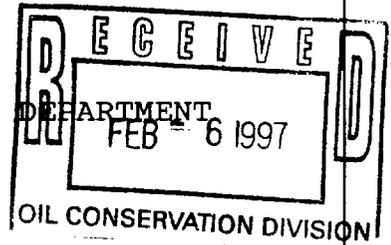


STATE OF NEW MEXICO  
ENERGY, MINERALS AND NATURAL RESOURCES  
OIL CONSERVATION DIVISION



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

CASE NO. 11,676

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

January 23rd, 1997

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, January 23rd, 1997, 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

January 23rd, 1997  
 Examiner Hearing  
 CASE NO. 11,676

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REPORTER'S CERTIFICATE	14

\* \* \*

## E X H I B I T S

Applicant's	Identified	Admitted
Exhibit 1	6	13
Exhibit 2	5	13

\* \* \*

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

## 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 11:39 a.m.:

3           EXAMINER CATANACH: At this time I'll call Case  
4 11,676, which is the Application of Manzano Oil Corporation  
5 for compulsory pooling, Lea County, New Mexico.

6           Call for appearances.

7           MR. CARR: May it please the Examiner, my name is  
8 William F. Carr with the Santa Fe law firm Campbell, Carr,  
9 Berge and Sheridan. We represent Manzano in this matter,  
10 and I have a statement I would like to make.

11           EXAMINER CATANACH: Okay, any additional  
12 appearances?

13           You may proceed, Mr. Carr.

14           MR. CARR: Mr. Examiner as you are aware, with  
15 this Application Manzano seeks an order compulsory pooling  
16 the north half of the southwest quarter of Section 11,  
17 Township 16 South, Range 36 East, in the Wolfcamp  
18 formation.

19           By way of background, on May the 16th, 1996,  
20 Manzano came before you in Case 11,513. In that case,  
21 Manzano sought an order force-pooling all interests in the  
22 southwest quarter of Section 11. They made a full  
23 evidentiary presentation at that time, and they were asking  
24 that this acreage be designated for the Chipshot Well  
25 Number 1, to be drilled at an unorthodox location 2164 feet

1 from the south line and 1362 feet from the west line.

2 The Division entered Order Number R-10,602 on May  
3 23rd, 1996. That order pooled only the northeast quarter  
4 of the southwest quarter and approved the unorthodox  
5 location being sought for the Chipshot Well Number 1. I  
6 think it's important to note that throughout the southwest  
7 quarter, the ownership is common, both working interest and  
8 royalty. Pursuant to the order entered in May, Manzano  
9 drilled its Chipshot Well Number 1 at the approved  
10 unorthodox location.

11 On January the 13th of this year, Order Number  
12 R-10,735 was entered. That order created the North  
13 Lovington-Wolfcamp Pool and adopted 80-acre spacing for the  
14 pool. As of today, we have a well that has been pooled on  
15 40 acres, that has been drilled on 40 acres, within a mile  
16 of an 80-acre pool. And so the purpose of this case is to  
17 add an additional 40-acre tract so we're in compliance with  
18 the new spacing rules.

19 The evidence that we would present in this case  
20 today is identical to the evidence that we did present to  
21 you in May. The interests being pooled are the exact same  
22 interests that were pooled at that time, with the exception  
23 of interests acquired in the last couple of weeks by Mr.  
24 David Lynch.

25 And for a minute, I think I should address the

1 situation with those Lynch interests, because I'm aware he  
2 has been contacting the Division.

3 And in that regard, I would like to offer a  
4 letter that we received from Mr. Lynch, dated January 14,  
5 1997, and I've marked it as Exhibit 2 in this case. And  
6 the reason I'm offering this is because it basically  
7 confirms the representations that I'm now going to make  
8 concerning the status of this interest.

9 As you will see, Mr. Lynch works, by profession,  
10 as a contract landman. Mr. Lynch also owns interests in  
11 the spacing unit involved, and did own those and leased  
12 them to Manzano some time ago.

13 In the fall of this year, Mr. Lynch was employed  
14 by Manzano to try and locate the whereabouts and obtain the  
15 participation of a Mr. Mahan and was unable to do so,  
16 having been able to locate his son but still never able  
17 to -- being able to reach an agreement. Those interests  
18 were previously pooled.

19 About a week ago, we received the letter that you  
20 have before you from Mr. Lynch. And if you look at the  
21 letter, I think it's important to put this in some kind of  
22 a time frame.

23 First of all, we filed our Application for  
24 compulsory pooling -- and I'm talking now about both  
25 Applications, one for the south half, which is the next

1 case, one for the north half of the southwest quarter,  
2 which is the case before you. Those Applications were  
3 filed on the 19th of December.

