

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. 12,358
)
 APPLICATION OF MARBOB ENERGY CORPORATION)
 FOR COMPULSORY POOLING, LEA COUNTY,)
 NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

March 16th, 2000

Santa Fe, New Mexico

OIL CONSERVATION DIV.
 00 MAR 30 AM 11:45

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, March 16th, 2000, 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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I N D E X

March 16th, 2000
Examiner Hearing
CASE NO. 12,358

	PAGE
EXHIBITS	3
APPEARANCES	3
APPLICANT'S WITNESSES:	
<u>RAYE P. MILLER</u> (Landman)	
Direct Examination by Mr. Owen	4
Examination by Examiner Catanach	14
<u>MARTIN K. JOYCE</u> (Geologist)	
Direct Examination by Mr. Owen	16
Examination by Examiner Catanach	24
REPORTER'S CERTIFICATE	27

* * *

E X H I B I T S

Applicant's	Identified	Admitted
Exhibit 1	6	14
Exhibit 2	7	14
Exhibit 3	10	14
Exhibit 4	13	14
Exhibit 5	18	24
Exhibit 6	19, 22	24
Exhibit 7	20	24
Exhibit 8	20	24
Exhibit 9	21	24
Exhibit 10	21	24
Exhibit 11	21	24
Exhibit 12	11	24

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A P P E A R A N C E S

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FOR THE APPLICANT:

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 By: PAUL R. OWEN

* * *

1 WHEREUPON, the following proceedings were had at
2 9:56 a.m.:

3 EXAMINER CATANACH: At this time we'll call Case
4 12,358, which is the Application of Marbob Energy
5 Corporation for compulsory pooling, Lea County, New Mexico.
6 Call for appearances in this case.

7 MR. CARR: Paul R. Owen of the Santa Fe law firm
8 of Campbell, Carr, Berge and Sheridan, appearing on behalf
9 of the Applicant, Marbob Energy Corporation. I have two
10 witnesses in this matter.

11 EXAMINER CATANACH: Call for additional
12 appearances.

13 Okay, will the two witnesses please stand to be
14 sworn in?

15 (Thereupon, the witnesses were sworn.)

16 MR. OWEN: Mr. Examiner, I call as my first
17 witness in this matter Mr. Raye Miller.

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

21 DIRECT EXAMINATION

22 BY MR. OWEN:

23 Q. Mr. Miller, could you please tell us your full
24 name and spell your first name for the record?

25 A. Yeah, my name is Raye, middle initial P., Miller.

1 It's spelled R-a-y-e.

2 Q. Mr. Miller, where do you live?

3 A. I reside in Artesia, New Mexico.

4 Q. For whom do you work?

5 A. I'm employed by Marbob Energy Corporation.

6 Q. What do you do for Marbob?

7 A. That's an interesting question. Quite a bit of
8 oil and gas type of work.

9 Q. Have you previously testified before this
10 Division?

11 A. Yes, sir, I have.

12 Q. And at the time of that testimony were your
13 credentials as an expert in petroleum land matters accepted
14 and made a matter of record?

15 A. No, I was actually qualified as a practical
16 oilman.

17 Q. And are you familiar with the Application filed
18 in this case?

19 A. Yes, sir, I am.

20 Q. Are you familiar with the status of the lands in
21 the subject area?

22 A. Yes, I am.

23 MR. OWEN: Mr. Examiner, I tender Mr. Miller as
24 an expert witness as a practical oilman.

25 EXAMINER CATANACH: Mr. Miller is so qualified.

1 Q. (By Mr. Owen) Mr. Miller, would you tell us what
2 Marbob seeks with this Application?

3 A. Basically what we're seeking is an order pooling
4 all the minerals from the base of the Atoka formation to
5 the base of the Morrow formation in the south half of
6 Section 15 of Township 17 South, Range 35 East. We're
7 asking that it be dedicated to our Giles State Com Number
8 1, to be drilled at a standard location 1900 feet from the
9 south -- that's 19, zero, zero -- and 660 from the east of
10 said Section 15 of 17-35.

11 Q. Mr. Miller, have you prepared certain exhibits
12 for presentation at this hearing?

13 A. Yes, sir, I have.

14 Q. Why don't we turn to Marbob Exhibit Number 1.
15 Can you tell us why you prepared this exhibit and the
16 significance of it?

17 A. Basically, Exhibit Number 1 shows the proration
18 unit, the spacing, it shows the red dot as the proposed
19 well location. After I got through doing some of these --
20 I hope that nobody's color blind, because before we get
21 through, I used a lot of different colors.

22 It also shows general ownership in the area. It
23 winds up, this is a takeoff of a Midland Map Company lease
24 mineral map.

25 Q. And is the area shown there, in fact, Section 15,

1 Township 17 South, Range 35 East?

2 A. Yes, it is.

3 Q. And the surrounding acreage?

4 A. Yes.

5 Q. What's the primary objective of this well?

6 A. The primary objective of the proposed well is the
7 Atoka-Morrow, and that's contained in what's designated the
8 Vacuum-Atoka-Morrow North Gas Pool.

9 Q. Okay. While Exhibit Number 1 contains kind of a
10 summary of the listing of owners, does Exhibit Number 2, in
11 fact, contain an ownership breakdown of the acreage?

12 A. Yes, sir. Exhibit Number 2 actually is the
13 survey plat that was prepared by John West Engineering, and
14 it gives us -- or I have added information which shows the
15 ownership breakdown, south half of Section 15.

16 We wind up, as far as the Atoka formation in the
17 orange-shaded area there, we have 100 percent of the
18 rights, we have those rights on a farmout agreement from
19 several parties. There is one 40-acre tract, being the
20 southeast southwest, which we only own below 11,076 feet,
21 but the Atoka-Morrow is below that depth, or we would have
22 rights only below that depth.

23 And the green-shaded area, the east half of the
24 southeast, Marbob controls 100 percent of the rights from
25 the surface to the base of the Atoka formation. Exxon

1 Mobil Production Company owns the rights below the base of
2 the Atoka, which, in this case we're looking at, would be
3 the Morrow formation. There are two separate state leases,
4 they're identified, the orange being E-7567 and the green
5 being B-2735.

6 Q. And is Exxon the company that has not committed
7 its interest to this well?

8 A. That's correct. The other interest is all
9 voluntarily committed to the well. The only interest that
10 has not been committed is the ownership by Exxon in the
11 east half of the southeast, as to the Morrow formation.

12 Q. Okay. And what efforts have you made to attempt
13 to obtain Exxon's voluntary joinder?

14 A. We sent -- Or at least my first contact was a
15 letter which was sent to Charlie Howell on January 18th of
16 this year. There is then a subsequent follow-up letter
17 that was sent to Paul Keffer, also with Exxon Mobil
18 Production Company on January 24th.

19 It winds up being a thing where there was a
20 previous -- or some previous discussions between one of the
21 parties that we now have the interest farmed out, Branex,
22 and those discussions were held prior to the January 18th.
23 But our first contacts were the January 18th, and then the
24 follow-up of January 24th.

