

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. 11,702

APPLICATION OF MALLON OIL COMPANY FOR)
 COMPULSORY POOLING AND AN UNORTHODOX)
 WELL LOCATION, LEA COUNTY, NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

January 9th, 1997

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, January 9th, 1997, 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.

* * *

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 Examiner Hearing
 CASE NO. 11,702

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A P P E A R A N C E S

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FOR THE APPLICANT:

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 By: JAMES G. BRUCE

FOR HARVEY E. YATES COMPANY:

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 By: WILLIAM F. CARR

* * *

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

3
4 EXAMINER STOGNER: Hearing will come to order.
5 Call next case, Number 11,702.

6 MR. CARROLL: Application of Mallon Oil Company
7 for compulsory pooling and an unorthodox well location, Lea
8 County, New Mexico.

9 EXAMINER STOGNER: Call for appearances.

10 MR. BRUCE: Mr. Examiner, Jim Bruce from the
11 Hinkle law firm representing the Applicant.

12 I have two witnesses in this matter.

13 EXAMINER STOGNER: Other appearances?

14 MR. CARR: May it please the Examiner, my name is
15 William F. Carr with the Santa Fe law firm Campbell, Carr,
16 Berge and Sheridan. I'd like to enter an appearance in
17 this case for Harvey E. Yates Company.

18 Heyco will not call witnesses.

19 EXAMINER STOGNER: Any other appearances?
20 How many witnesses do you have, Mr. Bruce?

21 MR. BRUCE: Two.

22 EXAMINER STOGNER: Will both witnesses please
23 stand at this time and be sworn?

24 (Thereupon, the witnesses were sworn.)

25 MR. BRUCE: First call Mr. Stalcup to the stand.

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RANDY STALCUP,

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

DIRECT EXAMINATION

BY MR. BRUCE:

Q. Would you please state your name and city of residence?

A. Randy Stalcup, Denver, Colorado.

Q. Who do you work for and in what capacity?

A. Mallon oil Company, as the vice president of land.

Q. Have you previously testified before the Division as a petroleum landman?

A. No, I haven't.

Q. Would you please outline your educational and work background for the Examiner?

A. Okay. I graduated from the University of Oklahoma with a petroleum land management degree in 1979, did field land and lease brokerage work in the summers of 1977, 1978 and 1979, went to work for Pennzoil Producing Company in south Texas for two years and handled land activities in south Texas, the lower 77 counties, spent the next two years in Michigan and Ohio doing independent land work, 1981 went to Oklahoma City and was employed by Beard Oil Company as a landman, for the first nine years as just

1 a landman, and then as the manager of acquisitions and
2 unitization.

3 My responsibilities included negotiating joint
4 operating agreements, various exploratory agreements,
5 testifying before the Oklahoma Corporation Commission, and
6 various and sundry other land functions.

7 I've been employed by Mallon Oil Company since
8 April of 1994, and my primary area of responsibility has
9 been the Permian Basin of New Mexico and San Juan Basin.

10 Q. And you've stated that you were qualified as an
11 expert petroleum landman in other states?

12 A. Yes, in the State of Oklahoma.

13 Q. Okay. And are you familiar with the land matters
14 involved in this Application?

15 A. Yes.

16 MR. BRUCE: Mr. Examiner, I would tender Mr.
17 Stalcup as an expert petroleum landman.

18 EXAMINER STOGNER: Mr. Stalcup is so qualified.

19 Q. (By Mr. Bruce) First, briefly what is it that
20 Mallon seeks in this case?

21 A. Okay, we seek to pool the north half of Section
22 30 of 19 South, 34 East, from the surface to the base of
23 the Morrow. In the north half we want to pool formations
24 spaced on 320 acres, in the northeast quarter for
25 formations spaced on 160 acres, in the southwest northeast

1 for formations spaced on 40 acres.

2 We also would like approval of an unorthodox
3 location for the well to be drilled 1330 feet from the
4 north line and 1330 feet from the east line.

5 Q. Let's move on to your Exhibit 1. Would you
6 identify that for the Examiner?

7 A. Okay, this is a land map with the proposed 320-
8 acre spacing outlined in red.

9 Q. And is the approximate location of the well set
10 forth on this map?

11 A. Yes, it is.

12 Q. Does the yellow indicate Mallon acreage in this
13 area?

14 A. Yes, it does.

15 Q. Mallon-operated acreage, that is?

16 A. Yes.

17 Q. Okay. And the offset operators to the north and
18 east are also given?

19 A. Yes.

20 Q. Okay. In this case, with respect to the pooling,
21 who do you seek to pool?

22 A. Okay, we seek to pool Nortex with 1.37885 percent
23 working interest; Robert W. Kent at .15321 percent working
24 interest; El Paso Production Company, 10.94018 percent, and
25 they now go by Burlington Resources; the Bankhead Trust at

1 .05553 percent working interest: Janice S. Crebbs at .05553
2 percent working interest; Brighthawk/Burkhard Venture with
3 5.15793 percent working interest; Ayco Energy, L.L.C., at
4 4.22012 percent working interest.

