

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

17 June 1987

EXAMINER HEARING

IN THE MATTER OF:

Application of Estoril Producing Cor- Case  
poration for compulsory pooling, and 9153  
unorthodox oil well location, Lea  
County, New Mexico.

BEFORE: Michael E. Stogner, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Division:

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Legal Counsel for the Division  
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For Estoril:

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## I N D E X

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MR. STOGNER: Call next Case  
Number 9153.

MR. TAYLOR: Application of  
Estoril Producing Corporation for compulsory pooling and an  
unorthodox oil well location, Lea County, New Mexico.

MR. STOGNER: Call for appear-  
ances in this case.

MR. KELLAHIN: I'm Tom Kellahin  
of Santa Fe, New Mexico, appearing on behalf of the appli-  
cant and I have two witnesses to be sworn.

MR. STOGNER: There appearing  
there are no other appearances, will the witnesses please  
stand to be sworn?

(Witnesses sworn.)

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

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q Mr. Horn, would you please state your  
name and occupation?

1           A           Charles Horn.   Petroleum Landman.

2           Q           Mr. Horn, have you previously testified  
3 before the Oil Conservation Division as a petroleum landman?

4           A           Yes, I have.

5           Q           Let me direct your attention for a moment  
6 to Exhibit Number One and have you explain to the Examiner  
7 what Foran Oil Company's relationship is with regards to  
8 this application.

9           A           Foran Oil Company has a farmout from Mesa  
10 and Sequoia on the acreage in question.

11                       Estoril has a letter agreement with us  
12 whereby they partner in the farmout.

13           Q           And under that agreement, then, Estoril  
14 is to be the operator of the well and will drill the well  
15 for the account of all the working interest owners including  
16 Foran Oil Company.

17           A           That's correct.

18           Q           All right. Are you familiar with the ef-  
19 forts by Estoril and Foran to obtain voluntary agreement  
20 among the mineral owners and working interest owners for the  
21 formation of a voluntary unit for this 80-acre tract to be  
22 drilled to the Northeast Lovington Pennsylvanian Pool?

23           A           Yes, we have agreements with all owners  
24 other than Texaco.

25           Q           All right, let me ask you about that in a

1 moment.

2 MR. KELLAHIN: At this time,  
3 Mr. Examiner, we'd tender Mr. Horn as an expert petroleum  
4 landman.

5 MR. STOGNER: Mr. Horn is so  
6 qualified.

7 Q Let's take a moment and look at the exhi-  
8 bit, Mr. Horn. I see that there are at least two other  
9 wells spotted in the area. There is a well in Section 6  
10 which would be to the south and east of the 80-acre tract  
11 for the subject well. It's shown as the Anderson 1-6 Well.  
12 Are you familiar with the land ownership involved in that  
13 well?

14 A Yes, sir.

15 Q Was Texaco one of the parties pooled for  
16 the drilling of that well?

17 A Yes, they were.

18 Q And was this a well also drilled to the  
19 Northeast Lovington Pennsylvanian Pool?

20 A That's correct.

21 Q If we look to Section 7 there's a dry  
22 hole in the northwest corner under the Estoril Christmas No.  
23 1 Well?

24 A Yes.

25 Q And was Texaco involved in the drilling

1 of that well?

2 A Yes, they were.

3 Q Was there interest force pooled or was a  
4 forced pooling application filed?

5 A Yes, it was.

6 Q Did they ultimately agree to participate  
7 in that well?

8 A Yes, they did.

9 Q Is this then the third development of a  
10 test in the Northeast Lovington Pennsylvanian Pool that in-  
11 volves Texaco's interest in the area?

12 A That's correct.

13 Q Describe for the Examiner what time con-  
14 straints or commitments have occurred that require Estoril  
15 to commence the drilling of this well by July 30th, 1987?

16 A We have a continuous development in the  
17 farmout and we have 180 days from the completion of the  
18 second well, which will be the Christmas Well in Section 7.

