

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. 11,844
)
APPLICATION OF CHESAPEAKE OPERATING,)
INC., FOR AN UNORTHODOX OIL WELL)
LOCATION, LEA COUNTY, NEW MEXICO)
_____)

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

September 4th, 1997

Santa Fe, New Mexico

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Oil Conservation Division

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, September 4th, 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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September 4th, 1997
 Examiner Hearing
 CASE NO. 11,844

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* * *

A P P E A R A N C E S

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FOR MARATHON OIL COMPANY and
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By: WILLIAM F. CARR

* * *

1 WHEREUPON, the following proceedings were had at
2 1:05 p.m.:

3
4
5
6
7 EXAMINER CATANACH: Okay, at this time let me
8 call Case 11,844.

9 MR. CARROLL: Application of Chesapeake
10 Operating, Inc., for an unorthodox oil well location, Lea
11 County, New Mexico.

12 EXAMINER CATANACH: Call for appearances.

13 MR. BRUCE: Mr. Examiner, Jim Bruce from Santa
14 Fe, representing the Applicant.

15 I have two witnesses to be sworn.

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

19 We represent Marathon Oil Company in this matter,
20 and I have one witness.

21 I would also like to enter our appearance for
22 Nearburg Exploration Company, L.L.C.

23 EXAMINER CATANACH: Okay, can I get all the
24 witnesses to please stand and be sworn in?

25 (Thereupon, the witnesses were sworn.)

1 MIKE HAZLIP,
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. Will you please state your name for the record?

7 A. Mike Hazlip.

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

9 A. Chesapeake Operating, Inc. I'm their landman for
10 the Permian Basin.

11 Q. Have you previously testified before the
12 Division?

13 A. Yes, sir.

14 Q. As a landman?

15 A. Yes.

16 Q. And were your credentials as a landman, as an
17 expert petroleum landman, accepted as a matter of record?

18 A. Yes, they were.

19 Q. And are you familiar with the land matters
20 involved in this Application?

21 A. Yes, I am.

22 MR. BRUCE: Mr. Examiner, I would tender Mr.
23 Hazlip as an expert petroleum landman.

24 EXAMINER CATANACH: He is so qualified.

25 Could you spell your last name for me?

1 THE WITNESS: H-a-z-l-i-p.

2 EXAMINER CATANACH: Thank you.

3 Q. (By Mr. Bruce) Briefly, Mr. Hazlip, what does
4 Chesapeake seek in this case?

5 A. We seek approval of an unorthodox location for
6 our Gandy 1 "19" well location, 2523 feet from the north
7 line and 2370 feet from the east line of Section 19,
8 Township 16 South, Range 36 East.

9 Q. This will be a Strawn test?

10 A. Yes, sir.

11 Q. Could you identify Exhibit 1 for the Examiner?

12 A. Exhibit 1 is a land plat outlining the 40-acre
13 well unit for the Gandy 1 "19" well. It also shows
14 Chesapeake's acreage position and who the offset working
15 interest owners are.

16 Q. One thing, Nearburg is an interest owner in this
17 proposed well, is it not?

18 A. Yes, they are.

19 Q. Who are the interest owners -- or excuse me, the
20 offset interest owners?

21 A. In the west half of Section 19, Chesapeake owns
22 over a 90-percent interest. The balance is held by Enserch
23 and Charles Read. To the south, in the north half of the
24 southeast quarter, Section 19, Marathon owns 100-percent
25 interest. And between Chesapeake and Nearburg we own 100-

1 percent of the northeast quarter of Section 19.

2 Q. Were the offset operators notified of this
3 hearing?

4 A. Yes, they were.

5 Q. And is Exhibit 2 a copy of Mr. Kellahin's
6 affidavit regarding notice?

7 A. Yes, sir, it is.

8 Q. Mr. Kellahin is the attorney who originally filed
9 this Application, was he not?

10 A. Yes.

11 Q. Besides the notice letter to Marathon and the
12 other offsets, have you had any further contact with them?

13 A. Yes, I have. I sent a letter to Marathon on
14 August 29th, 1997, after finding out that they were going
15 to oppose us on this.

16 Q. So you sent them the letter marked Exhibit 3?

17 A. Yes.

18 Q. And what did you offer in that letter again, I'm
19 sorry?

20 A. We offered Marathon a mirror location and a
21 voluntary 25-percent production penalty on our unorthodox
22 well.

23 Q. And they did not accept that?

24 A. No, they did not.

25 Q. What did they want?

1 A. There was no clear -- There were several issues
2 discussed.

3 They wanted seismic data from us and wanted to
4 participate with us in this area.

5 They really -- As far as I can recall, there was
6 no specific --

7 Q. No firm offer?

8 A. -- offer of what it would take to dismiss this
9 case.

10 Q. Now, you mentioned seismic. Chesapeake has
11 substantial seismic data in this area, does it not?

12 A. Yes, we do.

13 Q. And that's very valuable?

14 A. Yes, it is.

15 Q. What is the depth bracket allowable for this
16 well?

17 A. 365 barrels of oil per day.

18 Q. Now, the penalty you offered, 25 percent, in your
19 opinion would that allow Chesapeake a reasonable chance of
20 drilling a commercial well?

21 A. Yes, it would.

22 Q. What is the cost of a well, a Strawn well, in
23 this area?

24 A. Dryhole costs are estimated to be \$552,000, and
25 completed well costs are \$895,000.

1 Q. What is the depth, approximate depth, of this
2 well?

3 A. Approximately 11,800 feet.

4 Q. Now, in this area has Chesapeake been active
5 recently in drilling Strawn wells?

6 A. Yes, we've drilled numerous wells. We've drilled
7 approximately eight wells in this immediate proximity.

8 Q. In the area of 16 South, 36 East --

9 A. Yes.

10 Q. -- roughly?

11 A. Uh-huh.

12 Q. In what time frame is that?

13 A. Over the last year, year and a half.

14 Q. Were Exhibits 1 through 3 prepared by you or
15 under your direction or compiled from company records?

16 A. Yes, sir, they were.

17 Q. And in your opinion, is the granting of
18 Chesapeake's Application in the interests of conservation
19 and the prevention of waste?

20 A. Yes, sir, it is.

21 MR. BRUCE: Mr. Examiner, I'd move the admission
22 of Chesapeake Exhibits 1 through 3.

23 EXAMINER CATANACH: Exhibits 1 through 3 will be
24 admitted as evidence.

25 Mr. Carr?

CROSS-EXAMINATION

BY MR. CARR:

Q. Mr. Hazlip, when you proposed a 25-percent penalty to Marathon, against what would that penalty apply? The depth-bracket allowable?