5 Q. Okay. Now, Mr. Stalcup, Heyco entered an
6 appearance in this case. You are not seeking to pool them,
7 are you?

8 A. No, we're not. Heyco had an interest in
9 shallower rights, and we have worked out an agreement to
10 agree -- in the event we do not make a well in the Morrow
11 formation and elect to complete a shallower depth, we would
12 have an agreement for them to either join or to farm out.

13 Q. Okay, a voluntary agreement?

14 A. Yes.

15 Q. And so they will not be bound by any order
16 entered in this case?

17 A. No.

18 Q. Okay. What is Mallon's approximate working
19 interest percentage in this well?

20 A. Okay, 40.62195 percent working interest.

21 Q. Now, let's discuss your efforts to obtain the
22 voluntary joinder of the interest owners in this well. How
23 do you -- Initially, how do you proceed? Do you normally
24 just send out a letter? Do you make a phone call to these
25 people first?

1 A. Well, I made personal trips to visit Devon, who
2 we've reached a voluntary agreement, they're going to
3 participate in the well. I attempted to -- went down to
4 Midland, Texas, to seek a meeting with El Paso. They
5 weren't able to see me. I start the process with a
6 telephone conversation to all the parties.

7 We've discussed the possibility of joint
8 venturing with Nortex and Kent and also Brighthawk and
9 Heyco and Crebbs and Bankhead. We've sent them geology,
10 and we are still in the process and might still reach a
11 voluntary agreement for participation.

12 I followed that up with written proposals,
13 enclosed with an AFE and subsequent telephone conversations
14 with all the parties involved.

15 Q. And is your proposal letter submitted as Exhibit
16 2?

17 A. Yes, it is.

18 Q. And a copy of the AFE is attached at the back of
19 this package?

20 A. Yes, it is.

21 Q. Okay. And you said even after this letter you
22 had follow-up telephone calls with these companies?

23 A. Yes.

24 Q. And if after you -- after this hearing, if you
25 reach a voluntary agreement, will you notify the Division

1 of any voluntary agreements you reach with any of the
2 parties you seek to pool?

3 A. Yes.

4 Q. Okay. In your opinion, has Mallon made a good-
5 faith effort to obtain the voluntary joinder of these
6 interest owners listed in Exhibit 2?

7 A. Absolutely.

8 Q. And does Mallon request that it be designated
9 operator of the well?

10 A. Yes.

11 Q. Referring to the back of your Exhibit 2, the AFE,
12 Mr. Stalcup, what is the approximate cost, the completed
13 well cost, of your proposed Morrow test?

14 A. \$1,069,740.

15 Q. And what is the approximate depth of this well?

16 A. 13,800 feet.

17 Q. Is this proposed cost in line with other wells of
18 this depth, drilled in this area of Lea County?

19 A. Yes.

20 Q. And what are your recommendations for the amounts
21 which Mallon should be paid for supervision and
22 administrative expenses?

23 A. Okay, for the drilling overhead, that would be
24 \$6067, and the producing overhead rate would be \$587.

25 Q. Okay. And are these amounts equivalent to those

1 normally charged by operators in this area --

2 A. Yes.

3 Q. -- for wells of this depth?

4 A. Right.

5 Q. Finally, Mr. Stalcup, were the interest owners
6 who you sought to pool notified of this hearing?

7 A. Yes.

8 Q. And were also the offset operators notified of
9 this hearing?

10 A. Yes, they were.

11 Q. And is Exhibit 3 your affidavit with the notice
12 letters and certified return receipts?

13 A. Yes.

14 Q. One final thing, Mr. Stalcup. Do you wish to
15 commence this well relatively soon?

16 A. Yes.

17 Q. What approximate --

18 A. Approximately within the first ten days of
19 February.

20 Q. Okay. Is that because -- And what is the purpose
21 of that?

22 A. Well, we have -- The rig situation is somewhat
23 tight and we've had to commit to rigs, and we're utilizing
24 their window of opportunity and not ours. It's -- Rig
25 availability is getting increasingly tight.

1 Q. Okay, thank you. And were Exhibits 1 through 3
2 prepared by you or under your direction?

3 A. Yes.

4 Q. And in your opinion, will the granting of this
5 Application be in the interests of conservation, the
6 prevention of waste and the protection of correlative
7 rights?

