

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. 12,299

APPLICATION OF REDWOLF PRODUCTION, INC., )  
 FOR COMPULSORY POOLING, SAN JUAN COUNTY, )  
 NEW MEXICO )

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

December 16th, 1999

Santa Fe, New Mexico

OIL CONSERVATION DIV.  
CO JMM-6 PM 9:50

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, December 16th, 1999, at the New Mexico Energy, Minerals and Natural Resources Department, Porter Hall, 2040 South Pacheco, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

\* \* \*

## I N D E X

December 16th, 1999  
Examiner Hearing  
CASE NO. 12,299

## PAGE

REPORTER'S CERTIFICATE

5

\* \* \*

## E X H I B I T S

Applicant's	Identified	Admitted
Exhibit A	3	4

\* \* \*

## A P P E A R A N C E S

## FOR THE DIVISION:

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

## FOR THE APPLICANT:

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

\* \* \*

1           WHEREUPON, the following proceedings were had at  
2   12:02 p.m.:

3           EXAMINER CATANACH: At this time we'll call Case  
4   12,299.

5           MR. CARROLL: Application of Redwolf Production,  
6   Inc., for compulsory pooling, San Juan County, New Mexico.

7           EXAMINER CATANACH: Call for appearances in this  
8   case.

9           MR. CARR: May it please the Examiner, my name is  
10   William F. Carr with the Santa Fe law firm Campbell, Carr,  
11   Berge and Sheridan. We represent Redwolf Producing, Inc.,  
12   in this matter.

13          EXAMINER CATANACH: Okay, any additional  
14   appearances?

15          There being none, Mr. Carr?

16          MR. CARR: May it please the Examiner, this case  
17   was heard on December the 2nd. At that time Scott Hall,  
18   representing Energen, requested that the case be continued.  
19   He objected to the case being taken under advisement at  
20   that time, saying that Energen had not had a reasonable  
21   opportunity to negotiate with Red Wolf their participation  
22   in this well.

23          The case was continued to this date to afford Red  
24   Wolf and Energen an opportunity to negotiate.

25          I have marked as Exhibit A just a copy of the

1 signature page from the joint operating agreement, showing  
2 that it has been signed by Red Wolf and by Energen, and I'd  
3 like to offer Exhibit A and request that the case be taken  
4 under advisement.

5 EXAMINER CATANACH: Exhibit A will be admitted as  
6 evidence in this case.

7 And there being nothing further, Case 12,299 will  
8 be taken under advisement.

9 MR. CARR: Thank you.

10 EXAMINER CATANACH: And the last hearing of the  
11 century for the Division is hereby adjourned.

12 (Thereupon, these proceedings were concluded at  
13 12:03 p.m.)

14 \* \* \*

15  
16  
17  
18 I do hereby certify that the foregoing is  
19 a complete record of the proceedings in  
the Examiner hearing of Case No. 12299,  
20 heard by me on Dec. 5, 1999.  
21 David R. Catanch, Examiner  
22 Conservation Division  
23  
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 December 22nd, 1999.



---

STEVEN T. BRENNER  
CCR No. 7

My commission expires: October 14, 2002

IN WITNESS WHEREOF, this agreement shall be effective as of the 30th day of November19 99

## ATTEST OR WITNESS:

## OPERATOR

Redwolf Production, Inc.Dolly O. Foos

By

Dana L. DelventhalDana L. Delventhal

Type or print name

Title Vice PresidentDate November 30, 1999Tax ID or S.S. No. 85-0376070

## NON-OPERATORS

- \* Executed on behalf of Energen Resources MAQ, Inc. subject to Redwolf Production, Inc.'s acceptance of that certain amendment letter dated December 10, 1999.

ENERGEN RESOURCES MAQ, INC.Joe D. NiederhoferGeneral Manager - San Juan Basin

By \*

Richard CorcoranRichard CorcoranDistrict Landman

Type or print name

Title

Date December 10, 1999

Tax ID or S.S. No.

By

Type or print name

Title

Date

Tax ID or S.S. No.

BEFORE THE OIL CONSERVATION DIVISION

Santa Fe, New Mexico

Case No. 12299 Exhibit ASubmitted by: Redwolf Producing, Inc.Hearing Date: December 16, 1999

By

Type or print name



**LTR**



**Job separation sheet**

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 REDWOLF PRODUCTION, INC., )  
FOR COMPULSORY POOLING, SAN JUAN COUNTY, )  
NEW MEXICO )

CASE NO. 12,299

ORIGINAL

OIL CONSERVATION DIVISION  
99 DEC 16 PM 4:44

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MARK ASHLEY, Hearing Examiner

December 2nd, 1999

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MARK ASHLEY, Hearing Examiner, on Thursday, December 2nd, 1999, at the New Mexico Energy, Minerals and Natural Resources Department, Porter Hall, 2040 South Pacheco, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

\* \* \*



## I N D E X

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 Examiner Hearing  
 CASE NO. 12,299

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\* \* \*

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\* \* \*

## A P P E A R A N C E S

## FOR THE DIVISION:

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

## FOR THE APPLICANT:

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

## FOR MARALEX RESOURCES, INC.:

JAMES G. BRUCE, Attorney at Law  
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Santa Fe, New Mexico 87501  
P.O. Box 1056  
Santa Fe, New Mexico 87504

## FOR ENERGEN RESOURCES CORPORATION:

MILLER, STRATVERT and TORGERSON, P.A.  
150 Washington  
Suite 300  
Santa Fe, New Mexico 87501  
By: J. SCOTT HALL

\* \* \*

1 WHEREUPON, the following proceedings were had at  
2 10:22 a.m.:

3 EXAMINER ASHLEY: The Division calls Case 12,299.

4 MR. CARROLL: Application of Redwolf Production,  
5 Inc., for compulsory pooling, San Juan County, New Mexico.

6 EXAMINER ASHLEY: Call for appearances.

7 MR. CARR: May it please the Examiner, my name is  
8 William F. Carr with the Santa Fe law firm Campbell, Carr,  
9 Berge and Sheridan. We represent Redwolf Production, Inc.,  
10 and I have one witness.

11 EXAMINER ASHLEY: Additional appearances?

12 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe  
13 representing Maralex -- that's M-a-r-a-l-e-x -- Resources,  
14 Inc., and I have one witness.

