

NEW MEXICO OIL CONSERVATION DIVISION
STATE LAND OFFICE BUILDING
STATE OF NEW MEXICO
CASE NO. 10470

IN THE MATTER OF:

The Application of Maralo, Inc.,
for compulsory pooling, Lea County,
New Mexico.

BEFORE:

DAVID R. CATANACH

Hearing Examiner

State Land Office Building

April 30, 1992

REPORTED BY:

DEBBIE VESTAL
Certified Shorthand Reporter
for the State of New Mexico

ORIGINAL

A P P E A R A N C E S

FOR THE APPLICANT:

CAMPBELL, CARR, BERGE & SHERIDAN, P.A.
Post Office Box 2208
Santa Fe, New Mexico 87504-2208
BY: WILLIAM F. CARR, ESQ.

FOR MEWBOURNE OIL COMPANY:

HINKLE, CLOX, EATON, COFFIELD & HENSLEY
500 Marquette, Northwest, Suite 740
Albuquerque, New Mexico 87102-2121
BY: JAMES BRUCE, ESQ.

I N D E X

Page Number

Appearances

2

WITNESSES FOR THE APPLICANT:

1. MARK WHEELER

Examination by Mr. Carr

5

Examination by Examiner Catanach

11

2. JOHN THOMA

Examination by Mr. Carr

12

Examination by Mr. Bruce

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Certificate of Reporter

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E X H I B I T S

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Exhibit No. 1	8
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Exhibit No. 6	15

1 EXAMINER CATANACH: At this time we'll
2 call Case 10470, Application of Maralo,
3 Incorporated, for compulsory pooling, Lea County,
4 New Mexico.

5 Appearances in this case?

6 MR. CARR: May it please the Examiner,
7 my name is William F. Carr with the law firm of
8 Campbell, Carr, Berge & Sheridan of Santa Fe. We
9 represent Maralo, Inc., and I have two witnesses.

10 MR. BRUCE: Mr. Examiner, my name is
11 Jim Bruce from the Hinkle law firm. I'm
12 representing Mewbourne Oil Company. I have no
13 witnesses.

14 EXAMINER CATANACH: Other appearances?

15 MR. THOMA: John Thoma, Maralo, Inc.

16 MR. WHEELER: Mark Wheeler, Maralo,
17 Inc.

18 EXAMINER CATANACH: Will the witnesses,
19 please, stand to be sworn in.

20 [The witnesses were duly sworn.]

21 MARK WHEELER

22 Having been duly sworn upon his oath, was
23 examined and testified as follows:

24 EXAMINATION

25 BY MR. CARR:

1 Q. Will you state your name for the
2 record?

3 A. Mark Wheeler.

4 Q. Where do you reside?

5 A. Midland, Texas.

6 Q. By whom are you employed and in what
7 capacity?

8 A. Maralo, Inc., district landman.

9 Q. Mr. Wheeler, have you previously
10 testified before the New Mexico Oil Conservation
11 Division?

12 A. No, I have not.

13 Q. Would you briefly summarize your
14 educational background and review your work
15 experience?

16 A. I have a bachelor's of business
17 administration from West Texas State University,
18 graduated in 1980, and I have been a landman
19 since that time. Employed by Maralo, Inc., for
20 seven years and am a Certified Professional
21 Landman.

22 Q. Does the geographic area of your
23 responsibility for Maralo include the portion of
24 southeastern New Mexico involved in this case?

25 A. Yes.

1 Q. Are you familiar with the application
2 filed in this matter?

3 A. Yes.

4 Q. Are you familiar with the subject area?

5 A. Yes.

6 MR. CARR: We tender Mr. Wheeler as an
7 expert witness in petroleum land matters.

8 EXAMINER CATANACH: He is so qualified.

9 Q. (BY MR. CARR) Would you briefly state
10 what Maralo seeks with this application?

11 A. The compulsory pooling of the south
12 half, southeast quarter, Section 13, 18 South, 32
13 East, Lea County, New Mexico.

14 Q. Mr. Wheeler, before we go into your
15 exhibits, I ask you to refer to what has been
16 marked as Maralo Exhibit No. 4 and using that
17 identify for Mr. Catanach the acreage which is
18 the subject of this application.

19 A. The south half, southeast quarter of
20 Section 13, 18 South, 32 East has been outlined
21 in orange. The location designated by the yellow
22 dot is our proposed well location for that
23 proration unit.

