

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 1988

7 EXAMINER HEARING

8 IN THE MATTER OF:

9 Application of Foran Oil Company for CASE
10 compulsory pooling, Lea County, New 9290
11 Mexico.

12 BEFORE: Michael E. Stogner, Examiner

13
14 TRANSCRIPT OF HEARING

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

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19 For the Division:

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22 For the Applicant:
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MR. STOGNER: I'll call next Case Number 9290, which is the application of Foran Oil Company for compulsory pooling, Lea County, New Mexico.

The applicant in this case has requested that it be continued to the Examiner's hearing scheduled for February 3rd, 1988.

(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. 9290, heard by me on 6 January 1988.

Michael Stogner, Examiner
Oil Conservation Division

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

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22 Attorney at Law
23 KELLAHIN, KELLAHIN & AUBREY
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24 For Standard Oil Prod. Co.: William F. Carr
25 Attorney at Law
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LES M. CARNES

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MR. STOGNER: We'll resume this hearing and call Case 9290, which is the application of Foran Oil Company for compulsory pooling in Lea County, New Mexico.

We will call for appearances.

MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin of the Santa Fe law firm of Kellain, Kellahin & Aubrey.

I'm appearing on behalf of the applicant, Foran Oil Company, and I have two witnesses to be sworn.

MR. STOGNER: Are there any other appearances in this matter?

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

I appear on behalf of Standard Oil Production Company. I do not intend to call a witness.

MR. STOGNER: Standard Oil Production Company?

MR. CARR: Yes.

MR. STOGNER: That's the old SOHIO, right?

MR. CARR: Yes, sir.

1 MR. STOGNER: Okay, are there
2 any other appearances?

3 Will the witnesses please stand
4 to be sworn?

5

6

(Witnesses sworn.)

7

8

Mr. Kellahin?

9

MR. KELLAHIN: Thank you, Mr.
10 Examiner.

11

12

JOSEPH W. FORAN,

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 Mr. Foran, for the record would you
19 please state your name and occupation?

20

A Joe Foran and I'm the President of Foran
21 Oil Company.

22

Q Mr. Foran, have you previously testified
23 before the Oil Conservation Division, and I believe you did
24 so that occasion as a petroleum landman?

25

A Yes, sir, I did. I received my training

1 prior to being a president as a landman.

2 Q What educational degrees do you hold, Mr.
3 Foran?

4 A I hold a Bachelor of Science in accoun-
5 ting, with honors, from the University of Kentucky and a
6 Juris Doctor degree from SMU, with honors.

7 Q In what year, sir?

8 A I received my JD degree in 1977.

9 Q Would you summarize for the examiner what
10 Foran Oil Company is seeking to accomplish with this appli-
11 cation?

12 A We are trying to accomplish here a forced
13 pooling to drill a Strawn well in the Lovington Penn Field,
14 Strawn Field, to approximately 12,000 feet.

15 Q Let me direct your attention to Exhibit
16 Number One. Would you take a moment and first of all locate
17 for us the section, township, and range in Lea County, New
18 Mexico, where this prospect is located?

19 A It's in the west half of Section 8, Town-
20 ship 16 South, Range 37 East, about three miles east of the
21 Town of Lovington.

22 Q The display shows an approximate, gener-
23 alized outline for the community of Lovington?

24 A Yes, sir, it does.

25 Q This one up to the west? Let's turn now,

1 sir, to Exhibit Number Two and have you locate where you
2 propose to drill the well and what the spacing unit is that
3 you propose to dedicate to that well.

4 A We propose to dedicate the west half of
5 the southwest quarter of Section 8 to the unit and to drill
6 it in the northeast of the southwest. I mean the -- forgive
7 me, the northwest of the southwest quarter, approximately
8 660 feet from the west line and 1980 feet from the south
9 line.

10 Q Summarize for the examiner what has been
11 the history of your efforts and efforts on behalf of your
12 company to form a voluntary spacing unit for the drilling of
13 this well.

14 A Mr. Examiner, there's -- this is a highly
15 fractionated area. There's approximately 40 or more
16 individual interest owners in this one proration unit. Many
17 of them are very small interests that have less than an
18 acre. They're broken out among the families and they're
19 scattered everywhere from New York to California.

20 Q Would you approximate for us how long you
21 have, and others on your behalf, have worked to consolidate
22 on a voluntary basis the spacing units that are appropriate
23 for this well?

24 A Yes, sir. We have been working to
25 consolidate this since -- for about eight months, now.

1 Q Let me direct your attention to Exhibit
2 Number Three. At the time the compulsory pooling applica-
3 tion was filed, do these individuals and companies represent
4 the remaining uncommitted percentage interest owners for the
5 spacing unit?

