

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO

19 June 1985

EXAMINER HEARING

IN THE MATTER OF:

Application of Lynx Petroleum Consultants, Inc. for an unorthodox gas well location, compulsory pooling, and a dual completion, Lea County, New Mexico.

CASE
8631

BEFORE: Michael E. Stogner, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation
Division:

Jeff Taylor
Legal Counsel to the Division
Oil Conservation Division
State Land Office Bldg.
Santa Fe, New Mexico 87501

For Lynx Petroleum:

Karen Aubrey
Attorney at Law
KELLAHIN & KELLAHIN
P. O. Box 2265
Santa Fe, New Mexico 87501

A P P E A R A N C E S

For Texaco, Inc.: Ken Bateman
Attorney at Law
WHITE, KOCH, KELLY & MCCARTHY
220 Otero Street
Santa Fe, New Mexico 87501

I N D E X

STATEMENT BY MS. AUBREY 6

GARY FONAY

Direct Examination by MS. Aubrey	8
Cross Examination by Mr. Bateman	29
Redirect Examination by Ms. Aubrey	37
Recross Examination by Mr. Bateman	41
Cross Examination by Mr. Stogner	42

TIMOTHY JAMES HUNT

Direct Examination by Mr. Bateman	53
Cross Examination by Ms. Aubrey	59
Redirect Examination by Mr. Bateman	66
Cross Examination by Mr. Stogner	67

I N D E X

GARY KERN

Direct Examination by Mr. Bateman	68
Cross Examination by Ms. Aubrey	72
Cross Examination by Mr. Stogner	77
Cross Examination by Mr. Taylor	82

STATEMENT BY MR. BATEMAN

83

STATEMENT BY MS. AUBREY

87

E X H I B I T S

Lynx Exhibit One, Map	11
Lynx Exhibit Two, C-102	12
Lynx Exhibit Three, Schematic	12
Lynx Exhibit Four, Letter	14
Lynx Exhibit Five, Letter	14
Lynx Exhibit Six, Letter	14
Lynx Exhibit Seven, Letter	15
Lynx Exhibit Eight, Letter	16
Lynx Exhibit Nine, Letter	16
Lynx Exhibit Ten, AFE	19

1

2

E X H I B I T S CONT'D

3

4

5

Lynx Exhibit Eleven, AFE

20

6

Lynx Exhibit Twelve, AFE

20

7

Lynx Exhibit Thirteen, Letter.

49

8

9

10

Texaco Exhibit One, Structure map

54

11

Texaco Exhibit Two, Cross Section

54

12

13

14

15

16

17

18

19

20

21

22

23

24

25

1
2 MR. STOGNER: This hearing will
3 come to order.

4 We'll call next Case Number
5 8631, which is the application of Lynx Petroleum
6 Consultants, Incorporated, for an unorthodox gas well
7 location, compulsory pooling, and a dual completion, Lea
8 County, New Mexico.

9 We will now call for
10 appearances in this matter.

11 MS. AUBREY: Karen Aubrey,
12 Kellahin and Kellahin, representing the applicant.

13 I have one witness to be sworn.

14 MR. BATEMAN: Ken Bateman,
15 White, Koch, Kelly, and McCarthy, representing Texaco.

16 I have two witnesses to be
17 sworn.

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

20 Will all witnesses please stand
21 at this time?

22
23 (Witnesses sworn.)

24
25 MR. STOGNER: Ms. Aubrey?

1 MS. AUBREY: Mr. Stogner, be-
2 fore I begin with my witness, I would like to bring one mat-
3 ter to the Examiner's attention.

4 In Lynx Petroleum's application
5 we seek an order permitting us to recovery out of production
6 the cost of drilling and completing the subject well in the
7 Queen.

8 I was looking at the advertise-
9 ment a few minutes ago and the advertisement is phrased in
10 terms of the cost of recompleting and allocation of costs
11 thereof.

12 If those two things mean the
13 same thing to the Division, then I don't think we'll need to
14 readvertise this case.

15 If they do not, I would suggest
16 that we proceed with testimony and readvertise the case for
17 hearing on July 2nd.

18 MR. STOGNER: How would you
19 suggest that readvertisement be worded?

20 MS. AUBREY: Well, Mr. Stogner,
21 our application requests because the drilling and completion
22 of the subject well in the Queen, and it's phrased that way
23 because our evidence will show, and we believe that we will
24 prevail on this issue, that we should be entitled to recover
25 from Texaco as a nonconsenting working interest owner, all

1 or a portion of the cost from the surface to the base of the
2 Queen.

3 I am not sure that the
4 advertisement as written makes that clear.

5 MR. STOGNER: Let's go off the
6 record for a little bit.

7
8 (Thereupon a discussion was had off the record.)

9
10 MR. STOGNER: Okay, Ms. Aubrey,
11 there is a problem on the advertisement and we wish to read-
12 vertise this July 17th, is that right?

13 MS. AUBREY: That's correct,
14 Mr. Chairman.

15 MR. STOGNER: Okay, and that
16 latter part should read, correct me if I'm wrong, also to be
17 considered will be the cost of drilling and recompleting a
18 well from the surface to the base of the Queen formation and
19 the allocation of the cost thereof, as well as actual oper-
20 ating costs, et cetera, et cetera, et cetera?

21 MS. AUBREY: That's correct,
22 Mr. Stogner.

23 MR. STOGNER: Okay. This case
24 will be readvertised for the July 17th, 1985 hearing sche-
25 duled at 8:00 o'clock here in this room but since both par-

1 ties are here, we'll go ahead and hear this case but an or-
2 der will not be issued until after said July 17th, 1985,
3 hearing.

4 Please continue.

5 MS. AUBREY: Thank you, Mr.
6 Stogner.

7
8 GARY FONAY,
9 being called as a witness and being duly sworn upon his
10 oath, testified as follows, to-wit:

11
12 DIRECT EXAMINATION

13 BY MS. AUBREY:

14 Q Would you state your name, please?

15 A Gary Fonay.

16 Q And would you spell that for the court
17 reporter, please?

18 A She's got it, F-O-N-A-Y.

19 Q Okay. By whom are you employed?

20 A Lynx Petroleum. I'm a partner and Vice
21 President of the company.

22 Q And in what area have you received a pro-
23 fessional degree or degrees?

24 A I received a BS in petroleum engineering
25 from Colorado School of Mines, May of 1976.

1 Q And are you presently working as a petro-
2 leum engineer?

3 A Sure am.

4 Q And have you testified previously before
5 this Division and had your qualifications made a matter of
6 record?

7 A Yes, I have.

8 MS. AUBREY: Mr. Examiner, are
9 the witness' qualifications acceptable?

10 MR. STOGNER: Any objections?
11 There being none, he is so qualified.

12 Q Are you familiar with the application of
13 Lynx today for dual completion, forced pooling, and an unor-
14 thodox well location?

15 A Yes, I am.

16 Q For the Geraldine Doughty No. 1, is that
17 correct?

18 A That's it.

19 Q Let me ask you a couple of preliminary
20 questions.

21 The Geraldine Doughty No. 1 is presently
22 a producing well, is that correct?

23 A Yes, it is. It's producing in the Pad-
24 dock.

25 Q And in October of 1984 and September of

1 1984 there were orders entered by this Division approving
2 the compulsory pooling of certain mineral interests in the
3 Paddock in that well, is that right?

4 A Yes, from surface to the base of the Pad-
5 dock, that's right.

6 Q And what is the depth of the Paddock?

7 A And what is the depth of the Paddock?

8 A TD of the well is 6,360 feet. The Pad-
9 dock is perforated about 6100.

10 Q And you seek to recomplete in the Queen
11 today, is that correct?

12 A Yes.

13 Q And at what depth is the Queen in that
14 wellbore.

15 A Approximately 4000 feet.

16 MS. AUBREY: Mr. Stogner, I
17 have the file in Case 8341, which is the forced pooling on
18 the Paddock if that would be of interest to the --

19 MR. STOGNER: What is that case
20 number?

21 MS. AUBREY: -- Commission.
22 File 8341.

23 Q What acreage is presently dedicated to
24 that well?

25 A 40 acres, a standard oil proration unit;

1
2 40 acres being the northeast quarter of the southwest
3 quarter of Section 25.

4 Q And is that well drilled at a standard
5 oil location?

6 A Yes, it is.

7 Q Have you prepared certain exhibits for
8 the consideration of the Examiner today?

9 A Yes, ma'am, I have.

10 Q Let me have you look at what's marked as
11 Exhibit One, which appears to be an area map.

12 Can you locate the subject well on that
13 map?

14 A Yes, there's a red arrow pointing -- see
15 the Geraldine Doughty No. 1 -- marking it as a subject well
16 that we're discussing today.

17 Q And does that well show additional -- I'm
18 sorry, does that map show additional wells producing from
19 the Queen?

20 A That shows the nearest Queen producer
21 being in the southeast southeast quarter of Section 1, ap-
22 proximately two miles to the south and shows other, two
23 other wells in the immediate vicinity that specifically
24 tested the Queen as nonproductive, being in Section 26, a
25 half mile to the west of the subject well.

Q How unorthodox is the location of the

1 well for a Queen completion?

2 A Based on standard New Mexico rules it's
3 120 feet from being a standard location.

4 Q Let me have you look now at your Exhibit
5 Number Two, which is a copy of the New Mexico Oil Conserva-
6 tion Commission Form C-102. Does that show the location of
7 the well?

8 A Yeah, that's the survey plat and show the
9 actual location of the well being 2100 feet from the west
10 and 1650 from the south, which is where the well was drill-
11 led.

12 Q Let me have you look now at your Exhibit
13 Number Three. Can you review that for Mr. Stogner?

14 A If we go to the Queen and make a Queen
15 well out of it, we may decide to dually complete the well.
16 If we so decided to dually complete the well, this is a pro-
17 posed wellbore sketch of how we would do that.

18 It shows the Paddock formation being pro-
19 duced below a packer and pumping up the tubing. The Paddock
20 is currently a pumping well. It makes no gas, 10 barrels of
21 oil a day, and about 5 barrels of water a day.

22 We don't anticipate any problem pumping
23 that zone beneath the packer.

24 The Queen zone is expected to be a gas
25 well, if productive, and we feel it would be no problem with

1 the well flowing up the back side, up the annulus between 2-
2 7/8ths tubing and 5-1/2 casing, and therefore by the packer
3 and tubing the two zones would be isolated. Both zones are
4 normally pressured and there would be no -- be very little
5 pressure differential and should be no problem. This tech-
6 nique is used throughout southeast New Mexico for dual
7 gas/oil wells and is recognized as a prudent manner to pro-
8 duce.

9 Q Let me ask you now about your lease on
10 this acreage. Can you tell the Examiner when that expires?

11 A Well, of course, the northwest of the
12 southeast quarter, the 40 acres Geraldine currently sets on
13 is held by production.

14 The northwest of the southwest 40 acres,
15 this is a fee acreage lease. We have a number of leases on
16 that adjacent 40 acres, some of which expire the first of
17 August of 1985.

18 Q A standard proration unit in the Queen is
19 how many acres?

20 A The standard proration unit for a gas
21 well would be 160 acres.

22 Q And can you describe for the examiner
23 what the ownership is in the remaining 80 acres that you
24 have not discussed?

25 A That is we own the north half of that

1 southwest quarter. The south half of the southwest quarter
2 is owned by Texaco.

