

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:

ORIGINAL

APPLICATION OF MARBOB ENERGY
CORPORATION FOR APPROVAL OF A UNIT
AGREEMENT, EDDY COUNTY, NEW MEXICO

CASE NO. 14328

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

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BEFORE: DAVID K. BROOKS, Hearing Examiner
TERRY G. WARNELL, Technical Examiner

June 11, 2009

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID K. BROOKS, Hearing Examiner, and TERRY G. WARNELL, Technical Examiner, on Thursday, June 11, 2009, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico.

REPORTED BY: Jacqueline R. Lujan, CCR #91
Paul Baca Professional Court Reporters
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A P P E A R A N C E S

FOR THE APPLICANT:

HOLLAND & HART
William F. Carr, Esq.
110 North Guadalupe, Suite 1
Santa Fe, New Mexico 87501

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1 MR. BROOKS: At this time we will call
2 Case Number 14328, the application of Marbob Energy
3 Corporation for approval of a Unit Agreement, Eddy
4 County, New Mexico. Call for appearances.

5 MR. CARR: May it please the Examiners, my
6 name is William F. Carr with the Santa Fe office of
7 Holland & Hart. We represent Marbob Energy Corporation
8 in this matter, and I would request permission to present
9 the case by affidavit.

10 MR. BROOKS: That will be satisfactory.
11 You may proceed.

12 MR. CARR: Mr. Examiner, before you you
13 have two exhibits. Exhibit 1 is an affidavit prepared by
14 Brent May. Mr. May is the geologist for Marbob Energy
15 Corporation. As set forth in that affidavit, Marbob
16 seeks approval of an 8,320-acre state exploratory unit.
17 It is 100 percent State of New Mexico lands, and the Unit
18 Agreement covers all formations from the surface to the
19 base of the Bone Spring Formation. It's located in
20 portions of Townships 25 and 26, Range 28 East.

21 Attachment A of the affidavit is a copy of the
22 Unit Agreement. It is on the State of New Mexico form
23 for a voluntary exploratory unit. Attachment B is a
24 plat. It is the same as Exhibit A to the Unit Agreement.
25 It shows the unit boundary and the tracts involved in the

1 unit. Attachment C is the same as Exhibit B to the Unit
2 Agreement, which shows there are 27 tracts of state land.
3 This exhibit shows the working interest ownership by
4 tract.

5 Now, I would point out that the affidavit
6 states -- it's dated May 27th -- that Marbob owns 17
7 percent of the working interest and that has been
8 committed to the Unit Agreement. I can advise the
9 Examiners that as of yesterday afternoon, I checked with
10 Marbob and all working interest owners have agreed to
11 commit their interest to the unit plan with the exception
12 of one company, and that company is Legend Natural Gas,
13 which if you look at Schedule C, owns approximately a 2
14 percent working interest in nine tracts within the unit.
15 They may join. They're talking with them still today.

16 Legend is part of a group of interest owners.
17 You'll see they appear -- it's the same percentage in a
18 number of tracts, and they typically do not respond. But
19 they have talked to them and they're explaining to them
20 that if they're not committed to the Unit Agreement,
21 under Article 13 of the Unit Agreement, this interest
22 would have to be developed on a non-unitized basis, which
23 creates a headache for the unit operator, but also could
24 have a real impact on Legend. So as it stands today,
25 owners of 92 percent plus of the working interest are

1 voluntarily committed to the unit plan.

2 This exhibit also shows that all working
3 interest is held by the State of New Mexico. Attachment
4 D to the affidavit is the letter from the Commissioner of
5 Public Lands granting preliminary approval to the unit
6 plans. So what we have is we have a proposal where we
7 have in excess of 92 percent of the working interest
8 voluntarily committed and will have 100 percent of the
9 royalty interest, so we do have a situation where we will
10 have effective control of the unit operations. We still
11 hope to have a hundred percent of each.

12 MR. BROOKS: You said that 92 percent --

13 MR. CARR: If you look, Mr. Brooks, at the
14 last page of Exhibit C, it's got a summary by entity of
15 the ownership, and you will see that the second one from
16 the bottom is Legend, and what they actually have is a
17 total of 6.8. So, actually, it would be, I guess, in
18 excess of 93 percent. Everything else is voluntarily
19 ready to go, okay?

