

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 MARBOB ENERGY CORPORATION)
FOR COMPULSORY POOLING, LEA COUNTY,)
NEW MEXICO)

CASE NO. 12,600

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

February 22nd, 2001

Santa Fe, New Mexico

OIL CONSERVATION DIV.
01 MAR - 8 AM 9:14

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, February 22nd, 2001, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

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February 22nd, 2001
Examiner Hearing
CASE NO. 12,600

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A P P E A R A N C E S

FOR THE APPLICANT:

HOLLAND & HART, L.L.P., and CAMPBELL & CARR
 110 N. Guadalupe, Suite 1
 P.O. Box 2208
 Santa Fe, New Mexico 87504-2208
 By: WILLIAM F. CARR

* * *

1 WHEREUPON, the following proceedings were had at
2 1:30 p.m.:

3 EXAMINER CATANACH: Call the hearing back to
4 order, and at this time I'll call Case 12,600, which is the
5 Application of Marbob Energy Corporation for compulsory
6 pooling, Lea County, New Mexico.

7 Call for appearances in this case?

8 MR. CARR: May it please the Examiner, my name is
9 William F. Carr with the Santa Fe office of the law firm
10 Holland and Hart, L.L.P. We represent Marbob Energy
11 Corporation, and I have two witnesses.

12 EXAMINER CATANACH: Any additional appearances?

13 Will the witnesses please stand to be sworn in?

14 (Thereupon, the witnesses were sworn.)

15 RAYE P. MILLER,

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

18 DIRECT EXAMINATION

19 BY MR. CARR:

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

21 A. Raye Paul Miller.

22 Q. Mr. Miller, where do you reside?

23 A. Artesia, New Mexico.

24 Q. By whom are you employed?

25 A. Marbob Energy Corporation.

1 Q. And what is your position with Marbob?

2 A. I'm titled as secretary/treasurer.

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

5 A. Yes, I have.

6 Q. At the time of that testimony were you qualified
7 as a practical oilman?

8 A. Yes, I was.

9 Q. Are you familiar with the Application filed in
10 this case on behalf of Marbob Energy Corporation?

11 A. Yes, I am.

12 Q. Are you familiar with the status of the lands in
13 the area which is the subject of this Application?

14 A. Yes, I am.

15 MR. CARR: Mr. Catanach, are Mr. Miller's
16 qualifications acceptable?

17 EXAMINER CATANACH: Yes, Mr. Miller is so
18 qualified.

19 Q. (By Mr. Carr) Would you briefly state what
20 Marbob seeks with this Application?

21 A. We seek an order pooling all the mineral
22 interests in the Morrow formation in Section 30, Township
23 19 South, Range 32 East, NMPM, in the Lusk-Morrow Gas Pool.
24 It would be dedicated to our SL Deep Federal Com Well
25 Number 1, to be drilled at a standard location 1980 from

1 the south line and 1650 from the east line of said Section
2 30.

3 Q. Have you prepared exhibits for presentation in
4 this hearing?

5 A. Yes, I have.

6 Q. Would you refer to what has been marked for
7 identification as Marbob Exhibit Number 1 and review this
8 for Mr. Catanach?

9 A. Exhibit Number 1 has a land map that is
10 plagiarized off of Midland Map Company. We are actually on
11 the county line. The sections to the right side are in 19-
12 32 in Lea County, the sections on the left-hand side are in
13 19-31 in Eddy County. The orange outline of Section 30
14 identifies the proration unit, the little red dot
15 identifies roughly in the north map where the well is
16 located inside the section.

17 The bottom map is the surveyor's plat identifying
18 that the location has already been staked.

19 Q. What is the primary objective in the proposed
20 well?

21 A. The Morrow formation.

22 Q. Are there special pool rules that are applicable
23 to the Morrow in this area?

24 A. Yes, there are special pool rules and regulations
25 for the Morrow Gas Pool. They were adopted November 21st,

1 1962, under Order R-2373, and as amended by Order R-2372-D,
2 dated September 12th, 2000.

3 Q. And what are the provisions of the special pool
4 rules?

5 A. The pool has a 640-acre spacing, and currently
6 under the amended rules allows for wells to be located 660
7 feet from the outer boundary of the dedicated proration
8 unit and within 10 feet of any quarter-quarter section line
9 or subdivision, interior boundary line.