3 Q In connection with your application for
4 compulsory pooling have you notified and received leases,
5 farmouts, or other, made other arrangements with other
6 working interest owners in the area?

7 A Yeah, we've made numerous agreements on
8 that north half of the southwest quarter. We have some min-
9 eral owners that have chose to participate and we've had --
10 the vast majority have agreed to lease.

11 We only have one mineral owner in that
12 northwest southwest that declined to participate or lease or
13 do anything else. The individual has an extremely small,
14 fractional interest and I think he just, you know, decided
15 it wasn't worth his time to mess with it.

16 A And that would be the .029296th interest
17 of Kenneth G. Cone?

18 A That's correct. Ken Cone.

19 Q Let me refer you now to Exhibits Number
20 Four, Five, and Six. Can you review those for the Examiner?

21 A Yeah, be glad to. This Exhibit Four is a
22 letter that I sent to some of the unleased mineral owners in
23 the north -- yeah, northwest southwest quarter, to Kenneth
24 Cone, et cetera.

25 After this letter we had people agree to
26

1 lease or participate with the exception of Kenneth Cone, who
2 declined to do either and you'll see attached there is a
3 certified mail receipt showing Kenneth Cone did receive our
4 offer.

5 Q And Exhibit Number Five?

6 A Exhibit Number Five is the last of
7 several correspondences we had with Texaco in Midland, and
8 it's addressed to Mr. John Clark, showing that previously
9 we'd offered Texaco a chance to participate in the Geral-
10 dine. They declined.

11 In this letter we offered them the oppor-
12 tunity to farm out their acreage, offered them attractive
13 terms there of a 75 net lease with a quarter back-in, and
14 then moving forward to Exhibit Six, is Texaco's response
15 that they chose not to farm out their acreage.

16 Q Let me have you look now at Exhibit Num-
17 ber Seven and Eight which are letters from our law firm.

18 A Yeah, well, Seven, Seven is a -- is an
19 application there delivered to Mr. Stamets with exhibit to-
20 day, along with certified mail receipts showing that Texaco
21 and Mobil received this application as well as several
22 others, some of the people that had unleased mineral owners.

23 Q And the reason Mobil was notified is
24 they're an offset owner -- operator on the unrothodox loca-
25 tion?

1 A That's right. Mobil has -- holds the
2 basic lease over in Section 30, adjacent township. On Exhi-
3 bit One it's actually colored there by that label that shows
4 the subject well.

5 Mobil's the basic -- well, you can see it
6 there. Well, 25, actually is what I meant to say, adjacent
7 to the Geraldine; they own an adjacent lease to the Geral-
8 dine and being an unorthodox location we notified them; they
9 had no objection.

10 Q Now let me have you look quickly at Exhi-
11 bit Eight, which I believe is a letter from our law firm
12 correcting some of the working interest percentages, the
13 small percentages that were in the original application, is
14 that correct?

15 A That's correct. Exhibit Eight, there was
16 some confusion on interest of these individuals. The origi-
17 nal application showed their interest in 40 acres. As we're
18 forming 160, this letter corrects that proper interest and
19 our application follows this interest.

20 There's several people shown there that
21 we thought we might have to force pool but all these people
22 either agreed to participate or lease.

23 Q Let me have you look now at Exhibit Num-
24 ber Nine, which appears to be a letter from Tenneco Oil Com-
25 pany. Can you review both the exhibit and explain to the

1 Examiner what Tenneco's interest in this acreage is?

2 A Okay. It's a little complicated there.

3 Tenneco owns a mineral interest, not a
4 lease, actually, own a mineral interest in the north half of
5 the southwest quarter of Section 25.

6 Lynx Petroleum received a lease from Ten-
7 neco to drill the subject well. We've got that lease, drill-
8 led the well, and now that we're going to recomplete to the
9 Queen and expand our acreage, Tenneco now wants to partici-
10 pate in the -- in the well.

11 Conversation between Lynx and Tenneco
12 took place and we had no problem with that and we said if
13 they chose to participate in the Queen they would have to pay
14 for all costs of drilling the well to the base of the Queen.

15 Tenneco had no problem with that pro-
16 posal. This letter explains that and then attached to the
17 letter is a signed AFE for their 25 percent interest.

18 Q And that would be 25 percent of what dol-
19 lar amount?

20 A Of \$180,000. Now, \$180,000, what that
21 dollar amount is is actual cost to Lynx Petroleum to drill a
22 well from surface to 4075 feet. That TD is based on a depth
23 required to test the Queen formation.

24 Now these numbers are not estimates.
25 They're actual numbers off of invoices. This is actual cost

1 we spent to drill the 4075 feet, and Tenneco had no problem
2 with this, you know, they actually didn't have any risk. We
3 took the risk getting there and got casing in and cemented
4 satisfactorily and Tenneco was satisfied with that cost, a
5 reasonable cost.

6 Q And they have signed the AFE attached to
7 Exhibit Number Nine, indicating their intention of pay that
8 amount and participate in the well.

9 A They had no problem with that. They're
10 going to participate.

11 Q Lynx if asking to be dedicated as opera-
12 tor of this well in the Queen, is that correct?

13 A Yes, it is. We already operate the well
14 in the Paddock and, you know, have had no problem. We've
15 had several mineral owners participate and Tenneco partici-
16 pate and everybody's been quite satisfied with the operator-
17 ship to date and we don't perceive any problem in the fu-
18 ture.

19 Q What overhead charges and costs of super-
20 vision is Lynx Petroleum seeking today?

21 A Okay, we're asking for the same as we re-
22 ceived in the earlier forced pooling hearing, that being
23 \$3500 per month while the well is drilling and \$350 per
24 month charge is the well is producing.

25 Q Are those rates standard in the area, to

1 your knowledge?

2 A Yes, they are. They're quite competi-
3 tive. Some people are higher. I don't know anybody -- may-
4 be a few lower, not many, and we charge this type rate and
5 have had no problem with these rates.

6 Q Do you have an opinion as to whether or
7 not those rates are fair and reasonable?

8 A I think they're quite fair and reason-
9 able. Where we participate with other people we pay similar
10 costs with no complaint.

11 Q Now with regard to the AFE which is at-
12 tached to Lynx Exhibit Number Nine, do you have an opinion
13 as to whether or not that represents a fair and reasonable
14 charge for drilling the Geraldine Well from the surface to
15 the base of the Queen?

16 A Yes, I feel that is a reasonable cost.

17 Q Has this AFE or a copy of this AFE been
18 supplied to Texaco?

19 A Yes, it has.

20 Q Let me have you look now at what I've
21 marked as Exhibit Number Ten. Would you examine that and
22 review it, please?

23 A Okay. Exhibit Ten is an AFE, propose
24 AFE, to drill, complete, and install surface facilities for
25 the Geraldine Doughty No. 1 to the Paddock formation. This

1 is the same AFE which was used in the case referred to ear-
2 lier on the forced pooling on the original 40 acres.

3 Q That would be Case 8341.

4 A That's right, I couldn't remember the
5 number, 8341.

6 Q Let me have you look now at Exhibits Ten
7 -- I'm sorry, Eleven and Twelve. Would you review those for
8 the Examiner?

9 A Okay. Exhibit Number Eleven is the AFE
10 to drill to the base of the Queen, the \$180,000 that, you
11 know, we referred to earlier that Tenneco signed and agreed
12 to.

13 As I said, these are actual costs to
14 drill to the base of the Queen based on our invoices while
15 drilling the well.

16 Q And Exhibit Number Twelve?

17 A Uh-huh, but let me do that before -- and
18 Number Eleven, of course, is just the drilling cost.
19 There's no recompletion cost or nothing there. Eleven is
20 just drill and case and cement costs.

21 Okay, now moving on there to Exhibit Num-
22 ber Twelve, Exhibit Twelve is an estimated AFE costs to re-
23 complete the subject well for -- to the -- to the Queen for-
24 mation, showing \$50,000.

25 Q And that would be the cost coming back up

1 the hole from the Paddock to the Queen.

2 A Yes, ma'am.

3 Q Has a copy of Exhibit Number Twelve been
4 provided to Texaco?

5 A Yes, ma'am, it has.

6 Q Let me refer you back to your Exhibit
7 Number Eleven. In fact, why don't you keep all three of
8 those AFE's in front of you so that we can discuss with the
9 Examiner why Lynx Petroleum feels that it's fair and reason-
10 able for them to be allowed to recover from Texaco a portion
11 of the cost incurred, or all of the cost incurred, in drill-
12 ing a well from the surface to the base of the Queen.

13 A Well, as shown there, first of all is, of
14 course, Lynx went out there and took the risk initially,
15 took, you know, could have ran into, you know, a great deal
16 of trouble drilling, as in any case, and getting the well
17 drilled to 4075 feet and cased and cemented successfully.

18 We've taken that risk, already removed
19 that risk from the situation, as we have drilled and cased
20 the well successfully, relatively trouble-free, so that the
21 AFE amount in Exhibit Number Eleven, \$180,000, reflects a
22 very reasonable cost to drill to the Queen.

23 That would be whether this was a brand
24 new well proposed to the Queen, or as in this case, where
25 the well was actually drilled somewhat deeper later on.

1 Q And if I understand your testimony, the
2 \$180,300 shown on that AFE is not in fact an estimate of
3 cost but the actual cost of drilling the well from the sur-
4 face to the base of the Queen.

5 A Yes, ma'am, that's correct.

6 Q How have you calculated the figures shown
7 in Exhibit Number Twelve, which are your recompletion costs
8 from the Paddock to the Queen?

9 A These are just estimated costs on amount
10 of time and cost for stimulation and completion tool rental,
11 et cetera, that we feel would be required to recomplete the
12 well and satisfactorily test the Queen.

13 It's an estimate, it's a quite reasonable
14 estimate; actual cost could be somewhat lower but it's a
15 fair estimate of the cost to successfully test the Queen.

16 Q Can you compare for the Examiner the cost
17 of drilling and completing a Paddock well and drilling and
18 completing a Queen producer and explain for the Examiner
19 what costs you have taken out from that Queen calculation?

20 A Okay. From the Queen calculation we've
21 taken out, of course, is all costs from drilling from 4075
22 feet on down. All of those costs have been taken out of
23 that number.

24 We've also taken out all costs associated
25 with the completion in the Paddock and all costs associated

1 with installation of surface facilities.

2 Q So you've reduced the logging cost, is
3 that correct?

4 A Every -- we reduced -- this is all costs.
5 We took mud costs, actual mud bills to that date; logging
6 costs. We had a mud log run on the well. We took that off
7 at 4075 feet.

8 Cementing, we took the actual cost of
9 cementing, reduced that proportionately to what it would
10 have been if you'd only run 4075 foot of pipe, and all the
11 other costs that, you know, would not have been incurred if
12 the well had of been TD'ed at 4075 feet.

13 Q Can you estimate for the Examiner what
14 you believe to be Texaco's share based on their 50 percent
15 working interest of the cost of drilling from the surface to
16 the Queen?

17 A Would you rephrase that?

18 Q Sure. I tried -- I get the right number.
19 If we take the 180,000 figure on Exhibit Number Eleven,
20 which is the cost from the surface to the base of the Queen
21 --

22 A Uh-huh.

23 Q -- and we divide that number in half to
24 get Texaco's share, assuming their 50 percent working inter-
25 est?

1 A No, we don't feel that's equitable and,
2 you know, if Lynx Petroleum had not been out there taking a
3 chance drilling the well in the first place, nobody would
4 have had the chance to recomplete to the Queen at this loca-
5 tion.

