

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

6 6 January 1938

7 EXAMINER HEARING

8 IN THE MATTER OF:

9 Application of Foran Oil Company for OCE
10 compulsory pooling and unorthodox 9289
11 well location, Lea County, New Mex-
12 ico.

13 BEFORE: Michael E. Stogner, Examiner

14
15 TRANSCRIPT OF HEARING

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17 A P P E A R A N C E S

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20 For the Division:

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23 For the Applicant:

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MR. STOGNER: I'll call case
Case Number 9229, which is the application of Pore Oil
Company for compulsory pooling and an unorthodox well
location, Lea County, New Mexico.

The applicant has requested
that this case be continued to the Examiner's hearing
scheduled for February 3rd, 1938.

(Hearing concluded.)

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C E R T I F I C A T E

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

Sally W. Boyd CSR

I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 9289,
heard by me on 16 January 1988.
Michael K. Stapp, Examiner
Oil Conservation Division

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6 3 February 1988

7 EXAMINER HEARING

8 IN THE MATTER OF:

9 Application of Foran Oil Company for CASE
10 compulsory pooling and unorthodox well 9289
11 location, Lea County, New Mexico.

12
13 BEFORE: Michael E. Stogner, Examiner
14
15

16 TRANSCRIPT OF HEARING
17
18

19 A P P E A R A N C E S
20

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I N D E X

STATEMENT BY MR. KELLAHIN	5
JOSEPH S. FORAN	
Direct Examination by Mr. Kellahin	7
Cross Examination by Mr. Bruce	27
Redirect Examination by Mr. Kellahin	34
Cross Examination by Mr. Stogner	34
JOE CARNES	
Direct Examination by Mr. Kellahin	39
Cross Examination by Mr. Bruce	44
STATEMENT BY MR. BRUCE	46
STATEMENT BY MR. KELLAHIN	48

1
2
3
4
5
6
7
8
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10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

E X H I B I T S

Foran Exhibit One, Map	7
Foran Exhibit Two, Plat	8
Foran Exhibit Three, Plat	16
Foran Exhibit Four, Plat	17
Foran Exhibit Five, Letter	19
Foran Exhibit Six, Tabulation	20
Foran Exhibit Seven, Letter	23
Foran Exhibit Eight, Letter	23
Foran Exhibit Nine, Letter	23
Foran Exhibit Ten, Letter	23
Foran Exhibit Eleven, Certificate	24
Foran Exhibit Twelve, Notice	24
Foran Exhibit Thirteen, AFE	24
Foran Exhibit Fourteen, Map	39
Foran Exhibit Fifteen, Structure Map	39
Foran Exhibit Sixteen, Approval	46

1
2
3
4
5
6
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MR. STOGNER: The hearing will resume order.

We'll call next Case Number 9289, which is the application of Foran Oil Compny for compulsory pooling and an unorthodox well location, Lea County, New Mexico.

Call for appearances.

MR. KELLAHIN: If the Examiner please, I'm Tom Kellahin of the Santa Fe law firm of Kellahin, Kellahin & Aubrey, appearing on behalf of Foran Oil Company, and I have two witnesses to be sworn.

MR. STOGNER: Any other appearances?

MR. BRUCE: Mr. Examiner, my name is Jim Bruce from the Hinkle Law Firm in Santa Fe, representing Charles Gillespie.

MR. STOGNER: Do you have any witnesses?

MR. BRUCE: I have no witnesses, Mr. Examiner.

MR. STOGNER: Let the record show that the applicant's witnesses, Mr. Foran and Mr. Carnes, were previously sworn today in Case Number 9290.

You may continue, Mr. Kellahin.

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

3 This case was originally
4 scheduled for a hearing on January 6th. Just prior to that
5 hearing it became apparent that the applicant desired to
6 change the orientation of the 80-acre spacing unit and that
7 while the actual footage location for the unorthodox well
8 was correctly advertised, within the description of the
9 spacing units the 40-acre tract was mis-advertised.

10 It was indicated originally to
11 be in Lot 14 when, in fact, it has been and continues to be
12 located in Lot 11. We'll have the witness discuss the loca-
13 tion of the well.

14 But as a result of that change,
15 we continued the case re-notified all interested parties.
16 In addition, at that time, while Mr. Bruce was in appear-
17 ances on the January 6th docket, we went ahead and provided
18 his client with an additional notice with regards to the un-
19 orthodox location, so thqt he would be aware of the applica-
20 tion and Mr. Bruce, obviously, is here today.

21 But with regard to the changes,
22 those required the case to be readvertised and it was done
23 so for today's docket.

24 The primary objective of the
25 operator is to drill a Strawn test on 80 acres; however, he

1 desires to go an additional 700 feet, utilizing this well-
2 bore also to test for Morrow production, which will be a
3 rank wildcat. There is no known Morrow production within a
4 number of miles.

5 In addition we have advertised
6 the 40-acre tract in the event, which is also unlikely, that
7 there is Wolfcamp oil production to be obtained, but princi-
8 pally the primary objective of the well is like the other
9 case that you heard, an 80-acre spaced Strawn oil well.

10 The location is an unorthodox
11 location, I believe, in each instances for either a 40, 80,
12 or a 320. Mr. Foran has a plat showing you the exact loca-
13 tion of the well and we'll discuss that in a moment.

14 There are parties that remain
15 uncommitted to the well that we seek to force pool in var-
16 ious combinations, and Mr. Foran will testify about those.

17 Mr. Carnes' testimony will be
18 directed to the risk factor penalty that's involved in the
19 case and we'll proceed with his testimony and his exhibits
20 are the last two.

21 That concludes my preliminary
22 remarks and we're prepared for Mr. Foran's testimony at this
23 time.

24 MR. STOGNER: Mr. Bruce, do you
25 have anything to add?

1 MR. BRUCE: No, sir.

2 MR. STOGNER: Mr. Kellahin,
3 please proceed.

4
5 JOSEPH S. FORAN,
6 being called as a witness and having been previously sworn
7 and remaining under oath, testified as follows, to-wit:

8
9 DIRECT EXAMINATION

10 BY MR. KELLAHIN:

11 Q Mr. Foran, let me direct your attention,
12 sir, to Exhibit Number One. Let's take a moment and have
13 you identify for us, first of all, the 320-acre tract as to
14 section, township, and range.

