

NEW MEXICO OIL CONSERVATION DIVISION  
STATE LAND OFFICE BUILDING  
STATE OF NEW MEXICO  
CASE NO. 10576

IN THE MATTER OF:

The Application of Merrion Oil & Gas  
Company for a Unit Agreement,  
Sandoval County, New Mexico.

BEFORE:

MICHAEL E. STOGNER

Hearing Examiner

State Land Office Building

October 29, 1992

REPORTED BY:

CARLA DIANE RODRIGUEZ  
Certified Shorthand Reporter  
for the State of New Mexico

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OIL CONSERVATION DIVISION

**ORIGINAL**

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

FOR THE NEW MEXICO OIL CONSERVATION DIVISION:

ROBERT G. STOVALL, ESQ.

General Counsel  
State Land Office Building  
Santa Fe, New Mexico 87504

FOR THE APPLICANT:

THE TANSEY LAW FIRM  
Post Office Box 1020  
Farmington, New Mexico 87499  
BY: B. TOMMY ROBERTS, ESQ.

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1 EXAMINER STOGNER: Call the next case,  
2 No. 10576.

3 MR. STOVALL: Application of Merrion  
4 Oil & Gas Corporation for a unit agreement,  
5 Sandoval County, New Mexico.

6 EXAMINER STOGNER: Call for  
7 appearances.

8 MR. ROBERTS: Mr. Examiner, my name's  
9 Tommy Roberts with the Tansey Law Firm in  
10 Farmington, New Mexico, and I'm appearing on  
11 behalf of Merrion Oil & Gas Corporation. I have  
12 three witnesses to be sworn.

13 EXAMINER STOGNER: Will the witnesses  
14 please stand to be sworn.

15 [The witnesses were duly sworn.]

16 MR. ROBERTS: I would call as my first  
17 witnesses, Steve Dunn.

18 STEVEN S. DUNN, P.E.

19 Having been first duly sworn upon his oath, was  
20 examined and testified as follows:

21 EXAMINATION

22 BY MR. ROBERTS:

23 Q. Would you please state your name and  
24 your place of residence for the record.

25 A. Steven Dunn. Farmington, New Mexico.

1 Q. What is your occupation?

2 A. I am operations manager for Merrion Oil  
3 & Gas and I work as a petroleum engineer.

4 Q. How long have you been employed in that  
5 capacity?

6 A. Over 16 years.

7 Q. Have you testified before the Oil  
8 Conservation Division on prior occasions?

9 A. Yes, I have.

10 Q. In what capacity?

11 A. As a petroleum engineer.

12 Q. Are you familiar with the application  
13 in this case?

14 A. Yes, I am.

15 Q. Are you familiar with Merrion's  
16 operations in the area which is the subject of  
17 this application?

18 A. Yes, I am.

19 MR. ROBERTS: I would tender Mr. Dunn  
20 as an expert petroleum engineer.

21 EXAMINER STOGNER: Mr. Dunn is so  
22 qualified.

23 Q. Mr. Dunn, would you briefly describe  
24 the purpose of this application?

25 A. Merrion Oil & Gas seeks approval from

1 the state for its exploratory unit, namely the  
2 Rock Mesa Unit, comprising approximately 10,823  
3 of federal and state land in portions of  
4 Townships 18 and 19 North, Range 3 West, Sandoval  
5 County, New Mexico.

6 Q. Mr. Dunn, you testified in Case No.  
7 10478 which was heard by the Examiner on May 28th  
8 of this year. What was the nature of the  
9 application in that case?

10 A. In that case, Merrion Oil & Gas was  
11 seeking creation of a new pool, namely the Rock  
12 Mesa Fractured Mancos pool and also the creation  
13 of temporary pool rules.

14 Q. What is the relationship of the  
15 application in this case being heard today to  
16 Case No. 10478?

17 A. Identical acreage is involved in both  
18 cases, and they are completely intertwined in  
19 relationship.

20 Q. When you say "intertwined," do you mean  
21 in terms of the geology of the area, the  
22 engineering factors that are relevant to that  
23 area? Is that what you mean?

