

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

6 6 June 1984

7 EXAMINER HEARING

8 IN THE MATTER OF:

9 Application of Stevens Operating CASE
10 Corporation for compulsory pooling, 8225
Chaves County, New Mexico.

11
12
13 BEFORE: Richard L. Stamets, Examiner

14
15 TRANSCRIPT OF HEARING

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

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Santa Fe, New Mexico 87501

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A P P E A R A N C E S

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E X H I B I T S

Stevens Exhibit One, Land Plat
Stevens Exhibit Two, Map
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Stevens Exhibit Four, Letter
Stevens Exhibit Five, Letter
Stevens Exhibit Six, AFE
Stevens Exhibit Seven, COPAS Book

Harlow Exhibit One, Plat
Harlow Exhibit Two, Letter
Harlow Exhibit Three, Letter
Harlow Exhibit Four, Letter
Harlow Exhibit Five, Letter
Harlow Exhibit Six, Letter
Harlow Exhibit Seven, Weekly Report
Harlow Exhibit Eight, Drilling Program

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3 MR. STAMETS: The hearing will
4 please come to order.

5 We'll call last today Case
6 8225.

7 MR. PEARCE: That case is on
8 the application of Stevens Operating Corporation for
9 compulsory pooling, Chaves County, New Mexico.

10 MR. PADILLA: Mr. Examiner, my
11 name is Ernest L. Padilla on behalf of the applicant in this
12 case.

13 I have two witnesses to be
14 sworn.

15 MR. PEARCE: Are there other
16 appearances in this matter?

17 MR. LOPEZ: Mr. Examiner, my
18 name is Owen Lopez with the Hinkle Law Firm in Santa Fe, New
19 Mexico, appearing on behalf of Harlow Corporation and I have
20 one witness to be sworn.

21 MR. PEARCE: Could I ask all of
22 the prospective witnesses to rise at this time, please?

23 (Witnesses sworn.)

24 MR. STAMETS: Mr. Padilla, you
25 may proceed.

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2 WILBUR D. WILSON,
3 being called as a witness and being duly sworn upon his
4 oath, testified as follows, to-wit:

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6 DIRECT EXAMINATION

7 BY MR. PADILLA:

8 Q Mr. Wilson, for the record would you
9 state your name, where you're employed and where you reside?10 A Yes. My name is Wilbur D. Wilson. I'm
11 employed by Stevens Operating Corporation in Roswell, New
12 Mexico, which is also my residence.13 Q Mr. Wilson, have you previously testified
14 before the New Mexico Oil Conservation Division and had your
15 credentials accepted as a matter of record?

16 A Yes, I have.

17 Q And that was as a petroleum geologist?

18 A Yes sir.

19 Q Are you familiar with the purpose of to-
20 day's hearing?

21 A Yes.

22 Q Can you briefly tell us what that is?

23 A To determine a 320-acre proration unit,
24 the overhead charges as well as the penalty for non-joinder
25 of the proration unit.MR. PADILLA: Mr. Examiner, are
the witness' qualifications acceptable?

MR. STAMETS: They are.

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2 MR. LOPEZ: Mr. Examiner, I
3 might interrupt at this point, if you please.

4 It's my understanding that the
5 Commission or Division has at least, if not a formally writ-
6 ten rule, a practice in place that requires applications for
7 compulsory pooling to identify the formation and the prora-
tion unit that's to be force pooled.

8 We object to the advertisement
9 in this case on the basis that it is broad based and does
10 not identify either the projected formation or formations or
11 the spacing units involved, and therefore we'd request the
12 case be dismissed on this basis at this time.

13 MR. STAMETS: Mr. Padilla?

14 MR. PADILLA: If I may respond,
15 Mr. Examiner, I think the application is very clear and
16 states that the -- and the advertisement as well, and that
17 we seek to force pool all interests from 3400 feet below the
surface down to the base of the Fusselman formation.

18 This gives adequate notice to
19 the -- certainly Mr. Lopez as to what we're trying to force
20 pool.

21 Our application indicates that
22 we are trying to force pool all oil and gas potentially --
23 or all potential formations that may have oil or gas between
those footages.

24 I believe that we have been
25 very careful in the way we have applied for our case and

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2 certainly compulsory pooling application is a creature of
3 spacing. In the event that, we would consent that in the
4 event a formation only has 160-acre spacing, then that's of
5 course all we could force pool. We have included the larg-
6 est proration unit possible, which is the north half, or 320
7 acres, which would comprise the entire north half of the
8 section. This, of course, would be for our prime objective,
9 which is the Fusselman formation and which is below the
Wolfcamp formation requiring 320 acres.

10 MR. STAMETS: Mr. Lopez, I
11 think we'll overrule your objection. It does appear as
12 though the advertisement gives sufficient notice to all in-
13 terested parties in that it describes the vertical section
14 being considered as well as the horizontal section. There
15 may be some arguments as to whether or not it's broad enough
16 to allow us to pool 40-acre oil or 160-acre gas, anything
17 under 320, but I think we can go ahead and hear the case
today.

18 MR. LOPEZ: A decision from
19 which we have no appeal at this point.

20 Q Mr. Wilson, let me hand you what we have
21 marked as Exhibit Number One and have you identify it for
22 the Examiner, please.

23 A Okay. Exhibit One is a land plat of the
24 immediate area surrounding the proposed location of the
25 Stevens Operating No. 1 Lynx. You'll see it is the red
circle just about in the middle of the land plat and the

1
2 yellow represents the 320-acre proration unit, representing
3 the north half of Section 19. Also shown, of course, is the
4 land ownership surrounding this well.

5 Q The yellow outlined proration unit, is
6 that the largest proration unit that is current -- that
7 would be applicable?

8 A Yes, it is.

9 Q Would, on shallower formations would it
10 be possible to create spacing units within the 320 acres,
11 spacing units that would be smaller than that?

12 A Yes.

13 Q Let's go now to what we have identified
14 as Exhibit Number Two and have you tell the Examiner what
15 that is.

16 A Okay. Exhibit Number Two is a map of the
17 sixteen township area surrounding the location of the pro-
18 posed No. 1 Lynx Well, and only shown on the map are the
19 pre-Abo wells. There are no shallow wells shown. These are
20 just all of the pre-Abo wells in this sixteen township area.

21 The producing horizons are color coded
22 and you can refer down to the bottom of the map there to the
23 legend to see what colors refer to as to the producing hori-
24 zon.

25 Also just with respect to the pre-Missis-
sippian production, there is also shown the cumulative oil
production through 1983 and then give you a little feel for
the most recent production, the December, 1983 monthly pro-

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duction is also shown. That would be the figure that is shown in parentheses.

Q Let me go for a moment back to Exhibit Number One and ask you to tell the Examiner about some of the wells that are shown on that exhibit.

What kind of wells are they?

A Okay. On Exhibit Number One all of the wells that you see there are shallow San Andres wells with the exception of the well in Section 21, which is the Stevens Operating Corporation Red Lake Ridge, which is a very poor well producing out of the Atoka Sand. That's the only deep well in there that's producing.

Q At what depth is the San Andres encountered in those properties as shown in Exhibit Number One?

A You're talking about over here now?

Q Correct. The shallow wells, what -- what depth?

A Yeah, they are probably 28, about 3200 feet.

Q They're above 3400 feet?

A Yes.

