

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. 11,642

APPLICATION OF MARALO, INC., FOR)
COMPULSORY POOLING AND UNORTHODOX OIL)
WELL LOCATION, LEA COUNTY, NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

November 7th, 1996

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, November 7th, 1996, 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 7th, 1996
 Examiner Hearing
 CASE NO. 11,642

	PAGE
APPEARANCES	3
APPLICANT'S WITNESSES:	
<u>WILLIAM F. SMITH</u> (Landman)	
Direct Examination by Mr. Carr	5
Examination by Examiner Stogner	12
<u>SHANE LOUGH</u> (Geologist)	
Direct Examination by Mr. Carr	15
Examination by Examiner Stogner	20
REPORTER'S CERTIFICATE	23

* * *

E X H I B I T S

Applicant's	Identified	Admitted
Exhibit 1	7	12
Exhibit 2	7	12
Exhibit 3	7	12
Exhibit 4	8	12
Exhibit 5	10	12
Exhibit 6	10	12
Exhibit 7	16	20
Exhibit 8	18	20

* * *

A P P E A R A N C E S

FOR THE DIVISION:

RAND L. CARROLL
Attorney at Law
Legal Counsel to the Division
2040 South Pacheco
Santa Fe, New Mexico 87505

FOR THE APPLICANT:

CAMPBELL, CARR, BERGE and SHERIDAN, P.A.
Suite 1 - 110 N. Guadalupe
P.O. Box 2208
Santa Fe, New Mexico 87504-2208
By: WILLIAM F. CARR

* * *

1 WHEREUPON, the following proceedings were had at
2 11:08 a.m.:

3 EXAMINER STOGNER: I'll call now Case Number
4 11,642.

5 MR. CARROLL: Application of Maralo, Inc., for
6 compulsory pooling and unorthodox oil well location, Lea
7 County, New Mexico.

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

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

13 We represent Maralo, Inc., in this matter, and I
14 have two witnesses.

15 EXAMINER STOGNER: Are there any other
16 appearances in this matter?

17 Mr. Carr, I see that the next case is also
18 Maralo.

19 MR. CARR: Yes, sir, and I will be calling the
20 same witnesses in that case. They are -- The Applications
21 are slightly different.

22 EXAMINER STOGNER: Okay, so we'll take them
23 separately?

24 MR. CARR: Yes, sir

25 EXAMINER STOGNER: At this time will the

1 witnesses please stand to be sworn?

2 (Thereupon, the witnesses were sworn.)

3 WILLIAM F. SMITH,

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

6 DIRECT EXAMINATION

7 BY MR. CARR:

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

9 A. My name is William Frank Smith. I live at 2404
10 Seaboard, in Midland, Texas.

11 Q. Mr. Smith, by whom are you employed?

12 A. I'm employed as a contract landman for Maralo,
13 Inc.

14 Q. Have you previously testified before this
15 Division or one of its Examiners?

16 A. No, I have not.

17 Q. Could you briefly summarize for Mr. Stogner your
18 educational background and then review your work
19 experience?

20 A. Yes, I have a bachelor of arts degree in
21 mathematics from the University of Texas at Austin. I have
22 worked as an independent landman for over 18 years, working
23 in title-examination, lease-acquisition and title-curative
24 matters. And in July of 1989 I successfully completed the
25 qualifications to become a certified professional landman.

1 Q. Are you familiar with the Application filed in
2 this case on behalf of Maralo, Inc?

3 A. Yes, sir, I am.

4 Q. And are you familiar with the status of the lands
5 in the subject area?

6 A. Yes, sir, I am.

7 MR. CARR: Are Mr. Smith's qualifications
8 acceptable?

9 EXAMINER STOGNER: They are.

10 Q. (By Mr. Carr) Initially, Mr. Smith, could you
11 review for the Examiner what it is that Maralo seeks in
12 this case?

13 A. Maralo is requesting an order pooling all the
14 mineral rights in the northeast quarter, northeast quarter
15 of Section 17, Township 17 South, Range 38 East, NMPM, Lea
16 County, New Mexico.

17 And additionally, we would like to have such
18 rights dedicated to the Burrows "17" Well Number 1, to be
19 drilled to the base of the Strawn formation at an
20 unorthodox location of 870 feet from the north line and
21 1180 feet from the east line of said Section 17.