24 A. That's what I mean. The engineering  
25 data would be relevant in both cases, and also

1 the geologic data, the land data. In fact, the  
2 pool boundary coincides with the proposed unit  
3 boundary.

4 Q. Would you very briefly summarize the  
5 evidence that was submitted in support of the  
6 application in Case 10478?

7 A. In 10478, Merrion submitted information  
8 consisting of proposed special pool rules that we  
9 were seeking. We introduced land information  
10 which identified the acreage that was involved in  
11 the proposed pool, well location information,  
12 economics, notice requirement information, and  
13 finally geologic information concerning the  
14 proposed pool in that hearing.

15 Q. What was the result of the hearing in  
16 Case 10478?

17 A. The Rock Mesa pool was created with  
18 two-year temporary pool rules and 640-acre  
19 spacing.

20 MR. ROBERTS: Mr. Examiner, I have no  
21 other questions for this witness.

22 We would move that the record that was  
23 established in Case No. 10478 be incorporated  
24 into the record for this case today.

25 EXAMINER STOGNER: I'll take

1 administrative notice of Case No. 10478. Do you  
2 remember the order number that was issued in that  
3 case?

4 MR. ROBERTS: It was R-9701 and  
5 R-9701-A.

6 EXAMINER STOGNER: That was a nunc pro  
7 tunc of some type?

8 MR. ROBERTS: It added some acreage  
9 that had been omitted from the original order.

10 EXAMINER STOGNER: Like I said, I'll  
11 take administrative notice of that case. Any  
12 other questions of Mr. Dunn? He may be excused.

13 MR. ROBERTS: We would call Doug  
14 Endsley.

15 **L. D. ENDSLEY**

16 Having been first duly sworn upon his oath, was  
17 examined and testified as follows:

18 EXAMINATION

19 BY MR. ROBERTS:

20 Q. Would you state your name and your  
21 place of residence for the record.

22 A. My name is Doug Endsley. I live in  
23 Farmington, New Mexico.

24 Q. What is your occupation?

25 A. I'm a petroleum geologist and I work as



1 a geologic manager at Merrion Oil & Gas.

2 Q. How long have you been employed in that  
3 capacity?

4 A. 11 years.

5 Q. Have you testified on prior occasions  
6 before the Oil Conservation Division?

7 A. I have.

8 Q. In what capacity?

9 A. As a petroleum geologist.

10 Q. Are you familiar with the application  
11 in this case?

12 A. I am.

13 Q. Are you familiar with the operations  
14 proposed by Merrion Oil & Gas in the area that's  
15 the subject of this application?

16 A. I am.

17 Q. Did you testify in Case No. 10478?

18 A. I did.

19 MR. ROBERTS: We tender Mr. Endsley as  
20 an expert petroleum geologist.

21 EXAMINER STOGNER: Mr. Endsley is so  
22 qualified.

23 Q. Mr. Endsley, would you refer to what's  
24 been marked as Merrion's Exhibit No. 1 and  
25 identify it?

1           A.       Exhibit 1 is a geologic justification  
2 for the Rock Mesa exploratory unit, the  
3 boundaries that we established for that unit. In  
4 essence, it's just a write-up that describes how  
5 we decided on the boundaries for the unit, the  
6 geologic model that we had developed that we  
7 wanted to explore.

8           Q.       Would you summarize the factors which  
9 resulted in your decision to propose the  
10 boundaries for this unit as they have been  
11 proposed?

12          A.       Merrion has access to a large seismic  
13 database, and through the investigation of that  
14 database we uncovered a fault in this area that  
15 looked interesting to us. It's a north/south  
16 trending fault with a lot of flexure on the  
17 downthrust side of the fault, which we think  
18 indicates fracturing.

19                 We decided to make the boundaries of  
20 the unit coincide with the fault insofar as the  
21 north and south boundaries would be the lessening  
22 displacement of the fault in those directions.

