

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:)
APPLICATION OF MARATHON OIL COMPANY)
FOR COMPULSORY POOLING, EDDY COUNTY,)
NEW MEXICO)

CASE NO. 11,909

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

January 22nd, 1998

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 22nd, 1998, 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. 11,909

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A P P E A R A N C E S

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 By: W. THOMAS KELLAHIN

* * *

1 WHEREUPON, the following proceedings were had at
2 8:23 a.m.:

3 EXAMINER STOGNER: At this time I'll call Case
4 Number 11,909.

5 MR. CARROLL: Application of Marathon Oil Company
6 for compulsory pooling, Eddy County, New Mexico.

7 EXAMINER STOGNER: Call for appearances.

8 MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin of
9 the Santa Fe law firm of Kellahin and Kellahin, appearing
10 on behalf of the Applicant, and I have two witnesses to be
11 sworn.

12 EXAMINER STOGNER: Are there any other
13 appearances?

14 Will the witnesses please stand at this time to
15 be sworn?

16 (Thereupon, the witnesses were sworn.)

17 TIM B. ROBERTSON,

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

20 DIRECT EXAMINATION

21 BY MR. KELLAHIN:

22 Q. For the record, sir, would you please state your
23 name and occupation?

24 A. My name is Time Robertson. I'm a petroleum
25 landman for Marathon Oil Company.

1 Q. Mr. Robertson, on prior occasions have you
2 testified before the Division and qualified as an expert in
3 petroleum land matters?

4 A. Yes, I have.

5 Q. Pursuant to your employment by Marathon, are you
6 involved in consolidating the working interest owners for a
7 well to be drilled in the south half of Section 22 that's
8 on the docket today as Case 11,909?

9 A. Yes, sir, I am.

10 MR. KELLAHIN: We tender Mr. Robertson as an
11 expert landman.

12 EXAMINER STOGNER: Mr. Robertson is so qualified.

13 Q. (By Mr. Kellahin) Let me have you turn to
14 Exhibit 1. It's a plat showing the south half of Section
15 22. Walk us through the information, Mr. Robertson, so
16 that we can see where the various leases are in the spacing
17 unit and what the various gross working interest
18 percentages are for each of the leases.

19 A. Yes, the working interests shown on this plat are
20 for the leases within the south half of Section 22 as to
21 depth below 5000 feet below the surface.

22 It shows that there are four separate leases in
23 the south half of the section with four separate sets of
24 ownership.

25 One is owned by Exxon; one is owned by Chevron;

1 one is owned by Marshall and Winston, Petro-Quest and Logro
2 Corporation; and the last is owned by Atlantic Richfield,
3 Yates Petroleum, Marathon Oil and Louis Dreyfus.

4 Q. At this point, have you been able to consolidate
5 all the working interest owners in this proposed spacing
6 unit for the drilling of this well?

7 A. I have been able to obtain written agreements of
8 either participation in the well or agreements to farm out
9 or term assign leases for all the parties except for Exxon
10 Corporation.

11 Q. And Exxon has the 40-acre tract that's in the
12 northwest of the southwest of 22?

13 A. That's correct.

14 Q. Your pooled interval, the interval that you're
15 seeking compulsory over, is unique in that it is
16 specifically limited by a footage depth, is it not?

17 A. Yes, that's correct.

18 Q. And that's a circumstance created by the
19 contracts and agreements that preceded your proposal for
20 this well?

21 A. Yes, it was an artifact, basically, of the
22 ownership of different depths in the leases themselves.

23 Q. Specifically, the pooled interval would be 5000
24 feet down to 11,152 feet. The lower depth is the
25 approximate base of the Morrow formation, is it not?

1 A. That's correct.

2 Q. Let's turn to your Exhibit Number 2 and have you
3 give us a status report on the commitment of interest. How
4 do we read and understand the summary?

5 A. This is a summary of all the working interest
6 owners within the spacing unit for this well. It shows
7 each party's working interest within the unit, and it also,
8 on the left-hand column, shows the current status of the
9 party as to the negotiations to either join, farm out or
10 sell a term assignment.

11 Atlantic Richfield has sold Marathon a term
12 assignment on this particular well. Yates Petroleum has
13 signed an AFE to participate in the well. Louis Dreyfus
14 has signed an AFE to participate in the well. Chevron has
15 traded acreage with Marathon.