22 Q. Have you prepared certain exhibits for
23 presentation here today?

24 A. Yes, sir, I have.

25 Q. Could we go to what has been marked Maralo

1 Exhibit Number 1 and have you identify that and review it
2 for Mr. Stogner?

3 A. Exhibit Number 1 is an orientation map showing
4 the relationship of our proration unit, which is outlined
5 in red. It's a -- as to other leases in the area. It's a
6 county map.

7 Q. Let's go to Exhibit Number 2. What is this?

8 A. Exhibit Number 2 is just an enlargement of this
9 map, showing more clearly the location that we are
10 requesting.

11 Q. When we look at the northeast quarter of this
12 Section 17, is the ownership common throughout that
13 northeast quarter?

14 A. Yes, it is.

15 Q. And what is the primary objective in this well?
16 The Strawn formation?

17 A. It's the Strawn formation, yes, sir.

18 Q. And will it be drilled as a wildcat well?

19 A. It will be a wildcat location, yes, sir.

20 Q. Let's go to Exhibit Number 3. Can you identify
21 this for the Examiner?

22 A. This exhibit shows the breakdown of the working
23 interest ownership in the drill site.

24 Q. And at this point in time, what interest has been
25 voluntarily committed to the well?

1 A. The interest of Maralo, Inc., which is 81.25
2 percent, is committed.

3 Q. When you say uncommitted interest, how many
4 parties are we talking about?

5 A. One party.

6 Q. And who is that?

7 A. Saundra Dell Hann Jones.

8 Q. And at this point in time you've been unable to
9 locate her?

10 A. Been unable to locate her.

11 Q. Could you identify what has been marked Maralo
12 Exhibit Number 4?

13 A. It's the AFE prepared for this well.

14 Q. And what are the costs as reflected on this AFE,
15 both the completed well costs and the dryhole costs?

16 A. The dryhole cost is \$594,830. The completed cost
17 is \$899,630.

18 Q. And are these costs in line with what is charged
19 by other interest owners in the area for similar wells?

20 A. Yes, they are.

21 Q. Would you summarize for Mr. Stogner the efforts
22 you have made to locate Saundra Jones and obtain her
23 voluntary joinder?

24 A. Yes, I have been searching for her for a little
25 over a year, but recently I sent certified letters to the

1 last known address with a return receipt requested, and I
2 also sent letters to the adjacent four addresses, which
3 would be the neighbors on either side and the neighbors
4 across the street from the last known address, requesting
5 that if they knew where she moved or anything about her,
6 that they either contact her or contact me and give me the
7 information.

8 Unfortunately, all five of these letters were
9 returned as undeliverable.

10 Q. Have you been able to locate any of Ms. Jones'
11 relatives?

12 A. Yes, I talked to her uncle, who is named Minta C.
13 Burrows, and he was also the executor of the estate by
14 which she inherited this interest, and he said he has not
15 heard from her or talked with her in over 25 years.

16 Q. Did you have a check performed of the records in
17 Lea County, New Mexico?

18 A. Yes, we checked all of the records in Lea County,
19 and we asked Caprock Title Company to run a name search on
20 their computer. And I also ran a computer search and
21 contacted all the Sandra Joneses in California, and as you
22 can imagine there's a lot of Joneses in California.

23 Q. Did you call all of the Sandra Joneses in --

24 A. We called every Sandra Jones in California, and
25 none of them admitted to be the person we were looking for.

1 Q. Mr. Smith, in your opinion have you made a good-
2 faith effort to locate Ms. Jones?

3 A. Yes, sir, I believe I have.

4 Q. The funds that are attributed to her interest in
5 this property, will they be escrowed in a bank in Lea
6 County, New Mexico?

7 A. Yes, sir, they'll be put in a bank in Lea County,
8 New Mexico.

9 Q. Is Exhibit Number 5 a copy of the letters that
10 you referenced having been sent to the neighbors of Ms.
11 Jones, at least to the current neighbors, of the houses
12 surrounding her last known address?

13 A. That's correct.

14 Q. And is Exhibit Number 6 a copy of an affidavit
15 confirming that you have attempted to notify all those
16 individuals of today's hearing?

17 A. Yes, sir, that's correct.

18 Q. Will Maralo call a technical witness to review
19 the risk associated with the drilling of this well?

20 A. Yes, sir, they will have a geologist.

21 Q. Have you made an estimate of the overhead and
22 administrative costs to be incurred while drilling this
23 well and also producing it if it's successful?

24 A. Yes, sir, during the drilling period the overhead
25 cost will be \$5434 per month; during producing time it will

1 be \$543 per month.

