 A Two.

14 Q Two others. And I believe you testified
15 that the Scott No. 1 was actually drilled by Edsel. Is that
16 your understanding?

17 A No, I think Enstar actually drilled that
18 well as the operator for the participants in that farmout.

19 Q But your communications, like your Exhi-
20 bit Number One, are direct to the Edsels and they --

21 A I made my contract with Robert Edsel.

22 Q And then it is the Edsels who would noti-
23 fy other people with whom they have contract arrangements.

24 A That's true.

25 MR. CARR: That's all I have.

1 MR. STOGNER: Mr. Padilla, re-
2 direct?

3 MR. PADILLA: No, I don't be-
4 lieve I have any questions at this time.

5
6 CROSS EXAMINATION

7 BY MR. TAYLOR:

8 Q Did you receive any notice of the appli-
9 cation in Case 8595 or have any knowledge that that case was
10 --

11 A That's the case we're talking about to-
12 day?

13 Q Right.

14 A No, I did not.

15 Q This case that --

16 A I did not. Neither did, to my knowledge,
17 any of the other operating partners, nonoperating partici-
18 pants.

19 If I had seen an advertisement of this
20 hearing, I question that I would have recognized it. I had
21 never heard of APC before.

22 The sign on the well says the operator is
23 Apache and I don't know what the relationship is between APC
24 and Apache but I assume Apache is the operator and why they
25 made application in APC I don't know. I doubt that I would

1 have recognized APC as being the operator of the offsetting
2 well even if I had seen it.

3 Q In the previous hearing, 8595, there was
4 testimony, and I believe they're referring to drilling the
5 well, which is the well near your --near the --

6 A It's a direct offset to the Scott No. 1
7 to the west.

8 Q And the testimony in that case was that
9 on 40-acre spacing that well is economically unattractive,
10 is "uneconomically" attractive, the testimony says.

11 Do you have any knowledge on which you
12 could give an opinion as to whether that is a correct eval-
13 uation or not?

14 A I wouldn't know because I don't know how
15 much they spent drilling that well. I know they did not
16 have any trouble, so I can't imagine it being more than
17 \$700,000, though they used in their figures a Million One.

18 I don't have those actual figures. I
19 don't know how much that well had recovered as of that tes-
20 timony. I do know that as of now, a few months after that
21 testimony, that well has produced 57,000 barrels of oil and
22 -- or if you would run the figures on, say, 650 or \$700,000
23 cost of the well, I think that would give you a fairly good
24 rate of return.

25 Q Is it your testimony as to the Scott No.

1 1, 40-acre spacing for that well would be economically at-
2 tractive.

3 A No question about it.

4 Q That's all. Well, one further question.

5 In calling for the hearing this morning
6 did you give notice to the other operators in the area?

7 A I encouraged Mr. Padilla to be sure to
8 notify everybody that had any interest whatsoever in that
9 well.

10 Q Thank you. That's all the questions I
11 have.

12 MR. STOGNER: Any further ques-
13 tions of this witness? If not, he may be excused.

14 A Thank you.

15 MR. KELLAHIN: May I request a
16 ten minute recess, sir?

17 MR. STOGNER: You may have
18 that, a ten minute recess at this time as requested.

19

20 (Thereupon a recess was taken.)

21

22 MR. STOGNER: I have one ques-
23 tion for Mr. Wilton Scott. I'd like to recall him at this
24 time.

25 MR. PADILLA: Certainly.

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CROSS EXAMINATION

BY MR. STOGNER:

Q Mr. Scott.

A Yes, sir.

Q On Exhibit Number One, that's your letter to Robert P. Edsel?

A Yes, sir.

Q Your date shows June 31st, 1985 on the first page and June 19th, 1985 on the second page. Also, there is no 31st of June. Could you straighten me out on that?

A Obviously, we made a mistake with the 31st figure. I don't know what -- I don't remember what the -- June -- oh, I see, it's dated June 19th.

I assume that the 31st is a typographical error and the letter was written on the 19th, because it was to be written soon after the June 15th date, and I was attempting to notify them as soon after that date as feasible.

And I assume that somehow we just got the wrong date on the first page.

Q Thank you, Mr. Scott. I have no further questions. You may step down.

Mr. Padilla, please continue.

MR. PADILLA: Mr. Examiner, I

1 call William McCoy as my second witness.

2

3

WILLIAM G. MCCOY,

4 being called as a witness and being duly sworn upon his
5 oath, testified as follows, to-wit:

6

7

DIRECT EXAMINATION

8

BY MR. PADILLA:

9

Q Mr. McCoy, would you please state your
10 name and what your connection with the applicant is?

11

A My name is William G. McCoy. I'm a con-
12 sulting engineer and geologist residing in Santa Fe.

13

I've been retained by Mr. Scott to review
14 Case 8595 and its effect on his interest.

15

Q Have your credentials as a petroleum en-
16 gineer and a petroleum geologist been accepted at previous
17 testimony before the Division?

18

A It has.

19

Q It's been accepted as a matter of record?

20

A It is.

21

Q And have you made a study of Case 8595 --

22

A I have.

23

Q -- and the resulting order?

24

A I have.

25

Q Have you made an independent study of the

1 Northeast Caudill Wolfcamp Pool in --

2 A Yes, I have.

3 Q -- Lea County?

4 A I have.

5 Q Tell us, sir, what materials -- well, Mr.
6 Examiner, I tender Mr. McCoy as an expert geologist and en-
7 gineer.

8 MR. STOGNER: Are there any ob-
9 jections or questions?

10 If not, he is so qualified.

11 MR. PADILLA: In addition at
12 this time, Mr. Examiner, I would move the admission of Exhi-
13 bits One through Six that were introduced by Mr. Scott.

14 MR. STOGNER: Are there any ob-
15 jections?

16 MR. KELLAHIN: I believe we've
17 already noted our objections, Mr. Stogner.

18 MR. STOGNER: On any of those
19 particular exhibits or just the recommendation of taking ad-
20 ministrative notice on Case Number 877

21 MR. PADILLA: I don't believe
22 there were any objections to the exhibits.

23 MR. STOGNER: I don't remember
24 it, either.

25 MR. KELLAHIN: I have no objec-

1 tions to the exhibits.

2 MR. CARR: Nor have I.

3 MR. SPOGNER: Thank you. Exhi-
4 bits One through Six will be admitted into evidence.

5 Q Mr. McCoy, what materials have you
6 studied concerning Case 8595?

7 A My first research started with the testi-
8 mony provided in Case 8595 and the exhibits presented there-
9 with.

10 Q Did you also make an independent study of
11 the pool?

12 A Yes, I did. I accumulated the production
13 figures on the Gilliam and the No. 1 Scott and determined
14 the cumulative production, gas, oil, and water; made a rough
15 estimate of the gas/water ratio, gas/oil ratio and water/oil
16 ratio for the first five months of 1985.

17 Q Did you communicate with any other engi-
18 neers or geologists who were involved or had knowledge about
19 the Northeast Caudill Wolfcamp Pool?

20 A I did. In the file I found a copy of a
21 letter addressed to Mr. R. L. Stamets of the Oil Conserva-
22 tion Division, signed by Jerry Gentry, Michele Kennard,
23 Dwight Smith, Bruce Johnson, and Dick Leuenberger, who were
24 employees of Florida Exploration Company who drilled the
25 well and expressing their opinion on the No. 1 Gilliam and

1 the potential 80-acre spacing.

2 Q Which of these people did you contact?

3 A I first talked to Mr. Jerry Gilbert, who
4 was a supervising engineer on the well and to Michele Kennard,
5 a geologist who developed the prospect for Florida Exploration.
6

7 Q Are these people with Florida Exploration
8 or who do they work for?

9 A Today Mr. Gentry and Miss Kennard work
10 for Houston Natural Gas in Denver, Colorado.

11 Q Did any of these people provide any
12 materials for your examination?

13 A Yes, they did. Miss Kennard, who was the
14 geologist, transmitted to me a bottom hole pressure survey
15 on the Gilliam and a cross section that she had prepared in
16 developing the prospect.

17 Q Let me refer -- you may step up to the
18 wall where we have hung the exhibits at this time.

19 Mr. McCoy, I ask you to refer to what we
20 have marked as Exhibit Number Seven and ask you to identify
21 that for us and what it shows.

22 A Okay. Seven is a cross section presented
23 by Apache Corporation in their petition for the 80-acre
24 spacing. Now the significance here at this point is not
25 correlations.

1 The section, just look at the titles,
2 title block, the writing down below on the Gilliam Well, and
3 you can look at the correlations through here on the sec-
4 tions.

5 Apache Corporation's Mr. Brunner, R. L.
6 Brunner's testimony, are these -- this is one of two cross
7 sections presented -- "Were these cross sections prepared by
8 you?" "Yes, they were."

