

NEW MEXICO OIL CONSERVATION DIVISION

COMMISSION HEARINGSANTA FE, NEW MEXICOHearing Date OCTOBER 30, 1997 Time 9:00 A.M.

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Bill Collins	Menbourn Oil	Midland
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James Bruce	—	Santa Fe

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

IN THE MATTER OF THE HEARING CALLED BY)	
THE OIL CONSERVATION COMMISSION FOR THE)	
PURPOSE OF CONSIDERING:)	
)	
APPLICATION OF MEWBOURNE OIL COMPANY)	CASE NOS. 11,723
FOR AN UNORTHODOX GAS WELL LOCATION)	
AND NONSTANDARD GAS PRORATION UNIT,)	
EDDY COUNTY, NEW MEXICO)	
)	
APPLICATION OF FASKEN OIL AND RANCH,)	11,755
LTD. FOR A NONSTANDARD GAS PRORATION)	
AND SPACING UNIT AND TWO ALTERNATE)	1 - 1997
UNORTHODOX GAS WELL LOCATIONS,)	
EDDY COUNTY, NEW MEXICO)	
)	
APPLICATION OF TEXACO EXPLORATION AND)	11,868
PRODUCTION, INC., FOR CLARIFICATION OR,)	
IN THE ALTERNATIVE, AN EXCEPTION TO THE)	
SPECIAL POOL RULES AND REGULATIONS FOR)	
THE CATCLAW DRAW-MORROW GAS POOL,)	
EDDY COUNTY, NEW MEXICO)	
)	(Consolidated)

REPORTER'S TRANSCRIPT OF PROCEEDINGS (Volume II)
COMMISSION HEARING

BEFORE: WILLIAM J. LEMAY, CHAIRMAN
WILLIAM WEISS, COMMISSIONER
JAMI BAILEY, COMMISSIONER

ORIGINAL

October 31, 1997
Santa Fe, New Mexico

This matter came on for hearing before the Oil Conservation Commission, WILLIAM J. LEMAY, Chairman, on Friday, October 31st, 1997 (Volume II), at the New Mexico Energy, Minerals and Natural Resources Department, Secretary's conference room, 2040 South Pacheco, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

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I N D E X

October 31st, 1997
 Commission Hearing (Volume II)
 CASE NOS. 11,723, 11,755 and 11,868 (Consolidated)

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Additional submission by Mewbourne, not offered or admitted:

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* * *

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* * *

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1 WHEREUPON, the following proceedings were had at
2 8:35 a.m.:

3 CHAIRMAN LEMAY: We shall resume yesterday's
4 deliberation.

5 Is this -- Are we going to discuss this later?

6 MR. CARR: Yes, sir.

7 CHAIRMAN LEMAY: We shall resume with Mr. Carr.

8 MR. CARR: May it please the Commission, at this
9 time Texaco calls David Uhl, U-h-l.

10 DAVID A. UHL,
11 the witness herein, after having been first duly sworn upon
12 his oath, was examined and testified as follows:

13 DIRECT EXAMINATION

14 BY MR. CARR:

15 Q. Will you state your name for the record, please?

16 A. David Uhl.

17 Q. Where do you reside?

18 A. I reside in Denver, Colorado.

19 Q. Mr. Uhl, by whom are you employed?

20 A. With Texaco.

21 Q. And what is your current position with Texaco?

22 A. I'm a geologist responsible for working southeast
23 New Mexico, right now primarily Eddy County.

24 Q. Have you previously testified before the Oil
25 Conservation Commission?

1 A. No, but I have testified before the Division.

2 Q. Could you summarize your educational background,
3 please?

4 A. Bachelor's of science and a master's degree from
5 the University of Nebraska, master's in 1981.

6 Q. And since 1981, for whom have you worked?

7 A. For Texaco.

8 Q. Are you familiar with the Applications filed in
9 each of these cases on behalf of Mewbourne, Fasken and
10 Texaco?

11 A. I've become very familiar with them.

12 Q. Could you initially explain to the Commission,
13 what is Texaco's interest in this case?

14 A. Texaco owns acreage immediately to the south of
15 the proposed Mewbourne location. Because it's a Mewbourne
16 location, it is a location exception, we feel that they
17 would be encroaching on our acreage.

18 Q. Would you identify the wells that you currently
19 have drilled and completed on Section 12?

20 A. Yes. If you refer to Exhibit 1 --

21 CHAIRMAN LEMAY: Is this separate -- another set
22 of exhibits? I don't --

23 MR. CARR: It's in a --

24 COMMISSIONER WEISS: It's in this -- It's
25 underneath here.

1 MR. CARR: Yes, sir.

2 CHAIRMAN LEMAY: Thank you, excuse me.

3 Q. (By Mr. Carr) All right, would you identify the
4 wells that you've drilled and completed in Section 12?

5 A. All right. If you refer to Exhibit 1, Texaco has
6 the acreage in Yellow, Section 12. We operate the Number 1
7 E.J. Levers and the Number 2 E.J. Levers, the Number 1 to
8 the south, Number 1 -- excuse me, Number 2 approximately in
9 the middle of the section.

10 Q. Those are shown with the gray circles around
11 them, correct?

12 A. Greenish color, that's correct.

13 Q. Whatever color they are, they have the circles
14 around them?

15 A. They have the circles around it.

16 Q. Okay. Have you made a geological study of the
17 area which is the subject of this Application?

18 A. Yes, I have.

19 Q. And are you prepared to share the results of that
20 geological work with the Commission?

21 A. Yes.

22 MR. CARR: We would tender Mr. Uhl as an expert
23 in petroleum geology.

24 CHAIRMAN LEMAY: His qualifications are
25 acceptable.

1 Q. (By Mr. Carr) Mr. Uhl, briefly state what Texaco
2 seeks in this case.

3 A. We seek one of two things, is that Mewbourne is
4 proposing an unorthodox location at a -- immediately
5 offsetting our acreage. We ask that that location be
6 denied. Or, in the alternative, we ask that a significant
7 production penalty be applied to that well, if that
8 location is approved.

9 Q. What about the Texaco Application? What are we
10 seeking with that Application?

11 A. Essentially we're seeking clarification of the
12 rules of the Catclaw Draw-Morrow Pool.

13 Q. And is it your desire that Texaco be authorized
14 to return the E.J. Levers Number 1 well to production at
15 the earliest possible time?

16 A. We'd like it as soon as possible.

17 Q. Are you familiar with the current rules which
18 govern development of the Catclaw Draw-Morrow Pool?

19 A. As much as possible, yes, I am.

20 Q. And are there special rules in effect for the
21 pool?

22 A. There are special rules. It's Order R-8170 in
23 1986.

24 Q. And what are the well-location requirements for
25 the pool?

1 A. 640-acre spacing, 1650-foot setbacks and 330 feet
2 from any quarter-quarter.

3 Q. Is this pool a prorated pool?

4 A. It was prorated at one time, but proration was
5 suspended, so -- I guess the last one we had on that was
6 Mr. Stogner's ruling, and he's calling that a technically
7 prorated pool.

8 Q. Have you prepared exhibits for introduction in
9 this case?

10 A. Yes.

11 Q. All right. Let's go now back to Exhibit Number
12 1, and I'd ask you first to identify it and then review it
13 for the Commission.

14 A. Exhibit Number 1 -- Probably the best way to look
15 at the exhibits would be to look at Exhibit Number 4, the
16 cross-section, and the geologic maps, 1 through 3, at the
17 same time. So if you look at Exhibit Number 4, the cross-
18 section, and also Exhibit Number 1 at this time.

19 With Exhibit Number 1 I'm attempting to map the
20 principal producing zone in our Levers Number 2 well, the
21 well that we drilled in 1995 and completed in 1996. That
22 zone is in the middle Morrow, what I'm calling the B1 zone.
23 Mr. Williams from Mewbourne also called that the orange
24 zone, I believe. And I believe that Faskens also are
25 counting that as an orange zone.

1 Q. Okay, what does this show?

2 A. What that's showing is that in and around the
3 Texaco acreage, Section 12, we've got one, two, three,
4 four, five -- approximately half a dozen points of control
5 immediately adjacent to that acreage.

6 Our first well to the south, our E.J. Levers
7 Number 1, encountered very -- just a very -- inkling of
8 porosity in that well. The resistivity on that is also
9 indicating there's a fairly tight zone. Although that well
10 was perforated in that zone to start off with, we believe
11 that it contributed practically nothing to that well.

12 The well to the north of that, our E.J. Levers
13 Number 2, that was completed in 1996, we ended up finding
14 the reservoir on that, that was virtually unexpected, based
15 on the well control in that area. We found 18 percent of
16 porosity within the B1 zone or the orange zone, and it
17 ended up being a very significant well.

18 At one time it was -- We had an absolute open
19 flow of approximately 9 million a day on that well out of
20 that middle zone, the middle Morrow zone, and it's still
21 producing for us, a little over 4 million a day.

22 To the northeast, in Section 1, we have that
23 point up there, the old Fasken well, the point with six
24 feet of control, six feet of porosity control on that.
25 That well was also completed out of the same stratigraphic

1 interval, but it only cum'd about approximately a third of
2 a BCF of gas.

3 To the west of that in Section 2, we have another
4 point with about approximately six feet of porosity
5 control. The old Continental or Conoco Number 2 Levers
6 well. That well was never tested in the zone, and it
7 looked a little skinny on the porosity also.

8 And then to the south of that well, in the
9 southeast-southeast of Section 11, we have the Pure Federal
10 Number 2, that has produced approximately 2.5 BCF out of
11 that zone.

12 What we have are -- when we drilled our well -- I
13 might throw a little more background. When we drilled that
14 well we encountered some fairly significant pressures in
15 the well.

16 Q. That's the Number 2?

17 A. Our Number 2 well, that's correct.

18 Although our Number 1 well had been open in
19 that -- had technically been open in that zone from 1972 up
20 to about 1988, the pressures in the Number 1 were only
21 slightly depleted from what we considered the original
22 bottomhole pressure.

23 Now, the nearest well that had been producing to
24 that was the Pure Federal Number 2 in the southeast-
25 southeast of Section 11. That originally had fairly

1 significant P/Z, about 4500 pounds, whereas the P/Z in our
2 wells was somewhere around 4000 pounds. So if there was
3 any decline it was -- a pressure decline, it was probably
4 declining from that well immediately to the southwest, the
5 Pure Federal Number 2. But again, the pressures were so
6 high -- it looks to me as if there might -- a little bit of
7 pressure drawdown, but it's very insignificant.

8 To the northeast up there in Section 1, you had
9 the old Fasken well. It originally had a P/Z of
10 approximately 4000 pounds also. 4000 up there to the
11 northeast, 4000 pounds in our well -- I mean, those are
12 probably equivalent to one another. Yet that well only
13 produced about a third of a BCF of gas.

14 I think that well to the northeast was an edge
15 well, an edge well to the reservoir, that there's a better
16 reservoir to the west of there.

17 What I've mapped on here, or what I've attempted
18 to map on here, is the trend of the porosity of that "B"
19 zone. I see more or less a north-south trending on that.
20 Mr. Williams had a similar trend on that, although he tends
21 to pull the contours a little more favorably toward the
22 Fasken well, favorably as far as his argument goes.

23 I see that well to the west, the Conoco Levers
24 well, as being another edge well over there, and that you
25 can also pull the contours off the west. Now, as far as

1 how far to the north it goes, that's open to conjecture
2 right now. We're just going to have to drill a well to
3 find out.

4 Q. So basically, you've mapped this "B" zone in a
5 more due-north-south orientation than was mapped by Mr.
6 Williams?

7 A. I think the well control indicates that.

8 Q. You were present yesterday and heard testimony
9 presented by Fasken concerning faulting in the reservoir?

10 A. That's correct.

11 Q. Do you see those faults?

12 A. Based on well control, I don't see the faults in
13 the reservoir. But then I have not had access to the
14 seismic.

15 Q. And so you can't really render an opinion on
16 that?

17 A. I really can't render an opinion on that.

18 Q. Now, in preparing your maps, have you utilized
19 any seismic information?

20 A. The only seismic information that I've utilized
21 was a couple of 2-D lines, fairly far to the south, in
22 order to set up a fault on my structure map. I'll show you
23 that in a few minutes. But no seismic in this immediate
24 area.

25 Q. When you've been mapping the reservoir, have you

1 tried to integrate pressure drainage areas into your
2 mapping of this particular zone?

3 A. As far as pressure and drainage goes, we have
4 attempted to map the volume of the reservoir. We have
5 looked the P/Z data and approximated what type of ultimate
6 production that we're going to get from our well. But as
7 far as far as how many wells you can ultimately put within
8 that zone, we have not attempted that.

9 Q. When you look at this map in this -- your isopach
10 of this zone, would you concur with Mr. Montgomery
11 yesterday that a well at the proposed Mewbourne location
12 will probably be competing for reserves with the Levers
13 Number 2?

14 A. I think it will be competing for our reserves
15 because it's encroaching on our lease line by so much, it
16 almost has to take our reserves away.

17 Q. Let's go to Exhibit Number 2, your isopach on the
18 C2 sand.

19 A. Okay.

20 Q. Would you review that for the Commission, please?

21 A. The C2 sand, if you look on the cross-section,
22 Exhibit Number 4, that is the very lowermost sand that I
23 have continued to map in that area. It produced originally
24 in our Number 1 well from 1972 to 1988. Since then, our
25 Number 1 well has been plugged. We had set a bridge plug

1 and we had come uphole, and now producing from an upper
2 Morrow sand, our "A" sand, in that well.

3 We originally had a bottomhole pressure of -- or
4 a shut-in pressure on the drill stem test of 4346 pounds in
5 our Number 1 well. When we drilled the Number 2 well --
6 The Number 1 well drilled in 1972, the Number 2 well was
7 drilled in -- or tested in 1986. And we ran a DST on that
8 and only had about 1368 pounds on that. So about 3000
9 pounds pressure drawdown between those two zones.

10 So we're indicating that that zone has quite a
11 bit of connectivity in it. That's fairly consistent with
12 the production in the area. It was one of the original,
13 principal producers in the field. It has a strong north-
14 sound trend, slightly-to-the-northwest trend, and it's a
15 fluvial sand, coarse-grained sand.

16 Q. Are these isopach maps the same maps that you
17 presented to the Examiner at the April hearing?

18 A. Yes, I have. I have not changed them.

19 Q. Is there any new geological data in the area that
20 would cause you to revise or alter the mapping that you
21 made at that time?

22 A. There's no additional wells have been drilled in
23 that area.

24 Q. Now, you may have addressed this already, but
25 based on these basically six control points that you have,

1 do you have sufficient well-control information to map the
2 extent of these zones north of Section 12?

3 A. I can project them reasonably north of Section
4 12. But as with any geologic control, the further north
5 you move, the greater risk you start running into.

6 Q. Let's go to Exhibit Number 3, your structure map
7 on the top of the Morrow "A". Would you review that for
8 the Commission?

9 A. If you look at the cross-section again, we have
10 the very top sand on that, the "A" sand, the yellow sand at
11 the top is called the "A" sand. That's essentially where
12 we're losing the Morrow carbonates and it becomes the
13 Morrow clastics or the -- in this case, the Morrow sand.
14 That's a very good structural marker, and that's what I've
15 attempted to map here, the structural position of the wells
16 in the field.

17 The map that I've generated is based purely on
18 well control. Seismic has not -- or excuse me, mostly on
19 well control, because I did utilize a seismic line in
20 Section 26 and 27 to the south. But for the most part it's
21 based on well control within the area of interest.

22 What we're seeing here is that Catclaw Draw is
23 basically developed on a structure. As soon as you start
24 moving off the structure, within two of the sands, the "A"
25 sand and also your lower Morrow sands, you start running

1 into water legs.

2 Within the middle Morrow interval, we have not
3 really encountered water. I believe the middle Morrow
4 interval to be essentially full of gas. The water is not
5 really an issue there. But it is an issue in the uppermost
6 Morrow sand and lowermost Morrow sands.

7 Q. This exhibit also contains a trace on it for a
8 subsequent cross-section?

9 A. That's correct.

10 Q. Are you ready to go to that cross-section?

11 A. Well, I guess I've kind of been talking off the
12 cross-section. That's the cross-section A-A', also Exhibit
13 4.

14 Q. What does the cross-section show you that you
15 haven't already reviewed?

16 A. Essentially it shows the continuity of the sands
17 throughout the mapped area. You can see going from A' to
18 the north, on the right of the cross-section, to A on the
19 southwest, on the left of the cross-section, that the sands
20 are fairly continuous throughout the area in question,
21 going across the Mewbourne location.

22 By making this cross-section, I'm attempting to
23 portray that a well drilled in the south half of Section 1
24 would be -- most likely would be connected to the
25 reservoir, so we have developed in Section 12. And a well

1 drilled too close to us in Section 1 would be essentially
2 taking gas from Section 12.

3 Q. Now, this cross-section shows the Levers Number
4 2, correct?

5 A. That's correct --

6 Q. You left the --

7 A. -- the Levers Number 2.

8 Q. You did not include the Levers 1?

9 A. For expediency in the cross-section I did not
10 include that. I believe that Fasken has included that on
11 their cross-section.

12 Q. From what zones is the Levers Number 2 producing?

13 A. The Levers Number 2 is producing -- as you can
14 see, the second well from the right on the cross-section --
15 is producing from two different zones. The way that we
16 completed the Levers Number 2 is that we ran a drill stem
17 test in the lowermost sand, our "C" sand, which I believe
18 is also their -- trying to think what -- Is that your
19 yellow sand?

20 MR. HARMON: Orange.

21 THE WITNESS: That was their orange sand, excuse
22 me.

23 Q. (By Mr. Carr) The Fasken orange --

24 A. The Fasken orange sand. We ran a drill stem test
25 across that, we found low pressures, pretty much what we

1 expected, low pressures in there. But we knew that that
2 would be a zone that would, you know, contribute the gas
3 from the area and help pay the well out.

4 The next thing that we did is that we set a one-
5 way check valve on the bridge plug there, and it came
6 uphole to the "B" interval, perforated across the "B"
7 interval, and it came on with a sand that flowed about 9
8 million a day with -- I'm trying to think. About 3600
9 pounds, plus, of bottomhole pressure. So a fairly
10 significant sand at that time.

11 We didn't know how well that sand was going to
12 hold up, but we decided to produce that, and knowing that,
13 especially when pressures would diminish, that the sand
14 down below would start contributing that.

15 We believe that we also have production
16 capability within the "A" sand, the uppermost sand in
17 there, and that's going to be a good producer in the
18 future. But right now we have all the production that we
19 can handle out of those bottom sands. We believe at this
20 time that that bottom sand down there is only now starting
21 to contribute, that with the pressure drawdown in the well
22 it is starting to contribute at this time. That's probably
23 only been the last couple months.

24 Q. What zone is the Levers Number 1 producing from
25 at this time?

1 A. That's producing from the "A" interval, the
2 uppermost interval in the Texaco Levers Number 2 and the
3 interval that is not perforated in the Texaco Levers Number
4 2.

