

STATE OF NEW MEXICO  
ENERGY AND MINERALS DEPARTMENT  
OIL CONSERVATION DIVISION  
STATE LAND OFFICE BLDG.  
SANTA FE, NEW MEXICO

6 June 1984

EXAMINER HEARING

IN THE MATTER OF  
Application of OGR Operating Com-  
pany, Inc. for compulsory pooling, CASE  
Lea County, New Mexico. 8180

BEFORE: Richard L. Stamets, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation Division:	W. Perry Pearce Attorney at Law Legal Counsel to the Division State Land Office Bldg. Santa Fe, New Mexico 87501
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For the Applicant:

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3 MR. STAMETS: We'll call next  
4 Case 8180.

5 MR. PEARCE: That case is on  
6 the application of OGR Operating Company, Inc. for  
7 compulsory pooling, Lea County, New Mexico.

8 Mr. Examiner, I believe this  
9 matter has been previously heard and was readvertised to  
10 correct an advertising error.

11 MR. KELLAHIN: That's correct.

12 MR. PEARCE: Is there further  
13 testimony in this matter?

14 MR. STAMETS: Being no further  
15 testimony today, the case will be taken under advisement.

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(Hearing concluded.)

## C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY  
that the foregoing Transcript of Hearing before the Oil Con-  
servation Division was reported by me; that the said tran-  
script is a full, true, and correct record of the hearing,  
prepared by me to the best of my ability.

Sally W. Boyd CSR

I do hereby certify that the foregoing is  
a complete record of the proceedings in  
the Examiner's hearing of Case No. 8180  
heard by me on 6-6 1984.

Richard P. Starn, Examiner  
Oil Conservation Division

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Application of OGR Operating Co.	CASE
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Lea County, New Mexico.	

BEFORE: Richard L. Stamets, Examiner

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A P P E A R A N C E S

For the Oil Conservation	W. Perry Pearce
Division:	Attorney at Law
	Legal Counsel to the Division
	State Land Office Bldg.
	Santa Fe, New Mexico 87501

For the Applicant:	W. Thomas Kellahin
	Attorney at Law
	KELLAHIN & KELLAHIN
	P. O. Box 2265
	Santa Fe, New Mexico 87501

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

For Marathon Oil Co: William F. Carr  
Attorney at Law  
CAMPBELL, BYRD, & BLACK P.A.  
P. O. Box 2208  
Santa Fe, New Mexico 87501

## I N D E X

STATEMENT BY MR. KELLAHIN 3

MITCHELL RITTER

Direct Examination by Mr. Kellahin 4

Cross Examination by Mr. Stamets 11

MIKE GATES

Direct Examination by Mr. Kellahin 14

Cross Examination by Mr. Stamets 22

## E X H I B I T S

OGR Exhibit One, Correspondence 6

OGR Exhibit Two, AFE 8

OGR Exhibit Three, Operating Agreement 10

OGR Exhibit Four, Isopach 15

OGR Exhibit Five, Map 16

1  
2 MR. STAMETS: The hearing will  
3 please come to order.

4 We will call next Case 8180.

5 MR. PEARCE: That case is on  
6 the application of OGR Operating Company, Inc. for compul-  
7 sory pooling, Lea County, New Mexico.

8 MR. STAMETS: And we will call  
9 for appearances in this case.

10 MR. KELLAHIN: Mr. Examiner,  
11 I'm Tom Kellahin of Santa Fe, New Mexico, appearing on be-  
12 half of the applicant, OGR Operating Company, Inc., and I  
13 have two witnesses.

14 MR. CARR: May it please the  
15 Examiner, my name is William F. Carr with Campbell, Byrd and  
16 Black, P.A. of Santa Fe, appearing on behalf of Marathon Oil  
17 Company.

18 We do not intend to present a  
19 witness.

20 MR. PEARCE: Other appearances  
21 in this matter?

22 (Witnesses sworn.)

23 MR. KELLAHIN: Mr. Stamets,  
24 there is a need to readvertise Case 8180. The township is  
25 shown to be Township 6 South and ought to be 16 South. The  
application and the advertisement shows Township 16 South.

