

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:) CASE NO. 12,869
)
 APPLICATION OF BURLINGTON RESOURCES OIL)
 AND GAS COMPANY, LP, FOR COMPULSORY)
 POOLING, SAN JUAN COUNTY, NEW MEXICO)
)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID K. BROOKS, Hearing Examiner

May 30th, 2002

Santa Fe, New Mexico

02 JUN 13 AM 7:54
 OIL CONSERVATION DIV.

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID K. BROOKS, Hearing Examiner, on Thursday, May 30th, 2002, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, 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

May 30th, 2002
 Examiner Hearing
 CASE NO. 12,869

	PAGE
APPEARANCES	3
APPLICANT'S WITNESSES:	
<u>JIM TROIANO</u> (Landman)	
Direct Examination by Mr. Kellahin	5
Examination by Mr. Bruce	20
Examination by Examiner Brooks	22
<u>DAVID CLARK</u> (Geologist)	
Direct Examination by Mr. Kellahin	26
Examination by Mr. Bruce	37
Examination by Examiner Brooks	40
CLOSING STATEMENTS:	
By Mr. Bruce	42
By Mr. Kellahin	43
REPORTER'S CERTIFICATE	45

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E X H I B I T S

Applicant's	Identified	Admitted
Exhibit 1	-	20
Exhibit 2	9	20
Exhibit 3	6	20
Exhibit 4	9	20
Exhibit 5	17	20
Exhibit 6	19	20
Exhibit 7	30	37
Exhibit 8	34	37
Exhibit 9	35	37

* * *

A P P E A R A N C E S

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* * *

ALSO PRESENT:

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Santa Fe, NM 87501

WILL JONES
Engineer
New Mexico Oil Conservation Division
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Santa Fe, NM 87501

* * *

1 WHEREUPON, the following proceedings were had at
2 9:10 a.m.:

3 MR. BROOKS: At this time we will call Case
4 Number 12,869, Application of Burlington Resources Oil and
5 Gas Company, LP, for compulsory pooling, San Juan County,
6 New Mexico.

7 Call for appearances.

8 MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin of
9 the Santa Fe law firm of Kellahin and Kellahin, appearing
10 on behalf of the Applicant, and we have two witnesses to be
11 sworn.

12 MR. BROOKS: Would the witnesses please stand and
13 identify themselves?

14 MR. TROIANO: Jim Troiano, petroleum landman for
15 Burlington Resources.

16 MR. CLARK: I'm David Clark, geologist.

17 MR. BROOKS: Please swear the witnesses.

18 (Thereupon, the witnesses were sworn.)

19 MR. BRUCE: Mr. Examiner, I'm entering an
20 appearance on behalf of Maralex Resources, Incorporated. I
21 have no witnesses.

22 MR. BROOKS: You may proceed, Mr. Kellahin.

23 MR. KELLAHIN: Thank you, sir.

24 MR. BROOKS: Mr. Bruce, how do you spell your
25 client's name?

1 MR. BRUCE: M-a-r-a-l-e-x.

2 MR. BROOKS: Maralex Resources?

3 MR. BRUCE: Yes.

4 MR. BROOKS: You may proceed.

5 MR. KELLAHIN: Thank you, sir.

6 JIM TROIANO,

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

9 DIRECT EXAMINATION

10 BY MR. KELLAHIN:

11 Q. Would you please state your name and occupation?

12 A. Jim Troiano, landman, Burlington Resources.

13 Q. Mr. Troiano, where do you reside?

14 A. Durango, Colorado.

15 Q. On prior occasions have you testified before the
16 Division?

17 A. No, I have not.

18 Q. Summarize for us your education.

19 A. I received a BBA from the University of Oklahoma
20 with a degree in energy management in December of 2000, and
21 I've been a staff petroleum landman for Burlington
22 Resources ever since, about 18 months now.

23 Q. Has the identification of the ownership for the
24 Mesaverde reservoir in this spacing unit been one of your
25 tasks?

1 A. Yes, sir.

2 Q. In addition, was it your responsibility to
3 negotiate with the other working interest owners on
4 voluntary participation in this well?

5 A. Yes, it was.

6 MR. KELLAHIN: We tender Mr. Troiano as an expert
7 landman.

8 MR. BROOKS: He is so qualified.

9 Q. (By Mr. Kellahin) Mr. Troiano, let's turn to the
10 exhibit book, and what I would like you to do is turn to
11 Exhibit Tab 3. Let's start there. There's two displays
12 behind Exhibit Tab 3. Let's look at the first one.

13 The subject of this force pooling Application is
14 the north half of Section 19?

15 A. Correct.

16 Q. And it's for the recompletion of the James Scott
17 Number 1 well?

18 A. Yes, sir.

19 Q. That well was drilled originally as what type of
20 well?

21 A. It was originally drilled as a Dakota well.

22 Q. And what does Burlington propose to do with that
23 wellbore?

24 A. We have proposed to plug back the Dakota and
25 recomplete uphole to the Mesaverde formation.

1 Q. When we look at the north half of 18, are there
2 any other kinds of wells in the spacing unit?

3 A. There is a Pictured Cliffs well and a Fruitland
4 Coal well. Actually, two PC wells.

5 Q. Why has Burlington decided to attempt to
6 recomplete the Dakota well into the Mesaverde?

7 A. The Dakota is no longer productive. We don't
8 feel it's -- It's been shut in for about 12 years now --

9 Q. Okay.

10 A. -- and we wish to complete uphole because we feel
11 the reserves in the Mesaverde could be economically
12 justifiable.

13 Q. Have you been in contact with the Oil
14 Conservation Division concerning the status of this
15 wellbore?

16 A. Yes, we have. They have set a demand on this
17 wellbore. That demand currently expires on Saturday, the
18 current one we have, but we have been in contact with them
19 to extend that until the end of the third quarter.

