

**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. 11513
Order No. R-10602**

**APPLICATION OF MANZANO OIL
CORPORATION FOR COMPULSORY
POOLING AND AN UNORTHODOX
WELL LOCATION, LEA COUNTY,
NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on May 16, 1996, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 23rd day of May, 1996, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS THAT:

(1) Due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.

(2) The applicant, Manzano Oil Corporation, seeks an order pooling all mineral interests from the surface to the base of the Strawn formation underlying a portion of Section 11, Township 16 South, Range 36 East, NMPM, Lea County, New Mexico, in the following manner:

the SW/4 forming a standard 160-acre spacing and proration unit for any and all formations and/or pools developed on 160-acre spacing within said vertical extent;

the N/2 SW/4 forming a standard 80-acre oil spacing and proration unit for any and all formations and/or pools developed on 80-acre spacing within said vertical extent;
and,

the NE/4 SW/4 forming a standard 40-acre oil spacing and proration unit for any and all formations and/or pools developed on 40-acre spacing within said vertical extent.

(3) These units are to be dedicated to the applicant's proposed "SV" Chipshot Well No. 1 to be drilled at an unorthodox location 2164 feet from the South line and 1362 feet from the West line (Unit K) of Section 11.

(4) At the time of the hearing, the applicant requested that the portion of the application requesting the pooling of the SW/4 of Section 11 thereby forming a standard 160-acre spacing and proration unit be dismissed.

(5) Subsequent to the hearing, it was determined that neither the proposed "SV" Chipshot Well No. 1 nor the proposed 80-acre proration unit comprising the N/2 SW/4 of Section 11 is located within one mile of a Division designated pool spaced on 80 acres. Pursuant to Division Rules and Regulations, the "SV" Chipshot Well No. 1 is classified as a Wildcat Strawn test, and as such, is spaced on 40 acres.

(6) The portion of the application requesting the pooling of the N/2 SW/4 of Section 11, thereby forming a standard 80-acre spacing and proration unit, should be denied.

(7) The applicant has the right to drill and proposes to drill its "SV" Chipshot Well No. 1 at the unorthodox oil well location described above.

(8) There are interest owners in the NE/4 SW/4 of Section 11 who have not agreed to pool their interests.

(9) To avoid the drilling of unnecessary wells, to protect correlative rights, to avoid waste, and to afford to the owner of each interest in said unit the opportunity to recover or receive without unnecessary expense his just and fair share of the production in any pool completion resulting from this order, the subject application should be approved by pooling all mineral interests, whatever they may be, within said unit.

(10) The applicant should be designated the operator of the subject well and unit.

(11) In support of the proposed unorthodox oil well location the applicant presented geologic evidence and testimony which indicates that a well at the proposed unorthodox location should encounter a greater amount of net pay in the Strawn formation and should penetrate the structure at a higher position in the reservoir than a well drilled at a standard oil well location within the NE/4 SW/4 of Section 11, thereby increasing the likelihood of obtaining commercial oil production.

(12) No offset operator and/or interest owner appeared at the hearing in opposition to the proposed unorthodox location.

(13) Any non-consenting working interest owner should be afforded the opportunity to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production.

(14) Any non-consenting working interest owner who does not pay his share of estimated well costs should have withheld from production his share of the reasonable well costs plus an additional 200 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(15) Any non-consenting working interest owner should be afforded the opportunity to object to the actual well costs but actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(16) Following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated costs should pay to the operator any amount that reasonable well costs exceed estimated well costs and should receive from the operator any amount that paid estimated well costs exceed reasonable well costs.

(17) \$5,000.00 per month while drilling and \$500.00 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); the operator should be authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(18) All proceeds from production from the subject well which are not disbursed for any reason should be placed in escrow to be paid to the true owner thereof upon demand and proof of ownership.

(19) Upon the failure of the operator of said pooled unit to commence the drilling of the well to which said unit is dedicated on or before September 1, 1996, the order pooling said unit should become null and void and of no effect whatsoever.

(20) Should all the parties to this forced pooling order reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

(21) The operator of the well and unit shall notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the forced pooling provisions of this order.

