

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:) CASE NOS. 11,699
) 11,700
APPLICATIONS OF MALLON OIL COMPANY) and 11,701
FOR COMPULSORY POOLING, LEA COUNTY,) (Consolidated)
NEW MEXICO)
_____)

REPORTER'S TRANSCRIPT OF PROCEEDINGS
EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

January 9th, 1997
Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, January 9th, 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 9th, 1997
 Examiner Hearing
 CASE NOS. 11,699, 11,700 and 11,701 (Consolidated)

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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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P.O. Box 2068
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By: JAMES G. BRUCE

* * *

1 WHEREUPON, the following proceedings were had at
2 2:15 p.m.:

3

4 EXAMINER STOGNER: At this time I will
5 consolidate and call Case Numbers 11,699, 11,700 and
6 11,701; is that correct?

7 MR. BRUCE: Yes, sir.

8 EXAMINER STOGNER: Okay.

9 MR. CARROLL: All three cases are captioned the
10 same, which is the Application of Mallon Oil Company for
11 compulsory pooling, Lea County, New Mexico.

12 MR. BRUCE: Mr. Examiner, I have the same two
13 witnesses. I have a potential additional witness, Ray
14 Jones, an engineer for Mallon, who I'd like to be sworn in
15 also.

16 EXAMINER STOGNER: Okay, let the record show that
17 the two previous witnesses, Mr. Stalcup and -- I'm sorry,
18 how do you pronounce Mr. George --

19 MR. BRUCE: -- Coryell.

20 EXAMINER STOGNER: -- Coryell, as being sworn in
21 and had their credentials accepted in Case Number 11,702.

22 Will the remaining witness please stand and be
23 sworn in at this time?

24 (Thereupon, Mr. Jones was sworn.)

25 EXAMINER STOGNER: Mr. Bruce?

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RANDY STALCUP,

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

DIRECT EXAMINATION

BY MR. BRUCE:

Q. Okay, Mr. Stalcup, in these three cases briefly, which acreage is involved in each case?

A. Okay, we have --

Q. And I'd refer you to your Exhibit 1.

A. Okay, Exhibit 1 shows the Mallon 27 Federal Number 1, which is the southeast southwest, shows the 40-acre tract to be pooled, and the location is 990 from the south line and 1980 from the west line, which is a legal location.

The next unit moving to the east is the Mallon 27 Federal Number 4, which is the southwest of the southeast, located at 660 from the south line and 1980 from the east line, another legal location.

And the last unit depicts the Mallon 27 Federal Number 2, which is the southeast southeast, located -- the well located at 660 from the south line and 990 from the east line, another legal location.

Q. Okay. And once again, on Exhibit 1, yellow is Mallon-operated acreage or Mallon-owned acreage?

A. Yes, it is.

1 Q. Okay. Now, in this case there's only one party
2 you seek to pool, or in these three cases; is that correct?

3 A. Correct.

4 Q. And who is that?

5 A. That's Burlington Resources, who owns a 12.5-
6 percent working interest.

7 Q. Who owns the remaining working interest?

8 A. Mallon, Devon and Matador.

9 Q. And Devon and Matador have previously voluntarily
10 agreed to join in these wells?

11 A. Yes.

12 Q. And let's move on to your Exhibit 2, and does
13 Exhibit 2 contain correspondence with Burlington?

14 A. Yes, Exhibit 2 -- Originally we had a farmout
15 agreement with Burlington that covered land in Section 34.
16 We drilled the first three wells on a farmout agreement.
17 Then we subsequently entered into a joint operating
18 agreement covering the balance of lands in Section 34, in
19 which they either went nonconsent or they participated in
20 the wells.

21 We originally thought that we had lands covered
22 in Section 27 in that same joint operating agreement that
23 covered Section 34, so we sent AFEs out dated November 7th,
24 1996, and November 13th, for the wells Number 1, 4 and 2.

25 They sent the same form letter out, you know,

1 whereas the projects have merit, you know, we're not
2 signing AFEs because we're selling the properties.