15 A Exhibit Number One identifies the 320-
16 acre tract. It's in Section 6. Section 6 is an elongated
17 section consisting of 960 acres or more instead of the
18 usual 640, so the 320-acre tract that we've picked out is --
19 it consists of the southwest quarter of Section 5.

20 Q You misspoke, it's Section 5.

21 A I misspoke. I meant Section 5, southwest
22 quarter of Section 5 in Lots 11, 12, 13, and 14 of that same
23 Section 5.

24 Q Where will these various spacing units be
25 located in relation to the community of Lovington?

1 A This spacing unit will be located ap-
2 proximately one-half mile west of the Town of Lovington.

3 Q Let me turn your attention specifically
4 to this oversize section I think it's displayed on Exhibit
5 Number Two.

6 All right, sir, would you identify Exhi-
7 bit Number Two for us?

8 A Exhibit Number Two shows in different
9 colors the three proration units we're applying for forced
10 pooling orders on.

11 The 40-acre Wolfcamp zone is in green and
12 is Lot 11.

13 The orange depicts the 80-acre Strawn,
14 consisting of Lots 11 and 12.

15 And then the yellow consists of the Mor-
16 row proration unit, consisting of Lots 11, 12, 13, 14, and
17 the southwest quarter of Section 5.

18 Q This is the first well to be drilled in
19 Section 5 for either the Strawn or the Morrow or the Wolf-
20 camp?

21 A There are a number of Wolcamp wells in
22 this section already but it is the first well to test the
23 Strawn and the Morrow in this section.

24 Q So we understand what the various owner-
25 ships are in the section, Mr. Foran, will you describe for

1 us in a general way, who are the offsetting operators to the
2 spacing unit within the section?

3 A The only offsetting operator is Mr. Gil-
4 lespie, who owns the northwest quarter of Section 5 and some
5 acreage over in the adjoining Section 6. He operates some
6 Wolfcamp wells in those areas.

7 Q Will Mr. --

8 MR. STOGNER: Just a moment.
9 Let me go back, now he owns some property in the northwest
10 quarter?

11 A Of Section 5. That's -- that's Lots 3,
12 4, 5 and 6.

13 MR. STOGNER: Okay.

14 Q To the best of your knowledge, Mr. Poran,
15 does Mr. Gillespie have any interest in any of the tracts
16 other than 3, 4, 5 and 6 in Section 5?

17 A It's my understanding that he has some
18 interest, exactly how much, I do not know, in Lots 1, 2, 7
19 and 8, but it's a minority interest. I think it's fairly
20 nominal amounts.

21 Q Does Mr. Gillespie have any interest in
22 any of the three spacing units that are proposed for the
23 subject well?

24 A No, sir, he does not.

25 Q Have you discussed with Mr. Gillespie how

1 the -- you and Mr. Gillespie could develop Section 5 in
2 terms of either the orientation of the spacing units, the
3 location of the wells or what formations ought to be drilled
4 and tested?

5 A Yes, sir. My principal partner in here
6 is Sun Exploration and Production, which owns certain leases
7 in Section 6.

8 I went to Sun and we made a deal to form
9 a working interest unit. We invited Mr. Gillespie to join
10 but we couldn't agree on the unit outline. Mr. Gillespie
11 told us that he, at that time, this is about eight months
12 ago, that he was interested in seeing development in this
13 area but we just couldn't agree on the unit outline, and we
14 proceeded with our -- with our own unit, this being the
15 first test of our working interest unit.

16 Q When did you first make Mr. Gillespie
17 aware of the proposed location 1350 feet from the north line
18 of this section and 1550 from the west line of this section
19 for this well?

20 A It would have been some time in November
21 of 1987.

22 Q And what did you advise Mr. Gillespie
23 that you proposed to do with a well located at that point?

24 A We had to go to the Extraterritorial
25 Board of Lovington to apply for a zoning variance, and at

1 that time part of our obligation was to notify the offset
2 operators, the offset landowners, the people living in the
3 area, of our proposed location.

4 Q At that time did Mr. Gillespie offer to
5 you any objection as to your proposed location or the forma-
6 tions that you propose to penetrate with that well?

7 A Mr. Gillespie has never, nor anyone from
8 his office has ever directly communicated any objection to
9 this location. The only -- the first that we heard that he
10 was going to object to this location to me was, that I heard
11 myself, was today.

12 Q Have you on previous occasions discussed
13 with Mr. Gillespie his participation in the well in some
14 fashion?

15 A Yes. When we were originally trying to
16 form this unit Mr. Gillespie indicated he wasn't interested
17 in forming the unit; that he was very desirous of seeing a
18 well drilled in here; that he had a lease obligation to
19 drill a deep test in here; would like for us to do it first,
20 and promised me support for it. He didn't specify support
21 at that time, but about three months later I again asked
22 what kind of support and they indicated dry hole support.

23 This was --

24 Q Define that for us, Mr. Foran. What does
25 that mean?

1 A Dry hole support means that he will pay
2 us so many dollars a foot in the event that the well is dry,
3 he'll make a contribution of so many dollars per foot. If
4 the well is productive, then he gets the well information
5 for free.

6 Q Yours is the first well in this section
7 that would penetrate the Morrow and you'll have the oppor-
8 tunity to determine how this spacing unit is oriented for
9 the section. How have you selected the orientation of the
10 320-acre spacing unit for the well?

11 A Well, our first -- this -- this well is
12 predicated on a Strawn seismic anomaly in the same way that
13 we've been drilling for these Strawn seismic anomalies east
14 of Lovington in our hearing on our Twin Lakes and the same
15 way Pennzoil was asking today for their seismic anomaly, and
16 so the Morrow -- it wasn't the Morrow that had -- based our
17 proration unit. It -- we picked out what we thought was the
18 optima; Strawn location, 80 acres, and that's what deter-
19 mined our location.

20 Then once we determined that, then we
21 looked and decided that only being 500 feet away, approxi-
22 mately, and \$65-to-80,000 more, we could test the Morrow in
23 here. There's not a geological reason for the Morrow. We
24 don't have any well control, but we thought that it would be
25 prudent to go down and test the Morrow at this same time to

1 see if it might be productive for this section.

2 Q In order to form a voluntary unit to take
3 the well to the Morrow, have you sought the cooperation of
4 the working interest owners that are indicated in the
5 acreage outlined in yellow?

6 A Yes, sir, we have. There is also a lot
7 of mineral owners in here, over 80 mineral owners, being
8 near a town and having town lots, and we've -- we've
9 obtained the cooperation of -- on all but four in writing
10 already.