20 Q. If you'll turn to the next color display behind
21 Exhibit Tab Number 3, identify for us what we're looking at
22 here.

23 A. This is a zoom-in on the section, and in red is
24 the 325.92-acre spacing unit, and it's just showing just
25 the James Scott well. And in yellow is leasehold and

1 mineral interest that Burlington, Conoco, C&E Operators and
2 the Kendrick parties own an interest in. And in white is
3 the approximate location of what Maralex Resources owns,
4 Mesaverde leasehold ownership.

5 Q. Let's go back to the status of ownership when the
6 Dakota portion of the well was productive. At that point
7 in time, did Maralex have an interest in the wellbore?

8 A. No, they did not.

9 Q. Subsequent to the Dakota not producing, what
10 happened to the status of the leases in the spacing unit?

11 A. Some of the leases expired under their own terms.
12 The James Scott well was no longer productively being --
13 producing in paying quantities, therefore the leases
14 expired and Maralex came in and picked up new leases.

15 Q. If the well is plugged, will Maralex have a
16 portion of the plugging cost responsibility to pay?

17 A. They could.

18 Q. They've assumed an interest, then, in the Dakota
19 as well as the Mesaverde?

20 A. By picking up these leases they are now a working
21 interest owner in the Dakota, yes.

22 Q. Is their working interest percentage different in
23 the Dakota from the Mesaverde?

24 A. Yes, it is, I believe.

25 Q. And we have a spreadsheet that will show that,

1 right?

2 A. Yes.

3 Q. Let's turn back now and look at Exhibit Tab
4 Number 2.

5 A. I'm sorry, it's the same, their interest is the
6 same.

7 Q. All right. Let's look back at Exhibit Tab
8 Number 2, and identify for us what's behind that exhibit
9 tab.

10 A. This is a copy of our most recent demand. As you
11 can see, it expires on Saturday.

12 Q. You've had the OCD demand for action on prior
13 occasions for this well?

14 A. Correct.

15 Q. And they have been extended while you attempt to
16 determine how to proceed?

17 A. Yes, sir.

18 Q. Let's turn to Exhibit Tab Number 4. What does
19 this chronology represent?

20 A. This represents the various letters that have
21 been sent back and forth by myself as a representative of
22 Burlington and Rick Keller as a representative of Maralex
23 Resources.

24 Q. Would you be the only Burlington representative
25 that's been in contact with Maralex and Mr. Keller?

1 A. Yes.

2 Q. And vice-versa, is Mr. Keller the representative
3 at Maralex that you've been doing business with?

4 A. Yes.

5 Q. Let's keep the index available for us and go
6 through the correspondence, and let's talk about the
7 sequencing of what has occurred between you and Mr. Keller.

8 At this point, Burlington has decided to try to
9 take the existing wellbore from the Dakota and access any
10 remaining opportunity for production out of the Mesaverde?

11 A. Correct.

12 Q. At that point, what were you asked to do?

13 A. I was asked to determine the ownership and
14 receive partner approval to go ahead with the project.

15 Q. And did you do that?

16 A. Yes, I did.

17 Q. When we look at the partnership interest to
18 participate in this well, are they any different from the
19 parties that agreed to participate when this was a Dakota
20 well?

21 A. Yes.

22 Q. Did you have a joint operating agreement in the
23 Dakota at that time?

24 A. We could not locate one, and our partners could
25 not either.

1 Q. So what are we doing for the Mesaverde and the
2 wellbore?

3 A. We have sent out a new model form JOA to partners
4 with our well proposal.

5 Q. At this point Maralex has declined to sign the
6 operating agreement?

7 A. Correct.

8 Q. Let's talk about what you have proposed to them.
9 If you start with the November 7th letter, what are you
10 advising Maralex?

11 A. On November 7th we're advising them that we're
12 the owners of this wellbore and that we wish to plug back
13 the Dakota and recomplete in the Mesaverde and the Chacra
14 formations. And we also sent them a model form JOA and
15 advised them that this well is under current NMOCD demand.

16 Q. At this point, the costs associated with the
17 Dakota, say \$20,000, what does that represent?

18 A. That represents the plugging back of the Dakota
19 so we are able to utilize the wellbore.

20 Q. And at this point in time, the other costs on
21 here are Mesaverde costs?

22 A. Mesaverde and Chacra.

23 Q. Okay. And if you go further on the spreadsheet
24 to the right, then you see how those costs are apportioned?

25 A. Correct.

1 Q. What if any response did you have from Mr. Keller
2 concerning your proposal to initiate a recompletion of this
3 wellbore?

4 A. Mr. Keller was concerned with two things. Number
5 one, he brought to my attention that they were the majority
6 owner, if they combined both the Mesaverde and the Chacra,
7 that they owned a greater majority than Burlington. They
8 were concerned with our drilling costs, and they were
9 concerned with the risks associated with the project.

10 Q. Did he communicate those concerns to you in any
11 fashion?

12 A. He did.

13 Q. And how was that done?

14 A. He did it verbally and then by his letter on
15 December 6th.

16 Q. Okay. Did Mr. Keller submit to you a proposed
17 AFE in the event that they should continue to assert their
18 desire to operate the wellbore?

19 A. He did not.

20 Q. Describe for me what is your understanding of his
21 comment about the risk associated with this well. What did
22 that mean to you?

23 A. In my opinion, he felt it was a little bit of
24 stepout. It's on the edge of your trend, and he didn't
25 think it was a very viable project.

1 Q. After making that statement to you, did he later
2 repeat either in writing or verbally any desire that
3 Maralex be the operator of the wellbore?