IT IS THEREFORE ORDERED THAT:

(1) All mineral interests, whatever they may be, from the surface to the base of the Strawn formation underlying the NE/4 SW/4 of Section 11, Township 16 South, Range 36 East, NMPM, Lea County, New Mexico, are hereby pooled forming a standard 40-acre oil spacing and proration unit for any and all formations and/or pools developed on 40 acre spacing within said vertical extent. Said unit shall be dedicated to the proposed "SV" Chipshot Well No. 1 to be drilled at an unorthodox location 2164 feet from the South line and 1362 feet from the West line (Unit K) of Section 11, also hereby approved.

PROVIDED HOWEVER THAT, the operator of said unit shall commence the drilling of said well on or before the 1st day of September, 1996, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Strawn formation.

PROVIDED FURTHER THAT, in the event said operator does not commence the drilling of said well on or before the 1st day of September, 1996, Ordering Paragraph No. (1) of this order shall be null and void and of no effect whatsoever, unless said operator obtains a time extension from the Division Director for good cause shown.

PROVIDED FURTHER THAT, should said well not be drilled to completion, or abandonment, within 120 days after commencement thereof, said operator shall appear before the Division Director and show cause why Ordering Paragraph No. (1) of this order should not be rescinded.

(2) Manzano Oil Corporation is hereby designated the operator of the subject well and unit.

(3) After the effective date of this order and within 90 days prior to commencing said well, the operator shall furnish the Division and each known working interest owner in the subject unit an itemized schedule of estimated well costs.

(4) Within 30 days from the date the schedule of estimated well costs is furnished to him, any non-consenting working interest owner shall have the right to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production, and any such owner who pays his share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges.

(5) The operator shall furnish the Division and each known working interest owner an itemized schedule of actual well costs within 90 days following completion of the well; if no objection to the actual well costs is received by the Division and the Division has not objected within 45 days following receipt of said schedule, the actual well costs shall be the reasonable well costs; provided however, if there is objection to actual well costs within said 45-day period the Division will determine reasonable well costs after public notice and hearing.

(6) Within 60 days following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated well costs in advance as provided above shall pay to the operator his pro rata share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator his pro rata share of the amount that estimated well costs exceed reasonable well costs.

(7) The operator is hereby authorized to withhold the following costs and charges from production:

- (A) The pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.
- (B) As a charge for the risk involved in the drilling of the well, 200 percent of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

(8) The operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs.

(9) \$5,000.00 per month while drilling and \$500.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); the operator is hereby authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(10) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under the terms of this order.

1 WHEREUPON, the following proceedings were had at
2 8:42 a.m.:

3

4 EXAMINER CATANACH: At this time I'll call Case
5 11,513, which is the Application of Manzano Oil Corporation
6 for compulsory pooling and an unorthodox well location, Lea
7 County, New Mexico.

8 Are there appearances in this case?

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

12 We represent Manzano Oil Corporation, and I have
13 two witnesses.

14 EXAMINER CATANACH: Additional appearances?

15 Will the two witnesses please stand and be sworn
16 in at this time?

17 (Thereupon, the witnesses were sworn.)

18 MR. CARR: Mr. Examiner, initially we would
19 request that the portion of this case that relates to 160-
20 acre spacing be dismissed.

21 We will go forward with the portions of the case
22 that relate to 40 or 80-acre spacing.

23 The well location in both of those spacing units
24 remains unorthodox, so we will also pursue that portion of
25 the Application.

1 LARRY HUNNICUTT,
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. CARR:

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

7 A. My name is Larry Hunnicutt.

8 Q. And where do you reside?

9 A. Roswell, New Mexico.

10 Q. Mr. Hunnicutt, by whom are you employed?

11 A. Sun Valley Energy Corporation, since 1992.

12 Q. And what is your current position with Sun
13 Valley?

14 A. I'm President of the Enterprise.

15 Q. What is the relationship between Sun Valley and
16 Manzano?

17 A. Sun Valley and Manzano, since 1993, have been
18 engaged in a joint venture for exploration and production
19 in southeastern New Mexico and west Texas.

20 Q. Have you previously testified before this
21 Division or one of its Examiners and had your credentials
22 as a landman accepted and made a matter of record?

23 A. I have.

24 Q. Would you briefly summarize your educational
25 background?

1 A. I hold a BBA degree from Eastern New Mexico
2 University. I'm a registered land professional and have
3 attended various --

4 Q. How long have you been employed or working as a
5 petroleum landman?

6 A. Since 1977.

7 Q. Are you familiar with the Application filed in
8 this case on behalf of Manzano?

9 A. Yes, I am.

10 Q. Are you familiar with the subject area and the
11 status of the lands in that area?

12 A. Yes, I am.

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

15 EXAMINER CATANACH: They are.

16 Q. (By Mr. Carr) Mr. Hunnicutt, could you briefly
17 summarize for Mr. Catanach what it is that Manzano seeks
18 with this Application?

