

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO

24 October 1986

COMMISSION HEARING

IN THE MATTER OF:

Application of Marathon Oil Com-
pany for compulsory pooling, Lea
County, New Mexico.

CASE
8960

~~8996~~

BEFORE: Richard L. Stamets, Chairman
Ed Kelley, Commissioner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

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MR. STAMETS: The hearing will
come to order.

We'll call first this morning
Case Number 8960.

MR. TAYLOR: The application of
Marathon Oil Company for compulsory pooling, Lea County,
New Mexico.

MR. STAMETS: Call for appear-
ances.

MR. KELLAHIN: Mr. Chairman,
I'm Tom Kellahin of Santa Fe, New Mexico, appearing upon be-
half of the applicant, Marathon Oil Company.

MR. CARR: May it please the
Commission, my name is William F. Carr, with the law firm
Campbell & Black, P. A., of Santa Fe.

I represent Buddy Davidson.

MR. STAMETS: Any other appear-
ances?

Let's have those who will be
witnesses in this case be sworn at this time.

(Witnesses sworn.)

MR. KELLAHIN: Mr. Chairman,

1 the notice for hearing indicates that this is Marathon's ap-
2 plication for de novo hearing.

3 Mr. Carr and I have had this
4 case continued from the September docket and technically
5 this would be Mr. Davidson's de novo hearing that is sche-
6 duled today.

7 We certainly have no objection
8 to proceeding, however, as the original applicant and would
9 be happy to make our presentation first.

10 MR. STAMETS: What we have to-
11 day basically is a case considering the de novo request by
12 both parties, is that correct?

13 MR. KELLAHIN: No, sir, we
14 would withdraw our request for a de novo hearing. We are
15 satisfied with the terms and conditions of the Examiner Or-
16 der. Having prevailed on all those issues on the Examiner
17 level, we would withdraw our de novo.

18 MR. STAMETS: If we withdraw
19 your de novo, do we have a de novo case we can consider to-
20 day?

21 MR. CARR: Yes, you do.

22 Mr. Stamets, following the
23 hearing a de novo application was filed by Marathon. Some
24 time thereafter Mr. Davidson filed a de novo application.

25 If they withdraw theirs, we

1 submit ours is properly before you. We'd like to go forward
2 today, and I'm certain that the parties are not going to
3 squabble about whose de novo application is properly before
4 you.

5 We're ready to go forward.

6 MR. KELLAHIN: And so are we,
7 Mr. Chairman.

8 MR. STAMETS: You all are not
9 going to take us to the courthouse on procedures, then fine,
10 as long as we're agreed on that we will go ahead and Mr.
11 Kellahin, you're going to go first.

12 MR. KELLAHIN: We'd be happy
13 to.

14 Mr. Chairman, at this time
15 we'll call Marathon's landman, Mr. Steve Daniels.

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

20
21 DIRECT EXAMINATION

22 BY MR. KELLAHIN:

23 Q Mr. Daniels, would you please state your
24 name and occupation?

25 A Steve Daniels, landman for Marathon Oil
Company.

1 Q Mr. Daniels, would you summarize your
2 educational background?

3 A I graduated from Texas Tech University
4 with a degree in petroleum land management in July of 1983
5 and I am presently -- have worked for Marathon Oil Company
6 for three years.

7 Q As a landman for Marathon Oil Company
8 have you been assigned the responsibility for attempting to
9 negotiate and reach voluntary agreements with the working
10 interest owners for the formation of a spacing unit for the
11 drilling of the well that's the subject of this hearing?

12 A Yes, sir.

13 MR. KELLAHIN: We tender Mr.
14 Daniels as an expert petroleum landman.

15 MR. STAMETS: He's considered
16 qualified.

17 Q Mr. Daniels, let me direct your attention
18 to the plat that we have marked as Exhibit Number One, and
19 have you, first of all, locate for us the spacing unit that
20 you're seeking to force pool in this case.

21 A Marathon is seeking to force pool the
22 southeast quarter of southeast quarter of Section 14 in
23 Township 16 South, Range 38 East, Lea County, New Mexico.

24 Q And what is the acreage to be dedicated
25 to the well? How many acres?

1 A Forty acres.

2 Q What type of well are you attempting to
3 drill at this location?

4 A This will be an oil well, 13,500 foot
5 Siluro-Devonian test.

6 Q When we look at the interest owners with
7 regards to this 40-acre tract, have you contacted all those
8 working interest owners in attempt to reach a voluntary
9 agreement with them?

10 A Yes, sir, I have.

11 Q Let's turn to what has been marked as Ex-
12 hibit Number One-A, which is the original application for
13 hearing back in July, and let me turn your attention to the
14 second page of that application.

15 With the exception of Marathon back in
16 July when the application was filed, does the list under
17 Paragraph 5 of the application show the names and addresses
18 of those parties that had working interest ownership in the
19 40-acre tract?

20 A Yes, sir.

21 Q As of today, would you describe to the
22 Commission what the status is of participation of each of
23 those individuals or companies?

24 A Okay. First we have ARCO Oil and Gas
25 Company, who own a 25 percent interest in the subject ac-

1 reage. We have obtained a farmout from ARCO.

2 Okay, Harvey E. Yates Company, owner of
3 2.8125 percent. We are presently -- we have not worked out
4 an equitable deal with HEYCO and their associates and there-
5 fore we are at the hearing force pooling them.

6 Q All right, and how about Mr. Davidson?

7 A Mr. Davidson, we have still not worked
8 out an equitable deal with Mr. Davidson at this time.

9 Q Okay, and Mr. and Mrs. Lawrence?

10 A Marathon has acquired an oil and gas lease
11 covering their interest.

12 Q All right, and Mrs. June Speight?

13 A Marathon has acquired an oil and gas
14 lease covering their interest, also.

15 Q Let's turn now, sir, if you will, to Ex-
16 hibit Number Two. I'd like you to explain for us, Mr.
17 Daniels, what was the first effort by your company to ac-
18 quire the ownership in the 40-acre tract to drill the sub-
19 ject well?

20 A On around June the 8th, 1984, Marathon
21 was reviewing the county records in hopes to acquire an in-
22 terest, 152.5 acre interest, which would be located in the
23 south half, south half northeast quarter of Section 14, and
24 at that time we had a lease which was due to expire on June
25 the 15th of 1984.

1 Upon a check of the records it was found
2 that Mr. James Davidson had top leased our interest by an
3 oil and gas lease dated May the 10th of '84, and also with a
4 lease dated May 21st of 1984.

5 Q What is the effect, Mr. Daniels, of hav-
6 ing Mr. Davidson obtain a top lease on the acreage that you
7 had leased?

8 A Would you repeat it?

9 Q Yes, sir, what is the effect or implica-
10 tion of having a top lease on the acreage?

11 A It would mean that Marathon would not be
12 able to renew our leases in this area.

13 Q When was your underlying lease to expire
14 for that interest?

15 A On June the 15th of 1984.

16 Q So if the subject well is not drilled
17 prior to that date, then Marathon's interest is lost and it
18 would go to Mr. Davidson under his lease?

19 A Yes, sir.

20 Q What were the first contacts by your com-
21 pany in order to obtain Mr. Davidson's voluntary participa-
22 tion in the well?

23 A Once we did check the county records and
24 found that Mr. Davidson owned the -- or had leased the in-
25 terest, we offered Mr. Davidson \$75.00 per acre to be as-

1 signed an 81.25 percent net revenue interest lease in the
2 south half south half northeast quarter of Section 14.

3 Q Would you summarize for us, Mr. Daniels,
4 without going through all the details of the contacts, ap-
5 proximately how many pieces of correspondence or telephone
6 conversations have taken place between your company and Mr.
7 Davidson on this subject?

8 A Approximately nineteen.

9 Q And as of this date have you been able to
10 reach any type of voluntary participation by Mr. Davidson in
11 the well?

12 A No, sir, we haven't.

13 Q Let me have you describe for the Commis-
14 sion what the general position is of each of the parties, as
15 you understand it.

16 What was the nature or the way Marathon
17 structured its proposal to Mr. Davidson?

18 A Marathon requested that Mr. Davidson
19 either participate in the drilling of our proposed Benson
20 No. 1 Well or farmout his interest to Marathon, delivering a
21 75 percent net revenue interest lease with the option to
22 convert a 1/16th override to a 25 percent back-in at payout.

23 Q Mr. Daniels, do you have an opinion as to
24 whether that type of offer using those percentages is one
25 that's fair and reasonable for this case?

1 A Yes, sir, I feel it's reasonable for this
2 -- for this area.

3 Q And what generally was the response of
4 Mr. Davidson, if any?

5 A Mr. Davidson wanted to trade acreage.

6 Q Describe generally what type of trade Mr.
7 Davidson proposed to your company.

8 A Mr. Davidson wanted to acquire acreage
9 which Marathon owned in proven held-by-production area, in a
10 proven held-by-production area.

11 As you know, HBP acreage is a valuable
12 asset to any company and therefore in trade for Marathon's
13 acreage Mr. Davidson was going to assign his interest in the
14 subject lands, which is located in a frontier, an explora-
15 tory area, and what we did, what Marathon did, we evaluated
16 this request by Mr. Davidson and found that this type of
17 trade was not equitable.

18 Q What period of time has all these nego-
19 tiations between Marathon and Davidson taken place?

20 A I believe our first letter to get Mr.
21 Davidson to join or farmout was May the 23rd, 1984, so it's
22 -- about six months has elapsed.

23 Q At this point do you have an opinion as
24 to whether any further negotiations would have a reasonable
25

1 opportunity of being successful?

2 A It is doubtful.

3 Q What, if any, time constraints does your
4 company have with regards to getting on with the drilling of
5 this well?

6 A We have really two deadlines to meet.
7 One, we have our farmout with ARCO, we must commence the
8 drilling of the well on or before December 31st, 1986.

