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

IN THE MATTER OF THE HEARING )  
CALLED BY THE OIL CONSERVATION )  
DIVISION FOR THE PURPOSE OF )  
CONSIDERING: )  
 ) CASE NO. 10266  
APPLICATION OF FINA OIL AND )  
CHEMICAL COMPANY FOR COMPULSORY )  
POOLING, LEA COUNTY, NEW MEXICO )  
 )  
 )

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

March 21, 1991  
9:50 a.m.  
Santa Fe, New Mexico

This matter came on for hearing before the Oil Conservation Division on March 21, 1991, at 9:50 a.m. at Oil Conservation Division Conference Room, State Land Office Building, 310 Old Santa Fe Trail, Santa Fe, New Mexico, before Paula Wegeforth, Certified Court Reporter No. 264, for the State of New Mexico.

FOR: OIL CONSERVATION DIVISION BY: PAULA WEGEFORTH  
Certified Court Reporter  
CSR No. 264

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March 21, 1991  
Examiner Hearing

CASE NO. 10266

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APPEARANCES

APPLICANT'S WITNESSES:

ROBERT E. DEMPSEY

Direct Examination by Mr. Pearce  
Examination by Examiner Stogner

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ROBERT L. MARTIN, III

Direct Examination by Mr. Pearce  
Examination by Examiner Stogner

12  
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JOE C. PLEMONS

Direct Examination by Mr. Pearce  
Examination by Examiner Stogner

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REPORTER'S CERTIFICATE

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\* \* \*

E X H I B I T S

ADMTD

APPLICANT'S EXHIBIT

1 through 7

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A P P E A R A N C E S

FOR THE DIVISION:           ROBERT G. STOVALL, ESQ.  
                                  General Counsel  
                                  Oil Conservation Commission  
                                  State Land Office Building  
                                  310 Old Santa Fe Trail  
                                  Santa Fe, New Mexico 87501

FOR THE APPLICANT:         MONTGOMERY & ANDREWS  
                                  Attorneys at Law  
                                  BY: W. PERRY PEARCE, ESQ.  
                                  325 Paseo de Peralta  
                                  Santa Fe, New Mexico 87501

FOR MARATHON OIL  
COMPANY:                    CAMPBELL & BLACK, P.A.  
                                  Attorneys at Law  
                                  BY: WILLIAM F. CARR, ESQ.  
                                  Santa Fe, New Mexico 87501

\* \* \*

1 EXAMINER STOGNER: Call next case, 10266, which is the  
2 application of Fina Oil and Chemical Company for compulsory  
3 pooling, Lea County, New Mexico.

4 EXAMINER STOGNER: Call for appearances.

5 MR. PEARCE: May it please the examiner, I'm W. Perry  
6 Pearce of the Santa Fe office of the law firm of Montgomery  
7 & Andrews, appearing in this matter on behalf of Fina, and  
8 I have three witnesses who need to be sworn.

9 EXAMINER STOGNER: Are there any other appearances?

10 MR. CARR: May it please the examiner, my name is  
11 William F. Carr with the law firm Campbell & Black, P.A.,  
12 of Santa Fe. I represent Marathon Oil Company. I do not  
13 intend to call a witness.

14 EXAMINER STOGNER: Are there any other appearances?

15 Will the witnesses please stand and be sworn at this  
16 time?

17 (Whereupon the witnesses were duly sworn.)

18 EXAMINER STOGNER: Mr. Pearce.

19 MR. PEARCE: Thank you, Mr. Examiner.

20 ROBERT E. DEMPSEY,  
21 the Witness herein, having been first duly sworn, was  
22 examined and testified as follows:

23 DIRECT EXAMINATION

24 BY MR. PEARCE:

25 Q. Sir, for the record, will you please state your

1 name and place of residence?

2 A. My name is Robert E. Dempsey. I'm a resident of  
3 Midland, Texas.

4 Q. Mr. Dempsey, by whom are you employed?

5 A. I'm employed by Fina Oil and Chemical Company.

6 Q. And in what capacity, sir?

7 A. I am their land manager for the West Texas  
8 division.

9 Q. Mr. Dempsey, have you previously appeared before  
10 the Oil Conservation Division or its examiners and had your  
11 credentials made a matter of record?