25 In discussion with Mr. Keffer -- because I

1 believe he works for Mr. Howell, and this would be his
2 area; he handles southeast New Mexico for Exxon Mobil --
3 Mr. Keffer indicated that he felt that if there was -- you
4 know, that Exxon Mobil would probably be interested in
5 working with us on some type of project, whether it be a
6 term assignment or something.

7 And so we asked -- or we described exactly the
8 circumstances around the fact that they only had the Morrow
9 rights and described at what we were looking at trying to
10 do. And we fashioned our subsequent proposal letter to him
11 based around our conversations with him as to what he
12 thought Exxon Mobil might be agreeable to.

13 In follow-up conversations with Mr. Keffer -- of
14 course he, like all of us, sometimes you play quite a bit
15 of phone tag. But in follow-up conversations, Mr. Keffer
16 indicated to me that there was a problem in the fact that
17 this lease was a Mobil lease and that because of some
18 special concessions that have been made in the Mobil-Exxon
19 merger with the Federal Trade Commission, that it would
20 have to be processed through a separate layer of channels
21 inside their organization, could not go through the normal
22 engineering, geologic department review for approval, and
23 that it was quite possible that no deal could be done
24 because of their concessions to the FTC on their part.

25 Q. Mr. Miller, are the letters between you and Exxon

1 Mobil contained in Marbob Exhibit Number 3?

2 A. Yes, sir, they are.

3 Q. Now, has Exxon Mobil actually told you that they
4 will not join in the project, or is it more a matter of
5 institutional problems within their organization?

6 A. They've advised us that as far as actually
7 granting a term assignment and all, that they probably --
8 may not be able to do that. They could join. We have
9 provided them with an AFE.

10 This project, because of the depth, the size, the
11 interest, it doesn't seem to fit the Exxon Mobil criteria,
12 but certainly they do have that opportunity to join if they
13 so choose.

14 Q. Do you anticipate receiving joinder from Exxon
15 Mobil?

16 A. No, sir, I don't.

17 Q. Based on your experience as a practical oilman,
18 have you made a good-faith effort to obtain the voluntary
19 joinder of Exxon Mobil?

20 A. Yes, sir, and this, I believe, is the first time
21 we've ever been to one of these type of hearings, and if
22 Mr. Keffer hadn't indicated to me that this was probably
23 the best route that we could go if we actually wanted to
24 drill the well, we probably wouldn't be here today.

25 Q. Mr. Miller, I want to take an exhibit out of

1 order here. The very last exhibit in the exhibit packet is
2 an AFE marked as Marbob Exhibit Number 12. Would you
3 please review that exhibit for the Examiner?

4 A. I don't that you gave me one of those, did you?

5 Q. It should be at the very bottom, one-page
6 exhibit.

7 A. You did, better than I thought.

8 This AFE was prepared by Mr. Chandler in our
9 office, and it lists out what we anticipate as our costs
10 and casing programs and designs that we have for this well.
11 And we have recently drilled the Lusk Unit Number 14 in
12 Section 19 of 19-32 to a depth of 12,500, which would be
13 very comparable to this. And we have, you know, other
14 wells that we have drilled in the last few years that
15 helped become the basis of this AFE that we prepared.

16 Q. What are the totals for dryhole and completed
17 well costs as reflected on that exhibit?

18 A. The total dryhole cost that's indicated is
19 \$583,095, and the total completed well cost is \$933,566.

20 Q. Based on your drilling of other wells in the area
21 and on your experience in the area, are these costs in line
22 with what has been charged by other operators in the area
23 for similar wells?

24 A. Yes, sir, our footage rate that's shown there may
25 be slightly understated as to what our actual will be.

1 There's quite a bit of current increases being seen, or
2 small increases being seen in drilling costs, but this is
3 very comparable with what the industry has done.

4 Q. And Mr. Miller, have you made an estimate of the
5 overhead and administrative costs while drilling this well
6 and while producing it?

7 A. Yes, sir, we are requesting a drilling overhead
8 rate of \$5400 a month, an operating overhead or monthly
9 rate of \$540 a month. We believe both of those numbers are
10 below the latest Ernst and Young industry guidelines for
11 wells of this depth in southeast New Mexico. And we have
12 visited with the parties who farmed out our interests from
13 to see if those rates were agreeable since they do contain
14 some back-ins after payout if we are successful, and they
15 have agreed that they believe that those rates are
16 appropriate to be charged under the JOA.

17 Q. And do you recommend that these figures be
18 incorporated into any order which results from this
19 hearing?

20 A. Yes, sir, we would.

21 Q. Now, it's my understanding that Marbob does not
22 request that these rates be increased in accordance with
23 escalation provisions of COPAS accounting procedures; is
24 that right?

25 A. It winds up that we're not requesting that

1 increase, and it's primarily because of the second case to
2 follow, but it typically is not our style to increase rates
3 with the COPAS inflation indicator.

4 I may be in trouble with some of my industry
5 friends, but what typically happens is, if you're
6 successful, 15 years later, the well's been producing, if
7 you've kept adding the costs of the COPAS every year you
8 get to some fairly high rates at the time when the well is
9 on the tail end of its productive live. And as a result,
10 we tend to not make significant adjustments of our overhead
11 rates, because we're trying to maximize the life of those
12 wells at the tail end.

13 Q. Mr. Miller, does Marbob Energy Corporation seek
14 to be the designated operator of the proposed well?

15 A. Yes, sir, they do.

16 Q. Okay. Let me take you back to Exhibit Number 4.
17 Is Exhibit Number 4 an affidavit and letters giving notice
18 to Exxon of this hearing?

19 A. Yes, sir, it is.

20 Q. And does Marbob anticipate calling a geologic
21 witness to review the technical portion of this case?

22 A. Someone more qualified than myself, yes, we are,
23 sir.

24 Q. Okay. Mr. Miller, were Marbob Exhibits Numbers 1
25 through 4 and Exhibit Number 12 prepared by you or filed

1 under your direction and supervision?

2 A. Yes, sir, they are.

3 MR. OWEN: Mr. Examiner, I move the admission
4 into evidence of Marbob's Exhibits Numbers 1 through 4 and
5 12.

6 EXAMINER CATANACH: Exhibits 1 through 4 will be
7 admitted as evidence.

8 Mr. Owen, just for your information, on Exhibit
9 Number 4, on my second page, I show the east half of
10 Section 16, which I believe is the next case. You may want
11 to correct that.

12 MR. OWEN: That's my error, Mr. Examiner, and I
13 apologize.

14 EXAMINATION

15 BY EXAMINER CATANACH:

16 Q. Mr. Miller, I didn't see any correspondence back
17 from Exxon. Did you guys get anything in writing from
18 them?

19 A. No, sir, we did not. We've received nothing
20 formally from them, outside of our telephone conversations
21 with Mr. Keffer.

22 Q. And you spoke to Mr. Keffer right around the time
23 you sent the letter to him, around late January?

24 A. I spoke to him in January. When I sent the
25 letter to Mr. Howell -- I finally got ahold of Mr. Howell,

1 and he directed me to Mr. Keffer. I then, based on
2 visiting with him, sent the letter of January 24th.

