

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 MARALEX RESOURCES,)
INC.)

CASE NOS. 11,006
11,007
(Consolidated)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGSEXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

June 23, 1994

Santa Fe, New Mexico

27 1994

This matter came on for hearing before the Oil
Conservation Division on June 23, 1994, at Morgan Hall,
State Land Office Building, 310 Old Santa Fe Trail, Santa
Fe, New Mexico, before Steven T. Brenner, Certified Court
Reporter No. 7 for the State of New Mexico.

* * *

I N D E X

June 23, 1994
 Examiner Hearing
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A P P E A R A N C E S

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Attorneys at Law
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ALSO PRESENT:

NORMAN L. GILBREATH, working interest owner
LORETTA E. GILBREATH, working interest owner

* * *

1 WHEREUPON, the following proceedings were had at
2 8:22 a.m.:

3 EXAMINER STOGNER: We're going to vary from the
4 order of the docket. I understand Case 10,994, Enserch
5 Exploration, is contested today.

6 With that, we will continue with the uncontested
7 matters.

8 At this time I'll call Case 11,006.

9 MR. CARROLL: Application of Maralex Resources,
10 Inc., for compulsory pooling, San Juan County, New Mexico.

11 EXAMINER STOGNER: Call for appearances.

12 MR. ROBERTS: Mr. Examiner, my name is Tommy
13 Roberts. I'm with the Tansey law firm in Farmington, New
14 Mexico.

15 I'm appearing on behalf of the Applicant in Case
16 Number 11,006 and Case Number 11,007.

17 And Mr. Examiner, we would ask that these cases
18 be consolidated for purposes of testimony.

19 EXAMINER STOGNER: Are there any other
20 appearances in Cases 11,006?

21 Are there any objections to the consolidation of
22 both cases, 11,006 and 11,006? I see a hand there. Please
23 -- Do you have a statement at this time?

24 MR. GILBREATH: Yes, we were concerned. We
25 received a letter from Maralex, Inc., stating that when

1 they wanted to force-pool this unit they wanted to run the
2 surface through the base of the Basin-Fruitland Coal. And
3 we object to that, not to the drilling of the well per se.

4 EXAMINER STOGNER: And that's Case 11,007?

5 MR. GILBREATH: 11,006.

6 EXAMINER STOGNER: For the record, would you
7 please state your name?

8 MR. GILBREATH: Yes, Norman Gilbreath and Loretta
9 Gilbreath.

10 MRS. GILBREATH: We are the working interest
11 owners in that lease, part of the lease.

12 MR. ROBERTS: Mr. Examiner, the cases were both
13 advertised seeking a force-pooling of the mineral interests
14 in the Basin-Fruitland Coal Gas Pool only, and that is what
15 Maralex seeks by these Applications.

16 The letters to the Gilbreaths may have indicated
17 that they would be seeking force-pooling involving from the
18 surface to the base of the Fruitland Coal formation, but
19 the docket and the advertisements are correct.

20 EXAMINER STOGNER: For the record, in looking at
21 the May 27th, 1994, letter from Maralex to the Division in
22 which they requested an application for compulsory pooling
23 of the Basin-Fruitland Coal formation -- and I don't see
24 any reference to any other zone of interest or, in fact,
25 know of any zone between the surface and the base of the

1 Fruitland Coal that is spaced on 320.

2 Was there any other application made to us, Mr.
3 Roberts, that you know of, other than the May 27th letter?

4 MR. ROBERTS: No, I believe that would have been
5 the application letter.

6 EXAMINER STOGNER: Is that satisfactory, or do
7 you all have anything --

8 MR. GILBREATH: This is compulsory pooling of the
9 north half of 19; is that right? On 11,006?

10 EXAMINER STOGNER: 11,006?

11 MR. GILBREATH: Yes.

12 EXAMINER STOGNER: Okay, that is an unorthodox
13 proration unit in that that's up there in an area that
14 has -- How would you say? An oddball survey.

15 And I really don't have a plat on that just yet
16 that tells me -- I'm assuming that it is the north-half
17 equivalent. Lots 1 and 2, would probably be the western
18 side of the northwest quarter, and the northeast quarter
19 being standard and the east half of the northwest quarter;
20 is that correct, Mr. Roberts?

21 MR. ROBERTS: That's correct.

22 EXAMINER STOGNER: So that would be the north
23 half.

24 MR. ROBERTS: That's the north-half equivalent.

25 MR. GILBREATH: I'd like to add, too, that we

1 have 38 acres that belong to the Blancetts, Mr. Richard
2 Blancett and Kenneth Blancett, and Maralex hasn't
3 acknowledged that we are the working interest owners in
4 that 38 acres, in that -- It would be in the northwest
5 quarter.

6 MR. ROBERTS: Mr. Examiner, the testimony that
7 will be given by the witnesses on behalf of Maralex will
8 indicate that there is a dispute as to ownership of certain
9 leasehold operating rights interests in this particular
10 38.92-acre tract of land. So that issue will arise during
11 the course of the testimony.

12 EXAMINER STOGNER: Okay.

13 MR. ROBERTS: Our position on that particular
14 issue, though, is that the Division does not resolve
15 contractual disputes between parties. What we are here to
16 obtain today is simply an order allowing the drilling of
17 the well under a force-pool order.

18 EXAMINER STOGNER: Okay. With that, what we'll
19 do is proceed with this matter.

20 Now, let me make sure I understand. Your
21 interest is in both cases, or just that one?

22 MR. GILBREATH: In both cases.

23 EXAMINER STOGNER: In both cases.

24 MR. GILBREATH: Yes, sir.

25 EXAMINER STOGNER: Okay. Now, the consolidation

1 in this matter is for testimony purposes only, and there
2 will be two separate orders issued --

3 MR. GILBREATH: Okay.

4 EXAMINER STOGNER: -- subsequent to today's
5 hearing or --

6 MR. GILBREATH: Yes, sir.

7 EXAMINER STOGNER: -- to the conclusion of these
8 matters.

9 So since they're so close together and the
10 interest sounds like it's somewhat the same, that's what we
11 will be doing as far as consolidation of testimony.

12 And it appears to me that Mr. Roberts has
13 supplied you with the exhibits today.

14 And with that, the way we will proceed -- This is
15 somewhat of an informal hearing process. Mr. Roberts will
16 be calling -- How many witnesses will you have?

17 MR. ROBERTS: Two witnesses.

18 EXAMINER STOGNER: -- will be calling a couple of
19 witnesses. I would assume that one is a landman,
20 landperson, and the other one would be a technical
21 individual. And at the conclusion of his questioning, you
22 will be allowed to cross-examine that witness.

23 And also I -- myself and my attorney today, we
24 will also be asking questions too, to maybe set the record
25 straight or to make things clear, to make the record

1 complete.

2 So that's how we will proceed. I don't know if
3 you've ever been up here or not.

4 MR. GILBREATH: Yes, once.

5 EXAMINER STOGNER: And then at the conclusion of
6 his, if you have anything to say, statements, if you would
7 like to be sworn as a witness, since you're evidently, I
8 would assume, representing yourself --

9 MR. GILBREATH: Yes, sir.

10 EXAMINER STOGNER: -- the Attorney General of the
11 State of New Mexico has determined that you have to have
12 legal counsel if you're representing someone else.

13 But in your case, since you're representing
14 yourself and your own interest, you can take the stand on
15 your own behalf.

16 So that's the way we proceed. If it becomes
17 awkward or anything, let us know. We'll try to get any
18 questions you have straight and keep the proceedings in
19 line.

20 With that, that's how we will proceed.

21 Mr. Roberts, I will at this time have your
22 witnesses stand to be sworn.

23 (Thereupon, the witnesses were sworn.)