6 A Yes, sir. These are the list of all out-
7 standing interests. Some of these people need to be quali-
8 fied in that we have reached agreement, verbal agreement,
9 for example, with the Harvey Yates Company, HEYCO, and with
10 Nitram (sic), and with McAdoos, the first two.

11 We think that Mr. VanZant will partici-
12 pate and Mr. Light will farm out or lease, and we'll reach
13 agreement with most of the others, with all but SOHIO, in
14 one form or another. Some of them are waiting for the for-
15 mal pooling order to make a final election.

16 Q At this time you're requesting that all
17 these parties and either individuals or companies remain
18 subject to the pooling order until such time as you can ex-
19 haust your efforts to obtain a voluntary agreement within
20 the normal 30-day election period subsequent to the order?

21 A That's correct. We're going to continue
22 to try to make every effort to reach agreement with these
23 people, and they've included, for example, in the SOHIO
24 case, we've offered them, oh, possibly a dozen different
25 ways to do the deal. I've traveled to Houston. We've writ-

1 ten them half a dozen letters and SOHIO would just -- hasn't
2 declared.

3 Q Let's direct your attention further to
4 SOHIO. Have you spoken to Mr. Sikes of SOHIO with regards
5 to their interest?

6 A We've probably had a dozen phone calls in
7 the last three weeks and I've gone to Houston to meet with
8 him and attempt to get his voluntary joinder.

9 Q What does Mr. Sikes tell you is the
10 position of his company with regards to the formation of a
11 voluntary unit?

12 A He didn't know. I'm not saying that to
13 be flippant, or anything, but just that he's tried as hard
14 as I've tried to reach agreement but I think that the
15 management is, you know, is -- we keep hoping they'll
16 participate but they have indications that they want to farm
17 out for 40 or 50 percent back-in on a single proration unit,
18 which is pretty unreasonable, given that there are two dry
19 holes and we'll be drilling in between the two dry holes, so
20 --

21 Q Can you think of any other type of
22 proposal or way to structure an offer to SOHIO that, in your
23 opinion, would result in a voluntary agreement with that
24 company?

25 A No, sir, I really don't, because I've

1 used -- I've agreed to everything they've proposed to me,
2 and generally when I've agreed to it, they run it up and
3 they still come back and say their management won't go along
4 with it, so I -- I think that's exhausted, and the only way
5 that they'll make an election would be under the forced
6 pooling order.

7 Q Describe how the exhibit is organized in
8 terms of the calculation of the various percentages as they
9 fluctuate between spacing units, commencing, first of all,
10 with the first tabulation on the left that says Percentage
11 of Unit. What are you talking about there?

12 A The -- the percentage of the unit would
13 be their undivided interest.

14 Q Based upon 320 acres, is it not?

15 A Yes, sir. And then the 40-acre would be
16 as if -- is if there were a 40-acre zone that we should en-
17 counter, which we do not expect to. In this area it's been
18 a one-shot at the Strawn. If the Strawn's not present, then
19 you don't have anything. We've not encountered anything up
20 hole in the other wells that we've drilling in the area.

21 Q It's most likely that you'll encounter
22 Strawn oil on 80-acre spacing, then?

23 A Yes, sir. We're just not expecting any-
24 thing in 40, but did include it just -- just --

25 Q So that you wouldn't have to do the pool-

1 ing order again in the unlikely event you get oil production
2 on 40-acre spacing.

3 A That's correct.

4 Q So if we look at the last tabulation un-
5 der 80-acre participation, that is the remaining outstanding
6 interest as it would apply to the west half of the southwest
7 quarter.

8 A That's correct.

9 Q Let's go through specific correspondence
10 now, Mr. Foran, concerning each of these interest owners and
11 starting with Exhibit Number Four, would you simply identify
12 the correspondence and summarize what you were proposing to
13 that particular owner?

14 A Mr. Kellahin, if I could summarize Exhi-
15 bits Four through Ten at once might be the simplest.

16 Q All right, sir.

17 A In each of these Exhibits Four through
18 Ten we wrote to the people offering to lease, offering to
19 let them participate, or offering them to farm out their
20 mineral interest. These are all mineral fee owners and we
21 were inviting them to participate, lease, or farm out, and
22 then asked for them to make an election which way they wan-
23 ted to go.

24 Q Did you have similar correspondence to
25 the first two entries on Exhibit Number Three, the Doris

1 McAdoo and then the Estate of Harriet McAdoo Platt?

2 A Yes, we did and they have both agreed to
3 lease and have so advised us, and we've sent them lease
4 forms to sign them up.

