

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. 12,899
)
 APPLICATION OF MANZANO OIL CORPORATION)
 FOR COMPULSORY POOLING AND APPROVAL OF)
 NONSTANDARD SPACING AND PRORATION UNITS,)
 EDDY COUNTY, NEW MEXICO)
 _____)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID K. BROOKS, Hearing Examiner

RECEIVED

August 1st, 2002

AUG 15 2002

Santa Fe, New Mexico

Oil Conservation Division

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID K. BROOKS, Hearing Examiner, on Thursday, August 1st, 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.

* * *

STEVEN T. BRENNER, CCR
 (505) 989-9317

I N D E X

August 1st, 2002
 Examiner Hearing
 CASE NO. 12,899

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APPLICANT'S WITNESSES:	
<u>MICHAEL G. HANAGAN</u> (Landman, Geologist)	
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* * *

A P P E A R A N C E S

FOR THE APPLICANT:

HOLLAND & HART, L.L.P., and CAMPBELL & CARR
110 N. Guadalupe, Suite 1
P.O. Box 2208
Santa Fe, New Mexico 87504-2208
By: WILLIAM F. CARR

ALSO PRESENT:

DAVID R. CATANACH
Hearing Examiner
New Mexico Oil Conservation Division
1220 South Saint Francis Drive
Santa Fe, NM 87501

* * *

STEVEN T. BRENNER, CCR
(505) 989-9317

1 WHEREUPON, the following proceedings were had at
2 8:24 a.m.:

3 EXAMINER BROOKS: Okay, we call Case Number
4 12,899, Application of Manzano Oil Corporation for
5 compulsory pooling and approval of nonstandard spacing and
6 proration units, Eddy County, New Mexico.

7 Call for appearances.

8 MR. CARR: May it please the Examiner, my name is
9 William F. Carr with the Santa Fe office of Holland and
10 Hart, L.L.P. We represent Manzano Oil Corporation in this
11 matter, and I have one witness.

12 EXAMINER BROOKS: The witness may be sworn.

13 (Thereupon, the witness was sworn.)

14 EXAMINER BROOKS: You may proceed, Mr. Carr.

15 MR. CARR: Thank you, Mr. Brooks.

16 MICHAEL G. HANAGAN,
17 the witness herein, after having been first duly sworn upon
18 his oath, was examined and testified as follows:

19 DIRECT EXAMINATION

20 BY MR. CARR:

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

23 A. Michael G. Hanagan.

24 Q. Mr. Hanagan, where do you reside?

25 A. Roswell, New Mexico.

1 Q. By whom are you employed?

2 A. I'm one of the owners of Manzano.

3 Q. What duties do you perform in the day-to-day
4 operations at Manzano Oil Corporation?

5 A. I take care of most of the aspects of putting
6 together oil and gas prospects and through the drilling and
7 completion stage.

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

10 A. Yes, I have.

11 Q. At the time of that testimony, were your
12 credentials as an expert in petroleum land matters
13 accepted, and also have your credentials as a petroleum
14 geologist previously been approved and made a matter of
15 record before the Division?

16 A. Yes, they have.

17 Q. Would you briefly review for Examiner Brooks your
18 educational background?

19 A. I have a bachelor of science degree in geology
20 from Fort Lewis College in 1983.

21 Q. And summarize your work experience.

22 A. I've worked for several companies in the Permian
23 Basin and other basins and taken care of everything from
24 identifying geologic prospects to leasing to drilling
25 completion matters.

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

3 A. Yes, sir, I am.

4 Q. Are you familiar with the status of the lands and
5 the ownership of the properties that are involved in this
6 case?

7 A. Yes, I am.

8 Q. Have you made a geological study of the area
9 which is the subject of the Application?

10 A. Yes, sir.

11 Q. Are you prepared to share the results of that
12 work with Mr. Brooks?

13 A. I am.

14 MR. CARR: Mr. Brooks, we tender Mr. Hanagan as
15 an expert in both petroleum land matters and petroleum
16 geology.

17 EXAMINER BROOKS: So qualified.

18 Q. (By Mr. Carr) Initially, could you briefly
19 summarize for the Examiner what it is that Manzano seeks
20 with this Application?

21 A. We request an order pooling all minerals from the
22 base of the Bone Springs through the base of the Morrow
23 formation under a nonstandard -- under irregular Section
24 30, Township 18 South, Range 30 East, of Eddy County.

25 Within that we want the west-half unit forming a

1 313.4-acre spacing unit for all formations on 320-acre
2 spacing. These include the North Turkey Track-Morrow and
3 the Undesignated Sand Dune-Upper Penn Pool.