19 A. Yes, we seek a pooling order from the surface to
20 the base of the Strawn formation, underlying the north half
21 of the southwest quarter of Section 11, Township 16 South,
22 Range 36 East, and also for the designation of an
23 unorthodox location for the drilling of the "SV" Chipshot
24 Number 1, to be located at 2164 feet from the south line
25 and 1362 feet from the west line.

1 Q. Does Manzano also seek to pool the northeast
2 quarter of the southwest quarter for wells developed on 40-
3 acre spacing?

4 A. Yes, we do.

5 Q. And the location is unorthodox for a 40-acre unit
6 as well?

7 A. That's correct.

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

10 A. I have.

11 Q. Let's refer to what has been marked as Manzano
12 Oil Corporation Exhibit Number 1. Would you identify that
13 and review it for Mr. Catanach?

14 A. Yes, it's a land plat that indicates the initial
15 well location on a county ownership map, noting that the
16 location is within about a quarter of a mile of the city
17 limits of Lovington.

18 Q. Does this show the general offsetting ownership?

19 A. It does.

20 Q. The well is actually too close to the north line
21 of the section, is it not, for an 80-acre unit?

22 A. That is correct.

23 Q. And who is the operator of the proposed spacing
24 unit?

25 A. Along with ourselves, it would be Chesapeake

1 Operating.

2 Q. Between the two of you, you would have 100
3 percent of the operating rights in the offsetting tract to
4 the north?

5 A. That's not exactly accurate, in that there are
6 some unleased mineral owners in that tract. But we're the
7 only two lessees of record in the northwest quarter.

8 Q. What is the status of the acreage that you're
9 seeking to pool in the southwest quarter of Section 11?

10 A. It is fee land.

11 Q. And the primary objective in the proposed well
12 will be what?

13 A. The Strawn, at approximately 11,400 feet.

14 Q. And are there secondary objectives?

15 A. Would be the Wolfcamp at 10,600 feet.

16 Q. Let's go to what has been marked as Manzano
17 Exhibit Number 2. Would you identify and review that,
18 please?

19 A. A mineral leasehold takeoff. It's dated May
20 13th.

21 Q. And what does this show?

22 A. This indicates the record title ownership in the
23 county records of Lea County. It indicates each mineral
24 owner by that name and a last-found address. Of course,
25 the fractional interest of their mineral ownership is

1 reflected there, and also the status in the column to the
2 right indicates Sun Valley.

3 Over on page 3, you'll see that it reflects
4 Manzano, and this is due to the fact that when we're
5 leasing sometimes our efforts are joined in that regard,
6 and there will be leases appearing of record in both our
7 names.

8 Q. In this area you've encountered a number of
9 owners of small tracts that have actually been subdivided
10 on the outskirts of Lovington; isn't that true?

11 A. That's correct.

12 Q. And this exhibit would show who all the interest
13 owners are in the proposed spacing units and would show who
14 in fact is holding that lease at this time?

15 A. Correct.

16 Q. If they are leased?

17 A. That's right.

18 Q. What percentage of the acreage in this spacing
19 unit has been voluntarily committed to the drilling of the
20 proposed well?

21 A. Approximately 80 percent.

22 Q. And that would be applicable to each of the
23 spacing units?

24 A. That would be applicable to the north half of the
25 southwest and also the northeast of the northwest quarter.

1 Q. There are owners who you have been unable to
2 locate; is that correct?

3 A. That is correct.

4 Q. Would you review for Mr. Catanach the efforts you
5 have made to identify those interest owners?

6 A. This title has been broken up for many, many
7 years in anticipation, I guess, of subdivisions or
8 whatever, but you had a lot of very small tracts and a lot
9 of small mineral owners.

10 We made an effort to go through all the lease
11 records, deed records, probate proceedings, lien judgments,
12 went through the tax --

13 Q. Did you look at tax records?

14 A. -- tax records.

15 Q. What about telephone directories?

16 A. We did. In addition to that, we visited with the
17 helpful abstractors in Lea County that have known a lot of
18 these people for years, or know of their families, just
19 looking for trails to be able to run them down.

