

NEW MEXICO OIL CONSERVATION DIVISION

EXAMINER HEARING

SANTA FE, NEW MEXICO

Hearing Date APRIL 16, 1998 Time 8:15 A.M.

NAME	REPRESENTING	LOCATION
Jimmy Roberts	Roberts + Strother, P.C.	Farmington
Tommy [unclear]	Marathon	Midland, TX
Paul Williams	Marathon	Midland, TX
Don Baker	Marathon	Midland, TX
Joan Chapman	Marathon	Midland, TX
ERIC BUTTRIS	DEVON	OKC, OK.
Gary Kump	Devon	OKC, OK.
Danny Hockett	Devon	Artesia
Ken Brown	DEVON	OKC
James Baker		Santa Fe
[unclear]	[unclear]	[unclear]
[unclear]	[unclear]	[unclear]
George Sharpe	Merrion Oil + Gas	Farmington

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 MERRION OIL AND GAS)
CORPORATION FOR COMPULSORY POOLING AND A)
NONSTANDARD GAS WELL LOCATION, SAN JUAN)
COUNTY, NEW MEXICO)

CASE NO. 11,962

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS
EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

April 16th, 1998
Santa Fe, New Mexico

RECEIVED
1998
Oil Conservation Division

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, April 16th, 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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April 16th, 1998
Examiner Hearing
CASE NO. 11,962

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A P P E A R A N C E S

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 Farmington, New Mexico 87499

* * *

1 WHEREUPON, the following proceedings were had at
2 8:25 a.m.:

3
4
5 EXAMINER STOGNER: This hearing will come to
6 order.

7 Please note today's date, April 16th, 1998.

8 This is Docket Number 10-98, and for the record,
9 I'm Michael Stogner, appointed Hearing Examiner for today's
10 cases.

11 At this time I will call Case Number 11,962.

12 MR. CARROLL: Application of Merrion Oil and Gas
13 Corporation for compulsory pooling and a nonstandard gas
14 well location, San Juan County, New Mexico.

15 EXAMINER STOGNER: Call for appearances.

16 MR. ROBERTS: Mr. Examiner, my name is Tommy
17 Roberts.

18 I'm an attorney in Farmington, New Mexico,
19 appearing on behalf of the Applicant, and I have one
20 witness to be sworn.

21 EXAMINER STOGNER: Any other appearances in this
22 matter?

23 Will the witness please stand to be sworn?

24 (Thereupon, the witness was sworn.)

25 EXAMINER STOGNER: Mr. Roberts?

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GEORGE F. SHARPE,

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

DIRECT EXAMINATION

BY MR. ROBERTS:

Q. Will you state your name and place of residence, please?

A. My name is George Sharpe. I live in Farmington, New Mexico.

Q. By whom are you employed?

A. Merrion Oil and Gas.

Q. And in what capacity are you employed?

A. I'm a petroleum engineer, I'm the manager of their acquisition investor group.

Q. How long have you been employed in that capacity by Merrion?

A. For nine years.

Q. And have you previously testified before the Oil Conservation Division?

A. I have.

Q. And in what capacity?

A. As an expert witness.

Q. And were your qualifications as an expert accepted at that time and made a matter of record?

A. They were.

1 Q. Are you familiar with the Application in this
2 case?

3 A. I am.

4 Q. And have you prepared some exhibits to be
5 submitted in conjunction with your testimony?

6 A. I have.

7 MR. ROBERTS: Mr. Examiner, I would tender Mr.
8 Sharpe as an expert petroleum engineer.

9 EXAMINER STOGNER: Mr. Sharp is so qualified.

10 Q. (By Mr. Roberts) Mr. Sharpe, would you briefly
11 state the purpose of this Application?

12 A. The purpose of this Application is to get
13 approval for a nonstandard location and also to request
14 compulsory pooling of noncommitted interests.

15 Q. And what well is involved in this Application?

16 A. The Farmington "C" Com Number 1.

17 Q. Is this an existing well?

18 A. It is an existing well.

19 Q. And what are the operations you propose for this
20 well?

21 A. We are proposing to plug back this well from the
22 Dakota formation and recomplete it into the Pictured Cliffs
23 formation.

24 Q. Mr. Sharpe, would you refer to what you have
25 marked as your Exhibit Number 1 and identify that exhibit?

1 A. Exhibit Number 1 is just a Basinwide map of the
2 San Juan Basin, showing the general location of the
3 Farmington "C" Com 1.

4 Q. Okay. And in general terms tell the Examiner
5 where that well is located.

6 A. In general terms, that well is located in the
7 northwest part of the Basin, in Section 15 of Township 29
8 North, Range 13 West, San Juan County, New Mexico, located
9 in the town of Farmington, New Mexico.