9 Number two, we have a --

10 Q This the farmout from ARCO that involved
11 their 25 percent interest in the well?

12 A Yes, sir, that is correct.

13 Q All right, what, if any, other time con-
14 straints do you have?

15 A We have a lease expiring on February the
16 19th, 1987.

17 Q With regards to the budgeting of funds
18 for the drilling of this well, Mr. Daniels, does your com-
19 pany have any time constraints?

20 A Due to economic conditions which we
21 presently face in this industry, it is not known when our
22 management would pull our funds at any time, so therefore
23 there would be a possible time constraint.

24 Q Is this well budgeted for drilling in
25 this calendar year?

1 A Yes, sir, it is.

2 Q Without going through all the entries on
3 Exhibit Number Two, does Exhibit Number Two represent a
4 chronologic report of the various contacts and the substance
5 of those contacts between your company and Mr. Davidson?

6 A Yes, sir, it does.

7 Q And those are taken either from your
8 notes or from files of Marathon that are in your possession
9 and control?

10 A Yes, sir.

11 Q All right. Let's go through some of the
12 correspondence, then, rather briefly, Mr. Daniels, and have
13 you simply identify them as we go through them.

14 Q Let me direct your attention to Exhibit
15 Number Three and ask you to identify that exhibit.

16 A Okay. This was our -- once we found that
17 Mr. Davidson had top leased us, we requested that -- or of-
18 fered Mr. Davidson \$75.00 per acre for 82-1/4 net revenue
19 interest lease.

20 Q All right, sir, and let's turn to Exhibit
21 Number Four and have you identify that exhibit.

22 A Okay. This was Mr. Davidson's response
23 to our letter. He said that our offer is unacceptable.

24 Q Okay. The handwritten notations on that
25 letter are your own, are they, sir?

1 A No, sir, they are not. They are by an-
2 other landman, Wayne Ransbottom.

3 Q Let's go to Exhibit Number Five and have
4 you identify that exhibit.

5 A This is our -- another letter which Mara-
6 thon has increased our offer to \$100.00 per net acre, miner-
7 al acre, for an assignment of 81.25 percent net revenue in-
8 terest lease.

9 Q And Exhibit Number Six?

10 A This was just handwriting which I had
11 which were telephone conversations with Mr. Davidson.

12 Q Exhibit Number Seven?

13 A Marathon is advising Mr. Davidson that we
14 have a continued interest in acquiring this lease and ad-
15 vised that our offer of \$100.00 and an 81.25 percent net
16 revenue interest lease was still acceptable or still --

17 Q Still available for him to accept.

18 A Still available, right.

19 Q All right, sir. Let's go to Exhibit Num-
20 ber Eight, Mr. Daniels, and have you identify that.

21 A This is a telephone conversation which I
22 had with Mr. Davidson and I advised him that we would offer
23 him \$175.00 per acre bonus for him to deliver a 3/16th lease
24 in the 152.5 acres which he had leased in the south half of
25 the south half of the northeast quarter of Section 14.

1 Q This is back in March of '85.

2 A Right.

3 Q All right.

4 A And --

5 Q Exhibit Number Nine?

6 A Exhibit Number Nine is the follow-up let-
7 ter to our conversation of March 13th.

8 Q All right. Exhibit Number Ten.

9 A Exhibit Number Ten is Mr. Davidson is ad-
10 vising Marathon that our purchaser offer is unacceptable.

11 Q And Exhibit Number Eleven?

12 A Exhibit Number Eleven, Mr. Davidson is
13 advising Marathon that he will assign his leases to Mara-
14 thon, his interest in the south half south half northeast
15 quarter of Section 14, if Marathon would assign Mr. Davidson
16 or farmout Mr. Davidson lands which are in a different area.

17 Q All right, this is his first offer, then,
18 to Marathon in which he proposes a trade of acreage to trade
19 his exploratory acreage for this well for HBP acreage that
20 Marathon has in a different section?

21 A Yes, sir.

22 Q Has Mr. Davidson changes his approach or
23 offer to Marathon with regards to how he would propose to
24 structure a voluntary solution?

25 A No, sir, it's been the same deal, you

1 know, if we would farmout his interest we would get our in-
2 terest.

3 Q All right, that continues to be his posi-
4 tion, then, it's a trade of acreage?

5 A Right.

6 Q And he has rejected the farmout approach
7 where you would -- he would acquire an interest in the well
8 prior to and after payout?

9 A That's correct.

10 Q And he's refused the cash offers up to
11 now?

12 A Yes, sir.

13 Q Let's go to Twelve, sir, and have you
14 identify that one.

15 A Okay. This is our initial offer letter
16 to Mr. Davidson offering him to either participate in our
17 well or farmout his interest to Marathon.

18 Q Okay. Exhibit Number -- that was Twelve
19 and I believe the next letter I have is Twelve, it should be
20 Thirteen, the June 4th, '86 letter?

21 A Yes.

22 Q The exhibit stamp says Twelve but that
23 should be Exhibit Thirteen.

24 Would you identify that one for me?

25 A Okay, this is a letter from Mr. Davidson

1 advising he would be out of town for approximately ten days
2 and that he would call me back and advise so we could dis-
3 cuss this situation.

4 Q All right, Exhibit Twelve, then, was
5 Marathon's letter of May 23rd, '86. Exhibit Thirteen is the
6 Davidson letter of June 4th, '86.

7 A Yes sir.

8 Q Let's go to Exhibit Fourteen and have you
9 identify that for us.

10 A Okay, this is a letter to Harvey E. Yates
11 Company in which Marathon has revised our original AFE.

12 Q All right, let's shift gears for a minute
13 and talk about the Yates companies.

14 What efforts have you made to get the
15 Yates companies that have an interest in the tract to
16 participate in the well?

17 A We have requested by letter dated May
18 23rd, 1986, Harvey E. Yates Company to either participate or
19 farmout their interest to Marathon in the subject well.

20 Q And the interest of the collective Yates
21 entitites is the 2. --

22 A 8125.

23 Q -- 8125 interest that's shown on the
24 application.

25 A Yes, sir.

1 Q All right. And you have made offers to
2 the Yates entities to participate and what is their position
3 as best you know it today?

4 A They are awaiting the results of this
5 forced pooling hearing.

6 Q They have not agreed to participate in
7 any fashion.

8 A No, they have not.

9 Q Let's go to Exhibit Number Fifteen, then,
10 Mr. Daniels, and have you identify that for us.

11 A Okay, this is a letter dated June 30th,
12 1986, from James A. Davidson. He advised that he would be
13 agreeable to three alternatives.

14 One would be Marathon to pay him \$1000
15 per acre for the subject land and be assigned a 75 --
16 Marathon would be assigned a 75 percent net revenue interest
17 lease.

18 Option number two would be Marathon pay
19 Mr. Davidson \$500 per acres and at payout of the well
20 Davidson have an option to convert a 1/16th override to a 50
21 percent working interest.

22 And the third option was in which Mr.
23 Davidson and Marathon would exchange leases, Marathon
24 delivering Mr. Davidson leases which are in a proven area in
25 exchange for Mr. Davidson's leases in the exploratory area.

1 Q Did Marathon review and consider all
2 those proposals by Mr. Davidson and provide him with a
3 response?

4 A Yes, sir, we did.

5 Q Let me turn you to Exhibit Number Sixteen
6 and ask you if that was the response?

7 A Yes, sir, it is.

8 Q All right, and after that was done, what
9 is the conclusion reached from looking at Exhibit Number
10 Sixteen concerning Mr. Davidson's proposals?

11 A That he wants to trade acreage. He does
12 not want to participate or farmout his interest in our well.

13 Q And was that acceptable to Marathon?

14 A No, it wasn't.

15 Q All right, sir. Let's to Seventeen now,
16 sir, and have you identify that.

17 A This is a letter dated July 7th, 1986,
18 from Mr. Davidson. He advised Marathon that he would oppose
19 us at the New Mexico Oil Conservation Division pooling.

20 Q All right, and this is the letter prior
21 to the Examiner hearing.

22 A Yes, sir, it is.

23 Q Subsequent to the Examiner Hearing did
24 you receive a copy of the Examiner's forced pooling order in
25 the Examiner case?

1 A Yes, sir, we did.

2 Q And did you cause that Examiner Order and
3 an AFE to be sent to Mr. Davidson?

4 A Yes, sir, we did.

5 Q Let's turn to Exhibit Number Eighteen and
6 have you identify that for me, sir.

7 A This is a letter dated September 11,
8 1986, from Kellahin & Kellahin, Attorneys at Law, to Mr.
9 Davidson, advising him that pursuant to the order issued,
10 Examiner Order issued by the New Mexico Oil Conservation
11 Division, that he is notified that he has thirty days as of
12 receipt of this letter to either pay his portion of the well
13 cost of our proposed well or go nonconsent in the well.

14 Q Would you look at the AFE attached to Ex-
15 hibit Number Eighteen and can you identify that as being the
16 current estimated well costs for the subject well?

17 A Yes, sir, that is an AFE dated September
18 10th of 1986.

19 Q And that is the AFE that's proposed for
20 this well?

21 A Yes, sir.

22 Q Behind the AFE is a photocopy of the re-
23 turn receipt card. Can you identify for us, Mr. Daniels,
24 when the record reflects that Mr. Davidson received the not-
25 ification?

1 A September the 15th of 1986.

2 Q Within a 30-day period after September

3 15th, 1986, did you receive pursuant to this letter Mr.

4 Davidson's share of the proposed AFE cost for this well?

5 A No, sir, we did not.

6 Q Did you receive the executed operating

7 agreement from Mr. Davidson for this period of time?

8 A No, sir.

9 Q Have you sent Mr. Davidson an operating

10 agreement?

11 A Yes, sir, we have.

12 Q Did you receive back from Mr. Davidson an

13 executed copy of the AFE?