15 MR. HALL: Mr. Examiner, Scott Hall from the  
16 Miller-Stratvert-Torgerson law firm of Santa Fe appearing  
17 on behalf of Energen Resources Corporation, and I'm  
18 entering an appearance for the limited purpose to object to  
19 jurisdiction in this case.

20 Energen Resources is an interest owner in the  
21 proposed drilling unit, and notice has been provided to  
22 Energen of the hearing. We request that the Application be  
23 dismissed or, alternatively, continued till the January 6th  
24 docket hearing.

25 EXAMINER ASHLEY: Any additional appearances?

1 Mr. Carr?

2 MR. CARR: In response to Mr. Hall's request for  
3 a dismissal, our witness will testify that they had a  
4 Division Order title opinion prepared, that the interest  
5 now held by Energen was held by Minatome at that time.  
6 They have attempted to provide notice to Minatome, and it  
7 was only very recently that it was discovered that Energen  
8 had acquired the interest. At the time the title opinion  
9 was prepared, there was nothing of record that would show  
10 that the title, in fact, had been transferred to Energen.

11 MR. CARROLL: What was the date of that title?

12 MR. CARR: I don't know. We'd have to pursue  
13 that with the witness.

14 MR. CARROLL: Mr. Hall, when did Energen acquire  
15 its interest?

16 MR. HALL: Mr. Examiner, Energen acquired the  
17 Total interest on January 1, 1998, and notice of the  
18 acquisition was filed of record with the County Clerk of  
19 San Juan County on January 22nd, 1999.

20 There is a -- Document entry is Book 1274, page  
21 255 of the San Juan County Clerk's records.

22 (Off the record)

23 EXAMINER ASHLEY: We'll go ahead and hear the  
24 case today but then hold off on taking it under advisement.

25 MR. CARR: And if a continuance is necessary, we

1 certainly understand that. We're working on best title  
2 information, and we thought we had the interests. We were  
3 advised last week that Energen had acquired the interest.  
4 The prehearing statements were filed in this matter.  
5 They've raised these issues. I'm not aware of them, and  
6 I'm sorry that we have to air them before you. Some of  
7 these probably could have been resolved between counsel  
8 before the hearing.

9 EXAMINER ASHLEY: Mr. Carr, you said there are  
10 prehearing statements that --

11 MR. CARR: I said I don't -- I didn't see them.  
12 It's been --

13 EXAMINER ASHLEY: Okay.

14 MR. CARR: If they were filed, I'm not aware of  
15 them. It doesn't mean they weren't filed; it could be that  
16 I'm not aware of them.

17 And Mr. Ashley, I would also note at the  
18 beginning that we would request any of the portions of the  
19 case that relate to 40-acre or 160-acre spacing units. As  
20 the evidence will show, the objective here is the Fruitland  
21 Coal.

22 EXAMINER ASHLEY: Okay, say that again?

23 MR. CARR: The portions of the case that relate  
24 to 160-acre spacing or 40-acre spacing should be dismissed.  
25 Redwolf is seeking pooling of the Fruitland Coal.

1 EXAMINER ASHLEY: Okay, will the witnesses please  
2 rise to be sworn?

3 MR. CARROLL: Mr. Hall, are you going to have a  
4 witness?

5 MR. HALL: Say again?

6 MR. CARROLL: Are you going to have a witness?

7 MR. HALL: No, I won't.

8 (Thereupon, the witnesses were sworn.)

9 EXAMINER ASHLEY: Mr. Carr?

10 MR. CARR: May it please the Examiner, at this  
11 time we would call Dana Delventhal.

12 EXAMINER ASHLEY: Okay.

13 DANA L. DELVENTHAL,  
14 the witness herein, after having been first duly sworn upon  
15 her oath, was examined and testified as follows:

16 DIRECT EXAMINATION

17 BY MR. CARR:

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

19 A. My name is Dana Delventhal.

20 Q. Would you spell your last name?

21 A. D-e-l-v-e-n-t-h-a-l.

22 Q. Where do you reside?

23 A. I reside in Farmington, New Mexico.

24 Q. By whom are you employed?

25 A. Redwolf Production, Incorporated.

1 Q. And what is your position with Redwolf?

2 A. Vice president.

3 Q. Have you previously testified before this  
4 Division?

5 A. Yes, I have.

6 Q. At the time of that testimony, were your  
7 credentials as an expert witness in petroleum engineering  
8 accepted and made a matter of record?

9 A. Yes, they were.

10 Q. Are you familiar with the Application filed in  
11 this case and the status of the lands involved?

12 A. I am.

13 Q. Have you made an engineering study of the area  
14 which is the subject of the Application?

15 A. I have.

16 Q. Are you prepared to share the results of that  
17 study with Mr. Ashley?

18 A. I am.

19 MR. CARR: We tender Ms. Delventhal as an expert  
20 witness in petroleum engineering.

21 EXAMINER ASHLEY: She is so qualified.

22 Q. (By Mr. Carr) Would you briefly state what  
23 Redwolf seeks with this Application?

24 A. Redwolf is seeking an order pooling all the  
25 mineral interests in the Basin-Fruitland Coal formation in



1 the north half of Section 36, Township 26 North, Range 13  
2 West, for the development of the Basin-Fruitland Coal Pool.

3 Q. And what is the name of the well you propose to  
4 drill on this spacing unit?

5 A. Our proposed well is the Bear Number 1, to be  
6 located in the northeast quarter of the northeast quarter  
7 of the same section.

8 Q. And that well is now drilling, is it not?

9 A. That is correct.

10 Q. You had a lease expiration December the 1st?

11 A. We did, and subsequently -- We've spud the well  
12 November the 30th to satisfy the lease requirements.

13 Q. Let's go to what has been marked for  
14 identification as Redwolf Exhibit Number 1, and I'd ask you  
15 to identify that and review it for Mr. Ashley.

16 A. Exhibit Number 1 shows a C-102 plat of the given  
17 acreage. This acreage, the north half, is comprised  
18 entirely of four state leases in five different tracts of  
19 ownership. The well is being drilled on Tract Number 1,  
20 and the east half of the northeast quarter is Redwolf  
21 Production's mineral interest.

22 The Attachment Number 2, Exhibit Number 2, will  
23 show the differences in ownership for those operating  
24 rights from those five tracts.