10 Q. Refer to what you've marked as Exhibit Number 2
11 and identify that exhibit.

12 A. Exhibit Number 2 is the well location plat,
13 showing the location of the well, the footages of the well
14 to be 1625 feet from the south line and 1250 feet from the
15 west line. It also shows the offset operators surrounding
16 the well.

17 Q. And does it also show the proposed spacing unit?

18 A. It does show the proposed spacing unit to be the
19 southwest quarter of Section 15.

20 Q. And that spacing unit is designated on this plat
21 with hachmarks?

22 A. Yes, sir.

23 Q. Would you identify the offset operators, please?

24 A. The offset operators are Richardson and Amoco.
25 And there are no wells in Section 16.

1 Q. All right. Is the proposed spacing unit standard
2 for Pictured Cliffs development?

3 A. Yes, it is.

4 Q. And is this a standard well location for Pictured
5 Cliffs development?

6 A. It is standard distances from the outer
7 boundaries, but is a nonstandard distance from the interior
8 boundaries. It is closer than the 130 feet or whatever the
9 offset is from the interior quarter quarter section lines.

10 Q. Okay. Refer to what you've marked as Exhibit
11 Number 3 and identify that exhibit.

12 A. Exhibit Number 3 is a topographic map, showing
13 the location of the well, and again clearly shows that it's
14 virtually in the center of Farmington.

15 Q. Mr. Sharp, would you describe generally the
16 development in the area of this well, the town development
17 in the area of this well?

18 A. This particular well is on the banks of the
19 Animas River and immediately north of -- It's just south of
20 the river and is immediately north of the McCormick School
21 and the surrounding neighborhoods around that school.

22 Q. Okay. Let's have you refer to what you have
23 marked as Exhibit 3B, and would you identify that exhibit?

24 A. Exhibit 3B is a production map showing the
25 Pictured Cliffs production in the general area. The

1 relatively new wells are on there in pencil.

2 The older wells that had *Dwight's* data at the
3 time this map was generated have numbers surrounding them.
4 The number on top is the well number. The first number to
5 the right of the well is the cumulative gas production in
6 MCF. The well -- or the number below, immediately below
7 that, is the current rate in MCF per day.

8 The exhibit shows that we are extending the
9 existing Pictured Cliff production to the north and to the
10 west and shows that there will be a significant risk in
11 attempting Pictured Cliff completions in this well.

12 Q. Are you able to draw any conclusions with respect
13 to production trends in the area of the location of this
14 proposed well?

15 A. We certainly hope that it will be productive, but
16 there's significant risk that it won't be, or it will be
17 marginal, so...

18 Q. Turn to what you've marked as Exhibit Number 4
19 and identify that exhibit.

20 A. Exhibit Number 4 is a list of the mineral owners
21 and uncommitted working interest owners who were sent
22 certified copies of the Application. It has a copy of the
23 notice that was sent to each of those parties that states
24 that they had 20 days to request an appearance or make an
25 objection, and indicated that we had requested this matter

1 be set for hearing on April 16th, this date.

2 Q. Does this list of parties and people also
3 identify the offset operators?

4 A. It does not in this case. It does not, because
5 we are not encroaching on any of the offset operators, so
6 there's no notification requirement of the offsets.

7 Q. How is the ownership of the working interests and
8 operating rights ascertained in this case?

9 A. We had a title opinion done. We had the title
10 opinion done.

11 Q. Okay.

12 A. I'll have you now turn to what you've marked as
13 Exhibit Number 5, and I'll ask you to identify that
14 exhibit.

15 A. Exhibit Number 5 is those remaining from Exhibit
16 4 that have as yet not committed to participate in the
17 well. So it is slightly smaller than Exhibit 4, as we have
18 had a number of people either sell their mineral interests
19 or lease or agree to join in the well.

20 Q. And this exhibit appears to be broken into
21 subcategories, one of them uncommitted mineral interest
22 owners --

23 A. Yes.

24 Q. -- another, uncommitted working interest owners?

25 A. Yes.

1 Q. And would you identify the total amount of net
2 acreage that remains uncommitted to this proposed
3 operation?

4 A. 11.1 net acres of uncommitted mineral interest
5 owners remains noncommitted, and 1.21 net acres for the
6 working interest acres, for a total of 12.3 uncommitted
7 acres.

8 Q. And what is the ownership of Merrion Oil and Gas
9 in the proposed spacing unit?

10 A. Merrion Oil and Gas owns the remainder of the
11 working interest, so we own -- well, what would be 99.4
12 percent of the working interest.