24 Q. What is the ownership of the acreage in
25 this 80-acre spacing unit?

1 A. Maralo has the southeast-southeast of
2 the section under farmout. Mewbourne Oil Company
3 owns the southwest-southeast.

4 Q. And what is the primary objective in
5 this well?

6 A. Wolfcamp Formation.

7 Q. What you're doing here today is pooling
8 the Mewbourne interest?

9 A. Yes.

10 Q. The other information on this exhibit
11 will be reviewed by Mr. Killmer?

12 A. Yes.

13 Q. Let's go now to what has been marked as
14 your Exhibit No. 1. Could you identify that,
15 please?

16 A. Maralo's proposed authority for
17 expenditure for the drilling of the West Corbin
18 13 Federal No. 1 well.

19 Q. Could you review the totals on this
20 AFE?

21 A. The dry hole, two casing point cost
22 \$442,525. The completed well cost \$746,425.

23 Q. Are these costs in line with what has
24 been charged by Maralo for other wells in the
25 area?

1 A. Yes.

2 Q. And has this AFE been provided to
3 Mewbourne?

4 A. Yes, it has.

5 Q. Could you summarize the effort you've
6 made to obtain Mewbourne's voluntary
7 participation in this venture?

8 A. Okay. I believe Exhibit 2 is a
9 detailing of the contacts made with Mewbourne
10 beginning on February 6, 1992, and continuing
11 through the day-before-yesterday, April 28.
12 We've made 13 attempts to obtain either their
13 farmout or joinder in this matter.

14 Q. What is the status of your negotiations
15 with Mewbourne at this time?

16 A. To date we have not obtained a joinder
17 or a farmout.

18 Q. Are negotiations with Mewbourne
19 continuing?

20 A. Yes.

21 Q. If you're able to effect a voluntary
22 agreement for development of this acreage, will
23 Maralo immediately advise the Examiner in this
24 matter?

25 A. Yes.

1 Q. Is Exhibit No. 3 an affidavit
2 confirming that notice of this hearing has been
3 provided by Maralo to Mewbourne as required by
4 the Oil Conservation Division?

5 A. Yes.

6 Q. Has Maralo made an estimate of the
7 overhead administrative costs to be incurred
8 while drilling a well and also while producing a
9 well if it is successful?

10 A. Yes, we have.

11 Q. What are those figures?

12 A. \$5,336 while the well is drilling per
13 month; \$530 when it's producing.

14 Q. What is the source of these figures?

15 A. We used the Ernst & Young survey of
16 overhead charges, 1991. And it's been escalated
17 by slightly over 1 percent as per the COPAS
18 procedure.

19 Q. Do you recommend that these figures be
20 included in any order which results from this
21 hearing?

22 A. Yes, we do.

23 Q. Does Maralo seek to be designated
24 operator of the proposed wells?

25 A. Yes.

1 Q. Will Maralo also be presenting a
2 geological witness to explain the risks
3 associated with the development of this property?

4 A. Yes.

5 Q. Were Exhibits 1 through 3 either
6 prepared by you or compiled at your direction?

7 A. Yes.

8 MR. CARR: At this time, Mr. Catanach,
9 we move admission of Maralo Exhibits 1 through 3.

10 EXAMINER CATANACH: Exhibits 1 through
11 3 will be admitted as evidence.

12 MR. CARR: That concludes my direct
13 examination of Mr. Wheeler.

14 MR. BRUCE: I have no questions, Mr.
15 Examiner.

16 EXAMINER CATANACH: Okay.

17 EXAMINATION

18 BY EXAMINER CATANACH:

19 Q. Mr. Wheeler, the proposed location, 660
20 south and east of Section 13, has that location
21 been approved?

22 A. It has not been applied for, for a
23 permit to drill.

24 Q. That is the --

25 A. That is the proposed location, yes,

1 sir.

2 Q. Has Maralo drilled Wolfcamp wells in
3 this area?

4 A. To the east of this area. About ten
5 miles is the closest.

6 Q. How recent?

7 A. About three or four months ago.

8 Q. So these drilling costs should be in
9 line with what is actually occurring at this
10 time?

11 A. Yes. These costs were taken from a
12 recent Wolfcamp well we drilled to a similar
13 depth.

14 Q. Do you anticipate reaching an agreement
15 with Mewbourne?

16 A. We're hopeful.

17 EXAMINER CATANACH: Okay. I have
18 nothing further. The witness may be excused.

19 MR. CARR: At this time we call John
20 Thoma.

21 JOHN THOMA

22 Having been duly sworn upon his oath, was
23 examined and testified as follows:

24 EXAMINATION

25 BY MR. CARR:

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

3 A. John Thoma.

4 Q. Where do you reside?

5 A. Midland, Texas.

6 Q. By whom are you employed and in what
7 capacity?

8 A. By Maralo, Inc. I'm a geologist.

9 Q. Mr. Thoma, have you previously
10 testified before this Division and had your
11 credentials as a geologist accepted and made a
12 matter of record?