6 So, you know, I think we all to have to
7 share in the cost to that Queen, and this is all I really
8 had to say right there.

9 Q Can you calculate what the number is that
10 you want to recover, the number in dollars that you want to
11 recover from Texaco as a result of the -- simply applying
12 their 50 percent working interest?

13 A Well, their 50 percent interest in the
14 drilling to the base of the Queen and in the estimated cost
15 to recomplete, Texaco's 50 percent interest would be
16 \$115,000, so they'd get 50 percent of the Queen for
17 \$115,000.

18 Q We're also seeking to have a risk penalty
19 factor applied to the compulsory pooling case, is that cor-
20 rect?

21 A Yes. We feel there's, you know, still
22 substantial risk here. As I pointed out on Exhibit One, the
23 nearest tests in the Queen that actually test the Queen in
24 Section 26 to the west, were dry holes and nonproductive in
25 the Queen. Those two wells are boxed in squares.

1 There's also on the same location as the
2 Geraldine Doughty a dry hole to the San Andres for about
3 5000 feet and, of course, San Andres, is below the base of
4 the Queen, that well went through the Queen, so in essence,
5 it's a dry hole through the Queen, also.

6 Q Is that -- are you referring to the (not
7 understood) Petroleum Wells?

8 A No, you just see it right there below the
9 red arrow, right next to the Geraldine Doughty.

10 Q Still in Section 25.

11 A Still in Section 25, the old Tidewater
12 well.

13 The nearest producing well in the Queen
14 is two miles to the south. That is shown there by that
15 Queen producer there in Unit letter E of Section 1 in 17,
16 36, and it was -- it's a commercial well in the Queen but
17 not a very good producer, and it's two miles away.

18 So from the standpoint of the near wells
19 being dry holes in the Queen some distance to, you know, a
20 marginal producer in the Queen, you know, the chances of
21 economic production, commercial production here, is still
22 very real, not from, you know, geologic standpoint, but also
23 from mechanical standpoint, still some risk involved in
24 going in and pulling the well and we always have some chance
25 of possible damage to the existing production.

1 Q So there are mechanical risks as well as
2 geological risks that you're taking in this recompletion.

3 A Yes, ma'am.

4 Q With regard to the well which was a dry
5 hole in the San Andres in Section 25 that you just talked
6 about, did -- were there any notes of any shows of gas in
7 the Queen in that well?

8 A There was no note of any show in the
9 Queen.

10 Q Can you describe for the Examiner what
11 additional mechanical risk you believe exists in connection
12 with going back into the well and recompleting up the hole
13 in the Queen?

14 A One of the (not understood), you know,
15 anytime you pull the well there's always some associated
16 risk, as the Examiner well knows, possible water loss to the
17 Paddock. We're going to have to set a retrievable bridge
18 plug over the Paddock; may have difficulty pulling it. If
19 the Queen was nonproductive we'd have to squeeze it off,
20 drill back out, problems could ensue there.

21 In spite of what appears to be good
22 cement bond, we may not have a required squeezing. Any time
23 you're working on a well there's just, you know, always a
24 whole number of things that may happen to you, so there's
25 certainly some mechanical risk.

1 Q Beyond the geological and mechanical
2 risks, is there also a risk, in your opinion, of obtaining
3 commercial production from the Queen formation?

4 A Yeah, no question to -- as far as the
5 time and effort to put together -- putting the acreage to-
6 gether, et cetera, we put in substantial time.

7 The cost and expense for a dual is always
8 greater than that of a single and, you know, one could make
9 a very marginal well and not e commercial production, one
10 we'd want to dual, and so you always have the possibility
11 that the well may be very marginally productive and not be
12 commercial to produce.

13 Q With regard to the dual completion, if
14 you were to have dually completed this well from the begin-
15 ning, would you have been required to run larger casing?

16 A It probably would have been prudent prac-
17 tice if we had planned a dual. Of course, we have 5-1/2
18 inch casing set at 6360. If we would have planned a dual
19 completion from the start, we probably would have ran 7-inch
20 casing just for mechanical ease if the Queen would require
21 pumping. We could have run two strings of tubing if a vent
22 string was required to pump the Paddock below a packer,
23 there would have been room for that and we probably would
24 have gone to 7-inch if we'd have originally planned on a
25 dual.

1 Q The well is not presently completed with
2 7-inch casing, then.

3 A No, 5-1/2 inch casing set at 63-- as
4 shown in the exhibits.

5 Q Would you explain for the Examiner what
6 you -- what evidence you have that leads you to believe that
7 you can successfully recomplete this well (not understood).

8 A Well, we had, like I say, we had a mud-
9 logger on the well while we drilled it; had fair show in the
10 Queen, which encouraged us. We also, of course, ran open
11 hole logs, a modern set of logs, CNL/FDC and duolateral, and
12 logs show, you know, some promise of a productive well,
13 enough to encourage us to take the expense to move onward.

14 When we first drilled the well we'd hoped
15 for a show in the Queen.

16 Q Were Exhibits One through Twelve prepared
17 by you or at your request?

18 A By me.

19 Q Will the granting of Lynx's application
20 promote conservation, prevent waste, and protect correlative
21 rights?

22 A Yes, I believe it will.

23 MS. AUBREY: Mr. Examiner, I
24 tender Exhibits One through Twelve.

25

1 I have no more questions of the
2 witness.

3 MR. STOGNER: Are there any ob-
4 jections?

5 MR. BATEMAN: No objection.

6 MR. Exhibits One through Twelve
7 will be admitted into evidence.

8 Mr. Bateman, your witness.
9

10 CROSS EXAMINATION

11 BY MR. BATEMAN:

12 Q If we may clear up a couple of matters
13 here.

14 I understood your testimony to be that
15 when you were drilling the well there was no show in the
16 Queen.

17 A I'm sorry if I said that. I was wrong.
18 There was a show in the Queen when we drilled through it.

19 Q Was it shown in the mudlog or how was it?

20 A By a mudlog.

21 Q Mudlog? Okay, let's go back to the
22 beginning now.

23 As I understand it, you have drilled to
24 the Paddock as a result of a forced pooling application.

25 A That is correct.

1 Q And that application was apparently
2 successfully granted in September of 1984?

3 A Yes, sir, it was.

4 Q And when did you drill the well?

5 A It was spudded Octobr 30th, 1984.

6 Q And when did you complete it?

7 A IP'ed the well January 2nd, 1985.

8 Q Now, in the original application you were
9 granted a 200 percent risk penalty, is that correct?

10 A Yes, sir, we were.

11 Q And are you currently collecting that
12 penalty?

13 A Yes, sir, we are, from most people in
14 that 40 acres now.

15 Q That didn't join.

16 A Yes, sir. There was only a couple of
17 small people that chose to go ahead and be force pooled.
18 Most people ended up leasing or participating.

19 Q And you're also receiving a -- received
20 during the drilling \$3500 for overhead, is that right?

21 A Uh-huh.

22 Q And you're now receiving \$350 a month for
23 the production?

24 A Yeah, we're authorized \$350; we're only
25 charging \$250.

1 Q Now, if you're successful in this effort
2 to get additional participants in your cost of drilling the
3 well from the surface down to the Queen, how are you going
4 to apportion that with respect to those people who were
5 force pooled in the past?

6 Aren't they being required to pay for
7 that, as well?

8 A I'm not sure of your question there. Of
9 course those, the 50 percent, let's say Texaco, that's what
10 we're talking about here, at 50 percent, they would -- could
11 either take that half of the small fractions that was force
12 pooled and they could, you know, therefore participate that
13 way and get their 300 percent (not understood) and be subse-
14 quently reduced, or I guess, actually, that being the south
15 half, no, let me take that back. That would all come out of
16 Lynx' 50 percent. Let me take that back.

17 Since Texaco would pay, that would --
18 that 50 percent of the wellbore would be yours. Those small
19 people we force pooled, when they back -- back in at cost
20 plus 200 percent improvement, that would be reduced solely
21 out of Lynx' interest, you know, that would be correct, and
22 then it would not affect Texaco's 50 percent. It would only
23 affect Lynx' percent.

24 Q Well, the point is it's going to affect
25 those people who were force pooled initially; in other

1 words, they're going to pay less than they expected to pay,
2 is that correct?

3 A Well, potentially so, yes.

4 Q In other words, the AFE, which is your
5 Exhibit Ten for \$385,000 is one that they have reference to,
6 is that correct, those persons who were force pooled ini-
7 tially?

8 A That's correct.

9 Q So a hypothetical 10 percent owner in
10 that scenario would expect to not participate in production
11 until you've recovered, well, what would it be?

12 A Well, it would be 10 percent of \$185,000
13 times 3.

14 Q Times 3, but if you're successful here
15 then that would be reduced and you'd begun to participate
16 earlier.

17 A Yes, correct. That would be correct. I
18 see your point. They could potentially, you know, make a
19 Queen well, additional production, they could back in
20 sooner.

21 Q And you think that's fair and reasonable
22 with respect to Texaco?

23 A Yes, I do. As I said, it's just a couple
24 of percent. It's very small; there's hardly anything for
25 calculation, but I do think it's quite fair and reasonable.

1 I don't see any problem with it.

2 Q Well, let's put it another way. Those
3 persons who are participating in the Paddock production, in-
4 cluding Lynx Petroleum, yeah, Lynx Petroleum Consultants, if
5 you are successful here would not bear the burden of the
6 drilling of the well from the surface down to the Queen.

7 A They would bear the burden of their pro-
8 portionate share of the cost of drilling to the base of the
9 Queen.

10 Q 50 percent of it.

11 A That would be right, which would be their
12 share of the Queen. Yes, sir.

13 Q So they're relieved of 50 percent of that
14 burden.

15 A Uh-huh; of course they'd only get half
16 the revenue of the Queen, too.

17 Q Now you say that the Queen looked good
18 when you went through it.

19 A Fair mud log show is what I intended to
20 say, uh-huh, and it did, it was encouraging.

21 Q But you didn't have the Queen as your ob-
22 jective when you drilled the well.

23 A No. The primary objective of the well
24 when it was proposed was the Paddock formation. The San An-
25 dres and Queen were expected as potential backup zones; the

1 San Andres was wet.

2 Q Did you contact Texaco in any fashion
3 with respect to the Queen production prior to drilling the
4 well?

5 A No, we did not.

6 Q So all the conversations, what conversa-
7 tions you've had were after you drilled the Paddock well.

8 A Yes, sir.

9 Q And discovered that you had 10 barrels a
10 day and that was it.

11 A Uh-huh.

12 Q Are you satisfied with the production
13 from the Paddock?

14 A No, not really. I mean when you -- when
15 you drill a well you're always wanting it to be a little
16 better than it come in, but yeah, we were hoping for a lit-
17 tle more in the Paddock.

18 Actually, our AFE, we were hoping for
19 about 20 and we're getting about 20.

20 Q Isn't this a way to hedge against the
21 cost, then, that you incurred in drilling the Paddock, to go
22 back up the hole and require somebody else to participate in
23 that cost?