Q And with relation to your Exhibit Number Two, you're showing wells there that are below 3400 feet.

A Yes, all of them are definitely 3400.

Q Can you generally describe what kind of prospect your proposed location in Section 19 is from the standpoint of potential production?

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2 A Yes. We feel that the primary objective
3 in here is the Fusselman. There is some Lower Pennsylvan-
4 ian, probably Atoka production to the north in the Elkins
5 Field in two wells. There's also some -- this, I might add,
6 is very poor production, very low CAOF's. Immediately to
7 the east is the Red Lake Ridge, our well, very poor well,
8 and then to the southeast of this 8-29 township, there's
9 some production over there; however, I think I should point
10 out that these are -- are not really very prospective in
11 this location due to the fact that there is a large fault in
12 the -- certainly in the pre-Pennsylvanian and possibly up
13 into the Pennsylvanian, that comes down more or less right
14 down the -- it's a north/south fault, probably comes down
15 right on the line between Section 19 and 20.

16 You have quite a thinning of the Pennsyl-
17 vanian on the upthrown side of that fault, which would be to
18 the west versus the east. So you're going to have a very
19 thin Pennsylvanian section in there.

20 So we feel that probably the Fusselman is
21 a very good shot in here but the other horizons are really
22 very poor.

23 Q What other formations that are potential-
24 ly productive of oil and gas might you encounter below 3400
25 feet?

26 A Well, the Abo, of course, is there. I
27 really feel that this is a very poor horizon. The sands
28 which are productive with gas to the northwest are essentially

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absent this far east, or a few that are very poor.

Possibly in the limes of the basal Wolf-camp, Upper Pennsylvanian is possibly a low calibre target and maybe a few thin sands in the basal Atoka, and that's about it.

Q But you're going to look at these sands as you drill the well, is that correct?

A Yes. We will have a mud logger on there with a gas detector, chromatigraph set up and we plan on drill stem testing any of these zones that have good shows.

Q Let's go on now to what we have marked as Exhibit Number Three and have you tell us what that contains.

A Okay. Exhibit Number Three covers the same area as Exhibit Number Two. It also shows these very same pre-Abo wells. And on this -- this map is different from Exhibit Two in that the oldest geological horizon which the well penetrated is shown by color coding, and also is shown on these -- alongside of these wells there is a number and if you refer to the legend, these numbers refer to, to the best of my ability, what I have determined to be the designation of the well at the time it was drilled. In other words, was it a Devonian wildcat, a Devonian development well, a Lower Pennsylvanian wildcat, development well, and so forth.

Q Is that all you have to tell us about that exhibit?

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2 A No, I would just like to kind of put the
3 two exhibits together and just more or less --

4 Q Okay, do that.

5 A Okay. There are 100, a total of about
6 100 -- there are 112 pre-Abo wildcat development wells shown
7 within that sixteen township area.

8 About 64, 50 percent of them were pre-
9 Mississippian wildcat wells which were drilled either on a
10 subsurface geological or geophysical prospect.

11 Now you'll notice there's only four pre-
12 Mississippian fields in that entire area, so out of 64 wells
13 that were drilled we had -- four of them were discoveries.
14 Now this is a one in sixteen success ratio.

15 Okay, and in addition to that, the devel-
16 opment of those fields, there were an additional ten pre-
17 Miss producers and nine dry holes.

18 Now I might stop right here and I keep
19 referring to pre-Miss and the reason I do it is you'll no-
20 tice some of those fields are called Fusselman; some of them
21 are Devonian. There's Montoya production in the area, and
22 rather than get into differentiating or trying to, which is
23 quite difficult in this area as to whether it's truly Fus-
24 selman or Montoya, Siluro-Devonian or Devonian, I just lump-
25 ed everything together as pre-Miss, but it does include all
those horizons.

Okay, the -- the four fields that were
found by these 64 wildcats represent the Lightcap or the

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2 Elkins Fusselman Field, the Lightcap Devonian, and the Twin
3 Lakes Devonian Field, and if you'll compare, look at the
4 discovery dates, you'll look at the production, the cumula-
5 tive productions, if you'll look at the present production
6 and if you consider the time of discovery, consider the dis-
7 counted money values, the wildcat development cost, includ-
8 ing the dry holes, really only two of those fields, the
9 Elkins Fusselman and the Lightcap Devonian Field will yield a
pay out and probably a very marginal rate of return.

10 Now, we'll have to admit that the seismic
11 data that we have nowadays is much better than back in the
12 fifties, but even -- even considering that, the, really the
13 success ratio hasn't improved that much in that -- with the
14 advent of the new vibrocized data and I don't know if any of
15 you have seen it, but even the new data, the pre-Miss hori-
16 zon is very poorly shown, even on good data, and they are
17 very complex structures. They're very small structures and
18 also you run into a problem of a lack of porosity and per-
19 meability once you drill into the pre-Mississippian section.
20 This is exactly what happened to us on our Red Lake Ridge
Well.

21 To sum it up, we feel there's enough evi-
22 dence shown on the two maps to indicate that the No. 1 Lynx
23 is a high risk prospect and we feel that as such that it
24 warrants a 200 percent penalty assessment over and above the
25 recovery of the original cost; that that would be the penal-
ty that the Commission would put on this as far as the non-

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joinders are concerned.

Q Mr. Wilson, let me show you what we have marked as Exhibit Number Four and have you tell us what that is.

A You ought to get John to talk about all this. He's more familiar with it than I am.

Q Mr. Wilson, let me hand you what we have marked as Exhibit Number Four and tell us what that is.

A Okay, this is a letter to Harlow Corporation from Stevens Oil dated May 7th, 1984, referring to an attached AFE in regards to the drilling of the Lynx Well in Section 19 and stating that Stevens Operating Corporation has negotiated farmouts with Texas Oil and Gas, Columbia, Huber, and Tenneco for interest in Section 19, and asking the Harlow Corporation to sign this letter agreeing to join in the well or if not, to farmout on a basis of a 1/16th overrid convertible to a 25 percent working interest after payout, and also points out the fact that we do have a short fuse on this because of these farmouts and asking approval by May 15th, 1984.

Q Mr. Wilson, what acreage does that proposal cover?

A It covers the -- it covers all of Section 19.

Q To your knowledge is there any restrictions or let me ask you this way. Do you know of, to your knowledge do you know what rights Stevens Operating Corpora--

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2 tion is gaining through those farmouts?

3 A Yes. It's my understanding that it's
4 3400 to 100 feet below depth drilled, which that's the basis
5 that we will test the Fusselman or pre-Mississippian.

6 Q And you will earn all rights without re-
7 striction?

8 A That is correct.

9 Q From your knowledge, do you know whether
10 anyone at Stevens has communicated verbally with representa-
11 tives of Harlow Corporation trying to seek voluntary joinder
12 in the drilling of the well?

13 A Yes, we have.

14 Q Let me show you what we have marked as
15 Exhibit Number Five and have you tell us what that is.

16 A This is a letter written by Ernest Padilla
17 to Harlow Corporation to the attention of W. V. Harlow,
18 President, and it's regarding the Stevens Operating Corpora-
19 tion north half of Section 19, Township 8 South, 29 East,
20 and it states that inasmuch as Stevens and Harlow could not
21 reach an agreement with respect to the drilling of this
22 well, that they have retained the services of Ernest Padilla
23 asking him to represent us at a hearing, which is today,
24 June 6th.