10 Q. And we're talking about the Lusk-Morrow Gas Pool?

11 A. That is correct.

12 Q. Let's go to what has been marked Exhibit 2.
13 Would you identify and review that, please?

14 A. Exhibit 2 is an ownership breakdown in Section
15 30. And I hope nobody's color-blind, because if it's
16 yellow in one spot the breakdown is the same.

17 It identifies the federal lease number at the top
18 of each one of the tracts but the ownership, like in all
19 the yellow, is the same. Likewise, each one of the colors
20 is similar ownership. These ownerships were based off of
21 title opinions that we had prepared covering each tract in
22 Section 30.

23 Now, also at the bottom of that, there is the,
24 then, consolidated ownership in the proration unit, if you
25 take the individual tracts. Also I'll point out that the

1 west side there of the section contains for lots. I've
2 identified the acreage of each lot. It then encompasses
3 642, plus a few decimals, acres. And these percentages
4 are, then, calculations of the actual acreage of each tract
5 in the 642-section unit.

6 Q. What percentage at this time has been voluntarily
7 committed to the well?

8 A. Well, I'm going to give you several different
9 numbers, and if you try to correlate them to the Exhibit 2,
10 there's going to be a problem, and I'll explain that.

11 Currently, we have signed AFEs that would cover
12 53.05494 percent of the interest. Additionally, I have
13 been assured by the Yates Petroleum Group, which would
14 include Yates Drilling, Sharbro, Estate of Lilly Yates,
15 Yates Pet., that they are signing the AFEs and joining with
16 us. Their interest covers an additional 27.14677, which
17 would make the total that, when I receive their signed,
18 would be 81.10171.

19 Additionally, I have a commitment of a farmout
20 agreement, and the terms have been agreed to between us and
21 Pure Energy Group, of an additional 6.34496, which means
22 that the only person left that I don't know what they're
23 going to do is Phillips Petroleum Company.

24 Now, those items don't exactly agree with the
25 numbers on the sheet, and the reason is that when we

1 supplied Yates with the title opinions, they identified
2 that there was a titled requirement regarding a back-in
3 after payout of a farmout agreement that was not of record.
4 They advised us that two parties had backed into their
5 interest and that their interest and the Tension [sic]
6 interest was actually reduced. Those two parties were
7 Elliott Hall Company and Elliott Industries. They were not
8 in our notice of Application. Both of those parties have
9 been supplied with the AFEs and the JOAs, both of them have
10 voluntarily signed, and there are copies of their signed
11 AFEs attached in the documents later to be seen.

12 So the two parties who were not in this list that
13 was prepared off the original title opinions have
14 voluntarily joined the unit.

15 Q. At this time we're seeking to pool the interest
16 of Phillips Petroleum Company?

17 A. Yes.

18 Q. Are we at this time also seeking to pool Yates
19 until they get their documents signed?

20 A. Yes.

21 Q. And also Pure?

22 A. Also Pure, yes.

23 Q. And is that all?

24 A. That is correct.

25 Q. Okay. Could you summarize for Mr. Catanach your

1 efforts to obtain the voluntar joinder of these interest
2 owners in the proposed well?

3 A. We originally started our work back in July. In
4 fact, our APD with the feds, which is just a miracle, has
5 actually been approved since July of last year. It's
6 unusual when you can get Fed approval before you can get
7 all your title work and stuff done.

8 But anyway, we felt like it was important because
9 of the complexity of ownership in here to have title
10 opinions done to where we actually knew who we were dealing
11 with. Because of all of the problems of a 640 will
12 multiple leases and all, we wanted to be sure. And those
13 title opinions weren't completed for each tract or the
14 final tract until November of 2000.

15 We then submitted AFEs to each one of the parties
16 and a joint operating agreement. Since the lease was
17 actually -- or the breakdown of the ownership, we were the
18 largest interest, and Yates Petroleum's group was the
19 second largest interest -- what we chose to do was
20 duplicate one of the Yates Pet. JOA's, because we felt if
21 we sent them their JOA, they probably wouldn't have too
22 many problems with it.

23 And copies of our letters are -- Do you want me
24 to go ahead and tell about Exhibit 3?

25 Q. Yes, would you do that, please?

1 A. Exhibit 3 identifies all of the correspondence
2 that we've had, the original letters that were sent out.
3 Subsequent correspondence, there was an identification by
4 Phillips that there was a previous JOA that covered Section
5 30, and they raised the question of whether that would
6 actually cover our proposal rather than the revised JOA.