24 A No, not at all. As I said earlier, you
25 know, our intent going in was a Paddock well with, you know,

1 hopes of some back up in San Andres and Queen. San Andres
2 was wet and now that the Paddock is slight below what we'd
3 anticipated, in an effort to increase our, you know, cash
4 flow and increase our revenue, you know, we're trying to make
5 a Queen well, and from that standpoint increase our revenue
6 of making a little Queen well, yes, I'd say that's our in-
7 tent.

8 Q It would increase your revenue consider-
9 ably if you had somebody write you a check for half your
10 well cost down to the Queen, wouldn't it?

11 A Well, of course, they'd, you know, Texaco
12 would pay their share of that drilling because they'd get --
13 of course Texaco would get half the revenue.

14 Q It it's there.

15 A If it's there. Well, of course, it's a
16 risky business.

17 Q Now, Texaco, it is your testimony, how-
18 ever, never say Exhibit Ten, which is the AFE for drilling
19 to the Paddock before you drilled the well.

20 A No, I don't -- no, I had no conversation
21 with Texaco prior to spudding the well.

22 Q Now the mechanical risks you talked
23 about, are those mechanical risks or something that you're
24 willing to incur voluntarily in a well that's under your
25 supervision and control, correct?

1 A Oh, yes, we're willing to take on those
2 risks.

3 Q You didn't say -- you didn't state what
4 risk penalty you would like to have, but I presume it's 200
5 percent, is that right?

6 A Yeah. Well, it would provide the same
7 penalty that the original order provided.

8 Q Do you think the risk is equivalent to
9 the risk that you incurred when you went out there and drill-
10 led a well initially?

11 A Well, the overall risks geologically of
12 the Queen, you know, I think are real. There's no question
13 about it.

14 Q I asked if they're the same as they were
15 when you drilled the well initially, identical risks.

16 A No, I can't say identical risks, no. Of
17 course you're getting a chance here of, you know, already
18 drilling through the Queen without a risk. We've taken that
19 risk, so, you know, we feel recoupment of those risks we
20 went out there and took on our own is only fair and equit-
21 able.

22 MR. BATEMAN: Excuse me a mo-
23 ment.

24 Q Just one final question. I think it's
25 clear on the record, but you're asking Texaco to participate

1 in two AFEs, which are Exhibits Number Eleven -- excuse me,
2 Nine and Ten; Number Nine being the cost, actual cost of
3 drilling from the surface to the Queen.

4 A Well, just --

5 MS. AUBREY: I think that's Ex-
6 hibits Ten and Eleven --

7 A Eleven and Twelve.

8 MS. AUBREY: Eleven and Twelve.

9 MR. BATEMAN: Oh, I'm sorry,
10 I've got them mixed up here.

11 A Eleven and Twelve. One is actual cost of
12 drilling to the base of the Queen; Twelve is the estimated
13 cost to recomplete that well to the Queen.

14 We'd ask Texaco to participate in both
15 those AFE's, that's correct.

16 Q So it would be 50 percent of \$230,000.

17 A Yeah, \$115,000.

18 MR. BATEMAN: Okay. No further
19 questions.

20 MR. STOGNER: Ms. Aubrey, redi-
21 rect?

22 MS. AUBREY: Thank you.

23

24 REDIRECT EXAMINATION

25 BY MS. AUBREY:

Q Does Texaco have any acreage position of

1 the 40 acres originally dedicated to that Paddock well?

2 A No, we had that. That was all Lynx, et
3 al.

4 Q So there was no reason why you'd Texaco a
5 copy of your AFE to drill the Paddock Well?

6 A None that I could see, no.

7 Q In connection with the -- those parties
8 who were originally pooled, can you look at the application
9 that I'm showing you, I believe if you add those up you come
10 to something right around 6 percent interest that were ori-
11 ginally pooled in the Paddock Well, is that correct?

12 A That's correct.

13 Q And did some of that 6 percent block of
14 ownership ultimately participate in that well?

15 A Yeah, Anderson and Pohaton (sic), they
16 chose to lease. Kenneth declined (not understood) -- yeah,
17 we had there at the end Andy and Pohaton and Cathey, Cone,
18 Abenstein (sic) went ahead and leased.

19 Q Okay. How much interest are you talking
20 about in terms of people that were force pooled in the Pad-
21 dock?

22 A Kenneth Cone, and then we had some El-
23 kins. It would be -- it's right at 2 percent.

24 Q And not 10 percent? I just want to make
25 sure.

1 and shown there by the arrow both specifically tested the
2 Queen and recovered nothing but water and a little mud on
3 one DST and were dry holes.

4 The MidContinent well in Unit letter I of
5 26 was a San Andres test. It of course went through the
6 Queen; also noted no shows in the Queen.

7 The Velma Petroleum Well in Unit letter P
8 of Section 26 recorded in Commission records a flow when
9 drilling through the Queen, but after producing in the Pad-
10 dock for just a couple of years they plugged and abandoned
11 the well and made no attempt to test the Queen, so apparent-
12 ly in their opinion was somewhat weak.

13 The Examiner will note there's a lot of
14 wells in Section 36 and down on the top of the structure. I
15 have not reviewed every well for shows in the Queen but
16 those in the immediate vicinity of the Geraldine noted none
17 in the Queen until we get way down to the -- to the Amoco
18 Well in Section 1.

19 The Queen production farther south was
20 one good well on farther to the south but the Queen produc-
21 tion in the area has been pretty spotty. As I said, we had,
22 you know, a fair mudlog show and the porosity log looked
23 reasonable but resistivity logs showed the zone to be pretty
24 tight.

25 Just based on offset shows and offset

1 production, you know, geologically, I think there's
2 just, you know, substantial risk of whether a person could
3 make a well or not. You know, we're willing to take the
4 chance but it is a pretty "iffy" venture.

5 Q In your opinion does the geological
6 evidence support Lynx' request for a 200 percent penalty in
7 the Queen?

8 A Yeah, I don't think there's any question
9 on that.

10 MS. AUBREY: That's all I have,
11 Mr. Stogner.

12 MR. STOGNER: Mr. Bateman, do
13 you have any further questions?

14 MR. BATEMAN: I have just one
15 other question.

16
17 RECROSS EXAMINATION

18 BY MR. BATEMAN:

19 Q What -- what is your background? Are you
20 a geologist?

21 A Engineer.

22 Q Engineer. Did you have any geological
23 study done of this thing?

24 A Well, we, you know, I've been an
25 independent producer in southeast New Mexico for nearly two

1 years. I have a couple partners who have, you know, also
2 been independent producers for some time, geological back-
3 ground, and we've done some geological work in the area,
4 yes, we have.

5 Q In this particular -- in this particular
6 well --

7 A Yes, sir.

8 Q -- with respect to the Queen.

9 A Yes, sir.

10 Q And the evidence is just what you've tes-
11 tified to.

12 A To the best of my ability, it is.

13 MR. BATEMAN: No further ques-
14 tions.

15 MR. STOGNER: Ms. Aubrey, any
16 more redirect?

17 MS. AUBREY: No, Mr. Stogner.

18 MR. STOGNER: Mr. Fonay? Is
19 that the way you pronounce it?

20 A That's fine, yes, sir.

21

22 CROSS EXAMINATION

23 BY MR. STOGNER:

24 Q In the Queen gas wells that surround your
25 well, what are they producing? How much?

1 A Well, the only, the Queen gas well down
2 there (not understood) but the arrow shows had a cumulative
3 recovery of just over 300-million cubic feet, making just
4 over 50 MCF a day.

5 Q Any liquids?

6 A No. None of the Queen wells to the south
7 made any liquids to speak of at all.

8 Q What do you mean speak of? Did they make
9 any?

10 A Well, the Amoco Queen Well, I think made,
11 like, 60 barrels of oil.

12 Q A day, a month, a year?

13 A That was in a year.

14 Q In a year. How about water?

15 A No water.

16 Q What's the nearest Queen gas producer to
17 the north of your subject well?

18 A I've noted no Queen gas production as far
19 as this map would extend.

20 Q How about to the east?

21 A There would be none to my knowledge for
22 some distance.

23 Q What's the nearest one to the west, pro-
24 ducing Queen?

25 A Producing Queen well would be -- would be

1 off this map that we're looking at.

2 Q Are you familiar with them?

3 A The ones farther to the --

4 Q West.

5 A -- west? There's a -- the only pool I
6 can think of is the Vacuum Queen Pool, which has a couple
7 weak producers, that would be, probably, 15 -- just a guess,
8 I'm not sure, it would some distance, 15 miles, something
9 like that.

10 Q Okay. The two dry hole Queen wells that
11 you have to the west, a mile to the west on your Exhibit
12 Number One, did they test them? Did they potential them?
13 Did they --

14 A They actually ran pipe and tested them.
15 The one in Unit letter J, I have exact DSTs on here. They
16 just produced water; they were nonproductive, but they were
17 tested. They actually had pipe run on them and they were
18 tested.

19 Q Why don't you relate to me what they did
20 potential and how much water?

21 A Okay. The well in Unit letter J was
22 drilled in 1957. They perforated from 4082 to 4098. They
23 fraced it with load oil, fraced with oil. They recovered
24 their load oil and reported 100 percent water. There was no
25 report on daily rate that I could see in the Commission re-

1 cords we have.

2 Q 100 percent water; how much water produc-
3 tion did they have?

4 A It did not report.

5 Q It didn't report. Okay, how --

6 A The records are pretty sketchy on that.

7 Q But it did produce water.

8 A That's what they said. They said it
9 prooduced 100 percent water and they filed a request for a
10 plug and abandonment.

11 Q Okay. How about the well down there in
12 Unit N?

13 A Unit letter N? They perforated 4098 to
14 4138. They reported it; it produced 98 percent water and
15 again I saw no report on daily volume. They also applied
16 for plug and abandonment.

17 Both those -- both of those wells were
18 plugged shortly after they were drilled. They produced for
19 no period of time.

20 Q Did they have any pressures?

21 A I have no data on pressure. Based on the
22 fact they had to pump them, you know, I'd gather, I see no
23 reason we wouldn't assume it was, you know, normal pressure
24 for the area.

25 Neither of the wells flowed. They were

1 both on pump for those tests.

2 Q Is your subject well closer to a Queen
3 well that has water production than they are gas production?

4 A Yep, by that map they are.

5 Based on --

6 Q I'm sorry, go ahead.

7 A Well, all I was going to add there was
8 that based on general geology in the area coming back up
9 structure, our well would be up structure from those wells
10 that tested water and based on our logs is the reason we
11 thought that we would not make water; we were hoping for gas
12 production.

13 Q In Exhibit Number Three, this is your
14 proposed dual completion?

15 A Yes, sir.

16 Q And the Queen production, or Queen
17 fluids, or whatever comes in there, will be -- have to be
18 transmitted up the annulus between the tubing and the cas-
19 ing, is that right?

20 A That's right.

21 Q How do you propose to unload any water?

22 A If we make any water we're not going to
23 dual it. If we made any water or oil, we would either, a,
24 make it a single completion in the Queen, you know, if it
25 was substantially productive enough, or if it was marginally

1 productive and required pumping, we'd probably squeeze it
2 off and go back to the single in the Paddock.

3 The only way we would propose a dual is
4 if the Queen produced, you know, dry enough gas to carry up
5 the annulus without problems.

6 Q And how dry would that have to be?

7 A It would have to be, you know, obviously,
8 quite dry. You know, it would have to be, you know, prob-
9 ably less than a barrel a day fluid, depending on pressures
10 and gas rates.

