

STATE OF NEW MEXICO  
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

RECEIVED

OIL CONSERVATION DIVISION

JAN 22 1998

IN THE MATTER OF THE HEARING CALLED BY )  
THE OIL CONSERVATION DIVISION FOR THE )  
PURPOSE OF CONSIDERING: )  
APPLICATION OF THOMPSON ENGINEERING AND )  
PRODUCTION CORPORATION FOR AN UNORTHODOX )  
GAS WELL LOCATION AND DOWNHOLE )  
COMMINGLING, SAN JUAN COUNTY, NEW MEXICO )

CASE NO. 11,865

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

January 8th, 1998

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, January 8th, 1998, 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 8th, 1998  
 Examiner Hearing  
 CASE NO. 11,865

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MARALEX WITNESS:	
<u>ALEXIS M. O'HARE</u> (Engineer; President, Maralex Resources)	
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\* \* \*

Maralex	Identified	Admitted
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\* \* \*

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

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By: WILLIAM F. CARR

## FOR MARALEX RESOURCES, INC.:

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Santa Fe, New Mexico 87504

\* \* \*

1           WHEREUPON, the following proceedings were had at  
2   9:40 a.m.:

3           EXAMINER CATANACH: Call the hearing back to  
4   order now and call Case 11,865.

5           MR. CARROLL: Application of Thompson Engineering  
6   and Production Corporation for an unorthodox gas well  
7   location and downhole commingling, San Juan County, New  
8   Mexico.

9           EXAMINER CATANACH: Call for appearances in this  
10   case.

11          MR. CARR: May it please the Examiner, my name is  
12   William F. Carr with the Santa Fe law firm Campbell, Carr,  
13   Berge and Sheridan. We represent Thompson Engineering and  
14   Production Corporation in this matter.

15          As the Examiner will recall, this case came on  
16   for hearing on December the 4th, 1997. There was confusion  
17   about the notice that had been provided. At your request,  
18   additional notice was provided to all offsetting operators,  
19   and Mr. Bruce has appeared in opposition to the  
20   Application.

21          We presented Mr. Emmendorfer in December. We do  
22   not necessarily intend to recall him at this time but at  
23   this time think it's appropriate for Mr. Bruce and his  
24   witness to proceed.

25          MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe,

1 representing Maralex Resources, Inc., and I have one  
2 witness.

3 EXAMINER CATANACH: Any additional appearances?  
4 Will the witness please stand and be sworn in?  
5 (Thereupon, the witness was sworn.)

6 ALEXIS M. O'HARE,  
7 the witness herein, after having been first duly sworn upon  
8 his oath, was examined and testified as follows:

9 DIRECT EXAMINATION

10 BY MR. BRUCE:

11 Q. Will you please state your name and city of  
12 residence?

13 A. My full name is Alexis Michael O'Hare. I reside  
14 in Ignacio, Colorado.

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

16 A. I am the president of Maralex Resources.

17 Q. And by trade, what is your profession?

18 A. I'm a registered professional engineer in the  
19 State of Colorado.

20 Q. Have you previously testified before the Division  
21 as an engineer?

22 A. Yes, I have.

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

25 A. Yes, they were.

1 Q. And are you familiar with matters involved in the  
2 Thompson Application?

3 A. Yes, I am.

4 MR. BRUCE: Mr. Examiner, I tender Mr. O'Hare as  
5 an expert engineer.

6 EXAMINER CATANACH: Mr. O'Hare is so qualified.

7 Q. (By Mr. Bruce) Mr. O'Hare, Maralex is appearing  
8 here today seeking denial of the Thompson unorthodox  
9 location; is that correct?

10 A. Yes, it is.

11 Q. Let's discuss the reason for that, and would you  
12 first identify Exhibit 1 for the Examiner, and talk about  
13 the wells in the area.

