

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

6 11 May 1988

7 EXAMINER HEARING

8 IN THE MATTER OF:

9 Application of Hixon Development Com- CASE  
10 pany for compulsory pooling, Rio Ar- 9369  
11 riba County, New Mexico.

12 BEFORE: David R. Catanach, 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: Charles E. Roybal  
20 Attorney at Law  
21 Legal Counsel to the Division  
22 State Land Office Bldg.  
23 Santa Fe, New Mexico 87501

24 For the Applicant:  
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MR. CATANACH: We'll call next  
Case Number 9369.

MR. ROYBAL: Application of  
Hixon Development Company for compulsory pooling, Rio  
Arriba County, New Mexico.

MR. CATANACH: The applicant  
has requested that this case be continued to the May 25th,  
1988 hearing examiner docket.

(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 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. 9369, heard by me on May 11, 1988.

David R. Catena, Examiner  
Oil Conservation Division

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

25 May 1988

EXAMINER HEARING

IN THE MATTER OF:

Application of Hixon Development Com-      CASE  
pany for compulsory pooling, Rio              9369  
Arriba County, New Mexico.

BEFORE: Michael E. Stogner, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Division: Charles E. Roybal  
Attorney at Law  
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E X H I B I T S

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MR. STOGNER: Call next Case Number 9369.

MR. ROYBAL: Case 9369. Application of Hixon Development Company for compulsory pooling, Rio Arriba County, New Mexico.

MR. STOGNER: Mr. Examiner, my name is Tommy Roberts. I'm an attorney in Farmington, New Mexico, and I'm appearing on behalf of the applicant in this case.

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

Will the witness please stand and be sworn?

(Witness sworn.)

MR. ROBERTS: Mr. Examiner, before we begin the testimony of Mr. Corbett, I would like to make a real brief introductory statement, give you a little bit of background on this application.

The Tapacitos No. 4 Well was drilled on a standard 320-acre spacing unit in accordance with applicable pool rules in the Gavilan Mancos Oil Pool.

The Commission Order No. R-

1  
2 7407-E changed the standard spacing in the pool to 640-acre  
3 spacing with a flexibility to drill an infill well.

4 Commission Order No. 7407-E ac-  
5 cepted and granted an exemption to existing spacing units  
6 from provision of the new spacing rule.

7 All of the working interest  
8 owners in Section 36, the section in which the Tapacitos No.  
9 4 Well is located, have now agreed to the reformation of the  
10 existing spacing unit of 320 acres to a spacing unit based  
11 on 640 acres in accordance with the new rules.

12 This application was advertised  
13 as a compulsory pooling application seeking the compulsory  
14 pooling of all mineral interests underlying Section 36 in  
15 Township 26 North, Range 2 West.

16 At the time of the advertise-  
17 ment one of the working interest owners had not agreed as to  
18 the method of participation in the reformation. In the last  
19 couple of days, though, that interest owner did agree and  
20 now all working interest owners are in agreement as to the  
21 reformation of the unit.

22 I think the manner in which the  
23 case has been advertised is still applicable, though, be-  
24 cause we have overriding royalty interest owners who have  
25 not concurred in the reformation of the unit.

I believe that it is necessary

1 to present this case today in order to deal with those non-  
2 consenting, nonconcurring overriding royalty interest own-  
3 ers. I think it's important that the applicant in this  
4 case, Hixon Development Company, be able to put into the re-  
5 cord some evidence as to the pressure data in the pool and  
6 particularly with respect to Section 36, and with respect to  
7 the economics of drilling a second well based on 320-acre  
8 spacing versus reforming the unit to 640 acres.

9 With that, Mr. Examiner, I  
10 would go ahead and begin the questioning of the witness.

11 MR. STOGNER: Mr. Roberts, be-  
12 fore we do, let's clarify one matter.

13 I was aware, or I became aware  
14 of a typographic error in the advertisement in which is  
15 stated, toward the bottom, that this well is presently dedi-  
16 cated to the east half of said Section 36, which I was in  
17 error. It is actually dedicated to the south half, is it  
18 not?

19 MR. ROBERTS: That is correct.

20 MR. STOGNER: Okay. Since this  
21 particular portion of the ad really has no significance in  
22 the actual application which you're seeking at this time, I  
23 feel that it won't -- it will not need to be readvertised.  
24 We can continue it today and clarify it on the record and in  
25 the order which should be --

1 MR. ROBERTS: I would concur  
2 with that approach.

3 MR. STOGNER: Okay, and let me  
4 make sure I understand, all the working interests have agreed  
5 so we're not here to force pool any working interest.

