

STATE OF NEW MEXICO

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING CALLED)
 BY THE OIL CONSERVATION DIVISION FOR)
 THE PURPOSE OF CONSIDERING:) CASE NO. 11,417
)
 APPLICATION OF MERIDIAN OIL, INC.,)
 FOR COMPULSORY POOLING, LEA COUNTY,)
 NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGSEXAMINER HEARING

BEFORE: MICHAEL E. STOGNER Hearing Examiner

November 2nd, 1995

Roswell, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, November 2nd, 1995, at the Roswell City Hall, 425 North Richardson Street, Roswell, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

I N D E X

November 2nd, 1995
Examiner Hearing
CASE NO. 11,417

	PAGE
EXHIBITS	3
APPEARANCES	4
APPLICANT'S WITNESSES:	
<u>LESLYN M. SWIERC</u> (Landman)	
Direct Examination by Mr. Kellahin	7
Cross-Examination by Mr. Carr	21
Examination by Examiner Stogner	24
<u>THOMAS FAGO</u> (Geologist and Geophysicist)	
Direct Examination by Mr. Kellahin	25
Examination by Examiner Stogner	32
<u>CHET BABIN</u> (Engineer)	
Direct Examination by Mr. Kellahin	35
Examination by Examiner Stogner	38
REPORTER'S CERTIFICATE	42

* * *

E X H I B I T S

Applicant's	Identified	Admitted
Exhibit 1	8	21
Exhibit 2	9	21
Exhibit 3	12	21
Exhibit 4	15, 18	21
Exhibit 5	18	21
Exhibit 6	18	21
Exhibit 7	18, 20	21
Exhibit 8	28	32
Exhibit 9	29	32
Exhibit 10	31	32
Exhibit 11	36	37
Exhibit 12	39	39

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A P P E A R A N C E S

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ALICE J. DICKEY; JOHN J. FLEET, II;
and W.B. OSBORN OIL AND GAS OPERATIONS:

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By: WILLIAM F. CARR

* * *

1 WHEREUPON, the following proceedings were had at
2 8:23 a.m.:

3
4 EXAMINER STOGNER: The next item, I will call
5 Case Number 11,417.

6 MR. CARROLL: Application of Meridian Oil, Inc.,
7 for compulsory pooling, Lea County, New Mexico.

8 EXAMINER STOGNER: At this time I'll call for
9 appearances.

10 MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin of
11 the Santa Fe law firm of Kellahin and Kellahin, appearing
12 on behalf of the Applicant.

13 With your permission, Mr. Stogner, we'd like to
14 have this case passed momentarily.

15 The Meridian witnesses apparently have been
16 unable to find this hearing room between Sally Port Hotel
17 and this. They are...

18 EXAMINER STOGNER: Okay. In that case we will
19 call the next case, over on page 2.

20 (Thereupon, Case 11,417 was passed at 8:23 a.m.)

21 (The following proceedings had at 8:45 a.m.)

22 EXAMINER STOGNER: At this time I'll call Case
23 Number 11,417.

24 MR. CARROLL: Application of Meridian Oil, Inc.,
25 for compulsory pooling, Lea County, New Mexico.

1 EXAMINER STOGNER: Call for appearances.

2 MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin of
3 the Santa Fe law firm of Kellahin and Kellahin, appearing
4 on behalf of the Applicant, and I have three witnesses to
5 be sworn.

6 EXAMINER STOGNER: Any other 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 and Berge.

10 I would like to enter our appearance on behalf of
11 Nations Geophysical, Inc.; W.B. Osborn, Jr. -- that's
12 O-s-b-o-r-n -- Alice J. Dickey; John J. Fleet, II; and W.B.
13 Osborn Oil and Gas Operations.

14 EXAMINER STOGNER: Do you have any witnesses?

15 MR. CARR: We do not have a witness.

16 EXAMINER STOGNER: Okay. Any other appearances?

17 Will the three witnesses please stand to be sworn
18 at this time?

19 (Thereupon, the witnesses were sworn.)

20 EXAMINER STOGNER: Mr. Kellahin?

21 MR. KELLAHIN: Mr. Examiner, our first witness is
22 Leslyn Swierc.

23 She's a landman with Meridian. She resides in
24 Midland, Texas.

25 She spells her last name S-w-i-e-r-c.

1 LESLYN M. SWIERC,

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

4 DIRECT EXAMINATION

5 BY MR. KELLAHIN:

6 Q. Ms. Swierc, for the record would you please state
7 your name and occupation?

8 A. My name is Leslyn Swierc. I'm a senior landman
9 with Meridian Oil.

10 Q. On prior occasions, have you testified before the
11 Division?

12 A. No, sir, I have not.

13 Q. Summarize for us your education, when and where
14 you obtained any degree that is applied to the oil and gas
15 industry in terms of practicing your profession.

16 A. I have a bachelor's degree in ag business I
17 obtained from Sam Houston State University in May of 1982,
18 and I received my professional certification, my land
19 professional certification, in July of 1991. I have 11
20 years' experience in the industry.

21 Q. Have you been primarily responsible on behalf of
22 your company as a landman for negotiating and determining
23 the various interest owners that would be affected by the
24 consolidation of their interest in the spacing unit that's
25 the subject of this Application?