19 Q Calculating the time limits and the com-  
20 mencement and completion dates, am I correct in understand-  
21 ing that the subject well must be completed on -- must be  
22 spudded on or before July 30th of this year?

23 A That's correct.

24 Q Has Foran Company and/or Estoril Produ-  
25 cing Corporation and their employees and personnel had con-

1   tacts with Texaco with regards to their interest in the sub-  
2   ject tract?

3           A           Yes, on numerous occasions.

4           Q           What is Texaco's interest in the tract?

5           A           They have a 25 percent interest in the  
6   leasehold.

7           Q           And what is the current status of your  
8   efforts to obtain voluntary joinder by Texaco?

9           A           We have not gotten any response at this  
10   time as to what election they may make. We've offered them  
11   several alternatives.

12          Q           Let me direct your attention to Exhibit  
13   Number Two. In reviewing the files of the prospect, does  
14   Exhibit Number Two represent notification to Texaco of the  
15   proposed well and did it also include the AFE for the well?

16          A           Yes, it did, or it does and it did.

17          Q           Prior to this letter to Texaco were there  
18   conversations among representatives of the applicant and  
19   Texaco concerning their participation in the well?

20          A           Yes, there was. I would say shortly af-  
21   ter the completion of the Christmas well in Section 7, we  
22   began negotiating with Texaco in regards to participation in  
23   the next location in Section 1.

24                       There have been on-going negotiations up  
25   until yesterday, I believe, was our last contact with them.

1           Q           Let me direct your attention, Mr. Horn,  
2 to Exhibit Number Five, if you'll go through the package of  
3 exhibits. It's the AFE that's attached.

4                   Is the Exhibit Number Five, this AFE, is  
5 that the AFE that was sent to Texaco as an attachment to the  
6 May 27th letter that's Exhibit Number Two?

7           A           Yes, it was.

8           Q           To the best of your knowledge have there  
9 been any changes in the AFE since it was sent?

10          A           No.

11          Q           And have you received or has either the  
12 applicant or Foran received any objection by TXO -- Texaco  
13 with regards to the AFE?

14          A           No objections have been stated.

15          Q           All right, sir. Do you have an opinion,  
16 Mr. Horn, as to whether further efforts have a reasonable  
17 likelihood of resulting in a voluntary unit in the absence  
18 of forced pooling?

19          A           I would say I have no way of knowing but  
20 I know we will be attempting to up until the time, but they  
21 have been slow to respond and there's no assurance that they  
22 will, you know, make an election within the next six weeks.

23          Q           In order to fulfill your drilling commit-  
24 ments under the farmout terms of the contracts you need a  
25 compulsory pooling order at this time in order to drill the



1 well.

2 A Yes, we do.

3 MR. KELLAHIN: I have no further  
4 questions of Mr. Horn, Mr. Stogner.

5

6 CROSS EXAMINATION

7 BY MR. STOGNER:

8 Q Mr. Horn, let's refer now to Exhibit Num-  
9 ber Two. Was this the first correspondence you had with  
10 Texaco, Incorporated, about seeking an agreement?

11 A I believe this is the first written pro-  
12 posal of the well.

13 The -- we had many oral conversations  
14 with them concerning, you know, picking of the location of  
15 the next well. It's been an on-going negotiation.

16 This letter was sent to fulfill the re-  
17 quirements of the Commission, but it was not the first con-  
18 tact or proposal to Texaco.

19 Q But this was the first written --

20 A That's correct.

21 Q Okay, let's go back to those unwritten  
22 communications. When was the first one?

23 A I would say we completed the Christmas  
24 Well in, I believe it was January, so I'd say shortly  
25 thereafter, probably February or March is when we first con-

1     tacted them regarding the next location.

2                   Q             And who did you talk to?

3                   A             We've been dealing with Curtis Smith  
4     mainly at Texaco, as a landman, and a geologist named Keith  
5     Williams, we've had some contact with.