2 Q. So \$5434 while drilling and \$543 while producing;
3 is that correct?

4 EXAMINER STOGNER: You've got me confused here.
5 What was that again?

6 THE WITNESS: \$5434 per month during drilling,
7 \$543 per month during producing.

8 Q. (By Mr. Carr) Are these costs reflected on
9 operating agreements for similar wells in the area?

10 A. Yes, sir, they are.

11 Q. Mr. Smith, how do these figures compare to the
12 1995 Ernst and Young figures?

13 A. These figures are below the 1995 Ernst and Young
14 survey.

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

17 A. Yes, sir, I do.

18 Q. And does Maralo seek to be designated operator of
19 the proposed well?

20 A. Yes, sir, Maralo would like to be operator.

21 Q. Were Exhibits 1 through 6 either prepared by you
22 or prepared at your direction?

23 A. Yes, sir, they were.

24 MR. CARR: Mr. Stogner, at this time we would
25 move the admission into evidence of Maralo Exhibits 1

1 through 6.

2 EXAMINER STOGNER: Exhibits 1 through 6 will be
3 admitted into evidence.

4 MR. CARR: And that concludes my direct
5 examination in this case of Mr. Smith.

6 EXAMINATION

7 BY EXAMINER STOGNER:

8 Q. So how many Saundra Joneses are there in
9 California?

10 A. Well, actually you'd have to ask my wife, because
11 I called the ones that were close, and after I got out of
12 the vicinity she called the rest, and there are a bunch of
13 Saundra Joneses. We have a large phone bill.

14 Q. So obviously you didn't tell the Saundra Joneses
15 that they had a potential large amount of money coming to
16 them?

17 A. We did not tell them that.

18 Q. Okay, so that's the reason you --

19 A. Yeah.

20 Q. -- none of them came forth?

21 A. In the letters that we wrote to the neighbors, if
22 they would have opened them, we did say, Have her contact
23 because she could be entitled to money. You know,
24 generally that will get interest, but -- You know, we ask
25 them who their grandparents were and questions that they

1 would have to -- you know, information that they would only
2 know if they were the proper Sandra Jones, when we made
3 contact.

4 Q. Okay, Exhibit Number 3, you show the breakout and
5 the percentage being uncommitted and of course belonging to
6 Maralo. Is this just for the 40-acre tract, or is this
7 also representative of the northeast quarter of Section 17?

8 A. The entire northeast quarter is on the same...

9 MR. CARROLL: Where is Apple Valley, California?

10 THE WITNESS: I'm not exactly sure.

11 MR. CARROLL: I've never heard of it.

12 THE WITNESS: I hadn't either.

13 EXAMINER STOGNER: I believe it's east of San
14 Bernardino.

15 THE WITNESS: There's a computer service on the
16 Internet that you can put that in; it will show you right
17 where it is.

18 EXAMINER STOGNER: I believe the Roy Rogers
19 Museum is there, Mr. Carroll.

20 MR. CARROLL: Only you would know that, Mr.
21 Stogner.

22 EXAMINER STOGNER: Yippie-yi-ti-yay.

23 Q. (By Examiner Stogner) Okay, just so I can make
24 sure what the figures are again, I wrote down several
25 numbers. That's \$5434 drilling, \$543 while producing?

1 A. \$5434 and \$543, that's correct.

2 Q. What did the Ernst and Young survey show as being
3 the means in this area? Do you recall? Or perhaps you can
4 state it for me?

5 A. The mean under Ernst and Young was \$5603. The
6 median was \$5400.

7 Q. And that is for the west Texas-southeast New
8 Mexico area?

9 A. Yes, sir, that's correct.

10 Q. Okay. The 81.25 percent that Maralo, Inc.,
11 controls, is that actually owned by Maralo, Inc. --

12 A. Yes, sir.

13 Q. -- or is that controlled and farmed out or leased
14 by -- from other parties?

15 A. No, they own 100 percent leasehold, record title.

16 Q. Now, does Ms. Jones -- Is she the royalty
17 interest owner of this particular parcel?

18 A. She would be one of the royalty interest owners.

19 Q. Okay, who are the other royalty interest owners?

20 A. There's several there under lease to Maralo. I
21 don't have a complete compilation of all of the royalty
22 owners.

23 Q. Well, does she --

24 A. She's the only one that we couldn't lease, that
25 we couldn't locate.

1 Q. Okay. Was that an accurate representation of
2 also her royalty-interest percentage, of the eighth royalty
3 that's underneath this quarter section?