25 Q. If we look at Exhibit Number 2, the well is being

1 drilled on a tract that is a 100-percent Redwolf  
2 Production, Inc., tract; is that correct?

3 A. That's correct.

4 Q. What is the status of the acreage in the north  
5 half of Section 36?

6 A. Again, all the acreage is state leases, with  
7 different variations of ownership. The compilation of all  
8 five tracts is shown on Exhibit Number 2, and there's a  
9 total of 22 different operating-rights owners within that  
10 320-acre area.

11 To date, of those 22, we've gotten voluntary  
12 joinders from 15 of the owners, leaving 7 that we have yet  
13 to pool their interests.

14 Q. Now, you testified that the minerals are all  
15 state. Is the surface also state?

16 A. The surface is a little bit complicated. Most of  
17 the surface is legally state surface. However, through an  
18 agreement they've transferred their rights to the Navajo  
19 Tribe, through the Navajo Agricultural Products Industries,  
20 and therefore the Navajo Tribe has jurisdiction on surface  
21 disturbances.

22 Q. What is the status of the effort to obtain rights  
23 of way from the Navajos to afford access to the well?

24 A. In order to obtain a pipeline right of way, it  
25 will require a tribal approval. It's a long and tedious

1 process which we began in June of this year. We are  
2 currently still in the process of acquiring that pipeline  
3 right of way. We anticipate in the first half of next year  
4 that we will be successful, but there's certainly no  
5 guarantee to the time line.

6 Q. What percent of the working interest at this  
7 point in time has voluntarily committed to the well?

8 A. Currently, there's 40.07 percent of the working  
9 interest that's voluntarily committed their acreage.

10 Q. Can you identify for me the interest owners who  
11 have not committed their interest?

12 A. To date there are 7 of the 22 owners that are not  
13 committed. The first, Maralex Resources, with a 57-percent  
14 interest. Second, T.J. Foster with a .07-percent interest.  
15 Third, Quasar Sciences, with a .07-percent interest.  
16 Fourth, Minatome Corporation with a 2.15-percent interest.

17 Q. And that's the interest that now is held by  
18 Energen?

19 A. Correct. Roger B. Nielsen, with a 0.2-percent  
20 interest. Robert Warren Umbach, with a 0.16-percent  
21 interest. And George William Umbach, with a 0.16-percent  
22 interest.

23 Q. Have you been able to locate either T.J. Foster  
24 or Quasar Sciences, Inc.?

25 A. No, we have not. We have not been able to find

1 an address through county courthouse records, nor through  
2 an internet search.

3 Q. But the other interest owners you have been able  
4 to locate?

5 A. Yes, we have, and we've given notice to all of  
6 them of our Application.

7 Q. Would you review for Mr. Ashley the efforts that  
8 you've made to obtain voluntary joinder of all the working  
9 and mineral interest owners in the proposed spacing unit?

10 A. For the Bear Number 1 well, we proposed the well  
11 in April of this year and sent certified letters to the 22  
12 interest owners of record.

13 Following that letter, we received joinders from  
14 three of the working interest owners: Dugan Production,  
15 Robert Bayless and Benson-Montin-Greer. We spoke with both  
16 SG Interests and Maralex Resources several times in May of  
17 this year and got a qualitative joinder from SG and no  
18 joinder from Maralex.

19 In November, November 5th, we sent a second round  
20 of letters notifying the interest owners that we would be  
21 seeking compulsory pooling to consolidate the interests.  
22 And following that letter, SG Interests executed documents  
23 as well as nine of the smaller interests, which left the  
24 seven uncommitted parties.

25 Q. In addition to your letters, have you contacted

1 these individuals by telephone?

2 A. I have spoken with Maralex Resources several  
3 times.

4 I have spoken with Energen. They notified us  
5 last week that they had picked up the Minatome interest. I  
6 received a document Monday showing that transfer, and that  
7 same day I sent them an AFE and operating agreement with  
8 the well proposal.

9 Roger Nielsen and the Umbachs I had no contact  
10 with and have heard nothing from them.

11 Q. And Redwolf is willing to continue negotiations  
12 with any of the individuals who could be subject to  
13 pooling; is that not correct?

14 A. That's correct.

15 Q. The title information that you were working off  
16 of, the Division Order title opinion, what was the date on  
17 that opinion?

18 A. The title search was done in October of 1998,  
19 apparently, a couple of months before they filed with the  
20 county records.

21 Q. Is the April, 1999, effort the first time there  
22 has been discussions concerning the development of this  
23 tract in the Fruitland Coal?

24 A. Not entirely. We purchased our lease, our state  
25 lease, in December of 1994, and we proposed a well in

1 December of 1994 to Maralex. Maralex, being the majority  
2 working interest owner, responded with a request that they  
3 drill and operate the well, and Redwolf agreed to it, I  
4 believe, to be a participating party in their well.

5 Over the years it's just never solidified. With  
6 our lease deadline we felt required, basically, to take the  
7 operations over ourselves and pursue the drilling of the  
8 well.

9 Q. In your opinion, have you made a good-faith  
10 effort to locate all individuals and obtain their voluntary  
11 joinder in the well?

12 A. Yes, we have.

13 Q. Is Exhibit Number 3 copies of letters from  
14 Redwolf that reflect the efforts to try and reach a  
15 voluntary agreement for the development of these lands?

16 A. That's correct, it's a compilation of the April  
17 and November letters, sent to the nonparticipating parties.  
18 I also included our correspondence with Energen regarding  
19 their change, assumption of the Minatome interest.

20 Q. Would you identify what has been marked Redwolf  
21 Exhibit Number 4?

22 A. Exhibit Number 4 was an AFE prepared for the  
23 development well, the Bear Number 1. Total well cost is  
24 just under \$175,000.

25 Q. Is that the completed well cost?

1 A. Correct.

2 Q. Are these costs in line with what is charged by  
3 other operators for similar wells in this area?

4 A. Yes, it is.

5 Q. Is Exhibit Number 5 an affidavit confirming that  
6 notice of today's hearing has been provided in accordance  
7 with Oil Conservation Division Rules?

8 A. Yes.

9 Q. And this predated the information you have  
10 concerning the interest of Energen, correct?

11 A. Correct.

12 Q. So they were not notified by us of this hearing?

13 A. No, the assumption was still under the Minatome  
14 ownership.

15 Q. Have you made an estimate of the administrative  
16 and overhead costs to be incurred while drilling this well  
17 and also while producing it, if it is successful?