13 Q. Now, I want to have you go back to Exhibit Number
14 4, if you would.

15 A. I misstated that. That's assuming we get leases
16 from these uncommitted mineral interest owners. We
17 actually own 92.5 percent, roughly, of the working
18 interest.

19 Q. Okay. Let me have you go back to Exhibit Number
20 4, the list of the unleased mineral owners and uncommitted
21 working interest owners, and I believe you testified that
22 these are the people and the entities who received notice
23 of the Application in this case?

24 A. Yes.

25 Q. It would appear that there are a couple of

1 identified owners for whom there is no address listed.

2 A. Yes. Thompson -- On page two or three of that
3 exhibit -- actually the label is page two at the bottom,
4 but George Thompson, owner number 42, and owner Number 47,
5 J.F. and Narcissa Cross.

6 Q. And you were unable to locate those individuals?

7 A. We were unable to locate those individuals.

8 Q. Okay. Now, let me have you refer to what's been
9 marked as Exhibit Number 6, and I'll ask you to identify
10 that exhibit.

11 A. Exhibit Number 6 is some documentation from
12 Kenneth Hanks, who was the attorney that did the title
13 opinion on his efforts to locate the people whom we did not
14 have addresses for.

15 We actually had Johnston Land Company -- also the
16 last several pages are his efforts to further try to locate
17 those same individuals. And you will notice that J.F.
18 Cross and Narcissa Cross are noted as the paragraph one on
19 the Ken Hanks letter, and if we go back -- he did not -- he
20 failed to mention anything -- No, he has Thompson, George
21 Thompson and Jackie Thompson listed as paragraph 2.

22 And then on the Johnston Land Company, J.F. Cross
23 and Narcissa Cross are the second of his efforts. The
24 Johnston Land Company checked the tax assessor's records,
25 they checked the vesting deeds and checked local

1 directories and were unable to come up with any address for
2 them.

3 And then the very last page is George L. Thompson
4 and Jackie M. Thompson, and again he checked the same
5 records and was unable to come up with an address.

6 Q. So by way of summary, Exhibit 6 is a statement
7 that has been made by a couple of individuals who were
8 responsible for trying to locate the owners of interests in
9 these wells for whom addresses could not be found?

10 A. That's a leading question, but the answer is yes.

11 Q. Okay. Refer to what you've marked as Exhibit
12 Number 7 and identify that exhibit.

13 A. Exhibit Number 7 is the letter that went out to
14 the unleased mineral owners, and it had several items that
15 were with it.

16 It instructed them that we were planning to
17 recomplete the Farmington "C" Com 1 and that they did have
18 a mineral interest that was uncommitted.

19 It told them that they could sell their mineral
20 interests, and all of them had received a previous offer
21 through the Johnston Land Company.

22 It instructed them that they could lease their
23 mineral interests, and all of them had received a previous
24 lease form from the Johnston Land Company.

25 It instructed them they could join in drilling of

1 the well, and to that end it enclosed a copy of the AFE,
2 which is a later exhibit, and the operating agreement,
3 which is a later exhibit.

4 Or it indicated that if they chose to do none of
5 the above, that Merrion would have the opportunity to force
6 pool them, and it enclosed a copy of the Application with
7 the notification that was previously shown in Exhibit 4.

8 Q. And for the record, what was the date of this
9 letter, that is, Exhibit Number 7?

10 A. This letter was sent out March 13th, 1998.

11 Q. And was it sent certified mail?

12 A. It was sent certified mail.

13 Q. Was a return receipt requested?

14 A. Yes, it was.

15 Q. Turn to what you've marked Exhibit 8 and identify
16 that exhibit.

17 A. Exhibit 8 is a similar letter that was sent out
18 to the working interest owners. It made an offer to buy
19 their interests. It made -- It told them that they could
20 either join in drilling of the well, whereby it sent them
21 an AFE and an operating agreement, or that we could force
22 pool them.

23 And it also sent a copy of the Application, with
24 the notification that was shown in Exhibit 4.

25 Q. Okay. And again, the date of this letter is --

1 A. -- March 13th.

2 Q. And was it sent certified with a return receipt
3 requested?

4 A. Yes, it was.

5 Q. Let me have you refer to what you've marked as
6 Exhibit Number 9, and would you identify what is contained
7 in that exhibit?

8 A. Exhibit Number 9 is a copy of all the return
9 receipt certified notifications that were sent out and
10 those that were returned.

11 Q. And do you have a receipt here for every party
12 who was notified of the Application and who was contacted
13 with respect to joining in this proposed operation?