1  
2 We understand it will be read-  
3 vertised for June 6th. We have notified Marathon of the er-  
4 ror in the advertisement. It is our understanding that we  
5 have all been dealing with Township 16 South and we'd like  
6 to proceed, then, with hearing of the case, Mr. Examiner.

7 MR. STAMETS: We will proceed  
8 with the hearing in the case and readvertise it for June 6,  
9 1984.

10 MR. KELLAHIN: Thank you very  
11 much.

12 MITCHELL RITTER,  
13 being called as a witness and being duly sworn upon his  
14 oath, testified as follows, to-wit:

15 DIRECT EXAMINATION

16 BY MR. KELLAHIN:

17 Q Mr. Ritter, for the record would you  
18 please state your name and occupation?

19 A I'm Mitchell Ritter. (Lost from faulty  
20 tape.)

21 Q Mr. Ritter, have you previously testified  
22 before the New Mexico Oil Conservation Commission?

23 A Yes, I have.

24 MR. KELLAHIN: Is Mr. Ritter  
25 considered qualified?

MR. STAMETS: Yes, he is.

1  
2 Q Mr. Ritter, are you familiar with the  
3 subject of this application before the Examiner this after-  
4 noon?

5 A Yes, I am.

6 Q How are you familiar with that property,  
7 Mr. Ritter?

8 A I, as a member of OGR Operating Company  
9 purchased the tract of land in the northeast quarter of Sec-  
10 tion 17, Township 16 South, Range 34 East, and thereby have  
11 knowledge of it. We wish to drill a well on that particular  
12 tract.

13 Q Mr. Ritter, what are you proposing to do  
14 with this application?

15 A This application was in order to get some  
16 action out of Marathon Oil Company in order to get a well  
17 drilled in the northeast quarter of this section.

18 Q All right, let me just have you describe  
19 for us the acreage involved in Section number 17, Mr.  
20 Ritter. What is the ownership of the 160-acre tract  
21 consisting of the northeast quarter?

22 A The northeast quarter is owned 100  
23 percent by O'Brian, Goins, Ritter, and Associates.

24 Q Let me direct your attention to the  
25 southeast 160-acre quarter section and have you describe the  
ownership there as best you know it.

A To the best I know it, Marathon Oil  
Company has that acreage held by production from acreage to

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the south of that particular tract.

Q Is the well that you propose to drill pursuant to this pooling order a well to be located on your 160-acre tract?

A It is.

Q And in the event that this well produces gas from a spacing or proration unit for which you are required to dedicate 320 acres, do you propose to dedicate the Marathon 160 acres to that spacing and proration unit?

A We do.

Q Would you describe for the Examiner and referencing Exhibit Number One your efforts to obtain voluntary agreement between your company and Marathon Oil Company?

A Well, the first communication between ourselves and Marathon was exhibited here on November 15th, 1983, a letter stating that we would like to farm out their interest to the primary objectives of Wolfcamp and Cisco and also the Atoka, Morrow, and Devonian.

We offered them a particular deal that it would include their southeast quarter of Section 17. They would retain the option and convert their override to a 25 percent working interest after payout.

Q What, if any, response did you receive from Marathon to that initial request?

A Well, after several attempts by telephone to inquire with them what their opinion of our letter was,

1  
2 we received a letter back from them in January of 1984 and  
3 reference was made to our letter that they did not wish to  
4 farm out under the terms that we had proposed.

5 Q All right, sir. What then is the next  
6 effort to form a voluntary unit?

7 A Therefore we two days later relayed in-  
8 formation to them that we would like to request a farmout  
9 again from them on a different terms of a 30 percent back in  
10 and form a working interest unit that allowed them to back  
11 in after payout for 30 percent and leave them a 75 percent  
12 net revenue, or leave us a 75 percent net revenue.

13 We also noted on that letter that they  
14 are holding this acreage with a well that's making probably  
15 in the -- at that time 3.6 barrels a day and 63 Mcf and an-  
16 other well, the State 2, which is currently making a little  
17 less than one barrel a day and 17 Mcf, and that that produc-  
18 tion probably would not hold for a very much longer time.