A. Yes, sir.

Q. In December of last year, 1996, did Chesapeake not contact Marathon concerning the development of this area?

A. It probably was in December, yes, sir, we did contact Marathon.

Q. And at that time there were discussions concerning the development of a working interest unit in the area; is that not correct?

A. Yes, sir.

Q. Has Chesapeake followed up on that proposal with Marathon since December?

A. We offered -- The working interest unit that we proposed did not include any acreage inside the northeast quarter of Section 19. We were discussing the southwest quarter of Section 19 and the southeast quarter of Section 19 on preliminary information we had from out data.

Q. Has Marathon not offered to purchase seismic from Chesapeake in this area?

A. Yes, in our discussion -- they called me -- I had

1 a discussion with them after they called me in response to
2 my letter a few days ago and offered to purchase the
3 seismic from us.

4 Q. Has any decision been made by Chesapeake on
5 whether or not they're willing to sell the seismic to
6 Marathon?

7 A. As far as I know, our company does not want to
8 sell the data at this time. That doesn't preclude us from
9 selling it to them at some point in time.

10 MR. CARR: That's all I have, thank you.

11 EXAMINATION

12 BY EXAMINER CATANACH:

13 Q. Just a couple. Again, in the west half of
14 Section 19, Chesapeake, you said, owned --

15 A. -- over 90 percent.

16 Q. Ninety percent. And the other two interest
17 owners are Enserch and --

18 A. -- Charles Read.

19 Q. Charles Read. Do you know how that's split up
20 between those two parties?

21 A. I believe that Charles Read has around 3 percent
22 and Enserch 6 percent, something like that.

23 Q. Okay, and the northeast quarter of Section 19,
24 that's owned by Chesapeake and Nearburg?

25 A. Yes, sir.

1 Q. Is that whole quarter section in the same
2 percentage?

3 A. No, sir, there's a little larger percentage in
4 the west half of the -- In the west half of the northeast
5 quarter, we own approximately 49 percent and Nearburg
6 approximately 51 percent; and in the east half of the
7 northeast quarter Chesapeake owns approximately 45, 46
8 percent, and Nearburg the balance.

9 Q. Okay. And in the southwest quarter, the acreage
10 shown in white is all Marathon acreage?

11 A. Yes, sir.

12 Q. And that 40-acre tract in that quarter section is
13 owned by Chesapeake and Nearburg?

14 A. Yes.

15 Q. Is that a producing well in the west half of
16 Section 19, or is that --

17 A. In the west half of Section 19?

18 Q. Right.

19 A. No, sir.

20 Q. Okay. There are no wells in this section that
21 are producing?

22 A. Not to my knowledge.

23 Q. Okay. And Nearburg is participating with you in
24 the drilling of this well?

25 A. They haven't formally responded to our proposal

1 letter. They have -- I had a discussion with them the
2 other day. They're proposed a well to us in the northeast
3 quarter of the northeast quarter.

4 We anticipate entering into two JOAs, one where
5 we would operate the west half of the northeast quarter of
6 Section 19, and one where they would operate the east half
7 of the northeast quarter of Section 19. And they've
8 indicated to me that they would participate in this well.
9 But again, I have not gotten any formal response from them
10 on that.

11 EXAMINER CATANACH: Okay. I have nothing
12 further.

13 ROBERT A. HEFNER, IV,
14 the witness herein, after having been first duly sworn upon
15 his oath, was examined and testified as follows:

16 DIRECT EXAMINATION

17 BY MR. BRUCE:

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

20 A. My name is Robert Hefner, and I reside in
21 Oklahoma City, Oklahoma.

22 Q. Who do you work for?

23 A. I work for Chesapeake Operating, Inc., as a
24 geologist for the Permian Basin.

25 Q. Have you previously testified before the Division

1 as a petroleum geologist?

2 A. I have.

3 Q. And were your credentials as an expert geologist
4 accepted as a matter of record?

5 A. They were.

6 Q. And are you familiar with the geology involved in
7 this Application we're here for today?

8 A. Yes, sir, I am.

9 Q. And your area of responsibility includes this
10 part of southeast New Mexico?

11 A. Yes.

12 MR. BRUCE: Mr. Examiner, I would tender Mr.
13 Hefner as an expert petroleum geologist.

14 EXAMINER CATANACH: He is so qualified.

15 Q. (By Mr. Bruce) Mr. Hefner, let's move on to your
16 Exhibit 4. Would you identify that for the Examiner and
17 discuss it a little bit?

18 A. Yes, Exhibit 4 is a structure map generated on
19 top of the Strawn formation. It was generated utilizing
20 both a 3-D seismic survey that we have in this area that
21 covers all of Section 19 and also includes the subsurface
22 well control, and was based on a seismic survey that was
23 acquired and processed utilizing 110-foot bins.

24 And you'll note in the referenced unit, the
25 southwest of the northeast where we're wanting to drill the

1 Gandy well, a structural anomaly that sits up approximately
2 50 feet against regional structure and is small and
3 oriented in an east-west direction across the northern
4 portion of that lease line.

5 Q. Based upon your interpretation, is much if any of
6 this particular Strawn porosity pod on Marathon acreage?

7 A. According to our interpretation, most if not all
8 of the Strawn anomaly that we're going to drill with this
9 well lays north of the Marathon acreage and is contained
10 within the subject unit.

11 The interpretation is based on a fairly tight
12 grid of seismic data, and although I know you'd probably
13 love to see what the seismic looks like across that, I can
14 testify under oath here today that it's restricted to about
15 three traces total, which would be, on the bin size, 330
16 feet. We're drilling this well in between, on that middle
17 trace, so there's not a lot of room for error on either
18 side.

19 Q. Okay.

20 A. And we have chosen not to display the seismic
21 because we feel that's a proprietary methodology that we've
22 been using in the area.

23 Q. Now, let's get -- The Examiner asked one question
24 of Mr. Hazlip. Are there any Strawn producing wells in
25 Section 19?

1 A. No, there are not.

2 Q. Let's move on to your Exhibit 5. Could you
3 identify that for the Examiner?

4 A. Yes, Exhibit 5 is a stratigraphic cross-section
5 that has been hung on the base of the Strawn. It ties in
6 to two wells, both to the north and to the south, both of
7 which were dry in the Strawn.

