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STATE OF NEW MEXICO  
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT  
OIL CONSERVATION DIVISION

EXAMINER HEARING

IN THE MATTER OF:

Application of C. W. Trainer      Case 9957  
for compulsory pooling,  
Lea County, New Mexico

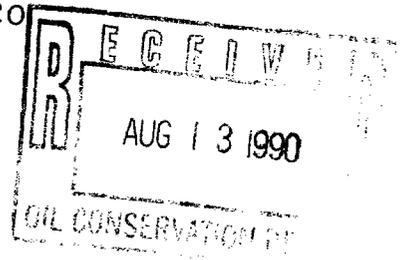
TRANSCRIPT OF PROCEEDINGS

BEFORE:    MICHAEL E. STOGNER, EXAMINER

STATE LAND OFFICE BUILDING  
SANTA FE, NEW MEXICO

June 13, 1990

**ORIGINAL**



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FOR THE DIVISION:        ROBERT G. STOVALL  
                                 Attorney at Law  
                                 Legal Counsel to the Divison  
                                 State Land Office Building  
                                 Santa Fe, New Mexico

FOR THE APPLICANT:      LOSEE, CARSON, HAAS & CARROLL  
                                 P.O. Box 239  
                                 Artesia, New Mexico  
BY:    ERNEST L. CARROLL, ESQ.

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1 HEARING EXAMINER: This hearing will come  
2 to order. I'll call next case, No. 9957.

3 MR. STOVALL: Application of C. W. Trainer  
4 for compulsory pooling, Lea County, New Mexico.

5 HEARING EXAMINER: Call for appearances.

6 MR. CARROLL: Mr. Examiner, my name is  
7 Ernest Carroll of the law firm Losee, Carson, Haas &  
8 Carroll of Artesia, New Mexico, and I'm here  
9 representing the Applicant, C. W. Trainer.

10 HEARING EXAMINER: Are there any other  
11 appearances?

12 Mr. Carroll, before we get started, there  
13 was a question on your application about the well name  
14 and the well location. The well location, which I'll  
15 propose to reenter and which Mr. Trainer plans to  
16 reenter, is 1650 from the south and east lines; is  
17 that correct?

18 MR. CARROLL: That's correct.

19 HEARING EXAMINER: In my well files, I show  
20 that's called the Wallace #2, Ralph Lowe, plugged and  
21 abandoned, April 1970. It was originally drilled in  
22 1957. It looks like its completion or it was  
23 completed in the Devonian formation originally?

24 MR. CARROLL: That's correct. Mr.  
25 Examiner, I was not aware -- in fact, I discovered

1 that this morning, and Mr. Trainer explained. The  
2 well that we do plan on reentering is the Wallace #2.  
3 Mr. Trainer is wishing to redesignate it upon his  
4 reentry as the Wallace #1. They do have hopes of  
5 reentering more of these wells, and they thought if  
6 they started out and renumbered them as they went,  
7 they could keep better track of them, and that is the  
8 reason for the confusion.

9 HEARING EXAMINER: Thank you, because there  
10 was a Wallace #1 for Ralph Lowe, and as I usually do  
11 on the advertisement, I usually hold the name. If he  
12 wants to change his name, whatever it is, there's no  
13 problem on that.

14 MR. CARROLL: That's what happened.

15 HEARING EXAMINER: Thanks for getting me  
16 straight on that, Mr. Carroll. You may proceed.

17 MR. STOVALL: Let me swear in the witnesses  
18 first.

19 MR. CARROLL: Yes, I have two witnesses,  
20 Mr. Trainer and Mr. Lee.

21 C. W. TRAINER,  
22 the witness herein, after having been first duly sworn  
23 upon his oath, was examined and testified as follows:

24 DIRECT EXAMINATION

25 BY MR. CARROLL:

1 Q. Mr. Trainer, would you state your full name  
2 and address for the record.

3 A. My name is C. W. Trainer. I live at 526  
4 Sandy Mountain Drive, Sunrise Beach, Texas.

5 Q. You are self-employed as an independent oil  
6 operator; is that not true?

7 A. That's true.

8 Q. Mr. Trainer, I know you've testified before  
9 the Commission -- but we just don't remember exactly  
10 what he qualified for, and we're going to go back  
11 through that process, if you'll bear with us, Mr.  
12 Examiner.