5 Q You don't have the executed leases back
6 to you?

7 A They're supposed to have been put into
8 their bank and then to make their way to our bank with a
9 draft.

10

11 Q When we go down the tabulation of remain-
12 ing outstanding interest owners on Exhibit Three, am I cor-
13 rect in understanding your testimony that at this point we
14 have received nothing in writing either leasing or farming
15 out any of these interests to you at this point?

16 A The only remaining two are Standard and
17 Harvey Yates, but we met with Harvey Yates, with HEYCO in
18 person, and we've received their verbal assurances of their
19 intention to participate, and they've verbally approved the
20 AFE but we've not received it in writing.

21 SOHIO is just a different matter, that
22 we've offered to farm out to them. We've offered to farm in.

23 Q Let's look at specifically SOHIO, then,
24 and directing your attention to Exhibit Number Eleven, would

25

1 you describe for us what you have proposed to SOHIO?

2 A On the SOHIO letter, this was an earlier
3 letter where we invited them to participate or to farm out
4 on the same terms and conditions as we had obtained a
5 farmout from Amerada Hess.

6 It was my understanding at the time of
7 this letter that this would be recommended by the Land
8 Department favorably. It was my understanding that it was
9 but it was not approved by management, and since then there
10 have been two or three other requests that's it's my under-
11 standing have been recommended but not approved by their
12 management.

13 Q Let me direct your attention to Exhibit
14 Number Twelve, now, Mr. Foran, and would you identify that
15 correspondence?

16 A This is correspondence that we've had
17 with the HEYCO company and Fred G. Yates, Inc., and Yates
18 Energy Corporation, which HEYCO more or less speaks for each
19 of these entitites, and we've met with them and I think
20 we've reached agreement and we -- we're waiting on signing
21 an operating agreement but I think it will be done in the
22 very near future.

23 But we've included them just because we
24 haven't received their signed AFE's returned.

25 Q Direct your attention to Exhibit Number

1 Thirteen, now, Mr. Foran, and would you identify that docu-
2 ment?

3 A Yes, sir. Exhibit Thirteen is a certifi-
4 cate of mailing in compliance with Order R-8054.

5 Q And attached to that are the return re-
6 ceipt cards for all the parties to be pooled.

7 A Yes, sir. I think this shows that in ad-
8 dition to our notification and discussions with us, that
9 your office mailed this to them so that -- as a second noti-
10 fication.

11 Q Let me now direct your attention to the
12 AFE that's attached as Exhibit Number Fourteen. Did you
13 cause the AFE to be compiled and tabulated and set forth as
14 shown on Exhibit Number Fourteen?

15 A Yes, sir. This was done under my direc-
16 tion through Mr. Carnes, who will later testify, that has
17 more familiarity with me -- with this than I do, but I'm
18 general familiar with it as President of Foran Oil Company.
19 These costs are reflective of the costs that we've had to
20 pay for drilling Strawn wells in this area, which have in-
21 cluded the Caudill 1-A, which is located in the same sec-
22 tion. It's located in the southeast of the northwest quar-
23 ter.

24 Q Have you received any objections or op-
25 positions by any of the proposed working interest owners to

1 your estimated well costs?

2 A No, sir, we have not, and these have in-
3 cluded, I think, extensive discussion from SOHIO to -- with
4 Mr. Carnes on these various costs and everybody has seemed
5 to think these are reasonable.

6 They're based on bids that have been
7 solicited by us.

8 Q Has anyone objected to Foran Oil Company
9 being designated as the operator?

10 A No, sir. In fact, HEYCO said that their
11 joinder in this participation was conditioned upon our serv-
12 ing as operator.

13 Q Has any party objected either to the well
14 location or the orientation of the spacing unit that's pro-
15 posed for this pooling case?

16 A No, sir, none whatsoever.

17 Q Let me direct your attention now, sir, to
18 your proposed overhead charges that you would recommend to
19 the Examiner.

20 Have you had an opportunity to review the
21 Ernst and Whiney (sic) tabulation of operating charges for
22 1987 for wells at this depth?

23 A Yes, sir, I have, and the Ernst and
24 Whiney report that the average was 4,961, we are asking for
25 a \$5000 drilling well rate and a producing well rate of

1 \$500. The average under the -- for '87 in Ernst and Whiney
2 \$475. These are slightly above that, but I think that's
3 necessary, given all the fractionated interests that are in
4 this section and because of its proximity to the town of
5 Lovington.

6 Q We're dealing with a well drilled to what
7 depth, 11,800, is it ?

8 A Yes, sir.

9 Q And your recommendation, then, to the Ex-
10 aminer for a monthly drilling well rate is what, sir?

11 A \$5000 drilling well rate.

12 Q And then the monthly producing well rate?

13 A \$500.

14 Q When do you propose to commence the well,
15 Mr. Foran?

16 A We're ready to drill as soon as we re-
17 ceived the Commission's order.

18 Q Have you obtained, or is it necessary to
19 obtain any further approvals, either from the county or the
20 community of Lovington for the drilling of this well?