12 A. Yes, I have.

13 Q. Are you familiar with the application under  
14 consideration today in case 10266?

15 A. Yes, I am.

16 MR. PEARCE: Mr. Examiner, at this time I would ask  
17 the recognition of Mr. Dempsey as an expert in the field of  
18 petroleum land matters.

19 EXAMINER STOGNER: If there are no objections,  
20 Mr. Dempsey is so qualified.

21 MR. PEARCE: Thank you.

22 Q. (By Mr. Pearce) Mr. Dempsey, I would ask you at  
23 this time, please, to refer to what we have marked as  
24 Exhibit No. 1 to this proceeding, and could you describe,  
25 please, for the examiner and those in attendance the items

1 of particular interest on that exhibit?

2 A. Okay. The exhibit is a plat showing the  
3 proposed location of the Fina Kemnitz Deep Com No. 1 well,  
4 its proposed proration unit, and then highlighted in  
5 yellow, blue and green are the leases that encompass that  
6 proration unit.

7 Also on the plat are the owners of record of the  
8 leases involved. Those owners are Conoco for the southeast  
9 quarter and Marathon and Fina for the northeast quarter of  
10 the Section 28, 34 east, 16 south, Lea County.

11 Q. I notice by the coloring we are under this case  
12 only pooling formations below the 10,907 feet; is that  
13 correct?

14 A. That is correct.

15 Q. So that in fact the interest owners -- there are  
16 some others listed here at shallower depths, but it is in  
17 fact only Marathon, Conoco and Fina who are involved in  
18 this acreage; is that correct?

19 A. That is right.

20 Q. All right, sir. At this time I would like for  
21 you, please, to look at what we've marked as Exhibit No. 2  
22 to this proceeding, and that is an exhibit with four tabs,  
23 and could you go through those briefly and describe each  
24 tab for us?

25 A. Yes. Exhibit 2-A is a letter from Fina to the

1 working-interest or potential working-interest owners for  
2 the Fina Kemnitz Fed Com No. 1, which was our original  
3 proposal for the north half of 28. Marathon was involved  
4 in that proration unit also and received a copy of this  
5 letter. This letter also transmitted a memorandum of  
6 financing statement and operating agreement and an AFE.

7           The operating agreement called for a 300 percent  
8 non-consent penalty, which is consistent with the  
9 recoupment of well costs plus a 200 percent risk penalty  
10 before New Mexico Division.

11           Also in the operating agreement were drilling  
12 well rates of \$5,200 per month and producing well rates of  
13 \$520, which we believe are reasonable given the depth and  
14 location of this well.

15           Q.     Mr. Dempsey, you indicated that the proration  
16 unit for this well has now been changed from a north half  
17 320 acres to an east half 320 acres in a revised joint  
18 operating agreement sent to Marathon and Conoco.

19           Have you retained the same risk numbers and  
20 administrative and overhead cost numbers?

21           A.     Yes, we have, and Conoco has agreed to that  
22 operating agreement.

23           Q.     And do you believe, as you testified before,  
24 that those risk and administrative and overhead rates are  
25 reasonable for wells of this depth in this area?

1 A. Yes, I do.

2 Q. All right, sir. Let's look quickly, please, at  
3 Tab B to this agreement.

4 A. Yes.

5 Q. Could you describe that tab for us, please?

6 A. Tab B is a letter to both Marathon and Conoco  
7 where we submitted to them revised operating agreements  
8 encompassing the east half of this section.

9 Also accompanying this letter was a revised AFE  
10 with a total well cost of a \$1,074,000.

11 Q. All right. Tab C, I believe, is the next  
12 correspondence with the parties. Could you describe that  
13 very briefly for us?

14 A. Yes. Tab C is a letter dated January 2nd, again  
15 to Marathon and Conoco, transmitting a title opinion that  
16 we had rendered and also asking for a return of AFEs and  
17 signature pages to the operating agreements previously sent  
18 to them.