7 Our acreage in the southeast quarter is a new
8 federal lease that was not in existence at the time that
9 the original JOA was prepared, and since it is now not
10 covered, we felt like the original JOA, which is still in
11 effect, should be amended by the parties to actually only
12 cover the interest that was still valid. We requested
13 Yates, who is the operator, to consider doing that.

14 They felt that that wasn't a problem.
15 Unfortunately, they're a little slower than we would like,
16 and they haven't done that yet. But anyway, there is
17 additional correspondence.

18 Yates, when they reviewed our JOA, since it was
19 their JOA, they only proposed one amendment, and we have
20 accepted that JOA amendment, and there's correspondence
21 regarding that, and there's been quite a bit of
22 correspondence.

23 Q. Is Exhibit Number 4 a copy of the joint operating
24 agreement?

25 A. Yes, it is.

1 Q. Is Exhibit Number 5 a copy of an affidavit
2 confirming that notice of today's hearing has been provided
3 to those parties subject to pooling in accordance with
4 Division rules?

5 A. Yes, it is.

6 Q. Will Marbob call an engineering -- or a
7 geological witness to review the portion of the case
8 related to risk?

9 A. Yes, a geological expert.

10 Q. Did Dr. Boneau coach you on how to --

11 (Laughter)

12 A. No, he did not.

13 Q. Were Exhibits 1 through 5 prepared by you or
14 compiled under your direction and supervision?

15 A. Yes, they were.

16 MR. CARR: Mr. Catanach, at this time I would
17 move the admission into evidence of Marbob Exhibits 1
18 through 5.

19 EXAMINER CATANACH: Exhibits 1 through 5 will be
20 admitted as evidence.

21 MR. CARR: And that concludes my direct
22 examination of this witness.

23 EXAMINATION

24 BY EXAMINER CATANACH:

25 Q. Okay, Mr. Miller --

1 A. Yes.

2 Q. -- let's see, your interest is in the southeast
3 quarter?

4 A. Well, we have interest in the southeast quarter.
5 We own 100 percent in the southeast quarter, we
6 additionally own 50 percent in the east half of the
7 northwest quarter, also 50 percent of the northwest of the
8 northeast and 50 percent of the southeast of the northeast,
9 is where our interest is derived from.

10 The interest in the northeast and northwest came
11 from a purchase of Kerr-McGee's interest that was
12 originally owned by Phillips and Kerr-McGee. The interest
13 in the southeast quarter, we originally purchased a portion
14 of the interest in that tract. Texaco was the operator,
15 Texaco later sold to Bargo. We had a preferential right,
16 and we exercised the preferential right that picked up the
17 remainder of the interest.

18 Q. Okay. You testified there was an old JOA --

19 A. Yes, sir.

20 Q. -- that was -- You don't feel it's in effect
21 anymore?

22 A. The JOA -- and the geologist will testify in
23 regards to a well that was previously drilled in Section
24 30, and it is in the northeast quarter. It originally did
25 produce out of the Morrow, it was on a 640-acre spacing.

1 The well is still producing, but it's now producing at a
2 shallower depth, the Morrow has been plugged. And since
3 the well is still producing, it continues to cover the
4 interest of the parties as to the Strawn formation.

5 The lease in the southeast quarter was lost many
6 years ago. Texaco purchased it at a federal sale, and the
7 old lease that was on that southeast quarter, which had
8 been committed under the 1962 JOA, was actually owned at
9 that time, I believe, by Shell Oil Company.

10 But anyway, Yates has indicated they had not
11 problem in amending that old JOA to just cover the
12 northeast quarter rights to the Strawn. They just -- Their
13 land department is overwhelmed with activity, and this
14 wasn't high on their priority since they weren't proposing
15 the well.

16 Q. Who operates that well?

17 A. Yates does. It's either Yates Drilling or --
18 Yates Drilling, I believe.

19 Q. Okay.

20 A. It's either Yates Drilling, or it may be MYCO.
21 Is it MYCO?

22 MR. MAY: I think it's Yates Drilling.

23 THE WITNESS: Yates Drilling? It's one of those
24 boys down the street from us.

25 Q. (By Examiner Catanach) Okay. So you're just

1 pooling Phillips -- Have you had any response from
2 Phillips?

3 A. I've had numerous calls from Phillips. In fact,
4 geology can testify to the last call we received by
5 Phillips, because they were asking information about our
6 geology, all the location, and I think our geologist asked
7 the last question to the person who called him, is, do you
8 think you all will join? And his answer was, No, I don't
9 think so.