5 Q. So the Levers 1 is in the "A" zone and the Levers
6 2 in the lower zone?

7 A. Right, they're in totally separate zones at this
8 time.

9 Q. Yesterday Mr. Williams had, on his cross-section,
10 included a log for the Levers Number 2 and indicated
11 presence of the brown sand on that exhibit.

12 A. That's erroneous. We drilled -- When we drilled
13 the Levers Number 2, I admit, I did expect to see a brown
14 sand, or the very lowermost Morrow sand when we drilled the
15 Levers Number 2, and we drilled through that, ran a drill
16 stem test across the entire interval where that sand should
17 have been present.

18 Now, on the mud logs we did not see any evidence
19 of sand, we did not see any drilling breaks, we did not see
20 any sand in the samples. We also -- Of course, then when
21 we ran a drill stem test we had gas across so we knew that
22 something was coming out. We were in the logs, and that
23 sand was not present.

24 If you notice on the logs, that was -- we're also
25 getting towards the bottom part of the hole, and because of

1 the tool size and everything, there's reason to expect,
2 well, maybe those logs -- maybe we just didn't have enough
3 rathole in there, and so we didn't have a log across it.

4 After we cased the well, we then ran logs and ran
5 a neutron across the interval and found no sand whatsoever.

6 When we were perforating those intervals, we also
7 decided to do one final check on that, just in case we
8 weren't getting a proper neutron response in the cased hole
9 log. We ran a couple perms across that same stratigraphic
10 interval that the brown sand should have occurred, and got
11 no blow whatsoever. So I mean, that's another confirmation
12 point that we just didn't have a sand there.

13 If you look on the well to the right, the Fasken
14 Number 1 on the cross-section, that well also does not have
15 a brown sand in there. It appears as if this was a little
16 bit of a structural high during deposition.

17 Mr. Lint on his testimony yesterday also put in
18 on his seismic exhibits that he saw faulting in the lower
19 part of the Morrow. I believe that there is a little bit
20 of structure in the lower part of the Morrow but that it is
21 not present from possibly our C2 sand on up. And that's
22 just a little bit of positive feature; the sands just kind
23 of migrated around the side of it. That sand isn't there.

24 Q. What conclusions can you reach from your
25 geological study of the area?

1 A. The conclusions that I reached is that the sands
2 are fairly continuous. The principal producing sands,
3 except for that very lowermost sand that you just -- Mr.
4 Williams is calling the brown sand -- are continuous
5 throughout the area.

6 But a well drilled in the south half of Section 1
7 has a very reasonable chance -- almost -- I would say
8 almost a 100-percent chance of it encountering one, if not
9 all of the reservoirs that we're encountering in the Number
10 2 well.

11 Q. Let's talk for a minute about your recommended
12 penalty calculation. Could you refer to what has been
13 marked as Texaco Exhibit Number 6 [sic] and review that for
14 the Commission?

15 A. That's Texaco's Exhibit Number 6 [sic]. What
16 we're attempting to do with Exhibit Number 6 is use a
17 couple of things.

18 To begin with, the standard setback within the
19 Catclaw Draw-Morrow field is 1650 feet from a section line,
20 from a unit boundary.

21 The proposed Mewbourne location is only 660 feet
22 from the section line. At that point, they are 60 percent
23 closer to us than what the field rules allow. We're asking
24 for a variance factor of 60 percent to be applied to that
25 location.

1 Q. And that's just -- nothing more than just surface
2 encroachment?

3 A. That is nothing more than surface correct, that's
4 correct.

5 Q. Do you think you have any better information you
6 can rely until, in fact, you have a well in the south half
7 of Section 1?

8 A. I think there is a very reasonable chance that we
9 can predict that a well there will encounter the same
10 reservoirs that we have encountered in our section. But
11 until that well gets drilled I cannot say how well that
12 well will be.

13 Q. Now, the offsetting Levers well in Section 12 is
14 in excess of 1650 feet from that common line; is that not
15 correct?

16 A. That's correct.

17 Q. And so you have complied with the setback
18 requirements in the drilling of the Number 2 well?

19 A. When we drilled the Number 2 Levers well, we were
20 required to have 1650-foot setbacks. That's just the way
21 the field rules work.

22 Q. Okay. Now, Mr. Uhl, that's the first factor that
23 you've just discussed, that's the variance from a standard
24 setback?

25 A. That's correct.

1 Q. What is the second page of this exhibit?

2 A. The second page is another proposed factor, what
3 we're calling the acreage factor.

4 Q. Would you review that?

5 A. The acreage that Mewbourne has dedicated is
6 essentially the southern one-third of Section 1, 297.88
7 acres. A standard proration unit in the Catclaw Draw-
8 Morrow pool is 660 acres. We're asking for an
9 additional --

10 Q. 640 acres?

11 A. Or excuse me, 640 acres. I get a little tongue-
12 tied.

13 We're asking for an additional factor of 46.5
14 percent to be applied, based on that, on them not having an
15 entire 640-acre unit.

16 Q. Now, if we go to the last page, how should these
17 two factors be applied to this location?

18 A. What we're doing is timesing the acreage factor
19 time the variance factor, to get the allowable factor.
20 We're asking for an allowable factor of 18.6 percent to be
21 applied to the well's flowing capacity at sales line, if
22 that well was allowed to be drilled.

23 Q. And to what should this be applied?

24 A. It should be -- Well, we've been talking back and
25 forth on that, is that there's not a good measure to apply

1 a penalty to. You can apply it to absolute open flow, you
2 can apply it to the well's ultimate flowing capacity. But
3 really, what is the significance that you're going to be
4 applying these factors to?

5 At this time we would like to recommend that
6 we're going to -- that we will apply it to the well's
7 flowing capacity, essentially the well's flowing capacity,
8 at sales line conditions

9 Q. And would that be determined by deliverability
10 tests?

11 A. Essentially by deliverability tests.

12 Q. And how often would you recommend these tests be
13 conducted?

14 A. Every three months for the first year, six months
15 thereafter.

16 Q. And should these tests be monitored?

17 A. We would like them to be monitored by the
18 Commission and also by any affected offset operator.

19 Q. In your opinion, will the recommended penalty
20 offset the advantage being gained by Mewbourne by virtue of
21 its proposed unorthodox location?

22 A. I'd rather that the well would not get drilled at
23 that location. I'd rather that be a standard setback. But
24 if that well is permitted to be drilled, we would like that
25 penalty applied.

1 Q. Now, they're 60 percent too close. We're asking
2 for an additional factor based on the number of acres
3 available to the well?

4 A. That's correct, the number of acres dedicated to
5 that well.

6 Q. Could you explain why the 60-percent penalty
7 alone would not be adequate to offset the advantage gained
8 on the Texaco tract?

9 A. I have another exhibit, Exhibit Number 6, that
10 helps portray the reason why we think that an additional
11 factor is necessary. Exhibit Number 6 is taking the wells
12 that have been drilled to the Morrow in the sections
13 immediately adjacent to -- or excuse me, immediately in
14 that area, essentially the six sections in that area that
15 are producing from the Morrow.

16 We have -- On there I have the locations, the
17 completion date, what zones have been perforated, their
18 initial production, flowing tubing pressure, and what is
19 significant is their calculated open flows. And also, in
20 the column just to the left of the right, the first year's
21 average rate.

22 If you can see on there, the calculated open flow
23 versus the first year's average rate, for the most part
24 there's just a slight resemblance there. We have anywhere
25 between 7 percent and 45 percent of that first year's

1 average rate, versus -- of the calculated open flow that
2 that well was actually producing.

3 Now, although these wells have been drilled at
4 different times, probably under different market
5 conditions, under different sales conditions, we still have
6 -- the fact is, we still have a lot of durability in what
7 that well was able to produce, versus what our calculated
8 open flow was. That's why we're thinking about, although a
9 well may have a calculated open flow, that is somewhat of a
10 meaningless term as far as something to really apply a
11 penalty to.

12 The average percentage of that AOF on the wells
13 within the Catclaw Draw area, the area that -- really in
14 question, is only 28 percent of that first year's flow rate
15 versus its calculated open flow.

16 Q. So you're seeing in excess of a 70-percent
17 decrease in the ability -- in the flow rate of the well?
18 Is that what you're saying?

19 A. Yeah, essentially, if we don't have those penalty
20 factors applied somewhere in that manner, we feel as if a
21 penalty based on a calculated open flow is essentially
22 meaningless.

23 Q. Okay. If we looked at the deliverability of a
24 well and we only apply a 60-percent penalty based on the
25 encroachment, is what you're saying that, in fact, with a

1 60-percent penalty and a 70-percent first-year drop in
2 deliverability, you often have no penalty at all?

3 A. Oftentimes it's no penalty at all.

4 Q. Now, Texaco is also requesting clarification of
5 the rules for the Catclaw Draw-Morrow Gas Pool or, in the
6 alternative, an exception to those rule for Section 12; is
7 that correct?

8 A. That's correct.

9 Q. The approved spacing pattern in the pool, there's
10 no dispute as to that. It's 640 acres, correct?

11 A. 640 acres, that's correct.

12 Q. All right, let's go to our Exhibit Number 7, and
13 let's look at these selected orders and other documents
14 that -- and I'd ask you basically to review for the
15 Commission the history of the development of the rules of
16 this pool.

17 A. Okay, essentially Catclaw Draw field was -- if
18 you look at the chronology on the front page of Exhibit
19 Number 7, that's kind of a good go-by -- discovered in
20 1971, temporary pool rules at that time.

21 Really, in 1973 under Order Number 4157-A, the
22 permanent pool rules were adopted.

23 Q. And those rules provided for 640-acre spacing?

24 A. 640-acre spacing.

25 Q. So that was the initial spacing for the pool?

1 A. That's correct.

2 Q. All right. When was the next change?

3 A. That occurred in 1974 when at that time the pool
4 was prorated. The reason behind the prorating is that
5 because of the limited amount of sales lines I went in the
6 area to make sure that all operators had an equal chance to
7 sell their gas.

8 Q. And that was Order Number R-4704?

9 A. R-4704, correct.

10 Q. All right. What happened later in -- When was
11 the next significant change in the pool rules?

12 A. There was also -- There is a 4157-B.
13 Essentially, that's just defining the limits of the pool
14 boundary.

15 But really, the next significant one occurred in
16 1980 when Tenneco applied for 320-acre spacing for the
17 pool.

18 Q. And was that adopted?

19 A. That was adopted, that's correct.

20 Q. And were statewide setbacks then approved for the
21 pool?

22 A. Statewide setbacks were applied to that pool.

23 Q. And how long did the 320-acre spacing order
24 remain in effect?

25 A. Just a short period of time, approximately a year

1 and a half. When Tenneco realized that they had made a
2 mistake, that owners within the pool had a chance of losing
3 acreage, of -- It was kind of a -- it was a nightmare for
4 operators. And so the 640-acre spacing was then reapplied
5 to the pool.

6 Q. And was that in August of 1981?

7 A. That was August of 1981, that's correct.

8 Q. And that was Order 4157-D?

9 A. Correct.

10 Q. Did that order also authorize an optional second
11 well in each 640-acre unit?

12 A. It does address a second well within the -- And
13 that second well also calls for standard 1650-foot
14 setbacks.

15 Q. The next two documents in this packet, behind Tab
16 7 and 8, are memoranda of the Division. What's the
17 significance of those memos?

18 A. That was the one-well rule, a memorandum from Mr.
19 LeMay, that I was not aware of until just recently. And
20 also a memorandum from Mr. LeMay regarding concurrent
21 development of multiple wells on standard -- on nonstandard
22 proration units.

23 Q. Basically --

24 A. Or, excuse me, spacing units.

25 Q. Basically these memos provide for single wells on

1 spacing units in nonprorated pools?

2 A. That's correct.

3 Q. Let's go to item number 9. What is that?

4 A. Item number 9 is Order Number 8170, in March of
5 1986. It's the rules and regulations for gas pools in the
6 State of New Mexico.

7 Q. For the prorated pools?

8 A. For the prorated pools in the State of New
9 Mexico. And it contains special rules for selected pools
10 and basically is silent on second well spacing -- on second
11 wells within the Catclaw Draw unit.

12 Q. So there are special rules in this order for
13 Catclaw Draw-Morrow Gas Pool?

14 A. That's correct.

15 Q. They provide for 640-acre spacing?

16 A. They do provide for 640-acre --

17 Q. For 1650-foot setbacks?

18 A. For 1650-foot setbacks.

19 Q. But they're at that time silent on an optional
20 second well on each 640?

21 A. That's correct.

22 Q. And that was in 1986?

23 A. That's correct.

24 Q. In February of 1994, was an additional well
25 drilled in the pool as a second well on a spacing unit?

1 A. In February of 1994, an additional well was
2 drilled in Section -- Excuse me.

3 Q. Section 17?

4 A. Section 17. That's just a little bit off the
5 map, over to the east.

6 Q. And is that operated by Devon?

7 A. It's operated -- Well, it was operated by Devon.
8 It's plugged at this time.

9 Q. Okay. But this well was, in fact, drilled after
10 the prorationing rules were amended in 1986 and the -- at
11 which time they were silent on the authority for a second
12 well?

13 A. That's correct. And so you had at least one
14 instance where a second well had been drilled in the
15 Catclaw Draw pool.

16 Q. Okay. Now, the next order that affects the
17 status of prorationing in this pool was entered in March of
18 1995. What did that order do?

19 A. At that time that was when prorationing was
20 suspended in certain pools in the State of New Mexico.

21 Q. And that --

22 A. Catclaw Draw was one of those pools.

23 Q. And that's Order Number R-10,328?

24 A. Correct.

25 Q. Did that order provide for the grandfathering in

1 of any wells that had been drilled since 1986 when second
2 well authority had been -- well, at least the order was
3 silent on second-well authority?

4 A. It was silent on second-well authority.

5 Q. Was it silent on grandfathering in any well
6 locations?

7 A. I really didn't see any thing about
8 grandfathering in the order.

9 Q. When was the Levers Number 2 actually drilled?

10 A. We drilled that in October of 1995 and completed
11 it in the first part of 1996.

12 Q. And you filed an APD for that well?

13 A. Correct, we filed an APD for that well.

14 Q. And was this approved?

15 A. It was approved by the BLM.

16 Q. Texaco appeared at the April hearing and opposed
17 the Application of Mewbourne for an unorthodox well
18 location, correct?

19 A. Right.

20 Q. Following that hearing, was Texaco contacted by
21 the Division?

22 A. We were contacted by the Division. At the
23 request of the Division -- There was a question whether we
24 had legally drilled our second well or not. We were
25 requested by the Division to shut in one of our wells, and

1 we did shut in subsequent to that request, pending
2 clarification of the rules.

3 Q. And is the last document, document 12 in Exhibit
4 7, a copy of a Division memorandum summarizing that
5 meeting?

6 A. That's correct.

7 Q. Did that memo indicate that once prorationing was
8 suspended, the one-well rule should apply to the pool?

9 A. It did indicate that.

10 Q. And did it classify the pool as a technically
11 prorated pool?

12 A. Yes, it did, although I'm uncertain what
13 technically prorated means.

14 Q. When you drilled the Levers Number 2, looking at
15 the rules, did Texaco determine whether or not a second
16 well on the unit was authorized?

17 A. Yes, we did.

18 Q. And what did you conclude?

19 A. We concluded that we were within the Catclaw Draw
20 Pool outline, that the Catclaw Draw field rules allowed for
21 a second well. That second well had to have 1650-foot
22 setbacks. We staked our location based on those setbacks,
23 and we drilled our well.

24 Q. In your opinion, is there confusion as to what is
25 meant by the term -- by the -- confusion concerning the

1 effect of the suspension of prorationing?

2 A. I think there's a great deal of confusion.

3 Q. Do you understand the term, "technically prorated
4 pool"?

5 A. To the best of my understanding, a technically
6 prorated pool would be a pool that essentially has no
7 production restrictions, but yet wells still have to abide
8 by the field rules in order to be drilled within that pool.

9 Q. And you're just basing that on what that term
10 means to you; is that correct?

11 A. That's what I would indicate.

12 Q. You --

13 A. That's what I would understand.

14 Q. Do you have anything that you can turn to that
15 would define that term for you?

16 A. No.

17 Q. And you have shut in the E.J. Levers Number 1; is
18 that correct?

19 A. Correct, we have shut that well in.

20 Q. And that is the well that is the only well on the
21 tract producing from the "A" sand or the --

22 A. From the "A" sand. And shutting in that well has
23 been costing us a thousand dollars a day in lost revenue.

24 Q. Now, when we initially talked with the Division,
25 we were advised that what was needed was an exception to

1 the pool rules; is that not correct?

2 A. That's correct.

3 Q. Why is Texaco seeking an exception or, in the
4 alternative, clarification of the rules?

5 A. Really, we would just like the simplest procedure
6 to get our well back on line.

7 Q. And in conversations with Division staff, was it
8 not suggested that a clarification is all that would be
9 required?

10 A. It was suggested, that's correct.

11 Q. If the rules for the pool, because of the
12 suspension of prorationing, making the pool now technically
13 prorated and no longer subject to unpublished memos -- if
14 that's where we are, will Texaco's wells in Section 12 be
15 the only wells in this pool to which the one-well rule is
16 now applicable?

17 A. No, there are a number of tracts within the
18 Catclaw Draw outline that have multiple producing wells at
19 this time.

20 Q. Are you aware of any of those to which the one-
21 well rule would require that one of those wells be shut in?

22 A. There would probably be four or five tracts where
23 one well would have been shut in on the Catclaw Draw Pool.

24 Q. Unless they're grandfathered in?

25 A. Unless they're grandfathered in, in which -- At

1 that time, I cannot see anything in the rules that accounts
2 for grandfathering.

3 Q. At the present time, are you aware of any other
4 operator that's being told to shut in a well?

5 A. No.

6 Q. Are you aware of any other 640-acre unit on which
7 an operator has not been allowed to simultaneously produce
8 two wells in this pool?

9 A. No.

10 Q. What does Texaco basically request from the
11 Division?

12 A. We're requesting the Division to allow us to open
13 our Number 1 well again and produce that Number 1 well.

14 Q. Were Texaco Exhibits 1 through 7 prepared by you
15 or compiled at your direction?

16 A. Yes, they were.

17 MR. CARR: May it please the Commission, at this
18 time we would move the admission into evidence of Texaco
19 Exhibits 1 through 7.

20 CHAIRMAN LEMAY: Without objection, those
21 exhibits will be entered into the record.

22 MR. CARR: And I would like to tender to you a
23 copy of a notice affidavit. We notified the owners of all
24 the offsetting properties. You will note that there were
25 two interest owners that owned very small lots that we

1 notified two days late. They were notified, the letters
2 are here showing that the hearing was this date, but
3 technically I think the record should stay open for two
4 days in case one of those people call. But this is an
5 affidavit confirming that we advised the offsets of our
6 request.

7 And that concludes our direct presentation.

8 CHAIRMAN LEMAY: Thank you, Mr. Carr.

9 Mr. Kellahin, do you want to go next?

10 MR. KELLAHIN: Sure.

11 CHAIRMAN LEMAY: Mr. Bruce, since you're working
12 at the table, I assume you would -- without objection, Mr.
13 Bruce, you would be the next?

