

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:

ORIGINAL

CASES 15435

APPLICATION OF DUGAN PRODUCTION COMPANY
FOR APPROVAL OF THE SUNFLOWER FRUITLAND
PICTURED CLIFFS, SAN JUAN COUNTY,
NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

January 21, 2016

Santa Fe, New Mexico

BEFORE: MICHAEL McMILLAN, CHIEF EXAMINER
SCOTT DAWSON, EXAMINER
DAVID BROOKS, LEGAL COUNSEL

RECEIVED OCT
2016 FEB - 9 P 1 58

This matter came on for hearing before the
New Mexico Oil Conservation Division, MICHAEL McMILLAN,
Chief Examiner, SCOTT DAWSON, Examiner, and DAVID
BROOKS, Legal Counsel, on January 21, 2016, at the New
Mexico Energy, Minerals, and Natural Resources
Department, Wendell Chino Building, 1220 South St.
Francis Drive, Porter Hall, Room 102, Santa Fe, New
Mexico.

REPORTED BY: ELLEN H. ALLANIC
NEW MEXICO CCR 100
CALIFORNIA CSR 8670
PAUL BACA COURT REPORTERS
500 Fourth Street, NW
Suite 105
Albuquerque, New Mexico 87102

A P P E A R A N C E S

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

For Applicant Dugan Production Company

Michael H. Feldewert, Esq.
Holland & Hart
110 North Guadalupe
Suite 1
Santa Fe, New Mexico 87501
(505)988-4421
mfeldewert@hollandhart.com

I N D E X

CASE NUMBER 15435 CALLED
DUGAN PRODUCTION COMPANY
CASE-IN-CHIEF:
WITNESS KURT H. FAGRELIUS

	Direct	Redirect	Further
By Mr. Feldewert	5		
	EXAMINATION		
By Examiner McMillan	13		
By Examiner Dawson	15		

E X H I B I T I N D E X
Exhibits Offered and Admitted

	PAGE
1	
2	
3	
4	
5	
6	
7	
8	
9	
10	
11	
12	
13	
14	
15	
16	
17	
18	
19	
20	
21	
22	
23	
24	
25	

1 (Time noted 11:05 a.m.)

2 EXAMINER McMILLAN: I would like to call the
3 hearing back to order. I would like to call case 15435,
4 Application of Dugan Production Company for Approval of
5 the Sunflower Fruitland Pictured Cliffs, San Juan
6 County, New Mexico.

7 Call for appearances.

8 MR. FELDEWERT: May it please the Examiner,
9 Michael Feldewert with the Santa Fe Office of Holland
10 and Hart appearing on behalf of the Applicant. I have
11 one witness here today.

12 EXAMINER McMILLAN: Any other appearances?

13 THE WITNESS: I'm Kurt Fagrelus with Dugan
14 Production.

15 EXAMINER McMILLAN: May you please be sworn
16 in.

17 (WHEREUPON, the presenting witness
18 was administered the oath.)

19 EXAMINER McMILLAN: Go ahead.

20 KURT FAGRELIUS
21 having been first duly sworn,
22 was examined and testified
23 as follows:

24 ---oOo---

25 ---oOo---

DIRECT EXAMINATION

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

BY MR. FELDEWERT:

Q. Please state your full name, identify by whom you're employed and in what capacity.

A. My name is Kurt Fagrelus. I'm employed by Dugan Production in Farmington. And I am the vice president of land and exploration.

Q. How long have you held that title for Dugan?

A. I have held that title for ten years, and I've worked at Dugan for 38 years.

Q. And do you have a master's degree?

A. I have a master's of science in geology from the New Mexico Institute of Mining and Technology and a bachelor of science in geology from Fort Lewis College in Durango, Colorado.

Q. And, Mr. Fagrelus, have you previously testified before this Division as an expert in petroleum geology?

A. Yes, I have.

Q. And were your credentials accepted and made a matter of public record?

A. Yes, they were.

Q. Are you familiar with this application?

A. Yes, I am.

Q. Did you assist in putting this unit prospect

1 together?