8 A. Yes.

9 MR. BRUCE: Mr. Examiner, at this time I'd move
10 the admission of Mallon's Exhibits 1 through 3.

11 EXAMINER STOGNER: Exhibits 1 through 3 will be
12 admitted into evidence.

13 EXAMINATION

14 BY EXAMINER STOGNER:

15 Q. Mr. Stalcup, perhaps I'm missing something. Do
16 you have a breakdown of those interests that have joined
17 and have not joined and by percentages? I couldn't find it
18 in the --

19 A. No, they're not in the exhibits, sir.

20 MR. BRUCE: If you would like it, Mr. Examiner --
21 We were kind of crunched for time last night. If you would
22 like a breakdown, names and percentages, we can provide
23 that.

24 EXAMINER STOGNER: Yes, in fact, we might even
25 continue this case for two weeks until that information

1 comes.

2 Q. (By Examiner Stogner) Okay. Now, then, when was
3 the first written correspondence to these parties made --

4 A. The first written correspondence --

5 Q. -- trying to seek a voluntary agreement to
6 this --

7 A. December 6th.

8 Q. December 6th. That was the first time that they
9 were contacted about this proposal?

10 A. Yes, written.

11 Q. And when was the application made for compulsory
12 pooling?

13 A. That would have been --

14 Q. I'm sorry, what?

15 MR. BRUCE: December 17th, Mr. Examiner.

16 Q. (By Examiner Stogner) So from December 6th to
17 December 17th, is that an adequate amount of time to reach
18 a voluntary agreement?

19 A. We're -- Like I said, we're continuing to
20 negotiate --

21 Q. I didn't ask that, sir. Is that an adequate time
22 for anybody to reach some sort of a voluntary agreement?

23 A. Yes, I think we'll be able to reach agreement
24 still.

25 Q. Was all avenues tried, was all avenues taken to

1 reach this voluntary agreement before the compulsory
2 pooling application was made in that two-week period, and
3 is that sufficient time, even for your company, to review a
4 proposal and to either join --

5 A. Yes, the parties that were interested in geology,
6 we've forwarded maps and corresponded on a geological
7 basis, and on a land basis. And yes, I believe it has
8 been, under the circumstances.

9 Q. Okay, when did Mallon first -- How long has this
10 proposal or this prospect been in Mallon's -- how would you
11 say? -- drawing room?

12 A. Probably two months.

13 Q. So you're saying about the first part of -- or
14 the mid part of November?

15 A. Yes.

16 Q. Why didn't they try to -- Why didn't Mallon try
17 to attempt to contact those parties at that time and reach
18 some sort of an agreement?

19 A. We were busy with other business issues. That's
20 why we made a special effort to travel to the location of
21 two of the parties here involved to try to reach voluntary
22 agreement.

23 I anticipate reaching a voluntary agreement with
24 all of the parties except El Paso, which absolutely really
25 doesn't return calls or respond to visits in person or

1 anything else.

2 EXAMINATION

3 BY MR. CARROLL:

4 Q. At this time, what percentage of the working
5 interest is committed to the unit?

6 A. In terms of voluntary participation?

7 Q. Yeah.

8 A. Devon, which owns 37.4167; Nortex, which owns
9 1.37885; Robert W. Kent, which owns .15321 percent; and
10 Bankhead, which owns .05553. Now, these are telephone --
11 telephone --

12 Q. And Mallon had how much?

13 A. We have 40.62195 percent.

14 Q. So you have about 78 to 80 percent --

15 A. Yes.

16 Q. -- committed?

17 A. These are telephone verifications with signed
18 AFES to be forwarded in the mail. We are not in receipt of
19 the signed AFES, but we've been in contact on the phone.

20 Q. Is there some deadline regarding expiration of
21 lease or --

22 A. No, all these leases are held by production.

23 (Off the record)

24 EXAMINER STOGNER: Mr. Carr -- Well, he left the
25 room. Okay.

1 (Off the record)

2 EXAMINER STOGNER: Mr. Bruce, normally compulsory
3 pooling has been held as a last-ditch effort in trying to
4 attempt to reach voluntary agreement, given sufficient
5 amount of time, which two weeks is not a sufficient amount
6 of time, and since there is no lease expiration, and trying
7 to follow through these numbers without having some sort of
8 a breakdown also leads to that confusion of actually who is
9 being force-pooled and who is not, I personally don't see
10 why a longer amount of time was not given.

11 Two weeks is not sufficient enough, even if
12 somebody would have come in here and objected, Mr. Bruce,
13 it would have been thrown back as a continuance for 30
14 days, and I don't see any reason not to do it in this
15 particular instance.

16 MR. BRUCE: Well, Mr. Examiner, Mr. Stalcup can
17 verify this.

18 He actually made the first contact in mid-
19 November when he visited Devon, tried to visit Burlington,
20 and he called the people. He called the people beforehand
21 to give them advance notice, and he can testify that. And
22 then that was followed up with Exhibit 2, which is the
23 written proposal.