19 Q. And Tab D?

20 A. Tab D is a letter of January 18th, wherein we  
21 transmitted certain replacement pages for the operating  
22 agreement and again asked for return of the AFE and  
23 signature pages.

24 Q. And from your testimony earlier I understand  
25 that Conoco has now agreed, signed the joint operating

1 agreement and agreed to the AFE.

2           When was Fina informed that Marathon would not  
3 be participating in this proposal?

4           A.     Fina was informed in mid-February that Marathon  
5 elected not to participate in the drilling of the well  
6 after having told us that they would participate several  
7 times.

8           Q.     When was the last contact that you're aware of  
9 with Marathon relating to this matter?

10          A.     The last contact I had with Marathon was a  
11 conversation with their production manager -- I believe the  
12 date was the 19th of this month -- wherein they verbally  
13 proposed a trade of their interest in this acreage along  
14 with some other acreage for some additional properties that  
15 Fina owns.

16          Q.     But they did not at that time agree to the terms  
17 of the joint operating agreement as proposed?

18          A.     No, they have not.

19          Q.     All right, sir. Mr. Dempsey, are there other  
20 matters with regard to Exhibits 1 and 2 that you'd like to  
21 highlight for the examiner at this time?

22          A.     Not at this time.

23          MR. PEARCE: Mr. Examiner, I have nothing further of  
24 this witness at this time.

25

\* \* \* \* \*

## EXAMINATION

1  
2 BY EXAMINER STOGNER:

3 Q. Mr. Dempsey, on Exhibit No. 2-A -- now, that was  
4 when this well that you are proposing -- I'm sorry. This  
5 was for another well that was being proposed for the north  
6 half; is that correct?

7 A. That is correct. It was going to be an  
8 unorthodox location, and in context with the offsetting  
9 operators we had indications that they would oppose that  
10 unorthodox location. To reach an orthodox location, we  
11 shifted the proration unit to an east half.

12 Q. So in Exhibit A of -- I'm sorry. Well, how am I  
13 going to -- on Exhibit No. 2, you have attached to that  
14 letter Exhibit A, and there is a large list of interest  
15 owners, but these aren't a party to this?

16 A. These aren't a party to this matter. Those  
17 owners owned in the northwest quarter of the section.

18 Q. And then Tab B, a letter dated December 20th of  
19 1990, said that you wanted the east half, and that's for  
20 this well that you're asking for today; is that correct?

21 A. That is correct.

22 Q. And this is the first written correspondence  
23 talking about the east half to Marathon and Conoco?

24 A. I believe so.

25 Q. And the AFE, as submitted on -- or as attached

1 to this, was also sent with it?

2 A. That is correct.

3 MR. PEARCE: Mr. Examiner.

4 EXAMINER STOGNER: I'm sorry.

5 MR. PEARCE: I'm sorry.

6 EXAMINER STOGNER: No, please.

7 MR. PEARCE: To just reduce the amount of paper, I did  
8 not attach a second joint operating agreement to Tab B. It  
9 was sent with it, and I can certainly provide that for the  
10 Division's records if you'd like it.

11 The major items on the joint operating agreement  
12 that relate to a pooling case were not amended, but I can  
13 certainly submit that, sir.

14 EXAMINER STOGNER: I don't believe that will be  
15 necessary, Mr. Pearce.

16 Q. (By Examiner Stogner) However, in looking at  
17 this AFE, I show the location as 1980 from the north, 660  
18 from the east. And this is in -- the well that you're  
19 talking about today is --

20 A. Is a different location.

21 Q. -- a different location?

22 A. Yes, that is correct.

23 Q. Any significance on that?

24 A. I can't testify to any, no, sir.

25 Q. Okay. Then January 2nd letter -- I'm a little

1 confused.

2 A. All right.

3 Q. Opinion covering the southeast quarter. Is that  
4 just -- you want to explain that to me a little bit?

5 A. Yes, sir. We had already had an opinion  
6 covering the northwest quarter. We had already provided  
7 that to them either verbally or in some other fashion, and  
8 we were just providing this to everybody merely as a  
9 courtesy.