14 MR. BRUCE: I have no objection.

15 CROSS-EXAMINATION

16 BY MR. KELLAHIN:

17 Q. Mr. Uhl, if you'll take out your cross-section,
18 it's Exhibit -- I have Exhibit 4 from the Examiner hearing;
19 I'm not sure what your number is for today's hearing.

20 A. It's still Exhibit 4.

21 Q. Still Exhibit 4? All right.

22 No changes in this display from the Examiner
23 hearing; is that true?

24 A. No, there were no wells drilled, and so I elected
25 not to change the cross-section.

1 Q. All right. When I look at the B1 sand, I'm going
2 to find the B1 sand map presented as your Exhibit 1 today?

3 A. Correct.

4 Q. All right. That interval that you have isopached
5 is the top portion of the two that are perforated in the
6 Levers 2 well in the middle Morrow; is that not true?

7 A. That's correct.

8 Q. All right. That would correspond to what Mr.
9 Harmon did on his cross-section when we look at the Levers
10 2 well?

11 A. That would be his green sand.

12 Q. All right, sir. Let me make sure we're talking
13 the same thing. Here's his cross-section and here's his
14 green sand.

15 A. That would be his green sand.

16 Q. All right. So the two of you have isopached that
17 same interval, and he's called it the green sand and you've
18 called it the B1?

19 A. That's correct. There's probably confusion as
20 far as the terminology. Different companies, different
21 terminology.

22 Q. All right. I just want to make sure we're
23 talking about the same interval.

24 A. Right.

25 Q. In addition, Mr. Harmon had mapped the next sand

1 down, which was his blue sand map?

2 A. That's correct, he did.

3 Q. And that interval is shown on his cross-section
4 with the next set of perforations in the Lever 2 that I'm
5 showing you here, that he's color-coded with blue?

6 A. Correct.

7 Q. You have chosen not to isopach that interval.
8 What is your explanation for not including a sand map for
9 what Mr. Harmon has color-coded blue?

10 A. Primarily because before the April hearing I just
11 didn't have time to map that interval, and I chose not to
12 make any additional displays for this hearing.

13 Q. All right. That is not to be taken, then, as an
14 indication by you or a conclusion by you that that sand
15 interval is not making a contribution?

16 A. No, not in the slightest.

17 Q. When we look at Mr. Williams' map, his green map,
18 we'll have included the B1 sand that you mapped. In
19 addition, it would have included the other sand map that
20 Mr. Harmon mapped?

21 A. Mr. Williams took a little different technique --

22 Q. All right, sir.

23 A. -- is that he was mapping on net clean sand and
24 also -- whereas I was mapping on porosity. Of course, you
25 can't have porosity unless you have a clean sand. And

1 there's similar techniques to kind of get to the same
2 overall -- the same end, but yet they may yield slightly
3 different results.

4 Q. Okay. Mr. Williams's montage from yesterday,
5 Marathon Exhibit 10, is what I'm about to show you. I'm
6 going to direct your attention to the green sand that he
7 has mapped on his montage and ask you to compare it to your
8 B1 map.

9 A. When you compare the two maps, he has oriented
10 slightly to the north, to the northwest, whereas my map is
11 a little more oriented to the north, as far as the
12 potential reservoir within Section 1.

13 What he has done is that he has taken the Fasken
14 well to the northeast, the old Fasken well -- essentially
15 he has taken that as a limiting point way to the north.
16 That's a fairly pessimistic mapping style.

17 I believe that based on the well control, the
18 Continental well to the west over there is also a control
19 point. And as you go over -- and a point over that honors
20 the Fasken well should also be honoring the Continental
21 well. So essentially, you can bring your contours further
22 to the north. Again, we won't know for certain until a
23 well gets drilled up there, but my indications are to me is
24 that that potential reservoir should go quite a ways to the
25 north.

1 Q. Has Mr. Williams shown you anything in his
2 presentation or his exhibits in this case that have
3 persuaded you to change your conclusion, as demonstrated on
4 this Exhibit 1?

5 A. No, there has been no well drilled to change the
6 conclusion.

7 Q. When we look at your Exhibit 1, the net thickness
8 at the Texaco Levers 2 well is 18 feet; am I reading this
9 correctly?

10 A. 18 feet within that "B" sand interval.

11 Q. As we move to the proposed Mewbourne location,
12 what is the net footage at that point?

13 A. I'm projecting somewhere around 10 or -- between
14 10 and 12 feet.

15 Q. When we contrast that to the Fasken location,
16 what are you projecting in this sand package for the Fasken
17 location?

18 A. I'm projecting somewhere around 18 feet.

19 Q. When we go to your next map, it's Exhibit 2. I
20 think it's the C2 sand.

21 A. Uh-huh.

22 Q. We're down in the lower Morrow, are we not?

23 A. That's correct.

24 Q. Is there a corresponding map that Mr. Williams
25 introduced that is the equivalent interval that you have

1 mapped on your Exhibit Number 2?

2 A. No, he didn't introduce one of those. He
3 introduced a map with a sand immediately below that, the
4 brown sand, but the brown sand just isn't present at our
5 wellbore or at the Fasken wellbore, so I'm indicating that
6 it's not really present in that area.

7 Q. Let's look at your interpretation of the C2 map.
8 When we look at this, we find what net thickness at the
9 Levers 2 for this sand?

10 A. Levers 2 had 14 feet of poro- -- of net
11 thickness, excuse me, not porosity but net thickness.

12 Q. When we move to the Mewbourne location, what is
13 your projected conclusion about the net thickness for that
14 location?

15 A. I'll have to count up just a minute.

16 Q. At the Mewbourne location?

17 A. Oh, excuse me, approximately 10 feet.

18 Q. It's right on that 10-foot contour line?

19 A. Ten feet.

20 Q. Now at the Fasken location, we're looking at --
21 the smaller contour lines are two-foot contour lines?

22 A. That's correct. So we have potentially 16 to 18
23 feet at the Fasken proposed location.

24 Q. Did Mr. Williams tell you anything yesterday or
25 demonstrate anything to you that would cause you to change

1 your conclusions about this exhibit?

2 A. No, he did not present a map on that interval.

3 Q. Let's talk about the depositional environment.

4 If we look back on your structure map, start at the bottom
5 of the C2 map. I believe you testified back in April that
6 you had examined some sidewall core data that was available
7 to you on the Levers 2 well.

8 A. I did on Levers 2, that's correct.

9 Q. On the Levers 2 well for the C2 interval, what
10 was your examination of that sidewall core, and what was
11 your conclusion?

12 A. We did not have sidewall core within the C2
13 interval, but we did within the uppermost sand, the "A"
14 sand.

15 Q. All right. So we have no conclusion available
16 from the sidewall core to assist us in determining the C2?

17 A. No, but we do have sample work that operators
18 have reported in many of the wells in the area, and the
19 operators will record a coarse-grained sand, coarse-grained
20 being consistent with a fluvial sand.

21 We also have a northwest-south- -- primarily a
22 northwest-southeast orientation to these sands, the lower
23 Morrow sands. The literature is all pointing towards
24 fluvial sands. That's consistent with the way that has
25 been mapped.

1 Q. And that's consistent with the ultimate
2 conclusions of both Mr. Harmon and Mr. Williams as to that
3 lower sand?

4 A. That's correct. As far as all three companies,
5 there's very little differences as far as the lower Morrow,
6 about the depositional environments.

7 Q. All right, let's skip the middle Morrow and go to
8 the upper Morrow. Did you examine the sidewall core of the
9 Levers 2 well as to the upper Morrow?

10 A. I did.

11 Q. And what conclusion did you reach?

12 A. That is a very coarse-grained sand. It's
13 definitely a fluvial sand. And it will also have a
14 primarily northwest-southeast orientation to it.

15 Q. Did you examine the sidewall core in the Levers 2
16 well to cause you to reach any conclusion with regards to
17 the middle Morrow?

18 A. No, the middle Morrow is dominantly a marine
19 environment. But even when -- It's a series of marine
20 beaches, shoals, occasional deltaics. It's a very mixed
21 environment.

22 But the well control in this immediate area is
23 pointing to somewhat of a dominant pod that extends from
24 the north-south within the -- as you can see on the "B"
25 map.

1 As you move in different areas within this
2 portion of Eddy County or this portion of southeast New
3 Mexico, you may have different orientations within that
4 interval. It's very much a mixed set of environments.

5 Q. The data, then, that's available to you would
6 support the conclusion Mr. Harmon reached about the
7 depositional nature of the "B" -- I mean of the middle
8 Morrow interval, right?

9 A. I have no problem with his orientation. I mean,
10 that's really -- As far as the middle Morrow goes, that's a
11 little more conjecture than the rest of the intervals. And
12 that's something that if a well was drilled at the Fasken
13 well, based on the well control, it could really be either
14 one of those orientations.

15 Q. Let me show you Mr. Williams' Exhibit 9 from the
16 April hearing and direct your attention on the green sand.
17 Do you see the size and the shape of the green sand that
18 he's projected on that display from April?

19 A. Right. It's quite bit larger than what the
20 projection is now of that sand.

21 Q. When you contrast it to his Exhibit 10 from
22 yesterday's presentation by Mr. Williams, he has
23 substantially altered the size of that sand package, has he
24 not?

25 A. Correct.

1 Q. Would you have done that kind of thing if your
2 engineer had told you that there was a certain container
3 size by his engineering calculations? Would you have
4 conceded your map and reduced it?

5 A. No, the primary reason is that the engineering
6 data was essentially providing you with what that well
7 would -- what one well would be capable of draining. The
8 geology would provide you with approximately the direction
9 or where that container may be heading, but the engineering
10 data wouldn't provide you with where that ultimate barrier
11 is to the north.

12 Q. So you would not have done what Mr. Williams did?

13 A. No, I would not.

14 MR. KELLAHIN: Thank you, no further questions.

15 CHAIRMAN LEMAY: Thank you, Mr. Kellahin.

16 Mr. Bruce?

17 CROSS-EXAMINATION

18 BY MR. BRUCE:

19 Q. Mr. Uhl, did you play any part in the --
20 selecting the drill site or planning the drilling of the
21 Levers Number 2?

22 A. Yes, I was responsible for -- I took on the
23 project in 1995, after Keith Williams had sent a memo to us
24 saying there was a potential location in the north. I had
25 done a little bit of regional work in there, but not in

1 this immediate area.

2 I then took the well control in that area and
3 took some of Keith's maps, used that as a basis and kind of
4 built on the regional framework within the area.

5 Q. So the Levers Number 2 is basically drilled based
6 upon Mr. Williams' geology?

7 A. I'd say it's a combination. Keith did some work
8 in 1990. There were other parties who did work prior to
9 that, when the original well was drilled in that area.

10 Q. Looking at your Exhibit 1 -- I mean, you
11 basically agree with a north or slightly north trend in the
12 middle Morrow; is that correct?

13 A. I'd say that Mr. Williams -- in the middle
14 Morrow, I'd say Mr. Williams and myself, is that the trend
15 is not that far off. I've elected to honor the data point
16 to the west, where he did not.

17 Q. Looking at your Exhibit 1, how do you square
18 having what you -- I mean, you terminate your map kind of
19 in the middle of Section 1, but obviously you think the
20 middle Morrow extends quite a bit further north.

21 A. It has potential to extend further north. I just
22 did not use any data points to the north.

23 Q. How do you square that with the lack of
24 commercial production north of Section 12?

25 A. All that map is, is a map showing the orientation

1 of the reservoir. It is not tied into the production to
2 the north.

3 Q. There is no production to the north, is there?

4 A. Has there been any wells drilled one mile to the
5 north?

6 Q. I said to the north of Section 12 --

7 A. To the north of --

8 Q. -- how many commercial wells are there to the
9 north of Section 12?

10 A. I'm not aware of one immediately to the north of
11 Section 1.

12 Q. Certainly not in Section 1 or Section 2. How
13 about the township to the north? Are you aware of any
14 immediately -- In the immediate township to the north, are
15 you aware of any commercial Morrow wells?

16 A. No.

17 Q. Now, you show Section 1 as being highly
18 prospective in -- well, in both Morrow zones that you show
19 maps on; is that correct?

20 A. That's correct.

21 Q. Why did Texaco sell its interest in Section 1?

22 A. I was not working that project at that time.

23 That project was being handled by our group in Midland, of
24 which Mr. Williams was a member.

25 Q. Could you have drilled the Levers Number 2

1 further north than you did, within the pool rules?

2 A. Within the pool -- We originally attempted to go
3 for a 1650-1650 location. As you can see on the map, there
4 is kind of a string running through. That -- of the
5 northwest portion, and also in the north portion there.
6 That is a draw that is running through to the northwest and
7 then connecting with the Pecos River, that is running
8 through Section 6 and kind of going up along the township
9 line, over to Section 1, if you can see that double line.
10 That's the Pecos River.

11 We were ordered by the BLM to stay above a
12 certain contour level. I believe it was the 3271-foot
13 contour level that we had to stay above. And because of
14 that, we had to move our location to the south to honor
15 that contour.

16 The Bureau of Reclamation, after the drilling of
17 Brantley Dam, is allowing that for section flood control
18 and will not permit a well below that 3271-foot contour.
19 That's why we had to move that well to the south.

20 Q. Now, I think, looking at your Exhibit 1, you
21 said, Well, the Fasken in -- what is that? -- lot 28 of
22 Section 1 was an edge well?

23 A. That's correct.

24 Q. Well, wouldn't that same comment apply looking at
25 the southeast quarter of Section 11 or the northeast

1 quarter of Section 14? Those are relatively edge wells
2 too, aren't they?

3 A. Two and a half BCF is a little better than an
4 edge well, I would indicate.

5 Q. It's roughly the same -- five feet versus six
6 feet, isn't it?

7 A. I have eight feet on Section 11 --

8 Q. Okay, eight feet on Section 11.

9 A. -- and then six feet on the Fasken well up there.

10 Q. And five feet in the northeast quarter of Section
11 14?

12 A. I'll have to look at 14. Five feet in the north
13 half of Section 14. I don't have the cum on that well, but
14 that well is also completed in the "B" zone.

15 Q. And that well, I believe, produced a couple of
16 BCF of gas. That's just as much of an edge well as the
17 Fasken well, isn't it?

18 A. That has the potential of being an edge well
19 also, that's correct. A couple BCF is a pretty good edge
20 well.

21 Q. It sure is. Couldn't that indicate that perhaps
22 the Fasken well isn't an edge well but maybe the northern
23 terminus of this reservoir?

24 A. I was wondering about that point too, is that the
25 Fasken up there to the northwest -- or the northeast -- it

1 would have to drain -- There's several drill stem tests
2 across that interval. And at one point it's flowing 6.6
3 million a day. The first month of production was 1 million
4 a day.

5 They did acidize that, and the Fasken well is --
6 or, excuse me, the Morrow is very sensitive to acid. There
7 is very much potential that that well could have had
8 formation damage within it during the completion. That
9 well should have been better than just a third of a BCF of
10 gas.

11 Q. Did you acidize both of the Levers wells in
12 Section 12?

13 A. No, they were natural completions.

14 Q. Now, looking at it, you're complaining about
15 Mewbourne being to you, but look at these wells now. The
16 Levers Number 2, the Levers Number 1 in Section 12, the --
17 I think it's the Pure Federal Number 2 in the southeast
18 quarter of Section 14, the -- excuse me, the southeast
19 quarter of Section 11 -- the well in the northeast quarter
20 of Section 14 and the Tenneco State well in the northwest
21 quarter of Section 13. How many of those five wells are at
22 unorthodox locations under the pool rules?

23 A. Under the present pool rules, none of them are at
24 unorthodox locations, because those wells were drilled back
25 when the pool rules allowed for poor locations closer to

1 the edge line than what they allow now.

2 Q. So they're basically 660 feet off the section
3 line?

4 A. Some of them are 660 feet off the section line,
5 and a lot of those wells were drilled during that brief
6 period of time when there were 320-acre spacing in the
7 field.

8 Q. But if you look at that area, if you draw a line
9 enclosing the southeast quarter of Section 11, the
10 southwest quarter of Section 12, the northwest quarter of
11 Section 13 and the northeast quarter of Section 14, you
12 basically have five wells drilled in a one-section area,
13 don't you?

14 A. Well, volumetrically that is just a little larger
15 than one section.

16 Q. So there are lots of instances where wells are
17 quite a bit closer to each other than, really, the
18 Mewbourne well would be to any Texaco well?

19 A. There are instances where those wells are closer
20 than the distance between the proposed location.

21 Q. And those wells don't have any penalties on them,
22 do they?

23 A. No, they do not.

24 Q. Now, you don't have -- I forget what you call it,
25 Mr. Uhl -- MWA sand. That's the upper Morrow, is it not?

1 A. In the Morrow "A" sand. Mr. Williams provided a
2 map of that, and the map that I have back at the office is
3 one with similar orientation as what Mr. Williams had.

4 Q. Okay, that was my question. So it's oriented
5 similarly to Mr. Williams?

6 A. I see really, really, no dispute on that.

7 Q. Do you see any evidence poolwide of faulting
8 controlling middle Morrow production?

9 A. Faulting does control -- Oh, excuse me, middle
10 Morrow production. I do not have the seismic to indicate
11 that there are fault barriers within the middle Morrow.
12 The well --

13 Q. So you don't believe --

14 A. Based on the well control, I cannot put faults
15 in.

16 Q. Okay. You have no opinion one way or the other
17 on the --

18 A. No.

19 Q. -- Fasken geophysical testimony?

20 A. If I had the seismic I could probably put faults.
21 I simply don't have --

22 Q. If the fault that Fasken hypothesizes is in
23 Section 12 and Section 1, would that separate the Morrow
24 reservoirs between Texaco's wells and Mewbourne's proposed
25 well?

1 A. Potentially. But again, without having a
2 seismic, I really can't say whether that fault is there or
3 not.

4 Q. If the fault is there, would that change your
5 opinion on the penalty you propose?

6 A. No, it would not.

7 Q. Why wouldn't it change your opinion?

8 A. Because at that the proposed Mewbourne well would
9 still be draining it and adversely draining our section.

10 Q. Is the Texaco well currently draining Section 1,
11 Texaco Levers Number 2?

12 A. Based on the P/Z, we have -- Fasken, Mewbourne
13 and ourselves are all indicating that we have somewhere
14 around 5.5 BCF of potentially recoverable -- 5 to 5.5 BCF
15 of potentially recoverable reserves within that "B" zone.

16 From what I can see there, we have -- We
17 planimetered the area, based on my map and also based on
18 Mr. Williams' map, and we're indicating an equivalent
19 amount of drain- -- or, excuse me, an equivalent amount of
20 acreage between the two tracts.

21 I just don't see to where -- If you look back to
22 Mr. Montgomery's testimony and -- as indicating 320-acre
23 spacing, and if you look on our tract -- or, excuse me,
24 320-acre drainage. And if you look on our tract in there
25 and take that six- to eight-foot contour, we've got

1 approximately 519 acres within Section 12 that is
2 potentially productive. Mewbourne has approximately 605
3 acres.

4 If we're only draining 320-acre spacing, chances
5 of us draining their acreage is -- Mewbourne's acreage, is
6 pretty minimal.