13 With respect to your education  
14 qualifications, could you please state what degree  
15 that you have obtained?

16 A. University of Texas, 1948, Bachelor of  
17 Science, Electrical Engineering.

18 Q. All right. After obtaining this degree in  
19 engineering, did you enter work within the oil  
20 business?

21 A. I hired out to Schlumberger Well Surveying  
22 Corporation, it was called. I worked for them for  
23 almost nine years, quit in 56, and have been in this  
24 business ever since.

25 Q. In 1956, did you become an independent

1 operator then?

2 A. Yes, at Hobbs.

3 Q. At the present time are you operating any  
4 oil or gas wells?

5 A. Yes, I am.

6 Q. How many wells are you operating at the  
7 present time?

8 A. Eighteen producing wells.

9 Q. Over the years since 1956 to the present,  
10 have you operated many more wells than 18?

11 A. Yes, a great many.

12 Q. You have bought and sold a number of wells;  
13 is that not true?

14 A. Yes, I have.

15 Q. During that period of time, how many wells  
16 have you actually caused to be drilled, supervised the  
17 drilling thereof?

18 A. Around 100, I would say.

19 Q. With respect to the reentry of plugged and  
20 abandoned oil wells, how many of those have you done?

21 A. About 30, I would say, all in Lea County.

22 Q. At the present time, you're also involved  
23 in the promotion of drilling ventures and that sort of  
24 thing, are you not?

25 A. Oh, yes. I'm busy.

1 Q. During your time as an independent  
2 operator, have you also had experience wherein you  
3 worked as a contractor in the areas of drilling,  
4 completion, and production?

5 A. Yes, I have.

6 Q. Then with respect to your experience, you  
7 are a trained engineer, you have worked, drilled  
8 wells; so you have experience in the drilling, the  
9 completion, reentry, production, promotion, and  
10 operation of oil wells; is that not true?

11 A. That's true.

12 MR. CARROLL: Mr. Examiner, I tender Mr.  
13 Trainer. He is a trained engineer and at least has a  
14 practical education or experience in all of these  
15 different areas with respect to the drilling and  
16 completion and production of oil wells.

17 HEARING EXAMINER: Thank you, Mr. Carroll.  
18 Mr. Trainer is so qualified.

19 Q. (BY MR. CARROLL) Mr. Trainer, you have  
20 filed an application in Case No. 9957 for compulsory  
21 pooling of the northwest quarter of the southeast  
22 quarter of Section 31, Township 11 south, Range 38  
23 East; is that true?

24 A. True.

25 Q. What objective or interval of production

1 are you planning to reenter and propose to recomplete  
2 the abandoned well that's located in that northwest  
3 quarter of the southeast quarter of Section 31?

4 A. Devonian, Gladiola Devonian. I intend to  
5 produce probably the same perforation we produced  
6 before.

7 Q. As we clarified, the well that you planned  
8 on reentering is the Wallace #2, and you wish to  
9 redesignate it as the Wallace #1; is that right?

10 A. That's true. It might be confusing because  
11 our next one may be the one that was there, pure  
12 Wallace or something else. If we can redo it, it will  
13 be simpler for us.

14 Q. Can you describe what the purpose is, what  
15 you plan to accomplish by reentering this Wallace #1?

16 A. We plan to get a lot of oil out of it.

17 Q. At the time that this particular well was  
18 plugged and abandoned, was it still producing oil?

19 A. Yes. The last year that it produced, the  
20 average daily production was 24 barrels of oil, and  
21 water production was about 1,500 barrels of water.

22 Q. Mr. Trainer, I'm going to ask you to turn  
23 to your Exhibit No. 1. Would you explain to the  
24 Examiner exactly what Exhibit No. 1 is?

25 A. Exhibit No. 1 is bought from the Midland

1 Map Company. It's an ownership map. I've colored our  
2 lease on there and put our expiration date on it and  
3 indicated the well we intend to reenter.

4 Q. All of the acreage colored in yellow is  
5 acreage you own an interest in; is that correct?

6 A. Yes. It's basically this same family that  
7 we're taking leases from.

8 Q. With respect to the well that you wish to  
9 reenter, you've got it pointed out here and the name  
10 Wallace #1 on it; is that correct?