8 The well to the northwest of the proposed
9 location, that was drilled by Spectrum in 1986, called the
10 Jackson, a completion attempt was made in that well. It
11 pumped approximately 46 barrels and 44 barrels of water and
12 ended up being noncommercial and plugged.

13 And you can see on the stratigraphic cross-
14 section that the algal mound development that's colored in
15 yellow, which gives reservoir-quality rock, is at the base
16 of the Strawn.

17 The well to the southeast is a well that was
18 drilled by Hanks in 1983. There was a thin interval of
19 porosity or algal mound development in that overall Strawn,
20 although it shows to be tight and was not tested, and that
21 well was completed in the Wolfcamp.

22 At the proposed location of the Gandy you'll see
23 that the interpretation reflects the development of algal
24 mound at the top of the Strawn, as opposed to down within
25 the Strawn. And it also coincides with the maximum

1 structural attitude, which is reflected on the structure
2 map as well.

3 And so the proposed location is a place where
4 both maximum development of algal mound at the top of the
5 Strawn coincides with structural attitude at the top of the
6 Strawn as well, at the proposed location.

7 Q. And based on your experience in the area, is the
8 best porosity usually in the top of the gross Strawn
9 interval?

10 A. Yeah, we've drilled about eight wells in the
11 area, and we've found it to be very critical to find the
12 algal mound development at the top of the Strawn rather
13 than down at the base.

14 We've got two wells that we've drilled over in --
15 well, actually three wells we've drilled over in Section
16 20. The first one we drilled was called the Ruth. That
17 was in the northeast of the northwest quarter of 20. That
18 well ended up making quite a bit of water, and so water is
19 a risk in this area also.

20 And then we also drilled the Patty, which today
21 is producing water-free, although there's a water-
22 transition zone in there.

23 And there's been a few wells where early on in
24 our program out here we were a little bit casual in being
25 very precise in locating the wellbores and have actually

1 missed the reservoir by not giving that type of attention
2 to detail. And as a matter of fact, one that was drilled,
3 operated by Yates, in the northeast of 20, is an example of
4 that happening.

5 Q. Well, what about -- Based on what you've said,
6 what about moving to the north somewhat? You know, 50,
7 100, 150 feet. How could that affect this particular well?

8 A. We -- our seismic indicates that the anomaly that
9 we are interpreting here is only three traces, and so a
10 maximum of 330 feet, and -- in a dip direction. So we just
11 have to locate the wellbore in the middle of it to give us
12 the highest probability of attempting to find both porosity
13 at the top and the best structural attitude.

14 Q. So being off by 100 feet, even 50 feet -- you
15 might say there's a fine line between success and disaster
16 in these wells?

17 A. Yes, there is. We've experienced that already in
18 two wells that we've drilled by not paying attention to
19 that kind of detail.

20 Q. Based on what you've just testified, in your
21 opinion should there be a penalty on Chesapeake's proposed
22 well?

23 A. No, I don't there should be a penalty at all,
24 because the entire anomaly lays off of the Marathon
25 acreage. And we offered a penalty just in case our

1 interpretation is wrong, but we have confidence that it's
2 not. And they rejected that penalty as well as a mirror
3 offset, so --

4 Q. In your estimation, the reservoir is quite small
5 in areal extent?

6 A. It is very small, and if we're not able to locate
7 this based on an unorthodox location without a severe
8 penalty, I don't know if it would be drilled, because of
9 its size.

10 Q. And Chesapeake is absorbing all the risk in
11 drilling this well, is it not?

12 A. Yes, sir.

13 Q. Mr. Hefner, in your opinion is the granting of
14 Chesapeake's Application in the interests of conservation,
15 the prevention of waste and the protection of correlative
16 rights?

17 A. Yes, it is.

18 Q. And were Exhibits 4 and 5 prepared by you or
19 under your direction?

20 A. Yes, they were.

21 MR. BRUCE: Mr. Examiner, I'd move the admission
22 of Chesapeake Exhibits 4 and 5.

23 MR. CARR: Mr. Examiner, may I voir dire the
24 witness on Exhibit 4?

25 EXAMINER CATANACH: I'm sorry, Mr. Carr?

1 MR. CARR: May I examine the witness on Exhibit
2 Number 4 before it is admitted?

3 EXAMINER CATANACH: Yes.

4 VOIR DIRE EXAMINATION

5 BY MR. CARR:

6 Q. Mr. Hefner, could you take Exhibit 4 out, please?
7 Do you have it in front of you?

8 A. Yes, I do.

9 Q. If I understand your testimony, this your
10 interpretation of the Strawn structure in the subject area;
11 is that right?

12 A. That's right.

13 Q. And what you have depicted on this exhibit is a
14 small Strawn pod in the southwest of the northeast of
15 Section 19; is that correct?

16 A. That is correct.

17 Q. Has -- It contains approximately what? Ten
18 acres? Something in that neighborhood?

19 A. Within that structural closure, probably.

20 Q. And you have -- As you have drawn this or mapped
21 this pod, you have it in sort of an east-west orientation,
22 north of the Marathon tract; is that correct?

23 A. That is correct.

24 Q. I believe you testified that this map was
25 prepared from well control and seismic information?

1 A. That is correct.

2 Q. If we look at the well control information, we
3 have information on the Spectrum Jackson well north and
4 west of the proposed location, do we not?

5 A. Yes.

6 Q. Anything from that well, or data on that well,
7 that would tell you the size of the pod you're looking at?

8 A. No, what we're -- Well, it would, it would
9 limit -- it would be a northern limit, because in that well
10 there was no development of reservoir --

11 Q. It shows there's porosity, does it not, toward
12 the proposed location? Doesn't it --

13 A. The Spectrum well does have some porosity at the
14 base of the Strawn.

15 Q. Is there anything there, though, that would tell
16 you that this is a 10-acre pod or a 20-acre pod?

17 A. The well control?

18 Q. Yes.

19 A. No.

20 Q. It wouldn't tell you whether the pod was exactly
21 where you're showing it or 300 feet south of there, would
22 it?

23 A. The well control would not.

24 Q. And the same would apply to the data you get from
25 the Hanks Ruth Number 1 in Section 20; isn't that right?

1 A. That is correct.

2 Q. And so we are really looking at a map you have
3 prepared from seismic work alone; isn't that right?

4 A. That is true.

5 Q. And you've elected not to show us that seismic
6 work?

7 A. That is correct.

8 Q. And you're asking us, in essence, to trust your
9 interpretation based on what you see looking at the seismic
10 data?

