

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. 12,094

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

December 3rd, 1998

Santa Fe, New Mexico

OIL CONSERVATION DIV
98 DEC 16 AM 8:12

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, December 3rd, 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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December 3rd, 1998
Examiner Hearing
CASE NO. 12,094

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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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 P.O. Box 2208
 Santa Fe, New Mexico 87504-2208
 By: WILLIAM F. CARR

* * *

1 WHEREUPON, the following proceedings were had at
2 8:46 a.m.:

3 EXAMINER STOGNER: At this time we'll call Case
4 Number 12,094.

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

7 EXAMINER STOGNER: Call for appearances.

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

12 EXAMINER STOGNER: Any other appearances?

13 At this time will the witnesses please stand to
14 be sworn?

15 (Thereupon, the witnesses were sworn.)

16 EXAMINER STOGNER: Mr. Carr, I understand that
17 there was an advertisement problem and it didn't get into
18 the paper for one reason or another?

19 MR. CARR: That's correct. And as the testimony
20 will show, we have a rig ready to drill the well, I think,
21 on the 14th of December. The interests that are being
22 pooled are small interests. It's in an area that has been
23 divided into a number of town lots.

24 There is no one out there, we think, that will be
25 objecting to the well or writing it down, any of those

1 things, and so we elected to go forward with the
2 Application today, understanding that it will have to be
3 continued and readvertised at the end of the hearing to the
4 December 7th Examiner Hearing.

5 EXAMINER STOGNER: That is correct. So this
6 case, we'll go ahead and hear it today, but it will be
7 continued and readvertised --

8 MR. CARR: Yes, sir.

9 EXAMINER STOGNER: -- and I don't suspect it will
10 be necessary to have any other witnesses at that time. But
11 we will call it on January 7th and...

12 MR. CARR: Yes, sir, thank you.

13 EXAMINER STOGNER: Okay, Mr. Carr?

14 MR. CARR: At this time we call Debbie Jeffers.

15 DEBBI JEFFERS,

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

18 DIRECT EXAMINATION

19 BY MR. CARR:

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

21 A. Debbi Jeffers.

22 Q. Where do you reside?

23 A. Roswell, New Mexico.

24 Q. By whom are you employed?

25 A. Manzano Oil.

1 Q. And what is your position with Manzano Oil?

2 A. Landman.

3 Q. Ms. Jeffers, have you previously testified before
4 this Division?

5 A. I have.

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

9 A. Yes.

10 Q. Are you familiar with the Application filed in
11 this case?

12 A. Yes.

13 Q. And are you familiar with the subject area?

14 A. Yes.

15 MR. CARR: Are the witness's qualifications
16 acceptable?

17 EXAMINER STOGNER: They are.

18 Q. (By Mr. Carr) Would you briefly summarize for
19 Mr. Stogner what it is that Manzano Oil Corporation seeks
20 in this case?

21 A. Compulsory pooling from the surface to the base
22 of the Strawn formation underlying Lot 15, Section 3,
23 Township 16 South, 36 East, for all formations developed on
24 40-acre spacing. This is to be dedicated to the Quarry
25 Number 1 well, which will be drilled at a standard location

1 of 3526 feet from the south line and 2095 feet from the
2 east line.

3 Q. Have you prepared exhibits for presentation here
4 today?

5 A. Yes, I have.

6 Q. Would you refer to what has been marked for
7 identification as Manzano Oil Corporation Exhibit Number 1?

8 A. It is a land plat that shows the proration unit
9 being Lot 15 of Section 3, 16 South, 36 East, and the red
10 dot will -- is the mark where the Quarry Number 1 well will
11 be drilled.

12 Q. And on this first page, the spacing unit is
13 shaded in yellow?

14 A. Yes.

15 Q. And it is located within the City of Lovington?

16 A. Yes, it is.

17 Q. What is the second page of this exhibit?

18 A. That just shows Lot 15, and it also shows, then,
19 that this is a subdivision called the Morningside
20 subdivision -- part of it is, anyway -- and its lots and
21 blocks within the City of Lovington.

