

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 REDWOLF PRODUCTION, INC.,)
 FOR COMPULSORY POOLING, SAN JUAN COUNTY,)
 NEW MEXICO)

CASE NO. 12,299

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

December 16th, 1999

Santa Fe, New Mexico

OIL CONSERVATION DIV.
CO JMM - 6 PM 9:50

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, December 16th, 1999, at the New Mexico Energy, Minerals and Natural Resources Department, Porter Hall, 2040 South Pacheco, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

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I N D E X

December 16th, 1999
 Examiner Hearing
 CASE NO. 12,299

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E X H I B I T S

Applicant's	Identified	Admitted
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* * *

A P P E A R A N C E S

FOR THE DIVISION:

RAND L. CARROLL
 Attorney at Law
 Legal Counsel to the Division
 2040 South Pacheco
 Santa Fe, New Mexico 87505

FOR THE APPLICANT:

CAMPBELL, CARR, BERGE and SHERIDAN, P.A.
 Suite 1 - 110 N. Guadalupe
 P.O. Box 2208
 Santa Fe, New Mexico 87504-2208
 By: WILLIAM F. CARR

* * *

1 WHEREUPON, the following proceedings were had at
2 12:02 p.m.:

3 EXAMINER CATANACH: At this time we'll call Case
4 12,299.

5 MR. CARROLL: Application of Redwolf Production,
6 Inc., for compulsory pooling, San Juan 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 Redwolf Producing, Inc.,
12 in this matter.

13 EXAMINER CATANACH: Okay, any additional
14 appearances?

15 There being none, Mr. Carr?

16 MR. CARR: May it please the Examiner, this case
17 was heard on December the 2nd. At that time Scott Hall,
18 representing Energen, requested that the case be continued.
19 He objected to the case being taken under advisement at
20 that time, saying that Energen had not had a reasonable
21 opportunity to negotiate with Red Wolf their participation
22 in this well.

23 The case was continued to this date to afford Red
24 Wolf and Energen an opportunity to negotiate.

25 I have marked as Exhibit A just a copy of the

1 signature page from the joint operating agreement, showing
2 that it has been signed by Red Wolf and by Energen, and I'd
3 like to offer Exhibit A and request that the case be taken
4 under advisement.

5 EXAMINER CATANACH: Exhibit A will be admitted as
6 evidence in this case.

7 And there being nothing further, Case 12,299 will
8 be taken under advisement.

9 MR. CARR: Thank you.

10 EXAMINER CATANACH: And the last hearing of the
11 century for the Division is hereby adjourned.

12 (Thereupon, these proceedings were concluded at
13 12:03 p.m.)

14 * * *

15
16
17
18 I do hereby certify that the foregoing is
19 a complete record of the proceedings in
20 the Examiner hearing of Case No. 12299,
21 heard by me on December 16 1999.
22 David R. Costant, Examiner
23 Conservation Division
24
25

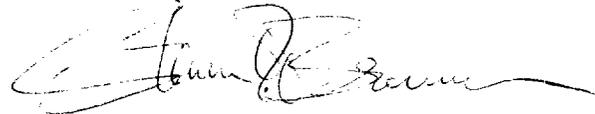
CERTIFICATE OF REPORTER

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 22nd, 1999.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 14, 2002

IN WITNESS WHEREOF, this agreement shall be effective as of the 30th day of November

19 99

A

ATTEST OR WITNESS:

OPERATOR

Dolly O. Foos
Dolly O. Foos

Redwolf Production, Inc.
By Dana L. Delventhal
Dana L. Delventhal
Type or print name
Title Vice President
Date November 30, 1999
Tax ID or S.S. No. 85-0376070

NON-OPERATORS

* Executed on behalf of Energen Resources MAQ, Inc. subject to Redwolf Production, Inc.'s acceptance of that certain amendment letter dated December 10, 1999.

* Joe D. Niederhofer
Joe D. Niederhofer
General Manager - San Juan Basin

ENERGEN RESOURCES MAQ, INC.
By * Richard Corcoran
Richard Corcoran
District Landman
Type or print name

Title _____

Date December 10, 1999

Tax ID or S.S. No. _____

By _____

Type or print name _____

Title _____

Date _____

Tax ID or S.S. No. _____

By _____

Type or print name _____

BEFORE THE OIL CONSERVATION DIVISION
Santa Fe, New Mexico
Case No. 12299 Exhibit A
Submitted by: Redwolf Producing, Inc.
Hearing Date: December 16, 1999



LTR



Job separation sheet

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 REDWOLF PRODUCTION, INC.,)
FOR COMPULSORY POOLING, SAN JUAN COUNTY,)
NEW MEXICO)

CASE NO. 12,299

ORIGINAL

OIL CONSERVATION DIVISION
99 DEC 16 PM 4:44

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MARK ASHLEY, Hearing Examiner

December 2nd, 1999

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MARK ASHLEY, Hearing Examiner, on Thursday, December 2nd, 1999, 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

December 2nd, 1999
 Examiner Hearing
 CASE NO. 12,299

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* * *

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A P P E A R A N C E S

FOR THE DIVISION:

RAND L. CARROLL
Attorney at Law
Legal Counsel to the Division
2040 South Pacheco
Santa Fe, New Mexico 87505

FOR THE APPLICANT:

CAMPBELL, CARR, BERGE and SHERIDAN, P.A.
Suite 1 - 110 N. Guadalupe
P.O. Box 2208
Santa Fe, New Mexico 87504-2208
By: WILLIAM F. CARR

FOR MARALEX RESOURCES, INC.:

JAMES G. BRUCE, Attorney at Law
3304 Camino Lisa
Santa Fe, New Mexico 87501
P.O. Box 1056
Santa Fe, New Mexico 87504

FOR ENERGEN RESOURCES CORPORATION:

MILLER, STRATVERT and TORGERSON, P.A.
150 Washington
Suite 300
Santa Fe, New Mexico 87501
By: J. SCOTT HALL

* * *

1 WHEREUPON, the following proceedings were had at
2 10:22 a.m.:

3 EXAMINER ASHLEY: The Division calls Case 12,299.

4 MR. CARROLL: Application of Redwolf Production,
5 Inc., for compulsory pooling, San Juan County, New Mexico.

6 EXAMINER ASHLEY: Call for appearances.

7 MR. CARR: May it please the Examiner, my name is
8 William F. Carr with the Santa Fe law firm Campbell, Carr,
9 Berge and Sheridan. We represent Redwolf Production, Inc.,
10 and I have one witness.