18 A. We anticipate a \$4000-per-month drilling overhead  
19 rate and a \$400-per-month operating overhead rate.

20 Q. And what is the source of these figures?

21 A. It's roughly based on the 1994 Ernst and Young  
22 survey. It's actually less than the operating overhead.

23 Q. And how would these figures compare with the  
24 overhead rates proposed by Maralex back in 1994?

25 A. They're comparable. Maralex proposed, I believe,

1     \$450 per month operating overhead.

2           Q.    Do you recommend that the \$400-a-month and \$4000-  
3   a-month figures be incorporated into any order which  
4   results from this hearing?

5           A.    I do.

6           Q.    Does Redwolf Production, Inc., seek to be  
7   designated operator of the well?

8           A.    We do.

9           Q.    Have you drilled other similar wells --

10          A.    Yes, we have.

11          Q.    -- in this area, to the Fruitland Coal?

12          A.    Yes, we have.

13          Q.    Let's go to what has been marked for  
14   identification as Redwolf Exhibit Number 6.  I'd ask you to  
15   first identify this and then review the information on the  
16   well.

17          A.    Certainly.  Exhibit Number 6 is a nine-section  
18   plat showing the acreage surrounding the Bear Number 1  
19   well.  It's outlined in red in Section 36.  And as you can  
20   see, Section 36 is the only section in this area that the  
21   Basin-Fruitland Coal is undeveloped in.  All of the  
22   surrounding sections have full development of the Basin  
23   Fruitland Coal.

24                The operator and the well name is written in  
25   black, and cumulative production figures are given in blue



1 for surrounding wells. The cumulative production figures  
2 vary anywhere from about 15 million cubic feet to a high of  
3 885 million cubic feet of gas produced. There's a large  
4 variation in productivity within this area.

5 Q. So the -- You will encounter the Fruitland Coal  
6 at this location; is that not correct?

7 A. Short of an act of God, there will be coal there,  
8 the question being whether it is commercially productive.

9 Q. Okay, let's go to Exhibit Number 7. Would you  
10 review that, please?

11 A. Exhibit Number 7 is a preparation for a break-  
12 even case on the Fruitland Coal in that area, with the AFE  
13 cost of \$174,000, which we feel is fair and will certainly  
14 be very near the actual well cost.

15 It would require production in the range of 373  
16 million cubic feet per day of gas produced to be a break-  
17 even case on economics.

18 Q. And are there wells in the area that will not  
19 meet that economic cutoff?

20 A. Yes, there are. There's four direct offsets that  
21 are well below that break-even economics.

22 Q. And do you anticipate that those wells ultimately  
23 will hit that point to break even or --

24 A. One probably will, the remainder probably will  
25 not.

1 Q. Are you prepared to make a recommendation as to  
2 the risk penalty that should be assessed against the  
3 nonconsenting interest owners?

4 A. Yes, I am.

5 Q. And what is that?

6 A. We request the 200-percent risk penalty.

7 Q. And is it your testimony that there's a chance  
8 that a well at this location might not be a commercial  
9 success?

10 A. There's a significant chance that the well will  
11 be noncommercial.

12 Q. In your opinion, will the granting of this  
13 Application and the drilling of this well be in the best  
14 interests of conservation, the prevention of waste, and the  
15 protection of correlative rights?

16 A. Yes, sir.

17 Q. How soon -- Well, Redwolf is currently drilling  
18 the well; is that correct?

19 A. That's correct.

20 Q. How long does it take to drill the well?

21 A. Hopefully five days. We should TD the well on  
22 Saturday.

23 Q. And then what will you do with the well?

24 A. We will proceed with the completion.

25 Q. And pending surface problems, you will be --

A. Once we obtain the Indian right of way for laying a pipeline, we will connect the well.

Q. Were Exhibits 1 through 7 prepared by you or compiled under your direction?

A. Yes, sir.

MR. CARR: Mr. Ashley, at this time we would move the admission into evidence of Exhibits 1 through 7.

EXAMINER ASHLEY: Exhibits 1 through 7 will be admitted as evidence at this time.

Mr. Bruce?

## EXAMINATION

BY MR. BRUCE:

Q. Ms. Delventhal, on your Exhibit 4, the AFE, you show a commencement date, and you've already commenced the well, and a completion date of February 1, 1999. Would that date be the anticipated date of tie-in to a pipeline?

A. That is our current estimate. We contracted out a person to walk the right-of-way acquisition through the Navajo Tribe, and their current estimate is that we should receive final approval in January. Again, there's no guarantee, but that is our best estimate.

Q. You said you will TD the well this Saturday.  
When do you anticipate the well will be completed?

A. By the end of December.

Q. On your Exhibit 7, your economics, you are using

1 a flat rate of \$1.75 per MCF for gas?

2 A. That's correct.

3 Q. What is the current price of gas in this area?

4 A. Spot prices for the San Juan Basin are currently  
5 around \$2.00. That's per MMBTU. There's an 1100 BTU  
6 factor, adjusted into the economics, and that would bring  
7 it up closer to \$2.00.

8 Q. And if the gas price rose higher than the break-  
9 even point, the total production figure would be lower,  
10 would it not?

11 A. True, and if prices drop it will be higher.

12 Q. What are your current operating costs? Not just  
13 the overhead rates?

14 A. The current estimate for economic purposes was a  
15 total of \$800 --

16 Q. Per month?

17 A. -- per month. That's the \$400 overhead, and then  
18 there is an additional \$400 estimated operating costs.

19 Q. One final question on the AFE: Does that include  
20 cost for the right of way for the pipeline?

21 A. Yes, it does.

22 MR. BRUCE: Thank you.

23 EXAMINER ASHLEY: Mr. Hall?

24 MR. HALL: Mr. Examiner, without waiving  
25 objections, we would request that the witness be made

1 available for further cross-examination at the January 6th,  
2 2000, hearing, and we also request we be afforded the  
3 opportunity to present our own direct testimony as may be  
4 appropriate at that time.

5 EXAMINER ASHLEY: Okay. Is that agreeable with  
6 you, Mr. Carr?

7 MR. CARR: I would -- I think Mr. Bruce has a  
8 witness that he needs to present. In terms of continuing  
9 the case, I would recommend that the case be continued to  
10 the 16th of December to give us an opportunity to attempt  
11 to work out an agreement with Energen, and that if we are  
12 unable to do so, that we advise you and that the case then  
13 be opened on the 6th of January.

