

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. 12,359
)
 APPLICATION OF MARBOB ENERGY CORPORATION)
 FOR COMPULSORY POOLING, EDDY COUNTY,)
 NEW MEXICO)

ORIGINAL

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.

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OIL CONSERVATION DIV.
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I N D E X

March 16th, 2000
Examiner Hearing
CASE NO. 12,359

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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 10:31 a.m.:

3 EXAMINER CATANACH: At this time I'll call Case
4 12,359, the Application of Marbob Energy Corporation for
5 compulsory pooling, Eddy 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; they were previously sworn.

11 EXAMINER CATANACH: Any additional appearances?

12 There being none, let the record show that the
13 witnesses have previously been qualified and sworn in.

14 And you may proceed, Mr. Owen.

15 MR. OWEN: Thank you, Mr. Examiner. My first
16 witness in this matter is Mr. Raye Miller.

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

20 DIRECT EXAMINATION

21 BY MR. OWEN:

22 Q. Mr. Miller, again, once again, would you please
23 tell us your name and spell your first name?

24 A. My name is Raye Paul Miller, spelled R-a-y-e.

25 Q. And you still live in Artesia?

1 A. Yeah, still bleed orange.

2 Q. Do you still work for Marbob?

3 A. Yes, sir.

4 MR. OWEN: Mr. Examiner, I reiterate, Mr. Miller
5 was qualified, previously qualified, as an expert practical
6 oilman.

7 Q. (By Mr. Owen) Mr. Miller, are you familiar with
8 the Application filed in this case?

9 A. Oh, yes, sir.

10 Q. And are you familiar with the lands in the
11 subject area?

12 A. Yes, sir, I am.

13 Q. Would you tell us what Marbob seeks in this case?

14 A. Basically Marbob is seeking an order pooling all
15 the minerals from the top of the Wolfcamp formation to the
16 base of the Morrow formation in the east half of Section
17 16, Township 18 [sic] South, Range 28 East. We would ask
18 that it be dedicated to our Scoggin Draw State "C" Com
19 Number 2, to be drilled at a standard location 1020 feet
20 from the north line, and 1950 feet from the east line of
21 said Section 16 of 18-27.

22 Q. Mr. Miller, for the record, in the name of the
23 well, the Scoggin Draw State "C" Com Well Number 2, is
24 Scoggin spelled S-c-o-g-g-i-n?

25 A. Yeah, I keep trying to add an R, but that's

1 correct.

2 Q. Okay. Mr. Miller, have you prepared certain
3 exhibits for presentation in this case?

4 A. Yes, sir, I have.

5 Q. Why don't we go to Marbob Exhibit Number 1. Tell
6 the Examiner about that exhibit, please.

7 A. This exhibit basically again just shows the
8 spacing and proration unit, it shows the proposed well
9 location, and it's taken again off of the Midland Map,
10 which basically shows some of the ownership in the area.

11 The dark lines indicate that this falls in a
12 portion of the Empire Abo Unit there in Eddy County, New
13 Mexico.

14 Q. All right, and does Exhibit Number 2 provide an
15 overview of the interest breakdown within that spacing
16 unit?

17 A. Yes, it does. I failed to mention previously
18 that our primary objective on the well is actually the
19 Atoka-Morrow, and this would be in the Red Lake-Atoka-
20 Morrow Pool.

21 Number 2 identifies the four different state
22 leases that are actually involved, and this is the exhibit
23 that I kind of hoped nobody was color blind on.

24 It winds up identifying that as to all the tracts
25 except for the green lease, Marbob and its partners own the

1 interest that is being considered in this matter, and do
2 own the rights in the Atoka-Morrow and as to depths below
3 the top of the Wolfcamp.

4 This is, actually, a second well in this
5 proration unit. The Number 1 well that is producing does
6 show there in the northwest of the southeast of the section
7 on the plat.

8 Q. And Mr. Miller, in this case as in the last one,
9 is it Exxon Mobil that has failed to join in this project?

10 A. Yes, sir. It winds up being a thing where
11 everyone else is covered under a JOA and is included in the
12 proposal. The Exxon Mobil interest was actually contained
13 in the Number 1 well under a prior force pooling.

14 Q. Outside of the Exxon Mobil interest which is
15 uncommitted, what percentage of the acreage in the subject
16 area is committed to the project?