4 A. Yes, he did.

5 Q. In what way?

6 A. In writing.

7 Q. And after that -- And the writing is December
8 6th?

9 A. Correct.

10 Q. After that, did he ever pursue the notion that
11 Maralex ought to be the operator of the well?

12 A. He did not. I, on several times, encouraged him
13 to submit an AFE to us.

14 Q. Did he ever do that?

15 A. No, he did not.

16 Q. With regards to his position on the risk
17 associated with the well, did Mr. Keller propose to you any
18 alternative solution so that Maralex would not have to
19 participate in this well?

20 A. He proposed several trades of current producing
21 interests, he proposed several farmouts on other lands not
22 associated with the James Scott well.

23 Q. What was your understanding of Mr. Keller's
24 negotiation strategy with you? What was he trying to
25 achieve?

1 A. He was trying to get interests in other areas. I
2 don't feel that they ever planned on joining with us in
3 this well.

4 Q. Let's turn to the next correspondence. It's
5 December 11th.

6 A. Correct.

7 Q. What does this represent?

8 A. This is my letter in response to their December
9 6th letter. I'm going through the options. They had
10 proposed several trades and farmouts, and I explain every
11 one and why we're not interested. I encouraged them to
12 submit an AFE for the operations, because they also
13 mentioned in their letter that they would like to pursue
14 operations if we didn't choose any of the options, and I
15 give them directions as to how to send me an AFE, and I
16 also advised them once again that this is an NMOCD demand
17 well, and at the time operations needed to be commenced by
18 December 31st, 2001.

19 Q. Did Mr. Keller ever give you an AFE on behalf of
20 Maralex?

21 A. He did not.

22 Q. Did he ever return your AFE with any type of
23 notation as to the areas of your well cost proposal for
24 which they had an objection?

25 A. No, he did not.

1 Q. What happens after the December 11th letter?

2 A. Mr. Keller -- we had a verbal conversation, and
3 he proposed some other trades and some other farmout
4 opportunities. I took these to my team, and we evaluated
5 them and felt it was not in our best interests to do any
6 sort of trade, and I advised him that.

7 Q. What are you proposing to Maralex as their
8 options or alternatives at this point in the negotiations?

9 A. I'm giving them five options. One is to farmout;
10 the second is to sell; the third is to again submit an AFE
11 and do the work for them to be operator; the fourth is to
12 join with us, to join with my initial proposal; and the
13 last would be to sign a JOA and take a nonconsent penalty.

14 Q. Did Mr. Keller ever pursue with you any
15 objections he had to any of the provisions of the joint
16 operating agreement?

17 A. He did not.

18 Q. Did he discuss with you at this point or after
19 any concern that Maralex had with the proposed nonconsent
20 penalty provisions of the operating agreement?

21 A. No, he did not.

22 Q. What happens after December 14th?

23 A. On December 17th is when he wrote the letter, but
24 he's basically -- We had a verbal conversation around
25 December 14th, and by December 17th is when he wrote that

1 out in writing and mailed it to us.

2 Q. What's he trying to get you to do?

3 A. He's trying to get us to kind of do a farmout
4 here, I guess. He wants to farm out his interest.

5 Q. He wants to trade his interest for either a
6 farmout or some other --

7 A. Yeah, or in another --

8 Q. -- interest in a property you have elsewhere?

9 A. Yes.

10 Q. All right, what happens after December 17th?

11 A. On February 7th is when he decides to -- he wants
12 \$10,000 and a farmout, he wants us to pay him \$10,000 for a
13 farmout.

14 Q. The farmout terms you provided to Maralex were
15 what?

16 A. The farmout terms that I offered them in my
17 correspondence was for them to retain a -- for them to
18 deliver an 80-percent net lease with no cash consideration.

19 Q. In response, what does he propose?

20 A. He proposes that we give them \$10,000 and they
21 deliver only a 75-percent net lease.

22 Q. Was that acceptable to Burlington?

23 A. No, it was not.

24 Q. What then happens?

25 A. Then I'm in conversations with him. I advised

1 him that our team was -- our company was currently
2 evaluating the Chacra reserves in that area, and we did re-
3 evaluate that with some new information that we got, and we
4 felt that it was no longer economically justifiable to
5 produce from the Chacra.

6 Q. When did you advise Mr. Keller that you're
7 deleting the Chacra costs and opportunity from your well
8 proposal?

9 A. We formally advised him by certified mail on
10 March 26th, 2002.

11 Q. What if any response have you received from
12 Maralex or Mr. Keller concerning the amended proposal?

13 A. I received no formal correspondence. In my
14 letter I again reminded him of the NMOCD that had been
15 extended, and I gave him a courtesy call after about 30
16 days and advised him -- I asked him if he would sign a JOA
17 and elect a nonconsent one more time. He did not want to
18 do that, and so I advised him that we would be pursuing
19 force pooling.

20 Q. At this point, Mr. Troiano, in your opinion have
21 you exhausted negotiation opportunities with Maralex in
22 order to try to reach a voluntary agreement?

23 A. Yes.

24 Q. Let's turn to Exhibit Tab 5. The first sheet
25 represents what?

1 A. The first sheet is Mesaverde rights in the north-
2 half drillblock, Section 18.

3 Q. At this point, the only nonconsenting party for
4 which you're seeking to obtain compulsory pooling is the
5 Maralex interest?

6 A. That is correct.

7 Q. When we turn to the next page -- This first one
8 is "Mesaverde", the next one is captioned "Dakota". Some
9 of these numbers change, but it appears the Maralex
10 interest remains the same.

11 A. That's correct.

12 Q. What's happened?

13 A. We have several -- As you notice, Burlington's
14 interest changes, again because the duration of time that
15 this well was plugged in, we actually lost a small lease,
16 and there is -- the Kendrick Family Partnerships, LTD, et
17 al., is participating with just a mineral interest.

18 Q. At this point, for purposes of either plugging
19 the well or participating in the Mesaverde, Maralex's
20 percentage is the same?

