

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 NO. 11,655

APPLICATION OF MARALO, INC., FOR A)
NONSTANDARD GAS PRORATION UNIT AND)
AN UNORTHODOX GAS WELL LOCATION,)
LEA COUNTY, NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

November 21st, 1996

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, November 21st, 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.

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November 21st, 1996
Examiner Hearing
CASE NO. 11,655

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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

FOR DEVON ENERGY CORPORATION:

HINKLE, COX, EATON, COFFIELD & HENSLEY
218 Montezuma
P.O. Box 2068
Santa Fe, New Mexico 87504-2068
By: JAMES G. BRUCE

* * *

1 WHEREUPON, the following proceedings were had at
2 9:00 a.m.:

3
4
5 EXAMINER CATANACH: All right, at this time we'll
6 call Case 11,655.

7 MR. CARROLL: Application of Maralo, Inc., for a
8 nonstandard gas proration unit and an unorthodox gas well
9 location, Lea County, New Mexico.

10 EXAMINER CATANACH: Are there appearances in this
11 case?

12 MR. CARR: May it please the Examiner, my name is
13 William F. Carr with the Santa Fe law firm Campbell, Carr,
14 Berge and Sheridan.

15 We represent Maralo, Inc., in this matter, and I
16 have two witnesses.

17 EXAMINER CATANACH: Any other appearances?

18 MR. BRUCE: Mr. Examiner, Jim Bruce from the
19 Hinkle law firm in Santa Fe, representing Devon Energy
20 Corporation.

21 I do not have any witnesses.

22 EXAMINER CATANACH: Okay, any other appearances?
23 Will the two witnesses please stand to be sworn
24 in?

25 (Thereupon, the witnesses were sworn.)

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SHANE LOUGH,

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

DIRECT EXAMINATION

BY MR. CARR:

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

A. Shane Lough.

Q. Where do you reside?

A. Odessa, Texas.

Q. By whom are you employed?

A. Maralo, Incorporated.

Q. And what is your position with Maralo?

A. Senior staff geologist.

Q. Have you previously testified before this
Division?

A. I have.

Q. At the time of that testimony, were your
credentials as a petroleum geologist accepted and made a
matter of record?

A. They were.

Q. Are you familiar with the Application filed in
this case on behalf of Maralo, Inc.?

A. Yes.

Q. Have you made a geological study of the area
which is the subject of this Application?

1 A. Yes.

2 Q. And are you prepared to share the results of that
3 study with Mr. Catanach at this time?

4 A. Yes.

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

7 EXAMINER CATANACH: Yes, they are.

8 Q. (By Mr. Carr) Mr. Lough, would you briefly state
9 what Maralo seeks with this Application?

10 A. We seek the establishment of a nonstandard gas
11 spacing and proration unit, in the undesignated West
12 Reeves-Queen Gas Pool, comprising the south half, northwest
13 quarter and the north half southwest quarter of Section 16,
14 Township 18 South, Range 35 East, NMPM, Lea County, New
15 Mexico.

16 Q. And to what well do you propose to dedicate this
17 nonstandard spacing or proration unit?

18 A. The Maralo SV "16" State Number 1 well.

19 Q. And where is that well located?

20 A. That well is located 1748 feet from the south
21 line and 742 feet from the west line of said Section 16.

22 Q. Could you provide Mr. Catanach with a brief
23 history of this well?

24 A. Yes, this well was originally drilled as a
25 Devonian test in 1985. It was subsequently recompleted to

1 the Wolfcamp and later to the Delaware and most recently to
2 the Queen formations.

3 The well is now producing as a marginal gas well
4 from the Queen reservoir, and the well has been producing
5 since January of 1996 and has produced approximately 98
6 million cubic feet of gas and has just recently paid out
7 the cost of recompleting the well to the Queen.

8 Q. Are what we're looking at here is just the last
9 producing zone in a well?

10 A. That's correct.

11 Q. And we're basically at the tail end of that
12 production, are we not?

13 A. That's correct.

14 Q. Now, the well was recompleted in the Queen when?

15 A. Early in 1996.

16 Q. And you have prepared exhibits that -- for
17 presentation here today?

18 A. Yes, I have.

19 Q. Let's go to Exhibit Number 1, the land map or
20 orientation plat.

21 A. Yes.

22 Q. Would you identify and review that?

23 A. Yes, this is an orientation map showing the
24 requested proration unit. It shows the ownership within
25 the proration unit. It shows a relationship to towns,

1 nearby towns and nearby Queen fields.