19 Q What, if any, response did you receive  
20 from Marathon to that inquiry?

21 A Well, it took until April to respond to  
22 that letter and in April they responded that they would farm  
23 out to us, however their farm out wanted -- they wanted to  
24 farm out to the working interest unit thereby relieving us  
25 of all of our royalty interest above 75 percent and even in  
our tract, so we did not wish to consider that and wrote  
that -- wrote back to them as of April 11th and said that we  
cannot accept the farmout under the terms that they stated

1  
2 and offered that they should be allowed to participate in  
3 the well on a 50/50 basis.

4 Q All right, sir, in response to the pro-  
5 posal that they participate on a 50/50 basis what, if any-  
6 thing, did Marathon tell you?

7 A They wrote us back and said that as of  
8 our letter of April 9th, or April 11th, that they did not  
9 elect to participate in the well and on -- in that manner.

10 Q All right, sir, and you have then pro-  
11 ceeded to obtain a compulsory pooling order from the Oil  
12 Conservation Division.

13 A That is correct.

14 Q Let me direct your attention, Mr. Ritter,  
15 to Exhibit Number Two, which is the proposed AFE for the  
16 drilling of the well and ask you if you can identify it?

17 A Yes, I can.

18 Q Was that AFE prepared under your  
19 supervision and direction, Mr. Ritter?

20 A Yes, it was.

21 Q And by whom was that prepared?

22 A Mr. Mickey Dobson of our office prepared  
23 and tabulated this information for our purposes.

24 Q All right, sir, and Mr. Dobson has what  
25 responsibility in your company with regards to the  
preparation of AFEs?

A He is in primary charge of all drilling  
activity and the operations of most of the well that we

1  
2 drill.

3 Q And pursuant to your direction did he  
4 prepare for you, review a proposed AFE for use in the drill-  
5 ling of this well?

6 A This is it. Yes, he did.

7 Q And what are the total costs involved in  
8 the drilling of the well as proposed, Mr. Ritter?

9 A As proposed we will totally spend  
10 \$1.1,000,000 on this well.

11 Q As a completed well?

12 A Yes.

13 Q In your opinion, Mr. Ritter, is that pro-  
14 posal a reasonable estimate of the costs involved in drill-  
15 ling a well to this particular depth?

16 A Yes, it is.

17 Q All right, what is the total depth of the  
18 well?

19 A The total depth of this well is 14,000  
20 feet.

21 Q And what, in your opinion, are the pri-  
22 mary potential producing formations that you might encount-  
23 er?

24 A The primary potential producing forma-  
25 tions are the Wolfcamp, the Cisco, and Morrow zones.

Q In the event any of those 320-acre gas  
zones in encountered in commercial quantities, you propose  
to dedicate the east half of this section to that well?

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A Yes, we do.

Q Let me direct your attention to Exhibit Number Three, Mr. Ritter, and have you identify for us the proposed operating agreement that would be used for the drilling of this well.

A That is Exhibit Number Three.

Q Is this an operating agreement that has been approved by interest owners other than OGR Operating Company for the drilling of this well?

A Yes, subsequent to acquiring the property we have sold a 25 percent working interest to Inderex Corporation out of Tulsa, Oklahoma.

Q And is this a proposed operating agreement that has been approved by them?

A Yes, it has.

Q Let me direct your attention, Mr. Ritter, to the attachment on the accounting instructions identified as the COPAS attachments to the operating agreement and direct your attention to the overhead charges that have been agreed upon between you and this other company for the drilling of the well and have you tell us what those charges are.

A We will charge a drilling well rate of \$5000 and a producing well rate of \$500.

Q Is it your recommendation to the Examiner that those costs as agreed upon by the parties be applied in a pooling order as directed to Marathon Oil Company?

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A Yes.

Q All right, sir. When do you propose to commence the well, Mr. Ritter? Do you have a definite time schedule at this point?

A We do not have a definite time schedule. We would like to start the well sometime in the middle or last part of the summer.

Q All right, sir.

MR. KELLAHIN: That concludes my examination of Mr. Ritter. We do have a second witness with regards to risk and penalty factors.

MR. STAMETS: Are there questions of the witness?

#### CROSS EXAMINATION

BY MR. STAMETS:

Q Mr. Ritter, I wish you would go through and explain the differences in the three proposals that you've made to Marathon here; what it would mean to them as far as any costs and charges and exactly what these proposals mean in a practical sense.