22 Q. What is the status of the acreage in Lot 15?

23 A. It is fee lease, fee lands.

24 Q. And the primary objective in the well is the
25 Strawn formation?

1 A. Yes.

2 Q. Let's go to Exhibit Number 2. Will you identify
3 and review that?

4 A. Yes, this is the breakdown of the mineral
5 ownership, and the summary sheet shows that we have 97.433
6 percent leased, and it just goes on to show the breakdown
7 of the leases, those that we feel are still pending and
8 then those that are still just unleased.

9 And some of the people are unlocatable at this
10 time.

11 Q. When we go to the second page of Exhibit 2, a
12 number of these properties, it shows, have been leased to
13 Middle Bay Oil Company. What is the relationship between
14 Manzano and Middle Bay?

15 A. Manzano has an assignment from Middle Bay Oil
16 Company for these leases.

17 Q. And have you also acquired those leases that are
18 shown as being held by James R. Leeton?

19 A. Yes, we have.

20 Q. Would you just summarize for Mr. Stogner the
21 efforts that you have made to locate the individuals that
22 are subject to the compulsory pooling?

23 A. Okay, we have had a drilling title opinion done,
24 and then also the county records, probate records, any kind
25 of tax and lien records, phone directories, friends and

1 relatives. We've used all of these.

2 Q. You have, using this process, been able to locate
3 a number of the interest owners in the property?

4 A. Yes, we have.

5 Q. When we look at the second page of Exhibit Number
6 1 -- that's the plat of Lot 15 -- we have a number of town
7 lots. We also have several streets. Are those streets
8 also included in the leases held by the individuals who
9 purchased a lot?

10 A. Yes, they are. Streets and alleys are included.

11 Q. Generally summarize the efforts you've made to
12 obtain voluntary joinder.

13 A. Our efforts started back in February of 1998, and
14 we have sent out lease offers, we have spoken with people
15 on the phone, and then we have also sent out letters asking
16 them to lease or to participate in our well. And these
17 have been followed up with telephone calls.

18 Q. And when you have on your Exhibit Number 2 a
19 number of individuals that -- and you indicate they're
20 unleased (pending) --

21 A. Yes.

22 Q. -- those are people with whom you still are
23 talking and are hopeful that you'll acquire --

24 A. Yes.

25 Q. -- their voluntary joinder?

1 A. They have leases in their hands and have been
2 told that -- we have been told that we will get those
3 leases back.

4 Q. Let's go to Exhibit Number 3. Would you identify
5 that, please?

6 A. Yes, this is our AFE for the Quarry Number 1
7 well, and it shows that there's a dryhole cost of \$499,900,
8 with a completed cost of \$761,500.

9 Q. Are these costs in line with what other operators
10 charge for similar wells in the area?

11 A. Yes, they are.

12 Q. Is Exhibit Number 4 copies of Manzano
13 correspondence which reflect your efforts to obtain the
14 voluntary joinder of those interest owners who may be
15 subject to pooling?

16 A. Yes, they are.

17 Q. Is Exhibit 5 an affidavit confirming that notice
18 of today's hearing has been provided in accordance with Oil
19 Conservation Division rules and regulations?

20 A. Yes.

21 Q. Have you made an estimate of the overhead and
22 administrative costs to be incurred while drilling the well
23 and also while producing it, if it is successful?

24 A. Yes, drilling rate costs of \$5500 and then an
25 administrative fee of \$550 a month.

1 Q. And are those figures from the Ernst & Young
2 survey?

3 A. Yes.

4 Q. Do you recommend that these figures be
5 incorporated into the order that results from today's
6 hearing?

7 A. Yes.

8 Q. Does Manzano seek to be designated operator of
9 the subject well?

10 A. Yes.

11 Q. And how soon is it that you propose to actually
12 spud the well?

13 A. December 14th, 1998.

14 Q. Will Manzano call a geological witness to review
15 the risk associated with the development of this acreage?

16 A. Yes.

17 Q. Were Exhibits 1 through 5 prepared by you?

18 A. Yes.

19 MR. CARR: At this time, Mr. Stogner, we would
20 move the admission into evidence of Manzano Oil Corporation
21 Exhibits 1 through 5.