4 A. She would have 18.75 of an eighth.

5 EXAMINER STOGNER: Okay. Any other questions of
6 this witness?

7 You may be excused.

8 MR. CARR: At this time we would call Mr. Shane
9 Lough.

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

13 DIRECT EXAMINATION

14 BY MR. CARR:

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

16 A. Carl Shane Lough.

17 Q. And where do you reside?

18 A. 3830 East Everglade, Odessa, Texas.

19 Q. By whom are you employed?

20 A. Maralo, Incorporated.

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

22 A. Senior staff geologist.

23 Q. Mr. Lough, have you previously testified before
24 this Division and had your credentials as a petroleum
25 geologist accepted and made a matter of record?

1 A. I have.

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

4 A. I am.

5 Q. And have you made a technical study of the area
6 surrounding the proposed well?

7 A. I have.

8 Q. Are you prepared to share the results of that
9 study with the Examiner?

10 A. Yes.

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

13 EXAMINER STOGNER: They are.

14 Q. (By Mr. Carr) Mr. Lough, let's go to what has
15 been marked as Maralo Exhibit Number 7, the structure map.
16 I'd ask you to review that for Mr. Stogner.

17 A. This is a map that's been constructed using 3-D
18 seismic. It's mapped on the top of the -- the objective of
19 the prospect, the lower Strawn. It shows the structural
20 nature of the trap that we're going to attempt to test.

21 There should be a line of section. I'm not sure
22 that that's on this. We have not gotten that drafted on.
23 There is a structural cross-section that I will reference
24 in just a moment, and I can tell you where the line -- It's
25 a simple cross-section, so it would be easy to identify.

1 Q. Where does that start, Mr. Lough?

2 A. It starts -- There's a Kirk Number 1 dryhole
3 located approximately a mile south of the proposed
4 location, of the proposed --

5 Q. Right above the exhibit label?

6 A. Yes, right above that. That's going to be the
7 left well on the cross-section. We go north to the
8 proposed location. That's noted on the structure map.

9 And then the line of section will go east almost
10 a mile to a dryhole directly east of the proposed location,
11 referenced as the Fasken Number 1.

12 Q. And that line of cross-section is identified as
13 B-B'; is that right?

14 A. That's correct, yes.

15 EXAMINER STOGNER: For the record, Mr. Carr, that
16 was on -- represented on Exhibit Number 7 on my exhibit --

17 MR. CARR: Okay.

18 THE WITNESS: Good.

19 EXAMINER STOGNER: -- and I transferred that on
20 the second exhibit that was handed to the Division.

21 MR. CARR: Okay, thank you.

22 Q. (By Mr. Carr) Mr. Lough, when we look at the
23 structure map, you have shown on this exhibit all the
24 seismic points, have you not?

25 A. These are not all of the seismic points, but this

1 is a dense representation of the seismic points that we
2 used to construct the map.

3 Q. And based on this structural interpretation, what
4 are you trying to achieve with this well?

5 A. We're trying to drill a well at the optimum
6 structural location of the Strawn anomaly that we see on
7 our seismic.

8 Q. And the location is unorthodox to the west of the
9 -- might be moved west of the standard location; is that
10 right?

11 A. That's correct.

12 Q. And you are encroaching only on acreage that has
13 ownership which is identical to the ownership on which the
14 well is actually located?

15 A. That's correct.

16 Q. Let's go to your cross-section, Exhibit Number 8,
17 and I would ask you now to review that for the Examiner.

18 A. Okay, this is cross-section B-B'. It's a
19 structural cross-section, constructed on a datum of a minus
20 7200 feet that's observed on the cross-section.

21 It illustrates diagrammatically our anticipated
22 Strawn mound development that we hope to find when we drill
23 the well. It also diagrammatically represents our
24 anticipated structural position of the Strawn mound.

25 And it illustrates separation of the trap from

1 other Strawn fields in the area. We feel that with our --
2 both the subsurface control and the seismic control, that
3 we've fairly well confirmed that this Strawn mound, if it
4 is present, is a separate trap.

5 Q. Summarize for Mr. Stogner the conclusions you've
6 reached from your geological study.

7 A. We believe we've identified a prospective Strawn
8 anomaly that's separate from other producing Strawn fields
9 in the area. The anomaly we believe to be similar to other
10 Strawn reservoirs in the area.

11 Separation from other producing Strawn reservoirs
12 is well established by our seismic control, and the
13 anticipated productive boundary of the Strawn reservoir is
14 defined by our 3-D seismic.