11 EXAMINER ASHLEY: Additional appearances?

12 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe
13 representing Maralex -- that's M-a-r-a-l-e-x -- Resources,
14 Inc., and I have one witness.

15 MR. HALL: Mr. Examiner, Scott Hall from the
16 Miller-Stratvert-Torgerson law firm of Santa Fe appearing
17 on behalf of Energen Resources Corporation, and I'm
18 entering an appearance for the limited purpose to object to
19 jurisdiction in this case.

20 Energen Resources is an interest owner in the
21 proposed drilling unit, and notice has been provided to
22 Energen of the hearing. We request that the Application be
23 dismissed or, alternatively, continued till the January 6th
24 docket hearing.

25 EXAMINER ASHLEY: Any additional appearances?

1 Mr. Carr?

2 MR. CARR: In response to Mr. Hall's request for
3 a dismissal, our witness will testify that they had a
4 Division Order title opinion prepared, that the interest
5 now held by Energen was held by Minatome at that time.
6 They have attempted to provide notice to Minatome, and it
7 was only very recently that it was discovered that Energen
8 had acquired the interest. At the time the title opinion
9 was prepared, there was nothing of record that would show
10 that the title, in fact, had been transferred to Energen.

11 MR. CARROLL: What was the date of that title?

12 MR. CARR: I don't know. We'd have to pursue
13 that with the witness.

14 MR. CARROLL: Mr. Hall, when did Energen acquire
15 its interest?

16 MR. HALL: Mr. Examiner, Energen acquired the
17 Total interest on January 1, 1998, and notice of the
18 acquisition was filed of record with the County Clerk of
19 San Juan County on January 22nd, 1999.

20 There is a -- Document entry is Book 1274, page
21 255 of the San Juan County Clerk's records.

22 (Off the record)

23 EXAMINER ASHLEY: We'll go ahead and hear the
24 case today but then hold off on taking it under advisement.

25 MR. CARR: And if a continuance is necessary, we

1 certainly understand that. We're working on best title
2 information, and we thought we had the interests. We were
3 advised last week that Energen had acquired the interest.
4 The prehearing statements were filed in this matter.
5 They've raised these issues. I'm not aware of them, and
6 I'm sorry that we have to air them before you. Some of
7 these probably could have been resolved between counsel
8 before the hearing.

9 EXAMINER ASHLEY: Mr. Carr, you said there are
10 prehearing statements that --

11 MR. CARR: I said I don't -- I didn't see them.
12 It's been --

13 EXAMINER ASHLEY: Okay.

14 MR. CARR: If they were filed, I'm not aware of
15 them. It doesn't mean they weren't filed; it could be that
16 I'm not aware of them.

17 And Mr. Ashley, I would also note at the
18 beginning that we would request any of the portions of the
19 case that relate to 40-acre or 160-acre spacing units. As
20 the evidence will show, the objective here is the Fruitland
21 Coal.

22 EXAMINER ASHLEY: Okay, say that again?

23 MR. CARR: The portions of the case that relate
24 to 160-acre spacing or 40-acre spacing should be dismissed.
25 Redwolf is seeking pooling of the Fruitland Coal.

1 EXAMINER ASHLEY: Okay, will the witnesses please
2 rise to be sworn?

3 MR. CARROLL: Mr. Hall, are you going to have a
4 witness?

5 MR. HALL: Say again?

6 MR. CARROLL: Are you going to have a witness?

7 MR. HALL: No, I won't.

8 (Thereupon, the witnesses were sworn.)

9 EXAMINER ASHLEY: Mr. Carr?

10 MR. CARR: May it please the Examiner, at this
11 time we would call Dana Delventhal.

12 EXAMINER ASHLEY: Okay.

13 DANA L. DELVENTHAL,
14 the witness herein, after having been first duly sworn upon
15 her oath, was examined and testified as follows:

16 DIRECT EXAMINATION

17 BY MR. CARR:

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

19 A. My name is Dana Delventhal.

20 Q. Would you spell your last name?

21 A. D-e-l-v-e-n-t-h-a-l.

22 Q. Where do you reside?

23 A. I reside in Farmington, New Mexico.

24 Q. By whom are you employed?

25 A. Redwolf Production, Incorporated.

1 Q. And what is your position with Redwolf?

2 A. Vice president.

3 Q. Have you previously testified before this
4 Division?

5 A. Yes, I have.

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

9 A. Yes, they were.

10 Q. Are you familiar with the Application filed in
11 this case and the status of the lands involved?

12 A. I am.

13 Q. Have you made an engineering study of the area
14 which is the subject of the Application?

15 A. I have.

16 Q. Are you prepared to share the results of that
17 study with Mr. Ashley?

18 A. I am.

19 MR. CARR: We tender Ms. Delventhal as an expert
20 witness in petroleum engineering.

21 EXAMINER ASHLEY: She is so qualified.

22 Q. (By Mr. Carr) Would you briefly state what
23 Redwolf seeks with this Application?

24 A. Redwolf is seeking an order pooling all the
25 mineral interests in the Basin-Fruitland Coal formation in

1 the north half of Section 36, Township 26 North, Range 13
2 West, for the development of the Basin-Fruitland Coal Pool.

3 Q. And what is the name of the well you propose to
4 drill on this spacing unit?

5 A. Our proposed well is the Bear Number 1, to be
6 located in the northeast quarter of the northeast quarter
7 of the same section.

