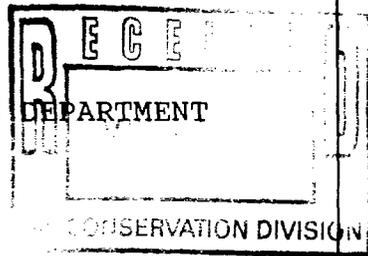


STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES
OIL CONSERVATION DIVISION



IN THE MATTER OF THE HEARING CALLED BY)
THE OIL CONSERVATION DIVISION FOR THE)
PURPOSE OF CONSIDERING:)
)
APPLICATION OF MARATHON OIL COMPANY FOR)
COMPULSORY POOLING AND AN UNORTHODOX GAS)
WELL LOCATION, EDDY COUNTY, NEW MEXICO)
)

CASE NO. 11,775

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

May 1st, 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, May 1st, 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.

* * *

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May 1st, 1997
Examiner Hearing
CASE NO. 11,775

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* * *

A P P E A R A N C E S

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By: W. THOMAS KELLAHIN

* * *

1 WHEREUPON, the following proceedings were had at
2 11:38 a.m.:

3 EXAMINER STOGNER: Call Case Number 11,775.

4 MR. CARROLL: Application of Marathon Oil Company
5 for compulsory pooling and an unorthodox gas well location,
6 Eddy County, New Mexico.

7 EXAMINER STOGNER: Call for appearances.

8 MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin of
9 the Santa Fe law firm of Kellahin and Kellahin, appearing
10 on behalf of the Applicant, and I have the same two
11 witnesses as we just had in the last case.

12 EXAMINER STOGNER: Let the record show that the
13 two witnesses that appeared in Case Number 11,774 are still
14 under oath and had their credentials accepted in the
15 previous case.

16 Any other appearances?

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

20 DIRECT EXAMINATION

21 BY MR. KELLAHIN:

22 Q. Mr. Robertson, let me direct your attention, sir,
23 to Exhibit 1, Case 11,775, and let's look at the plat that
24 you have prepared to show how the east half of Section 15
25 has been divided or apportioned into various leases and

1 tracts.

2 A. Yes.

3 Q. Let's start there and look at that display.

4 Based upon the information available to you, how is the
5 east half of 15 divided?

6 A. The east half of Section 15 is divided into three
7 -- into four tracts covered by three separate state leases.
8 And each of the -- The ownership of the three separate
9 leases is also different.

10 Q. Again, as in the last case, we're looking at
11 pooling the ownership from 500 feet below the top of the
12 San Andres to the base of the Morrow?

13 A. That's correct.

14 Q. Let's turn to Exhibit Number 2 and show how, on
15 an east-half spacing unit basis, how the percentages are
16 calculated for the various interest owners, and let's go
17 down the list and find the current status of your efforts
18 to achieve voluntary agreement with those owners.

19 A. All right. My testimony concerning the Atlantic
20 Richfield Company would be identical to the previous case.
21 Again, also that would be the case for the Louis Dreyfus
22 Natural Gas Corporation, that we have a voluntary agreement
23 from them. In this case, the Yates Petroleum Corporation
24 has elected to participate in our well and has signed our
25 AFE.

1 Q. In addition, I believe Yates has -- They have
2 filed a waiver of objection to the well location as well, I
3 think, in this case?

4 A. Yes, that's correct.

5 Q. Okay. Am I correct in remembering that the
6 Travis 15 and the Bowie 11 were really presented to these
7 companies concurrently?

8 A. That's correct, in about the same time period.

9 Q. All right, continue then. Where do we stand with
10 Exxon?

11 A. The Exxon Corporation was also presented with the
12 well proposal in December and has not been able to get us
13 any agreement.

14 They have verbally told us that they would sell
15 off the term assignment to their acreage, but we have not
16 -- and we have received a letter from them outlining the
17 terms that that agreement might fall under and saying that
18 they would present that to their management, but we have
19 yet to receive any document that we might work with.