11 When we, you know, test the Queen we'll
12 have to, you know, get a sufficient test on that Queen to
13 determine if it will flow up that back side or not.

14 But we foresee it only if it was mechani-
15 cally feasible.

16 Q And in your mudlog, or your logs that you
17 had on this well, you have no estimate of how dry this gas
18 is?

19 A Oh, our estimate is that it will be very
20 dry.

21 Q How is that? What do you base that on?

22 A Based on that the -- well, you know, the
23 show we had in the Queen was, you know, a gas show by all
24 normal deals. We had about 700 units of gas. There was,
25 you know, a little fluorescence in the samples, but it

1 wasn't -- you didn't have the cut, it didn't appear to be an
2 oil show. It would appear like a gas show would appear.

3 The log shows a crossover between a den-
4 sity and a neutron log, which would be characteristic of a
5 gas zone and based on those logs we expect gas.

6 Q Let me make sure I've got this straight.
7 When did Lynx first approach Texaco about
8 the Queen?

9 A The very first correspondence was in ear-
10 ly January, 1985.

11 Q Is that an exhibit in here?

12 A No, that correspondence is not an exhi-
13 bit.

14 Q What did that correspondence consist of?

15 A That correspondence offered Texaco a
16 chance to participate in the Queen; attached the AFEs, as
17 shown in Exhibits Eleven and Twelve; and offered them if
18 they did not wish to participate in it that we would offer
19 them the terms of a farmout if they'd deliver us a 75 net
20 lease.

21 Q Was that a form letter to all nonpartici-
22 pating interest owners in that area?

23 A Yeah, we sent the same letter to every-
24 body. As a matter of fact, --

25 MS. AUBREY: I have the letter

1 here.

2 A Yeah, I just want to make sure of this.
3 It was dated February 1, 1985.

4 MS. AUBREY: Mr. Stogner, I'll
5 mark that as an exhibit.

6 MR. STOGNER: This will marked
7 Exhibit Thirteen, is that right?

8 MS. AUBREY: That's correct.

9 Q Were those sent return request receipt?

10 A No, that wasn't but I sent it to the at-
11 tention of John Clark and talked to him after that; he did
12 receive it and we received correspondence back from that
13 letter.

14 Q You mentioned something about a Shell
15 State No. 1 Well? Where is that, the No. 1?

16 A The Shell State No. 1 is in Unit letter
17 N.

18 Q Sorry, what?

19 A Unit letter N of Section 26.

20 Q Okay, that was the well we discussed ear-
21 lier.

22 A Yeah, we've discussed -- those wells men-
23 tioned in that letter to Texaco have previously been discus-
24 sed in testimony.

25 Q Okay, in the last paragraph on the first

1 page you say attached are two AFE's. Are those the AFE's
2 that you submitted as Exhibits Eleven and Twelve?

3 A Yes, sir, they are.

4 Q What did you hear back from Texaco re-
5 garding this correspondence?

6 A Texaco said that -- I've got their let-
7 ter. In essence what it said is they were -- we refer to
8 your letter. The terms hold some interest for us however
9 the terms you offer are not acceptable and they don't wish
10 to participate.

11 Q Was that by letter?

12 A That was by letter dated, oh, that's not
13 the right letter, I've got it here, it was dated about -- it
14 was dated March 28th.

15 Q March 28th?

16 A Uh-huh.

17 Q This, in essence, declined.

18 A That's correct.

19 Q When was the next written correspondence
20 to Texaco?

21 A The letter that's attached as Exhibit
22 Number Five, dated April 17th.

23 Q Okay. And in that correspondence you al-
24 lude to --

25 A The previous correspondence.

1 Q That you just talked about.

2 A That Exhibit Number Thirteen that we just
3 admitted shows a date at the top of February 1. I think
4 that's probably an error; that was the 15th. I don't know
5 quite why it says February 1. It was the second letter we
6 sent and what happened is in this Exhibit Five, since they
7 chose not to participate, we offered, you know, some attrac-
8 tive farmout terms to try to put the deal together.

9 Q How many Lynx wells, or how many wells
10 are operated by Lynx in this general area?

11 A We operate 50 wells in Lea County.
12 They're scattered -- they're all relatively close. We've
13 got several in the Vacuum area over toward Maljamar and a
14 number down toward Arkansas Junction. All 50 wells are at,
15 you know, a pretty, relatively close proximity.

16 Q Did Lynx have any problems per se drill-
17 ling this particular well?

18 A No. Everything, the drilling, you know,
19 just drilling goes. We did quite a well, got down, no prob-
20 lem, cased, completion went relatively well, and we had no
21 troubles mechanicallywise that would cost money, excessive
22 money, or anything. Drilling and completion went quite
23 smooth.

24 Q In setting a risk penalty, how much do
25 you think the drilling risk should be part of that risk fac-

1 tor?

2 A Mechanical part of drilling risk, is that
3 what you're alluding to in the 200? You're talking about
4 the actual, the mechanical part of drilling?

5 I suppose it's a -- certainly a portion
6 of it. To give a percentage as to how much would be the
7 drilling risk versus geologically, I don't have a feel for
8 that at this depth.

9 At this depth, normal pressure, I would
10 think that the vast majority of the risk would be in the
11 geological aspects, not the drilling.

12 There's a, in the business, you know,
13 certainly when we drill a well, we're more concerned, ob-
14 viously concerned with the drilling, but as a whole we're
15 more concerned with geologic risk.

16 MR. STOGNER: I have no further
17 questions of this witness.

18 Are there any further questions
19 of Mr. Fonay?

20 MR. BATEMAN: No questions.

21 MS. AUBREY: No questions.

22 MR. STOGNER: He may be excused
23 at this time.

24 Let's take a ten minute break.

25

(Thereupon a recess was taken.)

1 MR. STOGNER: The hearing will
2 resume to order.

3 Mr. Bateman, I believe it's
4 your turn.

5 MR. BATEMAN: Thank you.

6
7 TIMOTHY JAMES HUNT,
8 being called as a witness and being duly sworn upon his
9 oath, testified as follows, to-wit:

10
11 DIRECT EXAMINATION

12 BY MR. BATEMAN:

13 Q Mr. Hunt, would you state your full name
14 and place of residence for the record, please?

15 A Timothy James Hunt, Midland, Texas.

16 Q Mr. Hunt, how are you employed and by
17 whom?

18 A I'm a geologist with Texaco.

19 Q Have you previously testified before the
20 Commission?

21 A No.

22 Q Would you briefly state, then, your edu-
23 cational credentials and your work experience?

24 A In '76 I graduated with a BS degree from
25 Indiana State University in general science.

1 And in '82 I graduated -- receive a Mas-
2 ter's degree from the University of Toledo and since then
3 I've been employed by Texaco.

4 Q Your degree is in geology, is that cor-
5 rect?

6 Q Yes, sir.

7 Q And you've been employed as a geologist?

8 A Yes, sir.

9 Q And in connection with your employment
10 are you familiar with the well in question and the area in
11 question?

12 A Yes, I've looked at it.

13 MR. BATEMAN: Offer Mr. Hunt as
14 an expert geological witness.

15 MR. STOGNER: Any objections?

16 MS. AUBREY: No objections.

17 MR. STOGNER: Mr. Hunt is so
18 qualified.

19 Q Mr. Hunt, you've prepared two exhibits, I
20 believe.

21 A Right.

22 Q Exhibit Number One is a structure map.
23 Exhibit Two is a cross section, which is indicated on the
24 structure map.

25 You'd like to proceed, I understand, with

1 the cross section first, is that correct?

2 A Right. The cross section shows the mar-
3 ker that was mapped on the --

4 Q Hold it a second, off the record, till
5 everybody gets his undone.

6 THE REPORTER: Thank you.

7 A The cross section indicates the Queen
8 marker that was mapped on the structure map and it also
9 shows the Queen porosity zone that Lynx Petroleum
10 Consultants expects to work over.

11 The porosity zone is correlated all the
12 way across the field to the Stanoline No. 1 State "E" Tract
13 17, which is the only Queen produced we could find a log on,
14 showing that the zones are correlative and it is very
15 correlative over the field.

16 I'd like to refer to the map now.

17 This is a structure map on the -- on the
18 Queen marker.

19 The Lynx well is indicated by the red
20 arrow. The Texaco acreage in question here is highlighted
21 in yellow. The cross section that we just looked at is
22 indicated by the red line.

23 The dashed line that runs around the map
24 there is the outline of the Lovington Paddock Unit Field.
25 This field is operated by Texaco.

1 The Paddock producers are those wells
2 that are colored brown. Other producers on the map are ABo
3 and San Andres and the Queen producers are -- are indicated
4 in green on the southern part of the map.

5 The structural center of the map is
6 located somewhat to the south of the -- of the Lynx well in
7 Section number 1, so if we move from the Lynx well up to the
8 wells on the Texaco acreage, the Paddock producers, they --
9 you'll notice that we're coming up dip, which should give
10 you an advantage in production.

11 If you were to work over the No. 5 you
12 would probably get as good a well and perhaps a better well
13 than the Lynx No. 1.

14 Q The No. 5 Well is in the area that would
15 be pooled under this application, is that correct?

16 A That's right. What we're -- what we're
17 saying is if we were to work over the No. 5, which is
18 something we wouldn't be willing to propose today, since it
19 is a good Paddock producer, we would offer Lynx to join us
20 in a 50 percent, if they were the lessors of the north half
21 to the proration for only the workover costs and whatever
22 production costs. We would not ask them to pay for some of
23 the drilling costs.

24 Q When was the well in 5 drilled?

25 A In 1954, I believe.

1 Q Now, we heard testimony earlier about
2 what contact you had with Lynx and when it occurred. Do you
3 have anything to add to that?

4 A Well, I did talk to Mr. Fonay once. It
5 was in between our -- their first letter and their second
6 letter to us, and he stated at that time they could not re-
7 duce the costs of the AFE they presented to us and that they
8 -- they wanted us not to contest the formation of a short
9 proration.

10 We left it, I think, that we were still
11 very interested in a Queen test at that location and that we
12 would expect them to reach us with some counter offer.

13 After that they sent us their second let-
14 ter, which was a farmout request, which we did not consider
15 to be a counter offer in that it was the same offer they
16 originally sent to us.

17 Q This has been characterized by Mr. Fonay
18 as an attractive offer on several occasions. I presume that
19 you don't perceive it to be attractive.

20 A No, we don't think it's attractive be-
21 cause the payout of the well is calculated on the drilling
22 costs and the workover costs. We think they should only, be
23 on then workover costs.

24 Q Is it your testimony, then, that Texaco
25 would be willing to participate in the Lynx Well and pay a

1 share of the workover costs, is that correct?

2 A That's correct.

3 Q But not for the costs of drilling from
4 the surface to the Queen.

5 A No, we don't think we should pay for drill-
6 ing costs.

7 Q Now, based on your geological study, what
8 -- how do you perceive the risk in recompleting the Lynx
9 Well in the Queen?

10 A Well, the various tests are shown on this
11 map for Queen in the area. Those wells, there a number of
12 gas shows all the way across this field, when they drilled
13 them.

14 The Queen well -- the Lynx well is up dip
15 to the development well in Section 26 that flowed some gas
16 while it was being drilled, so we don't think that it's an
17 especially risky test, especially for a wildcat.

18 Q Do you have any other situation where
19 Texaco has been involved in recompletions with respect to
20 payment of its proportionate share?