14 Since the well is drilling, I would like to be  
15 able to attempt to get this resolved in two weeks. If we  
16 cannot do that, we, of course, have to come back and afford  
17 Energen an opportunity to present their testimony, so I'm  
18 not suggesting that we're trying to not do that. But if we  
19 couldn't work out an agreement within the next two weeks, I  
20 would like to be able to advise the Division at that time  
21 and have it taken under advisement. I'd stipulate right  
22 now that if we're unable to do that, we would agree to  
23 reopening the case January the 6th.

24 MR. CARROLL: Has Energen been provided notice,  
25 once you found out the --

1 THE WITNESS: Yes, Monday, I sent them -- Well, I  
2 spoke to them the week before and let them know that we  
3 were going to be at the December 2 docket and what our  
4 proposal was with the Bear well, and that we were going to  
5 be drilling it on November 30th.

6 MR. CARROLL: So --

7 THE WITNESS: The AFE and operating agreement  
8 were sent out Monday.

9 MR. CARROLL: Did you provide them with notice of  
10 the hearing?

11 THE WITNESS: No.

12 MR. CARR: No, we did not. It was not discovered  
13 until after notice had been provided.

14 EXAMINER ASHLEY: Say that again?

15 MR. CARR: Notice was not provided to Energen.  
16 We did not discover their existence until last week, and  
17 the notice went out approximately three weeks ago.

18 EXAMINER ASHLEY: Notice of the hearing?

19 MR. CARR: Yes.

20 MR. HALL: To Total Minatome, as opposed to  
21 Energen.

22 MR. CARR: Yes, it was -- Well, and we didn't  
23 have an address for Minatome. We had been unable to locate  
24 them or get any response or get their mail picked up.

25 MR. HALL: They're in Paris.

1 EXAMINER ASHLEY: Yeah. Mr. Hall, do you want to  
2 continue it to the 16th, and then you'll have time --

3 MR. HALL: That would be agreeable to us. I'd  
4 simply point out that that is still less than the 30 days  
5 that is customary for negotiations between parties in a  
6 pooling proceeding, and I think we should reasonably expect  
7 that we'll be back here on January the 6th, but we'll agree  
8 to the continuance to the 16th.

9 EXAMINER ASHLEY: Okay.

10 MR. CARR: And we would agree that if we can't  
11 reach an agreement quickly, I mean, that they are entitled  
12 to that amount of time, and we'd come back on the 6th.

13 EXAMINER ASHLEY: Will you notify me --

14 MR. CARR: Yes, we will.

15 EXAMINER ASHLEY: -- of any kind of agreement?

16 MR. CARR: Yes, we will.

17 EXAMINER ASHLEY: Okay.

18 MR. CARR: We'll notify you in either event --

19 EXAMINER ASHLEY: Okay.

20 MR. CARR: -- where we stand prior to the hearing  
21 on the 16th.

22 EXAMINER ASHLEY: And I'll make myself available  
23 during that hearing.

24 MR. CARROLL: Mr. Hall, Energen hasn't been  
25 provided with notice of this hearing, or official -- by

1 letter, right?

2 MR. HALL: That's correct.

3 MR. CARROLL: But we now know you have actual  
4 notice, so when did you receive notice of the hearing?

5 MR. HALL: It's my understanding that there was  
6 further contact between Redwolf and Energen last week.  
7 There is a letter in the file, one of the exhibits, showing  
8 a contact from Energen's landman back to Redwolf on  
9 November 24th. I suspect there may have been verbal  
10 communications a day or so before that time.

11 EXAMINER ASHLEY: Are you referring to a letter  
12 that was -- it's part of the exhibits submitted today?

13 MR. HALL: Yes.

14 EXAMINER ASHLEY: Okay.

15 MR. CARROLL: I can't find that.

16 THE WITNESS: It's in the back of --

17 MR. CARR: Yeah, it's included --

18 THE WITNESS: -- the package --

19 MR. CARR: -- in Exhibit 3.

20 THE WITNESS: -- Exhibit 3.

21 EXAMINER ASHLEY: Okay, Exhibit 3? Okay.

22 THE WITNESS: As well as our response.

23 MR. CARROLL: Well, Mr. Hall, does Energen still  
24 want the notice required by our rules, or are you going to  
25 waive that notice?



1 MR. HALL: We'll waive that, because we want to  
2 preserve the right to cross-examine, if necessary.

3 EXAMINER ASHLEY: Okay.

4 MR. CARROLL: All right.

5 EXAMINATION

6 BY EXAMINER ASHLEY:

7 Q. Ms. Delventhal, you mentioned a break-even figure  
8 of 373 million cubic feet?

9 A. That's correct.

10 Q. And you said there are other wells that have not  
11 been economical?

12 A. If you look at Exhibit Number 6 --

13 Q. Okay.

14 A. -- directly south, Section 1, Dugan Production  
15 has two wells that are rather marginal, as well as in  
16 Section Number 2. Both of those wells are marginal.

17 In Section 35, the northeast is a marginal well,  
18 and Merrion has one directly north of that that would not  
19 meet that criteria.

20 But the other wells are to the east and to the  
21 south. There are some commercial-production economic  
22 ventures within those sections. That's certainly why we're  
23 trying in the northeast.

24 Q. Do you know if any of the other wells on this  
25 plat in Section 6 were subject to a compulsory pooling

1 order?

2 A. I do not know that.

3 EXAMINATION

4 BY MR. CARROLL:

5 Q. What portion of the north half of 36 are  
6 controlled by the Navajos now?

7 A. Actually, all of it.

8 Q. The whole 320 acres?

9 A. All of the surface, yeah.

10 Q. You had no problems with them allowing the rig on  
11 location to start drilling?

12 A. We received NAPI approval for the well location  
13 and archeological clearance. We haven't received final  
14 approval for location damages. That's likely to occur in  
15 January. We are granted lease rights to build a location  
16 and drill under our state lease, and we're operating under  
17 those rights.

18 Q. And I take it there hasn't been any development  
19 in Section 36 due to this Navajo surface --

20 A. Well, actually, it extends into the other  
21 sections as well, so those people have coped with the  
22 difficulties and been successful in drilling and completing  
23 their wells.