6 MR. ROBERTS: That is correct.

7 MR. STOGNER: Now, the royalty  
8 interests have concurred or the language and such as in the  
9 lease has been joining; it's just that you have one over-  
10 riding royalty interest that --

11 MR. ROBERTS: We have two over-  
12 riding royalty interests who have not concurred, and in our  
13 testimony we will explain to you what efforts have been  
14 made to obtain that concurrence and through the testimony of  
15 Mr. Corbett we will deal with the royalty interest.

16 His testimony will reflect that  
17 all of the leases comprising Section 36 are Federal oil and  
18 gas leases, all of which have a standard nonsliding scale  
19 12-1/2 percent rate of royalty and his testimony would be  
20 that there is no potential for dilution of that royalty by  
21 virtue of a reformation of the unit.

22 MR. STOGNER: Thank you, Mr.  
23 Roberts, please continue.

24

25

1 JOHN CORBETT,  
2 being called as a witness and being duly sworn upon his  
3 oath, testified as follows, to-wit:

4

5 DIRECT EXAMINATION

6 BY MR. ROBERTS:

7 Q Mr. Corbett, --

8 MR. KELLAHIN: Excuse me, I'd  
9 like to enter my appearance in this case and I apologize --10 MR. STOGNER: 9369, Mr. Kella-  
11 hin?12 MR. KELLAHIN; Yes, sir. Ap-  
13 pearing on behalf of R. K. O'Connell.14 Q Mr. Corbett, would you please state your  
15 name for the record and your place of residence?16 A My name is John Corbett. I live in Far-  
17 mington, New Mexico.

18 Q What is your occupation?

19 A I'm a petroleum geologist with Hixon De-  
20 velopment Company.21 Q And have you testified on any prior oc-  
22 casions before the Oil Conservation Division?

23 A Yes, sir, I have.

24 Q In what capacity?

25 A As a petroleum geologist.

1 Q Have your qualifications as an expert in  
2 the field of petroleum geology been made a matter of record  
3 and been accepted by the Division?

4 A Yes, they have.

5 Q Are you familiar with the operations of  
6 Hixon Development Company in the area of the Gavilan Mancos  
7 Oil Pool?

8 A I am.

9 Q And are you familiar with the application  
10 of Hixon Development Company in this case today?

11 A Yes, I am.

12 Q Have you made a study of pertinent data  
13 for purposes of providing testimony in this case?

14 A Yes, I have.

15 MR. ROBERTS: Mr. Examiner, I  
16 would tender Mr. Corbett as an expert in the field of petro-  
17 leum geology.

18 MR. STOGNER: Mr. Corbett is so  
19 qualified.

20 Q Mr. Corbett, I'd like for you to refer to  
21 the exhibit package which has been prepared for this hearing  
22 and would you explain its format for the Examiner?

23 A This package is divided into five sec-  
24 tions detailing the leasing question, the ownership of the  
25 leases in question, some pressure data from the Gavilan Man-

1 cos Oil Pool, modeling of decline curves for the purpose of  
2 economic analysis of the proration units in question, and  
3 those, the economic analysis themselves, and finally, our  
4 evidence of notification.

5 Q Is it correct, Mr. Corbett, that you have  
6 labeled the entire exhibit package as Exhibit Number One?

7 A Yes, I have.

8 Q And is it accurate to say that there are  
9 various items in the packet that are referred to by an item  
10 number?

11 A Yes, there are. Those items are listed  
12 in the table of contents.

13 Q Mr. Corbett, please refer to what's been  
14 marked as Item No. 1 in the exhibit package and identify  
15 that exhibit and explain its significance to the  
16 application.

17 A Item No. 1 is an area map showing the  
18 sections in question. In this case the proration unit for  
19 the Tapacitos No. 4 is highlighted. It's the south half of  
20 Section 36, Township 26 North, Range 2 West, Rio Arriba  
21 County, New Mexico.

22 Q The area, the township line between range  
23 1 West and Range 2 West forms the eastern border of the  
24 Gavilan Mancos Pool.

25 Also shown on this map are a number of

1 producing Gavilan Mancos -- Mancos formation oil wells.  
2 Those wells are shown, several of them are cited with the  
3 pressure data later in the document.