21 A Yes. In Lea County, in the Feather
22 Field, which is a Morrow field, Texaco was one of the -- one
23 of the members of a Wolfcamp test that turned out to be dry.

24 At that time we decided to drill on down
25 to test the Morrow and a new participant, H. L. Brown, would

1 have to be allowed to join and let them -- gave them the op-
2 portunity to join at cost from there down. They got a free
3 ride down to the Wolfcamp.

4 Q Now would it be fair to say that in the
5 future there's a reasonable prospect that other produces in
6 the Paddock will recomplete in the Queen in this area once
7 the Paddock production dissipates?

8 A Yes, I think that would be a good devel-
9 opment program.

10 Q Do you expect Texaco will attempt to do
11 that with its production?

12 A Yes, as the Paddock wells are -- as well-
13 bores become available I think workovers in the Queen will
14 be studied and have good possibility of being done.

15 MR. BATEMAN: No further ques-
16 tions.

17 MR. STOGNER: Ms. Aubrey, your
18 witness.

19 MS. AUBREY: Thank you.

20

21 CROSS EXAMINATION

22

23 BY MS. AUBREY:

24 Q Mr. Hunt, what is your position with
25 Texaco?

1 A I'm a geologist.

2 Q Are you a regional geologist or area geo-

3 logist?

4 A What do you mean by regional and area?

5 Q Do you have responsibility for any cer-

6 tain area of Texas, New Mexico, or any other state?

7 A Yes. I studied New Mexico and the Texas

8 Panhandle.

9 Q Do you have supervisory responsibility in

10 Texaco for those areas?

11 A No. No.

12 Q Do you supervise any geologist?

13 A No.

14 Q Who is your supervisor?

15 A Deke Williams (sic).

16 Q And who is his supervisor?

17 A Jack Glenn.

18 Q And who is his supervisor?

19 A It's hard to say.

20 Q How high are we getting with Jack Glenn?

21 A He is the highest development geologist

22 in Denver.

23 Q In the event that the decision is made to

24 recomplete the No. 5 Well in Section 25, I believe that was

25 your testimony, that there is some talk of that?

1 A Yes.

2 Q Who would make that decision?

3 A At this time several people could make
4 that decision.

5 From the Division level Dwayne Tomberlin
6 could make it. We have people in our Hobbs District that
7 could make that decision without Division approval.

8 Q And are you one of those people?

9 A No.

10 Q Has anyone in the Hobbs decision made --
11 Division made the decision to recomplete the No. 5 Well?

12 A No.

13 Q Has any written proposal been made to re-
14 complete that well?

15 A Not to my knowledge.

16 Q Has Texaco in any writing that you know
17 of committed itself not to ask for more than recompletion
18 costs from the Paddock up to the Queen?

19 A I'm not sure I understand the question.

20 Q Did I confuse you with that question?

21 So I understand your testimony, I believe
22 you said that Texaco would not ask Lynx to pay more than the
23 recompletion cost from the Paddock to the Queen in the event
24 that you re-entered the No. 5 Well.

25 A Correct.

1 Q Is that written down any place?

2 A No.

3 Q Has that decision been made by anyone in
4 either the Hobbs Division or Midland by anybody who had the
5 authority to commit that?

6 A I'm not sure I --

7 Q Well, let me take you back. Did Jack
8 Glenn make that decision?

9 A No, he couldn't make that decision.

10 Q Who could make that?

11 A Dewayne Tomberlin could.

12 Q Okay, and has he done that?

13 A We've discussed it with him and he's in-
14 dicated that he would.

15 Q Has he written that down any place?

16 A No.

17 Q Has that well been proposed to Lynx?

18 A No.

19 Q Are you able to bind Texaco to that
20 statement? By your testimony here today are you able to
21 bind Texaco to the statement that you move back into the No.
22 5 you won't charge Lynx Petroleum any more than the cost
23 from the Paddock to the Queen?

24 A Assuming, of course, that they're the
25 lessors of the north half? I think so. I think we have

1 approval for that.

2 Q But you're not sure?

3 A Not absolutely, no.

4 Q Has Texaco proposed to Lynx that deal?

5 A No.

6 Q Now I think you talke to Mr. Bateman
7 about a free ride you gave to H. L. Brown in the Wolfcamp.

8 How many other free rides have you given?

9 A That's the only one I'm aware of.

10 Q You agree with me, don't you, Mr. Hunt,
11 that permitting Texaco to come into this well without
12 having to pay any of the costs from the surface to the base
13 of the Queen would be a free ride?

14 A Yes.

15 Q I believe you testified that there were a
16 number of gas shows in the Queen.

17 A Uh-huh.

18 Q Will you point those out --

19 A Well, there are --

20 Q -- looking at Exhibit Number One, I think
21 it is, your structure map.

22 A The nearest gas show I found was in spot
23 B of Section 36. It was one of those two wells. It could
24 have been the 14 or the 4PL.

25 Q You don't know which one it was?

1 A I could look it up.

2 Q No, that's okay. I was just trying to
3 understand.

4 Okay. What formation is that well pro-
5 ducing from?

6 A One's producing from the San Andres and
7 the other is producing from the Paddock.

8 Q Are the Paddock wells the wells colored
9 in brown?

10 A Yes, they are.

11 Q Which well?

12 A I could look up which ones but I don't
13 know off the top of my head; they're rather numerous.

14 Q You don't have them indicated on your ex-
15 hibit?

16 A No. They were so numerous I didn't want
17 to take the time to write them out.

18 Q How far away is the Stanoline No. 1,
19 which is one of the wells in your cross section, from the
20 Lynx Petroleum Well?

21 A Approximately two miles; 2-1/4.

22 Q In drawing your cross section line, did
23 you find any any other wells perforated in the Queen?

24 A No.

25 Q Do you know right now, Mr. Hunt, whether

1 or not there were gas shows across the line that you've
2 drawn your cross section on?

3 A I could look them up.

4 Q You don't have that -- you don't have
5 that information on any of your exhibits?

6 A No.

7 Q On your cross section you've correlated
8 the presence of the Queen through four wells, is that cor-
9 rect?

10 A Right.

11 Q Can you draw any conclusions about pro-
12 ductivity from the information you have on your cross sec-
13 tion?

14 A It's difficult to compare those logs be-
15 cause the three older logs are all radioactivity or gamma
16 ray neutron logs and are not as reliable as the modern day
17 log that Lynx ran on their well.

18 Q So there is some problem with correlating
19 productivity in the Queen across your cross section as you
20 have shown it.

21 A That is right.

22 Q And what the yellow zone really shows us
23 is that the Queen formation is present in four wells.

24 A That's right.

25 The cross section shows that the Queen

1 porosity zone is present in those four wells. I've seen
2 that the Queen is present in all the wells I looked at.

3 Q That would be all the wells on your --

4 A All the wells that have subsea values on
5 them.

6 Q On your -- on your --

7 A On my map.

8 Q -- Exhibit Number One.

9 MS. AUBREY: I have no more
10 questions.

11 MR. STOGNER: Mr. Bateman, re-
12 direct.

13

14 REDIRECT EXAMINATION

15 BY MR. BATEMAN:

16 Q Mr. Hunt, the question of a free ride was
17 held up as if it were something rather unusual. That was
18 your term, however, (not understood) characterize this.
19 Depending on how the application is finally approved, and
20 let's presume that it's approved as requested, wouldn't it
21 be true then that the Paddock production will get a free
22 ride from the surface down to the Queen?

23 A For our half of the cost, yes.

24 Q Were Exhibits One and Two prepared by you
25 or under your direction?

1 A Yes.

2 MR. BATEMAN: I offer Exhibits
3 One and Two.

4 MR. STOGNER: Any objection?

5 MS. AUBREY: I have no objec-
6 tion.

7 MR. STOGNER: Exhibits One and
8 Two will be admitted into evidence.

9 Mr. Bateman, Ms. Aubrey, do you
10 have any further questions of this witness?

11 MR. BATEMAN: No further
12 questions.

13 MS. AUBREY: I have no more
14 questions.

15

16 CROSS EXAMINATION

17 BY MR. STOGNER:

18 Q Mr. Hunt, is it your opinion that under the
19 southwest quarter of Section 25 the Queen zone has porosity?

20 A Yes.

21 Q How about the possibility of production?

22 A I think it is -- the possibility of
23 production is good.

24 MR. STOGNER: I have no further
25 questions of this witnessd at this time.

1 Mr. Bateman?

2 MR. BATEMAN: I have one more
3 witness. Just a second.

4
5 GARY KERN,
6 being called as a witness and being duly sworn upon his
7 oath, testified as follows, to-wit:

8
9 DIRECT EXAMINATION

10 BY MR. BATEMAN:

11 Q Would you state your full name and place
12 of residence for the record?

13 A Yes, my name is Gary Kern and I'm the
14 Division Proration Engineer for Texaco in Midland, Texas.

15 Q And have you previously testified before
16 the Commission and had your academic credentials and work
17 experience made a part of the record?

18 A Yes, sir, they have.

19 MR. BATEMAN: Tender Mr. Kern
20 as an expert witness.

21 MR. STOGNER: Any objection?

22 MS. AUBREY: No objection.

23 MR. STOGNER: Mr. Kern is so
24 qualified.

25 Q Mr. Kern, have you made an inquiry into

1 the actual production from the well in question in this ap
2 plication?

3 A Yes. One thing I did in preparation for
4 this case, I ran some economic scenarios on the Geraldine
5 Doughty Well for -- for a Paddock completion, utilizing
6 costs of \$328,000, and that's what I -- that's what I esti-
7 mated, not contacting Lynx, as to what the additional costs,
8 you know, what they AFE'd for \$180,300, and I extrapolated
9 those costs as well as adding tank battery equipment and
10 pumping equipment based on our field experience in that
11 area, which we have substantial of because we operate the
12 Paddock Unit, the Lovington Paddock Unit there, and I came
13 up with the fact that the wells surrounding this area are
14 declining somewhere in the neighborhood of 10 percent per
15 year. This yields a -- I've -- what I then did was evaluate
16 the economics for a well producing initially at 16 barrels
17 of oil per day, and which I believe was the initial rate of
18 the first month's production that I have reported.

19 These IP, you know, these IP's are nor-
20 mally considerably higher than what the well will stabilize
21 at and I believe it's Mr. Fonay's testimony that it was --
22 that it stabilized at 10 barrels a day.

23 I ran the economic scenarios down to 12
24 barrels a day, extrapolating that production out and I came
25 up with that the well at that point would be uneconomic.

1 In other words, the well initially pro-
2 ducing more than 12 barrels a day in the Lovington Paddock
3 Field with the operating costs and with the \$328,000, which
4 as I understand it from your AFE, or your costs, was actual-
5 ly low, so that would only, you know, make the economics
6 worse.

7 But that showed that anything below 12
8 barrels a day declining at 10 percent to an economic limit
9 of 2 barrels a day would -- would be uneconomical.

10 I guess my reasoning in drawing this out
11 is that it just appears, it really appears to us that we're
12 being asked here to pay for a part of a Paddock well that
13 didn't turn out, which we had no -- there was no initial
14 contact with us in regard to the Queen formation -- in
15 regard to the Queen formation before the well was drilled,
16 and we are now being asked to pay for these additional -- to
17 pay for this portion of the well and we just don't -- don't
18 think it's fair.