21 A Not on the drilling of this well.

22 MR. KELLAHIN: If the Examiner
23 please, we move the introduction at this time of Mr. Foran's
24 Exhibits One through Fourteen.

25 MR. STOGNER: Exhibits One

1 through Fourteen will be admitted into evidence.

2 Mr. Kellahin, what will be the
3 gist for your next --

4 MR. KELLAHIN: Witness?

5 MR. STOGNER: Yeah.

6 MR. KELLAHIN: Mr. Carnes is a
7 petroleum engineer and he's going to discuss the risk factor
8 penalty.

9 MR. STOGNER: Okay, now we
10 didn't justify Mr. Foran but as President of the company and
11 with his experience and education, his credentials are so
12 accepted.

13 MR. KELLAHIN: Thank you.

14 MR. STOGNER: Let's see here. I
15 noticed the advertisement didn't list what formations are
16 the vertical limits; however, it implies quite a bit. I do
17 not see that it will need to be readvertised; however, I
18 would like to justify it.

19

20 CROSS EXAMINATION

21 BY MR. STOGNER:

22 Q And what is your proposed drilling depth
23 or formation, your primary formation that you're drilling
24 to?

25 A The Strawn formation and we will probably

1 drill through the Strawn into the top of the Atoka at about
2 11,800 feet. As soon as we penetrate the Atoka, I think
3 we'll stop.

4 Q At 11,000 what?

5 A 800.

6 Q For clarification, what -- what forma-
7 tions are spaced on 80 acres out here, that you know of?

8 A The Strawn is the only one I'm familiar
9 with, Mr. Examiner.

10 Q Okay.

11 MR. STOGNER: Now, Mr. Kella-
12 hin, we haven't got to Exhibits Number Fifteen yet, have we?

13 MR. KELLAHIN: No, sir, Fifteen
14 and Sixteen are Mr. Carnes' exhibits.

15 MR. STOGNER: Okay. Who would
16 you suggest I ask about the location of this well?

17 MR. KELLAHIN: Either gentle-
18 man, perhaps, or perhaps both.

19 Q Okay, do you have a proposed location on
20 this well?

21 A Yes, sir, we do. And on Exhibit Two
22 we've tried to show the location as being 660 feet from the
23 west line and 1980 feet from the south line.

24 Q Okay. So that is a standard location for
25 both?

1 A Yes, sir, that's correct.

2 Q Has Foran force pooled any other parties
3 out here in any other -- in any other of its previously
4 wells drilled around this area?

5 A Yes, sir, we have, in the southeast of
6 the northwest quarter of this same Section 8, where the
7 Caudill 1-8 ws drilled, we had a forced pooling hearing in
8 -- in that matter, and the only one we couldn't get the
9 agreement on was Texaco.

10 Q All right, do you know what the overhead
11 charges were in that particular case?

12 A I believe they were higher. I'm trying
13 to -- to the best of my knowledge, I think they were --
14 we've also done a forced pooling just northeast of here and
15 I remember those were \$5500 drilling well rate and \$550 pro-
16 ducing well rate. That was in the matter where Foran and
17 Estoril force pooled Texaco.

18 Q Okay, do you recall the order numbers on
19 those two applications that you've just --

20 MR. KELLAHIN: We'll be happy
21 to supply those for you.

22 MR. STOGNER: All right. Thank
23 you, Mr. Kellahin.

24 I have no further questions of
25 this witness at this time.

1 Are there any other questions
2 of --

3 MR. CARR: Yes, I have a
4 couple.

5 MR. STOGNER: I'm sorry, Mr.
6 Carr. Go ahead.

7

8 CROSS EXAMINATION

9 BY MR. CARR:

10 Q Mr. Foran, would you refer to your
11 Exhibit Number Eleven, please?

12 In that letter you talk about farming out
13 the interest in Section 7.

14 A Uh-huh.

15 Q Do you have an interest in Section 7?

16 A Yes, sir, we do.

17 Q Do you plans for developing that?

18 A Yes, sir, we do.

19 Q And what are the status of those plans?

20 A We have written them a formal letter
21 inviting them to participate in drilling a well in Section 7
22 or to farm out or to do something.

23 Q So you're --

24 A Or to farm in.

25 Q When you say "them" you mean SOHIO?

1 A SOHIO, excuse me, sir.

2 Q What is the timeframe on the development
3 of these two properties?

4 A We believe that -- that they are both
5 ready -- ready to drill on, and that the -- whether -- which
6 one should be drilled first is a lot dependent on the level
7 of participation or the level of force pooled interest that
8 we'd have to take.