9 Q Where did you find that --

10 A This came from the hearing file pre-
11 sented.

12 Q And is that in the transcript of the
13 hearing file?

14 A It is, I believe, on page 8?

15 MR. STOGNER: What page? I'm
16 sorry?

17 A Yeah, page 8, about the third question.

18 Q Let me refer you to what we have marked
19 as Applicant's Exhibit Number Eight and ask you to identify
20 that.

21 A This is a cross section which I received
22 from Miss Michele Kennard, one of two cross sections she
23 prepared for the prospect.

24 Here again we notice all the symbols, the
25 correlations, the writing on the logs, all this information

1 prepared by Miss Kennard in October of 1984.

2 These two sections are identical.

3 Q How does that relate to the testimony
4 given by Mr. Brunner?

5 A It's in conflict with his testimony.

6 Q In what respect?

7 A That apparently the title block on Miss
8 Kennard's cross section was replaced with one by Apache Cor-
9 poration.

10 Q Are you saying that the -- are you saying
11 that Mr. Brunner did not prepared that exhibit?

12 A From what I've seen here that is what I
13 would have to base my opinion on.

14 Q In your communication with Miss Kennard,
15 what did she say concerning Exhibit Number Eight?

16 MR. KELLAHIN: Mr. Examiner,
17 I'm going to object to the hearsay testimony from this wit-
18 ness about what Miss Kennard said or did not say. That's
19 hearsay.

20 MR. PADILLA: Mr. Examiner, he
21 has personal knowledge. He had a communication with Miss
22 Kennard and I think he's allowed to talk about-- testify
23 concerning his conversation with her.

24 MR. STOGNER: Objection over-
25 ruled. You may continue.

1 A Well, my first conversation for informa-
2 tion with Miss Kennard was on Friday, August 9th. She
3 transmitted the data to me, which I received on Monday, the
4 lith.

5 On receiving this cross section I im-
6 mediately recognized in my mind I had seen it before in the
7 case file. I then called Miss Kennard and questioned her
8 about why the discrepancy in these cases and she advised
9 that Apache's geologist, and no name was given, had called
10 her regarding this case and said that they were presenting
11 it because Union of Texas did not want to be involved in the
12 hearing.

13 Q May we --

14 A And this was her cross section that she
15 had prepare.

16 Q Take your seat at this time, Mr. McCoy.

17 I hand you what we have marked as Exhibit
18 Number Nine and have you identify that for the Examiner.

19 A Exhibit Nine is the letter I've previous-
20 ly referred to from the employees of Florida Natural Gas to
21 Mr. Stamets, expressing their opinion on the Gilliam No. 1
22 Well and the spacing problem.

23 Q Were the contents of this letter included
24 in the record of the Case 9595?

25 A I found no reference in the file, the in

1 the testimony or the file regarding this letter.

2 Q Can you summarize for the Examiner the
3 contents of the matters contained in this letter?

4 A Essentially they informed -- they were
5 informing the Commission about the production from the No. 1
6 Gilliam and its reaction after completion, and subsequent,
7 they reperfdrated the well in a section above the Scott/Gil-
8 liam original completions, an interval at 10746 to 10752,
9 and they acidized those perforations and recovered 500 bar-
10 rels of oil per day water-free.

11 Q Is that good or bad production?

12 A Exceptional production. It's above the
13 allowable for that depth.

14 Subsequent to that, in November, 1984,
15 they were trying to determine where the production was com-
16 ing from. They ran a temperature survey and found according
17 to their analysis 75 percent of the production was coming
18 from the upper set of perforations, a section which is not
19 present in the No. 1 Scott.

20 Then they evidently, they made further
21 tests on it and found out they had production problems and
22 cut the paraffin and increased the production to 500 barrels
23 again, after the well had decreased to 225.

24 And following that evidently the well was
25 transferred to Apache Corporation March 1st and has since

1 continued to decline with an increase in water production.

2 It's their opinion that the production is
3 coming, water production is coming from the lower set of
4 perforations and it's their opinion that the Gilliam, since
5 it was completed water-free structurally lower than the
6 Scott Well, that these wells are not necessarily producing
7 from the same formation.

8 Q How does that relate to 40 or 80-acre
9 spacing?

10 A Well, in --

11 MR. KELLAHIN: Mr. Examiner, at
12 this time I'm going to object to this question and the pre-
13 vious question, move the testimony of this witness be stric-
14 ken and require that this exhibit not be admitted into evi-
15 dence.

16 This is simply hearsay upon
17 hearsay. These people obviously have a vested interest in
18 the property, they indicate they're overriding royalty
19 interest owners. They've expressed opinions upon which now
20 Mr. McCoy wants to recite for the record. They are not here
21 to be cross examined. They are not available for us to talk
22 to. It violates our rights to due process, and we object
23 not only to this exhibit but to Mr. McCoy's testimony based
24 upon facts which he does not know of his own direct know-
25 ledge.

1 MR. PADILLA: Mr. Examiner, I
2 have previously asked Mr. McCoy whether he has made an
3 independent study of this area and whether he has had
4 communications with other experts or other engineers and
5 geologists, and he has indicated that he has.

6 He's entitled to rely on the
7 information supplied by those people, and if you will let me
8 proceed, I will in a few moments ask him whether or not he
9 can corroborate this information contained in this letter.

10 MR. STOGNER: Mr. McCoy, where
11 did you get a copy of this letter?

12 A From the file 9595.

13 MR. STOGNER: And it is made
14 part of the file in our records, is that right?

15 A Affirmative.

16 MR. STOGNER: I'm going to let
17 Mr. McCoy continue testifying on this.

18 Q Mr. McCoy, have you independently veri-
19 fied the contents of this letter?

20 A I have verified the perforations of the
21 wells being distinctly different in Miss Kennard's cross
22 section: that the well in the Gilliam, the upper zone is not
23 producing or present in the No. 1 Scott.

24 Production history, as I mentioned, I've
25 summarized, reviewed, and are fully familiar with the pro-

1 ducing rates of both wells.

2 Q Water production and oil production?

3 A Yes, I have.

4 Q Let me ask you now how this relates to 40
5 and 80-acre spacing.

6 A I believe the critical point in the --
7 that's reflected in the cross sections is that we are deal-
8 ing with a heterogeneous reservoir. We have not one reser-
9 voir to analyze and put parameters out that we can make
10 reasonable estimates on recoverable reserves, either on 40
11 or 80 at this time.

12 I think we know that, and it's pretty ob-
13 vious that when you have a heterogeneous reservoir each zone
14 has its own producing capacity.

15 I think these wells there has been to attempt,
16 according to the record, to segregate each perforated zone
17 into its producing capacity. Very likely, a lot of cases
18 that we have of heterogeneous reservoirs, one zone may take
19 over production and preferentially deplete a zone, and until
20 such time as the pressure changes the other zones may not
21 produce. So any attempt to use methods on homogeneous
22 reservoirs in applications to heterogeneous is, well, a lit-
23 tle bit shaky, really.

24 If we're dealing with a zone, for in-
25 stance, like the Bough C, and here we know we're dealing

1 with one reservoir, you can apply parameters to that one
2 zone.

3 Q Are you saying that you can't compare the
4 production from the Gilliam No. 1 well to the Scott No. 1
5 well because they're not -- because they're not producing
6 from the same zone?

7 A Well, I don't believe I said that they're
8 not producing from the same zone. I think from the cross
9 section, equivalent zones in each well are perforated, but I
10 don't believe I would want to say that five zones in the
11 basic interval of the Lower Wolfcamp in the Gilliam Well are
12 equivalent and producing at the same rate as the four zones
13 in the No. 1 Scott. I wouldn't want to make that statement.

14 We might have one zone in the Scott pro-
15 ducing and three in the Gilliam.

16 Q Let me hand you what we have marked as
17 Exhibit Number Ten and have you identify that.

18 A Exhibit Ten is a reproduction of Exhibit
19 One presented in Case 8595, to which I have added my own in-
20 terpretation of structure, and certain other data that I
21 have accumulated.

22 Q How is your interpretation on that exhi-
23 bit depicted?

24 A Well, first of all, trying to rationalize
25 the reservoir limits drilled on on Exhibit One by Apache,

1 there is no basis in my opinion for drawing a reservoir
2 limit through the south part of the structure reflected by
3 their contours.

4 Q Why is that?

5 A We have no wells directly south until we
6 reach the Craig Well down in the southwest southwest of Sec-
7 tion 12, is the only southern limit.

8 We have an eastern limit in the southeast
9 of the southwest, the V-F Petroleum No. 1 Allen.

10 We have a western limit with the PanAm in
11 the northwest of the northeast of Section 11.

12 So between those two wells, using the
13 same data that they have available, looking at the logs on
14 the well in 12, the V-F Petroleum, the Scott, the Gilliam,
15 and the PanAm, my interpretation of a geological structure
16 running on a north/south, slightly east of north/south,
17 direction is a reasonable interpretation based on the data
18 available.

19 I find no reason, or no geological reason
20 to bring a -6300 foot line between the Scott at -6298 and
21 the Craig Well in the southwest of 12 at 6295. You cannot
22 do that based on reasonable geological contouring.

23 So my feature, as I have drawn it, is as
24 reasonable, and probably more reasonable, than cutting of
25 the reservoir limits arbitrarily as they have done.