17 A. One hundred percent.

18 Q. Okay. Why don't you tell us what you tried to do
19 to get Exxon voluntary joinder?

20 A. Well, we were a little unsure as to exactly what
21 the status was because of the fact that the first well is
22 still producing. It's not a large producer, but it is
23 still producing out of the Morrow formation. That well was
24 originally drilled by Oryx, and we were partners with Oryx.

25 And when we looked at drilling this second well,

1 we initially did some research and determined that we
2 probably needed to at least contact Exxon to see if they
3 would want to join with their 25-percent interest in this
4 well. And as a result, we sent -- or we prepared an AFE
5 and sent it to Exxon on December 28th of last year. It was
6 sent to Mr. Bob Mathew there in their Houston office.

7 It wound up being a thing where, when I talked
8 with Mr. Keffer regarding the previous case and we were
9 discussing it, he asked me -- of course that was in Section
10 15 of 17-35 -- he said, Well, I also have your deal in
11 Section 16.

12 Well, I was thinking the Section 16 adjoining 15,
13 and, you know, I mean he just had me totally lost. And
14 then he goes, No, no, the one over in Eddy County. And he
15 was actually referring to the project that we have under
16 this Application.

17 And we -- Well, before that point we actually did
18 change the physical location that we initially AFE'd them
19 on, because the initial location had some surface problems
20 where it was not drillable, and so there was a second
21 correspondence that we sent to them on January 7th,
22 describing the change in the location.

23 But in my conversation with Mr. Keffer there in
24 the latter part of January, he indicated that he was also
25 the person handling that AFE or our request, and we

1 discussed what might be acceptable terms to Exxon. He
2 again indicated he didn't believe they would be interested
3 in participating but that they might be interested in
4 actually doing a term assignment with us on their interest.

5 There was a term assignment that had been done by
6 Exxon on this acreage to Atlantic Richfield a few years
7 ago, which we were aware of because of a joint venture that
8 we had with Atlantic Richfield Company.

9 And as a result, we went to our management and
10 indicated what terms Exxon would like to have, and we
11 proposed those terms as a term assignment on our January
12 24th correspondence to Mr. Keffer.

13 Q. And has Exxon accepted those terms?

14 A. No, sir, at this point we have heard nothing from
15 Exxon officially.

16 Q. Do you anticipate that Exxon's problems which you
17 -- internal problems dealing with approval which you
18 outlined in the previous case will be encountered in this
19 case as well?

20 A. No, sir, actually they're not. The previous case
21 was actually a Mobil lease, and this lease is actually an
22 Exxon lease, and so the normal channels inside Exxon could
23 be done on this lease to where it is possible that they may
24 decide to either join or do a term assignment type of deal
25 wit

1 us. The problem that we had was the fact that
2 since Oryx had already force pooled them once on this and
3 the fact that we were looking at having a force pooling
4 with them on the other lease, we didn't figure there was
5 any point in stewing for two or three more months, waiting
6 on Exxon to then find out that I couldn't get them off
7 center.

8 So we decided, since we were going to be here
9 anyway, we might as well do number two.

10 Q. Now, if Exxon accepts the offer which I believe
11 is set forth in the top letter reflected on Marbob Exhibit
12 Number 3, will that constitute your agreement with Exxon?

13 A. We would be happy to have a term assignment from
14 Exxon or to have them participate in the well, either way.

15 Q. Okay. And in fact, is Marbob Exhibit Number 3
16 the letters between you and Exxon reflecting your efforts
17 to obtain voluntary joinder?

18 A. Yes, sir, it is. I will point out -- and one of
19 the things that may cause them some problem is, in our
20 January 24th letter, the conditions on which we asked for
21 the term assignment, I had a copy of the Exxon-ARCO term
22 assignment on this acreage, and we believe that calls on
23 production have to be market or competitive calls, and as a
24 result we requested that change from their previous
25 documents.

1 Q. Okay. Now, Mr. Miller, based on your experience
2 as a practical oilman, have you made a good-faith effort to
3 obtain the voluntary joinder of Exxon Mobil in this
4 project?