19 I did -- I did, also, by the way, I did
20 check on this production that's been reported to the State
21 of New Mexico, and for January the production reported from
22 the Geraldine Doughty was 14.68 barrels. In February it was
23 9 barrels. In March it was 7.23 barrels a day, and in April
24 it was 7.7 barrels a day.

25 So I see that as being well below the

1 economic limit, or not the current economic producing limit,
2 but below the -- below the point where a Paddock well would
3 be economical and I think that, you know, it's substantiated
4 by Lynx's request now to -- to do something else, and that
5 is to go up to the Queen.

6 Q Mr. Kern, there was a question earlier
7 concerning Texaco's commitment to let Lynx participate in
8 Well No. 5 for a percentage of the workover costs.

9 Can you add anything to that?

10 A Yeah, we -- we discussed this very thing
11 with Mr. Tomberlin, who has an authority limit somewhere in
12 the range of \$350,000, which is potentially higher than any
13 workover in that Paddock well or workover in a Paddock well
14 would in all probability be.

15 Now, yes, there could be cases where it
16 would cost more than that but I rather seriously doubt it.

17 Their AFE for recompletion cost is
18 \$50,000, which we think is reasonable.

19 I discusse it with him and I, you know,
20 in discussing our strategy at the hearing I made the point
21 that we would be, you know, would we be willing to do that,
22 and although we didn't say anything in writing, he agree to
23 it, and I would certainly be -- before the record is closed,
24 I could file as a late filed exhibit any type of -- of let-
25 ter saying that we would indeed let them in for their per-

1 centage of the cost for just the recompletion only, not to
2 go back to 1955 and try to inflate the drilling cost to some
3 number today, which basically, you know, in essence is
4 what's going on here.

5 In other words, say that the well that
6 cost \$50,000 to drill in 1955, now the same well cost
7 \$385,000, you know, would it be reasonable for us to AFE
8 Lynx now \$358,000, or their portion of \$358,000.

9 In my mind, you know, that answer is no.

10 Q Mr. Kern, asking the question a different
11 way. Do you have any doubt that you have the authority to
12 make the statement with respect to Lynx' participation in
13 the workover?

14 A I don't have any doubt. We discussed
15 this. I do not have any doubt that Mr. Tomberlin would
16 agree to such a document and we could file such a document
17 before this hearing before this case is over.

18 Q Okay.

19 MR. BATEMAN: No further ques-
20 tions.

21 MR. STOGNER: Ms. Aubrey.

22 MS. AUBREY: Thank you.

23

24 CROSS EXAMINATION

25 BY MS. AUBREY:

Q Will that document include a proposal to

1 Lynx to re-enter the well?

2 A At this time?

3 Q Yes, sir.

4 A Immediately?

5 Q Yes, sir.

6 A No, it wouldn't.

7 Q So this is purely hypothetical.

8 A Well, if at some point in the future, if
9 that should, you know, it --

10 Q How far out does the future run?

11 A I haven't made any determination of when
12 this point would be. Those Paddock wells have been pro-
13 ducing for a considerable period of time. From what I saw
14 they -- they will still consider -- they will produce for a
15 considerable longer period of time.

16 I might add that there is no competition
17 in this field right now. In other words, there is no -- no
18 drainage to protect from; no offset, as he has testified,
19 there is no offset producing wells that are capable of
20 draining this area.

21 Q So what you're saying is that if you re-
22 enter the well at some time in the future --

23 A Right.

24 Q -- which is a decision, I assume, that
25 you don't make, is that right?

1 A That we would definitely recomplete this
2 well?

3 Q That you would recomplete this well and
4 that you would let Lynx in for the recompletion cost.

5 A I -- I guess I don't have the -- I do not
6 have the overall decision that says, yes, we will definitely
7 recomplete the well in the future, right. I don't think
8 that the test -- the evidence here is substantial that there
9 is, you know, Queen pay, and I can't -- you know.

10 Q I'm sorry, I didn't understand it. You
11 don't think there's potential evidence that there is Queen?

12 A No, I do think that there's substantial
13 evidence that there is Queen pay and --

14 Q In the No. 5 Well.

15 A Right.

16 Q Right.

17 A As well as in your -- in your well.

18 Q Have you budgeted this well in your bud-
19 get for recompletion in 1985?

20 A No, we haven't.

21 Q Do you have any kind of 1986 budget, or
22 is it too early for that?

23 A We have a 1986 budget.

24 Q Is it in the '86 budget?

25 A We are -- we have a substantial IDC (sic)

1 workover, which is basically what this would be, a substan-
2 tial, I think it's somewhere in the neighborhood of \$20-mil-
3 lion for the entire Midland Division and \$50,000 of that
4 would nearly (not understood), but as far as an itemized,
5 specific one, no.

6 Q You don't have any rights in the Paddock
7 in the Lynx well, do you?

8 A Not that I'm aware of.

9 Q When you ran your economic study on the
10 Paddock production, how long did you calculate payout?

11 A The payout at 12 barrels a day, it would
12 not pay out at 12 barrels a day.

13 Q Ever?

14 A Ever.

15 Q And that --

16 A 14 barrels a day would pay out (not un-
17 derstood.)

18 14 barrels a day as an initial starting
19 rate, it would pay out in 8.2 years.

20 Q I'm sorry, how many years was that?

21 A It would pay out in 8.2 years if it were
22 making 14 barrels a day initially and that -- that also as-
23 sumes a year one -- when I say initially 14 barrels a day,
24 that's the initial IP that holds up. In other words, that's
25 your base of your decline.

1 As an example --

2 Q The IP on this well was 16 --

3 A I see.

4 Q -- but it didn't stabilize at 16 --

5 A Right.

6 Q -- is that what you're saying?

7 A Right, but what I'm saying here, when I
8 assume a 14-barrel IPM, assume a stabilized IP, and that
9 same 14 barrels initial production shows a 13.29 barrel per
10 day the first year production, is what that is, and as I've
11 testified to, the first three -- the first four months, only
12 one month made -- made 14.68, and the rest of the months
13 have been substantially below, you know, even the 13.129
14 barrels of oil per day.

15 Q These are according to Texaco's economic
16 parameters, isn't that true?

17 A Right. I can give you most of the
18 figures. We used a discount rate of 15.25 percent; Federal
19 income tax rate of 46 percent; investment tax credit of 10
20 percent; annual operating costs of \$15,000 per year per
21 well; that's based on the offsetting Paddock production
22 which --

23 Q You said \$15,000?

24 A Uh-huh, dollars per year per well.

25 Q To operate --

1 A Right.

2 Q --- the Queen?

3 A The Paddock.

4 Q I'm sorry, the Paddock.

5 A Yeah, now that's not to be confused with
6 supervising costs. That's -- that's --

7 Q That's what it costs Texaco to operate
8 the well.

9 A Right.

10 MS. AUBREY: I have no more
11 questions.

12 MR. STOGNER: Mr. Bateman, re-
13 direct.

14 MR. BATEMAN: No redirect,
15 thank you.

16

17 CROSS EXAMINATION

18 BY MR. STOGNER:

19 Q Mr. Kern, Lynx has proposed a 200 percent
20 risk penalty. What's your idea on that?

21 Do you concur with the 200 percent?

22 A No I don't think I would. I always
23 understood that the risk penalty was a substantial part in
24 whether or not, first of all, mechanical, I guess what we
25 call mechanical risks; the second part is a certain amount

1 of geological risk.

2 I've looked at the logs that you -- that
3 they forwarded to us. They show -- they show good crossover
4 in the -- in the Queen, which is a typical gas effect for a
5 neutron density log, which, as Mr. Hunt testified, was the
6 modern suite of logs.

7 They showed a good gas kick on the mud-
8 logger. There's -- there doesn't -- there -- it seems to be
9 a very, I'll say, cut and dried. It's not totally cut and
10 dried but it's certainly more cut and dried than if -- than
11 if they were going to go out there and propose a Queen well.
12 I think they probably even would agree with that.

13 And so I, no, I don't agree with the 200
14 percent risk.

15 Q What do you think is a fair risk penalty
16 factor that should be put on if Lynx was given the compul-
17 sory pooling agreement?

18 A I'd say -- I'd say a fair risk penalty
19 then would be 25 percent, and I guess what I'm basing that
20 on is if half of it -- or 125 percent; half of it would be
21 he's taken out the mechanical risk and I think he's taken
22 out half of the geological risk by having a well logged with
23 the mud show, so you know, to me that would be what would be
24 reasonable in my mind.

25 Q 25 percent.

1 MR. FONAY: 125 percent.
2 A 125 percent, or basically 25 percent over
3 --
4 MR. FONAY: Cost plus 125?
5 A No, cost plus 25 percent is what I'm
6 saying.
7 I believe when you --
8 Q Sounds to me like you're getting coached
9 here by Lynx.
10 MR. FONAY: I thought that's
11 what he said. I'm sorry.
12 A As I understand the way the 200 percent
13 risk penalty, the total --
14 Q You've already answered my question.
15 A Okay.
16 Q How about overhead charges? \$3500 while
17 drilling, while recompletion, and \$350 while producing.
18 What's Texaco's --
19 A I don't think that I -- I wouldn't have
20 any disagreement with that.
21 Q Within a mile, roughly, how many wells
22 does Texaco operate that penetrate the Queen formation?
23 A Those wells entirely, every well on there
24 penetrates the Queen formation --
25 Q Well, would it be fair to say that --

1 A -- San Andres.

2 Q Would it be fair to say that Texaco oper-
3 ates quite a few?

4 A Yes, sir, I would certainly think --
5 agree with that.

6 Q How long has Texaco operated these wells
7 on this map?

8 A I believe these were formerly Getty wells
9 before the merger, so they're now, in essence since January
10 1st we of Texaco have operated the wells.

11 Prior to that, I really couldn't answer
12 that question.

13 But I'd say ever since the drilling in
14 1955.

15 Q Okay, according to your testimony, if I
16 got -- if I'm right on this, Texaco agrees with the recom-
17 pletion costs.

18 A Yes, sir, I do.

19 Q And that was --

20 A \$50,000.

21 Q That would be Lynx' Exhibit Number
22 Twelve, right?

23 A I guess maybe I've made this point clear,
24 but I guess the biggest reason why we think that's fair is
25 because why, why should we be made to drill basically a

1 heads up well when we have two wells that at some time in
2 the future we're going to be able to complete on that same
3 proration unit.

4 I just kind of wanted to rephrase that.

5 Q Lynx proposed an AFE for drilling a well
6 from the surface to the Queen, being \$180,000 roughly, is
7 that right?

8 A Yes, sir.

9 Q Okay. What portion or parts of that do
10 you -- does Texaco disagree with?

11 A Well, we disagree with paying -- we dis-
12 agree with paying that entire portion of \$180,300. We don't
13 have -- I've looked at the costs. I think the costs are
14 reasonable for a Queen well, but I guess the point that's
15 overwhelming in my mind is that there was no -- there was no
16 -- there was no contact prior to drilling of the well for
17 them to do this; for Lynx to propose that Texaco join in
18 such a well.

19 Q Well, Mr. Kern, does Texaco have any in-
20 terest in the -- that 40-acre spacing unit?

21 A No, they don't.

22 Q Okay.

23 A But we do in the Queen, which is what
24 we're talking about today.

25 Q Well, as far as that goes, you've got in-

1 terest in 160-acre gas well anywhere from the surface down
2 to the Wolfcamp, 320 acres down from the Wolfcamp to the
3 PreCambrian.