8 Q. And that well is now drilling, is it not?

9 A. That is correct.

10 Q. You had a lease expiration December the 1st?

11 A. We did, and subsequently -- We've spud the well
12 November the 30th to satisfy the lease requirements.

13 Q. Let's go to what has been marked for
14 identification as Redwolf Exhibit Number 1, and I'd ask you
15 to identify that and review it for Mr. Ashley.

16 A. Exhibit Number 1 shows a C-102 plat of the given
17 acreage. This acreage, the north half, is comprised
18 entirely of four state leases in five different tracts of
19 ownership. The well is being drilled on Tract Number 1,
20 and the east half of the northeast quarter is Redwolf
21 Production's mineral interest.

22 The Attachment Number 2, Exhibit Number 2, will
23 show the differences in ownership for those operating
24 rights from those five tracts.

25 Q. If we look at Exhibit Number 2, the well is being

1 drilled on a tract that is a 100-percent Redwolf
2 Production, Inc., tract; is that correct?

3 A. That's correct.

4 Q. What is the status of the acreage in the north
5 half of Section 36?

6 A. Again, all the acreage is state leases, with
7 different variations of ownership. The compilation of all
8 five tracts is shown on Exhibit Number 2, and there's a
9 total of 22 different operating-rights owners within that
10 320-acre area.

11 To date, of those 22, we've gotten voluntary
12 joinders from 15 of the owners, leaving 7 that we have yet
13 to pool their interests.

14 Q. Now, you testified that the minerals are all
15 state. Is the surface also state?

16 A. The surface is a little bit complicated. Most of
17 the surface is legally state surface. However, through an
18 agreement they've transferred their rights to the Navajo
19 Tribe, through the Navajo Agricultural Products Industries,
20 and therefore the Navajo Tribe has jurisdiction on surface
21 disturbances.

22 Q. What is the status of the effort to obtain rights
23 of way from the Navajos to afford access to the well?

24 A. In order to obtain a pipeline right of way, it
25 will require a tribal approval. It's a long and tedious

1 process which we began in June of this year. We are
2 currently still in the process of acquiring that pipeline
3 right of way. We anticipate in the first half of next year
4 that we will be successful, but there's certainly no
5 guarantee to the time line.

6 Q. What percent of the working interest at this
7 point in time has voluntarily committed to the well?

8 A. Currently, there's 40.07 percent of the working
9 interest that's voluntarily committed their acreage.

10 Q. Can you identify for me the interest owners who
11 have not committed their interest?

12 A. To date there are 7 of the 22 owners that are not
13 committed. The first, Maralex Resources, with a 57-percent
14 interest. Second, T.J. Foster with a .07-percent interest.
15 Third, Quasar Sciences, with a .07-percent interest.
16 Fourth, Minatome Corporation with a 2.15-percent interest.

17 Q. And that's the interest that now is held by
18 Energen?

19 A. Correct. Roger B. Nielsen, with a 0.2-percent
20 interest. Robert Warren Umbach, with a 0.16-percent
21 interest. And George William Umbach, with a 0.16-percent
22 interest.

23 Q. Have you been able to locate either T.J. Foster
24 or Quasar Sciences, Inc.?

25 A. No, we have not. We have not been able to find

1 an address through county courthouse records, nor through
2 an internet search.

3 Q. But the other interest owners you have been able
4 to locate?

5 A. Yes, we have, and we've given notice to all of
6 them of our Application.

7 Q. Would you review for Mr. Ashley the efforts that
8 you've made to obtain voluntary joinder of all the working
9 and mineral interest owners in the proposed spacing unit?

10 A. For the Bear Number 1 well, we proposed the well
11 in April of this year and sent certified letters to the 22
12 interest owners of record.

13 Following that letter, we received joinders from
14 three of the working interest owners: Dugan Production,
15 Robert Bayless and Benson-Montin-Greer. We spoke with both
16 SG Interests and Maralex Resources several times in May of
17 this year and got a qualitative joinder from SG and no
18 joinder from Maralex.

19 In November, November 5th, we sent a second round
20 of letters notifying the interest owners that we would be
21 seeking compulsory pooling to consolidate the interests.
22 And following that letter, SG Interests executed documents
23 as well as nine of the smaller interests, which left the
24 seven uncommitted parties.

25 Q. In addition to your letters, have you contacted

1 these individuals by telephone?

2 A. I have spoken with Maralex Resources several
3 times.

4 I have spoken with Energen. They notified us
5 last week that they had picked up the Minatome interest. I
6 received a document Monday showing that transfer, and that
7 same day I sent them an AFE and operating agreement with
8 the well proposal.

9 Roger Nielsen and the Umbachs I had no contact
10 with and have heard nothing from them.

11 Q. And Redwolf is willing to continue negotiations
12 with any of the individuals who could be subject to
13 pooling; is that not correct?

14 A. That's correct.

15 Q. The title information that you were working off
16 of, the Division Order title opinion, what was the date on
17 that opinion?

18 A. The title search was done in October of 1998,
19 apparently, a couple of months before they filed with the
20 county records.

21 Q. Is the April, 1999, effort the first time there
22 has been discussions concerning the development of this
23 tract in the Fruitland Coal?

24 A. Not entirely. We purchased our lease, our state
25 lease, in December of 1994, and we proposed a well in

1 December of 1994 to Maralex. Maralex, being the majority
2 working interest owner, responded with a request that they
3 drill and operate the well, and Redwolf agreed to it, I
4 believe, to be a participating party in their well.

5 Over the years it's just never solidified. With
6 our lease deadline we felt required, basically, to take the
7 operations over ourselves and pursue the drilling of the
8 well.

9 Q. In your opinion, have you made a good-faith
10 effort to locate all individuals and obtain their voluntary
11 joinder in the well?

12 A. Yes, we have.

13 Q. Is Exhibit Number 3 copies of letters from
14 Redwolf that reflect the efforts to try and reach a
15 voluntary agreement for the development of these lands?

16 A. That's correct, it's a compilation of the April
17 and November letters, sent to the nonparticipating parties.
18 I also included our correspondence with Energen regarding
19 their change, assumption of the Minatome interest.