11 A. That's correct. It was what was known as  
12 Wallace #2. The map should show that if I didn't  
13 erase it.

14 Q. Would you turn to your Exhibit No. 2?

15 A. Okay.

16 Q. Would you explain to the Examiner what  
17 Exhibit No. 2 is?

18 A. That's a page out of the Red Book entitled  
19 Symposium of Oil and Gas Fields in Southeastern New  
20 Mexico by the Roswell Geological Society, 1960  
21 Edition, and the Roswell Geological Society published  
22 this book of most of the fields down there.

23 Q. The field, this Gladiola field, is shown by  
24 the hash-marked lines on this Exhibit 2; is it not?

25 A. Yes.

1           Q.       Mr. Trainer, would you explain to the  
2 Examiner the theory behind your reentry, why you feel  
3 that you can produce oil from this plugged and  
4 abandoned well?

5           A.       It's a pretty daresome idea because May  
6 Petroleum drilled on this same lease there just 600  
7 feet east of it four years after this well was  
8 plugged, I believe it was two years after, and plugged  
9 and didn't get any oil. But the time is the factor, I  
10 think, and that's the 20 years during which after the  
11 reservoir got static with no turbulence in it from  
12 other production, then I would hope that the water  
13 would settle out and oil would flow to the top, and  
14 it's that oil that flows to the top that I'm after.  
15 And I've done it a couple of times before  
16 successfully.

17          Q.       You stated that you have observed or been  
18 able to determine that this phenomenon, the settling  
19 and the segregation of the oil from the water has  
20 occurred in other fields here in southeastern New  
21 Mexico?

22          A.       The last one we did is eight miles north of  
23 here called the North Echoes Field, and the well was  
24 completed in October, and we're pleased with it. It  
25 was almost water-free after being like this, watered

1 out, 20 years before. We've been real careful not to  
2 get the water in. We're not getting a lot of oil out,  
3 but we're getting 50 barrels a day or more and making  
4 a profit.

5 Q. Would you turn to your Exhibit No. 3. What  
6 is Exhibit No. 3?

7 A. Exhibit No. 3 is the facing page out of  
8 that same Geological Society book for this map, except  
9 it's from the one four years before, the 1956.

10 Q. What is the purpose of this exhibit? What  
11 does it show?

12 A. It gives some history of the field and some  
13 of the characteristics of the formation in that it  
14 names it's the Devonian, and the discovery well was  
15 Brownfield 1 down south, and it says it was a water  
16 drive and had an initial pressure of 4,786 psi.

17 The same page out of the four years later  
18 book is superimposed on Exhibit 2, and it's different  
19 writing on it, see. The 60 book gave this North  
20 Gladiola discovery the write-up, and the 56 book  
21 described the South Gladiola, when in fact it appears  
22 to be about all the same thing, if you look at this  
23 picture. But for years there was a couple miles in  
24 between they didn't drill. It was designated  
25 separately for a while.

1           Q.       With respect to other wells, are there any  
2 other wells producing in the vicinity of this well  
3 that you propose to reenter?

4           A.       There are not any other wells north of that  
5 saddle that goes through the center of the field. The  
6 wells out in the center of these in Section 24 and 19,  
7 there are still four wells producing down there, and I  
8 hope they're not creating enough turbulence to prevent  
9 my reaccumulation.

10          Q.       There were some water injection wells in  
11 the north part of this field. Have they been shut  
12 down also?

13          A.       I'm not sure. Two of them have. That one  
14 over to the east may still be injecting. It's lower  
15 volume, and we waited for 20 years to do this, and you  
16 just can't keep waiting, but I'd like for them all to  
17 be shut down if they're not.

18          Q.       At least you feel at this time because the  
19 production has ceased in the northern part and mostly  
20 the larger water injection wells have been absolute  
21 down, that there's been sufficient time for the water  
22 and oil to segregate?

23          A.       We think so, and at least we can't wait  
24 much longer.

25          Q.       All right. Would you turn to your Exhibit

1 No. 4. Would you tell the Examiner what Exhibit No. 4  
2 is?

3 A. Exhibit No. 4 is a takeoff that I bought  
4 from Lea County Abstract, showing their research, the  
5 ownership of the minerals, unleased minerals under  
6 this when I started in January. These are people  
7 we've gotten leases from as well as the ones that  
8 we're here to force-pool today. This is the total --

9 Q. This is 100 percent ownership?

10 A. This is 100 percent of the mineral.  
11 Nothing was leased when we started except a little bit  
12 down in Section 6 south, which we have topleased, but  
13 up where we're talking about, it's all here.