11 The four remaining have committed to us
12 by -- either by phone that they've agreed to lease, or in
13 the case of TXO, is we've received a letter commitment but
14 we've not received their formal farmout agreement.

15 Q Because of the unusual size of this
16 section it gives you the alternative option of simply moving
17 this 320-acre unit 160 acres farther north so that the
18 spacing unit, then, is up out of the northwest corner. Have
19 you considered that as an alternative?

20 A Yes, sir, we have, but it's been very
21 difficult to get a commitment out of Mr. Gillespie, and so
22 we, since we controlled the southwest quarter and had all of
23 it leased and had a higher net there, we decided that rather
24 than trying to continue to pursue these negotiations with
25 Mr. Gillespie, we would just use the 320 acres that we

1 already had under lease.

2 Q Based upon your understanding of what's
3 occurring here, do you see any advantage to both you and Mr.
4 Gillespie by leaving the orientation of this 320-acres as
5 you propose on this exhibit?

6 A Yes, sir. I think it's fair to all par-
7 ties and Mr. Gillespie has never objected to this, and we
8 didn't expect any opposition today. He didn't say anything
9 at the zoning variance hearing in Lovington. He didn't say
10 anything until, really, just this morning, so we thought he
11 was in favor of having us drill near at this location be-
12 cause it would help prove up his own acreage and still left
13 plenty of room for him to orient any Morrow test that he
14 wanted to drill himself.

15 Q Your proposed orientation would then
16 leave the north half of this section, being Lots 1 through
17 10, open for dedication to Morrow in the event you are so
18 fortuitous (sic) as to get a Morrow well?

19 A Yes, sir. We also approached Mr. Gilles-
20 pie about a farmout and he told us he would not farm out his
21 acreage and that was another reason we could orient this 320
22 as we have and not have to force pool anybody, where if we'd
23 moved it 160 acres north, we would have had to force pool 50
24 percent of the well.

25 Q Would that have been a percentage that

1 Foran Oil Company would have been able to carry and still
2 drill the well?

3 A No, sir, it would not have been.

4 Q Another alternative to orientation on the
5 320 would be to stack them, lay them down and stack three on
6 top, do you see what I'm saying?

7 A Yes, sir.

8 Q If you would dedicate then, Lots 9
9 through 16 as the 320 orientation for the Morrow, have you
10 considered that as an alternative?

11 A Yes, sir, we looked at that. That has a
12 couple of problems with it. It's a complicated area and you
13 could orient it, you know, several different ways. We've
14 picked out what we think is the best considering all factors
15 and the reason we went with the way we did is it had a high-
16 er net revenue interest.

17 Second, we already had it under lease and
18 it would have saved us some additional problems in dealing
19 with UniCal, TXO, by orienting it as we did.

20 The third reason is that as our geologi-
21 cal engineering has been, we think that this 320 would be a
22 more effective proration unit for producing the Morrow than
23 a lawdown, given the structural position.

24 And last, I would just like -- and per-
25 haps most important -- to point out that it didn't matter

1 whether we laid it down or stood them up, our location would
2 still be the same because it was predicated on the Strawn.
3 It wouldn't change our proposed location, and this location
4 has better economics and better structural position than a
5 laydown.

6 Q Let's turn now to the actual location as
7 depicted on Exhibit Number Three, Mr. Foran. Would you help
8 educate the Examiner on the unusual shape of this section
9 and show how you've calculated the footages for the loca-
10 tion?

11 A Yes, sir. Mr. Examiner, the Lots 1
12 through 4 across there are not standard 40-acre lots.
13 They're elongated lots with approximately 1676 feet in
14 height. Exhibit Three, and then add your 1320 and then your
15 954.5 and that brings you down to the 3950 feet from the
16 north line that we've advertised both here and in Lovington
17 for the zoning variance.

18 Q When we look within Tract 11, is that a
19 standard size 40-acre tract where the side dimensions are
20 1320 feet, do you know?

21 A For Lot 11?

22 Q Yes, sir.

23 A Yes, sir, it's my understanding that's a
24 standard 40-acre with 1320 side dimensions.

25 Q And Lot 6 would be standard 40-acre with

1 standard lot dimensions?

2 A Yes, sir, that's correct.

3 Q And it's only in the top tier of four
4 tracts, 1 through 4, that we have an elongated tract?

5 A That's correct. That -- that was another
6 reason that if we had -- if we'd used a 320 at the top to
7 include Gillespie's acreage, we would have been diluted by
8 more than 50 percent because his top Lots 3 and 4 are
9 greater than 40 acres and that would have given him
10 controlling interest in the 320, and we felt from a land and
11 economic and geology, this was the best under the
12 circumstances.

13 Q All right, sir, let's turn now to Exhibit
14 Number Four, Mr. Foran. Would you identify for us this
15 exhibit?

16 A Yes, sir. This is an exhibit that shows
17 some of the housing in the area and the ownership of the
18 surface and its current use.

19 As you can see in Lot 11 on Exhibit Four,
20 is our proposed location is north of a fence, which is a
21 horse pasture in there, and then if we moved it further
22 south, we would be in the middle of someone's house and
23 yard, and in meeting with the local landowners before the
24 commission, it was decided that this -- this location would
25 be the least disruptive of the surface owners in this area.

1 Based on that, we had run seismic because
2 the Strawn is predicated on seismic lines and a little var-
3 iance off the structure, off the seismic anomaly, can result
4 in a dry hole, Sun was very intent upon drilling at a loca-
5 tion that was at the intersection of two seismic lines in an
6 effort to pin down any type of Strawn anomaly and that's the
7 other reason that our location is located where it is at the
8 intersection in an effort to stay on -- have as much seismic
9 control in this area as we can because of the absence of
10 subsurface control.

11 Q Would you have available to you a topo-
12 graphically acceptable standard location if you moved your
13 well location farther south and were 1980 from the end line
14 of the spacing unit insofar as the Morrow is concerned?

15 A No, sir, and we'd also run into some
16 pretty severe surface damage problems because Mr. Biddle,
17 who owns the area where we're drilling has been very easy to
18 work with, he owns minerals, where if we moved it any fur-
19 ther south we will be dealing with people who own the sur-
20 face but no minerals, and one of them, in fact, objected to
21 our location because we wouldn't pay him any damages for the
22 location, and he was seeking \$10,000 in damages, so if we
23 were to move it south and put it on his land where he owned
24 no minerals, it would be very difficult to deal with him.