7 Q. Would drainage be along the trend you show on
8 your Exhibit 1?

9 A. I think it would be that we would initially go
10 with a radial drainage, and then after that well would
11 start encountering a flow barrier we would start doing a
12 little more elliptical drainage.

13 Q. Okay, you elongate it, like Mr. Montgomery said?

14 A. Yeah, but I -- But what reason dictates is that
15 you're probably going to have a little more drainage around
16 the well, instead of starting at our well and heading to
17 the north, as Mr. Montgomery stated. You know, that
18 football-type of drainage pattern that he indicated.

19 Q. Of course, would you drain much -- Would the
20 Levers Number 2 drain much to the south, considering
21 there's already a couple of producing wells --

22 A. Well if you look at our --

23 Q. -- to the south and southwest?

24 A. If you look at our National well down there that
25 only had about two feet of porosity in that interval, and

1 if you look at the bottomhole pressures we encountered
2 around there, is that -- between our Number -- and our
3 Number 2 well, we essentially had very little drawdown when
4 that Number 2 well was drilled. And the Number 1 well,
5 although it's perforated in that interval, it really didn't
6 contribute hardly anything to that well.

7 All indications that we have is that although it
8 had a couple feet of porosity in there it probably didn't
9 have much reservoir.

10 Q. If you only have a couple feet of porosity, why
11 do you have ten feet of perforations in that zone in your
12 Levers Number 1?

13 A. Our practice is to oftentimes perforate a lot
14 larger intervals than what the porosity indicates. It
15 depends. Some operators perforate only two feet out of ten
16 feet of porosity; some operators perforate five times as
17 much porosity as what's indicated in the well.

18 Q. What about the Levers Number 2 in the middle
19 Morrow? What number of feet did you perforate as compared
20 with your 18 feet of porosity that you show?

21 A. We perforated pretty much all of the clean sand
22 in the Levers Number 2 well. Different completion times,
23 different engineers, different geologists working the
24 project.

25 There's really not a whole lot of difference as

1 far as what you're going after. It's just, sometimes you
2 have to add more perms than what a previous operator might
3 have added.

4 Q. Would Texaco drill a well in this pool with an
5 81.4-percent penalty on the well?

6 A. Probably not.

7 Q. What does prorated production mean to you, Mr.
8 Uhl?

9 A. Prorated production means there's a limit on
10 production, oftentimes due to market demands or capacity of
11 the sales line or a number of factors.

12 Q. Could it be based on reservoir drainage
13 conditions?

14 A. That could be a factor.

15 Q. Oil pools in New Mexico are basically prorated by
16 the depth bracket allowables, are they not?

17 A. There is a depth allowable, that's correct, in
18 the oil fields in New Mexico.

19 Q. There is no current production limit in the
20 Catclaw Draw-Morrow Gas Pool, is there?

21 A. That prorationing has been suspended as far as
22 the production in the -- production proration unit has been
23 suspended in Catclaw Draw.

24 Q. Have you looked at Rule 104, Statewide Rule
25 104.D.3 before?

1 A. I'm going to have to look that up. Is that --

2 Q. I don't know that it's in your exhibit.

3 A. Is it -- Can you tell me which exhibit that is
4 or --

5 MR. CARR: Do you want to show that --

6 THE WITNESS: -- which item that is?

7 MR. CARR: -- rule to him?

8 MR. BRUCE: I don't have the rule book with me.

9 MR. CARR: I do. Rule 104 starts there and goes
10 some pages, okay?

11 What was your question?

12 MR. BRUCE: I asked him if he had reviewed Rule
13 104.D.3 before.

14 THE WITNESS: No, have not.

15 Q. (By Mr. Bruce) If I can paraphrase, if you could
16 read that rule, just -- I think it will just take you a
17 second.

18 A. 104 -- I'm trying to find it right now. You said
19 it was 104 what?

20 Q. D.3. Does that rule pertain to the number of
21 wells and unprorated gas units?

22 A. It's talking about nonprorated pools. Catclaw
23 Draw, the prorationing has been suspended, but it's -- The
24 way I indicate, the way I understand, it's still
25 technically a prorated pool.

1 Q. Well, you just said you didn't know what
2 "technically prorated" means. What does "technically
3 prorated" mean, then?

4 A. Again, what --

5 MR. CARR: Do you know?

6 THE WITNESS: To the best of my knowledge, it's
7 that production prorationing has been suspended but that
8 the setbacks are still in effect.

9 Q. (By Mr. Bruce) But there's no production
10 limitation?

11 A. No production limitations.

12 Q. In reading Rule 104.D.3, is that rule unclear as
13 to the number of wells allowed on a well unit in a
14 nonprorated pool?

15 MR. CARR: In a nonprorated pool?

16 Q. (By Mr. Bruce) In a nonprorated pool.

17 A. It states in the first paragraph, one well per
18 spacing unit is permitted in nonprorated pools.

19 Q. Were you aware of that rule and the prior
20 Division memorandums to the same effect before you sought
21 the drilling of the Levers Number 2?

22 A. No, I was not.

23 Q. Now, regarding the Fasken well, Texaco doesn't
24 seek a penalty on that, do they?

25 A. The Fasken is not offsetting our lease, it's not

1 encroaching our lease behind us, it's not crowding our
2 lease line. And so we elected to go silent on that.

3 Q. But that well only has a half a section dedicated
4 to it, doesn't it?

5 A. To the best of my understanding, that's correct.

6 Q. So wouldn't the same reasoning on your penalty
7 apply on the Fasken well, to apply an acreage factor to the
8 Fasken well?

9 A. The potential exists.

10 Q. Has Texaco made a -- I think you -- Excuse me,
11 Mr. Uhl, I think you said that Texaco's estimate is that
12 the Levers Number 2 will produce 5.5 BCF?

13 A. Right, and that's also somewhat within reason of
14 Mewbourne's and Fasken's estimates, based on the P/Z data.

15 Q. Okay.

16 A. And that's out of the middle Morrow zone the "B"
17 zone.

18 Q. When making your --

19 A. This is in the Morrow.

20 Q. -- estimate on reserves, what did you use for
21 porosity, water saturation, et cetera?

22 A. I did not do the reserves.

23 Q. Has anyone at Texaco done a volumetric estimate
24 for the Levers Number 2 well?

25 A. Not at this time.

1 Q. Does Texaco not do that on good wells or what? I
2 mean, you would classify the Levers Number 2 as a pretty
3 good well?

4 A. It's a very good well. Normally we will do a
5 volumetric study if indications are that we will be
6 drilling additional wells. Since we have already drilled
7 up our lease with two wells on that lease, we do not intend
8 to drill any more.

9 MR. BRUCE: Just a second, Mr. Chairman, maybe I
10 can...

11 Q. (By Mr. Bruce) Now, regarding the Levers Number
12 2, do you have an estimate of what it would have been able
13 to produce wide open?

14 A. At present time, it's producing just a little
15 over 4 million a day, at 800 pounds flowing tubing
16 pressure. Line pressure is 500 pounds. So it's able to
17 produce a little more, but not much more than that.

18 Q. What about when it was initially completed in the
19 first six, nine, twelve months of its life? What could it
20 have produced?

21 A. Its absolute open flow is 9 million a day, and
22 one of our initial potential tests was 5 to 5.5 million a
23 day. We did not do any more than that

24 Q. Was that wide open?

25 A. That was still choked back slightly. I don't

1 have the exact choke, and so I can't refer to that.

2 Q. Finally, Mr. Uhl, on your Exhibit 6, your little
3 chart here, how many of these wells were prorated during
4 the first year of production?

5 A. It looks like from the dates of the completion
6 that there's a possibility that it could have been half or
7 a little more than half that were prorated.

8 Q. Could that have affected their average first
9 year's rate of production?

10 A. That's a possibility. But for a good example, if
11 you can refer to the E.J. Levers Number 2 -- or, excuse
12 me, the E.J. Levers Number 1, we had a CAOF of 29 million a
13 day on that but only 4 million a day for the first year's
14 average rate. And that was not prorated.

15 Q. Was that choked back, or were there any other
16 production problems rather than just --

17 A. I cannot address that.

18 Q. You don't know?

19 A. No, I don't have the history there.

20 Q. Just one final question, Mr. Uhl.

21 Basically your penalty does not take into account
22 any -- your proposed penalty on the Mewbourne well,
23 strictly based on land reasons; is that correct?

24 A. That's correct.

25 MR. BRUCE: Thank you.

REDIRECT EXAMINATION

BY MR. CARR:

Q. Mr. Uhl, in response to that last question, you're basically recommending a penalty on some general assumptions: number of acres and percentage of encroachment; is that right?

A. That's the bulk of our recommendation, that's correct.

Q. Until a well is actually drilled up there and you have better information on the reservoir in Section 1, do you think there's any better thing you can turn to?

A. I don't think that anybody can really -- We can assume that there's going to be equal or greater or lesser production up there, but until the well actually gets drilled there's still a tremendous unknown.

Q. Mr. Bruce pointed out to you that there are several wells in the immediate area that are closer than 1650 feet to the outer boundary of the tract and that those wells do not bear production penalties; do you recall that?

A. Correct.

Q. Are you aware of any circumstance in this pool where someone has proposed drilling a well closer than the 1650-foot setback and that application has been opposed by an offsetting operator because, as here, there's concern about drainage and no penalty has been imposed?

1 A. We attempted to look into that, and we could not
2 find that example.

3 Q. So you find no case where there has been an
4 opposed location and no penalty drainage?

5 A. Correct.

6 Q. If you were considering drilling a well in
7 Section 1, I believe you testified if it was encumbered
8 with an 81.4-percent penalty, Texaco probably wouldn't
9 drill that well; is that correct?

10 A. That's correct, and what amazes me is that based
11 on the geology there's plenty of locations to drill in
12 Section 1. I mean, I wouldn't drill a well based on that
13 81-percent production penalty.

14 Q. Would you consider looking for another location?

15 A. I would consider looking for one that would have
16 no production penalty on it, and I see plenty of locations
17 for the well to be drilled.

18 MR. CARR: That's all I have. Thank you.

19 CHAIRMAN LEMAY: Thank you, Mr. Carr.

20 Commissioner Bailey?

21 EXAMINATION

22 BY COMMISSIONER BAILEY:

23 Q. You testified that there are four or five tracts
24 that have multiple wells.

25 A. Right.

1 Q. Do you know if the other operators obtained
2 special extensions for the pool rules in order to produce
3 both wells?

4 A. No, they have not. To the best of my knowledge,
5 this case -- the case with our well is the first time that
6 this rule has been applied. And that rule is based on
7 interpretation of the memo.

8 Q. I'm trying to remember the interests for the
9 different well locations.

10 A. Pardon?

11 Q. I'm trying to remember the different interests
12 for the well locations that were presented yesterday. Does
13 Texaco have an interest in the Fasken well?

14 A. No, we have no interest whatsoever in Section 1
15 anywhere.

16 Q. Okay. Do you have an opinion after listening to
17 yesterday's testimony on the Cisco potential in Section 1?

18 A. It would be difficult for me to render outside of
19 just a cursory look, but it looked like it was a reasonable
20 prospect.

21 Q. But you haven't done any independent --

22 A. I did map the Cisco in the area, but I was -- but
23 I did not have -- I was not privy to the seismic. That is
24 a seismic prospect. And based on the geology, you could
25 put it there or you could take it away.

1 But based on the seismic, it looked like
2 something -- there is an anomaly there. Now, whether it's
3 going to hold out or not, I don't know.

4 COMMISSIONER BAILEY: That's all I have.

5 CHAIRMAN LEMAY: Thank you, Commissioner Bailey.

6 Commissioner Weiss?

7 EXAMINATION

8 BY COMMISSIONER WEISS:

9 Q. Let's see, how did you draw your maps? Are they
10 hand drawn, are they --

11 A. Actually, I used a Geographics contouring program
12 on it.

13 I start out by doing -- generally, by using a
14 computer map, getting the -- putting preferential weighting
15 to a certain direction that I know from depositional
16 trends, and then take those contours, adjust them around to
17 where I put a geological slant on them.

18 It kind of starts out as a computer map where I
19 kind of get the orientation on it, kind of use as a go-by,
20 and then from that point on it becomes a hand-drawn map.

21 Q. Was the one-rule well [sic] in effect when you
22 drilled the Levers Number 2?

23 A. I was not aware of any one-well rule when we
24 drilled that well.

25 Q. Who would tell you that there was a -- How do you

1 know that that rule was there? I'm lost here. I don't
2 understand why you drilled the well if there was a one-well
3 rule.

4 A. Well, if there's a one-well rule, we shouldn't
5 have drilled the well. If that was, indeed, the rule that
6 applied to this tract, we shouldn't have drilled it. But
7 nobody within our company -- our attorneys, nobody that we
8 talked to, the BLM, the State, whatsoever, knew about this
9 rule.

10 Q. Well, was it the OCD's problem to advise you that
11 that rule was in effect or -- I don't --

12 A. Well, I --

13 Q. I mean, when you got the drilling permit --

14 A. Right.

15 Q. -- didn't somebody -- couldn't they have stamped
16 it with "one-well rule" on it or something, or --

17 A. You would hope so.

18 But obviously, is that, if there was a one-well
19 -- if there really was a one-well rule, it either slipped
20 by somebody, or maybe that one-well rule is a liberal
21 interpretation.

22 Q. Okay. But at any rate, nobody told you. You
23 didn't know about it and --

24 A. No.

25 Q. -- the State didn't advise you that this was in

1 effect when you got the drilling permit?

2 A. No, I think that rule is being misapplied.

3 COMMISSIONER WEISS: That's all the questions I
4 have. Thank you.

5 EXAMINATION

6 BY CHAIRMAN LEMAY:

7 Q. Just a couple. I want to get back to the one-
8 well rule myself. I understand the confusion, if there is
9 such a thing in this -- and there is confusion, I'll grant
10 you that.

11 But the confusion lies in the fact that once
12 prorationing was suspended --

13 A. Uh-huh.

14 Q. -- then the argument went, you went back to the
15 one-well rule because prorationing was suspended? Is that
16 what they mean by the -- by Examiner Stogner and his
17 interpretation?

18 A. That's the best of our understanding.

19 Q. Because obviously before that you were -- no one
20 questioned a second well on a proration unit?

21 A. No. And --

22 Q. So --

23 A. -- we're well within the outline -- I mean, we're
24 surrounded by the Catclaw Draw Pool, by wells drilled
25 within the Catclaw Draw Pool.

1 We are -- Although we are on the northern end of
2 it, slightly, is that all the wells around it are a part of
3 that pool.

4 We assume, is that those pool rules are still in
5 effect, standard 1650-1650 setbacks, and that we're allowed
6 to drill that optional well.

7 Q. The institution of prorationing, or the
8 suspension of prorationing, does it ever affect the spacing
9 in a pool? To your knowledge? Have you ever seen a case
10 where there's been a change in the spacing because of
11 prorationing either being suspended or instituted?

12 A. I haven't seen -- My knowledge is somewhat
13 limited on this. This is the first time I've really run
14 into this instance, and I'm not aware of that.

15 Q. Nor am I. That's why -- I think we -- Your
16 Application, in terms of this case, besides the penalty
17 you're asking for either clarification of this --

18 A. Yeah.

19 Q. -- or, if we clarify, I guess, the situation in
20 upholding the Examiner, then you're asking for an exception
21 to that particular interpretation; is that correct?

22 A. That's correct. Essentially, whatever is faster
23 to get our well back on line.

24 Q. Okay. I think I understand that part of it. I
25 was trying to clarify that. I don't know if there's much

1 confusion concerning that.

2 You owned the acreage in Section 1 at one time?

3 A. No, that's -- No -- Well, that's somewhat
4 correct. We owned -- If you notice on Section 1, there's a
5 number of 40-acre lots in there.

6 Q. Yes.

7 A. Like -- I believe that we owned -- It's
8 underneath some writing on my map, but the northeast of the
9 southwest quarter -- Is that 31? I can't read that on my
10 map because there's writing. Is it 31 or 32 or something?
11 35?

12 Let me look for a map that's not marked up, and
13 I'll show you -- Well, we held one of those 40-acre tracts.

14 We then -- We farmed out to Fasken on the
15 original well. That was back in the 1970s, I believe, when
16 farmed out to the operator on the original well. And we
17 still own that tract.

18 That tract was subsequently sold back in 1994, I
19 believe, and that was when Mr. Williams was working with
20 Texaco at that time.

21 Q. As I understand it now, though we don't have a
22 lot of land testimony, you've got this roughly 300-acre
23 proration unit which is forbidden, or at least it's not
24 possible to enlarge that to the north because there's
25 another 300-acre tract that's been reserved as a wildlife

1 habitat?

2 A. I guess, from what I understand from the
3 Mewbourne and Fasken testimony, that there's a falcon study
4 going on and that the BLM is not allowing that be leased.

5 Q. Is there additional acreage beyond that falcon
6 study in the north half of Section 1 that is leased and
7 available for a drill site?

8 A. You're going to have to refer to the Fasken
9 landman on that. We haven't attempted to pick that up.

10 Q. Okay. And also, you're saying that your Levers
11 Number 2, as I understand it, has some pay definitely in
12 the bottom. It's not brown sand, but it's lower Morrow,
13 that --

14 A. Yeah --

15 Q. -- will be opened up as soon as the pressures are
16 equalized?

17 A. We believe that it's starting to contribute right
18 now, is that our bottomhole pressures are probably down,
19 but just about to the point to where that one we checked
20 out is starting to contribute, and the two zones are being
21 commingled at this point.

22 Q. What do you estimate for bottomhole pressure on
23 that zone?

24 A. From the drill stem test it was 1360-some pounds,
25 so that was about a third of what the original bottomhole

1 pressure was.

2 Q. And that is the main pay in the field to the
3 south?

4 A. That was one of the principal pays of what the
5 field was originally developed on, that's correct.

6 Q. So your interpretation is, that has been drained
7 to some extent?

8 A. It has been drained, but then when we moved off
9 that zone in our Number 1 well, we were down to about -- I
10 think were on 600 pounds pressure on that.

11 So as you move just one location north and you're
12 up to 1300, that indicates the further north that you move,
13 the more that you're going to start moving into a little
14 better pressure, still within that same interval.

15 Q. Is it your interpretation, your testimony that
16 it's -- With these pressures we tend to say they don't
17 necessarily reflect the original bottomhole pressure, but
18 they don't reflect drainage either, that we're talking
19 about pressure somewhere in between with imperfect
20 drainage, or do you see these as compartmentalized units?

21 A. I see -- I think compartmentalized is probably
22 the best explanation for a lot of these reservoirs here.

23 The type of environments that the sands were
24 deposited in to start off with are -- It's almost inherent
25 that you're going to have a compartmental -- the exact -- I

1 mean, we can project trends that the sands may exist in,
2 but the overall -- Is this draining to the north or to east
3 or to the south? Is this a point bar that it's draining
4 out of, or is this a little more of a bar sand? And things
5 like that.

6 We can project trends, but sometimes it's very
7 hard to look at the exact extent of that reservoir that
8 that one well is draining from.