6                   Q             All right, and now how many other com-  
7     munications did you have with them between that time and --

8                   A             I would say on a -- probably a bi-weekly  
9     basis ever since that time, we have contacted them in some  
10    manner to see if there's been a response, if they've made an  
11    election or, you know, if they need anything else from us.

12                                 We have some seismic lines in that area  
13    that we've offered to them to help -- to help them in their  
14    decision making and we have, you know, we've been working  
15    with them on a regular basis to attempt to get, you know,  
16    some sort of a decision out of them.

17                   Q             Did they ever say why they weren't going  
18    to join?

19                   A             No. They have not offered any explana-  
20    tion other than it's still being taken under advisement.

21                   Q             Who was to take it under advisement, did  
22    they say?

23                   A             No, they didn't. No.

24                   Q             Do you know if it was technical or legal  
25    problems that they were having?

1           A           I don't know. Once it leaves the Land  
2 Department at Texaco I don't know who it goes to or they  
3 have not been very explicit as to who is making the decision  
4 or, you know, what stage that it's in, or what's going on,  
5 or, you know, what -- we don't know what the hold-up is, and  
6 we have attempted to find out and we've, like I said, we've  
7 offered them everything that we have in order for them to  
8 make a decision.

9           Q           Okay, and obviously you haven't received  
10 any written correspondence in response to your letter of May  
11 27th?

12          A           No.

13          Q           Have you heard -- had any verbal response  
14 from them?

15                       MR. KELLAHIN: My next witness  
16 has talked to them --

17                       MR. STOGNER: Oh.

18                       MR. KELLAHIN: -- I believe  
19 yesterday, was it not?

20                       MR. DRESCHER: Yes.

21                       MR. KELLAHIN: We have some ad-  
22 ditional information on that subject.

23          A           Mr. Drescher has the most recent contact  
24 with them.

25                       MR. STOGNER: Mr. Taylor, I be-

1 believe you have a comment or a question at this time.

2 MR. TAYLOR: Yeah, we got a  
3 letter in the mail from Texaco in relation to another forced  
4 pooling and I'd just like to read part of it into the record  
5 here and maybe it would be some help to you all.

6 MR. KELLAHIN: Well, we didn't  
7 receive copies of that letter. Did we get copies of that  
8 letter?

9 MR. DRESCHER: Not to my know-  
10 ledge?

11 MR. KELLAHIN: That's in rela-  
12 tion to --

13 A It's another case.

14 MR. TAYLOR: It's in relation  
15 to a different forced pooling.

16 MR. KELLAHIN: Then why are we  
17 reading this into the record, Mr. Taylor?

18 MR. TAYLOR: Because I want to.

19 MR. KELLAHIN: Well, we're  
20 going to object, Mr. Examiner, that this is unrelated to  
21 this case. It's unsolicited. It wasn't provided to us or  
22 sent to us. My first knowledge of it is when Counsel for  
23 the Division attempts to read it into the record. He clear-  
24 ly stated as a preamble to reading it that it had nothing to  
25 do with this case but he'd like to do so.

1 We would object.

2 MR. STOGNER: Your objection  
3 has been taken note of, Mr. Kellahin, however, I'm still  
4 going to allow this reading to -- into the record because it  
5 may affect compulsory poolings with Texaco in the future. I  
6 do want to cover it.

7 MR. TAYLOR: This letter was  
8 sent to Chad Dickerson but a copy was sent to the Oil Con-  
9 servation Division, and I'll give you a copy.

10 It says, "Please be advised  
11 that on April 12, 1987, Texaco, Inc., Texaco Capital Inc.  
12 and Texaco Capital N.V. (collectively, the "Debtors") each  
13 filed a chapter 11 petition pursuant to section 201 of the  
14 Bankruptcy Code (11 U.S.C. 301) with the Bankruptcy Court  
15 unit of the United States District Court for the Southern  
16 District of New York and thereby commenced chapter 11 cases  
17 numbered 87 B 20142, 20143, and 20144, respectively.