14 A. Exhibit 1 is a status map of the wells located in  
15 what we consider to be the southwest Aztec area. The City  
16 of Aztec is delineated in the northeast corner of the map,  
17 and we have shown the wells that Maralex Resources owns a  
18 working interest in, along with the proposed Thompson well.

19 Q. And does this map also give production  
20 information on these wells?

21 A. Yes, it does.

22 Q. Besides production, completion date, et cetera,  
23 are these current producing rates?

24 A. These are as of November 30th, 1997.

25 Q. Okay. And your wells are, I believe, in Sections

1 18, 19 and 30?

2 A. Correct. We also have a proposed location in the  
3 northeast quarter of Section 24.

4 Q. That's referred to as the Blancett location?

5 A. Correct.

6 Q. Okay. And then the Blancett Number 2R, the  
7 Thompson well, is in the southeast quarter of Section 13?

8 A. Correct.

9 Q. Now, the Thompson well is at an unorthodox  
10 location in the Fruitland Coal; is that correct?

11 A. That is correct.

12 Q. Because it's in the wrong quarter section?

13 A. Correct.

14 Q. All of Maralex's wells are in the proper quarter  
15 sections?

16 A. Yes, they are.

17 Q. And they are all at orthodox locations?

18 A. Correct.

19 Q. Okay. Let's move on to your Exhibit 2. What  
20 does that show, Mr. O'Hare?

21 A. Exhibit 2 is a net Fruitland Coal isopach map.  
22 It shows that the majority of the Maralex-owned wells are  
23 in a thin in the Fruitland Coals. Most of them are in the  
24 -- or contain less than 20 feet net coal thickness.

25 It also shows that the Blancett 2R is in the same

1 general thin. However, an orthodox location in the  
2 northeast quarter of Section 13 would actually contain more  
3 coal than the proposed well.

4 Q. And an orthodox location in the southwest quarter  
5 of Section 13 would also contain more coal, would it not?

6 A. Correct.

7 Q. So from a coal standpoint, from a geologic  
8 standpoint, it looks like a well at a standard location, or  
9 at both standard locations in Section 13 would be  
10 productive; is that correct?

11 A. That is correct, and they would also  
12 theoretically recover more reserves from the Fruitland  
13 Coal.

14 Q. What is Exhibit 3?

15 A. Exhibit 3 is a number of decline curves presented  
16 for each one of the wells that Maralex has an interest in,  
17 in the area.

18 The first one is the Brimhall well. It shows  
19 that that well started off producing less than 20 MCF of  
20 gas per day and inclined fairly steeply initially and then  
21 very gradually has improved to a current rate of around 570  
22 MCF of gas per day.

23 The next curve is the Scott well, which is  
24 located in the southwest quarter of Section 18, immediately  
25 offset to the proposed location. This well had an initial

1 rate in the 30-MCF-per-day range. It improved fairly  
2 substantially to 100 MCF per day before some line -- El  
3 Paso sales line restraints restricted flow for about six  
4 months, and it has since improved over the ensuing six  
5 years to a current rate of around 490 MCF per day.

6 The next plot is a production curve for the  
7 Apperson well in the southwest quarter of Section 30. This  
8 well also started at a fairly low rate but has inclined  
9 over the last three years to a rate of around 270 MCF per  
10 day.

11 The next curve is the Campbell 30 Number 1,  
12 located in the northeast quarter of Section 30. This well  
13 also started at a fairly low rate but has inclined over  
14 about a three-year period to a rate of about 230 MCF per  
15 day.

16 And the last curve is the Flora Vista 19 Number  
17 2, located in the southwest quarter of Section 19. This  
18 well has also inclined to a current rate in excess of 230  
19 MCF per day over about a three-year period.

20 Q. So Maralex does have substantial production in  
21 this area which it seeks to protect; is that correct?

22 A. That is correct.

23 Q. What about water rates in these wells?

24 A. Water rates currently are in the 20-to-30-barrel-  
25 per-day range. Initially, we were seeing water production

1 as high as 140 barrels of water per day. We feel like  
2 there has been substantial dewatering in the area, thanks  
3 to our wells.