11 A. That is correct, I'm --

12 Q. This is your interpretation?

13 A. -- under oath, so -- Yes, sir.

14 Q. Have you presented any evidence in any of your
15 exhibits that you can point to that would confirm the size
16 of this pod, other than just your telling us this is your
17 interpretation?

18 A. I have not presented anything that tells the size
19 of the pod, no.

20 Q. And you're not intending to show any of your
21 seismic information here today?

22 A. No.

23 MR. CARR: Mr. Examiner, I object to the
24 admission of Exhibit Number 4. We are not in a position to
25 cross-examine this witness as to the location of the pod.

1 He's placed a 10-acre pod immediately north of our tract
2 and oriented this pod in an east-west direction.

3 We recognize that there are reasons you don't
4 present seismic. But when you are locating 117 feet from
5 your offset, you have to show something.

6 And for that reason we object to the admission of
7 Exhibit 4, because there has been no proper foundation
8 laid, there is nothing we can look to to support this
9 interpretation or to cross-examine. And it is the only
10 evidence presented in support of this unorthodox location,
11 absent the penalty, and we object to its admission.

12 EXAMINER CATANACH: Any response, Mr. Bruce?

13 MR. BRUCE: Mr. Examiner, he's qualified as an
14 expert geologist and he's testified that this was based on
15 his interpretation of the seismic. I don't see any
16 requirement that he submit the backup seismic. This is
17 often done at hearings before the Commission, and I think
18 this interpretation of his, which he has based on his own
19 expert geologic background, is completely admissible.

20 MR. CARR: He can give his opinion, but I'm
21 objecting to an exhibit which we can't cross-examine him
22 on. He says, I've seen the data, you have not, and this is
23 how it is. And that denies us the right to cross-examine
24 and it violates our rights in this hearing.

25 THE WITNESS: Mr. Examiner, could I make a

1 statement, just on the interpretation?

2 EXAMINER CATANACH: Yeah.

3 THE WITNESS: This play out here that we're
4 involved in, this project, we've risked quite a bit of
5 money in seismic and acreage in the whole area, and the
6 methodology that we're employing to utilize this tool out
7 here, we feel, is proprietary to Chesapeake.

8 It is a stratigraphic play, it's not a structural
9 play. So there's certain tools and methods that we use
10 that we'd rather not share with a competitor to give him
11 that same advantage that we now have, without doing that.

12 It's obvious from the seismic, you can see where
13 the Strawn thickens and thins, as depicted by the
14 structural cross-section -- stratigraphic cross-section.
15 That is obvious in those traces. I've put on testimony
16 that that anomaly is only three traces wide. That is
17 located there to where it is on the map, and I am under
18 oath.

19 Thank you.

20 MR. CARR: Mr. Examiner, the question is. They
21 may have an investment here, so does Marathon. But the
22 question is whether or not you can get an approval and see
23 no penalty when you're 117 feet off of your neighbor's
24 property and just say "trust me". They've got to show
25 something.

1 And this exhibit is the basis for their case, and
2 they have presented nothing that supports either the size
3 of the pod, or the location of the pod, or the shape of the
4 pod, or the fact that it doesn't extend under Marathon's
5 acreage. And having failed to do that, they haven't proved
6 their case. And this exhibit is inadmissible unless they
7 present something to support the interpretation that we can
8 evaluate.

9 I'm not saying that they're telling us a lie.

10 I'm saying we have a right to know what they base this on.

11 MR. BRUCE: Mr. Examiner, I mean, we've offered
12 them a mirror offset, same deal. They did not subpoena the
13 data.

14	EXAMINATION
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15 BY MR. CARROLL:

16 Q. Mr. Hefner, you can't limit the raw data just to
17 this 40 acres or --

18 A. The problem is that it displays the methodology
19 that we use, and --

20 Q. In what?

21 | A. In interpreting the stratigraphic --

22 Q. I'm not talking about the interpretation; I'm
23 talking about the raw data.

24 A. But to satisfy Mr. Carr, he's wanting to see it
25 on Marathon's acreage, I think.

1 MR. CARR: I'm wanting to see what they base this
2 location on and what they use to say they have an east-west
3 pod that nicely avoids the Marathon tract. That's all.

4 EXAMINER CATANACH: Well, Mr. Bruce, I tend to
5 agree with Mr. Carr on this. I mean, there's not a whole
6 lot of information that we can look, and --

7 THE WITNESS: Could I just show one line rather
8 than several? I will agree to do that if we will agree
9 that --

10 MR. CARROLL: You can begin with one line.

11 THE WITNESS: -- this would be representative.

12 MR. CARROLL: And Jim, you're asking for no
13 penalty?

14 MR. BRUCE: Well, we've made two offers. We said
15 no penalty or a reasonable penalty. It's my understanding
16 from Mr. Carr's exhibits that they're going to ask for 65-,
17 70-percent penalty.

18 MR. CARROLL: Based upon -- ?

19 MR. BRUCE: Footage.

20 MR. CARR: That's right, that's what we're going
21 to ask.

22 EXAMINER CATANACH: And Mr. Carr, when he brings
23 in this seismic line what are you going to be able to do
24 with it?

25 MR. CARR: We're going to take a look at and the

1 we'll tell you. I can't tell you without seeing it. And
2 it may or not shed light on this. I don't know.

3 MR. CARROLL: Mr. Carr, your witness is qualified
4 to --

5 MR. CARR: -- review seismic information, yes,
6 sir.

7 MR. CARROLL: Okay.

8 MR. CARR: I gather from that you thought I might
9 not be.

10 DIRECT EXAMINATION (Continued)

11 BY MR. BRUCE:

12 Q. Mr. Hefner, everybody's been handed a sheet of
13 paper. Could you identify that for the Examiner?

14 A. Yes, this is a cross line, a vertical seismic
15 section out of a 3-D volume that is oriented north-south
16 through the proposed location.

17 Q. What does it show?

18 A. Okay, you'll note at the top a little -- a small
19 circle, which is where the actual proposed well is located.
20 And every one of those little marks along the top is a
21 trace.

22 And as you come down along that section, you can
23 see what is annotated in blue, being the top of the Strawn,
24 and annotated at the bottom in green is the base of the
25 Strawn, or the Atoka shale.

1 You can see as you go away in both the north and
2 south direction that that interval thins and is represented
3 by an area that's colored in black. That is what, in the
4 area, is nonreservoir rock. Where that top of the Strawn
5 builds upward, as you approach the proposed location, is
6 reflected in the structure map that you have before you as
7 Exhibit 4, and also in the stratigraphic cross-section, as
8 Exhibit 5. And the shape of that wavelet, where it
9 thickens, indicates that the porosity has developed at the
10 top.

