

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:)
APPLICATION OF MALLON OIL COMPANY FOR)
COMPULSORY POOLING, LEA COUNTY,)
NEW MEXICO)

CASE NO. 11,698

ORIGINAL

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.

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I N D E X

January 9th, 1997
 Examiner Hearing
 CASE NO. 11,698

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APPLICANT'S WITNESSES:	
<u>RANDY STALCUP</u> (Landman)	
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<u>GEORGE CORYELL</u> (Geologist)	
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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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By: JAMES G. BRUCE

* * *

1 WHEREUPON, the following proceedings were had at
2 3:45 p.m.:

3 EXAMINER STOGNER: Okay, at this time we'll call
4 Case Number 11,698.

5 MR. CARROLL: Application of Mallon Oil Company
6 for compulsory pooling, Lea County, New Mexico.

7 EXAMINER STOGNER: Call for appearances.

8 MR. BRUCE: Mr. Examiner, Jim Bruce from the
9 Hinkle law firm representing the Applicant.

10 I have two witnesses, Randy Stalcup and George
11 Coryell. I'd like the record to reflect that they've
12 previously been sworn and qualified.

13 EXAMINER STOGNER: The record will so show.
14 You may proceed.

15 RANDY STALCUP,
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. Mr. Stalcup, let me get my picture straight here.
21 Could you refer to your Exhibit 1 and identify the well
22 involved in this Application and what you're seeking to do?

23 A. Yes, the yellow depicts Mallon leasehold
24 ownership. The red outline surrounds the southeast
25 northeast of Section 28, Township 26 South, 29 East, in

1 Eddy County, New Mexico. We seek to -- an order pooling
2 the rights in that southeast northeast from the surface to
3 the base of the Delaware formation.

4 Q. Okay. Who do you seek to pool in this case?

5 A. Red Bluff Water Power Control District.

6 Q. Okay. Now, if you look at your Exhibit 1, am I
7 correct that -- You've got yellow acreage there. That's
8 Mallon-operated acreage?

9 A. Yes, it is.

10 Q. And going through the middle of it is this jagged
11 line. What is that?

12 A. That is the Red Bluff reservoir on the Rio Grande
13 River.

14 Q. It's the Pecos River?

15 A. Pecos River, I'm sorry.

16 Q. Thought we'd been transported.

17 And I notice the -- There is some of this Red
18 Bluff reservoir, this white acreage, within your well unit?

19 A. Yes.

20 Q. And that's what is owned by the Power Control
21 District and the person you seek to pool?

22 A. Yes.

23 Q. Okay. Now, let's stay on Exhibit 1 for a minute,
24 Mr. Stalcup. Have you dealt with the Red Bluff Water Power
25 Control District with respect to other wells that you've

1 drilled in this area?

2 A. Yes, in that they have the leasehold rights under
3 the reservoir itself, we have drilled other wells that have
4 included Red Bluff Water Power Control District in the
5 units that we drilled. We have never been able to reach an
6 agreement with Red Bluff Water Power Control District.
7 Their requests for terms are more than what our tops are.

8 Q. Okay, so they -- They own the mineral interest
9 underlying the reservoir; is that correct?

10 A. They own the leasehold rights.

11 Q. They own the leasehold rights, okay. They own
12 the leasehold rights, and they have always demanded too
13 much, in essence?

14 A. Yes.

15 Q. And looking at this, it looks like maybe, you
16 know, maybe three, four, five wells that you've drilled
17 involve the Red Bluff?

18 A. Yes.

19 Q. And how far back do you go in trying to deal with
20 Red Bluff over this area?

21 A. To the early Eighties.

22 Q. To the early Eighties. And you've never been
23 able to reach agreement with them?

24 A. No.

25 Q. Regarding this specific well, did you follow your

1 normal procedure and call up the gentleman -- What's his
2 name?

3 A. Mr. Bill Miller. Yes.

4 Q. Did you call him regarding your well proposal?

5 A. Right, I had visited with Mr. Miller a couple of
6 weeks before we filed, and we talked about this. He threw
7 out the same terms, basically, that they threw out in the
8 early Eighties, when the pricing was better than it was
9 now.

10 Q. What kind of terms are they, just for --

11 A. He wants basically 75 percent net revenue
12 interest lease, and they have fairly favorable lease terms
13 on this, so it's --

14 Q. Do those terms meet Mallon's economic criteria?

15 A. No, they don't.

16 Q. Okay, so you called him, and what was his
17 response, then?

18 A. His response was, you know, We want these terms,
19 and don't you dare, you know, try to do anything other than
20 give us our terms and -- you know, it -- The styling of the
21 conversation fit the notes that were written in the files
22 in the early Eighties. We talked about it.