1 A. Yes, sir, I have.

2 MR. KELLAHIN: We tender Ms. Swierc as an expert
3 petroleum landman.

4 EXAMINER STOGNER: Any opposition?

5 MR. CARR: No, we'd stipulate that Ms. Swierc is
6 an expert in petroleum land matters.

7 EXAMINER STOGNER: Ms. Swierc is so qualified.

8 Q. (By Mr. Kellahin) Let me have you direct your
9 attention to Exhibit Number 1. Describe for us what we're
10 looking at.

11 A. This is a land plat with the acreage in question
12 highlighted.

13 Q. Looking at the east half of Section 30 --

14 A. Yes, sir.

15 Q. -- and specifically within the east half of that
16 section, can you describe for us how those leases or
17 interests are organized? Is this an undivided east
18 half --

19 A. Yes --

20 Q. -- or is it further subdivided?

21 A. No, sir, the east half is owned in fee simple,
22 and it's undivided as to about 14 separate mineral interest
23 owners that own under that tract.

24 Q. So when you're looking at the title ownership for
25 the east half of Section 30, you're dealing with fee

1 tracts, are you not?

2 A. Yes, sir.

3 Q. The specific spacing unit that your technical
4 people have proposed for this well is a 40-acre oil spacing
5 unit, is it not?

6 A. Yes, sir, it is.

7 Q. And what portion, then, of the east half of
8 Section 30 do you understand to be the proposed spacing
9 unit?

10 A. I believe it's the northeast quarter of the
11 southwest quarter.

12 Q. Have you tabulated a list for the Division
13 Examiner so that he can see the specific identity of all
14 the interest owners that would be involved in this spacing
15 unit?

16 A. Yes, sir, I have. It's marked as Exhibit Number
17 2.

18 Q. Let's take a look at that.

19 EXAMINER STOGNER: Mr. Kellahin --

20 MR. KELLAHIN: Yes, sir.

21 EXAMINER STOGNER: -- let's go back and
22 redescribe that 40 acres to be force-pooled.

23 THE WITNESS: Let me look at my map here.

24 MR. KELLAHIN: Let me double-check, Mr. Examiner.

25 THE WITNESS: I'm sorry, it's the northeast

1 quarter of the southeast quarter.

2 EXAMINER STOGNER: Okay.

3 MR. KELLAHIN: Yes, sir, and that's consistent
4 with the docket and what we have -- The witness has
5 misspoken.

6 THE WITNESS: Excuse me.

7 Q. (By Mr. Kellahin) The primary objective is this
8 Wolfcamp oil well, is it not?

9 A. Yes, sir, it is.

10 Q. If you should have the opportunity for production
11 in any other formation which would cause the spacing unit
12 size to change to 160 acres or to 320, then the ownership,
13 in fact, is going to be the same?

14 A. Yes, sir, it is.

15 Q. And the percentages will be the same?

16 A. Yes, they will.

17 Q. And so it would be the east-half dedication or
18 the southeast quarter or the northeast of the southeast,
19 whatever ultimately proves to be the producing formation?

20 A. That's correct.

21 Q. All right. Primarily we're focusing, though, on
22 the 40-acre tract?

23 A. Yes, sir.

24 Q. When we look at the tabulation on Exhibit 2, have
25 you satisfied yourself that it is complete and accurate to

1 the best of your knowledge?

2 A. Yes, sir, I have.

3 Q. How did you go about forming that opinion?

4 A. I had a broker go out into the -- check the
5 records in Lea County, New Mexico, and tabulated a takeoff
6 for me. I then began contacting each one of these
7 individuals, and I found that the takeoff was not
8 completely accurate.

9 So after further search, both of records of
10 different counties and also after speaking with different
11 individuals, I have confirmed the interests that are on
12 this sheet.

13 Q. So as the Examiner sees this now, to the best of
14 your knowledge, it is in fact accurate and correct?

15 A. Yes, sir.

16 Q. At this point in the process of your efforts, do
17 you believe any further negotiations are going to be
18 substantially successful so that any uncommitted interests
19 can in fact be committed?

20 A. No, sir, I don't at this time.

21 Q. You've exhausted, in your opinion, all reasonable
22 efforts to consolidate the interest?

23 A. Yes, sir, I have.

24 Q. How will the Examiner look at Exhibit 2 and
25 understand those parties that you propose to be subject to

1 the pooling order?

2 A. Those that don't have -- In the far right column,
3 you'll see it says either farmout or lease. The ones that
4 say "lease" are the parties that I have obtained leases
5 from.

6 The ones that say "farmout" obviously are the
7 ones from which I've obtained farmouts.

8 And those with no -- nothing, with the blanks in
9 the right column, are those which I have not been able to
10 consummate a deal.

11 Q. Was your methodology about how you went around
12 negotiating the consolidation -- was it similar with all
13 these individuals or companies?

14 A. Yes, sir, it was. Identical letters were mailed
15 to all the individuals at first to lease. And then based
16 upon the responses I got from the first letter, then we
17 began negotiating farmouts with other individuals.