4 MR. STOGNER: I have no further
5 questions of this witness.

6 Any other questions of Mr.
7 Kern?

8 MS. AUBREY: No, sir.

9 MR. TAYLOR: I have just one.

10

11 CROSS EXAMINATION

12 BY MR. TAYLOR:

13 Q Is your -- is Texaco's objection being
14 forced to pay for the drilling to the Queen or is it being
15 pooled at all is the problem?

16 A It's being forced to pay for the drilling
17 of the Queen because we feel like the Queen well was not
18 drilled -- I mean the well was not drilled for a Queen well.

19 Q So you don't object so much to being
20 force pooled into the well; you just don't what to pay for a
21 well that's already been drilled.

22 A In effect.

23 MR. TAYLOR: Thank you.

24 MR. STOGNER: Mr. Bateman, Ms.
25 Aubrey, do you wish to recall any of the witnesses at this

1 point?

2 MS. AUBREY: No, sir.

3 MR. BATEMAN: No, thank you.

4 MR. STOGNER: Okay, in that
5 case, we're ready for closing statements.

6 Mr. Bateman, you may go first.

7 Ms. Aubrey, you may --

8 MR. BATEMAN: Mr. Examiner, you
9 heard the statement that Texaco doesn't object to being
10 pooled; however, I should point out initially that I frankly
11 question whether this application fits the authority of the
12 forced pooling statute.

13 I think Ms. Aubrey will agree
14 that this is new territory. As far as I know it's a case of
15 first (not understood), which has been an attempt to force
16 pool additional acreage, additional productive strata in a
17 wellbore that's already existing.

18 I can't say you don't have cer-
19 tain authority, but as far as I know, none of us are aware
20 of that.

21 In that connection I'd point
22 out, I think that it's similar to Pandora's Box. It's al-
23 ready been pointed out that there obviously are wells drill-
24 led at this time. It just happens that in this particular
25 case the well in question was drilled within the last year,

1 so the AFE figures are current.

2 One could -- one could extrapolate from
3 that all kinds of scenarios but let's take one, Well No. 5,
4 which was drilled in 1952. What are the ground rules going
5 to be if the Commission permits additional acreage to be
6 force pooled in existing wellbores after production is
7 diminished from the first productive well.

8 What are the ground rules going to be on
9 how much a nonconsenting owner has to pay? Is it going to
10 be what was actually out of pocket or what one might have to
11 pay if he had to pay to redrill the well.

12 I think you're getting to rather
13 difficult and risky areas. It seems to me also that all
14 sorts of other misuses of this potential where individuals
15 could go out and hedge their risks, essentially, knowing
16 that there's a reasonable possibility of production at one
17 strata but an attempt to drill a wildcat to another because
18 they have the acreage already committed and don't have to
19 force pool it.

20 If that's unproductive, then they always
21 have the opportunity to come back and cut their losses by
22 going back up the hole, or even down, I suppose, and getting
23 somebody else to participate in the risk that they tell the
24 Commission.

25 I don't believe that that's either the

1 intent or the spirit of the forced pooling statute. It's
2 application has been, I think, what it was intended for, to
3 be sure that there are opportunities to develop production
4 in areas that would not otherwise be reached.

5 But for the time nobody knows what's down
6 there. The risk is substantial. The well has been drilled
7 and there's an opportunity to drill an additional well, not
8 a bail-out situation, where this clearly is a situation
9 where the well has been, in Mr. Fonay's words, I think,
10 "disappointing", but quite clearly is uneconomic.

11 But is you do believe that the statute
12 applies, a more difficult question becomes, looking at this
13 part of the statute which provides that no part of the pro-
14 duction or proceeds accruing to any owner, or owners, of a
15 separate interest in the unit shall be applied for the pay-
16 ment of any cost properly chargeable to any other interest
17 in the unit.

18 The question is who has a participation
19 in a wellbore? Obviously the Paddock, certainly, since they
20 can't get the production out from the Paddock to the surface
21 without participating in that portion between the Queen and
22 the surface.

23 They're now being permitted relief from
24 the obligation that they had initially by signing or trying
25 to sign an AFE paying for the wellbore.

1 I believe that you've got to look at
2 these situations as distinctly separate, no matter when the
3 original wellbore was drilled, whether it was force pooled
4 or not. I think you have to look at the force pooling ap-
5 plication as a separate situation which additional interests
6 are being pooled and the only requirement for pooling, then,
7 is recompletion of the well, not drilling a new wellbore.
8 This is already there and already been paid for earlier. It
9 shouldn't have to be paid for again.

10 So what is reasonable, I think, is clear-
11 ly under any stretch of the imagination, nothing more than
12 what it would cost to recomplete the well, which, obviously,
13 could be decades between those two events.

14 And finally the question of risk penalty,
15 I think it's been clearly demonstrated that the risk is min-
16 imal and that there should be under any application of fair-
17 ness and equity, no risk penalty assigned to this situation.

18 They've already had an opportunity to
19 look at it. They've determined what the risk are and
20 they've obviously made a decision to go ahead with it.

21 So for all those reasons I feel that --
22 that the Commission should first of all, closely look at the
23 statute and see whether or not it even applies to this sit-
24 uation and I'm inclined to think, frankly, that probably it
25 doesn't.

1 MR. STOGNER: Thank you, Mr.
2 Bateman.

3 Ms. Aubrey.

4 MS. AUBREY: Thank you.

5 Texaco seems to be suggesting
6 that the New Mexico forced pooling statutes do not permit an
7 operator to come back up the hole and produce hydrocarbons
8 which were not contemplated at the time of drilling of the
9 original well.

10 I don't believe that's the in-
11 tentation of the forced pooling statute or the wording of the
12 statute.

13 I believe there have been other
14 instances where this Commission, the Commission has been
15 asked to force pool additional acreage after a well has been
16 drilled. There is always the possibility and likelihood
17 that an operator will encounter additional producing zones
18 about which nothing was known prior to the drilling of the
19 well.

20 To decide otherwise would re-
21 quire an operator to pool every formation from the surface
22 to his objective and bring in working interest owners on as
23 much as 640 spacing units on the possibility that he might
24 have some kind of a gas show in a gas pool that's spaced on
25 640 in every well, and I don't know exactly what this Divi-

1 sion wants to do, either.

2 What we have here is a situa-
3 tion where a Queen well was not contemplated when this well
4 was originally drilled. This well was drilled at a standard
5 location for a 40-acre Paddock oil well.

6 The working interest owners in
7 the Paddock were properly pooled. Most of them joined; 2
8 percent did not join so 98 percent of the working interest
9 owners in the Paddock joined.

10 Lynx now has a gas show in the
11 Queen and as prudent operators with royalty obligations they
12 are seeking to recomplete this well in order to produce
13 Queen gas which otherwise is going to remain below the sur-
14 face and is never going to be produced, certainly the exact
15 opposite of what a prudent operator should to to protect
16 correlative rights, prevent waste, and promote conservation
17 of hydrocarbons.

18 What Texaco actually is asking
19 you to do here, Mr. Stogner, is to give them, in Mr. Hunt's
20 words, "a free ride to the base of the Queen. They are say-
21 ing to you, we have no Paddock rights. My goodness, you're
22 using the same wellbore to produce the oil and the gas so we
23 shouldn't have to pay any part of the cost of getting from
24 the surface to the Queen.

25 I submit to you that this does

1 not make any sense.

2 If this a producing Queen well
3 they will share in 50 percent of the production from that
4 well; however, they're asking to do that without sharing in
5 apparently, the risk. They aren't saying there is no risk
6 of a Queen producer, or the cost, they're saying you've done
7 it once, we're staying with that same old wellbore and we
8 don't owe you anything for it but we do get 50 percent of
9 the gas out of the Queen.

10 I submit to you that that is an
11 inequitable position to take.

12 Lynx Petroleum has spent the
13 money. They've cased the well. They've gotten past the
14 base of the Queen without problems and they've been able to
15 tell Texaco exactly to the dollar how much it cost to get to
16 the base of the Queen. This is not an AFE we're talking
17 about. These are actual invoice costs to get to the base of
18 the Queen.

19 Texaco says they want that much
20 free. They want their 50 percent of the gas but they don't
21 want to pay their 50 percent of the cost.

22 Texaco also tells you that they
23 believe the costs in and of themselves are fair and reason-
24 able for a Queen well. So you're not going to have to de-
25 cide here today whether the \$180,300 figure is a fair fi-

1 gure. Texaco's own witness has admitted that it is.

2 You don't have to decide here
3 today whether or not \$50,000 to come back up from the
4 Paddock to the Queen is fair and reasonable. Texaco has
5 admitted that it is.

6 What you must decide here today
7 is whether or not the Oil Conservation Division is going to
8 permit a nonconsenting working interest owner to share in
9 production and to not have to share in one nickel's worth of
10 cost.

11 It wasn't free for Lynx to get
12 down to the base of the Queen. They paid the money. Texaco
13 wants to produce that gas. 50 percent of it's Texaco's gas,
14 and the only way it's going to get out of the ground is if
15 it comes back up that wellbore, and that wellbore is going
16 benefit Texaco to the extent of 50 percent of the
17 production.

18 We submit that Texaco has a
19 liability to pay Lynx for its proportionate share of the
20 cost of drilling and completing that well to the base of the
21 Queen.

22 They want the benefits, they
23 must share the burden.

24 MR. STOGNER: Thank you, Ms.
25 Aubrey.

1 Anything further in Case Number
2 8631?

3 Ms. Aubrey, Mr. Bateman.

4 MS. AUBREY: Sir.

5 MR. STOGNER: Will you please
6 furnish me a copy of a proposed rough draft order on this
7 case?

8 This case will be continued to
9 the Examiner Hearing scheduled for July 17th, 1985, to take
10 care of a misadvertisment.

11 MR. BATEMAN: Thank you.

12

13 (Hearing concluded.)

14

15

16

17

18

19

20

21

22

23

24

25

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. 8631,
heard by me on 19 June 1985.

Michael E. Schmitt, Examiner
Oil Conservation Division

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO

17 July 1985

EXAMINER HEARING

IN THE MATTER OF:

Application of Lynx Petroleum Con- CASE
sultants, Inc. for an unorthodox gas 8631
well location, compulsory pooling,
and a dual completion, Lea County,
New Mexico.

BEFORE: Michael E. Stogner, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation	Jeff Taylor
Division:	Legal Counsel to the Division
	Oil Conservation Division
	State Land Office Bldg.
	Santa Fe, New Mexico 87501

For the Applicant:

1
2 MR. STOGNER: Call next Case
3 Number 8631.

4 MR. TAYLOR: The application of
5 Lynx Petroleum Consultants, Inc., for an unorthodox gas well
6 location, compulsory pooling, and a dual completion, Lea
7 County, New Mexico.

8 MR. STOGNER: This case was
9 heard on June 19th, 1985, before me.

10 At this time it was
11 readvertised and continued to the -- to today's hearing.

12 Are there any other additional
13 testimony or call for appearances at this time?

14 There being none, this case
15 will be taken under advisement.

16
17 (Hearing concluded.)
18
19
20
21
22
23
24
25

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 Con-
servation Division was reported by me; that the said tran-
script 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. 8631,
heard by me on 17 July 19 85.
Michael E. Stynes, Examiner
Oil Conservation Division