23                 The western boundary, we felt as the  
24 upthrust side of the fault, we felt that that  
25 would tend to be less fractured because of the

1 nature of the faulting. The eastern boundary,  
2 there's some production on the east side of the  
3 proposed unit, and the wells range anywhere from  
4 500 barrels to \$20,000 barrels of cumulative  
5 production a few years ago, and we felt that  
6 those ranges of production indicated that  
7 probably there was a lessening of the fracture  
8 the further east you moved.

9 So, to kind of summarize, we used the  
10 north/south attitudes of the fault and lessening  
11 of displacement in those directions as the  
12 north/south boundaries. We used less fracturing  
13 on the west side of the fault and production on  
14 the east side, to establish the boundaries.

15 Q. Is it your opinion, then, that the  
16 geologic data you have examined justifies the  
17 proposed boundaries for the unit?

18 A. It is my opinion, that's correct.

19 Q. Based on the geologic data you have  
20 examined, do you have an opinion as to whether  
21 the proposed unit boundaries are such that they  
22 will give the operator and the interest owners  
23 within the unit effective and efficient control  
24 of the Mancos reservoir underlying this area?

25 A. That's correct.

1           Q.       Why is exploration and development of  
2 this area on a unit basis preferable to  
3 exploration and development on a competitive  
4 leasing basis?

5           A.       The idea is that we wanted to  
6 establish, since it's an unknown, really, we  
7 wanted to establish a larger spacing to start  
8 with, and in order to do that we had to come to  
9 hearing and get 640-acre spacing approved.

10                  Our feeling is that that prevents  
11 potential waste, it cuts down on the number of  
12 wells that initially are drilled in a reservoir  
13 that we don't know a lot about yet. So, in  
14 essence, it cuts down on waste and unnecessary  
15 economic hardship by the number of wells that  
16 have to be drilled.

17           Q.       Does it also reduce the to the  
18 participants?

19           A.       Yes.

20           Q.       In your opinion, will the granting of  
21 this application be in the best interests of  
22 conservation and result in the protection of  
23 correlative rights and the prevention of waste?

24           A.       That's my opinion.

25           Q.       Was Exhibit No. 1 prepared by you?

1           A.       It was.

2                   MR. ROBERTS: I move the admission of  
3 Exhibit No. 1, and I have no other questions for  
4 this witness.

5                   EXAMINER STOGNER: Exhibit No. 1 will  
6 be admitted into evidence.

7                               EXAMINATION

8 BY MR. STOVALL:

9           Q.       Mr. Endsley, this is a narrative  
10 summary of the geology of the unit area, is that  
11 correct?

12          A.       That's correct.

13          Q.       Is it correct that all of the exhibits  
14 supporting and the backup data was submitted in  
15 the case that's been taken, of which  
16 administrative notice has been taken?

17          A.       Right. In the pooling hearing that we  
18 came to, we submitted some geologic exhibits that  
19 had structure maps, and identified the fault that  
20 we just talked about here. Those are all in the  
21 exhibits from the previous hearing.

22                   MR. STOVALL: I'm assuming, Mr.  
23 Roberts, it was your intent in this case, rather  
24 than to redo that testimony and resubmit those  
25 exhibits, that was your intent in incorporating

1     that record and use what's already been done?

2             MR. ROBERTS:   Yes, that was my intent  
3     and the reason for the request that the record in  
4     that case be incorporated into the record in this  
5     case.   It's not clear to me whether the  
6     Examiner's decision to take administrative notice  
7     of that case will create the same result as  
8     incorporating the record.   I assume it will.

9             MR. STOVALL:   As a practical result, I  
10    think it's probably not significantly different.

11            MR. ROBERTS:   We would be happy to go  
12    through in some detail the geologic  
13    justification, if you would prefer that we do  
14    that in this case.

15            EXAMINER STOGNER:   I don't believe that  
16    will be necessary.   I'm somewhat aware of the  
17    previous case.   I was not the Hearing Examiner  
18    nor did I sit in on the testimony, but I don't  
19    doubt Mr. Endsley that this was in there.