2 A. Yes, I did.

3 Q. And in so doing have you conducted a geologic
4 study of the area in question?

5 A. Yes, I did.

6 MR. FELDEWERT: I would tender Mr. Fagrelius
7 once again as an expert witness in petroleum geology.

8 EXAMINER McMILLAN: So accepted.

9 Q. Please turn to what has been marked as Dugan
10 Exhibit Number 1. Mr. Fagrelius, is this the unit
11 agreement that would govern your proposed unitized area
12 and formation?

13 A. Yes, it is.

14 Q. And what formation is being unitized?

15 A. We are asking to unitize the Fruitland Formation
16 from the top of the Fruitland Formation to the base of
17 Pictured Cliffs sandstone.

18 Q. If I turn to -- first off, before we leave this
19 exhibit, does it conform with the federal and state
20 exploratory unit form?

21 A. Yes, it does.

22 Q. If I turn to what has been marked as Dugan
23 Exhibit 2, is this the Exhibit A to the unit agreement
24 that provides the outline of the unit area and
25 identifies leases that are involved?

1 A. Yes, it is.

2 Q. And how have you differentiated leases on here?

3 A. This red boundary is the outer boundary of our
4 proposed Sunflower unit. Within it it contains multiple
5 federal and state leases.

6 Each lease is designated by a circled No. 1, 2,
7 3, up to seven different leases that are all presented
8 on our Exhibit B. There's 6,976 acres of which 8-1/2
9 percent is state and 91 percent is federal.

10 Q. And for the convenience of the Examiners, is that
11 listed in the bottom right-hand corner of Exhibit 8,
12 those percentages?

13 A. Yes, it is.

14 Q. And the acreage?

15 A. Yes, sir.

16 Q. And you identify on here two state leases that
17 are identified with a gray shading?

18 A. Section 2 is shaded in gray, and those are two
19 state leases.

20 Q. And the remaining leases are federal?

21 A. Correct.

22 Q. And does this unit area encompass the entirety of
23 each lease; in other words, there's no portions of
24 leases within the unitized area?

25 A. That's correct, no leases within the unitized

1 area extend outside of the unitized area.

2 Q. And if I turn to what's been marked as Dugan
3 Exhibit 3, that would be the standard Exhibit B to the
4 unit agreement showing the percentage of ownership?

5 A. That's correct.

6 Q. And then if I turn to what's been marked as Dugan
7 Exhibit Number 4, is this the type log referenced in the
8 unit agreement that identifies, by reference, to a type
9 log for a specific well unitized interval?

10 A. Yes, it is.

11 Q. Now, moving on. If I go to Exhibit 5, is this
12 the preliminary approval letter for the New Mexico State
13 Land Office for this particular unit?

14 A. Yes, it is.

15 Q. And did you likewise meet with the BLM about this
16 unit?

17 A. Yes, we did.

18 Q. And if I turn to what's been marked as Dugan
19 Exhibit Number 6, is that the BLM preliminary approval
20 letter?

21 A. Yes, it is.

22 Q. Moving on then to Exhibit 7, does this reflect
23 your initial development plan for this particular
24 unit?

25 A. It does. I've got seven wells proposed. We have

1 the first initial test well and then six others, one of
2 which will be a saltwater disposal well. We've surveyed
3 these locations, got the plats back. Notices of staking
4 have been sent out. And we will do our on-site
5 inspections on the 27th of this month.

6 Q. Are there some tribal trust lands involved here?

7 A. The surface is tribal trust surface, except for
8 400 acres that is deeded fee land.

9 Q. So as part of your ongoing development process,
10 you will be dealing with the tribes with respect to the
11 necessary easements; is that correct?

12 A. That's correct. We have met twice with Navajo
13 Minerals and also the Navajo Land Department. We are
14 working on a surface use agreement.

15 Q. Okay. If I then move on to Exhibit Number 8,
16 have you created a structure map extending across the
17 unitized area?

18 A. Yes.

19 Q. And is that depicted on Exhibit Number 8?

20 A. Yes, it is. This structure map is drawn on the
21 top of the Pictured Cliffs sandstone. And you can see
22 the regional dip is about 100 feet per mile to the north
23 down. There's no breaks in the structure to indicate
24 faulting or discontinuities with the Pictured Cliffs.