14 Q. So this is an ownership list showing both  
15 the addresses, the name, and the amount of interest  
16 that each of these individuals own?

17 A. That's right. They're a bunch of nice  
18 people, I'll tell you.

19 Q. Would you turn to your Exhibit No. 5.  
20 Would you explain to the Examiner what Exhibit No. 5  
21 is?

22 A. It's the same list of people, showing which  
23 ones we have leases from, the ones we have waivers  
24 from, and the ones that we're here to force pool.

25 Q. In fact, Mr. Trainer, prior to your filing

1 this application on May 21 of 1990, you had acquired a  
2 number of leases from the people that owned ownership  
3 under this proposed well reentry?

4 A. Yes.

5 Q. And this particular exhibit is what we  
6 attached to our prehearing statement, and these were  
7 the people as of 5-21-90 that we had not obtained a  
8 lease as of the date of filing?

9 A. Um-hm.

10 Q. Since the date of filing, you have, in  
11 fact, acquired leases from a number of these people,  
12 and that is shown under the column, noted "Leased"; is  
13 that correct?

14 A. Yes, sir, that's right.

15 Q. The second column is "Waiver." After we  
16 sent notice of this hearing, we did obtain waivers  
17 with respect to the people that are noted under that  
18 column; is that correct?

19 A. That's correct.

20 Q. And then with respect to the third column,  
21 the information contained here are people that we have  
22 not received any answer to our final request to either  
23 pool, lease, or submit a waiver to this hearing; is  
24 that correct?

25 A. That's correct, yes.

1 Q. Mr. Trainer, at the present time what  
2 percentage of interest is unleased?

3 A. It would be 83 percent leased, 16.9  
4 unleased.

5 Q. So you have now slightly over 83 percent  
6 under lease to yourself?

7 A. Yes.

8 Q. Of the list of people that are contained on  
9 Exhibit No. 5, there are two people that you have been  
10 unable to get any kind of response since you first  
11 began trying to contact these; is that correct?

12 A. Can't find them.

13 Q. Can't find them. What two people are  
14 those?

15 A. That's Thomas Grier Fischer.

16 Q. There appearing at the bottom of the first  
17 page of Exhibit 5?

18 A. The second one is fourth from the end,  
19 Marguerite Richardson, Hollywood, California.

20 Q. You have made numerous attempts since the  
21 first of the year to try to obtain better addresses  
22 for those two people but have been unable to do so?

23 A. That's true.

24 Q. Would you turn to your Exhibit No. 6?  
25 Would you tell the Examiner what Exhibit 6 is?

1           A.       That's the initial letter I sent along with  
2 the oil and gas lease to all of these mineral owners  
3 to see if they want to give me leases to try to get  
4 this oil.

5           Q.       This letter was dated January 4, 1990; is  
6 that correct?

7           A.       That's right.

8           Q.       And that's when you first began trying to  
9 put this deal together?

10          A.       That's right, xeroxed this letter and sent  
11 it to this list.

12          Q.       Would you turn to Exhibit 7. What is  
13 Exhibit 7?

14          A.       It's another letter to the same people,  
15 giving them a progress report and especially asking  
16 them to sign up, give us a lease.

17          Q.       This letter is under the letterhead of  
18 Underwood Petroleum Corporation. Is Underwood  
19 Petroleum Corporation working with you in trying to  
20 put this project together?

21          A.       Yes. D. W. Underwood lives at Kingsland  
22 where I do, and he's done more land work than I have  
23 on this.

24          Q.       With respect to Exhibits 6 and 7, these  
25 were blanket mailings that were sent out to all of the

1 working interest owners; is that correct?

2 A. Yes. All the leases read C. W. Trainer and  
3 Underwood Petroleum.

4 Q. Okay. Would you turn to your Exhibit No.  
5 8. What is Exhibit 8, Mr. Trainer?

6 A. It's the one we sent on May 21 as certified  
7 mail to invite the people to join and pay their part  
8 or give us a lease or tell them we're going to have to  
9 have this hearing to force pool them.