25 Q Now, can you briefly tell us what has
transpired in the meantime by way of seeking the joinder
from Harlow Corporation?

A Well, it's my understanding and I am not,

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you know, privy to the actual conversations or anything like that, that Don Stevens has contacted Bill Harlow, President, and tried to come up with some sort of an agreement on this.

Q Has the Harlow Corporation placed restrictions on proposed farmouts to Stevens Operating Corporation?

A Yes, they have.

Q And insofar as earned acreage or the amount of -- is that correct?

A Yes.

Q And tell us about the proposals as you know them that Harlow has proposed.

A Well, the farmouts represent an interest in the north half as well as the south half of Section 19. The farmout proposal that Mr. Harlow has made covers the north half of 19. Rather than earning all rights from 3400 feet down to 100 feet below depth drilled he would like the farmout to designate that we would only earn the rights to the producing horizon that we complete the well from and then have a -- I believe this is right -- a 100 -- no, twelve months after that to go back and drill wells to, say, or horizons that we feel will be productive between 3400 feet and that horizon that we completed from in the original well which in this case would probably be the Fusselman.

Q Do you have a -- if you drill to the Fusselman formation and get a producing well under that proposal would you want to re-enter the well and try to or at-

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2 tempt to dually complete the well or somehow commingle the
3 production with other zones?

4 A Well, I'm not an engineer. I don't, you
5 know, pretend to be an expert witness on that part of it,
6 but I do feel that it would probably be rather risky, parti-
7 cularly if we have a pretty good Fusselman well, to want to
8 risk losing the well by going up and maybe doing some sort
of a dual completion.

9 Not only that, -- John, is this 4-1/2 or
10 5-1/2 you're going to run? Five? Okay, so we'd have
11 enough pipe if we wanted to, but I just -- I think it would
12 be risky. I think that probably that would be one of the
13 only ways to really evaluate what we've got.

14 Now we may run some drill stem tests and
15 that, but it may get to the point where we would still have
16 to actually run a production test and I think we'd be very
17 hesitant to want to dual complete the well, particularly if
we had a good Fusselman well.

18 Q In light of your testimony in regard to
19 the geology of the area, would you in effect potentially
20 wind up drilling wells that would otherwise not be drilled
21 within the zone to be force pooled?

22 A Yes, we would.

23 Q And that -- would that amount to economic
24 waste in your opinion?

25 A I think it would, yes.

Q Let me -- if I can sum up your testimony

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2 is that Stevens Operating Corporation has farmed out on --
3 on different terms that are more favorable than the terms
4 proposed by the Harlow Corporation.

5 A Yes, that's correct.

6 Q And in light of your testimony concerning
7 the geology of the area, the risk is too great considering
8 that proposal?

9 A Yes.

10 Q Do you have -- well, does Stevens Operat-
11 ing -- does Stevens desire to be named operator of this
12 well?

13 A Yes, we do.

14 MR. PADILLA: I have no further
15 questions for this witness. I'll pass the witness.

16 CROSS EXAMINATION

17 BY MR. STAMETS:

18 Q Mr. Wilson, is the interest of Harlow the
19 same throughout this entire north half of Section 19 or do
20 they have 40 acres here, or is it undivided interest
21 throughout?

22 A I am not --

23 MR. PADILLA: Mr. Examiner, I
24 believe it's an undivided 1/8th interest across the north
25 half of the --

Q Okay, and if that's true, then Harlow
would be paying the same percentage of the well regardless

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2 if 40 acres were dedicated or 160 acres dedicated or 320
3 acres dedicated?

4 MR. PADILLA: That's correct,
5 depending on the spacing.

6 Q Okay. Mr. Wilson, is it possible that
7 you might find oil or you might find natural gas in any one
8 of the zones that you propose to penetrate?

9 A It's possible.

10 Q Okay.

11 MR. STAMETS: Are there other
12 questions of this witness?

13 CROSS EXAMINATION

14 BY MR. LOPEZ:

15 Q Mr. Wilson, who are the other farmout
16 parties? Who are the other parties that farmed out to
17 Stevens Operating Company?

18 A Okay, there's TXO, Columbia, Huber, and
19 Tenneco.

20 Q When were these farmouts entered into be-
21 tween the parties?

22 A I'm sorry, I don't know the date.

23 Q When did you first contact any of the
24 parties that farmed out?

25 A I don't know.

Q Do you know who would know that, who
would have done the contacting?

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A Yeah, either Don Stevens or Mary Irene Stevens, one or the other.

Q You have executed copies of the farmout agreements?

A No, sir.

Q Would you have any objection to submitting the executed copies of the farmout agreements to the Examiner subsequent to the hearing so that they could be a matter of record and so that the written documents could in turn verify your testimony as to what the contents of the agreements are?

MR. PADILLA: We have no objection, Mr. Examiner.

Q I assume that that would also indicate then when the agreements were entered into.

A That would be true.

Q Do you know when -- well, let me rephrase that. Was the first time that Stevens Oil Company attempted to contact the Harlow Corporation at the time of the May 7th letter?

A I don't know.

Q When we talk about economic waste, would you please describe for me again exactly how you view the fact that economic waste will occur on the basis of the farmout agreement that the Harlow Corporation is willing to enter into as compared the other farmout parties?

A Well, I guess if -- if we -- what you're

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saying is it necessitating drilling more wells than would be necessary to adequately drain the reservoir, is that what you're saying?

Q Well, I think that was your testimony and I didn't quite understand how that would occur under the arrangement as you described it, all right, that was agreeable to be entered into between the parties, namely the Harlow Corporation and Stevens.

A Well, I guess I should rephrase the testimony to state that I think it would be a much better deal, certainly, as a prudent operator to drill the well, complete it, and so forth and so on, if we had a farmout agreement from Harlow exactly the same as all the others, so we're earning all rights from 3400 down to 100 feet below depth drilled and not have a window in here which we've got to worry about with respect to do we go back and try and do -- complete this thing or do we take additional risk of drilling another well in there because we're afraid of losing this well, and then we have to make a decision is it really worthwhile. Maybe we had a little oil on the bit. Maybe we had something on drill stem test. This again is going to put us into another risk situation of evaluating the thing, because we've got to do that within the twelve month period or we're not going to earn the rights between 3400 and 100 feet below the depth drilled on the Harlow portion of the farmout.

Q As I understood your testimony, it is

possible that this well can encounter either oil or gas production in a variety of horizons subject to a variety of spacing requirements.

A Yes.

Q How would you expect the Commission to draft the order? Isn't it common that the Commission at the outset of these kind of forced pooling hearings identified the target formation which I think you've already stated would be the Fusselman and enter an order accordingly, or do you expect the Commission to enter an order giving you forced pooling rights with a 200 percent penalty regardless of the formation, productions encountered, regardless of whether it's oil or gas and regardless of whether it involves 40 acre spacing, 80 acre spacing, 160 acre spacing, or 320 acre spacing?

A Well, I think we would expect the Commission to award the penalty on all of those spacing patterns and regardless of which horizon it was in.

Q So if I understand your testimony here today, if you encounter production at 3500 feet or if you encounter it at 7600 feet, in either case Stevens Oil Company would be entitled to a 200 percent risk penalty.

A Yes.

MR. LOPEZ: I think that's all.

MR. STAMETS: Any other questions of this witness? He may be excused.