14 A No, sir.

15 Q Have you also caused a similar type let-

16 ter to be sent to the Yates interest entities involved?

17 A Yes, sir, I have.

18 Q And have any of the Yates entities

19 elected within the 30-day period to participate in the well?

20 A No, sir.

21 Q Have you received any cash or check pay-

22 ments by any of the Yates companies so that they could join

23 in the well?

24 A No, sir.

25 Q Let me direct your attention now, sir, to

1 Exhibit Number Nineteen, and let me ask you about the over-
2 head charges that were included in the Examiner Order.

3 The order shows some overhead charges.
4 The drilling rate per month is \$4598 and the producing
5 monthly rate is \$459. Are you familiar with those rates?

6 A Yes, sir, I am.

7 Q Do you have an opinion, Mr. Daniels, as
8 to whether those rates are fair and reasonable?

9 A Yes, sir, I feel they're fair and reason-
10 able.

11 Q Have you caused a check within the com-
12 pany to determine whether or not those rates would support
13 your opinion that they're fair and reasonable?

14 A Yes, sir, I requested that our Accounting
15 Department provide us with -- with these numbers and we have
16 on Exhibit Nineteen a letter from them advising that these
17 numbers are perhaps an estimate of what a well would be in
18 this area, but and also they advised that if anything they
19 were a little bit low.

20 Q Exhibit Number Nineteen represents a com-
21 parison of other overhead charges in the area?

22 A Yes, sir, it does.

23 Q All right, sir.

24 MR. KELLAHIN: That concludes
25 my examination of Mr. Daniels, Mr. Chairman.

1 We would move the introduction
2 of Exhibits One through Nineteen.

3 MR. CARR: No objection.

4 MR. STAMETS: The exhibits will
5 be admitted.

6

7 CROSS EXAMINATION

8 BY MR. STAMETS:

9 Q Mr. Daniels, did you ever give us a com-
10 plete rundown of the various ownership interest in this
11 well?

12 I picked up ARCO with a 25 percent inter-
13 est, Harvey E. Yates at 21-1/4 percent, is that correct?

14 A 2.8125 percent.

15 Q 2 point, 2.8125 percent.

16 A Yes, sir.

17 Q And Mr. Davidson?

18 A 38.125.

19 Q And Mrs. Lawrence?

20 A We haven't -- that is acquired in Mara-
21 thon's interest.

22 Q Okay, what's Marathon, then?

23 A We have approximately 34 percent.

24 MR. KELLAHIN: Plus the ARCO
25 farmout.

1 A Plus the ARCO farmout, which is 25 per-
2 cent, which would be a total of approximately 59 percent.

3 Q Okay.

4 MR. STAMETS: Are there other
5 questions of the witness?

6 MR. CARR: Yes, sir.

7

8 CROSS EXAMINATION

9 BY MR. CARR:

10 Q Mr. Daniels, I'd like to direct your at-
11 tention to your Exhibit Number One. Could you identify for
12 me the acreage that is covered by the lease that Mr. David-
13 son acquired a top lease to?

14 A The south half of Section 14 and the
15 south half northeast quarter of Section 14, Township 16
16 South, Range 38 East.

17 Q What other ownership interest in this im-
18 mediate area does Marathon hold? In Section 23 what inter-
19 est does Marathon hold?

20 A Marathon owns 100 percent working inter-
21 est and approximately an 82 percent net revenue interest in
22 the northeast quarter of Section 23.

23 Q Do you have any other interest in Section
24 23?

25 A We have in the south half of the -- I

1 mean the north half of the northeast quarter we have an un-
2 divided interest in the --

3 Q In the north half of the northeast quar-
4 ter of 23?

5 A In the north half of the southeast quar-
6 ter.

7 Q Okay, and what is that interest?

8 A I'm not sure.

9 Q Is there any other interest in Section
10 23?

11 A No, sir.

12 Q Do you have any ownership interest in the
13 north half of 14?

14 A Yes, sir, we do.

15 Q And what would that be?

16 A I don't know the exact amount.

17 Q Does it include the entire acreage in the
18 north half of 14 that isn't -- that you haven't previously
19 described as being covered by the Davidson interest?

20 A Could you please repeat that?

21 Q Do you have an interest throughout Sec-
22 tion 14?

23 A Yes, sir, it's --

24 Q Okay.

25 A -- an undivided interest.

1 Q Okay. Now, I believe you stated that un-
2 der the tract to be dedicated to the proposed well Marathon
3 had, first of all, you stated a 34 percent interest and I
4 understand there's also an ARCO farmout involved, and I just
5 want to be sure I understand what you said.

6 That 34 percent interest, does that in-
7 clude the interest of Mr. Lawrence, Mr. and Mrs. Lawrence,
8 and Mrs. Speight?

9 A Yes, sir, it does.

10 Q Now in Section 13, I see Marathon also
11 has ownership in that.

12 A Yes, sir, we do.

13 Q Is that ownership interest confined to
14 the south half of the southwest and the southeast -- I mean,
15 I'm sorry, southwest of the southeast?

16 A As well as the northwest northwest quar-
17 ter of 24 -- no, excuse me, the northwest quarter of the
18 northeast quarter of Section 24.

19 Q Now when we talk about the Speight inter-
20 est and the Lawrence interest, I understand that these are
21 mineral interest owners in the area from you acquired a
22 lease?

23 A Yes, sir, they are.

24 Q Now you talked about the top lease by Mr.
25 Davidson, your lease was expiring, I believe you stated, on

1 the 15th of June.

2 A Yes, sir.

3 Q When did you first start your actual ef-
4 forts directed toward development of this acreage in the
5 south half of 14?

6 A We have been in this area since around
7 1977.

8 Q When did you actually start checking re-
9 cords to go forward with a well at this location?

10 A It is not known.

11 Q You learned of Mr. Davidson's top lease,
12 I believe you stated, in June of that year?

13 A Yes, sir, we did.

14 Q Had you checked the records prior to that
15 time?

16 A Yes, sir, they were.

17 Q And how frequently had you -- did you
18 check the records? Do you recall?

19 A I did not check the records.

20 Q Now the lease that expired on this ac-
21 reage, what was the term of that lease, do you know? Was it
22 a 5-year, a 10-year term?

23 A It was a 3-year term.

24 Q And did -- if you had developed during
25 that 3-year term, there wouldn't have been an opportunity

1 for a top lease, isn't that correct?

2 A That is correct.

3 Q Is this the first time you've heard of a
4 top lease in the industry, in your work in the industry?

5 A No, sir, it is not.

6 Q I'd like to go to -- you stated you had
7 provided Mr. Davidson with a joint operating agreement.
8 When was that provided to him?

9 A October the 21st, I believe.

10 Q Do you happen to have a copy of that with
11 you?

12 A No, sir, not with me.

13 Q If I could show you a copy of the unit
14 agreement, I'd like to ask you if you can -- or the joint
15 operating agreement, and ask if you could just identify that
16 that is what you sent to Mr. Davidson?

17 A Yes, sir, this looks to be the operating
18 agreement I forwarded to Mr. Davidson.

19 Q If I could direct your attention to the
20 page that you have --

21 A Okay.

22 Q -- open before you, page 3, there is a
23 blank under Section B, and the sentence reads that, in part,
24 "the parties shall own all production of oil and gas from
25 the contract area, subject to the payment of royalties to

1 the extent of 3/16ths of 7/8ths, which shall be borne as
2 hereinafter set forth."

3 Do you understand what that provision
4 means as to what royalty burden would be placed on the in-
5 terest owners of those who joined?

6 A It means that Marathon would be respon-
7 sible for 3/16ths of the production.

8 Q Does it mean those who join would also be
9 responsible to that extent?

10 A Yes, sir.

11 Q If someone had a 1/8ths royalty interest
12 would that tend to increase their exposure or would it be
13 limited to the royalty interest set forth in their indivi-
14 dual lease arrangement?

15 A It would be limited to their individual
16 lease arrangement.

17 Q Now, in that operating agreement does it
18 contain overhead and administrative figures?

19 A Yes, sir, I believe it does.

20 Q Does that include all the operating and
21 overhead charges that would be charged against interest own-
22 ers who would join in the well?

23 A Yes, sir.

24 Q And is that figure the same figure that
25 was in the original pooling order?

1 A Yes, sir, it is.

2 Q Now I believe you testified that your Ex-
3 hibit Number Eighteen was a letter from your attorney
4 providing Mr. Davidson with thirty days to pay his -- parti-
5 cipate in the well by paying his total share of the well
6 costs as set out on the AFE.

7 A Yes, sir.

8 Q Is that correct?

9 A That is correct.

10 Q Were you aware at that time that an ap-
11 plication for hearing de novo was -- was pending before the
12 Commission in that case?

13 A Yes, sir.

14 MR. CARR: I have no further
15 questions.

16 MR. STAMETS: Any other ques-
17 tions of this witness?

18 MR. LYON: I'd like to ask a
19 question.

20

21 QUESTIONS BY MR. LYON:

22 Q Mr. Daniels.

23 A Yes, sir.

24 Q I believe you testified in response to
25 Mr. Carr's questions that the overhead charge contained in

1 the operating agreement, which is included in the accounting
2 procedure, I believe, attached to it, is the same as that
3 provided for in the Division's order?

4 A Yes, sir.

5 Q Does the -- does that accounting proce-
6 dure provide for an escalation? Does it increase from year
7 to year?

8 A To my knowledge, it does not. It remains
9 at that rate.

10 Q Would you check that and see if it pro-
11 vides for escalation?

12 A Both the drilling well rate and producing
13 well rate figures? A fixed rate basis.

14 Q Is there not a provision in there that
15 that would be escalated on April 1st of each year in accor-
16 dance with a survey by the Department of Labor?