20            And with that, I don't have any  
21    questions at this time.   Perhaps after we hear  
22    .   r next witness I might have some additional  
23    questions.

24            MR. STOVALL:   I do have one more and  
25    it's more out of--it may have something to do

1 with the unitization.

2 FURTHER EXAMINATION

3 BY MR. STOVALL:

4 Q. The current rules, I believe, are  
5 640-acre standard section spacing, is that  
6 correct?

7 A. That's correct.

8 Q. Would you anticipate, based upon what  
9 you know of the geology and the flexure of the  
10 rock out there, that you may want to come in at  
11 some later point and get some unorthodox  
12 proration units or some flexibility as far as  
13 crossing the section lines with wells or  
14 anything, or is that-- We have other experience  
15 in other units in this area that have done that,  
16 with similar geologic conditions, and that's why  
17 I'm asking the question.

18 A. I'll offer an opinion. If we find that  
19 the reservoir was to lend itself to horizontal  
20 drilling, then I could see where we might get  
21 into a situation where we would be crowding lease  
22 lines or going over lease lines or something like  
23 that.

24 Initially, since we don't know whether  
25 the reservoir is even going to be a highly

1     productive reservoir or not until we get out  
2     there and drill our first well, we felt it was  
3     prudent to start on regular 640-acre spacing and  
4     develop accordingly until we learned more about  
5     the reservoir.

6           Q.     But that could be an additional benefit  
7     of unitized operations if, in fact, you make that  
8     determination, is that correct?

9           A.     That would be correct.

10           MR. STOVALL:   Nothing further.

11           EXAMINER STOGNER:   With that, Mr.  
12     Endsley, you may be excused at this time.

13           Mr. Roberts?

14           MR. ROBERTS:   I would call my next  
15     witness, Mr. Patrick Hegarty.

16                   PATRICK HEGARTY, C.P.L.

17     Having been first duly sworn upon his oath, was  
18     examined and testified as follows:

19                   EXAMINATION

20     BY MR. ROBERTS:

21           Q.     State your name and place of residence  
22     for the record.

23           A.     Patrick Hegarty, Farmington, New  
24     Mexico.

25           Q.     What's your occupation?



1 A. Petroleum landman.

2 Q. By whom are you employed?

3 A. Merrion Oil & Gas.

4 Q. How long have you been employed in that  
5 capacity?

6 A. 12 years.

7 Q. Have you testified before the Oil  
8 Conservation Division on prior occasions?

9 A. Yes.

10 Q. In what capacity?

11 A. As a petroleum landman.

12 Q. Are you familiar with the application  
13 in this case?

14 A. Yes.

15 Q. Are you familiar with the operations of  
16 Merrion Oil & Gas proposed for the area which is  
17 the subject of this application?

18 A. Yes, I am.

19 MR. ROBERTS: We tender Mr. Hegarty as  
20 an expert petroleum landman.

21 EXAMINER STOGNER: Mr. Hegarty is so  
22 qualified.

23 Q. Mr. Hegarty, would you refer to what's  
24 been marked as Merrion's Exhibit No. 2 and  
25 identify the exhibit?

1           A.       It is a state and federal fee  
2 exploration unit agreement.

3           Q.       Would you describe the area that it  
4 covers?

5           A.       All right. It covers, in 19 North 3  
6 West, it covers sections 9, 10, 11, 14, 15, 16,  
7 17, 20, 21, 22, 27, 28, 29, 33 and 32. In 18  
8 North 3 West, it covers Sections 4 and 5.

9           Q.       Is this a form of unit agreement that  
10 was provided to you by an agency, or is this an  
11 agreement that you have drafted in form?

12          A.       This is the state-approved form that  
13 was revised in January of 1992, with amendments  
14 made at the request of the Bureau of Land  
15 Management.