MR. PADILLA: Mr. Examiner,

call John Walker.

JOHN V. WALKER,

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

DIRECT EXAMINATION

BY MR. PADILLA:

Q Mr. Walker, for the record would you please state your name and your connection with the applicant?

A I'm John Walker and I work with Stevens Oil Company. I live in Roswell, New Mexico.

Q Mr. Walker, have you previously testified before the New Mexico Oil Conservation Division?

A No, I have not.

Q Would you briefly state your educational background and work experience in the oil and gas industry?

A I have a Bachelor of Science degree from Ohio State University granted in 1956. I worked for the Pure Oil Company as an exploration geologist from 1956 to 1960. I worked for the Rutledge Drilling Company from 1960 to 1962 as a drilling engineer and preparing cost estimates for drilling bids.

I worked for the Federal Government for seventeen years as a research and development manager in Washington, D. C., and I have worked for Stevens Operating

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2 Corporation for the past three years as their Governmental
3 Affairs Manager, preparing cost estimates on the drilling of
4 new wells and drilling applications and dealing with the
5 public in general on these kind of matters.

6 MR. PADILLA: Mr. Stamets, in
7 light of the witness having graduated from Ohio State Uni-
8 versity are his qualifications acceptable?

9 MR. STAMETS: What was your de-
gree in, Mr. Walker?

10 A A Bachelor of Science in geology.

11 MR. STAMETS: Okay, where was I
12 when you were doing this? What month in '56 did you get
13 your degree?

14 A June.

15 MR. STAMETS: I didn't get mine
16 till December.

17 (There followed a discussion off the record.)

18 MR. STAMETS: Yes, he is con-
sidered qualified.

19 Q Mr. Walker, I show you what we have mark-
20 ed as Exhibit Number Six and have you tell the Examiner what
21 that is.

22 A Exhibit Six is Stevens Operating Corpora-
23 tion's Authorization for Expenditure. It is an estimate of
24 the costs of drilling the Lynx No. 1. It's based on exper-
25 ience recently gained from the drilling of the Red Lake
Ridge No. 1, which is about a 3-mile east offset to this

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2 well, plus the recent charges that are made by service com-
3 panies and the cost of pipe and the cost of drilling a well.

4 And its bottom line for a dry hole is
5 \$318,075 and it's bottom line for a completed producing well
6 is \$486,000.

7 The estimate contains sufficient monies
8 to test three zones with drill stem tests and the use of a
9 mud logger and as far as I can ascertain when I put the
10 thing together it's, you know, a fair and accurate list of
11 what the costs will be on this kind of a well.

12 Q Mr. Walker, in your opinion is this a re-
13 presentative -- or this AFE representative of well costs in
14 the area to the same formation?

15 A To the same formation it's representative
16 of the well costs in the area.

17 Q Including the potential tests that you
18 are going to make on the way down, or may make on the way
19 down?

20 A Yes, sir.

21 Q Do you have a recommendation as to over-
22 head charges that -- for a drilling well and a producing
23 well?

24 A Our company uses the standard COPAS over-
25 head charges and I believe for this well that is \$3500 per
month for a drilling well and \$350 a month for the main-
tenance of a gas well after it's been completed.

Q I have also marked an Exhibit Number

1
2 Seven. Can you tell us what that is?

3 A The COPAS book as Ernst and Whitney
4 Accounting Firm solicitation of information from all the oil
5 operators in the Rocky Mountains where they list their over-
6 head charges and then the accounting firm averages these and
7 published on an area by area basis an average charge and a
8 mean charge for the operations of the oil business. And
9 it's as fair and honest a way to go about making those
charges as we can come up with.

10 Q How do your overhead charges you propose
11 compare to the ones in the Ernst and Whitney book?

12 A The management fee charged in my AFE is
13 \$500 higher on a monthly basis than what they would have al-
14 lowed; however, this charge, when I estimated it, was made
15 on the basis that we probably would work on this well for
16 more than thirty days; it probably would take us at least a
17 month and a week to -- to complete all the testing and
18 everything we're going to do to it, and other than that it's
completely in line with the COPAS.

19 MR. STAMETS: Excuse me, let me
20 ask you a question here. The \$3500 was for what period of
21 time?

22 A That is for a month.

23 MR. STAMETS: For a month. Go
24 ahead.

25 Q I believe you've got -- how long will it
take to drill the well, Mr. Walker?

1
2 A The drilling operation will probably take
3 26 days and the completion operations running -- complete
4 the running of the casing and doing all testing may very
5 well string it out to 30, 35 days.

6 Q Mr. Walker, the normal compulsory pooling
7 order that the Oil Conservation Division generally issues
8 allows for a time period within which potential nonconsent-
9 ing parties may join in the well.

10 Do you have any thoughts or ideas or re-
11 commendations concerning that type of provision in the or-
12 der?

13 A We feel that the time frame should be ten
14 days because we will be drilling at the important zones in
15 the well at that time. You know, if we wait until after
16 that ten day time frame is up and string it out, then all of
17 the information will be available that's to be gained by
18 drilling the well.

19 Q You've already spudded the well, isn't
20 that correct?

21 A That's correct.

22 Q And why have you spudded the well?

23 A Because one of the farmouts contained a
24 -- one of the leases was -- ran out on the first of June.
25 We had to have a well drilling by the first of June.

26 Q Mr. Walker, do you have anything further
27 to add to your testimony?

28 A No, sir.

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2 Q Would approval of the application be in
3 the best interest of conservation, in your opinion?

4 A In my opinion it would be.

5 MR. PADILLA: Mr. Examiner we
6 pass the witness.

7 MR. STAMETS: Are there ques-
8 tions of the witness?

9 CROSS EXAMINATION

10 BY MR. LOPEZ:

11 Q Mr. Walker, on your AFE I notice that you
12 have costs calculated for three drill stem tests and comple-
13 tion in three different zones, yet if I understood Mr. Wil-
14 son's testimony that's exactly what he didn't want to do and
15 that was one of the objections that Stevens Oil had to the
16 farmout arrangement proposed by Harlow. Could you explain
17 why the discrepancy and why the testimony is --

18 A Well, when the AFE is constructed to al-
19 low us to evaluate in an economic manner all of the produc-
20 tive horizons that are encountered below 3400 feet, and at
21 the time it was made I had no knowledge whatsoever of any of
22 the conditions of any of these farmouts. I prepared this
23 AFE in what would be a vacuum and so I really can't speak to
24 any of the other points except that this is the way I would
25 logically go about doing it.

26 Q Do you have any specific bids with re-
27 spect to drilling costs?

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A I had six bids.

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Q And have you accepted any?

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A I accepted a bid, obviously, because the well is drilling.

5

Q And at what cost was that?

6

A Oh, mercy, at \$16.00 a foot.

7

Q And yet on the AFE you indicated it \$18.00 a foot, so that would reduce that cost.

9

A Yes, sir.

10

Q With respect to needing pits lined, isn't it true that there's already a disposal pipeline on the premises and that that would not be necessary, either?

12

A The lining of pits for a drilling well has no bearing on the disposal of fluid. It's primarily to allow the drilling mud to be contained and to act as an emergency reservoir during the drilling of the well, and lined pits are much more efficient than unlined pits in maintaining fluid and allow the drill cuttings to drop out of that fluid and keeps your penetration rate up and gives you less rig problems.