25

1 Q Turn now to Exhibit Number Five, Mr.
2 Foran, and would you identify this exhibit?

3 A This is the letter advising us from our
4 attorney in Lovington, Mr. Williams, that we have finally
5 received from Lovington Extraterritorial Zoning Authority, a
6 conformed copy of the variance for the proposed well.

7 This was -- this matter of procedure was
8 finally concluded in January, although we commenced it back
9 in November.

10 Q Would any location in Section 5 require
11 you to go to the Lovington-Lea County Extraterritorial Zon-
12 ing Authority for approval?

13 A Yes, sir, if the -- if this Commission
14 would change our present location, we would have to repeat
15 that process again.

16 Q What's your soonest expiring lease to the
17 best of your recollection, Mr. Foran, among all the leases
18 that are involved in any of your spacing units, do you know?

19 A It would be a, I think, six month lease
20 that we have with Lots -- in Lots 11, 12, 13, and 14.

21 Q Approximately when would they be due to
22 expire?

23 A I believe in June of this year.

24 Q Let's turn now to the specifics of the
25 various remaining nonconsenting owners within the various

1 spacing units, and let me direct your attention to Exhibit
2 Number Six.

3 Describe for the Examiner how you have
4 displayed this information on the exhibit.

5 A On this exhibit we're trying to show
6 three columns, one for a Morrow unit, one for a Strawn, and
7 one for a Wolfcamp. Out of these I think Strawn is the only
8 one that you can expect any production from. The other two
9 are very, very speculative but they're done to try to save
10 time to keep from coming back.

11 And then we've listed the four owners
12 that we've not signed -- reached definitive written
13 agreements on in this area and their percentage ownership
14 according to each of those tracts.

15 Q Summarize for us, Mr. Foran, the time
16 involved in your efforts to obtain voluntary joinder among
17 all the appropriate owners in any of the spacing units.

18 A Before the remaining, TXO has sent us a
19 formal letter proposal and written agreement. I've talked
20 to them and they've said their -- their definitive farmout
21 agreement, they generally send you a letter commitment and
22 then they follow it up with a definitive farmout agreement,
23 and that, that's supposed to be in the mail and I should
24 have received it before the hearing, but the landman has
25 resigned to open his own office and so things are a little

1 delayed.

2 The Corrigan's, we've reached agreement in
3 principal that they would contribute their mineral interest
4 for a quarter lease but then they want it on their lease
5 form and which we consider excessive. We've offered them
6 all the information that they want but we'd like to, you
7 know, they have a very small interest throughout this area
8 and we just think that they are asking too much and we've
9 sent them our lease form and hope that they'll sign it.

10 Ms. Brunel and Ms. Littell have both ver-
11 bally committed to us but yet when I talked to them on Sun-
12 day before coming out here they said they had trouble get-
13 ting to a notary, of finding a notary to -- to get the, you
14 know, to get it mailed, and one's in California, one's in
15 Oklahoma, and they both assured us but we haven't received
16 it yet.

17 Q Approximately how many leases have been
18 consolidated on a voluntary basis to make up the various
19 spacing units?

20 A I would guess it's a number in excess of
21 80.

22 Q If the Commission should require that you
23 either relocate your well or reorient the spacing unit for,
24 let's look at the Morrow, should you have to re-orient your
25 spacing unit for the Morrow, and have to lay it down pro-

1 posing Lots 9 through 16, what is your estimate of the addi-
2 tional effort that would be required for you to accomplish
3 that?

4 A Well, we'd have to go back to the -- we'd
5 have to probably go back to UniCal and TXO and change up the
6 agreement. We would -- there might be a requirement to go
7 back to Extraterritorial Board to re-orient our spacing
8 unit. It would definitely delay the drilling the our well,
9 I think 6 to -- 6 to 8 months.

10 Q As a practical alternative would it be
11 impossible for you to do that?

12 A I think that if we were to do that, then
13 we would wait for Mr. Gillespie to drill his well at the
14 very least and it may well kill the drilling of this well
15 for a year or so, because I've found in dealing with Sun,
16 who's my major partner, that budget plays a very big role,
17 and they've got money to do it now under your exploration
18 agreement with them, that we are supposed to spud the well
19 by March 31 or Sun would have an opportunity to back out of
20 their -- their exploration agreement with me. I don't, you
21 know, and I just --

22 Q But the first potential deadline in your
23 agreement with your -- Sun as a major partner is March what?

24 A 31.

25 Q Let's turn now to Exhibit Seven. Would

1 you identify that one for us?

2 A Exhibit Seven is our letter commitment we
3 received from TXO offering to farm out their interest for a
4 quarter back-in interest, and this is the basis for our
5 agreement with them.

6 Q All right, Exhibit Number Eight.

7 A Exhibit Number Eight is that -- is where
8 we're writing back to the Corrigan's agreeing to change the
9 primary term in accord with their request to furnish them
10 the well information that they requested, and -- but advis-
11 ing them that we, you know, with 80 different owners, we
12 didn't want to have 80 different leases. We wanted to have
13 them all basically on the same form and in view of their
14 small interest in here, that we found their lease form,
15 which imposed all sorts of very onerous provisions was just
16 too tough. We thought it was overkill and tried to let them
17 know in a nice way and see if we couldn't go ahead with our
18 agreement in principal in some way.

19 Q All right, sir, would you identify Exhi-
20 bit Number Nine?

21 A Yes. These are two letters that were
22 written in December to Ms. Littell and Ms. Brunel, you know,
23 following up telephone conversations we had with them and
24 sending them the draft where we had agreed on bonus terms
25 and asking them to please sign the lease, notarize it, and

1 present the draft to their bank for payment.

2 Q I direct your attention now to Exhibit
3 Number Eleven.

4 A Exhibit Eleven is a certificate of
5 mailing in compliance with the Commission's Order R-8054,
6 giving these people a second notice through Mr. Kellahin's
7 office, my attorney.

8 Q This is notice for the original setting
9 of the hearing on January 6th?

10 A That's correct, sir.

11 Q All right. Refer to Exhibit Number Twelve
12 and identify this.

13 A Exhibit Twelve is the corrected notice
14 given by your office to these same people, advising them of
15 this hearing date.