23 He finally said, How much interest do I have in
24 this unit?

25 And I told him about 14 percent.

1 He said, Well, that's not even big enough to
2 worry about; just pool me.

3 Q. Okay.

4 A. So that's what we did.

5 Q. Okay. There's no other party you seek to pool?

6 A. No.

7 Q. And Mallon has the remaining 86 percent?

8 A. Yes.

9 Q. And after that conversation, you sent out Exhibit
10 2; is that correct? Your written proposal?

11 A. Yes.

12 Q. Is there any hope of coming to terms with Red
13 Bluff Water Power Control District?

14 A. Not that I'm aware of.

15 Q. And your letter enclosed an AFE?

16 A. Yes.

17 Q. What is the proposed completed well cost for this
18 well?

19 A. \$402,700.

20 Q. And once again, is this similar to the cost of
21 other wells drilled to this depth in this area?

22 A. Yes.

23 Q. What overhead rates does Mallon request if it's
24 named operator of the well?

25 A. \$4580 for the drilling well rate and \$458 for the

1 producing well rate.

2 Q. And are these in line with those normally charged
3 in this area for wells of this type?

4 A. Yes, they are.

5 Q. Was Red Bluff Water Power Control District
6 notified of this hearing?

7 A. Yes, they were.

8 Q. And is Exhibit 3 your notice affidavit and the
9 notice letter?

10 A. Yes.

11 Q. One final question, Mr. Stalcup. Obviously, this
12 has come up already today, but -- You called Mr. Miller at
13 Red Bluff a few weeks before you sent out your letter, and
14 then you sent out your letter shortly before the pooling
15 Application was filed.

16 Q. Once again, is there any reasonable chance of
17 coming to terms with this party?

18 A. No, it was his request, he said, Go ahead and
19 pool us; the interest isn't big enough to worry about
20 anyway. So...

21 Q. Okay. In your opinion, is the granting of this
22 Application in the interests of conservation and the
23 prevention of waste?

24 A. Yes.

25 Q. And were Exhibits 1 through 3 prepared by you or

1 under your direction?

2 A. Yes.

3 MR. BRUCE: Mr. Examiner, I would move the
4 admission of Exhibits 1 through 3.

5 EXAMINER STOGNER: Exhibits 1 through 3 will be
6 admitted into evidence.

7 EXAMINATION

8 BY EXAMINER STOGNER:

9 Q. Mr. Stalcup, who is Ed Miller -- or Jim -- Ed
10 Miller, I guess?

11 A. He is the reigning officer for Red Bluff Water
12 Power Control District.

13 Q. And that's his title, reigning officer?

14 A. No, I'm -- You know, I don't know what his exact
15 title is.

16 Q. Is the Red Bluff Water Power Control District, is
17 that a federal entity?

18 A. I don't think so. It's an irrigation co-op, from
19 what I can understand.

20 Q. Now, the line marking their interest, in white in
21 this particular instance, with the serrated line there, is
22 that described anywhere? Is that the high water mark of
23 the Red Bluff Lake or -- How accurate is this? Or what is
24 the boundary --

25 A. I don't really think it's accurate. We have a

1 survey in our files that -- I think it was areally
2 planimetered to determine the amount of acreage that each
3 lease contained in the 40-acre tract.

4 Q. Now, is that a document that has been entered in
5 somewhere that shows that bound, or this areal survey, was
6 that something that Mallon did or what?

7 A. It has -- It may or may not have been entered
8 into the record previously. I wasn't with Mallon when
9 these units were previously pooled. I believe Mallon did
10 commission the survey. I don't have a copy with me,
11 unfortunately, or I would enter that into the record. We
12 can provide that, though.

13 Q. Oh, that's -- Okay, because you will have some
14 time on this one, because I just noticed that this was
15 advertised mistakenly in Lea County, so we're going to have
16 to continue this particular case until February 6th, 1997,
17 for readvertisement purposes.

18 So -- Yeah, I would like to find out a little bit
19 more about the actual -- I mean, does this actually
20 represent somewhere that has been entered into the record,
21 their boundary in this particular -- of this particular
22 area, and does it, like in other instances along up and
23 down the Pecos River, where the boundary lines for mineral
24 interest also equate to the high water marks?