4 If you look at Mr. Lynch's letter, you can see  
5 that following that time, he contacted and has apparently  
6 acquired the interest of Silvyn Butts Potter, Walter  
7 Shields and Alva Hagan.

8 I would provide you with a copy of my notice  
9 affidavit, which confirms that in December we filed an  
10 Application and have also provided notice in a timely  
11 fashion to each of the interest owners, Silvyn Butts  
12 Potter, Walter Shields and Alva Hagan. At least we've  
13 attempted to do that, as required by OCD rules.

14 But what we have is a situation that after we  
15 gave notice and there was nothing in the records that would  
16 tell us that Mr. Lynch had any interest in these properties  
17 whatsoever, he acquired an interest in the properties he  
18 had been working on for us and now has come in and has  
19 suggested that the hearing needs to be continued, that he  
20 would assign his interests to us in the tract that's  
21 involved in this case if we would take him back to first  
22 production in the Chipshot well and give him a 30-percent  
23 royalty. Those are the only terms he proposed.

24 The letter proposing these, and the very first  
25 contact in writing we got from him, was on January the

1 14th, last Tuesday. We received it on Wednesday. And  
2 you'll note from the letter we were told we had to respond  
3 by Friday.

4 The letter also shows that -- in the initial  
5 paragraph, that the first contacts from Mr. Lynch were in  
6 the first week of January of this year. So basically what  
7 we have is a proper Application before you, proper notice  
8 having been given, and then an assignment or a conveyance  
9 of certain interests.

10 The Division has recently addressed this  
11 situation in a case where there were opposing pooling  
12 applications between Penwell Energy and Burlington  
13 Resources, and the Division found, and I quote -- this is  
14 Finding Number 9 in Order Number R-10,709 -- the Division  
15 found, It would only serve to circumvent the purposes of  
16 the New Mexico Oil and Gas Act to allow a record owner of a  
17 working interest in a spacing unit at the time said party  
18 was served with a compulsory pooling application to avoid  
19 or delay having the entire percentage interest pooled by  
20 assigning, conveying, selling or otherwise burdening or  
21 reducing that interest.

22 Now, what we have here is a situation where after  
23 -- we were properly before you, there has been an  
24 assignment of an interest, and the suggestion that that is  
25 reason to set aside or start over the pooling process. We

1 submit that's wrong. We want to tell you that as to the  
2 south half of this section, of course, Mr. Lynch can  
3 participate with his interest in the well.

4 But as to the north-half spacing unit, the  
5 southeast of the southwest quarter of Section 11 was  
6 previously pooled. The interests of Silvyn Butts Ponder,  
7 of Walter Shields and Alva Hagan was pooled, and that well  
8 has been drilled, and their interests have been committed.

9 And at this point in time, Mr. Lynch succeeds to  
10 those interests as they apply to the north half of the  
11 section. And as such, these interests have been pooled,  
12 but he now owns them. And when the well pays out and pays  
13 the risk penalty, he will then have a right to share in  
14 production.

15 Because the ownership throughout the southwest  
16 quarter is absolutely common, it doesn't make any  
17 difference whether or not you view adding this other 40 as  
18 an interest that comes in risk-free or not, because the  
19 interests in the 40-acre tract on which the well is  
20 located, those interest owners have already paid for it,  
21 and they've already taken the risk.

22 The reason it doesn't make any difference is, the  
23 interest Mr. Lynch has acquired is the same under both  
24 tracts, and his interests, consequently, in that 40 acre  
25 tract, already committed, already borne the expense of the

1 well. The other tract, obviously, because a well is  
2 drilled, comes in free. But the bottom line doesn't  
3 change.

4 The interests are pooled, Mr. Lynch's interests  
5 are in the nonconsent posture, and he bought them, they've  
6 already been in that posture and the well producing since  
7 last September. So that's where we stand.

8 The case we'd present today as to the pooling is  
9 identical to what we presented then. You can look at the  
10 notice affidavit, and I have the actual letters here if  
11 you're like to see them or like me to leave them, because  
12 you can see that, in fact, these notice letters did go to  
13 each of the interest owners affected, and they are the  
14 parties whose interest Mr. Lynch has acquired.

15 And we believe that at this point in time the  
16 appropriate thing to do in this case is to take the case  
17 under advisement on the record made before and enter an  
18 order pooling this additional acreage into the existing  
19 well so that we now have the proper spacing unit dedicated  
20 to the well.