20 Q. Would you identify what has been marked Redwolf
21 Exhibit Number 4?

22 A. Exhibit Number 4 was an AFE prepared for the
23 development well, the Bear Number 1. Total well cost is
24 just under \$175,000.

25 Q. Is that the completed well cost?

1 A. Correct.

2 Q. Are these costs in line with what is charged by
3 other operators for similar wells in this area?

4 A. Yes, it is.

5 Q. Is Exhibit Number 5 an affidavit confirming that
6 notice of today's hearing has been provided in accordance
7 with Oil Conservation Division Rules?

8 A. Yes.

9 Q. And this predated the information you have
10 concerning the interest of Energen, correct?

11 A. Correct.

12 Q. So they were not notified by us of this hearing?

13 A. No, the assumption was still under the Minatome
14 ownership.

15 Q. Have you made an estimate of the administrative
16 and overhead costs to be incurred while drilling this well
17 and also while producing it, if it is successful?

18 A. We anticipate a \$4000-per-month drilling overhead
19 rate and a \$400-per-month operating overhead rate.

20 Q. And what is the source of these figures?

21 A. It's roughly based on the 1994 Ernst and Young
22 survey. It's actually less than the operating overhead.

23 Q. And how would these figures compare with the
24 overhead rates proposed by Maralex back in 1994?

25 A. They're comparable. Maralex proposed, I believe,

1 \$450 per month operating overhead.

2 Q. Do you recommend that the \$400-a-month and \$4000-
3 a-month figures be incorporated into any order which
4 results from this hearing?

5 A. I do.

6 Q. Does Redwolf Production, Inc., seek to be
7 designated operator of the well?

8 A. We do.

9 Q. Have you drilled other similar wells --

10 A. Yes, we have.

11 Q. -- in this area, to the Fruitland Coal?

12 A. Yes, we have.

13 Q. Let's go to what has been marked for
14 identification as Redwolf Exhibit Number 6. I'd ask you to
15 first identify this and then review the information on the
16 well.

17 A. Certainly. Exhibit Number 6 is a nine-section
18 plat showing the acreage surrounding the Bear Number 1
19 well. It's outlined in red in Section 36. And as you can
20 see, Section 36 is the only section in this area that the
21 Basin-Fruitland Coal is undeveloped in. All of the
22 surrounding sections have full development of the Basin
23 Fruitland Coal.

24 The operator and the well name is written in
25 black, and cumulative production figures are given in blue

1 for surrounding wells. The cumulative production figures
2 vary anywhere from about 15 million cubic feet to a high of
3 885 million cubic feet of gas produced. There's a large
4 variation in productivity within this area.

5 Q. So the -- You will encounter the Fruitland Coal
6 at this location; is that not correct?

7 A. Short of an act of God, there will be coal there,
8 the question being whether it is commercially productive.

9 Q. Okay, let's go to Exhibit Number 7. Would you
10 review that, please?

11 A. Exhibit Number 7 is a preparation for a break-
12 even case on the Fruitland Coal in that area, with the AFE
13 cost of \$174,000, which we feel is fair and will certainly
14 be very near the actual well cost.

15 It would require production in the range of 373
16 million cubic feet per day of gas produced to be a break-
17 even case on economics.

18 Q. And are there wells in the area that will not
19 meet that economic cutoff?

20 A. Yes, there are. There's four direct offsets that
21 are well below that break-even economics.

22 Q. And do you anticipate that those wells ultimately
23 will hit that point to break even or --

24 A. One probably will, the remainder probably will
25 not.

1 Q. Are you prepared to make a recommendation as to
2 the risk penalty that should be assessed against the
3 nonconsenting interest owners?

4 A. Yes, I am.

5 Q. And what is that?

6 A. We request the 200-percent risk penalty.

7 Q. And is it your testimony that there's a chance
8 that a well at this location might not be a commercial
9 success?

10 A. There's a significant chance that the well will
11 be noncommercial.

12 Q. In your opinion, will the granting of this
13 Application and the drilling of this well be in the best
14 interests of conservation, the prevention of waste, and the
15 protection of correlative rights?

16 A. Yes, sir.

17 Q. How soon -- Well, Redwolf is currently drilling
18 the well; is that correct?

19 A. That's correct.

20 Q. How long does it take to drill the well?

21 A. Hopefully five days. We should TD the well on
22 Saturday.

23 Q. And then what will you do with the well?

24 A. We will proceed with the completion.

25 Q. And pending surface problems, you will be --

1 a flat rate of \$1.75 per MCF for gas?

2 A. That's correct.

3 Q. What is the current price of gas in this area?

4 A. Spot prices for the San Juan Basin are currently
5 around \$2.00. That's per MMBTU. There's an 1100 BTU
6 factor, adjusted into the economics, and that would bring
7 it up closer to \$2.00.

8 Q. And if the gas price rose higher than the break-
9 even point, the total production figure would be lower,
10 would it not?

11 A. True, and if prices drop it will be higher.

12 Q. What are your current operating costs? Not just
13 the overhead rates?

14 A. The current estimate for economic purposes was a
15 total of \$800 --

16 Q. Per month?

17 A. -- per month. That's the \$400 overhead, and then
18 there is an additional \$400 estimated operating costs.

19 Q. One final question on the AFE: Does that include
20 cost for the right of way for the pipeline?

21 A. Yes, it does.

22 MR. BRUCE: Thank you.

23 EXAMINER ASHLEY: Mr. Hall?

24 MR. HALL: Mr. Examiner, without waiving

25 objections, we would request that the witness be made

1 available for further cross-examination at the January 6th,
2 2000, hearing, and we also request we be afforded the
3 opportunity to present our own direct testimony as may be
4 appropriate at that time.

5 EXAMINER ASHLEY: Okay. Is that agreeable with
6 you, Mr. Carr?

7 MR. CARR: I would -- I think Mr. Bruce has a
8 witness that he needs to present. In terms of continuing
9 the case, I would recommend that the case be continued to
10 the 16th of December to give us an opportunity to attempt
11 to work out an agreement with Energen, and that if we are
12 unable to do so, that we advise you and that the case then
13 be opened on the 6th of January.