5 A. Yes, we have.

6 Q. Now, is Marbob Exhibit Number 4 the JOA which
7 your other partners have executed in this case?

8 A. Yes. Marbob Exhibit Number 4 is actually the JOA
9 which was prepared by Oryx in 1990 for the drilling of the
10 Number 1 well, and the parties who joined under that JOA
11 were Oryx, Bulldog Energy, Richard Chase, Robert Chase,
12 David Martin, myself and John R. Gray.

13 And all of the parties who are now currently
14 owners outside of Exxon Mobil are either these parties or
15 successors to these parties. In other words, currently
16 Oryx and Robert Chase do not have an interest, but the
17 successors were assigned their interest subject to this
18 JOA.

19 Q. Mr. Miller, once again I want to take an exhibit
20 out of order here. The last exhibit in the exhibit pack
21 which I have submitted is Marbob Exhibit Number 12, the
22 AFE. Is this the same AFE which you submitted to Exxon
23 Mobil on December 28th, 1999?

24 A. Yes, sir, it is. And unlike our extremely well
25 crafted AFE on the previous case, this one was prepared by

1 myself.

2 Q. And would you tell us what the totals for a dry
3 hole and completed wells reflected on that exhibit are?

4 A. The total well cost for a dry hole is expected to
5 be \$486,400, and the completed well cost of \$821,700.

6 Q. Are these costs in line with what's charged by
7 other operators for similar wells in the area?

8 A. Yes, sir, they are. In fact, part of my work in
9 preparing this AFE was from other AFEs that other operators
10 drilling in this same area have submitted to us.

11 Q. And have you also made an estimate of the
12 overhead and administrative costs while drilling the well
13 and while producing it, if it is successful?

14 A. The overhead rate that we would ask for, for
15 drilling overhead, is of \$5250, and the producing overhead
16 rate of \$525. The reasons for those requests, those are
17 the overhead rates that were contained in the previous
18 force pooling order that was entered into several years
19 ago.

20 Q. The previous force pooling order to which you're
21 referring, is that the order applying to the Scoggin Draw
22 State "C" Com Number 1 in the same spacing unit in which
23 you're seeking to drill this well?

24 A. Yes, sir, it is.

25 Q. Okay, and is that Order Number R-9071?

1 A. Yes, sir.

2 Q. Entered December 14th, 1989?

3 A. That's correct.

4 Q. And those, in fact, the administrative and
5 overhead costs which have been charged for that Scoggin
6 Draw State "C" Com Number 1?

7 A. Yes, sir.

8 Q. Okay. Do you recommend that these figures be
9 incorporated into any order which results from this
10 hearing?

11 A. We would. And again, I don't think we request
12 any increase in those rates, because they certainly cover
13 what cost we see as a producing rate on this well.

14 Q. And Mr. Miller, does Marbob seek to be the
15 designated operator of this well?

16 A. Yes, sir. It makes sense, since we are of the
17 Number 1.

18 Q. All right, now let's turn to Marbob Exhibit
19 Number 5. Is that an affidavit with a notice letter
20 attached to the notice of the hearing today?

21 A. Yeah, and I probably won't testify I created it,
22 since you put the other page that was switched.

23 MR. OWEN: Mr. Examiner, for the record I do note
24 that it appears that once again my error resulted in the
25 Exhibit A to these affidavits being switched from this

1 exhibit and the exhibit in the previous case. And with
2 your permission, I can switch those out following the
3 hearing, Mr. Examiner.

4 EXAMINER CATANACH: We can do that.

5 Q. (By Mr. Owen) Okay. Mr. Miller, is Marbob
6 anticipating calling a geologic witness to review the
7 technical portion of this case?

8 A. Yes, sir, we are.

9 Q. Okay. Mr. Miller, were Exhibits 1 through 5 and
10 Exhibit Number --

11 A. -- 12 --

12 Q. -- 12 in this case prepared by you or under your
13 direction and supervision?

14 A. Yes, they are.

15 MR. OWEN: Mr. Examiner, I move the admission
16 into evidence of Marbob Exhibits Numbers 1 through 5 and
17 12.

18 EXAMINER CATANACH: Exhibits 1 through 5 and 12
19 will be admitted as evidence.

20 MR. OWEN: That concludes my examination of Mr.
21 Miller. Do you have any --

22 EXAMINER CATANACH: Sure --

23 MR. OWEN: -- questions of him?

24 EXAMINER CATANACH: -- I can't let him off that
25 easy.

EXAMINATION

BY EXAMINER CATANACH:

Q. Mr. Miller, what's Exxon's percentage interest in this well?

A. They actually own 100 percent of the leasehold rights in the west half of the northwest quarter, which would be 80 acres of the 320, and so they would actually have a 25-percent working interest.