9 CHAIRMAN LEMAY: Okay. Thank you very much, Mr.
10 Uhl. You may be excused -- without additional questions?

11 MR. CARR: That concludes our presentation.

12 CHAIRMAN LEMAY: You may be excused. Thank you
13 very much.

14 Do you all want to sum up, or shall we take it
15 from here?

16 MR. CARR: I think Mr. Bruce may have a witness?

17 CHAIRMAN LEMAY: Oh, you have a rebuttal witness,
18 Mr. Bruce?

19 MR. BRUCE: I think I have a couple, Mr.
20 Chairman.

21 CHAIRMAN LEMAY: Okay. Let's take about a ten-
22 minute break before we get to the rebuttal witness.

23 (Thereupon, a recess was taken at 10:05 a.m.)

24 (The following proceedings had at 10:25 a.m.)

25 CHAIRMAN LEMAY: We shall resume. Mr. Bruce?

1 BILL COLLINS,

2 the witness herein, after having been first duly sworn upon
3 his oath, was examined and testified as follows:

4 DIRECT EXAMINATION

5 BY MR. BRUCE:

6 Q. Would you please state your name for the record?

7 A. My name is Bill Collins.

8 Q. Where do you reside?

9 A. I live in Midland, Texas.

10 Q. What's your occupation?

11 A. I'm a consulting geophysicist.

12 Q. What is your relationship to Mewbourne in this
13 case?

14 A. I'm a consultant for Mewbourne Oil.

15 Q. Have you previously testified before the Oil
16 Conservation Division or Commission?

17 A. No, I have not.

18 Q. Would you briefly outline your educational and
19 employment background?

20 A. I have a BA degree from McMurray University in
21 Abilene, Texas, in 1964. I've been associated with the
22 geophysical profession ever since 1964. I've worked for
23 major oil companies, independent oil companies, and I've
24 been a geophysical consultant for the last seven years.

25 Q. Does your area, the area that you've reviewed in

1 geophysical matters, include west Texas, southeast New
2 Mexico?

3 A. Yes, almost my entire career has been spent in
4 those areas.

5 MR. BRUCE: Mr. Chairman, I tender the witness as
6 an expert geophysicist.

7 CHAIRMAN LEMAY: Mr. Collins' qualifications are
8 acceptable.

9 Q. (By Mr. Bruce) Very briefly, Mr. Collins, you're
10 here to discuss this Cisco prospect, aren't you?

11 A. That's correct.

12 Q. Could you refer to -- I think it's Fasken
13 Exhibit --

14 A. -- 17.

15 Q. -- and discuss what issues you see with respect
16 to this Cisco prospect?

17 A. Okay, from the seismic data that was presented
18 yesterday --

19 Q. Just a minute, let the Commissioners get Exhibit
20 17 out.

21 CHAIRMAN LEMAY: Which exhibit are we working
22 with here? I'm sorry.

23 THE WITNESS: Number 17.

24 CHAIRMAN LEMAY: Seventeen.

25 MR. BRUCE: It's -- Let me hold it up.

1 Commissioner Weiss just --

2 COMMISSIONER WEISS: Got it.

3 MR. BRUCE: The one with the red --

4 COMMISSIONER WEISS: -- red -- yeah, he put
5 the --

6 MR. BRUCE: -- ellipse on it, yes.

7 COMMISSIONER WEISS: Yes.

8 Q. (By Mr. Bruce) Go ahead, Mr. Collins.

9 A. The lines that have been presented was an east-
10 west line through the Fasken location, a north-south line
11 through the Fasken location, and an east-west line through
12 the Mewbourne location.

13 Now, the east-west and north-south lines
14 presented do indicate some reversal at the Cisco level.
15 The question I have is -- which I think is key -- is, why
16 wasn't a line presented from the Spring field to the
17 northwest across the saddle between the Spring field and
18 the Cisco prospect?

19 Q. Is that the key line?

20 A. That would be a key line. And as Mr. Lint
21 testified yesterday, since this is a 3-D shoot, you can
22 pull out what we call arbitrary lines and place them
23 basically any way you want to run them.

24 So I think that would very key to establishing
25 the quality of the Cisco prospect in here to see what the

1 separation is from this prospect and the Spring field to
2 the northwest. It's possible this could just be a nose
3 extending down here with no closure.

4 Q. So you cannot determine the quality of the Cisco
5 without seeing that northwest-southeast --

6 A. That's correct.

7 Q. -- 3-D line?

8 Do you have anything further to state, Mr.
9 Collins?

10 A. The other variable in here is the velocity
11 function that was used to convert the seismic times to
12 depth. And as Mr. Lint testified, this is probably a 10 or
13 less millisecond closure.

14 Without knowing what the velocity control
15 points -- what the values were and how that map was
16 contoured, it's hard to say how much that effect has on
17 this overall closure. I think 50 or 60 feet of closure is
18 probably not within the resolution of this tool with a
19 hundred percent, but that is where I think the risk comes
20 in when you're dealing with such a low as these prospects.

21 Q. So based on what you've seen, you can't say that
22 that Cisco feature is there on the Fasken location?

23 A. Not -- I can't verify this closure from the data
24 that I've seen. I can't verify that this closure is
25 actually there.

1 MR. BRUCE: Thank you, Mr. Collins.

2 Pass the witness.

3 CHAIRMAN LEMAY: Mr. Kellahin?

4 CROSS-EXAMINATION

5 BY MR. KELLAHIN:

6 Q. Mr. Collins, when were you retained by Mewbourne
7 to participate in this case?

8 A. Approximately a week and a half ago.

9 Q. Were you aware that Matador offered its 3-D
10 seismic data to all the interest owners in Section 1,
11 including Mewbourne?

12 A. Not originally.

13 Q. You're aware of that now, are you not, Mr.
14 Collins?

15 A. Yes.

16 Q. Did you use any of the Matador data?

17 A. No. All I've seen is what was presented
18 yesterday.

19 Q. You don't have any independent conclusions or
20 work product to show us based on any kind of seismic study
21 of the Cisco?

22 A. That I've done?

23 Q. Yes, sir.

24 A. No, sir.

25 Q. Did you do any geologic work, geophysical work,

1 with regards to the faulting in Sections 12 or Section 1?

2 A. I reviewed the exhibits that were presented
3 yesterday.

4 Q. No independent work by you?

5 A. On other data?

6 Q. Yes, sir.

7 A. No, sir.

8 Q. On any of this data?

9 A. No, sir.

10 MR. KELLAHIN: No further questions.

11 CHAIRMAN LEMAY: Mr. Carr?

12 MR. CARR: No questions.

13 CHAIRMAN LEMAY: Commissioner Bailey?

14 COMMISSIONER BAILEY: No questions.

15 CHAIRMAN LEMAY: Commissioner Weiss?

16 COMMISSIONER WEISS: No, thank you. No
17 questions.

18 EXAMINATION

19 BY CHAIRMAN LEMAY:

20 Q. Just one quick one, Mr. Collins. As I understand
21 your testimony, that you say the region of critical dip in
22 the Springs field was not established by seismic?

23 A. Not from the exhibits that were presented
24 yesterday.

25 Q. What kind of risk factor would you assign to the

1 Cisco prospect? From what you see?

2 A. Well, from what I've seen yesterday I would say
3 one out of ten, something like that.

4 CHAIRMAN LEMAY: Thank you. Those are the only
5 questions I have.

6 Additional questions?

7 You may be excused.

8 MR. BRUCE: Recall Mr. Williams.

9 Mr. Chairman, if I could have the record reflect
10 that Mr. Williams was previously sworn and qualified in
11 this matter.

12 CHAIRMAN LEMAY: Okay.

13 KEITH WILLIAMS,

14 the witness herein, having been previously duly sworn upon
15 his oath, was examined and testified as follows:

16 DIRECT EXAMINATION

17 BY MR. BRUCE:

18 Q. Mr. Williams, let's refer to what's been marked
19 as Exhibit 12A. Now, first of all, you sat through the
20 testimony yesterday, did you not?

21 A. Yes, sir.

22 Q. The Fasken testimony?

23 A. Yes, sir.

24 Q. And there was testimony about faulting in the
25 Morrow near the proposed Mewbourne location?

1 A. Yes, sir.

2 Q. Could you describe what your Exhibit 12A shows
3 and discuss what effect, if any, minor faulting in the
4 Morrow can have on production in a Morrow well?

5 A. This is a couple of cross-sections involving the
6 same three well. The little index map shows three wells
7 within the Catclaw Draw-Morrow Pool. They were all drilled
8 around 1972 to early 1973. The northernmost well is on the
9 left of the cross-section, the southernmost well is on the
10 right of the cross-section.

11 The upper cross-section is a stratigraphic
12 section. It's hung on the top of the lower Morrow. You
13 see that all the markers are essentially flat going across
14 from the north to the south. Stratigraphically, you have
15 the brown sand and the orange sand in the lower Morrow, and
16 then the middle Morrow purple and green coming up the hole.

17 Now, the bottom cross-section is the same three
18 wells hung on a subsea datum of 7300 feet. What you see
19 is, the well on the left had a cum of 1 BCF produced out of
20 the brown sand, the orange sand and the purple sand.
21 Again, these all were contemporaneously drilled wells.

22 The well in the middle is the Hanagan Nan-Bet
23 Number 1. It produced from the orange sand and the purple
24 sand. Its cum is over 11 BCF, and it's still currently
25 about a half a million a day.

1 My regional work within this field puts this well
2 on the downthrown side of a fault. That fault has about
3 100 to 125 feet of throw.

4 The last well on the cross-section, to the right,
5 is an old Inexco well that, again, was drilled within the
6 same time period and was noncommercial, had a cum of about
7 a half a BCF from the purple sand. It tested the orange
8 sand wet, tested the middle Morrow -- base of the middle
9 Morrow wet, as did the Hanagan well. But the little bars
10 indicate DSTs. If they're blue-colored, that indicated a
11 wet test. If they're red, that indicated a gas test. If
12 there is a bar colored red across from the sand, that
13 indicates perforated interval.

14 So the point of this cross-section is, Mewbourne
15 really doesn't see the fault on Fasken's Exhibit 20. If
16 you look at Fasken's Exhibit 20, you can almost see that
17 the south cross-section, you have a marginal well on the
18 upthrown side.

19 COMMISSIONER WEISS: Give us a minute.

20 CHAIRMAN LEMAY: Exhibit 2 or 20?

21 THE WITNESS: Twenty, it's the seismic section.

22 CHAIRMAN LEMAY: Found it.

23 THE WITNESS: Did you find it?

24 CHAIRMAN LEMAY: Yeah.

25 THE WITNESS: Okay. Just ask you to note the

1 similarity to the well positions, Number 1 being on the
2 upthrown side, Number 2 being on the downthrown side
3 against the fault, and Number 3 being too far away from the
4 fault. And note the similarity. Even though there have
5 been no wells drilled along line 70 or Exhibit 20, it looks
6 like a very similar situation could occur.

7 Q. (By Mr. Bruce) So you don't see a fault as
8 precluding very good production from the Morrow?

9 A. No, sir. Throughout southeast New Mexico, there
10 are numerous good Morrow wells drilled on the downthrown
11 sides as well as upthrown sides of the faults.

12 Q. Let's move on to your next exhibit, 12B, Mr.
13 Williams. First, what is Exhibit 12B?

14 A. 12B is a regional cross-section that goes from
15 the northernmost part of Spring field, down across the
16 nearest wells to both the proposed locations, and farther
17 south to the Texaco well.

18 The index map is contoured. It's a subsurface
19 contour map on top of the Cisco reef. It runs from north,
20 being on the left, to south, being on the right. This is
21 along the Cisco shelf edge, and that results in this very
22 large structural closure, trending northeast-southwest.

23 And it puts pretty much both the Mewbourne and
24 the Fasken location at the shelf break of the Cisco. We
25 show the field wells in Spring field, we show the nearest

1 well as Number 7, to the prospect, and we show the gas-
2 water contact. We show a regional top of the Cisco/Canyon
3 across the Fasken location, as well as a projected top of
4 the Cisco/Canyon across the Fasken Cisco/Canyon.

5 Mewbourne recognized the Spring field in here
6 when we were putting together a Morrow prospect, but really
7 believe we're off the shelf edge in both instances and
8 don't see the -- don't see any analogues for buildups right
9 at the shelf edge in southeast New Mexico.

10 Q. Mr. Williams, looking at your index map, it looks
11 like there were a number of Cisco/Canyon tests immediately
12 adjacent to the Springs Pool that were not productive; is
13 that correct?

14 A. Yes, sir. There are at least ten dry holes that
15 ring the Spring field. The majority tested wet in that
16 reservoir due to low structural position off that shelf
17 edge.

18 Q. Based on this map, do you see any reason to risk
19 a Morrow producer due to testing of a risky Cisco/Canyon?

20 A. I do not.

21 Q. Were Exhibits 12A and 12B prepared by you or
22 under your direction?

23 A. Yes, sir.

24 MR. BRUCE: Mr. Chairman, I tender the admission
25 of Exhibits 12A and 12B into the record.

1 CHAIRMAN LEMAY: Without objection, those
2 exhibits will be entered into the record.

3 Mr. Kellahin -- Are you through? I'm sorry, Mr.
4 Bruce, do you have any more questions?

5 Mr. Kellahin?

6 MR. KELLAHIN: May I have just a moment to find
7 the map, Mr. Chairman?

8 CROSS-EXAMINATION

9 BY MR. KELLAHIN:

10 Q. Mr. Williams, I'm trying to find the area that
11 you have investigated with your Exhibit 12A, and it appears
12 to me that the northernmost well is in Section 18.

13 A. Yes, sir.

14 Q. And if we look on your Exhibit 12B, Section 18 is
15 down in the southeast corner of your locator map; is that
16 not true?

17 A. Yes, sir. In general, the Cisco is north and the
18 Morrow is south.

19 Q. When we look at your three-well cross-section,
20 then, we are looking --

21 A. I believe they're off that map.

22 Q. Yes, they're --

23 A. I can point them to you. The --

24 Q. They're off the Fasken structure map, Exhibit 2?

25 A. Well, one -- The northernmost well is that well

1 in Section 18, right there.

2 Q. Yes, sir, I see that.

3 The other two wells are off the display, and
4 they're moving into Section 19 and 30, farther south and
5 east of the area identified on the Fasken Exhibit 2?

6 A. Yes, sir.

7 Q. All right. And you have made a three-well cross-
8 section, and the northernmost well compared to the second
9 well, you show a fault displacement?

10 A. Uh-huh.

11 Q. That displacement is carried up through the base
12 of the green sand?

13 A. Yes.

14 Q. But you have not extended the fault up through
15 the top of the green sand. Am I reading this correctly?

16 A. Right.

17 Q. Did you have information to cause you to believe
18 that that fault stopped at the top of the green sand?

19 A. No, I don't. That's just where I chose to die it
20 out.

21 Q. All right, so that -- You made the choice to stop
22 it at that point, as opposed to the data telling you that
23 that fault stopped at that point?

24 A. Yes.

25 Q. Do you remember Mr. Lint's testimony from

1 yesterday where he says his seismic study shows within the
2 section in review that the entire Morrow interval in the
3 upper, the middle and the lower is entirely fault
4 displaced?

5 A. That's likely the case. It doesn't change the
6 productivity either side of the fault.

7 Q. All right, sir. But that fault will separate the
8 production on each side of that fault line, will it not?

9 A. It does in most cases.

10 Q. In our area of review, if you're on the
11 downthrown side of the fault, you're moving closer to known
12 water?

13 A. Even on the downthrown side of the fault, the
14 Mewbourne location projects to be over 100 foot high from
15 Morrow -- from water contact in the lower Morrow only.
16 There is no other known water contacts within the pool that
17 I've found.

18 Q. There's nothing in this Exhibit 12A that is
19 intended to rebut Mr. Lint's conclusion about the fact that
20 the entire Morrow interval within Section 12 is fault-
21 displaced?

22 A. No, sir, this exhibit is intended to show the
23 vast difference in productivity on the downthrown side of
24 the faults within the Morrow. This 11-BCF well is about
25 the third-highest production well within the field, and it

1 is downthrown to many wells that made significantly less
2 gas.

3 Q. All right, sir. So none of that is --

4 A. And that's the intent.

5 Q. -- directed to the location and the displacement
6 of a fault in Section 12?

7 A. No sir, it's just showing the potential on the
8 downthrown as well as the upthrown sides of faults within
9 the pool.

10 MR. KELLAHIN: All right, sir. No further
11 questions. Thank you.

12 CHAIRMAN LEMAY: Mr. Carr?

13 MR. CARR: No questions.

14 CHAIRMAN LEMAY: Commissioner Bailey?

15 COMMISSIONER BAILEY: No questions.

16 CHAIRMAN LEMAY: Commissioner Weiss?

17 COMMISSIONER WEISS: Yeah, I have one.

18 EXAMINATION

19 BY COMMISSIONER WEISS:

20 Q. This kind of difference in the -- This isn't an
21 AOF, this is --

22 A. That is a cumulative.

23 Q. -- cumulative?

24 A. Yes, sir.

25 Q. Could these faults be such that they would result

1 in a naturally fractured reservoir?

2 A. I believe there is some evidence to suggest that
3 that enhances productivity, and subsequently why you can
4 have good wells next to faults, wither side of faults.

5 COMMISSIONER WEISS: That's the only question,
6 thank you.

7 CHAIRMAN LEMAY: I actually have a couple.
8 You've raised some questions for me, Mr. Williams.

9 EXAMINATION

10 BY CHAIRMAN LEMAY:

11 Q. Have any wells cut the faults so you can actually
12 see them in a log section?

13 A. I have not found any. They are extremely
14 vertical faults, as most out here are. But I have not
15 found any differences in section, and I've looked in this
16 area -- I haven't in other areas -- but in this area I have
17 not seen that, no, sir.

18 Q. It looks like the faults you carry are regional
19 faults which are -- I think most geologists would agree --
20 are present in the brittle formation, Devonian-
21 Mississippian --

22 A. Yes.

23 Q. -- but aren't there interpretations that show,
24 when you get to the more fluid sections of the Morrow, that
25 your sediment, your shales and even the sands will flow

1 over the fault rather than actually break in a brittle
2 manner? That's why they die out in the Morrow somewhere?

3 A. Well, a lot of them die out in the Morrow. A lot
4 of them continue up in the Morrow. I think you get into a
5 little bit of trouble because there are different ages of
6 these faults, and that's why they don't go up as far, and
7 that's why some go up a lot farther, is the timing.

8 But I've mapped an awful lot of fields that there
9 is no other explanation for pressure differences, other
10 than the faults. The correlations are very good, and where
11 you do have good pressure data you can show that this is
12 just more thing in this erratic reservoir that
13 compartmentalizes production in a regional sense.

14 Q. So --

15 A. On the west side of Catclaw Draw there are about
16 five dry holes that are fault-separated. They're
17 downthrown in that case by a major fault that pretty much
18 breaks off that brown sand production.

19 Regional dip continues to the west after that
20 fault, and there's a lot of sand, but the majority of it is
21 wet on that side.

22 Q. You're talking the extension of the Huapache
23 monocline coming up?

24 A. Yes, sir. There are a lot. This fault that I
25 show on this particular display comes from down into 25 and

1 26 on the index map and actually strikes northeast-
2 southwest.