18 Q. Is there a set, then, of exhibits that we can use
19 as an example of how you went through the process? And
20 then we can look at the other packages and you can show us
21 any substantial differences?

22 A. Yes, sir.

23 Q. Is that possible, to do it that way?

24 A. Yes, sir.

25 Q. Let's start with Exhibit 3, then, and look at

1 your efforts with regards to Nations Geophysical, Inc. Is
2 that what's contained in the Exhibit 3 package?

3 A. Yes, sir, it is.

4 Q. The first letter is an October 13th, 1995,
5 letter?

6 A. Yes.

7 Q. Is this the same kind of letter that you propose
8 to all those other interest owners for which there was no
9 lease or no commitment?

10 A. Actually, the letter dated October 13th is a
11 request to be able to disclose seismic data, which we have
12 a license with Nations Geophysical. And this letter was
13 only sent to Nations; it was not sent to the other parties.

14 However, if you'll look at the next page,
15 September 21st, this letter is substantially the same in
16 form as that which I sent to all the other parties.

17 Q. All right. let's go back, then, in terms of
18 chronology and have you describe for me what is your first
19 effort in this area to consolidate the interests.

20 A. In July I began sending out letters to all
21 unleased mineral interest owners. After I had a tabulation
22 of the interests, it appeared that there were no oil and
23 gas leases of record that any of these leases -- or any of
24 these mineral interest owners were subject to.

25 So I began requesting oil and gas leases from

1 each one of these individuals in July of this year, and I
2 made the same offer by way of bonus royalty and term on
3 each letter that I sent out.

4 Q. In response to your July letter, then, were you
5 able to obtain some leases?

6 A. Yes, sir, I was.

7 Q. And is that now reflected on Exhibit Number 2?

8 A. Yes, sir, it is.

9 Q. After your initial efforts in July -- Do we have
10 that July letter in any of the packages?

11 A. Yes, sir.

12 Q. Will that show up in Exhibit Number 3?

13 A. Yes, sir, it does. It shows up as a letter to
14 Fina Oil and Chemical. At the time I began negotiating or
15 tabulating the interests, Fina Oil and Chemical was
16 unleased, and I made the offer to Fina that's substantially
17 the same as all the other parties.

18 Q. All right. And so a similar letter as the
19 Examiner looks through the exhibit packages, will show up
20 with the July -- was it --

21 A. July 5th --

22 Q. -- July 5th date?

23 A. -- 1995. Yes, sir.

24 Q. All right. After the July 5th effort to obtain
25 leases, what then did you do?

1 A. I began calling each one of the individuals and
2 saw that numerous of them said that they would not do
3 anything with us until we were ready to drill the well, and
4 they just asked me to submit an AFE, which I did in
5 September.

6 Q. All right. What's the date in September that
7 that was submitted?

8 A. September 11th, to all parties other than Nations
9 Geophysical. And I met with Nations Geophysical in person
10 prior to submitting the AFE in writing.

11 Q. As the Examiner looks through your various
12 documents with regards to this effort, will he find similar
13 letters, then, with this September date?

14 A. Yes, sir, he will.

15 Q. In which you now send out an AFE and propose the
16 well and the terms by which it would be drilled?

17 A. Yes, sir.

18 Q. Can you show us an example of that letter?

19 A. Yes, sir, if you'll look at Exhibit 3 --

20 Q. How far back in Exhibit 3 do we have to go to
21 find it?

22 A. Actually, it's the second page. It's dated
23 September 21st.

24 And then if you would like to go on to Exhibit

25 4 --

1 Q. Okay.

2 A. -- it's about halfway down in the exhibit. It's
3 dated September 11th.

4 Q. All right. Let's take an example, then, of the
5 September letter to these interest owners, and describe for
6 us what you have proposed.

7 A. Basically what I have stated is that we were
8 proposing the drilling of the Aunt Lula "30" Number 1.
9 I've given the location. I've said that it would be a
10 9900-foot Wolfcamp test that we would like to spot in
11 October of 1995. And I stated in each one of the letters a
12 recap of what the mineral interest was and that I thought
13 at the time it was released.

14 And I enclose for their review an AFE to drill,
15 complete and equip the proposed well. And I also set forth
16 basic terms under which an operating agreement would be
17 proposed.

18 Q. All right. In response to that letter -- Did you
19 communicate that letter to all those parties?

20 A. Yes, sir, I did.

21 Q. Did you satisfy yourself that they got the
22 letter?

23 A. Yes, sir, I sent them out certified, return
24 receipt requested, and we got all the return receipts.

25 Q. In response to your letter, did you receive any

1 objection from any of these parties as to the proposed
2 costs of the well?

3 A. No, sir, none.

4 Q. Did any of those parties ask you for any more
5 information or details with regards to cost?

6 A. No, sir, they did not.

7 Q. Did they have any objection to the well itself?

8 A. No, sir, they did not.

9 Q. Did they communicate to you any uncertainty as to
10 the interests that you calculated for the participation in
11 the well?

12 A. The only corrections that we made in the interest
13 tabulation was that with the Osborn family, the W.B.
14 Osborn, the Barretts, and the Biedenhorns, and there was a
15 recalculation or tabulation after speaking with some of
16 those individuals to correct the interest.