20 Q. In your opinion, have you made a good-faith
21 effort to identify all interest owners in the proposed
22 spacing unit?

23 A. Yes, we have.

24 Q. And all those whom you have been able to locate,
25 have you contacted and made a good-faith effort to bring

1 them voluntarily into this prospect?

2 A. Yes, we have.

3 Q. When did you commence your efforts to reach
4 voluntary agreement for the development of this acreage?

5 A. Certainly it would vary for each of these
6 unleased owners, but we actually began the project in March
7 of 1995, were acquiring leases actively all through the
8 spring and summer of 1995, began a real strong effort in
9 the fall of 1995 to start trying to find people that we
10 just couldn't locate.

11 Q. You contacted each of those people you could
12 identify and offered to lease their property?

13 A. We did.

14 Q. Did you follow up with telephone conversations?

15 A. You know, we actually started with a phone
16 conversation, followed that with a letter that essentially
17 proposed to them the drilling of the well. We gave them an
18 opportunity to lease to us, participate, provided an AFE.

19 Q. Is a copy of that AFE what has been marked as
20 Manzano Exhibit Number 3?

21 A. It is.

22 Q. Would you review for Mr. Catanach the estimated
23 totals for the well as shown on this AFE?

24 A. Of course, it's entitled the "SV" Chipshot Number
25 1, at the location I previously described. Proposed total

1 depth is 12,000 feet, to the Strawn. The dryhole cost is
2 indicated here as \$453,500; completion cost is \$243,100,
3 for a total completed well cost of \$696,600.

4 Q. Are these costs in line with what is charged by
5 other operators for similar wells in the area?

6 A. Yes, they are.

7 Q. Is Exhibit Number 4 a copy of the letters that
8 have been mailed to various outstanding interest owners in
9 these tracts, attempting to lease these properties?

10 A. Yes.

11 Q. And is Exhibit Number 5 a copy of an affidavit
12 confirming that notice of this hearing has been provided in
13 accordance with OCD rule?

14 A. Yes, it is. I have seen that exhibit previously.
15 I don't have it in this stack.

16 Q. It is the affidavit?

17 A. But that is the affidavit, yes.

18 Q. Have you made an estimate of overhead and
19 administrative costs to be incurred while drilling the well
20 and also while producing it, if in fact it is successful?

21 A. Yes, we have. In fact, we've entered into an
22 operating agreement with our partners that is standing now,
23 and the producing well rate is \$500 per month and the
24 drilling well rate is \$5000.

25 Q. And are these costs in line with what's charged

1 by other operators for similar wells in this --

2 A. Yes, it is.

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

5 A. Yes, we do.

6 Q. Does Manzano seek to be designated operator of
7 the proposed well?

8 A. Yes.

9 Q. Were Exhibits 1 through 5 either prepared by you
10 or compiled at your direction?

11 A. Yes, they were.

12 MR. CARR: At this time, Mr. Catanach, we would
13 move the admission into evidence of Manzano Exhibits 1
14 through 5.

15 EXAMINER CATANACH: Exhibits 1 through 5 will be
16 admitted as evidence.

17 MR. CARR: And that concludes my direct
18 examination of Mr. Hunnicutt.

19 I do have the originals of all of the letters
20 with the affidavit. If you would like those, we've
21 provided you with a copy of those.

22 EXAMINER CATANACH: Copy is fine.

23 EXAMINATION

24 BY EXAMINER CATANACH:

25 Q. Mr. Hunnicutt, can you identify for me the

1 interest owners that you could not locate?

2 A. Yes, I can, because we sent a certified -- All
3 the letters that he spoke of there have certified return
4 receipts attached to them.

5 The owners that we could not find are the ones
6 that the letters were returned to us unopened, and I'll be
7 glad to name those for you, if you would like.

8 Q. Well, such as the first one would be Silvyn
9 Ponder?

10 A. Silvyn Butts Ponder.

11 Q. That was not a locatable interest --

12 A. That's correct.

13 Q. -- since there's not a card. I see. Okay.

14 Approximately what percentage do those interest
15 owners have?

16 A. Right at 19 percent.

17 Q. Those are the unlocatable --

18 A. Not the unlocatable. I would have to give you
19 that number. I didn't calculate exactly what it would be.
20 My guess is, it's less than -- if I was guessing, it's less
21 than about five percent.