2 Q. In this proposed nonstandard unit, what acreage
3 is owned by Maralo?

4 A. Maralo owns the south half of the northwest
5 quarter and the northwest quarter of the southwest quarter.

6 Q. And who owns the remaining acreage?

7 A. Swift Energy, et al.

8 Q. And that is the northeast quarter of the
9 southwest quarter?

10 A. That's correct.

11 Q. You indicated that the well was completed in the
12 Queen early this year. What action did Maralo take at that
13 time?

14 A. We -- An application was filed on January the
15 12th, 1996 --

16 Q. And this was for administrative approval?

17 A. For administrative approval, that's correct.

18 Q. And what happened with that application?

19 A. Mr. Stogner had some questions about the
20 application, and he sent it back to us. The questions
21 concerned working other avenues, such as working a deal
22 with the offset -- with the leaseholders within the lease
23 affected by the well.

24 We made efforts to work a deal with Swift and
25 others. We attempted -- One attempt that we made was to

1 purchase the interest from Swift, which failed. Then we
2 attempted to pool the interests from which we -- We
3 contacted the leaseholders concerning pooling the interest,
4 and we never got a complete response from them.

5 Then --

6 Q. Were you able to reach agreements with some of
7 the owners in the spacing unit?

8 A. Some, some.

9 Q. But you were never able to completely put this
10 issue at rest with a voluntary agreement --

11 A. Not totally --

12 Q. -- is that right?

13 A. Not totally.

14 Q. And so what did you then do?

15 A. We re-filed the Application on October the 18th,
16 1996, and Mr. Stogner sent it back to us and set it for
17 hearing.

18 Q. Had we already, based on conversations with Mr.
19 Stogner, filed this hearing Application?

20 A. Yes.

21 Q. So prior to the action by the Division to set it
22 for hearing, we had also filed an application for hearing?

23 A. Yes, we had, that's correct.

24 Q. At this point in time, can you tell me what is
25 being done with the proceeds of production from the Queen?

1 A. It's being held in suspense by the gas purchaser.

2 Q. Were the affected interest owners in this acreage
3 provided with a copy of Maralo's Application?

4 A. Yes, they were provided with both the
5 administrative application and our hearing Application.

6 Q. And who was actually notified of this hearing and
7 these applications?

8 A. All of the offsetting owners, and all parties
9 with interests in the northeast quarter and southwest
10 quarter of Section 16.

11 Q. And by whom was this notice actually mailed?

12 A. Dorothea Logan in Maralo's office in Midland.

13 MR. CARR: And Mr. Catanach, we do not today have
14 with us today an affidavit from Ms. Logan confirming that
15 these notices were provided. We are in the process of
16 obtaining that, and with your permission we will provide it
17 to you after the hearing, just as soon as we get it from
18 them.

19 EXAMINER CATANACH: Okay.

20 Q. (By Mr. Carr) Mr. Lough, has anyone objected to
21 this proposal?

22 A. No, they have not.

23 Q. The primary objective at this point in time is
24 just the Queen and finishing off --

25 A. That's correct.

1 Q. -- this effort?

2 A. Yes. Yes, it is.

3 Q. Let's go to Exhibit Number 2. Can you just
4 identify that, please?

5 A. This is a blowup of our -- of the land map, built
6 by our draftsman in Midland. It shows the requested 160-
7 acre proration unit. It also shows Maralo's SV "16" State
8 Number 1 well, the location that it's at.

9 Q. Okay, let's go to Exhibit 3, the structure map.
10 Can you review this for the Examiner?

11 A. Yes, this is a structure map on top of the Queen
12 sandstone. It's constructed from subsurface well control.
13 It shows the structural dip being to the east and south of
14 the -- of Maralo's well, and it also shows the cross-
15 section A-A'.

16 Q. Does structure really play any significant role
17 in determining whether or not you make a well in the Queen;
18 is that right?

19 A. No, in this particular formation the trap is
20 stratigraphic, and structure plays a very small role.

21 Q. Okay. Well, let's go, then, to Exhibit Number 4,
22 the isopach map, and would you review that information for
23 Mr. Catanach?

24 A. Yes, this map shows the producing Queen reservoir
25 in the area of interest. The producing Queen wells are

1 colored orange.

