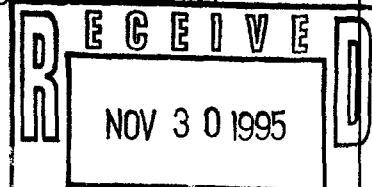


STATE OF NEW MEXICO

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:)

OIL CONSERVATION DIVISION
 CASE NO. II,427

APPLICATION OF MARALO, INC., FOR)
 COMPULSORY POOLING, LEA COUNTY,)
 NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGSEXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

November 16th, 1995

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, November 16th, 1995, at the New Mexico Energy, Minerals and Natural Resources Department, Porter Hall, 2040 South Pacheco, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

I N D E X

November 16th, 1995
 Examiner Hearing
 CASE NO. 11,427

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* * *

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* * *

A P P E A R A N C E S

FOR THE APPLICANT:

CAMPBELL, CARR & BERGE, P.A.
 Suite 1 - 110 N. Guadalupe
 P.O. Box 2208
 Santa Fe, New Mexico 87504-2208
 By: PAUL R. OWEN

* * *

1 WHEREUPON, the following proceedings were had at
2 12:18 p.m.:

3 EXAMINER CATANACH: At this time we'll call Case
4 11,427, the Application of Maralo, Inc., for compulsory
5 pooling, Lea County, New Mexico.

6 Are there appearances in this case?

7 MR. OWEN: Yes, Mr. Examiner, my name is Paul R.
8 Owen. I'm with the law firm of Campbell, Carr and Berge in
9 Santa Fe.

10 I'm entering an appearance for Maralo,
11 Incorporated, and I have two witnesses in this matter.

12 EXAMINER CATANACH: Any additional appearances?
13 There being none, will the two witnesses please stand to be
14 sworn in at this time?

15 (Thereupon, the witnesses were sworn.)

16 MR. OWEN: At this time I'd like to call Mr. Mark
17 Wheeler.

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. OWEN:

23 Q. Please state your name and place of residence.

24 A. Charles Mark Wheeler, Midland, Texas.

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

1 A. Maralo, Incorporated, district landman.

2 Q. Have you previously testified before the Oil
3 Conservation Division and had your credentials as a landman
4 accepted and made a matter of record?

5 A. Yes, I have.

6 Q. Are you familiar with the Application filed in
7 this case?

8 A. Yes, I am.

9 Q. Are you familiar with the subject area?

10 A. Yes.

11 MR. OWEN: Are the witness's qualifications
12 acceptable?

13 EXAMINER CATANACH: Yes, they are.

14 Q. (By Mr. Owen) Would you briefly state what
15 Maralo seeks with this Application?

16 A. Maralo seeks pooling from the surface to the base
17 of the Wolfcamp formation, underlying the north half,
18 northeast quarter of Section 20, for formations developed
19 on 80-acre spacing, in Township 13 South, Range 38 East,
20 Lea County, New Mexico.

21 Q. Are these to be dedicated to a certain well?

22 A. Yes, sir, we have drilled the Lowe "20" Number 1
23 well in the northwest-northeast quarter, which was previous
24 to the pooling, for 40 acres, was previously approved, and
25 when we recently obtained temporary special pool rules

1 establishing 80 acres, we're now wanting to force-pool the
2 northeast-northeast into that 80 acres. It's to be
3 dedicated to that well which was previously approved at a
4 location 350 feet from the north line and 1550 feet from
5 the east line.

6 Q. What are the current rules governing this pool?

7 A. There are current temporary special pool rules
8 established by the order R-10,504, entered October 24th,
9 1995. Those rules establish temporary 80-acre spacing for
10 this Wolfcamp pool.

11 Q. Is that why you're again pooling acreage for this
12 well?

13 A. Yes.

14 Q. Have you prepared, supervised or directed the
15 preparation of certain exhibits for introduction in this
16 case?

17 A. Yes, I have.

18 Q. Let's go to Maralo Exhibit Number 1. Would you
19 please briefly describe that exhibit and its contents?

20 A. This is a land map that shows the northeast
21 quarter of Section 20, Township 13 South, Range 38 East.
22 There's common fee ownership throughout the entire
23 northeast quarter. It also shows the well location of the
24 Lowe "20" Number 1 well, which was previously approved in
25 an unorthodox location.

