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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 MARALO, INC.)
_____)

CASE NO. 10,963

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: JIM MORROW, Hearing Examiner

April 28, 1994

MAY 19 1994

Santa Fe, New Mexico

This matter came on for hearing before the Oil Conservation Division on Thursday, April 28th, 1994, at Morgan Hall, State Land Office Building, 310 Old Santa Fe Trail, Santa Fe, New Mexico, before Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

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4 Examiner Hearing
5 CASE NO. 10,963

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FOR THE DIVISION:

RAND L. CARROLL
Attorney at Law
Legal Counsel to the Division
State Land Office Building
Santa Fe, New Mexico 87504

FOR THE APPLICANT:

HINKLE, COX, EATON, COFFIELD & HENSLEY
218 Montezuma
P.O. Box 2068
Santa Fe, New Mexico 87504-2068
By: JAMES G. BRUCE

* * *

1 WHEREUPON, the following proceedings were had at
2 11:06 a.m.:

3
4
5 EXAMINER MORROW: Call Case 10,963. It's the
6 Application of Maralo, Inc., for compulsory pooling, Eddy
7 County, New Mexico.

8 Call for appearances.

9 MR. BRUCE: Mr. Examiner, my name is Jim Bruce
10 from the Hinkle law firm in Santa Fe, representing the
11 Applicant. I have two witnesses to be sworn.

12 EXAMINER MORROW: Please stand.

13 (Thereupon, the witnesses were sworn.)

14 MR. BRUCE: Call Mr. Wheeler to the stand.

15 MARK WHEELER,

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. BRUCE:

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

22 A. Mark Wheeler.

23 Q. And where do you reside?

24 A. Midland, Texas.

25 Q. And who do you work for and in what capacity?

1 A. I'm district landman for Maralo, Incorporated, in
2 Midland.

3 Q. Have you previously testified before the OCD as a
4 petroleum landman?

5 A. Yes, I have.

6 Q. And were your credentials accepted as a matter of
7 record?

8 A. Yes, they were.

9 Q. And are you familiar with the land matters
10 involved in this case?

11 A. Yes, I am.

12 MR. BRUCE: Mr. Examiner, I tender Mr. Wheeler as
13 an expert petroleum landman.

14 MR. BRUCE: I didn't get your first name, Mr.
15 Wheeler.

16 THE WITNESS: Mark.

17 EXAMINER MORROW: Mark. We accept Mr. Wheeler.

18 Q. (By Mr. Bruce) Mr. Wheeler, would you state
19 briefly what Maralo seeks in this case?

20 A. Maralo seeks an order pooling all the mineral
21 interests from the top of the Wolfcamp formation to the
22 base of the Morrow formation, under the north half of
23 Section 30, Township 23 South, Range 30 East, Eddy County,
24 New Mexico, for all pools or formations spaced on 320
25 acres.

1 Q. What is the proposed location for the well? And
2 I refer you to Exhibit 1.

3 A. The land plat, which is Exhibit 1, highlights the
4 proposed north half of Section 30 proration unit. The well
5 will be located at a standard location in Unit G of Section
6 30, southwest-northeast. The well will be drilled to a
7 depth sufficient to test the Morrow formation.

8 Q. Could you briefly for the Examiner outline who
9 owns interests, working interests in the north half of
10 Section 30?

11 A. The current ownership of the north half of
12 Section 30 in the northwest quarter, 50 percent is owned by
13 Texaco Producing, 50 percent by Bass Enterprises.

14 In the north half, northeast quarter, current
15 ownership is 100 percent Maralo, Incorporated.

16 In the south half, northeast quarter, current
17 ownership is Maralo, Incorporated, 62.5 percent; Meridian
18 Oil, Inc., 37.5 percent.

19 Q. Which of those companies that you just named do
20 you seek to force-pool?

21 A. Bass Enterprises Production Company, Texaco
22 Exploration and Production, Inc., and Meridian Oil, Inc.

23 Q. And could you for the Examiner describe your
24 efforts to obtain the voluntary joinder of these parties?
25 And I'll have you go through your Exhibits 2A, 2B and 2C.