25 Q. So you don't observe any geologic impediments to

1 developing this acreage with a unit?

2 A. None whatsoever. It also depicts a stratigraphic
3 cross section from west to east. And that demonstrates
4 that the formation is contiguous across the Sunflower
5 Unit.

6 Q. For purposes of the record, you are looking at
7 Exhibit 8 and there is a blue line; that's what you're
8 referencing?

9 A. Yes, sir.

10 Q. A to A Prime?

11 A. Yes, sir.

12 Q. Then turn to Exhibit No. 9. Is this the cross
13 section that corresponds to that blue line
14 A to A Prime?

15 A. Yes, it does.

16 Q. And what do you observe -- first off, tell us
17 where you identify the various formations and then
18 what you observe looking at this cross section?

19 A. Okay. On the far right at A Prime is our type
20 log that is also the exhibit we looked at earlier that
21 showed the vertical limits of our proposed unit.

22 We propose to unitize from the top of the
23 Fruitland Formation to the base of the Pictured Cliffs
24 sandstone. Both units are contiguous across the unit.
25 And we like to unitize both units or intervals because

1 we are able to commingle them in the same wellbore.

2 Q. And that leads to my next question, that is, do
3 you intend to develop this unit with vertical wells or
4 horizontal wells?

5 A. They'll all be vertical.

6 Q. And why is that?

7 A. The shallowness of our wells here -- on the west
8 end of the unit, the Pictured Cliffs comes within
9 450 feet of the surface. And on the north and east end,
10 it's about 1,100 feet below the surface.

11 It's much too shallow with today's technology to
12 build a curve and go horizontal. Plus these wells
13 commonly produce large volumes of water with the gas and
14 we don't have a way to pump it.

15 So a vertical well with a rod pump is the best
16 way to complete these.

17 Q. Mr. Fagrelus, has Dugan, in your opinion, kind
18 of developed a niche in this particular type of
19 development?

20 A. Yes, we have. First and foremost is our people.
21 But we are developing shallow coals at this depth, six
22 miles to the east, and we have had success.

23 Q. And, in your opinion, can this unitized interval
24 across the proposed unitized area be efficiently and
25 effectively developed under your common plan of

1 development?

2 A. Yes, it can.

3 Q. And, in your opinion, will the approval of this
4 application be in the best interest of conservation and
5 the prevention of waste and the protection of
6 correlative rights?

7 A. Yes, it will.

8 Q. Were Dugan Exhibits 1 through 9 prepared by you
9 or compiled under your direction and supervision?

10 A. Yes, they were.

11 Q. And before I move them into evidence, I need to
12 ask one thing. I think in reviewing the leases you
13 didn't talk about ownership. Does Dugan own 100 percent
14 of all of the leases?

15 A. Dugan production owns 100 percent of all of the
16 leases. There are no overriding royalties.

17 We have the state royalty and the federal royalty
18 of course. But we are 100 percent working interest
19 owners.

20 MR. FELDEWERT: I move the admission into
21 evidence of Dugan Exhibits 1 through 9.

22 EXAMINER McMILLAN: Exhibits 1 through 9 may
23 now be accepted as part of the record.

24 (Dugan Production Company Exhibits 1 through
25 9 were offered and admitted.)

1 MR. FELDEWERT: And that concludes my
2 examination of this witness.

3 EXAMINATION BY EXAMINER McMILLAN

4 EXAMINER McMILLAN: Okay. The first
5 question I have is Exhibit 7. Are you going to test the
6 Pictured Cliffs in these or are you just going for the
7 Fruitland?

8 THE WITNESS: In the event that we have a
9 show in the Pictured Cliffs or at Fruitland Sand, we
10 will complete both.

11 EXAMINER McMILLAN: So you are going to test
12 them both?

13 THE WITNESS: That's our plan, yes.

14 EXAMINER McMILLAN: Okay.

15 THE WITNESS: If the coal looks good, that's
16 our main priority, that's our number one target.

17 EXAMINER McMILLAN: And a geology question.
18 I don't know, I am ignorant of the geology. How did the
19 Pictured Cliffs actually form? What is it?