22 EXAMINER STOGNER: Exhibits 1 through 5 will be
23 admitted into evidence.

24 MR. CARR: And that concludes my direct
25 examination of Ms. Jeffers.

EXAMINATION

BY EXAMINER STOGNER:

Q. Has Manzano participated -- or, I'm sorry, let me rephrase that -- drilled other wells, oh, within what, about a two-mile radius of Lovington in the past year?

A. Yes, we have.

Q. How many?

A. We have drilled, I believe, five.

Q. Five, within this area out there? Of similar depth?

A. Yes.

Q. And similar cost?

A. Yes.

Q. If I look on the second page of your Exhibit Number 1 -- that's that blown-up plat --

A. Yes.

Q. -- where would the location of this well be?

A. It will be -- I believe it's in the area that says Russell Trammell.

Q. Okay, so it's going to be up there in that large -- I assume that's a vacant lot?

A. Yes.

Q. Okay. So it's not going to be in the middle of the quarter-quarter section, is it?

A. I'm not positive of that.

1 Q. Okay, when did you say the first written
2 correspondence to these parties occurred?

3 A. Back in February of 1998.

4 Q. Okay. Was that not provided or --

5 A. Those letters were not provided. Those -- The
6 initial letters were initiated by another landman, and his
7 efforts started back then. And also, a lot of our effort,
8 of course, started with our assignment from Middle Bay,
9 where they had a lot of this acreage leased already, and we
10 bought an assignment from them.

11 Q. Are those first letters -- are they still
12 available to you and Manzano?

13 A. I'm sure some of them are, yes.

14 MR. CARR: Mr. Stogner, would you like us to
15 provide you with copies that at least reflect that the
16 written negotiations did commence in February of this year?

17 EXAMINER STOGNER: Mr. Carr, you read my mind.
18 Yes, if you would, please.

19 MR. CARR: We'll do that.

20 EXAMINER STOGNER: This being a fee acreage and
21 November 10th, here it is less than 30 days, and I think it
22 would make the record more complete in this instance, and I
23 would certainly appreciate it. So we'll leave the record
24 open for the --

25 MR. CARR: If we have the four weeks before the

1 case will be taken under advisement, we can certainly bring
2 those to you.

3 EXAMINER STOGNER: Somewhere between now and
4 then, that will work.

5 Q. (By Examiner Stogner) The overhead charges
6 you're requesting was \$5500 and \$550?

7 A. Yes, sir.

8 Q. And was that what has been assigned on the
9 previous orders or --

10 A. Yes.

11 Q. -- what have been agreed upon in the wells in the
12 other --

13 A. Yes.

14 EXAMINER STOGNER: Okay, I don't have any other
15 questions of Ms. Jeffers. She may be excused.

16 MR. CARR: At this time, Mr. Stogner, we'd call
17 Mike Brown.

18 CHARLES MICHAEL BROWN,
19 the witness herein, after having been first duly sworn upon
20 his oath, was examined and testified as follows:

21 DIRECT EXAMINATION

22 BY MR. CARR:

23 Q. Will you state your name for the record?

24 A. Charles Michael Brown.

25 Q. Where do you reside?

1 A. Roswell, New Mexico.

2 Q. By whom are you employed?

3 A. Manzano Oil Corporation.

4 Q. And what is your position with Manzano Oil
5 Corporation?

6 A. Geologist.

7 Q. Mr. Brown, have you previously testified before
8 this Division?

9 A. I have.

10 Q. At the time of that testimony, were your
11 credentials as an expert in petroleum geology accepted and
12 made a matter of record?

13 A. They were.

14 Q. Are you familiar with the Application filed in
15 this case?

16 A. I am.

17 Q. Have you made a geological study of the subject
18 area?

19 A. Yes, I have.

20 Q. Is it -- The proposal is, in fact, generated
21 based on your geological study of the area; is that not
22 correct?

23 A. Yes, it is.

24 MR. CARR: Are the witness's qualifications
25 acceptable?

1 EXAMINER STOGNER: They are.

2 Q. (By Mr. Carr) Mr. Brown, has Manzano drilled
3 other Strawn wells in the immediate area?

4 A. Yes, we've drilled seven wells that have
5 penetrated the Strawn to the east and southeast of the
6 quarry location. These wells are located in Sections 2, 11
7 and 12.