20 Q. And as in the other case, if you're able to reach
21 a voluntary agreement with Exxon or any of the others prior
22 to the time the pooling election expires, then obviously
23 you'll let them participate in that fashion, and they would
24 be removed from the pooling case?

25 A. That's correct.

1 Q. Okay. Let's turn to having you identify for the
2 record the written correspondence that was communicated on
3 this topic, starting with Exhibit 3. Identify what this
4 is.

5 A. This again, is a well proposal submitted to Yates
6 Petroleum Corporation, which proposes our well and gives
7 the working interest owner the option to either
8 participate, to farm out to Marathon, or to sell Marathon a
9 term assignment to their lease.

10 Q. In addition, did you provide them an itemized
11 estimate of well costs for this well?

12 A. Yes, that's correct, and that was attached to the
13 letter.

14 Q. And Yates in this instance has agreed to execute
15 the AFE and to participate in the well?

16 A. That's correct, they have executed the AFE.

17 Q. All right. Identify and describe Exhibit 4.

18 A. Exhibit 4 is a similar letter and proposal to the
19 Louis Dreyfus Natural Gas Corporation with an attached AFE.

20 Q. And Louis Dreyfus has reached farmout terms with
21 you?

22 A. Yes, we have received a farmout agreement from
23 Dreyfus.

24 Q. Identify and describe Exhibit 5.

25 A. Exhibit 5 is a similar letter offer and AFE to

1 the Devon Energy Corporation.

2 Q. Exhibit 6?

3 A. That is a similar letter to the Atlantic
4 Richfield Company.

5 Q. Exhibit 7?

6 A. A similar letter to the Exxon Company.

7 Q. Okay, and then Exhibit 8?

8 A. Exhibit 8 is a copy of a letter from Yates
9 Petroleum Corporation in which they signed our original
10 AFE, which original well proposal, it was proposed in
11 December.

12 Q. Okay. What are the proposed operating costs and
13 overhead rates that you and Yates have agreed to?

14 A. We have provided Yates with an operating
15 agreement with overhead rates of \$5400 and \$540.

16 Q. Same numbers you testified to in the last case?

17 A. That's correct.

18 Q. Okay. Are those the numbers you propose to have
19 the Division Examiner include in the pooling order in this
20 case?

21 A. Yes, it is.

22 Q. Identify and describe Exhibit 9.

23 A. Exhibit 9 is a series of letters to all of the
24 working interest owners in which we change the footage
25 location of the well proposal and notified them of that

1 change in location of our well proposal and also provided
2 them with a new AFE which was identical in all aspects
3 except for the change in the footage location of the well.

4 Q. All right. Have you received any objection from
5 any of the parties that would participate in the well as to
6 the change in location?

7 A. No, we have not.

8 Q. Have you received any objection as to any of the
9 other terms?

10 A. No, we have not.

11 Q. They have not objected to your AFE, objected to
12 the well location --

13 A. No.

14 Q. -- have not objected to your operations?

15 A. That's correct.

16 Q. Okay. Exhibit 10, would you identify and
17 describe that?

18 A. Exhibit 10 is a letter from the Yates Petroleum
19 Corporation in which they returned to us the second AFE
20 which had been executed on their behalf.

21 Q. Okay. In addition, they waive objection to the
22 location --

23 A. That's correct.

24 Q. -- as an offset owner?

25 A. That's correct.

1 Q. All right, Exhibit 11.

2 A. Exhibit 11 is a copy of a letter from the Exxon
3 Company in which they indicate that they are willing to
4 present certain terms for a term assignment to Marathon, to
5 their management, if we are in agreement with those terms.

6 Q. This is one of the companies that you're
7 continuing your negotiations with?

8 A. That is correct.

9 Q. All right. Exhibit 12, would you identify that
10 for us?

11 A. Yes, this is a letter which I returned to the
12 Exxon Company, in which we, Marathon, agreed to the terms
13 of their letter. As you will notice, I had executed
14 Exxon's letter and returned it to them with this letter.

15 Q. Okay. Then let's go to the summary of your
16 verbal contacts with Arco and Exxon that you've summarized
17 on Exhibit 13.