11 And if you go one trace to either side of that
12 proposed wellbore, your traces begin to collapse and go
13 back to regional, so that there is no --

14 Q. There's little room for error?

15 A. Little room for error, and it is the basis on
16 which the structure map was generated.

17 Q. And what you show here, your interpretation would
18 be identical for any other seismic line run in this area?

19 A. Exactly.

20 MR. BRUCE: I pass the witness.

21 MR. CARR: Are you going to move the admission?
22 I have no objection.

23 MR. BRUCE: Move the admission. I haven't marked
24 it as -- I didn't mark it as an exhibit.

25 MR. CARR: It's Exhibit 6, I think.

1 EXAMINER CATANACH: Marked as Exhibit 6.

2 Exhibit Number 6 will be admitted as evidence.

3 Mr. Carr?

4 MR. CARR: Am I cross-examination now?

5 EXAMINER CATANACH: Pardon me?

6 MR. CARR: Was 5 admitted? I withdraw the
7 objection to 5.

8 EXAMINER CATANACH: Exhibit Number 5 will be
9 admitted as evidence.

10 MR. BRUCE: The objection was to 4.

11 MR. CARR: I'm sorry, I'm sorry. I withdraw the
12 objection to 4.

13 EXAMINER CATANACH: Exhibits 4 and 5 will be
14 admitted as evidence.

15 Did we admit everything else?

16 MR. BRUCE: Yes.

17 CROSS-EXAMINATION

18 BY MR. CARR:

19 Q. Mr. Hefner, when we looked at Exhibit Number 6,
20 your seismic section, tell me which side of this is north.

21 A. North is to your right.

22 Q. And when I look at these waves coming down, how
23 far apart are they?

24 A. Every trace is 110 feet.

25 Q. You have other seismic sections, vertical, across

1 this area?

2 A. Yes, sir, every 110 feet.

3 Q. And it is on that that you're basing the
4 orientation of this particular algal mound?

5 A. Yes, sir.

6 Q. And so what you're telling us is that based on
7 your geological interpretation of this data, you have a
8 small anomaly --

9 A. Yes, sir.

10 Q. -- that is approximately what in diameter, 200
11 feet?

12 A. Three hundred at the most, yes, sir.

13 Q. You can't move to a standard location, is what
14 you're saying, based on this interpretation?

15 A. Right, because the nature of the tool is, you're
16 averaging a lot of rock volume. And so as you move away
17 from a known it just increases that risk.

18 Q. And have you drilled other Strawn wells, or has
19 Chesapeake, based on your geological interpretation?

20 A. Yes, sir.

21 Q. And how do you go about drilling these wells?
22 Are they directional wells?

23 A. They -- No, to date they've been vertical wells.

24 Q. And do you use directional techniques to control
25 the bit as you drill?

1 A. Yes, sir, we do.

2 Q. And so -- And will you be doing that in this
3 case?

4 A. Yes, sir.

5 Q. So that the bottomhole location will, in fact, be
6 in the center of what you've mapped this mound to be?

7 A. That's correct. There's an example of a well
8 that was northwest of town in which the deviations were all
9 going in one direction, which is unusual because usually
10 they'll corkscrew. And so we went in with a motor and did
11 a motor run and oriented it back to our target, and that
12 was a successful effort, so...

13 Q. Have you calculated the reserves you think you
14 can produce from this map?

15 A. No, I have not.

16 Q. Has Chesapeake done any volumetrics on it?

17 A. No, there's still a lot of unknowns that --

18 Q. You don't have an estimate as to how much oil you
19 think you can recover?

20 A. Only using the historical statistics in the old
21 play area.

22 Q. In other words, looking at other wells and not
23 doing a volumetric --

24 A. Right.

25 Q. -- estimate on what you have here?

1 A. Exactly. Just statistically.

2 Q. And you are anticipating enough oil from this
3 ten-acre mound to pay back \$895,000 in cost?

4 A. And we don't know the size, the actual size of
5 the mound. All we know is that it's oriented in a very
6 narrow shape along that lease boundary.

7 Q. And that orientation is based strictly on your
8 interpretation of the seismic interpretation?

9 A. Yes, exactly, from...

10 So I agree, it is small, and if there is a severe
11 penalty it may not be drilled because of its size.

12 MR. CARR: That's all I have.

13 EXAMINATION

14 BY EXAMINER CATANACH:

15 Q. Looking at Exhibit Number 6, Mr. Hefner, the red
16 line represents what on this display?

17 A. Oh, I'm sorry, that was -- I had a -- At the time
18 that I printed this I had another line that was on my
19 workstation. That represented that line. And so when I
20 printed this it was captured. It has no significance on
21 this.

22 Q. Okay, your actual well location would be
23 represented by the open circle on the left side of the
24 display?

25 A. Exactly. You can see where it's annotated at the

1 top, it says 50 and 50?

2 A. Uh-huh.

3 Q. The top one would be line 50, the bottom one
4 would be trace 50. The lines go east-west, the traces go
5 north-south. And since this is a north-south line -- or a
6 north-south trace, the next line number, going to the
7 south, would be 49.

8 Q. Okay.

9 A. And that well is located between line 49 and 50,
10 between those two traces. And that's where you can see on
11 the interpretation that you get the maximum structural
12 development and the maximum thickness, in that interval.

13 Q. Okay, so when you talk about the thickness,
14 you're talking about the distance between the blue and the
15 green lines --

16 A. Yes, sir.

17 Q. -- in that interval?

18 Okay, so that's the maximum thickness?

19 A. Of the entire Strawn.

20 Q. And you also testified that by this data you can
21 also tell that the porosity is at the top of the Strawn?

22 A. By the wave shape.

23 Q. Okay. And does this also tell you -- When you go
24 further south, it begins to thin back. Does that also tell
25 you that the porosity ends at some point?

1 A. That next trace to the south that I'm calling
2 line 49, between that one and the next one is where all
3 that diminishes.

4 Since the seismic tool is averaging a large
5 volume of rock, it's not going to see the type of detail
6 that you would expect to see in, let's say, a cross-
7 section.

8 And we've drilled wells on traces that look like
9 that, thinking, well, we're close enough. Well, in
10 reality, we were not. It ended up being a dry hole. It's
11 just because of the nature of the tool and its averaging.