3 I then followed up after that letter with
4 numerous phone calls to him to see what the status was,
5 because since we have a farmout agreement, we have a time
6 frame under our agreement that we're trying to meet and get
7 this well drilled. And also we have currently two FWA
8 Peterson rigs running on us, and we were trying to figure
9 out when we might schedule this well to actually be
10 drilled.

11 My discussions in late January, early February,
12 on the phone with Mr. Keffer were when he basically
13 indicated to me that the chances -- Well, in the
14 conversation before the 24th letter, he indicated that he
15 didn't think Exxon would participate in this project.

16 In the conversations in late January, early
17 February, his indications were that he didn't know that
18 they could do anything, based on their merger and FTC
19 consents. And I guess -- From what I gathered from him,
20 they have a special group that's in Dallas, that anything
21 that deals with a Mobil lease has to be processed through
22 this group, because it has to be reviewed as to whether it
23 falls into something they can do under those consent
24 decrees with FTC. A very sad situation, from what I can
25 see.

1 EXAMINER CATANACH: Okay, I have nothing further.

2 MR. OWEN: That's all I have of this witness at
3 this time, Mr. Examiner.

4 EXAMINER CATANACH: Okay.

5 MR. OWEN: I call as my next witness in this
6 matter Mr. Martin Joyce.

7 Thank you, Mr. Miller.

8 MARTIN K. JOYCE,

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

11 DIRECT EXAMINATION

12 BY MR. OWEN:

13 Q. Mr. Joyce, could you tell us your full name and
14 spell your last name?

15 A. Yes, Martin K. Joyce, J-o-y-c-e.

16 Q. And where do you live?

17 A. I live in Roswell, New Mexico.

18 Q. Who do you work for?

19 A. Marbob Energy Corporation.

20 Q. What do you do for Marbob?

21 A. I'm a geologist and computer systems analyst
22 there.

23 Q. Mr. Joyce, have you previously testified before
24 this Division or one of its Examiners and had your
25 credentials as a petroleum geologist accepted and made a

1 matter of record?

2 A. Yes, I have.

3 Q. Can you give us a brief synopsis of your
4 educational background?

5 A. I have a BS in biology from Baker University in
6 Baldwin, Kansas, a BS in geology from the University of
7 Wyoming in Laramie, and I completed all my graduate course
8 work towards an MS in geology from Texas Tech.

9 Q. And could you also give us a brief summary of
10 your work experience as a petroleum geologist?

11 A. I have eight-plus years mudlogging and wellsite
12 consulting, both as an independent and for various
13 companies throughout the Rocky Mountains and Permian Basin.
14 I have a year with a geophysical sales and data acquisition
15 company out of Tulsa called Geodata. I have two years part
16 time with AA Productions, Lubbock, Texas, working tight gas
17 sands in the Piceance Basin in Colorado.

18 I have a year with Occidental International
19 Petroleum in Bakersfield, California, as an entry-level
20 geologist, and I did some wellsite geology in Russia. I
21 ran my own company, Marjoy, Inc., for a year and a half. I
22 did PC and geological consulting out of Roswell.

23 And the last two and a half years I've been
24 employed by Marbob as a geologist and computer analyst.

25 Q. Are you familiar with the Application filed in

1 this case?

2 A. Yes, I am.

3 Q. And have you made a geologic study of the area
4 which is the subject of this Application?

5 A. Yes, I have.

6 Q. Are you prepared to share the results of that
7 study with the Examiner?

8 A. Yes.

9 MR. OWEN: Mr. Examiner, I tender Mr. Joyce as an
10 expert witness in petroleum geology.

11 EXAMINER CATANACH: He is so qualified.

12 Q. (By Mr. Owen) Mr. Joyce, have you prepared
13 certain exhibits for presentation in this case?

14 A. Yes, I have.

15 Q. Why don't we turn to Marbob Exhibit Number 5.
16 Can you tell us what's reflected on that exhibit, please?

17 A. That's a regional look at our prospect, just
18 showing the local exploration and exploitation activity.
19 You'll see all the black basketballs. Those are mostly San
20 Andres wells that are part of the East Vacuum-San Andres
21 Unit.

22 Highlighted in yellow is our south half of the
23 spacing unit with the Jal State Com at the 1900 from south,
24 660 from east, location.

25 Q. All right. And is Exhibit Number 6, in fact, a

1 closer look at that area?

2 A. Yeah, that's -- Six is a blow-up of that area.
3 It's a detailed map illustrating production cumulatives,
4 the producing formations, current well status, statuses of
5 all the wells on the map. And it also shows a location on
6 the cross-section that's coming up here.

7 I guess, notably, from our location, you can see
8 we're offset to the east and west by 1.06- and 1.6-BCF
9 Atoka wells. South of us in Section 22 is a 6-BCF Atoka
10 well. That's the one in the northeast quarter.

11 And to the north offsetting us, there are two
12 fairly recently drilled Concho wells. The first, the
13 Number 1-15, was drilled to the Mississippi. No Atoka.
14 They completed back up in the Cisco zone where it is
15 currently producing.

16 The second well, the Shoe Bar South Number 2, is
17 a brand-new well that the logs are still in a tight-hold
18 status. There's really nothing filed. There's been a
19 completion filed with the OCD but no figures, no rates.
20 That well is part of the Vacuum-Atoka-Morrow North field,
21 and it's rumored to be producing from, actually, the Morrow
22 formation. We don't know a lot about that well.

23 Q. All right, and your cross-section line that's
24 drawn on Exhibit Number 6, does that indicate the cross-
25 section which comprises this Marbob Exhibit Number 7?

1 A. That's correct.

2 Q. Why don't you review the data on that cross-
3 section for the Examiner, please?

4 A. This is a west-to-east stratigraphic cross-
5 section that I hung on top of -- just a massive Atoka shale
6 with a little clean carbonate marker on it. Basically, it
7 shows all the mappable horizons in this area. And you'll
8 have to hunt for them, but there are also perfs indicated
9 in some of the producing wells. There's both Atoka and the
10 Concho Exploration well, the south Shoe Bar State Com
11 Number 1, there was a Mississippian attempt in it that
12 failed, and they completed back up in that Pennsylvanian
13 zone.

14 Let's see, if you'll look at the Atoka, the Atoka
15 pay interval, just notice the discontinuous nature of these
16 sands. They come and go pretty quickly. They're mappable,
17 but as you can see illustrated by the cross-section, they
18 do come and go pretty rapidly.

19 Q. All right. Why don't we go ahead and turn to
20 Marbob Exhibit Number 8? Why don't you tell us about that
21 exhibit, please?

22 A. Exhibit 8 is a structure contour on top of the
23 Atoka shale, a pretty simple structure. You basically have
24 northeast dip at approximately two degrees or 200 feet per
25 mile. And mapped at this scale, there's really no

1 structuring evident.

