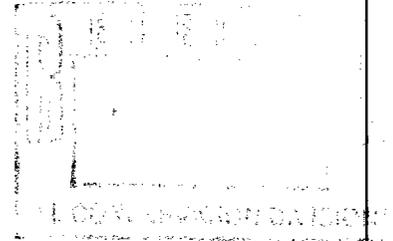


STATE OF NEW MEXICO

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. 11,213

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

April 20th, 1995

Santa Fe, New Mexico

This matter came on for hearing before the Oil Conservation Division on Thursday, April 20th, 1995, at the New Mexico Energy, Minerals and Natural Resources Department, Porter Hall, 2040 South Pacheco, Santa Fe, New Mexico, before Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

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 Examiner Hearing
 CASE NO. 11,213

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* * *

A P P E A R A N C E S

FOR THE DIVISION:

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FOR THE APPLICANT:

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By: WILLIAM F. CARR

* * *

1 WHEREUPON, the following proceedings were had at
2 1:17 p.m.:

3 EXAMINER STOGNER: Hearing will come to order.
4 Call next case, Number 11,213.

5 MR. CARROLL: Application of Maralo, Inc., for
6 compulsory pooling and an unorthodox oil well location, Lea
7 County, New Mexico.

8 EXAMINER STOGNER: Call for appearances.

9 MR. CARR: My name is William F. Carr with the
10 Santa Fe law firm Campbell, Carr and Berge.

11 We represent Maralo, Inc., and I have two
12 witnesses.

13 EXAMINER STOGNER: Any other appearances?

14 Will the witnesses please stand to be sworn at
15 this time.

16 (Thereupon, the witnesses were sworn.)

17 MR. CARR: At this time we call Mr. Mark Wheeler.

18 MARK WHEELER,
19 the witness herein, after having been first duly sworn upon
20 his oath, was examined and testified as follows:

21 DIRECT EXAMINATION

22 BY MR. CARR:

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

24 A. Mark Wheeler.

25 Q. Where do you reside?

1 A. Midland, Texas.

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

3 A. Maralo, Inc., district Landman.

4 Q. Mr. Wheeler, have you previously testified before
5 the Oil Conservation Division?

6 A. Yes, I have.

7 Q. At the time of that testimony were your
8 credentials as a petroleum landman accepted and made a
9 matter of record?

10 A. Yes, they were.

11 Q. Are you familiar with the Application filed in
12 this case?

13 A. Yes, I am.

14 Q. And are you familiar with the subject area and
15 the status of the lands in that area?

16 A. Yes, sir, I am.

17 MR. CARR: Are the witness's qualifications
18 acceptable?

19 EXAMINER STOGNER: They are.

20 Q. (By Mr. Carr) Mr. Wheeler, would you briefly
21 state what Maralo, Inc., seeks with this Application?

22 A. Maralo seeks pooling from the surface to the base
23 of the Devonian formation, underlying the northwest
24 quarter, northeast quarter, of Section 20, for formations
25 developed on 40-acre spacing in Township 13 South, Range 38

1 East, Lea County, new Mexico.

2 Q. And is the well you're proposing to drill going
3 to be at an unorthodox location?

4 A. Yes, sir, it is.

5 Q. And what is the location?

6 A. 1550 feet from the east line and 350 feet from
7 the north line.

8 Q. And is this well at that location for geologic
9 reasons?

10 A. Yes, it is.

11 Q. And a geological witness will be called to review
12 that portion of the case?

13 A. Yes, sir, he will.

14 Q. Have you prepared land exhibits for presentation
15 here today?

16 A. Yes, I have.

17 Q. Let's go to what has been marked for
18 identification as Maralo Exhibit Number 1. I'd ask you to
19 identify that and review it for Mr. Stogner.

20 A. Exhibit Number 1 is a breakdown -- I'm sorry,
21 it's a land map showing the proration unit in Section 20
22 and also the proposed well location, which is unorthodox,
23 and it shows the general ownership of the land in the area.

24 Q. What is the status of the acreage in the
25 northwest of the northeast in Section 20?

1 A. That 40 acres is fully leased, with the exception
2 of six small mineral owner interests which we have been
3 unable to locate.