24 MR. ROBERTS: Mr. Examiner, I call Jennifer
25 Ritcher.

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JENNIFER A. RITCHER,

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

DIRECT EXAMINATION

BY MR. ROBERTS:

Q. Would you state your name and your place of
residence?

A. Yes, my name is Jennifer Ritcher. I reside in
Denver, Colorado.

Q. What is your occupation?

A. I'm a petroleum landman.

Q. By whom are you employed?

A. Maralex Resources, Inc.

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

A. Three and a half years.

Q. Would you briefly describe your job
responsibilities?

A. I'm responsible for all of the contractual
matters, preparing of farmout agreements and other
agreements required in the drilling of oil and gas wells.
I'm also responsible for title curative matters, title
opinions, all other types of land matters for the company.

Q. Have you testified on any prior occasion before
the New Mexico Oil Conservation Division?

1 A. Yes.

2 Q. And in what capacity did you testify?

3 A. As a witness.

4 Q. As a landman?

5 A. As a petroleum landman.

6 Q. And were your qualifications as an expert
7 petroleum landman then accepted and made a matter of
8 record?

9 A. Yes, they were.

10 Q. Are you familiar with the subject matter of Case
11 Numbers 11,006 and 11,007?

12 A. Yes, I am.

13 Q. Have you prepared certain exhibits to be
14 presented in conjunction with your testimony today?

15 A. Yes, I have.

16 MR. ROBERTS: Mr. Examiner, I would tender Ms.
17 Ritcher as an expert petroleum landman.

18 EXAMINER STOGNER: Are there any objections?

19 Ms. Ritcher is so qualified.

20 Q. (By Mr. Roberts) Ms. Ritcher, would you please
21 briefly describe the purpose of the Application in Case
22 Number 11,006.

23 A. Okay. In Case Number 11,006, we are seeking an
24 order pooling all mineral interests within the Basin-
25 Fruitland Coal Gas Pool underlying the north half of

1 Section 19 in 30 north, 11 West, San Juan County, New
2 Mexico. This will be a standard proration unit. The well
3 dedicated to that location is at a standard location.

4 We also will be asking for operating costs,
5 charges for supervision, we will ask for a risk factor.
6 Also, we will ask to designate SG Interests as operator,
7 Maralex Resources is a contract operator for SG Interests
8 in this well.

9 Q. Now, briefly describe the purpose of the
10 Application in Case Number 11,007.

11 A. Okay, Case Number 11,007, we're seeking to force-
12 pool all mineral interests within the Basin-Fruitland Coal
13 Gas formation underlying the south half of Section 19,
14 Township 30 North, Range 11 West, San Juan County, New
15 Mexico.

16 This is a standard proration unit for gas; the
17 locations is at a standard location.

18 We will also be seeking to be allocated operating
19 costs and charges for supervision, also a risk factor, ask
20 for a risk factor to be applied.

21 Q. What is the name of the well which you propose to
22 drill that is the subject matter of Case Number 11,006?

23 A. That well is called the Cecil Cast Number 1.

24 Q. And am I correct in stating that it is not yet
25 spudded?

1 A. No, it has not. We're awaiting the force-pooling
2 order.

3 Q. And what is the name of the well which you
4 propose to drill which is the subject matter of Case Number
5 11,007?

6 A. It's called the Flora Vista Number 19-2.

7 Q. And am I also correct in stating that that well
8 has not yet been spudded?

9 A. Yes, you are.

10 Q. Now, you've indicated that the spacing proration
11 units proposed for each of these wells is a standard
12 spacing and proration unit.

13 Would you identify for the record the amount of
14 acreage contained within the spacing and proration unit
15 proposed for the Cecil Cast well, which is the subject
16 matter of Case Number 11,006?

17 A. Okay, the total acres within that spacing unit
18 are 327.10.

19 Q. And so that spacing and proration unit is
20 comprised of odd-acreage lots, in governmental sections; is
21 that correct?

22 A. Yes, that is correct.

23 Q. And does that spacing and proration unit
24 constitute the north-half equivalent of Section 19 --

25 A. Yes.

1 Q. -- 30 North, 11 West?

2 A. Yes, it does.

3 Q. Now, referring to the Flora Vista 19 Number 2
4 Well, which is the subject of Case Number 11,007, again,
5 you testified that the spacing and proration unit proposed
6 for that well is a standard spacing and proration unit.
7 What is the amount of acreage contained in that proposed
8 spacing and proration unit?

9 A. The amount of acreage contained within that
10 proration unit is 326.26 acres.

11 Q. And does that constitute the south-half
12 equivalent of Section 19, Township 30 North, 11 West?

13 A. Yes, it does.

14 Q. Now, procedurally here, Ms. Ritcher, I want to go
15 through your Exhibit Numbers 1 through 4 in Case Number
16 11,006, and then we'll follow up with Exhibit Numbers 1
17 through 4 in Case Number 11,007.

18 So beginning with Exhibit Number 1 in Case Number
19 11,006, would you please identify that exhibit?

20 A. Yes, that exhibit is a plat showing leasehold
21 ownership within the proration unit, as well as identifying
22 mineral ownership by fee owner name, or, if it's a federal
23 lease, the federal lease number.

24 Q. Would you go ahead and describe for the record
25 the details that are set forth in that particular exhibit?

1 A. Yes, I can describe by quarter quarter section
2 the ownership, which would be in the east half of the
3 northeast quarter. That is a fee lease owned by Wright,
4 and it's leased to Koch Exploration, a hundred percent.

5 The west half of the northeast quarter and the
6 southeast of the northwest quarter is owned by Maralex
7 Resources, a hundred-percent leasehold. It's a federal
8 lease.

9 The north half of the northwest quarter is
10 actually two tracts. There's a very small tract located
11 within that north half of the northwest quarter, and the
12 larger tract is -- it's fee acreage. The fee owners are
13 Young, Cast and Koogler. It is owned by Maralex, that
14 tract, 92.4987 percent, and Caprock Energy owning 7.5013
15 percent of that tract. The smaller tract, which is a fee
16 tract, Maralex owns the leasehold on 75 percent and
17 unleased is 25 percent.

18 Moving down to Lot 2, which is also the southwest
19 of the northwest quarter, that's a fee tract. Mineral
20 owners are Richard and Kenneth Blancett, and Maralex has a
21 leasehold on that, a hundred percent from those mineral
22 owners.

23 There's a little tiny fee tract at the bottom,
24 and that's also Maralex ownership.

25 Q. Now Lot 2, that particular part of this spacing

1 and proration unit marked as Lot 2, which is the equivalent
2 of the southwest quarter of the northwest quarter, is that
3 the particular tract of land which Mr. and Mrs. Gilbert
4 have indicated that they believe they have leasehold
5 operating rights --

6 A. Yes.

7 Q. -- under a lease from Mr. and Mrs. Blancett?

8 A. Yes, it is that tract.

9 Q. And we'll discuss that further in a few minutes.

10 A. And that's all I have on Exhibit 1.

11 Q. Okay.

12 A. Exhibit 2 is just a list of operating rights or
13 leasehold rights owners and the status of their commitment,
14 I guess, to the well.

15 Q. Would you go ahead and identify the owners by
16 name and describe the status of your negotiations with
17 those parties?

18 A. Yes, I will.

19 The first one, Caprock Energy Company, owning a
20 percentage -- this is percentage of the proration unit.
21 They own 1.72730 percent of that proration unit. And the
22 status after sending several letters to them, which I'll go
23 through in Exhibit 3, we're seeking compulsory pooling of
24 their interest.

25 The next three interests, Gutierrez, Mills and

1 Payne, they each own .11923 percent of the unit. And at
2 the present time we're attempting to secure leases from
3 those three small interests, and we feel that we probably
4 will secure leases from them so we are not seeking a
5 compulsory pooling order on their interests.

6 Following those three interests, we have DiTirro
7 with .12330 percent. He's agreed to farm out to Maralex.

8 We have Taoka with .12330 percent. He's agreed
9 to farm out to Maralex.

10 We have James Martin, .12330 percent, who has
11 agreed to farm out to Maralex.

12 Koch Exploration, with 24.457 percent, has agreed
13 to farm out to Maralex.

14 Henry James Young and Walta Grace Young are
15 currently leased to Caprock, but we included them in this
16 because there's no pooling clause in their lease.