19

20

MR. RAMEY: Any other questions of this witness?

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I have one.

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CROSS EXAMINATION

24

BY MR. STAMETS:

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Q Mr. Walker, these overhead charges, have

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the other parties in the well voluntarily agreed to those charges?

A To the best of my knowledge, yes, sir, because that charge that's entered into the COPAS agreement, the standard farmout agreement.

MR. STAMETS: Mr. Padilla, when you furnish me with the information Mr. Lopez requested, send me a copy of that page of the operating agreement.

MR. PADILLA: Okay.

MR. STAMETS: Any other questions of this witness? He may be excused.

W. V. HARLOW, JR.,
being called as a witness and being duly sworn upon his oath, testified as follows, to-wit:

DIRECT EXAMINATION

BY MR. LOPEZ:

Q Would you please state your name and where you reside?

A My name is W. V. Harlow, Junior. I reside in Amarillo, Texas.

Q By whom are you employed and in what capacity?

A I'm President of the Harlow Corporation and that's where I seek my employment.

Q Have you previously testified before the Commission and had your qualifications accepted as a matter

of record?

A I don't believe so.

Q Would then you briefly describe your educational background and work experience?

A I graduated from Oklahoma University in 1956 with a degree in geology, a BS in geology.

Went directly into the employment of Kerr McGee Oil Corporation as a geologist and went on my own in December, 1960, as an independent geologist and consultant, until 1966 at which point I started operating properties, as well as being a consultant and independent geologist, and formed the Harlow Corporation, an oil and gas corporation, exploration corporation, in 1975.

And that's where I am presently employed.

Q And I assume you're the owner of the Harlow Corporation?

A Yes.

Q And does the Harlow Corporation do oil and gas exploration, development, production work in a variety of states?

A Yes, we do.

MR. LOPEZ: Is the witness considered qualified?

MR. STAMETS: He is.

Q Mr. Harlow, I'd ask you to refer to what's been marked Exhibit Number One and ask you to identify it.

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2 A This is a plat of the area in which we
3 own leasehold interest, which basically lies in the general
4 area of the Twin Lakes San Andres Field, as well as the
5 Bullseye Railroad Mountain San Andres production, basically
6 within and tying these two areas together in 8 South, 28, 29
Ecom, Chaves County, New Mexico.

7 Q Does this plat show the section in ques-
8 tion, subject of the forced pooling application?

9 A Yes, it does.

10 Q And what wells have been drilled in that
11 section?

12 A In the section, on the south half of Sec-
13 tion 19 the Harlow Corporation drilled eight wells and in
14 the north half of Section 19, the subject half section,
15 three wells have been drilled by farmout from myself and
16 others by Ryans Drilling Corporation of Roswell, New Mexico,
which are all San Andres producers.

17 Q What is the interest of Harlow Corpora-
18 tion in the north half of Section 19?

19 A We have an undivided 25 percent working
20 interest in the San Andres -- well, at varying depths but
21 basically between -- above 3400 feet. We have a 25 percent
22 working interest and below that depth we have a 12-1/2 per-
cent working interest.

23 Q And how many wells does, approximately
24 how many wells does the Harlow Corporation operate in the
25 area?

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A It's approximately, I believe, 32 wells.

Q And how long have you been active in this area?

A My first efforts were initiated on this ranch in 1963 with the surface work and subsurface work. Did I say '63? I hope I did.

Q Yes, '63.

A That's correct.

Q Okay. And are your assignments with respect to your mineral interest in the north half of Section 19 of record?

A Yes, they are.

Q I'd now ask you to refer to what's been marked Exhibit Number Two and ask you to identify it.

A This is a letter that was received in our office on May 9, 1984, a letter dated May 7 from Stevens Oil Company regarding all of Section 19, 8 South, 29 East, and proposing that we participate in the drilling based on the attached AFE or that we farm out on the basis of a 1/16th overriding royalty convertible to 25 percent working interest after payout with 120-day continuous drilling per proration unit.

And this was our first knowledge of Stevens Oil Company wishing to put a unit together on this tract.

Q This was your first contact when you received this letter on May 9th?

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A That's correct.

Q Had you yourself or on behalf of the Harlow Corporation attempted to obtain farmouts with respect to this same acreage?

A Yes, we did.

Q And how successful were your efforts?

A We were -- basically had consummated and had signed farmout agreements from Tenneco, Huber, Texas Oil and Gas, but we did not consummate an agreement with Columbia Gas Development.

Q And as a result of that did you abandon your efforts in the area?

A With regard to drilling a Fusselman test at this location, yes.

Q But you had intended to attempt that?

A Not only did we intend to do that, we had the money raised, operating agreements drawn, and an AFE drawn as well.

Q Okay. I'd now refer to you what's been marked Exhibit Number Three, and ask you to identify it.

A This letter is dated May 9th, the date of receipt of the Stevens farmout request, which was written at my request. I was not even in the state, by the way, and this was written by Janice Sharp, my land supervisor, and I talked to her on the phone. She discussed this with me and I said please request that we -- provide us with copies of the executed farmout agreements you have made with TXO, Co

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lumbia Gas, Huber, and Tenneco, so that when Mr. Harlow returns we will have all the information available for review and discussion with our partners and then be able to approve or refuse your farmout offer on a timely basis.

Q Okay. Now I hand you what's been marked Exhibit Number Four and ask you to identify it.

A This is a letter dated May 11 from Stevens Oil Company, written by Mary Irene Stevens, regarding the proposed test well in Section 19, which basically sets out that they have attached a copy of the farmout agreement between TXO and Stevens Oil Company on the captioned lands, and it says we have not received executed copies of the farmout agreement from Columbia and Huber.

It doesn't mention Tenneco, by the way.
And let us know your intentions.

The farmout agreement tendered is not an executed farmout. It has all kinds of notations, deletions, and would on the surface not be an executed agreement, in fact to the contrary, it looks like something in the process of negotiation and it was not, the copy sent was not signed by Don Stevens.

It says, originally signed by Don Stevens.

Q And with respect to TXO, were all the notations and cross outs contained in the attached farmout agreement initialed by the office of TXO that submitted the farmout, presumably?

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2 A No, as a matter of fact all of the nota-
3 tions are apparently made by the Stevens Oil Company. In
4 fact the initials would be Mary Irene Stevens, MIS.

5 As a point in fact, this farmout agree-
6 ment was presented to Stevens Oil Company by TXO and signed
7 prior to their receipt and it's dated March 25, 1984, which
8 means they have already negotiated an agreement presumably
9 and some 50 or 60 days prior to our notice had already
agreed to a farmout with the Stevens Oil Company.

10 Q What did -- what did you conclude when
11 you received this letter with the attached farmout agree-
12 ment?

13 A The letter, as presented, as to the
14 farmout was, the TXO farmout, by the way, as to the exhibit
15 includes the shallow rights on a 160-acres in the north half
16 and the Stevens letter basically says that they wish to have
17 us join on the same terms, yet we find that in fact this --
18 we are the only ones that hold our leasehold by production
19 and we could not determine from the letter, the farmout re-
20 quest and from this right here, as to what they really
21 wanted from us, whether they wanted shallow rights, deep
rights only, we really didn't know. We could not ascertain
that from this document or from their letter.

22 Q Could you conclude in addition whether or
23 not they had actually entered into farmout agreements with
24 the other working interest owners in the area?