3 Q. It's really a point of interest. I didn't know
4 whether -- if no faults in this field were cut by wells.
5 Your regional work has shown that there are definitely
6 faults in the lower Morrow that displaces Morrow sands and
7 does control production to some extent?

8 A. Well, I think -- Yes, sir, I think when you look
9 at the correlations on the upper part of this cross-
10 section, these are laydown correlations. You have the top
11 of the lower Morrow, which is a shale, and you have the
12 Barnett at the bottom of that, which is a shale. Both
13 excellent correlative markers.

14 So you have these two sands that line up, and
15 when you fault these you can see the relative productivity
16 is just, you know, pretty unexpected but likely to -- these
17 differences in major productivity. There's a lot of sand
18 in Catclaw Draw-Morrow Pool, unlike some areas.

19 Q. One other question on your other, your regional
20 cross-section showing the Spring field and that shelf edge.

21 A. Yes, sir.

22 Q. Have you done any sample work, or do you know if
23 that's limestone or dolomite?

24 A. In this area, it is dolomite. There is about 800
25 -- At the maximum, there's about 800 foot of reef here.

1 But there's only about 60 foot of column at this field, due
2 to being able to displace all that water.

3 Q. But the upper section, or the entire section
4 here, is dolomitized?

5 A. Yes, sir, from the sample logs and things I've
6 seen, the majority of it is, all the way to the Strawn,
7 which is about 850 feet or so in Section 34, the bulk of
8 the field.

9 CHAIRMAN LEMAY: That's all the questions I have.
10 Any additional questions of the witness?

11 MR. BRUCE: Just one.

12 FURTHER EXAMINATION

13 BY MR. BRUCE:

14 Q. On the Cisco map, Mr. Williams, there's a couple
15 of arrows pointing to wells. What do those arrows
16 represent?

17 A. Well, the northernmost arrow is really a Matador
18 well that we talked about yesterday that was drilled on a
19 similar prospect. It is on a flat area, there's no doubt
20 it's on a flat area at the Cisco level from just the
21 subsurface work. But it did not find any closure and did
22 not make a productive well.

23 We believe this location to the south of Fasken
24 is a similar flat area, but we also believe it will not
25 find relief necessary to break it off from Spring field,

1 which is a significant field with a lot of water
2 production.

3 That's just our regional picture of the Cisco.
4 It's not something we haven't looked at; it's just not what
5 Mewbourne Oil chooses to chase, because of the risk
6 involved.

7 CHAIRMAN LEMAY: Is that it?

8 MR. BRUCE: (Nods)

9 CHAIRMAN LEMAY: Are you through with this --

10 MR. BRUCE: I'm through.

11 CHAIRMAN LEMAY: Any other questions of the
12 witness? Thank you, Mr. Williams. You may be excused.

13 Any other testimony?

14 Any statements in the case?

15 MR. BRUCE: One more rebuttal.

16 CHAIRMAN LEMAY: I'm sorry.

17 MR. BRUCE: One more rebuttal, Mr. Chairman.

18 And once again, Mr. Chairman, Mr. Montgomery has
19 been previously sworn and qualified.

20 BRYAN M. MONTGOMERY,
21 the witness herein, having been previously duly sworn upon
22 his oath, was examined and testified as follows:

23 DIRECT EXAMINATION

24 BY MR. BRUCE:

25 Q. Mr. Montgomery, first, what is Exhibit 18 and

1 what do you want to show with that?

2 A. Exhibit 18 is something that I'd like to work
3 from to show our analysis of the Cisco with respect to the
4 reservoir engineering after we've looked at the geology,
5 the potential recovery that an analogous field at the
6 Section 1 would have. And so I'd like to just quickly go
7 through this.

8 This is a paper from Roswell Geologic Society.
9 It's a two-page exhibit. It's on the upper -- Springs
10 upper Penn gas field that we've all been talking about.
11 And if you flip to the second page you see their depiction
12 of the areal extent, the productive wells -- there's six of
13 them there -- the structure map.

14 And the conclusions are back on the first page,
15 as far as the total acreage, the total thickness, the net
16 thickness of which is productive in the gross. It is
17 dolomite, so you can see the type of trap, the type of
18 rock. So we'd like to have the Commissioners have this
19 with them also.

20 This raw data will go into my next exhibit that
21 will be referring to some of this, so we might leave them
22 both out and begin with Exhibit 19 also.

23 Q. Exhibit 19.

24 A. Exhibit 19 is my analysis of the Spring field to
25 try to see if I can take the geologic data that this paper

1 had, and the total amount of gas that was produced -- And
2 by the way, this paper was written in August of 1976, when
3 the vast majority of the reserves had already been produced
4 in this Spring field. It's a water drive -- We can go into
5 great detail.

6 But I'd like to highlight the volumetric estimate
7 -- it fits the production -- and then how that applies to
8 our location.

9 So on the first page of Exhibit 19 you see the
10 Spring field summary, and it just refers everything except
11 the calculated data back to that original paper.

12 The productive area, 1280 acres, much bigger than
13 what we've heard them say here at 90 acres, which I'm not
14 sure I agree with.

15 Gross pay, 50 feet. Net pay, 30 feet. Porosity,
16 water saturation, et cetera, pressure. The production, as
17 of December, 1992, which is the approximate abandonment --
18 there was some slight production in the late Seventies and
19 Eighties -- was 23 BCF, approximately.

20 When you use the 30 feet of net pay, not the 50
21 feet of gross pay -- and they claim 60 feet of relief. I
22 just believe this field is much, much larger, and they've
23 been overly aggressive with their estimates of acreage and
24 thickness from seismic, that they agree that the accuracy
25 of this is suspect.

1 But when I take this volumetric calculation I
2 come up with the 26 BCF you see near the bottom of the page
3 under "Original Gas in Place." The recovery factor of 88
4 percent below that seems very reasonable to me in a water-
5 drive reservoir, and that what the system is, we can use
6 this as an analogy if we know the size of the trap,
7 prospective size of the trap on an unrisks basis in
8 Section 1, and that's the second page of this exhibit.

9 What I've done is taken my data and my review of
10 the seismic, and I've used 40 acres. You've heard 90
11 acres, but I only see 40 acres. Without that critical
12 seismic line that they're not, you know, showing to
13 Mewbourne Oil Company or to the Commission, I'll have to go
14 with what I know. So I use 40 feet.

15 Gross pay, well, I use 50 feet with 30 feet net.
16 I'm trying to do an analogy here. I give them the benefit
17 of the doubt. We don't know if this is fully filled with
18 water, if it's fully filled with gas. They said a total of
19 60 feet is the maximum. That would be the maximum amount
20 of gas under their scenario. I'm giving that number 30
21 feet, with the same porosity and water saturation, same
22 fluid data and recovery factor of Spring field.

23 The upside potential of this Cisco is only 700
24 million. There is no home run here. This does not work
25 with the risk associated. If you have high risk, you need

1 a high recovery on the upside. This is the maximum upside
2 Mewbourne Oil Company believes will be recovered in the
3 Cisco, and therefore we have elected to not join their
4 well.

5 Even if we use their 90 acres and their 60 feet,
6 this number jumps up only to 1.5 BCF, unrisks. Their 1-
7 in-10 risk is 150 million cubic feet of risked reserves.

8 Down at the bottom you see our risked reserves.
9 We take the 726 million cubic feet and say, What if it's
10 not the full 30 feet thick of gas, what if it's not gas all
11 the way to the top? Well we -- There's no good way to risk
12 this, but let's take a 50-percent risk there. Let's take a
13 risk of the quality of the seismic data, that the total
14 area is correct, that there even is even a bump there at
15 all. With another 50-percent risk there, you see how we're
16 going to severely impact the risked reserves on the
17 unrisks reserves of 700 million.

18 At the bottom -- I also use a 10-percent risk,
19 just saying, What if it's not as good dolomite? You know,
20 what if it doesn't have the porosity and the permeability?

21 So not knowing exactly what to use, I use 10
22 percent there, come up with 163 million. It's silly to
23 drill a well 8000 feet for 163 million of risked reserves.
24 Fasken agrees with that. They won't drill this on their
25 own. By their own admission, the risked reserves must be

1 less than the payout of this well, or they would drill it.

2 So I think they haven't given us reserves.

3 They've given us 3.8 BCF. But on a risked basis, I think
4 this is a better analysis. And I do not by any means buy
5 3.8 BCF as the upside, the home-run potential. I think
6 it's closer to 700 million.

7 That concludes that exhibit.

8 I do want to talk about Fasken's exhibit. I
9 guess maybe I've said what I wanted to say already, but
10 this is a different exhibit not in my packet. So if you'll
11 reach into Exhibit 24, Fasken's exhibit of the Cisco
12 reservoir engineering by analogy of the Spring field, the
13 McKittrick field and the Indian Basin-Upper Penn field,
14 they went through and tried to prove by analogy there's 3.8
15 BCF in place. So take a minute and find that, and we'll
16 just real quickly go through a couple inconsistencies here.

17 COMMISSIONER WEISS: What exhibit is that?

18 THE WITNESS: This would be 24. It's a
19 typewritten single page. Fasken Exhibit Number 24.

20 MR. BRUCE: Mr. Brown's exhibit.

21 THE WITNESS: The engineering. Yes. Okay?

22 CHAIRMAN LEMAY: We'll huddle on this and we'll
23 follow you.

24 THE WITNESS: This is a table we've seen before,
25 and it makes the -- it's trying to make the analogy from

1 these offset fields to this field. And the logic is right.
2 You know, you take the offset field and you say, Well, we
3 have so much area and thickness. Therefore we should get
4 3.8 BCF.

5 But if you look at the McKittrick field and you
6 take that first column, the EUP, that's the 19 BCF they
7 think that well will do -- there's a one-well field -- and
8 you divide by the final column, the acre-feet, that's about
9 -- You have to move the decimal, but that's three to one,
10 where the other two fields are both one to one.

11 I've studied the McKittrick field. I think it's
12 much larger than 252 acres. I believe a one-to-one ratio
13 of EUR to acre-feet would not be unreasonable.

14 But, also in the Spring field, they use 744
15 acres. I don't see that in the geologic report that I
16 read. I see the 1280 acres. When I review his map and I
17 see how the wells are laid out, it certainly looks to be
18 double a 640-acre area. The 60 feet of closure is right,
19 but that's not the net pay. Now there's some pluses and
20 some minuses, and the number's not all that bad in an end
21 result.

22 But it's just -- There's just some inconsistency,
23 such that by taking this total acre-feet at the bottom like
24 they did and multiplying times this recovery factor of 1413
25 and get the 3.8 BCF is just not right.

1 Q. (By Mr. Bruce) Okay.

2 A. So I'd like to --

3 Q. And that's your comments on the Cisco?

4 A. That's it for the Cisco. We have looked at the
5 Cisco. Believe me, we've looked at the Cisco, and we just
6 aren't in that well. We don't like it, for the reasons
7 we've discussed.

8 Q. Okay. Let's move on to your Exhibit 20 and --

9 A. Exhibit 20 will be an exhibit that will discuss
10 potential penalty of the Mewbourne location. And it kind
11 of goes alongside, I suppose, with the Texaco exhibit of
12 penalties, which they have a two-component system, one for
13 acreage and one for too close to the line.

14 Mine is a one-component system, just too close to
15 the line. The reason I don't go for the acreage penalty
16 is, they're here trying to get two wells on a 640. That's
17 320 equivalent. The whole field is developed on 320 acres.
18 Their own maps show much more than 320 acres productive.
19 Why can they -- How can they ask for a 320 divided by 640,
20 50-percent penalty, right off the bat? It just doesn't
21 make sense. And I won't dwell on that.

22 I'll go on to a -- too close to the line.
23 Because, as we said before, we think we're being drained.
24 And to have a penalty will keep us from getting back to
25 equal with these folks. We don't think we can wait much

1 longer and still make this prospect a do-able deal, this
2 low-risk Morrow idea that we have.

3 But if the Commission decides that a penalty is
4 necessary, we think it should be fair. We think it should
5 not include 320 acres over 640 and that if it includes a
6 distance too close to the line, it should be set up like
7 this exhibit that I have here, and I think it will just
8 take me a minute to go through this.

9 If you have two wells at 1650 feet away from a
10 common boundary in a field where that was the field legal
11 rules, the no-flow boundary, everything else being equal,
12 would be on the lease line. So there would be no penalty.
13 You'd have -- Each would have 1650, divided by the total
14 3300 feet to drain from.

15 Certainly, if you move one well south, the no-
16 flow boundary would move to halfway between those two
17 points. And here at 660 and 1650, the number would be
18 2310.

19 You can see my little 495-foot measurement.
20 That's the amount of encroachment in this type of example
21 that we have.

22 And then what do you have? You have -- The well
23 with too much gas has 1650 plus 495 -- they've got too much
24 -- divided by 3300. You see at the bottom there, that's
25 .65 instead of .5. That's too much.

1 The bottom, of course, is lacking the 495 feet.
2 1650 minus 495 is 3300 -- or divided by 3300, is .35.
3 There is an inequality there.

4 To calculate the penalty to get it back to 50-50,
5 you've got to figure out what to multiply times the one
6 that has too much, more than 50 percent -- or what times
7 .65 equals .5? That penalty is 77 percent. We believe
8 that if there's a penalty here, it should be only that we
9 should be able to produce 77 percent of our calculated open
10 flow.

11 We would even go as far as to do a deliverability
12 test with it, but not at 81-percent penalty. This is
13 really a 23-percent penalty or a 77-percent flow. Theirs
14 is an 80-percent penalty. We would only get to produce 20
15 percent of our flow.

16 I only think we have 1.1 BCF remaining. Well, 20
17 percent of 1.1 BCF is not acceptable. The penalty that
18 they've provided is not fair, it would cause us to not be
19 able to protect our correlative rights. And if a penalty
20 would be considered, I think this type of approach would be
21 fair.

22 Q. Again, Mewbourne doesn't think a penalty is
23 appropriate in this case?

24 A. No, as I've stated before, there are a lot of
25 wells that are closer than -- There's several reasons to

1 say we shouldn't have any penalty at all.

2 Q. Okay. Mr. Montgomery, please move on to your
3 final exhibit, Exhibit 21, and discuss what you see as the
4 cost of finding gas in Section 1.

5 A. This is the bottom line for Mewbourne as we see
6 both locations. We've heard Fasken, we've heard Texaco,
7 talk about a lot of things. We've never heard risked
8 reserves. Here's what we think we're going to find at our
9 location.

10 We asked them point blank. They push it off to
11 the next guy. The next guy says, Well, I've calculated but
12 I don't have a number for you.

13 Well, we have numbers, and this is what we think.
14 The Mewbourne location will cost \$750,000 to drill. We
15 believe 1.5 BCF would be a risk number. We think if we're
16 able to produce with no penalty, we might get 1.8 BCF, as
17 I've said in earlier testimony.

18 So with some slight penalty it doesn't work out
19 exactly, but 1.5 BCF, the finding costs are decent at 50
20 cents, when you divide the two numbers, 750,000 divided by
21 1500 million cubic feet.

22 As you've seen in the Fasken location -- I've
23 already talked about the Cisco reserves of 160 million.
24 When you add that to the Morrow reserves -- which, let me
25 just say now, I see the Morrow reserves up at their

1 location as potentially a complete zero. It's in between a
2 zero in all upper, middle and lower, and a 300 million in
3 all upper, middle and lower Morrow.

4 So I've averaged them to give it 150 million.
5 When you divide the \$800,000 -- It costs a little more to
6 complete both wells. They say they wouldn't commingle
7 them; they would redrill the well. So really, you'd double
8 these drilling costs if you really wanted to stick it to
9 them.

10 But the finding cost just goes way out of whack.
11 You can't drill for \$2.58 because you've got to pay
12 operating costs, and time, value, money -- You're not
13 getting that price of gas anyway.

14 And let me say something about the price of gas
15 right now. Texaco says they're getting -- they're losing
16 \$1000 a day. We believe we're losing the Section-1 owners
17 4 million a day, times the 30-percent allocation that I
18 give that well, times maybe \$2.50, \$3000 a day, just by
19 sitting here and not drilling and protecting our rights in
20 Section 1.

21 In summary, Fasken's location is a high-risk
22 Morrow, a high-risk Cisco, with no compensating upside
23 reserves. And Mewbourne's location is a much lower-risk
24 Morrow with no Cisco potential. But we feel that it's also
25 the one that can protect correlative rights for the owners

1 of Section 1.

2 That's what I have.

3 Q. Were Exhibits 18 through 21 prepared by you or
4 under your direction?

5 A. They were.

6 MR. BRUCE: Mr. Chairman, I'd move the admission
7 of Mewbourne Exhibits 18 through 21.

8 CHAIRMAN LEMAY: Without objection, Exhibits 18
9 through 21 will be admitted into the record.

10 MR. BRUCE: And I pass the witness.

11 CHAIRMAN LEMAY: Mr. Kellahin?

12 MR. KELLAHIN: I have no questions for
13 Montgomery.

14 CHAIRMAN LEMAY: Mr. Carr?

15 CROSS-EXAMINATION

16 BY MR. CARR:

17 Q. Mr. Montgomery, would you turn to Exhibit 20?

18 A. Okay.

19 Q. It's my understanding from your testimony that
20 you think there should be no penalty, but if there is a
21 penalty, this would be a fair way to do it?

22 A. That's correct.

23 Q. If we look at this exhibit, you're treating both
24 tracts as if they have 320 acres in them; is that right?

25 A. I'm treating both tracts as if they're productive

1 up to the 1650 mark.

2 Q. Do you think it's inappropriate to consider an
3 acreage factor?

4 A. If all you did was consider an acreage factor,
5 we'd be happy, using Texaco's map. I think we'd come up in
6 good shape there.

7 Q. But in your recommended formula, you are not
8 recommending that there be an encroachment factor and an
9 acreage factor?

10 A. That's correct.

11 Q. And you have somewhat less than 320, but
12 approximately a 320 to dedicate to your well in the south
13 half of 1, correct?

14 A. That's correct.

15 Q. And there are 640 acres dedicated to the wells
16 that Texaco has drilled in Section 12?

17 A. To the two wells that they have drilled in
18 Section 12.

19 Q. Correct.

20 A. 320 --

21 Q. You understand that one of those wells is open in
22 the "A" zone only; is that right?

23 A. It's now shut in, but was open in the "A" zone
24 until --

25 Q. And you understand that the other well is not

1 opened in the "A" zone but in other Morrow zones?

2 A. In the zone we believe draining Section 1.

3 Q. Yes. So there is one well producing from any of
4 these zones, not two, on that 640?

5 A. That's correct. There are multiple zones out
6 there.

7 Q. Now, if we look at this exhibit, you would agree
8 with me that the Texaco well was not 1650 feet into Section
9 12 but at 2448; is that not right?

10 A. That's correct.

11 Q. And if, in fact, we do what is -- if you drill
12 the 660 and our well is at 2448, the drainage area would go
13 farther into Section 12 than is shown on this --

14 A. You could make that calculation.

15 Q. But when we look at this exhibit, we're going
16 back to general assumptions, aren't we? We have to look at
17 general assumptions because we don't know where the well
18 is --

19 A. Right, that's correct.

20 Q. And we don't know if the well drilled 660 off
21 that line would, you know, drain preferentially toward the
22 south where the reservoir is better or not, do we?