4 Also --

5 Q. Go ahead.

6 A. -- a northwest quarter forming 156.65-acre
7 spacing unit for all formations developed on 160-acre
8 spacing, and a northwest of the northwest quarter 38.31-
9 acre spacing unit for formations developed on 40-acre
10 spacing.

11 Q. Mr. Hanagan, are there any pools in the area
12 which is the subject of this Application developed on 80-
13 acre spacing?

14 A. Not below the base of the Bone Springs.

15 MR. CARR: Mr. Brooks, we would request that that
16 portion of the Application be dismissed. We are not
17 seeking 80-acre pooling.

18 EXAMINER BROOKS: Thank you.

19 Q. (By Mr. Carr) Mr. Hanagan, to what well will
20 these pooled units be dedicated?

21 A. We request it's dedicated to our Green Flash
22 Federal Com Number 1 well, which would be drilled at a
23 standard location of 660 and 660 from the west.

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

25 A. The Morrow formation.

1 Q. Let's go to what has been marked as Manzano
2 Exhibit Number 1, and I would ask you to identify this
3 exhibit and review the information on the exhibit for the
4 Examiner.

5 A. Exhibit 1 is a leasehold and well map of the
6 immediate area on a one-inch-to-a-thousand-foot scale.

7 It shows the location of the Green Flash, 660
8 from the north and west of Section 30, it's shown there.
9 The spacing unit, west-half spacing unit, shown in yellow.
10 Offset spacing units in the -- there's a well offsetting us
11 to the north, the EOG Chocolate Chip Number 1, which is a
12 south-half unit of Section 19; and a west offset to us from
13 the EOG Oreo Number 1, which is a west offset to our well.
14 And we'll also -- there's also been another well staked
15 there, the Oreo Number 2.

16 In addition, there's several other Morrow
17 penetrations and locations shown on the map.

18 Q. Are both the EOG wells completed in the same
19 Morrow interval, which is the target in the proposed well?

20 A. Yes, sir, the EOG Oreo 25-1 is a middle Morrow
21 producer, and the Oreo 19 is a middle and lower Morrow
22 producer, which are -- both are targets.

23 Q. Is Manzano attempting to drill this well as
24 quickly as possible to protect this acreage from drainage?

25 A. Yes, sir, we are.

1 Q. Let's go to Exhibit Number 2. Would you identify
2 that for Mr. Brooks?

3 A. Exhibit 2 is a land plat showing ownership on
4 Tract 1 and 2. The yellow is Tract 1, and the green is
5 Tract 2. Both the ownerships within those tracts are shown
6 on a net-acre basis, to the right of the leases, and down
7 in the bottom it shows the working-interest ownership in
8 the west-half unit from the base of the Bone Springs down
9 to 11,900 feet.

10 Q. Now, we're going to work through the efforts
11 you've made here to reach voluntary agreement with a number
12 of these individuals, but initially could you explain to
13 the Examiner who or what interests you believe will
14 actually be subject to pooling in the well location?

15 A. So far, we've -- there's 15 potential working
16 interest owners in here, and we really think that there's
17 only three that have not voluntarily committed to this
18 point. And of those three, we really believe Pure Energy
19 will be the only one that will have to be force-pooled.

20 Q. So as we go through this, virtually everyone
21 you've talked to and you anticipate their joinder, you're
22 waiting for paperwork to be returned; is that --

23 A. Pretty much. Two of them have not actually -- I
24 mean, they've indicated that they're going to go, but we
25 haven't received anything other than EOG's --

1 Q. Are there any working interest owners in the
2 proposed spacing units that you've been unable to locate?

3 A. No, sir.

4 Q. And what percentage of the working interest is at
5 this time voluntarily committed to the well?

6 A. As of yesterday, there was 63 percent committed,
7 and we anticipate over 90 percent would be committed.

8 Q. Let's look at EOG, Pure and Mission, in
9 particular, and I'd ask you to review initially the efforts
10 you have made to reach a voluntary agreement with EOG for
11 the development of this property.

12 A. On EOG, we've contacted them on several occasions
13 in early May, and -- in late May and early June, and had
14 discussions with Mr. Patrick Tower. He indicated that they
15 would probably participate, but it's in their best interest
16 to just drag this out as long as they can, since they have
17 the two offset producers. In addition, we've sent them a
18 well proposal on June 19th, and Mr. Carr's firm has sent
19 them a notification of this hearing on July 11th.