22 Q. Now, your Exhibit Number 2 is a list of interest
23 owners in the 160-acre spacing unit?

24 A. Correct.

25 Q. Does that change?

1 A. No, it doesn't. The fee title in the record --
2 It's patented as a 160, but the fee title is undivided for
3 each tract in that southwest quarter.

4 Q. So all these interest owners are the same, and
5 their interest ownership is the same also?

6 A. That's correct, in each acre.

7 Q. In the 80 and the 40?

8 A. That's correct.

9 Q. Okay.

10 A. Mr. Examiner, may I clarify one thing that I
11 said?

12 Q. Sure.

13 A. Not to be confusing. We have approximately --
14 well, just over 80 percent of this committed through
15 leases. The remaining 19.99 percent is what we show
16 unleased. And I think your question was specifically of
17 the ones that we could not find, what percentage did they
18 recommend or represent? And that was the number I would
19 provide to you later. But I'm just certain it's less than
20 five percent.

21 Q. That's fine. You don't have to provide that.

22 Are negotiations with the unleased party still
23 going on at this time?

24 A. We have several that we have -- that we continue
25 to talk to. But we have for -- in at least one case, for

1 over a year, and have just been unable to reach any type of
2 agreement.

3 Q. Who is Omni Oil Properties?

4 A. Omni Oil properties is a local land service in
5 Roswell that we contract with, being Sun valley and
6 Manzano, contract with often to acquire oil and gas leases
7 and have for -- well, since our inception.

8 Q. Okay, now, Sun Valley and Manzano are going to be
9 -- Well, Manzano is going to operate this well?

10 A. That's correct.

11 Q. The offset acreage you talked about to the north
12 of the proposed location, you, I believe, said was owned by
13 Manzano and Sun Valley?

14 A. Yes, sir, the northwest quarter?

15 Q. Right.

16 A. Okay. Actually, Manzano, Sun Valley and a
17 company called Chesapeake Operating.

18 Q. Is there a designated operator for that tract?

19 A. No, there's not.

20 Q. It's just you guys have various leases within
21 that?

22 A. That's correct, as do they. I can break it down
23 for you. If you're looking at the northwest quarter, the
24 title to the northwest quarter -- well, the south half,
25 northwest quarter title is different than the north half,

1 northwest title. We currently hold 45-percent interest in
2 the south half of the northwest quarter; Chesapeake holds
3 50-percent interest.

4 Q. Okay, the south half of the northwest quarter,
5 "we" --

6 A. Being Manzano --

7 Q. Manzano.

8 A. -- Sun Valley. Manzano.

9 Q. Manzano, Sun Valley, both own 45 percent?

10 A. Correct. Together we own 45 percent.

11 Q. Okay. And Chesapeake --

12 A. -- owns 50 percent.

13 Q. Okay, and the other five percent is --

14 A. -- unleased.

15 As to the north half of the northwest quarter, in
16 the northeast-northwest we own 58 percent. In the north
17 half-northwest we own 58 percent. In the southeast-
18 northwest we own 58 percent. And in the southwest-
19 northwest we own 50 percent. To my knowledge, there are no
20 other lessees in the north half of the northwest quarter,
21 other than Manzano and Sun Valley.

22 Q. Do you know who the -- In the south half of the
23 northwest quarter, do you know who the unleased parties are
24 in that?

25 A. No, I do not have a title with me today that

1 would reflect who the other unleased mineral owners are in
2 that tract.

3 Bill, did you -- We had the one other list that
4 had that on it, didn't we?

5 MR. CARR: I don't have it.

6 Mr. Catanach, I believe we have another list that
7 will identify those individuals for you, and I can provide
8 that after the hearing.

9 EXAMINER CATANACH: Okay.

10 THE WITNESS: Indeed, I do, and I apologize for
11 that because I thought the title that we had was in the
12 north half-northwest. But we did provide notification to
13 all the unleased mineral owners in the northwest quarter,
14 both in the south half-northwest, and the north half-
15 northwest. And we do have a listing, but we do not have
16 their percentage of ownership, mineral ownership.

17 Q. (By Examiner Catanach) You provided them a
18 notice of what?

19 A. Of this proceeding.

20 Q. The unorthodox location?

21 MR. CARR: Yeah, correct, of the Application.
22 And it was sent to all of them, and -- They're a tremendous
23 number, and we can break that down for you, though, and
24 provide just a summary sheet that shows you who they are
25 and that notice was given.