A Okay. In a practical sense we have offered them in the first letter, the November 15th letter, to turn to us a 8125 lease which they have a greater interest and I think they have some percentage above that. I don't know exactly what the terms of their lease is, but I'm told by my landman it is some percentage greater than that. We

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offered them to turn us that lease with the option to keep an override and back in for a 25 percent working interest after payout of the well.

Q In other words, if, assuming that we had a typical lease here with a 12-1/2 percent royalty interest, they would be getting an overriding royalty which would be an amount equal to the income -- a percentage of the income between 8 1/2 and 12-1/2 percent.

A Correct.

Q Okay.

A And we thought that was a fair offer.

Q And after payout they would have a 25 percent working interest.

A They would back in for 25 percent working interest.

Q Okay.

A Their letter -- their letter to us, if you'll note, some two months later stated that they did not wish to entertain a farm out under those terms.

Q Okay, then what about the next one.

A Very simple.

Q The next proposal.

A The next proposal was to increase their back in to a 30 percent back in and from a 25 percent back in.

Q Still keeping the 8 1/2 --

A Still keeping the 8 1/2 percent.

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Q And interest.

A And the interest.

And the -- also noting on that letter that their production was not substantially holding their acreage for what we felt like a much longer period of time, or even at an economical rate in these days and times.

Q Okay.

A Their letter to us said that they will farm out regarding our test. They would deliver a 75 percent net revenue, down from an 81, plus a 30 percent back in, which we had offered; however, the turning point in this letter here was the fact that they wished to farm out to the working interest unit, therefore effectively cutting us from a 12 percent back to a 75 percent on our acreage as well as on their acreage.

They would in effect get our override or our royalty interest from what we had from the State at 12 percent down to a 75 percent.

That is what in effect farming out to the working interest does. We would have -- we would have taken this offer had it not been to the working interest unit covering the entire east half. It was not what you would call a direct farmout just on their acreage.

Q I may have to ask for a picture of that and see how that works.

Anyhow, let's go on to the last case.

A You're stretching my limits of expertise

1  
2 in that area. I'm going by what the -- was said.

3 Q Okay.

4 A The next letter was dated two days after  
5 that. We wrote them and told them we could not accept that  
6 farmout for that reason and we would reiterate our proposal  
7 for them to either farmout on the more acceptable terms or  
8 join in the well and that, we noted on the bottom that if no  
9 further reply is received that we would try -- we would take  
10 action with the New Mexico Oil State Conservation Commis-  
11 sion, and their letter back to us the next day was stating  
12 that the -- Marathon did not wish to farm out on any other  
terms and they did not wish to join in the well.

13 Q So your letter of April 11th really did  
14 not offer any different proposal, is that correct?

15 A Only in the sense that we offered to let  
16 them, you know, again reiterated that we wished they would  
17 join in the well if they did not wish to farm out under any  
acceptable proposal.

18 Q So in essence you offered them a chance  
19 to join in on a straight 50/50 basis.

20 A Certainly.

21 MR. STAMETS: Any other ques-  
22 tions of the witness? He may be excused.

23 MIKE GATES,

24 being called as a witness and being duly sworn upon his  
25 oath, testified as follows, to-wit:

## DIRECT EXAMINATION

BY MR. KELLAHIN:

Q All right, Mike, would you please state your name and occupation?

A Mike Gates. I'm a geologist with O'Brien, Goins, and Ritter.

MR. STAMETS: How do you spell that last name, sir?

A G-A-T-E-S.

Q Mr. Gates, have you testified before the Division as a petroleum geologist?

A Yes, I have.

Q And pursuant to your employment have you made a study of the geology surrounding the subject well and the proration unit involved in this case?

A Yes.

MR. KELLAHIN: We tender Mr. Gates as an expert petroleum geologist.

MR. STAMETS: He is considered qualified.

Q Mr. Gates, let me direct your attention to Exhibit Number Four, which is the Isopach, and have you identify that for us, please.

A This is a, as it shows here, it's a Morrow net pay Isopach which in effect measures the thickness of this sand which I think would be productive in the vici-

nity.

Q Is this an Isopach that you prepared?

A Yes.

Q How have you identified the OGR acreage in Section is it 7?