17 A I believe that would be on page seven of
18 the COPAS pricing conditions.

19 Q No. I notice that that is an off-shore
20 form. Is there some reason why they used an off-shore form?

21 A It looks to me to be an on-shore form.

22 Q Oh, I'm sorry, maybe I misread it. If
23 I'm not mistaken, that's a COPAS 1984?

24 A This is a COPAS 1984 on-shore, recom-
25 mended by the Council of Petroleum Accountants Society.

1 Q Unless they have ceased that practice
2 they customarily have a provision in there that on April 1st
3 of each year the overhead rates are escalated by the amount
4 of the wages of oilfield workers as determined by the
5 Department of Labor.

6 A This was the form which was provided me.

7 Q I understand, but I'd be glad to examine
8 it and satisfy my own curiosity because it's been my exper-
9 ience that that is -- that is provided in there.

10 It says, "The well rates shall be adjus-
11 ted as of the 1st day of April each year following the ef-
12 fective date of the agreement for which the accounting pro-
13 cedure is attached. The adjustment shall be computed by
14 multiplying by the rate currently in use by the percentage
15 increase for the increase in the average weekly earnings of
16 crude petroleum gas production workers for the last calendar
17 year compared to the calendar year preceding as shown by
18 the index of average weekly earnings of crude petroleum gas
19 production workers as proposed by the United State Depart-
20 ment of Labor."

21 Now, have you read and are you familiar
22 with the order entered by the Division?

23 A Yes, sir, I have.

24 Q Does that order provide for escalation of
25 that rate?

1 A I would have to look to see.

2 MR. KELLAHIN: May I be excused
3 for just a second?

4 MR. STAMETS: Yeah, we'll take
5 a short break for Tom.

6 (Thereupon a brief recess was taken.)

7 Q I think I have a question pending. I
8 think I'd asked you if the provisions of the order entered
9 by the Division contain an escalation provision?

10 A No, sir, they don't.

11 Q So would you agree that the order is
12 really one in favor of a party who does not sign the
13 operating agreement than -- that one who does?

14 A Yes, sir, I would say that.

15 Q At least in that respect.

16 A In that respect, yes, sir.

17 Q Okay, that's all I have.

18 MR. STAMETS: Any other
19 questions of this witness?

20 MR. CARR: One quick question.

21

22 RE CROSS EXAMINATION

23 BY MR. CARR:

24 Q Just to be sure I asked this, Mr.
25 Daniels, that figure that we've been talking about that is

1 set as the fixed rate, the overhead charges, that includes
2 all the costs that are assessed back to someone who is par-
3 ticipating in this well under the forced pooling. There are
4 no additional costs charged over and above that, is that
5 right?

6 A That is correct.

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

8 MR. STAMETS: Any further
9 questions?

10 The witness may be excused.

11 MR. KELLAHIN: Mr. Chairman, at
12 this time we'd call Mr. Terry Rivers.

13
14 TERRY L. RIVERS,
15 being called as a witness and being duly sworn upon his
16 oath, testified as follows, to-wit:

17

18 DIRECT EXAMINATION

19 BY MR. KELLAHIN:

20 Q Mr. Rivers, for the record would you
21 please state your name and occupation?

22 A It's Terry L. Rivers, Drilling Superin-
23 tendent for the MidContinent Region.

24 Q Mr. Rivers, you're going to talk about
25 how the AFE was prepared, are you not, sir?

1 A Yes, I will.

2 Q Let's talk about your educational back-
3 ground first.

4 When and where did you obtain your de-
5 gree?

6 A I graduated from Texas Tech University in
7 1974, Bachelor of Science, Petroleum Engineering.

8 Q Subsequent to graduation where have you
9 been employed in your profession?

10 A I have worked for Marathon since May
11 20th, 1974.

12 Q What is it you do for Marathon at this
13 occasion with regards to estimated well costs?

14 A Drilling Superintendent and it is my
15 responsibility to prepare all well costs, supervise the
16 drilling of all wells in the region.

17 Q Can you estimate for the Commission ap-
18 proximately how many wells you have supervised and AFE's
19 that you have prepared for the drilling of wells?

20 A Oh, in the last four years I'd say around
21 80, approximately 20 per year.

22 Q Was it your responsibility to prepare and
23 have approved the AFE that is dated September 10th, '86, and
24 that is attached to Marathon's Exhibit Number Eighteen?

25 A Yes, those are my costs.

1 Q All right.

2 MR. KELLAHIN: We tender Mr.
3 Rivers as an expert petroleum drilling engineer.

4 MR. CARR: No objection.

5 MR. STAMETS: He is considered
6 qualified.

7 Q Mr. Rivers, would you -- do you have an
8 opinion as to whether the estimated dry hole and completion
9 costs for this well, as identified on the AFE attached to
10 Exhibit Number Eighteen are fair and reasonable?

11 A Yes, in my opinion the dry hole cost of
12 \$726,000 is reasonable for a 13,000 foot wildcat in this
13 area.

14 Q Would you describe what process you go
15 through in a summary fashion for us to satisfy yourself that
16 the AFE represents current and fair and reasonable charges?

17 A I take surrounding well histories and ap-
18 ply that to our well, in this case specifically the two
19 wells drilled one mile to the west, the Yeager No. 1, dril-
20 led by Sun, and the Yeager No. 1 drilled by MGF. Those two
21 wells, drilled approximately 16 years ago, one took 72 days,
22 one took 59 days.

23 Q Let me take a moment and look at Exhibit
24 Number One and have you again show us where those wells are
25 in relation to the proposed well.

1 A Okay, on this map the two wells are a
2 little over one mile west in Section 15.

3 Q All right, and you have compared the
4 length of time it took to drill those wells and made an ap-
5 proximation as to the length of time involved in the subject
6 well.

7 A Yes, I have.

8 Q All right, sir, what else have you done?

9 A Well, we used all of our data from wells
10 we drilled in New Mexico, current rates, drilling rates,
11 casing costs, services, to add up to this total of \$725,000.

12 Q All right, sir. Have over the period of
13 time involved between the time this well was first proposed
14 until now, have you had occasion to update and revise your
15 estimates?

16 A I have revised the cost. As you know,
17 the decline in the oil business starting in '82 to 1985, was
18 significant, and we had to constantly revise costs. And
19 then from December '85 to summer of 1986 drastic cost sav-
20 ings have been realized.

21 We again made a revision and that's where
22 this \$726,000 came from.

23 Q Thank you, Mr. Rivers.

24 MR. KELLAHIN: I have nothing
25 further of Mr. Rivers.

1

2

CROSS EXAMINATION

3

BY MR. CARR:

4

Q

Mr. Rivers, what was the total cost for a

5

well based on the most recent AFE?

6

A

This dry hole cost is \$726,000. The

7

completed well cost is \$1,113,000.

8

Q

And in any event, no matter what the AFE

9

says, each interest owner ultimately will be responsible for

10

his percentage share of actual costs.

11

A

That's correct.

12

MR. CARR: No questions.

13

MR. STAMETS: Any other

14

questions of the witness?

15

He may be excused.

16

MR. KELLAHIN: Mr. Chairman,

17

we'll call at this time Mr. David Rebenstorf, R-E-B-E-N-S-T-

18

O-R-F.

19

20

DAVID L. REBENSTORF,

21

being called as a witness and being duly sworn upon his

22

oath, testified as follows, to-wit:

23

24

25

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q All right, sir, would you state your name and occupation?

A David L. Rebenstorf, Geophysicist for MidContinent Region, Marathon Oil Company.

Q Mr. Rebenstorf, would you describe what your educational background has been?

A I have a BS degree in geology from the University of Redlands; graduated in 1979.

Q Subsequent to graduation would you summarize your employment experience as a geologist?

A Two and a half years with Geophysical Services, Incorporated, and I'm two weeks short of five years now with Marathon Oil Company.

Q Would you describe generally what it is that you have done with regards to the subject well that is before the Commission for hearing today?

A I am a geophysicist and I have used geophysical data to generate a prospect in this area and this prospect is one that has been proposed by myself for drilling.

Q Have you previously testified before the Oil Conservation Division as a geophysicist?

A Yes, I have.

1 MR. KELLAMIN: We tender Mr.
2 Rebenstorf as an expert geophysicist.

3 QUESTION: What university was
4 that?

5 A Redland, California.

6 MR. STAMETS: The witness is
7 considered qualified.

8 Q I turn your attention to Exhibit Number
9 Twenty. I would ask you to identify the exhibit for us.

10 A Okay, this is a structure map on the top
11 of the Silurian formation prepared from geophysical data in
12 the area that Marathon Oil Company had acquired from the
13 1982 to 1983 period.

14 It incorporates all subsurface control
15 and all geophysical data within the area.

16 Q Does this represent your work product and
17 interpretations?

18 A Yes, it does.

19 Q Let's make sure everyone is looking at
20 the right section and the indication of the proposed well.

21 Let me direct you up to Section 14 in the
22 top portion of the plat. There is a dark black dot in the
23 southeast quarter section. Is that the proposed well loca-
24 tion?

25 A Yes, that is. It's to be located 990

1 from the east line and 330 from the south line in Section
2 14.

3 Q Do you have an opinion as to the percent-
4 age risk factor that you would recommend be included in the
5 compulsory pooling order for today's hearing?

6 A Yes, I do. In my opinion the maximum
7 penalty should be applied to Mr. Davidson's interest.

8 Q Was that your testimony before the exam-
9 iner back in July of this year?

10 A Yes, it was.

11 Q And is that still your opinion today?

12 A That still is my opinion.

13 Q Since the last hearing, Mr. Rebenstorf,
14 have there been any additional geological data that has
15 caused you to change your opinion?

16 A No, there has not.

17 Q Let's have you look at the exhibit for us
18 and tell us the factors that you have utilized or relied
19 upon to support that opinion.

20 A Okay. Located in Section 15 of Township
21 16 South, 38 East, is the Sun Yeager No. 1 Well, and it was
22 drilled to the Silurian formation. The formation was essen-
23 tially tight from sonic log evaluations and thus far we have
24 determined that there is a difference in the porosity as we
25 go from the Knowles Field producing to the south in Sections

1 34 and 35, and as we go north to Section 15. So we have uti-
2 lized that as one factor of risk to determine that our pros-
3 pect has a chance of being tight, as well.