10 Q. This was your final blanket mailing to  
11 those people that were unleased?

12 A. Yes.

13 Q. As of May 21, 1990?

14 A. That's right.

15 Q. The pages that are attached behind the copy  
16 of the letter, these are copies of the certified  
17 receipts and the green cards then that were returned;  
18 is it not?

19 A. That's true, yes.

20 Q. In this particular letter that you propose,  
21 you refer to an AFE for \$300,000 for the project; you  
22 refer to a joint operating agreement providing for the  
23 300 percent nonconsent penalties and the daily  
24 operation rates of \$550 and then drilling operation  
25 rate of \$5,500; is that not correct?

1 A. That's correct.

2 Q. And these are the same -- these numbers are  
3 the numbers that you will be using with respect to  
4 this application?

5 A. Yes.

6 Q. An AFE will be presented for \$300,000; is  
7 that not correct?

8 A. That's right.

9 Q. You are asking that the Commission approve  
10 a penalty rate of 200 percent plus costs; is that  
11 correct?

12 A. That's right.

13 Q. And then the operation rates of \$550 and  
14 \$5,500; is that correct?

15 A. Yes.

16 MR. CARROLL: Mr. Examiner, I would at this  
17 time present for filing the waivers, which are noted  
18 on the earlier exhibit that had been returned to us,  
19 and then also our Certificate of Mailing with respect  
20 to the mailing of notice and giving notice to those  
21 people who were released -- excuse me.

22 MR. STOVALL: Mr. Carroll, in reading your  
23 Certificate of Mailing under compliance, it said, in  
24 part were mailed at least 20 days prior to hearing set  
25 for July 13, 1990.

1 MR. CARROLL: That's correct.

2 MR. STOVALL: I think we're a month early,  
3 if that's the case.

4 MR. CARROLL: Oh, that is an error then.  
5 Excuse me. That is a typo. If you could correct  
6 there by interlineation, that should read June 13, Mr.  
7 Stovall. I apologize for that error. We were putting  
8 this case together last night, and some of these  
9 things were rushed.

10 Q. Mr. Trainer, I'd also note on the earlier  
11 exhibit where we list, which is actually the updated  
12 exhibit to our prehearing statement, we show that  
13 you've had no communication on that with Coastal Oil &  
14 Gas. You have had phone communication with Coastal  
15 Oil & Gas, have you not?

16 A. Yes.

17 Q. With their landman by the name of Jane  
18 Chafin; is that correct?

19 A. That's right.

20 Q. What did Ms. Chafin indicate to you with  
21 respect to the hearing today?

22 A. She sent us a lease but said they'd have to  
23 have a meeting before they could do it.

24 Q. So they have indicated that they are going  
25 to join or lease to you?

1           A.       Yes, but they're not going to be here and  
2 fuss. I have her number over --

3           Q.       With respect to this unit, you are asking  
4 that yourself, C. W. Trainer, be designated as  
5 operator; is that correct?

6           A.       That's correct.

7           Q.       As we had noted earlier, you are asking  
8 that the Commission assess a 200 percent risk  
9 penalty. Would you explain for the Examiner why at  
10 least with respect to the geology, the problems which  
11 you feel is necessary and the reason for your asking  
12 for the 200 percent?

13          A.       Of course, at first blush, there is no  
14 geological risk because here's the geology. It's been  
15 drilled and produced. But the geological risk in what  
16 we're going to do, there is some. As evidence, May  
17 Petroleum drilled a dry hole there in my opinion too  
18 early. Maybe I'm not that smart, but time is quite  
19 important, I think, in this reaccumulation idea that  
20 we're working with.

21                   Some additional -- we don't know how much  
22 of the oil -- the south part of the field has been  
23 producing for 20 years after this north part is down;  
24 so some of this oil has been produced down there that  
25 I'm hoping to get, and it's still producing. There

1 was such a large amount of oil there to start with,  
2 I've just got to try.

3 Q. Mr. Trainer, you're also asking for the  
4 drilling rates of \$550 for monthly rate and the \$5,500  
5 drilling overhead rates. Do you feel that these rates  
6 are fair and equitable and customary for operations  
7 within this particular area of Lea County?

8 A. That's what I'm getting paid on all of the  
9 wells that I operate, and I paid that much or more on  
10 all the ones that I don't operate. And I don't  
11 operate more than I do that I own it.