4 Q. Would that dewatering caused by the Maralex wells  
5 help a well location in the southeast quarter of Section  
6 13?

7 A. Yes, we believe it would have a significant  
8 effect on that location.

9 Q. So instead of having these low initial rates,  
10 it's possible that a well -- that the Thompson well, could  
11 have already benefitted from the dewatering and would have  
12 an initial rate that's substantially higher than the 20 to  
13 50 MCF a day that you saw?

14 A. We believe that's very likely.

15 Q. Mr. O'Hare, let's move on to Exhibit 4 and  
16 discuss -- Now, before we get into this, you would like to  
17 see the unorthodox location denied; is that correct?

18 A. That is correct.

19 Q. If it is approved, you would like to see a  
20 penalty assessed against the well; is that correct?

21 A. Correct.

22 Q. And is Exhibit 4 a penalty proposal on the  
23 Thompson well?

24 A. Yes, it is. And this is what we consider to be  
25 an absolute minimum proposal.

1 Q. And it's just based on footages from a standard  
2 location in the northeast quarter; is that correct?

3 A. Correct.

4 Q. And when you say a minimum proposal, is that  
5 because of the benefit that Thompson may have received from  
6 your dewatering of this area?

7 A. Exactly. This proposal does not take into  
8 account the beneficial effects that dewatering is expected  
9 to have on the unorthodox location.

10 Q. On that dewatering, how long does it take to  
11 dewater a well?

12 A. Our first well in the southwest Aztec area was  
13 the Scott Number 1, and it was approximately four years  
14 before we saw a substantial increase in our gas production  
15 and a dropoff in the water production.

16 Q. Is there anything else about the Thompson  
17 proposal that you would like to discuss?

18 A. I'd like to point out the pressure differences  
19 between what was presented in the Thompson proposal, versus  
20 what our limited research has revealed.

21 We went back to some of the deliverability tests  
22 that were conducted up until 1986 and discovered that the  
23 seven-day shut-in pressures for those tests were on the  
24 order of 106 to 222 p.s.i. A much more recent shut-in  
25 pressure on one of our Fruitland Coal wells, in fact, the

1 well in Section 18, southwest quarter, is much closer to  
2 300 p.s.i. during a much shorter shut-in period.

3 So we feel like the representation that the  
4 bottomhole pressure of 350 pounds is going to be equal  
5 between the two zones is not correct, that the Fruitland  
6 pressures are substantially higher than the Pictured Cliffs  
7 pressures, which could lead to some crossflow in the event  
8 of a shut-in, or even in the event of high line pressures.

9 Q. Mr. O'Hare, in your opinion is the denial of the  
10 Thompson Application in the interests of conservation and  
11 the prevention of waste?

12 A. Yes, it is.

13 Q. And were Exhibits 1 through 4 prepared by you or  
14 under your direction?

15 A. Yes, they were.

16 MR. BRUCE: Mr. Examiner, at this time I'd move  
17 the introduction of Maralex Exhibits 1 through 4.

18 EXAMINER CATANACH: Exhibits 1 through 4 will be  
19 admitted as evidence.

20 Mr. Carr?

21 CROSS-EXAMINATION

22 BY MR. CARR:

23 Q. Mr. O'Hare, would you agree with me that  
24 Fruitland Coal wells in this area generally can drain 320  
25 acres? Isn't that right?

1 A. We believe so, yes.

2 Q. And you're concerned that the Thompson proposal  
3 to recomplete a well in the southeast of 13, in fact, will  
4 bring reserves from Maralex in Section 18; isn't that fair  
5 to say?

6 A. And Section 24 as well.

7 Q. All right. You have no well in 24 at this time?

8 A. Not at this time.

9 Q. Conversely, if no well is drilled in Section 13,  
10 your proposed well in 24 and the existing well in 18 would  
11 drain reserves from Section 13; isn't that fair to say?