16 And Exxon, as I mentioned before, has not -- we
17 have not been able to come to any agreement to bring them
18 under the operating agreement or another agreement.

19 The last three, Marshall and Winston, Petro-Quest
20 and Logro Corporation, have all signed AFEs and the
21 operating agreement to participate in the well.

22 Q. Your original proposal in writing to these
23 various working interest owners, including a submittal of
24 your proposed AFE, was November 4th of 1997, was it not?

25 A. That's correct.

1 Q. Let's turn to Exhibit Number 3. It's a summary
2 of your operating agreement overheads. What do you propose
3 to have the Examiner adopt for the overhead rates for this
4 pooling case?

5 A. We would propose overhead rates of \$5400 for
6 drilling wells and \$540 for producing wells, which is based
7 on -- The other operating agreements in this area is
8 similar to the rates.

9 Then we have outlined three of those agreements
10 that Marathon is a party to in this same township on this
11 page.

12 Q. In addition, in this generalized area, you have
13 received recent Division compulsory pooling orders for
14 other Morrow wells, have you not, sir?

15 A. That's correct.

16 Q. And what has been the rate approved in those
17 other pooling cases?

18 A. The rate has been the same that we're proposing
19 in this case.

20 Q. Let's turn now to the topic of your well
21 proposal. If you'll turn to Exhibit Number 4, identify and
22 describe the written proposal.

23 A. This is the letter with the attached AFE that was
24 sent to all the working interest owners on November 4th of
25 1997. It proposes the drilling of this well as a Morrow

1 well, and it invites the participation of each of the
2 working interest owners.

3 In the alternative to participation, it proposes
4 that the working interest owner either sell Marathon a term
5 assignment or farm out their interest to Marathon.

6 Q. Since submitting this proposal to the eight other
7 working interest owners, you were able to consolidate
8 within that period of time the cooperation and
9 participation in some fashion of seven of the eight working
10 interest owners?

11 A. That's correct.

12 Q. This letter was sent to Exxon?

13 A. Yes, sir, it was.

14 Q. Approximately how many contacts have you had with
15 Exxon since the November 4th letter?

16 A. We -- I have had this letter, another letter
17 proposing the operating agreement, and I've had phone
18 conversations with representatives of Exxon approximately
19 eight times between the time the letter was sent out,
20 November 4th, and today.

21 Q. All right, let's turn to Exhibit 5 and have you
22 identify and describe that display.

23 A. Yes, Exhibit 5 is a copy of the letter that went
24 out with the proposed operating agreement for this well.
25 It also contains the list of working interest owners, the

1 return receipts that were received from the working
2 interest owners, the first page of the operating agreement,
3 page number 6 of the operating agreement which shows the
4 nonconsent penalties of 100 and 300 percent.

5 It also includes page 4 of the COPAS attached to
6 the operating agreement, which shows our proposed fixed
7 overhead rates of \$5400 for drilling wells and \$540 for
8 producing wells.

9 Q. If the Division Examiner adopts your proposed
10 rates in the pooling order, then those rates will be
11 consistent with the subsequent operation penalties
12 contained in the operating agreement to which some of these
13 parties have agreed to participate?

14 A. That's correct.

15 Q. Have any of the working interest owners objected
16 to the AFE?

17 A. No, sir, they have not.

18 Q. All right. Has there been any objection to
19 Marathon being the operator?

20 A. No, there has not.

21 Q. Let's turn finally to Exhibit 6. Contained
22 within this exhibit package are what, sir?

23 A. Contained within this exhibit are either executed
24 AFE pages or executed signature pages to our operating
25 agreement by the parties who are participating in the well,

1 which would include Yates Petroleum, Louis Dreyfus Natural
2 Gas, Marshall and Winston, Petro-Quest Exploration and
3 Logro Corporation.

4 Q. Within the period of time subsequent to November
5 4th, then, all these companies have managed to find time to
6 make decisions concerning participating in this well
7 proposal, with the exception of Exxon?

8 A. That's correct.

9 Q. You now seek a pooling order against Exxon, do
10 you not, sir?

11 A. That's correct.

12 MR. KELLAHIN: That concludes my examination of
13 Mr. Robertson.

14 We move the introduction of his Exhibits 1
15 through 6.

16 EXAMINER STOGNER: Exhibits 1 through 6 will be
17 admitted into evidence.

18 EXAMINATION

19 BY EXAMINER STOGNER:

20 Q. Mr. Robertson, Exxon is the only holdout at this
21 point; is that correct?

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

23 Q. And all their interest includes that northwest
24 quarter of the southwest quarter?

25 A. That's correct, which would make their interest

1 in the well 12 1/2 percent.