8 Of the seven wells, we have had three Strawn
9 producers and four Strawn dry holes. So our success rate
10 is slightly less than 50 percent. These wells are very
11 high-risk but also very high-return wells.

12 Q. Let's go to what's been marked for identification
13 as Manzano Exhibit Number 6, the structure map. Would you
14 identify this and then review the information on the
15 exhibit for Mr. Stogner?

16 A. Yes, this is a map generated from our 3-D seismic
17 survey. It's a Tubb-Strawn isochron map which approximates
18 the structure on top of the Strawn.

19 I've shown the well location with the red arrow
20 that's on the left side of the exhibit. We're going to be
21 drilling on the edge of a shelf. This shelf drops rapidly
22 as you move to the north. In fact, this whole area will be
23 low to the previous wells that we've drilled to the south
24 and the east, so we're going to have a greater than usual
25 chance of encountering water-bearing Strawn mounds.

1 Q. Let's go to Exhibit Number 7, your seismic line.

2 A. This is a wiggle-trace section that runs east to
3 west through the Quarry Number 1. I've noted the Strawn
4 peak on the left side of your exhibit, about two-thirds of
5 the way down. In this area where you have a single Strawn
6 peak, we have shown through other testimony and other wells
7 that these -- this indicates that the Strawn will be thin
8 and tight.

9 When you move into an area where the peak begins
10 to bifurcate into a peak-trough-peak, we have shown that
11 that's a -- you'll have a greater than usual chance of
12 encountering Strawn mounds. In this area I've noted our
13 prospective seismic character in yellow. The Quarry Number
14 1 location is noted with a blue line. And in this location
15 we see a distinct trough-peak-trough, and a fairly large
16 area where that character is a little less defined.

17 We believe we have a good chance of finding a
18 mound that will have sufficient porosity and perm, however
19 our past drillings indicate that we can have thickened
20 sections, but the porosity and perm might be sufficient to
21 produce. So it's, again, our chance of success, around 50
22 percent.

23 Q. Are you prepared to make a recommendation to Mr.
24 Stogner concerning the risk that should be assessed against
25 the nonparticipating interest owners?

1 A. Yes, I am. We're recommending a 200-percent risk
2 penalty.

3 Q. And just summarize the basis for that
4 recommendation.

5 A. The Strawn is, as I've said before, it's a high-
6 risk, high-return venture. Our past experience indicates
7 our probability of drilling a dry hole will be somewhere in
8 the vicinity of 50 to 70 percent.

9 Q. In your opinion, will the approval of this
10 Application and the drilling of the proposed well be in the
11 best interest of conservation, the prevention of waste and
12 the protection of correlative rights?

13 A. Yes, I do.

14 Q. Were Exhibits 6 and 7 prepared by you?

15 A. They were.

16 MR. CARR: At this time, Mr. Stogner, I would
17 move the admission into evidence of Manzano Oil Corporation
18 Exhibits 6 and 7.

19 EXAMINER STOGNER: Exhibits 6 and 7 will be
20 admitted into evidence at this time.

21 MR. CARR: And that concludes my examination of
22 Mr. Brown.

23 EXAMINATION

24 BY EXAMINER STOGNER:

25 Q. What is the closest Strawn production for this

1 well?

2 A. It's in Section 11, just due south.

3 Q. Just due south.

4 A. We also have production in Section 12. It's in
5 the Chipshot Number 1. It's not currently producing. It's
6 behind-pipe pay that was tested productive but is not being
7 produced currently.

8 Q. And you said Section -- What was the other
9 section?

10 A. Twelve.

11 Q. Number -- Okay, Section 12. So that would be
12 further over there to the east?

13 A. Right. And in Section 4, Chesapeake has a well
14 that's right in the middle of town.

15 Q. Now, is that a Strawn-producing well?

16 A. That is.

17 Q. Okay, do you know what pool that's designated to?

18 A. I do not.

19 Q. Do you know what acreage is dedicated to it?

20 A. It's a laydown 80-acre, I believe.

21 Q. Okay, now, where in Section 4 is it?

22 A. West half.

23 Q. The west half of 4. That Section 4 being a mile
24 and a half --

25 A. Right.

1 Q. -- long. Is it going to be up toward the -- Help
2 me spot it here, if you know where it's at.

3 A. Let's see if I can --

4 A. Was it the one that was directionally drilled out
5 of Section 5?

6 A. Actually, looking on the map, it looks like it
7 may have ended up in Section 5.

8 Q. Okay. So as far as you know, this would be
9 considered a wildcat Strawn well --

10 A. Right.

11 Q. -- and not within a mile?

12 A. Right, we had originally proposed it to be in the
13 Southeast Lovington-Penn but were informed by the
14 Commission that we were greater than one mile --