12 Q. And do you have similar lines that tell you the
13 east and west extent of this --

14 A. I've got --

15 Q. -- structure?

16 A. Yeah, the survey covers the whole section --

17 Q. Okay.

18 A. -- and more, and we've got a line north-south
19 every 110 feet and a line east-west every 110 feet.

20 Q. Okay.

21 A. And that's what this structure map was
22 generating, utilizing that, using this methodology.

23 EXAMINER CATANACH: Okay, I have nothing further
24 of the witness.

25 MR. BRUCE: I have nothing further in this case.

1 MR. CARR: At this time, Mr. Examiner, we would
2 call David Rawlins.

3 DAVID RAWLINS,
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. Would you state your name for the record, please?

9 A. David Rawlins.

10 Q. Where do you reside?

11 A. Midland, Texas.

12 Q. By whom are you employed?

13 A. Marathon Oil Company.

14 Q. And what is your current position with Marathon?

15 A. My title is advanced senior geologist with
16 Marathon.

17 Q. Mr. Rawlins, have you previously testified before
18 the Oil Conservation Division?

19 A. No, I haven't.

20 Q. Would you briefly review your educational
21 background for Mr. Catanach?

22 A. Okay, I have a bachelor of science degree in
23 geology from Jordan Southern College that I received in
24 1975 and a master of science in geological engineering from
25 South Dakota School of Mines and Technology in 1978.

1 Q. Could you briefly review your work experience
2 following graduation?

3 A. Okay. I went to work in 1978 for Exxon and Exxon
4 Company USA in Tyler, Texas, then assignments from there to
5 Houston, Oklahoma City, and then in 1986 I was transferred
6 to work the Permian Basin for Exxon. And I worked with
7 Exxon up until 1995, and then I started working for
8 Marathon. So I've worked the Permian Basin for 11 years.

9 Q. Are you familiar with the Application filed by
10 Chesapeake in this case?

11 A. I am.

12 Q. And are you familiar with the geology in the area
13 of the proposed well?

14 A. I am.

15 Q. In your work with Marathon do you also -- are you
16 called upon to interpret seismic information --

17 A. Yes.

18 Q. -- from time to time?

19 A. Right.

20 Q. Is that a tool you generally or frequently work
21 with as part of your professional work as a geologist?

22 A. That's correct.

23 MR. CARR: We tender Mr. Rawlins as an expert
24 witness in petroleum geology.

25 EXAMINER CATANACH: Any objection?

1 MR. BRUCE: No objection.

2 EXAMINER CATANACH: Mr. Rawlins is so qualified.

3 Q. (By Mr. Carr) Mr. Rawlins, what does Marathon
4 seek in this case?

5 A. We seek the imposition of a penalty on the
6 production on this proposed Chesapeake Gandy 19-1 to offset
7 the advantage gained by virtue of its unorthodox well
8 location on the offsetting Marathon spacing unit.

9 Q. When did Marathon first discuss the development
10 of the northeast quarter of Section 19 with Chesapeake?

11 A. We were contacted, and it's already been brought
12 up, in December of 1996 concerning forming a proposed
13 working interest unit in there. We were agreeable to do
14 that. All that we asked to do was to see the seismic data,
15 to see that we were giving up equally prospective acreage -
16 - or throwing in equally prospective acreage as they were
17 in that working interest unit.

18 Q. And what response did you receive?

19 A. We never heard back from them. And we contacted
20 them on numerous occasions, both myself and our landman, to
21 see if they were still interested in doing this, and did
22 not have any response.

23 Q. Let's go to Marathon Exhibit Number 1. Would you
24 just briefly note what that is?

25 A. This is a land plat of Section 19, 16 South, 36

1 East, Lea County, New Mexico, showing the wells that have
2 been drilled in that section and also showing what we
3 believe to be the current ownership, and that's based on
4 our Midland Map Company map that we received back in June.
5 We pulled the ownership off of that.

6 Q. Now, Mr. Rawlins, what are the pool rules which
7 govern the development of the Strawn formation in this
8 area?

9 A. It's 40-acre spacing and 330-foot setbacks.

10 Q. Now, you were present for the presentation here
11 this afternoon by Chesapeake, were you not?

12 A. That's correct.

13 Q. I would ask you to take out or refer to what was
14 introduced as Chesapeake Exhibit Number 6. You have that
15 before you, do you not?

16 A. That's correct.

17 Q. The red line on that map is the location of the
18 proposed Gandy 19 Number 1; is that your understanding?

19 A. That's correct.

20 Q. I believe Mr. Hefner testified that each of those
21 lines was 110 feet apart, correct?

22 A. That's correct.

23 Q. And on the -- The left hand of the exhibit goes
24 south, right?

25 A. Correct.

1 Q. Now, if you look at this line alone, how far can
2 you see porosity? Recognizing that each of those traces is
3 110 feet apart, how far to the south of the location can
4 you actually find evidence of a porosity pod or an algal
5 mound in the Strawn formation?

6 A. Well, I'm not sure, you know, that's based on Mr.
7 Hefner's interpretation of what it is. But based on his
8 interpretation, using the -- you know, the black reflectors
9 there, it looks like it goes at least three hundred and --
10 three traces over, you know, or approximately 320 feet --

11 Q. And how --

12 A. -- 330.

13 Q. -- much of that is on the Marathon tract? 117?

14 A. Yeah, I mean, this proposed location is 117 feet
15 off our tract. So it looks like it goes another -- at
16 least a couple hundred feet onto our acreage.

17 Q. Based on the evidence that you have seen on this
18 and your expertise as a geologist, can you conclude that
19 the reservoir into which they're projecting the Gandy 19
20 is, in fact, contained solely on acreage operated by
21 Chesapeake?

22 A. No, I can't do that. I mean, I see the
23 interpretation and what they're using to say where the
24 anomaly is. I mean, that's pretty well known in terms of
25 people that are working the Strawn. But we've seen very

1 often times where the porosity does extend out further than
2 what you think the actual pod is mapped, so...

3 Q. Based on what you see on this exhibit, is it
4 possible that the mound extends as much as 200 feet on to
5 Marathon?

6 A. Just looking at this seismic line, yes, it could
7 extend as much as 200 feet, and then even more, because a
8 lot of times the porosity and the algal mound development
9 is below the resolution of the seismic.

10 Q. Let's go to what has been marked as Marathon
11 Exhibit Number 2. Would you identify that, please?

12 A. Exhibit Number 2 is what we feel like is the
13 recommended -- should be the recommended penalty for this
14 proposed location. The location is 117 feet off our lease
15 line. The State requires it to be 330 feet off the lease
16 line.

