

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 MANZANO OIL CORPORATION)
FOR COMPULSORY POOLING, LEA COUNTY,)
NEW MEXICO)

CASE NO. 11,939

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS
EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

March 5th, 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, March 5th, 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.

* * *

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March 5th, 1998
Examiner Hearing
CASE NO. 11,939

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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: WILLIAM F. CARR

* * *

1 WHEREUPON, the following proceedings were had at
2 9:08 a.m.:

3 EXAMINER CATANACH: All right, at this time we'll
4 call Case 11,939.

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

7 EXAMINER CATANACH: Call for appearances in this
8 case.

9 MR. CARR: May it please the Examiner, my name is
10 William F. Carr with the Santa Fe law firm Campbell, Carr,
11 Berge and Sheridan. We represent Manzano Oil Corporation
12 in this matter, and I have two witnesses.

13 EXAMINER CATANACH: Any additional appearances?
14 Will the two witnesses please stand and be sworn
15 in?

16 (Thereupon, the witnesses were sworn.)

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

20 DIRECT EXAMINATION

21 BY MR. CARR:

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

23 A. My name is Tony Krakauskas.

24 Q. Could you spell your last name?

25 A. K-r-a-k-a-u-s-k-a-s.

1 Q. Mr. Krakauskas, where do you reside?

2 A. Roswell, New Mexico.

3 Q. By whom are you employed?

4 A. I'm employed by Sun Valley Energy, a partner of
5 Manzano Oil Corporation.

6 Q. And what is your current position with Sun
7 Valley?

8 A. I'm their landman.

9 Q. Have you previously testified before the Oil
10 Conservation Division?

11 A. No, I have not. I have testified before the
12 Oklahoma Corporation Commission a number of times.

13 Q. Could you briefly summarize for Mr. Catanach your
14 educational background?

15 A. I attended the University of Texas at El Paso for
16 a period from 1967 to 1972, entered private business from
17 that time until 1986, at which time I entered the oil and
18 gas industry as a landman.

19 Q. And since 1986 you've been working as a landman?

20 A. That's right.

21 Q. Are you familiar with the Application filed in
22 this case on behalf of Manzano Oil Corporation?

23 A. Yes, I am.

24 Q. Are you familiar with the status of the lands in
25 the subject area?

1 A. Yes.

2 MR. CARR: Mr. Catanach, we tender Mr. Krakauskas
3 as an expert witness in petroleum land matters.

4 EXAMINER CATANACH: He is so qualified.

5 Q. (By Mr. Carr) Would you briefly state what
6 Manzano Oil Corporation seeks with this Application?

7 A. We're seeking a compulsory pooling from the
8 surface to the base of the Strawn formation underlying the
9 southeast quarter of the southwest quarter in Section 25,
10 Township 17 South, Range 37 East, Lea County, New Mexico,
11 for the drilling of the "SV" Grand Slam Well Number 1, to
12 be drilled at a standard location 400 feet from the south
13 line and 2310 feet from the west line of said section.
14 That's Unit N of Section 25.

15 Q. Have you prepared exhibits for presentation here
16 today?

17 A. Yes, I have.

18 Q. Let's go to what's been marked Manzano Exhibit
19 Number 1, and I'd ask you to identify it and review it for
20 Mr. Catanach.

21 A. Okay. The leasehold that we presently have, and
22 the proration is colored in yellow, outlined in red, and
23 the well location is the green spot of Section 25.

24 Q. What is the status of the acreage? Is it state,
25 federal or fee?

1 A. It's fee acreage.

2 Q. And what is the primary objective in this well?

3 A. The Strawn formation. The well will be drilled
4 to an approximate depth of 12,220 feet.

5 Q. Is this a wildcat well in the Strawn?

6 A. Yes, it is.

7 Q. Let's go to Exhibit Number 2. Will you identify
8 this?

9 A. Okay, this is an ownership report in two parts.
10 First page details the leased interest. There are
11 approximately 46 parties we have currently under lease.
12 It's a 40-acre tract. We have 39.355 net acres of the 40
13 acres, for a total lease percentage of 98.388 percent.