4 Q When was the Tapacitos No. 4 Well drilled  
5 and completed.

6 A It was drilled in 1985 and completed and  
7 first produced in January of 1986.

8 Q In what formation, or formations is the  
9 well completed?

10 A The Gavilan Mancos.

11 Q What's the current status of the well?

12 A It's a producing oil well.

13 Q And who is the operator of the well?

14 A Hixon Development Company has operated  
15 the well since May of 1987.

16 Q Who operated the well prior to that time?

17 A Dugan Production Corporation.

18 Q Is Dugan the party responsible for the  
19 drilling of the well?

20 A Yes, they were.

21 Q What is the cumulative oil and gas  
22 production from the well?

23 A Oil produciton to date is approximately  
24 80,000 barrels of oil. It's produced approximately 70,000  
25 MCF.

1 Q Mr. Corbett, refer to Item No. 2 in  
2 the exhibit package and identify that exhibit.

3 A This is a plat of Section 31 showing the  
4 leases that comprise the entire section. It lists several  
5 leases and the ownership of those leases and the percentage  
6 ownership in those leases.

7 It shows Lease Number NM-7993 is owned --  
8 60 percent of the working interest belongs to Hixon  
9 Development Company; 40 percent of the working interest  
10 belongs to Dugan Production Corporation; and there is a 7-  
11 1/2 percent override that belongs to Billie Robinson. It's a  
12 Federal lease with a 12-1/2 percent royalty rate.

13 Also in this section, a Federal Lease NM-  
14 31577, the working interest is owned 100 percent by South-  
15 land Royalty. Southland is the record title owner; that's  
16 now operated by Meridian Oil.

17 There's a 5 percent override to Virgil  
18 Harquist (sic); again, that has a Federal royalty rate of  
19 12-1/2 percent.

20 Also in the section is Federal Lease NM-  
21 55821. 100 percent working interest belongs to R. K. O'Con-  
22 nell. There are no overrides. That's a Federal lease with  
23 a 12-1/2 percent royalty rate.

24 Q Mr. Corbett, refer to Items No. 3 and No.  
25 4 in the Exhibit package and identify those items.

1           A           These are ownership summaries, Section  
2 36. They're included here to illustrate the working inter-  
3 est and revenue interests in the proration units. The south  
4 half proration unit is currently producing; the north half  
5 is not dedicated to a well and is not producing at this  
6 time.

7                           And Item No. 4 shows a 640-acre proration  
8 unit. There's a before payout and after payout summary be-  
9 cause of our -- the terms of our agreement with the other  
10 working interest owners in the section.

11           Q           Mr. Corbett, does Item No. 4 illustrate  
12 the degree to which certain interests, particularly the  
13 overriding royalty interests, would be diluted in the event  
14 of the reformation of this existing proration unit?

15           A           Yes, it does. That dilution is shown by  
16 comparing the south half proration unit shown in Item No. 3  
17 and the 640-acre proration unit shown in Item No. 4.

18           Q           Mr. Corbett, briefly summarize the nature  
19 of the agreements among the owners of the working interest  
20 in Section 36 with respect to the reformation of the spacing  
21 unit.

22           A           We agreed early this year to settle with  
23 Meridian Oil. They own 3/16ths of the 640-acre proration  
24 unit but none of the well. They've purchased an interest in  
25 the well at its present value proportionate to what their

1 share of the 640-acre proration unit would be.

2 We've agreed with R. K. O'Connell to pur-  
3 chase as -- using a production payment, his 1/16th in the  
4 well that will make his interest proportionate to the owner-  
5 ship in the acreage.

6 Q And has Dugan Production Corporation been  
7 a party to those agreements and concurred in those agree-  
8 ments?

9 A Yes, they have.

10 Q Have the owners of the overriding royalty  
11 interests and royalty interests been notified of the pro-  
12 posed reformation?

13 A We have contacted all of the working in-  
14 terest owners, the royalty owner, and one of the two over-  
15 rides; the other override, the one not contacted being Mr.  
16 Virgil Harquist (sic).

17 We attempted to contact him in Charlotte,  
18 North Carolina, which is his latest residence of record with  
19 the Bureau of Land Management.

20 Failing that, we attempted to contact him  
21 at another address we had found for him in Chicago, Illi-  
22 nois, and that was also unsuccessful.