24 They do have a drilling obligation which they
25 said is sometime in the first ten days of -- You know,

1 they have a rig that they need to use in about a month.

2 MR. CARROLL: What's the drilling obligation
3 again?

4 MR. BRUCE: Mr. Stalcup testified that because of
5 activity in the oilfield today, rigs are very tight, and
6 they have arranged for a rig in approximately a month.

7 I think about -- The companies had about 30 days
8 before they were notified of the hearing with Mr. Stalcup's
9 phone calls and the letter.

10 I mean, we will be glad to present -- or submit a
11 listing of the names, percentage interest, who has verbally
12 committed, and who we seek to pool. You know, I don't have
13 any problem with that.

14 I'm just saying that there are deadlines and --
15 Go ahead, Mr. Stalcup.

16 THE WITNESS: I've also, you know, had
17 conversations with all these people and told them, you
18 know, we're going to go ahead and file for compulsory
19 pooling, you know, just to keep the process rolling, and
20 none of the parties have objected to this verbally, over
21 the phone with me, or, you know, by showing up to be an
22 interested party.

23 Q. (By Mr. Carroll) They were first contacted in
24 November, and then after the January 6th letter, were
25 follow-up calls made?

1 MR. BRUCE: December 6th.

2 THE WITNESS: Yeah, there's been continuous --

3 MR. CARROLL: What did I say?

4 MR. BRUCE: January.

5 Q. (By Mr. Carroll) December 6th.

6 A. There's been continuous telephone calls all along
7 since the middle of November. This proposal is no surprise
8 to any of these people.

9 MR. BRUCE: If the case needs to be continued for
10 two weeks to submit this additional material, you know, Mr.
11 Examiner, I don't think I have a problem with that, and we
12 can certainly notify by mail the parties that the hearing
13 is being continued for two weeks.

14 Mr. Examiner, I'm sensitive to your concerns. I
15 understand what you're saying. Unfortunately, sometimes
16 some economic matters intrude on these.

17 EXAMINER STOGNER: Well, of course there's no --
18 one don't have to have a compulsory pooling order before
19 they drill a well.

20 MR. BRUCE: No, that's correct, Mr. Examiner.

21 And I mean, even -- As you know, even after the
22 order is issued, Mr. Stalcup will have to go out and send
23 an AFE to the parties who haven't voluntarily joined, and
24 they will have another 30 days thereafter to elect to join
25 in the well.

FURTHER EXAMINATION

1
2 BY EXAMINER STOGNER:

3 Q. How long has Mallon had their interest in this
4 north half?

5 A. Since 1993.

6 Q. Now, this is designated as a Mescalero Ridge
7 Unit. Is this a unit well?

8 A. This was an old federal exploratory unit that was
9 contracted down to participating area, which covers the
10 west half of Section 20, the northeast of 20, the east half
11 east half of 19, the northeast northeast of 30, and the
12 north half of the northwest of 29, composing -- comprising
13 760 acres.

14 The rest of it is acreage, 280 acres, the
15 remainder of the north half of 30 is just HBP acreage.

16 EXAMINER STOGNER: I'll go ahead and take
17 testimony from your technical witness at this time, Mr.
18 Bruce.

19 And in the meantime I'm going to ponder on how
20 long to continue this matter, and just what information --

21 MR. BRUCE: Thank you, Mr. Examiner.

22 EXAMINER STOGNER: -- we'll need to make the
23 record complete.

24 Mr. Bruce?

25 MR. BRUCE: Excuse me, Mr. Examiner.

1 GEORGE CORYELL,

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. BRUCE:

6 Q. Would you please state your name and city of
7 residence for the record?

8 A. My name is George Coryell. I live in Parker,
9 Colorado.

10 Q. And who do you work for?

11 A. I'm a consulting geologist on a contract with
12 Mallon Oil Company.

13 Q. Have you previously testified before the
14 Division?

15 A. No, I have not.

16 Q. Would you please summarize your educational and
17 employment background?

18 A. I have a bachelor of science degree in geological
19 sciences from the University of Washington in 1975. I have
20 a master of science degree, completed in 1977, in geology
21 from Oregon State University, done under a petroleum
22 research fellowship.

23 Subsequently, I worked for Texaco, Sohio
24 Petroleum, Forest Oil Corporation. I co-founded Rose
25 Exploration, Incorporated, in Denver. Since 1987 I've been

1 consulting. In 1995 I incorporated into Geocore, Inc.,
2 consulting firm, and formed Brian Resources, Incorporated,
3 Oil and Gas Exploration Company.