24 Q. Well, I asked if this section had been drilled.  
25 All the other sections around it have been drilled up to

1 that?

2 A. I assume it has to do with pooling minerals.

3 Q. Who did the title opinion last year?

4 A. It was done by Tommy Roberts out of Farmington,  
5 New Mexico.

6 Q. And that was in October of 1998?

7 A. Correct.

8 Q. And you sent out notice of this hearing in  
9 November, 1999?

10 A. No, our title was done in October of 1998, we  
11 received our final title opinion in March, we mailed the  
12 letters out in April of this year.

13 Q. Well, the notice of this hearing was provided  
14 in --

15 A. -- in November, right.

16 Q. Right. And you --

17 A. We attempted to get joinder in April, and we  
18 provided notice again in November to those parties that  
19 have not volunteered their acreage.

20 Q. And you didn't ask for an update on the title  
21 opinion?

22 A. Not since the title of October.

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

24 EXAMINER ASHLEY: I have nothing further. Thank  
25 you.

1 MR. CARR: That concludes our presentation.

2 EXAMINER ASHLEY: Mr. Bruce?

3 MR. BRUCE: Call Mr. O'Hare to the stand.

4 ALEXIS MICHAEL O'HARE,

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

7 DIRECT EXAMINATION

8 BY MR. BRUCE:

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

10 A. My full name is Alexis Michael O'Hare.

11 Q. And where do you reside?

12 A. In Ignacio, Colorado.

13 Q. What is your occupation?

14 A. I'm the president of Maralex Resources, Inc.

15 Q. Do you also have a technical degree?

16 A. Yes, I have a bachelor of science in petroleum  
17 engineering from New Mexico Tech.

18 Q. Have you previously testified before the  
19 Division?

20 A. Yes, I have.

21 Q. And were your credentials as an expert petroleum  
22 engineer accepted as a matter of record?

23 A. Yes, they were.

24 Q. And are you familiar with the engineering matters  
25 related to this Application?

1           A.    Yes, I am.

2                   MR. BRUCE:  Mr. Examiner, I tender Mr. O'Hare as  
3 an expert petroleum engineer.

4                   EXAMINER ASHLEY:  Mr. O'Hare is so qualified.

5           Q.    (By Mr. Bruce)  Mr. O'Hare, up front let's  
6 discuss Maralex's position in this case.  First of all, you  
7 think this is going to be a good well, don't you?

8           A.    Yes, I do.

9           Q.    It's what?  Shallow, there's low operating costs,  
10 and you think it's low risk?

11          A.    Yes, I do.  The coal is there.  We have drilled  
12 -- or Maralex Resources drilled the majority of wells that  
13 are the better performers in this area, and we were very  
14 excited about this location initially.  And in fact, the  
15 other location in Section 36 was also drilled by Maralex.

16          Q.    What is your objection, then, to joining in the  
17 well at this time?

18          A.    Initially we had two major objections.  The first  
19 one was removed when the 160-acre force pooling was  
20 dismissed.  And the second objection is the fact that the  
21 well in the southwest quarter of Section 36 has been  
22 waiting on a pipeline connection for well over three years  
23 now.  And our sole remaining objection on the well in the  
24 northeast quarter is that we don't think we can timely get  
25 approval for right of way to get that well tied in.

1           So we think it will be more than just another  
2 month or two before the Navajo Indian Tribe, at least in  
3 our experience, grants right of way for that tie-in, and we  
4 are not in the position to sink additional money into the  
5 ground and let it sit there for maybe years on end.

6           Q.    You mentioned a well in the southwest quarter of  
7 Section 36. You are awaiting a pipeline connection,  
8 pipeline approval, for a right of way from the Navajos at  
9 this time?

10          A.    That is correct. Exhibit Number 1, Maralex  
11 Exhibit Number 1, shows that well in the southwest quarter  
12 of Section 36. Initially, our intention was to build a  
13 pipeline straight northeast of that well, up to the well in  
14 the southwest quarter of Section 30, and as soon as that  
15 right of way was approved, we would be proposing the well  
16 in the northeast quarter of Section 36. As I said, that  
17 application has been in the works for a number of years,  
18 actually, and we still don't know when we will receive that  
19 approval for that right of way.

20          Q.    And that well has been drilled and completed?

21          A.    That is correct.

22          Q.    The one that has "WOPL" under it?

23          A.    Correct.

24          Q.    Okay. Let's get into a little bit about risk in  
25 this area. Would you -- you've already mentioned Exhibit

1 1. Could you identify that a little bit further and tell  
2 the Examiner what that shows?

3 A. Yes, Exhibit 1 shows the eight sections,  
4 including Section 36 and excluding Section 35 surrounding  
5 the proposed well. The numbers shown on this plat are the  
6 average daily producing rates for the month of September,  
7 1999, for each of those wells.

8 Q. Which of these does Maralex have an interest in,  
9 if you could --

10 A. Maralex has an interest in both wells in Section  
11 26, the northeast quarter of 25, both wells in Section 30,  
12 and one well in the northeast quarter of Section 31, as  
13 well as the southwest quarter of Section 36 and the  
14 proposed well.

15 Q. Okay, and you said you were involved in drilling  
16 several of these?

17 A. We drilled all but the wells in Section 26, that  
18 we have an interest in.

19 Q. Okay. And from Redwolf's exhibit those were --  
20 what? Drilled by Merrion Oil and Gas?

21 A. That's correct.

22 Q. Okay. Would you, rather than have me interrupt  
23 you, go through your Exhibits 2 through 5 and discuss  
24 production from Fruitland Coal wells in this area?

25 A. Exhibits 2 through 5 are historical production

1 curves for wells in Sections 31, 30 and 25, directly  
2 offsetting the proposed well.

3 The first well that we drilled in this area was  
4 called the Gallegos Federal 26-12-31 Number 1, and that's  
5 shown as Exhibit Number 2. To date that well has cum'd  
6 nearly 400 million cubic feet of gas. Peak rate on that  
7 well was just over 300 MCF per day. That well never made  
8 much water. At the most, it was maybe four barrels of  
9 water a day. And the well has been declining since then.

10 This well was drilled in 1992 and completed in  
11 1993 and put on production -- The first sales was in  
12 October of 1993. That well actually paid out during a  
13 period of low gas prices in less than two years.