14 Since the well is drilling, I would like to be
15 able to attempt to get this resolved in two weeks. If we
16 cannot do that, we, of course, have to come back and afford
17 Energen an opportunity to present their testimony, so I'm
18 not suggesting that we're trying to not do that. But if we
19 couldn't work out an agreement within the next two weeks, I
20 would like to be able to advise the Division at that time
21 and have it taken under advisement. I'd stipulate right
22 now that if we're unable to do that, we would agree to
23 reopening the case January the 6th.

24 MR. CARROLL: Has Energen been provided notice,
25 once you found out the --

1 THE WITNESS: Yes, Monday, I sent them -- Well, I
2 spoke to them the week before and let them know that we
3 were going to be at the December 2 docket and what our
4 proposal was with the Bear well, and that we were going to
5 be drilling it on November 30th.

6 MR. CARROLL: So --

7 THE WITNESS: The AFE and operating agreement
8 were sent out Monday.

9 MR. CARROLL: Did you provide them with notice of
10 the hearing?

11 THE WITNESS: No.

12 MR. CARR: No, we did not. It was not discovered
13 until after notice had been provided.

14 EXAMINER ASHLEY: Say that again?

15 MR. CARR: Notice was not provided to Energen.
16 We did not discover their existence until last week, and
17 the notice went out approximately three weeks ago.

18 EXAMINER ASHLEY: Notice of the hearing?

19 MR. CARR: Yes.

20 MR. HALL: To Total Minatome, as opposed to
21 Energen.

22 MR. CARR: Yes, it was -- Well, and we didn't
23 have an address for Minatome. We had been unable to locate
24 them or get any response or get their mail picked up.

25 MR. HALL: They're in Paris.

1 EXAMINER ASHLEY: Yeah. Mr. Hall, do you want to
2 continue it to the 16th, and then you'll have time --

3 MR. HALL: That would be agreeable to us. I'd
4 simply point out that that is still less than the 30 days
5 that is customary for negotiations between parties in a
6 pooling proceeding, and I think we should reasonably expect
7 that we'll be back here on January the 6th, but we'll agree
8 to the continuance to the 16th.

9 EXAMINER ASHLEY: Okay.

10 MR. CARR: And we would agree that if we can't
11 reach an agreement quickly, I mean, that they are entitled
12 to that amount of time, and we'd come back on the 6th.

13 EXAMINER ASHLEY: Will you notify me --

14 MR. CARR: Yes, we will.

15 EXAMINER ASHLEY: -- of any kind of agreement?

16 MR. CARR: Yes, we will.

17 EXAMINER ASHLEY: Okay.

18 MR. CARR: We'll notify you in either event --

19 EXAMINER ASHLEY: Okay.

20 MR. CARR: -- where we stand prior to the hearing
21 on the 16th.

22 EXAMINER ASHLEY: And I'll make myself available
23 during that hearing.

24 MR. CARROLL: Mr. Hall, Energen hasn't been
25 provided with notice of this hearing, or official -- by

1 letter, right?

2 MR. HALL: That's correct.

3 MR. CARROLL: But we now know you have actual
4 notice, so when did you receive notice of the hearing?

5 MR. HALL: It's my understanding that there was
6 further contact between Redwolf and Energen last week.
7 There is a letter in the file, one of the exhibits, showing
8 a contact from Energen's landman back to Redwolf on
9 November 24th. I suspect there may have been verbal
10 communications a day or so before that time.

11 EXAMINER ASHLEY: Are you referring to a letter
12 that was -- it's part of the exhibits submitted today?

13 MR. HALL: Yes.

14 EXAMINER ASHLEY: Okay.

15 MR. CARROLL: I can't find that.

16 THE WITNESS: It's in the back of --

17 MR. CARR: Yeah, it's included --

18 THE WITNESS: -- the package --

19 MR. CARR: -- in Exhibit 3.

20 THE WITNESS: -- Exhibit 3.

21 EXAMINER ASHLEY: Okay, Exhibit 3? Okay.

22 THE WITNESS: As well as our response.

23 MR. CARROLL: Well, Mr. Hall, does Energen still
24 want the notice required by our rules, or are you going to
25 waive that notice?

1 MR. HALL: We'll waive that, because we want to
2 preserve the right to cross-examine, if necessary.

3 EXAMINER ASHLEY: Okay.

4 MR. CARROLL: All right.

5 EXAMINATION

6 BY EXAMINER ASHLEY:

7 Q. Ms. Delventhal, you mentioned a break-even figure
8 of 373 million cubic feet?

9 A. That's correct.

10 Q. And you said there are other wells that have not
11 been economical?

12 A. If you look at Exhibit Number 6 --

13 Q. Okay.

14 A. -- directly south, Section 1, Dugan Production
15 has two wells that are rather marginal, as well as in
16 Section Number 2. Both of those wells are marginal.

17 In Section 35, the northeast is a marginal well,
18 and Merrion has one directly north of that that would not
19 meet that criteria.

20 But the other wells are to the east and to the
21 south. There are some commercial-production economic
22 ventures within those sections. That's certainly why we're
23 trying in the northeast.

24 Q. Do you know if any of the other wells on this
25 plat in Section 6 were subject to a compulsory pooling

1 order?

2 A. I do not know that.

3 EXAMINATION

4 BY MR. CARROLL:

5 Q. What portion of the north half of 36 are
6 controlled by the Navajos now?

7 A. Actually, all of it.

8 Q. The whole 320 acres?

9 A. All of the surface, yeah.

10 Q. You had no problems with them allowing the rig on
11 location to start drilling?

12 A. We received NAPI approval for the well location
13 and archeological clearance. We haven't received final
14 approval for location damages. That's likely to occur in
15 January. We are granted lease rights to build a location
16 and drill under our state lease, and we're operating under
17 those rights.

18 Q. And I take it there hasn't been any development
19 in Section 36 due to this Navajo surface --

20 A. Well, actually, it extends into the other
21 sections as well, so those people have coped with the
22 difficulties and been successful in drilling and completing
23 their wells.