10 But I mean, we've talked to them a bunch. I
11 honestly don't think we should be up here. I mean, it's a
12 shame that companies will not respond, because, you know,
13 unfortunately even Yates, I couldn't get them to act on
14 this until we sent the notice of force pooling. And at
15 that point, then, they looked at it, they asked us if they
16 could operate two wells in the section and we operate two
17 wells in the section, and I go, Well, Rob, this is a 640-
18 acre proration unit.

19 And he says, Well, could we go for nonstandard
20 320s?

21 And I go, well, you're more than welcome to go up
22 in front of the Commission and get shot, because Mr.
23 Stogner has worked so hard on this pool to get it to where
24 he does not get nonstandard locations or nonstandard
25 proration units. But I love to see people go to a firing

1 squad and expect to get killed.

2 Anyway, he finally called back and indicated that
3 Yates had agreed that we could operate and that they would
4 sign the AFEs and the JOA.

5 Q. I see. Tenison -- or Tension, I'm sorry. Is it
6 Tenison or Tension?

7 A. I think it may actually be pronounced "Tenison".

8 Q. Tenison.

9 A. And they have signed.

10 Q. They have signed, okay.

11 A. Yes.

12 Q. Pure has not?

13 A. Pure has not. They've indicated they would like
14 to farm out their interest, but I have had some problems
15 with them on another well that we operate. I have an
16 agreement, I have my lawyer preparing the farmout
17 agreement, but I'd like to make sure that their interest is
18 pooled if I don't successfully conclude that farmout.

19 Q. Okay. The two parties that you were made aware
20 of that had an interest --

21 A. Yes.

22 Q. -- they have signed the AFEs?

23 A. They have signed the AFEs, and copies of those
24 AFEs are attached to the back of Exhibit Number 3.

25 Q. Do you consider that for them to have joined in

1 the drilling?

2 A. Yes, they have agreed to join in the drilling.

3 Q. But do they necessarily have to execute the JOA?

4 A. I believe one of the parties has already executed
5 the JOA, and I received the faxed AFE by the other party
6 just yesterday, and I believe that the JOA will be signed
7 and returned.

8 And honestly, I'm not a lawyer but I'm not sure
9 that it is absolutely a requirement that a party to join a
10 well must sign a JOA. I believe if they've signed the AFE,
11 they probably are considered a party to the well.

12 EXAMINER CATANACH: Okay, sounds good. I have
13 nothing further.

14 MR. CARR: At this time we call Brent May.

15 BRENT MAY,

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

18 DIRECT EXAMINATION

19 BY MR. CARR:

20 Q. Will you state your name for the record, please?

21 A. Brent May.

22 Q. Where do you reside?

23 A. Artesia, New Mexico.

24 Q. By whom are you employed?

25 A. Marbob Energy.

1 Q. And what is your position with Marbob Energy?

2 A. Geologist.

3 Q. Mr. May, have you previously testified before
4 this Division and had your credentials as an expert in
5 petroleum geology accepted and made a matter of record?

6 A. Yes, I have.

7 Q. Are you familiar with the Application filed in
8 this case?

9 A. Yes, I am.

10 Q. Have you made a geological study of the area
11 which is involved in this Application?

12 A. I have.

13 Q. Are you prepared to share the results of that
14 work with Mr. Catanach?

15 A. Yes.

16 MR. CARR: Are the witness's qualifications
17 acceptable?

18 EXAMINER CATANACH: Yes, they are.

19 Mr. May, how long have you been with Marbob?

20 THE WITNESS: Approximately six to seven months.

21 Q. (By Mr. Carr) Let's go to what has been marked
22 as Marbob Exhibit Number 6. Would you identify that and
23 review it for Mr. Catanach?

24 A. This is a production map of the generalized area
25 around the Lusk-Morrow Pool. It's showing mainly Township

1 19 South, 32 East, and the east half of 19 South, 31 East.
2 The blue outline is showing the Lusk-Morrow Pool. And
3 there is a section colored yellow, Section 30 of 19 South,
4 32 East, is the section in question we're talking about
5 here. That is the proration unit.

6 There's a large blue circle identifying the
7 location of Marbob's SL Deep Federal Number 1, and that's
8 1980 from the south line, 1650 from the east line.

9 I might also point out, there's several other
10 wells shown on the map, and what are shown are only deep
11 penetrations, that is, to the Strawn and Morrow. The
12 shallow penetrations are not shown on this map.