21 EXAMINER CATANACH: A couple of questions, Mr.  
22 Carr.

23 MR. CARR: Yes, sir.

24 EXAMINER CATANACH: At the time of the original -  
25 - when we pooled the 40 acres, did Mr. Lynch have an

1 interest in the --

2 MR. CARR: No, he did not.

3 EXAMINER CATANACH: He did not?

4 MR. CARR: What -- He had assigned a different  
5 interest, he had leased that to Manzano. He had a small  
6 interest in the property. But the interests that are the  
7 subject of this January 14 letter, he did not.

8 And if you look at the letter itself, Mr.  
9 Catanach, it says, the last full paragraph on the second  
10 page:

11

12 Having seen a notice in the newspaper last week  
13 regarding additional force-pooling proceedings  
14 initiated by you and covering your proposed Chipshot  
15 "SV" Well Number 2, I am aware of the scheduled  
16 hearing in this case for Thursday. Since I have not  
17 received actual notice of these proceedings, I am  
18 hereby requesting you furnish me with written notice  
19 to my letterhead address, pertaining to all four  
20 interests outlined above, recognizing my ownership of  
21 these, disregarding the fact that I may not have  
22 record title to all these interests at the time of the  
23 scheduled hearing.

24

25 If you look at the letter, these all have been

1 acquired since the first of the year. So the interests  
2 that are at issue here, he did not own when we filed our  
3 Application in this case on December the 19th. And we  
4 notified at those people who we could find who had an  
5 interest in the property.

6 So the notice was correct, and what we have is an  
7 after-notice-being-given shift of ownership, and someone  
8 who sought in the paper -- and also who knew of our  
9 activities because, in fact, he had been employed to try  
10 and obtain voluntary joinder of some of the interest owners  
11 in this property last fall. So he knew.

12 It's not like the Branko case. We don't have  
13 people who didn't know and had no ability to know. The  
14 only person who says he hasn't gotten proper notice is  
15 someone who didn't own an interest at the time the  
16 Application was filed in the first place and has just  
17 recently, in the last week or so, acquired an interest and  
18 certainly has every right to participate in the well that  
19 is to be drilled.

20 But just because he has acquired them doesn't  
21 change the status or the relationship between the operator  
22 and the owners of the property in the north half of the  
23 section. He just succeeds to the relationship that exists  
24 in the Chipshot Number 1.

25 MR. CARR: Mr. Carr, the interest that Mr. Lynch

1 acquired, that was locatable at the time of the original  
2 pooling case and --

3 MR. CARR: Well, the record will show that we  
4 went through county records. The last address we could  
5 find as to Silvyn Butts Potter was in Fort Worth, and we  
6 had been trying to find them, having gone through county  
7 deed records and made the normal search.

8 It was only after Mr. Lynch, I guess, no longer  
9 was working on this project for Manzano that he apparently  
10 was able to find some of these people. But the effort made  
11 to locate them is all documented in the transcript of the  
12 May 16th hearing.

13 EXAMINER CATANACH: Okay. So none of these  
14 interests Mr. Lynch has acquired were locatable at the  
15 original hearing?

16 MR. CARR: We couldn't find them, that's right.

17 EXAMINER CATANACH: Okay. So it's your  
18 contention that Mr. Lynch should not have an election  
19 period to join in this well?

20 MR. CARR: In this well, the one in the north  
21 half of the southwest, no, because those interests are  
22 committed. We're adding a 40-acre tract, if that came in  
23 risk-free, even cost-free, still the owners in the  
24 northeast of the southwest are obligated to pay the costs  
25 and bear the risk. And Mr. Lynch's interest, because it's

1 common throughout this acreage, is identical in both  
2 tracts.

3 So it's sort of form over substance. If this  
4 comes in free, you still have to pay it out of the other  
5 tract, and your interest is identical in both, if you're  
6 Mr. Lynch, so you get -- are still obligated that way.

7 EXAMINER CATANACH: Okay. Anything else, Mr.  
8 Carr?

9 MR. CARR: That's all I have.

10 EXAMINER CATANACH: All right. There being  
11 nothing further --

12 MR. CARR: I would like to move admission of our  
13 affidavit as Exhibit Number 1 and Mr. Lynch's letter as  
14 Exhibit Number 2.

15 EXAMINER CATANACH: Okay, Exhibit Number 1 and 2  
16 in this case will be admitted as evidence --

17 MR. CARR: That's all I have.

18 EXAMINER CATANACH: -- and there being nothing  
19 further, Case 11,676 will be taken under advisement.

20 (Thereupon, these proceedings were concluded at  
21 11:53 a.m.)

I do hereby certify that the foregoing is  
a complete record of the proceedings in  
\*the Examiner hearing of Case No. 11676,  
held on the 23<sup>rd</sup> of January 1977.  
*David R. Catnach*, Examiner  
Oil Conservation Division

25