18 Please be further advised that  
19 pursuant to section 362(a) of the Bankruptcy Code... and ex-  
20 cept as provided in section 362(b) of the Bankruptcy Code...  
21 the filing of the foregoing chapter 11 petitions operates  
22 as an automatic stay, applicable to all entities, of, among  
23 other acts:" and I'm going to skip (1) and (2) and go to (3)  
24 "any act to obtain possession of property of the estate or  
25 of property from the estate or to exercise control over  
property of the estate; ... Violation of the automatic

1 stay, such as by comencing or continuing any action against  
2 any of the Debtors or against any property of their respec-  
3 tive estates without first obtaining relief from the stay  
4 from the Bankruptcy Court may result in, among other things,  
5 contempt sanctions, compensatory damages, and punitive dam-  
6 ages.

7 To avoid unnecessary time and expense,  
8 and before burdening the Bankruptcy Court with litigation,  
9 we urge you to contact the undersigned to discuss the best  
10 means of resolving all claims in the above-referenced action  
11 that are against any of the Debtors or any property of  
12 their estates."

13 And it's signed Shawn McSwain, who, I  
14 guess, is a Texaco attorney, since it's on Texaco letter-  
15 head, but I would recommend that you guys get in touch with  
16 this Shawn McSwain and see if they care whether you do this  
17 because they threatened us with contempt if we did one in a  
18 TXO case.

19 MR. KELLAHIN: We served them  
20 appropriately with notice pursuant to rules. They have not  
21 responded. It appears to me that they don't care enough to  
22 respond to us, they don't think much of their stay order.

23 MR. TAYLOR: I would also state  
24 that we might have a legal problem entering a forced pooling  
25 once we're under notice that Texaco, Inc., is in bankruptcy.

1                   Now there are Texacos that  
2 aren't in bankruptcy and I don't know if this is one of them  
3 or not. Apparently there's Texaco Oil that's not part of  
4 the bankruptcy. Texaco Oil, Inc., and some others, so it's  
5 confusing to us who's in bankruptcy and what we may or may  
6 not do, and certainly I think I would advise the Examiner  
7 that until he's more or less certain that there's no bank-  
8 ruptcy involving this he should be careful in entering a  
9 forced pooling if they're going to come back and say well,  
10 you guys knew what you were doing here and you're in  
11 contempt of court.

12                   So I would certainly recommend  
13 that you -- and I will give you a copy of this so you can  
14 get in touch with this guy and see if there's any reason why  
15 they're delaying because it's the bankruptcy or if they're  
16 just -- they don't care.

17                   I would certainly think that  
18 they ought to tell us or tell you that the bankruptcy is the  
19 cause of the delay.

20                   A           They have never stated that.

21                   MR. TAYLOR: Yeah, and it's  
22 difficult for us because we had one the other day where it  
23 was part of Texaco but it wasn't a part that's in bankruptcy  
24 and I don't know what's going on --

25                   MR. KELLAHIN: Well, it's out-

1   rageous, Mr. Taylor, to allow Texaco and their attorneys to  
2   be here in the case immediately preceding ours where they  
3   are preparing to go forward as an active operator in this  
4   state and yet at the very second case that comes up they  
5   disappear and say, oh, gee, you can't force pool us because  
6   we're frozen in limbo under some unseen, unknowing bank-  
7   ruptcy court order. It frustrates the --

8                   MR. TAYLOR: Well, it might not  
9   be equitable, but I don't know if we'd want to do it if they  
10  were going to threaten us. You know, if they threaten the  
11  Division, certainly I would tell the Examiner that he ought  
12  to think twice before he does it, and I understand that we  
13  were told we were subject to contempt sanctions if we en-  
14  tered an order in that, but --

15                  MR. KELLAHIN: I've thought  
16  three times about it in the last five minutes and I will  
17  tell you that we will seek a Writ of Mandamus in District  
18  Court in order to protect our farmout obligations. We are  
19  on strict deadlines --

20                  MR. TAYLOR: Oh, I know.

21                  MR. KELLAHIN: -- that Texaco  
22  has known, and we are at your mercy. We've got to have a  
23  compulsory pooling order, so this shenanigans about this  
24  bankruptcy, I think, is just foolishness.