16          Q.       Does this form of agreement cover  
17 state, federal and fee lands?

18          A.       Yes.

19          Q.       What kind of lands are covered in your  
20 proposed unit?

21          A.       There are federal and fee lands. I'm  
22 sorry, federal and state lands. The state lands  
23 account for 5.9 percent of the total, the total  
24 acres being 10,823.16 acres.

25          Q.       Other than the BLM modifications to the

1 form of agreement, have there been other  
2 modifications?

3 A. No.

4 Q. Are there attachments to the form of  
5 agreement?

6 A. Yes.

7 Q. What are those attachments?

8 A. They are exhibits. Exhibit A is the  
9 map of the unit area. Exhibit B is the schedule  
10 of ownership including an addendum which  
11 identifies the overriding royalty interest  
12 owners, and then Exhibit C is the schedule of  
13 tract participation.

14 Q. Would you refer to Exhibit A to the  
15 unit agreement and, in a little bit more detail,  
16 describe what's contained?

17 A. Basically, it's a map that identifies  
18 the lands involved with the unit, as well as  
19 identifying the federal and state lease numbers,  
20 and identifies the ownership, and it is  
21 color-coded to identify the ownership. It sets  
22 out the pool boundary and also it describes the  
23 tract numbers that relates to the schedule of  
24 ownership, which is Exhibit B.

25 Q. And then Exhibit C, describe in a

1 little bit more detail what's contained in that  
2 exhibit.

3 A. All right. Exhibit C is simply a  
4 description of the lease number, the legal  
5 description of the acreage associated with that  
6 lease, as it pertains to the unit. It gives the  
7 amount of acreage that each tract contributes to  
8 the unit, it's net revenue interest, expiration  
9 date, and then the resulting percentage that each  
10 tract contributes to the unit.

11 Q. Have you contacted all of the leasehold  
12 operating rights owners and the owners of  
13 unleased minerals in the proposed unit area to  
14 solicit their joinder?

15 A. Yes, we have.

16 Q. What are the results of those contacts?

17 A. We have 79.93 percent that have joined  
18 us in this unitization effort.

19 Q. Do you anticipate any further voluntary  
20 joinder?

21 A. There is that possibility.

22 Q. Are you continuing to contact those who  
23 have not yet joined?

24 A. Yes. And do you want me to give  
25 specifics in that regard?

1 Q. I don't think it's necessary, unless  
2 the Examiner may ask a question about that  
3 later. But you say there's 79.6 percent joinder?

4 A. 79.93 percent joinder.

5 Q. Let me turn your attention to what has  
6 been marked as Exhibit No. 4. We're skipping  
7 Exhibit 3 for the movement and moving on to  
8 Exhibit No. 4. Would you identify that exhibit?

9 A. Exhibit No. 4 is the unit operating  
10 agreement for the development and operation of  
11 the Rock Mesa Unit Area.

12 Q. Has the unit operating agreement been  
13 circulated to parties who have joined the unit?

14 A. Yes.

15 Q. What's the status of the execution of  
16 that agreement?

17 A. The same percentage that's executed the  
18 unit agreement have also executed the unit  
19 operating agreement.

20 Q. I assume it's proposed that Merrion Oil  
21 & Gas corporation will be the operator of the  
22 unit?

23 A. That's correct.

24 Q. Moving back now to Exhibit No. 2, has  
25 the unit agreement been approved by the Bureau of

1 Land Management?

2 A. Yes, it has.

3 Q. When was it approved?

4 A. October 6, 1992.

5 Q. What is the evidence of that approval?

6 A. The certification determination, which  
7 is Exhibit 2, a part of Exhibit 2 of 5.

8 Q. Is it the first page of Exhibit No. 2?

9 A. Yes, it is.

10 Q. Now I would like you to refer to what  
11 has been marked as Merrion Exhibit 3, and  
12 identify that exhibit?

13 A. That exhibit is a letter from the  
14 office of the Commissioner of Public Lands,  
15 signed by Floyd Prando, a letter dated October  
16 27th, and basically describing or detailing the  
17 preliminary approval of the Rock Mesa Unit by the  
18 Commissioner of Public Lands.

