

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 PEOPLES ENERGY PRODUCTION)
- TEXAS L.P. FOR AN UNORTHODOX WELL)
LOCATION AND AN EXCEPTION TO THE WELL)
DENSITY REQUIREMENTS FOR THE BLANCO-)
MESAVERDE GAS POOL, SAN JUAN COUNTY,)
NEW MEXICO)

CASE NO. 13,794

2006 NOV 9 AM 11 10

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: WILLIAM V. JONES, JR., Hearing Examiner

October 26th, 2006

Santa Fe, New Mexico

ORIGINAL

2005/11/9/06

This matter came on for hearing before the New Mexico Oil Conservation Division, WILLIAM V. JONES, JR., Hearing Examiner, on Thursday, October 26th, 2006, 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.

* * *

I N D E X

October 26th, 2006
Examiner Hearing
CASE NO. 13,794

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<u>LARRY L. PARISH</u> (Landman)	
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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

* * *

1 WHEREUPON, the following proceedings were had at
2 8:23 a.m.:

3 EXAMINER JONES: Okay, at this time let's call
4 Case 13,794, which Application of Peoples Energy Production
5 - Texas L.P. for an unorthodox well location and an
6 exception to the well density requirements for the Blanco-
7 Mesaverde Gas Pool, San Juan County, New Mexico.

8 Call for appearances.

9 MR. CARR: May it please the Examiner, my name is
10 William F. Carr with the Santa Fe office of Holland and
11 Hart, L.L.P. We represent Peoples Energy Production -
12 Texas L.P. in this matter, and I have one witness.

13 EXAMINER JONES: Any other appearances?
14 Will the witness please stand to be sworn?
15 (Thereupon, the witness was sworn.)

16 MR. PARISH: Good morning.

17 EXAMINER JONES: Good morning.

18 LARRY L. PARISH,
19 the witness herein, after having been first duly sworn upon
20 his oath, was examined and testified as follows:

21 DIRECT EXAMINATION

22 BY MR. CARR:

23 Q. Would you state your full name for the record,
24 please?

25 A. Yes, it's Larry L. Parish.

1 Q. And how you spell your last name?

2 A. Parish.

3 Q. Mr. Parish, where do you reside?

4 A. I live in a subdivision of Houston called
5 Kingwood, Houston, Texas.

6 Q. And by whom are you employed?

7 A. Peoples Energy Production - Texas L.P.

8 Q. And what is your current position at Peoples
9 Energy Production?

10 A. I'm vice president of land.

11 Q. Have you previously testified before the New
12 Mexico Oil Conservation Division?

13 A. No, sir, I have not.

14 Q. Could you summarize your educational background
15 for Mr. Jones?

16 A. Yes, sir. I graduated from the University of
17 Colorado in 1975 with a degree in business administration.

18 Q. And since graduation for whom have you worked?

19 A. Over 31 years I've worked with Mobil Oil
20 Corporation -- that was about three years -- with Southland
21 Royalty Company for about 11 years, and with Burlington
22 Resources for 22 years, now Peoples Energy Production -
23 Texas L.P. for a little over five years.

24 Q. And in this jobs did you work as a petroleum
25 landman?

1 A. Yes, I did.

2 Q. Are you familiar with the Application filed in
3 this case on behalf of Peoples Energy Production?

4 A. Yes, sir.

5 Q. And are you familiar with the status of the lands
6 and the development of the Mesaverde formation --

7 A. Yes, sir.

8 Q. -- in the area that's the subject of the
9 Application?

10 A. Yes.

11 MR. CARR: We tender Mr. Parish as an expert
12 witness in petroleum land matters.

13 EXAMINER JONES: Mr. Parish is qualified as an
14 expert petroleum landman.

15 Q. (By Mr. Carr) Would you summarize for Mr. Jones
16 what it is that Peoples is seeking with this Application?

17 A. Yes, there are two primary things that we're
18 seeking, an exception to the well spacing and density
19 requirements for the special rules for the Blanco-Mesaverde
20 Gas Pool, and that's to permit three producing wells in a
21 single quarter section, and also approval of an unorthodox
22 gas well location for the Gardner Number 12 well that has
23 been drilled at a location that is too close to the outer
24 boundary of the GPU for that area.