2 It shows the regional northeast-southwest
3 depositional trend of the sand, and it shows that the sand
4 appears to be a series of isolated reservoirs in this area.
5 And it shows that the reservoir quality, the productive
6 sand, is located north of Maralo's well in Section 16.

7 And it also has a trace for cross-section A-A'.

8 Q. Why don't we go to that cross-section now,
9 Exhibit Number 5? Could you review that, please?

10 A. Yes. This is a stratigraphic cross-section hung
11 on the top of the Queen sand. It shows three of the four
12 currently producing gas wells in the Reeves West-Queen
13 Pool.

14 I've indicated on each of the logs on the cross-
15 section the 6-percent cutoff that I used to construct the
16 isopach map from. And it shows the relationship of the
17 reservoir, the porous, clean-sand reservoir in the Queen,
18 to the tight carbonaceous, sandy carbonaceous reservoir
19 shown on the log farthest right on the cross-section.

20 We believe that the significance of this is that
21 the well shown at the farthest right on the cross-section
22 is Maralo's SV "16" State Number 2. It appears to have
23 penetrated the Queen sand right at the pinchout where the
24 sand becomes carbonaceous. It appears that there is -- a
25 little bit of the sand reservoir has just pinched out in

1 that particular well.

2 And we believe the significance of that is that
3 it shows that the trend of the sand, the porous productive
4 sand, thickens to the north of our SV "16" State Number 1.

5 Q. When you look at the cross-section and the
6 isopach map, do you have an opinion in looking at these
7 where the quality reservoir sands remain in the reservoir?

8 A. Yes, we believe that, based on our
9 interpretation, that the best reservoir quality sand is
10 immediately to the north of our well.

11 Q. What conclusions can you reach from your geologic
12 study?

13 A. We believe that the proration unit that we've
14 requested outlines the best reservoir in the field pay, and
15 we believe therefore that this requested proration unit is
16 the most logical proration unit to assign to this well.

17 Q. Were Exhibits 1 through 5 prepared by you or
18 compiled at your direction?

19 A. They were.

20 MR. CARR: Mr. Catanach, at this time we would
21 move the admission into evidence of Maralo Exhibits 1
22 through 5.

23 EXAMINER CATANACH: Exhibits 1 through 5 will be
24 admitted as evidence.

25 MR. CARR: And that concludes my direct

1 examination of Mr. Lough.

2 EXAMINATION

3 BY EXAMINER CATANACH:

4 Q. Mr. Lough, the -- Let me see if I have this
5 straight. The south half of the northwest quarter is owned
6 by Maralo?

7 A. That's correct.

8 Q. As is the northwest of the southwest?

9 A. That's correct.

10 Q. The northeast of the southwest is owned by Swift
11 Energy?

12 A. That's correct.

13 Q. And Swift Energy has agreed to join you in this
14 proration unit?

15 A. They initially agreed, and then at a later date
16 rescinded that agreement.

17 Q. So you don't have Swift Energy -- You don't have
18 that committed to the proration unit; is that my
19 understanding?

20 A. That's -- We initially had a voluntary agreement
21 from them. Actually, Devon Energy was the operator of
22 record, so we were visiting -- we were -- our conversations
23 were with Devon, but it was Swift and Devon together on
24 that interest.

25 And they initially agreed -- We thought we had a

1 verbal agreement, and for whatever in-house reasons at
2 Devon, they elected not to do this from a voluntary
3 standpoint.

4 MR. CARR: Mr. Catanach, it's our hope that if we
5 have the unit approved -- they have had notice of
6 everything -- that we can go back and just resolve it that
7 way and communitize the land. We had an agreement at one
8 point in time, they pulled back from that, we don't...

9 Q. (By Examiner Catanach) Mr. Lough, who owns the
10 south half of the southwest quarter?

11 A. Devon, et al., Devon, Swift.

12 Q. So is it my understanding that when the first --
13 when the well was first recompleted, were you attempting to
14 form a southwest-quarter proration unit?

15 A. We were -- What we tried to do was equalize all
16 of the ownership in the west half of the section, since the
17 State owns all of the minerals, if we could have reached an
18 agreement with Devon, et al., on the ownership in the west
19 half, either through pursuing their interest or pooling
20 their interests voluntarily, then we could have formed a
21 proration unit, and it would have -- protection of
22 correlative rights would have been taken care of.