25 Mr. Bruce, your company, I believe, represented

1 at one time something in the matter of -- at the Brantley
2 area.

3 MR. BRUCE: Oh, yeah.

4 EXAMINER STOGNER: Yeah. Now, that was a federal
5 entity.

6 MR. BRUCE: That is a federal entity.

7 EXAMINER STOGNER: Yes. So is this similar, is
8 what I was asking Mr. Stalcup. But it's my understanding
9 it is not.

10 MR. BRUCE: We can find out. I had thought --
11 yeah, the Brantley dam, that whole McMillan Reservoir, I
12 believe, is the Bureau of --

13 EXAMINER STOGNER: -- Reclamation.

14 MR. BRUCE: -- Reclamation, and I believe this is
15 a state or cooperative entity.

16 EXAMINER STOGNER: Okay. So with that, yes, I'd
17 like some sort of a record that that is actually the -- or
18 where that's entered as the segregated area.

19 Q. (By Examiner Stogner) And you said that
20 represents 14 percent?

21 A. 14.101 percent.

22 Q. Now, where did you get that figure? I mean,
23 that's three decimal points. Did you figure that out, or
24 did you planimeter it or --

25 A. That is -- Those are the figures off of the

1 survey. I believe it's -- Oh, I can't remember the amount
2 of acreage, but it's --

3 EXAMINER STOGNER: Please provide a copy of that
4 survey and --

5 MR. BRUCE: Sure.

6 EXAMINER STOGNER: -- be prepared to enter it
7 into the record at the February 6th hearing, Mr. Bruce.

8 It being a cooperative, is that interest
9 separated out, or would the different interests have to be
10 notified in a cooperative agreement such as that, or does
11 this Mr. Ed -- Jim, Ed Miller, does he act for all of them?

12 MR. BRUCE: Most of these have a corporate
13 existence, such as a nonprofit corporation.

14 EXAMINER STOGNER: Okay.

15 MR. BRUCE: I can verify that.

16 EXAMINER STOGNER: Yeah, if you would verify how
17 is this set up, is it a government entity, can they be
18 force-pooled?

19 MR. BRUCE: I believe so, Mr. Examiner. I
20 think -- providing it's a corporation or even a --
21 something like a partnership.

22 EXAMINER STOGNER: Because remember how we
23 couldn't force-pool the Brantley interest.

24 MR. BRUCE: Yeah, that indeed was federal, and
25 unleased federal minerals cannot be force-pooled.

1 EXAMINER STOGNER: And I don't think unleased
2 state can either.

3 MR. BRUCE: That's correct.

4 EXAMINER STOGNER: So we'll need to check on
5 that. And we've got the luxury of time on that one.

6 Q. (By Examiner Stogner) Now, you have some other
7 wells in here. Were they force-pooled, say, in 1988, like
8 that Well Number 14, the Amoco Federal Number 14? Did that
9 go through force pooling, Mr. Stalcup?

10 A. Okay, the 14 -- No, I believe that's a 100-
11 percent well.

12 Q. How about some of the others?

13 A. On the other side, back to the east side of the
14 reservoir, yes, those were force-pooled.

15 Q. Do you have a reference, since this issue may
16 have been covered at that time, to the case -- to the
17 compulsory pooling order?

18 A. No.

19 MR. BRUCE: I can dig that up, Mr. Examiner.

20 THE WITNESS: I know they're in the record
21 though.

22 EXAMINER STOGNER: Okay. That way I can take
23 administrative notice. Perhaps that information is already
24 in there.

25 MR. BRUCE: I'll check it out, Mr. Examiner.

1 EXAMINER STOGNER: Okay.

2 I have no other questions of Mr. Stalcup at this
3 time, Mr. Bruce.

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

5 I would call Mr. Coryell one last time.

6 GEORGE CORYELL,

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

9 DIRECT EXAMINATION

10 BY MR. BRUCE:

11 Q. Okay, Mr. Coryell, again what is the primary zone
12 for this particular well?

13 A. The Williamson sand in the Delaware group,
14 equivalent to Cherry Canyon.

15 Q. Oh, okay, so it's part of the Cherry Canyon
16 interval?

17 Why don't you just refer to your Exhibits 4 and
18 5, if you will, and identify them for the Examiner, tell
19 him what they show, and identify the elements of risk in
20 this area.