16 Q In addition it shows Mr. Gillespie now on
17 Exhibit C as notification for his offset interest?

18 A That's correct.

19 Q Let's turn now to the AFE, Mr. Foran. I
20 believe that's marked as Exhibit Number Thirteen. Was this
21 compiled under your direction and supervision?

22 A Yes, sir. It was -- it was compiled; Mr.
23 Carnes is, of course, more intimate with the details than I
24 am, but I think that this fairly reflects the cost of
25 drilling Strawn wells in this area, which we have done a

1 number of.

2 Q Okay, what is going to be the total depth
3 of the proposed well?

4 A We're proposing to take this well to
5 12,300 feet, which is an additional 500 feet to test the
6 Morrow.

7 Q Do you have an opinion, Mr. Foran, as to
8 whether the estimated costs for this well are fair and
9 reasonable?

10 A Yes, sir. These -- these costs are based
11 on bid and in most -- most instances we have two or three
12 different people bidding on it, and to my knowledge, both --
13 everybody we showed this AFE to has agreed that it's accur-
14 ate.

15 Q Have you had anyone that's objected to
16 Foran Oil Company being the operator of the well?

17 A No, sir, we've had no objections whatso-
18 ever and the agreement that I have with Sun is that Sun re-
19 quested that I operate.

20 Q Direct your attention, Mr. Foran, to your
21 recommendation to the Examiner for overhad charges to be
22 applied in the pooling order for a drilling well rate and a
23 producing well rate. What are your recommendations to the
24 Examiner?

25 A We are again asking for a drilling well

1 rate of \$5000 a month and a producing well rate of \$500 a
2 month.

3 Q And that is based upon what, sir?

4 A This is based on the Ernst and Winney
5 survey of drilling well rates and producing well rates for
6 west Texas and eastern New Mexico for 1986 and '87.

7 Q For wells drilled to what depth?

8 A To 10-to-15,000 feet.

9 Q Our request is slightly above the average
10 but we think it's certainly justified given this proximity
11 to town and the number of different surface and mineral
12 owners.

13 MR. KELLAHIN: That concludes
14 my examination of Mr. Foran.

15 We would move the introduction
16 of Exhibits One through Thirteen.

17 MR. STOGNER: Are there any
18 objections?

19 MR. BRUCE: No, sir.

20 MR. STOGNER: Exhibits One
21 through Thirteen will be admitted into evidence at this
22 time.

23 Mr. Bruce, your witness.
24
25

CROSS EXAMINATION

1
2 BY MR. BRUCE:

3 Q Mr. Foran, looking at your Exhibit Two or
4 Three, does the 954.5 foot number indicate the distance from
5 your proposed drill site to the north line of Lot 11?

6 A Yes, sir.

7 Q Has this been officially surveyed by
8 anyone in your company's behalf?

9 A It -- Mr. Bruce, it's -- I'm going to
10 speak from the best of my knowledge. It seems like we did
11 have somebody to survey it for the variance hearing but I --
12 and I can't -- I know I've authorized it when our operations
13 engineer feels it's necessary, and it seems like it was but
14 I -- I don't recall seeing the survey map. That's -- that's
15 the best that I can offer but Mr. Carnes might have more
16 knowledge.

17 Q Thank you. And did you state that this
18 location would be unorthodox for all three proposed units?

19 A Would be unorthodox for all three?

20 Q Yes.

21 A Yes, sir.

22 Q Is -- maybe this is Mr. Carnes testimony,
23 but is there a -- for the Strawn formation, is there a
24 specific pool that this well would be completed in?

25 A I think it would be, if we (unclear) it

1 would be a new field discovery.

2 Q And you are looking for a Strawn oil
3 well, are you not?

4 A Yes, sir.

5 Q To the best of your knowledge it's not
6 within one mile of another Strawn pool?

7 A That's correct.

8 Q Wouldn't it then be a 40-acre and
9 wouldn't there be 40 acres dedicated to the well?

10 A There is some Strawn production southwest
11 of here but I thought it was more than a mile, but it's
12 probably about a mile and a half? Is that right, about a
13 mile and a half southwest of here.

14 Q Thank you. Earlier, Mr. Foran, you
15 discussed dry hole support from Mr. Gillespie. If, of
16 course that depends upon the dollars per foot and your
17 parties coming to terms but is dry hole support acceptable
18 to you?

19 A We would have preferred --

20 Q In concept.

21 A In concept, sure. Sure. We -- we like
22 to try to cooperate as much as we can with Mr., you know,
23 Gillespie, or any other operator in the area, and we
24 welcomed his support.

25 Q In this case there was an application

1 filed on Foran Oil Company's behalf, apparently in December
2 of 1987. There was a land plat attached to that, I believe
3 as Exhibit A. Are you familiar with that?

4 A No, I think you'd have to -- I've seen
5 this plat before and it's not accurate.

6 Q Does it place your proposed location in
7 Lot 14?

8 A According to this, this was -- the prob-
9 lem I have with it, this wasn't prepared by me and it's in
10 -- it's in error here, and what is the date? What was the
11 date of this? Can you help me?

12 Q Well, I'm not sure since it was filed by
13 Mr. Kellahin, but it must have been in December of 1987.

14 But does it show the proposed location in
15 Lot 14 -- to be in Lot 14?

16 A It shows it to be right on the border of
17 Lot 14 and Lot 11.

18 Q Just south of that border.

19 A Immediately south of this border and if
20 you were to take this, which if you will pickup my Exhibit
21 Four, if you'd compare where it shows the proposed location
22 on this paper you're asking me about --

23 Q Exhibit A of the first application.

24 A Exhibit A of the first application to
25 Foran Exhibit Four, you'll see that the proposed location,

1 if it were to remain here, would be right in the middle of
2 the back yard of Mr. Haines, I believe it is.

3 Q Subsequently there was a first amended
4 application filed in this case and once again there was an
5 Exhibit A attached to it. I'll hand you that Exhibit A, and
6 it shows the location as being in Lot 11, correct?

7 A That's correct.

8 Q Does it give a footage indication from
9 the north line of Lot 11?

10 A At that time it was located 1310 feet,
11 but again, we've moved this location to accommodate Mr.
12 Haines in the zoning variance, so again we moved back. We
13 kept moving it north to try to get as far away from this
14 man's house as we could.