1 A For the record the well in the southwest
2 southwest of 12 is the Earl T. Smith No. 1 Crockett.

3 Now that would be a reasonable
4 interpretation inferring to me that there is further
5 extension of this reservoir to the south and possibly the
6 major part of the reef may may to the south along the common
7 line between Section 11 and 12.

8 Q Do you need further definition of that
9 pool to the south?

10 A I would say you would need one or two
11 more wells to even get an indication of which way the reef
12 goes. But the main point here is that there is no reason
13 for the reservoir limit drawn on the map, as shown.

14 Q Let's turn now to the pressures that --
15 have you made a study of the pressures of those wells shown
16 on Exhibit Number Ten?

17 A Yes, I have. Based on the testimony
18 presented in the case, there on page 27, let's see, on the
19 top of page 27 testimony was presented that they would
20 expect a pressure of 4500 pounds, or greater, within this
21 area.

22 To familiarize myself with an expected
23 pressure in the area I went back and reviewed certain drill
24 stem tests as being indicative of potential reservoir pres-
25 sures within the area.

1 In Section 1, the Tipperary Brittany Well
2 in the southwest quarter of the northwest quarter -- south-
3 east quarter of the northwest quarter of Section 1, and
4 these are all tested intervals are approximately equivalent,
5 had an initial shut-in pressure on a drill stem test of 2959
6 psi. Their final shut-in pressure was 2463, which would be
7 a decrease in 496 psi between initial and final shut-in.
8 That would indicate to me that we are dealing with a limited
9 reservoir on the north end.

10 The Brittany Well in the southwest quar-
11 ter of the northwest quarter had an initial shut in pressure
12 of 2990, final of 2779, with a decrease of -211 psi, again
13 indicating a reservoir limited.

14 The Sohio Well, which actually was origi-
15 nally drilled by (not understood clearly), was tested in the
16 equivalent interval; had an initial shut-in pressure of
17 3191, final shut-in of 3759, or greater. That indicates
18 that there is a possible wellbore damage initially in that
19 well.

20 Getting down to the Gilliam Well in the
21 northeast of the southeast, the initial shut-in pressure was
22 2914; the final shut-in pressure, 2898, and still building.
23 It had not reached final.

24 Here also I looked at the final shut-in
25 pressure, which -- I mean final flow pressure, which was

1 1307 pounds. That, over the final shut-in pressure of 2998,
2 gives a ratio that indicates the formation is not too
3 porous. It's about an average porosity.

4 Moving over to the Enstar Scott Well,
5 initial pressure was 3346 psi. The final pressure was 3339,
6 a difference of -7 psi.

7 On a drill stem test if your initial and
8 final pressures are within 10 psi you can assume you've
9 reached initial reservoir pressure.

10 The flow pressure in Scott, final flow,
11 was 2967; over the bottom hole pressure of 3339 gives a high
12 ratio, indicating good porosity and permeability.

13 Q Is that -- is that pressure the highest
14 pressure encountered in the wells that you have --

15 A Well, in the producing wells, but I was
16 going to go down to the PanAm Well in Section 11. There are
17 no initial or final to base that on, but they had a pressure
18 of 3828 psi, which would indicate a difference in reservoirs
19 between the PanAm Well and the Scott Well, based on the
20 Scott having only 3339 and apparently initial reservoir
21 pressure.

22 When we get down to the Earl T. Smith
23 Well in 12, southwest of 12, we have initial shut-in
24 pressure of 2750 and a final shut-in pressure of 1845;
25 definitely a limited or marginal reservoir quality rock.

1 Now that would tell me that within this
2 area were I to drill a well I would not expect pressure,
3 producing pressure, probably, in excess of the No. 1 Scott
4 Well.

5 Q How does that compare with the 4500
6 pounds that were -- was testified to in the --

7 A The comparison is, there is actually no
8 comparison between the two figures. I think the basis for
9 that 4500 pounds was a rough rule of thumb that some people
10 use in a virgin reservoir area, that your gradient to be ex-
11 pected is .433 times the depth. That's hydrostatic pres-
12 sure, and the proper application would be to reduce that for
13 the specific gravity of the fluids you're drilling with, but
14 you're looking for a 45 degree API gravity, would give you

15 So I think where we actually have pres-
16 sure differences in the area, I think they're not as re-
17 flected in the testimony in 8595.

18 Q Well, is it better to use actual --
19 actual pressure data than --

20 A A rule of thumb. We have enough data in
21 the area to potentially examine what pressure we expect, and
22 as further notice I looked at the Denton Wolfcamp Field
23 approximately six miles east of this area and in New Mexico
24 Dil and Gas Engineering Committee Report for the year 1954,
25 Volume I, they showed initial reservoir pressure of 3300

1 psi.

2 Q Let me hand you, since you've gone into
3 that, Exhibit Number Eleven, and ask you to identify that?

4 A This is the copy of the data I obtained
5 from the New Mexico Oil and Gas Engineering Committee Re-
6 port, 1954, Volume I, reflecting the initial production in
7 the Denton Wolfcamp Field.

8 Q How far away is the Denton Wolfcamp --

9 A Approximately six miles.

10 Q Does that -- is that -- how is that rele-
11 vant to --

12 A That is a --

13 Q -- this case?

14 A -- good producing field in the Wolfcamp,
15 but it shows that when we start out we shouldn't expect
16 greater pressure than that field and that field is probably
17 still -- some of the wells are still producing today.

18 But it does indicate to me that the Wolf-
19 camp in this area is definitely an under pressure reservoir.

20 Q How does that compare with the 4500
21 pounds?

22 A Well, if we are going to go back and make
23 a comparison in the testimony on the same page, the infer-
24 ence is that we're seeing a depressed -- I'm quoting from
25 the record -- we're seeing a depressed reservoir pressure in

1 the neighborhood of 1600 pounds, which is essentially a de-
2 pressed or a depletion of approximately one-third of the
3 original bottom hole pressure, so we are definitely -- so we
4 are -- we definitely are seeing very effective drainage oc-
5 ccurring in this reservoir.

6 Now, according to my analysis, the ini-
7 tial pressure in the Scott is acceptable as initial bottom
8 hole pressure of 3349. Well, I call it 3349, and the pres-
9 sure in the Gilliam is 2908, which we have a record of,
10 showing only a 438-pound pressure decrease between the two
11 wells, or approximately 13 percent, not 33 percent as re-
12 flected in the testimony.

13 These are actual figures. They're not
14 hypotheses.

15 Q How does that affect drainage?

16 A It would reflect that the drainage is not
17 significant as proposed in the Case 8595. There is a slight
18 drainage, which you would expect, because at the time the
19 Gilliam Well was completed the Scott had already produced
20 for one year and had produced 100,951 barrels of oil, 67,694
21 MCF of gas, and 1,890 feet of water.

22 So you would expect a pressure decrease
23 if there is any communication between the two, but not sig-
24 nificant. That 13 percent decrease is not significant, in
25 my opinion.

1 MR. TAYLOR: Excuse me, Mr.
2 McCoy, you said feet of water.

3 A Barrels.

4 MR. TAYLOR: Did you mean bar-
5rels of water?

6 A 1,890 barrels of water.

7 Q Let me hand you Exhibit Number Eleven and
8 have you identify that for the Examiner.

9 A This?

10 Q Exhibit Twelve, I'm sorry, Exhibit
11 Twelve.

12 A This exhibit was furnished me by Michele
13 Kennard of Florida Exploration, which is a bottom hole
14 pressure survey report from -- on the No. 1 Gilliam on 9-2-
15 84, approximately on initial completion.

16 And the bottom hole extrapolated, the
17 bottom hole pressure is 2908.2 psi absolute, and that is the
18 pressure I used in calculating the pressure depletion
19 between the Scott and the No. 1 Gilliam.

20 Q So again we're seeing in that -- this is
21 a --

22 MR. KELLAHIN: I'm going to
23 object, Mr. Examiner, to the attorney for Mr. Scott
24 recharacterizing the expert witness' testimony. That's
25 inappropriate.

1 MR. PADILLA: I'll rephrase the
2 question, Mr. Examiner.

3 Q How does that pressure reflect the drain-
4 age for the Gilliam No. 1 Well?

5 A It just signifies that there has been a
6 438 psi decrease, assuming that the No. 1 Scott was draining
7 this area starting at initial bottom hole pressure of 3346
8 in the Scott Well and running this pressure survey of 2908,
9 that there has been some drainage, but realizing that we are
10 only 990 feet apart between these two wells, you would ex-
11 pect some drainage.

12 Q If you have actual lower pressures, I be-
13 lieve your testimony has been that this pool is underpres-
14 surized, how does that affect 40 versus 80 acre spacing?

15 A Well, based on the data available today
16 and my interpretation of the data, there is no indication
17 that there would be effective drainage over an 80-acre
18 tract.

19 Q Let me refer you to page 27 of the tran-
20 script at the second line from the bottom. There's a figure
21 there of 47.3 acres. Can you tell us what you believe that
22 figure to mean?