3 Q. And each of these first two letters contained
4 AFEs for the wells?

5 A. Yes, they did.

6 Once we discovered that the lands in Section 27
7 weren't subject to the operating agreement, I then
8 forwarded my subsequent letter dated November 18th,
9 explaining that, you know, the proposals were sent out and
10 we didn't have an operating agreement, and I offered them
11 to farm out their interests under the same terms that we
12 entered into an agreement in Section 34 or to amend the
13 joint operating agreement to go ahead and cover the lands
14 in Section 27, or to sell their interests, since that's
15 what they were preparing to do.

16 And, you know, once again, I spoke with the same
17 consultant after the trip down to Midland, and he said,
18 Randy, the only way you're going to get anything done is to
19 pool. So that's why we're here.

20 Q. And have you -- You know, you've sent the letters
21 and you tried to visit them. Did you also try to call
22 them?

23 A. Yes, several times.

24 Q. Over the last several -- couple of months?

25 A. Yes.

1 Q. Without success?

2 A. Right.

3 Q. Okay. Because of Burlington's refusal to discuss
4 the situation with you, do you think you've made a good-
5 faith effort to obtain Burlington's voluntary joinder in
6 the well?

7 A. Yes.

8 Q. Or in the three wells, I should say?

9 A. Yes.

10 Q. Now, I don't think I made this clear, but
11 Burlington's interest is the same in each well unit?

12 A. Yes, each unit, they contain 12.5 percent working
13 interest.

14 Q. And of course Mallon requests that it be
15 designated the operator of the wells?

16 A. Yes.

17 Q. Looking at your Exhibit 2, going back three
18 pages, is the AFE for the 27 Federal Well Number 1 -- are
19 the AFEs for each of the three wells the same?

20 A. Yes.

21 Q. And what is the estimated completed well cost?

22 A. \$546,560.

23 Q. And is this cost equivalent to other Delaware
24 wells drilled in this area of the county?

25 A. It's slightly higher because the drilling rates

1 are going up, but it's in the same general area.

2 Q. Okay. Over the last half year or so, drilling
3 rates have been going up?

4 A. Yes.

5 Q. What overhead rates do you propose?

6 A. For the drilling overhead rate, \$4890, and the
7 producing well rate, \$489.

8 Q. And are these equivalent to those normally
9 charged by Mallon and other operators in this area?

10 A. Yes.

11 Q. Was Burlington notified of these three
12 applications?

13 A. Yes.

14 Q. And is Exhibit 3 your affidavit of notice with
15 the notice letter and certified return receipt?

16 A. Yes, it is.

17 Q. Were Exhibits 1 through 3 prepared by you or
18 under your direction?

19 A. Yes, they were.

20 Q. And in your opinion is the granting of Mallon's
21 Applications in the interests of conservation and the
22 prevention of waste?

23 A. Yes, it is.

24 MR. BRUCE: Mr. Examiner, I would submit -- or
25 request that Exhibits 1, 2 and 3 be admitted into evidence.

1 EXAMINER STOGNER: Exhibits 1, 2 and 3 will be
2 admitted into evidence at this time.

3 EXAMINATION

4 BY EXAMINER STOGNER:

5 Q. Mr. Stalcup, did you by chance get any
6 correspondence from Burlington concerning these three
7 wells?

8 A. The same form letter that I previously testified
9 about.

10 EXAMINER STOGNER: Mr. Bruce, could you please
11 provide three copies of that, one for each case file in
12 this matter?

13 MR. BRUCE: Yes, sir.

14 EXAMINER STOGNER: I think that will be a very
15 interesting document, probably serve to relate to these
16 letters.

17 Q. (By Examiner Stogner) Is there any particular
18 sequence in which Mallon's proposed to drill these wells?

19 A. Well, I believe that we're going to drill the
20 Number 4 next, which will be the middle unit. We just
21 completed a well over in Section 35 in the northwest
22 northwest, and it doesn't look very good, so we're going to
23 try to move over a little further away from that well.

24 Q. And will the Number 4 be the first one?

25 A. Yes.

1 Q. And is there any plans right now of which one
2 will be the second one, or will it be dependent on the
3 performance of the Number 4?

4 A. It will be dependent on that. And I also might
5 add that we are -- we have a rig under contract on this
6 that we're looking to move to fairly quick on the 4.