15 Q However, the two applications did contain
16 at least in some respect an erroneous location for your
17 well.

18 A yes, because at this time our
19 applications here were dependent upon getting the zoning
20 variance, you know, in land matters it's typical is that you
21 may -- whatever you -- it isn't going to help you any to get
22 an order from up here if you don't have your zoning
23 variance.

24 Q I understand.

25 A Okay, I just wanted to make that clear

1 and you keep changing your application. It' customary, I
2 think, to keep changing your applications up here until you
3 get final zoning approvals, and continue these matters until
4 that's -- that's squared away.

5 Q And I believe I heard you previously
6 mention a working interest owner. Do you have a working
7 interest unit in this section?

8 A Only, there's only a unit between Sun and
9 myself, as to our leases, but at one time we were trying to
10 include Gillespie but Gillespie couldn't come to terms.

11 Q For the entire section?

12 A For both Sections 5 and 6. What he --
13 what Mr. Gillespie said, he was willing to form one in 6 but
14 he didn't think his acreage in 5 was worth anything. Or,
15 you know, that he didn't want it included and thought some
16 of our acreage in 5 was goat pasture.

17 Q Due to the orientation of your gas well
18 in your Morrow unit, is it your intention to leave Lots 1
19 through 8 of Section 5 available for a laydown unit?

20 A Yes, sir.

21 Q Do you also interest -- your company own
22 interest in the east half of the unit --

23 A Yes.

24 Q -- east half of the section, excuse me.

25 A That's correct. I would like to empha-

1 size in all of this that the Morrow is really a remote, you
2 know, we're really drilling for science there. You know, we
3 had trouble persuading Sun to drill because of the extra
4 complications of drilling the extra 500 feet, but we think
5 it's important to see if something's down there or at least
6 as a control point for the further development of this area
7 and that the mineral owners, I think, are very excited about
8 a Morrow test in here because of the development that it
9 will do and that, you know, they're all very hopeful and
10 encouraging. Several of them, including Mr. Biddle offered
11 to come up here and testify that he was sure for us drilling
12 a Morrow test.

13 A number of them appeared before the Zon-
14 ing Commission and, you know, they're -- they're all very
15 eager to see to a well drilled here.

16 Q Since your location is predicated on a
17 Strawn, you indicate you kept moving the location to the
18 north, is there a better location than the -- seismically,
19 than the current location 954.5 feet from the north line of
20 Lot 11?

21 A From my conversations with the seismic,
22 you know, the geophysicist working with us, that this is as
23 good a location as we can have, and that they want to stay
24 on that seismic line and they want to stay in this immediate
25 area. Our orientation and final decision probably would

1 have been much different if we could have ever gotten Mr.
2 Gillespie to agree to either farm out or join the unit, but
3 that's a lot of our complication of our land situation.

4 Q In your request to Mr. Gillespie for a
5 farmout, was it only through the Strawn?

6 A Originally that was the way Sun requested
7 it because Sun, you know, was reluctant to drill to the Mor-
8 row and that was the original request made by Sun to Gilles-
9 pie, was limited to the -- an option farmout in the Strawn.

10 Q Has Sun been doing most of the negotia-
11 tions with Mr. Gillespie?

12 A Originally I did it. Recently it was
13 taken over by Sun because they were there in Midland and
14 felt they had a good working relationship with him. And I
15 felt I had a real good one, too, but it's just hard doing
16 things sometimes by phone.

17 Q Of course Mr. Gillespie was under no ob-
18 ligation to farm out to you, is that correct?

19 A None whatsoever, other than that he had
20 verbally committed that he would give us support of some
21 kind. So it came as a surprise to us that there was --
22 there was any problem with this location.

23 MR. BRUCE: I have nothing fur-
24 ther at this time, Mr. Examiner.

25 MR. STOGNER: Mr. Kellahin, any

1 redirect?

2 MR. KELLAHIN: Just a few
3 questions, Mr. Examiner.

4

5 REDIRECT EXAMINATION

6 BY MR. KELLAHIN:

7 Q Has Mr. Gillespie proposed to you the
8 drilling of a well?

9 A No, sir, he hasn't.

10 Q Has anyone else proposed to you the
11 drilling of a well in Section 5?

12 A No, sir, they haven't.

13 MR. KELLAHIN: That's all.

14 MR. STOGNER: Thank you, Mr.
15 Kellahin.

16

17 CROSS EXAMINATION

18 BY MR. STOGNER:

19 Q Mr. Foran, what formation do you propose
20 to penetrate, your deepest formation?

21 A We will probably drill into the Atoka and
22 as soon as we penetrate the Atoka we'll stop; once we're
23 through the Morrow, we'll stop.

24 No, we're going -- excuse me, I'm a land-
25 man. Let me take that back.

1 will show on the original in the well file, or the case
2 file, where the application was filed with the Commission.
3 We show at the bottom of that that copies were sent by cer-
4 tified mail to the parties. They received the cover letter
5 and the application.

6 MR. STOGNER: Okay, now was
7 this certification ever amended to these parties showing
8 that Lots 11 and 12 were going to be the 80-acre proration
9 unit or the proposed 80-acre proration unit to be pooled?

10 MR. KELLAHIN: Yes, sir.

11 MR. STOGNER: They did? Okay,
12 when was that sent?

13 MR. KELLAHIN: Exhibit Twelve
14 would be a copy of the cover letter and the amended, first
15 amended application that went out to all these parties, and
16 it will be the January date, on the January 13th, that cer-
17 tified mailing included the application and the cover letter
18 and at this point it also included then Mr. Gillespie, and
19 it was in that change that we changed the orientation of the
20 80 acres.

21 MR. STOGNER: And he would have
22 been the only offset operator that would have been required
23 to have been notified, according to our rules and regula-
24 tions of notification, is that correct?

25 MR. KELLAHIN: As to the 320

1 spacing, recognize that on the 80-acre or the 40, we're
2 going to be encroaching towards the south, either towards 13
3 and 14, and so while we are pooling parties that are invol-
4 ved in Tract 11, those are also parties that would offset
5 the spacing unit and so they, in addition to Mr. Gillespie
6 on his 320, got notice on the others.

7 MR. STOGNER: Okay. Now, the
8 actual notice that was sent on the January 11th, was it --
9 do I have a copy of that in my records as the first amended
10 application?

11 MR. KELLAHIN: Yes, sir.

12 MR. STOGNER: I am somewhat
13 concerned here, too, because it alludes to your Exhibit
14 Number A and I was led to believe that that was the set-up,
15 also. Now, of course, the footages are correct, everything
16 is correct, except that it appears to be closer to the south
17 line than what it does in actuality, is that correct?