I believe our research indicated they had an 82-1/2-percent net revenue against their interest.

Q. Okay. Now, you guys do operate the Number 1 well; is that -- Did I hear correctly?

A. Yes, sir, that is correct.

Q. Okay. And all of the other interest owners within that section are effectively committed by virtue of executing the operating agreement?

A. Yes, sir.

Q. They're committed to this second well?

A. Yes, sir. They have their option to participate or go nonconsent.

Q. Okay.

A. It is four state leases, and those leases were derived by Oryx from farmouts by Altura, three individuals, and Chevron's predecessor, I believe, Gulf.

Q. Okay, is there any significance as to the pooled

1 interval, the top of the Wolfcamp to the base of the
2 Morrow? Is that just for basically anything on 320?

3 A. It is, and it relates to the fact that, you know
4 the shallower depths are actually committed to the Empire-
5 Abo unit over most of that proration unit.

6 And as a result, you know, in the previous
7 application by Oryx, they had no rights above the top of
8 the Wolfcamp.

9 Their well, when it was drilled, did not actually
10 encounter any productive horizons outside of the Morrow,
11 and the Morrow was fairly marginal as a producer also.
12 Extremely marginal, they sold it to us.

13 Q. Okay. Is that the same interval that the
14 operating agreement calls --

15 A. I would assume so because of the fact that they
16 did it and didn't review it. Maybe we can look at it right
17 now.

18 Yeah, it's -- The base of the Abo is what the
19 operating agreement covers to the total depth of the
20 initial well. The well was drilled to basically the base
21 of the Morrow.

22 Q. Okay, nothing further.

23 MR. OWEN: Mr. Examiner, that concludes my
24 examination of Mr. Miller, and I call as my second witness
25 in this matter Mr. Martin Joyce.

1 MARTIN K. JOYCE,
2 the witness herein, having been previously duly sworn upon
3 his oath, was examined and testified as follows:

4 DIRECT EXAMINATION

5 BY MR. OWEN:

6 Q. Mr. Joyce, once again would you tell us your
7 name?

8 A. Martin K. Joyce.

9 Q. And do you still live in Artesia?

10 A. No, I live in Roswell.

11 Q. You live in Roswell?

12 A. Yes.

13 Q. That's right.

14 A. But I still --

15 Q. You still work for Marbob?

16 A. Earlier, I did.

17 Q. Okay. What do you do for Marbob?

18 A. I am their geologist and computer systems
19 analyst.

20 MR. OWEN: Mr. Examiner, I note for the record
21 that you have previously accepted Mr. Joyce's credentials
22 as a petroleum geologist.

23 Q. (By Mr. Owen) Mr. Joyce, have you made a
24 geologic study of the area which is the subject of this
25 Application?

1 A. Yes, I have.

2 Q. Are you prepared to share the results of that
3 study with the Examiner?

4 A. Yes, I am.

5 Q. Have you prepared exhibits for presentation in
6 this case?

7 A. I have.

8 Q. Let's go ahead and turn to Marbob Exhibit Number
9 6. Can you tell us about that exhibit, please?

10 A. Okay, basically that's just kind of a wide-
11 ranging view of our Scoggin Draw "C" Com Number 2 east half
12 spacing unit in the yellow. The well is circled in the
13 red. It's very small at this scale, my apologies. The
14 high well density to the north is a mix of Grayburg, San
15 Andres, Abo and Morrow wells.

16 Q. All right, and is Exhibit Number 7 a closer look
17 at this same area?

18 A. Exhibit Number 7 is actually the same scale, but
19 the wells are depth-filtered. All wells on this page are
20 wells that are drilled below 8000 feet, just basically
21 showing Morrow attempts in this part of the world.

22 Also exhibited on this cross-section are --
23 posted are well cumulative production and lines of cross-
24 section. And I started out with five cross-sections, and
25 we ended up with one for the presentation here, and it will

1 be the line E-E' that cuts from the southwest to the
2 northeast up across Section 16.

3 Q. Now, in fact, Mr. Joyce, you did not bring the
4 other cross-sections and do not anticipate presenting them
5 in this case; is that correct?

