

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

IN THE MATTER OF THE HEARING)
 CALLED BY THE OIL CONSERVATION)
 DIVISION FOR THE PURPOSE OF)
 CONSIDERING:)
)
 APPLICATION OF MARALO, INC.)
 _____)

CASE NO. 11,156

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

December 15th, 1994

JAN

Santa Fe, New Mexico

This matter came on for hearing before the Oil Conservation Division on Thursday, December 15th, 1994, at the New Mexico Energy, Minerals and Natural Resources Department, Porter Hall, 2040 South Pacheco, Santa Fe, New Mexico, before Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

STEVEN T. BRENNER, CCR
 (505) 989-9317

I N D E X

December 15th, 1994
 Examiner Hearing
 CASE NO. 11,156

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A P P E A R A N C E S

FOR THE DIVISION:

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FOR THE APPLICANT:

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Santa Fe, New Mexico 87504-2208
By: WILLIAM F. CARR

* * *

1 WHEREUPON, the following proceedings were had at
2 2:56 p.m.:

3 EXAMINER STOGNER: Call next case, 11,156.

4 MR. CARROLL: Application of Maralo, Inc., for
5 compulsory pooling, Eddy County, New Mexico.

6 EXAMINER STOGNER: Call for appearances.

7 MR. CARR: May it please the Examiner, my name is
8 William F. Carr with the Santa Fe law firm Campbell, Carr,
9 Berge and Sheridan.

10 We represent Maralo, Inc., and I have two
11 witnesses in this case.

12 EXAMINER STOGNER: Are there any other
13 appearances?

14 Will the witnesses please stand to be sworn?

15 (Thereupon, the witnesses were sworn.)

16 MR. CARR: At this time we call Mr. Mark Wheeler.

17 EXAMINER STOGNER: Go ahead.

18 MARK WHEELER,

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

21 DIRECT EXAMINATION

22 BY MR. CARR:

23 Q. Would you state your name for the record, please.

24 A. Mark Wheeler.

25 Q. Where do you reside?

1 A. Midland, Texas.

2 Q. By whom are you employed and in what capacity?

3 A. Maralo, Incorporated, district landman.

4 Q. Have you previously testified before this
5 Division?

6 A. Yes, I have.

7 Q. At the time of that testimony, were your
8 credentials as a petroleum landman accepted and made a
9 matter of record?

10 A. Yes, they were.

11 Q. Are you familiar with the Application filed in
12 this case on behalf of Maralo?

13 A. Yes, I am.

14 Q. Are you familiar with the status of the lands in
15 the subject area?

16 A. Yes, sir.

17 MR. CARR: Are the witness's qualifications
18 acceptable?

19 EXAMINER STOGNER: They are.

20 Q. (By Mr. Carr) Mr. Wheeler, would you briefly
21 state what Maralo seeks with this Application?

22 A. Maralo seeks an order pooling all mineral
23 interests from the surface to the base of the Bone Springs
24 formation, under the northeast quarter, northwest quarter,
25 of Section 30, Township 23 South, Range 30 East, Eddy

1 County.

2 Q. This would be a standard oil unit?

3 A. Yes, sir, 40 acres.

4 Q. And the well is to be drilled at a standard
5 location?

6 A. Yes, sir, it is.

7 Q. Have you prepared exhibits for presentation here
8 today?

9 A. Yes, I have.

10 Q. Let's go to what has been marked as Maralo
11 Exhibit Number 1. Could you identify this exhibit and then
12 review it for Mr. Stogner?

13 A. This is a land plat which details the ownership
14 of the north half of Section 30 and includes the proration
15 unit for this well, the GR State 30 Number 1, proposed
16 well.

17 Q. What is the ownership of Bass Enterprises in the
18 north half of 30?

19 A. They are just owners in the northwest quarter.
20 Under the state lease they have a 50-percent ownership.

21 Q. What is the primary objective in the proposed
22 well?

23 A. Primary objectives are the Delaware sands.
24 However, we will also take a look at the Bone Springs
25 formation, which we consider to be a secondary objective.

1 Q. What percentage of the working interest has been
2 voluntarily committed to the proposed well?

3 A. Fifty percent.

4 Q. Could you identify what has been marked as Maralo
5 Exhibit Number 2?

6 A. This is our AFE for this well.

7 Q. Could you review this exhibit, please?

8 A. I don't believe you gave me a copy of this.

9 Q. That will make it easier for you to review.

10 A. Thank you.

11 Q. Do you have everything else?

12 A. Yes, I think so.

13 The dryhole cost for this well is \$265,300;
14 completed well cost, \$525,680.

15 Q. Mr. Wheeler, are these costs in line with what's
16 charged by other operators in this area for similar wells?

17 A. Yes, they are.

18 Q. Could you summarize the efforts that have been
19 made by Maralo to obtain the voluntary joinder of all
20 working interest owners in the proposed spacing unit?