18 MR. KELLAHIN: It is closer to
19 the south line of that 80 acres than Mr. Foran's correct
20 display shows, but we believe it's sufficient to provide
21 notice because in each instance it certainly got Mr.
22 Gillespie here and that's the only purpose of the notice is
23 to attract attention to the hearing.

24 As to those parties to the
25 south, that exhibit is closer to them than the actual well

1 itself. It was only 10 feet off the line as displayed
2 there. So it's more standard as to that.

3 As to Mr. Gillespie, obviously
4 there is a difference but he was here at both hearings and
5 we would contend that the notice has been sufficient to
6 attract his attention.

7 MR. BRUCE: I hate to agree
8 with Mr. Kellahin but I think we have to here.

9 MR. STOGNER: Let's see, I have
10 no further questions of this witness. Mr. Kellahin, Mr.
11 Bruce, do you have any further questions?

12 MR. KELLAHIN: No, sir.

13 MR. BRUCE: No, sir.

14 MR. STOGNER: The witness may
15 be excused.

16 Mr. Kellahin?

17 MR. KELLAHIN: May the record
18 reflect, Mr. Examiner, that Mr. Carnes has previously
19 qualified as an expert petroleum engineer?

20 MR. STOGNER: The record will
21 so reflect.

22
23 LES M. CARNES,
24 being called as a witness and having been previously sworn
25 and remaining under oath, testified as follows, to-wit:

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DIRECT EXAMINATION

BY MR. KELLAHIN:

Q Mr. Carnes, let me direct your attention now to Exhibits Fourteen and Fifteen and ask you, sir, whether or not based upon your studies you have an opinion as to a risk factor penalty that you would recommend the Examiner adopt to be applied to any nonconsenting working interest owner's share of the production from the well?

A Yes, I do. I believe that it should be the 200 percent at least, profit after payout of the cost of the well.

Q Let me have you take a moment and give us the reasons why you've reached that opinion.

A Okay, as Mr. Foran mentioned, this is an exploratory well, at least for the Morrow at 12,300 and the Strawn at 11,600 feet.

We believe we're on the edge, southeast edge of the Wolfcamp accumulation that's been productive very nearby, but the performance of wells indicates that it would not be economical to drill, let alone -- I mean even recompletion, probably, if we encountered a thin Morrow section would be hard to justify because of the production; so therefor there -- it's very risky; you've got -- you have mechanical risk as well as geological risk here. There have

1 been no other Strawn or Morrow penetrations in this section
2 or, to my knowledge, within 1-1/2 to 2 miles of this loca-
3 tion.

4 Q Let me direct your attention to Exhibit
5 Number Fourteen and ask you to identify that exhibit.

6 A Exhibit Fourteen is a location and pro-
7 duction map and it shows in a coded manner the Wolfcamp and
8 Strawn producers. The Strawn producers are dark circles on
9 that map and, as you will note, they exist only in Section
10 13.

11 The Wolfcamp is a lighter shade and it
12 shows several Wolfcamp producers in both Sections 7 and 6 as
13 the closest Wolfcamp production to our proposed location.

14 Also on this plat the production code re-
15 flects only the Strawn production and behavior in Section
16 13.

17 Q When we look at the Strawn in Section 13,
18 what Strawn Pool is that?

19 A That's the North Shoe Bar Strawn Pool and
20 it is on 80-acre spacing.

21 Q While the proposed well is more than a
22 mile from the Strawn Shoe Bar Pool, if this is typical of
23 the Strawn production in this area, would it be your opinion
24 that this pool will have to be spaced on 80 acres?

25 A Let me discuss that in a little more de-

1 bail, it may help answer Mr. Bruce's question earlier of Mr.
2 Moran about 40 versus 80-acre spacing.

3 If you're not in a designated area with
4 field or pool rules, then the statewide spacing for oil will
5 be 40 acres; however, when you -- if you -- if we drill and
6 complete this in a commercial Strawn oil well, it will be a
7 discovery, and it's my understanding then at such time as it
8 may be appropriate, we would file for spacing all the way up
9 to 160 acres if we thought that would be the proper spacing
10 for the Strawn.

11 At this time I do believe that if we made
12 a discovery, the 80 acres would be more appropriate under a
13 new pool rules.

14 Q Notification of the potential for an 80-
15 acre spacing for this well among those parties being pooled
16 -- well, let me start over.

17 Notifying those parties of the potential
18 for an 80-acre spacing, those parties involved in the forced
19 pooling of the potential for an 80-acre spacing, in your
20 opinion would that be a prudent gesture to alert them to
21 that possibility?

22 A Yes, I think it would.

23 Q Let's talk about the actual location.
24 The Strawn is the primary objective.

25 A Yes.

1 legend with little triangles showing the recovery of gas,
2 oil, or water, with the gas being in red, the oil, green,
3 and water, in blue.

4 And that mainly applies to that Strawn
5 Pool to the southwest of our proposed location, which is the
6 Shoe Bar Strawn North Pool that we've already mentioned, and
7 indicates where by drill stem test there's been oil and
8 water recovered from the Strawn penetrations.

9 Q Insofar as the Morrow is concerned, is
10 there any engineering or geologic evidence available that
11 would allow you to make interpretations about the Morrow?

12 A There is not. The nearest Morrow produc-
13 tion is off of our map due west of Section 13, down to the
14 southwest corner of the plat, in Section 14, which is ob-
15 vious. It's due west of Section 13 there in 16 South, 35
16 East, and you cannot correlate -- that's 3-1/2, I believe,
17 miles southwest of our proposed location.

18 Q Insofar as the risk is involved of any of
19 the zones to be penetrated, do you have an opinion as to
20 whether or not that risk factor penalty should be less than
21 200 percent?

22 A I do not believe it should be less. If
23 anything, I would say greater than 200 percent.

24 Q Were Exhibits Fourteen and Fifteen cor-
25 piled under your direction and supervision?

1 A Yes, they were.

2 Q To the best of your knowledge is the
3 information depicted on those displays true and accurate?

4 A Yes, it is.

5 MR. WELLAHIN: We move the
6 introduction of Exhibits Fourteen and Fifteen.

7 MR. STOGNER: Are there any
8 objections?

9 Exhibits Fourteen and Fifteen
10 will be admitted into evidence.

11 Mr. Bruce, your witness.

12

13

CROSS EXAMINATION

14 BY MR. BRUCE:

15 Q I only have a few questions, Mr. Carnes.

16 Looking at, I guess it doesn't matter,
17 either one, near the proposed location, what are the solid
18 and dashed lines indicating?