7 Q. Most compulsory pooling orders provide for a 90-
8 day time frame from the time of the order to when the well
9 was drilled. Is that still applicable in all three of
10 these wells, or will there need to be something in addition
11 for the subsequent wells?

12 MR. BRUCE: Mr. Examiner, if -- I didn't quite
13 catch Mr. Stalcup's answer but, you know, the pooling
14 statute does specifically allow you to pool even after a
15 well has been commenced, so if I could get to you the
16 sequence in which those wells might be started so that --

17 EXAMINER STOGNER: Well, I'm not necessarily
18 asking for the sequence, but naturally one of the wells
19 will be drilled, and like you said, there's a 90-day time
20 frame, and perhaps -- Would you want the same 90-day period
21 for all of them, or -- Because it even provides for --

22 MR. BRUCE: Yeah.

23 EXAMINER STOGNER: -- should circumstances
24 require --

25 MR. BRUCE: Yeah, I think they intend to drill

1 these quite quickly, so...

2 EXAMINER STOGNER: Okay. All right, just wanted
3 to cover that if there's any need to put anything
4 additional in an order.

5 MR. BRUCE: Thank you, Mr. Examiner.

6 EXAMINER STOGNER: Very good. With the addition
7 of that letter from Burlington, I have nothing further of
8 Mr. Stalcup. He may be excused.

9 THE WITNESS: Thank you.

10 EXAMINER STOGNER: Mr. Bruce?

11 MR. BRUCE: Call Mr. Coryell.

12 EXAMINER STOGNER: How do you spell that?

13 MR. BRUCE: C-o-r-y-e-l-l.

14 (Off the record)

15 GEORGE CORYELL,

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

18 DIRECT EXAMINATION

19 BY MR. BRUCE:

20 Q. Okay, Mr. Coryell, on these three wells, what is
21 the primary zone of interest?

22 A. Primary zone is in the Brushy Canyon, with the --
23 designated as the Brushy Canyon 9 sand.

24 Q. Again, that's an internal --

25 A. Yes, it is.

1 Q. And is Exhibit 4 a type log of that particular
2 zone?

3 A. Yes, it is. It's the only producing well in the
4 area.

5 Q. From this particular zone?

6 A. That's correct, excuse me, it's the only
7 producing well from the Brushy Canyon 9 zone.

8 Q. Okay. And this well is what? A half mile or
9 more away from the proposed wells?

10 A. Yes, that's correct.

11 Q. Okay.

12 A. Yes.

13 Q. Well then, let's discuss the risk involved in
14 drilling this well. Would you please refer to your Exhibit
15 6 and identify that for the Examiner?

16 A. Yes -- Number 5, excuse me.

17 Q. Excuse me, Number 5.

18 A. Exhibit 5 is a total net sand isopach of the
19 Brushy Canyon 9 zone. You can see the type well in the
20 southwest of the northeast of Section 34. It's produced,
21 so far, 25,000 barrels.

22 The isopach, a 25-feet, is defining the center of
23 an interpreted turbidite channel coming from the northeast,
24 progressing into a possible fan in Section 33, as it opens
25 up. Structure -- May I move to Exhibit 6 also?

1 Exhibit 6 is a structure of the area. The
2 structure is very important. We need to stay flat or go
3 updip from the Mallon 34 Federal Number 9.

4 As you can see, there's a north-northwest-
5 trending very tight syncline mapped in there. It's
6 inferred that potentially there's a fault involved with
7 this contouring, but there's not enough data at this time
8 to determine that that is indeed the case, so at this time
9 it's mapped as a tight syncline.

10 All the locations are either flat or updip to the
11 Mallon 34 Federal Number 9.

12 Q. In your opinion, if Burlington goes nonconsent
13 under any order issued, any orders issued in these cases,
14 what penalty should be assessed against them?

15 A. Cost plus 200 percent.

16 Q. And is this justified by the geological risk
17 involved in drilling this well?

18 A. Yes, for a couple reasons. First of all, the
19 mapping of the structure, there's still more data needed to
20 know if that indeed is a fault or not. The structure could
21 vary from the picture. The structure is very important.