4 Q. And how much of the interest in that unit do
5 these small owners represent?

6 A. 1.875 percent.

7 Q. Is this a fee tract?

8 A. Yes, it is.

9 Q. What is the primary objective in this proposed
10 well?

11 A. Devonian.

12 Q. Let's go to what has been marked for
13 identification as Exhibit Number 2. Can you identify that
14 for the Examiner and review it?

15 A. Yes, sir, it is a breakdown of the working
16 interest ownership and also lists the uncommitted interests
17 at the bottom on the left-hand side. It shows the entire
18 leasehold ownership under this 40 acres and also the small
19 interests we're pooling.

20 Q. All owners shown on this exhibit, with the
21 exception of the uncommitted interests, are voluntarily
22 committed to the well?

23 A. Yes, sir, they are.

24 Q. So you have in excess of 98 percent of the
25 interests voluntarily --

1 A. Yes, sir.

2 Q. -- in the project?

3 There are owners whom you've been unable to
4 locate?

5 A. Yes, sir.

6 Q. Let's go to what has been marked Maralo Exhibit
7 Number 3. First identify this and then explain to Mr.
8 Stogner what this shows.

9 A. That is a leasehold, a mineral takeoff prepared
10 by Mr. William Smith of Midland. He prepared this prior to
11 our leasing efforts and the leasing efforts of Brigham Oil
12 Company.

13 Q. Okay. And what does it show?

14 A. It shows the mineral ownership breakdown of the
15 entire 40 acres. Actually, this covers more than that. It
16 covers the northwest quarter and the north half of the
17 southeast quarter of Section 20.

18 Q. Mr. Wheeler, certain individuals on this list
19 have been highlighted in yellow?

20 A. Yes, sir, they have.

21 Q. And who are they?

22 A. They are the owners that we've been unable to
23 locate.

24 Q. Could you review for the Examiner your efforts to
25 identify and locate these individuals?

1 A. We searched for addresses, both in the records --
2 Mr. Smith did. We also checked the library records,
3 CD-ROM, National Phone Book Directory, looking for these
4 individuals.

5 We also made checks with post offices and through
6 other contacts that we thought might be familiar with these
7 people and their whereabouts.

8 Q. And this takeoff by Mr. Smith is based on the
9 leasehold records?

10 A. In the county, yes.

11 Q. In Lea County.

12 Are these individuals individuals whose names
13 appear from time to time in oil and gas properties as
14 owners of small interests?

15 A. I don't recognize any of these as being owners in
16 other acreage. I -- Just in this acreage only.

17 Q. How far back -- When was the last time you could
18 actually locate or --

19 A. Mr. Smith could not locate any addresses since
20 the 1960s on any of these individuals.

21 Q. In your opinion, have you made a good-faith
22 effort to identify all interest owners in this spacing
23 unit --

24 A. Yes, sir.

25 Q. -- and obtain their voluntary participation?

1 A. Yes, sir, we have. We did locate two out of
2 these six. We located two addresses and sent offers to
3 them for leases, and they were returned to us
4 undeliverable.

5 Q. Let's go now to the next exhibit, Exhibit Number
6 4. Would you identify this?

7 A. This is Maralo's AFE for the Lowe "20" Number 1
8 well, which we have proposed to the working interest
9 owners.

10 Q. And what are the dryhole and completed well costs
11 as shown on this Exhibit?

12 A. The dryhole cost is \$599,450. The completed well
13 cost, \$848,650.

14 Q. Are these costs in line with actual costs
15 incurred by Maralo drilling other wells to this depth in
16 the area?

17 A. Yes, sir, we've drilled several Devonian wells,
18 and this is a consistent cost, fairly consistent.

19 Q. Mr. Wheeler, is Exhibit Number 5 an affidavit
20 showing that notice of this hearing has been provided to
21 Brigham Oil and Gas, L.P., in accordance with Oil
22 Conservation Division rules?

23 A. Yes, sir.

24 Q. There were no interest owners who could be
25 identified to whom notice could be given of the compulsory

1 pooling portion of the case; is that right?