12 A. That's a good possibility, yes.

13 Q. Would you agree with me that there are reserves  
14 in Section 13? Isn't that what your isopach map shows?

15 A. Yes.

16 Q. And that you're not quarreling with the fact that  
17 Thompson should be entitled to produce the reserves that  
18 are under its acreage? That's not the issue, is it?

19 A. No, it is not.

20 Q. Without a well in 13, however, those reserves  
21 under that tract will be drained?

22 A. We are not trying to keep a well from being  
23 drilled in Section 13; we're only trying to keep an  
24 unorthodox off-pattern location from being drilled.

25 Q. If there is no well, however, those reserves will

1 be drained by the wells in 18 and 24; isn't that right?

2 A. Not entirely, no.

3 Q. There would be no way for Thompson to recover the  
4 reserves under 13 without a well?

5 A. Correct.

6 Q. You agree with me on that?

7 A. Yes.

8 Q. Now, when we look at the proposed location for  
9 the recompletion in the Fruitland Coal of the Blancett 2R,  
10 it is more than the standard setback from the outer  
11 boundary of 13, is it not?

12 A. As far as the footage?

13 Q. Yes, it's more than 790?

14 A. Yes.

15 Q. Your concern is that it's in the wrong quarter  
16 section?

17 A. Correct.

18 Q. Now, your concern is if your correlative rights  
19 are going to be impaired; isn't that right?

20 A. Yes.

21 Q. Now, in 18 you currently have full development,  
22 two wells?

23 A. Correct.

24 Q. If we look at the drainage issue and we look at  
25 the well you have currently, the Scott Number 1 in 18 and a

1 well at the Blancett proposed location, if we had  
2 comparable wells, in fact, you wouldn't see any drainage,  
3 would you, because of the location?

4 A. We believe we would see some net drainage.

5 Q. You wouldn't see a no-flow boundary between those  
6 wells close to the lease line?

7 A. We don't know that for a fact.

8 Q. Well, if -- Now, you're an expert petroleum  
9 engineer, are you not?

10 A. Yes.

11 Q. If you have two comparable wells --

12 A. Uh-huh.

13 Q. -- and they are equidistant from a common lease  
14 line, isn't it fair to say that the no-flow boundary ought  
15 to be on that lease line?

16 A. If there is no permeability barrier to water  
17 production, if there are no other permeability barriers or  
18 diffusion barriers in the coal itself, yes.

19 Q. When we look at your well, the Scott Number 1,  
20 that well is producing as it is because of your dewatering  
21 efforts; isn't that right?

22 A. Yes.

23 Q. Now, when we look at a Fruitland well at the  
24 Blancett 2R location, you're concerned there might be some  
25 benefit from the dewatering that has occurred in the Scott

1 1; is that right?

2 A. Yes.

3 Q. Now, there's no dewatering that could have  
4 occurred north of the Blancett location in the Fruitland;  
5 isn't that right? There are no Fruitland wells?

6 A. North of the Blancett 2R?

7 Q. Yeah.

8 A. That's correct, in that section.

9 Q. There's no dewatering that could have occurred  
10 west of it?

11 A. I don't know if there's a well to the west or  
12 not.

13 Q. Do you know if there's any wells south of it  
14 currently producing that would have dewatered?

15 A. In Section 24, no, there's not.

16 Q. So in fact, in terms of dewatering, a well in 18  
17 is in a better position because, in fact, there has been  
18 more dewatering there; isn't that right?

19 A. True, which we have paid for.

20 Q. Yes. Now, if we look at Section 24 -- You  
21 understand correlative rights is the opportunity to produce  
22 your share of the reserves, do you not?