12 I get \$550 a month for the 18 wells I  
13 operate, each one, and then I own interest in probably  
14 25 other wells or more that I pay my part of the  
15 operating costs, and they also owe me more than this.

16 Q. So the rates that you're proposing to be  
17 approved by the Commission are at least less than what  
18 other companies are charging in this area?

19 A. Sure. I have two wells in the briefcase.  
20 A Roswell operator is charging me \$820 a month to  
21 operate. They're about 20 miles from here, and it's a  
22 comparable well.

23 Q. You have indicated that you have slightly  
24 over 83 percent of the interests in this proposed  
25 proration unit in the northwest quarter of the

1 southeast quarter leased. Are there any problems with  
2 lease expirations, Mr. Trainer?

3 A. Just one. They all expire on July the 4th,  
4 all four-month leases.

5 Q. So with respect to that issue, you are  
6 asking that the Commission give you an expedited  
7 approval with respect to this application for force  
8 pooling?

9 A. Yes. If I don't start out there by the 4th  
10 of July, I don't have any lease. I may have to start  
11 before you approve it, but it sure would help to get  
12 the money and everything else if you would.

13 Q. Mr. Trainer, with respect to the issue of  
14 correlative rights and the prevention of waste, do you  
15 feel that the approval by the Commission of this  
16 application for forced pooling, do you feel that it  
17 would protect the correlative rights of the mineral  
18 interest owners out there and prevent waste?

19 A. Gee, yes. Don't you think this is a  
20 demonstration when 60 people volunteer to answer my  
21 letter and send me a lease that they want me to do  
22 this? And they're the same ones that own the offset,  
23 a lot of them are.

24 MR. CARROLL: I would pass the witness at  
25 this time.

1 HEARING EXAMINER: I don't have any  
2 questions of this witness. Are there any other  
3 questions of Mr. Trainer? If not, he may be excused.

4 MR. CARROLL: We would call Gene Lee as our  
5 next witness.

6 GENE LEE,  
7 the witness herein, after having been first duly sworn  
8 upon his oath, was examined and testified as follows:

9 DIRECT EXAMINATION

10 BY MR. CARROLL:

11 Q. Would you please state your name and  
12 address for the record.

13 A. Gene Lee, 1306 Meadow Lane, Roswell, New  
14 Mexico.

15 Q. Mr. Lee, have you previously testified  
16 before the New Mexico Oil and Gas Commission and been  
17 qualified as a practical engineer in the areas of  
18 completion and drilling?

19 A. Yes, I have.

20 MR. CARROLL: I would tender Mr. Lee as a  
21 practical engineer in the areas of drilling and  
22 completion.

23 HEARING EXAMINER: Mr. Lee is so qualified.

24 Q. (BY MR. CARROLL) Mr. Lee, are you familiar  
25 with the application being made by C. W. Trainer for

1 forced pooling so that he may reenter a previously  
2 plugged and abandoned Wallace #2 well?

3 A. Yes, I am.

4 Q. Have you consulted with Mr. Trainer in  
5 preparation of the reentry attempt?

6 A. Yes, I have. He hired me to do some  
7 engineering and preparation on reentering this well as  
8 well as the AFE.

9 Q. You have prepared an Exhibit No. 9; is that  
10 not correct?

11 A. Yes, I have. Exhibit No. 9 shows a  
12 wellbore diagram that I sketched according to the  
13 plugging report and the records of the OCD.

14 Q. Would you basically explain what's  
15 contained there on that exhibit?

16 A. The diagram shows the entire wellbore  
17 diagram, starting with the initial drilling of the  
18 17-1/2 inch hole, the 13-3/8 casing set at 348 feet  
19 and circulated to surface, the 11-inch hole drilled to  
20 4430 with 8-5/8 set at that depth and cemented with  
21 cement circulated back to surface on it. And it also  
22 shows the 5-1/2-inch casing remaining in the hole, the  
23 perfs that were originally perforated, and the zone in  
24 the Devonian that was completed.

25 I also note that the 5-1/2-inch casing was

1 cut off at 3328, and therefore we're going to have to  
2 splice our casing back together.

3 Q. You've also prepared an Exhibit No. 10; is  
4 that not correct?

5 A. Yes, that's correct.

6 Q. What is Exhibit 10?

7 A. Exhibit No. 10 is an Authority For  
8 Expenditure for the Devonian reentry attempt in this  
9 Wallace #1 well, which was formerly the Ralph Lowe  
10 Wallace #2. It shows the estimated cost to reenter  
11 and complete this well based on our past reentry  
12 experience invoice cost.