23 A. It could be a dry hole. We just don't know until
24 we drill it.

25 Q. And you think there is a potential that you could

1 drill a dry hole 660 from that lease line?

2 A. Absolutely, there's always a potential of --

3 Q. Well, if that should be the case, then you
4 wouldn't be losing \$3000 a day, would you?

5 A. At that case, right. But we would have to be
6 able to drill that well to determine that.

7 Q. Yeah, but to say that you're losing \$3000 a day,
8 you have to assume you drill a pretty good well 660 from
9 the south line of 1, do you not?

10 A. Yes, it would -- I think -- It's my opinion that
11 there's a high probability we would drill a very good well
12 at that section -- location.

13 Q. And then that wouldn't really be such a high-risk
14 prospect, if you're going to drill a well that right now,
15 just because of its absence, you're losing \$3000 a day. Is
16 that fair to say?

17 A. Could you repeat that?

18 Q. Well, I mean, you were talking about this being a
19 high-risk prospect in one sense, but --

20 A. No.

21 Q. -- as I understood your testimony, you were
22 saying that you would -- were losing \$3000 a day because
23 that well wasn't there.

24 A. Maybe I misspoke or you misunderstood me. I do
25 not believe this is a high-risk Morrow prospect.

1 Q. Well, I didn't --

2 A. This is one of our lowest-risk Morrow prospects
3 I've seen in quite a while.

4 Q. You would agree with me that a 660 location, as
5 opposed to the 1650 standard setback, is 60 percent closer
6 to the offsetting acreage to the south than permitted by
7 rule?

8 A. Yes.

9 Q. It's 60 percent closer, and you're seeking a 23-
10 percent penalty, correct?

11 A. That's correct.

12 Q. And you would also agree with me that wells in
13 this pool demonstrate a very rapid decline rate during
14 their first years of production?

15 A. That's not correct. The well at 12F has not
16 declined at all in the last 18 months.

17 Q. And is that's because that's what it does when
18 you look at its potential, or is it because of other
19 reasons that the well has not declined?

20 A. Had it been produced wide open, it probably would
21 have been able to do somewhere close to its calculated open
22 flow and, yes, would have had some decline. I don't know
23 the exact decline.

24 Q. Did it experience a pressure decline?

25 A. Absolutely.

1 Q. A substantial pressure decline?

2 A. Substantial would be -- If it was a 300-million
3 well, it would have been very substantial. It's a 6-BCF
4 well. So it had pressure decline, but I wouldn't call it
5 substantial.

6 Q. You saw Texaco Exhibit Number 6, did you not?

7 A. Yes, I did.

8 Q. That's the exhibit that compared initial flow
9 rates or calculated open flows against what wells actually
10 did?

11 A. Yes, I did.

12 Q. And the data on that exhibit was not incorrect,
13 was it?

14 A. Absolutely incorrect. The conclusions that are
15 derived from that exhibit were fallacies because you're
16 comparing first year's production versus calculated open
17 flow, but most of the wells' first year's production were
18 prorated by the Commission, told not to produce what they
19 could have produced.

20 Had they been able to produce like the Texaco
21 well could have, they would have been able to achieve much
22 closer to the calculated open flow. I have a real problem
23 with that exhibit.

24 Q. Do we need -- As I recall your testimony from
25 April, there were certain wells that you have looked at in

1 this pool that experienced as much as a 70-percent decline
2 during their first year?

3 A. That's correct.

4 Q. And that is potentially what could happen at a
5 well 660 from the south line; is that not true?

6 A. That's correct.

7 Q. And you're asking for a 23-percent penalty; is
8 that right?

9 A. That's correct.

10 MR. CARR: That's all I have.

11 CHAIRMAN LEMAY: Commissioner Bailey?

12 COMMISSIONER BAILEY: I have no questions.

13 CHAIRMAN LEMAY: Commissioner Weiss?

14 COMMISSIONER WEISS: Yeah, what exhibit was it
15 that spelled out the interests in the south half of Section
16 1?

17 MR. BRUCE: In the south half I believe it was
18 Exhibit 2 of Mewbourne's first land exhibit, was Exhibit 2,
19 I believe.

20 COMMISSIONER WEISS: Does everybody agree on
21 that?

22 MR. BRUCE: You'd have to ask Fasken. I believe
23 that's a pretty accurate listing of interests in the south
24 half of Section 1. It was based on a title opinion.

25 COMMISSIONER WEISS: That's all I wanted, that's

1 my only question. Thank you.

2 EXAMINATION

3 BY CHAIRMAN LEMAY:

4 Q. Just a quick one on Exhibit 21.

5 A. Yes, sir.

6 Q. What kind of risk factor do you give to
7 Mewbourne's location in the Morrow?

8 A. That risk factor is not an exact number so that
9 we could be multiplied here, but I include this in what I
10 call proved reserve category, which gives me a 90-percent
11 confidence, based on the well control, the size and the
12 strength of the well at 12F and how it spills in. There's
13 always a chance, of course, that it will not happen, but --
14 So I would have to give you my best guess is somewhat near
15 90 percent.

16 Q. It looks like at a billion and a half you didn't
17 give it any risk factor on that calculation?

18 A. No -- well, there's some -- I think we could give
19 it 1.8. My hope is now, if we can drill it real quickly we
20 might get 1.8 BCF. So maybe that would help clarify the
21 unrisks and the risks. And if we divide those two, it
22 may be a little less than 90.

23 Q. I don't know, looking at these economics, whether
24 you even want to --

25 A. I know it.

1 Q. -- you want to drill these prospects.

2 A. I know. It looked better a year ago.

3 Q. No, I'm just commenting on your economic
4 analysis, that's -- Evidently, you don't believe in the
5 geologists' creed that thou shalt not condemn another
6 geologist's lousy deal.

7 A. There -- Yeah. This is still an interesting
8 prospect. We are still here wanting to drill this well.
9 We're very -- very much so, want to drill this well at this
10 location, as soon as possible.

11 CHAIRMAN LEMAY: The only questions I have. Any
12 other questions of the witness?

13 MR. BRUCE: No, sir, I --

14 CHAIRMAN LEMAY: If not, he may be excused.

15 MR. BRUCE: I think we're through, Mr. Chairman.

16 CHAIRMAN LEMAY: Are we ready to conclude? Let's
17 close.

18 MR. CARR: I'm ready for closing.

19 May it please the Commission, in my closing I'm
20 only going to address the two parts of this case in which
21 Texaco is interested: the Mewbourne unorthodox well
22 location and our request for clarification of the rules.

23 As to the Mewbourne location, I would submit this
24 is really a relatively simple case. It's a correlative-
25 rights case. Mewbourne is proposing a well that is too

1 close to the offsetting tract under the applicable pool
2 rules, and we believe they will gain an advantage on us as
3 the owner and operator of offsetting Section 12.

4 We're in one reservoir. Mr. Montgomery and Mr.
5 Uhl have agreed on that. The wells -- A well at their
6 proposed location, at the Texaco Levers Number 2, will
7 compete for the reserves. Mr. Montgomery and Mr. Uhl agree
8 on that. And there can be no dispute that they're 60
9 percent closer than authorized by the rules. And so we
10 object, and we're seeking a meaningful penalty.

11 The Mewbourne location was drilled for one
12 reason. They wanted to be as close as possible to the
13 Texaco tract. That's what Mr. Williams testified, that's
14 what Mr. Montgomery testified, that's what they've asserted
15 in the complaint they filed in the lawsuit related to this
16 matter in Midland, Texas.

17 What we have is a classic case of closeology.
18 And all the science that they have offered is information
19 that they have developed after they picked their location,
20 in an attempt to justify being 660 feet from our lease
21 line. In fact, we submit the evidence for that location is
22 quite thin.

23 When you look at the geology, we have three -- or
24 four interpretations. We have Fasken's, we have Texaco's,
25 and we really have two from Mewbourne because, you see,

1 since the original hearing Mewbourne has developed and re-
2 evaluated their geological interpretation and came forward
3 with a new map that, when you look at it, really isn't
4 mapping the reservoir; it's mapping reserves. And it is
5 adjusting the data in an effort to present something that
6 they can sell to you here today in this hearing.

7 They then recently have prepared some volumetric
8 work. I think it's important to remember that volumetrics
9 can only be as good as the underlying data. We have such a
10 wide variety in geology it's hard to know where you start,
11 but that's where you have to start when you do a volumetric
12 study.

13 We look at porosity and there's six wells, but
14 there are only really two wells that give you valid
15 information as to porosity. And as to thickness of the
16 reservoir, you really key off the Levers Number 2. You
17 have one point.

18 We've had a number of witnesses, they argue the
19 geology, they argue the volumetric work, they argue their
20 interpretations.

21 Look at the Mewbourne volumetric interpretation,
22 Mr. Montgomery's map. He had to go and arbitrarily draw in
23 some drainage areas after he had allocated reserves in
24 various zones, based on the best data available. But the
25 problem is, the production has been commingled.

1 And when you start looking at the way they've
2 allocated production between zones and you compare it to
3 the pressure information, it just doesn't wash.

4 And then after they allocate the reserves, the
5 map -- and you look at the way they've mapped the drainage
6 areas, they don't even line up. They're not even
7 consistent with the geological contours. There's just not
8 enough data to do this right.

9 There's also disagreement between the witnesses
10 before you as to what zones actually produced in each well.

11 But in the midst of all this disagreement,
12 there's one thing they agree on. We're not going to know
13 what we have until we drill a well. We're not going to
14 know the porosity, we're not going to know the thickness in
15 Section 1, we're not going to know the ability of the well
16 to produce.

17 And so we go and we have to look at a penalty.

18 I think that when Mr. Bruce and Mewbourne argue,
19 Well, there are other wells in the pool that aren't
20 penalized, that begs the issue. This is the first time
21 someone in this pool has been encroaching on their neighbor
22 and the neighbor says, No, you're impairing my rights, we
23 go to hearing.

24 So this is the first case where that's happened.

25 Density is a false issue. You can pick parts of

1 the reservoir and say, Oh, yes, well, they're on 320-acre
2 spacing or Penwell's on 320-acre spacing. The issue is,
3 are they too close to us? Are they trying to obtain an
4 opportunity, not to produce their share of the reservoir,
5 but ours?

6 And so those are the issues.

7 And when we don't have data on the well, when
8 we're working in this kind of environment, we do have to go
9 to general assumptions. We know they're 60 percent too
10 close. We know the wells decline at 70 percent during
11 their first year of production.

12 And for that reason, we tried to come up with a
13 proposed penalty, based on some general assumptions, the
14 only things we really know, how many acres they have and
15 how close they are. Because unfortunately, we impose
16 penalties before wells are drilled, and that's all we have
17 to work with.

18 And yes, they are 60 percent too close, but we
19 looked at that alone and that doesn't work. That's why we
20 added the acreage factor.

21 And so they say, Well, that's, you know, playing
22 a game with us. If you think we've got too few acres, so
23 does Fasken.

24 Well, Fasken is not encroaching on us. They're
25 more than a standard setback. And it would be simply

1 ludicrous for us to come in here trying to produce two
2 wells in Section 12 and complain that they only have half a
3 section.

4 The only reason we added the acreage factor to
5 the formula for the penalty that we're recommending on the
6 Mewbourne well is that without that factor in that formula,
7 the formula, the penalty that results, is no penalty at
8 all.

9 Now, we can look at what Mr. Montgomery presented
10 this morning, and we can look at what we argued yesterday
11 about the no-flow boundary. But when we look at what
12 actually happens in this pool, if they're 660 from and
13 we're 2448 from them, there is 894 feet of additional
14 drainage on us. And that's assuming all things are
15 constant.

16 But Mr. Montgomery admits that the reservoir gets
17 better to the south, and there may be preferential drainage
18 that way, and it will be elliptical, not radial. So we
19 could be in a worse situation than what this no-flow
20 boundary example portrays.

21 But we have to work with general assumptions, and
22 so that's why we've recommended this penalty. We think
23 it's meaningful, we think it will impair correlative
24 rights, and we know it's very heavy.

25 But when you look at the data, if you have a very

1 heavy penalty on a proposed location, that's the time that
2 you don't look at draining your neighbor, but you may look
3 at a better location on your tract. And that's a decision
4 not for the Commission. The decision for you is, are they
5 encroaching? It's a decision not for Texaco. It's a
6 decision for them after they know what kind of a penalty
7 they may be looking at. Then they can decide what they
8 want to do.

9 Now, as to the clarification of the pool rules, I
10 don't really think there is a question that we're in a 640-
11 acre-spaced pool, that you need to drill 1650 feet from the
12 outer boundary.

13 But there truly is confusion about the effect of
14 current prorationing rules on other rules governing the
15 development of the Catclaw draw, and the current posture of
16 these prorationing rules as they impact certain memos and
17 other policies of the Division. I'm not going to go into
18 it in detail, but this is where the rules stand.

19 The pool was prorated and created back in the
20 early 1970s, and it was from the beginning developed on
21 640-acre spacing with 1650-foot setbacks.

22 But for a period of about 18 months, from 1980 to
23 1981, we reverted to statewide 320-acre spacing, and there
24 were problems with that. And so in the application of
25 Tenneco in 1981, we went back to 640-acre spacing. And the

1 order that was entered in that case authorized a second
2 well on each of these 640-acre units.

3 Then we have kind of a break in the orders. We
4 have an order that creates special pool rules, but then
5 that order is also incorporated into Order R-1670, the old
6 prorationing order.

7 And then we come along, and in 1986 we recodify,
8 in essence, those old prorationing rules. We get rid of
9 1670, we adopt Order 817. And what we do is come forward
10 with some new pools that are attached to the general order,
11 and they're silent on a second.

12 But in the meantime, we've had this -- what we
13 now know -- or recently, at least, are calling the one-well
14 rule. It springs from certain memos that you prepared, Mr.
15 LeMay.

16 And so following the recodification of
17 prorationing, and during that following period, if I
18 understand what we were told in the memos and meetings with
19 Mr. Stogner, is that because of these memos and the one-
20 rule policy, you could still, even if the rule, general
21 prorationing rules, didn't authorize a second one, you
22 could still drill a second well because of the one-well
23 rule.

24 Then we -- And Devon had a well, they did it,
25 they did not get an exception, they weren't required to.

1 Then we come along, and there was a case in 1995
2 to suspend prorationing. And we suspended prorationing,
3 you did, because -- based on testimony that basically said
4 there are no wells in this pool that are allowable-
5 restricted, so why have it?

6 And yet there was concern that there is a value
7 to maintaining prorationing within the overall umbrella of
8 this regulatory agency. And so instead of saying we're
9 going to terminate prorationing, then we'd be in an
10 unprorated pool, like Mr. Bruce was talking about this
11 morning, we would be under Rule 104.

12 But you didn't do that; you suspended it. Which
13 suggested to me, and I think to others, that it wasn't
14 abolished, but you weren't going to set allowables until we
15 got into a situation where allowables became meaningful
16 again.

17 So we had suspension of prorationing. The
18 Division calls the pool technically prorated.

19 And then we find that because we're technically
20 prorated -- I'm not trying to play games. This is typical
21 of pools with long histories, with all kinds of development
22 issues that evolve over 25 or 30 years. But we now find
23 ourselves where we're in a technically prorated pool, as
24 opposed to a prorated pool, and that because technically
25 prorated may mean nonprorated, then the one-well rule

1 doesn't apply.

2 And so consequently, for the first time here is
3 an operator, Texaco, who drilled a well, got an APD
4 approved, not by you but by the BLM, but after they've been
5 producing the well and after offsetting developments were
6 told, Shut it in, you're in violation of the one-well rule.

7 One-well rule comes from memos that are issued --
8 two memos issued by Chairman LeMay. And memos have been
9 used in the past by Directors. They are generally
10 statements of the position of the agency that are not
11 elevated to the level of a rule.

12 When Joe Ramey was director of the Oil
13 Conservation Division and we were looking at substantial
14 curtailment of gas production, he issued a memo that set
15 priorities for curtailment. You shut wells in. Where you
16 had wells that would suffer damage, they were last. And
17 it's something that you don't put in a rule but really
18 defines the policy of the agency.

19 And so in the late 1980s and early 1990s when
20 there were some real disputes going on between operators
21 about second wells on spacing units, those memos were
22 issued to clarify the position of the Division. They're
23 not in the rule book. And if you get the rule book from
24 the agency, they're not in the rule book. You have to have
25 been here, and you have to know.

1 And so that's why that, I think, contributes to
2 the confusion that we have.

3 And so we went out, we drilled a well. We
4 drilled a second well. We thought we were all right. We
5 got an approved APD.

6 And then we came to this hearing where we were
7 opposing a location encroaching on us, and what did we get?
8 Well, you denied the location at the Examiner level, the
9 Division level, that we objected to. But we also were
10 called over for a meeting and told we needed to shut in a
11 well. And we have done that, and it is costing us \$1000 a
12 day.

13 And the bottom line is that when we went back
14 through the rules, we couldn't find anything that
15 grandfathered in other operators but they're not being
16 asked to go back and get exceptions to the rules.

17 And we find that we are the only operator in this
18 pool who is now subject to the one-well rule; we are
19 operating the only tract on which, because of this rule, we
20 have to shut in a well; and we've got the only well in the
21 pool that's shut in because of the one-well rule.

22 And we think it's because there is confusion
23 about how the prorationing system relates to the pool
24 rules. We're confused, we admit that. Mewbourne, we
25 think, when we cross-examined Mr. Montgomery, there's

1 confusion there. The BLM is confused about it as well.

2 And so what we're here requesting is that you
3 authorize -- you clarify the rule.

4 I cannot believe that use of the term "suspending
5 prorating" was intended to mean you could change the
6 development requirements in pools as part and parcel of
7 that suspension. I can't believe that was the Division's
8 intention. If that was the intention, you should have just
9 deprorated the pool.

10 We read it as no allowables until allowables will
11 be meaningful again. And keeping that in reserve so you
12 can reinstate it if you get a very good well, and it's time
13 to reprorate.

14 But where we stand right now is as -- we've shut
15 in a well because you asked us to do it. We weren't
16 ordered to do that. There were meetings with you, your
17 staff, about it. And we're losing \$1000 a day.

18 And if we have to wait until an order following
19 the next hearing -- by my calculations that's December the
20 11th, 41 days from now -- we will have suffered a \$70,000
21 penalty because we were confused, along with others, about
22 the one-well rule and how it relates in a technically
23 prorated pool as opposed to a deprorated pool.

24 And so we're asking for clarification. I suggest
25 that clarification is important, not just to Texaco but

1 overall, because you've suspended prorationing in four or
2 five other pools.

3 And the real question is, if you suspend
4 prorationing and it wipes out, you know, the development
5 requirements, it triggers a one-well -- Maybe it wipes out
6 all spacing requirements. Maybe it wipes out everything.
7 And you're stuck under statewide rules. It's an important
8 issue, and we would request that you clarify that.