21 A. That's correct.

22 Q. Okay. Behind the spreadsheets, what do we next
23 find?

24 A. This is the model form joint operating agreement
25 that we have sent out with the proposal, well proposal.

1 Q. Have any of the other potential participants in
2 the joint operating agreement objected to any of the terms
3 or conditions of the operating agreement?

4 A. No, they have not.

5 Q. Have any of those parties objected to the
6 proposed well costs for the recompletion into the
7 Mesaverde?

8 A. No.

9 Q. Is Burlington seeking to recover from Maralex any
10 share of the current wellbore value of the well?

11 A. No, we are not.

12 Q. You are simply looking at the cost to recomplete
13 into the Mesaverde?

14 A. Correct.

15 Q. When we turn to Exhibit 6, what is behind Exhibit
16 Tab Number 6?

17 A. These are copies of our AFE's, and there's two
18 separate AFE's. The first one is three pages, the second
19 one is two.

20 The first AFE is the cost of recompleting to the
21 Mesaverde formation, and the second one is the cost of
22 plugging back to the Dakota formation.

23 Q. When we turn to the last page behind Exhibit Tab
24 Number 6, there's a summary page. What does this show us?

25 A. This shows us the total project cost, which we

1 have estimated at \$307,215, and the economic parameters
2 that Burlington believes we will receive.

3 Q. At this point, apart from the risks associated
4 with the Mesaverde, you're recommending that we should go
5 forward and recomplete the well?

6 A. Yes.

7 Q. And that it will be necessary to have a pooling
8 order issued against Maralex to compel their participation
9 and elections under a pooling order?

10 A. Yes.

11 MR. KELLAHIN: That concludes my examination of
12 Mr. Troiano. We move the introduction of his Exhibits 1
13 through 6.

14 MR. BROOKS: Any objection?

15 MR. BRUCE: No.

16 MR. BROOKS: Exhibits 1 through 6 will be
17 admitted.

18 EXAMINATION

19 BY MR. BRUCE:

20 Q. Mr. Troiano, four questions. Do you have any
21 proposed overhead rates?

22 A. Yes, we do. They're in the JOA.

23 Q. And what are they?

24 A. I believe it's \$540 per month producing and \$5406
25 -- The overhead rates are addressed under Tab 5, page 4 on

1 COPAS, under the joint operating agreement, and they are
2 \$5406 drilling overhead rate and \$540.60 producing.

3 Q. Are these comparable to the Ernst & Young rates?

4 A. These are the 2001 COPAS-recommended rates.

5 Q. With your March 26th letter, was the AFE sent
6 with that letter?

7 A. Yes, it was.

8 Q. And do you have any idea why the AFE increased
9 approximately \$55,000 from November 7th to March 26th?

10 A. The AFE for the Mesaverde?

11 Q. Yes.

12 A. Because the Chacra was no longer sharing with
13 some of the operations. The Chacra was bearing a large
14 part of the load.

15 Both formations were on November 7th, and on
16 March 26th it was just the Mesaverde.

17 Q. Okay. Your final page under Exhibit Tab 6, Mr.
18 Troiano -- and I don't know if this is your exhibit or not,
19 but is Burlington recommending only a 100-percent penalty
20 on the recompletion?

21 A. No, we are not. We're recommending 200 percent.

22 Q. Will your next witness address that?

23 A. Yes.

24 MR. BRUCE: That's all I have, Mr. Examiner.

25 MR. BROOKS: Thank you.

EXAMINATION

BY MR. BROOKS:

Q. Turning to your Exhibit Number 2, the second page, do I correctly interpret this exhibit that Burlington's interest is entirely in the acreage shown in yellow?

A. We own a partial interest in the yellow.

Q. Yes, but my question -- I understand that. My question is, does Burlington not own any interest in the portions of the unit not in the yellow?

A. We do own certain depths.

Q. But not in the Mesaverde?

A. No, I don't believe so.

Q. Well, are you confident of that?

A. I'm sorry, we do. In the northeast northeast quarter we own a small tract of lease.

Q. In the northeast northeast?

A. Yes, right above the word "James".

Q. But James -- The wellbore is actually in the northwest northeast; is that correct?

A. Correct.

Q. Okay. The footage locations of the wellbore, are they shown on here somewhere?

A. They are on the first map, right before that, on the bottom right-hand corner. 1050 feet from the north

1 line, 1190 feet from the east line.

2 Q. 1050 from north and --

3 A. -- 1190.

4 Q. -- 1190 from the east.

5 Now going to Exhibit Number 6 -- that's your
6 AFE -- I'm having a little trouble following through from
7 one page to another. Could you walk me through how these
8 various schedules interrelate?

9 A. I'll do my best, and whatever I can't handle I'll
10 defer to Mr. Clark.

11 Q. Okay. Page 1 shows an AFE total of \$287,060.
12 Now, page 2 shows a total of \$36,600, and page 3 a total of
13 \$250,460. Now, those would appear to add to the total of
14 \$287,060.

15 A. Yes, sir.

16 Q. Now, what do pages 2 and 3, respectively,
17 reflect?

18 A. Page 2 is our facility costs.

19 Q. And what exactly is that?

20 A. That is intangible facilities, any lift equipment
21 we're going to have to have in the well, labor consultants,
22 roustabouts.