17 Q. All right. As a follow-up, did you circulate a
18 proposed joint operating agreement to these parties now
19 that are still unleased?

20 A. Yes, sir, I did.

21 Q. Have you received any objection as to your
22 proposed operating agreement?

23 A. No, sir, not as of this date.

24 Q. Let's go through the next packages, then.

25 Without going through them in detail, if you'll identify

1 the package sets so the Examiner will know to what party
2 you're referring, starting, then, with Exhibit 4.

3 A. Exhibit 4 is the correspondence that I have both
4 sent to the Osborns and also letters that I have received
5 from the Osborns.

6 Exhibit 5 is the same type correspondence to Mr.
7 Don Wadsworth that represents the Betty Osborn Biedenhorn
8 Trust and the Estate.

9 Exhibit Number 6 is the same type of
10 correspondence with Mr. John Fleet and Alice Dickey.

11 And Exhibit Number 7 is the proposed letter and
12 operating agreement that was sent to all parties.

13 Q. How did you obtain the cost components of the AFE
14 summary that was circulated to the parties?

15 A. I received it from our reservoir engineer.

16 Q. Is that the typical way you receive that
17 information within your company?

18 A. Yes, sir, it is. The engineers are responsible
19 for compiling the AFE, and then I send it out with a letter
20 to the proposed working interest partners.

21 Q. Is the manner in which that is prepared and
22 circulated in this case consistent with how you normally
23 practice that part of your business?

24 A. Yes, sir, it is.

25 Q. In terms of overhead rates, in the Application

1 for compulsory pooling we had requested overhead rates of
2 \$5000 a month drilling rate and then a monthly rate of
3 \$500.

4 A. Yes, sir.

5 Q. Have you received any objection from any of these
6 interest owners with regards to the adoption by the
7 Division of those rates?

8 A. No, sir, I have not received any objection.

9 Q. Are those your proposed rates?

10 A. Yes, sir, they are.

11 Q. Describe for us the basis upon which you have
12 reached that recommendation.

13 A. I did a survey in the area that we're using as
14 our analogy field. I polled two separate operators in that
15 area and asked them if they would share with me the
16 overhead rates for producing wells in that area that were
17 from the same formation. I used those numbers as a basis.

18 I also looked at, within Meridian's system, wells
19 that were producing from the same formation, the closest
20 field that we had to this particular area, and looked at
21 what we're currently charging as overhead rates in those
22 areas, in those particular wells, with identical depths and
23 used that as a guide.

24 And then I also looked at the *Ernst and Young*
25 survey, the latest of which I have is 1994's survey, and

1 talked to our accounting group. It was determined that the
2 escalation factor for 1995 was 4.4 percent.

3 So with an aggregate of all those components, then we
4 were able to determine the number of \$5000 for a drilling
5 well rate and \$500 for a producing well rate.

6 Q. Let's turn now to the exhibit that's marked next.
7 I think you're up to Exhibit 8, are you not?

8 A. Yes, sir.

9 Q. And would you identify that for us?

10 I'm sorry, it's 7, and I've misplaced mine. What
11 was the joint operating agreement attached to? Was that
12 attached to Exhibit 7?

13 A. Yes, sir, it was. There's a letter that goes
14 with the operating agreement.

15 Q. All right, I see what we've done here. All
16 right.

17 The cover letter is Exhibit 7, to which you've
18 attached and circulated --

19 A. -- the operating --

20 Q. -- a copy of the proposed operating agreement?

21 A. That is correct.

22 MR. KELLAHIN: All right. Mr. Examiner, that
23 concludes my examination of Ms. Swierc.

24 We move the introduction of her Exhibits 1
25 through 7.

1 EXAMINER STOGNER: Are there any objections?

2 MR. CARR: No objection.

3 EXAMINER STOGNER: Exhibits 1 through 7 will be
4 admitted into evidence.

5 Mr. Carr, before I turn the witness over to you,
6 I need to clarify a matter.

7 Mr. Kellahin, I show that only 40 acres of the
8 160 acres ended up in the advertisement from your
9 Application for this matter, and now the east half has been
10 mentioned.

11 MR. KELLAHIN: That's an error on my part, Mr.
12 Examiner.

13 It's my understanding from Meridian's technical
14 people that there is no reasonable probability of 320 gas
15 spacing in this area. That would be highly unusual.

16 The primary target is a 40-acre Wolfcamp oil, and
17 we would be satisfied if spacing was done as advertised on
18 the docket.

19 EXAMINER STOGNER: Okay. Mr. Carr, I'll turn the
20 witness over to you.

21 MR. CARR: Thank you.

22 CROSS-EXAMINATION

23 BY MR. CARR:

24 Q. Ms. Swierc, if we go to the Fina interest --

25 A. Yes, sir.

1 Q. -- that interest is encumbered with a 25-percent
2 royalty burden, is it not?

3 A. Yes, sir, it is.

4 Q. And the Osborn interest would also now bear a 25-
5 percent royalty burden?

6 A. Mr. Osborn sent me a copy of a lease, yes, sir,
7 that has a 25-percent royalty burden.

8 Q. If I look at your Exhibit Number 3, in the letter
9 -- it's the third page in that exhibit, dated September 21,
10 1995 --

11 A. Yes, sir.

12 Q. -- and we go to the second page of that, this is
13 directed to Nations.

14 And the first sentence in the second paragraph
15 states that "If Nations doesn't release acreage to Fina,
16 Meridian is prepared to seek appropriate remedies from the
17 New Mexico Oil Conservation Division for excessive burdens
18 attached to the 1/8th mineral interest leased by Nations."