14 Exhibit Number 3 shows the second well that we  
15 drilled in this area, called the Gallegos Federal 26-13-25  
16 Number 1 well, in the northeast quarter of Section 25.  
17 That well is currently producing at an average daily rate  
18 of 305 MCF per day. It started off making a little bit  
19 more water than we saw on the 31-1, but it's still quite a  
20 bit less than 30 barrels of water a day at its peak rate,  
21 and it declined fairly rapidly to where it's currently  
22 producing less than 10 barrels of water per day.

23 That well had a peak rate of somewhere around 325  
24 to 335 MCF per day, and is currently on compression. It  
25 has cum'd a total of more than half a BCF of gas, and we



1 expect it to recover close to a full BCF of gas from that  
2 wellbore.

3 Exhibit Number 4 is the Gallegos Federal 26-12-30  
4 Number 1 production history. This well is located in the  
5 northeast quarter of Section 30, and it has, as of  
6 September anyway, produced an average daily rate of 358 MCF  
7 per day.

8 This well is on compression also, and it is  
9 declining in production. But it has cum'd over 400 million  
10 cubic feet of gas a day, and we anticipate its ultimate  
11 recovery will be about .9 BCF of gas. This is another well  
12 that paid out very quickly, in less than three years after  
13 it was first put on production. In fact, it's just over  
14 three years of production now, but it paid out in less than  
15 three years.

16 The last well shown, on Exhibit Number 5, the  
17 history is for the Gallegos Federal 26-12-30 Number 2.  
18 That well is currently producing 188 MCF per day on average  
19 for the month of September. That well is a little bit  
20 different from the other wells, and it is similar to some  
21 problems that we have experienced north of this area in our  
22 main body of the Gallegos Federal project in that there is  
23 an offsetting Pictured Cliffs producer that appears to be  
24 taking some of our Fruitland gas. So this well is not as  
25 good a performer as the other wells that we looked at, and

1 we had to put it on compression to get our Fruitland gas  
2 back on line after October of 1998, in order to draw the  
3 reservoir pressure down low enough in the Fruitland to keep  
4 the PC well from pulling our Fruitland gas out of the PC  
5 wellbore.

6 Even so, in less than three years -- or about  
7 three years' time, this well has produced a cumulative  
8 total of about 164 million cubic feet of gas, and we  
9 project that it will ultimately recover on the order of 700  
10 million cubic feet of gas.

11 Q. So looking at the wells you've described in  
12 Exhibits 2 through 5, all of those wells will be economic,  
13 will they not?

14 A. All of those wells are currently economic, yes.

15 Q. Now, you have that shut-in well in the southwest  
16 quarter of Section 36. You said you completed that well  
17 based on what you've seen so far, and you're awaiting a  
18 pipeline connection. Do you anticipate that well being  
19 similar in characteristics to the other wells you've just  
20 discussed?

21 A. Yes, we do. SG Interests is the current operator  
22 of that well, and there has not been extensive testing on  
23 that well to determine what its ultimate production profile  
24 will be, but it does appear that it will be a very nice  
25 commercial coalbed methane well.

1 Q. And as you've said, these are -- what? Shallow  
2 wells with low operating costs?

3 A. That is correct.

4 Q. And there's no doubt that the coal is there?

5 A. There is no doubt the coal is there.

6 Q. And the proposed well is in essence surrounded by  
7 commercial wells, is it not?

8 A. Yes, we feel that the only way that this well  
9 would not be a good commercial well is if the coals are  
10 damaged during the completion technique.

11 Q. Now, in the economics run by Redwolf -- You saw  
12 this exhibit, didn't you, Mr. O'Hare --

13 A. Yes, I did.

14 Q. -- where they used \$1.75? Do you think that's a  
15 proper price for gas at this point?

16 A. The current spot price for gas for the month of  
17 November in the San Juan Basin is \$2.84 an MCF. I don't  
18 know what the December price is at this time. I know it is  
19 less than that, but I think \$1.75 is extremely  
20 conservative.

21 Q. If you use something like \$2.00 or \$2.25 per MCF,  
22 the payout -- the break-even point would be substantially  
23 lower than testified to by Redwolf?

24 A. Yes, and that presentation is a little bit  
25 misleading from the standpoint that Fruitland Coal wells

1 generally will start -- and you can see it on these  
2 Exhibits 2 through 5 -- at lower rates and incline over  
3 time to higher rates.

4 For instance, on Exhibit Number 3, the 25-1  
5 started at a rate of about 40 MCF a day, and as I said  
6 before, it peaked at a rate of well over 350 MCF per day.

7 So it's kind of misleading to say here is a set  
8 rate that we have to have on a well to start with in order  
9 to have a break-even point on it.

10 Q. Now, on your Exhibit 2 you said that this well  
11 was drilled -- what? In 1992 or 1993?

12 A. Correct, in 1992.

13 Q. And that it was economic, paid out in a couple of  
14 years. What were the gas prices back then?

15 A. They were much lower than they are now. 1994 gas  
16 prices were on the order of \$1.10 to \$1.25 an MCF.

17 Q. And the well was still economic?

18 A. Correct.

19 Q. Based on your testimony, do you believe that if a  
20 risk penalty is assessed it should be substantially lower  
21 than 200 percent?

22 A. Yes, I do, and I think that the fact that Redwolf  
23 has already started drilling the well indicates that the  
24 risk, in their minds, is relatively low, coupled with the  
25 fact that they intend to spend the money to complete the

1 well even before they have a right of way to tie the well  
2 in on, tells me that they're very confident, as we are,  
3 that this will be a good commercial coalbed methane  
4 producer.

5 Q. Finally, Mr. O'Hare, what is Exhibit 6?

6 A. Exhibit 6 is a plat showing the ownership  
7 interest in the well, and this was prepared more to address  
8 the differences between the 160-acre force pooling and the  
9 320-acre force pooling and the impact that that would have  
10 on Maralex.

11 Q. Okay. So really, at this point there's nothing  
12 you need to go over on this exhibit?

13 A. I don't think so.

14 Q. Mr. O'Hare, if the Application is granted, is it  
15 your opinion that a substantially reduced penalty should be  
16 assessed against any nonconsenting interest owners?