21 A. We forwarded AFEs to all of the working interest
22 owners in the proration unit, and on August 31st, 1994, we
23 made a farmout request to Bass Enterprises and included
24 with that request an AFE requesting that they either farm
25 out or join in the drilling of the well.

1 Q. Now, when we look at the subject acreage, who are
2 we pooling with this case? Just Bass?

3 A. All of the other owners in the acreage have
4 agreed to participate --

5 Q. All right.

6 A. -- in the drilling of the well.

7 Q. And is Exhibit Number 3 a copy of the August
8 31st, 1994, letter that you just referenced to Bass
9 Enterprises Production Company?

10 A. Yes, sir, it is.

11 Q. And what has happened since that day?

12 A. We've had numerous phone conversations. The last
13 contact occurred approximately early November. At that
14 time we were still negotiating contract terms for a
15 farmout. We left the negotiations in Bass's hands and have
16 not heard anything back since that time.

17 Q. The last contact was --

18 A. -- early November, I believe the 2nd.

19 Q. In your opinion, have you made a good-faith
20 effort to obtain the voluntary participation of Bass in the
21 proposed well?

22 A. Yes, I believe we have.

23 Q. Have you drilled other wells to this depth in the
24 same general area?

25 A. Yes, sir, we have.

1 Q. Is Exhibit 3 -- you mentioned, is a copy of a
2 letter showing that you have made an effort to reach Bass?

3 A. Yes.

4 Q. Exhibit Number 4 is an affidavit confirming that
5 notice of today's hearing has been provided by certified
6 mail to Bass as required by OCD rules?

7 A. Yes, sir.

8 Q. Have you made an estimate of the overhead and
9 administrative costs to be charged while drilling this well
10 and also while producing it if in fact it is a successful
11 well?

12 A. Yes, sir, we have. We will charge \$4183 per
13 month during the drilling of the well and \$419 per month
14 after the well is producing if successful.

15 Q. And what is the source of these recommended
16 overhead and administrative costs?

17 A. We use the *Ernst & Young* COPAS rates as a
18 guideline.

19 Q. And are these the 1994 rates that you're
20 referring to?

21 A. Yes, sir, they are.

22 Q. And so these costs are at least in line with the
23 survey, if not with other -- as well, with other operators
24 in the area?

25 A. I believe with both, certainly with the survey,

1 and we have been charged comparably.

2 Q. Do you recommend that these figures be
3 incorporated into the order that results from this hearing?

4 A. Yes, sir.

5 Q. And do you also request that these overhead costs
6 be permitted to escalate in accordance with COPAS
7 accounting procedures?

8 A. Yes, we do.

9 Q. Does Maralo seek to be designated operator of the
10 well?

11 A. Yes, sir.

12 Q. In your opinion, will granting the Application be
13 in the best interests of conservation, the prevention of
14 waste and the protection of --

15 A. Yes.

16 Q. -- correlative rights?

17 A. Yes, sir.

18 Q. Were Exhibits 1 through 4 either prepared by you
19 or compiled under your direction and supervision?

20 A. Yes, sir, they were.

21 MR. CARR: At this time, Mr. Stogner, we would
22 move the admission into evidence of Maralo Exhibits 1
23 through 4.

24 EXAMINER STOGNER: Exhibits 1 through 4 will be
25 admitted into evidence.

1 MR. CARR: And that concludes my direct
2 examination of Mr. Wheeler.

3 EXAMINATION

4 BY EXAMINER STOGNER:

5 Q. In looking at Exhibit Number 3, the mailing list,
6 Exhibit A of that exhibit, and you have it Aquila --
7 A-q-u-i-l-a -- Energy Resources Corp.?