9 Q Will there be an opportunity to obtain
10 information on the first well before an election has to be
11 made on whether or not to participate in the second well?

12 A We -- we do not believe that that would
13 be necessary. We haven't entered into that type of -- I
14 think what we would like to do is get both of these drilled
15 at about the same time. I think we could get a better
16 drilling contract if we could get them committed so we could
17 drill them back to back.

18 Q Would you be willing to let SOHIO have
19 information on the first well before they had to elect on
20 whether or not to participate in the second?

21 A No, I would not, and let me take it one
22 step further.

23 This is what we've done for SOHIO in the
24 way of information, is on the Caudill 1-8, they farmed out
25 that. They just assigned their interest in that. We have

1 given them daily reports. We have gone beyond any of their
2 requirements in the farm out. We've included submitting to
3 them additional structure maps of this area, additional en-
4 gineering information on our drawdowns, everything that oc-
5 curred on that first well. It was dry. We found the poro-
6 sity but it did not have -- it was wet.

7 We've gone further. We have spent prob-
8 ably close to 30-to-\$40,000 on seismic, which we have of-
9 fered to SOHIO, to let them see, if they would just agree
10 that if they decide not to participate that we will receive
11 more than one proration unit, and they again have -- have
12 refused, and the basis of the refusal is that they own 17-
13 1/2 percent in this first proration unit that's now the sub-
14 ject of this hearing, and they own twice that or approxi-
15 mately 35 percent in the east half of the southeast quarter
16 of 7, and it's pretty clear what they would like to do is to
17 have their cake and eat it, too. They would like to have
18 all the information they could get on this first well, ride
19 us down. and then drill the second well.

20 Q Do you plan to drill both wells simul-
21 taneously or one after the other?

22 A We -- we would probably try to drill them
23 one right after the other.

24 Q And before you'd start the second, you'd
25 have information on the first.

1 A Yes, sir, that's correct.

2 Q But you wouldn't make that available to
3 SOHIO?

4 A Not if SOHIO were not to try to reach
5 agreement with us and some good faith attempted.

6 Q And the seismic data would be made avail-
7 able only if there was an agreement either to join or farm
8 out, but not otherwise.

9 A That's right.

10 Q So you would have information before you
11 started the second well that wouldn't be made available to
12 SOHIO.

13 A Well, now, it is available to SOHIO, so I
14 --SOHIO's decision is to whether they want to take advantage
15 of it.

16 Q But you would not put them in -- they
17 could not be in a position like you would be that after the
18 first well they then could decide whether they would go in
19 the second.

20 A Well, they wouldn't have paid anything
21 for it. They'd be receiving something for nothing.

22 Q You'd be in a position, though, after the
23 first well, would you not, to decide whether or not it war-
24 rants going ahead with the second one.

25 A I'm not sure I understand your question.

1 Q At -- when you complete the first well it
2 is a dry hole, you would be in a position to decide whether
3 or not you're going to drill a second or not, right?

4 A Yes, sir.

5 Q But you want SOHIO to agree ot both of
6 those up front (not understood).

7 A No, sir, that's not what we're asking
8 SOHIO to do. What we --

9 Q If SOHIO would agree to farm out Section
10 8 only, would you be willing to let them see the seismic?

11 A If -- no, sir. What we've asked for the
12 seismic is this: Is that, to drill in between two dry
13 holes, if SOHIO wishes to farm out, their 17-1/2 percent is
14 more than we as a company can really carry. We would have
15 to get someone else to step in and agree to assume their in-
16 terest.

17 I do not believe it will be possible to
18 get anybody to assume a 17-1/2 percent interest in a well as
19 risky as this unless they have some interest in the offset.

20 Q So SOHIO has to elect to go with both or
21 neither.

22 A No. I think that what we're trying to
23 get SOHIO to do is SOHIO could participate in this first one
24 and it wouldn't have any obligation on the second one.
25 SOHIO could farm out to us. We've offered them deals where

1 we farmed out on the first one and that we earned some --
2 some portion of their interest in the other.

3 Third is we have offered to SOHIO to farm
4 out our interest to them. We said we just want to see de-
5 velopment in this area and it doesn't matter whether SOHIO
6 drills this or we drill it, we just want to see these wells
7 drilled, and we don't want to see somebody get something for
8 nothing.

9 Q Could they participate in the second well
10 and not the first?

11 A It's possible, if we could come to terms.

12 Q Do you have any leases or any interests
13 in the area that are going to be expiring in the next year?

14 A Yes, sir.

15 Q And what are those?

16 A We've -- we've got leases both in 8 and
17 in 7 that are due to expire, and in some instances we're re-
18 newing them at this time.