4 I'm a registered professional geologist in
5 Wyoming and a registered geologist in California.

6 Q. And are you familiar with the geologic matters
7 involved in this Application?

8 A. Yes, I am.

9 MR. BRUCE: Mr. Examiner, I'd tender Mr. Coryell
10 as an expert petroleum geologist.

11 EXAMINER STOGNER: So qualified.

12 Q. (By Mr. Bruce) Mr. Coryell, referring to your
13 Exhibit 4, what is the primary zone of interest?

14 A. We're looking at the Morrow "B", and specifically
15 the B-7 sand, so designated.

16 Q. And that's just an internal designation?

17 A. Yes, it is.

18 Q. Okay. Well, let's move on. Would you discuss --
19 or, excuse me, identify your Exhibit 5 for the Examiner and
20 discuss what the plans are with respect to this well?

21 A. Exhibit 5 is a gross sand map on the B-7 channel.
22 The channel orientation is defined by regional geology
23 literature with a northwest source. There is control to
24 the northwest, about two miles off the map, in Section 12,
25 which does show the development of this channel sand.

1 There is good control in the south.

2 The channel dimensions are -- exhibit typical
3 length-to-width ratios, as found in the area.

4 The reason for the gross sand map, as opposed to
5 a net sand, is that gross sand better defines channel
6 morphology, and the objective of this well is to penetrate
7 the center of the channel, as best we can.

8 Q. Okay. Now, let's move on to your Exhibit 6.
9 First, would you discuss that briefly for the Examiner?

10 A. That's a structure map on the Morrow "B", and
11 it -- there's not -- It's entered for -- as an exhibit.
12 It's not -- doesn't have necessarily a strong influence on
13 the prospect.

14 Q. Okay. Now, a couple of things. Regarding the
15 unorthodox location, in your opinion is this location
16 necessary to adequately test the Morrow zone?

17 A. I think it is important. The most important
18 objective here is to penetrate the center of the channel,
19 and this is the best geologic picture we have at this time,
20 where the center of that channel is.

21 Q. And I notice at least to the northwest, there is
22 an absence of well control in the Morrow.

23 A. That's correct. As I mentioned before, two miles
24 off the map in Section 12, we do see the development of
25 this channel.

1 Q. Okay. In your opinion, if any party goes
2 nonconsent under any order issued in this case, what
3 penalty should be assessed against those interest owners?

4 A. Cost plus 200 percent.

5 Q. And you believe this is justified by the geologic
6 risk involved in drilling this well?

7 A. That's correct. This is the best picture we
8 have, but there is inherent risk in the Morrow, of course,
9 and the position of the channel is again uncontrolled to
10 the immediate northwest.

11 Q. Okay. Now, Exhibits 5 and 6, I believe, were
12 prepared by someone else?

13 A. Yes, they were. They were prepared by Wendell
14 Bond, who is employed by Mallon Oil Company.

15 Q. A geologist?

16 A. Yes, he's the vice president of exploration.

17 Q. And have you reviewed the data pertaining to
18 these exhibits, and do you agree with their interpretation?

19 A. Yes, I have, and I do agree.

20 Q. Okay. And was Exhibit 6 -- I mean, excuse me,
21 Exhibit 4 compiled from the Mallon Company records?

22 A. Yes, it was.

23 Q. Okay. In your opinion is the granting of
24 Mallon's Application in the interests of conservation and
25 the prevention of waste?

1 A. Yes, it is.

2 MR. BRUCE: Mr. Examiner, at this time I would
3 move the admission of Mallon Exhibits 4, 5 and 6.

4 EXAMINER STOGNER: Exhibits 4, 5 and 6 will be
5 admitted into evidence.

6 EXAMINATION

7 BY EXAMINER STOGNER:

8 Q. I take it by your Application and by your
9 exhibits that the Morrow is your primary zone of interest?

10 A. That is correct.

11 Q. Okay. What is a standard location for a 320-acre
12 Morrow test? Do you know?

13 A. I do not know.

14 Q. Okay, if I go back to Exhibit Number 5, you said
15 you wanted to be in the middle of the channel?

16 A. That's correct.

17 Q. Wouldn't a standard location, being 1650 from the
18 end line and no closer than 660 from the north line in the
19 northwest of the northeast quarter, wouldn't that still
20 meet your objective?

21 A. Okay, let me -- Excuse me, I'm sorry, could I
22 have --

23 Q. Okay, moving in unit letter B --

24 A. Okay.

25 Q. -- which is the northwest of the northeast

1 quarter, being 1650 from the east line, and no closer than
2 660 from the north line, that little box in there --

3 A. Yeah.

4 Q. -- or that area, wouldn't that still meet those
5 requirements of being in the center of that channel?

6 A. Given that, I would have to say yes.

7 Q. Okay. I'm still confused on why you necessarily
8 need to drill at an unorthodox location when a standard
9 location would meet those requirements. Is there some
10 shallower interval, perhaps?