23 So we did try to work it out with Swift from a --
24 in a voluntary manner. And we all along have felt like the
25 trend of the sand, being north of our well, that working

1 out a voluntary agreement with Swift would have been the
2 simplest and most reasonable avenue to pursue, and -- But
3 subsequent to that attempt, we were unable to reach that
4 agreement, even though at one time we thought we did have
5 the agreement.

6 So at that point, we elected to pursue the
7 proration unit that we've put before you today.

8 Q. The formation of a standard unit in the southwest
9 quarter would have decreased Maralo's interest in the well;
10 is that correct?

11 A. It would, yes, it will.

12 Q. Mr. Lough, do you believe that there should be
13 another well drilled on the west half to drain the Queen
14 formation?

15 A. We don't believe that that would be economically
16 advisable. The reserves in this reservoir appear to be
17 marginal. Our well has made, I believe, 98 million cubic
18 feet of gas.

19 We, by our analysis, we believe this well will
20 ultimately make between 160 and 200 million cubic feet of
21 gas, and testimony forthcoming from our engineer will
22 indicate the economics of drilling a well. That testimony
23 will be that it's not an economic venture.

24 Q. Mr. Lough, do you believe that -- Is it your
25 opinion that your well will drain a portion of that south

1 half of the north -- south half of the southwest quarter?

2 A. Yes, we believe that the primary productive
3 reservoir will be to the north, but there will be some
4 drainage probably to the south.

5 I think we -- I believe our interpretation would
6 be that that's going to be a relatively insignificant
7 amount of drainage.

8 Q. And that's based on what?

9 A. Based on the reservoir quality of the sand that's
10 present to south, and based on the performance of the well
11 to date.

12 Q. Do you know what the relationship between Swift
13 and Devon is?

14 A. No, I don't know. I don't know if our next
15 witness, our -- Maralo's engineer, has an answer to that or
16 not. But I personally do not, no.

17 Q. I believe you testified that the production
18 proceeds from this well are currently in suspense?

19 A. Yes, they are.

20 Q. Does that mean that they're in some kind of an
21 escrow account?

22 A. The gas purchaser has them in suspense, and I'm
23 not sure what kind of a -- whether it's in an escrow
24 account or if the gas purchaser is just holding it for --
25 until this matter is resolved.

1 I'm not sure what kind of an account it's held
2 in.

3 I don't know what's the standard procedure for
4 when a purchaser holds moneys like that.

5 Q. Is Maralo receiving any income at this point?

6 A. No, we are not.

7 Q. Mr. Lough, did anyone from the Division authorize
8 you to produce this well for a year without forming a
9 proration unit?

10 A. I can't -- I don't have the answer to that.
11 Possibly our engineer may have those answers. I'm not sure
12 what the authorization may have been.

13 Q. What's the -- If you can't reach voluntary
14 agreement with Swift and Devon subsequent to the entry of
15 this Order, what do you plan to do then?

16 A. I guess that I need to -- I need to pass that
17 question on to the next witness also. I haven't been
18 involved in the plans subsequent to this Order.

19 EXAMINER CATANACH: Okay. Mr. Bruce, do you have
20 any questions of this witness?

21 MR. BRUCE: No, sir.

22 EXAMINER CATANACH: I believe that's all we have
23 at the moment now.

24 MR. CARR: At this time we would call Richard
25 Gill.

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RICHARD GILL,

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

DIRECT EXAMINATION

BY MR. CARR:

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

A. Richard Gill.

Q. Where do you reside?

A. In Midland, Texas.

Q. By whom are you employed?

A. Maralo, Incorporated.

Q. And what is your position with Maralo?

A. I'm the division engineer.

Q. Have you previously testified before this
Division?

A. Yes, I have.

Q. At the time of that testimony, were your
credentials as a petroleum engineer accepted and made a
matter of record?

A. Yes, they were.

Q. Are you familiar with the Application filed in
this case on behalf of Maralo?

A. Yes, I am.

Q. And have you made a technical study of the area
surrounding the subject well?

1 A. Yes, I have.

2 Q. Are you prepared to share the results of that
3 study with the Examiner?

4 A. Yes, I am.

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

7 EXAMINER CATANACH: They are.

8 Q. (By Mr. Carr) Mr. Gill, when you started looking
9 into this matter, what were you trying to determine with
10 your study?

11 A. The -- My main goal in the study here was to
12 determine what kind of reservoir we have and to prove that
13 it is a marginal reservoir at best and that by approval of
14 our request here, we would not be impairing anybody's
15 correlative rights or impacting the ability of somebody
16 else to drill another well in this reservoir.