19 Q And when are those expiration dates?

20 A There's 45 of them. I would have to --

21 Q Any of them very soon?

22 A Yes, sir. Some of them have been this
23 past month that have expired. We would have drilled the
24 well but for SOHIO, and SOHIO, there's some fine people at
25 SOHIO but what they've done to us is that they led us to

1 believe that they were going to agree and were going to par-
2 ticipate and then didn't, and so we haven't been able to
3 drill this well and we've had to go out and renew some
4 leases that -- that we wouldn't have had to do so if SOHIO
5 had acted what we think in a timely manner.

6 Q One last question, just to be sure I un-
7 derstand.

8 A And let me add to this, I don't believe
9 that it's the fault of any of SOHIO's rank and file or this
10 Jim Sikes that -- I think that their geologist or engineers
11 and their landman want to see participation. They got in
12 here late, and just a little bit of a history of this, we
13 had pretty much leased all the acreage around here in this
14 area. Then all of a sudden SOHIO came in and opened up the
15 pocketbook and bought some interest in here, and now they're
16 -- you can't get them to drill, and their geologist and the
17 like, I think are embarrassed by it and would like to see
18 development in here, but they keep coming back and telling
19 me that the reason for not doing it is that some other com-
20 pany is giving them stiff back-ins and because they've had
21 to give stiff back-ins they think I should too, and I just
22 tell them that I've never done that to them, so I don't
23 think that's relevant, a relevant reason to deny participa-
24 tion.

25 Q Okay, just one last question to be sure I

1 understand where you and SOHIO stand here, and that is that
2 it isn't acceptable to you for SOHIO to farm out only the
3 interest in Section 8 and see the seismic on that and (un-
4 clear) on that and then make a decision on Section 7?

5 A No, I think it's too, too broad a sum-
6 mary. You see, if each of those things that you're asking
7 is yes, we've made the seismic available; yes, there is
8 waste; but just farm-out 8, but what we told them is that
9 they can expect to get back in on one proration unit.
10 There's other owners on here, such as, say, EBY, or Home-
11 stake, that have made a contribution of just farming out the
12 single proration unit without committing to any other prora-
13 tion unit, but they have not asked to see seismic and they
14 have not asked for a back-in interest, and that's what we've
15 told SOHIO, that if they don't -- if they just want to farm-
16 out on the same basis Homestake, that's fine. If they want
17 a reversion, then it needs to be like Amerada because I
18 don't want to be criticized by Amerada by giving a better
19 deal to SOHIO than what I gave to them, and I don't want to
20 be criticized by Homestake for giving somebody a better deal
21 than what I gave to them. Does that --

22 Q But if they're to see the seismic, they
23 have to go on both proration units now.

24 A They have to pay some. They could either
25 buy the seismic from us or -- or that they have to say we'll

1 farm-out here and we'll keep -- or we'll participate here,
2 or, I mean, they have to -- they have to do something more.
3 I guess phrasing it differently is, I want SOHIO to do -- I
4 don't want to make a better deal for SOHIO than what I've
5 done for other people in this thing because I don't think
6 that's fair to the people who have already been in it.

7 Q Okay. Thank you.

8 MR. STOGNER: Thank you.

9 Mr. Kellahin, do you have any
10 further questions?

11 MR. KELLAHIN: No, sir.

12 MR. STOGNER: I have no further
13 questions of this witness. He may be excused.

14 Mr. Kellahin?

15

16 LES M. CARNES,

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

19

20 DIRECT EXAMINATION

21 BY MR. KELLAHIN:

22 Q Mr. Carnes, would you please identify
23 yourself and tell us your educational background?

24 A Yes. My name is Les M. Carnes. I'm
25 Executive Vice President of Foran Oil Company; received a

1 degree in petroleum engineering from Texas Tech in 1957, and
2 since that time I've obtained about 27 years of experience
3 in oil and gas matters in engineering and management, and so
4 forth. I think my qualifications have been accepted --

5 Q Yes, sir.

6 A -- in times past.

7 Q Would you summarize your work experience,
8 your employment experience? What companies did you work
9 for?

10 A Conoco, ten years; Tenneco, seven years;
11 Mesa, thirteen years; and now two years with Foran.

12 Q As part of your interest in Foran Oil
13 Company have you provided the engineering opinions and cal-
14 culations for their various projects?

15 A Yes, I have.

16 Q And have you done so in this case?

17 A Yes.

18 MR. KELLAHIN: At this time,
19 Mr. Examiner, we tender Mr. Carnes as an expert petroleum
20 engineer.

21 MR. STOGNER: Mr. Carnes is so
22 qualified.

23 Q Let me direct your attention now, Mr.
24 Carnes, to Exhibit Number Fifteen, and before we explain the
25 substance of the exhibit, would you simply take a moment and

1 identify the information shown on the exhibit?