8 A. Yes, sir, Aquila, yes, sir.

9 Q. Are they an interest owner or are they --

10 A. Yes, sir, Collins and Ware brought them in under
11 their position.

12 Q. So when I refer to Exhibit Number 1, they're
13 included with the Collins and Ware?

14 A. Yes, sir, they have a portion of the Collins and
15 Ware position in that acreage.

16 Q. And so of those four parties marked on Exhibit 1,
17 that would be 50 percent of that northwest quarter?

18 A. Yes, sir.

19 Q. And 50 percent within this proration unit?

20 A. Yes, sir.

21 Q. When was your last contact with Bass Enterprises?

22 A. I believe November 2nd, it was the early -- first
23 week of November. That's the last contact we've had.

24 Q. And you haven't had any since the November 8th
25 certificate of mailing?

1 A. No, sir.

2 Q. Now, you said the overhead charges, \$4183 and
3 \$419, were out of the *Ernst & Young*?

4 A. Yes, sir.

5 Q. Is that max, minimum or median?

6 A. I believe that's the mean --

7 Q. The mean.

8 A. -- that we utilize when we're figuring our rates.

9 Q. For west Texas, southeast New Mexico?

10 A. Yes, sir.

11 Q. And for oil at this depth, right?

12 A. For oil at this depth, yes, sir.

13 EXAMINER STOGNER: All righty, any -- I have no
14 other questions of Mr. Wheeler. He may be excused.

15 MR. CARR: Thank you, Mr. Stogner. At this time
16 we would call John Thoma.

17 JOHN THOMA,

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

20 DIRECT EXAMINATION

21 BY MR. CARR:

22 Q. Would you state your name and place of residence?

23 A. John Thoma, Midland, Texas.

24 Q. By whom are you employed and in what capacity?

25 A. By Maralo, as a geologist.

1 Q. Have you previously testified before this
2 Division?

3 A. Yes, I have.

4 Q. At the time of that testimony, were your
5 credentials as a geologist accepted and made a matter of
6 record?

7 A. Yes, they were.

8 Q. Are you familiar with the Application filed in
9 this case?

10 A. Yes, I am.

11 Q. And have you made a geological study of the area
12 that is the subject of the Application?

13 A. Yes, I have.

14 MR. CARR: Are the witness's qualifications
15 acceptable?

16 EXAMINER STOGNER: They are.

17 Q. (By Mr. Carr) Mr. Thoma, let's refer to what has
18 been marked Maralo Exhibit Number 5, your A-A' cross-
19 section. Could you review that exhibit for the Examiner,
20 please?

21 A. Yes, Exhibit 5 is a structural cross-section hung
22 on a structural datum of minus 3650 feet. It is a dip
23 section.

24 It runs from point A, which is located in Nash
25 Draw field, through three wells in Nash Draw field, which

1 are shown as the three wells on the left-hand side of the
2 cross-section, through the proposed location, the GR 30
3 State Number 1, downdip into a well Maralo is currently
4 attempting to complete in deeper horizons, the Gold Rush 30
5 Fed Com Number 1, which was drilled during the summer of
6 1994, and further downdip into the Bettis, Boyle and
7 Stovall Poker Lake Unit Number 11 well.

8 The section that is illustrated on the cross-
9 section is the lower Brushy Canyon section. The top of the
10 Bone Springs formation is marked at the bottom of the
11 cross-section.

12 The three wells on the left-hand side produce
13 from the lowermost sand member in the Brushy Canyon
14 formation, which we are calling the Loving sand. It's
15 labeled.

16 And the green coloring in that sand depicts the
17 known oil column within that reservoir. Low proven oil is
18 shown on the section; it is documented by the Nash Draw
19 Number 20 well. And the low proven oil elevation to this
20 date is a minus 3937 feet.

21 The Gold Rush 30 Fed Com Number 1, located
22 downdip, encountered a very porous Loving sand section that
23 did have shows of oil and gas. We do not know whether or
24 not the zone will be commercially productive yet. We have
25 not production-tested it as yet, and hopefully will not be

1 production-testing it for quite some time, if we can
2 establish production deeper in the wellbore.

3 The plans and the reason that this proposal has
4 come forward is that Maralo would like to develop and test
5 the shallow potential on our leasehold in the Delaware
6 formation.

7 Exhibit Number 6 is an isoporosity map of the
8 Loving sand, and it shows the productive area in the Nash
9 unit to the northeast -- I'm sorry, northwest.

10 The wells that have the green markers on them are
11 producing from the Loving sand. The half-moon markers,
12 green markers, are wells that had shows that are producing
13 from a deeper formation, namely the Morrow.

14 The stippled areas on that map are areas where
15 Maralo, Inc., has leasehold interests.

16 The proposed location, the GR State 30 Number 1,
17 is illustrated in the northeast of the northwest of Section
18 30, as is the currently completing Gold Rush 30 Federal Com
19 Number 1.

20 The proposed location, looking back at the cross-
21 section, is at a structural position between low proven oil
22 and high proven water. High proven water has been
23 documented in the Bettis, Boyle and Stovall well in Section
24 33.

25 The structure map, which is Exhibit 7, shows the

1 relief on top of the lower Brushy Canyon sand. And quoting
2 numerically, the Gold Rush State 30 Number 1 well, the
3 proposed location, is located approximately 54 feet downdip
4 to the lowest producer in the Nash unit, the Nash Unit
5 Number 20. It's located 150 feet -- I'm sorry, 187 feet
6 updip from the high proven water point. So we are
7 essentially in between known oil and water levels in the
8 reservoir.

9 The isoporosity map, Exhibit 6, documents what we
10 believe to be the continuity of the reservoir through the
11 area.