1 EXAMINER CATANACH: Okay. You did give them
2 notice --

3 MR. CARR: Yes, we did.

4 EXAMINER CATANACH: -- of the unorthodox
5 location?

6 MR. CARR: Yeah, we did.

7 EXAMINER CATANACH: That's what I'm after.

8 That's all I have of this witness. He may be
9 excused.

10 MR. CARR: At this time we would call Mr. Mike
11 Brown.

12 MIKE BROWN,
13 the witness herein, after having been first duly sworn upon
14 his oath, was examined and testified as follows:

15 DIRECT EXAMINATION

16 BY MR. CARR:

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

18 A. Charles Michael Brown.

19 Q. Where do you reside?

20 A. Roswell, New Mexico.

21 Q. By whom are you employed?

22 A. Manzano Oil Corporation.

23 Q. And what is your current position with Manzano?

24 A. I'm a geologist.

25 Q. Mr. Brown, have you previously testified before

1 this Division?

2 A. I have.

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

6 A. They were.

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

9 A. I am.

10 Q. And have you made a geological study of the area
11 surrounding this well?

12 A. I have.

13 Q. Are you prepared to share the results of that
14 study with the Examiner here today?

15 A. Yes, I am.

16 MR. CARR: Mr. Catanach, are Mr. Brown's
17 qualifications acceptable?

18 EXAMINER CATANACH: They are.

19 Q. (By Mr. Carr) Have you prepared exhibits for
20 presentation here today?

21 A. Yes, I have three.

22 Q. Let's go to what has been marked Manzano Oil
23 Corporation Exhibit Number 6, your cross-section, and I
24 would ask you to review that, well by well, for the
25 Examiner.

1 A. Okay, this is a southwest-to-northeast cross-
2 section that runs across our proposed location and connects
3 the closest Strawn producer to us. If you'll look on the
4 lower left-hand corner, there's a land plat showing the
5 orientation of the line. I've got the Chipshot location
6 show in fluorescent orange, the 160 acres in the southwest
7 quarter of 11 shaded in yellow.

8 The first well we'll talk on is the PG&E Smith 15
9 Number 1, and that is the closest Strawn producer, and I
10 believe it's the closest producer -- current producer of --
11 in any horizon to our proposed well.

12 Next to it is the Santa Fe Clydesdale 15 Number
13 1, and that's a Strawn dryhole.

14 We'll go to the proposed location, and then the
15 last well is the Hudgens Number 1, and it was a Strawn
16 dryhole that made an Atoka producer.

17 The color code I'm using is, blue in the left-
18 hand track of your logs is clean carbonate, less than 50
19 API. The orange represents greater than 4-percent
20 porosity.

21 We'll go to the far left and look at the Smith 15
22 Number 1. As I said before, that's the closest Strawn
23 producer. It's about a mile and a half from our well. It
24 is a producer in an algal mound buildup in the Strawn. You
25 can see the porosity develops in the top part of the

1 section. The porosity is not overly -- it's not overly
2 porous, but it's a very good producing horizon. This well
3 has already made 140,000 barrels of oil and still makes
4 over 200 barrels a day.

5 Right next to it, the immediate offset, is the
6 Clydesdale -- Santa Fe Clydesdale 15 Number 1. It's in the
7 same section. As you can see, the porosity doesn't develop
8 at all. It still has some clean carbonate; it's thinner.

9 What the studies across the whole -- this
10 Lovington play shows, a well like this represents an
11 intermound facies. The Clydesdale -- or the Smith is a
12 phylloid algal mound. So you have a series of mounds
13 separated by just muddy tight rock deposition, and this is
14 just a series of those across a very quiet, shallow margin.

15 We move up to our area, the well in the far right
16 is the Hudgens Number 1. As you see, it looks very similar
17 to the Clydesdale well. It represents an intermound
18 facies, very tight. It DST'd, just a little bit of mud
19 recovery, very low pressures. It's an extremely tight
20 well.

21 What we are proposing to do to offset that well
22 to the west using seismic, trying to encounter an algal
23 mound buildup similar to that encountered in the Smith
24 Number 1.

25 The Strawn producers in this area, the majority

1 of them have been found using 2-D seismic, or just by
2 offsetting a producing well. Lately 3-D has shed some
3 additional information to the play. There's been a number
4 of wells that have been drilled in old mounds, between
5 producers, that have made good wells, showing that it is
6 very critical that you position these wells in the optimum
7 position to get your production.