20 Q. Following notification from my office, were there
21 contacts with Mr. Tower?

22 A. Yes, sir, on July 22nd and July 29th. Let's see,
23 on July 22nd, my partner Ken Barbe contacted Pat Tower, and
24 Tower said that they'd probably go ahead and join, but he's
25 getting ready to leave on vacation -- this would be last

1 week -- and he didn't know if he'd get it done before he
2 left on vacation.

3 We checked again on Monday, July 29th and didn't
4 get ahold of anybody, so...

5 Q. But you do anticipate that EOG is going to
6 participate in the drilling of the well?

7 A. Yes, sir, from everything they've told us, they
8 plan on participating.

9 Q. Is Manzano Exhibit 3 copies of the letters to
10 EOG?

11 A. Yes, sir.

12 Q. And if EOG commits to the well, will Manzano
13 notify the Oil Conservation Division of that commitment?

14 A. Yes, sir, we will.

15 Q. Let's talk about Pure Energy. Review the efforts
16 you've made to bring that voluntarily into this prospect.

17 A. In early May, May 3rd, we sent Pure an offer to
18 either participate or make a term assignment to us on the
19 lands that would be dedicated to this well.

20 Later in May we heard back from a Mr. John
21 Connally with Pure, and he told us that Pure wouldn't be
22 able to either lease or participate because they're
23 presently in a bankruptcy proceeding, and they just can't
24 do anything at this time.

25 Q. When did you last contact Pure concerning this

1 matter?

2 A. I think July 22nd was our last contact, and they
3 told us again they wouldn't be able to participate.

4 Q. And you believe this interest will have to be
5 pooled?

6 A. Yes, sir.

7 Q. And Exhibit Number 4 is Manzano's correspondence
8 with Pure?

9 A. Yes, sir.

10 Q. All right, let's review the efforts made by
11 Manzano to secure the participation of the Mission
12 Resources property owners.

13 A. Letter same date as the Pure on May 3rd, we
14 contacted -- we proposed to Mission either join or make
15 term assignment to us of the acreage associated with this
16 well. In mid-May, we talked to Mr. Mike Gibson with
17 Mission. He was unable to give us an answer at that time.

18 We made numerous contacts since then, including
19 the two letters, a well proposal dated June 19th and the
20 notice sent by your office on June 11th, about this well,
21 and in addition, several phone calls that haven't been
22 returned to us.

23 Q. Is it your opinion that the Mission interest will
24 be voluntarily committed to the well?

25 A. We think they will.

1 Q. And when and if that occurs, you would advise the
2 Division of that, would you not?

3 A. Yes, sir.

4 Q. And Exhibit Number 5 are copies of the
5 correspondence with Mission?

6 A. Yes, sir.

7 Q. If we look at the individuals listed on Exhibit
8 2, the remaining interest owners have small interests, the
9 Elliott group and the Yates group and Paul Slayton. Do you
10 anticipate that those interests are voluntarily going to be
11 committed to the prospect?

12 A. Yes, sir, we've received -- Elliott and Slayton,
13 both of those, have sent us in. We've received signed
14 documents from them, and the entire Yates group and Read
15 and Stevens have said that they've sent them in, that we
16 just hadn't received them yet.

17 Q. In your opinion, have you made a good-faith
18 effort to locate and obtain the voluntary joinder in the
19 proposed wells from all working interest owners in this
20 property?

21 A. Yes, sir, I believe we have.

22 Q. Let's go to what has been marked for
23 identification as Manzano Exhibit 6, and I'd ask you to
24 identify that and review it for Mr. Brooks.

25 A. This is our AFE for the Green Flash Federal

1 Number 1. We show -- We estimate dryhole cost to be around
2 \$675,000 and a completed well to run around \$1,015,000, a
3 naturally completed flowing well. If we have to frac, it
4 would probably be another \$100,000 more.

5 Q. Are these costs in line with what is incurred by
6 other operators in the area for similar wells?

7 A. Yes, sir, I believe they are.

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

11 A. Yes, sir, we propose to charge \$6000 per month
12 for drilling and completion overhead and \$600 a month for
13 administrative overhead on a producing well.

14 Q. And how do these costs compare to the most recent
15 Ernst and Young estimates for well costs?

16 A. They're the median charges from the 2001-2002
17 survey.

18 Q. Do you recommend that these figures be
19 incorporated into the order that results from today's
20 hearing?

21 A. Yes, sir.

22 Q. Is Manzano Exhibit Number 7 a copy of the COPAS
23 1984 onshore accounting procedures for joint operations?

24 A. Yes, sir.

25 Q. And is this the attachment that will be -- Will

1 this procedure be attached to the operating agreement for
2 the well?