17 A. Most definitely, yes.

18 Q. And were Exhibits 1 through 6 prepared by you or  
19 under your direction?

20 A. Yes, they were.

21 MR. BRUCE: Mr. Examiner, I would move the  
22 admission of Maralex Exhibits 1 through 6.

23 EXAMINER ASHLEY: Exhibits 1 through 6 will be  
24 admitted as evidence at this time.

25 Mr. Carr?

## EXAMINATION

BY MR. CARR:

Q. Mr. O'Hare, the well in the south half of 36, do you have a pumping unit on that well at this time?

A. Again, SG Interests is the operator, and I have not been out there to look at it, so I don't know if --

Q. Do you know whether, in this area, that's typical to have a pumping unit and compression on the wells?

A. All of the wells that we completed, we did equip with pumping units. We did not put compression on until a later point in the life of the well.

Q. Do you know whether or not \$1.75 could be applied to your average for gas prices in the San Juan Basin?

A. I believe the current projections are that prices will be increasing over the next five years, not declining.

Q. Do you know what the average for the last five years would be?

A. No, sir, I don't.

MR. CARR: That's all I have. Thank you.

EXAMINER ASHLEY: Mr. Hall?

MR. HALL: No questions.

## EXAMINATION

BY EXAMINER ASHLEY:

Q. Mr. O'Hare, do you have a suggested risk?

A. I'm aware of two previous cases that the NMOCD

1 heard with similar circumstances where a well had already  
2 been spudded or was already drilled at the time of force  
3 pooling, and my understanding is that the risk assigned at  
4 that time, or the penalty assigned, was on the order of 10  
5 to 15 percent in both of those cases.

6 MR. CARROLL: Do you have the cites for those  
7 cases?

8 MR. BRUCE: Yes, Mr. Examiner, Case Numbers  
9 10,345 and 10,346, and the Order Numbers are R-9581 and  
10 R-9584.

11 Q. (By Examiner Ashley) And who operates the well  
12 in the southwest quarter of Section 36?

13 A. SG Interests.

14 Q. Looking at your Exhibit Number 2, could you give  
15 me again what the daily rate was for that well? The Number  
16 1?

17 A. The current rate?

18 Q. Yes.

19 A. It's 142 MCF per day average for the month of  
20 September.

21 EXAMINATION

22 BY MR. CARROLL:

23 Q. Mr. O'Hare, you mentioned that there was a risk  
24 that the coals would be damaged during the completion  
25 technique. How often does that occur?

1           A.    I'm not real familiar with the Redwolf completion  
2    technique at this time.  Most of the service companies are  
3    recommending non-damaging fluids, and so I think it's much  
4    more rare now than it was early on in the life of the  
5    Fruitland Coalbed methane play in the San Juan Basin.

6           Q.    How often did it occur earlier, prior to these  
7    fluids being used?

8           A.    Prior to 1990, it was very frequent.

9           MR. CARROLL:  Okay, that's all I have.

10          EXAMINER ASHLEY:  Anything else, Mr. Carr?

11          MR. CARR:  I have just a very brief statement.

12          EXAMINER ASHLEY:  Okay.

13          MR. CARR:  And if there are statements, I'd like  
14   to go last.

15          EXAMINER ASHLEY:  Okay.

16          MR. BRUCE:  I have just a very short one.

17          Mr. Examiner, I think the witness has already  
18   gone over it.  We believe the well will be drilled and  
19   completed even before the force pooling order is issued.  
20   Based on the cases I've cited, we think a low penalty  
21   should be assessed against any nonconsenting interest  
22   owner, on the order of 10 to 15 percent.

23          Maralex is aware that if the well is completed  
24   and Redwolf can't produce it, there is certainly the time  
25   value of money, and perhaps an annual interest charge would



1 be fair too, or something equivalent to that, of 10 to 15  
2 percent, just to make up for the lost value of that money.  
3 But we believe a very low penalty on production should be  
4 assessed.

5 Thank you.

6 EXAMINER ASHLEY: Mr. Hall?

7 MR. HALL: No statement, Mr. Examiner.

8 MR. CARR: May it please the Examiner, in regard  
9 to the concerns of Energen, just to confirm, we are  
10 requesting that the case be continued to December the 16th,  
11 and if we are unable to reach an agreement with Energen by  
12 that date, we will advise you and request that the case be  
13 continued to the first hearing in January so that Energen  
14 has an opportunity to present its case.

15 As to the concerns of Maralex, I think that there  
16 is no issue here in this case with Maralex as to whether or  
17 not a pooling order should be entered. Clearly, Redwolf  
18 has the right to drill, they have proposed and are drilling  
19 a well, and no agreement has been reached for the voluntary  
20 participation of Maralex in that drilling activity.

21 Well, Maralex says it's excited about the well,  
22 it has the option to participate, it has decided not to  
23 join, and it still may not join. And there are surface  
24 issues which make this unique, and a lease expiration,  
25 which have driven this thing forward, and they've had to

1 drill the well.

2 I think if you look at the risk and you look at  
3 the exhibits presented by Maralex and you compare them to  
4 Exhibit Number 6 presented by Ms. Delventhal, you can see  
5 that the data presented on the wells which were commercial  
6 successes are in the sections north and east of the  
7 proposed location. And when you look at Ms. Delventhal's  
8 testimony, when you go south and west of the location,  
9 that's where you hit wells that are not a commercial  
10 success.

11 Redwolf is having to go forward with the well.  
12 They're taking the risk for Maralex and for others, and  
13 they should be entitled to an appropriate risk penalty.

14 EXAMINER ASHLEY: Okay, thank you.

15 And this case will be continued to December 16th.

16 (Thereupon, these proceedings were concluded at  
17 11:20 a.m.)

18 \* \* \*

19  
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21  
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23  
24  
25  
I do hereby certify that the foregoing is a true and correct copy of the proceedings of the hearing held on the 12th day of December, 1999, at the hearing of the Oil Conservation Commission.  
12-2 1299  
99  
[Signature]  
Oil Conservation Commission

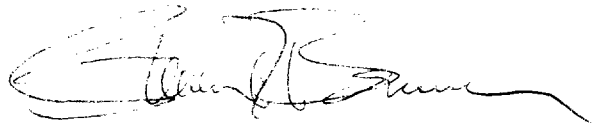
## CERTIFICATE OF REPORTER

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 December 5th, 1999.



STEVEN T. BRENNER  
CCR No. 7

My commission expires: October 14, 2002