4 Q What, if any, other factors have you used
5 to support your opinion on the risk?

6 A Okay, we're -- the size of the prospect
7 is approximately 320 acres in size and when you're going to
8 drill a well that's three-quarters of a million dollars,
9 you like to see a larger prospect to help bring out the
10 commercial ability of the prospect. We realize that a poor
11 well would certainly destroy, you know, the prospect's
12 changes of being developed.

13 Q Describe generally what you have
14 identified as the potential structure that may be oil
15 productive.

16 A Okay. In the southeast quarter of
17 Section 14 there is a fault bounding the structure. It runs
18 north/south there, and there's a fault running just about
19 down the section line of Section 14 to the east. That is
20 essentially the east/west extent of the structure in 14.

21 Then we go down to the south, the fault
22 is the bounding control in Section 23 and it continues a
23 little bit further to the east, so essentially it covers the
24 whole stippled area that we see outlined on our map here.
25 The last closing contour that we see there will be the -9500

1 subsea value, which would be the last control for establish-
2 ing closure on the structure.

3 Q In the event that the proposed well is
4 successful, Mr. Rebenstorf, what is the concept for further
5 development of the reservoir?

6 A Well, from an exploration point, we've
7 done our job and it would be operations job to go in and
8 place the next well for development.

9 Q Will the success for failure of this well
10 tell information to other working interest owners in the im-
11 mediate area as to what they should do or not do with their
12 interests?

13 A Yes. This would -- this well would prove
14 up the interest of the other owners in Section 14.

15 Q What does it cost a company like Marathon
16 to make this kind of geophysical study and evaluation of a
17 prospect?

18 A In this area we acquired 51 miles of
19 seismic data at a cost of \$250,000.

20 Since that time we've also reprocessed
21 some of the seismic data to provide us with more confidence
22 in the interpretation. Those additional costs, plus the
23 cost of the geophysicist and the other people involved,
24 probably at this point it ran somewhere in the order of
25 \$300-\$400,000 at this point.

1 Q Are those costs that are borne by Mara-
2 thon and not shared by someone like Mr. Davidson?

3 A No, these are costs that our exploration
4 program is willing to take on its own risk.

5 Q How far away are you from established oil
6 production in this type of formation?

7 A We're approximately 2-1/2 - 3 miles just
8 north of Knowle Field, which is located to the south in Sec-
9 tions 34 and 35.

10 Q When you talk about evaluating a prospect
11 in terms of its risk, we often talk about development wells
12 and wildcat wells. Can you categorize this particular pros-
13 pect in those kind of terms for us so that we have a feel as
14 to how you understand the risk?

15 A Well, typically, Marathon's approach has
16 been that anything over one location away is considered an
17 exploratory well. We're substantially further away from
18 those guidelines since we're being over two miles away,
19 which makes this a wildcat well.

20 Q Do you see any factors available to you
21 as a professional geophysicist that would cause you to re-
22 duce the risk factor penalty below the maximum 200 percent?

23 A No, I do not. All the wells within the
24 surrounding area that drilled to the Silurian are dry holes
25 and nonproducers, so we'll be subject to the same risk that

1 they were involved with. What the industry average is for a
2 well would be probably one well in ten is successful, so
3 we're subject to that same risk as everyone else in the in-
4 dustry.

5 Q Mr. Davidson chooses not to participate
6 in the well and Marathon is required to carry his interest
7 and to recover his share of the costs of the well out of pro-
8 duction. Do you believe that an additional 200 percent fac-
9 tor is fair and reasonable in this case?

10 A It's reasonable; if not should be more.

11 MR. KELLAHIN: That concludes
12 my examination of Mr. Rebenstorf.

13 We move the introduction of his
14 Exhibit Number Twenty.

15 MR. STAMETS: Without objection

16 --

17 MR. CARR: No objection.

18 MR. STAMETS: -- it will be ad-
19 mitted.

20 Are there questions of Mr.
21 Rebenstorf?

22 Mr. Carr.

23

24

25

CROSS EXAMINATION

BY MR. CARR:

Q Mr. Rebenstorf, if I understand your Exhibit Number Twenty, this is a structure map prepared from seismic information.

A That's correct, and it incorporates the subsurface control with it.

Q You did have some well control that you used?

A Yes, sir, All the structural control points are designated near the wells. There is the Silurian subsea points, for instance, in the Sun Yeager No. 1 Well in Section 15. The designation of the SIL, which stands for Silurian, the the -9551 is the actual log top pick for the Silurian there. So that was incorporated in.

Q What other Silurian wells in this immediate area did you use to map with.

A Okay, there's a -- in the northeast quarter of Section 22 there's a Silurian test there. It was dry and abandoned.

In the central portion of Section 22 there's a Cabot carbon (sic) well there which is a Silurian test.

And the Texas Hertel Well (sic) in Section 27, and then the producing wells around the Knowles

1 Field in Sections 34 and 35.

2 Q Are there any wells closer than those
3 you've identified to the prospect area?

4 A No, there are no more closer than that.

5 Q What is the contour interval that you're
6 -- you've mapped on?

7 A This is mapped on a 50-foot contour in-
8 terval, sir.

9 Q Now on this seismic data, is that some-
10 thing that you're willing to make available to other inter-
11 est owners in the area?

12 A If they're willing to participate in the
13 well or join us we are willing to make the data available
14 for them to review.

15 Q Only after joinder?

16 A Yes, sir, after making an election to
17 join or farm out, yes, sir.

18 Q Now, is the Silurian the primary objec-
19 tive in this well?

20 A Yes, it is, sir.

21 Q Are there other horizons that you may al-
22 so be able to complete in?

23 A Throughout the area we recognize that
24 there is some other production. We -- to the south we see
25 an Abe test, but we recognize that the well will be signifi-

1 cently back reef of that test so it will be tight in the
2 Abo.

3 There is one San Andres within the area.
4 It is a marginal well and Marathon probably would not com-
5 plete out of that zone.

6 Other than that there is (inaudible).

7 Q Whether or not you test in either the Abo
8 or the San Andres will depend on what it looks like when you
9 get there, won't it?

10 A That's correct.

11 Q Now, if I look at your -- your structure
12 map, are the individual that picked this well location?

13 A Yes, I am.

14 Q Can you tell me what factors you used in
15 selecting this particular location?

16 A Okay. As you can see on the map in the
17 center part of Section 14, 9 East, 23, the highest closing
18 contour on the structure is the -9300 contour there. The
19 well is to be located near the highest point of the struc-
20 ture. That was our criteria for placing the well.

21 Q So being structurally high is a primary
22 criteria?

23 A Yes, it is.

24 Q In reaching the decision or making your
25 decision to place the well at this particular location, did

1 you consider ownership in the area?

2 A I never considered the ownership, no,
3 sir.

4 Q And it is just coincidence that it hap-
5 pens to be on the -- in 14 and not at a comparable structure
6 -- structural position in 23.

7 A Section 23 is comparable, sir.

8 Q Where would you think the top of the
9 structure is, where the well is located, or proposed, or to
10 the south of that?

11 A There is no substantial data to determine
12 whether the location in Section 14 or a location in Section
13 23 would be of any better -- better point to drilling.

14 Q And you anticipate that it's flat, then,
15 inside that highest contour line.

16 A Yes, sir, it's -- well, we have no way of
17 knowing at this point. We know that we have a high block
18 there and the control doesn't offer us that information.

19 Q You wouldn't expect it to be slightly
20 higher if you moved toward the south?

21 A No, sir, I would not. This is a seismic
22 map that has a degree of error to it, as any other geophysi-
23 cal process, so this is our best interpretation or best es-
24 timate.

25 Q So your best estimate is to place a well

1 on the contour line, not in the center of that closure.

2 A Well, essentially Section 14 may prove up
3 to be a little bit better than Section 23, if you look at
4 the contour. Our highest value in 23 was 9294. We antici-
5 pate that -- that with the values what they were to the
6 north in Section 14, the highest point of the structure
7 would -- could be at that point in 14. It's just a matter
8 of how you interpret the data.

9 Q And it could be also in Section 23?

10 A It could be also in 23

11 Q Now, you're the individual who generated
12 this prospect.

13 A Yes, sir, I am.

14 Q And you took it to your management and
15 you recommended that they go forward with it.

16 A That's correct.

17 Q And in your opinion you believe they can
18 make a successful well at this location?

19 A Being what the risk factors are we're
20 willing to undertake that. We may have a chance of making a
21 successful well.

22 Q And your company decided to risk a mil-
23 lion plus dollars on a one in ten chance of making a well.

24 A That's correct.

25 Q And that's what you told your management.

1 A That's a reasonable risk in our business.

2 Q And you have recommended to your manage-
3 ment that there was a one in ten chance at this location.

4 A Yes, sir.

5 Q And you would be carrying, perhaps, 40
6 percent in that regard of the interest.

7 A I'm not really able to talk about the in-
8 terest, but I guess that's the way it's understood, yes,
9 sir.

10 MR. CARR: I don't have any-
11 thing further of this witness.

12 MR. STAMETS: Any other ques-
13 tions of this witness?

14 MR. KELLAHIN: Mr. Chairman.

15 MR. STAMETS: Mr. Kellahin.

16

17

REDIRECT EXAMINATION

18 BY MR. KELLAHIN:

19 Q Mr. Rebenstorf, you said that you made
20 this recommendation about well location at a time prior to
21 having ownership knowledge and that it was a decision made
22 by you without regard to that information.

23 Knowing what you know now and have cer-
24 tainly heard today about who owns what and where, does -- or
25 can you see justification in terms of sharing that risk

1 among all the owners of the potential reservoir in this
2 structure by having the well at this location as opposed to
3 some other location, for example, in 23, where Marathon
4 might have more or all of the working interest?