25                  MR. TAYLOR: Well, I suppose we



1 could take some action and get in contact with these people  
2 and see if that's a reason. If that's not a reason, I see  
3 no reason why we couldn't order the forced pooling, enter a  
4 forced pooling order.

5 MR. STOGNER: Okay, is there  
6 any further questions of this witness?

7 If not, he may be excused. Mr.  
8 Kellahin?

9 MR. KELLAHIN: I have another  
10 witness.

11  
12 CLIFF DRESCHER,  
13 being called as a witness and being duly sworn upon his  
14 oath, testified as follows, to-wit:

15  
16 DIRECT EXAMINATION

17 BY MR. KELLAHIN:

18 Q Would you please state your name and oc-  
19 cupation?

20 A My name is Cliff Drescher. I'm a Vice-  
21 President of Engineering with Estoril Producing Corporation.

22 Q Mr. Drescher, for the record would you  
23 please state your name -- spell your last name for us?

24 A D-R-E-S-C-H-E-R.

25 Q Have you previously testified before the

1 Oil Conservation Division?

2 A Yes, I have.

3 Q In what capacity?

4 A As a petroleum engineer.

5 Q As a petroleum engineer have you made a  
6 study of the technical data and the information available  
7 to you with regards not only to the compulsory pooling case  
8 but to Estoril's request for an unorthodox location?

9 A Yes, I have.

10 MR. KELLAHIN: We tender Mr.  
11 Drescher as an expert petroleum engineer, Mr. Stogner.

12 MR. STOGNER: Mr. Drescher is  
13 so qualified.

14 Q Let me direct your attention, if you  
15 will, sir, to Exhibit Number Three, and if you'll take a mo-  
16 ment and simply identify that exhibit for us.

17 A This is a seismic structure map of the  
18 top of the Strawn in the area of the Northeast Lovington  
19 Penn Field that we are developing.

20 Q Would you identify for us what is indi-  
21 cated by the red circle located within the yellow outlined  
22 area within Section 1?

23 A Okay, the yellow outlined area is the 80-  
24 acre unit we propose our well, which the name of it is the  
25 Anderson 1 No. 1.

1                   The red circle is the proposed location,  
2 located 1100 feet from the east line and 2100 feet from the  
3 south line, and the contour lines are based for top of the  
4 structure, top of the Strawn -- on the top of the Strawn.

5                   Q           There are two matters for the Examiner's  
6 consideration, the unorthodox location and then the risk  
7 factor penalty portion of the compulsory pooling order.

8                               Do you have opinions on both of those  
9 subjects?

10                  A           Yes, sir, I do.

11                  Q           With regards to the compulsory pooling  
12 portion and the risk factor penalty, have you formulated an  
13 opinion as to what would be an appropriate risk factor pen-  
14 alty to include in the subject case?

15                  A           I believe we should receive a 200 percent  
16 risk penalty for the drilling of this well.

17                  Q           Would you identify for Mr. Stogner in  
18 what way the location is unorthodox?

19                  A           The field rules in this field state that  
20 a well must be drilled within 150 foot of the center of a  
21 quarter/quarter section, and the proposed well lies outside  
22 of that boundary.

23                  Q           I believe it's approximately 340 feet  
24 from the north line?

25                  A           Yes, sir.

1           Q           What is the justifications that cause you  
2 to believe that the unorthodox location is an appropriate  
3 location?

4           A           We don't believe that we can drill an  
5 economical well based primarily initially on our seismic  
6 data, unless it lies in an area -- unless it lies in an area  
7 north of shot point 150 on the seismic lines in Exhibit  
8 Three.

