

STATE OF NEW MEXICO

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION

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IN THE MATTER OF THE HEARING CALLED BY)
THE OIL CONSERVATION DIVISION FOR THE)
PURPOSE OF CONSIDERING:)
APPLICATION OF MARALO, INC., FOR)
COMPULSORY POOLING, LEA COUNTY,)
NEW MEXICO)

CASE NO. 11,643

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

November 7th, 1996

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, November 7th, 1996, at the New Mexico Energy, Minerals and Natural Resources Department, Porter Hall, 2040 South Pacheco, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

I N D E X

November 7th, 1996
 Examiner Hearing
 CASE NO. 11,643

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APPLICANT'S WITNESSES:	
<u>WILLIAM F. SMITH</u> (Landman)	
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<u>SHANE LOUGH</u> (Geologist)	
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* * *

E X H I B I T S

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* * *

A P P E A R A N C E S

FOR THE DIVISION:

RAND L. CARROLL
Attorney at Law
Legal Counsel to the Division
2040 South Pacheco
Santa Fe, New Mexico 87505

FOR THE APPLICANT:

CAMPBELL, CARR, BERGE and SHERIDAN, P.A.
Suite 1 - 110 N. Guadalupe
P.O. Box 2208
Santa Fe, New Mexico 87504-2208
By: WILLIAM F. CARR

* * *

1 WHEREUPON, the following proceedings were had at
2 11:31 a.m.:

3
4
5 EXAMINER STOGNER: At this time I'll call Case
6 Number 11,643.

7 MR. CARROLL: Application of Maralo, Inc., for
8 compulsory pooling, Lea County, New Mexico.

9 EXAMINER STOGNER: Call for appearances.

10 MR. CARR: May it please the Examiner, my name is
11 William F. Carr with the Santa Fe law firm Campbell, Carr,
12 Berge and Sheridan. We represent Maralo, Inc., in this
13 matter.

14 I have two witnesses, and I would request that
15 the record reflect that each of the witnesses has been
16 sworn, their qualifications as a petroleum landman and a
17 petroleum geologist have been accepted and made a matter of
18 record in this case.

19 EXAMINER STOGNER: Let the record show that Mr.
20 Smith and Mr. Lough have been previously sworn in Case
21 Number 11,642.

22 Gentlemen, let me remind you you're still under
23 oath at this time.

24 Mr. Carr?

25 MR. CARR: Thank you, Mr. Stogner.

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WILLIAM F. SMITH,

the witness herein, having been previously duly sworn upon his oath, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. CARR:

Q. Mr. Smith, are you familiar with the Application filed in this case?

A. Yes, sir, I am.

Q. And are you familiar with the subject area?

A. Yes, sir, I am.

Q. Could you review for the Examiner what it is Maralo seeks with this Application?

A. Maralo requests an order pooling all the mineral interests in the northeast quarter, southwest quarter of Section 15, Township 13 South, Range 38 East, NMPM, to be dedicated to its proposed Davis "15" Number 1 well, to be drilled to the base of the Wolfcamp formation at a standard location of 1980 feet from the south and west lines of said Section 15.

Q. Let's go to what has been marked Maralo Exhibit Number 1, and I'd ask you to identify and review this for Mr. Stogner.

A. Exhibit Number 1 is a general orientation map with the proration unit highlighted in red, with an arrow pointing to it, and the location shown on the map.

1 Q. Let's go to Exhibit 2. What is this?

2 A. Exhibit 2 is just a larger-scale map with the
3 locations drawn in, the survey lines drawn in on the map.

4 Q. And the well is at standard location?

5 A. It's a standard location.

6 Q. You're projecting this to the Wolfcamp?

7 A. Yes, sir, it's a Wolfcamp carbonate.

8 Q. Will this be drilled as a wildcat well in the
9 Wolfcamp?

10 A. It is a wildcat, yes, sir.

11 Q. Let's go to Exhibit Number 3, and I would ask you
12 to refer to this exhibit and review for the Examiner the
13 status of the ownership under this 40-acre tract.

14 A. Exhibit Number 3 shows the breakdown of the
15 ownership and the proposed location. All of the working
16 interests are committed to the well, except for a 4.1666
17 percent.

18 Q. So more than 95 percent is in?

19 A. 95.83333 percent is committed.

20 Q. All right. We'll come back to the uncommitted
21 interests, but first will you go to the AFE and just review
22 the costs projected for this well?

23 A. The dryhole cost for the well is \$478,575. The
24 completed well cost is \$734,895.

25 Q. Now, are these costs consistent with what is

1 charged by other operators for similar wells in this area?