23 Q. And that's for the total project?

24 A. Correct.

25 Q. Okay, and --

- 1 A. Well, the total recompletion side of the project.
- 2 Q. Okay, the recompletion as distinguished from
3 what?
- 4 A. From the plugging back to the Dakota.
- 5 Q. Okay, so when you say the term "recompletion",
6 you're talking only about the completion costs, not about
7 the plugging back?
- 8 A. Correct.
- 9 Q. Plugging back is a separate --
- 10 A. -- separate AFE.
- 11 Q. Okay. And then page 3 also relates to the
12 recompletion costs?
- 13 A. Correct, these are the intangible costs for this.
- 14 Q. Well now, page 2 is also intangible costs, but --
- 15 A. Yes.
- 16 Q. -- page 2, I take it, is surface costs,
17 basically, where --
- 18 A. Page 2 -- right.
- 19 Q. -- page 3 is -- page 3 is both intangible and
20 tangible downhole costs?
- 21 A. Correct.
- 22 Q. Okay. Now, is there going to be some surface
23 equipment while -- Well, yeah, you've got wellhead
24 equipment, that's on page 3. So your tangible surface
25 equipment costs, is that the \$3000 item on page 3?

1 A. Yes, wellhead equipment, \$3000.

2 Q. Yeah, is that the only tangible surface cost,
3 surface equipment addition you're going to make?

4 A. Tubing, if necessary, would be \$15,000.

5 Q. Okay. Now, then you go to page 4, and that's the
6 plugback cost?

7 A. Correct.

8 Q. Okay. Now then, you go to your concluding page
9 here -- Okay, now I think I understand it. I was a little
10 confused by the fact that the first item -- I guess what
11 confused me was the fact that the first two lines do not --
12 the --

13 A. That's the first AFE.

14 Q. Yeah, page 1 is not -- the total is not carried
15 in as such, but the first two --

16 A. Yes --

17 Q. -- lines total --

18 A. -- complete --

19 Q. -- total of page 1. Okay, I think I understand
20 it now.

21 Okay, only the Mesaverde is being asked to be
22 unitized at this point; is that correct?

23 A. Yes, sir.

24 Q. Okay, and that's on 320-acre spacing?

25 A. Yes.

1 Q. Okay, what is the pool name? I should know it.

2 A. I believe it's Blanco-Mesaverde.

3 MR. BROOKS: Blanco-Mesaverde, yes, that sounds
4 right.

5 I believe that is all the questions that I have.

6 MR. KELLAHIN: May Mr. Troiano be excused --

7 MR. BROOKS: Yes.

8 MR. KELLAHIN: -- and we'll call Mr. Dave Clark.

9 DAVID CLARK,

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

12 DIRECT EXAMINATION

13 BY MR. KELLAHIN:

14 Q. Mr. Clark, would you please state your name and
15 occupation?

16 A. David Clark, I'm a geologist, geological advisor
17 with Burlington Resources.

18 Q. And where do you reside, sir?

19 A. Farmington, New Mexico.

20 Q. On prior occasions have you testified as an
21 geologic expert witness before the Division?

22 A. Yes, I have.

23 Q. Pursuant to your employment, have you made a
24 study on behalf of your company concerning the Mesaverde
25 opportunity in the wellbore we're talking about this

1 morning?

2 A. Yes, I have.

3 Q. In addition, you're familiar with that wellbore,
4 are you not?

5 A. Yes.

6 Q. Are you also familiar with the costs associated
7 in that wellbore?

8 A. Yes.

9 MR. KELLAHIN: We tender Mr. Clark as an expert
10 geologic witness.

11 MR. BROOKS: He is so qualified.

12 Q. (By Mr. Kellahin) The principal reason of your
13 testimony, Mr. Clark, is to have a geologic opinion
14 concerning the risk-factor penalty to be applied by the
15 Division to any nonconsenting interest owner in this case.
16 The Division maximum is cost plus 200 percent. In relation
17 to that, do you have an opinion as to the risk-factor
18 penalty you would recommend be charged against Maralex?

19 A. Yes, in my opinion we should receive the maximum
20 penalty or beyond, cost plus 200, 300 percent under the JOA
21 terms or beyond.

22 Q. Is this well, in your opinion, more risky than
23 the maximum the Division can currently award?

24 A. Yes, I think it has that -- it's that type of a
25 project.

1 Q. Okay. For purposes of their authority, then, you
2 would ask for cost plus 200 percent?

3 A. Yes.

4 Q. What are the reasons that cause you to reach that
5 opinion?

6 A. We're pursuing the project because we think it's
7 prospective, but we recognize the risks. And those risks
8 from a reservoir perspective would be quality of reservoir,
9 especially in the Point Lookout; the potential to encounter
10 moveable water in the Point Lookout; then from more a
11 mechanical wellbore/logistic perspective, this was a test
12 drilled in 1960, completed in 1961, so you're looking at a
13 wellbore in excess of 40 years age. We're not aware of
14 specific problems in the wellbore, but I think there's a
15 risk that the wellbore condition could be poor.

16 Q. If you were to drill a new wellbore to access the
17 Mesaverde, what kind of price range are you looking at?

18 A. AFE's for Mesaverde wells in 2002 are -- from
19 Burlington are approximately \$550,000.

20 Q. If we're able to utilize the existing wellbore
21 and recompleate it in the Mesaverde, what is the general
22 range of costs for that activity?

23 A. The AFE cost, as you referenced in Tab 6,
24 recompleate costs are \$250,000, with facilities costs in
25 excess of that. We have been fairly active in recompleting

1 wellbores drilled deeper than the Mesaverde in the area,
2 both Dakota wells and Gallup wells.

3 For a similar project approximately six miles to
4 the southeast, recompleted in late 2001, we were able to
5 achieve actual costs that would compare to that \$250,000 of
6 approximately \$180,000. That project went very smoothly,
7 with no troubles encountered.

8 So we have done projects at less cost than the
9 AFE, but they would have to go very smoothly, and you're in
10 an area of predicting there.

11 Q. Let's turn to the reservoir. If we're looking at
12 the Mesaverde opportunity, is there any subdivision of the
13 Mesaverde in terms of its production?

14 A. Yes, the Mesaverde can be subdivided into three
15 intervals, based on depositional environments. They're
16 widely known within industry.