9           Q           A standard location would be outside the  
10 shot point 150 line?

11          A           Yes, sir.

12          Q           So in order to obtain an optimum  
13 location, based upon the seismic data, then you would want  
14 a location above the 150 line and that is at least one of  
15 the choices located by the red dot.

16          A           Yes, sir.

17          Q           Okay. When we talk about the risk factor  
18 penalty, what are the reasons that have caused you to reach  
19 the opinion that a 200 percent risk factor penalty is  
20 justified?

21          A           Well, in this -- in this area and pool I  
22 believe it's based on a seismic reasons, actual well  
23 experience that we've had, and the production history in the  
24 area of this Northeast Lovington Penn Field.

25          Q           With regard to those reasons have you

1 prepared certain exhibits to demonstrate your reasons?

2 A Yes, sir, I have.

3 Q Let's turn to Exhibit Number Three and  
4 discuss, then, in more detail the seismic data that's  
5 displayed on that exhibit.

6 A This is, of course, a top of the Strawn  
7 map with our seismic lines labeled and mapped on the places  
8 where they were shot.

9 With the shot points appropriately  
10 numbered we have a brown lined over a dotted line encircled,  
11 which encompasses our proposed well. That is an area that  
12 was interpreted by our geophysicists to be acceptable areas  
13 within which to drill a well.

14 Q Does the seismic data by itself give you  
15 a basis upon which you can reduce the risk involved in  
16 drilling the wells so that a risk factor penalty of less  
17 than 200 percent would be justified?

18 A No, because in actual experience we have  
19 drilled dry holes based on seismic predictions.

20 It's just one of the best tools that we  
21 have, just one of them.

22 Q Let's identify for Mr. Stogner the other  
23 two, the dry hole and then the producing well in Sections 6  
24 and 7, and show him how they relate to the structure as  
25 identified on the exhibit.

1           A           The initial well, Mr. Examiner, was  
2 drilled in Section 6, labeled as 1-6, and it was a commercial,  
3 productive Strawn well in this field, and subsequently  
4 seismic was shot and additional geological interpretations  
5 were made, and our next best location was to the south,  
6 labeled as No. 1. That was called our Christmas No. 1.

7                   That well was drilled as a dry hole, and  
8 then we obtained -- from the information obtained from that,  
9 then we have picked the proposed location up in Section 1.

10           Q           Let's turn now to Exhibit Number Four and  
11 have you discuss some of the geologic data and production  
12 information that was part of the reasoning that caused you  
13 to reach the opinion that a 200 percent risk factor penalty  
14 was justified.

15           A           First of all, we feel that just by  
16 drilling a well at any location offsetting a producing well  
17 does hold true in this field.

18                   Our first case in mind was the fact of  
19 our Christmas Well drilled offset of our successful Anderson  
20 6-1 up in the northern part of your map.

21                   This map has productive Strawn wells  
22 colored in brown and dry holes colored in blue.

23                   The next area just about a mile south has  
24 some interesting occurrences, especially in Section 18,  
25 there's a dry hole drilled between three producers, two of

1 which have produced over 100,000 barrels of oil, and one low  
2 cumulative well, which probably is not economical.

3                   Down in the lower righthand portion of  
4 the map there's a faint square, which designates 800 acres  
5 of which 9 wells were drilled, 4 of them drilled dry, only  
6 one of them is an economical producing well; however, it  
7 produced over a million barrels of oil.

8                   Q           I think we're ready to turn to Exhibit  
9 Number Five now. Let me have you identify Exhibit Number  
10 Five for us.

11                  A           This is the AFE for the anticipated ex-  
12 penditures for the Anderson 1-1 Well in which we are propos-  
13 ing to drill this well.

14                  Q           It is prepared by, is that your signa-  
15 ture?

16                  A           Yes, it is. I did prepare it.

17                  Q           And did you also prepare the AFE for any  
18 of the other wells that were drilled in the immediate area  
19 to this formation?