5 A It would be beneficial for us to share
6 this risk among the other interest owners in the area, being
7 that we'll be proving up their interest as well in Section
8 14.

9 Q What benefit in relation to sharing that
10 risk among the other owners in the reservoir, what benefit
11 would they derive from that?

12 A Well, they would receive all the geologi-
13 cal knowledge as well as any production that would be found
14 there, if there was any.

15 So they -- we have proved up their inter-
16 est with geophysical information. We've proved up their in-
17 terest with geological information that the well would pro-
18 vide.

19 Q On that basis do you have an opinion as
20 to whether or not utilizing that risk factor information it
21 would be more prudent, then, to drill the well in the Sec-
22 tion 14 acreage as opposed to the Section 23 acreage?

23 A You bet it would. It would be more pru-
24 dent to share that risk.

25 Q And would that be more equitable to all

1 interest owners?

2 A Yes, it would.

3 Q The 40-acre tract in 14 is the only 40-
4 acre tract that is to be force pooled, is it not?

5 A That's correct.

6 Q And there would be no force pooling of
7 the other interests involved outside of that 40-acre tract.

8 A No, sir.

9 MR. KELLAHIN: Nothing further,
10 Mr. Chairman.

11 MR. STAMETS: Any other ques-
12 tions of the witness?

13 He may be excused.

14 MR. CARR: May it please the
15 Commission, at this time I'd call James A. Davidson.

16
17 JAMES H. DAVIDSON,
18 being called as a witness and being duly sworn upon his
19 oath, testified as follows, to-wit:

20
21 DIRECT EXAMINATION

22 BY MR. CARR:

23 Q Will you state your full name for the re-
24 cord, please?

25 A James A. Davidson.

- 1 Q Mr. Davidson, where do you reside?
- 2 A Midland, Texas.
- 3 Q What is your occupation?
- 4 A Independent landman and oil operator.
- 5 Q Are you the owner of an interest which is
- 6 the subject of Marathon's pooling application in this case?
- 7 A Yes.
- 8 Q What interest do you own in this area, is
- 9 the subject area?
- 10 A 38.125 percent of their proposed forced
- 11 pooled area.
- 12 Q You were present when Marathon's land
- 13 witness testified as to the acreage that you have under
- 14 lease in Section 14. Was his description of your interest
- 15 correct?
- 16 A Yes.
- 17 Q When did you acquire this interest?
- 18 A 1984.
- 19 Q And from whom did you acquire it?
- 20 A Ms. Andress and Ms. Gregory, who live in
- 21 New Mexico.
- 22 Q When did you first learn of Marathon's
- 23 plans for development of this particular tract and the drill-
- 24 ing of the proposed well?
- 25 A When I was first contacted by Marathon a

1 year, year and a half ago.

2 Q You heard Marathon testify today as to
3 efforts made to reach a voluntary agreement for the develop-
4 ment of this property.

5 A Yes, sir.

6 Q Have you been able to reach any kind of
7 an accord with these -- with this company?

8 A No, I've made a very concerted effort to
9 work this out. I made them two proposals to sell them my
10 leases and under either of the total cost that they would
11 pay me, it wouldn't be as much as probably the mud and water
12 for this well.

13 And then, thirdly, I tried very hard to
14 just give them my leases as to all depths for now develop-
15 ment obligation in exchange for some leases that Marathon
16 has had for 56 years, two State of New Mexico leases, that
17 they've had since 1930, the Hanson State and the MacDonald
18 State, and they refused to even consider this swop, and I
19 only asked for the zones that they've abandoned.

20 In the McDonald State in the 1950's they
21 abandoned, they developed and abandoned the Eunice South
22 zone and I asked for that only, surface to the base of that.
23 Now bear in mind I was going to give them all depths in my
24 leases with no development or anything.

25 On the Hanson State I asked for the Eu-

1 mont gas zone that they abandoned in 1978, and that was all
2 I asked for.

3 And when I first asked for it, I said,
4 I'll give you my leases if you'll farm ours out to me, but
5 subsequent to that I've run into the horrible gas take prob-
6 lems in New Mexico, because 90 percent of my income is from
7 gas wells in southeast New Mexico, and 95 percent of that
8 goes to El Paso Natural Gas Company, who arbitrarily won't
9 take gas and unilaterally have reduced the price.

10 Q Mr. Davidson, in view of this situation
11 are you in a financial position where you can pay your pro-
12 portionate share of the well costs?

13 A No, I cannot, regardless of what I might
14 have been able to do eighteen months ago or two years ago.
15 I cannot pay my part of this well.

16 Q When was your last approach from Marathon
17 concerning a voluntary effort to develop the property?

18 A Oh, I believe it was when they summarily
19 told me they'd give me an override and a quarter back-in,
20 something, ignoring all of my offers that I have been ex-
21 tremely reasonable.

22 Q Prior to -- since that time did you re-
23 ceive the operating agreement from Marathon?

24 A Yes.

25 Q Was that operating agreement acceptable

1 to you?

2 A No, it's not. We touched briefly on some
3 of the main points.

4 Number one, in that my leases are on an
5 eighth and in that Paragraph 3 (b) on page 2, if I signed
6 that operating agreement I would be subject to a 3/16ths
7 royalty and they should peg that at 1/8th, which is the low-
8 est royalty in the pooled unit, or the proposed pooled unit.

9 And I want -- I hope the Commission makes
10 it clear to them that in figuring payout if the Commission
11 force pools me, that my interest is on an 1/8th and so my
12 net revenues to be applied to this payout account are 38.125
13 percent times 87-1/2, and not 81-1/4, which they've tried to
14 do in this operating agreement.

15 Q Now, Mr. Davidson, this acreage was
16 pooled by an Examiner order, was it not?

17 A Yes.

18 Q And are you familiar with that order?

19 A Yes.

20 Q That order set overhead charges of \$4598
21 while drilling and \$459 while producing the well.

22 In your opinion are those costs reason-
23 able?

24 A They are slightly higher than the average
25

1 that the IPA in New Mexico with Ernst and Winney, which
2 we've all got a copy of it, have determined but I'm willing
3 for them to have it if I'm force pooled, if there's not no
4 escalation in it like they've talked about.

5 Q Now, what --

6 A And, also, I want to make it clear that I
7 don't expect, and I hope the Commission doesn't allow them
8 to add payroll burden and general office expense and 25
9 other things that these major oil companies add.

10 Q If that's the total figure, though, you
11 don't object to that being --

12 A That's it, I --

13 Q -- in the order?

14 A If that's it, I won't object to it.

15 Q What about the risk penalty that was as-
16 sessed? That was a 200 percent penalty. What is your re-
17 action to that?

18 A The risk penalty in my opinion is too
19 high because --

20 Q And why is that?

21 A -- they've got all this seismic data that
22 they've discussed, all these many miles of it, and we don't
23 have it. We've got what purports to be an interpretation of
24 it that they -- right or wrong, and on their own map they
25 could move on 100 percent lease off of my lease and drill

1 this well, and they know from discussions about this that
2 I'm not in a position to pay and if the Commission gives
3 them the 200 percent penalty plus the 100, then as to my 38
4 percent interest I'll pay for the well if it's successful,
5 because they'll get three times the 38.

6 Q So you'd pay for the entire cost of the
7 well before you would share --

8 A The entire cost of the well would come
9 out of the payout account.

10 Q What if it's a bad well?

11 A All right, if it's a bad well, I've got
12 the worst of all worlds. One, if it's good, I pay for it
13 100 percent, and then if it's bad they've condemned my
14 leases without my permission, so they've got me locked in
15 either way they go.

16 Q Are you prepared to recommend a penalty
17 to the Commission?

18 A Yes, sir, 100 percent would be reason-
19 able.

20 Q Have you reviewed the AFE that has been
21 presented in this case?

22 A I've looked at it. I'm not an expert on
23 AFE's.

24 Q Does this provide you with the informa-
25 tion you need to evaluate the drilling of the well?

1 A Well, as best I know right now.

2 Q Is there any other information you would
3 need concerning the drilling of the well?

4 A Yes. The -- the Commission order, the
5 first order, states that in 90 days I'll get well costs.

6 All right, if they drill this well under
7 any kind of order, it should be made clear that I get a
8 quarterly payout account status, which is normal; that when
9 that well is drilled I should get all the supporting docu-
10 ments so if need be I can come back here or elsewhere if
11 they pad that drilling, and I should get copies of all logs,
12 daily drilling report, every form they file, because bear in
13 mind, they're going to charge this payout account, if it's a
14 well, with these costs attributable to me interest. So I
15 should get every bit of the information on this well whether
16 it's a dry hole or a producer that they have.

17 Q Now, Mr. Davidson --

18 A And I should get it promptly, not six
19 weeks after the fact.

20 Q Now, Mr. Davidson, if you receive this
21 information and if your interest is pooled and 100 percent
22 penalty assessed, in that situation do you believe your --
23 your interest would be protected?

24 A As best it can be if it's going to be
25 force pooled.

1 Q Do you have anything further to add to
2 your testimony?

3 A Well, we, of course we're not arguing
4 about the operating agreement right now but this operating
5 agreement is unacceptable and there's no need to burden the
6 Commission with the many paragraphs and provisions they've
7 stuck in there which are completely unacceptable, and I'm
8 sure they know they are.

9 I want to reiterate that I'm sorry to
10 have to be at this hearing because I think if Marathon had
11 wanted to work this out, they would have taken my swap offer
12 for some leases they've sat around on basically for 56
13 years, State of New Mexico leases; have ignored the rights
14 of the State as a royalty owner, and could have swapped
15 those to me for those limited zones they have abandoned, and
16 gone ahead and drilled this well, and I think that's very
17 unreasonable of them.