13 A. Yes, I have.

14 Q. Are you familiar with the application
15 filed in this case on behalf of Maralo?

16 A. Yes.

17 Q. Are you familiar with the subject area?

18 A. Yes.

19 MR. CARR: Are the witness'
20 qualifications acceptable?

21 EXAMINER CATANACH: They are.

22 Q. (BY MR. CARR) Have you prepared
23 certain exhibits for presentation here today?

24 A. Yes, I have.

25 Q. Would you refer to what has been marked

1 as Maralo Exhibit No. 4, identify this, and
2 reviewed it for Mr. Catanach?

3 A. Exhibit No. 4 is a production map in
4 the West Corbin Wolfcamp Pool or of the west
5 Corbin Wolfcamp Pool. The green dots represent
6 wells which have been completed and are producing
7 from the Wolfcamp Formation.

8 On the west-northwest side of the
9 field, the dots which have orange markers on them
10 are those Wolfcamp producers that are producing
11 from the primary objective of the Maralo location
12 in the southeast of Section 13, that being the
13 A-F zone.

14 There are five producing reservoirs
15 within the Lower Wolfcamp. There's just one,
16 however, which appears to be prospective in the
17 southeast of 13, and that's what we'll be talking
18 about as we look through these exhibits.

19 Q. Let's move to your isopach map, Exhibit
20 No. 5. Would you review that, please, for Mr.
21 Catanach?

22 A. Exhibit No. 5 is a clean carbonate
23 isopach map of the objective interval in the
24 Lower Wolfcamp, that being the AF zone. You can
25 see the distribution of that carbonate zone. It

1 assumes a northeast-southwest orientation. And
2 you can also see the production which occurs from
3 that reservoir.

4 The location in the southeast of
5 Section 13 is located north of production which
6 has been established by BTA. It also offsets a
7 recent well drilled by BTA in the
8 northeast-northeast of Section 24, 18-32. We'll
9 talk a little bit more about that well as we go
10 on.

11 But generally speaking, the reservoir
12 produces from fractures and matrix porosity. You
13 typically need both to establish commercial
14 production. You also need to be -- the reservoir
15 does have a clearly established oil-water
16 contact, which we'll also be discussing, and you
17 need to be above the oil-water contact.

18 Q. There have been dry holes in the area?

19 A. Yes, there have been. A number of the
20 wells -- well, the wells that you see on that
21 map, on the clean carbonate map, which have
22 values next to them but not producing well
23 symbols have tested the AF and are nonproductive
24 due to lack of either fracturing or matrix
25 porosity or structural position.

1 Q. Let's move now to Exhibit No. 6. Would
2 you identify and review this?

3 A. Exhibit No. 6 is a structure map on the
4 Lower Wolfcamp Shale, which is a shale marker
5 which is prominent through the area, is easily
6 defined and correlatable. It forms a very good
7 and reliable structural marker for the Lower
8 Wolfcamp reservoirs.

9 The map shows the structure, the Lower
10 Wolfcamp to be dipping from the northwest to the
11 southeast. It also shows a prominent structural
12 nose, an interpreted structural nose, which
13 crosses through the Maralo leasehold in the
14 southeast quarter of Section 13 and continues on
15 to the south-southeast in the west half of
16 Section 19, 18-33.

17 This structural feature is, and the
18 integrity of this structural feature is very
19 important in determining whether or not you have
20 production, commercial production, from the AF
21 zone.

22 The well in the northeast-northeast
23 penetrated the marker bed, the mapping on here,
24 at minus 7157. That well was wet. The wells
25 down in the southeast quarter of Section 24, the

1 No. 2 French in the northeast-southeast and the
2 No. 1 French in the southeast-southeast are both
3 productive from the AF zone.