21 A. All right, referring to Exhibit 4, the -- through
22 Section 28, the outlined -- interpreted channel outlined by
23 the 25-foot contour of net sand of the Williamson sand is
24 interpreted again to be a turbidite facies, with the source
25 to the northeast. The proposed location is in this -- in

1 this facies. Let's see, we're speaking of the Mallon
2 Federal Number 1?

3 Q. Yes, over in the northeast quarter.

4 A. Okay. The structure, as shown on Exhibit 5, is
5 not a critical factor here. There's production at similar
6 elevations.

7 The risk is probably, as you move to the west
8 from established production, there tends to be a decrease
9 of a net-to-gross-sand ratio, so possibly sand quality can
10 diminish.

11 The risks are, indeed, in the center of the
12 channel as defined, and in -- is the sand quality
13 equivalent to wells to the east.

14 Q. Looking at your Exhibit 4, which has some, I
15 think, production data, it appears that the production can
16 be fairly variable --

17 A. That's correct.

18 Q. -- from well to well?

19 A. Yes, that's another factor.

20 Q. Based on those factors, what penalty would you
21 recommend be assessed against any nonconsenting interest
22 owner?

23 A. Cost plus 200 percent.

24 Q. In your opinion, is the granting of Mallon's
25 Application in the interests of conservation and the

1 prevention of waste?

2 A. Yes.

3 Q. Who prepared these exhibits, Mr. Coryell?

4 A. These were prepared by Laura Levorsen, a
5 geologist on contract with Mallon Oil Company.

6 Q. And have you reviewed the data and do you agree
7 with the interpretations?

8 A. Yes.

9 MR. BRUCE: Mr. Examiner, at this time I would
10 move the admission of Mallon Exhibits 4 and 5.

11 EXAMINER STOGNER: Exhibits 4 and 5 will be
12 admitted into evidence.

13 EXAMINATION

14 BY EXAMINER STOGNER:

15 Q. Again, what's the proposed location of this
16 particular well?

17 A. The Mallon Federal Number 1?

18 Q. Yes.

19 A. In the southeast of the northeast.

20 Q. Well, I mean, is it -- This is going to be a
21 standard location, I assume?

22 MR. BRUCE: Yes, it is, Mr. Examiner.

23 EXAMINER STOGNER: Okay.

24 MR. BRUCE: Mr. Stalcup has the exact footage.

25 EXAMINER STOGNER: Okay.

1 MR. BRUCE: Mr. Examiner, 1650 feet from the
2 north line and 330 feet from the east line of the section.

3 EXAMINER STOGNER: Okay. Then I have no
4 questions of this witness.

5 You may be excused.

6 Mr. Bruce?

7 MR. BRUCE: Mr. Examiner, I believe we've taken
8 enough of your time today, and we're done.

9 EXAMINER STOGNER: Okay, with -- Let's see, we
10 want to make sure what we're going to be looking for here.
11 A copy of the survey and where it was entered into the
12 record, make some sort of a reference --

13 MR. BRUCE: Yes, sir.

14 EXAMINER STOGNER: -- if that's on file in the --
15 office, the appropriate county office, whatever the case
16 may be, and the makeup of the Red Bluff Water Power Control
17 District, if it's a state, federal entity or whatever the
18 case may be, and any reference to previous orders. And you
19 can also go over there in Section -- the section to the
20 east --

21 MR. BRUCE: Yes.

22 EXAMINER STOGNER: -- it looks like there might
23 be -- In fact, there was one well drilled underneath that
24 lake.

25 MR. BRUCE: Correct.

1 EXAMINER STOGNER: That might be under some -- or
2 they might have a record, and if it's appropriate and if it
3 covers Section 28 at this point.

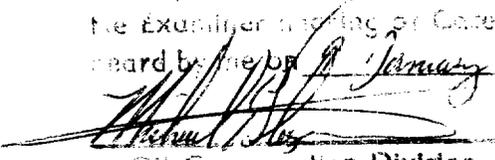
4 Okay. Well, with that, I apologize about the --
5 about the misadvertisement.

6 But this case will be continued and readvertised
7 for the February 6th, 1997, hearing.

8 And if there's nothing further in this matter,
9 we'll move on.

10 (Thereupon, these proceedings were concluded at
11 4:10 p.m.)

12 * * *

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21 I do hereby certify that the foregoing is
22 a complete and correct transcript of the proceedings in
23 the Examiner's hearing of Case No. 11698,
24 heard by me on 19 January 1997.
25  , 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 18th, 1997.

STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 14, 1998