17 So this location has encroached 213 feet towards
18 our lease, and so we feel like the recommended penalty
19 should be 213 feet divided by 330 feet, which is a 65-
20 percent penalty.

21 Q. And would this penalty even be inconsistent with
22 the seismic interpretation that you have before you?

23 A. What's that?

24 Q. Is it consistent --

25 A. Oh --

1 Q. Would it be a consistent --

2 A. Right.

3 Q. -- penalty --

4 A. Yes.

5 Q. -- based on that data?

6 A. That's correct.

7 Q. If the penalty is to be effective, what do you
8 suggest it be applied against?

9 A. I'd say it be applied against, you know, the
10 depth bracket allowable, or the initial potential,
11 whichever is the lesser of the two.

12 Q. In your opinion, is the imposition of the penalty
13 on production from the Gandy 19 Number 1 well as
14 recommended by Marathon necessary to protect the
15 correlative rights of Marathon?

16 A. Absolutely.

17 Q. Is this penalty necessary to offset the advantage
18 that is being gained by Chesapeake by virtue of this
19 unorthodox location?

20 A. Absolutely.

21 Q. Were Exhibits 1 and 2 either prepared by you or
22 compiled at your direction?

23 A. That's correct.

24 MR. CARR: At this time, Mr. Catanach, we move
25 the admission into evidence of Marathon Exhibits 1 and 2.

1 EXAMINER CATANACH: Exhibits 1 and 2 will be
2 admitted as evidence.

3 MR. CARR: And that concludes my direct
4 examination of Mr. Rawlins.

5 EXAMINER CATANACH: Mr. Bruce?

6 CROSS-EXAMINATION

7 BY MR. BRUCE:

8 Q. Mr. Rawlins, has Marathon sought to do its own
9 seismic in this area?

10 A. Yeah, we do have a seismic proposed in this area.

11 Q. Proposed?

12 A. Proposed. It hasn't been shot.

13 And we thought -- And one of the tracts we were
14 going to shoot was this Section 19, and we thought by
15 contacting Chesapeake earlier this week and offering to
16 purchase that seismic at the market value for the seismic
17 we would be able to drill this well without shooting our
18 own 3-D across this area.

19 Q. On Exhibit 6 are you aware that the red line has
20 no meaning?

21 A. The red line, I assumed, was the proposed
22 location.

23 Q. I believe Mr. Hefner testified that the little
24 dot by the 50-50 marks is the well location.

25 A. This one right here?

1 Q. Yes, sir.

2 A. So it moves over half a trace. Okay, I didn't
3 hear that.

4 Q. Now, you said that this particular porosity pod
5 could extend 200 feet onto Marathon acreage.

6 Is Marathon willing to drill 117 feet out of its
7 lease line?

8 A. If we had seismic, we might. We would have to
9 have something to base that prospect on.

10 Q. With or without a penalty?

11 A. We would have a penalty, just like the one that
12 you have.

13 Q. Is Marathon willing to drill a well, 11,800-foot
14 test, \$900,000, with, say, a hundred-barrel-a-day
15 allowable?

16 A. I don't think Marathon would be willing to drill
17 a 10-acre anomaly. I don't think it's economic.

18 Q. Do you agree that the anomaly is about 10 acres.

19 A. No, I do not. I do not have enough data that
20 tells me what the size of the anomaly is. If I had all the
21 data --

22 Q. You can't say it's not ten acres?

23 A. That's right. I mean, I've only seen one seismic
24 line --

25 Q. Has Marathon --

1 A. -- and with this one seismic line I can't tell
2 you where the southern boundary of that anomaly is.

3 Q. How many Strawn wells has Marathon drilled in Lea
4 County?

5 A. We have participated in several Strawn wells over
6 the last 10 years, most of them being in the Lovington-
7 Shipp area, and a lot of those were TXO. You know,
8 Marathon had merged with TXO, so a lot of that expertise
9 came from TXO.

10 Q. Were any of them Pennzoil wells that you
11 participated in?

12 A. I don't recall. That was before I came to work
13 for Marathon.

14 Q. How many Strawn wells has Marathon drilled in,
15 say, 16 South, 36 East; 16 South, 35 East, over the last
16 five years?

17 A. No, we haven't drilled any. Now, we have been
18 acquiring acreage to drill Strawn wells.

19 Q. But to date you haven't drilled any?

20 A. That's correct.

21 Q. And you have no current proposal to drill a well
22 on your acreage in the southeast quarter of this section?

23 A. No, not at this time.

24 MR. BRUCE: I have nothing else, Mr. Examiner.

25 MR. CARR: Just a follow-up.

REDIRECT EXAMINATION

BY MR. CARR:

Q. If we work off that circle at the top of the exhibit instead of the red line, then they'd have 150 feet on the Marathon property? Is that how you read it?

A. Those are 110 feet. All you've done is just move it over 50 feet.

MR. CARR: That's all I have.

MR. CARROLL: I have a couple questions.

EXAMINATION

BY MR. CARROLL:

Q. If you were shown Chesapeake's seismic information and then you agreed with that information, would you still be recommending a penalty in this case?

A. If we were to interpret the seismic ourselves?

Q. Yeah, and you agreed with their interpretation that the anomaly is situated as it is on Chesapeake's map.

A. I'd have to -- You know, I really couldn't tell you until I see the seismic data. Seismic data --

Q. I mean, if you did see it and you agreed with it, would you be recommending a penalty?

A. I would have to be 100-percent sure. And as you know, well know, with seismic interpretation you're generally never 100-percent sure.

Q. You referred to the market value of Chesapeake's

1 seismic. What is the market value of the seismic?

2 A. Well, it would be the -- I'm not sure of the
3 exact -- I would have to get with a broker. But there is a
4 value of 3-D seismic that's going, you know, per square
5 mile.

6 Q. In this particular area?

7 A. Yeah, in this area. That would be easy to find
8 out. But we -- You know, if Marathon said we were willing
9 to pay whatever the market value is for the seismic, the
10 3-D seismic...

11 MR. CARROLL: That's all I have.

12 EXAMINATION

13 BY EXAMINER CATANACH:

14 Q. Mr. Rawlins, in your estimation you believe
15 you've got at least 150 feet of porosity on your -- that
16 falls on your acreage?