17 Q. Have you prepared exhibits for presentation here
18 today?

19 A. Yes, I have.

20 Q. Could you identify what has been marked Maralo
21 Exhibit Number 6, please?

22 A. Okay, Maralo's Exhibit 6 is a summary of the
23 reserve analysis I did on our well and also on the Mitchell
24 Energy offset well to the west, as well as some economics I
25 ran on the potential of drilling another well in this

1 reservoir.

2 Q. And behind that you have exhibits that are
3 basically summarized by the information --

4 A. Right.

5 Q. -- on Exhibit 6?

6 A. Yeah, Exhibit 7 through, I guess, 12, are just
7 backup data that I used in this analysis.

8 Q. Are you ready to go to Exhibit Number 7, your P/Z
9 curve?

10 A. Yeah.

11 Q. Let's take a look at that and, if you will,
12 review the information on this for Mr. Catanach.

13 A. Okay. Exhibit 7 shows basically the pressure
14 data involved in our SV "16" State Number 1 well. When we
15 drilled the well originally it had an average reservoir
16 pressure of only 474 pounds, which, in my opinion, shows
17 pretty -- that we were drained somewhat by Mitchell's well,
18 which had been producing prior to ours.

19 About a month ago, we ran another bottomhole
20 pressure bomb in the well and got an average reservoir
21 pressure of 212 pounds. Also in that second test we ran,
22 it showed a flowing bottomhole pressure of 58 pounds.

23 And using that data, I assumed a 50-pound
24 abandonment pressure. And by the results of this P/Z plot,
25 I show the ultimate recoverable reserves from our well is

1 only going to be about 162 million cubic feet.

2 Q. All right, let's go now to Exhibit Number 8, the
3 decline curve, and I'd ask you to review that.

4 A. Okay. Exhibit 8 is the decline curve on our SV
5 "16" State Number 1 well. It shows that the well is
6 currently producing just under 300 MCF a day and that the
7 decline of this production curve now stands at about 50
8 percent per year.

9 Refer back to Exhibit 6. It shows some
10 assumptions I used in doing an evaluation based on this
11 decline curve. Using our actual cost of operating of about
12 \$1500 a month and the actual price that we've been
13 receiving of about \$1.11 an MCF, we show the ultimate
14 recoverable reserves, based on the decline curve, of about
15 200 million cubic feet, which correlates pretty close to
16 what the P/Z is telling us.

17 Q. Let's move to Exhibit Number 9, the production
18 decline curve on the offsetting Mitchell well. What does
19 this show you?

20 A. Okay, the Mitchell well has produced about 390
21 million cubic feet to date, currently producing something
22 around 150 MCF per day. The decline on that curve shows to
23 be about 68 percent per year.

24 Using the same assumptions I used in our decline-
25 curve analysis, I show that that well will probably have a

1 cumulative production of about 416 million cubic feet.

2 Q. And to date, how much has been produced of that
3 416 --

4 A. About 390 million. So it's close to economic
5 limit.

6 Q. Can you identify what has been marked Maralo
7 Exhibit Number 10?

8 A. Maralo Exhibit 10 is our estimated cost to drill
9 another Queen well to the depth of 4700 feet. This was
10 done just as a thought to see if, in fact, we would want to
11 do that.

12 And these numbers are also used in my economics
13 of the potential drilling of another well.

14 Q. And are those set forth in the calculations
15 contained in Exhibit Number 11?

16 A. That's correct.

17 Q. Let's go to that, and would you review those
18 calculations for Mr. Catanach?

19 A. Okay, Exhibit 11, the first two pages are
20 actually the analysis I did to calculate what the Mitchell
21 well was going to make ultimately. So we've already
22 discussed that, so we'll skip to the next two pages.

23 At the top it shows Maralo SV "16" State Number
24 3, which would be what our well would be called if we were,
25 in fact, to drill it.

1 The first case here I ran, I estimated the
2 ultimate reserves to be about 200 million cubic feet, which
3 tends to be about what our well shows it's going to make.
4 And using our estimated drilling cost of -- drilling
5 completion cost of \$297,000, I show that this well will not
6 pay out. And so therefore it's uneconomic to drill.