1 Q. What's the status of the acreage in the north
2 half, northeast quarter of Section 20?

3 A. It's all fee.

4 Q. What is the primary objective of the proposed
5 well?

6 A. The well has been drilled --

7 Q. I'm sorry --

8 A. -- was drilled originally to the Devonian. But a
9 Devonian completion was not successful, so it has been
10 completed in the Wolfcamp formation.

11 Q. Let's go to Maralo Exhibit Number 2. Could you
12 please briefly describe that exhibit and its contents?

13 A. This is an ownership breakdown of the working
14 interest ownership for both -- for the Lowe "20" Number 1
15 well, and it also shows the uncommitted interests which
16 consists of two fee land owners that have been unlocatable,
17 mineral owners.

18 Q. What percentage of this acreage is voluntarily
19 committed to this well?

20 A. 99.0167 percent.

21 Q. Are there any other owners who you have been
22 unable to locate?

23 A. Yes, sir. There are two: Mr. Joe V. Mims,
24 M-i-m-s, and a Mr. R.C. Hunton, H-u-n-t-o-n, each owning
25 0.4167-percent interest, mineral interest.

1 Q. Are these gentlemen already subject to the
2 previous pooling order entered in this case on the
3 northwest-northeast?

4 A. Yes, sir, they are.

5 Q. How many interest owners have you identified who
6 are subject to this pooling Application?

7 A. Just those two.

8 Q. In your opinion, have you made a good-faith
9 effort to obtain a voluntary joinder?

10 A. Yes, sir, we have.

11 Q. What efforts have you made?

12 A. We looked up the mineral interests in the Caprock
13 abstract records, as well as the Lea County records, we
14 found a last known address for both of these parties and
15 mailed them letters offering for them to lease. When they
16 were returned to us, we further looked into the records to
17 determine another address, as well as looking in the
18 National CD-ROM Directory for Phone Numbers and Addresses.

19 Q. And you were unsuccessful in locating them with
20 those efforts?

21 A. Yes, sir, we have not been able to locate either
22 party.

23 Q. Let's go to Exhibit Number 3. Would you please
24 briefly describe that exhibit and its contents?

25 A. This is our AFE that was proposed for the Lowe

1 "20" Number 1 well, which was originally drilled to a depth
2 of 12,600 feet for a Devonian test.

3 Q. What are the totals set forth on this exhibit?

4 A. The dryhole cost for the Devonian well was
5 \$599,450, and completed well \$848,650.

6 Q. Are these costs in line with what has been
7 charged by other operators in the area for similar wells?

8 A. Yes, they are.

9 Q. Let's go to Maralo Exhibit Number 4. Would you
10 please briefly describe that exhibit and its contents?

11 A. These were copies of the letters sent to Mr.
12 Hunton and Mr. Mims at their last known addresses,
13 requesting their voluntary joinder by leasing.

14 Q. Let's go to Maralo Exhibit Number 5. Would you
15 please briefly describe that exhibit and its contents?

16 A. This was the notification that the Campbell,
17 Carr, Berge firm sent out providing notice of this hearing.

18 Q. Have you made an estimate of overhead and
19 administrative costs while drilling this well and also
20 while producing this well?

21 A. Yes, sir.

22 Q. What are those costs?

23 A. \$5200 per month during the drilling and \$520 per
24 month during the production phase.

25 Q. And as this well is already completed, these

1 aren't just estimates; are these actual figures?

2 A. These are actual figures that we're using for
3 this well, yes, sir.

4 Q. Are these costs in line with what is being
5 charged by other operators -- or by the operators in this
6 area?

7 A. Yes, they are.

8 Q. Do you recommend that these figures be
9 incorporated into any order that results from this hearing?

10 A. Yes, I do.

11 Q. Do you seek to be the designated the operator of
12 the proposed well?

13 A. Yes, we do.

14 Q. Did you prepare or direct and supervise the
15 preparation of Exhibits 1 through 5?

16 A. Yes, I did.

17 MR. OWEN: Mr. Examiner, I ask that Exhibits 1
18 through 5 be admitted as evidence in this case.

19 EXAMINER CATANACH: Exhibits 1 through 5 will be
20 admitted as evidence.

21 MR. OWEN: That concludes my examination of this
22 witness.

23 EXAMINATION

24 BY EXAMINER CATANACH:

25 Q. Mr. Wheeler, was the original 40 acres pooled to

1 the Devonian?