14 The second page represents the parties that are
15 being pooled, one party with a known address and four
16 parties with unknown addresses. They represent .6445 net
17 acres or 1.6 percent of the proration unit.

18 Q. Could you review for Mr. Catanach the efforts you
19 have made to locate the parties indicated as unknown and --
20 in an effort to obtain their voluntary participation in
21 this well?

22 A. Okay, an ownership takeoff was conducted last
23 year by a gentleman by the name of David Lynch out of
24 Lovington. From that list we've leased all the parties
25 except for these five individuals.

1 We then went and sent another landman into the
2 field, and he reviewed the county records, the probate
3 records. I have personally reviewed the probate myself,
4 for Mr. L.C. Gilley. That probate was rendered in 1954,
5 filed in Tarrant County, Fort Worth, Texas.

6 The last known address we had for Mr. L.C. Gilley
7 was in 1949 from the Trinity State Bank in Fort Worth,
8 Texas, a depository bank, for an old oil and gas lease.
9 We've researched the telephone directories for both Dallas
10 and Fort Worth, we've been on the Internet trying to find
11 any kind of a contact. We found 14 similar names. Those
12 people were contacted, and no effort, no leads, no ties.
13 So they are still -- Those four entities have unknown
14 addresses.

15 The lady with the known address, Glanel Webb, has
16 been contacted. She has an oil and gas lease in hand. She
17 has stated that she has executed it, it has not been
18 notarized, and she said she said she was going to notarize
19 it and return it to Manzano, but as of this date it has not
20 been returned.

21 Q. In your opinion, have you made a good-faith
22 effort to locate all individuals who own an interest in
23 this well and attempt to obtain their --

24 A. Yes, we have.

25 Q. -- voluntary participation?

1 A. Yes.

2 Q. Let's go to Manzano Oil Corporation Exhibit
3 Number 3. Would you identify and review that, please?

4 A. This is an authority for expenditure for the
5 drilling of the "SV" Grand Slam Number 1 well at the stated
6 location to approximate TD of 12,200 feet to test the
7 Strawn formation.

8 The dryhole cost for this test is \$662,200,
9 completion cost of \$297,200, for a total completed well
10 cost of \$959,400.

11 Q. Are these costs in line with what's charged by
12 other operators for similar wells in the area?

13 A. Yes, they are.

14 Q. Have you made an estimate of the overhead and
15 administrative costs while drilling a well and also while
16 producing it, if it is successful?

17 A. Yes, the estimate is based on a fixed-rate
18 overhead survey conducted by Ernst and Young in 1997. The
19 median rate for a 12,200-foot well is \$5457 a month for a
20 drilling well and \$568 a month for a producing well.

21 Q. Do you recommend that these figures be
22 incorporated into the order that results from this hearing?

23 A. Yes, I do.

24 Q. Does Manzano seek to be designated operator of
25 the proposed well?

1 A. Yes, they do.

2 Q. Will we be calling a geological witness to review
3 the risk associated with the drilling of this well?

4 A. Yes.

5 Q. Were Exhibits 1 through 3 prepared by you or
6 compiled at your direction?

7 A. Yes, they were.

8 MR. CARR: At this time, Mr. Catanach, we would
9 move the admission into evidence of Manzano Exhibits 1
10 through 3.

11 EXAMINER CATANACH: Exhibits 1 through 3 will be
12 admitted as evidence.

13 MR. CARR: That concludes my direct examination
14 of Mr. Krakauskas.

15 EXAMINATION

16 BY EXAMINER CATANACH:

17 Q. You guys attempted to reach the -- or attempted
18 to contact the L.C. Gilley at the last known address?

19 A. Well, there's no Trinity State bank at this point
20 in Fort Worth. The last known address was in 1949. And
21 that information was taken off of an old oil and gas lease
22 filed of record in Lea County.