14 A. We did not get return receipts from a few of
15 those parties, but we have the copy of the receipt that was
16 sent out. We did -- On none of those parties did we get
17 the package back, and I don't really know what happened to
18 the return receipt slip.

19 And on a few of those parties we have actually
20 had subsequent contact, so we know they received the
21 package, but did not get a copy of the green return receipt
22 slip.

23 Q. Okay. Now turn to what you've marked as Exhibit
24 10 and identify that exhibit.

25 A. Exhibit 10 is the AFE to recomplete the well from

1 the Dakota into the Pictured Cliffs.

2 Q. Would you summarize the estimated costs of this
3 operation?

4 A. The cost estimate is \$130,800.

5 Q. What are the dryhole costs?

6 A. There really are no dryhole costs. We'll either
7 do it or we won't.

8 Q. Okay. And this AFE was sent to all uncommitted
9 owners?

10 A. It was. Their interest is shown on page 2 of
11 that AFE, and their portion of the costs is shown on page
12 2, assuming that the uncommitted mineral interests all
13 participated in the well.

14 Q. And in your opinion, are these costs reasonable,
15 given the nature of the operation?

16 A. Yes, they are.

17 Q. And are they consistent with your experience in
18 the drilling and completion of Pictured Cliff gas wells in
19 this area?

20 A. Yes, they are.

21 Q. Now, let me have you refer to what you've marked
22 as Exhibit Number 11 and ask you to identify that exhibit.

23 A. Exhibit Number 11 is a copy of the operating
24 agreement that we're proposing to use on the subject, and I
25 believe in the packet -- I just sent this, but you have a

1 copy of the full operating agreement before you as well.

2 Q. And again, was this the operating agreement that
3 was sent to all uncommitted owners?

4 A. Yes, it was.

5 Q. And what is the contract area for this operating
6 agreement?

7 A. The contract area is Township 29 North, Range 13
8 West, Sections 11, 14, 15 and 12.

9 Q. Okay. And why is that contract area larger than
10 this particular spacing unit?

11 A. We purchased all of these wells and this acreage
12 from Conoco, and this is the operating agreement that
13 covers the existing wells in that area.

14 Q. And is this a standard form operating agreement,
15 commonly used in the oil and gas industry in this area?

16 A. Yes, it is. It is AAPL Form 610-1982.

17 Q. Has it been modified as to any substantive
18 provision?

19 A. No, no substantive changes.

20 Q. And who is it you propose to be designated as the
21 operator of this proposed operation?

22 A. Merrion Oil and Gas Corporation would be the
23 designated operator.

24 Q. Now let me have you refer to Exhibit 12 and ask
25 you to identify that exhibit.

1 A. Exhibit 12 is the Ernst and Young survey of the
2 overhead rates. Is that Ernst and Young?

3 Q. Yes.

4 A. Thanks. A survey of overhead rates for the Rocky
5 Mountains and northern great plains. It shows that gas
6 well rates, depths of zero to 5000 feet -- I have circled
7 those particular rates.

8 Q. And do you propose the assessment of supervisory
9 charges during the during the drilling and producing stages
10 of this particular operation?

11 A. Yes, we do. We're proposing --

12 Q. And what are those rates?

13 A. We're proposing drilling overhead rates of
14 \$3871.88 and we are proposing monthly operating producing
15 well rates of \$371.67.

16 EXAMINER STOGNER: Do you want to repeat both of
17 those again, please?

18 THE WITNESS: \$3871.88 is the drilling overhead
19 rate, and \$371.67 is the producing overhead rate.

20 Q. (By Mr. Roberts) Those proposed rates appear to
21 be higher than the average of the rates that were reported
22 in the Ernst and Young survey. What's the basis for your
23 proposal?

24 A. They are higher than the average. I would
25 suggest that they are probably within the range -- This

1 survey does not show the range of overhead rates.

2 They are only slightly higher, but they are in an
3 area where there is significantly more effort required to
4 operate the wells, both in getting the well drilled through
5 the permit process and through the -- well, this hearing is
6 an example of part of the costs of being in the middle of
7 town and having numerous interest owners in the well.

8 As far as operations, again, the accounting
9 procedure handling Division orders when people sell or
10 people die is an extreme burden on operating with -- And
11 keep in mind that it's not just these 15 or 20 people who
12 are noncommitted. We have many hundreds of leases under
13 this well that we are having to administrate as well.

14 Q. In your opinion, are these proposed rates
15 reasonable and customary, given the nature and the location
16 of the location -- location of the operation?

17 A. Yes, they are, and they're indicated customary
18 because they, again, are the current rates on our existing
19 wells.