25 A No. We had no absolute documentation at

1 all.

2
3 And in view of our previous experience we
4 were obviously skeptical of whether these documents were ac-
5 tually forthcoming or not, and as to what the terms would
6 be.

7 Q When you say due to your previous exper-
8 ience, due to your efforts to obtain farmout agreements from
9 the same parties?

10 A Correct, and I notice that in their let-
11 ter they even left out Tenneco as having a farmout.

12 Q Okay. Now I hand you what's been marked
13 Exhibit Number Five and ask you to identify it.

14 A This is a letter received by me, dated
15 May 24, received in our office on May 29, 1984, and it's
16 from Ernest Padilla, saying basically that, Mr. Padilla
17 states that inasmuch as you have been unable to reach an
18 agreement with Stevens Operating Company for the drilling of
19 a well sufficient to test the Fusselman formation underlying
20 the above referenced land, Stevens has retained my services
21 to force pool said land, and this letter and the enclosed
22 copy of Stevens application will constitute notice to you
23 that a hearing on the application will be docketed for June
24 6th.

25 So we received notice on May 29th that
there would be a hearing June 6th before this body.

And of course in this application they
set forth this desire to receive their money back plus 200

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2 percent risk for the drilling at this location and in this
3 instance they only mentioned zones below 3400 feet, whereas
4 from the document previously tendered, it would assume that
5 they were also asking for our HBP rights in the shallow
6 zone.

7 Q What was your reaction to that letter?

8 A Well, I don't like to create a fuss, so
9 what day of the week is May 29th? Could somebody please
10 tell me what day of the week that is?

11 MR. WALKER: Monday was Memor-
12 ial Day, the 28th.

13 MR. PADILLA: Tuesday.

14 A So that would be the first business day
15 that we received this after Memorial Day. Okay.

16 So then we were really at a loss of what
17 our rights should be under this matter, so -- but I deter-
18 mined that I wanted to go ahead and not go through a forced
19 pooling action; therefore on June 1 I wrote a letter setting
20 forth our agreement to farmout.

21 Q Okay.

22 A And the terms for that agreement.

23 Q I guess that's our next exhibit, but be-
24 fore we get to that, have you ever been subject of a forced
25 pooling case in any state or jurisdiction in which you do
business before today?

A The only case we had was where we had
non-identifiable owners in a tract of land under 640-acre

1 spacing and there was no way for us to take a lease on that
2 interest, therefore the Commission -- it was like seven
3 acres, and we went to the Commission and we got this seven
4 acres allocated to that unit for a forced pooling action.
5 We couldn't find them and nobody knew the, et cetera.

6 Q Then do I understand as a general rule
7 you find forced pooling applications to be repugnant to the
8 way you do business?

9 A Well, that's not our normal way to do
10 business.

11 Q I now hand you what's been marked Exhibit
12 Number Six and ask you identify it.

13 A This is the letter that I wrote dated
14 June 1, 1984, to Mr. Padilla, with copies sent to Stevens
15 Operating Company. Of course it was sent certified mail.

16 And in which we set forth our willing-
17 ness to lease to Stevens our interest in the drillsite 40
18 acres as to oil and the northeast quarter as to gas for
19 depths between 3400 and 100 feet below depth drilled in the
20 test well, subject to our reservation of 1/16th of 8/8ths
21 overriding royalty and 25 percent reversionary working in-
22 terest reduced proportionately at payout.

23 In the event Stevens Operating Corpora-
24 tion wishes to complete a San Andres zone that is above 3400
25 feet on the drillsite 40, which is the southwest northeast,
the Harlow Corporation would have the option to participate
in the completion costs and completion costs only as to its

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2 pro rata share of the San Andres Well, and we are agreeably
3 on an option basis to the same arrangement on the northwest
4 quarter as to the rights earned as to the oil and gas below
5 3400 and as to the option on a San Andres completion in the
6 alternative.

7 We at that time, when I wrote this, and
8 by the way counsel for the Hinkle, Cox Firm, one of the
9 partners in Amarillo, thought that it was 160-acre spacing
10 on gas and 40 acres on oil in this instance, which was in
11 error, and we agreed verbally when finding that today, that
12 we would change that to 320 acres as to gas and 40 acres as
13 to oil, because of our basic ignorance of the spacing invol-
14 ved, even though I was advised by his firm to the contrary.

15 Of course, that's Amarillo information.

16 Q Is it your understanding that the pro-
17 posal that you submitted to Stevens Oil Company was identi-
18 cal or essentially the same as the deals proposed by the
19 other working interest owners in the proration unit that had
20 agreed to farmout their acreage?

21 A As I understood my personal dealings with
22 these companies, this was definitely in line with their --
23 with their understanding of the area, or their proposals.

24 Q What happened next?

25 A Well, --

Q And I refer to what's been marked Exhibit
Number Seven and ask you to identify it.

A This is on June the 4th, Stevens Operat-

ing Corporation sends me a weekly report, which is also styled Scout Report, showing that the Stevens Operating Company No. 1 Lynx is drilling at this location and has since 5-29-84, which is the day Mr. Padilla wrote a letter saying that they were going to force pool me.

Q So --

A So I didn't know when I wrote the farmout letter on June 1 that they were already drilling on me and had been since 5-29-84.

Q Were you available by phone to talk to Mr. Stevens?

A Yes. I asked to talk to him the day of receipt, found out he was out that day but would be back the next, which I presume is the 5th, that's yesterday, at which time he called me, and basically said, that's the way it is.

The expression is my complaints are of no moment.

Q Were you surprised by all this?

A I must admit Mr. Stevens does not surprise me in some of his actions.

Q And what's the basis for that? Have you had dealings in the area with Mr. Stevens, and if so, do you care to describe them?

A Well, this would come under the category of an axe to grind, so I don't know if it's well spent to spend the time to talk about it, but --

MR. STAMETS: I don't believe

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we need to clutter the record with past goings on.

A But the attitude is similar.

Q How -- were you still willing to try and negotiate an amicable farmout arrangement with Mr. Stevens as of as late as 3:30 today?

A That has been the intention, as I understood it. That was the purpose of our meeting today, and a lengthy meeting, I might add, with a great deal of discussion and again with what I thought was a reasonable compromise as to the request by Mr. Stevens.

Q And what was the terms that you were willing to agree to?

A We basically came back to the terms that we are willing to farmout to Mr. Stevens the 320 acres as to gas, if that's the proration unit, whatever the proration unit would be, of course the largest unit being the 320 acres, as I understand it, and 40 acres as to oil, which as I understand is a statewide basis for pooling at this depth.

We would retain the 1/16th of 8/8ths overriding royalty, reduced proportionately, with the option to convert that override to a 25 percent working interest, reduced proportionately, at payout.

MR. STAMETS: When you say reduced proportionately, I'm not clear what you mean.

A Well, I'm just trying to make clear as to the fact that I own in terms of deep rights a 1/8th working interest; therefore 25 percent of 1/8th would be the reduc-

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2 tion that I'm speaking of.

3 MR. STAMETS: Okay, so in your
4 letter of June 1, you're talking about a 1/16th overriding
5 royalty and that would be based upon the 12-1/2 percent.

6 A 1/16th times 1/8th is basically what
7 we're dealing with.

8 MR. STAMETS: Right.

9 A And basically, if you'll look at Mr.
10 Stevens letter, that's basically the way he said it, the
11 same way, a 1/16th of 1/8th overriding royalty and he didn't
12 make any reduction, but that's understood, I hope, in the
13 industry. I just want to make it clear for the record.