23 MR. CARROLL: What's the split in interest --

24 THE WITNESS: It's --

25 MR. CARROLL: -- between Webb --

1 THE WITNESS: It --

2 MR. CARROLL: -- and the Gilleys?

3 THE WITNESS: There's no tie at all. Oh, I'm
4 sorry --

5 MR. CARROLL: Well, those --

6 THE WITNESS: -- I'm sorry, I don't --

7 MR. CARROLL: -- those total --

8 THE WITNESS: Yeah, I don't -- I'm sorry --

9 MR. CARROLL: -- 1.61125.

10 THE WITNESS: Yeah, it's -- Let's see if I've got
11 that number. The Gilley, et al., interest is .625 net
12 acres, and the Webb interest is the balance.

13 Q. (By Examiner Catanach) You state that 14 similar
14 names were identified through the search effort?

15 A. Right, and those were derived from the Internet,
16 telephone-directory search on the Internet.

17 Q. Was that in the Dallas-Fort Worth area?

18 A. Yes.

19 Q. And you did --

20 A. Dallas-Fort- -- Yes, correct, Dallas-Fort Worth
21 area.

22 Q. You did contact these parties?

23 A. We were able to reach ten of those parties.

24 Q. Okay, let me just clarify the overhead rates,
25 \$5457; is that correct?

1 A. Let me get my number out, excuse me. \$5457 --

2 Q. Five --

3 A. -- the drilling rate.

4 Q. And \$568, excuse me?

5 A. Right.

6 EXAMINER CATANACH: Okay. I have nothing
7 further. This witness may be excused.

8 MR. CARR: At this time we call Mike Brown.

9 CHARLES MICHAEL BROWN,

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

12 DIRECT EXAMINATION

13 BY MR. CARR:

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

15 A. Charles Michael Brown.

16 Q. Where do you reside?

17 A. I reside in Roswell, New Mexico.

18 Q. By whom are you employed?

19 A. Manzano Oil Corporation.

20 Q. What is your current position with Manzano?

21 A. Geologist.

22 Q. Have you previously testified before this
23 Division and had your credentials as an expert witness in
24 petroleum geology accepted and made a matter of record?

25 A. Yes, I have.

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

3 A. I am.

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

6 A. Yes, I have.

7 Q. Are you prepared to share the results of that
8 study with the Examiner?

9 A. I am.

10 MR. CARR: At this time, Mr. Catanach, we would
11 request that the witness's qualifications be found
12 acceptable.

13 EXAMINER CATANACH: They are acceptable.

14 Q. (By Mr. Carr) Has Manzano drilled other Strawn
15 wells in this area?

16 A. We've drilled a total of eight wells in the --
17 just general area of the Southeast Lovington and the Humble
18 City-Strawn play, and of the eight wells we've had two
19 producers in the Strawn, we had three that were
20 nonproductive or marginally productive in the Strawn that
21 we recompleted to other zones, and we had three dryholes.

22 Q. Let's go to what has been marked Manzano Exhibit
23 Number 4, and I'd ask you to identify that and review it
24 for Mr. Catanach.

25 A. This is a plat showing the Southeast Lovington

1 Humble City field play. The well in question, the "SV"
2 Grand Slam Number 1, is located in the southern part of
3 this map with the red dot and a red arrow. The Strawn
4 producers in this area are shown in blue, and Devonian is
5 shown in green.

6 What is quickly notable on the map is, the Strawn
7 is highly variable. It produces from small algal mounds,
8 generally one-to-two well fields. On occasion there will
9 be larger pods that you can get three to four.

10 As a general rule, the Strawn section thins as
11 you move towards the south, and you'll note the field size
12 gets smaller.

13 As you move just to the southern part of this
14 plat, I've shown a dashed line where the Strawn is absent.
15 So you have a truncation of the Strawn as you move up onto
16 the Hobbs uplift.

17 What Manzano is attempting to do with the Grand
18 Slam Number 1 is to extend the Southeast Lovington Humble
19 City play to the southeast. Up to this point there's been
20 ten previous attempts to do this, none of which have been
21 successful in the Strawn, two of which -- Two wells were
22 recompleted in other zones, and they are -- The well in the
23 northwest quarter of Section 25 made 3000 barrels out of a
24 Bone Spring interval and only 1000 barrels out of a
25 Wolfcamp. And the well in the northwest quarter of Section

1 36 made 2000 barrels out of the San Andres.