12 The risk in this well is, one, whether or not we
13 will encounter a water or an oil leg, and, two, whether or
14 not we can mechanically complete the well, or successfully
15 mechanically complete the well.

16 One of the significant risk elements in the
17 Delaware in this area are water-bearing reservoirs
18 immediately overlying the Loving sand pay.

19 On the cross-section A-A', Exhibit 5, the "D"
20 sand, which immediately overlies the Loving, is shaded in
21 blue, and it's shaded in blue because it's wet, it is a
22 water-bearing reservoir, as is the "C" sand in the vicinity
23 of the Gold Rush wells.

24 As you move updip, upstructure, into the Nash
25 Draw pool, there's an oil-water contact in the "C" sand,

1 and in the updip wells in that pool there is in fact an oil
2 leg in that reservoir. The downdip wells have a water leg.

3 In the Gold Rush area, we basically have an oil
4 -- a potential oil pool or oil leg in the Loving sand, a
5 possible oil leg in the "B" sand, which is at the top of
6 the lower Brushy Canyon section. That's also illustrated
7 in orange. In between those two intervals, we have two
8 water-bearing reservoirs. And so there is a considerable
9 amount of risk involved in staying out of those, being able
10 to stay out of those water-bearing reservoirs in a
11 completion on the Loving sand.

12 Q. Mr. Thoma, are you prepared to make a
13 recommendation to Mr. Stogner concerning the risk that
14 should be assessed against Bass if they do not voluntarily
15 participate in this well?

16 A. Yes, we believe that the risk penalty should be
17 200 percent.

18 Q. Do you believe there is a chance that a well at
19 the proposed location could in fact be a noncommercial
20 well?

21 A. Yes, I do.

22 Q. Do you have anything further to add to your
23 testimony?

24 A. No, I do not.

25 Q. Were Exhibits 5, 6 and 7 prepared by you?

1 A. Yes, they were.

2 MR. CARR: At this time, Mr. Stogner, we move the
3 admission of Maralo Exhibits 5 through 7.

4 EXAMINER STOGNER: Exhibits 5 through 7 will be
5 admitted into evidence at this time.

6 MR. CARR: That concludes my examination of Mr.
7 Thoma.

8 EXAMINATION

9 BY EXAMINER STOGNER:

10 Q. Your geological information is -- or deals
11 primarily with that lower Brushy Canyon area, and your
12 Application, of course, to the base of the Bone Spring. I
13 assume that the Bone Spring is going to be a secondary
14 target?

15 A. Yes, in the -- particularly in the Upper Bone
16 Spring section, just below the top of the Bone Spring
17 formation, there is an upper sand that develops
18 sporadically through the area. We'll be drilling the well
19 through that objective and hoping that we do encounter
20 productive sand.

21 Q. Now, your maps that you have provided, does this
22 show all the wells within the area, or just the Delaware or
23 the lower Brushy Canyon wells?

24 A. This shows all the wells within the area.

25 Q. So there is no Brushy -- I mean, I'm sorry, Bone

1 Spring production anywhere around?

2 A. No, the zone that I'm speaking of has been tested
3 in two wells in the Nash unit: the well positioned in the
4 northeast of the southwest of Section 12, and it was also
5 tested, I believe, in the well in the southeast of the
6 southwest of Section 12, but the production was deemed
7 noncommercial at that time.

8 Q. That Gold Rush 30 Com Well Number 1, where are
9 the perforations there? Are they exclusively within the
10 brown or the orange-ish -- orange -- ?

11 A. That well, the Gold Rush 30 Federal Com Number 1,
12 has not been perforated in the Delaware section yet.

13 Q. I see.

14 A. It is right now -- The perforations that are
15 being tested are in the Wolfcamp formation at roughly
16 11,000 feet.

17 EXAMINER STOGNER: All right. I have no other
18 questions of this witness.

19 MR. CARR: Mr. Stogner, we have nothing further
20 in this case.

21 EXAMINER STOGNER: There being nothing further in
22 Case 11,156, this case will be taken under advisement.

23 (Thereupon, these proceedings were concluded at
24 3:15 p.m.)

25 * * *

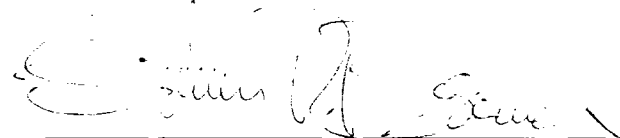
CERTIFICATE OF REPORTER

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 Division 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 December 26th, 1994.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 14, 1998

I do hereby certify that the foregoing is a complete record of the proceeding in the Examiner hearing of Case No. 11156 heard by me on 15 December 19 94.


 _____, Examiner
 Oil Conservation Division