24 Q. Well, I asked if this section had been drilled.
25 All the other sections around it have been drilled up to

1 that?

2 A. I assume it has to do with pooling minerals.

3 Q. Who did the title opinion last year?

4 A. It was done by Tommy Roberts out of Farmington,
5 New Mexico.

6 Q. And that was in October of 1998?

7 A. Correct.

8 Q. And you sent out notice of this hearing in
9 November, 1999?

10 A. No, our title was done in October of 1998, we
11 received our final title opinion in March, we mailed the
12 letters out in April of this year.

13 Q. Well, the notice of this hearing was provided
14 in --

15 A. -- in November, right.

16 Q. Right. And you --

17 A. We attempted to get joinder in April, and we
18 provided notice again in November to those parties that
19 have not volunteered their acreage.

20 Q. And you didn't ask for an update on the title
21 opinion?

22 A. Not since the title of October.

23 MR. CARROLL: That's all I have.

24 EXAMINER ASHLEY: I have nothing further. Thank
25 you.

1 MR. CARR: That concludes our presentation.

2 EXAMINER ASHLEY: Mr. Bruce?

3 MR. BRUCE: Call Mr. O'Hare to the stand.

4 ALEXIS MICHAEL O'HARE,

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

7 DIRECT EXAMINATION

8 BY MR. BRUCE:

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

10 A. My full name is Alexis Michael O'Hare.

11 Q. And where do you reside?

12 A. In Ignacio, Colorado.

13 Q. What is your occupation?

14 A. I'm the president of Maralex Resources, Inc.

15 Q. Do you also have a technical degree?

16 A. Yes, I have a bachelor of science in petroleum
17 engineering from New Mexico Tech.

18 Q. Have you previously testified before the
19 Division?

20 A. Yes, I have.

21 Q. And were your credentials as an expert petroleum
22 engineer accepted as a matter of record?

23 A. Yes, they were.

24 Q. And are you familiar with the engineering matters
25 related to this Application?

1 A. Yes, I am.

2 MR. BRUCE: Mr. Examiner, I tender Mr. O'Hare as
3 an expert petroleum engineer.

4 EXAMINER ASHLEY: Mr. O'Hare is so qualified.

5 Q. (By Mr. Bruce) Mr. O'Hare, up front let's
6 discuss Maralex's position in this case. First of all, you
7 think this is going to be a good well, don't you?

8 A. Yes, I do.

9 Q. It's what? Shallow, there's low operating costs,
10 and you think it's low risk?

11 A. Yes, I do. The coal is there. We have drilled
12 -- or Maralex Resources drilled the majority of wells that
13 are the better performers in this area, and we were very
14 excited about this location initially. And in fact, the
15 other location in Section 36 was also drilled by Maralex.

16 Q. What is your objection, then, to joining in the
17 well at this time?

18 A. Initially we had two major objections. The first
19 one was removed when the 160-acre force pooling was
20 dismissed. And the second objection is the fact that the
21 well in the southwest quarter of Section 36 has been
22 waiting on a pipeline connection for well over three years
23 now. And our sole remaining objection on the well in the
24 northeast quarter is that we don't think we can timely get
25 approval for right of way to get that well tied in.

1 So we think it will be more than just another
2 month or two before the Navajo Indian Tribe, at least in
3 our experience, grants right of way for that tie-in, and we
4 are not in the position to sink additional money into the
5 ground and let it sit there for maybe years on end.

6 Q. You mentioned a well in the southwest quarter of
7 Section 36. You are awaiting a pipeline connection,
8 pipeline approval, for a right of way from the Navajos at
9 this time?

10 A. That is correct. Exhibit Number 1, Maralex
11 Exhibit Number 1, shows that well in the southwest quarter
12 of Section 36. Initially, our intention was to build a
13 pipeline straight northeast of that well, up to the well in
14 the southwest quarter of Section 30, and as soon as that
15 right of way was approved, we would be proposing the well
16 in the northeast quarter of Section 36. As I said, that
17 application has been in the works for a number of years,
18 actually, and we still don't know when we will receive that
19 approval for that right of way.

20 Q. And that well has been drilled and completed?

21 A. That is correct.

22 Q. The one that has "WOPL" under it?

23 A. Correct.

24 Q. Okay. Let's get into a little bit about risk in
25 this area. Would you -- you've already mentioned Exhibit

1 1. Could you identify that a little bit further and tell
2 the Examiner what that shows?

3 A. Yes, Exhibit 1 shows the eight sections,
4 including Section 36 and excluding Section 35 surrounding
5 the proposed well. The numbers shown on this plat are the
6 average daily producing rates for the month of September,
7 1999, for each of those wells.

8 Q. Which of these does Maralex have an interest in,
9 if you could --

10 A. Maralex has an interest in both wells in Section
11 26, the northeast quarter of 25, both wells in Section 30,
12 and one well in the northeast quarter of Section 31, as
13 well as the southwest quarter of Section 36 and the
14 proposed well.

15 Q. Okay, and you said you were involved in drilling
16 several of these?

17 A. We drilled all but the wells in Section 26, that
18 we have an interest in.

19 Q. Okay. And from Redwolf's exhibit those were --
20 what? Drilled by Merrion Oil and Gas?

21 A. That's correct.

22 Q. Okay. Would you, rather than have me interrupt
23 you, go through your Exhibits 2 through 5 and discuss
24 production from Fruitland Coal wells in this area?

25 A. Exhibits 2 through 5 are historical production

1 curves for wells in Sections 31, 30 and 25, directly
2 offsetting the proposed well.

3 The first well that we drilled in this area was
4 called the Gallegos Federal 26-12-31 Number 1, and that's
5 shown as Exhibit Number 2. To date that well has cum'd
6 nearly 400 million cubic feet of gas. Peak rate on that
7 well was just over 300 MCF per day. That well never made
8 much water. At the most, it was maybe four barrels of
9 water a day. And the well has been declining since then.