18 Q Anything further?

19 A No, sir.

20 MR. CARR: That concludes my
21 direct examination by Mr. Davidson.

22

23 CROSS EXAMINATION

24 BY MR. STAMETS:

25 Q Mr. Davidson, why -- what would be your

1 reasoning in rejecting this original Marathon proposal in
2 their letter of August 7th, '84, where they offer you \$75.00
3 an acre and an overriding interest equal to the difference
4 between 18-3/4 percent and the existing royalty (inaudible)?

5 A Well, I paid \$50.00 for part of my leases
6 and \$100 for part of it and the biggest part was \$100, Ms.
7 Gregory, and I haven't put the numbers to it, but that would
8 barely return my cost.

9 Q Did they later increase this to \$100 an
10 acre?

11 A Yes, sir.

12 Q Seems like I saw something here that said
13 even \$175 an acre.

14 A Yes, sir, they did.

15 Q And why would this not -- why was the
16 \$175 not be a good deal for the --

17 A Well, when you buy a lot of leases with-
18 out very much information, like I do, if you sold them for
19 just a very bare profit when you can sell one, you would
20 eventually just be out of business.

21 So at one point I believe I offered to
22 sell them to them for \$250 an acre, if I'm not mistaken and
23 they rejected that.

24 You see, in my opinion, all these discus-
25 sions -- in fact, they have never once come to my office and

1 sat down and talked to me. We've had a few phone calls and
2 a few letters, so you kind of get the feeling that their
3 opinion is that they're Marathon and whatever they say is
4 the law, and you know that's just not the way it is.

5 If we'd have been able to sit down with
6 each other we might have been able to work this out but I
7 never got any feeling at all that they really wanted to dis-
8 cuss it. They wanted to issue the instructions to me about
9 how this was going to be done and, you know, that's not the
10 way things get done very well.

11 MR. STAMETS: Any questions of
12 the witness?

13 MR. KELLAHIN: Yes, Mr. Chair-
14 man.

15
16 CROSS EXAMINATION

17 BY MR. KELLAHIN:

18 Q Mr. Davidson, you've talked about the
19 fact that Marathon's personnel didn't come to your office.
20 Are you gentlemen both in the same community?

21 A Yes.

22 Q How far apart are your offices?

23 A Well, may I answer that, I went over and
24 talked to their Division Landman twice about this; not
25 Steven but it was then (unclear), and I went to his office.

1 Q Well, regardless, someone came ot someone
2 else's office and there was face to face discussions.

3 A Yes, I went over to see them.

4 Q Let me talk to you about the farmout. In
5 terms of the farmout of the acreage, what was the best per-
6 centage ratio between before and after payout that Marathon
7 proposed to you?

8 A Was it not 75 percent and 81-1/4 after
9 payout?

10 Q I believe that was correct.

11 A Is that correct, I believe? 75 percent
12 before and 81-1/4 after.

13 Q Yes, sir. Is that an unusual type of
14 offer in terms of a farmout of oil and gas interests?

15 A I think that the normal farmout, and I'll
16 say this, I've worked on more farmouts, probably, than any-
17 body in Midland over the last seven or eight years, because
18 at one time I used to keep at least ten active deals going
19 all the time, mainly in New Mexico, and I will assure you,
20 in dealing with these companies, all of them, not just Mara-
21 thon, they want 75 percent going in and a half coming out,
22 and that's just the way it is.

23 Q In terms of the participation by you in
24 the well, I believe you've told the Commission that in to-
25 day's economic situation you would not be able to pay your

1 share of the costs of the well.

2 It would not matter, then, if the Commis-
3 sion gave you an additional election period beyond the elec-
4 tion period that was in the Examiner order?

5 A Well, I -- as you may know, I'm a major
6 participant in a lawsuit against El Paso and the earliest
7 relief will be at the completion of the trial in Lovington
8 on November the 17th, and whoever loses will probably appeal
9 it, so how long is that going to take going to the New Mex-
10 ico Supreme Court, another year.

11 Q There appears not to be any immediate --

12	A	No.
----	---	-----

13 Q -- resolution to the economic situation
14 you're in.

15 A Not for my financial situation.

16	O	No.
----	---	-----

17 A In the immediate future.

18 Q If the Commission should give you another
19 thirty day election period after this order, you couldn't
20 exercise the election if you wanted to.

21 | A No, sir.

22 Q When we look at the acreage involved,
23 let's assume Marathon is successful and drills a commercial
24 producing well in the 40-acre tract.

25 Have they not also given you a signifi-

1 cant benefit for each of the 40-acre tracts in which you
2 keep and retain your 38 percent interest within Section 14,
3 those three 40-acre offsets?

4 A There's two ways to look at it. It could
5 be real good for me and real bad. Suppose we drilled two
6 dry offsets to it and who knows? I couldn't answer that
7 now; that could be disastrous for me.

8 Q The first assumption is that it's a pro-
9 ducing well and that it logically follows that it was going
10 to benefit your offsetting 40-acre tracts.

11 A Well, there's a famous Strawn well in
12 Gaines County that's got five dry offsets around it and it's
13 made 120 barrels a day for ten years, so, you know, anything
14 could happen. I just can't answer that.

15 Q The risk in this situation is certainly
16 far greater than that because there's no immediate producing
17 wells directly 40-acre offset to the location.

18 A For the proposed well?

19 Q Right.

20 A Yes.

21 Q When we look in the northeast quarter of
22 Section 23, Mr. Davidson, what interest do you have in that
23 160-acre tract?

24 A I don't believe I have any.

25 Q You don't have any interest in that?

1 A I've got some minerals in 23 but I don't
2 --
3 Q Yes, sir.
4 A -- think it's there, is it?
5 Q Don't you have 13.33 acres in the north-
6 east quarter of 23?
7 A That's under a Marathon lease?
8 Q Yes, sir, it's currently under lease but
9 you have the minerals.
10 A I've got some minerals down there but I
11 can't -- I really don't remember where they are. Does Mara-
12 thon have a take-off, or something?
13 Q That was a question to you, sir. Appar-
14 ently you don't know.
15 A No, I don't. I can look that up.
16 Q All right, sir.
17 MR. KELLAHIN: Thank you, Mr.
18 Chairman, I have nothing further.
19 MR. STAMETS: Any other ques-
20 tions of this witness?
21 MR. LYON: I'd like a couple of
22 questions.
23
24 QUESTIONS BY MR. LYON:
25 Q Mr. Davidson, if you were to go to the

1 bank to get financing to pay your share of the cost of this
2 well, how would you assess your chances of getting a loan?

3 A In -- I'll be honest with you, and I've
4 got good banking connections, but in Midland right now I
5 couldn't get it from either bank, Republic or United, either
6 one.

7 Q Well --

8 A Now I could if I had a whole lot of, you
9 know, 2-to-1 property to put up elsewhere.

10 Q Would you consider this to be proven ac-
11 reage?

12 A This well of theirs? No.

13 Q On the other hand, if they had drilled a
14 well in the northeast northeast of Section 23 and got a good
15 producer, do you think that would enhance your -- your abil-
16 ity to get financing for the well in 14?

17 A It would certainly help. I'm still not
18 sure what those banks will do down there right now but it
19 couldn't hurt it.

20 Q Based on my experience getting a loan on
21 a house, they're damned difficult to deal with.

22 A Yeah.

23 I couldn't even get an appointment with a
24 banker tomorrow to talk about paying on a well like this,
25 and that was the reason when I was trying to swop them my

1 leases for the Hanson State and the Marathon State -- I mean
2 the McDonald, first I -- I first told them I'd just take the
3 farmout; they could have my leases and I'd take a farmout
4 and if I didn't develop it, or what I didn't develop they'd
5 get back.

6 Then the bottom dropped out for
7 everybody, including me, and so then I said, well, we'd just
8 have to swop because I couldn't take on the development ob-
9 ligation even of that shallow, show shallow zones, and
10 that's because of my problems with gas in New Mexico.

11 Q Then on the other hand, if you wanted to
12 sell your interest in there, what -- do you not think that
13 it would considerably enhance the value of your --

14 A If the well was down and completed or
15 this one to be drilled?

16 Q Yeah, and a good producer?

17 A On, in --

18 Q In Section 23.

19 A Yeah, under the present decline in Mid-
20 land it would be hard to go get anybody to take my interest
21 on anything reasonable and make any money out of it. If it
22 made a well, you'd have a shot at some big players. If it
23 were a good well, and they made all the data available,
24 pressures, everything else I'm supposed to get, timely, then
25 you'd have a shot at a big player, the Lynn Durham type or

1 somebody like that, but not the -- getting a little group of
2 ten together that we used to go around down there drilling
3 those wells with. Those little groups of ten ain't going to
4 do it no more, or you know what I'm getting at, eight or ten
5 or fifteen that used to all get together and drill wells, a
6 lot of them's not around any more. Some of them are working
7 covering furniture in Waxahachie, or somewhere.

8 Q Would you agree that a good producer is
9 -- in the northeast northeast of 23 would enhance the value
10 of your minerals in the southeast southeast?

11 A Yes, sir.

12 MR. LYON: That's all I have.

13 MR. STAMETS: Let me ask Mara-
14 thon a question. Is Marathon interested today in getting
15 Mr. Davidson to voluntarily agree to lease his interest or
16 farmout his acreage?

17 MR. KELLAHIN: I'm afraid we've
18 long since gone down the road, Mr. Chairman, and we sympa-
19 thize with his economic condition. We very much want to
20 proceed with the well. We're getting up to the end of the
21 calendar year, having worked since early summer on the pool-
22 ing case, and I'm not sure what management would say, but I
23 can almost guarantee you that there would be no further dis-
24 cussions beyond today. We just have got to move along.

25 MR. STAMETS: Let's go off the

1 record a minute.

2 (Thereupon a discussion off the record was had.)

3 MR. STAMETS: We will dismiss
4 the witness and we'll take a short recess.

5 (Thereupon a recess was taken.)