11 A. Well, there are potential secondary targets, but
12 this is the most important target.

13 EXAMINER STOGNER: Mr. Bruce, I'm going to take a
14 five-minute recess. You've practiced before us long enough
15 to know pretty much what we need, and I'm quite amazed
16 today at this particular Application, with the information
17 given me so far, as far as the technical. I don't see why
18 a standard location is not -- cannot meet these
19 requirements, unless there's something else that hasn't
20 been testified.

21 So with that, I'll leave for about five minutes
22 and you can confer, then we'll come back in.

23 (Thereupon, a recess was taken at 1:46 p.m.)

24 (The following proceedings had at 1:55 p.m.)

25 EXAMINER STOGNER: Come to order.

1 Mr. Bruce?

2 MR. BRUCE: If I could ask a few of my questions,
3 Mr. Examiner --

4 EXAMINER STOGNER: Okay, I'll open it up for
5 redirect.

6 REDIRECT EXAMINATION

7 BY MR. BRUCE:

8 Q. George, looking at your Exhibit 5, have you drawn
9 on your map where the approximate location would be, say
10 1650 from the east line and 660 from the north line --

11 A. Yes.

12 Q. -- of Section 30?

13 A. Yes.

14 Q. Now, when you do that, are you moving somewhat
15 further away from established production?

16 A. Yes.

17 Q. Is that one reason for --

18 A. That is, yes.

19 Q. -- the proposed location?

20 A. Yes.

21 Q. Also, are you somewhat nearer -- Looking at
22 Section 20 in the southwest quarter, there's a well that
23 was dry in this zone; is that correct?

24 A. Yes, it has zero gross sand.

25 Q. And you would be somewhat closer --

1 A. Yes.

2 Q. -- to that well?

3 Does it also -- Third, does it also get you somewhat
4 out of the middle of the channel as it's mapped?

5 A. It moves it slightly off center as mapped. I
6 think it adds risk by getting closer to that zero well.

7 Q. Okay.

8 A. It does get farther away from production.

9 Q. Okay. Now -- So basically this pick you've got
10 is basically the best to keep it in the center of the
11 channel?

12 A. I believe this is the optimum location, yes.

13 Q. Now, finally, although Mallon has asked to pool
14 other zones, I mean, this is pretty much just Morrow
15 territory out there?

16 A. Yes, there's some possible shallower zones, but
17 this is the main objective, yes.

18 MR. BRUCE: Mr. Examiner, I pass the witness.

19 FURTHER EXAMINATION

20 BY EXAMINER STOGNER:

21 Q. Okay, referring to Exhibit Number 6, now, this is
22 essentially your structure map. Your present well location
23 puts you on that 9500 line. What happens if you move back
24 to the west and it takes that a little bit further
25 upstructure? How does that affect a potential Mallon --

1 I'm sorry, a potential Morrow well if you move back to the
2 west?

3 A. It moves slightly upstructure, is what you're
4 saying?

5 Q. Yes.

6 A. I would say that it's not a major factor, the
7 structure is not the most important factor. It's trying to
8 hit the center of that channel and get maximum pay
9 developed.

10 Q. Now, you've shown some other well locations to
11 the north and to the south. Is this all producing wells or
12 all wells that exist, or is this just deep wells?

13 A. These are deep wells only.

14 Q. Okay. Is there some shallow intervals in this
15 area up above the Wolfcamp?

16 A. I believe there are, yes, but I can't tell you
17 specifically.

18 Q. Okay, because this is an unorthodox location also
19 for 40 and 160; is that correct? Spacing?

20 A. It would be.

21 Q. Okay. Within the north half of Section 30, is
22 there any shallow oil production occurring now?

23 A. I don't -- I don't believe so, but I don't know
24 specifically.

25 Q. Not knowing if there's any shallow production,

1 can you tell me anything, perhaps, a well at this -- center
2 of this quarter section, if you did hit some production on
3 40-acre spacing, how that would affect drainage in, say
4 like the Bone Springs or some of that shallower Strawn or
5 the Queen production? Or would it affect it?

6 A. I don't believe it would affect it, no. I'm not
7 sure -- not knowing that there's -- specifically where the
8 shallow production is, you're saying, if there is? Is that
9 your question, sir?

10 Q. Yes.

11 A. The uphole targets are -- I mean, there's
12 secondary targets, there is possibility. But this is the
13 primary objective, and I have not considered the uphole --

14 EXAMINER STOGNER: Of course --

15 THE WITNESS: -- I apologize.

16 EXAMINER STOGNER: -- I can understand that, but
17 your Application is also for compulsory pooling, anything
18 on 160, anything on 40 and anything on 320. And with this
19 being an unorthodox location for 40, in which you have
20 requested, that's the reason I was asking that.

21 Mr. Bruce, do you have anything further?

22 MR. BRUCE: Mr. Examiner, if I could, some of the
23 questions you just asked -- can't be answered exactly but
24 might be explained further if I could recall Mr. Stalcup
25 briefly.