13 Q. Mr. Lee, have you worked with Mr. Trainer  
14 in his earlier experiences with going in and trying to  
15 recomplete some of these older plugged and abandoned  
16 wells with respect to this theory of his of the oil  
17 segregating out of the water?

18 A. Yes, I have.

19 Q. Then is it your testimony that this Exhibit  
20 10, the AFE that we are presenting here to the  
21 Commission, is based on those past experiences?

22 A. Yes, it is.

23 Q. Do you feel that the numbers, the costs  
24 that are contained in this Authority For Expenditure,  
25 are fair and equitable and customary with respect to

1 the area of Lea County that we're dealing with?

2 A. Yes, they are.

3 Q. Mr. Lee, you are very familiar then with  
4 Mr. Trainer's theory for getting back or for obtaining  
5 oil production from these older fields that have been  
6 plugged and abandoned, are you not?

7 A. Yes, I am.

8 Q. With respect to the risk of going in, and  
9 from an engineering standpoint, could you assess that  
10 for the Examiner?

11 A. On a number of Devonian reentries that we  
12 have done, the success ratio of reentering the well is  
13 a little better than 50 percent. The problems that we  
14 have encountered are that, quite often, when you  
15 reenter the wells, they were not plugged as according  
16 to what the OCD records indicate. Quite often,  
17 operators have contracted the people to plug and  
18 abandon wells, and they cut the pipe at a different  
19 place, or they've shot it in two in several places  
20 before they got it to come in two to be able to  
21 recover the casing.

22 Also, we've encountered in every well a  
23 large amount of debris, old packers and tubing and  
24 sucker rods and pumps and things of that nature which  
25 greatly increased the cost to reenter these wells.

1 Q. So there is some risk that you might not be  
2 able to actually get down to the bottom or to the  
3 producing zone in this well?

4 A. It's very possible, especially since we  
5 don't know what we may encounter in the wellbores.

6 Q. Mr. Trainer in his testimony indicated that  
7 he is going to ask the Commission to approve a 200  
8 percent penalty. With respect to your experience in  
9 these matters, previously having attempted it, do you  
10 have an opinion with respect to whether or not that  
11 200 percent is an appropriate risk factor to be  
12 assessed?

13 A. I think it's very appropriate.

14 Q. Mr. Trainer has also indicated that with  
15 respect to the operations of this well, he's going to  
16 ask the Commission to approve the monthly operations  
17 rate of \$550 and the drilling rate of \$5,500. Within  
18 your experience, do you feel that those numbers are  
19 fair and equitable and in line with the rates that are  
20 being charged in this particular part of New Mexico?

21 A. I feel they're very fair. In fact, Ernst &  
22 Whinney puts out a survey of monthly overhead and  
23 drilling rate and monthly rate costs which a year ago  
24 exceeded that rate.

25 Q. In your opinion, Mr. Lee, do you feel that

1 the approval of this application for forced pooling  
2 would protect correlative rights and prevent waste?

3 A. Yes, I do.

4 MR. CARROLL: I would pass the witness.

5 HEARING EXAMINER: Thank you, Mr. Carroll.

6 CROSS-EXAMINATION

7 BY HEARING EXAMINER:

8 Q. Mr. Lee, in looking at your Exhibit No. 10,  
9 that's your AFE, you show about \$18,000 for fishing  
10 tools and fisherman. Let's take a look at that cost.  
11 This is somewhat unusual for a new well, and, of  
12 course, this is not a new well, it's a recompletion,  
13 but could you elaborate a little more on what these  
14 costs represent?

15 A. Yes. These costs represent our costs that  
16 we have incurred on every well that we have reentered  
17 in Lea County, New Mexico. With the casing being cut  
18 or shot or blown apart or whatever was done at 3328,  
19 we're going to have to be doing possibly some milling  
20 to get our casing in good enough shape to tie back  
21 together.

22 Also these costs incur the supervising of  
23 the fisherman himself to run his tools, to do any sort  
24 of milling or washing over that we may encounter.