6 MR. KELLAHIN: We have met with
7 Mr. Davidson, and unfortunately we are not able to reach an
8 agreement between the parties. It does not look that --
9 like any further time would allow us to reach that
10 agreement. We are unable to resolve this issue without the
11 assistance of the Commission.

12 MR. STAMETS: Mr. Carr.

13 MR. CARR: I concur with what
14 Mr. Kellahin said. Each party made offers. Marathon
15 checked with their people in Midland and we're just unable
16 to reach an agreement.

17 I think we have some brief
18 closing statements and then we'll have to ask for your
19 assistance at that time in resolving the matter.

20 MR. STAMETS: Fine. We will
21 let you go first, Mr. Carr, since this -- Mr. Kellahin got
22 to start it.

23 MR. CARR: May it please the
24 Commission, Marathon is before you today seeking an order
25 pooling a 40-acre tract in the Siluro-Devonian pool. No vol-

1 untary agreement has been reached between the parties. Mr.
2 Davidson is the owner of approximately 38 percent of the in-
3 terest under the tract to be pooled and he is in a position
4 where he is unable to pay his share. He cannot join, and
5 the order that you enter, assuming it pools the acreage,
6 will pool his interest.

7 Marathon has presented seismic
8 information, information which we had not seen other than
9 just their interpretation, which shows a structural anomaly
10 that they believe will be capable of producing hydrocarbons,
11 and even though they say it's a 1-in-10 chance, they are
12 willing to come and risk their money and develop the proper-
13 ty.

14 Structure is the important fac-
15 tor in where this well is located and if you'll look at
16 their structure map, they have not placed the well in the
17 center of this high structural -- or high on the structural
18 interpretation, but right on the uppermost contour line and
19 the well is placed on a tract that isn't owned 100 percent
20 by them but is owned by other interest owners as well.

21 Mr. Rebenstorf said it was pru-
22 dent to place it there and to share the risk, and that may
23 be from their point of view, but what it does is it places
24 the well on a tract in which Mr. Davidson owns 38 percent.

25 The well may be a dry hole and

1 if it is, everybody loses; they lose; we lose. Our acreage
2 is condemned, investment is lost, and their acreage is con-
3 demned.

4 But it's worth going after in
5 their opinion and if it's a good well and a 200 percent pen-
6 alty is imposed against an interest owner with 38 percent of
7 the well, before he participates he will pay for the entire
8 well, and we think that's unfair. We thing that what should
9 be done is an order should be entered, 100 percent risk pen-
10 alty should be imposed that will compensate them to the tune
11 of \$420,000, or thereabouts, for the well out of Mr. David-
12 son's interest, plus his share, but it will also mean that
13 he doesn't have to underwrite the entire effort if it is
14 successful before he participates at all, and we think when
15 you balance the interest that is the way you should go to
16 protect his correlative rights and give him an opportunity
17 to produce some of the (unclear.)

18 MR. KELLAHIN: Mr. Chairman, we
19 believe that Marathon has acted in good faith in its efforts
20 to obtain Mr. Davidson's joinder. We are sympathetic to his
21 economic plight that is shared among individuals and com-
22 panies large and small.

23 This is a very important pros-
24 pect for Marathon. It represents the last well to drill in
25 a budget in this year. They have spent considerable time

1 and effort developing it. They have spent in excess of
2 \$250,000 to maybe half a million dollars developing the
3 technical information to identify this structure. This is
4 money that Mr. Davidson does not have to share in.

5 They are, in effect, identi-
6 fying a reservoir and undertaking the exploration at a very
7 high risk for that initial well for a spacing unit that only
8 covers 40 acres out of that reservoir.

9 Mr. Davidson will receive a
10 significant benefit if it's a commercial well. His 40-acres
11 interest in at least four 40-acre interests offsetting this
12 well are going to receive a benefit.

13 We believe that this is a
14 standard pooling case in which the risks are significant.
15 None production is 2-1/2 miles away, I believe, and it jus-
16 tifies the highest penalty under the pooling order.

17 Our efforts to obtain Mr.
18 Davidson's joinder have been exhausted and we are under time
19 constraints that we implore upon you to assist us in getting
20 on with the project.

21 The Examiner order is still in
22 full force and effect. It was in full force and effect on
23 August 21st when it was entered. We have provided Mr.
24 Davidson with the appropriate notification under that order
25 and the current AFE. He has not chosen either to prepay; he

1 has not chosen to stay that order; he has told us that an
2 additional period of time, should the Commission grant it,
3 is not a period of time that would do him any good, because
4 if he wanted to join he could not pay.

5 We believe there is no reason
6 or justification to do anything other than to enter a simple
7 Commission order saying the Examiner order is hereby
8 affirmed and we'd request that you do that orally today so
9 that we commence the drilling of this well within the next
10 week or so and avoid the bad weather, avoid the problems
11 that we're going to undertake if we continue to delay the
12 commencement of the well, and we would request that you do
13 so.

14 MR. STAMETS: Mr. Davidson,
15 what -- what data did you request during your testimony that
16 be furnished you if this well were pooled?

17 MR. DAVIDSON: I need a -- the
18 first thing I need is a daily drilling report and I need
19 copies of all logs and surveys of every kind that they run.
20 I need copies of all forms that are filed with NMOCD. I
21 need quarterly payout account status, since a quarterly is
22 one that gives all the charges between accounts, and I need
23 to see these well costs when the well's completed, if it
24 makes a well, with some supportive documents so we can audit
25 those costs.

1 MR. STAMETS: Is there any ob-
2 jection on Marathon's part to supplying the information that
3 Mr. Davidson is requesting?

4 MR. KELLAHIN: Yes, sir. It
5 would be highly unusual for the Commission to enter such a
6 forced pooling order when the pooled party will go noncon-
7 sent. It will be one of the first times I can think of in
8 which this amount of proprietary data is shared with a non-
9 consenting owner. This is the type of information that is
10 shared within companies that pay and participate in the
11 well.

12 There are certain bits of in-
13 formation which we certainly would provide him and which is
14 provided even now under the current orders. He will have,
15 and does have under this order, the right to an accounting.
16 We will be happy to provide him with the cost information,
17 as it is appropriate to provide that information.

18 The quarterly accounting pay-
19 ments, I have not checked with Marathon to see how they make
20 those payments, but we would be happy to give him the ac-
21 counting information that he needs so that he can see the
22 payout of his interest, so that he can see and document the
23 costs of the well.

24 Certainly we will share and
25 send with him the Commission forms that we file. With re-

1 gards to the daily drilling reports and the logs on those
2 wells, they are normally not available to people that do not
3 participate, at least until such time as Mr. Davidson would
4 become fully paid out.

5 Prior to full payout, then, I
6 will have to ask my client whether or not they would be
7 willing to release the logs ahead of time and the drilling
8 reports. That I think would be a little unusual and I would
9 not be surprised if they would object to giving Mr. Davidson
10 that type of information.

11 MR. STAMETS: It appear as
12 though this is a fee lease and those logs should be filed
13 with the Division within twenty days following the comple-
14 tion of the well so --

15 MR. KELLAHIN: Whatever the
16 current Commission rules are with regards to that informa-
17 tion, we will comply.

18 MR. STAMETS: -- it seems as
19 though those would be available, but in our office.

20 So aside from the daily drill-
21 ing report, you would either supply or this information
22 would be available.

23 MR. KELLAHIN: May I confirm
24 that with --

25 MR. STAMETS: Certainly.

1 MR. KELLAHIN: Marathon's un-
2 willing to give Mr. Davidson copies of the daily drilling
3 reports on a daily basis but upon completion of the well,
4 the information that is provided to the Commission in terms
5 of those drilling reports, we certainly would make that in-
6 formation available to Mr. Davidson.

7 To call him and notify him each
8 day, as we would a working interest owner that pays for his
9 share, is an effort that we would resist making.

10 But post-completion drilling
11 information after the well is completed, I believe becomes
12 public knowledge after a short period of time, and we would
13 certainly share that with him.

14 MR. STAMETS: But in any event,
15 he's still not going to get a copy of Marathon's daily
16 drilling report.

17 MR. KELLAHIN: No, sir.

18 MR. CARR: Mr. Stamets, just in
19 response to that, the basic underlying premise is that you
20 pay your money and you join and you ought to be entitled to
21 this information.

22 In an involuntary situation you
23 don't pay your money and you aren't in the deal, then you
24 shouldn't get the information.

25 But in this situation you are

1 on the brink of entering an order which is going to pool and
2 take a property interest from this individual with substan-
3 tial monetary value and you're going to put it into a pros-
4 pect that will be developed by another party and in that
5 situation we submit there's adequate consideration that not
6 only warrants but requires that he also be entitled to the
7 information.

8 (Thereupon a discussion was had by the Com-
9 missioners.)

10 MR. STAMETS: Okay, that will
11 be the decision of the Commission, then. We will be getting
12 an order out relatively soon affirming the Examiner order.

13 We thank everybody for their --
14 their attempts to resolve this thing.

15
16 (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 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 this portion of the hearing, prepared by me to the best of my ability.

Sally W. Boyd CSR

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO

18 September 1986

COMMISSION HEARING

IN THE MATTER OF:

Application of Mesa Grande Resources,
Inc. for a non-standard oil proration
unit and an unorthodox oil well loc-
ation, Rio Arriba County, New Mexico.

CASE
8995 and

8960

BEFORE: Richard L. Stamets, Chairman
Ed Kelley

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Commission:

Jeff Taylor
Legal Counsel for the Division
Oil Conservation Division
State Land Office Bldg.
Santa Fe, New Mexico 87501

For the Applicant:

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MR. STAMETS: This hearing will come
to order. I'd like to announce that every case on today's
docket, except for Case 8781, has been continued to the
October 23 date.

C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY 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 this portion of the hearing, prepared by me to the best of my ability.

Sally W. Boyd CSR