7 The next two pages, I ran another case, assuming
8 we get a well more in line with what Mitchell has if we
9 were to encounter better pay, which you can look later on
10 the cross-section there, but you can see the pay in the
11 Mitchell well is considerably better than the pay in our
12 well.

13 But assuming this economic evaluation came out to
14 about 455 million cubic feet of ultimate recovery. And
15 running those numbers, I show that the well will pay out in
16 about two years, but will only return 1.14 times on your
17 investment, which in my opinion is not economic to do.

18 Q. What is Exhibit Number 12?

19 A. Exhibit 12 is just the tabulated production data
20 out of *Dwight's* on these two wells for backup.

21 Q. Mr. Gill, what conclusions can you reach from an
22 engineering study of this area?

23 A. Based on my study, this reservoir is marginal;
24 it's not economic to drill a well to. And if we can get
25 our proposed proration unit approved, that we're not

1 impairing the correlative rights of anybody else to try to
2 drill to this formation.

3 Q. We're basically at the end of the life of the
4 reservoir, are we?

5 A. That's right, this well will be plugged probably
6 within the next six months, I would guess. I don't think
7 it will last much longer.

8 Q. In your opinion, will granting this Application
9 be in the best interests of conservation, the prevention of
10 waste and the protection of correlative rights?

11 A. Yes.

12 Q. Were Exhibits 6 through 12 prepared by you?

13 A. Yes, they were.

14 MR. CARR: At this time, Mr. Catanach, we would
15 move the admission into evidence of Maralo Exhibits 6
16 through 12.

17 EXAMINER CATANACH: Exhibits 6 through 12 will be
18 admitted into evidence.

19 MR. CARR: And that concludes my examination of
20 Mr. Gill.

21 EXAMINATION

22 BY EXAMINER CATANACH:

23 Q. On your proposal to drill a second well, where
24 would that be located? Did you take that into account?

25 A. If we were to drill a second well, it would be

1 north of our first well. But like I say, we don't -- we
2 wouldn't do it.

3 Q. And what was your estimation of what that well
4 might recover?

5 A. Depending on the reservoir quality, if we get
6 reservoir quality more in line with what Mitchell has in
7 their well, which, again, if you look at the cross-section,
8 they've got porosities ranging up towards 18 percent, their
9 well recovered about 400 million cubic feet.

10 Now, I don't think we'd get anywhere close to
11 that, due to drainage. I think the reservoir pressure here
12 is indicating that these two wells are totally draining
13 this reservoir. If we got a well more in line porositywise
14 with what we had in our Number 1 well, we're probably
15 looking somewhere between 100 million and 200 million cubic
16 feet.

17 Q. And that will be uneconomic to drill?

18 A. Yes.

19 Q. Your Number 1 well, you said, will probably be
20 plugged within the next six months?

21 A. Well, based on the pressure decline, I don't
22 think it will last -- I doubt the production will last more
23 than about another year. We've made 98 million cubic feet
24 to date, and I'm projecting somewhere maybe twice that, you
25 know, 180 million, 160 million, somewhere in that range, as

1 the ultimate recovery.

2 This recompletion was kind of a last-ditch effort
3 here in a well that was needing to be plugged, and we
4 really honestly weren't expecting it to work because the
5 porosity was so low.

6 Q. What do you see as the prospects of reaching an
7 agreement with Swift or Devon?

8 A. I think they're pretty good. I talked to --
9 Devon owns -- Swift is the operator of record on this
10 acreage, offset acreage. Devon owns about 40 percent of
11 it, they own the most of it. So we've been dealing mostly
12 with Devon. We have not talked -- Swift has never made any
13 kind of agreement one way or the other. We haven't heard
14 back from them. Devon originally said they would agree to
15 pool the whole west half or spread our interest throughout
16 the whole west half with us.

17 Subsequently, our other witness said they came
18 back and said they didn't want to do that. I in turn
19 called -- I guess he's the joint interest engineer, I don't
20 know if he's the manager -- about that and asked him why
21 the change, and he wasn't aware they'd made that change.
22 And he was going to try to get them to go back to their
23 original agreement, and I haven't heard back from him since
24 then.

25 But I don't think there will be any -- I think

1 they'll do it voluntarily, one, because we're really not
2 talking about very much money.

3 Like I say, the well has just now paid out -- or
4 has recovered as much money as we've paid -- We haven't
5 gotten the money yet, but -- and I don't -- really don't
6 envision there's going to be a whole lot more money
7 involved in the operation.