2 Q. Twelve and a half. That is only for 320-acre
3 spacing only; is that correct?

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

5 Q. So at this time would it be prudent for me to
6 dismiss the other portion of this case requesting 160- and
7 40-acre compulsory poolings?

8 A. Yes, you may do that.

9 Q. Do you have a lease expiration coming up any time
10 soon, or what's the status of that?

11 A. No, sir, the leases that we have, the nearest
12 expiration that we have is our ARCO term assignment. ARCO
13 sold us a one-year term assignment, which I believe was
14 dated approximately December 1st. So --

15 Q. Of -- ?

16 A. -- of 1997. So we would have until December 1st
17 of this year to -- before that lease expires. But I guess
18 our only pressure at this point is to keep up with our
19 drilling schedule.

20 Q. Do you know anything about that rig schedule?
21 Have you all got one ready to go or --

22 A. We have a contracted -- a rig to drill this and
23 several other wells in the area. And currently, I believe
24 this well is on the schedule to be drilled in April.

25 EXAMINER STOGNER: Are there any other questions

1 of Mr. Robertson?

2 EXAMINATION

3 BY MR. CARROLL:

4 Q. Yeah, you have had no contact from Exxon?

5 A. Well, I've spoken with them a number of times,
6 and all they can tell me is that they will give us some
7 kind of a deal. They've indicated that they'll probably
8 give us a term -- sell us a term assignment. But
9 apparently it's not a high priority on their list of things
10 to get done.

11 FURTHER EXAMINATION

12 BY EXAMINER STOGNER:

13 Q. Actually, I'm glad Mr. Carroll brought that
14 question up. Who have you been dealing with in Exxon, and
15 what offices have you been dealing with?

16 A. I've been dealing with Mr. Bob Matthew in their
17 Houston office.

18 Q. Okay. Now, do they have operations in Midland?

19 A. Exxon had an office in Midland until last year.
20 They closed their Midland office in 1997.

21 Q. Do you know about when they closed that office
22 down in Midland?

23 A. I believe it was around May or June of 1997.

24 Q. So that shouldn't be a factor in there, but
25 you're dealing with the Houston office at this time?

1 A. Yes, at this time they have no land people in
2 Midland at this point.

3 EXAMINER STOGNER: Any other questions?

4 Thank you, Mr. Robertson.

5 THE WITNESS: Thank you.

6 EXAMINER STOGNER: You may be excused.

7 Mr. Kellahin?

8 MR. KELLAHIN: Mr. Examiner, this exhibit is out
9 of sequence. It's Exhibit 9. It's our certificate of
10 notification to Exxon.

11 Exxon received notification of the hearing of
12 this case, along with a copy of the Application, on January
13 5th. It was sent to them on December 29th. We'd request
14 the introduction of Exhibit 9.

15 EXAMINER STOGNER: Exhibit Number 9 will be
16 admitted into evidence at this time.

17 MR. KELLAHIN: Mr. Examiner, my last witness is
18 Mr. Bill DeMis. Mr. DeMis is a petroleum geologist with
19 Marathon Oil Company. He resides in Midland, Texas.

20 WILLIAM D. DEMIS,

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

23 DIRECT EXAMINATION

24 BY MR. KELLAHIN:

25 Q. For the record, sir, would you please state your

1 name and occupation?

2 A. Yes, sir. My name is William DeMis. I'm a
3 geologist and I work for Marathon Oil Company in Midland,
4 Texas.

5 Q. On prior occasions, Mr. DeMis, have you testified
6 before the Division involving assessments of risk factor
7 penalties in compulsory pooling cases involving the
8 drilling of Marathon's Morrow gas wells in Eddy County, New
9 Mexico?

10 A. Yes, I have.

11 Q. Pursuant to your employment, have you made a
12 geologic investigation of the potential risk involved in
13 drilling the subject well?