20                  A           Yes, I prepared both AFEs for both wells  
21 that we've drilled in the last ten months.

22                  Q           That would be the Anderson 1-6 and then  
23 the Christmas 1 Well?

24                  A           Yes, sir.

25                  Q           What, in your opinion, are the reasonable

1 estimated well costs, the dry hole and completed well costs  
2 for the well?

3 A We anticipated an estimated dry hole cost  
4 of \$334,750, and a completed producing well for \$508,110.

5 Q And how does the estimated cost for the  
6 subject well compare to the actual cost demonstrated by the  
7 other two wells?

8 A The other two wells were AFE'd for approximately \$499,000 and the first well which came in as a producer, the actual cost came within two percent of the anticipated AFE cost, and which the anticipated cost was approximately \$499,000.

13 The primary reason for the difference was  
14 we changed casing designs from 4-1/2 to 5-1/2 inch casing.

15 Q Do you have a recommendation to the examiner  
16 as to what overhead charges you would propose be included  
17 in a forced pooling order?

18 A Yes. We'd like to receive \$5500 during  
19 the drilling supervision of this well, and \$550 for the producing.

21 Q And how do those costs compare to other  
22 overhead charges you have received on any forced pooling order  
23 in the area?

24 A In Case 8978 last August we received  
25 5500/550.



1                   In Case Number 9052 in December we re-  
2                   ceived 5500/550.

3                   And this is also the amount that is  
4                   agreed upon by our working interest owners which are indus-  
5                   try partners as Sun Oil, Foran Oil, Harvey E. Yates, San-  
6                   point (sic) Petroleum, Schio, Yates Energy, have all agreed  
7                   upon this amount.

8                   Q           I direct your attention for a moment, Mr.  
9                   Drescher, to Exhibit Number Seven, which is after the noti-  
10                  fications in Six, if you'll look at Seven.

11                  A           Yes, sir.

12                  Q           Did you participate in the hearings with  
13                  regards to the entry of Order R-8382?

14                  A           Yes, I did.

15                  Q           And was that a forced pooling order that  
16                  was entered that involved Texaco acreage?

17                  A           No, as a matter of fact, this one did not  
18                  include Texaco acreage.

19                  Q           The overhead charges used in that order  
20                  for the Northeast Lovington Penn Pool, are those overhead  
21                  charges that you're recommending be utilized in this subject  
22                  case?

23                  A           Yes, sir, they are.

24                  Q           Let's talk for a moment about what inter-  
25                  est or information you have about recent contacts with Texa-

1 co about their ability to participate in the subject well.

2 Have you had contacts with employees of  
3 Texaco about the well?

4 A Yes, I have, with all the people that  
5 Charlie stated in his earlier testimony.

6 Q And what was your last communication with  
7 Texaco?

8 A I spoke with Curtis Smith Monday morning  
9 and he called me to advise me that they have not even ac-  
10 quired the seismic data yet to evaluate it.

11 Q Have you offered to provide them with  
12 copies of your seismic data to aid them in their evaluation  
13 efforts?

14 A Yes, sir. As usual they did not parti-  
15 pate in the shooting of the seismic, but are allowed to pur-  
16 chase the seismic, as any industry person is, and they have  
17 not even made that attempt yet.

18 Q What other or any other conversations did  
19 you have with Mr. Smith about the drilling of the well?

20 A He did indicate that they do wish to join  
21 the well; however, they just have not done anything on it  
22 yet and they cannot justify it to their management.

23 Q Do you know whether or not he understands  
24 and appreciates your time constraints with regards to the  
25 commencement of this well?

1           A           Yes, he does, especially the July 30th  
2 trigger date on our farmout.

3           Q           In what ways has Texaco been informed  
4 that you have a commencement date of July 30th, '87?

5           A           These were verbal conversations. Subse-  
6 quent to the drilling of the dry hole, the Christmas No. 1,  
7 we were back in contact with them stating that we do have a  
8 180-day drilling commitment to that and that we were going  
9 to shoot and gather some additional seismic and geological  
10 data and will be proposing the well, and asked them to par-  
11 ticipate in the shooting of the seismic if they wanted to.