20 They have the -- they have -- They're kind of an
21 odd number, \$371.67, because they are modeled after similar
22 wells that started out at \$350 and have been inflated to
23 that number, and we're just trying to be consistent with
24 other existing operating agreements on similar wells.

25 Q. Mr. Sharpe, let's return to the aspect of this

1 Application that requests approval for a nonstandard gas
2 well location. I take it that the basis for that request
3 is that you're entering an existing wellbore, going to plug
4 back and recomplete --

5 A. Yes.

6 Q. -- uphold. Is that the basis for your request?

7 A. That is the basis for the request that we're
8 recompleting an existing well, and the drilling of a new
9 well at a standard location would be not only economically
10 unfeasible but politically difficult in the middle of town
11 as well.

12 Q. Do you propose that a risk factor be charged
13 against any interest owner who does not voluntarily join in
14 the operations?

15 A. Yes, we do.

16 Q. And at what rate?

17 A. We're proposing a rate of 200 percent.

18 Q. And how do you support that proposal?

19 A. Again, we support that by the fact that this is
20 by no means a sure shot. We are significantly extending an
21 existing trend, but we do not have production on all sides,
22 and there's significant risk in the operations.

23 Q. In your opinion, have the notice requirements of
24 the Oil Conservation Division for this kind of application
25 been satisfied?

1 interest?

2 A. All of the uncommitted working interest owners,
3 that was the first notification. The mineral owners had
4 all received a lease and/or a request to purchase prior to
5 this.

6 Q. Okay. Do you have any document on that, whenever
7 they were first notified?

8 A. I do not, but some of them were as early as one
9 week prior. We were -- The title opinion itself took in
10 excess of five months, and you don't want to know how much
11 it cost.

12 And as we identified people who were uncommitted,
13 we made offers at that time, but the last few, when we
14 finally pulled it all together, were made offers just
15 within a week of the March 13th letter.

16 Q. Okay. Let me make sure I get this straight. A
17 week prior to March 17th, the uncommitted mineral interest
18 owners had gotten their first notification of --

19 A. That's correct.

20 Q. -- this recompletion uphole of this particular
21 well, into a different formation?

22 A. They -- No, what they received notification of at
23 that time was that their interests were uncommitted and
24 that we would -- or that their interests were unleased that
25 and we wanted to either lease them or purchase them. That

1 was their notification. They did not receive notification
2 of the fact that we were recompleting the well until the
3 March 13th letter.

4 These were interests -- The uncommitted mineral
5 interest owners were force pooled as to the Dakota
6 formation back in 1963 when the Farmington "C" Com 1 was
7 drilled to the Dakota.

8 So they were prior force pooled, and -- but are
9 still yet uncommitted as to the Pictured Cliff formation.

10 Q. Okay. Now, the uncommitted working interest
11 owners, this was their first notification?

12 A. Yes, it was.

13 Q. And that went out with the notification of force
14 pooling?

15 A. That did.

16 Q. So Merrion did not even try in this instance to
17 try to work out any kind of an agreement with them?

18 A. Well, Mr. Examiner, our approach on this was to
19 not try to hardball them in any manner but just to try to
20 expedite the process.

21 We actually purchased these opportunities in
22 January of 1997, and through many months of title work and
23 permitting -- You know, we knew we were going to have to
24 force pool somebody, and we wanted to get the ball rolling.

25 Q. What do you mean, "hardball"?

1 A. Well, I guess we weren't in any way trying to cut
2 short our attempts to negotiate and, in fact, have
3 continued to try to negotiate, and will continue to try to
4 negotiate with these up into the order and through the 30
5 days after the order that they have to make a decision.

6 And we weren't trying to circumvent any
7 negotiation process; we were just trying to expedite the
8 entire process. We knew that there were going to be
9 noncommitted interests when this thing is all said and
10 done, and so we knew we were going to be here.

11 The other thing to keep in mind is that every
12 mailing to these huge lists is very expensive, and so
13 again, as opposed to sending out, you know, the first offer
14 and sending out the second offer and, you know, the effort
15 to try to negotiate with this many people over a
16 significant series of correspondence would be quite
17 expensive and quite burdensome again. We were trying to be
18 prudent, efficient operators.

19 Q. Okay, let's refer to Exhibit Number 10, and I
20 want to make sure that -- I'm looking at my figures -- when
21 you look at the column to the far right, this is the
22 interest. You have working interest and the net royalty
23 interest. I'm assuming that's what NRI stands for?