25 Q. And this cost just represents the dressing

1 of the top -- oh, 5-1/2 casing? Does it also  
2 represent the fishing in which you had mentioned  
3 earlier of old tubing and packers and such as that?

4 A. Yes, it does. I've got some reports here  
5 on a couple of the past wells that we have done that  
6 just show what we have encountered, if you would like  
7 to examine them, our last two reentry attempts. I  
8 have my daily detailed drilling reports here, and as  
9 you could go through here and see, it was quite a  
10 nightmare in what we ran into that was in the hole  
11 that was not supposed to be in the hole.

12 Q. The wells you refer to, are they in this  
13 general vicinity?

14 A. Yes they are. They're eight miles to the  
15 north.

16 Q. What's the section, township and range?

17 A. The first one is the Morris No. 1. It's  
18 1,980 from the north, 660 from the west, Section 27,  
19 10 37.

20 Q. I'll refer to any records we have here.  
21 There should be a record of With reference to anything  
22 we have here there should be a record of that  
23 recompletion, I would assume. How about the other  
24 well?

25 A. The other one is Sawyer Federal No. 1,

1 1,980 from the south, 660 from the west of Section 7 9  
2 38.

3 Q. I'll also take administrative notice of any  
4 files we should have on that.

5 Also Exhibit No. 10, I show the dry hole  
6 costs the same as the producing cost. Is this not  
7 right or what?

8 A. The reason for that is we're going to go  
9 ahead and try to produce this interval. Our main  
10 costs are going to be just to get down to evaluate the  
11 interval. We're not going to really have a whole lot  
12 of actual completion costs involved. Therefore, that  
13 puts the two costs together there.

14 MR. TRAINER: You must produce it to  
15 evaluate it.

16 THE WITNESS: One of the things I think Mr.  
17 Trainer touched on is we don't know what we're going  
18 to encounter as far as economic limits. We don't know  
19 whether this well is going to start off at a very high  
20 water content, due to its interference in the  
21 reservoir, or whether we're going to go ahead and be  
22 able to start producing it at nearly all oil like our  
23 Morris No. 1; therefore, an evaluation is going to  
24 have to be done to prove the economic viability of  
25 this prospect.

1                   HEARING EXAMINER: Thank you, Mr. Lee. Are  
2 there any other questions of this witness?

3                   MR. STOVALL: I just have one. What would  
4 be the cost of drilling a new well to this depth, do  
5 you have any idea?

6                   THE WITNESS: Yes. In this area if we  
7 moved over and drilled a completely new well, our  
8 costs are going to be approximately \$750,000.

9                   HEARING EXAMINER: Are there any other  
10 questions of this witness? If not, Mr. Lee may be  
11 excused. Mr. Carroll, do you have anything further?

12                   MR. CARROLL: I would move admission of C.  
13 W. Trainer's Exhibits 1 through 10.

14                   HEARING EXAMINER: Exhibits 1 through 10  
15 will be admitted into evidence at this time.

16                   MR. CARROLL: And I have no further  
17 evidence to present, Mr. Examiner.

18                   HEARING EXAMINER: Does anybody else have  
19 anything further in Case No. 9957? If not, this case  
20 will be taken under advisement.

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1 CERTIFICATE OF REPORTER

2

3 STATE OF NEW MEXICO )  
 ) ss.  
 4 COUNTY OF SANTA FE )

5

6 I, Deborah O'Bine, Certified Shorthand  
 7 Reporter and Notary Public, HEREBY CERTIFY that the  
 8 foregoing transcript of proceedings before the Oil  
 9 Conservation Division was reported by me; that I  
 10 caused my notes to be transcribed under my personal  
 11 supervision; and that the foregoing is a true and  
 12 accurate record of the proceedings.

13 I FURTHER CERTIFY that I am not a relative  
 14 or employee of any of the parties or attorneys  
 15 involved in this matter and that I have no personal  
 16 interest in the final disposition of this matter.

17 WITNESS MY HAND AND SEAL July 15, 1989.

18

*Deborah O'Bine*

19

DEBORAH O'BINE  
 CSR No. 127

20

21 My commission expires: August 10, 1990

22

23

I do hereby certify that the foregoing is  
 a complete record of the proceedings in  
 the Examiner hearing of Case No. 9957,  
 24 heard by me on 13 June 1990.

24

25

*Michael J. [Signature]*, Examiner  
 Oil Conservation Division