17 And then the balance of the proration unit is
18 owned by Maralex Resources.

19 Q. In summary, then, is it accurate to say that you
20 seek to force-pool the interests credited to Caprock Energy
21 Company on this particular summary list?

22 A. Yes.

23 Q. And that you also seek to force-pool the royalty
24 interest, which is held by the mineral interest owners, who
25 have leased to Caprock Energy?

1 A. Yes.

2 Q. And that is because there is no pooling clause in
3 that particular lease?

4 A. That is correct.

5 Q. Now, with respect to the Gutierrez, Mills and
6 Payne interests, your testimony is that you do not seek to
7 force-pool those interests because you have negotiations
8 ongoing with them for the execution of a lease in favor of
9 Maralex?

10 A. That is correct.

11 Q. In fact, you have not talked to those particular
12 interest owners about joining in the drilling of this well,
13 have you?

14 A. No.

15 Q. I don't see the names of Mr. and Mrs. Norman
16 Gilbreath on this list. Are they affiliated in some way
17 with an interest owner that is listed?

18 A. Yes, they are the principals of Caprock Energy
19 Company.

20 Q. Okay. Ms. Ritcher, what -- The percentage
21 interest credited to Maralex resources, Inc., on this
22 summary list, is that owned entirely by Maralex resources,
23 or is it a composite ownership of other companies as well?

24 A. It would also include ownership by SG Interests.

25 Q. What is the relationship of SG interests to

1 Maralex?

2 A. We are a contract operator for SG for this well
3 and then other wells within the San Juan Basin.

4 Q. Okay, and do you have a long-standing
5 relationship with them as an agent?

6 A. Yes, we do.

7 Q. Ms. Ritcher, what is the basis for the percentage
8 of interest that is tabulated on this summary list? How
9 have you compiled this list? What has been the source of
10 information?

11 A. It was based on a title opinion prepared by an
12 attorney, plus updates of county records and federal
13 records.

14 Q. And how current is the title examination by the
15 attorney?

16 A. The title examination is 1990, and then the
17 county record update is probably only a few months old.

18 Q. Now, I've referred to a dispute over ownership of
19 leasehold operating rights applicable to Lot 2, which is
20 the southwest quarter of the northwest quarter equivalent
21 of Section 19, and in particular either Mr. and Mrs.
22 Gilbreath or Caprock and/or Caprock Energy, apparently
23 assert ownership of leasehold operating rights under a
24 lease executed by Richard Blancett and Kenneth Blancett.
25 Could you go into that in a little bit more detail?

1 A. Yes, it's -- The dispute is over an old lease
2 that Caprock feels that they still hold. It's our belief
3 that that lease terminated due to their failure to timely
4 pay shut-in payments to the lessors, and we have secured
5 new leases from the Blancetts, both Kenneth and Richard,
6 covering that tract.

7 We have a New Mexico attorney's title opinion
8 which supports our belief.

9 Q. Nevertheless, Caprock Energy does have an
10 ownership interest in this particular spacing and proration
11 unit?

12 A. Yes, they do.

13 Q. And it's a matter of the quantum of that interest
14 that may be in dispute between Maralex and Caprock and/or
15 Mr. and Mrs. Gilbreath?

16 A. Yes.

17 Q. I want you to refer to what you have marked as
18 Exhibit Number 3 and ask you to identify that exhibit. And
19 I see that it contains a series of communications. Will
20 you go through each item of communication?

21 A. Okay. The first item of communication, dated
22 March 1st, was a purchase offer to the Gilbreaths, and in
23 this letter we offered to pay them \$14,000 plus allow them
24 to retain an override. It was presented on our behalf by a
25 broker in the area that we have used in the past, and it

1 was rejected.

2 Q. Now, is this correspondence applicable to the
3 1.7-percent interest credited to Caprock Energy on Exhibit
4 2?

5 A. Yes, it is.

6 Q. Go ahead. The next correspondence is dated March
7 18th. Again, this was a purchase offer. In this offer we
8 increased our purchase price. We also allowed them to
9 retain an override. This was presented to them in person
10 or over the telephone by our broker, and it was rejected.

11 The next letter is -- actually, it's the same
12 letter as before, but we sent it directly to the
13 Gilbreaths. They had indicated that they might want to
14 look at it before they rejected it. But it's the same
15 letter. It was mailed March 18th. They received it March
16 25th, as indicted by the certified card.

17 And the next item of correspondence, dated May
18 18th, was a letter to the Gilbreaths from Mr. O'Hare, who's
19 the president of Maralex, and it was really just a letter
20 -- kind of a final attempt to try and negotiate something
21 with the Gilbreaths, and we didn't receive a response to
22 that letter.

23 The next item of correspondence is dated May
24 27th, 1994, and in this letter we furnished the Gilbreaths
25 with an AFE and an operating agreement, and we gave them

1 the opportunity to participate in our well. We never had a
2 response to that letter either.

3 Q. Is it accurate to say, then, that over a period
4 of time you've had negotiations with Mr. and Mrs. Gilbreath
5 in an attempt to secure their voluntary joinder in the
6 drilling of the Cecil Cast Number 1 Well?

7 A. Yes.

8 Q. And have you given them the opportunity to sell
9 their interests to you, to farm out their interests to you
10 and to participate in the well?

11 A. Yes.

12 Q. I notice that all of your communications have
13 been with Mr. and Mrs. Gilbreath and not with Caprock
14 Energy Company. Can you explain that? Is there any reason
15 for that?

16 A. Well, it's because Mr. and Mrs. Gilbreath are the
17 principals of Caprock Energy Company, and our last
18 correspondence actually was directed to Caprock, the May
19 27th letter.

20 Q. Have you had any verbal communications with Mr.
21 and Mrs. Gilbreath regarding their participation in this
22 well?

23 A. No, I have not.

24 Q. What is the current status of those negotiations?

25 A. There are none.

1 Q. Okay. I want you to refer to what you've marked
2 as Exhibit Number 4 in Case Number 11,006 and identify that
3 exhibit.

4 A. Okay, Exhibit Number 4 is the actual notice of
5 this hearing. It was sent certified to both Caprock Energy
6 Company and Henry and Walta Grace Young. The Youngs were
7 the mineral owners with no pooling clause in their lease.
8 And both parties received it. The Youngs received their
9 notice on the 8th of June, and Caprock received their
10 notice on June 6th, as evidenced --

11 Q. The letter --

12 A. -- by the certified cards.

13 Q. The letter is dated June 2nd. Was the letter
14 mailed on June 2nd?

15 A. Yes, it was.

16 Q. Ms. Ritcher, in your opinion, have the notice
17 requirements of Rule 1207 of the Rules and Regulations of
18 the Oil Conservation Division been satisfied in this case?

19 A. Yes, they have.

20 Q. Now, let's turn to Exhibit Numbers 1 through 4 in
21 Case Number 11,007, which is the Application for force-
22 pooling that pertains to the Flora Vista Number 19-2 well
23 in the south-half equivalent of Section 19.

24 Would you identify Exhibit Number 1, please, and
25 describe the information depicted on that exhibit?

1 A. Okay, Exhibit Number 1 is a lease plat that shows
2 leasehold, operating rights, owners and their interests.

3 It also shows the fee owners, the lessors' names,
4 and I can go through just kind of the same --

5 Q. Please do.

6 A. -- the ownership, which would be: The southeast
7 quarter, the leasehold operating rights are owned by Norman
8 Gilbreath and Loretta E. Gilbreath, 100 percent. That's
9 fee acreage within that 160-acre tract.