2 A Exhibit Fifteen is a location and produc-
3 tion map.

4 Q All right, how do we find the proposed
5 spacing unit?

6 A The proposed spacing unit is not desig-
7 nated here; however, the proposed location in the northwest
8 of the southwest of Section 8, 16 South, 37 East, is shown.
9 That's a distance of 660 from the west line, 1980 feet from
10 the south line of that Section 8.

11 Q You've identified wells on this display.
12 What type of wells are shown?

13 A All the wells indicated here are Strawn
14 producing wells or wells that were drilled for the purpose
15 of obtaining production in the Strawn but were drilled and
16 abandoned.

17 Q The yellow shaded acreage represents sim-
18 ply acreage in which Foran Oil Company has an interest?

19 A Yes, sir, that's right.

20 Q Help orient us as to where the various
21 Strawn pools are in this area. Identify for us the closest
22 Strawn Pool that's designated under Division rules.

23 A Okay, we're within the Northeast Loving-
24 ton Penn Strawn Pool and I have designated with three pieces
25 of information the critical wells offsetting our acreage and

1 offsetting our proposed location.

2 Q Let's go to those now.

3 A Okay, it's under the production code at
4 the bottom of the exhibit.

5 The first piece of information shows the
6 date of first production of Strawn wells in the area.

7 The second information represents the
8 cumulative oil production and the ultimate, estimated ultimate
9 oil reserves.

10 And finally, the third piece of information
11 shows the average October of 1987 producing rates, oil
12 and water.

13 For example, we can look at the well in
14 the southeast of the northeast of Section 8. That's a Yates
15 Petroleum well called the Hummingbird No. 1. The first date
16 of production is indicated as January of '86. Cumulative
17 production to November 1 of '87 is 251,000. Our estimated
18 ultimate recovery is 500,000 for the well. In October of
19 1987 the well averaged 316 barrels of oil a day and 443 barrels
20 of water per day.

21 Q Within the area shaded in yellow, would
22 you identify any attempts that have been made to produce oil
23 from the Strawn formation?

24 A Yes. Foran Oil Company spudded a well in
25 May of '87, known as the Caudill 1-8, located in the south-

1 east quarter of the northwest quarter of that section. We
2 ran a drill stem test on the well and indicated that we
3 could produce commercial oil from it, so we set production
4 pipe on it and subsequent tests indicated 98 percent water
5 and that we could not obtain commercial oil, so we plan to
6 plug that well.

7 Q Okay. Describe for us the well in the
8 southwest of the southwest of Section 8.

9 A That was drilled some years ago. I don't
10 recall the operator, but it was tight in the Strawn, accor-
11 ding to our geological reports on it, and they could not af-
12 fect a completion; had to abandon it.

13 Q Let's go on and have you identify for us
14 Exhibit Number Sixteen at this point. We'll come back to
15 Fifteen and talk some more, but let's look at the structure
16 map, and that's indicated as Exhibit Number Sixteen?

17 A Yes. Exhibit Sixteen is the structure
18 map drawn on top of the Strawn B algal mound or bank.

19 Q What's your engineering analysis of the
20 impact or the significance of the structure insofar as it
21 affects production from the Strawn formation?

22 A Well, this exhibit indicates that by
23 going to the southwest from our first well that we drilled,
24 the Caudill 1-8, in the southeast of the northwest of 8,
25 down to the proposed location in the northwest of the south-

1 west of 8, we will gain something over 60 feet of structural
2 relief and we believe that if that well that we propose to
3 drill is in the same Strawn accumulation, that we'll be up-
4 structure and above the water. There's a definite possibil-
5 ity it will be in a separate accumulation; as has previously
6 been testified, the Strawn is a mound of carbonate rock,
7 which many times is only 40 to 80, or so, acre size, at re-
8 servoir extent. So we believe we've got an excellent chance
9 of being above the water or a separate reservoir, either one
10 of which would allow us to make a producing well there, even
11 though it's located between two dry holes.

12 Q In entering a forced pooling order, the
13 Commission is authorized under the statute to assess a risk
14 factor penalty against nonconsenting working interest owners
15 up to a maximum of 200 percent above the amount necessary
16 required to recover out of production that share of the cost
17 of the well.

18 Within that framework of a penalty
19 factor, Mr. Carnes, do you have a recommendation to the
20 Examiner, based upon your studies, of what that penalty
21 factor ought to be?

22 A I believe it should be at least the 200
23 percent.

24 Q Can you summarize for us some of your
25 principal reasons that cause you to conclude that the 200

1 percent risk factor penalty is appropriate in this case?