10 This well was drilled in 1992 and completed in
11 1993 and put on production -- The first sales was in
12 October of 1993. That well actually paid out during a
13 period of low gas prices in less than two years.

14 Exhibit Number 3 shows the second well that we
15 drilled in this area, called the Gallegos Federal 26-13-25
16 Number 1 well, in the northeast quarter of Section 25.
17 That well is currently producing at an average daily rate
18 of 305 MCF per day. It started off making a little bit
19 more water than we saw on the 31-1, but it's still quite a
20 bit less than 30 barrels of water a day at its peak rate,
21 and it declined fairly rapidly to where it's currently
22 producing less than 10 barrels of water per day.

23 That well had a peak rate of somewhere around 325
24 to 335 MCF per day, and is currently on compression. It
25 has cum'd a total of more than half a BCF of gas, and we

1 expect it to recover close to a full BCF of gas from that
2 wellbore.

3 Exhibit Number 4 is the Gallegos Federal 26-12-30
4 Number 1 production history. This well is located in the
5 northeast quarter of Section 30, and it has, as of
6 September anyway, produced an average daily rate of 358 MCF
7 per day.

8 This well is on compression also, and it is
9 declining in production. But it has cum'd over 400 million
10 cubic feet of gas a day, and we anticipate its ultimate
11 recovery will be about .9 BCF of gas. This is another well
12 that paid out very quickly, in less than three years after
13 it was first put on production. In fact, it's just over
14 three years of production now, but it paid out in less than
15 three years.

16 The last well shown, on Exhibit Number 5, the
17 history is for the Gallegos Federal 26-12-30 Number 2.
18 That well is currently producing 188 MCF per day on average
19 for the month of September. That well is a little bit
20 different from the other wells, and it is similar to some
21 problems that we have experienced north of this area in our
22 main body of the Gallegos Federal project in that there is
23 an offsetting Pictured Cliffs producer that appears to be
24 taking some of our Fruitland gas. So this well is not as
25 good a performer as the other wells that we looked at, and

1 we had to put it on compression to get our Fruitland gas
2 back on line after October of 1998, in order to draw the
3 reservoir pressure down low enough in the Fruitland to keep
4 the PC well from pulling our Fruitland gas out of the PC
5 wellbore.

6 Even so, in less than three years -- or about
7 three years' time, this well has produced a cumulative
8 total of about 164 million cubic feet of gas, and we
9 project that it will ultimately recover on the order of 700
10 million cubic feet of gas.

11 Q. So looking at the wells you've described in
12 Exhibits 2 through 5, all of those wells will be economic,
13 will they not?

14 A. All of those wells are currently economic, yes.

15 Q. Now, you have that shut-in well in the southwest
16 quarter of Section 36. You said you completed that well
17 based on what you've seen so far, and you're awaiting a
18 pipeline connection. Do you anticipate that well being
19 similar in characteristics to the other wells you've just
20 discussed?

21 A. Yes, we do. SG Interests is the current operator
22 of that well, and there has not been extensive testing on
23 that well to determine what its ultimate production profile
24 will be, but it does appear that it will be a very nice
25 commercial coalbed methane well.

1 Q. And as you've said, these are -- what? Shallow
2 wells with low operating costs?

3 A. That is correct.

4 Q. And there's no doubt that the coal is there?

5 A. There is no doubt the coal is there.

6 Q. And the proposed well is in essence surrounded by
7 commercial wells, is it not?

8 A. Yes, we feel that the only way that this well
9 would not be a good commercial well is if the coals are
10 damaged during the completion technique.

11 Q. Now, in the economics run by Redwolf -- You saw
12 this exhibit, didn't you, Mr. O'Hare --

13 A. Yes, I did.

14 Q. -- where they used \$1.75? Do you think that's a
15 proper price for gas at this point?

16 A. The current spot price for gas for the month of
17 November in the San Juan Basin is \$2.84 an MCF. I don't
18 know what the December price is at this time. I know it is
19 less than that, but I think \$1.75 is extremely
20 conservative.

21 Q. If you use something like \$2.00 or \$2.25 per MCF,
22 the payout -- the break-even point would be substantially
23 lower than testified to by Redwolf?

24 A. Yes, and that presentation is a little bit
25 misleading from the standpoint that Fruitland Coal wells

1 generally will start -- and you can see it on these
2 Exhibits 2 through 5 -- at lower rates and incline over
3 time to higher rates.

4 For instance, on Exhibit Number 3, the 25-1
5 started at a rate of about 40 MCF a day, and as I said
6 before, it peaked at a rate of well over 350 MCF per day.

7 So it's kind of misleading to say here is a set
8 rate that we have to have on a well to start with in order
9 to have a break-even point on it.

10 Q. Now, on your Exhibit 2 you said that this well
11 was drilled -- what? In 1992 or 1993?

12 A. Correct, in 1992.

13 Q. And that it was economic, paid out in a couple of
14 years. What were the gas prices back then?

15 A. They were much lower than they are now. 1994 gas
16 prices were on the order of \$1.10 to \$1.25 an MCF.

17 Q. And the well was still economic?

18 A. Correct.

19 Q. Based on your testimony, do you believe that if a
20 risk penalty is assessed it should be substantially lower
21 than 200 percent?

22 A. Yes, I do, and I think that the fact that Redwolf
23 has already started drilling the well indicates that the
24 risk, in their minds, is relatively low, coupled with the
25 fact that they intend to spend the money to complete the

1 well even before they have a right of way to tie the well
2 in on, tells me that they're very confident, as we are,
3 that this will be a good commercial coalbed methane
4 producer.

5 Q. Finally, Mr. O'Hare, what is Exhibit 6?

6 A. Exhibit 6 is a plat showing the ownership
7 interest in the well, and this was prepared more to address
8 the differences between the 160-acre force pooling and the
9 320-acre force pooling and the impact that that would have
10 on Maralex.

11 Q. Okay. So really, at this point there's nothing
12 you need to go over on this exhibit?

13 A. I don't think so.

14 Q. Mr. O'Hare, if the Application is granted, is it
15 your opinion that a substantially reduced penalty should be
16 assessed against any nonconsenting interest owners?