23 A I have no data in the file to reflect how
24 that figure was arrived at.

25 Q Could that --

1 A It is merely opinion.

2 Q Could that figure also indicate that the
3 remaining acreage on an 80-acre spacing would be undrained?

4 MR. KELLAHIN: I'm going to ob-
5 ject to the question. The witness had already told him he
6 couldn't answer it, so he speculates for him on opinion.

7 MR. STOGNER: Rephrase your
8 question, Mr. Padilla.

9 Q Repeat for me what you believe that fig-
10 ure to mean.

11 MR. KELLAHIN: I believe the
12 question has been asked and answered, Mr. Examiner. He says
13 he doesn't know what it means.

14 Q Let me -- let me ask the question. Is --
15 rephrase the question.

16 In your reading of this transcript and
17 the materials presented in connection with Case 8595, did
18 you find any justification of how that figure was arrived
19 at?

20 A I found no data in the record of the
21 hearing showing how that figure was calculated.

22 Q Assuming that figure is accurate, would
23 it indicate that on 80-acre spacing there would be some un-
24 drained acreage?

25 A At the time this was calculated, yes, it

1 would.

2 Q And how much acreage on 80-acre spacing
3 would be undrained?

4 A It would be 33.7 acres.

5 Q Let me hand you Exhibit Number Thirteen
6 and ask you to identify that.

7 A Exhibit Thirteen is an approach to calcu-
8 lating payout and return on investment on the No. 1 Scott
9 and the No. 1 Gilliam.

10 This was prepared based on a completed
11 well cost of \$700,000 reflected by my discussion with Mr.
12 Scott on well cost.

13 I then calculated the -- or tabulated the
14 cumulative production through June 1st of this year and
15 then, using a figure presented in 8595 on gas price and oil
16 price, which are summarized down below on assumptions, I
17 calculated the gross barrels of oil required to payout the
18 well. This would be in both cases 34,000 barrels.

19 Subtracting that from the cumulative you
20 come up with profit barrels and of that the working in-
21 terest, as I understand it, is 81.25 percent.

22 We then calculate the net barrels to the
23 working interest and the value of those net barrels to the
24 working interest, based on a net price of \$25.34 per barrel
25 on the No. 1 Scott, amounted to \$1,811,789.

1 Using the gas price, gas recovery and
2 less operations of \$1500 a month, the working interest gas
3 income would be \$167,911.

4 So the total value on the Scott would be
5 \$1,979,700. The payout, according to my calculations, in
6 4.6 months.

7 Using this same analysis on the Gilliam,
8 but changing the cumulative to account for the actual pro-
9 duction, we have a gross profit to the working interest of
10 \$522,758 and a payout of 4.2 months.

11 The return on investment at this time is

12 Q What do you say at this time?

13 A That, number one, the Scott is an econom-
14 ical prospect on 40-acre spacing and the Gilliam, I would
15 have to, with only nine months production, it's kind of dif-
16 ficult to make any reasonable estimate on a future rate of
17 return because we have no reservoir data available to us to
18 make any estimated ultimate recovery.

19 Q Where did you obtain the prices given in
20 the assumptions section of that exhibit?

21 A That was Exhibit, I believe, Four --

22 Q Let me ask the question this --

23 A Oh, it would be on Exhibit E-4 table,
24 Reflection of Prices for 1986. Oil price, \$27.54; gas
25 price, \$3.06. That's gross, and my estimate of taxes is .8

1 percent on oil and 11 percent on gas.

2 Q In other words you used Apache's figures
3 for these --

4 A Right.

5 Q -- assumptions?

6 A Right.

7 Q Is it your opinion that payouts of 4.6
8 months and 4.2 months for the Scott No. 1 and Gilliam Wells,
9 respectively, are economic?

10 A I do believe they are.

11 Q Let me hand you what we have marked as
12 Exhibits Fourteen and Fifteen and have you identify both of
13 those exhibits for the Examiner.

14 A Fourteen is a copy of Exhibit E-Three in
15 Case 8595.

16 Exhibit Fifteen is a copy of Exhibit
17 Three-A of Case 8595.

18 The Exhibit Fourteen reflects an esti-
19 mated recoverable oil on 40-acre spacing of 43,792 barrels
20 of oil.

21 Exhibit Fifteen reflects an estimated re-
22 covery of 65,362 barrels of oil on 80-acre spacing.

23 Q How do these numbers, 53,792 and 65,632,
24 for 40-acre spacing and 80-acre spacing, respectively, com-
25 pare with actual production?

1 A In both cases, the No. 1 Scott has ex-
2 ceeded the 80-acre withdrawal on the present spacing. The
3 production, the cumulative production on the Scott as of the
4 first of June was 121,999 barrels of oil, and based on 40
5 acres the No. 1 Gilliam has recovered 54,975 barrels of oil.

6 Both wells are still producing and have
7 not reached ultimate recovery.

8 Q If we take these same figures as shown by
9 Exhibit Fourteen, the figure 43,792, and we double that
10 figure, if we were to be on 40-acre spacing, let me strike
11 that question.

12 You made a study of how recoverable re-
13 serves would be affected if you assumed that these two fig-
14 ures are correct.

15 A I have not made a study. I have reviewed
16 these figures and looked at those and it would infer to me
17 that if we take 43,792 on 40 and we continued 40, the infer-
18 ence is we'd double the production, which would be 87,584
19 barrels.

20 But if we go to 80-acre spacing we're
21 only going to recover 65,632 barrels, which would mean a
22 loss of 21,952 barrels.

23 Q Based upon their own figures.

24 A Based on the --

25 Q Apache's figures.

1 cautions against continued use of correlations from API Bul-
2 letin D-14, Statistical Study of Recovery Efficiency, Octo-
3 ber '67 to predict recovery or recovery efficiency from any
4 one reservoir.

5 Further, to avoid any undue significance
6 being attached to the correlations developed in this current
7 study, only those results required to substantiate the ex-
8 press conclusions are cited in this report.

9 In essence, don't use the recovery fac-
10 tors that they have previously published.

11 Q Is that what Apache relied on?

12 A It is according to one of the factors on
13 -- the case refers to this bulletin as a basis for using re-
14 covery factors and on Exhibit Fourteen on the bottom, a com-
15 ment made by someone, API Bulletin confirmed, D-14. So --

16 Q Is that handwritten notes at the bottom
17 of that exhibit?

18 A Yes.

19 Q Mr. McCoy, do you agree with any of the
20 figures presented by Apache in Case 8595?

21 A I find my findings are different from
22 their findings, based on the data we have presented here and
23 investigations that I have made; that the pressure data is
24 not reliable; that the assumption that one well can drain 80
25 acres with a heterogeneous reservoir, as we have, is ques-

1 tionable; and I did not prepare any radius of drainage be-
2 cause I didn't feel it was our position to prove drainage.
3 The drainage basis is strictly on Apache's back. If they
4 can't prove it, then I think we should maintain 40 acres.

5 MR. KELLAHIN: I'm going to
6 move to strike those last comments. They're argumentative
7 and beyond the scope of his expertise. They call for legal
8 conclusions and they are objectionable.

9 MR. STOGNER: The record will
10 so reflect.

11 MR. PADILLA: Is that a ruling,
12 Mr. Examiner, on his objection?

13 MR. STOGNER: The record will
14 so note Mr. Kellahin's objection.

15 Q Mr. McCoy, would 80-acre spacing be in
16 the best interests of conservation of oil and gas in the
17 Northeast Caudill Wolfcamp Pool?

18 MR. KELLAHIN: Objection, Mr.
19 Examiner, that calls for a legal conclusion by this witness.

20 It is the province of this
21 examiner to determine what decision is in the best interest
22 of conservation for the State.

23 MR. PADILLA: Mr. Examiner, I
24 think I'm simply asking for an opinion as to what his
25 testimony has been insofar as conservation is concerned.

1 MR. STOGNER: Overruled.

2 A It is my opinion that based on the data I
3 have seen that 40-acre spacing is economic and would be in
4 the best interest of recovering the maximum reserves under
5 a proration unit assigned on 40 acres.

6 Q Would 40-acre spacing in your opinion
7 prevent waste?

8 A It would.

9 MR. PADILLA: Pass the witness,
10 Mr. Examiner.

11 MR. STOGNER: Mr. Kellahin,
12 your witness.

13 MR. KELLAHIN: Mr. Padilla, are
14 you tendering exhibits for introduction at this time?

15 MR. PADILLA: Yes. I would of-
16 fer Exhibits Seven through Sixteen at this time.

17 MR. STOGNER: Are there any ob-
18 jections?

19 MR. KELLAHIN: Mr. Examiner,
20 we'll object to Exhibit Number Eleven, which is the produc-
21 tion information on the Denton Wolfcamp Field.

22 It is our contention that Mr.
23 Padilla has failed to lay the necessary foundationary (sic)
24 questions to show the relationship of the Caudill Wolfcamp
25 to the Denton Wolfcamp Pools, and therefore we object to

1 this exhibit.