2 A Yes, sir, I can. First of all we have
3 the mechanical risk of ever getting the well down, even
4 though this is probably a minimal situation in this area,
5 because the wells are drilled with -- with relatively few
6 problems, there's still the mechanical risk that the costs
7 could be higher than as indicated in, I believe, Exhibit
8 Thirteen, which is the cost estimate.

9 Secondly, there's geological risk, as
10 we've already encountered. We drilled the first well, as I
11 had already mentioned, and could not obtain commercial oil
12 production, even though the bank, Strawn bank was there.

13 And then, finally, just from the pure
14 economic standpoint, it takes 55,000 barrels of oil in a 3-
15 1/2 to 4 year period to just get your money back without any
16 interest. It would require something over 60,000 barrels of
17 oil in that same period of time to realize a 10 percent
18 appreciation or the cost of money.

19 We've already drilled one dry hole.
20 There's another dry hole already in the section, so if we
21 should obtain a producing well here, that means there's
22 three penetrations were taken to obtain one commercial
23 well, and we believe the average reserves will be something
24 in the order of 170-to-80,000 barrels. So we would have to,
25 you know, realize a 200 percent profit after paying out one

1 time to make it worthwhile.

2 Q Let me direct your attention back to the
3 cost estimate to which you referred. I believe it was
4 Exhibit Thirteen.

5 A That's Exhibit Fourteen, I'm sorry.

6 Q Exhibit Fourteen. Based upon your
7 knowledge as an engineer, Mr. Carnes, do you have an opinion
8 as to whether that cost estimate is fair and reasonable?

9 A Yes, I do. We believe it's a very
10 accurate, current cost estimate, based on bids from both
11 drilling companies and service companies that do logging
12 work, stimulation work, and so forth.

13 MR. KELLAHIN: That concludes
14 my examination of Mr. Carnes, Mr. Stogner.

15 We would move the introduction
16 now of Exhibits Fifteen and Sixteen.

17 MR. STOGNER: Are there any
18 objections?

19 MR. CARR: No objections.

20 MR. STOGNER: Exhibits Fifteen
21 and Sixteen will be admitted into evidence.

22 Mr. Carr, your witness.
23
24
25

CROSS EXAMINATION

1
2
3 BY MR. CARR:

4 Q Mr. Carnes, on Exhibit Number Fourteen --
5 Fifteen, there is an area shaded in yellow. What does that
6 yellow indicate?

7 A That simply shows an area where Foran Oil
8 Company has a working interest.

9 Q And there are other areas in this --

10 A Yes.

11 Q -- depicted?

12 A Yes.

13 Q Okay. There are two lines. They are
14 solid lines which have after them in the legend the word
15 "good", and a dashed line that says "fair". Do you know
16 what those mean?

17 A Simply means, the solid line, that it's a
18 good Strawn anomalies or that we think there's a good chance
19 of having Strawn B bank, while the dashed line is somewhat
20 less prospective of having Strawn bank, but still some
21 anomalies on the side.

22 Q Why is it, could you tell me, that they
23 break, the dark lines don't seem to continue in the south-
24 west quarter of Section 8? Both lines seem to break in the
25 center of such porosity. You come up from the bottom and

1 there's a line coming up through 17 and extending up into 5.
2 Is there any particular reason why there's a break over the
3 northeast of the southwest in Section 8?

4 A Well it's less prospective and, of
5 course, we -- you could run the line right on through if
6 you wanted to, it would be a dashed line, if it's less pros-
7 pective than the northwest of the southeast.

8 Q There are small circles all over this
9 plat. Are those also seismic lines that Foran has run in
10 the area? There's one that comes down, right down the ex-
11 treme western side of the plat, running north/south right
12 off the section line. Is that -- is that --

13 A That's just an indication of other seis-
14 mic data that has been run, seismic shotpoints, but we don't
15 have the data to analyze on some of those.

16 Q Do you have the data to analyze the shot-
17 points in Section 7?

18 A Gosh, I'm not sure about that. We do
19 have across Section 8, I know that, because we've analyzed it
20 and shown a good anomaly.

21 MR. CARR: All right, that's
22 all I have.

23 MR. STOGNER: Are there any
24 other questions of this witness?

25 If not, he may be excused.

1 Is there anything further in
2 this case?

3 MR. KELLAHIN: That concludes
4 our presentation, Mr. Examiner.

5 MR. STOGNER: Mr. Carr, do you
6 have anything further in this case?

7 If nobody else has anything
8 further in Case Number 9290, this case will be taken under
9 advisement.

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(Hearing concluded.)

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C E R T I F I C A T E

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

Sally W. Boyd CSR

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 9290 heard by me on 3 February 1988 -
Richard A. [Signature], Examiner
Oil Conservation Division