19 My question is, are you seeking any special
20 relief here today because of those royalty burdens?

21 A. No, sir, we are not.

22 Q. Okay. That's going to simplify our hearing.

23 If we look at the overhead and administrative
24 rates, the rates that you are proposing, in fact, are
25 slightly higher than if we took the *Ernst and Young* 1994

1 figures and just applied a 4.4-percent escalation.

2 Would Meridian have any objection to using the
3 Ernst and Young figures escalated by 4.4 percent?

4 A. I can't answer that question today. I would take
5 it back to management and take it under advisement.

6 Q. If we look at the property interests held by
7 Nations, they actually acquired their interests because of
8 some seismic work they did in the area; isn't that correct?

9 A. Yes, sir, it is.

10 Q. Are you aware of whether any agreement has been
11 reached between Meridian and Nations for the disclosure of
12 that seismic?

13 A. As of the day that we left to attend this
14 hearing, Nations had not responded to our request to
15 disclose the data, so we're under the assumption that we
16 cannot disclose it.

17 Q. Would Meridian -- and you may not know, but if
18 you do, would Meridian be willing to provide at some
19 regular basis payout statements during the nonconsent
20 period so Nations would know where they were in regard to
21 the payout of their interest in the well?

22 A. Yes, sir, I would assume that we would. I think
23 that that's done on a --

24 MR. CARR: Okay.

25 THE WITNESS: -- pretty routine basis.

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

2 THE WITNESS: Thank you.

3 EXAMINER STOGNER: Any other questions, Mr.
4 Kellahin?

5 MR. KELLAHIN: No, sir.

6 EXAMINATION

7 BY EXAMINER STOGNER:

8 Q. On the overhead charges, that was \$5000 and \$500,
9 respectively?

10 A. Yes, sir.

11 Q. Is that to be a fixed, or is that to be adjusted
12 annually?

13 A. That's to be -- to have an annual escalation.

14 Q. And that escalation is to be determined as it is
15 in the operating agreement?

16 A. Yes, sir, the COPAS procedure that's attached as
17 Exhibit C to the operating agreement.

18 Q. Who's Aunt Lula?

19 A. There's a long story behind all these mineral
20 interest owners, but bottom line is, Aunt Lula is one of --
21 she's -- Lula Evans is a deceased individual that owned a
22 one-eighth mineral interest under this tract.

23 And in my search for heirs of Aunt Lula I met a
24 very interesting older gentleman, and he and I kind of
25 struck up a rapport. And he was very interested that Aunt

1 Lula's bequest to him was now going to serve its purpose,
2 or at least he thought so, and he wanted something
3 befitting for Aunt Lula. So subsequently the name, the
4 Aunt Lula.

5 Q. Is that one of the parties that has leased, or
6 are being force-pooled today?

7 A. No, they have leased.

8 EXAMINER STOGNER: Okay.

9 (Laughter)

10 EXAMINER STOGNER: Any other questions of Ms.
11 Swierc?

12 You may be excused.

13 THE WITNESS: Thank you.

14 MR. KELLAHIN: Mr. Examiner, we're going to look
15 at some maps now for the geologic part of the presentation.
16 It might be helpful if we take a moment and just unfold all
17 those.

18 That will be Exhibits 8, 9 and 10.

19 THOMAS FAGO,

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

22 DIRECT EXAMINATION

23 BY MR. KELLAHIN:

24 Q. All right, sir, would you please state your name
25 and occupation?

1 A. Thomas Fago. I am a senior geophysicist.

2 Q. For the record, Mr. Fago, you spell your last
3 name F-a-g-o?

4 A. F-a-g-o, that's correct.

5 Q. On prior occasions have you testified before the
6 Division?

7 A. No, I have not.

8 Q. Summarize for us your education.

9 A. I have a bachelor of science degree in geology in
10 1986 from Ashland University, Ashland, Ohio. And I have a
11 master's of science degree in geophysics from Wright State
12 University in Dayton, Ohio; that was in 1988.

13 Q. Summarize for us your particular involvement in
14 this project.

15 A. I was the geophysicist that has mapped the
16 prospect.

17 Q. As a result of that work, have you now completed
18 it to a sufficient point where you can reach conclusions
19 and opinions with regards to an appropriate risk factor
20 penalty to be applied in this case, should the Division
21 execute and issue a pooling order?

22 A. Yes, I have.

23 MR. KELLAHIN: We tender Mr. Fago as an expert
24 geologist and geophysicist.

25 EXAMINER STOGNER: Any objections?

1 MR. CARR: No objection.

2 EXAMINER STOGNER: Mr. Fago is so qualified.

3 Q. (By Mr. Kellahin) With regards to that topic,
4 Mr. Fago, do you have an opinion?

5 A. Yes, I do.

6 Q. And what is it, sir?

7 A. I believe the penalty should be 200 percent.

8 Q. Let's talk about how you have reached that
9 conclusion.

10 When you look at the opportunities within the
11 southeast quarter of the section, what is your best chance
12 for hydrocarbon production?