10 Q. And then your January 18th is the last letter  
11 that went out?

12 A. That is correct.

13 Q. Okay.

14 EXAMINER STOGNER: I have no further questions of  
15 Mr. Dempsey at this time, Mr. Pearce.

16 MR. PEARCE: I have nothing further. Thank you.

17 ROBERT L. MARTIN,

18 the Witness herein, having been first duly sworn, was  
19 examined and testified as follows:

20 DIRECT EXAMINATION

21 BY MR. PEARCE:

22 Q. For the record, sir, will you please state your  
23 name and place of residence?

24 A. Robert L. Martin; Midland, Texas.

25 Q. Mr. Martin, by whom are you employed?

1 A. Fina Oil and Chemical Company.

2 Q. In what capacity, sir?

3 A. As a petroleum geologist.

4 Q. Mr. Martin, have you previously appeared before  
5 the Division, its examiners, and had your credentials as an  
6 expert in the field of petroleum geology accepted and made  
7 a matter of record?

8 A. Yes, I have.

9 Q. Are you familiar with the application being  
10 considered today?

11 A. Yes, I am.

12 MR. PEARCE: Mr. Examiner, at this time I would ask  
13 the recognition of Mr. Martin as an expert in the field of  
14 petroleum geology.

15 EXAMINER STOGNER: Mr. Martin is so qualified.

16 Q. (By Mr. Pearce) Mr. Martin, at this time I'd  
17 ask you, please, to look at what we have marked as  
18 Exhibit No. 3 to this proceeding, and could you highlight  
19 the items of importance on that exhibit for the examiner?

20 A. Yes, sir. Exhibit 3 is a structure on top of  
21 the Atoka pay sand in the area that we're working, and the  
22 yellow represents the proration unit that we have  
23 designated where we'd like to drill the proposed location  
24 for the Atoka test.

25 Q. I notice there are a series of wells with red

1 dots connected by a line. What does that represent?

2 A. That represents the cross section that we have  
3 up on the wall that is Exhibit 5.

4 Q. Let's look quickly at Exhibit 4. Could you  
5 describe this exhibit for us, please?

6 A. Yes. Exhibit 4 is a gross Atoka sandstone  
7 isopach of the pay in the area, and once again the yellow  
8 highlights the acreage that we're wanting to use as a  
9 proration unit.

10 And I'd like to point out the well in the  
11 southwest quarter of Section 28 there with the nine feet.  
12 As we have interpreted this area within -- near the  
13 proposed location, this is some kind of a channel cut and  
14 which could also increase our risk in drilling this well  
15 where the sand would thin quite significantly.

16 Q. Are there other items on Exhibits 3 and 4 that  
17 you'd like to highlight for the examiner?

18 A. No.

19 Q. At this time I'd like for you to stand and  
20 approach what we have hung on the wall which is marked as  
21 Exhibit No. 5, and could you describe that exhibit for us,  
22 please?

23 A. Yes. Exhibit 5 is a west-east stratigraphic  
24 cross section A-A', which is hung as a datum on the base of  
25 the Atoka pay sand, and it just shows where our proposed

1 location fits into this scenario in the reservoir.

2 Q. I notice there are some red-highlighted areas on  
3 those logs. What do those represent?

4 A. The red represents the perforated intervals in  
5 this field.

6 Q. It was on the basis of this cross section and  
7 other information that Exhibits 3 and 4 were compiled; is  
8 that correct?

9 A. Correct.

10 Q. Other items you think you need to highlight?

11 A. None at this time, no.

12 Q. You may return to your seat, please.

13 Mr. Martin, you mentioned the well reflected on  
14 Exhibit No. 4 in the southeast quarter of Section 28.  
15 Could you tell us a little bit more about that well,  
16 please?

17 A. In the southwest quarter?

18 Q. Southwest. I apologize. Yes.

19 A. That is a well that went down through the Atoka,  
20 and the Atoka sand had significantly thinned and was not  
21 produceable in this area, so they ended up plugging back to  
22 the strawn. And I just pointed that out to show the risk  
23 involved in drilling this well.

24 Q. Do you believe that the proximity of that well  
25 to your proposed location indicates that there is some

1 increased risk of not encountering commercial pay in the  
2 Atoka sand?