2 Q. Okay, so structure is not a significant factor in
3 drilling this well?

4 A. No.

5 Q. Okay, let's go ahead and turn to your isopach,
6 Exhibit Number 9, please.

7 A. Okay, Number 9 is an isopach from the top of the
8 Atoka shale to the top of the Mississippian, basically
9 illustrating a thick developing in the north-northwest-to-
10 south-southeast trend. These thicks can be indicative of
11 developing channel systems or some fault-related subsidence
12 systems.

13 Q. And does Exhibit Number 10, another isopach,
14 actually indicate the thick that you're shooting at?

15 A. Again, an isopach, this one from the top of the
16 Atoka to the top of the Morrow, illustrating a nice
17 thickening of that Atoka-to-top-of-the-Morrow interval.

18 Q. And is that your target formation?

19 A. The Atoka is the primary target at this well.

20 Q. And let's go ahead and take a quick look at
21 Exhibit Number 11. Tell us why you brought that today.

22 A. Okay, that's just a gross sand isopach of the
23 Atoka pay sands in the area, basically a north-south-
24 trending channel sand development. I guess one of the
25 interesting things about it is that the mapped thicks are

1 not necessarily in agreement with cumulative production in
2 the area, and that may just be indicative of some kind of
3 reservoir problems.

4 Q. Now, based on your cross-section and the mapping
5 that you've done, are you prepared to make a recommendation
6 to the Examiner as to the risk penalty that should be
7 assessed against the nonconsenting interest owners to this
8 well?

9 A. Yes, 200 percent.

10 Q. Did you say 200 percent?

11 A. Two hundred percent, yes.

12 Q. Okay. And what do you base that recommendation
13 on?

14 A. Well, on three factors. First, an industry
15 standard. The second, the geological risk to this
16 particular prospect. We're looking at sand that may or may
17 not be present. The sand quality itself, there may be some
18 permeability and porosity problems here. And thirdly is
19 more of an engineering deal. We may risk some depletion
20 from the nearby offsets.

21 My third point, well statistics, if you'll refer
22 back to Exhibit 6, in that last square-mile area there are
23 basically 12 deep penetrations. Three of those are just
24 flat-out dry holes. One well cum'd 6.3 BCF, one well cum'd
25 2.6 BCF, two wells cum'd from 1 to 1.5 BCF, the four wells

1 that made less than .5 BCF. The new well, like I said, we
2 don't know much about it.

3 So based on those just pure -- these pure
4 statistics here, overall I'd say there's a 16-percent
5 chance of drilling a well that we have a moderate to high
6 NROI on.

7 Q. Pardon me, did you say 16.16 percent -- ?

8 A. A 16-percent chance of making a moderate to very
9 good well.

10 Q. So I guess it follows that there is a good chance
11 that you'll drill a well at the proposed location that will
12 not be a commercial success; is that accurate?

13 A. That's accurate. There's about a 60-percent
14 chance of this well not being an economic success.

15 Q. Okay. Is there anything you wish to add to your
16 presentation?

17 A. No.

18 Q. Okay. Mr. Joyce, in your opinion will granting
19 this Application be in the interests of conservation, the
20 prevention of waste and the protection of correlative
21 rights?

22 A. Yes.

23 Q. Mr. Joyce, were Marbob Exhibits 5 through 11
24 prepared by you or compiled under your direction?

25 A. Yes, they were.

1 MR. OWEN: Mr. Examiner, I move the admission of
2 Exhibits 5 through 11, and it's my recollection that 12 was
3 not admitted; I move the admission of that exhibit as well
4 at this time.

5 EXAMINER CATANACH: Exhibits 5 through 12 will be
6 admitted as evidence.

7 MR. OWEN: I have nothing further of this witness
8 at this time.

9 EXAMINATION

10 BY EXAMINER CATANACH:

11 Q. Mr. Joyce, the well that's currently in the south
12 half of Section 15, the Shoe Bar State Com Number 1 --

13 A. Yes, sir.

14 Q. -- that is an Atoka producer?

15 A. It initially was an Atoka producer. The well was
16 sold to another operating company and they plugged back,
17 and they're producing out of an upper Penn zone.

18 Q. The cum that you show on that well, is that Atoka
19 or upper Penn?

20 A. The gas cum is -- the 1.6 B was made out of the
21 Atoka. The Penn, so far, has made 14,000 barrels of oil
22 and 24 million cubic feet of gas.

23 I believe the well is probably -- that zone has
24 been produced less than two years. I'm not exactly sure.

25 Q. The well to the north in -- I'm sorry, the --

1 yeah, the South Shoe Bar State Com Number 1-15, is it your
2 testimony that encountered no Atoka-Morrow interval?

3 A. That -- The log is there. Apparently there's no
4 sand there. And I -- The way the completion was filed, it
5 was filed as -- it shows up in the ONGARD system as an
6 Atoka-Morrow completion, and the perms that are listed with
7 the OCD records, to me it's a pure Mississippian
8 completion. The perms that are reported are down in the
9 Mississippian. And they're also illustrated by cross-
10 section.

11 But there was no Atoka sand. They tried a zone
12 -- it's on up at the very top of the Atoka, and I don't --
13 I believe -- I don't have a mudlog. It appears to be some
14 kind of a carbonate, but they've shot some perforations and
15 acidized the zone. It made a little bit of gas, but they
16 abandoned it. That zone is not covered by this crossover
17 section.

18 In this area -- Actually, this Lea County area,
19 the Atoka pay is, as far as I know, nearly 100 percent
20 confined to this sand interval down here in this 12,200-
21 foot range down here at the base of this shale. There's
22 been various completions tried in the upper part of the
23 Atoka, but most are non-economic.

24 Q. Well, is there, in fact, Morrow production in
25 this area, or is it all Atoka?

1 A. As far as I know, it's all Atoka. The Shoe Bar
2 South, the Concho well, the Number 2, is rumored to be in a
3 Morrow zone. That log will be released the middle part of
4 next month; we'll know then.

5 Q. But you anticipate hitting at least 20 feet of
6 sand there?

7 A. Well, that's our hope.

8 EXAMINER CATANACH: Okay, I have nothing further,
9 Mr. Owen.

10 MR. OWEN: That concludes my presentation in this
11 case, Mr. Examiner.

12 EXAMINER CATANACH: Okay. There being nothing
13 further in this case, Case 12,358 will be taken under
14 advisement.

15 (Thereupon, these proceedings were concluded at
16 10:30 a.m.)

17 * * *

18
19
20 I do hereby certify that the foregoing is
21 a complete record of the proceedings in
the Examiner hearing of Case No. 12358,
heard by me on March 16 1958.

22 David R. Catanach, Examiner
23 Oil Conservation Division
24
25

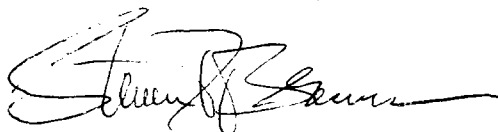
CERTIFICATE OF REPORTER

STATE OF NEW MEXICO)
) ss.
COUNTY OF SANTA FE)

I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

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

WITNESS MY HAND AND SEAL March 20th, 2000.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 2002

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. 12,358
)	
APPLICATION OF MARBOB ENERGY CORPORATION)	
FOR COMPULSORY POOLING, LEA COUNTY,)	
NEW MEXICO)	
)	

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

March 16th, 2000

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, March 16th, 2000, 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.