3 A. Yes, sir, it will.

4 Q. Will these procedures provide for the adjustment
5 of overhead and accounting charges periodically, pursuant
6 to the provisions of this form?

7 A. Yes, sir, they do -- it does.

8 Q. Does Manzano request that the overhead and
9 administrative costs set by the order that will be entered
10 in this case also be adjusted in accordance with these
11 procedures?

12 A. Yes, sir.

13 Q. Does Manzano seek to be designated operator of
14 this well?

15 A. Yes, we do.

16 Q. Is Exhibit Number 8 an affidavit confirming that
17 notice has been provided in accordance with the Rules of
18 the Oil Conservation Division?

19 A. Yes, sir.

20 Q. And the parties that are identified on Exhibit A
21 to that exhibit are the interest owners that as of today
22 would be subject to compulsory pooling; is that correct?

23 A. Yes, sir.

24 Q. And as those parties join, we will advise the
25 Division?

1 A. Yes, sir.

2 Q. Okay, let's go now to the geological portion of
3 the case. I'd like you to refer to what has been marked as
4 our Exhibit 9 and identify that and review it for Mr.
5 Brooks.

6 A. Exhibit 9 is a production map of the general
7 area. The Green Flash is shown up in Section 30, and the
8 little yellow area is our west-half unit. The red circle
9 with the yellow infill is the location of the Green Flash.

10 The blue circles on here are Morrow producers,
11 and the pink circles are Atoka. Production in here, the
12 reason I put this in is just to show how variable
13 production is in this area. It ranges from 1/10 of a BCF
14 to 10 BCF and, you know, it will do that in one section
15 sometimes.

16 In addition, the Atoka producers -- the Atoka can
17 be productive in the area, but the nearest Atoka producer
18 is two miles away, so the Atoka is really not a real good
19 backup for us here. We're mostly just looking at Morrow
20 producers.

21 Q. There's also a trace on this exhibit for a
22 subsequent cross-section, is there not?

23 A. Yes, sir.

24 Q. Are you ready to go to that cross-section?

25 A. Yes, sir.

1 Q. All right, that's Exhibit 10. Would you review
2 that exhibit for Mr. Brooks?

3 A. Exhibit 10 is a stratigraphic cross-section hung
4 at the top of the middle Morrow sand. It runs from
5 southwest to northeast across Section 25, up into 19 and
6 over into 30.

7 The most apparent thing on this is the huge sands
8 in the Oreo 25 and the Chocolate Chip 19, the huge middle-
9 Morrow sands. These are very anomalous sands for the area,
10 over 100 foot thick, with 70 feet of net pay in the Oreo 25
11 and 40 feet in the Chocolate Chip 19.

12 An important thing to point out on the middle
13 Morrow within this area, the highest well on this cross-
14 section is the Chocolate Cookies 25-1 in the southwest
15 quarter of 25. At the middle Morrow, it's 50 foot high to
16 the Oreo 25-1, yet it's wet in all of the middle Morrow
17 sands.

18 And in addition, just between the Oreo 25 and the
19 19-1, we've got separate oil-water contact and the gas-
20 water contacts in there. So while we expect to have middle
21 Morrow sands, this gas-water contact -- this variable gas-
22 water contact introduces a high degree of risk to it.

23 The lower Morrows are primary -- probably our
24 best shot in this area for this well.

25 Once again, the well over in the far left, the

1 Chocolate Cookies 25-1 is a lower Morrow producer. It's
2 made about 1.2 BCF out of the lower Morrow.

3 The Oreo 25-1, which is the west offset to our
4 well, has no lower Morrow, so we have a pinchout
5 relationship between there.

6 The EOG 19-1 was just completed about two months
7 ago, and it produces out of the lower Morrow. It was
8 completed for 1.6 million a day out of the lower Morrow.

9 And down dip to the east of us, the east offset is
10 the Petroleum Reserve Elliott Federal, which has two lower
11 Morrow sands that are wet.

12 Q. All right, let's go to your structure map,
13 Manzano Exhibit 11. Would you review that?

14 A. Structure is very important within the Morrow in
15 this area. This is a map on the top of the lower Morrow,
16 the base of the massive shale, which is what I think is the
17 best marker to map on in this area. Shows are located on a
18 strong nose that's plunging to the southeast.

19 The main thing that we're wanting to show here
20 is, we're trying to get as high as we can on our lease
21 block, so that's the reason we've stuck the location in the
22 northeast northeast -- I mean the northwest northwest.

23 Q. Are you prepared to make a recommendation to the
24 Examiner as to the risk penalty that should be assessed
25 against any interests not voluntarily committed to the

1 well?