3 A. Yes, I do.

4 Q. Anything else you'd like to indicate at this  
5 time, Mr. Martin?

6 A. No.

7 MR. PEARCE: Mr. Examiner, I have no further questions  
8 for this witness at this time.

9 FURTHER EXAMINATION

10 BY EXAMINER STOGNER:

11 Q. Going back to the well in the southwest quarter,  
12 that is a strawn producer?

13 A. Yes.

14 Q. Presently?

15 A. Yes, sir.

16 Q. Who is the operator?

17 A. Tenneco.

18 Q. Is that the present operator?

19 A. Oh. The operator now?

20 Q. Yes.

21 A. No. The operator now is Fina.

22 Q. Oh, okay.

23 A. I'm sorry. They are the ones that drilled it.

24 Q. Do you know -- if you know, do you know what the  
25 dedicated acreage to this well is?

1 A. No, sir, I sure don't.

2 Q. But it is a gas well?

3 A. The strawn test?

4 Q. Strawn.

5 A. No, sir, it's an oil.

6 Q. Oh, an oil well?

7 A. Yes.

8 Q. Do you know what pool that's in?

9 A. No, sir, not right offhand.

10 Q. I thought it was an oil test. Okay. That  
11 answered my question.

12 A. Okay.

13 Q. Or my concerns, I should say.

14 The well to the east, I believe on the cross  
15 section you show that as the No. 1 East Kemnitz Elk oil  
16 Company?

17 A. Yes, sir.

18 Q. Is that a present Atoka well?

19 A. Yes, sir.

20 Q. Can you elaborate on it a little bit as far as  
21 its spud date, completion and what information you found on  
22 that well as far as geology?

23 A. I don't have that information in front of me,  
24 but I can get it.

25 MR. PEARCE: Can you tell him anything about the well?

1 THE WITNESS: I can just tell you that it was  
2 completed in the Atoka, and the last cum that I had on it  
3 was almost four BCF.

4 Q. (By Examiner Stogner) 4 BCF?

5 A. Yes, sir.

6 Q. Do you know how long it's been producing?

7 A. No, sir, not right offhand.

8 EXAMINER STOGNER: Maybe one of the other witnesses  
9 will be able to answer that.

10 MR. PEARCE: Yes, I think I've got somebody who might.

11 Q. (By Examiner Stogner) Now, let's go back  
12 further west over in Section 29.

13 A. Okay.

14 Q. When I look at your cross section, I show  
15 Tenneco as the operator on many of these wells. Should I  
16 replace that with Fina?

17 A. Yes, sir.

18 Q. In particular, Well No., I believe, 25 -- is  
19 that the next one to the east in Section 29? I'm looking  
20 at --

21 A. No, sir. 25 is a Wolf Camp producer, and just  
22 below that is the No. 1.

23 Q. Oh, No. 1?

24 A. Right.

25 Q. Okay. The circle sort of obscures that No. 1.

1 A. Yes, sir.

2 Q. And that's an Atoka producer?

3 A. Atoka and Morrow.

4 Q. By your cross section, it looks like this  
5 producing interval lines up with the one to the east of  
6 your proposed well in Elk; is that correct?

7 A. Yes, sir.

8 Q. Why wasn't the southwest quarter -- was the  
9 porosity or permeability too low? What did you find on  
10 that one that did not make it produceable or economical?

11 A. From the logs, it looks like the permeability  
12 wasn't there. The sand was very thin as compared to most  
13 of the wells in the area. I believe they were anywhere  
14 from from 15 feet on up.

15 EXAMINER STOGNER: I have no further questions of  
16 Mr. Martin, Mr. Pearce.

17 MR. PEARCE: Okay. I have nothing further. Thank  
18 you.

19 JOE C. PLEMONS,  
20 the Witness herein, having been first duly sworn, was  
21 examined and testified as follows:

22 DIRECT EXAMINATION

23 BY MR. PEARCE:

24 Q. For the record, sir, would you please state your  
25 name and place of employment?

1           A.     Joe C. Plemons. I'm employed by Fina Oil and  
2 Chemical Company in Midland.

3           Q.     Mr. Plemons, in what capacity are you employed  
4 by Fina?

5           A.     I'm a production engineer.

6           Q.     Have you previously appeared before the  
7 Division?

8           A.     No, sir, I have not.

9           Q.     Mr. Plemons, would you, please, briefly  
10 summarize your educational and work experience as it  
11 relates to the field of petroleum engineering?