9 And we furthermore would request that since we're
10 not under an order that requires us to shut in, that the
11 Commission immediately authorize us to return the Levers
12 Number 1 to production. It's not in the zone we're
13 fighting over; it's in the "A" zone.

14 And to require that to be shut in under the -- in
15 these fact circumstances we think is punitive, we think
16 it's arbitrary, we think it's capricious. We think it's an
17 unreasonable response from an agency when all we come and
18 ask for is, we've asked you to exercise your statutory
19 prerogative, and that is to impose a penalty on someone
20 really close if you believe they're gaining an advantage on
21 us.

22 And so that's why we're here today.

23 Thank you very much.

24 CHAIRMAN LEMAY: Thank you.

25 Mr. Kellahin?

1 MR. KELLAHIN: Thank you, Mr. Chairman.

2 I'll ask you to find Texaco's Exhibit 7. It's a
3 spiral notebook with a number of items that Texaco has
4 provided for you. I'm going to look at a couple of these
5 items with you.

6 I want to find Mr. Stogner's letter contained in
7 here, and I believe it's under Tab 12. If you'll look
8 through the content of the letter, you can start down at
9 the bottom of the first page, and you find some information
10 concerning the prorated gas pool Catclaw Draw-Morrow, under
11 Division Order R-8170.

12 And as you read through Mr. Stogner's memo, you
13 get over to the issue that Mr. Carr has talked about. It
14 says, "Although technically classified as a 'prorated gas
15 pool', gas prorationing was suspended..." And he
16 referenced some other orders for you. And as you continue
17 to look through the memo, you see references to
18 prorationing orders.

19 Those references, in my opinion, have caused Mr.
20 Stogner to forget about something that's very important.

21 When I was admitted to practice before this
22 Commission and before the courts of the State of New Mexico
23 back in 1968, we took an oath and an obligation to
24 represent our clients as diligently as we can, to the best
25 of our ability. But we took a higher oath that day, and

1 that was to help the courts and the Commission of this New
2 Mexico State to avoid making legal mistakes and errors.

3 It doesn't matter to Fasken what you do about
4 this Texaco problem; this is Texaco's problem. But I feel
5 obligated to tell you, I think Mr. Stogner's letter is
6 absolutely wrong. And here's why.

7 If you'll turn back to the front cover, you're
8 going to find the history of Catclaw Draw summarized for
9 you. I lived this history. I was the attorney responsible
10 for Tenneco when we got the spacing changed to 320.

11 I was overwhelmed with the quality of their
12 geology and their engineering work with regards to this
13 reservoir, and I failed to recognize in that excitement
14 over their technical case that we were making an error in
15 judgment about the ownership of those spacing units. And
16 once we realized that, I came back and helped fix the
17 mistake I helped make.

18 And that's why we have continuing jurisdiction of
19 this agency. Mr. Stogner has made a mistake, and we need
20 to fix it.

21 Here's the mistake. When you look at suspending
22 or terminating prorationing, what happens if it's
23 terminated? Do you go back to the statewide rules? Only
24 if there are not special rules in place for the pool. And
25 do you find? There are special rules in this pool. Mr.

1 Carr has got them outlined for you. They have a different
2 series number, and that is significant.

3 When you look at the proration order, it is Order
4 4704. When you look at the order number sequence for all
5 the rules in this pool, they're under 4157, and they go A,
6 B, C and D.

7 Bear with me. If you'll go back now, look at the
8 memo that -- under Tab 9, if you'll turn to Tab 9. You're
9 going to find the new prorationing order. It's Order
10 R-8170, and it has replaced proration order 6170. If you
11 turn to the first page, there's a header. Texaco has
12 provided a copy of this rule out of *Byram's*.

13 I've worked with *Byram's* book for more than 25
14 years. I'm not sure I have ever found a mistake in the way
15 they edit and compile that book. It's a reliable reference
16 tool, we consistently utilize it in this industry, the
17 lawyers, the engineers, the landmen, we use this rule -- we
18 use this book to see the rules.

19 Look at the header, look at the references they
20 give you on what they did in 8170. I simply cannot find
21 any reference to the fact that Order R-4157-D, which re-
22 established 640 spacing in Catclaw Draw, with an optional
23 second well, has ever been terminated or suspended.

24 So when you talk about this notion that in a
25 prorated pool you can have multiple wells, I think you're

1 misdirecting your attention. You need to look at the fact
2 that the underlying special rules and regulations for this
3 pool provide you with those rules. And the rules are as
4 we've discussed, 640 gas spacing, 1650 setbacks, and an
5 optional second well.

6 When you look at another reference in *Byram's*,
7 you can turn to the special rules they keep. It's under
8 Volume 2, it's found at page 380, and if I'm looking for
9 Catclaw Draw Pool rules I'll look at page 380.

10 And what do I find? I find under that rule I can
11 have 640 gas spacing. My initial well, under Rule 2, my
12 initial well has to be no closer than 1650 from the side
13 boundaries. And they have a Rule 2B. It says the second
14 well. This is what we have to work with. There's nothing
15 wrong with this rule. Mr. Stogner simply misinterpreted
16 what he was doing and overlooked the rule.

17 I'm here representing Fasken today. But there's
18 another Fasken case. There was a Fasken case in 1975. It
19 went to the New Mexico Supreme Court. And the reason the
20 Supreme Court agreed with Fasken in their appeal of a
21 Commission order was the fact that that order did not
22 contain reasons and findings that the Commission could
23 explain their decision.

24 The Supreme Court of New Mexico in the Fasken
25 case requires you to give us findings that explain your

1 reason and your conclusion. We have given you your
2 jurisdiction in this case.

3 Your jurisdiction is to protect correlative
4 rights and prevent waste. This case has nothing to do with
5 the ownership interest in the spacing unit. This is not
6 compulsory pooling. It is not your responsibility to
7 interpret the operating agreement. You need to look at
8 your jurisdiction.

9 If you are trying to decide this case using the
10 Division guideline for compulsory pooling resolutions of
11 disputes, you're using the wrong outline. There are
12 components of this case that give you the flavor and the
13 feel of force pooling. We have competing well locations.
14 But that's not the topic here.

15 The topic here is a well that's at an unorthodox
16 well location.

17 In making those decisions and findings, if you're
18 going to make a decision about who has how much of an
19 interest in the spacing unit, you're making the wrong
20 decision.

21 If you're making a decision based upon who
22 proposed the well first, you're making the wrong decision.

23 If you think you can remember what the 1956
24 operating agreement that was adopted by these parties
25 means, you're making the wrong decision. The 1956

1 agreement by industry, agreement, has been modified in
2 1970, 1980, 1982, 1989. There's substantial differences of
3 opinion and agreement about that contract. I urge you to
4 avoid, in your decision process, any of those contractual
5 issues. It matters not who proposed the well or what
6 percentage interest they may have. That's a matter of
7 contract dispute in litigation.

8 The correlative rights has brought this case
9 before you. Had the Fasken Application not been rolled
10 into the Mewbourne location exception, Fasken could have
11 their Application approved administratively. We could have
12 had this approved administratively. There is no opposition
13 to our location, and in those circumstances the custom and
14 practice of the Division is to approve that Application.
15 You don't have to make a decision based upon recoverable
16 gas, you don't have to make a decision based upon which
17 well would be profitable. The Division need not engage in
18 that topic.

19 Texaco advances the notion that somehow --
20 Mewbourne advances the notion that somehow Texaco has
21 produced illegal gas. That's absolute nonsense. It
22 doesn't work, it's a bogus argument, and I suggest that you
23 make a serious mistake if you find according to that
24 argument. If you make that finding, please tell us so that
25 we know that's how you decided the case.

1 The geology is complicated. We've had four
2 geologists give you various opinions. You may decide this
3 case based upon how you've decided unorthodox well
4 locations in the past. You look at the magnitude of
5 encroachment toward the party to whom the objection has
6 been raised. We have done this for years. We started off
7 trying the double-circle penalty formula, we've tried to do
8 it based on productive acreage, we've done it on a footage
9 encroachment. I suggest to you that there's an opportunity
10 to continue to do that here.

11 But sometimes truly the simple answer is the best
12 answer. How are you going to craft and construct a penalty
13 in this case that is any way going to be meaningful? The
14 simple answer is that you deny the unorthodox location for
15 which there's opposition. That is consistent with Division
16 practice. When they are faced with these cases at the
17 Division level, if there's a location encroachment at an
18 unorthodox location, the test is whether or not there
19 exists an alternative location that is standard to the
20 party who has raised the objection.

21 We have demonstrated to you in this case that
22 there are multiple options for which there is no objection.

23 We ask that you deny the Mewbourne Application,
24 approve the Fasken Application, and affirm what Mr. Stogner
25 did at the Division level. We think it's an appropriate

1 solution, it's a simple solution, and it's a fair solution
2 and it's what we ought to do in this case.

3 Thank you.

4 CHAIRMAN LEMAY: Mr. Bruce?

5 MR. BRUCE: Mr. Chairman, members of the
6 Commission, as I understood the Commission's ruling
7 yesterday, it said it would look at geology and
8 engineering, so I'll address that first. And there were
9 different geologic interpretations, but let's look at
10 Fasken's first.

11 They admit it, that their well is a wildcat well
12 in the Morrow and in the Cisco. They claim they want to
13 drill the Cisco in order to reduce risk. However, their
14 location in the Cisco has only a 10-percent chance of
15 success, and the Morrow location they choose is directly
16 between a dry hole in the Morrow and a noncommercial well
17 in the Morrow. It doesn't reduce risk; it increases the
18 overall risk.

19 The seismic they rely on has never found a
20 satellite Cisco pool, and what we're here looking at is
21 maybe a 75-foot event with 70 to 90 feet of error. That's
22 just not worth going after.

23 I would point out that Fasken's location is
24 opposed, by Mewbourne, just like Mewbourne's location is
25 opposed by Fasken.

1 And to merely approve Fasken's location because
2 of Mr. Kellahin's claim to no opposition would violate
3 Division memo 3-89. It states that unorthodox locations
4 will not be granted merely because they are unopposed.

5 Let's look at Mewbourne's geology. First of all,
6 Mewbourne has the most experienced geologist in this area,
7 and his geology best honors the well control. As far as
8 the trend in this area of the Morrow, I think all you have
9 to do is look at the simple production map, Mewbourne
10 Exhibit 8. Look at that. It's north or north northeast.
11 It's as simple as that. Based on that alone, you can see
12 that Mewbourne has the better geology. That geology shows
13 that Mewbourne's well is a development well and minimizes
14 the risk.

15 Now, as to the main objective, the Mewbourne
16 location, the Mewbourne map did change somewhat from the
17 original hearing. That was based on data that we had to
18 subpoena from Texaco, which they would not voluntarily turn
19 over, which they did turn over to Fasken, and which proves
20 the limited extent of this reservoir to the north.

21 If you accept Mewbourne's geology, then Section
22 1, the south half of Section 1, is being drained right now.

23 Texaco's geology generally agrees with
24 Mewbourne's interpretation, except they claim there's a
25 substantial reservoir to the north of Section 12. That

1 doesn't pan out. There is no commercial well to the north
2 of Section 12.

3 Everyone agrees that the Morrow is the primary
4 zone in this area. What you need to do is approve the best
5 Morrow location and not look at the highly speculative
6 Cisco/Canyon.

7 Now, as my opposing counsel are fond of quoting
8 correlative rights, I'll quote it once in my closing
9 argument. That is the opportunity to produce reserves
10 under a tract. Now, in order to do that, you need to
11 calculate the reserves under each tract, and Mewbourne is
12 the only party to this proceeding that presented that
13 evidence. This is based on a substantial well control in
14 this area. Again, look at Mewbourne Exhibit 8. It's not
15 often that you have this type of well control in an area.

16 Mewbourne calculated the original gas in place,
17 the remaining reserves, went through the pressures,
18 permeabilities, porosities. They found that the south half
19 of Section 1 is being drained right now. And its
20 correlative rights, the correlative rights of all interest
21 owners in the south half of Section 1, are being impaired
22 by the Levers Well Number 2. Based on that, Mewbourne
23 needs to drill a well without penalty to prevent further
24 drainage.

25 Now, one factor comes in: this fault. Maybe it's

1 there, maybe it's not. But if it is there, then the
2 drilling of Mewbourne's well would have little or no effect
3 on the Levers Number 2 well. Once again, another reason
4 for no penalty.

5 Let's go into Texaco's Application for a minute.

6 As Mr. Carr said, the drilling permit was from
7 the Bureau of Land Management; it wasn't from the Oil
8 Conservation Division. But as to the memos as to rule
9 changes, the Division sends out these memos and rule
10 changes to operators with its bi-weekly docket sheets.
11 It's the operator's responsibility to read those and comply
12 with the rules. The Division shouldn't have to write a
13 letter to every operator on every well, explaining what
14 they have to do with respect to that particular well.

15 These agency memos, although they are not formal
16 rules, are in the *Byram's Reporter*, which I, Mr. Carr, Mr.
17 Kellahin and most operators have in their possession. Now,
18 we think the rules are clear, the pool rules; it is a 1650-
19 foot setback. Is it one well or two wells per section?
20 The latest pronouncement by the Division only provides for
21 one well per unit. A later order supersedes the prior
22 order.

23 Finally, Rule 104.D.3, you can only have one well
24 per unit in an unprorated pool. We're getting into the
25 term "technically prorated". As Mr. Uhl said, prorated

1 means there's some production limitation. There is no
2 production limitation on the Catclaw Draw-Morrow Pool.
3 Whether you want to use the word "technically" or
4 "effectively" or whatever, this pool is not prorated.

5 But what Texaco wants is, they say, Strictly
6 enforce the setback rules against Mewbourne, but excuse us
7 from compliance with all the other rules. Why? So they
8 can produce 2.2 to 5.5 BCF out of their Levers Number 2
9 well without competition. That's not fair. Either you
10 enforce both rules, the one well per section and the
11 setback, or you grant exceptions to both.

12 Texaco claims it's losing \$1000 per day. I
13 suppose in current revenue, yes, but that gas is still in
14 the ground.

15 Now, Mewbourne, what they want is to drill a
16 well. If they can drill their well, then they don't really
17 have any opposition to what Texaco seeks. If they can
18 drill their well without a penalty, in essence developing
19 the pool on 320 acres, just like Texaco says, then they
20 don't have any problem with what Texaco wants.

21 Now, if you look at the factors as in a pooling
22 case, then I think Mewbourne Oil Company wins. It has the
23 largest interest in the well, it's shown the best geology.
24 Furthermore, we wouldn't be here today if it wasn't for
25 Mewbourne.

1 Fasken hadn't even looked at a well in the south
2 half of Section 1 until it received Mewbourne's proposal in
3 January of 1997, even though it had owned that interest for
4 decades. David Fasken was a signatory to that operating
5 agreement 25 years ago.

6 Now, what about a penalty? As our witnesses have
7 stated, they're being drained or, in the alternative,
8 they're on the downthrown side of a fault. Either way, we
9 don't think a penalty is necessary.

10 Rule 104.G says the Commission can take such
11 action as is necessary to offset any advantage gained over
12 offset operators by an unorthodox location. Now, to
13 determine this the Commission should look at permeability,
14 remaining reserves, structure, productive acreage,
15 pressure, any similar factors. You can't just look at
16 footages as Texaco would have you do. That ignores the
17 massive amount of geologic and engineering data in this
18 pool.

19 No one else in this area is penalized for any
20 wells that are currently at what are not orthodox locations
21 in this pool. What Mewbourne is proposing will result in
22 approximately two wells in a one-section area, as, if you
23 look at Texaco's map or any other map, there are many areas
24 where there are three, four, five wells in a one-section
25 area. We don't think, in this case, any advantage is

1 gained by Mewbourne, and a penalty is not necessary.

2 Two final issues. They Commission ruled
3 yesterday that they will look at Fasken Oil and Fasken Land
4 as the same entity. Just for the record, I have to
5 disagree. They are different entities. Fasken Oil doesn't
6 own an interest, it can't be an operator under Rule 1203
7 because it has no interest in the south half of Section 1.

8 Furthermore, Case 11,755 was improperly noticed
9 under Rule 1205. Fasken Land had six months to correct
10 that. It took no action. That's not Mewbourne's fault.
11 As a result, we believe that case should be dismissed.

12 Now, Mr. Kellahin just got up here and says,
13 Well, you can't use force-pooling principles in looking at
14 this case. Well, if you don't then you look at the
15 operating agreement, which is what I was arguing yesterday.
16 And as I noted yesterday, if you do look at that operating
17 agreement, then the only proposal on the table is
18 Mewbourne's. And that's what should be approved.

19 We ask the Commission to approve the Mewbourne
20 location and either deny the Fasken Application at this
21 time, or approve it with the stipulation that Mewbourne's
22 well was drilled first. That decision is in harmony with
23 the operating agreement. What Fasken would have you do is
24 issue a decision contrary to the operating agreement.

25 If you approve the Fasken well and deny

1 Mewbourne's location, then you're condoning Fasken's
2 manipulation of the operating agreement.

3 Again, we ask that you reverse the decision of
4 the Division's Order and grant Mewbourne's Application.

5 Thank you.

6 CHAIRMAN LEMAY: Thank you, Mr. Bruce --

7 MR. BRUCE: One final thing, Mr. Chairman --

8 CHAIRMAN LEMAY: Go ahead.

9 MR. BRUCE: -- I did receive a letter from ICA
10 Energy. I won't mark it as an exhibit. It is a letter in
11 support of Mewbourne's Application. ICA Energy is the
12 party that farmed out to Mewbourne. I believe a copy will
13 be sent to the Division.

14 CHAIRMAN LEMAY: Okay, does that conclude your --

15 MR. BRUCE: Yes, sir.

16 CHAIRMAN LEMAY: Are there any other statements
17 in the case?

18 I want to huddle just for a couple minutes before
19 we conclude on this, if I can.

20 MR. KELLAHIN: Would you like us to leave the
21 room so you can talk about this?

22 CHAIRMAN LEMAY: Well, our deliberations are
23 public; I don't think we need to leave the room at all. We
24 can just come over here, just for a second.

25 (Off the record)

1 CHAIRMAN LEMAY: Okay, we have a preliminary
2 ruling here which states that Texaco can turn on their well
3 effective immediately, the second well, pending the final
4 rule that comes out from the Commission.

5 MR. CARR: Thank you, Mr. Chairman.

6 CHAIRMAN LEMAY: Also, we will -- Is there
7 anything further in the case? I guess I asked that. We
8 will leave the record open for five days and then close the
9 record and take the case under advisement.

10 MR. CARR: Thank you.

11 CHAIRMAN LEMAY: Thank you very much, excellent
12 presentation.

13 (Thereupon, these proceedings were concluded at
14 12:00 noon.)

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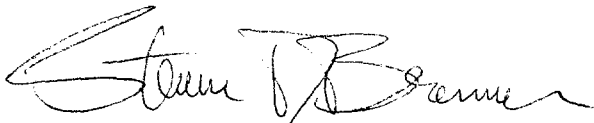
CERTIFICATE OF REPORTER

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

I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Commission (Volume II) was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

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

WITNESS MY HAND AND SEAL November 14th, 1997.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 1998