2 We have no objections to the
3 other exhibits.

4 MR. STOGNER: Your objection
5 will be so noted.

6 Exhibits One -- or what was the
7 numbers?

8 MR. PADILLA: Seven through
9 Sixteen.

10 MR. STOGNER: Seven through
11 Sixteen will be admitted into evidence.

12

13 CROSS EXAMINATION

14 BY MR. KELLAHIN:

15 Q Mr. McCoy, let me direct your attention,
16 sir, to Exhibits Fourteen and Fifteen.

17 A Yes.

18 Q On those exhibits the Apache witness had
19 indicated a recovery percentage factor for each of the
20 wells?

21 A Yes, sir.

22 Q Do you have your own opinion as to what
23 recovery percentage factor ought to be applied to the calcu-
24 lation?

25 A No.

1 Q What information is required by a person
2 of your profession, Mr. McCoy, to do a drainage calculation
3 for this Caudill Wolfcamp Pool?

4 A I could find -- I could not find suffi-
5 cient data in the files of the Commission or in the response
6 to any -- to the (not understood) people other than the bot-
7 tom hole pressure.

8 Q All right. Let me ask you first of all,
9 you said you found insufficient data absent.
10 Tell me first of all what the data is
11 that you need to make your calculation.

12 A That's what I was going to do, what I was
13 looking for.

14 Number one, when you start out you need
15 the original bottom hole pressure, the temperature of the
16 reservoir, viscosity of the oil, the gas/oil ratio, and this
17 should be not an estimated or reported on C-105 but an ac-
18 tual gas/oil ratio test which would include a specific grav-
19 ity of the gas and a gas analysis.

20 From that data we can make an estimate of
21 the properties of the oil in the reservoir.

22 Now, based on that we will have an ini-
23 tial reservoir pressure survey run, make a Horner plot of
24 such to get a Kh ratio, a permeability to thickness ratio,
25 and then watch the production and in a period, say, six

1 months from then perform the same type of test. Then take
2 that data and put it into a material balance calculation and
3 from that we can get an estimate of original oil in place
4 and a potential recovery from the reservoir.

5 Q Some of that information that is required
6 for the calculation for drainage is depicted on Exhibits
7 Fourteen and Fifteen, is it not?

8 A Yes, that's true. But for instance, I
9 attempted to use the data, same data that I see in the file
10 of (not understood) and so forth. I cannot effectively cal-
11 culate a recovery factor because I don't have the specific
12 gravity of the gas being produced.

13 Therefore I can make no -- other than an
14 estimated ballpark figure, make a calculation on the re-
15 covery factor.

16 Q All right. Before we get to the recovery
17 factor in estimating that number, based upon what informa-
18 tion is available --

19 A Yes.

20 Q -- can we get through the calculation up
21 to that point with some reasonable degree of accuracy?

22 A Without background data, you can, but
23 that's just accepting. I can do the same thing. I can put
24 some figures down there and give them to you and you can
25 look at them the same way. Would you accept them?

1 Q You're the expert, Mr. McCoy, I'm asking
2 you the questions.

3 A Well, that's my point. It's the same
4 thing.

5 Q When you use the information available up
6 to the recovery factor, where in that information do you
7 disagree with the numbers used in the calculation?

8 A Well, the formation volume factor. I
9 believe I checked the connate water. I will agree with that
10 figure.

11 I could not verify the porosity.

12 Q The porosity would come from looking at
13 one of the --

14 A The logs that he furnished there. I did
15 not make a cross plot with the porosity. He had a neutron
16 density log and based on the production that I see, I would
17 estimate that that porosity would be higher than 5.9
18 percent.

19 Q Can you give --

20 A That's pretty low.

21 Q Can you give us a range of the porosity
22 that you anticipate --

23 A I would tend to believe the data that I
24 saw, and this is not a cross plot porosity, but it could be
25 up in the range of possibly 7 percent.

1 Q Plugging a 2 percent increase in the
2 porosity calculation, if you run it through the whole calcu-
3 lation, will reduce the radius of drainage.

4 A Right. The higher the porosity the less
5 the radius.

6 Q All right. In terms of running this cal-
7 culation would a 2 percent change in the porosity result in
8 a significant difference in the drainage radius?

9 A Acreagewise I couldn't say that without
10 trying to run it through there.

11 Q What are the -- any of the other para-
12 meters required for the calculation that you have not been
13 able to confirm?

14 A Well, I've already furnished what I think
15 was necessary and I think we have none of the data available
16 on this form.

17 Q You've indicated for us that we have a
18 pressure differential or a decrease in pressure in the Gil-
19 liam Well of 438 psi.

20 A Right.

21 Q And that was over a period of how many
22 months did the Scott Well produce before the pressure was
23 taken on the Gilliam Well?

24 A You said it was about a year.

25 A No, I don't believe that's correct.

1 Q All right. Let me have you --

2 A Well, let's see, the Scott Well produced,
3 and I think my record, the testimony will reflect the Scott
4 produced for one year, I made that statement, before the
5 Gilliam was completed, approximately, and I was going from
6 the initial reservoir on the pressure on the Scott and the
7 initial reservoir pressure on the Gilliam, and that's where
8 the differential came in, due to one year's production, over
9 100,000 barrels, I believe my testimony reflected.

10 Q The initial bottom hole pressure in the
11 Scott Well was taken during what period of time in relation
12 to the completion of the Scott Well?

13 A It was taken during drilling which would
14 probably -- which is usually considered initial reservoir
15 pressure in the absence of any other data.

16 Q Have you reviewed the engineering calculation
17 that the Apache witness presented, either Exhibit
18 Fourteen or Fifteen?

19 A I have reviewed the copy of it, yes.

20 Q Yes, sir, and can you tell us from a review
21 of that calculation what drainage radius that engineer
22 was using for each of those wells?

23 A I cannot. He furnished no information on
24 radius of drainage.

25 Q What is the spacing in the Denton Wolf-

1 camp Pool, Mr. McCoy?

2 A 40 acres.

3 Q And you said that's approximately six
4 miles away from this pool?

5 A Six miles to the east.

6 MR. KELLAHIN: May I have a mo-
7 ment, Mr. Examiner?

8 MR. STOGNER: Let's take about
9 a five minute recess.

10

11 (Thereupon a recess was taken.)

12

13 MR. STOGNER: Mr. Kellahin,
14 please continue.

15 MR. KELLAHIN: Thank you, Mr.
16 Examiner.

17 Q Mr. McCoy, approximately when did you
18 commence your study of this pool and the transcript and ex-
19 hibits of the prior hearing in preparation --

20 A About two weeks ago.

21 Q Beg pardon?

22 A Two weeks ago.

23 Q In that preparation, Mr. McCoy, have you
24 contacted Apache to obtain additional data or information?

25 A No, I have not.

1 witnesses, an engineer and a geologist. We discovered last
2 week that neither of those gentlemen would be available for
3 hearing today and I sought a continuance which I assume by
4 the inaction of the Commission was denied.

5 For the record, I will offer to
6 Mr. Padilla the opportunity to cross examine those expert
7 witnesses and I will make every effort and attempt to have
8 them available at the next hearing on August 28th, which is
9 also a hearing for which this Examiner presides, and I don't
10 want Mr. Padilla or his client not to have the opportunity
11 to cross examine the experts presented in the first portion
12 of this case.

13 I would ask Mr. Padilla if he
14 wants the opportunity to cross examine those experts.

15 MR. PADILLA: Mr. Examiner, I
16 don't believe I need to cross examine those witnesses. We
17 would just simply go on the basis and strength of our case
18 here today.

19 They have presented their case
20 in Case 9595 and we believe that we don't need those witnes-
21 ses and we don't need to cross examine their figures.

22 MR. KELLAMIN: If the Examiner
23 please, I would, because of the unavailability of my witnes-
24 ses, I would request that this case remain open for the po-
25 tential of rebuttal witnesses by my client at the hearing

1 on August 23th.

2 MR. PADILLA: Mr. Examiner, at
3 least the other side had notice of this hearing; we didn't
4 have notice, and I imagine that they could have had -- they
5 had an opportunity to be here and it's not our fault they
6 couldn't be here today.

7 They had notice of this hear-
8 ing.

9 MR. STOGNER: Mr. Carr?

10 MR. CARR: Yes, Mr. Stogner.

11 MR. STOGNER: Do you plan to
12 have any witnesses?

13 MR. CARR: We do not plan to
14 call a witness on the 23th.

15 MR. STOGNER: To give everybody
16 a fair chance we'll keep the record open and hear any addi-
17 tional testimony on the hearing scheduled for August 23th,
18 1925, and give everybody a chance to cross examine.

19 MR. KELLAHIN: That being the
20 decision of the Examiner, I would like to withhold my clos-
21 ing arguments until then.