25 Q. What is the bottomhole location of that well?

1 A. It is 2024 feet from the south line and 2453 feet
2 from the east line of Section 26.

3 Q. Let's go to what has been marked for
4 identification Peoples Exhibit 1. Would you identify that
5 for the Examiner and review it, please?

6 A. Yes, sir, this is a plat showing the ownership of
7 leasehold owned by Peoples Energy Production - Texas L.P.
8 in the area in question. The area that's outlined in green
9 is the lease in question that we're dealing with here.
10 It's a federal lease covering essentially three sections,
11 and the wells that are spotted on there in green are all
12 wells in the Blanco-Mesaverde formation.

13 Q. What we're talking about is a standard spacing
14 unit comprised of the east half of Section 26; isn't that
15 right?

16 A. That's correct.

17 Q. And we have three wells at this time in the
18 southeast quarter?

19 A. That's right.

20 Q. If we look at this exhibit, we have one vertical
21 well. That's the Number 5A?

22 A. Yes, sir.

23 Q. Is that the southernmost well?

24 A. Yes, it is.

25 Q. And then from basically the same surface

1 location, Peoples has drilled this year two directional
2 wells off -- one to the northeast, one to the northwest?

3 A. That's right, the 14 would be the one to the
4 northeast, and the 12 would be the one to the northwest.

5 Q. What rules govern the development of the
6 Mesaverde formation in this area?

7 A. It's governed by special rules and regulations
8 that provide for 320-acre standard spacing and proration
9 units that can contain as many as four wells. In addition
10 to the 320 spacing there are certain other rules and
11 regulations that dictate where wells can be drilled within
12 the GPU. And the two things that are really pertinent here
13 to our discussion today are the fact that under the rules
14 no more than two wells are to be located within any
15 particular quarter section within the GPU. And also, no
16 well should be drilled closer than 660 feet to the boundary
17 of the GPU and no closer than 10 feet to any interior
18 quarter section line or quarter quarter section line.

19 Q. Let's go to Exhibit 2. Would you identify this,
20 please?

21 A. Yes, this is the original application for permit
22 to drill for the Gardner 12 well. And attached to it is a
23 well location and acreage dedication plat, or Form C-102,
24 which shows as permitted the intended bottomhole location
25 of the well at 2600 feet from the west line and 1920 feet

1 from the south line, which would put it in quarter quarter
2 section K.

3 Q. And Exhibit Number 3 would you identify that,
4 please?

5 A. Yes, sir, this is the directional survey that was
6 conducted when the well was bottomed, and it indicates that
7 the well was actually not bottomed in the originally
8 proposed bottomhole location but slightly to the east in
9 quarter quarter Section J.

10 Q. If the well in fact had been drilled as
11 completed, it would have been in the southwest quarter?

12 A. That's correct.

13 Q. And you would have been in full compliance with
14 the Mesaverde rules, as originally the well was proposed?

15 A. That's correct.

16 Q. What is Exhibit Number 4?

17 A. Exhibit 4 is a topographic map, and it indicates
18 -- if you look in the portion where it says "Canyon", sort
19 of in the left bottom quadrant of the map there -- it shows
20 the terrain to be fairly -- has a fair amount of rise and
21 fall, and it's fairly rugged terrain. So this is one of
22 the reasons that in drilling these wells it's appropriate
23 to attempt to utilize surface that is relatively more
24 manageable and to drill your wells directionally to these
25 more rugged areas.

1 In addition, recent policy of the Bureau of Land
2 Management has dictated that we minimize the number of
3 roads in locations involved, which has also further
4 promoted the idea of drilling directional wells.

5 Q. All three wells that are now bottomed in the
6 southeast of 26 are in fact drilled from surface locations
7 in very close proximity to what you show on this map as
8 being the well flag for the Gardner Number 12; is that
9 right?

10 A. Exactly.

11 Q. What is the current status of this spacing unit,
12 the east-half spacing unit?

13 A. There are four wells in the east half of Section
14 26, and three of these wells, as it turns out, are located
15 in the southeast quarter. They were the three wells that
16 we looked at on Exhibit Number 1, being the Gardner Number
17 12A, which is the subject of this petition or Application;
18 the Gardner Number 5A; which is the southernmost well and a
19 vertical well; and then the Gardner Number 14, the
20 northeasternmost well, which is also drilled directionally.