2 A. It was pooled for all formations from the surface
3 to the base of the Devonian.

4 Q. Okay. Devonian test was unsuccessful, and you
5 came back up and recompleted at the Wolfcamp?

6 A. Yes, sir.

7 Q. The interest owners who are participating in this
8 well, the share of well costs that they're paying are in
9 fact the well costs to the Devonian; is that correct?

10 A. Yes, they all pay to the Devonian.

11 Q. Okay. Have you looked at the actual well costs,
12 and are they in line with the AFE, or do you have actual
13 well costs?

14 A. I don't think we have all of the actual well
15 costs in. This well was just recently completed, so -- but
16 typically we run very close to our AFE numbers, if not a
17 little below.

18 Q. Now, you're seeking to have the force-pool
19 parties pay their share of the Devonian costs; is that
20 correct?

21 A. Yes, sir, the total well cost drilled.

22 Q. But they were, in fact, subject to that under the
23 first pooling order?

24 A. These two were. And in addition, there were
25 several other owners who have since been located and have

1 agreed to lease. These are the only two remaining owners
2 that have not been located.

3 Q. Do you know what the previous pooling order was,
4 by any chance?

5 A. The number? I believe -- Did you find that, Mr.
6 Owen?

7 MR. OWEN: I was supposed to find that, Mr.
8 Examiner. I can locate that for you immediately after the
9 hearing.

10 EXAMINER CATANACH: Okay.

11 THE WITNESS: It was entered into in April of
12 this year.

13 EXAMINER CATANACH: I have nothing further of the
14 witness. You may be excused.

15 MR. OWEN: At this time I'd like to call Mr.
16 Shane Lough.

17 SHANE LOUGH,
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. OWEN:

22 Q. Please state your name and place of residence.

23 A. Carl Shane Lough, Odessa, Texas.

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

25 A. Maralo, Incorporated, senior staff geologist.

1 Q. Have you previously testified before the Oil
2 Conservation Division and had your credentials as a
3 geologist accepted and made a matter of record?

4 A. I have.

5 Q. Are you familiar with the Application filed in
6 this case?

7 A. Yes.

8 Q. Are you familiar with the subject area?

9 A. Yes.

10 MR. OWEN: Are the witness's qualifications
11 acceptable?

12 EXAMINER CATANACH: They are.

13 Q. (By Mr. Owen) Has Maralo drilled other Wolfcamp
14 wells in the immediate area?

15 A. We have.

16 Q. Where were those wells drilled?

17 A. We've drilled two wells. One was drilled and
18 completed approximately one and a half miles west
19 southwest, located in Section 19, and a dryhole located in
20 the same section as this -- our request here, approximately
21 three-quarters of a mile west.

22 Q. Okay. Let's go ahead and go to Maralo's Exhibit
23 Number 6, which I believe you're looking at.

24 A. Okay, yes. Yes.

25 Q. Would you please briefly describe that and

1 describe its contents?

2 A. Yes, this is our general orientation map showing
3 our request. It shows additional Wolfcamp pools in the
4 area, producing pools, and it shows separation from these
5 pools by virtue of numerous dryholes.

6 Q. Okay. What is outlined in red there?

7 A. That's the requested proration unit of the Lowe
8 "20" Number 1.

9 Q. Okay, let's go to Maralo's Exhibit Number 8.
10 Would you please identify and review that exhibit?

11 A. Would you repeat the number, please?

12 Q. Exhibit Number 7, pardon me.

13 A. Okay, that's fine. This is a structure map that
14 I've done on the top of the Wolfcamp XX marker. It shows
15 the structural interpretation of the Wolfcamp using both
16 subsurface and 3-D seismic control. It shows the producing
17 area of the field or the estimated producing area of the
18 field, and it also shows a trace of the cross-section C-C',
19 as well as the proration unit.