19 Q. It appears that the preliminary  
20 approval is conditional in nature. What  
21 conditions must be satisfied before final  
22 approval would be granted?

23 A. There are three items, one of which has  
24 already been satisfied, but the first requirement  
25 is that the OCD approve the unit. The second

1 requirement is they want copies of all well  
2 records. The third is a copy of the finalized  
3 unit operating agreement, which we've already  
4 provided them and that requirement has been  
5 satisfied.

6 Q. When do you propose to commence unit  
7 operations?

8 A. We propose to commence unit operations  
9 at the point in time that an APD is approved and  
10 we're ready to clear a location for drilling.

11 Q. And is that work in progress?

12 A. Yes.

13 Q. Now turn to what you have marked as  
14 Exhibit No. 5, and would you identify that  
15 exhibit?

16 A. Okay. Exhibit No. 5 is the return  
17 receipt request mail, copies of the return  
18 receipt request receipts, as well as the letters  
19 that were sent to the working interest owners  
20 that have not agreed to participate in the unit  
21 effort.

22 Q. This notice was notification of the  
23 scheduling of this hearing today?

24 A. That's correct. And we also included  
25 in that list all of the overriding royalty

1 interest owners that did not agree to participate  
2 in this unitization effort.

3 Q. Mr. Hegarty, in your opinion, have the  
4 notification requirements applicable to this  
5 application and hearing been satisfied?

6 A. Yes, they have.

7 Q. Were Exhibit Nos. 2 through 5 either  
8 prepared by you or at your direction and under  
9 your supervision?

10 A. Yes, they were.

11 MR. ROBERTS: I would move the  
12 admission of Exhibit Nos. 2 through 5.

13 EXAMINER STOGNER: Exhibits 2 through 5  
14 will be admitted into evidence.

15 MR. ROBERTS: I have no other questions  
16 for this witness.

17 MR. STOVALL: As a preliminary matter,  
18 would you mind submitting an affidavit to go  
19 along with Exhibit 5, stating that notice has  
20 been given to all parties required to receive  
21 notice under the rules and regulations of the  
22 Division? And attach as an exhibit a list of  
23 those parties. It makes it easier for us to look  
24 at it and identify it.

25 EXAMINER STOGNER: That can be made a



1 part or a supplement to Exhibit No. 5.

2 MR. ROBERTS: Do you want that to be my  
3 affidavit?

4 MR. STOVALL: It can be yours or Mr.  
5 Hegarty's, whoever wants to put his oath on the  
6 line ought to be the one to sign the affidavit.

7 EXAMINATION

8 BY MR. STOGNER:

9 Q. So that I'm understanding, I'm trying  
10 to find the definition of the unit substance or  
11 the formation that's unitized, and maybe you can  
12 help me. Where do you need to look?

13 MR. STOVALL: You're looking at page  
14 2-A, Mr. Examiner?

15 EXAMINER STOGNER: Yes.

16 MR. STOVALL: I think there's some  
17 confusion when you read that initially. Do I  
18 understand that to mean that all the substances  
19 in the unit area are unitized with the exception  
20 of the Entrada formation within the areas  
21 specified in paragraph 2-A of the unit  
22 agreement?

23 THE WITNESS: We were directed to amend  
24 this portion of the unit agreement by the Bureau  
25 of Land Management, and the reason being is that

1     because within the Rock Mesa Unit boundaries, we  
2     have the Media Entrada Unit, and so we had to  
3     exclude the Media Entrada formation from this  
4     unit and that was the purpose of this language.  
5     All other horizons are covered.

6           Q.     So, other than the Entrada, all  
7     horizons above and below the Entrada are in this  
8     unit agreement?

9           A.     Well, basically all the horizons are  
10    covered other than the Entrada in the lands  
11    described on that page. So it's only those  
12    Entrada rights in the Media Entrada Unit.