23 Q Was the purpose of those efforts of con-  
24 tact to obtain the concurrence of those parties to the re-  
25 formation of this particular unit?

1           A           Yes, it was.

2           Q           And you've indicated you have not been  
3 able to make contact with Mr. Harquist, so obviously he has  
4 not concurred.

5                       Were you able to obtain the concurrence  
6 of the overriding royalty interest owned by Billie Robinson?

7           A           We sought her concurrence on paper and  
8 she has contacted us since receiving that document, stating  
9 that she objected to the reformation of our proration unit.

10          Q           Has the Federal government, as the owner  
11 of undiluted royalty interest in this section indicated  
12 concurrence?

13          A           They have verbally indicated that they  
14 feel that we're doing the right thing. We have no written  
15 concurrence from the BLM.

16          Q           Mr. Corbett, refer to Item No. 5 in the  
17 exhibit package and identify that exhibit and explain its  
18 significance to this application.

19          A           This is a graph showing pressures in the  
20 Gavilan Mancos Pool both for the entire pool and for the  
21 wells listed at the base of the graph, the Tapacitos 2, the  
22 Wildfire No. 1, the Tapacitos No. 4, and the Canada Ojitos  
23 Unit No. 29.

24                       The significance of this graph is that it  
25 shows that all the wells shown on the area map, Item No. 1,

1 are declining in pressure at the same rate. and the  
2 significance of this is that oil is being withdrawn  
3 uniformly, pressures are declining uniformly. It  
4 illustrates that the existing wells are draining the entire  
5 area in question.

6 Q What is the source of the data that has  
7 been illustrated in this graph?

8 A The pool pressures are from Dwight's  
9 data. The Tapacitos No. 2 point is from Hixon Development  
10 Company's own data. The Tapacitos No. 4 points are from  
11 Hixon Development Company's data and data obtained by Dugan  
12 Production Corporation before Hixon bought the well.

13 The Wildfire No. 1, Canada Ojitos 29  
14 data, was gathered by the operators of those wells at the  
15 request of the New Mexico Oil Conservation Division.

16 Q What conclusion, if any, do you draw from  
17 the data illustrated on this particular item of the exhibit?

18 A These items show that drainage is  
19 efficient in this area and that additional wells on 640  
20 acres, one well will adequately drain 640 acres.

21 Q Refer to Item No. 6 and identify it.

22 A Item No. 6 is a summary of cumulative oil  
23 and gas production and bottom hole pressures as of February  
24 of 1988 for the wells listed on the previous graph.

25 It's significant in that it shows that

1 even though certain wells have nominal oil production, their  
2 pressures have declined with the rest of the pool, saying  
3 that that oil is being drained by existing wells.

4 It shows the extent of drainage in the  
5 Gavilan Pool.

6 Q Identify Item No. 7 in the exhibit pack-  
7 age and explain its significance to the application.

8 A Item Number Seven is input data. It's  
9 recent production data from the Gavilan Mancos Oil Pool. It  
10 was used to -- for a regression analysis to determine at  
11 what depth rate production is declining in the Gavilan Pool,  
12 and that analysis was then used in modeling the reserves  
13 projection.

14 Q Now refer to Item No. 8 and identify that  
15 item in the exhibit package.

16 A Item No. 8 is a graphic showing the pro-  
17 duction decline shown in Item No. 7. It illustrates by ref-  
18 erence that the regressions used do fit the data as pub-  
19 lished by the New Mexico Oil Conservation Division.

20 Q Refer to Items No. 9 and No. 10 and iden-  
21 tify those particular items in the exhibit package.

22 A Item No. 9 and 10 conflict, you might at  
23 this point wish to make a note in your table of contents  
24 that they were inadvertently reversed.

25 Item No. 9 is a best-fit curve of regres-

1 sion analysis for the gas production, showing an increase in  
2 the GOR for the Gavilan Mancos Pool.

3 Item No. 10, a regression analysis of the  
4 oil production from the Gavilan Mancos Pool.

5 Of significance is that it shows that the  
6 gas is increasing at 26 percent per year while the oil pro-  
7 duction from the Gavilan Mancos Pool is declining at 36.6  
8 percent per year.