15 Q. Okay.

16 A. -- from that -- any boundary, so that it would
17 have to be designated as a wildcat.

18 Q. Is there any upper potential besides the Strawn?

19 A. I don't really believe there is. There's some
20 Wolfcamp wells in the area, but we should be too far
21 shelfward to encounter porosity, but...

22 Q. Now, the proposed depth for this well is what
23 depth?

24 A. We're proposing it for 11,800, or approximately
25 100 feet below the base of the Strawn.

1 Q. That would take you into the top of the Atoka?

2 A. Just the top of the Atoka so that we can then see
3 the base of the Strawn on wireline logs.

4 Q. So there's no plan to test down to the deeper
5 gas-bearing intervals or --

6 A. No, we'll --

7 Q. -- traditional gas-bearing intervals?

8 A. Right, we'll be a few hundred feet above any
9 potential Atoka.

10 Q. Right, even with the hundred foot tying in, into
11 the Atoka?

12 A. It's just shale there at the upper part.

13 Q. Do you know where that rig is going to be spotted
14 on this map on Exhibit 1?

15 A. It's in Lot 15.

16 Q. Okay. But -- I see the footage, but this
17 being -- I'm trying to make a spot on your blown-up lot
18 plat.

19 A. I'm not sure I have it. Let's see, which one?
20 What exhibit is that?

21 Q. Exhibit Number 1, second page. I'm trying to
22 foresee impact. Have you been out there?

23 A. Yes.

24 Q. Okay.

25 A. Yes, it's -- there's an old -- They call it a

1 quarry, that's where the names comes from. It's really
2 more of a dump. And we're going to be drilling on the
3 northwest side of that quarry. It's just in an open field.

4 Q. Okay. Do you remember some of the nearest
5 structures or houses?

6 A. There are some houses to the east --

7 Q. Okay.

8 A. -- just some real small lots there. You have
9 road and open lot to the west and open lot to the south.

10 Q. I believe that's the old truck bypass, or the
11 truck bypass through Lovington --

12 A. That is correct.

13 Q. -- the road that you're referring to.

14 A. I think we're in that open area that's labeled
15 Russell Trammell. We'll be somewhere in that.

16 Q. And that is open, as far as your recollection?

17 A. Yes.

18 Q. That is an open area, not --

19 A. Yes, I've been on the ground and walked it.

20 EXAMINER STOGNER: Okay, I don't have any other
21 questions.

22 Yeah, "Quarry" does sound a lot better than --

23 THE WITNESS: -- "Dump".

24 EXAMINER STOGNER: -- "Trash Heap" or "Trash Dump
25 Number 3" or whatever.

1 Unfortunately, due to the advertisement mix-up,
2 this case will be continued and readvertised for January
3 7th. We can't issue an order until that time.

4 Mr. Carr, if you can provide a supplement to
5 Exhibit Number 4 --

6 MR. CARR: We will.

7 EXAMINER STOGNER: -- with a written notification
8 for the early part, I believe that's -- at that time, then
9 I believe we can take it under advisement.

10 Okay, is there anything else at this time in
11 12,094? Okay, we'll move on.

12 (Thereupon, these proceedings were concluded at
13 9:10 a.m.)

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Conservation Division

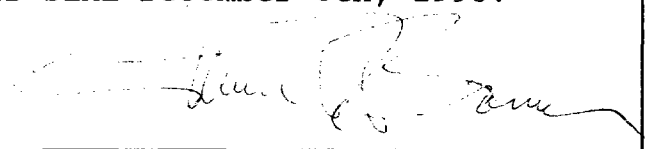
CERTIFICATE OF REPORTER

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 December 6th, 1998.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 2002