2 A. Yes, sir, they are.

3 Q. Mr. Smith, who is it you've been trying to locate
4 that owns this 4-plus percent interest in the 40-acre
5 tract?

6 A. Well, the ownership is actually in a trust, which
7 was designated under a probate proceeding in Lea County,
8 New Mexico.

9 Q. What is the name on that interest; do you know?

10 A. Well, the beneficiaries of the interest are Pearl
11 and Virgil Dawson.

12 Q. Okay, what efforts have you made to locate these
13 individuals?

14 A. The initial effort was to locate the trustee, who
15 was designated as a law firm named Williams, Johnson,
16 Houston and Reagan, in Lovington, New Mexico.

17 In my efforts to locate them, I found that the
18 law firm had been dissolved, so I contacted one of the
19 prior members of the law firm, a gentleman by the name of
20 Glen Houston, and he was one of the original trustees for
21 Pearl and Virgil Dawson. He had not heard from either of
22 the beneficiaries or dealt with the trust for a number of
23 years. He thought that Virgil Dawson had moved to Odessa,
24 Texas, but was unable to offer any real assistance in
25 locating either beneficiary.

1 I repeatedly made more phone calls to see if he
2 would help me by digging through his files, and he quit
3 returning my calls.

4 Q. Did you attempt to find any evidence of these
5 people in Odessa or in Lea County, New Mexico?

6 A. Yes, I contacted the remainderman of the trust.
7 This is a life estate trust, a Ms. Frieda Williams and a
8 Ms. Willie Kock, and they both told me that they thought
9 that Pearl Dawson was deceased and had died in a nursing
10 home in Plains or Denver City, Texas, but they were not
11 sure of the date of her death. And neither of them knew
12 anything about Virgil Dawson, suggested that I contact a
13 family attorney, name of Merrill Norton.

14 So I contacted Mr. Norton, and he also felt that
15 Pearl Dawson was deceased but thought that Pearl and Virgil
16 had been divorced prior to the death, and he was unable to
17 offer any assistance in locating Virgil Dawson.

18 So I requested the County Clerk in Yoakum County,
19 Texas, which is the county where Denver City and Plains are
20 both located, to search the county records for death
21 certificates for Ms. Dawson, and they were unable to locate
22 any evidence of her death in that county.

23 I requested the County Clerk for Lea County, New
24 Mexico, to search the records for evidence of the death of
25 both parties. Nothing was located in Lea County, New

1 Mexico.

2 I requested Caprock Abstract and Title Company to
3 perform a computer name search through their records in Lea
4 County, New Mexico, for Pearl F. Williams Dawson and Virgil
5 Dawson, and their computer search found nothing to support
6 either the claim of divorce or the claim of death.

7 I did a computer search for all Virgil Dawsons in
8 the State of Texas and in New Mexico and then contacted all
9 the Virgil Dawsons which I found, and none purport to be
10 the Virgil Dawson I'm looking for.

11 And I've also searched the records of Ector
12 County, Texas, which is where Odessa is, to search for any
13 information concerning Virgil Dawson and found nothing
14 there either.

15 Q. Mr. Smith, have you made a good-faith effort to
16 try and locate either or both of these parties?

17 A. Yes, sir, I believe I have.

18 Q. Have you even been able to locate an address to
19 which you could attempt to notify them?

20 A. No, sir, no address.

21 Q. Would the share of the funds that would be
22 allocated to their interest, if any, be escrowed in a bank
23 in Lea County, New Mexico?

24 A. Yes, sir, it would.

25 Q. Has Maralo drilled other Wolfcamp wells in the

1 area?

2 A. Yes, sir, they have.

3 Q. Is Exhibit Number 5 a copy of an affidavit
4 confirming that you have provided notice to the -- I guess
5 the trustee and the remainderman of that trust?

6 A. Yes, sir, it is.

7 Q. And we've given them notice of today's hearing;
8 is that right?

9 A. Yes, sir, we have,

10 Q. Have you made an estimate of the overhead and
11 administrative costs to be incurred while drilling this
12 well and while producing it if it is successful?

13 A. Yes, sir, we show for a producing well [sic] the
14 charge of \$5651 per month and, while producing, the charge
15 of \$565 per month.

16 Q. Are these consistent with the figures contained
17 in the Ernst and Young survey?

18 A. Yes, sir, these are right in line with the
19 figures of Ernst and Young.

20 Q. Do you recommend these figures be incorporated
21 into the order that results from today's hearing?

22 A. Yes, sir, I do.

23 Q. Does Maralo seek to be designated operator of
24 this well?

25 A. Yes, sir, they do.

1 Q. And will Maralo call an expert or technical
2 witness to review the risk associated with the drilling of
3 this well?