1 A. We have contacted all of these companies on
2 various occasions, including written proposals, including
3 an AFE to all of them. We also have spoken with each of
4 them numerous occasions, both before and since our written
5 proposal.

6 We initially bought interest in this area in the
7 late fall of 1993, in Section 29 and 31. We realized after
8 purchasing into that tract that we would need to try to
9 work with the owners in Section 30, because we understood
10 that the federal lease, 81622, covering the south half,
11 northeast and southeast quarter of Section 30, would be
12 expiring July 1st of this year.

13 So we contacted the numerous working interest --
14 or leasehold owners under that tract, and have been able to
15 purchase 62 1/2 percent of that particular tract, and have
16 contacted, then, Meridian, Texaco and Bass to seek either
17 farmouts or purchase of their interest, or participation.
18 We're continuing to work with all three of the companies in
19 an effort to reach voluntary agreement.

20 Q. And if I can backtrack a little bit, the tract
21 that's marked partial "Exxon et al.", you originally
22 contacted Exxon about that tract, didn't you?

23 A. Yes, sir, our initial takeoff that we did on that
24 tract showed Exxon to have a 37-1/2-percent interest under
25 that tract. They also, as you've noticed, show up still on

1 the maps.

2 So we contacted Exxon and were told that we would
3 be able to purchase their interest in that tract.

4 We subsequently found out, about a month ago,
5 that Exxon had sold their interest to Meridian. They
6 advised us of this.

7 So at that point we contacted Meridian concerning
8 a purchase or participation of their interest.

9 Q. If I can put some words into your mouth, you
10 spent a couple of months spinning your wheels before Exxon
11 found out it didn't own the lease?

12 A. At least two months, yes, sir.

13 Q. And then subsequently you submitted offers,
14 Exhibits 2A, 2B and 2C, to the parties with AFEs; is that
15 correct?

16 A. Yes, sir, we did.

17 Q. And since then you've had follow-up conversations
18 with them?

19 A. Yes, sir, we've had numerous conversations with
20 all three parties since the date of our submittals.

21 Q. And despite the force-pooling today, if you come
22 to terms with them you would rather voluntarily get them to
23 join in the well; is that right?

24 A. Yes, sir, we will continue in those efforts.

25 Q. And will you let the OCD know if any of these

1 parties, subsequently to this hearing, voluntarily join in
2 this well?

3 A. Yes, sir, we will.

4 Q. And once again, there is a lease-expiration
5 problem?

6 A. Yes, sir, July 1st of this year 81622 expires.

7 Q. In your opinion, has Maralo made a good-faith
8 effort to obtain the voluntary joinder of Bass, Texaco and
9 Meridian?

10 A. Yes, we have.

11 Q. Does Maralo request that it be named operator of
12 the well?

13 A. Yes.

14 Q. What is Exhibit 3?

15 A. It is the AFE for the Gold Rush Federal "30" Com
16 Number 1 well.

17 Q. And what is the approximate completed well cost?

18 A. Over \$1.2 million. \$1.222 million.

19 Q. And what is the estimated or proposed depth of
20 the well?

21 A. 14,800 feet.

22 Q. Is the proposed well costs in line with those
23 normally encountered in drilling wells, Morrow wells, to
24 this depth in this part of Eddy County?

25 A. Yes, sir.

1 Q. Do you have a recommendation as to the amounts
2 which Maralo should be paid for supervision and
3 administrative expense?

4 A. We will recommend \$6000 per month for a drilling
5 and \$600 per month allowed for a producing well.

6 Q. And are the amounts that you have just
7 recommended in line with the amounts normally charged by
8 Maralo and other Morrow well operators in Eddy County?

9 A. Yes, they are.

10 Q. Does Maralo request that the overhead rates it's
11 just recommended be adjusted, as is done under the COPAS
12 procedure?

13 A. Yes, sir, that's our normal procedure. We
14 request that the US Bureau of Labor Statistics Index of
15 Average Weekly Earnings of Crude Petroleum and Gas
16 Production Workers, a copy of the COPAS procedure, I
17 believe, is submitted as Exhibit 4.