22 MR. STOGNER: Thank you.

23 MR. CARR: Mr. Stogner, I do
24 not have a closing argument.

25 I would like to note that the

1 MR. YELLAHIN: We'll be happy
2 to do that.

3 MR. STOGNER: And we'll expect
4 cite an order on this decision.

5 However, is there anything fur-
6 ther to come today on this case?

7 MR. CAPP: We might file an or-
8 der independent of Apache, if that meets with your approval.

9 MR. STOGNER: Mr. Padilla, do
10 you have any further arguments at this time or do you wish
11 to hold --

12 MR. PADILLA: I'll hold my ar-
13 gument in abeyance until we here what the other witnesses
14 have to say.

15 MR. TAYLOR: Mr. Yellahin,
16 would you notify the other counsel within a week of the next
17 hearing if you do not intend to present your witnesses so
18 that they will not have to show up?

19 MR. STOGNER: Anything further
20 in this case today?

21 If not, this case will be left
22 open pending the continuance of this case to be heard on Au-
23 gust 28th, 1985, and by the way, due to a meeting Mr. Quin-
24 nana will be attending on August 28th, I will also be the
25 hearing examiner that day, also.

(Hearing concluded.)

C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY that the foregoing Transcript of Hearing before the Oil Conservation Division was reported by me; that the said transcript is a full, true, and correct record of the hearing, prepared by me to the best of my ability.

Sally W. Boyd CSR

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 8678¹ heard by me on 14 August 1985.
Michael J. Stogard, Examiner
Oil Conservation Division

1 STATE OF NEW MEXICO
2 ENERGY AND MINERALS DEPARTMENT
3 OIL CONSERVATION DIVISION
4 STATE LAND OFFICE BLDG.
5 SANTA FE, NEW MEXICO

6
7
8 28 August 1985

9 EXAMINER HEARING

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13 IN THE MATTER OF:

14 Application of Wilton Scott to
15 vacate and void Division Order
16 R-7983, Lea County, New Mexico.

17 CASE
18 8678

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22 BEFORE: Michael E. Stogner, Examiner

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A P P E A R A N C E S

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I N D E X

WILTON SCOTT

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MR. STOGNER: We'll call next
Case Number 8678.

MR. TAYLOR: The application of
Wilton Scott to vacate and void Division Order No. 7-7983,
Lea County, New Mexico.

MR. PADILLA: Mr. Examiner, Er-
nest L. Padilla, Santa Fe, New Mexico, for the applicant.

We would like to present some
additional testimony in this case. It will not take long
and it's --

MR. STOGNER: What's your defi-
nition of long?

MR. PADILLA: About five
minutes in this case.

MR. STOGNER: Okay.

MR. PADILLA: I'd like to re-
call Mr. Scott to the stand.

MR. STOGNER: Mr. Carr, do you
wish to enter an appearance?

MR. CARR: I entered my appear-
ance. We had appeared in the previous portion of the case
prior to continuance.

Again we do not intend to pre-
sent any testimony and I'm appearing for Union Texas Petro-

1 leum Corporation.

2 MR. KELLAHIN: May the record
3 reflect, Mr. Examiner, that I'm Tom Kellahin and I'm again
4 appearing for APC Operating Partnership.

5 MR. STOGNER: Will all witness-
6 ses please stand and be sworn at this time?

7

8 (Witness sworn.)

9

10 MR. PADILLA: Mr. Stogner, I
11 tender a proposed order in this case to opposing counsel and
12 in accordance with your request I have supplied that.

13 MR. STOGNER: Okay.

14

15 WILTON SCOTT,

16 being called as a witness and being duly sworn upon his
17 oath, testified as follows, to-wit:

18

19 DIRECT EXAMINATION

20 BY MR. PADILLA:

21 Q Mr. Scott, have you reviewed the proposed
22 order submitted by APC Operating Partnership in this case in
23 connection with this hearing?

24 A Yes, I have.

25 Q And in particular have you reviewed a

1 finding which basically allows on 80-acre spacing the dedi-
2 cation of laydown units and would involve the north half of
3 the southwest quarter?

4 A Yes.

5 Q Can you briefly describe what it is that
6 --- well, your opinion on what laydown units in this case
7 will do?

8 A Our rights to develop the East Caudill
9 Field to the south, which is the only undefined limit to
10 that pool, would be equally impaired regardless of how the
11 eighties were aligned.

12 Such alignment as is suggested in east-
13 west versus a north/south would include a dry hole in each
14 of the producing units in Section 1 if indeed the southwest
15 of the southwest were to produce.

16 The order as written provides that each
17 additional well must be located within 150 feet of the cen-
18 ter of a quarter section quarter section.

19 The East Caudill Field produces from a
20 very narrow north/northeast to south/southwest trending
21 Wolfcamp Reef. Wells drilled at or near the edge of that
22 reef in the vicinity of a deep-seated structure are prolific
23 producers.

24 Wells drilled on the front side, on the
25 east side, completely miss the reef and wells drilled on the

1 backside, the west side, encounter rapidly diminishing por-
2 ous section.

3 This is the reason that every well dril-
4 led to develop this pool, except the discovery well, has
5 been drilled on a 330 location, or very close thereto, in-
6 cluding the Gilliam No. 1.

7 To propose a change in that standard rule
8 now after two years of good production history, when only
9 one direction remains to be explored, causes us major prob-
10 lems.

11 The APC No. 1 Gilliam offsets our proper-
12 ty in Section 1 by 330 feet. How can we be denied equal
13 rights?

14 This reef production could easily extend
15 for another mile to the south. We don't know but we would
16 like the opportunity to extend this production under the
17 same rules that have existed up to now. No valid reason has
18 been advanced to the contrary.

19 Q Do you have anything further to add to
20 your testimony, Mr. Scott?

21 A I don't think so.

22 MR. PADILLA: Pass the witness,
23 Mr. Examiner.

24 MR. STOGNER: Mr. Carr?

25 MR. CARR: No questions.

1 MR. STOGNER: Mr. Kellahin?

2 MR. KELLAHIN: No questions.

3 MR. STOGNER: Is there anything
4 further of this witness at this time?

5 There being no further ques-
6 tions of Mr. Scott, he may be step down.

7 MR. SCOTT: Thank you.

8 MR. PADILLA: Mr. Examiner, in
9 anticipation of rebuttal testimony we have had an affidavit
10 submitted to us by Michele Kennard, a geologist with now HNG
11 Company, and I'd like to tender that for the Division's con-
12 sideration.

13 MR. STOGNER: That has been --
14 or is it being presented to the parties?

15 MR. PADILLA: The exhibits at-
16 tached to that, or cross section A-A' and B-B', we have pre-
17 viously submitted as Exhibit Eight to this hearing and Exhi-
18 bit C to that has also previously been submitted to the Oil
19 Conservation Division as part of our main case.

20 MR. KELLAHIN: Mr. Stogner,
21 we'll object to the affidavit. It denies us an opportunity
22 to cross examine Ms. Kennard. It's hearsay and we would
23 strongly urge you not to accept this affidavit as evidence.

24 MR. CARR: We also would join
25 in that objection as it relates to Paragraph 10 in particu-

1 lar, for here we have an individual who isn't here who could
2 be cross examined, who states that it was in her opinion
3 that there was no apparent or real interest on the part of
4 Apache Corporation in the case and that it was being brought
5 as an accommodation to Union Texas Petroleum.

6 We think that before you admit
7 this we at least should have an opportunity to cross examine
8 Michele Kennard to ascertain what the basis of her opinion
9 is and if we're not entitled to that we're not being af-
10 farded due process and you're accepting into the record just
11 rank hearsay.

12 MP. PADILLA: Mr. Examiner, we
13 have had a continuance in this case of two weeks in order
14 that the witnesses for Apache Corporation who were here pre-
15 viously in Case 8595 be present to defend and justify their
16 position.

17 We, in anticipation of the tes-
18 timony, had this prepared and submitted to us for tendering
19 to you today.

20 This is already part of the re-
21 cord and this simply verifies from Ms. Kennard that certain
22 conversations with Mr. Brunner took place and that it simply
23 strengthens our position with regard to preparation of cer-
24 tain exhibits that were submitted by Mr. Brunner in Case
25 8595.

1 She was at all times, she was
2 contacted by Mr. Brunner regarding Case 8595 and was more or
3 less educated by Ms. Kennard in that regard.

4 She would have been here but
5 the last paragraph on that affidavit indicates that she is
6 over eight months pregnant and was not allowed by her doctor
7 to travel; otherwise she would have been here today.

8 We believe that this is not
9 hearsay and it should be submitted.

10 MR. STOGNER: Mr. Carr, are you
11 proposing, or do you wish us to subpoena Ms. Kennard?

12 MR. CARR: I think that's some-
13 thing that Mr. Padilla should pursue.

14 I hate to be put in the posi-
15 tion, having now read the whole thing, of being cast as
16 being against motherhood or something, but the fact that she
17 has a medical condition which prevents her testimony here
18 today and also the timing of a continuance, really does not
19 address the fact that the evidence presented is hearsay, and
20 if Mr. Padilla wants her testimony concerning what she
21 understood from Mr. Brunner to be the situation between
22 Apache and Union Texas that that could be appropriately
23 brought before the Commission, then I think they have to
24 have the witness present so she can be subject to cross ex-
25 amination.