17 A. Well, I think some of it extends on to our
18 acreage. I couldn't tell you -- You know, I don't know
19 where this stops, where this black line stops, I mean where
20 the porosity stops, because a lot of times the porosity is
21 below the resolution of the seismic.

22 So it could extend for some distance onto our
23 acreage. I just can't tell you from this one line out of
24 the data cue that, you know, that's where it stops. But at
25 least I think it does extend onto our acreage for some

1 distance.

2 Q. Is there any way of knowing how much of that
3 porosity that extends on your acreage would contribute --
4 or would contain oil and gas reserves?

5 A. I don't think you would know that until -- you
6 know, until you drill a well. And then you try to tie, you
7 know, what you see in the well back to the seismic and say,
8 Okay, I think maybe the porosity extends a little further,
9 or maybe it doesn't extend as far.

10 You just -- Once you work it, you run your sonic
11 logs through there, you go back and do some synthetics and
12 modeling to try to determine how far it extends.

13 Q. Is there also the possibility that there may be
14 an oil-water contact on this structure?

15 A. There's a possibility, there's always a
16 possibility. But, you know, like you mentioned, one of the
17 wells that he had, that the Strawn in their first well had
18 some water in the bottom of it and the second well didn't.
19 And I think you're -- the way our interpretation is, that
20 you're structurally higher than either of those two wells.

21 So I think that it's probably more likely that
22 you won't have a, you know, water contact there.

23 EXAMINER CATANACH: I guess that's all I have.

24 MR. CARR: I have a very brief statement. It is
25 brief.

1 MR. BRUCE: I have a short statement.

2 EXAMINER CATANACH: Go ahead, Mr. Carr.

3 MR. CARR: May it please the Examiner, the issue
4 here is not what Marathon would do *if* it had data. The
5 issue here is what Chesapeake with its data is proposing to
6 do. And I think this underscores why in areas like this,
7 perhaps a working interest unit is the appropriate way to
8 go, but we don't have that either.

9 We have a location 117 feet away from us, 65
10 percent too close. And even the seismic information that
11 they've presented today, interpretive as it is, tends to
12 support Marathon's position that this reservoir extends
13 onto its acreage and doesn't stop in the middle of the
14 section as mapped by Chesapeake.

15 To protect our rights, protect us from the
16 advantage they're gaining by being 117 feet from us instead
17 of 330, we ask you to impose a penalty. And we're asking
18 it for 65 percent, because that is the only hard number we
19 can come up with for you here today.

20 So that's what we're asking you to do. And we
21 believe if you do that, our correlative rights will be
22 protected. If you don't, we believe they'll be impaired.

23 MR. BRUCE: Mr. Examiner, first thing on seismic,
24 Marathon offers to buy it. You know, there's something
25 else, there's a competitive value to that seismic. These

1 companies are competitors in this area. You can't just put
2 a dollar figure on that.

3 Now, regarding this well, Chesapeake is the one
4 in this immediate area that has the expertise. It's
5 drilled a number of wells. It's had a number of successful
6 wells. They're based on 3-D seismic. It knows what it's
7 talking about.

8 Marathon proposes a penalty -- I don't even think
9 they'd drill a well with that type of penalty. It's much
10 too large. Chesapeake made a reasonable offer for a
11 reasonable penalty.

12 Mr. Rawlins mentioned something about they had a
13 few wells in the Shipp-Strawn area. Back in the mid-
14 Eighties, when a number of these wells are being drilled by
15 Pennzoil, by Phillips, by others, what the Division did
16 back then was base the penalty on productive acreage in the
17 well unit, divided by the productive acreage in this
18 particular porosity pod. I will provide you with copies of
19 those orders that provided a reasonable penalty or a
20 reasonable allowable that allowed a number of wells to be
21 drilled without using a simple footage distance, which just
22 doesn't make sense in these Strawn porosity pods.

23 For better or for worse, Mr. Examiner, you've
24 been involved in a number of these Strawn cases in Lea
25 County over the last couple years, and you know how

1 variable these porosity pods are. Just by assessing a
2 footage-based penalty is unreasonable, and all that will
3 accomplish is that no well will be drilled out here.

4 Frankly, drilling this well may help Marathon
5 decide whether there's something on its acreage. So there
6 is benefit to Marathon in having this well drilled.

7 I don't think it benefits anyone, whether the
8 working interest owner or the royalty interest owners,
9 anyone, to not have this well drilled.

10 We would urge your to approve the location. We
11 don't think, based on Mr. Hefner's testimony, a penalty is
12 necessary, but if one is imposed, it should be a reasonable
13 penalty, not a severe 65-percent penalty.

14 Thank you.

15 EXAMINER CATANACH: Let me just ask Mr. Rawlins a
16 question or two again.

17 FURTHER EXAMINATION

18 BY EXAMINER CATANACH:

19 Q. Mr. Rawlins, if a well was drilled, I mean, would
20 you be able to use the data from that well, and do you
21 think that would let you effectively map the extent of this
22 pod?

23 A. Not without seismic.

24 Q. Well, I mean, if you drill the well in
25 conjunction with the seismic data that you have, I mean,

1 could you effectively map the pod?

2 A. I think you would have a better feel for that
3 than without -- you know, without the well there.

4 But, you know, as in all this, you know, with
5 these pods you really don't know the actual extent of
6 those. You have some production data that might help you
7 out determining, you know, how big a reservoir might be,
8 and you just try to work all that data together.

9 But, yeah, you probably won't know precisely how
10 big it is.

11 Q. So even if a well is drilled, there's still going
12 to be some question as to how much of that pod resides on
13 the Marathon acreage, in your opinion?

14 A. Yeah, there's always going to be a question of --
15 there's going to be interpretation on how big and where
16 that pod resides.

17 EXAMINER CATANACH: Okay. I have nothing
18 further.

19 Anything further?

20 MR. CARR: Nothing further.

21 EXAMINER CATANACH: There being nothing further
22 in this case, Case 11,844 will be taken under advisement.

23 (Thereupon, these proceedings were concluded at
24 2:10 p.m.)

25

I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 77PCC,
heard by me on 3/24/97.

STEVEN T. BRENNER, CCR, Examiner
(505) 689-9317 Division

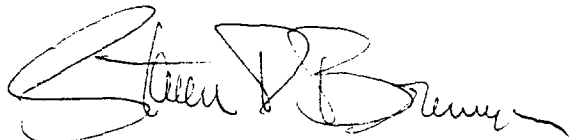
CERTIFICATE OF REPORTER

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 September 7th, 1997.

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

STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 1998