6 A. No.

7 Q. Okay. Now, let's turn to Marbob Exhibit Number
8 8. Can you tell us about that exhibit?

9 A. This is something that you can read here, a
10 detail map. Again, the production cumulatives are posted
11 here, current well status, and also the producing horizon.

12 As you'll notice, these are -- All but one of
13 these are producing Morrow wells. There's a weak Strawn
14 well down in Section 21, the Midwest HH Com. It's produced
15 26 million cubic feet of gas from the Strawn, and the rest
16 are active or inactive Morrow wells.

17 Q. And the rest of these wells, if I remember your
18 cross-section correctly, reflected about -- Exhibit Number
19 16 [sic], going from the northeast to the southwest, are
20 those reflected on the cross-section which is Exhibit
21 Number 9?

22 A. Yes, the cross-section covers the three wells,
23 the Red Lake State Number 1, Scoggin Draw State Number 1
24 "C", and the Malco Number 1.

25 Q. Okay, why don't we go ahead and turn to Marbob

1 Exhibit 9 and review that cross-section for the Examiner,
2 please?

3 A. Okay, this is, again, a stratigraphic cross-
4 section turning from the southwest to the northeast. This
5 one, the datum is the base of what we locally call the
6 massive shale. It's a thick shale marker between the
7 middle and the lower Morrow interval. It's a common
8 mapping marker in this part of Eddy County.

9 Also, this cross-section illustrates perfs in the
10 producing intervals, in the two -- well, actually in the
11 two active wells, the Mewbourne Red Lakes well and our
12 Scoggin Draw State.

13 Generally, in this area, the lower or Morrow "C"
14 sands are the most prolific producing horizon. The Scoggin
15 Draw happens to be a "B" sand well. Like I say, it's just
16 pretty unusual in this area. There are -- "B" sand wells
17 are common in this part of Eddy County, but within this
18 township and range, the most prolific producing horizon is
19 the lower "C" interval.

20 Q. All right. And let's go ahead and look at your
21 structure and isopach maps. Tell us about Exhibit Number
22 10, please.

23 A. Okay, Number 10 is just simply a structure
24 contour map at the base of this massive shale. Generally
25 southeast regional dips. You do see a little bit of nosing

1 there, and on the northeast -- or excuse me, the northwest
2 corner of Section 15, the Malco dry well that's -- It was
3 not completed. The Malco well was up on top of that
4 structure.

5 Generally, structuring is not real important in
6 this part of Eddy County. But you make the wells where you
7 make them.

8 Q. All right. And does Exhibit Number 11, your
9 isopach there, show data that's a little more important to
10 your objective?

11 A. Exhibit 11 is an isopach of the lower Morrow or
12 "C" interval, and it's common. This is the most common map
13 type you see in this part of Eddy County. What we're
14 seeing on this particular isopach is a thick that develops
15 in a northwest-southeast trend across Section 15, and
16 there's a thin that develops northwest-southeast across
17 Section 21.

18 And what we generally see for producing wells,
19 the wells are most prolific, the sands are the thickest,
20 and they develop in these "C" interval thicks. So we're
21 looking at a high on the southwest there dipping down into
22 that low up to the northeast.

23 Q. Now, Mr. Joyce, based on your geologic study, are
24 you prepared to make a recommendation to the Examiner as to
25 the risk penalty that should be assessed against the

1 nonconsenting interest owners?

2 A. Two hundred percent.

3 Q. What do you base that recommendation on?

4 A. Again, three factors, the first being an industry
5 standard.

6 The second are geological risks. In this case we
7 feel like we won't have any problem finding sands, but the
8 reservoir quality will probably be the largest risk in this
9 case. Permeability and porosity, there are problems in
10 this part of the township. We're hoping to find good
11 enough porosity and perm to make a decent well.

12 The third factor, the well statistics in that
13 nine-square-mile area, you have basically 14 Morrow
14 penetrations. Four of those are flat dry holes, five wells
15 have made from 1 to 1.5 BCF, and five other wells have made
16 less than a half a BCF. What we're looking at is about a
17 35-percent chance of drilling an economically successful
18 well here and a 28-percent chance of drilling a dry hole.

19 Q. So based on your percentages there, is there a
20 good chance that you could drill a well at the proposed
21 location that will not be a commercial success?