14 A. Yes, I have.

15 Q. And based upon that study, do you now have an
16 opinion as to an appropriate risk factor penalty?

17 A. Yes, I do.

18 MR. KELLAHIN: We tender Mr. DeMis as an expert
19 geologist.

20 EXAMINER STOGNER: Mr. DeMis is so qualified.

21 Sir, how do you spell your name?

22 THE WITNESS: Yes, sir, it's D-e-M-i-s, with a
23 capital "M", sir.

24 EXAMINER STOGNER: Okay, just one "s", all right.

25 THE WITNESS: Yes, sir.

1 Q. (By Mr. Kellahin) Let me have you direct your
2 attention to what is marked as Exhibit Number 7. It is a
3 locator map that gives us information about wells that are
4 deeper than 9000 feet, and this would show us Morrow
5 production in the area, would it not?

6 A. Yes, it does.

7 Q. Let's look at the south half of 22, the proposed
8 Garvin well is to be located in Unit Letter O of Section
9 22?

10 A. Yes, sir.

11 Q. Let's set that aside for a moment, because it has
12 information I want to ask you about later, but let's turn
13 to your isopach map, which is Exhibit Number 7 -- I'm
14 sorry, that's 8. Identify and describe what you're showing
15 us here.

16 A. Yes, what I've done is, I've made an isopach map
17 of the lower Morrow sand, which is the main productive
18 horizon in this area.

19 And what I've done is, there's production in 26
20 and 27, and I feel that there's a -- The Morrow, the lower
21 Morrow, is a series of fluvial channels or river sands.
22 And what I've done is, I've connected up this sand channel
23 with the well in Section 15, which has a very thick sand
24 section in it. The operating model here is that the sand
25 should be distributed along some sort of sinuous channel,

1 like a river.

2 Q. When we look at this display, where is the
3 closest best well to your proposed location?

4 A. Yes, sir, the closest best well would be in
5 Section 27, approximately a half mile -- a little bit more
6 than a half mile away.

7 Q. As we move to the north and to the west of the
8 well in 27, describe for us the confidence you have in the
9 well control for your isopach map.

10 A. Yes, thank you. As we move to the north from
11 that well, the next well we pick up is the well in the
12 north half of 22. That only has two feet of net sand. To
13 the west there's the well in the west half of Section 27
14 that also only has two feet of sand.

15 So the exact -- The orientation of this channel
16 through the south half of Section 22 is highly inferential,
17 inasmuch as my only good sand control from 27, the well in
18 the east half of Section 27 is over a mile and a half away
19 in Section 15.

20 Q. Let me turn to another topic about sand
21 thickness. Your isopach map presumes thicknesses greater
22 than 22 feet within this channel. Have there been any
23 successful Morrow wells within this channel as you've
24 interpreted it that produce from wells that have greater
25 than 22 feet?

1 A. Are there wells that have produced with greater
2 than 22 feet?

3 Q. Yes, sir, in this particular interpretation.

4 A. Yes, sir, there are.

5 Q. And where would they be?

6 A. Those would be the wells -- the well in the west
7 half of Section 26.

8 Q. Okay.

9 A. Or, I guess -- I'm sorry, I see what you're
10 getting at. Please excuse me.

11 Q. Twenty-six has got the greatest thickness of
12 Morrow channel sand in this system with a producing well,
13 and it was 22 feet?

14 A. Yes.

15 Q. Is that the greatest thickness?

16 A. The greatest thickness is 51 feet in Section 15.

17 Q. Did that well produce?

18 A. No, that well did not. That well was drilled in
19 1992 by Mewbourne, and they've perforated and fracture-
20 stimulated the lower and middle Morrow. And after
21 completing a sand-acid frac with 54,000 gallons of acid and
22 40,000 pounds of sand, they were only able to establish 100
23 MCF per day on the well.

24 My thought is that there may be -- My thought is
25 that the completion practice may not have been optimum for

1 that well. The reason why it has an oil symbol on it is
2 because it was later recompleted in the Bone Springs.

3 Q. Based upon your analysis, then, what is your
4 conclusion concerning an appropriate risk factor penalty in
5 terms of a percentage?

6 A. Yes, 200 percent would be appropriate.

7 Q. Let me turn to another topic. You've been
8 involved with Marathon's other Morrow wells in this area.
9 The AFE that was sent to the working interest owners that
10 was approved by certain of the owners showed a total well
11 cost -- and my copy is awfully difficult to read. I think
12 it's -- You'll have to help me, Mr. DeMis. It's eight-
13 hundred-plus-thousand.