20 Q. Now let's go to Maralo's Exhibit Number 8.

21 A. Okay.

22 Q. Would you please identify and review that
23 exhibit?

24 A. Yes, this is a cross-section across the field.
25 There's two logs and one proposed location. This exhibit

1 has the log of the Lowe "20" Number 1 located on the right
2 side. It has the existing perforations from which we're
3 completed in currently. It has additional drill stem tests
4 that we took while drilling the Wolfcamp.

5 We go to the left of that log, and we have the
6 proposed location of the Lowe "20" Number 2, a development
7 well, proposed for this field.

8 And then further to the left, the leftmost log on
9 the cross-section, is a well log of the Lone Star Brady
10 Lowe Number 1, which we consider a potential development
11 location that we hope to re-enter at some point in time.

12 This cross-section also shows the structural
13 nature of the trap of the Wolfcamp in this area.

14 Q. I notice, Mr. Lowe, that at the top of the
15 Exhibit it states Lowe "20" Number 2. In fact, we're
16 talking about the Lowe "20" Number 1. Is that reflected on
17 the upper right-hand corner of this exhibit?

18 A. Yes, the upper right-hand corner, the header of
19 the well log is the actual Lowe "20" Number 1, which is the
20 subject of this request.

21 Q. Are you prepared to make a recommendation --
22 Well, since this well was already drilled...

23 MR. OWEN: Mr. Examiner, I do have the previous
24 order entered, pooling interests in this case previously.
25 It is Order Number R-10,403. It was entered the 26th day

1 of June, 1995.

2 EXAMINER CATANACH: Thank you.

3 Q. (By Mr. Owen) In your opinion, will granting
4 this Application be in the best interests of conservation,
5 the prevention of waste and the protection of correlative
6 rights?

7 A. I believe it will.

8 Q. When was this well drilled and completed?

9 A. The well was drilled in July of 1995 and was
10 completed in October of 1995, in the Wolfcamp.

11 Q. Were Exhibits 6 through 8 either prepared by you
12 or compiled under your direction and supervision?

13 A. They were.

14 MR. OWEN: Mr. Examiner, I offer Exhibits 6
15 through 8 at this time.

16 EXAMINER CATANACH: Exhibits 6 through 8 will be
17 admitted as evidence.

18 MR. OWEN: That concludes my direct examination
19 in this case.

20 EXAMINATION

21 BY EXAMINER CATANACH:

22 Q. I'm not sure I caught the proposed risk penalty.

23 A. We didn't cover that. Actually, we had already
24 gotten a risk penalty of cost plus 200 percent when we
25 force-pooled the Devonian. We feel like that is proper for

1 this formation as well, due primarily to the risk that we
2 incurred while drilling and attempting to complete the
3 well.

4 EXAMINER CATANACH: I have nothing further.

5 MR. OWEN: That concludes my presentation in this
6 case, Mr. Examiner.

7 The subsequent case will be substantially
8 similar.

9 EXAMINER CATANACH: Okay, there being nothing
10 further in this case, Case 11,427 will be taken under
11 advisement.

12 (Thereupon, these proceedings were concluded at
13 12:35 p.m.)

14 * * *

15
16
17 I do hereby certify that the foregoing is
18 a complete record of the proceedings in
19 the Examiner hearing of Case No. 11427,
heard by me on November 16, 1988.
20 David R. Catanach, Examiner
Oil Conservation Division

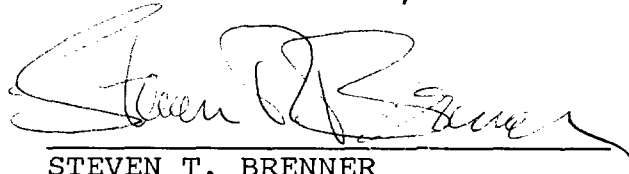
CERTIFICATE OF REPORTER

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 24th, 1995.

A handwritten signature in cursive script, appearing to read "Steven T. Brenner", written over a horizontal line.

STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 1998