18 Q. And the first page of Exhibit 4 is merely a
19 statement of past annual adjustments; is that correct?

20 A. Yes, sir, through 1992.

21 Q. What penalty does Maralo recommend against
22 nonconsenting interest owners?

23 A. Cost plus 200 percent.

24 Q. And will your geologist discuss that?

25 A. Yes, he will.

1 Q. Have all interested parties been notified of this
2 hearing?

3 A. Yes, sir. I believe Exhibit 5 is a certificate
4 of mailing.

5 Q. And this certificate was made by Tom Kellahin,
6 the original attorney in this case?

7 A. Yes, sir, it was.

8 Q. In your opinion, is the granting of this
9 Application in the interests of conservation and the
10 prevention of waste?

11 A. Yes, it is.

12 Q. And were Exhibits 1 through 5 prepared by you,
13 under your direction, or compiled from Maralo's business
14 records?

15 A. Yes, they were.

16 MR. BRUCE: Mr. Examiner, at this time I move the
17 admission of Maralo Exhibits 1 through 5.

18 EXAMINER MORROW: 1 through 5 are admitted.

19 EXAMINATION

20 BY EXAMINER MORROW:

21 Q. The interest in the various tracts again, I need
22 to get -- I didn't get it all down.

23 A. Yes --

24 Q. The northwest quarter is --

25 A. Yes, sir, 50 percent Texaco --

1 Q. And who's --

2 A. -- 50 percent Bass.

3 Q. Okay. North half, northeast, is 100 percent
4 Maralo?

5 A. Currently 100 percent Maralo, yes.

6 Q. And the south half of the northeast?

7 A. Currently 62.5 percent Maralo, 37.5 percent
8 Meridian.

9 Q. Okay. And you said you acquired some interest.
10 Was that as a result of your negotiations to force -- or to
11 pool this tract or --

12 A. After we acquired Federal Lease 92180, along --
13 We acquired an interest along with Santa Fe Energy and
14 Collins and Ware, Incorporated, in Sections 29, 28 and 31
15 on the map. We wanted to acquire a portion or all,
16 preferably all, of the interest of Federal Lease 81622
17 before it expired and try to get a Morrow well drilled in
18 this area.

19 Q. Do you expect agreement from any -- either of
20 these three that --

21 A. I believe we will reach voluntary agreement with
22 Meridian, based on the last information that I have from
23 them. I'm not certain about Texaco or Bass.

24 Q. The recommended overhead charges, are those more
25 than the *Ernst and Young* recommended --

1 A. No, sir, for this depth of well I don't believe
2 they are. They're about in line with what an *Ernst and*
3 *Young* --

4 Q. Okay. I brought the latest one I had, which may
5 be the latest. I guess we'd use west Texas and eastern New
6 Mexico --

7 A. Yes, sir.

8 Q. -- and -- They're a little higher than the 1992.
9 This shows a mean of \$5388 for the monthly drilling well
10 rate for wells between 10,000 and 15,000.

11 A. This well is almost at the 15,000 threshold.

12 Q. Is it? Okay.

13 A. 14,800. And based on what we've charged for this
14 depth of well and what we've seen from other operators, we
15 feel the \$6600 to be reasonable.

16 Q. Yeah.

17 A. If someone participating in the project wanted to
18 work with us on those rates or request something lower, we
19 would probably be amenable to talk to them.

20 EXAMINER MORROW: Okay, all right.

21 That's -- Do you have anything?

22 MR. CARROLL: (Shakes head)

23 EXAMINER MORROW: Thank you, sir.

24 THE WITNESS: Thank you.

25 MR. BRUCE: Call Mr. Thoma to the stand.

1 to your Exhibit 6, identify it for the Examiner and discuss
2 it?

3 A. Exhibit 6 is a structure map which is drawn on
4 top of the Morrow lime formation.

5 The subject proration unit in the north half of
6 Section 30 is shown by the heavy dashed outline.

7 The proposed location is shown by the red
8 triangle with the yellow dot marker.

9 Maralo leasehold is shown in the stippled pattern
10 in the northeast quarter.

11 What is not shown is our leasehold in the north
12 half of the northeast quarter, which we just acquired two
13 weeks ago at the most recent federal land sale, but we do
14 own that leasehold.