9 Q Mr. Corbett, refer to Item No. 11 in the  
10 exhibit package and identify that.

11 A Item No. 11 shows production as taken  
12 from the regression analysis. The gross oil curve is de-  
13 clining at 36 percent per year. The gas curve is -- shows a  
14 decline using an increasing GOR but a more rapidly decreas-  
15 ing oil production. We arrive at this gas decline, and  
16 these production streams were used in modeling my economic  
17 projections.

18 Q Now refer to Item No. 12 and identify  
19 that exhibit.

20 A Item No. 12 is an input data report that  
21 was used in calculating the present value of the existing  
22 Tapacitos No. 4.

23 Some of the important points in this are  
24 the price of oil and gas. Those are based on current post-  
25 ings and are not escalated or declined at any rate. Operat-

1 ing expense is based n our current operating expense for the  
2 well. Again this is not escalated or declined.

3 The interests are based on 100 percent  
4 working interest and an 80 percent net revenue interest,  
5 which in fact are the interests of Hixon Development Company  
6 and Dugan Production Company.

7 On the bottom of the page are the decline  
8 projections. The initial rate for oil production is what is  
9 the current rate for the well. The decline percent is 36.6  
10 for oil per my regression analysis and from that you calcu-  
11 late the remaining oil in place.

12 Q And what have you calculated to be the  
13 remaining recoverable reserves under Section 36?

14 A The remaining reserves are 45,082 bar-  
15 rels. Because of economics some of that oil is not recover-  
16 able. The remaining recoverable reserves are 44,438 barrels  
17 of oil and 1,347 MMCF.

18 Q What proportion of the calculated remain-  
19 ing recoverable reserves would you allocate to the south  
20 half of Section 36?

21 A Proportionately 50 percent of these we  
22 feel are coming from the south half of Section 36.

23 Q And so 50 percent is also allocated to  
24 the north half of Section 36?

25 A That's correct.

1 Q Now refer to Item No. 13 in your exhibit  
2 package and identify that exhibit and explain its signifi-  
3 cance to this application.

4 A Item No. 13 shows the present value of  
5 one well producing all the reserves attributable to Section  
6 36. The present value of that is \$1,278,638.

7 Q Now that's the present value attributable  
8 to 100 percent working interest and an 80 percent net reve-  
9 nue interest?

10 A That's correct, and reserves attributable  
11 to the entire section.

12 Q Okay. Refer to Item No. 14 and identify  
13 that item in the exhibit package.

14 A Item No. 14 is input data. What I've  
15 done here is half the initial rate on the production string,  
16 assuming that 50 percent of the reserves are attributable to  
17 the south half, 50 percent to the north half. This gives us  
18 approximately 50 percent of the reserves, or 22,409 barrels  
19 of oil remaining to be recovered.

20 Q Now, did -- did you have more to say on  
21 that particular --

22 A Yeah, this -- this scenario shows the  
23 existing Tapacitos No. 4 and allows for drainage from a sec-  
24 ond well to be drilled in the north half of the section.

25 Q Okay, and what is the source of the var-

1 iable information that is reflected in this input data re-  
2 port?

3 A Again, prices are per current postings;  
4 operating costs are our current costs. The decline is the  
5 36.6 percent from our (unclear) analysis and the initial  
6 rate is 50 percent of our current producing rate in the  
7 Tapacitos Pool.

8 Q Now, Item No. 15 in the exhibit package  
9 appears to be an economic projection based on that input da-  
10 ta that's reflected in Item No. 14. What does Item No. 15  
11 illustrate?

12 A Item 15 here is economic input data for a  
13 -- are we using the same handbook?

14 MR. ROBERTS: Better go off the  
15 record here for a minute and make sure we've got our --

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

17 Q Mr. Corbett, I'll have you refer to Item  
18 No. 15 of the exhibit package and identify that.

19 A Item 15 is input data modeled after a  
20 well that would be draining the north half of Section 36.  
21 The producing rate, the decline rate, the costs, and the  
22 operating costs are all the same as in Section -- the south  
23 half of Section 36. The one difference is that under Capi-  
24 tal Investments we've allowed for the costs approximately  
25 \$600,000 for drilling another well in the north half of the

1 section.

2 Q Now, now refer to Item No. 16 and  
3 identify that exhibit. I believe that is the economic  
4 projection.

5 A Item No. 16 is an economic projection for  
6 the Tapacitos No. 4, showing the impact of a second well in  
7 the north half of the section.