17 The uppermost of those is the Cliff House. It's
18 a shoreline sand. It is water-wet in this area. The
19 transition from gas to water, which is in an east-to-west
20 direction, is well east of here, approximately six miles
21 east, so the Cliff House is water-wet in this area.

22 Beneath that is the Menefee. That is a target,
23 the lower part of the Menefee is a target of the James
24 Scott well.

25 And the lowermost unit of the Mesaverde is the

1 Point Lookout, and that's our primary objective at the
2 James Scott.

3 Q. Do you have a display or a map that would show us
4 where this well is located in relationship to other
5 producing wells in the Mesaverde?

6 A. Yes, there are a couple. In Tab 7, the first
7 map, which is taken from another case -- it's just a
8 locator map -- please refer to the arrow. The tip of the
9 arrow points to the James Scott, and all of the area within
10 the blue on the map is in general an outline of the Blanco-
11 Mesaverde Pool in New Mexico. We're on the very west side
12 of the Blanco-Mesaverde Pool.

13 Q. Does that affect your opinion concerning the risk
14 associated with this wellbore?

15 A. Yes, this well is in a stepout position from
16 nearby wells located on the edge of the field. So we are
17 in a stepout position.

18 Q. Let's look more closely at the area specifically
19 around this well. If you turn to the next display behind
20 Exhibit Tab 7, what are we looking at here?

21 A. This is a map that highlights Mesaverde producers
22 near the James Scott well. All of the Mesaverde producers,
23 minus one -- and I'll talk to it -- all of the Mesaverde
24 producers have drainage areas drawn around -- our
25 calculated drainage areas drawn around the well. The red

1 number to the right of each of those producers indicates
2 our estimated ultimate recoveries for the Mesaverde wells.

3 The one exception to be noted is a well located
4 in the southwest southwest of Section 17. It's on your
5 map. The James Scott -- The red rectangle is the spacing
6 unit for the James Scott. That's in Section 18.

7 So the adjacent Section 17, in the southwest
8 southwest quarter, a recent completion, the Raymond Simmons
9 Number 3 well, the 3 there is -- that's a new well with not
10 sufficient production history for us to project an EUR.
11 That's the only exception. All the other Mesaverde wells
12 are shown on the map.

13 Q. Well, let's talk about the EUR's for a moment.

14 A. Yes.

15 Q. Let's address that issue, and then I'll ask you
16 some other questions about the display.

17 Have you estimated the level of EUR necessary to
18 justify taking this wellbore as a recompletion candidate
19 into the Mesaverde?

20 A. Yes. In general, our recomplete economics have
21 allowed projects with reserves as low as a half a BCF to be
22 attempted.

23 Q. Would that be enough to support redrilling this
24 well?

25 A. Absolutely not.

1 Q. The only way to access a Mesaverde opportunity is
2 the recompletion of a wellbore such as this?

3 A. Yes.

4 Q. How does the half-BCF compare to what you're
5 estimate to be the EUR's of Mesaverde wells in this area?

6 A. Along the trend I think you can see recoveries as
7 low as 200. There's a well in Section -- northwest of
8 Section 20, the Carly 1 B, that has reserves as low as 200.
9 And we have reserves as high as 2 BCF.

10 An average reserve figure for the area would be
11 in the neighborhood of 3/4 of a BCF.

12 Q. When we're talking about rates, can you give us a
13 general range of rates of production for these wells? I'm
14 talking about initial rates, that kind of thing?

15 A. Yeah, looking at your first 30 days of
16 production, those are the numbers that I am most able to
17 speak. That first 30 days of production, we'll have rates
18 as high as a million a day, as low as 100 MCF a day in the
19 poorer wells.

20 Q. Can you use this display to illustrate for us
21 where you have data on the highest known water in the
22 Mesaverde that would affect production in the Point
23 Lookout?

24 A. There is one well located near us, the Carly 1 B,
25 which is located in the southwest northwest of Section 20.

1 That's the well that has the EUR of 200 million. That well
2 does make water, which is detrimental to the recovery of
3 the gas and is the reason for the low EUR.

4 So that well, structurally, is updip from the
5 James Scott. But in a Basin-center gas-accumulation trap
6 such as the Mesaverde it's in the updip position that you
7 start to encounter water.

8 Q. Other than this well in Section 20, do you have
9 any other data that would allow you to determine the
10 location of any oil -- I'm sorry, gas-oil transition point?

11 A. Not on this map. Blanco-Mesaverde is a sprawling
12 field. People have drilled near the limits. There's also
13 other productive intervals. Risky completions are not
14 often attempted. There's a more certain interval to
15 complete. That's what's usually done.

16 Q. When we look at this display, can you identify
17 attempts to produce out of the Mesaverde that are to the
18 west and southwest of this well?

19 A. From the map, I'm not aware of any completions
20 that have been attempted in the Mesaverde west of the
21 producing wells. I think in general, log interpretation
22 has allowed people to avoid attempts in areas where the
23 Mesaverde clearly is not prospective.

24 Q. In addition to the risks shown and described
25 within your testimony for Exhibit 7, let's turn to Exhibit

1 8 and look at some of the other risks. Describe for us, Mr
2 Clark, what we are looking at when we see this display, and
3 then we'll have you describe and discuss the components
4 illustrated on this map.

5 A. What you're looking at is an isopach map of the
6 feet of Point Lookout with resistivity greater than 30.
7 It's essentially my map of net pay in the Point Lookout in
8 the mapped area. The spacing unit is highlighted in red,
9 the James Scott is small red square. There's a log cross-
10 section, as another exhibit, that's the green line.

11 I've selected that resistivity threshold as my
12 map of net pay for a couple of reasons. One, I think it is
13 very indicative of how prospective the Mesaverde is. I
14 think it's a good map of net pay.