14 Q And as you previously testified, this was
15 the same arrangement that the other working interest owners
16 had agreed to with respect to their farmouts.

17 A That's correct. Now, I made one stipula-
18 tion and in view of the fact that we do have an HBP, held by
19 production position on this leasehold and they don't. In
20 fact their lease runs out July 1.

21 All the rights that have been earned by
22 these people on the undrilled acreage has been acreage that
23 we have put together and farmed out and put the deals to-
24 gether for these people, by the way, some nine wells since
25 last year, so we have spotted a lot of activity on this
leasehold, the Harlow Corporation has.

And we have asked that in deference to
that position, all we asked was that on the test well, if

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2 you will, that all rights not completed in would revert to
3 the Harlow Corporation in one year if they haven't drilled
4 more wells to hold those rights.

5 By that I mean if in fact they complete a
6 Fusselman well that holds 320 acres as to the Fusselman,
7 they find what they consider to be a completable Abo zone or
8 a completable -- help me -- Wolfcamp, a completable Strawn,
9 then it would be their option to drill additional well or
10 wells to hold those rights. They are under the burden of a
11 continuous drilling and development pattern with the other
12 farmors at 120 days they have to drill, anyway, anything
13 that's not held by production.

14 So they already have a burden to drill,
15 as I see it, and all we're saying is that if they don't want
16 it, we want it back.

17 MR. STAMETS: You're just
18 talking about your own interest.

19 A That's correct, only as to the interest
20 that I am farming out.

21 Q Did you have any objection to their doing
22 dual or triple completions in other formations in addition
23 to the Fusselman in the test well, if that were their de-
24 sire?

25 A Absolutely not. Not at this time.

Q Is it your understanding that your re-
quest is common with respect to jurisdictions within which
you operate?

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2 A Yes, it is not an uncommon practice.

3 Q Is it your desire that in the event this
4 Commission approves the application that they limit the ap-
5 plication to the targeted zone, the Fusselman zone, or any
6 other identifiable zones in which the applicant intends to
complete the well?

7 A I would ask this Commission to limit
8 forced pooling to the zone of completion or the zones of
9 completion. If they can complete two zones, then that's
10 fine, but as far as I'm concerned the forced pooling action,
11 I think, should be to the well that we're discussing here,
12 the acreage that it earns in that zone, or zones, and no
13 further. I just don't think that's a fair outlook on a
14 right that we have spent money to earn and hold and are
forced into this action without notice.

15 Q What is your reaction to the testimony of
16 the applicant with respect to the 200 percent penalty?

17 A Well, I think any time an operator can
18 enjoy a 3-to-1 return on his investment he's done very well,
19 and based on the AFE that was submitted here, which is some
20 60 percent more, in fact more than that, than our own AFE
21 for the same project, we would find that if you took a
22 threefold of that expenditure, then basically the well pro-
23 bably would not produce more than that and the reversionary
interest probably would be a moot point.

24 Q Do you think a 200 percent penalty is
25 justified and if not, why not?

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2 A Well, we have seen some statistics as to
3 the exploration effort to the Devonian in a large area,
4 which, by the way, spans some thirty years of drilling and
5 is not sponsored by today's techniques for drilling.

6 In fact, most of that was probably spon-
7 sored in the -- prior to the seventies and some of the pro-
8 per techniques for finding the present situation, and in
9 fact the drillsite is covered and surrounded by wells for
10 control, which you normally don't have. As a matter of
11 fact, they're drilling, I presume, within a few hundre feet
12 of another wellbore that they have control on, so to say
13 that they are exposed to the same risk would be an obvious
14 distortion of the facts.

15 Q So you don't believe a 200 percent penal-
16 ty is appropriate in this case?

17 A Well, as in fact they can tell by the ex-
18 ploration methods used, as seismic in particular, within I
19 imagine, five acres of actually where the fault is, the
20 amount of relief, and the amount of entrapment. I find the
21 using gross figures is totally of perspective.

22 Q Would you still be willing to enter into
23 a farmout agreement on the basis that you've described?

24 A Certainly.

25 Q With respect to this Exhibit Number One,
just to clear up a matter, is that exhibit reflective of all
the wells drilled in the area?

A Not necessarily. There are additonal

1
2 wells and the plat, I hope you understand, was basically to
3 just outline our area of interest and direct offsets.

4 Q Okay, now I refer to you what has been
5 marked Exhibit Number Eight and ask you to identify it.

6 A This was just the drilling program and
7 detailed well estimate that we had prepared in November of
8 1983 for a test to be drilled at the exact same location.

9 Q And this was just in December of last
10 year that you prepared this AFE.

11 A Yes, that's correct.

12 Q And would you care to compare it with the
13 AFE submitted to you as Exhibit Number Two by Stevens?

14 A We have a, if I understand Mr. Walker's
15 statement, that their actual drilling costs were at \$16.00 a
16 foot and at November, 1983, the highest price that I re-
17 ceived on bidding was \$16.00 a foot.

18 We showed it at a great deal less. In
19 fact we showed it at \$10.00 a foot and even that that is
20 escalated to \$16.00, which is only a, let's see, another
21 \$40,000 onto this, we would still be \$140,000 under their
22 AFE.

23 And this AFE includes three zones of com-
24 pletion, their perforating and treating and completion unit
25 for three separate zones of completion and not just one.

26 They also show three drill stem tests.

27 With regard to pits, lined, they're
28 showing \$13,000 to line pits they say to control their

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2 fluids. Well, when you're drilling at 7500 feet, if you
3 want control of your mud system you have steel pits. You
4 don't have lined pits and spend \$13,000. That should be
5 part of your contract at \$16.00 a foot, I can assure you of
6 that.

7 We probably just drill a well cheaper
8 than Mr. Stevens.

9 Q What's your opinion of the overhead costs
10 or administrative costs in connection with operating?

11 A We haven't argued with Mr. Stevens'
12 statement of \$3500 for administrative overhead for a drill-
13 ing operation per month and we haven't argued with the \$350
14 administrative overhead on a monthly basis, but I would ar-
15 gue, I say argue, I wish to make a statement that we would
16 not entertain the additional expense Mr. Stevens is pre-
17 sently charging us for security on field operations. It ex-
18 ceeds in some cases \$350 a month for a well for security on
19 a well on an operation where he has three wells we have a
20 working interest under and I might add he has a guard, I
21 guess 24 hours on duty, gates, locked, all of which we cur-
22 rently pay for under those operations, and I'm saying tha in
23 this case of course we can't use any of Mr. Stevens roads,
24 that would be trespass in his understanding, and yet he has
25 moved in on our leases on our caliche roads and has moved a
drilling operation in and uses them daily, apparently, and
without even letting us know they were going to move in.

Q Did you pay for the roads?

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A I paid for those roads.

Q Is it your opinion that Mr. Stevens, or Stevens Oil Company has negotiated with you in good faith with respect to obtaining a farmout agreement on this unit?

A Absolutely not.

Q Is there anything else you would wish to add in this case?

A I don't know if it's a case. I just feel like that we feel like we've tried to be fair and that hasn't worked out.

MR. LOPEZ: That concludes our testimony.