8 The present value of the Tapacitos 4,  
9 given half of its remaining reserves, is now \$565,914.

10 Q And what conclusion do you draw from the  
11 data illustrated in this particular item of the exhibit?

12 A The conclusion here is that the Tapacitos  
13 4's value is greatly diminished by drilling the second well  
14 in the north half of the section.

15 Q Now refer to Item No. 17 and identify  
16 that particular item of the exhibit package.

17 A Item No. 17 is a cash flow analysis for a  
18 second well to be -- having been drilled in the north half  
19 of the section. The well, having cost \$600,000 to drill,  
20 has a present value of negative \$34,086.

21 Q Now, do you conclude, then, that the  
22 drilling of a second well would be an uneconomical venture  
23 for those parties who are responsible for the payment of  
24 those expenses?

25 A That's correct.

1 Q And in your opinion would prudent inves-  
2 tors elect to drill a well given those economics?

3 A No, they would not.

4 Q Refer to Item Number 18 in the exhibit  
5 package and identify that item.

6 A Item 18 is a summary of a two-well scena-  
7 rio, one well in the north half, one well in the south half,  
8 draining Section 36. It has a present value of \$531,829.

9 Q Okay, and refer to Item Number 19.

10 A Item Number 19 compares for a one-well  
11 scenario where the existing Tapacitos 4 is allowed to drain  
12 the section and the two-well scenario, where a second well  
13 is drilled in the north half of the section. It breaks out  
14 the loss of production revenue having drilled a second well.  
15 There is some loss in production because at some point the  
16 section will be producing 20 barrels a day and we can afford  
17 to operate a 20-barrel a day well, whereas we may not be  
18 able to afford to operate two 10-barrel a day wells.

19 There is an increase in ad valorem and  
20 production tax. There's no windfall profits tax. Operating  
21 expenses are increased. Drilling and completion costs are  
22 showing that \$600,000 is the cost of drilling a new well in  
23 the north half.

24 Because of discounting there's some gain  
25 on the time value of money but ultimately drilling a second

1 well in the north half of the section will result in an eco-  
2 nomic waste of \$746,809.

3 Q Mr. Corbett, in your opinion would the  
4 existence of a second well in the section result in the in-  
5 creased recovery of reserves from under the lands in Section  
6 36?

7 A No, it would actually result in a slight  
8 decrease in recovery.

9 Q Mr. Corbett, I'd like now for you to re-  
10 fer to Item Nos. 20 through 26 collectively in the exhibit  
11 package, and describe those, the contents of those particu-  
12 lar items.

13 A These are comparable economics to those  
14 we've just gone through. The interests have been changed  
15 from a 100 percent working interest and 90 percent net rev-  
16 enue interest to a 7-1/2 percent override on Lease NM-7993.  
17 This would be proportionately reduced to 5.625 percent over-  
18 riding royalty interest.

19 Q To illustrate, if we go through here  
20 fairly quickly, the economic loss for having drilled a  
21 second well in the section, by comparing Item No. 26 to Item  
22 No. 21, you can see that one well having recovered more re-  
23 serves from the section, for that override, actually, one  
24 well has a higher present value than two wells do because of  
25 the increased operating costs and lower recovery from two

1 wells.

2 Q Now, Mr. Corbett, Items Twenty through  
3 Twenty-six actually are an economic analysis of the present  
4 value of a 7-1/2 percent overriding royalty interest, is  
5 that correct?

6 A Yes, they are.

7 Q And that particular overriding royalty  
8 interest is the interest owned by Billie Robinson?

9 A That's correct.

10 Q Okay. Now, what conclusion, if any, can  
11 you draw with respect to the impact of the reformation of  
12 this existing spacing unit on -- one the overriding royalty  
13 interest owned by Billie Robinson in the existing spacing  
14 unit?

15 A Well, Mrs. Robinson's overriding royalty  
16 interest would be proportionately reduced by 25 percent by  
17 expanding our proration unit from 320 acres to 640 acres be-  
18 cause of her even greater proportionate reduction in the  
19 second well in the north half. Assuming that a second well  
20 in the north half will drain 50 percent of the reserves from  
21 the section, she actually doesn't have a 25 percent reduc-  
22 tion in her present value. In fact, her present value is  
23 greater on a 640-acre proration unit than it is on two 320-  
24 acre proration units.