1 EXAMINER STOGNER: Mr. Stalcup is a landman,
2 right?

3 MR. BRUCE: Is the landman, yes, sir.

4 EXAMINER STOGNER: And he's going to testify on
5 geological and engineering?

6 MR. BRUCE: No, sir, I think it will -- Number
7 one, I can answer a couple of questions you asked him the
8 first time.

9 EXAMINER STOGNER: Oh, okay.

10 MR. BRUCE: And then there's one final thing.

11 EXAMINER STOGNER: Okay.

12 MR. BRUCE: Mr. Examiner, we will get you a
13 better outline of ownership. I'm submitting as Exhibit 4
14 [sic] just a very brief outline of Morrow well ownership in
15 the proposed well.

16 RANDY STALCUP (Recalled),
17 the witness herein, having been previously duly sworn upon
18 his oath, was examined and testified as follows:

19 FURTHER EXAMINATION

20 BY MR. BRUCE:

21 Q. Mr. Stalcup, let me just verify -- I think I said
22 this about 20 minutes ago, and I didn't have you testify
23 it, but your original proposals to these interest owners
24 was in mid-November; is that correct?

25 A. Yes.

1 Q. Either by personal visits or by telephone calls?

2 A. Yes.

3 Q. And at this point, Devon Energy has verbally
4 agreed to join in the well?

5 A. No, they've signed an AFE --

6 Q. Okay.

7 A. -- and sent it back.

8 Q. Okay. Devon Energy has signed an AFE?

9 A. Yes.

10 Q. Who else has at least verbally agreed to join in
11 the well?

12 A. Nortex and Robert W. Kent.

13 Q. Okay. And so that, together with Mallon's
14 interest, is roughly 80 percent of the well?

15 A. Right. Janice Crebbs has signed an AFE.

16 Q. Okay. And now, the other big interest -- or
17 there's several -- is Burlington. Now, you've traveled to
18 Midland to try to meet them?

19 A. Yes.

20 Q. And they refused to see you?

21 A. Right.

22 Q. And you've called them?

23 A. Yes.

24 Q. And they've never returned your phone calls?

25 A. They -- I was able to talk with a consultant, and

1 the consultant told me, The only way you're going to get
2 anything out of Burlington Resources is to pool them.

3 Q. Okay. They're just refusing to sign anything?

4 A. They have sent us letters and said, Whereas the
5 proposed project has merit, we're not signing AFEs; we're
6 fixing to sell these properties.

7 Q. Okay. Now, there's two other fairly large
8 interests. I don't have the right name, but there's Ayco,
9 A-y-c-o, Energy, and then Brighthawk?

10 A. Brighthawk/Burkhard Venture, yes.

11 Q. What -- I mean, you've been in phone contact with
12 them also?

13 A. Yes, and --

14 Q. What do they want to do?

15 A. -- they want to participate, but they want to
16 participate with less than their full interest and farm out
17 the remainder.

18 And the only thing remaining with them is to just
19 -- for them to decide what participation level they're
20 comfortable with and then to enter into the operating
21 agreement and, you know, just a farmout agreement on what
22 they don't want to participate in.

23 Q. Okay. Now, your aim in proceeding is not to get
24 these people pooled and get their nonconsent interest, is
25 it?

1 A. No.

2 Q. You just merely want to get everyone committed to
3 the well one way or another?

4 A. Yes.

5 Q. And you will continue to negotiate with them?

6 A. Yeah, except obviously with El Paso, they're not
7 going to do anything.

8 Q. Okay. So --

9 A. El Paso is the only party that will not -- you
10 know --

11 Q. -- do anything?

12 A. -- do anything.

13 Q. And the purpose for -- you know, if -- and the
14 Hearing Examiner's concern is with not giving people enough
15 time to decide, but as I understand it, you do have -- Rigs
16 are tight in the oilfield right now?

17 A. Yes.

18 Q. And in approximately a month's time you need to
19 commence a well?

20 A. Yes.

21 Q. Then one final question: The Division is
22 concerned because of this unorthodox location, with
23 affecting -- This well is in the southwest quarter of the
24 northeast quarter, but barely, as proposed; is that
25 correct?

1 A. Correct.

2 Q. And if you hit a shallower zone, even though
3 apparently there's not much out there, you could drain
4 those other three offsetting quarter-quarter sections?

5 A. (Nods)

6 Q. Okay. In these shallower zones, down to the,
7 say, Bone Spring, is ownership uniform throughout the
8 northeast quarter?

9 A. Yes.

10 Q. Working interest ownership, royalty ownership,
11 everything is uniform throughout the northeast quarter?

12 A. Except for, we have Harvey Yates that has from
13 the surface down to the base of the Bone Springs.

14 Q. And that comes out of Devon Energy's interest?

15 A. Yes.

16 Q. But still, there -- every -- It just means
17 there's another party added in, but everyone's interest is
18 uniform throughout?