17 A. Most definitely, yes.

18 Q. And were Exhibits 1 through 6 prepared by you or
19 under your direction?

20 A. Yes, they were.

21 MR. BRUCE: Mr. Examiner, I would move the
22 admission of Maralex Exhibits 1 through 6.

23 EXAMINER ASHLEY: Exhibits 1 through 6 will be
24 admitted as evidence at this time.

25 Mr. Carr?

EXAMINATION

1
2 BY MR. CARR:

3 Q. Mr. O'Hare, the well in the south half of 36, do
4 you have a pumping unit on that well at this time?

5 A. Again, SG Interests is the operator, and I have
6 not been out there to look at it, so I don't know if --

7 Q. Do you know whether, in this area, that's typical
8 to have a pumping unit and compression on the wells?

9 A. All of the wells that we completed, we did equip
10 with pumping units. We did not put compression on until a
11 later point in the life of the well.

12 Q. Do you know whether or not \$1.75 could be applied
13 to your average for gas prices in the San Juan Basin?

14 A. I believe the current projections are that prices
15 will be increasing over the next five years, not declining.

16 Q. Do you know what the average for the last five
17 years would be?

18 A. No, sir, I don't.

19 MR. CARR: That's all I have. Thank you.

20 EXAMINER ASHLEY: Mr. Hall?

21 MR. HALL: No questions.

EXAMINATION

22
23 BY EXAMINER ASHLEY:

24 Q. Mr. O'Hare, do you have a suggested risk?

25 A. I'm aware of two previous cases that the NMOCD

1 heard with similar circumstances where a well had already
2 been spudded or was already drilled at the time of force
3 pooling, and my understanding is that the risk assigned at
4 that time, or the penalty assigned, was on the order of 10
5 to 15 percent in both of those cases.

6 MR. CARROLL: Do you have the cites for those
7 cases?

8 MR. BRUCE: Yes, Mr. Examiner, Case Numbers
9 10,345 and 10,346, and the Order Numbers are R-9581 and
10 R-9584.

11 Q. (By Examiner Ashley) And who operates the well
12 in the southwest quarter of Section 36?

13 A. SG Interests.

14 Q. Looking at your Exhibit Number 2, could you give
15 me again what the daily rate was for that well? The Number
16 1?

17 A. The current rate?

18 Q. Yes.

19 A. It's 142 MCF per day average for the month of
20 September.

21 EXAMINATION

22 BY MR. CARROLL:

23 Q. Mr. O'Hare, you mentioned that there was a risk
24 that the coals would be damaged during the completion
25 technique. How often does that occur?

1 A. I'm not real familiar with the Redwolf completion
2 technique at this time. Most of the service companies are
3 recommending non-damaging fluids, and so I think it's much
4 more rare now than it was early on in the life of the
5 Fruitland Coalbed methane play in the San Juan Basin.

6 Q. How often did it occur earlier, prior to these
7 fluids being used?

8 A. Prior to 1990, it was very frequent.

9 MR. CARROLL: Okay, that's all I have.

10 EXAMINER ASHLEY: Anything else, Mr. Carr?

11 MR. CARR: I have just a very brief statement.

12 EXAMINER ASHLEY: Okay.

13 MR. CARR: And if there are statements, I'd like
14 to go last.

15 EXAMINER ASHLEY: Okay.

16 MR. BRUCE: I have just a very short one.

17 Mr. Examiner, I think the witness has already
18 gone over it. We believe the well will be drilled and
19 completed even before the force pooling order is issued.
20 Based on the cases I've cited, we think a low penalty
21 should be assessed against any nonconsenting interest
22 owner, on the order of 10 to 15 percent.

23 Maralex is aware that if the well is completed
24 and Redwolf can't produce it, there is certainly the time
25 value of money, and perhaps an annual interest charge would

1 be fair too, or something equivalent to that, of 10 to 15
2 percent, just to make up for the lost value of that money.
3 But we believe a very low penalty on production should be
4 assessed.

5 Thank you.

6 EXAMINER ASHLEY: Mr. Hall?

7 MR. HALL: No statement, Mr. Examiner.

8 MR. CARR: May it please the Examiner, in regard
9 to the concerns of Energen, just to confirm, we are
10 requesting that the case be continued to December the 16th,
11 and if we are unable to reach an agreement with Energen by
12 that date, we will advise you and request that the case be
13 continued to the first hearing in January so that Energen
14 has an opportunity to present its case.

15 As to the concerns of Maralex, I think that there
16 is no issue here in this case with Maralex as to whether or
17 not a pooling order should be entered. Clearly, Redwolf
18 has the right to drill, they have proposed and are drilling
19 a well, and no agreement has been reached for the voluntary
20 participation of Maralex in that drilling activity.

21 Well, Maralex says it's excited about the well,
22 it has the option to participate, it has decided not to
23 join, and it still may not join. And there are surface
24 issues which make this unique, and a lease expiration,
25 which have driven this thing forward, and they've had to

1 drill the well.

2 I think if you look at the risk and you look at
3 the exhibits presented by Maralex and you compare them to
4 Exhibit Number 6 presented by Ms. Delventhal, you can see
5 that the data presented on the wells which were commercial
6 successes are in the sections north and east of the
7 proposed location. And when you look at Ms. Delventhal's
8 testimony, when you go south and west of the location,
9 that's where you hit wells that are not a commercial
10 success.

11 Redwolf is having to go forward with the well.
12 They're taking the risk for Maralex and for others, and
13 they should be entitled to an appropriate risk penalty.

14 EXAMINER ASHLEY: Okay, thank you.

15 And this case will be continued to December 16th.

16 (Thereupon, these proceedings were concluded at
17 11:20 a.m.)

18 * * *

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25
Filed for recording on 12-2-99
at the office of the County Clerk
of the State of New Mexico
County of Santa Fe
12-2-99
Mark Ashley
Of Counsel to the County Clerk

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 5th, 1999.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 14, 2002