15 In addition to that, the James Scott well only
16 has -- which was logged back in 1960, only has an induction
17 log run. So resistivity and SP are the two open-hole log
18 criteria I had to work with to map that from the James
19 Scott over the whole areas where I've selected the
20 resistivity.

21 Values for the number of feet of Point Lookout
22 between zero and 20 are the blue shades. Above 20 I've
23 colored yellow and orange and red. I think that 20 is a
24 good estimate of where your economic limit of Mesaverde
25 production may occur.

1 Q. Describe for us how this map supports your
2 conclusion about the maximum risk penalty for the force-
3 pooling portion of this case.

4 A. The majority of producers have net pay calculated
5 using this cutoff of 40 or greater feet. In general, wells
6 with higher EUR's have thicker pays. That's a bit of a
7 statistical statement.

8 On a single case, it's very difficult in the
9 Mesaverde Pool to -- in fact, to take into account the
10 fracturing influence, which is not easily identified on
11 logs. On a one-to-one, it's sometimes difficult. But in
12 general, if you did a statistical average, wells with
13 thicker pays have the higher EUR's

14 The 24 value, there are just a few producers
15 along the trend that have that thin of a pay. Reservoir
16 quality deteriorates very quickly to where my blue colors
17 are indicated, and if you went to Section 20 and referenced
18 this map for the position of the Carly 1 B in the southwest
19 northwest of Section 20, I think we're also very close to
20 where we can encounter moveable water in the Point Lookout,
21 which would hinder production and make the project not
22 economic.

23 Q. Let's turn to your last display, Mr. Clark.
24 Would you pull out your line of cross-section, and let's
25 talk about it.

1 A. Okay. The cross-section -- I have a four-well
2 cross-section that extends from a well in the southwest
3 corner of Section 18, which I believe to be not prospective
4 in the Point Lookout or the Menefee or the Cliff House.
5 It's not prospective in the Mesaverde.

6 The next well going to the east is the James
7 Scott, then you go to a well in the northwest of 17, and
8 then the final well is a productive Mesaverde well.

9 Each of the wells has a resistivity curve on the
10 right-hand side, and either a gamma-ray or an SP curve on
11 the left-hand side, and I've identified the Cliff House,
12 Menefee and Point Lookout.

13 Q. Summarize, then, your conclusions concerning the
14 risk associated with this well.

15 A. I think the project is prospective. It is
16 undertaken knowing that we're in a demand situation where
17 our choices are to plug the Dakota well and go and leave
18 reserves in the Mesaverde or to attempt to recover the
19 reserves in the Mesaverde.

20 The fact that it's in a stepout position with no
21 other Mesaverde well in the spacing unit, no other
22 Mesaverde producer in Section 18, however, does -- there is
23 risk associated with the project.

24 MR. KELLAHIN: That concludes my examination of
25 Mr. Clark.

1 We move the introduction of Exhibits 7, 8 and 9.

2 MR. BROOKS: 7, 8 and 9 are admitted.

3 Mr. Bruce?

4 EXAMINATION

5 BY MR. BRUCE:

6 Q. Mr. Clark, I think you said that recovery of 1/2
7 BCF was sufficient to meet Burlington's economics for re-
8 entry?

9 A. The 1/2-BCF figure would meet our internal
10 criteria as the absolute minimum identified by our
11 corporate office as being a project that would be economic.

12 Those projects do have to compete internally
13 within the division for funds, and that figure would not
14 compete favorably within our San Juan division for funds,
15 and it would be an unusual case -- an unusual project at
16 that low-reserve number that would be done. A similar
17 example would be a demand well. Most of the recomplete
18 projects that we're doing have higher reserve expectations.

19 Q. Okay. And on this one, do you have the exhibit
20 book in front of you there, Mr. Clark?

21 A. Yes, sir.

22 Q. If you could turn to the last page of Exhibit 6.

23 A. Okay.

24 Q. So for this well, Burlington has estimated
25 reserves of almost 3/4 of a BCF; is that correct?

1 A. Correct.

2 Q. Is that a conservative estimate?

3 A. It's an estimate based on the recoveries from
4 surrounding wells, most of which are located in a more
5 favorable reservoir position. So no, I don't think it's a
6 conservative estimate. I actually think it's on the
7 optimistic side, for the reason that I suggested. It's
8 based on average recoveries from wells located in a more
9 favorable -- most of which are located in a more favorable
10 reservoir position.

11 Q. In looking at your Exhibit 7, on the first page,
12 the reservoir is a northwest-southeast-trending reservoir?

13 A. The edge of the pool is defined by that trend,
14 yes.

15 Q. Okay. And just based on your exhibit, the first
16 page -- and then on the second page, clearly the Section 18
17 is within that trend, is it not?

18 A. I think if you look at the map, the isopach map,
19 Exhibit 8, the portions of Section 18, portions of the
20 spacing unit, are within the productive trend.

21 Of the two maps, the one that has the most
22 precise detail is Exhibit 8, and in that I think that the
23 change in color -- the contour at the change -- the 20-foot
24 contour, changing from color-coded blue to yellow, is more
25 or less the edge of the pool, as I -- not proven by tests

1 but by my interpretation.

2 Q. Okay. But with the northwest-southeast-trending
3 reservoir, there are wells to the northwest and wells to
4 the southeast which are economic, are there not? Of your
5 proposed re-entry?

6 A. Yes.

7 Q. Okay. Now, you mentioned one well, and I think
8 it's in Section 17, you mentioned the Well Number 3. Is
9 that the one you talked about that was recently completed?

10 A. Yes.

11 Q. And you didn't have sufficient data on it. Is
12 that a Burlington well?

13 A. It's a well operated by Roddy Production.
14 Burlington has a 50-percent interest in that well, so I'm
15 privy to the early production numbers.