12                       MR. KELLAHIN: That concludes  
13 my examination of Mr. Drescher, Mr. Stogner.

14                       I would identify for the record  
15 that Exhibit Number Six is a copy of the filing letter with  
16 the Division in which we sent by certified mail copies of  
17 that letter along with the application to Texaco, Sequoia  
18 Petroleum, and Mesa Operating Limited Partnership.

19                       The other two companies were  
20 notified because our unorthodox location moves towards their  
21 property, which is shown on Exhibit Number One. As we move  
22 to the north we are involved with MTS acreage and that is  
23 operated by Mesa Operating Limited and Sequoia Petroleum.

24                       We would request at this time,  
25 Mr. Examiner, that Exhibits One through Seven be entered in-

1 to the record.

2 MR. STOGNER: Exhibits One  
3 through Seven will be admitted into evidence at this time.

4 MR. KELLAMIN: That concludes  
5 my examination of this witness.

6

7

CROSS EXAMINATION

8 BY MR. STOGNER:

9 Q Prior to this conversation on Monday with  
10 Mr. Curtis Smith, have you ever had any oral or written con-  
11 versations with them, with Texaco, concerning this?

12 A Concerning the other wells but not con-  
13 cerning this well. No, sir; just oral.

14 Q Just oral, and that -- Monday was the  
15 only communications you ever had about forced pooling of  
16 this well?

17 A This is normally handled by our Vice  
18 President of land.

19 Q Well, I'm asking you.

20 A Oh.

21 Q What conversations did you have concerning  
22 -- with anybody with Texaco concerning compulsory pooling of  
23 this particular acreage.

24 A Monday.

25 Q And that was the only one.

1 A Yes, sir.

2 Q All right. I'm going to ask both of you  
3 guys this question.

4 In any of your conversations, written or  
5 otherwise, was the term or word "bankruptcy" ever brought  
6 up?

7 MR. HORN: No --

8 A No, sir.

9 MR. HORN: -- not ever as an  
10 excuse for not evaluating the prospect.

11 Q Okay, I'm going to ask you, was it  
12 brought up in any other context?

13 MR. HORN: No, not by Texaco.

14 Q Okay. All right, Mr. Drescher, when you  
15 refer to the overhead charges of \$5500 while drilling and  
16 \$550 while producing, you referred to a couple of previous  
17 orders.

18 A Yes.

19 Q Which orders were those?

20 A Case Number 8978.

21 Q And what was the other one?

22 A Case Number 9052, which I believe is an  
23 exhibit. Is that correct, Mr. Kellahin?

24 MR. KELLANIN: The order for  
25 that case is Number Seven.

1           Q           All righty. You also mentioned in there  
2 that these figures were agreed upon voluntarily by other --  
3 by the other interested parties in this well.

4           A           Yes, sir, that's what we do operate un-  
5 der.

6           Q           Is this acreage within the Northeast  
7 Lovington Pennsylvanian Pool?

8           A           Yes, sir.

9           Q           Okay.

10                   MR. STOGNER: I have no further  
11 questions of Mr. Drescher.

12                   Mr. Kellahin, do you wish to  
13 offer any closing remarks at this time?

14                   MR. STOGNER: If not, Mr.  
15 Drescher may be excused.

16           A           Thank you.

17                   MR. STOGNER: Is there anything  
18 further in this case?

19                   MR. KELLAHIN: No, sir.

20                   MR. STOGNER: This case will  
21 then be taken under advisement.

22

23                   (Hearing concluded.)

24

25

## 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 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 and true transcript of the hearing  
held at the residence of Mrs. 9153  
heard by me on 17 June 1982  
Michael E. Rogers, Examiner  
Oil Conservation Division