12          A.     Yes, sir. I received a bachelor of science  
13 degree in petroleum engineering from Texas Tech University  
14 in December of '84. I went to work for Mobile Oil Company  
15 in south Texas, was employed there for two years as an  
16 operations engineer and then three years as a facility  
17 engineer.

18                   I went to work for Fina Oil and Chemical in May  
19 of 1990 in Midland, Texas, where I am currently employed.

20          Q.     Mr. Plemons, since your employment by Fina, have  
21 you had occasion to review certain materials relating to  
22 Atoka production in the area under consideration today?

23          A.     Yes, sir.

24          Q.     Are you familiar with the application filed on  
25 behalf of Fina?

1           A.     Yes, sir, I am.

2           MR. PEARCE: Mr. Examiner, at this time I would ask  
3 the recognition of Mr. Plemons as an expert in the field of  
4 petroleum engineering.

5           EXAMINER STOGNER: Yes, Mr. Plemons is so qualified.

6           Q.     (By Pearce) Mr. Plemons, let's look at what  
7 we've marked as Exhibit No. 6, and could you explain the  
8 data reflected on that exhibit for us, please?

9           A.     Yes, sir. What we did was plotted wellhead  
10 shut-in pressure versus cumulative production of the Elk  
11 East Kemnitz Wells No. 1 and No. 2 with --

12          Q.     Let's slow down for just a second --

13          A.     Okay.

14          Q.     -- and look at the isopach which was previously  
15 introduced as Exhibit No. 4 and highlight the two wells  
16 reflected on Exhibit No. 6 for us, please.

17          A.     Okay. The two wells that are plotted on  
18 Exhibit No. 6 are the Elk Oil Kemnitz -- East Kemnitz No. 1  
19 and No. 2 which are located in Section 27.

20                 The Exhibit No. 6 indicates that the East  
21 Kemnitz No. 1 well came on production 14 months prior to  
22 the East Kemnitz No. 2 well. The depletion rate on the  
23 No. 1 well was considerably less or considerably slower  
24 than the No. 2 well, and the cumulative production by the  
25 No. 1 well was considerably higher than the No. 2 well.

1                   What I did, after establishing the curves, I  
2 normalized the curves by date, showing relative pressure to  
3 date, and the curves indicate very little communication  
4 between these two wells. There's approximately 3,000 feet  
5 between the two wells. I feel like there's very little  
6 communication between the two wells.

7           Q.     All right, sir. Let's walk through that  
8 demonstration a little more slowly.

9           A.     Okay.

10          Q.     Let's look at the bottom set of datum points on  
11 the graph for the East Kemnitz No. 2, and that shows  
12 December of 1988; is that correct?

13          A.     Yes, sir.

14          Q.     And in December of 1988 the pressure on the  
15 No. 2 well was what?

16          A.     It was approximately 800 pounds.

17          Q.     And by interpolation, on that same date you  
18 estimate that the pressure on the Kemnitz No. 1 well was --

19          A.     Approximately 1,620.

20          Q.     And that difference of 875 pounds is part of the  
21 reason that you conclude that there is not good  
22 communication between those wells; is that correct?

23          A.     That is correct.

24          EXAMINER STOGNER: That's 575 pounds difference; is  
25 that correct? Or am I seeing something different?

1 Oh, I'm sorry.

2 MR. PEARCE: I'm sorry. I was looking at the '88 --  
3 the bottom data point, rather than the '86 data point. I  
4 apologize.

5 EXAMINER STOGNER: I was confused on my years. Thank  
6 you.

7 Q. (By Pearce) And that pressure difference has  
8 varied, but there has always been a pressure difference  
9 between those two wells; is that correct?

10 A. That is correct.

11 Q. And that's part of the reason that you believe  
12 there is some risk associated with drilling the proposed  
13 well; is that correct?