1 If not, we have just one per-
2 son's statement offered. We don't have an opportunity to
3 pursue what she's basing her opinions on. It clearly is
4 hearsay and we think it's inadmissible.

5 We are not asking that you con-
6 tinue the hearing. The reason is we're sitting here as the
7 operator of the Scott No. 1 Well, Union Texas is, and we
8 have a date of September the 10th and on that date we either
9 have to dedicate 40 additional acres to that well or have
10 that well's allowable cancelled, and we think that to con-
11 tinue this would require some other action on your part,
12 either set aside or stay that date. I think it's an un-
13 necessary delay in the entire proceeding and our objection
14 simply goes as to the admissibility of this affidavit. We
15 think that it is not admissible, that it is hearsay, and
16 that it cannot and should not be admitted into the record in
17 this case.

18 MR. TAYLOR: Let's see. What
19 we've decided is we're going to admit this unless you object
20 on the basis of your right to cross examine and --

21 MR. KELLAHIN: That's what I
22 objected to.

23 MR. TAYLOR: And thereupon
24 you're going to have to request that we subpoena the witness
25 and get her here so you can cross examine.

1 MR. KELLAHIN: I don't believe
2 that's required by your rules and we object to doing it.

3 MR. TAYLOR: So you don't want
4 to cross examiner her but you're going to object because you
5 can't, is that what you're saying?

6 MR. CARR: We're objecting be-
7 cause the evidence is inadmissible under the rules because
8 it's hearsay.

9 We think that Mr. Scott is an-
10xious to have a ruling in this case and so is Union Texas
11 and we think the question before you is not whether or not
12 we have to continue this again and bring in an additional
13 witness, but whether this piece of evidence is admissible
14 under -- under the Rules of Procedure and we submit that it
15 is not, and we think that the case -- that the -- we are
16 asking you to not admit this into evidence and to take the
17 case under advisement and then in an expeditious fashion en-
18ter an order.

19 MR. TAYLOR: Well, what we're
20 doing is overruling your objection on hearsay but we're say-
21ing that if you object on the basis of you want to cross
22 examine this witness, we will subpoena the witness and con-
23tinued the case and bring her here or make arrangements for
24 her to be questioned on this topic.

25 MR. KELLAHIN: What you've done

1 is shifted the burden unreasonably to us to provide admis-
2 sible testimony that Mr. Padilla wants in the record.

3 Now that's not appropriate, but
4 If that's your decision, so be it.

5 MR. TAYLOR: Well, if you want
6 to subpoena the witness for purpose of cross examination,
7 we'll do that.

8 MR. CARR: Our objection -- my
9 objection is on the hearsay ground, period. If that's being
10 overruled, that's your ruling, and I'm not going to insist
11 that the case be continued; that works a hardship on the
12 people that are involved and it does put us in the position
13 of bringing additional testimony, which, at least as it now
14 stands, we submit is inappropriate and not correctly before
15 you.

16 MR. TAYLOR: Mr. Kellahin, are
17 you going to stand on --

18 MR. KELLAHIN: I've said all I
19 want to say.

20 MR. TAYLOR: -- on a -- what,
21 your right to cross examine?

22 Mr. Carr is saying he's not ob-
23 jecting on his right to cross examine. He's merely objected
24 to it as hearsay.

25 MR. KELLAHIN: I've objected to

1 the evidence as not admissible for a number of reasons.

2 MR. TAYLOR: And one of those
3 is you want a right to cross examine the witness.

4 MR. KELLAHIN: That's right,
5 and that this is hearsay. He has not laid a proper founda-
6 tion for its admission and he has not tendered this witness
7 for cross examination and it cannot be (not clearly under-
8 stood.)

9 MR. PADILLA: Mr. Taylor, if I
10 may respond to that.

11 I believe we established a
12 foundation at the hearing on August 14th relative to this
13 issue.

14 Mr. McCoy testified at that
15 time basically this same fact. There was no objection on
16 the basis of hearsay at that time.

17 MR. KELLAHIN: Certainly was,
18 Mr. Padilla.

19 MR. PADILLA: Not on this is-
20 sue; not object on this specific issued when Mr. -- or move
21 to strike his testimony when he testified to that effect.

22 MR. TAYLOR: Well, what we're
23 -- what we're going to do is we are overruling the objection
24 based upon hearsay, but I believe that if a party demands to
25 cross examine a witness based upon information that somebody

1 else wants in the record, they have that right.

2 If Mr. Kellahin is saying he
3 wants to cross examine that witness, then I think we're --
4 we're stuck with either doing that or having Mr. Padilla
5 withdraw the request to have it made an exhibit.

6 Essentially what we'll do is --
7 if if he demands to cross examine her on this, we'll sub-
8 poena, we're left with nothing but subpoenaing her so she
9 can be cross examined.

10 Do you want to take a recess
11 for a few minutes?

12 MR. STOGNER: We'll take about
13 a five minute recess.

14

15 (Thereupon a recess was taken.)

16

17 MR. STOGNER: Let's go back on
18 the record, Sally.

19 MR. PADILLA: Mr. Examiner,
20 we're going to withdraw that in the interest of time because
21 we have to get on with a decision on this case and we'll
22 withdraw the exhibit, or the affidavit.

23 MR. STOGNER: Anything further
24 in this case?

25

Closing statements?

1 MR. KELLAHIN: Yes, Mr. Stog-
2 ner.

3 MR. STOGNER: Okay, Mr. Kella-
4 hin, Mr. Carr.

5 Mr. Padilla, you may be last.

6 MR. KELLAHIN: I think, Mr.
7 Stogner, we need to begin consideration of this case in
8 terms of what this case is not.

9 We talked about a great number
10 of things in Mr. Scott's presentation of this case at the
11 last hearing, virtually none of which, I think, is important
12 to the decision that you need to make in terms of what is
13 the appropriate spacing for a temporary period of one year
14 in this pool.

15 It does not matter that Mr.
16 Scott did not get actual notice of hearing back in May. The
17 notice for that hearing was provided pursuant to Commission
18 rules and regulations; whether or not that notice is adequate
19 or not is moot at this point because in all fairness to
20 everyone, the Commission in this case, as it does in most
21 every case, if there's an objection we have a hearing and we
22 hear what those individuals have to say.

23 Don't be distracted by the
24 question of notice because that is moot now and it does not
25 matter that we've done this case in parts.

1 It also does not matter about
2 the economics of the fact that Mr. Scott's well, in which he
3 has an interest, the Scott No. 1 Well, can pay out over such
4 a period of time that he believes that 40-acre spacing is
5 appropriate.

6 It does not matter if that well
7 would pay out with ten acres or five acres. It simply does
8 not matter and the reason it does not matter is that the
9 Commission under your statutory obligation spaces pools and
10 fields based upon the abilities of wells to effectively and
11 efficiently drain the reservoir and it does not matter if
12 you punch ten straws into the pool or two straws. What you
13 are concerned about is the minimum number of wells necessary
14 to produce the reserves.

15 The Commission historically for
16 applications like this, if they err, it errs on the side of
17 wide spacing because we know the old adage, you can't un-
18 drill unnecessary wells. They're there and you're stuck
19 with them, and if Mr. McCoy's wrong, he's wrong and it's too
20 late.

21 If the APC witnesses back in
22 May are wrong we can infill drill or change the spacing and
23 it's my contention that Mr. Scott in his interest is not ad-
24 versely affected.

25 If we believe that wells can be

1 Mr. McCoy says this is an under
2 pressurized reservoir.

3 Our expert says it is not; that
4 he can see pressure differential between the Scott and the
5 Gilliam Wells and he attributes that pressure differential
6 of those wells being the distance apart they are to indicate
7 that these wells are in communication and that they will ad-
8 versely affect each other.

9 The Scott Well produced for a
10 year 100,000 barrels of oil before the Gilliam Well went on
11 line. There's testimony that you need to review and resolve
12 the dispute between the experts on that point.

13 We spent some time talking
14 about who prepared the geologic exhibits, Florida, or
15 Apache, or whoever they were. That does not matter. The
16 record is, and it's undisputed, that whoever did the draf-
17 ting and the work had been reviewed by Mr. Brunner and he
18 looked at it and he concurred in it and we see that all the
19 time. These experts come in here and they look at someone
20 else's work and he says, yeah, I agree. I've been to
21 school, I know about this stuff, and I think that's all
22 right, and that's what he said. And I asked Mr. Scott very
23 carefully as a geologist had he reviewed the transcript.

24 'Yes, sir, I have.'

25 'Have you looked at the exhi-

1 bits?'

2 'You bet.'

3 And we spent some time going
4 through what he thought was right and what was wrong.

5 Basically he thought the pool
6 had been unexplored and was open ended to the south, and we
7 contend it is not. We contend that there is a water
8 encroachment to the south. I think that's in that earlier
9 record.

10 You'll resolve that. You've
11 done it before, you can do it again.

12 Do not be misled by the fact
13 that Mr. Scott wants to drill a well in the southwest quar-
14 ter of that Section. It is our position that despite what
15 the pool rules are at this point, there is mechanisms avail-
16 able by which he can drill where he wants to drill in that
17 quarter section.