2 A. That's correct.

3 Q. And who is Brigham?

4 A. Brigham is an oil company out of Dallas which
5 represents some of the other leasehold owners that we show
6 on Exhibit Number 2. They have all the title to the leases
7 that they took under this 40 acres. The other parties are
8 just contractual owners.

9 Q. So Brigham is the owner?

10 A. Brigham is the current owner.

11 Q. And they own acreage in the northeast quarter of
12 the section?

13 A. Yes, sir.

14 Q. And they are the only owner on whom the proposed
15 well is encroaching; is that correct?

16 A. That is correct.

17 Q. Have you made an estimate of the overhead and
18 administrative costs to be incurred while drilling the well
19 and also while producing it, if in fact it's successful?

20 A. Yes, sir, \$5200 during the drilling and \$520
21 during production.

22 Q. And what is the source of these figures?

23 A. The 1995 *Ernst & Young* survey.

24 Q. Do you recommend that these figures be
25 incorporated into the Order that will result from this

1 hearing?

2 A. Yes, sir.

3 Q. Does Maralo seek to be designated operator of the
4 well?

5 A. Yes, we do.

6 Q. Were Exhibits 1 through 5 either prepared by or
7 compiled under your direction?

8 A. Yes, they were.

9 MR. CARR: Mr. Stogner, at this time we move the
10 admission into evidence of Maralo, Inc., Exhibits 1 through
11 5.

12 EXAMINER STOGNER: Exhibits 1 through 5 will be
13 admitted into evidence.

14 MR. CARR: And that concludes my direct
15 examination of Mr. Wheeler.

16 EXAMINATION

17 BY EXAMINER STOGNER:

18 Q. On your Exhibit Number 3, it's the ones in the
19 yellow that haven't agreed, or the ones that you can't
20 find?

21 A. Those are the ones that we cannot find and the
22 only ones that haven't agreed. All the other owners on
23 Exhibit 3 are leased.

24 Q. Are leased?

25 A. Yes.

1 Q. Okay, to one way or the other, either the Brigham
2 or Maralo or --

3 A. Yes, Brigham or Maralo have leased all the rest
4 of them.

5 Q. Of the ones marked in yellow, what percentage do
6 they represent?

7 A. They total 1.875 percent of the 40 acres.

8 Q. The uncommitted interest, as shown on your
9 Exhibit 2?

10 A. Correct.

11 Q. What was the overhead charges again?

12 A. \$5200 drilling, \$520 per month producing.

13 Q. Okay. Now, this figure, was that what appeared
14 in the operating agreement? Is that the parties that did
15 join?

16 A. Yes, sir, that is correct.

17 Q. And that was consistent throughout? That was
18 consistent throughout?

19 A. For all parties?

20 Q. Yes.

21 A. Yes, sir.

22 Q. Has Maralo agreed to those figures in other
23 operations that Maralo has interest in but other people are
24 operating, operators?

25 A. Yes, sir, that -- We use the *Ernst & Young*

1 figures. And even when we're non-operators, we look to the
2 operators to use the same figures.

3 EXAMINER STOGNER: Any other questions of this
4 witness?

5 You may be excused.

6 Mr. Carr?

7 MR. CARR: Thank you, Mr. Stogner. At this time
8 we would call Mr. Shane Lough.

9 SHANE LOUGH,

10 the witness herein, after having been first duly sworn upon
11 his oath, was examined and testified as follows:

12 DIRECT EXAMINATION

13 BY MR. CARR:

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

15 A. Shane Lough.

16 Q. Where do you reside?

17 A. Odessa, Texas.

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

19 A. Maralo, Incorporated, as a petroleum geologist.

20 Q. Mr. Lough, have you previously testified before
21 this Division and had your credentials as a geologist
22 accepted and made a matter of record?