21 Q. You have the right number of wells for a 320,
22 they're just in the wrong place?

23 A. That's correct.

24 Q. Okay. What did Peoples do when they discovered
25 this error?

1 A. We suspended any completion operations and
2 contacted the OCD. Our regulatory representative at
3 Peoples Energy contacted Mr. Stogner, and we wrote a letter
4 to Mr. Stogner that's marked Exhibit -- Peoples Exhibit
5 Number 5, to explain exactly what had happened in respect
6 to the Number 12 location.

7 Q. What did happen? How did this well get bottomed
8 in the wrong place?

9 A. We've done a little bit of research to try and go
10 back and understand that ourselves. The intention of the
11 well, as I'd said previously, was to bottom it in the K
12 quarter quarter section, and essentially we have one set of
13 bottomhole location calls that were on the permit and
14 another set that was given to the drilling rig. And it's a
15 case where the engineer that was responsible for the area
16 and the geologist responsible for the area both left the
17 company in the interim between the Application and the
18 actual drilling, and it's one of those cases where
19 communication wasn't what it needed to be.

20 Q. So right now we have the Number 12 well that has
21 been drilled; is that right?

22 A. That's correct.

23 Q. Has it been completed?

24 A. No, it has not.

25 Q. Has it been perforated?

1 A. No, sir.

2 Q. Peoples is seeking also approval of an unorthodox
3 location for that well; is that correct?

4 A. That's correct.

5 Q. It's too close to the western boundary of the
6 standup spacing unit?

7 A. Yes, sir, it's supposed to be 660 feet off that
8 western boundary line, and it's in fact 473 feet too close
9 because it's 187 feet off that line.

10 Q. Who owns the offsetting acreage to the west?

11 A. We do. If you refer back to Exhibit 1, the
12 entirety of Section 26 is owned by Peoples Energy
13 Production - Texas, L.P., and so there's offsetting owner
14 other than ourselves.

15 Q. In this exhibit packet is an e-mail marked
16 Exhibit 6?

17 A. Yes, sir.

18 Q. This is basically a communication between your
19 land department and the district office of the OCD,
20 addressing the proper orientation of the spacing unit?

21 A. Yes. To be completely correct, it's our
22 regulatory group, but yes.

23 Q. But basically at this point in time the location
24 for the Gardner 14 is standard, and the only unorthodox
25 location on the unit is the Gardner 12?

1 A. That is correct.

2 Q. Is Exhibit Number 8 [sic] an affidavit confirming
3 that notice of this Application has been provided to offset
4 operators in accordance with the rules of the Oil
5 Conservation Division?

6 A. Yes, sir.

7 Q. And the only affected operator is ConocoPhillips?

8 A. That's correct.

9 Q. And their interest is to the south, is it not?

10 A. That's correct.

11 Q. Will approval of the Application enable you to go
12 ahead and complete the well?

13 A. Yes, sir.

14 Q. Will approval of this Application, the completion
15 of the well, enable you to effectively and efficiently
16 produce the reserves under this east-half, 322-acre spacing
17 unit?

18 A. Yes, sir.

19 Q. When would you -- How soon do you want to be back
20 on that well?

21 A. As quickly as possible. Of course, weather is
22 always a concern, and having expended the funds and got the
23 well ready to go, other than perforation and completion,
24 we're most anxious to have it producing as soon as
25 possible.

1 Q. And with winter coming in, it would be nice to
2 get that done quickly?

3 A. Yes, sir.

4 Q. Were Exhibits 1 through 7 either prepared by you
5 or have you reviewed them and can you testify to their
6 accuracy?

7 A. Yes, I have reviewed them all, and I can testify
8 to the accuracy.

9 MR. CARR: At this time, Mr. Examiner, we would
10 move the admission into evidence of Peoples Exhibits 1
11 through 7.

12 EXAMINER JONES: Exhibits 1 through 7 will be
13 admitted to evidence.

14 MR. CARR: And that concludes my direct
15 examination of Mr. Parish.

16 EXAMINER JONES: Thank you, Mr. Carr.

17 EXAMINATION

18 BY EXAMINER JONES:

19 Q. Mr. Parish --

20 A. Yes, sir.

21 Q. -- is -- the bottomhole location that was
22 intended is pretty close. It would be a nonstandard
23 location itself, wouldn't it?