* * *

OIL CONSERVATION DIV.
 CO MAR 30 AM 11:47

I N D E X

March 16th, 2000
Examiner Hearing
CASE NO. 12,358

	PAGE
EXHIBITS	3
APPEARANCES	3
APPLICANT'S WITNESSES:	
<u>RAYE P. MILLER</u> (Landman)	
Direct Examination by Mr. Owen	4
Examination by Examiner Catanach	14
<u>MARTIN K. JOYCE</u> (Geologist)	
Direct Examination by Mr. Owen	16
Examination by Examiner Catanach	24
REPORTER'S CERTIFICATE	27

* * *

E X H I B I T S

Applicant's	Identified	Admitted
Exhibit 1	6	14
Exhibit 2	7	14
Exhibit 3	10	14
Exhibit 4	13	14
Exhibit 5	18	24
Exhibit 6	19, 22	24
Exhibit 7	20	24
Exhibit 8	20	24
Exhibit 9	21	24
Exhibit 10	21	24
Exhibit 11	21	24
Exhibit 12	11	24

* * *

A P P E A R A N C E S

FOR THE DIVISION:

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 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: PAUL R. OWEN

* * *

1 WHEREUPON, the following proceedings were had at
2 9:56 a.m.:

3 EXAMINER CATANACH: At this time we'll call Case
4 12,358, which is the Application of Marbob Energy
5 Corporation for compulsory pooling, Lea County, New Mexico.
6 Call for appearances in this case.

7 MR. CARR: Paul R. Owen of the Santa Fe law firm
8 of Campbell, Carr, Berge and Sheridan, appearing on behalf
9 of the Applicant, Marbob Energy Corporation. I have two
10 witnesses in this matter.

11 EXAMINER CATANACH: Call for additional
12 appearances.

13 Okay, will the two witnesses please stand to be
14 sworn in?

15 (Thereupon, the witnesses were sworn.)

16 MR. OWEN: Mr. Examiner, I call as my first
17 witness in this matter Mr. Raye Miller.

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

21 DIRECT EXAMINATION

22 BY MR. OWEN:

23 Q. Mr. Miller, could you please tell us your full
24 name and spell your first name for the record?

25 A. Yeah, my name is Raye, middle initial P., Miller.

1 It's spelled R-a-y-e.

2 Q. Mr. Miller, where do you live?

3 A. I reside in Artesia, New Mexico.

4 Q. For whom do you work?

5 A. I'm employed by Marbob Energy Corporation.

6 Q. What do you do for Marbob?

7 A. That's an interesting question. Quite a bit of
8 oil and gas type of work.

9 Q. Have you previously testified before this
10 Division?

11 A. Yes, sir, I have.

12 Q. And at the time of that testimony were your
13 credentials as an expert in petroleum land matters accepted
14 and made a matter of record?

15 A. No, I was actually qualified as a practical
16 oilman.

17 Q. And are you familiar with the Application filed
18 in this case?

19 A. Yes, sir, I am.

20 Q. Are you familiar with the status of the lands in
21 the subject area?

22 A. Yes, I am.

23 MR. OWEN: Mr. Examiner, I tender Mr. Miller as
24 an expert witness as a practical oilman.

25 EXAMINER CATANACH: Mr. Miller is so qualified.

1 Q. (By Mr. Owen) Mr. Miller, would you tell us what
2 Marbob seeks with this Application?

3 A. Basically what we're seeking is an order pooling
4 all the minerals from the base of the Atoka formation to
5 the base of the Morrow formation in the south half of
6 Section 15 of Township 17 South, Range 35 East. We're
7 asking that it be dedicated to our Giles State Com Number
8 1, to be drilled at a standard location 1900 feet from the
9 south -- that's 19, zero, zero -- and 660 from the east of
10 said Section 15 of 17-35.

11 Q. Mr. Miller, have you prepared certain exhibits
12 for presentation at this hearing?

13 A. Yes, sir, I have.

14 Q. Why don't we turn to Marbob Exhibit Number 1.
15 Can you tell us why you prepared this exhibit and the
16 significance of it?

17 A. Basically, Exhibit Number 1 shows the proration
18 unit, the spacing, it shows the red dot as the proposed
19 well location. After I got through doing some of these --
20 I hope that nobody's color blind, because before we get
21 through, I used a lot of different colors.

22 It also shows general ownership in the area. It
23 winds up, this is a takeoff of a Midland Map Company lease
24 mineral map.

25 Q. And is the area shown there, in fact, Section 15,

1 Township 17 South, Range 35 East?

2 A. Yes, it is.

3 Q. And the surrounding acreage?

4 A. Yes.

5 Q. What's the primary objective of this well?

6 A. The primary objective of the proposed well is the
7 Atoka-Morrow, and that's contained in what's designated the
8 Vacuum-Atoka-Morrow North Gas Pool.

9 Q. Okay. While Exhibit Number 1 contains kind of a
10 summary of the listing of owners, does Exhibit Number 2, in
11 fact, contain an ownership breakdown of the acreage?

12 A. Yes, sir. Exhibit Number 2 actually is the
13 survey plat that was prepared by John West Engineering, and
14 it gives us -- or I have added information which shows the
15 ownership breakdown, south half of Section 15.

16 We wind up, as far as the Atoka formation in the
17 orange-shaded area there, we have 100 percent of the
18 rights, we have those rights on a farmout agreement from
19 several parties. There is one 40-acre tract, being the
20 southeast southwest, which we only own below 11,076 feet,
21 but the Atoka-Morrow is below that depth, or we would have
22 rights only below that depth.

23 And the green-shaded area, the east half of the
24 southeast, Marbob controls 100 percent of the rights from
25 the surface to the base of the Atoka formation. Exxon

1 Mobil Production Company owns the rights below the base of
2 the Atoka, which, in this case we're looking at, would be
3 the Morrow formation. There are two separate state leases,
4 they're identified, the orange being E-7567 and the green
5 being B-2735.

6 Q. And is Exxon the company that has not committed
7 its interest to this well?

8 A. That's correct. The other interest is all
9 voluntarily committed to the well. The only interest that
10 has not been committed is the ownership by Exxon in the
11 east half of the southeast, as to the Morrow formation.

12 Q. Okay. And what efforts have you made to attempt
13 to obtain Exxon's voluntary joinder?

14 A. We sent -- Or at least my first contact was a
15 letter which was sent to Charlie Howell on January 18th of
16 this year. There is then a subsequent follow-up letter
17 that was sent to Paul Keffer, also with Exxon Mobil
18 Production Company on January 24th.

19 It winds up being a thing where there was a
20 previous -- or some previous discussions between one of the
21 parties that we now have the interest farmed out, Branex,
22 and those discussions were held prior to the January 18th.
23 But our first contacts were the January 18th, and then the
24 follow-up of January 24th.