13 There's also some smaller blue circles and red
14 circles around a lot of the wells. The smaller red circles
15 denote actively producing Morrow wells. The blue circles,
16 the small ones, denote that those wells at one time have
17 produced out of the Morrow but are currently -- the Morrow
18 has been abandoned.

19 There's also cumulative production beneath each
20 well, and I'd like to just go through a few wells in a
21 localized area around the proposed well and point out some
22 of the cums.

23 Up in Section 19 of 19 South, 32 East, there's a
24 well that's made 9.6 BCF out of the Morrow in the southeast
25 quarter. In the northeast quarter there's a well that's

1 made 2.9 BCF. There's a well over in the northwest quarter
2 that is a fairly new well, that IP'd for 2.5 million a day.

3 Moving over in Section 20, there's a well that's
4 made half a BCF in the northeast quarter, there's a well in
5 the northeast quarter that's made .3 BCF.

6 Down in Section 30, within the proration unit,
7 the well that Mr. Miller talked about, the Yates Drilling
8 Elliott Hall Number 1 in the northeast quarter, has made
9 .14 BCF out of the Morrow.

10 To the west in Section 25 of 19 South, 31 East,
11 there's a well that's made almost a BCF, a BCF and a half,
12 out of the Morrow.

13 And to the east in Section 29, there's a well
14 that's made a half a BCF out of the Morrow.

15 In Section 30 there is a Morrow dry hole in the
16 southeast quarter.

17 I point out all these cumulative productions
18 because there are some very good wells, and there are some
19 very poor wells. Some of the production out of the Morrow
20 has been scattered through this area.

21 Q. Let's go now to Exhibit Number 7, your cross-
22 section, and I'd also refer to Exhibit Number 8, the
23 structure map, because the trace for the cross-section is
24 also shown on Exhibit Number 8.

25 A. Exhibit 7 is a stratigraphic cross-section, and

1 like Mr. Carr said, the trace is on Exhibit 8. It's
2 basically a west-east cross-section, A-A'. The datum is
3 hung on the top of what we call the Morrow "C" sands. Most
4 people call this the top of the lower Morrow.

5 Also shown on the cross-section are the Morrow
6 "A" sands and the Morrow "B" sands, and many times these
7 are called the Morrow clastics or the middle Morrow.

8 Starting off on the left-hand side of the cross-
9 section, the Delhi Taylor Jones Federal Number 1 in Section
10 25 of 19 South, 31 East, this well was completed in the
11 Morrow "B" and "C" sands and was dually completed,
12 actually, in the Strawn and the Morrow. In the Morrow it
13 made almost 1.5 BCF.

14 The next location on the cross-section is the
15 Marbob SL Deep Federal Number 1 in Section 30.

16 The next well on the cross-section is the Yates
17 Drilling Elliott Hall Federal Number 1 in Section 30, 19
18 South, 32 East. Again, this is the well that Mr. Miller
19 talked about. Again, this well was also dually completed
20 in the Strawn and Morrow originally, but they only produced
21 .14 BCF out of the Morrow and abandoned the Morrow later.

22 The last well on the cross-section is the El Paso
23 South California Federal Number 1 in Section 29. It also
24 was dually completed in the Strawn and the Morrow, and out
25 of the Morrow it produced about a half a BCF.

1 I might point out, while we're looking at the
2 cross-section and the Elliott Hall Federal Number 1, Yates
3 Drilling DST'd the Morrow "C" sands while they were
4 drilling this well. The DST had 9.8 million cubic feet of
5 gas a day, but they had about an 85-pound pressure drop,
6 indicating a possible limited reservoir, and thus they only
7 made .14 BCF.

8 I'll also just mention that the dry hole in the
9 southeast quarter of Section 31 also had a DST in the
10 Morrow. They DST'd approximately 5 million a day, and they
11 had a 280-pound pressure drop.

12 So not only do you have a 9.6-BCF well in the
13 section to the north, you also have wells that have limited
14 reservoirs within the Morrow.

15 Q. All right, Mr. May, let's now go to the structure
16 map, Exhibit 8.

17 A. This is a structure map on top of the Morrow "C"
18 sand or what's also called the lower Morrow. The proration
19 unit again is denoted in yellow, and the SL Deep location
20 is the large blue circle. Again, a trace of the cross-
21 section is on this exhibit.

22 What is shown here is a plunging structural nose
23 that's generally running northwest down to the southeast,
24 with the crest of the structure running through Section 19,
25 the northeast portion of Section 30 and on through Section

1 29.