24 A. Yes.

25 Q. Okay.

1 A. Or revenue -- net revenue interest.

2 Q. Net revenue.

3 A. It could be overrides as well.

4 Q. Okay. Now, on the uncommitted mineral interest
5 owners, what is being force-pooled?

6 A. The -- All the uncommitted mineral interest
7 owners there, they're 100-percent working interests and
8 100-percent net revenue -- well, actually, no, they would
9 retain -- I'm assuming they would still retain their 12 1/2
10 percent royalty payments through the -- after force
11 pooling, through the payout term, through the penalty term.
12 But we would force poll 100 percent of their working
13 interests, and 87 1/2 percent of their net revenue interest
14 would be force pooled.

15 If they participate in the well -- What is shown
16 in the exhibit, if they participate in the well, they would
17 have a -- Hmm. As I look at this spreadsheet, it appears
18 that it -- there is some error in the net revenue interests
19 shown. It does, it does. And I can't explain that at this
20 point. I'd have to --

21 Q. That's okay --

22 A. -- look and see --

23 Q. -- I'll probably give you some time, either 30 or
24 60 days, to explain that to me --

25 A. Okay.

1 Q. -- because I know Merrion wants to be prudent and
2 efficient and not hardball anybody --

3 A. We do --

4 Q. -- and it looks like -- it appears that way
5 whenever you send a threat to force pool somebody at the
6 same time you first contact them. I could sure even
7 understand that.

8 Let's see, let's go into --

9 A. We --

10 Q. -- Exhibit Number 7.

11 A. Okay.

12 Q. Now, this is what? Notification to just the
13 mineral interest owners; is that correct?

14 A. Exhibit 7 is the letter that went out to the
15 mineral interest owners, yes, sir.

16 Q. Okay. On paragraph number 3 or subpart 3, what
17 do you mean, the drilling of this well? Now, wasn't this
18 well already drilled?

19 A. It should have been "recompletion". That was
20 a --

21 Q. Okay.

22 A. -- misprint.

23 Q. Merrion knew that this well was -- I essentially
24 assume -- Well, let me go back a little bit.

25 When was this well drilled, and who drilled it?

1 A. It was drilled in the early 1960s by the Redfern
2 and Herd Group, who are still on a -- You know, I say that.
3 I can't -- They were the ones who originally got the
4 leases, and they are the ones that retained the working
5 interest owner, but I believe they farmed it out to
6 somebody to drill, and I don't know who drilled it.

7 Q. Okay, when did Merrion obtain this well?

8 A. Merrion obtained the well in January of 1997 from
9 an acquisition from Conoco, who got it from Mesa, who got
10 it from, I believe, whoever drilled it.

11 Q. And was this a package deal, or was this one
12 of --

13 A. It was a package deal of six existing wells.

14 Q. Okay. Are all six wells located in the City of
15 Farmington?

16 A. One well is outside the city limits but adjacent
17 to the city.

18 Q. Okay, so the other five are in the city limits?

19 A. Yes.

20 Q. So Merrion was aware and privy to perhaps its
21 additional costs it would incur by taking a well within the
22 city limits?

23 A. Yes, we were.

24 Q. Okay. So this really came as no surprise?

25 A. No.

1 Q. And it knew that if it did something like this,
2 it would have to notify those parties?

3 A. Yes, we did.

4 Q. And they took into account, I'm assuming, that
5 when they took this property over that that would be an
6 additional cost that they would have to incur, that taking
7 over these wells -- that otherwise if that was too
8 expensive for them, they wouldn't have got the wells, I
9 would assume.

10 A. That is accurate.

11 Q. Okay.

12 A. That doesn't mean we don't want to minimize those
13 costs.

14 Q. Okay, I want to refer now to Exhibit Number 5,
15 the City of Farmington. Is this land by way of a
16 park --

17 A. Do you mean --

18 Q. -- highways or --

19 A. Exhibit 5 is the list of uncommitted owners. Is
20 that the one you're looking at?

21 Q. Yes.

22 A. Okay.

23 Q. And I show that they have a net acreage of 1.48
24 acres in this area.

25 A. Oh, yes. That's the roads, mainly.

1 Q. Okay.

2 A. And actually, we have discussions ongoing with
3 the City of Farmington. They are likely to lease.

4 Q. Okay.

5 A. Those were roads that -- They had leased most of
6 their other acreage, and those were roads that they had
7 acquired or taken over after the fact and got the mineral
8 interests with them that were uncommitted mineral
9 interests.

10 EXAMINATION

11 BY MR. CARROLL:

12 Q. Mr. Sharpe, have you received responses from
13 anybody, any of the interest owners?

14 A. Yes. Well, the difference, again, there's quite
15 a few more on Exhibit 4 than are on Exhibit 5. All of
16 those have leased or sold to us.