13          Q.     That Media Entrada Unit is an  
14    all-federal unit, I would assume?

15          A.     Yes.

16          Q.     I'm looking at Exhibit No. 2, your  
17    Exhibit A attached to that Exhibit No. 2.

18          A.     Our color-coded map?

19          Q.     Yes, the color-coded map. Where is the  
20    initial well? Is it located on here?

21          A.     No, it's not. It's identified--it's in  
22    Section 32, the southeast quarter, but--

23                 MR. ROBERTS: Mr. Examiner, Mr. Dunn, I  
24    think, has the location or can readily find it.

25                 EXAMINER STOGNER: Mr. Dunn, do you

1 know what that location will be?

2 MR. DUNN: It's 2310 from the South,  
3 1650 from the East, Section 32, Township 19  
4 North, Range 3 West, Sandoval County, New Mexico.

5 Q. And the only acreage that is state  
6 property is that Section 16, is that correct?

7 A. That's correct.

8 Q. Other than that, the state land office  
9 would not have been involved?

10 A. That's correct.

11 EXAMINER STOGNER: Any other questions  
12 of this witness?

13 MR. STOVALL: Yes, a couple of them.

14 EXAMINATION

15 BY MR. STOVALL:

16 Q. Mr. Hegarty, am I reading this right  
17 that this appears to be a divided unit? Are you  
18 familiar with the divided versus undivided  
19 terminology?

20 A. Yes, right. Well, it's--

21 Q. By that I mean it has participating  
22 areas and it's not going to be an entire unit  
23 participation?

24 A. Correct.

25 Q. And those areas will be subject to the

1 BLM approval?

2 A. Right.

3 Q. Now, with respect to what is commonly  
4 referred to as nonconsent provisions--I think you  
5 referred to it in the unit operating agreement as  
6 nondrilling parties, am I correct in reading that  
7 so-called not drilling or nonconsent parties  
8 forfeit their interest to the unit to the  
9 drilling parties until they've recovered,  
10 essentially, cost plus 200 percent on drilling  
11 and completing costs and operational costs, is  
12 that correct? referring to paragraph 12.3, I  
13 think, is where I'm getting that.

14 The language of the agreement is 300  
15 percent, but I believe in statutory language  
16 that's equivalent to cost plus 200 percent, is  
17 that correct?

18 A. Right. That's correct.

19 MR. STOVALL: I don't think I have any  
20 other questions.

21 EXAMINER STOGNER: Any other questions  
22 of Mr. Hegarty? If not, he may be excused.

23 Mr. Roberts, do you have anything  
24 further?

25 MR. ROBERTS: No, sir.

1 EXAMINER STOGNER: Anybody else have  
2 anything further in Case 10526? If not, this  
3 case will be taken under advisement.

4 (And the proceedings concluded.)  
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14 I do hereby certify that the foregoing is  
15 a complete record of the proceedings in  
16 the Examiner hearing of Case No. 10576,  
17 heard by me on 29 Oct. 1992.

  
18 Examiner  
19 Oil Conservation Division  
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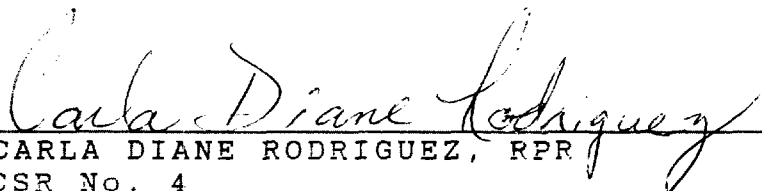
## CERTIFICATE OF REPORTER

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

I, Carla Diane Rodriguez, Certified  
Shorthand Reporter and Notary Public, HEREBY  
CERTIFY that the foregoing transcript of  
proceedings before the Oil Conservation Division  
was reported by me; that I caused my notes to be  
transcribed under my personal supervision; 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 November 25,  
1992.

  
CARLA DIANE RODRIGUEZ, RPR  
CSR No. 4