2 The proposed location of the SL Deep Federal
3 Number 1 is on the flank of this nose. I might point out
4 that some of the good wells up in Section 19 were on the
5 crest of this nose, but also again, Elliot Hall, the Yates
6 Drilling well in the northeast quarter of Section 30, is on
7 the crest of it.

8 So structure -- It's good to have structure
9 because you can get out of some wet sands, but it doesn't
10 necessarily mean you're guaranteed a good well. In fact,
11 also there is a well in Section 20, in the northwest
12 quarter, the Lusk Deep Unit Number 3. One of the Morrow
13 sands tested wet in this well, and this well is fairly high
14 up on the structure. So there's also a risk, even though
15 you're up high on the structure, you could still encounter
16 some wet sands.

17 Q. Let's go to the isopach map, Exhibit 9.

18 A. This is a gross sand isopach of the complete
19 Morrow section, A, B and C, and it's basically a clean sand
20 map with a gamma ray cutoff of 50 API units or less.

21 Again, the location of the SL Deep on this map is
22 shown with a large red circle in Section 30.

23 This map is showing basically two sand thicks in
24 the Morrow, basically trending northwest to southeast.
25 This is indicating probably a Morrow channel system or

1 distributary channel systems. And what we look for, or at
2 least what I look for, are the sand thicks within the
3 Morrow, because it will give you a better chance of
4 encountering more reservoir-quality Morrow sands.

5 Again, it does not guarantee success, because
6 even though you may not hit the sand, you still may not
7 have the porosity or permeability.

8 Some examples of some good wells within the thick
9 or near the thick, again up in Section 19, there are some
10 good wells up there. But again, coming back to the Elliott
11 Hall, it was near the thick and was a poor well.

12 Going over into the thick that's running through
13 Section 20, there's three will within that section, all
14 near the thick, and the best well produced a half BCF.

15 We're hoping that we're going to hit a well with
16 the SL Deep that's going to be more similar to the wells in
17 Section 19, but there's a possibility that we could hit
18 another Elliott Hall.

19 Q. Are you prepared to make a recommendation to the
20 Examiner as to the risk penalty that should be assessed
21 against any nonparticipating interest owners?

22 A. Yes, a 200-percent penalty.

23 Q. And could you summarize the basis for that
24 recommendation?

25 A. Even though we feel this is a good location to

1 drill, there's still risk. We still could encounter wet
2 sands, even though we're high up on the structure. Some of
3 the reservoirs have been limited in the Morrow in this
4 area. We could even miss the sands that we're hoping to
5 see. And if we do hit the sands, we could still miss the
6 porosity and permeability.

7 Q. Has Marbob drilled other similar wells in this
8 area?

9 A. We have drilled other wells in the area, yes.

10 Q. Could you identify and review for Mr. Catanach
11 what has been marked as Marbob Exhibit 10?

12 A. This is the authority for expenditure for the SL
13 Deep Federal Com Number 1.

14 Q. And what are the totals as set forth on this
15 exhibit?

16 A. Dryhole cost is \$945,467, a completed well cost
17 is \$1,589,071.

18 Q. Are these costs in line with what has been
19 incurred by Marbob in drilling other similar wells in the
20 immediate area?

21 A. Yes, they are. I might note that the date on
22 this AFE is in November, and the way drilling costs have
23 been escalating it may be slightly out of date. But it
24 should be pretty close.

25 Q. Would it be conservative if it's out of date?

1 A. The way things are going, yes.

2 Q. Have you made an estimate of the overhead and
3 administrative costs to be incurred while drilling this
4 well and also producing it if, in fact, it is successful?

5 A. Yes, \$5400 and \$540.

6 Q. And what's the basis for these numbers?

7 A. That's pretty common for out here. In fact, I
8 believe Yates uses that.

9 Q. Do you recommend that these figures be
10 incorporated into the order that results from today's
11 hearing?

12 A. Yes, I do.

13 Q. Mr. Miller presented the JOA for the well. Does
14 that JOA contain the COPAS accounting provisions which
15 would provide for the adjustment of the overhead and
16 administrative costs?

17 A. That's what I understand.

18 Q. And does Marbob request that the overhead and
19 administrative costs set in the order that results from
20 this hearing also be adjusted in accordance with these
21 COPAS procedures?

22 A. Yes, we do.

23 Q. Does Marbob Energy Corporation seek to be
24 designated operator of the well?

25 A. Yes.

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 2nd, 2001.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 14, 2002