23 A. Yes.

24 Q. How long have you owned the interest in Section  
25 24?

1 A. Since 1991.

2 Q. And you have not drilled a well there?

3 A. Correct.

4 Q. Didn't you actually permit the re-entry of a  
5 Pictured Cliff well in 24?

6 A. Yes, we did.

7 Q. And that permit was permitted to expire, right?

8 A. Yes.

9 Q. Now, you have an opportunity to drill a standard  
10 location equidistant from the north boundary of 24, do you  
11 not, and thereby prevent that drainage to the north --

12 A. Yes --

13 Q. -- to the --

14 A. -- we are still working on that.

15 Q. Okay. But you have not done that yet?

16 A. No. There are some title constraints that have  
17 prevented us from drilling to this date.

18 Q. Have you attempted to identify the number of off-  
19 pattern wells that currently exist in the Fruitland -- in  
20 the Basin-Fruitland Coal Pool?

21 A. No, I have not.

22 Q. Would it surprise you to know that over 130 wells  
23 have been drilled off-pattern to date?

24 A. No, that wouldn't surprise me.

25 Q. That over 13 percent of the wells in the pool, in

1 fact, are off-pattern?

2 A. In fact, the state rules were promulgated after a  
3 number of those wells were drilled and recompleted from  
4 existing wells.

5 Q. Have you reviewed the prior testimony in this  
6 case?

7 A. Yes, I have.

8 Q. You understand that a standard location in the  
9 northeast quarter of Section 24 may be impossible because  
10 of ownership and surface problems?

11 A. I don't understand that from the standpoint that  
12 lease rights generally provide right of ingress and egress.

13 Q. You do understand that is the testimony from --

14 A. Yes.

15 Q. -- Thompson, that they can't drill up there at a  
16 standard location?

17 A. I understand that's what they've submitted as  
18 testimony.

19 Q. That would mean that if we deny an off-pattern  
20 location, there can be no well drilled in the west half of  
21 Section 13; isn't that right?

22 A. According to the testimony that may be right, but  
23 according to lease law I don't believe that's right.

24 Q. Have you checked the particulars on the northeast  
25 quarter of 13?

1 A. Yes, I have.

2 Q. Do you know the relationship between Mr. Riggs  
3 and Thompson?

4 A. No, I don't.

5 Q. If because of lease problems and an order from  
6 this Division no well can be drilled in the west half of  
7 24, Thompson wouldn't be able to produce reserves under  
8 that acreage; isn't that correct?

9 A. Yes.

10 Q. They wouldn't have an opportunity to produce  
11 their reserves; isn't that right?

12 A. Yes.

13 Q. If no well is drilled in the west half of 13,  
14 your offsetting well south and east of it would be able to  
15 capture those reserves --

16 A. No --

17 Q. -- is that fair?

18 A. -- not necessarily, no, especially if other wells  
19 are drilled in Section 13, west half, or north of Section  
20 13 or south of Section 13.

21 Q. As it stands right now, though, if there's no  
22 well in the east half of 13, you're the only other operator  
23 that offsets those both east and south; isn't that right?

24 A. Yes, that is correct.

25 Q. And you either have wells or plans for wells on

1 those tracts?

2 A. Yes.

3 Q. And you'd be 790 or a little bit more if it's  
4 standard locations off the Thompson property?

5 A. Correct.

6 Q. When we look at your penalty recommendation, your  
7 penalty recommendation is not based on encroachment on the  
8 offsetting property, is it? It's based on just difference  
9 from a standard location in the northeastern part of  
10 this --

11 A. Correct.

12 Q. Have you attempted to calculate the additional  
13 drainage that could occur on your tract from a well at this  
14 location, at the proposed location?