13 A. Our best chance is in the Wolfcamp formation at
14 about 9900 feet.

15 Q. Are there any likely probable lesser backup zones
16 in the well?

17 A. It's not likely, based on the subsurface work.
18 There is really very little chance of any other zones being
19 productive.

20 Q. When we look at the Wolfcamp in this area, is it
21 likely to be hydrocarbon-bearing, where the hydrocarbons
22 are in an oil state or a gas state?

23 A. They will be in an oil state.

24 Q. Why is that so?

25 A. That's based on our analogous fields that we used

1 when mapping this area and the production that the Wolfcamp
2 produces at similar depths.

3 Q. Give us a quick summary of the geologic
4 deposition that you're targeting here.

5 A. The Wolfcamp formation in this area, we feel, are
6 small isolated algal patch reefs, and the small nature of
7 the size adds a significant risk to the prospect.

8 Q. When you're looking at a way to analyze where to
9 put the well in this particular section, do you have useful
10 conventional geologic tools to rely upon?

11 A. This project was mapped using three-dimensional
12 seismic data, and that's really the only way that you can
13 find these small, isolated carbonate buildups.

14 Q. Is there well control information or log data in
15 this area that you can look at?

16 A. Yes, there is, there --

17 Q. Did you look at it?

18 A. Yes, I did.

19 Q. And do you have that relevant log information
20 displayed on an exhibit?

21 A. The exhibit marked Number 8 is a cross-section
22 which goes through the two closest wells to our proposed
23 location, the Aunt Lula "30" Number 1.

24 Q. How is that utilized by you in assessing risk?

25 A. The risk associated based on the subsurface well

1 control is that there is a lack of reservoir facies in the
2 Wolfcamp at the two wells which immediately surround our
3 proposed location.

4 Q. Tell me as a layman, what does that mean?

5 A. That means that there's a good chance that
6 there's not going to be any reservoir there.

7 Q. When you look at conventional log data, you can't
8 find this little creature?

9 A. You can't see it on the two closest wells that
10 are offsetting our proposed location 1300, 1400 feet.

11 Q. What then did you do?

12 A. We used three-dimensional seismic data to image a
13 structural picture of the Wolfcamp formation, and those are
14 attached as Exhibit 9.

15 Q. I understand there is a proprietary agreement
16 with Nations Geophysical with regards to the disclosure
17 publicly of that information. Does anything you're about
18 to show the Division violate those agreements?

19 A. No, it doesn't.

20 Q. All right. Let's talk about the concept.

21 Does the fact that you had 3-D seismic data
22 available somehow diminish the risk so it's less than the
23 200-percent maximum?

24 A. I don't believe so.

25 Based on the interpretation, our primary risk

1 associated with this prospect is the existence of Wolfcamp
2 reservoir facies which is capable of producing commercial
3 quantities of hydrocarbon.

4 Q. It's not a sure deal, is it?

5 A. No.

6 Q. When you're looking at the composite results of
7 that geophysical analysis, what are the components of
8 importance to you?

9 A. The important components is the structural image
10 of the top of the Wolfcamp structure, as well as the
11 thickness of what we believe the Wolfcamp interval is
12 thickening, as shown on the cross-section.

13 Q. Are those two components of criteria for deciding
14 this well location displayed on these exhibits?

15 A. Yes, it is.

16 Q. And you're maximizing structure and maximizing
17 thickness, as best you can interpret it with the 3-D work?

18 A. Yes, I am, for a proposed well.

19 Q. Let's look at the structure map and look at
20 position.

21 A. Again, Exhibit Number 9 is a structural map on
22 top of the Wolfcamp. Again, this is our proposed reservoir
23 target.

24 Also shown on the map are the well controls used
25 on the cross-section, as well as in the map. The --

1 Q. What's the point? What's the conclusion?

2 A. The proposed well location that -- we're trying
3 to get on as high structurally as possible, and we're also
4 trying to get in the thickest possible location.

5 You see on the next map, which is Exhibit Number
6 10.

7 Q. All right, let's turn to Exhibit Number 10, then,
8 and look at the thickness map.

9 A. Again, our proposed location is such that we want
10 to be structurally high, based on the interpretation of the
11 3-D seismic data, as well as stratigraphically thick, and
12 that's our best opportunity to find commercial
13 hydrocarbons.

14 Q. How far away do you have to go from this specific
15 area to find producing oil in a Wolfcamp reservoir that's
16 similar to this?

17 A. The closest producing analog is in the Gladiola
18 field, which is approximately 10 miles south of our
19 proposed location.