14 A. That is correct.

15 Q. All right, sir. At this time I'd like for you  
16 to return to what we previously marked as Exhibit No. 2,  
17 particularly Tab B to that exhibit, which has the AFE for  
18 the well attached to it, and I'd ask you to review for the  
19 examiner the information reflected on that AFE that was  
20 sent to the other parties.

21 A. Okay. The AFE cost estimate was broken down.  
22 The well will be drilled on a footage basis: 13,100-foot  
23 well at \$21.25 a foot, coming to \$278,000. We have  
24 estimated five days of day work for the well at \$4,600 a  
25 day. Those five days were put in to allow for any coring

1 or DST work that might be done. At this time we don't  
2 anticipate coring, but we certainly feel that there may be  
3 some DST work.

4 Company labor in the well I've estimated at  
5 \$12,000. The location and site expense was \$20,000.  
6 Environmental protection and safety, which will allow us to  
7 align our pits, H2S monitor equipment and other various  
8 safety equipment, \$5,000. \$4,000 was allotted to surface  
9 damages. Drilling fluids we've estimated at \$38,000. The  
10 well will be drilled with 9.8- to 10.3-pound brine. I do  
11 not anticipate any exotic drilling fluids.

12 Surface rental equipment we've estimated at  
13 \$7,000. Cementing and services we've estimated at \$25,000.  
14 We'll be running 13 3/8 casing to approximately 400 feet.  
15 We'll be running 8 5/8 casing to 4,600 feet.

16 Formation test -- I'm sorry. Mud logging -- we  
17 will be putting a mud logger on at approximately 10,500  
18 feet, estimated cost of \$10,000. We've allowed \$6,000 for  
19 DST. And our logging sweeps -- we'll be running two  
20 separate sweeps of logs. We will be logging from 4,600  
21 feet to the surface. We'll run our intermediate casing.  
22 Then we'll run our 13,100-foot-to-surface log sweeps.  
23 Those costs are estimated at \$45,000.

24 Administrative and overhead costs, \$500,000 for  
25 the drilling of the well. That brings the subtotatal

1 intangible costs to \$478,000.

2           Tangible well costs consist of surface casing,  
3 13 3/8-inch, approximately 400 feet at \$28.28 a foot:  
4 \$11,000. Eight and 5/8 casing will be running to 4,600  
5 feet at \$16.12 a foot. Gives us \$7,000. Our wellhead  
6 equipment, \$14,000.

7           Our subtotal on tangible will be \$99,000. Total  
8 drilling cost, \$577,000.

9           On the completion side, I've estimated company  
10 labor at \$3,000; trucking, \$3,000; location and site  
11 expense, \$4,000; surface rental equipment, \$1,000;  
12 subsurface rental equipment, \$2,000; pressure unit for ten  
13 days -- at \$1,200 a day -- estimated \$12,000; completion  
14 fluids, which we'll only be using water at this time, is  
15 \$1,000.

16           We anticipate a small acid stimulation of  
17 \$4,000. Cementing and services, \$55,000. We'll be  
18 cementing 5 1/2-inch casing from 13,100 feet to surface.  
19 Perforating, we anticipate using a tubing-convey  
20 perforating system. We estimate that cost to be \$12,000.  
21 Well testing at \$3,000, and then our cased hole logs at  
22 \$2,000.

23           We put in a \$10,000 contingency, approximately  
24 ten percent, in our completion phase. Subtotal intangible  
25 for the completion will be \$112,000.

1                   Tangible well costs for the completion are:  
2   5 1/2-inch casing, 13,100 feet, at \$14.03 a foot was a  
3   \$184,000. We'll run 2 7/8 production tubing to 12,850 feet  
4   at \$7.94 a foot. Gives us \$102,000. One packer system,  
5   \$5,000.

6                   Our Christmas tree and wellhead equipment,  
7   \$46,000. Surface flow line to be installed we estimated at  
8   \$3,000. We'll require two oil tanks and one water tank,  
9   \$18,000. And then our gas production unit at \$22,000.  
10  Meter run and controls for the gas system, \$5,000.