22 Also the sand quality as defined by the net
23 isopach in Exhibit 5, there is very little -- there is no
24 control to the north side of that channel, so defining its
25 exact northern limits is inferred at this time.

1 Q. There's just no well control to the north, is
2 there?

3 A. Yeah. And as was mentioned, the well was
4 recently drilled in the north -- north-northwest of Section
5 35, Mallon 35 Federal Number 1. It looks that it may have
6 some poorer sand quality than expected. So that increases
7 the potential risk, exactly how that channel curves around.

8 Q. Okay. Mr. Coryell, again Exhibits 5 and 6 were
9 prepared by Mr. Bond?

10 A. Yes.

11 Q. But have you reviewed the data and do you agree
12 with the interpretation?

13 A. Yes, I do.

14 Q. And was Exhibit 4 compiled from Mallon company
15 records?

16 A. Yes.

17 MR. BRUCE: Mr. Examiner, I would move the
18 admission of Mallon Exhibits 4, 5 and 6.

19 EXAMINER STOGNER: Exhibits 4, 5 and 6 in
20 consolidated Case 11,699, 11,700 and 11,701 will be
21 accepted at this time.

22 EXAMINATION

23 BY EXAMINER STOGNER:

24 Q. You've referred to a well that has just recently
25 been drilled up in the northeast quarter -- I'm sorry, the

1 northwest quarter, of 35. Is that identified but a spot
2 not shown?

3 A. Yes, yes, because it was --

4 Q. And have you had enough or sufficient time to
5 gather information from that well to -- for that well or
6 that information to be included in your preparation of
7 these structure maps?

8 A. No, that information, was just forthcoming last
9 night essentially, so...

10 Q. Oh, okay, so it's that recent?

11 A. Yes, it is.

12 Q. Well, at least you were able to show them.
13 That's just for identification purposes only, then?

14 A. Yes.

15 Q. On Exhibit Number 4, you show the Federal 34 Well
16 Number 9. Now, is this well presently producing from that
17 Brushy Canyon interval?

18 A. Yes.

19 Q. What's the short history of this well? When was
20 it completed, what was its production and rate at this
21 point?

22 A. All I know is its cumulative production. Perhaps
23 that can be --

24 MR. BRUCE: We could have our next witness --

25 EXAMINER STOGNER: Oh, okay.

1 MR. BRUCE: -- discuss that.

2 EXAMINER STOGNER: In that case, I'll just hold
3 off until that time.

4 THE WITNESS: I can add -- make an addition to my
5 testimony.

6 Q. (By Examiner Stogner) Pardon?

7 A. I can make an addition that there -- You may
8 notice that the well in the southwest of the northwest of
9 Section 35 is marked as dry. That particular well did have
10 good shows in sample, mud log and sidewell cores. And at
11 the time that was drilled, Mallon did not thoroughly
12 understand the reservoir parameters required for producing
13 a well. So that may be a bypass well.

14 Q. Okay, that's -- Actually that's good information
15 for consideration of the risk penalty.

16 And that is -- the Well Number 2? Is that the
17 one you're referring to?

18 A. Yes, it is.

19 EXAMINER STOGNER: Okay. I have no other
20 questions of this witness. You may be excused.

21 Mr. Bruce, do you have anything further?

22 MR. BRUCE: Just to answer your question, I'd
23 call and get Mr. Jones qualified and have him answer your
24 one question.

25 EXAMINER STOGNER: Oh, okay, then call Mr. Jones

1 at this time.

2 RAY E. JONES,

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

5 DIRECT EXAMINATION

6 BY MR. BRUCE:

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

8 A. Ray E. Jones.

9 Q. And where do you reside?

10 A. Lakewood, Colorado.

11 Q. Who do you work for and in what capacity?

12 A. I'm employed by Mallon Oil Company as vice
13 president of engineering.

14 Q. Have you previously testified before the Division
15 as an engineer?

16 A. I have.

17 Q. And were your credentials as an expert engineer
18 accepted as a matter of record?

19 A. They were.

20 Q. And are you familiar with the engineering matters
21 pertaining to these Applications?

22 A. I am.

23 Q. Mr. Jones, I just really have one question, then
24 anything the Examiner may want, but do you have any
25 information on the Mallon 34 Federal Number 9 well and its

1 performance and its producing zone?