A 17.

Q 17?

A It's the acreage in yellow, northwest northeast quarter.

Q What have you determined to be significant control points from which you then have mapped your Isopach?

A The control points are all the circle wells which have a footage indicated by the wells. For instance, directly west of the yellow acreage there's a 5-foot, 5 feet of pay in the Elk Oil well. That's in Section 16.

Then northeast of the prospect there is a Morrow well with 12 feet of net pay.

Immediately north of it there's a well with 5 feet of net pay.

And then there's three wells in Section 8 north of our acreage which have penetrated the Morrow and I've indicated the footage on them.

Q Okay. Before we conclude with Exhibit Number Four let me direct your attention to Exhibit Number Five and use that exhibit to help us identify the type of

well involved from which you've used control points to map the Isopach of the Morrow.

Looking first of all to the section just to the north of Section 17, the first well colored in orange, I believe it is, what type of well is that, Mr. Gates?

A That is a Queen well. It penetrated the Morrow but it was drilled quite some time ago by Shell and the Morrow was not tested. It's not known to be productive in the area, mostly in the north.

Q All right, sir, if you'll move north and east of that well, would you identify the next well?

A That's the Moncrief Phillips State No. 1-Y. It was a Morrow producer and is a Morrow producer. To date it has produced 139,000,000 cubic feet and 6,271 barrels of condensate.

Q In your opinion has that been an economic well in the Morrow?

A No, it doesn't look like it will pay out.

Q Now if you'll go to the Section 9 again to the east, the next control point in that section that's closest to your proration unit, would you identify that well for us?

A That's an Elk Oil Well No. 6, Northeast Kemnitz.

Q All right, sir, is that productive in the Morrow?

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A           It is, and it's produced approximately a half a Bcf and it is still producing at almost a million cubic feet a day.

Q           Is that well an economic well?

A           Yes.

Q           Okay. We'll go to the south of that well and look in Section 6, there is a well identified by a blue colored symbol, I believe it is. What is that well?

A           The well in Section 16 is a Cisco well.

Q           Just south of that is there another control well that you've used to map your Isopach?

A           There is another well that I have used and it shows as a Morrow well in the New Mexico books, but it is not.

Q           All right.

A           Not a producer.

Q           I assume that the primary objective in drilling the well is the potential for production in the Morrow?

A           There's three primary zones and that would be the deepest.

Q           All right, sir.

              What are the other two zones that you propose to test?

A           The Wolfcamp and the Cisco.

Q           Does the Wolfcamp produce in the immediate area, Mr. Gates?

1  
2 A Yes, it does. It's the green dots on the  
3 map.

4 Q All right, sir, and how about the Cisco?

5 A It also produces in the area.

6 Q How is that identified?

7 A By the purple and there's a producer one-  
8 half mile directly east of us.

9 Q Okay. Mr. Gates, as you're aware, the  
10 Commission has by statute a maximum penalty factor that can  
11 be applied in forced pooling cases whereby the operator is  
12 allowed to recover out of production Marathon's share of the  
13 costs of the well plus a penalty not to exceed 200 percent.

14 In terms of that statutory maximum penal-  
15 ty, Mr. Gates, do you have an opinion as to the penalty that  
16 you would recommend being applied for the Morrow, or poten-  
17 tial Morrow production?

18 A Well, I feel like the Morrow represents  
19 substantial risk in the area and in light of that fact, I  
20 would think that maybe a maximum would apply in this case.

21 Q As to the other two potential formations,  
22 is that risk greater or less than the 200 percent you would  
23 attribute to the Morrow?

24 A I'm not sure I understand.

25 Q All right. Is the risk involved -- what  
is the risk in your opinion to possible Wolfcamp production?

A I think the Wolfcamp is much lower risk  
than the Morrow.

1  
2 Q All right, what risk would you apply to  
3 the Wolfcamp production?

4 That's Wolfcamp gas production based upon  
5 320 acre spacing.

6 A As far as Wolfcamp gas there is substan-  
7 tial risk. Wolfcamp oil is a little more likely.

8 Q All right, sir, but the Wolfcamp oil  
9 would not be spaced upon 320, would it?

10 A Right. Correct.

11 Q All right. When applied to a 320-acre  
12 gas proration unit, which would involve Marathon, in the  
13 Morrow you have given us an opinion that it represents a 200  
14 percent risk factor, or the maximum.