15 The structure map shows a basin plunging nose
16 which traverses in a northeast-to-south-southeast direction
17 through the prospect area in Section 30.

18 The red dots on the map are Morrow producers.

19 The half circles are Morrow-show wells, wells
20 which either -- well, wells that tested uneconomic rates of
21 gas from the Morrow formation, either on drill stem tests
22 or from production tests.

23 Q. Okay. Could you move on to your cross-section,
24 marked Exhibit 7, and discuss the primary zone of interest
25 for this well?

1 A. The cross-section C-C' is shown on Exhibit 6, the
2 structure map, and it begins at the left-hand side of the
3 section, at the south end of the map, in the Bass Poker
4 Lake Unit Number 49 Well, which is producing from the
5 Morrow Teal sand, and that is the lowermost of the middle
6 Morrow sand section, or middle Morrow clastic section.
7 That well has produced 3.7 BCF gas from the Morrow Teal
8 sand.

9 Moving northeast from the Number 49 well and to
10 the right on the cross-section, the Bass Number 59 Poker
11 Lake Unit Well is also completed in the Teal sand. It was
12 drilled in 1982 and shut in. It was not produced until
13 August of 1993, at which time Bass put the well on
14 production.

15 And over the first two months it had produced 131
16 million cubic feet of gas. And during the month of
17 September, the well had produced 58 million cubic feet of
18 gas.

19 So that well is currently producing at an
20 estimated rate of 2 million cubic feet of gas a day from
21 the Morrow formation, from the Teal sand in particular.

22 The section then traverses northward through the
23 proposed location in the north half of Section 30 and on up
24 into the Nash Draw Morrow field. And in particular, the
25 well on the right-hand side of the section, the Nash Unit

1 Number 2, is also productive from the Teal sand and has
2 produced 4.1 BCF gas.

3 I might point out that that well is also
4 perforated in the middle Morrow Lotos sand. However, we
5 believe that the contribution from that sand has been
6 minimal and that the bulk of that production has come from
7 the Teal. And the basis for that assumption is the quality
8 of the sand in the Lotos, along with calculations,
9 saturation calculations on the Lotos, which indicate the
10 sand to be much higher -- indicates the sand to have a much
11 higher water saturation.

12 The primary objective, then, for the proposed
13 location is the Teal sand.

14 Secondary objectives in the Morrow would be the
15 Lotos sands and the Paduca sands, which are shown on the
16 section overlying the Teal.

17 The Lotos, as I pointed out, is productive in the
18 area but, as evidenced on this section, is not as rich from
19 a sand standpoint. Nor is the Paduca. And the Paduca to
20 date has not been proven to be commercially productive in
21 the area.

22 Q. Okay. Let's move on to your Exhibit 8, the
23 isopach, and discuss the trends of these sands.

24 A. Exhibit 8 is an isopach map of the Teal sand, and
25 it's shown striking in a north-northwest-to-south-southeast

1 direction. And we believe that the accumulation at Dog
2 Town Draw likely is related stratigraphically to the
3 accumulation and production at Nash Draw and that the trend
4 of that deposit will cross the proposed location in Section
5 30.

6 The red markers on that map are Teal sand
7 producers, and we are hoping at the proposed location to
8 encounter the type of reserves from the Teal that are
9 evidenced both in Dog Town Draw and Nash Draw.

10 Q. And one final question. Obviously if this well
11 is successful, it will help prove up substantial acreage,
12 right?

13 A. That's correct, that's correct. There will be
14 development in the south half of Section 30, as well as in
15 the north half of Section 31.

16 Q. If the compulsory pooling application is granted,
17 what penalty do you recommend against any nonconsenting
18 interest owner?

19 A. Cost plus 200 percent.

20 Q. And is that justified by the geological risk?

21 A. Yes, it is.

22 Q. In your opinion, is the granting of this
23 Application in the interests of conservation, the
24 prevention of waste and the protection of correlative
25 rights?