23 A. Yes.

24 Q. Are you familiar with the Application filed in
25 this case?

1 A. Yes.

2 Q. Have you made a geologic study of the subject
3 area?

4 A. Yes.

5 MR. CARR: Are the witness's qualifications
6 acceptable?

7 EXAMINER STOGNER: What's your position with
8 Maralo, Mr. Lough?

9 THE WITNESS: Petroleum geologist.

10 EXAMINER STOGNER: Are you one of the Lowes that
11 appears in all the interest owners?

12 THE WITNESS: No, sir, I spell my name
13 differently.

14 EXAMINER STOGNER: Thought you had a big family.

15 THE WITNESS: No.

16 EXAMINER STOGNER: How do you spell your last
17 name?

18 THE WITNESS: It's L-o-u-g-h. No relationship.

19 EXAMINER STOGNER: Mr. Lough is so qualified.

20 Q. (By Mr. Carr) Mr. Lough, would you refer to what
21 has been marked as Maralo Exhibit Number 6?

22 You're not the Lough of Maralo either, are you?

23 A. No, I'm not.

24 Q. Would you refer to Exhibit Number 6, identify
25 this, and review it for the Examiner?

1 A. This is a structure map contoured on the top of
2 the Devonian formation. It shows our proposed location in
3 Section 20, the northwest of the northeast of Section 20.

4 It's -- I developed the map using both subsurface
5 control points and seismic control data. It has a line of
6 section marked A-B' and an outline of the area of our 3-D
7 seismic coverage.

8 Q. All right. The outline that is the 3-D seismic
9 coverage, that's the line that goes around the southeast
10 quarter of Section 17, extends down into 20. Does it
11 include acreage in both 21 and 16?

12 A. Yes, it does.

13 Q. And in this area, what kind of a seismic program
14 was actually run?

15 A. It was a 3-D seismic program designed for a 110-
16 square-foot bin spacing.

17 Q. You have a grid with a 110-foot interval?

18 A. That's correct.

19 Q. And you received that data?

20 A. Yes.

21 Q. And you used that information to confirm your
22 interpretation of the Devonian?

23 A. That's correct, I confirm my subsurface
24 interpretation using the seismic data.

25 Q. It shows other Devonian production or development

1 in the area. Can you show me where the nearest Devonian
2 production actually is located?

3 A. The nearest actual Devonian production is located
4 in Section 7, in Section 6 of 13 South, 38 East, being the
5 Bronco West field and the Stallion field.

6 Q. And what basically we have here is a small
7 Devonian feature, and Maralo's trying to be at the top of
8 the structure?

9 A. That's correct.

10 Q. All right, let's go to Exhibit Number 7. Would
11 you identify and review that?

12 A. Yes, this is a structural cross-section that I
13 made to show our interpretation of what we believe the
14 structure should look like at the proposed location.

15 It shows bounding faults on the west of the
16 prospect and to the south southeast. It shows two of the
17 nearest Devonian control points, subsurface control points,
18 and shows our structural interpretation that we developed
19 from our subsurface and seismic data.

20 Q. And you have estimated the limits of this
21 geological feature on Exhibit 6 as well, have you not?

22 A. Yes, I have. Our -- The best estimate that we
23 can make is that we should have a productive oil column
24 with an oil-water contact at approximately 8650 to 8660,
25 and that approximation is shown on Exhibit 6 as a dashed

1 line.

2 Q. Now, Mr. Lough, are you prepared to make a
3 recommendation to the Examiner as to the risk penalty that
4 should be assessed against the nonparticipating interest
5 owners?

6 A. Yes.

7 Q. And what is that?

8 A. Cost plus 200 percent.

9 Q. And what is your basis for that recommendation?

10 A. The risk of the prospect, the risk of drilling
11 the proposed location.

12 Q. Is this a -- just a rank wildcat?

13 A. It is, it's a wildcat with a typical wildcat
14 risk.

15 Q. In your opinion, could you drill a well at the
16 proposed location that would not be a commercial success?

17 A. Yes.

18 Q. In your opinion, will granting this Application
19 and the drilling of the proposed well be in the best
20 interests of conservation, the prevention of waste and the
21 protection of correlative rights?