4 Q. This exhibit also serves as an index
5 map for your cross-section, does it not?

6 A. That's correct.

7 Q. Let's move now to the cross-section,
8 and if you would review that for the Examiner.

9 A. This is a structural cross-section, C-C
10 prime, which begins on the left-hand side at
11 point C. And the French No. 2, BTA French No. 2,
12 continues on to the north through the BTA French
13 No. 3 in the northeast-southeast through the
14 French No. 3 and the north -- I'm sorry, in the
15 southeast-northeast-- I'm sorry.

16 Let me back up. It starts, the French
17 No. 2, in the northeast-southeast, runs through
18 the French No. 3 in the southeast-northeast, then
19 through the French No. 4 in the
20 northeast-northeast through the proposed location
21 in the southeast of 13 then up into two producing
22 wells, one in the southeast-northeast of Section
23 18 of 18-33, and the final well in the section on
24 the right in the north-northeast-northwest of
25 Section 8, 18-33.

1 What this section shows, one is the
2 structural position of various reservoirs in the
3 Lower Wolfcamp. It also shows the individual
4 reservoir units as they develop across this line
5 of section. But most importantly it shows the AF
6 zone at the bottom of the section.

7 The coloring indicates oil and water;
8 green being oil, blue being water. You can see
9 that there is a very clear oil-water contact
10 developed in each one of these wellbores. The
11 only wellbore to date that does not appear to
12 have the contact is the well furthest up-dip on
13 the right-hand side of the section, the Santa Fe
14 Kachina 8 No. 1. That appears to be entirely out
15 of the water column.

16 The well offsetting the proposed
17 location, the French No. 4, has an oil-water
18 contact, and that zone was never tested. The
19 oil-water contact I am basing on calculations.
20 The calculations indicate that there is
21 potentially oil in that reservoir, however,
22 untested.

23 Moving down-dip, the French No. 2, the
24 AF zone, both of the porosity streaks in the AF
25 zone are below the water level. Moving down, or

1 rather down-section to the French No. 2, that
2 well comes back up structurally on the flank of
3 that AF nose and actually has column, oil column,
4 above water. It's imperative that you have,
5 obviously, oil column above water to establish
6 production.

7 The structure map that I've drawn
8 indicates that we should be structurally high to
9 the No. 4 and the No. 3 wells. However, at this
10 point that is interpreted, and certainly we will
11 not know until we drill the well.

12 That is the primary risk that I see
13 with the prospect, is that the structure, the
14 structural position of the AF reservoir needs to
15 be sufficient, sufficiently high to the existing
16 wells to the south to establish production. And
17 that to date has not been confirmed and will not
18 be until the well is drilled.

19 Q. Are you prepared to make a
20 recommendation to Mr. Catanach as to the risk
21 penalty that should be assessed against the
22 Mewbourne interest if they do not voluntarily
23 participate in this well?

24 A. Yes.

25 Q. And what is that?

1 A. 200 percent.

2 Q. You believe there's a chance at this
3 proposed location that you could drill a well,
4 but it will not be a commercial success?

5 A. Yes, I do.

6 Q. In your opinion will granting this
7 application, pooling these lands, and imposing a
8 200 percent risk penalty be in the best interests
9 of conservation, the prevention of waste, and the
10 protection of correlative rights?

11 A. Yes.

12 Q. Were Exhibits 4 through 7 prepared by
13 you?

14 A. Yes, they were.

15 MR. CARR: At this time, Mr. Catanach,
16 we move the admission of Exhibits 4 through 7.

17 EXAMINER CATANACH: Exhibits 4 through
18 7 will be admitted as evidence.

19 MR. CARR: That concludes my direct
20 examination of Mr. Thoma.

21 MR. CARR: Mr. Bruce.

22 MR. BRUCE: Just a few questions, Mr.
23 Thoma.

24 EXAMINATION

25 BY MR. BRUCE:

1 Q. Are there any other formations out here
2 spaced on 80 acres above the Wolfcamp?

3 A. Not to my knowledge.

4 Q. And you believe that only the AF zone
5 is prospective at this location?

6 A. Yes.

7 Q. Not the AG?

8 A. To date the AG has not been proven to
9 be productive in this part of the field.

10 Q. And none of the other zones, A through
11 AE?

12 A. No.

13 Q. And looking at your Exhibit 6 and your
14 line of the cross-section there, am I
15 understanding you to say that generally in the AF
16 zone the oil-water contact applies to the south
17 or east of that cross-section line generally?