16 Q. Was that a re-entry?

17 A. That was a new drill.

18 Q. New drill. What were the initial rates on that
19 well?

20 A. The first month average was 687. The following
21 month -- and I'm not sure what portion of the month, but it
22 was producing at a rate of approximately 500 the following
23 month.

24 Q. Do these wells generally have pretty long lives?

25 A. These wells have very long lives. There's an

1 early hyperbolic decline, so -- well, you can tell from
2 that 687 average down to 500 in less than a 30-day period.
3 It's in a steep transient phase, still.

4 MR. BRUCE: Okay. I think that's all I have, Mr.
5 Examiner.

6 EXAMINATION

7 BY MR. BROOKS:

8 Q. Okay. Do you do the economic analysis on which
9 this 1/2-BCF figure is reached as being the limit of
10 economic viability, or is that just a figure that's given
11 to you by the company?

12 A. The reservoir engineers run the economic analysis
13 on each individual project using cost for that project and
14 reserves for that project, and those -- the 0.2 PI figure
15 is given to us by corporate -- the reservoir engineers will
16 actually do the economic analysis to derive for each single
17 project the economic parameters that will compare to the
18 desires of corporate.

19 Q. I was just curious about what payout time and
20 what internal rate of rate of return you use to get to that
21 limit of economic viability.

22 A. The payout would vary, and that is not -- When
23 the reservoir engineer talks to me about cutoffs, the
24 payout period is not one of those that controls our
25 decisions.

1 Q. You don't use the payout criteria?

2 A. We certainly have that in the economic analysis
3 and review it, but it's not -- In a hierarchy of critical
4 components, that's not one that I've been led to believe is
5 as high as PI and net present value, internal rate of
6 return.

7 Q. What internal rate of return are you looking at?
8 Or do you use it?

9 A. I'm not certain.

10 Q. Okay.

11 A. I apologize.

12 MR. BROOKS: Thank you, that's all I have.

13 MR. KELLAHIN: That concludes our presentation,
14 Mr. Brooks.

15 MR. BROOKS: Okay.

16 MR. BRUCE: I just have a brief statement.

17 MR. BROOKS: Do you wish to make a statement, Mr.
18 Kellahin?

19 MR. KELLAHIN: Let's see what Mr. Bruce has to
20 say.

21 MR. BROOKS: Okay.

22 THE WITNESS: Am I excused or --

23 MR. BROOKS: You may step down, unless Mr. Bruce
24 wants to ask you --

25 MR. BRUCE: No, I don't have any questions of Mr.

1 Clark.

2 Mr. Brooks, I'd simply like to state that when
3 you look at these exhibits, this is essentially an infill
4 well in the Mesaverde. In the past, the Division has
5 entered orders, for instance Order 11,487, which was a
6 Dakota infill well, reducing the penalty. That was reduced
7 to 150 percent.

8 Recently the Division entered an order -- Now,
9 this was a stipulation among the parties, but it involved
10 the south half of Section 19, just to the south of this
11 proposed well, 30 North, 11 West, wherein one party had an
12 interest, although the well was being drilled -- and it was
13 a new drill -- being drilled to the Dakota. My client had
14 an interest only in the Mesaverde, and the parties
15 stipulated to a 150-percent penalty for a new drill. That
16 was Order 11,762.

17 Further, I'd like to point out that this is a re-
18 entry, and in the past the Division has said -- and I'm
19 citing to Order R-11,565, "based on precedent established
20 in previous compulsory pooling cases involving the re-entry
21 of existing wellbores, the risk penalty should be reduced
22 to 100 percent."

23 What Maralex Resources, Inc., is proposing is
24 that any order entered in this case should provide for a
25 maximum penalty of 100 percent, based on existing Division

1 precedent.

2 Thank you.

3 MR. BROOKS: Mr. Kellahin?

4 MR. KELLAHIN: Thank you, Mr. Examiner.

5 As you can see from Mr. Clark's testimony and for
6 your own technical experts' review, this is an edge well in
7 the Mesaverde. No one else has had the courage to step out
8 farther west than this. The only reason this is any
9 opportunity at all is that there is an existing wellbore
10 which we're not asking Maralex to pay for. That is not a
11 cost associated with exercising their opportunity.

12 As a very edge well, Burlington has determined
13 that it meets a certain threshold that justifies trying to
14 re-enter. Maralex, Mr. Keller, has been afforded numerous
15 opportunities to participate, to propose his own, and
16 declines because it's too risky. What they want is to
17 trade out of the ownership in this area and go somewhere
18 else. It's too risky even for them.

19 And what they want to do is for us to pay their
20 share and take the risk for them with the hopes that at
21 some point in the future we'll recover sufficient gas to
22 repay us for the risk we're taking for them.

23 There are circumstances where penalties are
24 reduced for existing wellbores. We think this is an
25 exception. You can see the data, and you can see the

1 position of the well, and you can recall Mr. Clark's
2 testimony.

3 We would ask for the maximum, we think it's
4 justified, and we would ask for an order pooling Maralex's
5 interest.

6 Thank you.

7 MR. BROOKS: You don't object at this point to
8 their operations?

9 MR. BRUCE: I do not object to their operations,
10 no.

11 MR. BROOKS: Well, okay. Anything further from
12 anyone?

13 MR. BRUCE: No, sir.

14 MR. BROOKS: Case Number 12,869 will be taken
15 under advisement.

16 (Thereupon, these proceedings were concluded at
17 10:10 a.m.)

18 * * *

19 I do hereby certify that the foregoing is
20 a complete record of the proceedings in
21 the Examiner hearing of Case No. 12869
22 heard by me on May 30, 2002.

David K. Bumb Examiner
Oil Conservation Division

CERTIFICATE OF REPORTER

STATE OF NEW MEXICO)
) ss.
 COUNTY OF SANTA FE)

I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.

WITNESS MY HAND AND SEAL May 31st, 2002.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 14, 2002