18 A. Yes.

19 Q. Let's have you summarize those efforts.

20 A. Yes, the testimony concerning the contacts with
21 the Atlantic Richfield Company would be identical to the
22 previous case.

23 With regard to Exxon, I have called them over the
24 last few months, as is set out in the exhibit. They have
25 promised to send us a term assignment, and we have not as

1 of yet received such an assignment from them.

2 Q. Do you have an opinion as to whether you've
3 exhausted good faith efforts to get voluntary agreement by
4 all interest owners?

5 A. I feel like I have.

6 Q. And the scheduling for the drilling of this well
7 is approximately when, sir?

8 A. It will be approximately July of this year.

9 Q. Let's turn now to Exhibit 14. Identify and
10 describe this display.

11 A. This exhibit is identical to the exhibit
12 presented in the previous case.

13 Q. Okay, and then finally Exhibit 15?

14 A. Exhibit 15 is a plat of both units and operators
15 in the general area of Morrow wells and also shows the
16 offsetting lessees to the proposed location.

17 MR. KELLAHIN: Mr. Examiner, I'll show you what
18 I've marked as Exhibit 21, which is our notification
19 affidavit.

20 We've notified the interest owners in the spacing
21 unit. And in addition, you'll find that those same
22 interest owners were also the interest owners in 10 and 11,
23 the offsetting spacing units towards which the well
24 encroaches.

25 Q. (By Mr. Kellahin) I think I asked you this

1 already, Mr. Robertson, but have you received any objection
2 from any of the parties that you are offsetting?

3 A. No, I have received no objections.

4 MR. KELLAHIN: That concludes my examination of
5 Mr. Robertson.

6 We move the introduction of his Exhibits 1
7 through 15, plus the certificate, Exhibit 21.

8 EXAMINER STOGNER: Exhibits 1 through 15 will be
9 admitted into evidence, and also Exhibit Number 21.

10 Since it had been mentioned several times in your
11 examination of this witness, I'll take administrative
12 notice of previous Case 11,774 and make that a part of the
13 record also.

14 MR. KELLAHIN: All right, sir. Thank you.

15 EXAMINATION

16 BY EXAMINER STOGNER:

17 Q. On the Exxon negotiations they sent to you back
18 earlier in April their terms, and you agree to it, and
19 essentially all you're awaiting is for a signed agreement
20 with those terms that you all have agreed to with those two
21 letters earlier this month; is that correct?

22 A. That's -- Well, we're waiting for approval from
23 their management to those terms and to our receiving an
24 agreement to that effect.

25 Q. And, let's see, on the 24th you had talked to

1 them concerning this matter?

2 A. Yes, I did speak with their land person on the
3 24th, and he again promised that he would send us a term
4 assignment in the future.

5 But as of this date, we have not received that
6 document.

7 EXAMINER STOGNER: I have no other questions, Mr.
8 Robertson.

9 Any other questions?

10 WILLIAM DeMIS,

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

13 DIRECT EXAMINATION

14 BY MR. KELLAHIN:

15 Q. Mr. DeMis, is the proposed Travis well in the
16 northeast of 15 also one of your project wells as a
17 geologist?

18 A. Yes, sir, it is.

19 Q. Do the following displays we're about to look at
20 represent your work product?

21 A. Yes, they do, sir.

22 Q. Let's start with Exhibit 16 and have you identify
23 and describe that display.

24 A. Exhibit 16 is a plat that shows the proposed
25 unit, the well location, as well as Morrow production in

1 the immediate vicinity.

2 Q. Is your geologic method and your conclusions
3 about this well similar to the ones that you made in the
4 previous case concerning the Bowie well?

5 A. Yes, they would be similar.

6 Q. You went through the same strategy of examining
7 all available log data in the conventional way for
8 exploring for the middle Morrow gas? You looked at all the
9 log information for --

10 A. Pardon me, sir, lower Morrow?

11 Q. Lower Morrow?

12 A. Yes, sir, I did.

13 Q. And in addition, with the specific concern of the
14 northeast quarter of 15, you have integrated some
15 subsurface seismic data?