20 THE WITNESS: It is a sandstone, a near
21 short sandbar that was formed basinward of the swamps
22 that deposited the coals.

23 EXAMINER McMILLAN: So it's crudely like the
24 Mancos?

25 THE WITNESS: No. It's a shallow marine

1 environment the Pictured Cliffs was deposited in.

2 EXAMINER McMILLAN: Okay.

3 THE WITNESS: Okay.

4 EXAMINER McMILLAN: Are there any existing
5 wells?

6 THE WITNESS: There's one. It was drilled
7 three, four years ago by Koch Exploration.

8 EXAMINER McMILLAN: And you are now the
9 operator of it?

10 THE WITNESS: Yes, sir.

11 EXAMINER McMILLAN: So I assume also you're
12 asking for a surface commingle?

13 THE WITNESS: Yes, sir, within the unit.

14 EXAMINER McMILLAN: Okay. I just want to
15 make sure that's clear.

16 MR. FELDEWERT: I think by unitizing it will
17 be allowed to commingle --

18 EXAMINER McMILLAN: Yes, it will be one
19 lease --

20 MR. FELDEWERT: Correct.

21 EXAMINER McMILLAN: So this is -- the
22 surface is on tribal land?

23 THE WITNESS: Tribal trust surface.

24 EXAMINER McMILLAN: Tribal trust. And there
25 are seven tracts, right?

1 THE WITNESS: Correct.

2 MR. FELDEWERT: I think Exhibit 2,
3 Mr. Examiner.

4 EXAMINER McMILLAN: Okay.

5 MR. FELDEWERT: It identifies each of the
6 tracts.

7 EXAMINER McMILLAN: Okay. I don't have any
8 further questions. Any questions?

9 EXAMINER DAWSON: Yes, I have a few
10 questions.

11 EXAMINATION BY EXAMINER DAWSON

12 EXAMINER DAWSON: The existing well within
13 the unit, you said it was operative. Was it drilled by
14 Koch Exploration?

15 THE WITNESS: Yes, sir.

16 EXAMINER DAWSON: And is that operated by
17 Koch or --

18 THE WITNESS: No, sir. Dugan Production
19 operates that well as well.

20 EXAMINER DAWSON: What formation is that
21 producing from?

22 THE WITNESS: It's in the Fruitland coal.

23 EXAMINER DAWSON: Fruitland coal, okay.

24 THE WITNESS: They shot a little out of zone
25 on one of the coals. That's why I hesitated.

1 EXAMINER DAWSON: Okay. I have no further
2 questions. Thank you.

3 MR. BROOKS: No questions.

4 EXAMINER McMILLAN: Case No. 15435 shall be
5 taken under advisement. Thank you very much.

6 MR. FELDEWERT: Thank you.

7

8

9

10 (Time noted 11:18 a.m.)

11

12

13

14

15

I hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. _____
heard by me on _____

16

17

18

_____, Examiner
Oil Conservation Division

19

20

21

22

23

24

25

1 STATE OF NEW MEXICO)
 2) ss.
 3 COUNTY OF BERNALILLO)
 4
 5
 6

7 REPORTER'S CERTIFICATE

8
 9 I, ELLEN H. ALLANIC, New Mexico Reporter CCR
 10 No. 100, DO HEREBY CERTIFY that on Thursday, January 21,
 11 2016, the proceedings in the above-captioned matter were
 12 taken before me, that I did report in stenographic
 13 shorthand the proceedings set forth herein, and the
 14 foregoing pages are a true and correct transcription to
 15 the best of my ability and control.

16
 17 I FURTHER CERTIFY that I am neither employed by
 18 nor related to nor contracted with (unless excepted by
 19 the rules) any of the parties or attorneys in this case,
 20 and that I have no interest whatsoever in the final
 21 disposition of this case in any court.

22
 23
 24
 25


ELLEN H. ALLANIC, CSR
 NM Certified Court Reporter No. 100
 License Expires: 12/31/16