25 In discussion with Mr. Keffer -- because I

1 believe he works for Mr. Howell, and this would be his
2 area; he handles southeast New Mexico for Exxon Mobil --
3 Mr. Keffer indicated that he felt that if there was -- you
4 know, that Exxon Mobil would probably be interested in
5 working with us on some type of project, whether it be a
6 term assignment or something.

7 And so we asked -- or we described exactly the
8 circumstances around the fact that they only had the Morrow
9 rights and described at what we were looking at trying to
10 do. And we fashioned our subsequent proposal letter to him
11 based around our conversations with him as to what he
12 thought Exxon Mobil might be agreeable to.

13 In follow-up conversations with Mr. Keffer -- of
14 course he, like all of us, sometimes you play quite a bit
15 of phone tag. But in follow-up conversations, Mr. Keffer
16 indicated to me that there was a problem in the fact that
17 this lease was a Mobil lease and that because of some
18 special concessions that have been made in the Mobil-Exxon
19 merger with the Federal Trade Commission, that it would
20 have to be processed through a separate layer of channels
21 inside their organization, could not go through the normal
22 engineering, geologic department review for approval, and
23 that it was quite possible that no deal could be done
24 because of their concessions to the FTC on their part.

25 Q. Mr. Miller, are the letters between you and Exxon

1 Mobil contained in Marbob Exhibit Number 3?

2 A. Yes, sir, they are.

3 Q. Now, has Exxon Mobil actually told you that they
4 will not join in the project, or is it more a matter of
5 institutional problems within their organization?

6 A. They've advised us that as far as actually
7 granting a term assignment and all, that they probably --
8 may not be able to do that. They could join. We have
9 provided them with an AFE.

10 This project, because of the depth, the size, the
11 interest, it doesn't seem to fit the Exxon Mobil criteria,
12 but certainly they do have that opportunity to join if they
13 so choose.

14 Q. Do you anticipate receiving joinder from Exxon
15 Mobil?

16 A. No, sir, I don't.

17 Q. Based on your experience as a practical oilman,
18 have you made a good-faith effort to obtain the voluntary
19 joinder of Exxon Mobil?

20 A. Yes, sir, and this, I believe, is the first time
21 we've ever been to one of these type of hearings, and if
22 Mr. Keffer hadn't indicated to me that this was probably
23 the best route that we could go if we actually wanted to
24 drill the well, we probably wouldn't be here today.

25 Q. Mr. Miller, I want to take an exhibit out of

1 order here. The very last exhibit in the exhibit packet is
2 an AFE marked as Marbob Exhibit Number 12. Would you
3 please review that exhibit for the Examiner?

4 A. I don't that you gave me one of those, did you?

5 Q. It should be at the very bottom, one-page
6 exhibit.

7 A. You did, better than I thought.

8 This AFE was prepared by Mr. Chandler in our
9 office, and it lists out what we anticipate as our costs
10 and casing programs and designs that we have for this well.
11 And we have recently drilled the Lusk Unit Number 14 in
12 Section 19 of 19-32 to a depth of 12,500, which would be
13 very comparable to this. And we have, you know, other
14 wells that we have drilled in the last few years that
15 helped become the basis of this AFE that we prepared.

16 Q. What are the totals for dryhole and completed
17 well costs as reflected on that exhibit?

18 A. The total dryhole cost that's indicated is
19 \$583,095, and the total completed well cost is \$933,566.

20 Q. Based on your drilling of other wells in the area
21 and on your experience in the area, are these costs in line
22 with what has been charged by other operators in the area
23 for similar wells?

24 A. Yes, sir, our footage rate that's shown there may
25 be slightly understated as to what our actual will be.

1 There's quite a bit of current increases being seen, or
2 small increases being seen in drilling costs, but this is
3 very comparable with what the industry has done.

4 Q. And Mr. Miller, have you made an estimate of the
5 overhead and administrative costs while drilling this well
6 and while producing it?

7 A. Yes, sir, we are requesting a drilling overhead
8 rate of \$5400 a month, an operating overhead or monthly
9 rate of \$540 a month. We believe both of those numbers are
10 below the latest Ernst and Young industry guidelines for
11 wells of this depth in southeast New Mexico. And we have
12 visited with the parties who farmed out our interests from
13 to see if those rates were agreeable since they do contain
14 some back-ins after payout if we are successful, and they
15 have agreed that they believe that those rates are
16 appropriate to be charged under the JOA.

17 Q. And do you recommend that these figures be
18 incorporated into any order which results from this
19 hearing?

20 A. Yes, sir, we would.

21 Q. Now, it's my understanding that Marbob does not
22 request that these rates be increased in accordance with
23 escalation provisions of COPAS accounting procedures; is
24 that right?

25 A. It winds up that we're not requesting that

1 increase, and it's primarily because of the second case to
2 follow, but it typically is not our style to increase rates
3 with the COPAS inflation indicator.

4 I may be in trouble with some of my industry
5 friends, but what typically happens is, if you're
6 successful, 15 years later, the well's been producing, if
7 you've kept adding the costs of the COPAS every year you
8 get to some fairly high rates at the time when the well is
9 on the tail end of its productive live. And as a result,
10 we tend to not make significant adjustments of our overhead
11 rates, because we're trying to maximize the life of those
12 wells at the tail end.

13 Q. Mr. Miller, does Marbob Energy Corporation seek
14 to be the designated operator of the proposed well?

15 A. Yes, sir, they do.

16 Q. Okay. Let me take you back to Exhibit Number 4.
17 Is Exhibit Number 4 an affidavit and letters giving notice
18 to Exxon of this hearing?

19 A. Yes, sir, it is.

20 Q. And does Marbob anticipate calling a geologic
21 witness to review the technical portion of this case?

22 A. Someone more qualified than myself, yes, we are,
23 sir.

24 Q. Okay. Mr. Miller, were Marbob Exhibits Numbers 1
25 through 4 and Exhibit Number 12 prepared by you or filed

1 under your direction and supervision?

2 A. Yes, sir, they are.

3 MR. OWEN: Mr. Examiner, I move the admission
4 into evidence of Marbob's Exhibits Numbers 1 through 4 and
5 12.

6 EXAMINER CATANACH: Exhibits 1 through 4 will be
7 admitted as evidence.

8 Mr. Owen, just for your information, on Exhibit
9 Number 4, on my second page, I show the east half of
10 Section 16, which I believe is the next case. You may want
11 to correct that.

12 MR. OWEN: That's my error, Mr. Examiner, and I
13 apologize.

14 EXAMINATION

15 BY EXAMINER CATANACH:

16 Q. Mr. Miller, I didn't see any correspondence back
17 from Exxon. Did you guys get anything in writing from
18 them?

19 A. No, sir, we did not. We've received nothing
20 formally from them, outside of our telephone conversations
21 with Mr. Keffer.