15 Q. In your opinion, is the proposed location
16 necessary to effectively drain the reserves from this
17 carbonate mound?

18 A. Yes.

19 Q. Are you prepared to make a recommendation to the
20 Examiner concerning the risk penalty that should be
21 assessed against the interests not voluntarily committed to
22 the well?

23 A. Yes.

24 Q. And what is that?

25 A. Cost plus 200 percent.

1 Q. Mr. Lough, do you believe there's a chance you
2 could drill a well at this location that would not be a
3 commercial success?

4 A. Yes.

5 Q. And Maralo does seek to be designated operator of
6 the well; is that correct?

7 A. That's correct.

8 Q. In your opinion, will granting of this
9 Application and the drilling of the proposed well at this
10 location be in the best interest of conservation, the
11 prevention of waste and the protection of correlative
12 rights?

13 A. Yes.

14 Q. Were Exhibits 7 and 8 prepared by you?

15 A. They were.

16 MR. CARR: At this time, Mr. Stogner, I would
17 move the admission into evidence of Maralo, Inc., Exhibits
18 7 and 8.

19 EXAMINER STOGNER: Exhibits 7 and 8 will be
20 admitted into evidence at this time.

21 MR. CARR: And that concludes my direct
22 examination of this witness.

23 EXAMINATION

24 BY EXAMINER STOGNER:

25 Q. The shot holes that are represented in Exhibit

1 Number 7, those are what you based your 3-D seismic --
2 picture, you might say?

3 A. That's correct.

4 Q. How many other wells in the general area has
5 Maralo used this 3-D seismic work on?

6 A. Let me think.

7 Q. Roughly.

8 A. Oh, I'd say between six and ten wells.

9 Q. Between six and ten?

10 A. Yes, sir, in this general area.

11 Q. How far away from some of the known structures,
12 like your South Humble City-Strawn, your Shipp-Strawn and
13 some of the other known Strawn-producing intervals back to
14 the north and west of here, has this been successful with?

15 A. My personal knowledge of the 3-D use for the
16 development of these fields, I can't answer that. I do
17 believe that in the Lovington-Strawn area, though, that 3-D
18 seismic has been relatively successful.

19 Data on -- Public information, public data or
20 information on 3-D seismic can be hard to come by right
21 now. It's a relatively proprietary-type tool, and people
22 aren't too willing to release information they don't have
23 to.

24 Q. The picture that you've drawn is very well
25 detailed for being such a wildcat area. That was the

1 reason I was leading up to my question, is, when you get
2 further back to the west where you've got more well data,
3 well control, and then able to match up some of these
4 points, were you able to use that information and relate it
5 back to this, for some of the known shows, back in some of
6 the algal-mound development?

7 A. Further to the west of the producing areas?

8 Q. Yes.

9 A. No, we weren't, because we -- our seismic -- The
10 areal extent of our seismic survey did not go that far
11 west. We didn't cover those producing fields.

12 EXAMINER STOGNER: Okay. Any other questions of
13 this witness?

14 MR. CARR: No further questions.

15 EXAMINER STOGNER: You may be excused.

16 Mr. Carr, do you have anything further in this
17 matter?

18 MR. CARR: Nothing further in this case, Mr.
19 Stogner.

20 EXAMINER STOGNER: Okay. With that, then Case
21 Number 11,642 will be taken under advisement.

22 (Thereupon, these proceedings were concluded at
23 11:31 a.m.)

24 * * *

25

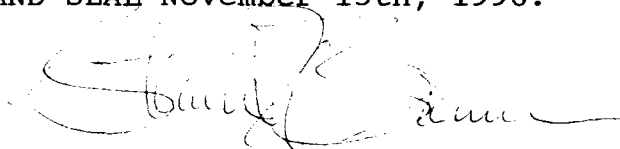
CERTIFICATE OF REPORTER

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.

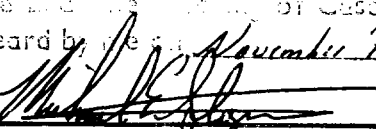
I FURTHER CERTIFY that I am not a relative or
 employee of any of the parties or attorneys involved in
 this matter and that I have no personal interest in the
 final disposition of this matter.

WITNESS MY HAND AND SEAL November 15th, 1996.


 STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 14, 1998

I do hereby certify that the foregoing is
 a correct and true copy of the proceedings in
 the Oil Conservation Division of Case No. 11642,
 heard by me on November 7, 1996.


 _____, Examiner
 Oil Conservation Division