25 Q You've previously testified that Virgil

1 Harquist owns a 5 percent overriding royalty interest on the  
2 lands covered by Federal oil and gas Lease NM-31577. Do you  
3 have an opinion as to the impact of the reformation on the  
4 economics for this overriding royalty interest which is not  
5 participating now in the existing spacing unit but which  
6 would participate in the reformed spacing unit?

7 A I do. While there are no economics pre-  
8 sented for his override here, we've shown that the economics  
9 -- that it would provide economic waste to drill a second  
10 well in the north half of the section.

11 If we are not allowed to increase our  
12 proration unit from 320 acres to 640 acres, Mr. Harquist's  
13 override will never come into production and he won't  
14 receive any benefit from it all.

15 Q In your opinion will the reformation of  
16 the existing spacing unit have any adverse impact, economic  
17 impact, on the royalty interest owner under the leases which  
18 cover Section 36?

19 A No, it won't, because the royalty owner-  
20 ship is uniform throughout the section.

21 Q What effective date do you propose for  
22 the order which you request be issued today?

23 A We're proposing that April 1st be the ef-  
24 fective date of this order.

25 Q And what is the basis for that --

1 A That's based --

2 Q -- proposal?

3 A -- on our private agreements with Meri-  
4 dian, operating for Southland Royalty.

5 Q Now refer to Item No. 27 in the exhibit  
6 package and identify that exhibit.

7 A Item No. 27 is a compilation of return  
8 receipts providing evidence of notification to all of the  
9 working, royalty and overriding royalty interests in Section  
10 36.

11 Q Mr. Corbett, in your opinion will the  
12 granting of this application result in the prevention of  
13 both economic and physical waste and be in the best interest  
14 of conservation, and be in the best interest of protection  
15 of correlative rights?

16 A Yes, it will.

17 Q And were the separate documents which  
18 constitute the exhibit package, Items 1 through Item 27,  
19 either prepared by you or at your direction and under your  
20 supervision?

21 A Yes, they were.

22 MR. ROBERTS: Mr. Examiner, I  
23 would move admission of Exhibit Number One, which consists  
24 of Items 1 through 27.

25 MR. STOGNER: Exhibit One, with

1 all of its items, will be admitted into evidence at this  
2 time.

3 MR. ROBERTS: We have no other  
4 questions for the witness.

5 MR. STOGNER: Mr. Kellahin, do  
6 you have any questions of this witness?

7 MR. KELLAHIN: Thank you, Mr.  
8 Stogner, I have no questions for Mr. Corbett.

9

10 CROSS EXAMINATION

11 BY MR. STOGNER:

12 Q I'm not sure why you want April 1st as  
13 the effective date. Could you please elaborate a little  
14 further?

15 A We had originally discussed reforming  
16 these proration units in December and January. this preced-  
17 ing January. We reached an agreement, based on the present  
18 value of the well, with Meridian, and they provided the re-  
19 muneration for their interest in the well in early April.

20 At that point we set up an account for  
21 their revenues and began forwarding bills for their inter-  
22 est.

23 Q Now, you mentioned earlier that you had a  
24 Chicago address for Mr. Harquist. I guess I'm failing to  
25 find that in your last item. I find his Charlotte, North

1 Carolina address but -- am I missing something?

2 A It's apparently not here.

3 Q If you've got a copy of it, you can just  
4 submit it afterwards so we can make it part of the record.

5 Q Would you like the address to be part of  
6 the record now?

7 A No, that won't be necessary, just make a  
8 copy of what you have and that you sent it, I assume you  
9 sent it return receipt requested?

10 A Yes, sir.

11 Q Did you send it after you had tried that  
12 Charlotte address?

13 A That's correct.

14 MR. STOGNER: I have no further  
15 questions of this witness at this time.

16 Are there any other questions  
17 of Mr. Corbett?

18 If not, he may be excused.

19 Mr. Kellahin, do you have any  
20 closing remarks?

21 MR. KELLAHIN: No, sir.

22 MR. STOGNER: Mr. Roberts.

23 MR. ROBERTS: Yes.

24 MR. STOGNER: If you'd help me  
25 out a little bit, would you supply me a rough draft order on

1 this?

2 MR. ROBERTS: Sure.

3 MR. STOGNER: If there is  
4 nothing further in Case Number 9369 it will be taken under  
5 advisement.

6

7 (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. 9369 heard by me on 25 May 1988.  
Michael J. Rogers, Examiner  
Oil Conservation Division