4 A. Yes, sir, we'll ask Mr. Lough, a geologist.

5 Q. Were exhibits 1 through 5 either prepared by you
6 or compiled at your direction?

7 A. Yes, sir, they were.

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

11 EXAMINER STOGNER: Exhibits 1 through 5 will be
12 admitted into evidence at this time.

13 MR. CARR: And that concludes my direct
14 examination of Mr. Smith.

15 EXAMINATION

16 BY EXAMINER STOGNER:

17 Q. Referring to Exhibit Number 5, who again is
18 Frieda Williams?

19 A. Frieda Williams is one of the remaindermen of the
20 estate, of the trust. The trust was set up for the life of
21 Virgil Dawson and Pearl Dawson. Upon the death of both of
22 them, it went to Frieda Williams and Willie Kock.

23 Q. With her name being Williams, any kin to the
24 Pearl F. Williams Dawson?

25 A. I believe they may be sisters. I believe Mrs.

1 Kock is also a sister.

2 Q. And where is Frieda Williams at these days?

3 A. Frieda Williams --

4 Q. Were you able to contact her? Is she still
5 alive?

6 A. Yes, we have contacted -- Frieda Williams lives
7 in Tatum, New Mexico, and Willie Kock Dye lives in Lamesa,
8 Texas.

9 Q. But she did not --

10 A. They have separate interests which they inherited
11 the same way, which we have leases on.

12 Q. But neither one of them knew where Virgil Dawson
13 or Pearl Williams --

14 A. If they did, they weren't giving it up.

15 Q. Okay. Now, who said that Pearl might be dead?

16 A. Both of these women that you talked about, Mrs.
17 Dye and Mrs. Williams, and also the family attorney, Mr.
18 Merrill. Actually, the trustee --

19 Q. Willie Kock Dye is a female?

20 A. Yes.

21 Q. Oh, okay. Now, they're representing -- Okay,
22 referring to Exhibit Number 3, the 4.16666 percent --

23 A. Yes.

24 Q. -- of the uncommitted interest, does that also
25 represent the same percentage of royalty interest?

1 A. Yes, sir.

2 EXAMINER STOGNER: No other questions at this
3 time.

4 You may be excused at this time. Thank you, sir.

5 MR. CARR: At this time we would recall Mr.
6 Lough.

7 SHANE LOUGH,

8 the witness herein, having been previously duly sworn upon
9 his oath, was examined and testified as follows:

10 DIRECT EXAMINATION

11 BY MR. CARR:

12 Q. Mr. Lough, are you familiar with the Application
13 filed in this case on behalf of Maralo, Inc.?

14 A. Yes, I am.

15 Q. Have you made a geological study of the area that
16 is the subject of this case?

17 A. I have.

18 Q. Are you prepared to review the results of that
19 study with Mr. Stogner?

20 A. Yes.

21 Q. Let's go to what has been marked Exhibit Number
22 6, and I would ask you to identify and review that, please.

23 A. Exhibit Number 6 is a map on the Wolfcamp Three
24 Brothers horizon, and it's constructed using 3-D seismic.
25 The map denotes the proposed location of the Davis 15

1 Number 1, the 40 acres -- the 40-acre proration unit around
2 the well, and the line of section -- of structural cross-
3 section D-D' is noted on the map as well.

4 Q. This was constructed using 3-D seismic?

5 A. That's correct.

6 Q. You have not shown all the seismic points on this
7 exhibit, have you?

8 A. No. No, I have not.

9 Q. Unlike the prior exhibit?

10 A. That's correct.

11 Q. You're not at the top of the structural anomaly
12 with the proposed location; is that correct?

13 A. That's correct.

14 Q. Is that necessary in your opinion to effectively
15 drain the reserves that would exist in the Wolfcamp at this
16 location?

17 A. Not on this formation.

18 Q. Let's move to Exhibit Number 7, your cross-
19 section. Will you review that, please?

20 A. Yes, this is structural cross-section D-D'. The
21 datum for this cross-section is minus 6200 feet.

22 The cross-section shows the prospective interval
23 as denoted on the upper portion of the cross-section, being
24 the Wolfcamp formation. The cross-section shows the
25 anticipated structural position of the prospective interval

1 within the Wolfcamp formation. It shows the nature of the
2 individual reservoirs developed within the Wolfcamp
3 formation. And the cross-section illustrates that we
4 believe this will be a separate reservoir from other
5 Wolfcamp-producing fields in the area.