15 A. No, we have not.

16 Q. In fact, there wouldn't be any if the no-flow  
17 boundaries were on the lease line; isn't that right?

18 A. In Section 24 there would be, especially until we  
19 could get a well drilled there.

20 Q. But nothing has prevented you from, since 1991,  
21 drilling a well in 24?

22 A. Yes, title considerations have prevented us from  
23 drilling that well in Section 24 since 1991.

24 Q. Is there any regulatory provision that has denied  
25 you the opportunity to produce your reserves?

1           A.    No.

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

3                                   EXAMINATION

4   BY EXAMINER CATANACH:

5           Q.    Mr. O'Hare, with respect to your proposed  
6   penalty, this Thompson's well is proposed to be downhole  
7   commingled in the Pictured Cliffs and the Fruitland Coal.  
8   As far as implementing a penalty on the Fruitland Coal, do  
9   you have any suggestions how we might do that if the well  
10   is commingled?

11           A.    Basically, it would require a test of the  
12   Pictured Cliffs production before recompleting to the  
13   Fruitland, and obviously 100 percent of that production  
14   would be allowed, and then after the recompletion is  
15   completed the combined zones would be tested and the  
16   difference between the two rates would be curtailed by the  
17   penalty.

18                   In other words, if the Pictured Cliffs is making  
19   10 MCF per day and the Fruitland comes on, the combined  
20   production is 100 MCF per day, then the penalty would apply  
21   to the difference and 90 MCF per day would be curtailed by  
22   whatever the penalty -- the State decides is appropriate.

23           Q.    Do you know when your location is going to be  
24   drilled?

25           A.    The latest judgment was entered in our favor, but

1 it has been appealed, and we are told that the appellate  
2 court decision would be issued by this summer, June or  
3 July, and we intend to drill it as soon as that is resolved  
4 in our favor.

5 Mr. Examiner, I would like to point out one other  
6 thing about the surface acreage in the northeast quarter of  
7 Section 13. My understanding is that Mr. Riggs owns  
8 approximately 200 acres, leaving a portion of that quarter  
9 section available for an unorthodox location.

10 I don't know exactly what the outlines of his  
11 farm are, but I know it does actually include most of the  
12 north half of the southeast quarter, and so I would assume  
13 that there is a portion in the north half of the northeast  
14 quarter that would be available for a well location, at an  
15 unorthodox location.

16 Q. Do you believe that Thompson can, in fact, make a  
17 good economic well in the northeast quarter?

18 A. Yes, sir, we believe it would be actually a  
19 better well there than it would be in the southeast quarter  
20 with regard to ultimate recovery of Fruitland Coal gas  
21 reserves.

22 Q. Of course, they may have to dewater up in the  
23 northeast quarter?

24 A. Correct. Yeah, their initial rates may not be  
25 better than in the southeast quarter, but their ultimate

1 recoveries would more than likely be much better.

2 Q. You can't really quantify what benefit they're  
3 getting from -- If they drill in the southeast quarter, you  
4 can't really quantify the benefit they're getting from your  
5 dewatering process, can you?

6 A. We can't at this time, no.

7 EXAMINER CATANACH: That's all I have.

8 MR. BRUCE: I have nothing further, Mr. Examiner.

9 MR. CARR: Mr. Examiner, I have a notice  
10 affidavit. At the hearing on December the 4th you asked  
11 that the offset operators be renotified, including the  
12 operator in the west half of Section 13. We have done  
13 that, and I have an affidavit confirming that that notice  
14 has been provided.

15 I have a very brief statement.

16 EXAMINER CATANACH: Okay, the affidavit will be  
17 admitted as evidence.

18 Go ahead.

19 MR. CARR: May it please the Examiner, this case  
20 presents both correlative rights and waste issues.

21 As correlative rights is defined by statute, it  
22 is an opportunity to produce your fair share of the  
23 reserves in the. And "fair share" is defined as the share  
24 under your tract as it relates to the total reserves in the  
25 pool.

1           Today Maralex is seeking the imposition of a  
2 penalty on this well because of drainage. And yet when we  
3 look at the maps and we look at what is occurring in  
4 Section -- drainage between Section 13 and Section 18  
5 doesn't appear to be possible. And the reason is that  
6 there really is a no-flow boundary between these wells.  
7 And because the well in 18 has benefitted substantially  
8 from dewatering in the reservoir it, in fact, will be  
9 draining more than the Maralex well.