8 So personally, I don't think there will be --
9 There's a number of small interests, and we've gotten
10 approval for doing this west-half deal from several of them
11 and have not heard back from most of them.

12 And like I say, then Devon. They said first they
13 would, and came back and said they wouldn't. But like I
14 say, I think they will if we can go back to them again.

15 Q. So within your proposed proration unit, is it
16 more than just Swift and Devon? It's some other interest
17 owners?

18 A. Yeah, there's a number of smaller interests. I
19 don't know the breakdown of each of them. All I know is
20 Devon and Swift, what their interests are.

21 Q. So what happens if you can't reach an agreement?

22 A. I would assume we would have to try to force-pool
23 them, I guess.

24 Q. Now, are you aware of the situation with the gas
25 purchaser and the -- holding up the money?

1 A. Yeah, I'm aware they are holding the money. They
2 are paying taxes on it, but as far as I know that's all
3 that's been paid out.

4 Q. Maralo is not getting any revenue?

5 A. Maralo has not gotten any revenue.

6 And to answer your question to Mr. Lough before,
7 as far as producing the well, when we originally filed this
8 with Mr. Stogner back last January I believe we were
9 producing at that time under his authority.

10 Then later on, we have gotten notices about
11 shutting the well in, and I know Ms. Logan, our regulatory
12 lady in Midland, talked to -- I'm not sure who she talked
13 to, but she has been getting approval to continue to
14 produce the well.

15 Prior to filing this hearing, we had the well
16 shut in for the bottomhole pressure data, and Mr. Stogner
17 told us that once we had the Application for the hearing
18 set in front of him we could turn it back on, so it has
19 still been producing.

20 Q. I'd like to -- If you could provide me with
21 anything in writing from the Division that says that you
22 can't produce this well, I think that's going to -- we
23 probably need to see that. I'll talk to Mr. Stogner --

24 A. Okay.

25 Q. -- and see what his --

1 A. I'll have to check with Ms. Logan to see what
2 she, in fact, has.

3 Q. So from an engineering standpoint, is it your
4 opinion that this proration unit is the most -- makes the
5 most sense in terms of drainage from the reservoir?

6 A. Yes, we do.

7 EXAMINER CATANACH: Any questions, Mr. Bruce?

8 MR. BRUCE: Just a couple, Mr. Catanach.

9 EXAMINATION

10 BY MR. BRUCE:

11 Q. The \$1.11, is that the actual price you're
12 receiving?

13 A. That's what we've actually received since we
14 turned the well on. It's a low-BTU gas, so it's -- it gets
15 hit pretty hard.

16 Q. And what was just the recompletion cost?

17 A. Our -- Let me see if I've got that. I know that
18 the recompletion and the operating expenses to date equal
19 just right at \$100,000.

20 I'm not sure if I have this exactly what the
21 recompletion itself was.

22 Q. That's fine, just a rough estimate.

23 And this well was originally drilled to the
24 Morrow?

25 A. Devonian.

1 Q. Devonian.

2 A. Yeah.

3 MR. BRUCE: I don't have anything further.

4 FURTHER EXAMINATION

5 BY EXAMINER CATANACH:

6 Q. Oh, was this well ever produced in any other
7 horizon?

8 A. It did produce from the Devonian. It produced, I
9 believe, a little bit from the Wolfcamp, and it had
10 produced some from the Delaware.

11 Q. What -- It did produce from the Wolfcamp, you
12 said?

13 A. I believe it did, just a little bit. I can't
14 remember the numbers. I know we tested several zones in
15 the Wolfcamp, and I believe we got some production out of
16 it.

17 Q. Do you know what proration unit was ever assigned
18 to the Wolfcamp?

19 A. I think just the 40 acres there, that northwest
20 quarter of the southwest.

21 Q. It was an oil zone?

22 A. Uh-huh.

23 EXAMINER CATANACH: Okay. Okay, I guess that's
24 all we have at this point.

25 MR. CARR: We'll be submitting to you the

1 information you requested and a notice affidavit.

2 And that concludes our presentation.

3 EXAMINER CATANACH: Okay, there being nothing
4 further, Case 11,655 will be taken under advisement.

5 (Thereupon, these proceedings were concluded at
6 9:39 a.m.)

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CERTIFICATE OF REPORTER

[illegible]

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 27th, 1996.

STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 1998

as in that the foregoing is
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 November 21
 Daniel P. Cichan