11                   Brings our subtotal tangible to \$385,000. Total  
12  completion cost of \$497,000 and a total drilling and  
13  completion cost of \$1,074,000.

14                 Q.    Mr. Plemons, is it your opinion as an expert in  
15  the field of petroleum engineering that the costs reflected  
16  on that AFE are reasonable estimates of the costs of  
17  drilling this well at this location?

18                 A.    Yes, they are.

19                 Q.    Mr. Plemons, do you believe that drilling the  
20  proposed well at this location is in the best interests of  
21  the prevention of waste of national resources because there  
22  is a likelihood of the recovery of hydrocarbons which  
23  otherwise could not be recovered from under this tract?

24                 A.    Yes, sir.

25                 Q.    And is it your opinion that drilling the well at

1 this location under the terms we have discussed protects  
2 the correlative rights, the interest rights of interest  
3 owners in the 320-acre proposed spacing and proration unit?

4 A. Yes, sir.

5 MR. PEARCE: Mr. Examiner, I have nothing further of  
6 this witness at this time. I would like to tender what I  
7 have marked as Exhibit No. 7, which is an affidavit of  
8 notice of this proceeding that was sent by my office, and I  
9 would move the admission of Exhibits 1 through 7 to this  
10 proceeding.

11 EXAMINER STOGNER: Exhibits 1 through 7 will be  
12 admitted into evidence.

13 (Whereupon Exhibits 1 through 7 were admitted into  
14 evidence.)

15 MR. PEARCE: I have nothing further of this witness at  
16 this time, Mr. Examiner.

17 EXAMINATION

18 BY EXAMINER STOGNER:

19 Q. Mr. Plemons --

20 A. Yes, sir.

21 Q. -- on two wells that you show in  
22 Exhibit No. 6 --

23 A. Yes, sir.

24 Q. -- what were the initial pressures on each of  
25 these wells? Do you have that, or do you remember what

1 they were?

2 A. Yes, sir, approximately. For the East Kemnitz  
3 Com No. 1 was approximately 3,700 pounds.

4 Q. And for the No. 2?

5 A. And for the No. 2 was approximately 2,800  
6 pounds.

7 MR. PEARCE: In each instance, if I may interrupt,  
8 Mr. Examiner, the beginning of the line reflected on  
9 Exhibit No. 6 is the initial pressure.

10 Is that correct?

11 THE WITNESS: That's correct.

12 Q. (By Examiner Stogner) Okay. When did the  
13 Kemnitz Com No. 2 come on line?

14 A. That came on line approximately 14 months after  
15 the No. 1 well. The exact date -- I'm not real sure about  
16 the exact date, sir. Those were operated by Elk Oil  
17 Company.

18 Q. I guess what threw me off -- why does it start  
19 over --

20 A. The data that I took and put on this graph was  
21 pulled from the Dwight's Energy Data System, and this is  
22 the -- this is as far back as production and pressure data  
23 that I could pull on the well.

24 Q. So you didn't take it all the way back to zero  
25 cumulative production?

1 A. No, sir. That's correct.

2 Q. Well, does that accurately -- would that have  
3 had a higher initial pressure?

4 A. Yes, sir, possibly it would have. But the  
5 depletion rate was so quick -- I'm not sure what that  
6 initial pressure would have been, and I'm not -- the only  
7 thing for sure that -- the only thing I know for sure about  
8 the well is that it did come on 14 months after the No. 1  
9 well, relative timing.

10 Q. So that's the reason it starts with 1.5?

11 A. Yes, sir.

12 Q. So more than likely it did have an initial  
13 higher pressure in the beginning than 2,800?

14 A. Yes, sir.

15 EXAMINER STOGNER: I have no other questions of this  
16 witness.

17 MR. PEARCE: I have nothing further, Mr. Examiner.

18 EXAMINER STOGNER: Does anybody else have anything  
19 further? Mr. Carr?

20 MR. CARR: Nothing, thank you.

21 EXAMINER STOGNER: If nobody has anything else in this  
22 case, then Case 10266 will be taken under advisement.

23 MR. PEARCE: Thank you, Mr. Examiner.

24 (The foregoing hearing was concluded at the  
25 approximate hour of 10:20 a.m.)