15 In the event of Wolfcamp gas production  
16 is your opinion that that penalty should be less or equal to  
17 the maximum?

18 A I would say equal for Wolfcamp gas pro-  
19 duction.

20 Q The other formation, I believe, was the  
21 Cisco?

22 A Yes.

23 Q And is that a gas formation based upon  
24 320?

25 A No, it is not.

Q And what is the spacing in the Cisco?

A 80 acres.

Q All right. So that would not involve

1  
2 Marathon.

3 A Not in any way.

4 Q Let me direct your attention back then to  
5 Exhibit Number Four, Mr. Gates, and the Isopach and have you  
6 demonstrate for us what you believe to be the approximate  
net footage in the Morrow.

7 A I expect at our proposed location, I ex-  
8 pect to encounter 12, approximately 12 feet.

9 Q All right, sir, and you propose to drill  
10 your well at a standard location on the 320-acre unit.

11 A Yes.

12 Q Were Exhibits Four and Five prepared by  
13 you?

14 A They were.

15 Q In your opinion, Mr. Gates, will approval  
16 of this application be in the best interests of conserva-  
17 tion, the prevention of waste, and the protection of corre-  
lative rights?

18 A Yes, sir.

19 MR. KELLAHIN: That concludes  
20 our examination of Mr. Gates.

21 We move the introduction of Ex-  
22 hibits One through Five.

23 MR. STAMETS: The exhibits will  
24 be admitted.  
25

## CROSS EXAMINATION

BY MR. STAMETS:

Q Mr. Gates, what did you say the likelihood was for completion in the Wolfcamp, oil or gas?

A I think it will likely be oil.

Q And what's the spacing on oil?

A On oil it would be 80 acres.

Q Okay, and I noticed on the AFE that you presented it shows 14,000 feet Devonian.

A Correct.

Q Will the well actually be drilled to the Devonian?

A It's really unlikely that it will. The Devonian is actually secondary objective, but if we did find that we were running quite high in the Pennsylvanian we want to go ahead and set this out as a Devonian test because the Devonian is known to be productive in the area where you are quite high.

That's a Devonian well to the north in the dark green.

Q Will there be any additional up hole costs above the base of the Pennsylvanian resulting from drilling this well to the Devonian?

A Possible DST's. There are two possible DST's.

MR. RITTER: The up hole costs are not developed to the Devonian.

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2           A           I guess I don't really understand the  
3 question.

4           Q           Okay. There would be certain costs asso-  
5 ciated with drilling this well to the base of the Pennsyl-  
6 vanian.

7           A           Yes.

8           Q           Will there be any costs up hole, and I'm  
9 referring to above the base of the Pennsylvanian, which  
10 would result from drilling the well on down to the Devonian?

11          A           No, same casing program. It's only 1100  
12 feet deeper than the base of the Morrow to test the Devon-  
13 ian.

14          Q           I'm not sure who the proper party is to  
15 ask this question to, but whoever is the proper party can  
16 answer.

17                       I presume that you are aware that if the  
18 well winds up as an oil well on spacing that does not in-  
19 clude the southeast quarter, that then Marathon is not sub-  
20 ject to any costs and charges.

21                       MR. RITTER: We're willing to  
22 let that be because we do not wish to have them involved in  
23 a well they do not need to be involved in.

24                       MR. STAMETS: Okay, and then  
25 the order as far as those formations, then, would expire.

                      MR. RITTER: That is all we de-  
sire is to have them on the formations only that require 320  
acres.

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MR. STAMETS: Okay. Are there other questions of this witness? He may be excused.

Is there anything further in this case?

MR. KELLAHIN: No, sir.

MR. STAMETS: The case will be taken under advisement.

(Hearing concluded.)

## C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY that the foregoing Transcript of Hearing before the Oil Conservation Division was reported by me; that the said transcript is a full, true, and correct record of the hearing, prepared by me to the best of my ability.

Sally W. Boyd CSR

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 8180 heard by me on 5-9-1984.

Richard P. Stum, Examiner  
Oil Conservation Division