8 Q. And Mr. Brown, based on this review of offsetting
9 well data and the seismic you have, do you have an opinion
10 as to -- or a recommendation to make to the Examiner
11 concerning the risk that should be assessed against
12 nonparticipating interest owners?

13 A. We -- On the land plat, if we can go back to --
14 What exhibit is that?

15 Q. Exhibit Number 1, the land plat?

16 A. Yes, sir. In the northwest corner of Section 11,
17 you'll see a dryhole. That's the Manzano Brownfield Trust
18 Number 1 dryhole that we drilled about two and a half years
19 ago.

20 To the -- In the northeast quarter of Section 12
21 is the Kim Harris Number 2. It's in the northeast of the
22 northeast. That's the Kim Harris Number 2 Manzano well,
23 and it was also a dryhole.

24 So needless to say, our experience here has been,
25 its an extremely risky proposition. The -- When you find a

1 good well, they're extremely prolific, but you're really
2 taking a lot of chance here. It's a high-reward, high-risk
3 play.

4 Q. And what penalty do you recommend be imposed upon
5 nonparticipating interest owners?

6 A. 200 percent.

7 Q. And is it your opinion that you could drill a
8 well at the proposed location that would not be a
9 commercial success?

10 A. Our experience says that's a very strong
11 possibility.

12 Q. Now, let's look at the location you've selected,
13 and let's go to what has been marked Manzano Exhibit Number
14 7. Could you identify and review this for Mr. Catanach?

15 A. Okay, Exhibit 7 is west-to-east arbitrary line
16 that runs through the proposed location, shown in blue, the
17 blue line, through a regular location, which is a red
18 dashed line, east through the Hudgens well that was on the
19 cross-section that we saw that was tight, and through a
20 second well, the LCC State Number 1, which was also a tight
21 Strawn well.

22 If you look on the far right side, about a third
23 of the way down, you'll see a notation, "strn". That's the
24 Strawn peak. It lies right below the -- There's a red line
25 -- I'm sorry, that didn't copy very well. It's on the far

1 right side.

2 Seismic in this area, the intermound facies is
3 shown as a -- just one strong peak. There's no -- Well,
4 you have just a strong peak. As you move into your mounds,
5 the peaks bifurcate into two peaks separated by a trough,
6 and that's the amplitude anomaly that's most characteristic
7 of the Strawn buildups in this area.

8 Q. Basically what this shows is, the proposed
9 location should be right in the center of one of those
10 mounds; is that right?

11 A. Right, the -- One characteristic of these mounds
12 is that the presence of the increased carbonate causes a
13 structure in the thickest part. So not only do you gain
14 structure when you drill at the thickest part of the mound
15 but, as 3-D has shown in other areas, that portion of the
16 mound high is not drained by the offset producers.

17 Q. All right, let's go to what's been marked Manzano
18 Exhibit Number 8. Can you identify and review that?

19 A. Okay, this is a map view of the amplitude anomaly
20 which is shown on Exhibit 7. I've shown the Chipshot
21 Number 1 location in fluorescent orange. I've shown
22 regular locations in red, red dots. I've got the 80-acre
23 proration unit shown in a dashed line.

24 The amplitude anomaly that we saw on Exhibit 7,
25 the outline is shown in blue on a little feature that's

1 shown there. The contour lines are using the degree of
2 amplitude change. It's a little bit arbitrary, but
3 nonetheless, the greatest amplitude change is shown within
4 the green contours, and it basically straddles the
5 governmental 40-acre unit line on our 80-acre proration
6 unit.

7 If you move to a regular location, not only do
8 you lose structure, but you're pushing the far edges of the
9 amplitude anomaly, and it would probably be a noncommercial
10 well.

11 Q. Is it your opinion that this is -- the proposed
12 location is the best location for developing the reserves
13 under this tract?

14 A. Yes, I do.

15 Q. In fact, if you were required to move to a
16 standard location, it would be questionable whether or not
17 you would attempt to develop it at all; isn't that a
18 fair --

19 A. It would --

20 Q. -- characterization?

21 A. Yes, it would.

22 Q. In your opinion, will approval of this
23 Application and drilling of the proposed well at the
24 unorthodox location be in the best interests of
25 conservation, the prevention of waste and the protection of

1 correlative rights?