22 Q. And you spoke to Mr. Keffer right around the time
23 you sent the letter to him, around late January?

24 A. I spoke to him in January. When I sent the
25 letter to Mr. Howell -- I finally got ahold of Mr. Howell,

1 and he directed me to Mr. Keffer. I then, based on
2 visiting with him, sent the letter of January 24th.

3 I then followed up after that letter with
4 numerous phone calls to him to see what the status was,
5 because since we have a farmout agreement, we have a time
6 frame under our agreement that we're trying to meet and get
7 this well drilled. And also we have currently two FWA
8 Peterson rigs running on us, and we were trying to figure
9 out when we might schedule this well to actually be
10 drilled.

11 My discussions in late January, early February,
12 on the phone with Mr. Keffer were when he basically
13 indicated to me that the chances -- Well, in the
14 conversation before the 24th letter, he indicated that he
15 didn't think Exxon would participate in this project.

16 In the conversations in late January, early
17 February, his indications were that he didn't know that
18 they could do anything, based on their merger and FTC
19 consents. And I guess -- From what I gathered from him,
20 they have a special group that's in Dallas, that anything
21 that deals with a Mobil lease has to be processed through
22 this group, because it has to be reviewed as to whether it
23 falls into something they can do under those consent
24 decrees with FTC. A very sad situation, from what I can
25 see.

1 EXAMINER CATANACH: Okay, I have nothing further.

2 MR. OWEN: That's all I have of this witness at
3 this time, Mr. Examiner.

4 EXAMINER CATANACH: Okay.

5 MR. OWEN: I call as my next witness in this
6 matter Mr. Martin Joyce.

7 Thank you, Mr. Miller.

8 MARTIN K. JOYCE,

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

11 DIRECT EXAMINATION

12 BY MR. OWEN:

13 Q. Mr. Joyce, could you tell us your full name and
14 spell your last name?

15 A. Yes, Martin K. Joyce, J-o-y-c-e.

16 Q. And where do you live?

17 A. I live in Roswell, New Mexico.

18 Q. Who do you work for?

19 A. Marbob Energy Corporation.

20 Q. What do you do for Marbob?

21 A. I'm a geologist and computer systems analyst
22 there.

23 Q. Mr. Joyce, have you previously testified before
24 this Division or one of its Examiners and had your
25 credentials as a petroleum geologist accepted and made a

1 matter of record?

2 A. Yes, I have.

3 Q. Can you give us a brief synopsis of your
4 educational background?

5 A. I have a BS in biology from Baker University in
6 Baldwin, Kansas, a BS in geology from the University of
7 Wyoming in Laramie, and I completed all my graduate course
8 work towards an MS in geology from Texas Tech.

9 Q. And could you also give us a brief summary of
10 your work experience as a petroleum geologist?

11 A. I have eight-plus years mudlogging and wellsite
12 consulting, both as an independent and for various
13 companies throughout the Rocky Mountains and Permian Basin.
14 I have a year with a geophysical sales and data acquisition
15 company out of Tulsa called Geodata. I have two years part
16 time with AA Productions, Lubbock, Texas, working tight gas
17 sands in the Piceance Basin in Colorado.

18 I have a year with Occidental International
19 Petroleum in Bakersfield, California, as an entry-level
20 geologist, and I did some wellsite geology in Russia. I
21 ran my own company, Marjoy, Inc., for a year and a half. I
22 did PC and geological consulting out of Roswell.

23 And the last two and a half years I've been
24 employed by Marbob as a geologist and computer analyst.

25 Q. Are you familiar with the Application filed in

1 this case?

2 A. Yes, I am.

3 Q. And have you made a geologic study of the area
4 which is the subject of this Application?

5 A. Yes, I have.

6 Q. Are you prepared to share the results of that
7 study with the Examiner?

8 A. Yes.

9 MR. OWEN: Mr. Examiner, I tender Mr. Joyce as an
10 expert witness in petroleum geology.

11 EXAMINER CATANACH: He is so qualified.

12 Q. (By Mr. Owen) Mr. Joyce, have you prepared
13 certain exhibits for presentation in this case?

14 A. Yes, I have.

15 Q. Why don't we turn to Marbob Exhibit Number 5.
16 Can you tell us what's reflected on that exhibit, please?

17 A. That's a regional look at our prospect, just
18 showing the local exploration and exploitation activity.
19 You'll see all the black basketballs. Those are mostly San
20 Andres wells that are part of the East Vacuum-San Andres
21 Unit.

22 Highlighted in yellow is our south half of the
23 spacing unit with the Jal State Com at the 1900 from south,
24 660 from east, location.

25 Q. All right. And is Exhibit Number 6, in fact, a

1 closer look at that area?

2 A. Yeah, that's -- Six is a blow-up of that area.
3 It's a detailed map illustrating production cumulatives,
4 the producing formations, current well status, statuses of
5 all the wells on the map. And it also shows a location on
6 the cross-section that's coming up here.

7 I guess, notably, from our location, you can see
8 we're offset to the east and west by 1.06- and 1.6-BCF
9 Atoka wells. South of us in Section 22 is a 6-BCF Atoka
10 well. That's the one in the northeast quarter.

11 And to the north offsetting us, there are two
12 fairly recently drilled Concho wells. The first, the
13 Number 1-15, was drilled to the Mississippi. No Atoka.
14 They completed back up in the Cisco zone where it is
15 currently producing.

16 The second well, the Shoe Bar South Number 2, is
17 a brand-new well that the logs are still in a tight-hold
18 status. There's really nothing filed. There's been a
19 completion filed with the OCD but no figures, no rates.
20 That well is part of the Vacuum-Atoka-Morrow North field,
21 and it's rumored to be producing from, actually, the Morrow
22 formation. We don't know a lot about that well.

23 Q. All right, and your cross-section line that's
24 drawn on Exhibit Number 6, does that indicate the cross-
25 section which comprises this Marbob Exhibit Number 7?

1 A. That's correct.

2 Q. Why don't you review the data on that cross-
3 section for the Examiner, please?

4 A. This is a west-to-east stratigraphic cross-
5 section that I hung on top of -- just a massive Atoka shale
6 with a little clean carbonate marker on it. Basically, it
7 shows all the mappable horizons in this area. And you'll
8 have to hunt for them, but there are also perfs indicated
9 in some of the producing wells. There's both Atoka and the
10 Concho Exploration well, the south Shoe Bar State Com
11 Number 1, there was a Mississippian attempt in it that
12 failed, and they completed back up in that Pennsylvanian
13 zone.

14 Let's see, if you'll look at the Atoka, the Atoka
15 pay interval, just notice the discontinuous nature of these
16 sands. They come and go pretty quickly. They're mappable,
17 but as you can see illustrated by the cross-section, they
18 do come and go pretty rapidly.

19 Q. All right. Why don't we go ahead and turn to
20 Marbob Exhibit Number 8? Why don't you tell us about that
21 exhibit, please?

22 A. Exhibit 8 is a structure contour on top of the
23 Atoka shale, a pretty simple structure. You basically have
24 northeast dip at approximately two degrees or 200 feet per
25 mile. And mapped at this scale, there's really no

1 structuring evident.