22 A. As I stated, approximately a 35-percent of
23 drilling a -- or, excuse me, a 28-percent chance of
24 drilling a noneconomic well.

25 Q. Okay. Mr. Joyce, in your opinion will granting

1 this Application be in the best interest of conservation,
2 the prevention of waste and the protection of correlative
3 rights?

4 A. Yes, it will.

5 Q. Is there anything you wish to add to your
6 presentation?

7 A. No, there isn't.

8 Q. Okay. Mr. Joyce, were Marbob Exhibits 6 through
9 11 prepared by you or compiled under your direction or
10 supervision?

11 A. Yes, they were.

12 MR. OWEN: Mr. Examiner, I move the introduction
13 into evidence of Marbob Exhibits Numbers 6 through 11.

14 EXAMINER CATANACH: Exhibits 6 through 11 will be
15 admitted as evidence.

16 MR. OWEN: That concludes my examination of Mr.
17 Joyce.

18 EXAMINER CATANACH: I have no questions of this
19 witness.

20 MR. OWEN: That concludes my presentation in this
21 case. We ask that this matter be taken under advisement
22 and an order be issued granting Marbob's Application in
23 this case.

24 EXAMINER CATANACH: If I could, I've got a couple
25 of questions for Mr. Miller.

1 RAYE P. MILLER (Recalled),
2 the witness herein, after been previously duly sworn upon
3 his oath, was examined and testified as follows:

4 EXAMINATION

5 BY EXAMINER CATANACH:

6 Q. Mr. Miller, do you know if the -- I believe you
7 testified that the Number 1 well was initially -- Exxon's
8 interest was initially pooled by Oryx?

9 A. Oryx or the partners to the JOA, yes, sir.

10 Q. Do you know, in fact, if that well has paid out
11 and the penalty has paid out on that well?

12 A. No, sir, it has not. The Number 1 well lacks
13 payout of the initial cost to complete and operate, much
14 less the additional penalty.

15 And the reason I know that is because under the
16 terms of some of the farmout agreements, there were a
17 couple farmout agreements which actually triggered a higher
18 overriding royalty at a recovery of 100 percent of Oryx's
19 cost, and so we track that payout monthly and send
20 statements to a couple of parties, and it has not occurred.

21 Q. Now, tell me how it's going to work with two
22 wells on the unit. Are you going to keep the production
23 separate and all of the accounting separate on those two
24 wells?

25 A. Yes, sir. It winds up being a thing where the

1 gas contract which covers the Number 1 well actually is
2 limited to that well. It does not cover, and it has passed
3 its primary term. That well is currently delivering into
4 GPM's low-pressure gathering system and has no other
5 facilities on location. I mean, it flows directly into
6 their line.

7 We anticipate that if the Number 2 is drilled and
8 successful, that we would have separate production
9 facilities and that we would seek the best gas contract and
10 possibly a high pressure contract from -- there are several
11 gas lines in this area -- for that well. And as a result,
12 production facilities would be separate for it.

13 EXAMINER CATANACH: Okay.

14 EXAMINATION

15 BY MR. OWEN:

16 Q. Mr. Miller, if the Number 2 well is successful,
17 will you seek to recover the penalty for the Number 1 well
18 out of the proceeds from the Number 2 well?

19 A. No, sir, we just ask for the penalty for the
20 Number 2 well.

21 MR. OWEN: Okay.

22 EXAMINER CATANACH: Okay.

23 THE WITNESS: We hope that they come to terms.
24 Cautiously optimistic, at least on this one.

25 MR. OWEN: That concludes my presentation in this

1 case, Mr. Examiner.

2 EXAMINER CATANACH: Okay, there being nothing
3 further in this case, Case 12,359 will be taken under
4 advisement.

5 And this hearing is adjourned.

6 (Thereupon, these proceedings were concluded at
7 11:00 a.m.)

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I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 12359,
heard by me on March 16 192000.
Daniel R. Catanach, Examiner
Off Conservation Division

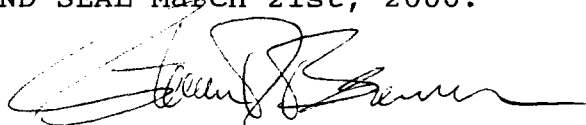
CERTIFICATE OF REPORTER

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 21st, 2000.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 2002