10 The southwest quarter, the leasehold operating
11 rights are owned by San Juan Resources with 18.75 percent,
12 David DiTirro with 31.25 percent, George Taoka with 28.125
13 percent, and James Martin with 21.875 percent. Those are
14 all under fee leases, owned -- The fee owners are Apperson,
15 Kaemph and Wright.

16 Q. Refer to what you've marked as Exhibit Number 2
17 and describe the information depicted on that exhibit.

18 A. Exhibit Number 2 is a list of the owners, their
19 percentage ownership within the proration unit and the
20 status of their participation for the well.

21 The first company, San Juan Resources, is 9.63750
22 percent of the proration unit. They have agreed to farm
23 out to Maralex.

24 David DiTirro owns 16.0625 percent. They have
25 agreed to farm out to Maralex.

1 George Taoka owns 14.45625 percent. They have
2 agreed to farm out to Maralex.

3 James Martin owns 11.24375 percent. They have
4 agreed to farm out to Maralex.

5 And Norman Gilbreath and Loretta E. Gilbreath own
6 48.60 percent, and we're seeking compulsory pooling of
7 their interest.

8 Q. What is the basis for the tabulation on Exhibit
9 2?

10 A. This was prepared based on checks of both county
11 and federal records. Well, actually in this case all
12 county records, there's no federal acreage in the proration
13 unit.

14 Q. And how current was that check?

15 A. This is approximately one month old.

16 Q. Will SG Interests also have an interest in the
17 farmouts that you have obtained from San Juan Resources,
18 David DiTirro, George Taoka and James Martin?

19 A. Yes, they will.

20 Q. So they will have a working interest in this
21 particular well --

22 A. Yes.

23 Q. -- as will Maralex?

24 A. That's correct.

25 Q. Now, let me have you refer to what's been marked

1 as Exhibit Number 3 in Case Number 11,007 and ask you to
2 identify that exhibit.

3 A. Okay, Exhibit Number 3 is a grouping of
4 correspondence that has been sent to the Gilbreaths,
5 seeking their voluntary joinder in the drilling of this
6 well.

7 The first item of correspondence is a letter
8 dated March 1st of 1994. It is an offer to purchase. It
9 also allows them to retain an override.

10 The next item of correspondence is dated March
11 18th. This offer was an increase in the purchase price and
12 also allowed them to retain an override.

13 And the next item, dated March 18th of 1994, is
14 the same offer, basically, as the prior offer, but we sent
15 it directly to the Gilbreaths in hopes that once they
16 received it they might evaluate it and maybe decide that
17 they would like to do that. So that's again a purchase
18 offer with a retained override.

19 And then the next item, dated April 6th, was a
20 request for a farmout from the Gilbreaths, plus a cash
21 consideration to the Gilbreaths.

22 The next item, which is dated May 18th, 1994, is
23 a letter to the Gilbreaths from Mr. O'Hare, who's the
24 president of Maralex, and it's a letter just really asking
25 for a final attempt to negotiate something so that we could

1 drill the well prior to going to the hearing.

2 And then the last item is dated May 27th, 1994,
3 and in this letter we submitted an AFE and an operating
4 agreement to the Gilbreaths, and we gave them the
5 opportunity to participate in our well.

6 Q. Do you have any response from Mr. and Mrs.
7 Gilbreath to any of your communications?

8 A. No, I haven't directly. Some of the earlier
9 communications were rejected verbally to our broker.

10 Q. What is the current status of your negotiations
11 with the Gilbreaths?

12 A. There are none.

13 Q. Now, you've indicated, both in Case Number 11,007
14 and Case Number 11,006, that an AFE for each the respective
15 wells and an operating agreement applicable to each of the
16 respective wells had been delivered to Mr. and Mrs.
17 Gilbreath or Caprock Energy with the May 27th or May 28th
18 letter to them, which again offered them the opportunity to
19 participate in these wells.

20 Will the AFE and the operating agreements be the
21 subject of testimony by Mr. O'Hare?

22 A. Yes, they will be.

23 Q. Now, let me have you turn to what you've marked
24 as Exhibit Number 4, ask you to identify that exhibit.

25 A. Okay, Exhibit Number 4 is just the formal notice

1 of this hearing. It was sent to Norman and Loretta
2 Gilbreath. It was mailed on June 2nd. They received it on
3 June 6th, as indicated by their certified card.

4 Q. The letter is dated June 2nd. Was it mailed to
5 them on June 2nd?

6 A. Yes, it was.

7 Q. In your opinion, have the notice requirements set
8 forth in Rule 1207 of the Rules and Regulations of the Oil
9 Conservation Division been satisfied in this case?

10 A. Yes, they have.

11 Q. When do you plan to spud the Cecil Cast Number 1
12 Well, which is the well which is the subject matter of Case
13 Number 11,006?

14 A. We hope to spud that well as soon as we can
15 after the issuance of a force-pooling order. We have an
16 urgency there because we have a lease which expires August
17 4th of this year, so we really need to get -- start
18 drilling fairly quickly.

19 Q. And when do you plan to spud the Flora Vista
20 Number 19-2 Well, which is the subject matter of Case
21 Number 11,007?

22 A. That one will probably be spud right after the
23 Cecil Cast well.

24 Q. Do you have any factors driving the spud date for
25 that particular well?

1 A. We do. We've got some in farmout agreements with
2 commitments to drill that take us to September 1st, so we
3 need to get that one done by September 1st.

4 Q. And as a result of the drilling commitments and
5 lease expiration deadlines that you have, do you ask for
6 the issuance of an expedited order in these two cases?

7 A. Yes, we do.

8 Q. Ms. Ritcher, were Exhibit Numbers 1 through 4 in
9 Case Numbers 11,006 and 11,007 either prepared by you or at
10 your direction or under your supervision?

11 A. Yes, they were.

12 MR. ROBERTS: Mr. Examiner, I would move the
13 admission of Exhibit Numbers 1 through 4 in each of the
14 case numbers, 11,006 and 11,007.

15 EXAMINER STOGNER: Exhibits 1 through 4 in both
16 cases will be admitted into evidence at this time.

17 MR. ROBERTS: I have no further questions at this
18 time.

19 EXAMINER STOGNER: Thank you, Mr. Roberts.

20 (Off the record)

21 EXAMINER STOGNER: Mr. and Mrs. Gilbreath, do you
22 have any questions of the witness at this time? Would you
23 like to ask -- cross-examine this witness on anything?

24 MR. GILBREATH: I don't think so.

25 I would like to say this, that we do not oppose

1 the drilling of a well in the south half of Section 19 if
2 they honor the agreements -- existing agreements and
3 overriding royalty interest on record as such, per se,
4 which they should be required to do.

5 EXAMINER STOGNER: Okay. With that, I'm going to
6 take that as a "no" as far as asking this witness any
7 questions.

8 MR. GILBREATH: We do not object to them drilling
9 in the south half.

10 In the north half where there is a question
11 involved, if you don't mind, I can comment on that.

12 EXAMINER STOGNER: Well, that's sort of out of
13 line at this particular point. You will have a chance to
14 make a statement --

15 MR. GILBREATH: Okay.

16 EXAMINER STOGNER: -- after the witnesses have
17 had their time up on the stand.

18 At this time I'm just asking if you have any
19 questions --

20 MR. GILBREATH: Sure.

21 EXAMINER STOGNER: -- and if you don't, I'm going
22 to dismiss her at this time and then let Mr. Roberts call
23 his technical witness up, and then we'll hear his story.
24 At the same time, you'll be able to cross-examine them.

25 And then, at the conclusion of the witnesses each

1 party will have a chance to make a statement or even you
2 will have a chance to present any testimony that you would
3 like at that time.

4 So with that, do you have any questions of this
5 witness?

6 EXAMINATION

7 BY MR. CARROLL:

8 Q. Yes, Ms. Ritcher, is it Maralex's intent to honor
9 the overriding royalty interest of the Gilbreaths, that Mr.
10 Gilbreath just brought up, in the south half?