24 A. As I understand it, sir, the -- with the
25 Application as it was originally proposed, it would have

1 been legal.

2 MR. CARR: I can explain that. When the
3 Application was originally proposed, it was going to be
4 drilled over into the southwest quarter, and it was
5 proposed as a laydown unit --

6 EXAMINER JONES: Oh.

7 MR. CARR: -- and that would have made it
8 standard.

9 THE WITNESS: Yeah, I'm sorry.

10 MR. CARR: And then the same problem existed with
11 the Gardner 14, and after talking with the Aztec office,
12 because the ownership was common, they suggested re-
13 orienting the spacing unit to have a standup --

14 EXAMINER JONES: Okay.

15 MR. CARR: -- then only one well would be
16 unorthodox, and so that's what they did.

17 EXAMINER JONES: Okay, thank you.

18 Q. (By Examiner Jones) The zone that you're
19 completing in, in the Mesaverde, is it the Point Lookout?
20 The lower zone?

21 A. I'm not certain, to be honest with you.

22 Q. Because I understand, you know, you have the
23 Cliff House, the Menefee and then the Point Lookout, and
24 sometimes there's hundreds of feet, and if your bottomhole
25 location is at a certain spot, what would be your

1 inclination of your well at the bottomhole? In other
2 words, did you angle it over and then go straight down
3 through the Mesaverde?

4 A. Referring to the directional survey -- and I am
5 not a qualified engineer, but there is a well path
6 indicated, I believe, on the third page of the exhibit --

7 Q. Okay --

8 A. -- and --

9 Q. -- I'll read that.

10 A. -- I would trust that someone more qualified can
11 answer your question.

12 Q. There it is, there it is. It shows pretty much
13 the Point Lookout as being the target here.

14 MR. CARR: Mr. Examiner, attached to the letter
15 to Mr. Stogner, which is Exhibit, I believe, 5, it
16 describes the well in the text of the letter, and attached
17 is information on perforations in the Mesaverde, and it
18 shows that they were in the Cliff House and the Menefee and
19 the lower Point Lookout. It shows where the perms were,
20 and it also shows where the well location was when they hit
21 the top of the Mesaverde.

22 EXAMINER JONES: Oh, okay, all three.

23 THE WITNESS: And these are proposed perms.

24 EXAMINER JONES: Okay. Well, the end of the well
25 will be the further -- the closest encroaching point

1 anyway --

2 MR. CARR: Yeah.

3 EXAMINER JONES: -- in this case, so we're okay.

4 Q. (By Examiner Jones) So who owns the west half of
5 Section 35, or even the --

6 A. The west half of Section 35 is another Peoples
7 Energy lease.

8 Q. Okay.

9 A. You know, we indicated these in different colors,
10 just to distinguish them, that the green lease is a common
11 lease, and the leases indicated on the east half of Section
12 27 and the west half of 35 are also Peoples Energy leases.

13 Q. And the east half of 35 is --

14 A. That's ConocoPhillips.

15 Q. -- ConocoPhillips --

16 A. Correct.

17 Q. -- and I saw you noticed them on --

18 A. Correct, correct.

19 EXAMINER JONES: Okay.

20 MR. CARR: And they also are north and northeast.

21 EXAMINER JONES: Okay, they're north and
22 northeast of here, okay.

23 THE WITNESS: Right.

24 Q. (By Examiner Jones) Okay, let's see here -- You
25 want the NSL approved and the exception to that one part of

1 the special pool rules?

2 A. Yes, sir.

3 EXAMINER JONES: And -- I don't have any more
4 questions.

5 MR. CARR: That concludes our presentation.

6 EXAMINER JONES: Okay. Thank you, Mr. Carr.
7 Thanks for coming to Santa Fe.

8 THE WITNESS: Oh, it came at a good time of the
9 year.

10 EXAMINER JONES: With that, we'll take Case
11 13,794 under advisement.

12 (Thereupon, these proceedings were concluded at
13 8:40 a.m.)

14 * * *

15
16
17 I do hereby certify that the foregoing is
18 a complete record of the proceedings in
19 the Examiner hearing of Case No. _____,
20 heard by me on _____.

21 _____, Examiner
22 Oil Conservation Division
23
24
25

CERTIFICATE OF REPORTER

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

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

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

WITNESS MY HAND AND SEAL October 26th, 2006.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2010