22 A. Yes.

23 Q. How soon does Maralo hope to spud the well?

24 A. No later than June 1st of this year.

25 Q. And that date has been set by agreement with

1 Brigham --

2 A. Brigham.

3 Q. -- is that correct?

4 A. That's correct.

5 Q. Were Exhibits 6 and 7 prepared by you?

6 A. Yes.

7 MR. CARR: At this time, Mr. Stogner, I move the
8 admission of Maralo Exhibit 6 and 7.

9 EXAMINER STOGNER: Maralo's Exhibit 6 and 7 will
10 be admitted into evidence.

11 MR. CARR: And that concludes my direct
12 examination of Mr. Lough.

13 EXAMINATION

14 BY EXAMINER STOGNER:

15 Q. Mr. Lough, the two wells in which you flank the
16 structural cross-section on, did they actually test the
17 Devonian formation?

18 A. Yes, sir, both of them tested the Devonian
19 formation.

20 Q. And you show them to be on either side of this --
21 What? A thrust block or a thrown block?

22 A. That's correct.

23 Q. And your 3-D seismic has, I guess, verified the
24 existence of that block the way you've depicted it here?

25 A. That's correct, yes, sir.

1 Q. Now, when you say a 110-foot grid, I need to be
2 brought up to date on what you mean by that.

3 A. Okay, with this particular 3-D seismic, they can
4 design it several different ways, and the bin spacing is a
5 real important factor to consider. And on ours, the way we
6 designed it, we have a seismic control point every 110
7 square feet within the outline of the 3-D seismic.

8 So it's a real dense data set that we receive
9 from the acquisition.

10 Q. And the proposed depth of this structure or the
11 proposed depth of this well is what?

12 A. It's 12,600 feet.

13 Q. Now, you haven't depicted that you're going to go
14 all through the Devonian; is that --

15 A. That's correct, we have drilled a number of
16 Devonian wells, and the method that we use to attempt
17 completion in these wells are to drill into the top of the
18 Devonian and set casing and drill out and attempt open-hole
19 completion.

20 And by doing that, we certainly don't want to
21 drill into or drill past the oil-water contact. We want to
22 stay well above that.

23 Q. You've had pretty good success with that
24 completion technique in the Devonian?

25 A. Yes, sir, we have. We feel like that's a better

1 way to attempt completing Devonian wells. We typically can
2 effect water-free completion that way.

3 EXAMINER STOGNER: One quick verification to the
4 landman. Looking at Exhibit Number 3 -- and this is in
5 response to that unorthodox location -- all the interests
6 in the northeast quarter and the north half of the
7 southeast quarter are common as per your exhibit?

8 MR. WHEELER: Yes, sir, they are.

9 EXAMINER STOGNER: So essentially you're
10 offsetting your own property all the way through?

11 MR. WHEELER: Yes, sir, ours and Brigham's.

12 EXAMINER STOGNER: But this agreement, or the
13 agreement that you have reached, is for all the property
14 with those parties like Brigham and --

15 MR. WHEELER: Yeah, Brigham and the other owners
16 that have contractual interest owners.

17 EXAMINER STOGNER: And not just the proration
18 unit?

19 MR. WHEELER: That's correct.

20 EXAMINER STOGNER: As with all the other parties,
21 all except the ones that you haven't found?

22 MR. WHEELER: Yes, sir.

23 Q. (By Examiner Stogner) How many wells has Maralo
24 drilled out in this area?

25 A. (By Mr. Lough) We've drilled -- Let me think.

1 Q. Just roughly.

2 A. About six.

3 Q. Most of them down in the Devonian?

4 A. Yes, sir, Devonian tests.

5 Q. Do you have any feeling what kind of natural
6 drift wellbores in this area have?

7 A. Well, they typically will drift updip. They'll
8 want to climb toward the structure. That is, unless they
9 get caught up in a fault. We had one that got caught up in
10 a fault, and yes, that's what it did, real quick --

11 Q. Real --

12 A. Real suddenly.

13 Q. We need to describe that. I made a --

14 A. It deviated very rapidly at a very high angle.

15 EXAMINER STOGNER: Okay, with this all being one
16 lease, even that shouldn't be too concerning at this point.

17 I have no other questions of this witness.

18 MR. CARR: We have nothing further in this case
19 of Mr. Lough.

20 EXAMINER STOGNER: Mr. Lough.

21 Mr. Carr, I'll take Case Number 11,213 under
22 advisement.

23 (Thereupon, these proceedings were concluded at
24 1:39 p.m.)

25 * * *