20 MR. BROOKS: Okay.

21 MR. CARR: Exhibit E is a summary of the
22 geological presentation. The summary just explains the
23 following attachments. Exhibit F is a north/south
24 stratigraphic cross-section. It simply shows the
25 subject, Bone Spring Sand, which is the primary interval

1 of interest. It's called internally by Marbob the Harkey
2 Zone. I don't know why, but that's what they call it. I
3 don't know who Mr. Harkey is.

4 MR. BROOKS: Harkey?

5 MR. CARR: Harkey, H-a-r-k-e-y. So when
6 you read it and they talk about the Harkey Zone, I think
7 that's absolutely unique to them and to this zone.

8 Attachment G is a structure map. It shows
9 generally a west to east dip but nothing in terms of any
10 significant structural features. Exhibit H is a porosity
11 Sand Map, and it shows the location of the initial test
12 well, which is in the north half of Section 4. It's a
13 horizontal well, and I think, actually, this acreage
14 probably would never have been developed without
15 horizontal drilling technology. The map is based on a 12
16 percent porosity cutoff, and it shows multiple sort of
17 submarine fans. If you'll note, the boundary of the unit
18 sort of is delineated by a 10-foot contour that kind of
19 goes around the lobes that these fans create.

20 It's hoped that the initial test well will
21 encounter between 20 and 30 feet of pay. It would,
22 therefore, be economic, and if it is, additional drilling
23 throughout the unit area will occur. We believe the unit
24 plan and development of the acreage under the unit plan
25 will prevent waste and will protect correlative rights.

1 There are three leases in the unit area that
2 are scheduled to expire August the 1st, which is actually
3 midnight of that morning. And since unit agreements
4 become effective at 7:00 a.m. on the 1st, unless we can
5 get this thing put together by July the 1st, we're going
6 to have three leases go out with a seven-hour gap in the
7 time frame on August the 1st, so we are requesting an
8 expedited order.

9 MR. BROOKS: Well, given the number of
10 orders I will have to write as a result of this hearing,
11 that shouldn't present a problem.

12 MR. CARR: Well, when I drafted the
13 proposed order, which is Exhibit 2, and I tried to follow
14 as closely as I can recent unit approvals, at that time
15 it looked like this might be one horrific docket. So
16 what is marked as our Exhibit 2 is our proposed order.
17 It should be here.

18 MR. BROOKS: I don't have it in my --

19 MR. CARR: Well, it may be sitting with my
20 notes.

21 MR. WARNELL: I have it here.

22 MR. BROOKS: You have it?

23 MR. WARNELL: Exhibit 2.

24 MR. CARR: This is it. And I am also
25 sending it to you by email.

1 MR. BROOKS: That would be helpful.

2 MR. CARR: But I can tell you that the
3 property descriptions are correct. I think it's correct.
4 And we would request that it be expedited so we can have
5 the State Land Office approval by the 1st of July.

6 MR. BROOKS: That is not likely to be a
7 problem.

8 MR. CARR: With that, that concludes my
9 presentation, and I would move the admission of Exhibits
10 1 and 2.

11 MR. BROOKS: Exhibits 1 and 2 will be
12 admitted. If there's nothing further, Case Number 14328
13 will be taken under advisement.

14 (Exhibits 1 and 2 were admitted.)

15 MR. CARR: Thank you, Mr. Examiner. And
16 if Ms. Munds-Dry should check, I would appreciate if you
17 would tell her I was successful in pulling this off.

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I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 14328
heard by me on 6-11-09.
David K. Brooks Examiner
Oil Conservation Division

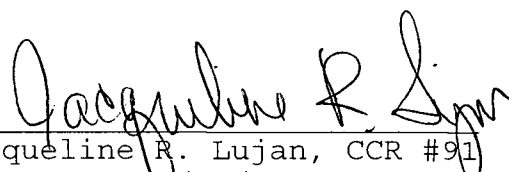
REPORTER'S CERTIFICATE

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I, JACQUELINE R. LUJAN, New Mexico CCR #91, DO
HEREBY CERTIFY that on June 11, 2009, proceedings in the
above captioned case were taken before me and that I did
report in stenographic shorthand the proceedings set
forth herein, and the foregoing pages are a true and
correct transcription to the best of my ability.

I FURTHER CERTIFY that I am neither employed by
nor related to nor contracted with any of the parties or
attorneys in this case and that I have no interest
whatsoever in the final disposition of this case in any
court.

WITNESS MY HAND this 16th day of June, 2009.


Jacqueline R. Lujan, CCR #91
Expires: 12/31/2009