2 Q. Okay, so structure is not a significant factor in
3 drilling this well?

4 A. No.

5 Q. Okay, let's go ahead and turn to your isopach,
6 Exhibit Number 9, please.

7 A. Okay, Number 9 is an isopach from the top of the
8 Atoka shale to the top of the Mississippian, basically
9 illustrating a thick developing in the north-northwest-to-
10 south-southeast trend. These thicks can be indicative of
11 developing channel systems or some fault-related subsidence
12 systems.

13 Q. And does Exhibit Number 10, another isopach,
14 actually indicate the thick that you're shooting at?

15 A. Again, an isopach, this one from the top of the
16 Atoka to the top of the Morrow, illustrating a nice
17 thickening of that Atoka-to-top-of-the-Morrow interval.

18 Q. And is that your target formation?

19 A. The Atoka is the primary target at this well.

20 Q. And let's go ahead and take a quick look at
21 Exhibit Number 11. Tell us why you brought that today.

22 A. Okay, that's just a gross sand isopach of the
23 Atoka pay sands in the area, basically a north-south-
24 trending channel sand development. I guess one of the
25 interesting things about it is that the mapped thicks are

1 not necessarily in agreement with cumulative production in
2 the area, and that may just be indicative of some kind of
3 reservoir problems.

4 Q. Now, based on your cross-section and the mapping
5 that you've done, are you prepared to make a recommendation
6 to the Examiner as to the risk penalty that should be
7 assessed against the nonconsenting interest owners to this
8 well?

9 A. Yes, 200 percent.

10 Q. Did you say 200 percent?

11 A. Two hundred percent, yes.

12 Q. Okay. And what do you base that recommendation
13 on?

14 A. Well, on three factors. First, an industry
15 standard. The second, the geological risk to this
16 particular prospect. We're looking at sand that may or may
17 not be present. The sand quality itself, there may be some
18 permeability and porosity problems here. And thirdly is
19 more of an engineering deal. We may risk some depletion
20 from the nearby offsets.

21 My third point, well statistics, if you'll refer
22 back to Exhibit 6, in that last square-mile area there are
23 basically 12 deep penetrations. Three of those are just
24 flat-out dry holes. One well cum'd 6.3 BCF, one well cum'd
25 2.6 BCF, two wells cum'd from 1 to 1.5 BCF, the four wells

1 that made less than .5 BCF. The new well, like I said, we
2 don't know much about it.

3 So based on those just pure -- these pure
4 statistics here, overall I'd say there's a 16-percent
5 chance of drilling a well that we have a moderate to high
6 NROI on.

7 Q. Pardon me, did you say 16.16 percent -- ?

8 A. A 16-percent chance of making a moderate to very
9 good well.

10 Q. So I guess it follows that there is a good chance
11 that you'll drill a well at the proposed location that will
12 not be a commercial success; is that accurate?

13 A. That's accurate. There's about a 60-percent
14 chance of this well not being an economic success.

15 Q. Okay. Is there anything you wish to add to your
16 presentation?

17 A. No.

18 Q. Okay. Mr. Joyce, in your opinion will granting
19 this Application be in the interests of conservation, the
20 prevention of waste and the protection of correlative
21 rights?

22 A. Yes.

23 Q. Mr. Joyce, were Marbob Exhibits 5 through 11
24 prepared by you or compiled under your direction?

25 A. Yes, they were.

1 MR. OWEN: Mr. Examiner, I move the admission of
2 Exhibits 5 through 11, and it's my recollection that 12 was
3 not admitted; I move the admission of that exhibit as well
4 at this time.

5 EXAMINER CATANACH: Exhibits 5 through 12 will be
6 admitted as evidence.

7 MR. OWEN: I have nothing further of this witness
8 at this time.

9 EXAMINATION

10 BY EXAMINER CATANACH:

11 Q. Mr. Joyce, the well that's currently in the south
12 half of Section 15, the Shoe Bar State Com Number 1 --

13 A. Yes, sir.

14 Q. -- that is an Atoka producer?

15 A. It initially was an Atoka producer. The well was
16 sold to another operating company and they plugged back,
17 and they're producing out of an upper Penn zone.

18 Q. The cum that you show on that well, is that Atoka
19 or upper Penn?

20 A. The gas cum is -- the 1.6 B was made out of the
21 Atoka. The Penn, so far, has made 14,000 barrels of oil
22 and 24 million cubic feet of gas.

23 I believe the well is probably -- that zone has
24 been produced less than two years. I'm not exactly sure.

25 Q. The well to the north in -- I'm sorry, the --

1 yeah, the South Shoe Bar State Com Number 1-15, is it your
2 testimony that encountered no Atoka-Morrow interval?

3 A. That -- The log is there. Apparently there's no
4 sand there. And I -- The way the completion was filed, it
5 was filed as -- it shows up in the ONGARD system as an
6 Atoka-Morrow completion, and the perfs that are listed with
7 the OCD records, to me it's a pure Mississippian
8 completion. The perfs that are reported are down in the
9 Mississippian. And they're also illustrated by cross-
10 section.

11 But there was no Atoka sand. They tried a zone
12 -- it's on up at the very top of the Atoka, and I don't --
13 I believe -- I don't have a mudlog. It appears to be some
14 kind of a carbonate, but they've shot some perforations and
15 acidized the zone. It made a little bit of gas, but they
16 abandoned it. That zone is not covered by this crossover
17 section.

18 In this area -- Actually, this Lea County area,
19 the Atoka pay is, as far as I know, nearly 100 percent
20 confined to this sand interval down here in this 12,200-
21 foot range down here at the base of this shale. There's
22 been various completions tried in the upper part of the
23 Atoka, but most are non-economic.

24 Q. Well, is there, in fact, Morrow production in
25 this area, or is it all Atoka?

1 A. As far as I know, it's all Atoka. The Shoe Bar
2 South, the Concho well, the Number 2, is rumored to be in a
3 Morrow zone. That log will be released the middle part of
4 next month; we'll know then.

5 Q. But you anticipate hitting at least 20 feet of
6 sand there?

7 A. Well, that's our hope.

8 EXAMINER CATANACH: Okay, I have nothing further,
9 Mr. Owen.

10 MR. OWEN: That concludes my presentation in this
11 case, Mr. Examiner.

12 EXAMINER CATANACH: Okay. There being nothing
13 further in this case, Case 12,358 will be taken under
14 advisement.

15 (Thereupon, these proceedings were concluded at
16 10:30 a.m.)

17 * * *

18
19
20 I do hereby certify that the foregoing is
21 a complete record of the proceedings in
22 the Examiner hearing of Case No. 12358,
23 heard by me on April 16 19 2000.
24 David L. Catanch, Examiner
25 Oil Conservation Division

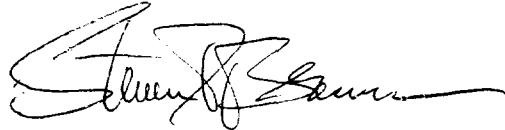
CERTIFICATE OF REPORTER

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 March 20th, 2000.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 14, 2002