16 A. Yes, I have.

17 Q. Let's turn now and again identify Exhibit 17.

18 A. This is --

19 Q. The primary objective here is lower Morrow?

20 A. Yes. This is a type log that shows the primary
21 objective and the definition of the nomenclature.

22 Q. Exhibit 18 is similar to the exhibit in the prior
23 cases showing the costs and risks associated with actual
24 wells drilled in the Morrow?

25 A. Yes, it is.

1 Q. What do you conclude is the appropriate risk
2 factor penalty to recommend to the Examiner for inclusion
3 in this case?

4 A. 200 percent.

5 Q. And why do you reach that conclusion?

6 A. Because again we see substantial risk in trying
7 to develop the lower Morrow, our seismic data
8 notwithstanding.

9 Q. Is that risk substantially diminished by moving
10 to the unorthodox location so that the risk would be less
11 than 200 percent?

12 A. No, it is not.

13 Q. All right. By moving to the unorthodox location,
14 you may improve your chance of getting into the thicker
15 portion of the channel, but that's not going to make it
16 less than 200 percent?

17 A. No, it will not.

18 Q. All right.

19 A. That's correct.

20 Q. Let's look at Exhibit 19 and have you interpret
21 that exhibit.

22 A. Exhibit 19 is a map of the lower Morrow sands in
23 this area. And again, what I've done is, I show the
24 regional trends based on the subsurface geology, and then
25 specifically in our proposed unit of Section 15 I have

1 integrated into the interpretation the 3-D seismic.

2 Q. Okay, let's turn to Exhibit 20 and have you
3 identify and describe that display.

4 A. Okay. Exhibit 20 is a map of the Barnett
5 structure under our proposed unit.

6 What this -- This is a map in elevation, in time,
7 and what it shows is that where we propose to drill is in a
8 low that trends through the northeast quarter of this
9 section.

10 What we feel this low represents is a scour or
11 channel cut into what we believe is the Barnett base Morrow
12 marker. We feel this is a little -- the river kind of cut
13 a little channel there, and that we feel that the sands
14 will be localized in this area.

15 The depth -- The scale is in milliseconds, and
16 that's what the 1290 represents. So where we were drilling
17 is in a Barnett low, but we believe there will be a thick
18 accumulation of lower Morrow sands.

19 Q. The interpretation of the data as illustrated on
20 20 allows you to create a thicker sand interval when we
21 look at the sand map on Exhibit 19?

22 A. Yes, sir, that is correct.

23 Q. Only as to that specific northeast quarter,
24 right?

25 A. Yes, sir, that is correct.

1 Q. The rest of this map is not showing seismic data;
2 am I correct?

3 A. Yes, that is correct.

4 Q. So Exhibit 19, again, as you did in the prior
5 case, you've attempted to pinpoint within your spacing
6 unit, using the 3-D seismic information, the position of
7 greatest potential in the Morrow?

8 A. Yes, that is correct.

9 Q. When we look at other potential reservoirs, is
10 the lower Morrow your best prospect in the spacing unit at
11 this location?

12 A. Yes, we believe that it is.

13 Q. And other formations, if they're productive,
14 represent a greater risk even than this?

15 A. Yes, they do.

16 MR. KELLAHIN: That concludes my examination of
17 Mr. DeMis.

18 We move the introduction of his Exhibits 16
19 through 20.

20 EXAMINER STOGNER: Exhibits 16 through 20 will be
21 admitted into evidence at this time.

22 I have no questions of this witness.

23 Any questions of Mr. DeMis?

24 You may be excused.

25 Mr. Kellahin, anything further?

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MR. KELLAHIN: Not in this case.

EXAMINER STOGNER: Does anybody else have anything further in Case Number 11,775?

Then this matter will be taken under advisement.

(Thereupon, these proceedings were concluded at 11:55 a.m.)

* * *

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 11775, heard by me on 1 May 1997.
Michael P. Stogner, Examiner
Oil Conservation Division

... and the ...
... of ...
... and ...
... of ...
... and ...
... of ...

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 May 9th, 1997.


 STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 14, 1998