11 A. In the south half? As opposed to force-pool?
12 Probably. I don't -- I can't really -- I mean, those
13 offers were made at one time, but never accepted.

14 MR. ROBERTS: Mr. Examiner, I'm not sure I
15 understand -- I understand the question, I think, but I'm
16 not sure I understand that the response is responsive to
17 the question.

18 May I ask a question of the witness?

19 EXAMINER STOGNER: Yeah.

20 MR. CARROLL: Please help clarify, yes.

21 MR. ROBERTS: Ms. Ritcher, were you interpreting
22 that question to mean whether your offer to purchase the
23 Gilbreath interest in the south half which had a
24 corresponding overriding royalty interest to them -- was
25 that what you were responding to?

1 Or were you responding to whether you intend to
2 honor outstanding burdens on production in the south half?

3 THE WITNESS: Oh, the first. Yeah, I thought you
4 were asking if we were going to honor some of our prior
5 offers to him, that we went through --

6 MR. CARROLL: You will stand by your offer?

7 THE WITNESS: -- in Exhibit 3.

8 MR. ROBERTS: Is that what you were asking?

9 MR. CARROLL: Yes.

10 MR. ROBERTS: Okay. Well, I misunderstood the
11 question.

12 THE WITNESS: Yeah, I think he was asking if we
13 would stand by our offer as to the south half.

14 MR. ROBERTS: Is that the question that the
15 Gilbreaths were asking?

16 MR. GILBREATH: No.

17 MR. ROBERTS: Okay, that's what I --

18 MR. CARROLL: All right.

19 THE WITNESS: Then I don't know.

20 MR. GILBREATH: Thank you, Tommy.

21 MR. ROBERTS: My understanding was that the
22 Gilbreaths were asking whether Maralex intended to
23 recognize burdens on production which are a matter of
24 record, applicable to the south half.

25 Q. (By Mr. Carroll) And Maralex intends to honor

1 any burdens on record regarding the south half?

2 A. If they're on record and if they appear in our
3 title review, yes.

4 Q. Regarding the Blancett interest in the north
5 half, you testified that you received a title opinion from
6 an attorney, but the lease expired due to nonpayment of
7 shut-in royalties?

8 A. Correct.

9 Q. When did that expire?

10 A. Oh, goodness, it was probably late 1991.

11 Q. And it is my understanding that the Gilbreaths
12 are taking the position that that lease has not expired?

13 A. That is correct.

14 Q. And Maralex executed new leases from the
15 Blancetts --

16 A. Right.

17 Q. -- regarding that same interest?

18 A. Correct.

19 Q. Do you know whether Caprock Energy is a
20 corporation, or is it a d/b/a used by the Gilbreaths?

21 A. I don't know for sure. I think Tommy may have
22 checked.

23 Q. Jim Sullins, that's the broker you used --

24 A. Uh-huh.

25 Q. -- up in Farmington?

1 You mentioned an SG Interests?

2 A. Uh-huh.

3 Q. What exactly is that company?

4 A. They're an oil and gas exploration company. We
5 contract-operate wells for SG in the San Juan Basin.

6 Q. Does Maralex own part of SG Interests?

7 A. No.

8 Q. It's a contract operator for Maralex, or Maralex
9 is the operator under contract for SG Interests?

10 A. Maralex is the operator under contract for SG
11 Interests.

12 Q. And does SG Interests own any interest in Section
13 19?

14 A. Yes, they do, through the interest that's shown
15 on the exhibits, the 1 and 2. It's shown as Maralex, but a
16 portion of that interest is owned by SG Interests as well.

17 MR. CARROLL: I have no further questions.

18 EXAMINER STOGNER: Any other questions of this
19 witness?

20 MR. ROBERTS: No, sir.

21 EXAMINER STOGNER: We may want to recall her at a
22 later time.

23 But with that, you may be excused.

24 Mr. Roberts?

25 MR. ROBERTS: Call A.M. O'Hare.

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A.M. O'HARE,

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

DIRECT EXAMINATION

BY MR. ROBERTS:

Q. Would you state your name and your place of
residence?

A. My full name is Alexis Michael O'Hare. I reside
in Ignacio, Colorado.

Q. And what is your occupation?

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

Q. How long have you been associated with Maralex
Resources?

A. We founded the company in December of 1989.

Q. Have you been president of the organization since
its inception?

A. Yes, I have.

Q. Briefly describe what your responsibilities are
as president of Maralex Resources.

A. I oversee all of the land, legal, engineering,
production and operations functions of the company.

Q. Have you testified before the New Mexico Oil
Conservation Division on any prior occasion?

A. Yes, I have.

Q. In what capacity?

1 A. As a Registered Professional Engineer in the
2 State of Colorado.

3 Q. And were your qualifications as an expert
4 petroleum engineer then made a matter of record and
5 accepted by the Division?

6 A. Yes, they were.

7 Q. Are you familiar with the subject matter of Case
8 Numbers 11,006 and 11,007?

9 A. Yes, I am.

10 Q. Have you prepared certain exhibits to be
11 submitted in conjunction with your testimony?

12 A. Yes, I have.

13 MR. ROBERTS: Mr. Examiner, I would tender Mr.
14 O'Hare as an expert petroleum engineer.

15 EXAMINER STOGNER: Mr. O'Hare is so qualified.

16 Q. (By Mr. Roberts) Mr. O'Hare, before we begin an
17 examination of the exhibits which you have prepared, I'd
18 like for you to elaborate a bit on the relationship of
19 Maralex Resources, Inc., with SG Interests.

20 A. SG Interests I, Limited, is a Texas limited
21 partnership. Maralex has been involved with the
22 partnership since its formation through the operation of
23 properties in the San Juan Basin for the partnership.

24 We've also supplied engineering and supervision
25 consulting service to the partnership, and we have

1 partnered with the partnership on a number of occasions to
2 drill and complete coal-bed methane wells in the San Juan
3 Basin.

4 Q. Okay. I'd like for you to refer to what you have
5 marked as Exhibit Number 5 in Case Number 11,006 and
6 identify that exhibit.

7 A. This is an AFE for the drilling and completion of
8 the Cecil Cast Number 1 well.

9 Q. What are the total AFE costs?

10 A. The projected AFE cost for this well, total, is
11 \$275,230.

12 Q. What was the basis for the preparation of this
13 Authority for Expenditure?

14 A. This was based primarily on the actual costs that
15 we incurred in the drilling of the Brimhall Number 2 well,
16 which is located one mile north of the Cecil Cast well.

17 Q. And so they're based on actual costs incurred in
18 other operations?

19 A. That is correct.

20 Q. Was this Brimhall Number 1 Well a well which was
21 drilled by Maralex and operated by Maralex?

22 A. Yes, it was.

23 Q. So you have direct knowledge of the actual costs
24 incurred there?

25 A. Right.

1 Q. Would these estimated costs also be reasonable
2 and in line with other actual costs incurred on other
3 operations with which you're familiar, with regard to
4 development of the Fruitland Coal formation?

5 A. Yes, they are.

6 Q. I'd like you to now refer to what you've marked
7 as Exhibit Number 5 in Case Number 11,007 and ask you to
8 identify that exhibit.

9 A. Exhibit Number 5 in Case Number 11,007 is an AFE
10 for the Flora Vista 19-2 well.

11 Q. What are the total estimated costs for that well?

12 A. Total estimated cost for this well is \$272,530.

13 Q. And is the basis for this Authority for
14 Expenditure your experience with actual costs incurred on
15 similar operations in the same area?

16 A. Yes, it is. Again, it is based on the actual
17 costs incurred in the drilling and completion of the
18 Brimhall Number 2 well, approximately one and a half miles
19 north of this location.

20 Q. And in your opinion, are these costs reasonable
21 and representative of what you have actually incurred in
22 other operations in this area?

23 A. Yes, they are. The only major difference between
24 the two AFEs that we're presenting is the location and
25 construction cost of the roads and location.