18 A. Very generally. Very generally that
19 would be correct.

20 Q. Or if you had to place it in relation
21 to that cross-section line, where would it be?

22 A. Well, I think what you would have to do
23 would be to look at the structural position. The
24 structural position of the Lower Wolfcamp Shale
25 relative to the AF. It doesn't track the

1 structural position of the reservoir exactly, but
2 it does give you a fairly good indicator of how
3 the AF reservoir is behaving structurally.

4 And so if you took the contact that you
5 see in the BTA No. 4 in the northeast-northeast
6 and traced that around the map, that would weave
7 in and out of the cross-section line.

8 Q. That's to the south of the proposed
9 location? Is that the well you're talking about?

10 A. That's correct. That's correct.

11 Q. Okay. So did I understand you to say
12 you hoped to be structurally higher than those
13 wells to the south of you?

14 A. That is also correct. There are a
15 number of structural lows which do reach
16 considerable distances from the southeast up into
17 the northwest part of the map area. And those
18 structural lows are what frequently drop the
19 reservoir along strike below column.

20 Otherwise you could just draw an
21 arbitrary line just south of the cross-section
22 from the southwest to the northeast and say
23 everything to the northwest would be productive;
24 however, that really is not the case.

25 Q. We've been through that in excruciating

1 detail once, haven't we, Mr. Thoma? Twice.

2 A. It's committed to memory.

3 Q. In looking at your Exhibit 5, the two
4 wells in the south half of the northwest quarter
5 of Section 18, just to the northeast of your
6 proposed location, did the operator attempt to
7 complete those in the AF zone?

8 A. The two wells in the southeast quarter
9 of 18?

10 Q. In the south half of the northwest
11 quarter of Section 18.

12 A. South half of the -- okay, yes. Yes,
13 they did. Well, actually the well in the
14 south -- in the southeast of the northwest is
15 mismarked. That well is not actually productive
16 from the AF zone. That is an AG producer.

17 The well in the southeast -- I'm sorry,
18 the southwest-northwest was tested in the AF.
19 They did actually perforate the AF, and it was
20 tight. It had a fairly thick AF section of clean
21 carbonate, but it was not porous nor fractured.
22 So it consequently didn't yield flood.

23 Q. And the well in the southeast of the
24 northwest is an AG producer, you said?

25 A. That's correct.

1 Q. Was it tested in the AF?

2 A. It has not been tested in the AF yet.

3 Q. And up in Section 8, the well in the
4 southwest quarter of the northwest quarter, to
5 your knowledge that was tested in the AF, was
6 that not?

7 A. Yes, I believe that was perforated.

8 Q. And is producing from the AF?

9 A. No. It was abandoned in the AF. They
10 came up and shot the AD, which is a carbonate
11 that develops immediately above the Wolfcamp
12 Shale. It's shown on the cross-section C-C
13 prime. They shot that zone and are producing
14 from that zone. There's a bridge plug below the
15 AD and the AF or between the two.

16 Q. That string of wells in Section 5 and
17 Section 8, you were the geologist for those
18 wells, were you not, Mr. Thoma?

19 A. That's correct.

20 MR. BRUCE: I have nothing further.

21 EXAMINER CATANACH: I have no questions
22 of the witness. You may be excused.

23 MR. CARR: We have nothing further in
24 this case.

25 EXAMINER CATANACH: There being nothing

1 further in this case, Case 10470 will be taken
2 under advisement.

3 [And the proceedings were concluded.]
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16 I do hereby certify that the foregoing is
17 a complete and correct report of the proceedings in
18 the above case, Case No. 10470,
19 heard by the Court on April 30, 1992.

20 David R. Calant
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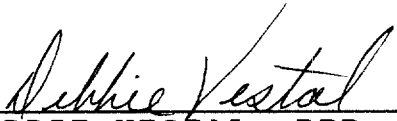
1 CERTIFICATE OF REPORTER

2
3 STATE OF NEW MEXICO)
4) ss.
5 COUNTY OF SANTA FE)

6 I, Debbie Vestal, Certified Shorthand
7 Reporter and Notary Public, HEREBY CERTIFY that
8 the foregoing transcript of proceedings before
9 the Oil Conservation Division was reported by me;
10 that I caused my notes to be transcribed under my
11 personal supervision; and that the foregoing is a
12 true and accurate record of the proceedings.

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

18 WITNESS MY HAND AND SEAL May 6, 1992.
19
20

21 
22 _____
23 DEBBIE VESTAL, RPR
24 NEW MEXICO CSR NO. 3
25