14 A. \$836,000.

15 Q. Make sure we're looking at the same thing.

16 A. I'm sorry, I had -- I pulled out one of the old
17 AFEs.

18 Q. All right. The current AFE proposed to Exxon is
19 what, sir?

20 A. \$865,000.

21 Q. How does that compare to the actual costs that
22 have been accrued to the other wells drilled by Marathon to
23 the Morrow formation in this area?

24 A. That compares very closely. Just last year,
25 Marathon drilled the Crockett 27 State and the Buchanan 33

1 State, and the average cost for those two wells was
2 \$830,000 -- \$833,000.

3 So this AFE is a fair and accurate representation
4 of the cost to drill a well -- drill and complete a well to
5 the Morrow.

6 MR. KELLAHIN: That concludes my examination of
7 Mr. DeMis, Mr. Stogner.

8 We move the introduction of his Exhibits 7 and 8.

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

11 EXAMINATION

12 BY EXAMINER STOGNER:

13 Q. Mr. DeMis, in looking at Exhibit Number 8, a few
14 things do stand out and you covered one, and that was 51
15 feet in that well up in Section 15.

16 A. Yes.

17 Q. The other one is the little blurb down in Section
18 23. Can you explain that?

19 A. Yes, what I've done is, I've contoured this up as
20 a fluvial system or a river channel sand. And what I --
21 This little blurb I infer to be what's known as a crevasse
22 splay.

23 Crevasse splays occur when there's a flooding
24 event in a river system and the river actually leaves its
25 natural confines, and it goes out into the floodplain.

1 When it does that, when it floods over the --
2 It's called overbank flooding. When it floods over the
3 bank, it deposits a little tiny fan off on the flanks of
4 the river channel that has a lobate shape to it. It also
5 has a -- and this is how I interpret this sand.

6 Q. How about the production on that well? Do you
7 have any -- Can you comment on that?

8 A. Yes, sir, it's -- That well has cum'd 3.7 BCF of
9 gas. It's currently producing about 11 million cubic feet
10 of gas per month now.

11 Q. There's another well in Section 27. Now, you
12 show that to be an Atoka producer.

13 A. Yes, sir.

14 Q. Is that the only Atoka well, or are there any in
15 the confines of these maps?

16 A. Yes, there is another Atoka well. There's an
17 Atoka well in the north half of Section 23. That's the gas
18 symbol there in Unit F, and that's also an Atoka well.

19 Q. Is that the only two producing areas -- when I
20 say "producing", deep gas Morrow and Atoka -- in this
21 confine?

22 A. Yes, sir, it is.

23 The well in Section 27 is the Marathon well that
24 we just drilled, the Crockett well, and we completed it for
25 a nice rate in the Atoka, but it had an extremely steep

1 decline.

2 Q. Okay, that's the well on the east half of 27,
3 that's the Crockett well?

4 A. Sir, the west half of 27, sir.

5 Q. Oh, that's the Crockett well.

6 A. That's our Crockett well. And that has a very
7 steep decline, and it's probably not going to last much
8 longer. That will not be an economic well in the Atoka.

9 And the well in the north half of 23 cum'd about
10 a third of a BCF out of the Atoka, so that will not be --
11 that really won't be economic at those depths.

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

14 MR. KELLAHIN: No, sir.

15 EXAMINER STOGNER: Mr. DeMis, you may be excused.

16 THE WITNESS: Thank you, sir.

17 EXAMINER STOGNER: Mr. Kellahin, do you have
18 anything further in this matter?

19 EXAMINER STOGNER: Not in this matter, sir.

20 EXAMINER STOGNER: Does anybody else have
21 anything further in Case Number 11,909? Then this case
22 will be taken under advisement at this time.

23 (Thereupon, these proceedings were concluded at
24 8:48 a.m.)

25 * * *

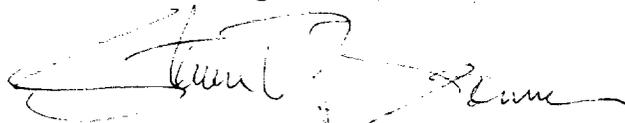
CERTIFICATE OF REPORTER

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 22nd, 1998.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 14, 1998

I do hereby certify that the foregoing is a complete and accurate record of the proceedings in the Examiner hearing held by me on 22 January 1998



Oil Conservation Division