1 Q. Refer to what you've marked as Exhibit Number 6
2 in Case Number 11,006 and identify that exhibit.

3 A. This is an operating agreement. It's a model
4 form 1982 operating agreement, and it has been supplied to
5 the working interest owners or potential working interest
6 owners in the Cecil Cast Number 1 Well.

7 Q. And who do you propose operate the Cecil Cast
8 Number 1 well?

9 A. We propose that Maralex Resources, Incorporated
10 be contract operator for SG Interests I, Limited, for the
11 Cecil Cast Number 1 Well.

12 Q. Is this a standard form operating agreement?

13 A. Yes, it is.

14 Q. Commonly in use in the area?

15 A. Yes.

16 Q. Are there any unusual provisions contained in
17 this form of operating agreement?

18 A. No, there are not.

19 Q. And have there been any additional provisions
20 added that would be unusual in nature?

21 A. No.

22 Q. Let me have you refer to what's been marked as
23 Exhibit Number 6 in Case Number 11,007, ask you to identify
24 that exhibit.

25 A. This is the same model form 1982 operating

1 agreement as it applies to the Flora Vista 19-2 Well and
2 its drill-site spacing unit.

3 Q. Who do you propose operate the Flora Vista 19-2
4 well?

5 A. Again, we propose that Maralex Resources,
6 Incorporated, be the contract operator of the well for SG
7 Interests I, Limited, as the operator.

8 Q. And again, this is a standard form operating
9 agreement, commonly in use in the area?

10 A. That is correct.

11 Q. Any unusual provisions added to this particular
12 form of operating agreement?

13 A. No.

14 Q. Mr. O'Hare, would you describe the extent of the
15 operations of SG Interests and Maralex, with respect to
16 Fruitland Coal development?

17 A. SG Interests currently operates about 165 wells
18 in the New Mexico portion of the San Juan Basin. Maralex
19 operates all of those wells on a contract basis for SG
20 Interests.

21 In addition, Maralex operates another 35 wells
22 for its own account in the San Juan Basin. All of them are
23 Fruitland Coal wells, all of them are very similar in means
24 of operations as what we propose for the two wells that are
25 the subject of this hearing.

1 Q. Now, Mr. O'Hare, you've testified that Maralex is
2 the agent for SG Interests, which is a limited partnership,
3 a Texas limited partnership. Do you have the authority as
4 the agent for SG to appear here today?

5 A. Yes, I do.

6 Q. And you're also appearing here on behalf of
7 Maralex Resources --

8 A. Correct.

9 Q. -- is that correct?

10 Do you propose supervisory charges for the
11 production and drilling stages on each of these wells?

12 A. Yes, we propose that the drilling and supervisory
13 charges for each well be allocated at \$3500 a month for the
14 drilling and completion phase of the wells and \$350 per
15 month for the producing phase of each well.

16 Q. Are these rates reasonable, in your opinion, for
17 this area and for this type of well?

18 A. Yes, we pride ourselves on having lower overhead
19 than most operators in the Basin, and we feel very strongly
20 that these rates are considered the low end of the spectrum
21 for operations in the San Juan Basin.

22 Q. Now, in conjunction with this particular
23 testimony that you're providing regarding supervisory
24 rates, I'd like for you to refer to what you've marked as
25 Exhibit Number 7. This is an exhibit which is common to

1 Case Numbers 11,006 and 11,007. Would you identify that
2 exhibit, please?

3 A. Yes, this is the Ernst & Young survey of fixed-
4 rate overheads for 1993.

5 Q. And why have you provided this as an exhibit?

6 A. Ernst & Young annually provide a survey of
7 operating costs and overhead rates charged by region of the
8 country and give a mean and median, and we're using this
9 survey to emphasize the point that we feel our overhead
10 costs are in fact lower than most operators in this region
11 of the country.

12 Q. And in fact, do the rates you propose in each of
13 these cases for each of these wells fall below those median
14 and mean rates --

15 A. Very significantly.

16 Q. -- indicated here in the Ernst & Young Fixed Rate
17 Survey?

18 A. Yes, they do.

19 Q. Do you propose a risk charge to be assessed
20 against non-joining parties in each of these cases?

21 A. Yes, we're asking that a standard risk charge of
22 156 percent be assigned for each case.

23 Q. And what is the basis for that proposal?

24 A. That's based on previous wells drilled and risk
25 assessments made in the San Juan Basin of Fruitland Coal

1 and methane wells.

2 Q. And is it your understanding that the 156-percent
3 risk-assessment value is a value that was established by
4 hearing and testimony before the Oil Conservation Division
5 or Commission?

6 A. Yes, it is.

7 Q. And it would be your understanding that that
8 represents a standard risk that would be assumed in the
9 drilling of a Fruitland Coal well in the San Juan Basin?

10 A. Yes.

11 Q. And is it your opinion that each of these wells
12 represent standard, ordinary risks --

13 A. Yes.

14 Q. -- commensurate with a 156-percent factor?

15 A. Right.

16 Q. Mr. O'Hare, will the -- In your opinion, will the
17 granting of this Application be in the interests of
18 conservation and result in the protection of correlative
19 rights and the prevention of waste?

20 A. Yes.

21 Q. Were Exhibit Numbers 5, 6 and 7 in Case Numbers
22 11,006 and 11,007 either prepared by you or at your
23 direction and under your supervision?

24 A. Yes, they were.

25 MR. ROBERTS: Mr. Examiner, I would move the

1 admission of Exhibit Numbers 5, 6 and 7 in each of these
2 cases.

3 EXAMINER STOGNER: Exhibits 5, 6 and 7 in both
4 cases will be admitted into evidence at this time.

5 MR. ROBERTS: I have no other questions.

6 EXAMINER STOGNER: Thank you, Mr. Roberts.

7 Mr. and Mrs. Gilbreath, there again I will allow
8 you to cross-examine this witness if you have any questions
9 of him or anything he's testified to.

10 MR. GILBREATH: Yes, I'd like to ask a couple
11 questions.

12 EXAMINER STOGNER: Okay. Could you be a little
13 louder --

14 MR. GILBREATH: Yes.

15 EXAMINER STOGNER: -- since this is going to be
16 on the record?

17 CROSS-EXAMINATION

18 BY MR. GILBREATH:

19 Q. On February the 25th of 1991, we received a
20 letter from Mr. O'Hare, and we also met with the Examiner,
21 and -- Mr. Stogner here -- and I believe that was the day
22 of the meeting.

23 Do you remember that, Mickey?

24 A. The force-pooling hearing?

25 Q. Yes.

1 A. Yes.

2 Q. Compulsory-pooling.

3 A. Uh-huh.

4 Q. We signed a farmout with Maralex at that time to
5 drill the Cecil Cast Number 1. That was in 1991, February
6 25.

7 But he still wants us -- He wants us to sign
8 another farmout or sell the lease to him, but he didn't
9 drill than, and that cost my family and I the tax credits
10 that we would receive, as well as Maralex.

11 EXAMINER STOGNER: Are you asking Mr. O'Hare a
12 question?

13 Q. (By Mr. Gilbreath) It's kind of a statement too,
14 but yes, I want to know why he didn't drill and why he
15 wants to drill now, it's so important.

16 A. It was shortly after that date that we discovered
17 that the leases that were subject to the farmout were no
18 longer valid, and we attempted to secure new leases at that
19 time, and indeed did secure new leases.

20 We had offered you an interest in those leases
21 under our farmout, under the same terms. You rejected that
22 offer.

23 We were informed by a New Mexico attorney at that
24 point that there was a cloud on title, and we've been
25 working for the last three years to clear the cloud on the

1 title for this particular well, and that is the Cecil Cast
2 Number 1.

3 Q. Concerning the Blancett portion in the north half
4 of 19, Mr. O'Hare wrote his attorneys in Roswell stating
5 that in 1990 that well did not produce, not one MCF of gas,
6 and at that time that well did produce ten months out of
7 that year.