17 In addition, on this particular list we have
18 recently received a signed lease from Mary Newlon, who is
19 about halfway down the first page of Exhibit 5; and the
20 Herd partners, who is one of the working interests on the
21 last page, has agreed to participate.

22 We have had conversations and -- numerous
23 conversations explaining the situation with most of the
24 other parties.

25 Q. And it's my understanding Exhibit 4 was sent out

1 with Exhibit 7?

2 A. Exhibit 4 was sent out with Exhibit 7.

3 Q. And that was sent out by certified mail?

4 A. Yes.

5 MR. CARROLL: And Mr. Roberts, I don't see an
6 affidavit of notice. Have you provided one?

7 MR. ROBERTS: No, I haven't.

8 MR. CARROLL: Okay, if you'll refer to our --

9 MR. ROBERTS: I understood that that kind of
10 information could be submitted by testimony. But we're
11 happy to submit an affidavit. It's no problem to create an
12 affidavit and submit it to you.

13 MR. CARROLL: The witness is okay.

14 Q. (By Mr. Carroll) Mr. Sharpe, if you'll refer
15 to --

16 A. Thanks, by the way.

17 Q. Thanks for -- ?

18 A. Saying I'm okay.

19 Q. Exhibit Number 6, did Kenneth Hanks prepare the
20 title opinion?

21 A. Kenneth Hanks prepared the title opinion. Rob
22 Johnston of Johnston Land Company is the landman that we
23 used subsequent to the title opinion to try to acquire the
24 leases. He sent out the offers, he tried to find addresses
25 that Mr. Hanks had not been able to find, and he was the

1 one who created the lease and sent it out with an offer to
2 either buy them out or have them lease.

3 Q. Where is Johnston Land Company located? Is that
4 in Chickasha, Oklahoma, too?

5 A. He's in Durango, Colorado.

6 Q. I was just curious. Why do you go to a lawyer in
7 Chickasha, Oklahoma?

8 A. Mr. Hanks was hungry, and he had done a recent
9 title opinion for Hallwood Petroleum in Section 14, was
10 familiar with many of the owners and the leases in the
11 area, and he was willing to come in and live in Farmington
12 for five months and get it done.

13 MR. CARROLL: Okay. That's all I have.

14 Q. (By Mr. Carroll) Oh, and who are the mineral
15 interest owners in Section 16?

16 A. I don't know. We have not done a title opinion
17 on Section 16.

18 Q. There are numerous owners there too? That's in
19 the city?

20 A. You're -- Yes, you're in the middle of town, and
21 it's a chopped-up mess. You're thinking it will be next.

22 FURTHER EXAMINATION

23 BY EXAMINER STOGNER:

24 Q. Do you have any reason to doubt that that would
25 not be state acreage?

1 A. I don't know. That was -- I mean, you're right
2 in the middle of Farmington, and so if -- I don't know when
3 the State was deeded their Section 16, Section 32 stuff,
4 but I would assume it's fee.

5 EXAMINER STOGNER: Mr. Roberts, often in these
6 cases, such as this, where inadequate time has been given
7 for all parties to reach some sort of voluntary agreement,
8 I've continued this matter, and it wouldn't be fair for
9 those other parties for me to not do that to this one.

10 I'm going to continue this matter for a period of
11 -- and I don't have a calendar in front of me -- for a
12 period of 60 days, essentially, and that would be to the
13 first hearing in June.

14 THE WITNESS: Mr. Stogner, I guess if I can
15 request that you consider perhaps a 30-day continuance for
16 the fact that they have had 30 days, that will be an
17 additional 30 days. It will take you, then, a couple of
18 weeks to write the order, and they'll have another 30 days
19 after the writing of the order to make a final decision.
20 And I would say that that sum total is -- would plead with
21 you that that would be adequate time.

22 EXAMINER STOGNER: That would be May 14th? Is
23 that what you're requesting?

24 THE WITNESS: That would be my request.

25 And I would further request, Mr. Examiner, that

1 you consider making a ruling on the nonstandard location
2 separate from the compulsory-pooling issue.

3 EXAMINER STOGNER: Well, your pleading does not
4 fall on deaf ears. I will continue this matter to May
5 14th.

6 However, I would like you to submit a breakdown
7 of what interest for these uncommitted mineral interests
8 that is being force pooled, what portion of it is royalty
9 and what portion of it is working, and --

10 THE WITNESS: I believe that Exhibit 5 would show
11 that, Mr. Stogner.

12 The -- That is their net acreage ownership, and
13 the working and nets are the same, assuming they join in
14 the well.