20 Q. Would you characterize this as a wildcat effort?

21 A. Yes, it is, this is a rank wildcat.

22 MR. KELLAHIN: That concludes my examination of
23 Mr. Fago, Mr. Examiner.

24 We move the introduction of his Exhibits 8, 9 and
25 10.

1 MR. CARR: No objection.

2 EXAMINER STOGNER: Exhibits 8, 9 and 10 will be
3 admitted into evidence.

4 Thank you, Mr. Kellahin.

5 Mr. Carr, your witness.

6 MR. CARR: I have no questions of this witness.

7 EXAMINATION

8 BY EXAMINER STOGNER:

9 Q. In referring to Exhibit Number 8, when I look at
10 the top of the Wolfcamp seismic reflector --

11 A. Yes, sir.

12 Q. -- which you said that they did extend over into
13 the other well to the west; is that correct?

14 A. The top of the Wolfcamp reflector does extend
15 across both of the wells.

16 Q. It's just not on this particular piece of
17 seismic; is that right?

18 A. I'm sorry, I don't understand the question.

19 Q. Well, I don't see the line going on through
20 there.

21 A. Oh, on our --

22 Q. On your exhibit.

23 A. I'm not following you. The line --

24 Q. Okay, when I look at the top of the Wolfcamp
25 seismic reflector --

1 A. Yes, sir.

2 Q. It just stops at the Aunt Lula well, coming off
3 the well to the east.

4 A. Okay.

5 Q. But where is the top of that seismic reflector
6 over there on the Sohio Oil Company Field well?

7 A. The top of the Wolfcamp --

8 Q. I think I see.

9 A. Uh-oh, that's -- I'll trade you. I apologize. I
10 didn't look at each one of these individually.

11 MR. KELLAHIN: You've exchanged exhibits with the
12 Examiner, and he now has one that is complete and accurate?
13 I double-checked there, Tom. You've got the right one to
14 him?

15 THE WITNESS: Yes. I apologize for that. I did
16 not look at each one of these individual --

17 Q. (By Examiner Stogner) Okay. I thought you were
18 showing a fault or something.

19 And the 315-foot interval in the proposed Aunt
20 Lula well, that is the productive interval that you expect
21 to find production?

22 A. We believe that interval is -- the productive
23 interval would be within that 300 foot.

24 Q. And what kind of deposition is that?

25 A. Again, this is a carbonate buildup, so you're

1 looking at an algal patch reef. It's a very localized
2 event.

3 Q. The Gladiola field back -- You said was the
4 closest production, that was 10 miles to the south?

5 A. Yes, sir.

6 Q. Is that the same kind of deposition that that
7 production is found in?

8 A. Yes, it is.

9 Q. And how about the Wolfcamp production in this
10 area? Is that also analogous of it?

11 A. That is the closest Wolfcamp production in this
12 area.

13 Q. How about some of the ones further away? Are
14 they also patch-reef-type production?

15 A. As far as I can characterize them, that is
16 correct.

17 Q. Okay. And what is the proposed depth of the Aunt
18 Lula well?

19 A. The proposed depth is 9900 feet.

20 Q. Now, will that go all the way through the
21 Wolfcamp?

22 A. Yes, sir, it will.

23 Q. And in looking at your two maps, this appears to
24 be the most optimal location to Meridian?

25 A. Yes, sir, it is.

1 EXAMINER STOGNER: Any other questions?

2 MR. KELLAHIN: No, sir, not for me.

3 EXAMINER STOGNER: You may be excused.

4 THE WITNESS: Thank you.

5 EXAMINER STOGNER: Thank you.

6 MR. KELLAHIN: Mr. Examiner, at this time we'll
7 call Chet Babin. Mr. Babin is a petroleum engineer with
8 Meridian. He resides in Midland.

9 CHET BABIN,

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

12 DIRECT EXAMINATION

13 BY MR. KELLAHIN:

14 Q. For the record, sir, would you please state your
15 name and occupation?

16 A. My name is Chet Babin. I'm an engineer.

17 Q. Mr. Babin, on prior occasions have you qualified
18 before the Division as a petroleum engineer?

19 A. Yes, I have.

20 Q. With regards to your duties as a petroleum
21 engineer, are you part of Meridian's technical team that
22 has worked on this particular prospect?

23 A. Yes, sir.

24 Q. Among your engineering duties, have you worked
25 with the drilling engineers to verify and tabulate a

1 proposed well cost for this well?

2 A. Yes, sir.

3 MR. KELLAHIN: We tender Mr. Babin as an expert
4 petroleum engineer.

5 MR. CARR: We will stipulate to his
6 qualifications.

7 EXAMINER STOGNER: Mr. Babin is so qualified.

8 Q. (By Mr. Kellahin) Mr. Babin, let me have you
9 turn to what we've marked as Exhibit Number 11. Would you
10 identify that for us?

11 A. Exhibit Number 11 consists of the cost estimates
12 for drilling the proposed well.

13 Q. If the Division Examiner agrees with your
14 Application and issues a pooling order, is this the
15 proposed AFE that you're recommending be issued and sent to
16 the parties to be subject to the pooling order?

17 A. Yes, sir.

18 Q. To the best of your knowledge, is it still
19 accurate and current?

20 A. Yes, sir, it is.

21 Q. In the last day or so, have you reverified with
22 the drilling engineer the accuracy of this information?

23 A. Yes, sir, I have.

24 Q. In your opinion, is it accurate and reliable?

25 A. Yes, sir, it is.

1 Q. Give us a short summary of the reasons by which
2 you have reached that opinion.

3 A. In discussing again with the various engineers
4 that compiled this, although they are dated in July, they
5 are still accurate, and these will be the costs that will
6 be -- comprise the AFE and will be proposed to management
7 for drilling the well.