MR. STAMETS: Okay, would you like to move --

MR. LOPEZ: Oh, I'd like to, yes. May I move the introduction of Exhibits One through Eight, I believe.

MR. STAMETS: They will be admitted.

MR. PADILLA: I believe I haven't moved admissin of our exhibits.

MR. STAMETS: Sorry I missed that, Mr. Padilla, and your exhibits are admitted, as well.

Are there any questions of Mr. Harlow?

MR. PADILLA: Yes, Mr. Examiner. I'll try and be as brief as I can.

CROSS EXAMINATION

BY MR. PADILLA:

Q Mr. Harlow, when you were proposing to farmout the same acreage on the north half, what rights were you going to earn by your farmouts?

A 1/16th override with a 25 percent reversionary interest at payout as to their respective interest on the north half with 40 acres on oil in the event of an oil well, and if it's in the event of a gas well, it would be the spacing unit.

I believe the wording was whatever the regulatory spacing unit was. I wouldn't earn the 320 if it wasn't entitled, I believe it was.

Q Were you going to earn all rights from the surface or down -- were you -- well, let me ask this question. Were you going to earn the completion zone rights?

A The completion zone rights?

Q Yes.

A Certainly.

Q Were you going to earn any other rights from the surface down to the --

A Yes, we would.

Q You would earn all rights in other words.

A Yes, sir, we would.

Q And that's all that Mr. Stevens is asking

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isn't it?

A Of course, the difference --

Q Just answer the question yes or no.

A Yes.

Q On the acreage that you hold by production you have no time commitments to drilling that acreage, do you?

A On some of the rights we have 2433 days in which to drill our next well.

Q And that's a long time --

A Yes.

Q -- in comparison.

A 2,433 days, is what I should say.

Q Mr. Harlow, how many wells do you operate below -- in the area below 3400 feet?

A In other states?

Q No, in the area of concern.

A None in deeper wells in this area.

Q You haven't drilled any wells below 3400 feet?

A Not in this area.

Q You don't have -- then you don't have any experience with regard to drilling below 3400 feet.

A I certainly do.

Q In the area.

A Not there.

Q Do you agree with me that we have no

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2 agreement on the farmout, have negotiated extensively but we
3 have no agreement, is that correct?

4 A That's my understanding.

5 Q And that's why we're here today.

6 A That's correct.

7 Q Do you know whether your interest with
8 Marshall Winston is of record?

9 A We have a number of interests, yes. We
10 have, in fact the documents are here.

11 Q Is that of record?

12 A Yes, sir.

13 Q In the -- when you were going to propose
14 drilling a Fusselman test did you prepare an operating
15 agreement for the drilling of that test?

16 A Yes, sir.

17 Q What did you have for a provision of non-
18 consent penalty?

19 A I don't have that document with me and I
20 can't tell you but it was probably either 1, 2, or 300 per-
21 cent penalty on a nonconsent basis.

22 Q You were going to charge 4 percent penal-
23 ty, is that correct?

24 A 100 or 200 or 300, depending on what item
25 you're dealing with. What are you talking about surface
26 equipment or are you talking about downhole completion costs
27 or workover costs or new equipment or replacement equipment?

28 Q What were your intangible nonconsent

1 penalties?

2 A I imagine 300 percent. But I might also
3 add that we have on our document that if they don't wish to
4 participate on a subsequent well they lose their interest.

5 Q That's a standard provision on earning
6 acreage, isn't it?

7 A When you sign the document or the drill-
8 ling of the first test they have agreed to drill that well.
9 That is the first test. The subsequent test --

10 Q As long as your operating agreement calls
11 for further drilling?

12 A If it calls for further drilling and they
13 don't wish to participate, they lose their interest in sub-
14 sequent drilling. We don't believe in Number 12. That's a
burden to the ownership.

15 Q Mr. Harlow, you will not provide any
16 money for drilling the well, will you? That's not an op-
17 tion.

18 A I don't understand.

19 Q Well, Mr. Stevens, or Stevens Operating
20 letter of May 7th they gave you essentially two options, an
21 option to farmout or an option to join in the drilling of
22 the well by signing the AFE and paying your portion of the
well costs.

23 A I certainly could have gotten someone to
24 take the interest, yes, if I was happy with the AFE and if I
25 understood what the farmout was. Yes, we could have gotten

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somebody to drill that interest in my behalf.

Q Did you -- did you simply wait for Stevens to call you?

A I believe the record will show that I was out of town and that when I got back and we did not receive the executed documents we did not know where to proceed but the total time frame we're dealing with from the time we found out that Mr. Stevens wanted a farmout until Mr. Stevens is drilling on our property is twenty days, and actual drilling operation on our property without us even knowing it.

Q Mr. Harlow, do you operate any properties on Federal lands?

A No, sir.

Q Are you familiar with the site security regulations that the Federal Government asks?

A No, I don't.

Q Are you familiar with oil theft in southeast New Mexico?

A In southeast New Mexico.

Q Well, are you aware of the --

A I'm aware of oil theft all over the country.

Q Would you agree with me that there has been some oil theft in the Oil Patch?

A Well, I certainly, am aware of that.

Q Have you lost any oil?

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2 A Well, I guess because I don't a security
3 system, I don't know.

4 MR. PADILLA: Mr. Examiner, I
5 believe that's all the questions I have.

6 MR. STAMETS: Any other
7 questions of the witness? He may be excused.

8 MR. LOPEZ: I think I have just
9 a couple of questions on redirect. I'm sorry.

10 REDIRECT EXAMINATION

11 BY MR. LOPEZ:

12 Q Do you object to the forced pooling ap-
13 plication?

14 A Yes, I do.

15 Q And what is your -- let me put it --
16 change it. Is your justification for not agreeing, recog-
17 nizing that you yet have to receive executed farmout agree-
18 ments from the other working interest owners and Stevens Oil
19 Company, but with the understanding of what those agreements
20 are, is your justification not granting carte blanche rights
21 to earn everything from 3400 feet to 100 feet below depth
22 drilled partly to protect reversionary rights to other unde-
23 veloped, unexplored formations, as well as a response to the
24 way you feel negotiations have not been conducted in good
25 faith in this matter?

26 A Yes, we have a sizeable investment in
27 this section in time and effort and money and on both sides

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2 of it, all around it, and whereas the people, the other
3 farmees have spent not one dollar, not one dollar have they
4 spent or one time have they been in there and drilled a
5 well. They couldn't justify doing that, and that's the pre-
6 sent instance. They can't justify it and yet their lease is
7 running out July 1 and ours aren't. We've spent the money.
8 We've developed the roads. We did develop this field in
9 this direction and yet our treatment is that we have earned
10 no rights by doing that and even though our positon in terms
11 of leasehold is different than the rest of the farmees and
12 their obvious inability to come up with a drilling project,
13 is our -- our feeling is that we are entitled to something
14 and all we have asked is that if they don't want to drill
15 and develop the rights, we want them back. That's all we've
16 asked and we're willing to give them a year to develop these
17 other rights.

18 MR. LOPEZ: I have no further
19 questions.

20 MR. STAMETS: Any other ques-
21 tions of the witness? He may be excused.

22 I certainly hope there are no
23 closing statements.

24 Anyone have anything further in
25 this case?

The case will be taken under
advisement.

(Hearing concluded.)

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 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. 8225
heard by me on 6/6 1984.
Richard L. Hunt, Examiner
Oil Conservation Division