19 A. Yes.

20 MR. BRUCE: Thank you, Mr. Stalcup.

21 And Mr. Examiner, I should have marked that as
22 Exhibit 7, rather than Exhibit 4.

23 Q. (By Mr. Bruce) And Mr. Stalcup, the Exhibit 7 I
24 submitted to the Examiner, the listing, is that an accurate
25 representation of ownership interest in the Morrow well?

1 A. Yes.

2 MR. BRUCE: Mr. Examiner, I would move the
3 admission of Exhibit 7.

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

6 FURTHER EXAMINATION

7 BY EXAMINER STOGNER:

8 Q. You mentioned Heyco, now -- that's Harvey E.
9 Yates Company -- have another interest or an interest in
10 this well; is that correct?

11 A. They don't have any interest in the Morrow
12 formation.

13 They have interest from the surface down to the
14 base of the Bone Springs in the northeast quarter of 30,
15 and they have an interest in the northwest quarter, 18.75.
16 from the base of the Queen to the base of the Bone Springs.

17 Q. But now Heyco has signed, as far as the -- as far
18 as the force-pooling of the shallower interval; is that
19 correct?

20 A. No, we've agreed to enter into an agreement, and
21 we're not seeking to pool their interest. We're going to
22 voluntarily agree by farmout or participation.

23 MR. BRUCE: And that Exhibit 7 I gave you, Mr.
24 Examiner, if you -- Heyco's interest comes out of Devon's
25 interest. Everyone else --

1 EXAMINER STOGNER: Okay.

2 MR. BRUCE: -- remains the same.

3 Q. (By Examiner Stogner) Now, you -- If I heard you
4 right, you mentioned that you had a letter from Burlington,
5 stating that they have reviewed the project but will not
6 participate?

7 A. It's a form letter. We have a letter on this and
8 several other projects that say exactly the same thing.

9 Q. And when did that letter come out --

10 A. I don't have that in front of me --

11 Q. -- concerning this well?

12 A. -- but I think it was -- It was sent out within a
13 week of their receipt of our proposal.

14 MR. BRUCE: Would you like a copy of that, Mr.
15 Examiner?

16 EXAMINER STOGNER: Well, I'm getting around to
17 that.

18 Q. (By Examiner Stogner) Okay. Now, the interests
19 that are being -- or that would be if an order is issued,
20 is the Burlington, the Burkhard, the Brighthawks and the
21 Ayco, the A-y-c-o Energy Corporation; those are the four
22 interests, right, that is being force-pooled?

23 A. Well, and we're force-pooling Nortex and Robert
24 W. Kent, only because we hadn't received their signed AFE
25 at the date.

1 But as I testified before, if we reach voluntary
2 agreement, I will notify the Commission, which we fully
3 anticipate doing with other than El Paso.

4 Q. Okay. With those percentages that you show here,
5 does that also reflect the same percentages on 160- and 40-
6 acre spacings?

7 A. Yes.

8 EXAMINER STOGNER: Mr. Bruce, at this point,
9 yeah, I would like a copy of that Burlington letter.

10 MR. BRUCE: Yes, sir.

11 (Off the record)

12 EXAMINER STOGNER: Okay, if you could just make
13 that Burlington letter a part of this Application, and at
14 this point I don't see any reason to continue this matter.

15 MR. CARROLL: We have copies of all written
16 correspondence, do we not?

17 THE WITNESS: Yes, with the exception of that
18 letter.

19 I can have my secretary fax us one here if you
20 want it this afternoon.

21 EXAMINER STOGNER: Or just the -- I'll probably
22 tie it up pretty much this afternoon anyway, but as quick
23 as you can, Mr. Bruce.

24 MR. BRUCE: We'll get it in the next day or so.

25 EXAMINER STOGNER: Okay. Does anybody else have

1 anything further in Case Number 11,702?

2 MR. BRUCE: No, sir.

3 EXAMINER STOGNER: Then this case will be taken
4 under advisement.

5 (Thereupon, these proceedings were concluded at
6 2:14 p.m.)

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20 I do hereby certify that the foregoing is
21 a complete record of the proceedings in
the Examiner hearing of Case No. 11702,
22 heard by me on 9 January 19 97.
23 William C. Stogner, Examiner
Oil Conservation Division
24
25

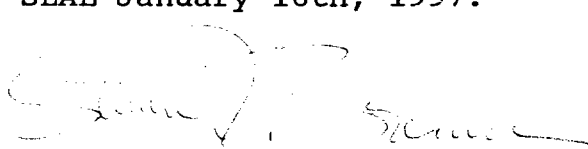
CERTIFICATE OF REPORTER

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 January 16th, 1997.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 1998