10           As to the south, they have not availed themselves  
11 of the opportunity. So really, from a regulatory point of  
12 view there's nothing for you to protect.

13           But the fact of the matter is, they can offset  
14 the well at a standard location, and again the no-flow  
15 boundary should be in close proximity to the spacing unit  
16 line. They're concerned about the efforts that they have  
17 undertaken to dewater the reservoir.

18           But I would note that those benefits can occur in  
19 the northeastern quarter of the section as well as in the  
20 southeastern, for there always benefits from dewatering  
21 after the first well is drilled and starts to produce in a  
22 pool.

23           They've got concern about commingling with the  
24 Pictured Cliffs. They've got some hypothetical, some  
25 limited information about pressure differentials. But the

1 fact of the matter is, and the record shows that if the  
2 well isn't drilled and commingling permitted with the  
3 Pictured Cliffs, reserves will not be recovered from the  
4 Pictured Cliffs that otherwise can be, and that waste will  
5 occur.

6 So what we have here, we submit, is a situation  
7 where there is no correlative rights violation because  
8 drainage is not going to occur. And if the Application of  
9 Thompson isn't approved, waste will occur.

10 They're proposing a penalty, a penalty of such  
11 magnitude that no well would be drilled. And if no well  
12 was drilled, drainage will occur toward them.

13 We have testified and in this record, yet the  
14 testimony says there is no standard location available to  
15 us, and for that reason we have to go south. Perhaps we  
16 could drill a better well, but we can't, in the northeast  
17 quarter. And that's why we're proposing to drill here.

18 If we're not allowed to drill, our correlative  
19 rights are impaired, our opportunity to produce is denied,  
20 waste will occur, and that is the reason we're asking you  
21 to approve this unorthodox well location.

22 EXAMINER CATANACH: Thank you, Mr. Carr.

23 Mr. Bruce, do you want to make any statements?

24 MR. BRUCE: Mr. Examiner, I think the evidence  
25 shows that there's no geologic reason for an unorthodox

1 location, and I don't think Thompson has shown any legal  
2 impediment to drilling a well at a standard location in the  
3 northeast quarter of Section 13.

4 If Thompson's Application is granted, they will  
5 adversely affect Maralex's correlative rights in Sections  
6 18 and 24.

7 As far as Section 24 goes, as Mr. O'Hare  
8 testified, they wanted to drill there several years ago,  
9 but a lawsuit prevented them from doing so. That's not  
10 sitting on their rights. They've prosecuted their case as  
11 quickly as they could, and they hope to drill this year.

12 The Application should be denied, not only for the  
13 reasons that a standard location should be productive, but  
14 also for the crossflow, the downhole commingling problems  
15 Mr. O'Hare pointed out.

16 If it is approved, it should be a substantial  
17 penalty on the well. Mr. Carr may be right that a well  
18 would not be drilled with a penalty like that, but this  
19 well is already there. They've already expended the sums.  
20 Anything they get out of the Fruitland Coal is gravy to  
21 them.

22 So I think the penalty proposed by Maralex is  
23 very reasonable, considering that Thompson will benefit  
24 from the dewatering and from the proven production in the  
25 offsets.

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Thank you.

EXAMINER CATANACH: Okay, is there anything further?

MR. CARR: Nothing.

EXAMINER CATANACH: If there is nothing further in this case, Case Number 11,865 will be taken under advisement.

(Thereupon, these proceedings were concluded at 10:10 a.m.)

\* \* \*

I do hereby certify that the foregoing is a complete report of the proceedings in the Examiner hearing of Case No. 11865, heard by me on 1/21 1998.

David Catanach, 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 9th, 1998.



STEVEN T. BRENNER  
 CCR No. 7

My commission expires: October 14, 1998