8 So he did get a false -- He did get an attorney's
9 opinion, which he gave to Tommy Roberts, stating that that
10 lease was no longer valid, but he falsified the information
11 that was sent to the attorneys in Roswell.

12 MR. CARROLL: Are you asking a question, Mr.
13 Gilbreath?

14 Q. (By Mr. Gilbreath) I'm asking a question. I'm
15 asking if he falsified the information that he sent to his
16 attorney.

17 A. No, I did not falsify any information. The
18 failure of the title occurred due to a lack of timely
19 payment of royalties to the lessor, not lack of production.

20 Q. In this letter here, dated February 21, that's
21 from you, you stated that you wanted to compulsory pool the
22 Section 24 that you're talking about right now. That was a
23 year after.

24 A. We're talking about Section 19 in this hearing --

25 Q. I'm not putting you on trial; we're trying to

1 establish a level here that we can deal with --

2 MR. CARROLL: Mr. Gilbreath, what letter are you
3 referring to and what year was that written?

4 MR. GILBREATH: Yes, this was written February
5 25th, 1991.

6 MR. CARROLL: And what was the question again?

7 Q. (By Mr. Gilbreath) The information -- He stated
8 that the reason he didn't go ahead and drill -- the reason
9 he told me originally was that he had an unorthodox
10 location, he had to move it over or slant drill, and he
11 wanted to -- We even signed an extension.

12 Did we sign an extension with you, Mickey?

13 A. You did sign an extension, yes.

14 Q. Yes, sir, and that's...

15 A. I'm sorry, I missed the question.

16 Q. You what?

17 A. I missed your question.

18 Q. I'm still trying to establish a fact that -- Did
19 you send some false information to the attorney?

20 A. No, I did not send any false information to the
21 attorney.

22 Q. Do you agree that the well did produce in 1990,
23 then?

24 A. Which well are we talking about?

25 Q. In 24, like your letter states. In 24.

1 A. Section 24 is not the topic of this hearing.

2 Q. It does involve 24 because the 38 acres is in
3 that lease, Mr. O'Hare.

4 A. This hearing is in regard to Section 19.

5 Q. Yes, that's true. Yes, I understand.

6 MRS. GILBREATH: May I ask --

7 MR. CARROLL: Mrs. Gilbreath, do you have --

8 MRS. GILBREATH: The letters that they're
9 presenting to us as evidence, they're always offering to
10 buy Section 19 plus 24. If you'll notice, they're always
11 including that Section 24. Everything is always unitized
12 in there, plus they always want to put Pictured Cliffs
13 formation always, clear through every equipment, everything
14 we've got, and we cannot sign something like that. Can we,
15 Mickey?

16 THE WITNESS: I don't know. Can you?

17 MR. GILBREATH: Well, we haven't so far.

18 MR. ROBERTS: Mr. Examiner, just maybe a point of
19 clarification. This dispute over the validity of leases
20 does apply to lands in both Section 19 and Section 24.

21 Of course, Section 24 is not the subject matter
22 of this hearing today, but I think that's the point that
23 the Gilbreaths are attempting to make, is that there are
24 lands in different sections covered by the lease which they
25 maintain their interests fall under, and -- Only for a

1 point of clarification.

2 (Off the record)

3 EXAMINER STOGNER: Are there any other questions,
4 Mr. and Mrs. Gilbreath, of Mr. O'Hare?

5 MR. GILBREATH: No.

6 EXAMINER STOGNER: Okay. Mr. Carroll?

7 EXAMINATION

8 BY MR. CARROLL:

9 Q. Yeah, I have a few questions regarding SG
10 Interests.

11 What is the split in interest between Maralex and
12 SG Interests regarding these properties?

13 A. The Flora Vista well, SG Interests alone, 25
14 percent; and Maralex alone, 12 1/2 percent.

15 Q. That's on the Flora Vista?

16 A. Right. The interests in the Cecil Cast well have
17 yet to be determined.

18 Q. SG Interests is a Texas limited partnership?

19 A. Right.

20 Q. When was that formed?

21 A. I believe it was 1989 -- or -- no, I'm sorry, 19-
22 -- I think that was 1991.

23 Q. Who's the general partner in SG Interests?

24 A. Gordy Gas Corporation.

25 Q. What was that?

1 A. Gordy Gas --

2 Q. Gordy?

3 A. Right.

4 Q. Will you spell that, please?

5 A. G-o-r-d-y.

6 Q. Is that a corporation?

7 A. Yes, it is.

8 Q. New Mexico corporation?

9 A. Texas.

10 Q. How many limited partners are in that
11 partnership? Any idea?

12 A. No, I don't know.

13 Q. Now, you agree with Ms. Ritcher that the only
14 interests seeking to be compulsory pooled in these two
15 cases is the Fruitland --

16 A. That is correct.

17 Q. -- Coal formation?

18 A. Yes.

19 Q. But Pictured Cliffs is not --

20 A. It is not part of this hearing.

21 EXAMINER STOGNER: Okay, I have no other
22 questions of Mr. O'Hare.

23 Do you have any other questions, Mr. Roberts, of
24 Mr. O'Hare?

25 MR. ROBERTS: Just another point of

1 clarification.

2 FURTHER EXAMINATION

3 BY MR. ROBERTS:

4 Q. Mr. Gilbreath referred to a prior force-pool
5 hearing, and I believe he was referring to a prior force-
6 pool hearing applicable to the north-half equivalent of
7 Section 19?

8 A. That is correct.

9 Q. When did that hearing take place?

10 A. It was in February of 1991.

11 Q. Okay. And was an order issued as a result of
12 that hearing?

13 A. Yes, there was an order issued.

14 I'd like to check my statement. I don't recall
15 if it was February, but it was early 1991.

16 MR. ROBERTS: Mr. Examiner, I would ask that you
17 take administrative notice of Case Number 10,275. I do
18 have that case number, and I believe that is the case which
19 dealt with the force-pool application for the north half of
20 Section 19. My recollection was that that hearing occurred
21 in March of 1991, but I don't have that information
22 specifically.

23 EXAMINER STOGNER: I'll take administrative
24 notice of Case 10,275.

25 Q. (By Mr. Roberts) Mr. O'Hare, was an order issued

1 as a result of the hearing on that case?

2 A. Yes, there was.

3 Q. And what was the order?

4 A. The order was for force-pooling of all lands
5 under the north half of Section 19, granting Maralex as
6 operator, also granting 156-percent risk penalty, risk
7 assessment, and overhead and drilling rates to be charged.

8 Q. And I take it that Maralex didn't proceed under
9 the terms of that particular order?

10 A. That is correct.

11 Q. And why was that?

12 A. It was because of problems with title.

13 Q. Okay. And so the time expired under the order
14 for the drilling of the well?

15 A. Yes. We actually asked for two extensions of the
16 order, and they were granted, but we still could not get
17 the title problems resolved prior to the expiration of the
18 second extension.

19 MR. ROBERTS: Mr. Examiner, May I have just a
20 second to discuss something with Ms. Ritcher?

21 EXAMINER STOGNER: Okay.

22 (Off the record)

23 MR. ROBERTS: Mr. Examiner --

24 EXAMINER STOGNER: Yes.

25 MR. ROBERTS: -- if I may, I'd like to ask a

1 couple more questions.

2 I think we'll offer some explanation for the
3 ownership in the Flora Vista Number 19-2 well. Mr. Carroll
4 had asked some questions about it, I think, with respect to
5 SG and Maralex's interests.

6 EXAMINER STOGNER: Are these questions for Mr.
7 O'Hare?

8 MR. ROBERTS: And they're questions for Mr.
9 O'Hare.

10 Q. (By Mr. Roberts) Mr. O'Hare -- Maybe we'll have
11 to get Ms. Ritcher up, but I think he's able to answer
12 these questions. If not, we'll do that.