2 A. Yes, I do.

3 Q. Mr. Brown, were Exhibits 6 through 8 prepared by
4 you?

5 A. Either prepared by me or under my direction.

6 MR. CARR: Mr. Catanach, at this time we would
7 move the admission into evidence of Manzano Exhibits 6, 7
8 and 8.

9 EXAMINER CATANACH: Exhibits 6, 7 and 8 will be
10 admitted as evidence.

11 MR. CARR: And that concludes my direct
12 examination of Mr. Brown.

13 EXAMINATION

14 BY EXAMINER CATANACH:

15 Q. Mr. Brown, was your isopach map based upon your
16 seismic data?

17 A. Yes, sir, it was.

18 Q. Do you have. Besides the seismic line that you
19 have shown on Exhibit 7, do you have other seismic lines in
20 this area?

21 A. This is just a slice of the 3-D line. We shot a
22 five -- I think it was a five-square-mile shoot, and this
23 was basically the center of it. So yes, we could generate
24 any -- any slice through there that you would like.

25 Q. Okay. Can you estimate what your structure and

1 thickness gain will be in this?

2 A. Well, on the -- just kind of looking at the Smith
3 well, really all they gained was about 30 feet of actual
4 structure. But they gained almost 80 feet of porous
5 interval at the top that was not present, so...

6 Q. So does that -- How does it translate to your
7 location?

8 A. I think that the Hudgens well, as we see, it
9 looks extremely similar to the Clydesdale well that's
10 associated with the Smith, and I believe that the mound
11 that we're chasing is very -- it will build up very
12 quickly, like it did in the Smith well.

13 It will not be very wide, maybe 700 acres -- or
14 700 feet, at its width, when you go across the main part of
15 the mound itself. And probably on the structure part,
16 about 30 feet or so of actual structure on the top, but
17 much more when you're looking at porous interval.

18 Q. Do you feel like your seismic data is accurate
19 enough to where you can pinpoint the top of that structure?

20 A. Well, we hope so. This -- We call these birdseye
21 or turtle structures, have been used for -- oh, the last 20
22 years in this play.

23 And as I said, if you go and look at the known
24 producers in the main part of the play, you'll see that
25 little bifurcation at the peak on almost all the wells. It

1 will be that or -- There's a couple or characters, but the
2 main one is this.

3 It's being used successfully on 2-D. 3-D, it's
4 still yet to be seen how much that will decrease your risk,
5 but -- We're playing the same game everyone else has, but
6 the 3-D, I think, does a better job in putting us in the
7 optimal location.

8 Q. Mr. Brown, what are the potential secondary
9 targets in this well?

10 A. The Wolfcamp Beta Reef was the main horizon that
11 we were going for in the Brownfield Trust well in the north
12 half of the northwest, so it will obviously be a secondary
13 objective.

14 Other than that, the only other horizon that's
15 been productive in the area is the Atoka that was present
16 in the Hudgens well. That well has been depleted. But
17 other than that, that's really basically it in this general
18 area, that I know of.

19 Q. How do you feel about the Wolfcamp potential?

20 A. Here, we're -- we think this is probably out of
21 the Wolfcamp, and the Wolfcamp here is oil, it's an oil
22 reservoir. And we'll just have to wait and see, but it's
23 not overly prospective.

24 Q. Has Manzano drilled successful Strawn wells in
25 this area?

1 A. Not in this is area, this is our -- This will be
2 our third attempt, but the first time we drilled based on
3 3-D. We drilled previously on 2-D.

4 EXAMINER CATANACH: That's all I have of the
5 witness.

6 MR. CARR: That concludes our presentation in
7 this case.

8 EXAMINER CATANACH: Okay, there being nothing
9 further in this case, Case 11,513 will be taken under
10 advisement.

11 (Thereupon, these proceedings were concluded at
12 9:18 a.m.)

13 * * *

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21 I do hereby certify that the foregoing is
22 a complete record of the proceedings in
23 the Examiner hearing of Case No. 11513.
24 heard by me on May 16 1986.

25 David R. Catnach, Examiner
 Oil Conservation Division

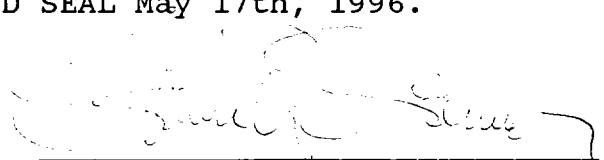
CERTIFICATE OF REPORTER

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 May 17th, 1996.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 1998