15 If they retain an override, they'd have -- or if
16 they retained a royalty interest, it would be roughly 12
17 1/2 percent of that interest shown.

18 But if they own the minerals -- And so if they
19 participate in the drilling of a well, they own -- they're
20 paying 100 percent of their proportionate share of the cost
21 and they get 100 percent of their proportionate share of
22 the interest.

23 So Exhibit 5, I believe, accurately reflects, to
24 the best of our ability, what they own in the proration
25 unit.

1 Q. (By Examiner Stogner) What part would be subject
2 to the force pooling? That's what I haven't heard from you
3 yet.

4 A. Well, I guess I don't -- Mr. Roberts, maybe you
5 can answer that.

6 MR. ROBERTS: I don't -- I'm not sure what you're
7 getting at.

8 EXAMINER STOGNER: Okay --

9 MR. ROBERTS: The orders always certainly
10 indicate with respect to unleased mineral interest owners
11 that that interest will be treated as 7/8 working interest
12 and 1/8 royalty interest.

13 So the answer to your question may simply be that
14 of these acreage positions shown, 7/8 of that interest will
15 be treated as a working interest and 1/8 as a royalty
16 interest.

17 And I think that's the intent of Merrion here.

18 THE WITNESS: That is the intent, yes.

19 Q. (By Examiner Stogner) And with the royalty
20 interest, that wouldn't be subject at all to any of the
21 force pooling provisions?

22 A. Correct.

23 MR. ROBERTS: And we would assume that that's a
24 part of every order regarding force pooling that comes out
25 of the Division.

1 EXAMINER STOGNER: Okay.

2 THE WITNESS: That is correct.

3 EXAMINER STOGNER: That's what I was getting
4 at --

5 THE WITNESS: Okay.

6 EXAMINER STOGNER: -- and that's what was --

7 THE WITNESS: Okay.

8 EXAMINER STOGNER: I didn't hear the 7/8 and 1/8.

9 THE WITNESS: Okay, I didn't know the right way
10 to say it. But that is our intent.

11 EXAMINER STOGNER: Okay. Now, as far as your
12 request for the unorthodox location, this is an internal
13 offset, and you're right, there is no notification, and
14 that has essentially been put in there for recompletion
15 uphole when there's oil involved, and -- but you're
16 definitely not hurting anybody, nor offsetting anybody nor
17 affecting anybody.

18 You can take this as a verbal to go ahead.

19 THE WITNESS: Okay.

20 EXAMINER STOGNER: If you'd like, I can issue an
21 administrative order to that effect, but to save your time
22 and me some time --

23 THE WITNESS: That -- that -- okay.

24 EXAMINER STOGNER: -- I'd prefer just to put it
25 in this --

1 THE WITNESS: That will be fine.

2 EXAMINER STOGNER: -- order whenever it does come
3 out.

4 With that, I'll continue this matter to May 14th.
5 If you and Mr. Roberts would keep us posted by any --

6 THE WITNESS: Any further --

7 EXAMINER STOGNER: -- any agreement --

8 THE WITNESS: Okay.

9 EXAMINER STOGNER: -- so these parties can start
10 being chipped off or away, and this matter will be called
11 on May 14th.

12 Mr. Roberts, I don't think it will be necessary
13 to have anybody up here at that time. We can call it, and
14 if there's no appearances we can take it under advisement
15 at that time.

16 MR. ROBERTS: And we'll stay in touch with you
17 and keep you informed of what developments there are. By
18 that time we ought to be sure whether there will be anybody
19 who would be objecting to any part of the proposed force
20 pooling order.

21 THE WITNESS: We will also send you a revision of
22 Exhibit 5 showing the uncommitted interests at that point.

23 EXAMINER STOGNER: Okay. And that would be
24 around May 14th, I would assume.

25 THE WITNESS: Yes.

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EXAMINER STOGNER: Anything else, Mr. Carroll?

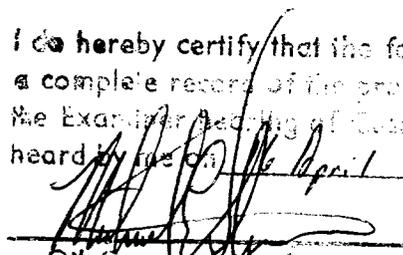
MR. CARROLL: No.

EXAMINER STOGNER: Does anybody else have anything further in this particular case?

Then this case will be continued to May 14th, at which time it will be called.

(Thereupon, these proceedings were concluded at 9:12 a.m.)

* * *

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 11962, heard by me on the April 19 1998.

_____, Examiner
Off Conservation Division