13 You indicated that the ownership of SG Interests
14 in this particular well, the Flora Vista 19 Number 2 Well,
15 would be 25 percent, and Maralex would be 12.5 percent, I
16 believe?

17 A. Yes, I did indicate that, but that is incorrect.
18 I think in actuality, SG Interests will own 62.5 percent of
19 the well, Robert L. Bayless will own 25 percent, and
20 Maralex will own 12.5 percent.

21 Q. And how does Robert L. Bayless come into the
22 ownership picture?

23 A. Robert L. Bayless is who received the farmout
24 from San Juan Resources, DiTirro and the other interest
25 owners in the southwest quarter of Section 19.

1 He in turn farmed out his interests to SG
2 Interests and Maralex.

3 MR. ROBERTS: Okay. Mr. Examiner, does that
4 offer some clarification for you and Mr. Carroll on that
5 particular ownership?

6 MR. CARROLL: (Nods)

7 MR. ROBERTS: Okay.

8 FURTHER EXAMINATION

9 BY MR. CARROLL:

10 Q. I have a question regarding the order issued in
11 Case Number 10,275. Was that order limited to the
12 Fruitland formation?

13 A. Yes, it was.

14 EXAMINATION

15 BY EXAMINER STOGNER:

16 Q. Do you know if that -- Do you recall if that also
17 included an unorthodox location approval?

18 A. I don't believe so.

19 Q. So compulsory pooling was the only issue in that
20 particular matter?

21 A. That's my recollection.

22 MR. ROBERTS: My recollection also -- I was not
23 involved in those cases, but I did a little bit of
24 research.

25 I think there were three cases brought by Maralex

1 at that same time dealing with compulsory pooling
2 applications for lands in the same area, and they were all
3 consolidated into that single hearing. And so there -- I
4 guess there's some possibility for confusion as a result of
5 the consolidation of the three cases.

6 Q. (By Examiner Stogner) Mr. O'Hare, do you
7 remember if the applicant in that matter was SG Interests
8 or Maralex?

9 A. That was Maralex.

10 Q. There has been some SG Interests applications
11 filed by name before, if I remember right.

12 A. Yes, there have.

13 Q. But not in this particular case?

14 A. Correct.

15 EXAMINER STOGNER: Okay. Any other questions of
16 Mr. O'Hare at this time?

17 We're going to take a ten- to fifteen-minute
18 recess. When we come back, Mr. and Mrs. Gilbreath, I will
19 allow -- And for the sake of time and less confusion, if
20 you'll choose amongst yourselves, I'd like to have one come
21 up and be sworn as a witness, because it sounds like to me
22 there might be some statements made, that you really need
23 to be sworn as a witness, one of you

24 So talk amongst yourselves, which one that will
25 be, and we'll be back in ten or fifteen minutes to hear

1 your side.

2 With that, let's take a recess.

3 (Thereupon, a recess was taken at 9:33 a.m.)

4 (The following proceedings had at 9:52 a.m.)

5 EXAMINER STOGNER: Hearing will come to order.

6 At this time I'll ask one of the parties with
7 Caprock to approach the bench.

8 Mr. Gilbreath, would you please take a seat?

9 I'm going to ask you to remain standing and be
10 sworn at this point.

11 NORMAN L. GILBREATH,

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

14 MR. CARROLL: Okay, Mr. Gilbreath, I believe you
15 expressed an intent to make a statement after the
16 presentation of Maralex's case, and we will let you make
17 that statement, and then we may have some questions
18 following that statement.

19 MR. GILBREATH: Yes. Part of that statement has
20 been made, but I will brief the hearing.

21 The compulsory pooling in February of 1991,
22 February 25, included Section 24, all of section. I
23 realize today we're only dealing with Section 19, all of
24 Section 19.

25 But at that time we did agree to a farmout with

1 Mr. O'Hare and Maralex, and they did make the statement
2 that they would drill on that acreage, this Cecil Cast
3 Number 1, that's the top half.

4 They never drilled, so thereby we lost our tax
5 credit that the government was offering at that time. It
6 expired in 1992 at the end of the year.

7 We did sign a farmout. We signed an extension or
8 two, and the statement that -- the reason for not drilling
9 that was given to us was that Mr. O'Hare could not receive
10 the proper well location at that time. He was having to
11 drill on Federal land or something to that nature.

12 He says that the leases were beginning to expire,
13 and he's right.

14 And when he did not drill the well, then he went
15 behind our back, told some of the mineral interest owners
16 that he couldn't work with us, that we were too hard-
17 headed, he didn't want to deal with us.

18 So he cut us out, he leased some of the leases
19 that did ex- -- And he's right, they did expire. They
20 expired after -- after, though, that farmout was signed and
21 he was to have drilled the Cecil Cast Number 1.

22 MR. CARROLL: Is that your statement?

23 MR. GILBREATH: Yes.

24 MR. CARROLL: Mr. Roberts, do you have any
25 questions?

1 MR. ROBERTS: No, sir.

2 EXAMINATION

3 BY MR. CARROLL:

4 Q. Mr. Gilbreath, you realize that these two cases
5 are limited to the Fruitland -- Basin-Fruitland Coal Gas --

6 A. Yes, I do now, yes, sir.

7 Q. And you understand if there's an order issued,
8 compulsory-pooling the interests, that you'll be given the
9 option of going consent or nonconsent as to your interest?

10 A. No, I thought when you issued the final decision
11 on a compulsory pooling that he could go ahead and drill.

12 Q. He can go ahead and drill, but you have the
13 option of participating in the drilling --

14 A. Okay.

15 Q. -- and not being assessed risk penalty, or going
16 nonconsent and then being assessed a risk penalty.

17 A. Yes.

18 Q. Do you understand that?

19 A. Yes, yes, I understand that.

20 Q. What is Caprock Energy? Is that a corporation?

21 A. Yes, it is, Sub S.

22 Q. And you and your wife are the owners?

23 A. No, it's a family matter. I have two brothers
24 and one sister.

25 EXAMINER STOGNER: Mr. Gilbreath, do you have

1 anything further that you would like to add?

2 MR. GILBREATH: No.

3 EXAMINER STOGNER: Okay. I have no other
4 questions.

5 If there's no other questions of Mr. Gilbreath,
6 he may be excused.

7 MR. CARROLL: Thank you.

8 EXAMINER STOGNER: Mr. Gilbreath, before you take
9 off today, if you would provide the court reporter a copy
10 of your address --

11 MR. GILBREATH: Yes, sir.

12 EXAMINER STOGNER: -- and also I assume the
13 address of Caprock Energy Company, P.O. Box 208, in Aztec,
14 is your current address.

15 If there's nothing further in either Case 11,006
16 or 11,007, then these matters will be taken under
17 advisement at this time.

18 (Thereupon, these proceedings were concluded at
19 9:59 a.m.)

20 * * *

21 I do hereby certify that the foregoing is
22 a correct record of the proceedings in
23 the last then hearing of Case 11006 and 11007
24 heard by me on 21 June 1994.

25 
Examiner
Oil Conservation Division

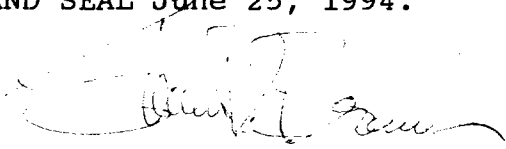
1 CERTIFICATE OF REPORTER

2
3 STATE OF NEW MEXICO)
4) SS.
COUNTY OF SANTA FE)

5
6 I, Steven T. Brenner, Certified Court Reporter
7 and Notary Public, HEREBY CERTIFY that the foregoing
8 transcript of proceedings before the Oil Conservation
9 Division was reported by me; that I transcribed my notes;
10 and that the foregoing is a true and accurate record of the
11 proceedings.

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

16 WITNESS MY HAND AND SEAL June 25, 1994.

17
18 
19 STEVEN T. BRENNER
CCR No. 7

20
21 My commission expires: October 14, 1994
22
23
24
25