8 Q. Are these specific costs consistent with the cost
9 identified to the various interest owners in Leslyn
10 Swierc's efforts to identify this prospect to those
11 parties?

12 A. Yes, sir.

13 Q. So all that's consistent?

14 A. That's correct.

15 Q. You're not aware of any material change?

16 A. No, sir.

17 MR. KELLAHIN: That concludes my examination of
18 Mr. Babin.

19 We move the introduction of Exhibit Number 11.

20 EXAMINER STOGNER: Any objection?

21 MR. CARR: No objection.

22 EXAMINER STOGNER: Exhibit Number 11 will be
23 admitted into evidence.

24 Mr. Carr, your witness.

25 MR. CARR: We have no questions of Mr. Babin.

1 EXAMINATION

2 BY EXAMINER STOGNER:

3 Q. In referring to your dryhole cost, naturally that
4 doesn't include the production casing, but on your primary
5 cementing cost that would be what? About a \$2200
6 escalation, or a \$22,000 additional cost for the cementing
7 on the production?

8 A. Yes --

9 MR. KELLAHIN: You're looking at entry 18, Mr.
10 Examiner?

11 EXAMINER STOGNER: Yes, I am.

12 MR. KELLAHIN: All right, sir.

13 Q. (By Examiner Stogner) Does that actually reflect
14 -- What? Just the cementing portion of that cost?

15 A. Yes, sir. Of course, the dryhole cost would
16 include the plugging of the well.

17 Q. Where's your cement cost reflected on the
18 completion well cost estimate? Is it shown there?

19 A. Well, that would be under the suspended cost.

20 EXAMINER STOGNER: Okay. Any other questions of
21 this witness?

22 MR. KELLAHIN: No, sir.

23 EXAMINER STOGNER: You may be excused at this
24 time.

25 THE WITNESS: Thank you.

1 MR. KELLAHIN: Mr. Examiner, the last exhibit is
2 our certificate of notification of mailing. For purposes
3 of the hearing we've marked it as Exhibit Number 12 to
4 present.

5 We move the introduction of Exhibit Number 12.

6 EXAMINER STOGNER: Any objection?

7 MR. CARR: No objection.

8 EXAMINER STOGNER: Exhibit Number 12 will be
9 admitted into evidence.

10 MR. KELLAHIN: That concludes our presentation,
11 Mr. Examiner.

12 EXAMINER STOGNER: Mr. Carr, do you have anything
13 to present at this time?

14 MR. CARR: No, we do not, Mr. Stogner.

15 EXAMINER STOGNER: Does anybody else have
16 anything further in Case Number 11,417?

17 MR. CARR: The only thing we would request is
18 that the overhead and administrative charges be based on
19 the *Ernst and Young* survey and escalated annually.

20 EXAMINER STOGNER: Let me make sure I get that
21 right, Mr. Carr. If I remember right, that was 1994 rates,
22 and which was --

23 MR. CARR: -- to be escalated at, I understood
24 the testimony, by 4.4 percent, and then thereafter would be
25 subject to annual escalations, and that is what Nations and

1 the Osborn group would prefer.

2 MR. KELLAHIN: Mr. Examiner, we propose to have
3 the \$5000/\$500 as requested in the Application based upon
4 Ms. Swierc's testimony supporting those numbers.

5 EXAMINER STOGNER: Mr. Carr, could you provide me
6 subsequent to this hearing that exact figure --

7 MR. CARR: Yes, sir.

8 EXAMINER STOGNER: -- that you're referring to --

9 MR. CARR: Yes, sir, we can.

10 EXAMINER STOGNER: -- and make a copy of --

11 MR. CARR: It will be a page from the survey, and
12 I'll provide it to Mr. Kellahin as well.

13 EXAMINER STOGNER: Yes. With that, I'll leave
14 the record open in this matter, pending that information.

15 If there's nothing else further in this
16 particular case --

17 MR. KELLAHIN: How long will it take to do that?
18 We have some time deadlines on getting this --

19 MR. CARR: I will have the information to both of
20 you tomorrow before noon.

21 EXAMINER STOGNER: Okay. Could you perhaps fax
22 that to my office --

23 MR. CARR: Yes, sir.

24 EXAMINER STOGNER: -- and Mr. Kellahin's?

25 MR. CARR: Yes, sir, I will.

1 MR. KELLAHIN: We would appreciate that. Thank
2 you, Mr. Examiner.

3 EXAMINER STOGNER: And I will take that as a
4 request for an expedited order.

5 MR. KELLAHIN: It would be our request, Mr.
6 Examiner.

7 EXAMINER STOGNER: Okay.

8 (Thereupon, these proceedings were concluded at
9 9:28 a.m.)

10 * * *

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19 I do hereby certify that the foregoing is
20 a complete record of the proceedings in
the Examiner hearing of Case No. 11417,
21 heard by me on 2 November 1995.

22 Michael E. Stogner, Examiner
23 Oil Conservation Division
24
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 November 8th, 1995.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 1998