2 So as a -- Outside of the Devonian, which we
3 won't penetrate in this well, there's no real economic
4 multi-pay objectives, so it's a -- strictly a Strawn test.

5 Q. Are you prepared to make a recommendation to the
6 Examiner as to the risk penalty that should be assessed
7 against any nonparticipating interest owner?

8 A. Yes, I am. Manzano is recommending a 200-percent
9 penalty.

10 Q. Do you believe there's a chance that a well at
11 this location could, in fact, not be a commercial success?

12 A. Yes, I do. The Strawn in this area is a high-
13 risk, high-return objective. And what makes it even risky,
14 in two parts, one, we're coming up on the truncation of the
15 Strawn, so we may experience a thinner Strawn section, and
16 also the absence of any true multi-pay makes this a highly
17 risky venture.

18 Q. In your opinion, will the granting of this
19 Application and the drilling of the proposed well be in the
20 best interest of conservation, the prevention of waste and
21 the protection of correlative rights?

22 A. Yes, I am.

23 Q. How soon do you hope to spud the well?

24 A. We plan to spud in early May.

25 Q. Was Exhibit 4 prepared by you?

1 A. Yes, it was.

2 MR. CARR: Mr. Catanach, at this time we move the
3 admission into evidence of Manzano Oil Corporation Exhibit
4 Number 4.

5 EXAMINER CATANACH: Exhibit Number 4 will be
6 admitted as evidence.

7 MR. CARR: That concludes my direct examination
8 of Mr. Brown.

9 EXAMINATION

10 BY EXAMINER CATANACH:

11 Q. Mr. Brown, was that well in Section 23 drilled to
12 the Strawn?

13 A. Yes, it was.

14 Q. And that was dry?

15 A. Right, it hit the -- you have -- the producers
16 are in -- called the mound facies. Then you move off. The
17 intermound facies are just tight and unproductive.

18 Q. Okay, and it looks like there were two wells
19 drilled into Section 24?

20 A. That is correct, same story, tight, as was the
21 Howry well in Section 25.

22 Q. And the well in Section 36?

23 A. Yes, sir.

24 Q. Are you guys using seismic data?

25 A. We have a 3-D survey over this area that shows

1 what we think is a thickening of the Strawn and a very -- a
2 mound of similar size to the ones you see to the north, and
3 seems to develop on a deep-seated feature that doesn't
4 close on the Devonian, but it does look like it affected
5 the Strawn. That's why we're attempting to drill here.

6 Q. Isn't most of this Strawn spaced on 80 acres?

7 A. The Strawn is on 80, yes, sir.

8 Q. Do you guys have any thoughts on whether you
9 encounter production, what you might do in terms of
10 spacing?

11 A. We would recommend 80. But we're right now two
12 miles from the nearest producer, so --

13 Q. As far as your land status, do you have the other
14 40 that you can dedicate to that well?

15 A. Yes, we do. It's a common ownership on the
16 entire 160, the southwest quarter.

17 EXAMINER CATANACH: Okay, I have nothing further
18 of this witness.

19 MR. CARR: Mr. Catanach, that concludes our
20 presentation with the exception of the fact that I have a
21 notice affidavit that shows that notice of this hearing was
22 provided to Glanel Webb, and I'd like to offer that as our
23 Exhibit Number 5 --

24 EXAMINER CATANACH: Okay, Exhibit Number --

25 MR. CARR: -- and that -- That concludes our

1 presentation.

2 EXAMINER CATANACH: Okay, Exhibit Number 5 will
3 be admitted as evidence.

4 And there being nothing further in this case,
5 Case 11,939 will be taken under advisement.

6 (Thereupon, these proceedings were concluded at
7 9:25 a.m.)

8 * * *

9
10
11 I do hereby certify that the foregoing is
12 a complete record of the proceedings in
13 the Examiner hearing of Case No. 11939,
heard by me on 3/5/98 at 9:25 a.m.

14 David R. Catanch, Examiner
15 Oil Conservation Division
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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 March 7th, 1998.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 14, 1998