18 One suggestion from Mr. Carr
19 last time was that he could lay the units down. Mr. Scott
20 says, well, you're dedicating a dry hole acreage to the pro-
21 ration unit. Well, we see it happening. If nobody objects
22 I guess it could be done.

23 We spent a lot of time talking
24 about who owns what, the Edsels, Union of Texas, Mr. Scott,
25 they're in a fight with each other over contracts. It

1 doesn't matter to you. You should not be influenced by a
2 decision based upon contractual ownership with regards to
3 the interests in that Scott well because it does not matter.

4 You are obligated to space
5 wells based upon engineering and geologic justifications ir-
6 regardless of surface ownership or how these guys put their
7 deal together.

8 If you went around and spaced
9 every pool in New Mexico based upon ownership you'd have the
10 strangest looking creatures that you ever say; they'd be
11 gerrymandered all over the sections. We do them for speci-
12 fic reasons. We tend to block them up into forties,
13 eighties, one-sixties, in ways that have some geologica, en-
14 gineering sense or logic to them.

15 We invite you not to vacate the
16 order as written. We believe that Mr. Scott has failed to
17 sustain any burden he has to demonstrate that the temporary
18 spacing in this pool is not justified at this time. It may
19 very well be, as it happens, that a year from now we may
20 have additional evidence to show you that we decrease the
21 spacing or infill drill. That's not novel. Remember, we
22 can't undrill this well or any other wells if they become
23 unnecessary.

24 One other point that has been
25 discussed here is the fact that APC Operating Partnership

1 doesn't care one way or another. I contend to you, sir,
2 that they do very much care whether or not unnecessary wells
3 are drilled in this reservoir when in fact it's their expert
4 opinion that the existing two wells are adequate to develop
5 this reservoir. If they are obligated to drill a second
6 well in their tract because of demand from owners under
7 their property for an extra well, they've doubled the cost
8 and not increased the reserves to be produced.

9 You can see from some of the
10 letters from the former employees in Florida what they were.
11 They own an overriding royalty interest. Man, if I had an
12 overriding royalty interest, I'd be in there and we'd drill
13 wells on 10-acre tracts, because I'm not paying for them.
14 I'm cashing my check based upon royalties, free and clear of
15 the cost. You can see where they're coming from even though
16 they're not here to talk to, that's what their motive is.

17 Don't, don't be influenced by
18 that. A lot of things have been talked about, very few of
19 which are important. We think the important ones have not
20 been rebutted by Mr. Padilla and his client and therefore
21 the order ought to stand.

22 MR. STOGNER: Mr. Carr.

23 MR. CARR: Mr. Stogner, I have
24 nothing further to add except again to ask that the order be
25 expedited, reminding you that if the order -- if a new order

1 has not been entered prior to September the 10th, at that
2 time Union Texas will dedicate additional acreage to the
3 Scott No. 1 Well.

4 I have nothing further.

5 MR. STOGNER: Mr. Padilla.

6 MR. PADILLA: If it please the
7 Examiner, I believe Mr. Kellahin uses a lot of introductory
8 statements that say "it does not matter this" or "it does
9 not matter that", but we cannot ignore the fact that Order
10 7983 in an unusual procedure was retroactive, was made ef-
11 fective June the 1st, 1985.

12 The record contains no justifi-
13 cation whatsoever for that effective date. The only reason
14 that was done is for the sole purpose of retaining title to
15 lands that were not planned to be drilled and were not going
16 to be developed.

17 It's pure and simple a land
18 grab is what it is.

19 Turn to the paramount question
20 before this Division, we throw the word "waste" and "corre-
21 lative rights" here all the time but Case 6595 is a classic
22 case on wasted. By the figures presented by the witnesses
23 for Apache Corporation or APC Operating Partnership, you
24 have reserves estimated at 44,000, or thereabouts, on 40-
25 acre spacing.

1 The fact is that the Scott No.
2 1 Well has already produced three times as much.

3 The Gilliam No. 1 Well has pro-
4 duced almost 55,000 barrels of oil.

5 How in the world do you recon-
6 cile 44,000 or even 65,000 barrels of oil on the estimates
7 of -- presented by the witnesses for APC. There is just no
8 justification for these figures.

9 If you turn to the last few
10 pages of the transcript in this case, Mr. Quintana, in his
11 cross examination of Mr. Lang tells him, he says, your
12 recovery -- the question is, your recovery factors for your
13 10-acre spacing and 80-acre spacing calculations, could you
14 repeat to me where you derived these recovery factors from?

15 The answer is, "Essentially
16 it's experience factor more than anything, but to verify the
17 factors we use there's an API Bulletin D-14 we use to verify
18 these recovery factors and essentially, under that calcula-
19 tion, I came up with 15 percent, so I just arbitrarily used
20 that for my 80-acre spacing and to look at a 40-acre spacing
21 optimistically I increased it to 20 percent."

22 Don't do us any favors by in-
23 creasing that to 20 percent. The fact is that the actual
24 recovery rates from those wells have exceeded any of these
25 figures. The API bulletin clearly states that it is not to

1 be used for that purpose. It is unreliable. Pressures are
2 calculated in the same fashion, 4500 pounds per square inch.
3 We presume that those were based on hydrostatic pressures
4 based on the depth of the wells.

5 The record, the transcript con-
6 tains no evidence of any actual pressures being used for
7 that pool. If you look at the Scott No. 1, the actual pres-
8 sures that we submitted for the Scott No. 1 and the Gilliam
9 No. 1, we have admitted that the Gilliam No. 1 was affected
10 by earlier drilling or earlier production than the Scott No.
11 1 and there was some effect, but those drawdowns are based
12 on actual pressures.

13 If you take 4500 pounds, as Mr.
14 Lang testified to, you, of course, are going to have a pres-
15 sure reduction of 1600 -- 1600 pounds, which is indicative
16 of wider drainage, but if you go to Exhibit Number Six that
17 Mr. Kellahin has mentioned in his closing argument here,
18 that exhibit does not contain a drainage radius and no cal-
19 culation is made of a drainage radius.

20 There is not one single figure
21 in that transcript that is correct and in fact you have
22 material omissions that I think range on the -- are designed
23 to twist the facts in order to achieve a result that is un-
24 just and it misuses the authority of the Division to space a
25 pool as in this case; uses the Commission to achieve a re-

1 sult which is a land grab.

2 Now, we turn to the paramount
3 duty of this Division and that is the question of waste. We
4 are alleging a violation of correlative rights as well, but
5 waste is the most important.

6 If you're going to drill on 40-
7 acre spacing and you're going to recover under the estimate
8 presented by the witnesses for APC, 44,000 and we were to
9 double that to 88,000, the difference between 88,000 and
10 65,000 is the difference which is going to be wasted if we
11 do not drill additional wells.

12 We have shown that the wells
13 are economic on 40-acre spacing. In fact, the proposed or-
14 der of APC indicates that Wilton Scott provided evidence
15 that the Scott No. Well would be economic on 40-acre spac-
16 ing.

17 That seems to me like an admis-
18 sion that the Scott No. 1 Well certainly is economic on 40-
19 acre spacing, therefore I think it really matters. There
20 are a lot of things that matter here, if you design a case
21 solely for a purpose, not for conservation of oil and gas,
22 because Case 8595 does not conserve oil and gas.

23 Finally, I would simply point
24 out that we have been delayed an additional two weeks and
25 I'm not blaming Mr. Kellahin, I believe he's representing

1 this clients fairly, but to say that we're going to come and
2 defend this case, or to say that they would like to be here
3 present to -- to protect their order, I think they ought to
4 be here today to protect their order, but I also believe
5 that they were going to get some heat if they showed up here
6 today from not only the Division but from myself because I
7 was going to ask them questions of how -- whether they ac-
8 tually prepared some of those exhibits or not.

9 I had a witness here this
10 morning who admitted that he did not do a cross section. He
11 gave the originator of that cross section credit. He looked
12 at it, as Mr. Kellahin said, that he -- that you look at
13 those cross sections and you say, well, you know, to say
14 that you prepared something when you actually didn't, that's
15 a lie and the whole thing, the whole case is designed solely
16 for the purpose of keeping acreage.

17 We ask that Order 7983 be abo-
18 lished and voided from the date of its inception.

19 Thank you.

20 MR. STOGNER: Thank you, Mr.
21 Padilla. Thank you, everyone.

22 If there's nothing further in
23 Case Number 8678, there being none, we'll take this under
24 advisement.

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(Hearing concluded.)

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C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY that the foregoing Transcript of Hearing before the Oil Conservation Division (Commission) was reported by me; that the said transcript is a full, true, and correct record of the hearing, prepared by me to the best of my ability.

Sally W. Boyd CSR

I do hereby certify that the foregoing is a correct record of the proceedings in the Examiners hearing of Case No. 8678 heard by me on 28 August 1985.
Michael E. Stearns, Examiner
Oil Conservation Division