6 Q. What conclusions can you reach from your study?

7 A. We believe that we've identified a Wolfcamp
8 structure that is separate from surrounding Wolfcamp
9 features, producing features in the area. We believe the
10 structure is well defined by seismic. We believe the
11 anomaly to be similar to other productive Wolfcamp fields
12 in the area, and the anticipated productive limits are well
13 defined by seismic.

14 Q. Mr. Lough, are you prepared to make a
15 recommendation as to the risk penalty that should be
16 assessed against nonparticipating interests in this well?

17 A. Yes.

18 Q. And what is that?

19 A. Cost plus 200 percent.

20 Q. In your opinion, is there a chance Maralo could
21 drill a well at this location that would not be a
22 commercial success?

23 A. Yes.

24 Q. In your opinion, will the granting of this
25 Application and the drilling of the proposed well be in the

1 best interests of conservation, the prevention of waste and
2 the protection of correlative rights?

3 A. Yes.

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

5 A. They were.

6 MR. CARR: Mr. Stogner, at this time we would
7 move the admission into evidence of Maralo Exhibits 6 and
8 7.

9 EXAMINER STOGNER: Exhibits 6 and 7 will be
10 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, what is some of the closest Wolfcamp
16 production to this well?

17 A. The nearest Wolfcamp production to the proposed
18 well is located approximately a mile and a half west in
19 Section 20 of the same township and range. The well I'm
20 speaking of is the Maralo Lough Number 1, located in the
21 northwest quarter of the northeast quarter of Section 20.

22 Q. Is that a recent completion?

23 A. Yes, sir, it is. That was approximately a year
24 ago, that well was completed.

25 Q. Okay. How about some Wolfcamp pools, other than

1 just a one-well --

2 A. Actually, the well I was just -- we just spoke
3 of, is actually a two-well pool. Now, there's been a
4 second well drilled that's not denoted on this map. It's
5 located -- That well is the Maralo Lough "20" Number 2, and
6 it's located in the southwest quarter of the northeast
7 quarter of 20, and that's been designated by the State of
8 New Mexico as the Bronco Southwest-Wolfcamp Pool.

9 Additional Wolfcamp pools are the Bronco-Wolfcamp
10 Pool located east northeast of this prospect, the King-
11 Wolfcamp Pool located southwest of the prospect, and the
12 Gladiola South-Wolfcamp Pool located northwest of the
13 prospect.

14 Q. Now, the wells that appear on your cross-
15 section --

16 A. Yes, sir.

17 Q. -- they were deeper Devonian -- what? Deeper
18 Devonian Morrow tests?

19 A. They were. Both wells on the cross-section were
20 Devonian tests that were unsuccessful.

21 Q. And only one of them had a drill stem test done
22 to it or --

23 A. Yes, sir --

24 Q. -- any kind of test --

25 A. -- that's correct.

1 Q. -- in the Wolfcamp?

2 A. Yes, sir, that's the only test on any well, was a
3 single drill stem test in the Maralo November 1 well.

4 Q. How long ago were those wells drilled?

5 A. The Maralo November 1 was drilled in 1994, and
6 the Avance Number 1 Coll was drilled in, I believe, 1986.

7 Q. Now, they're both plugged and abandoned; is that
8 correct?

9 A. That's correct.

10 Q. Did they ever produce out of any interval?

11 A. Neither well ever produced any hydrocarbon.

12 Q. So there's no shallower production --

13 A. That's correct.

14 Q. -- in this area?

15 A. That's right.

16 EXAMINER STOGNER: I have no other questions of
17 this witness.

18 MR. CARR: Mr. Stogner, that concludes our
19 presentation in this case.

20 EXAMINER STOGNER: Anything else further in Case
21 Number 11,643? At this time I'll take said case under
22 advisement.

23 (Thereupon, these proceedings were concluded at
24 11:50 a.m.)

25 * * *

CERTIFICATE OF REPORTER

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

I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I transcribed my notes; 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.

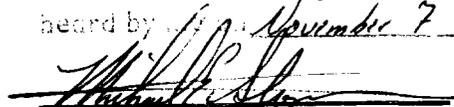
WITNESS MY HAND AND SEAL November 15th, 1996.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 1998

I do hereby certify that the foregoing is a complete record of the proceedings in the Oil Conservation Division of Case No. 11643 heard by me on November 7, 1996.


Examiner
Oil Conservation Division