2 A. Yes, sir, we'd recommend the maximum 200-percent
3 penalty be imposed.

4 Q. And would you just briefly summarize your reasons
5 for the recommendation?

6 A. Well, based on the significant risk associated
7 with drilling any Morrow well, combined with the high cost
8 of drilling and completing these deeper wells, we feel the
9 maximum penalty should be assessed against anybody that's
10 not willing to put their money up.

11 Q. Do you believe there's a chance you could drill a
12 well at this location that would not be a commercial
13 success?

14 A. Yes, sir. While this is a good geologic
15 prospect, when you're dealing with the Morrow nothing is a
16 given.

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

21 A. Yes, sir, I think it will.

22 Q. How soon does Manzano plan to spud the well?

23 A. As soon as we can, due to the drainage issues
24 from the two offsetting EOG wells and the impending third
25 well that they're going to drill in the northeast quarter.

1 Q. Were Manzano Exhibits 1 through 11 either
2 prepared by you or compiled under your direction?

3 A. Yes, sir, they were.

4 Q. Can you testify as to the accuracy of the
5 exhibits?

6 A. Yes, sir.

7 MR. CARR: At this time, Mr. Brooks, we would
8 move the admission into evidence of Manzano Exhibits 1
9 through 11.

10 EXAMINER BROOKS: Exhibits 1 through 11 are
11 admitted.

12 MR. CARR: That concludes my direct examination
13 of Mr. Hanagan.

14 EXAMINER BROOKS: Okay, thank you.

15 EXAMINATION

16 BY EXAMINER BROOKS:

17 Q. The Application is styled an application for
18 compulsory pooling and a nonstandard unit. I understand
19 the nonstandard unit feature is necessitated by the section
20 being irregular. Now, when you gave the acreages, is the
21 west half a regular -- the entire west half, is that a full
22 320, or is that some other -- some irregularity?

23 A. The west half would be 313.4 acres --

24 Q. 313.4.

25 A. -- based on the lots.

1 Q. And the northwest quarter, you said, was 156.65;
2 is that correct?

3 A. Yes, sir.

4 Q. And the northwest of the northwest -- I got down
5 38.31; is that correct?

6 A. Yes, sir, it is.

7 Q. Okay. The units you're asking for are standard
8 governmental subdivisions, so they're only irregular
9 because of the deficient acreage, correct?

10 A. Yes, sir.

11 Q. Okay. You refer to these as working interests in
12 your exhibit. These are all leased interests, there are no
13 unleased mineral interests in this --

14 A. No, sir, there's not?

15 Q. -- this unit? Okay.

16 Just out of curiosity, if I correctly your
17 Exhibit Number 10, the bars with the yellow circles on the
18 top and bottom, do those represent perforations in these
19 wells?

20 A. Yes, sir, they are.

21 Q. And so the Oreo 25 Number 1 is the only one
22 that's producing from these thick middle Morrow sands; is
23 that correct?

24 A. Yes, sir, although we have -- I don't have
25 confirmation of it, but I understand that they have moved

1 up to -- in the 19-1, EOG has moved up after notification
2 we were going to drill, so --

3 Q. So they're going to perforate that one in the
4 middle Morrow as well?

5 A. Yes, sir.

6 EXAMINER BROOKS: Okay. I believe that's all the
7 questions I have.

8 Thank you very much.

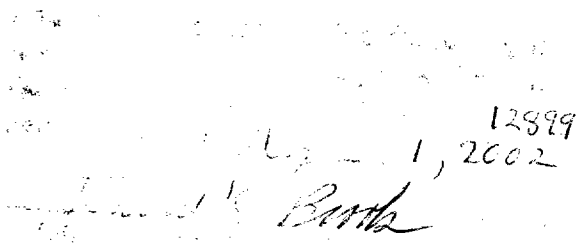
9 THE WITNESS: Thanks.

10 MR. CARR: That concludes our presentation in
11 this case.

12 EXAMINER BROOKS: Very good. If there's nothing
13 further, Case Number 12,899 will be taken under advisement.

14 (Thereupon, these proceedings were concluded at
15 8:48 a.m.)

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A handwritten signature, possibly "Frank B. Burt", is written over a date stamp that reads "12899" and "1, 2002".

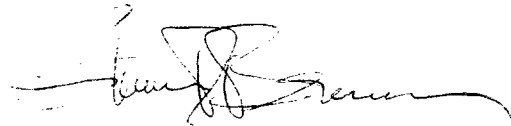
CERTIFICATE OF REPORTER

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 August 2nd, 2002.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 2002

STEVEN T. BRENNER, CCR
(505) 989-9317