19 A The solid line indicates a good Strawn B
20 bank reflection anomaly, as defined and as interpreted by
21 our geophysicist.

22 Q That's off of your seismic test.

23 A Yes, it is, uh-huh, while the dashed line
24 is only fair, which means the solid lines would be a stronger
25 reflection.

1 Q Is there any correlation between the
2 seismic on the Strawn and the underlying Morrow formation?

3 A Not to our knowledge as far as the seis-
4 mic data.

5 The structural relationship may be simi-
6 lar.

7 Q So if the structural relationship is simi-
8 lar, it would indicate that the best Morrow location would
9 also be somewhere in Lots 11 through 14.

10 A Yes, that's right. Let's see what those
11 lots -- right. I probably --

12 Q If Foran Oil Company successfully com-
13 pletes a well in either the Strawn or the Morrow formation,
14 for lack of any better measure, would you assume that drain-
15 age would be -- that drainage would be radial?

16 A That would be the best assumption we
17 could make at the outset.

18 Q Thank you, Mr. Carnes.

19 MR. STOGNER: Are there any
20 other questions of Mr. Carnes?

21 MR. KELLAHIN: No, sir.

22 MR. STOGNER: You may be ex-
23 cused.

24 Mr. Bruce, Mr. Kellahin, do you
25 have anything, does either one of you have anything further

1 In this case?

2 MR. KELLAHIN: Mr. Examiner,
 3 I've marked as Exhibit Number Sixteen the approval for Mr.
 4 Foran from the Extraterritorial Zoning Commission. We have
 5 found copies in the file and I'd like to submit that as Ex-
 6 hibit Number Sixteen.

7 MR. STOGNER: If there is no
 8 objection, Exhibit Sixteen will be admitted into evidence at
 9 this time.

10 MR. KELLAHIN: We have nothing
 11 further.

12 MR. STOGNER: Would you -- do
 13 you wish to offer any closing statements at this time, Mr.
 14 Bruce?

15 MR. BRUCE: Very briefly to
 16 clarify a couple of things.

17 MR. STOGNER: Okay, you may
 18 proceed, then.

19 MR. BRUCE: Charles Gillespie
 20 is an offset operator to the proposed units of Foran Oil
 21 Company. As such, he doesn't object to the forced pooling
 22 proposed by Foran Oil Company and even though the proposed
 23 well location is unorthodox for all three proposed units,
 24 the only one I believe really affecting him would be any
 25 320-acre gas well units, which may or could be formed as a

1 ing the well is completed in the Morrow or the Atoka or
2 other formations in which the gas well units would be 320
3 acres.

4 The evidence shows that the lo-
5 cation is 954.5 feet from the north line, or I should say
6 from the north end of the proposed 320-acre unit. As such,
7 in order to protect my client's interests, I believe that
8 there should be some type of penalty imposed upon Morrow
9 production, if that is obtained.

10 I think this can be done with
11 reference to some previous Division orders, first of all on
12 the production. Recently the Division, in Order NO. R-8508
13 imposed a penalty based on footage from the unorthodox
14 direction; in other words, --

15 MR. STOGNER: 8508?

16 MR. BRUCE: 8508, yes, Case
17 9143. Using that penalty factor method, you would divide
18 954.5 feet into 1980 feet, which would give you
19 approximately a penalty of 50 percent on production. I
20 recognize that this is not a prorated field; however, I
21 would urge that in the case of Morrow production the penalty
22 base be based upon a determination of delivery (sic)
23 capacity. This has been set forth in several rules, or
24 several orders of the Division, one of which is Order R-
25 7952.

1 Thank you, Mr. Examiner.

2 MR. STOGNER: Thank you, Mr.
3 Bruce.

4 Mr. Kellahin?

5 MR. KELLAHIN: Mr. Stogner, the
6 business about the Morrow is simply a secondary problem oc-
7 casioned by the unusual size of the section. It is not
8 stretching the point to tell you that we are absolutely as-
9 tonished by Mr. Gillespie's opposition at this late date and
10 his request for a penalty factor.

11 Our client has testified that
12 he has had several contacts with Mr. Gillespie and Mr. Gil-
13 lespie has never opposed a location of the well, and in fact
14 has agreed to contribute dry hole funds for the well.

15 My client believes that he has
16 in good faith tried to arrange the spacing units in a way
17 that minimizes the potential of damage to Mr. Gillespie. It
18 would have been very easy to move the spacing unit all the
19 way up to the northwest quarter and simply pool Mr. Gilles-
20 pie and that's some thing he didn't want, and we chose not
21 to do that.

22 It's possible, also, to orient
23 this spacing unit by simply laying it down and then the un-
24 orthodox location becomes a standard location. I guess that
25 could be done but Mr. Foran testified to you it's compli-

1 cated. He's already got 80 leases involved in this.

2 Mr. Gillespie's position with a
3 penalty is going to result in my client not drilling to the
4 Morrow. We'll just stop at the Strawn and what that's going
5 to happen is that no one has the benefit of realizing what
6 happens the extra 600 feet below this well. Mr. Gillespie
7 then can drill the Morrow if he wants. The point is, of the
8 exercise, is we're creating a potential for waste. Here's
9 an opportunity on a voluntary basis to spend funds to drill
10 and test the Morrow, which leaves Mr. Gillespie with the ad-
11 vantage of offsetting it and having a 320-acre unit.

12 I would assure you if there's a
13 penalty imposed upon this location, understanding that we be-
14 lieve that Mr. Gillespie had approved this location without
15 objection, then we'll simply not drill it that far and we'll
16 let the Morrow go unexplored to everyone's detriment. We
17 simply cannot afford the risk of a 50 percent penalty in
18 this instance. We think the facts are unique and don't jus-
19 tify that type of penalty.

20 Thank you.

21 MR. STOGNER: Thank you, Mr.
22 Kellahin.

23 Does anybody else have anything
24 further in this case?

25 If not, this case will be taken
under advisement. The hearing is adjourned.

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C E R T I F I C A T E

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

Sally W. Boyd CSR

I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 9289,
heard by me on 3 February 1988.
[Signature], Examiner
Oil Conservation Division