2 A. Yes, the primary zone that the well produces from
3 is this zone, the Brushy Canyon 9 zone, as it's referred to
4 internally.

5 At this particular well spot it's a good quality
6 sandstone. However, it does produce with a fair amount of
7 water, a high water-oil ratio, and just had a production
8 decline that's more consistent with a good quality
9 reservoir, rather than a typical Brushy Canyon, say, or a
10 Cherry Canyon sand. It's a tighter sand. And this
11 interval is the primary producing interval from that well.

12 MR. BRUCE: I don't have any other questions, Mr.
13 Examiner.

14 EXAMINATION

15 BY EXAMINER STOGNER:

16 Q. Maybe you can answer this question, Mr. Jones.
17 If not, we can recall Mr. Coryell back.

18 Should the first well drilled in this lower tier
19 of 27, which is the subject of these consolidated cases,
20 then, should the drilling of the other two wells, should
21 that influence the risk penalty of -- you're requesting 200
22 percent on all of them, or Mallon is requesting 200
23 percent. But if the first well drilled in there comes in
24 very well, how would or should it affect that risk penalty
25 factor on the other two wells, or the subsequent drilling

1 of the other two wells?

2 A. It should not affect the penalty. The Lea
3 Northeast Delaware field produces from the Cherry Canyon
4 and from the Brushy Canyon.

5 The field extends into the south in Section 2,
6 Section 3 and Section 4. A review of the production from
7 the wells will show that there is a great variability from
8 well to well, from location to location. We have seen a
9 very large variability. In Section 34 it was primarily a
10 Cherry Canyon play.

11 We saw great variability, and we were not as
12 successful as we would like in predicting sand locations,
13 reservoir quality. The well performance, the hydrocarbon
14 content at specific locations also depends upon reservoir
15 quality. The Brushy Canyon is as much or more so dependent
16 upon reservoir quality for hydrocarbon content, and the
17 success in one location does not guarantee or lessen the
18 risk for the other locations. There's variability as seen
19 throughout the field.

20 We have tried to -- Obviously, we have tried to
21 stay with our major sand trends as we choose our locations
22 However, we're not always successful.

23 Q. You mentioned the Cherry Canyon. Is there any
24 Cherry Canyon production to the north of this tier in
25 Section 27, or is that still an unproductive or unexplored

1 area?

2 A. I'm not aware of any Cherry Canyon production to
3 the north that would be within any reasonable proximity to
4 this field, and I don't believe there's any -- I'm unaware
5 of any Cherry Canyon wells in Section 27 or the section
6 above.

7 So, I mean, we may well have found or be finding
8 the limit of the field to the north. The wells to the --
9 directly to the north and to the northwest tend to either
10 be shallower, then break out into Morrow wells, and
11 production to the northeast is San Andres or -- There were
12 some Bone Springs tests.

13 Q. Is this going to be a three-well package for any
14 drilling contractor? Or since you are going to drill a
15 Number 4, is the Number -- or the first well?

16 A. The 4 would be the first well of those that would
17 be drilled.

18 Q. Okay.

19 A. We're attempting to develop the field by working
20 on the various sides of the field so that we are not
21 immediately offsetting any newly drilled well.

22 We had locations picked to the north of the
23 field, to the east, in Section 35, and in the western part
24 of 34.

25 EXAMINER STOGNER: Okay. Thank you, Mr. Jones.

1 Any other questions of this witness? You may be
2 excused.

3 Mr. Bruce?

4 MR. BRUCE: I have nothing further in this case.

5 EXAMINER STOGNER: Does anybody else have
6 anything further in Cases 11,699, 11,700 and 11,701?

7 Then these three matters will be taken under
8 advisement at this time.

9 (Thereupon, these proceedings were concluded at
10 2:44 p.m.)

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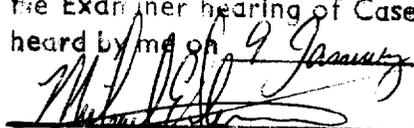
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I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case Nos. 11699, 11700, 11701
heard by me on 9 January 1997.

_____, Examiner
Oil Conservation Division

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 January 17th, 1997.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 14, 1998