

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

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

COMMISSION HEARING

DOCKET NO. 28-09

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August 13, 2009
Santa Fe, New Mexico

BEFORE: MARK E. FESMIRE: Commission Chair
JAMI BAILEY: Commissioner
WILLIAM C. OLSON: Commissioner

This matter came for hearing before the New Mexico Oil Conservation Commission on August 13, 2009, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South St. Francis Drive, Room 102, Santa Fe, New Mexico.

REPORTED BY: PEGGY A. SEDILLO, NM CCR No. 88
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I N D E X

| | | |
|----|--------------------------------------|------|
| 1 | | |
| 2 | | Page |
| 3 | CASE NO. 13957 | 4 |
| 4 | CASE NO. 14055 | 5 |
| 5 | OCD'S WITNESSES: | |
| | JANE PROUTY | |
| 6 | Examination by Mr. Padilla | 6 |
| | Examination by Mr. Swazo | 16 |
| 7 | Examination by Mr. Padilla | 22 |
| | DAVID BROOKS | |
| 8 | Examination by Mr. Swazo | 24 |
| | Examination by Mr. Padilla | 30 |
| 9 | Examination by Mr. Swazo | 38 |
| | Examination by Mr. Swazo | 42 |
| 10 | | |
| | C&D MANAGEMENT'S WITNESSES: | |
| 11 | TOM KIZER | |
| | Examination by Mr. Padilla | 44 |
| 12 | Examination by Mr. Swazo | 74 |
| | Examination by Mr. Padilla | 124 |
| 13 | Examination by Mr. Swazo | 191 |
| | Examination by Mr. Padilla | 198 |
| 14 | GEORGE SHIPLEY | |
| | Examination by Mr. Padilla | 199 |
| 15 | Examination by Mr. Swazo | 25 |
| 16 | OCD'S REBUTTAL WITNESSES: | |
| | DANIEL SANCHEZ | |
| 17 | Examination by Mr. Swazo | 238 |
| | Examination by Mr. Padilla | 240 |
| 18 | Examination by Mr. Swazo | 246 |
| | JANE PROUTY | |
| 19 | Examination by Mr. Swazo | 248 |
| | Examination by Mr. Padilla | 254 |
| 20 | | |
| | C&D MANAGEMENT'S REBUTTAL WITNESSES: | |
| 21 | GEORGE SHIPLEY | |
| | Examination by Mr. Padilla | 257 |
| 22 | | |
| | | |
| | | |
| 23 | | |
| | OCD'S EXHIBITS: | |
| 24 | Exhibit 95 | 256 |
| | Exhibit 96 | 256 |
| 25 | | |

E X H I B I T S

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12 CASE NOS. 14149 and 14150

13 . APPLICANT'S WITNESSES:
 MARY SHARON BALAKAS
 14 Examinatin by Mr. Bruce 274
 FREDERICK MARK
 15 Examination by Mr. Bruce 291
 HOWARD MUSGROVE
 16 Examination by Mr. Bruce 305

17 E X H I B I T S

18 APPLICANT'S EXHIBITS

19 Exhibits 1 - 4 284
 Exhibits 5 - 11 312
 20 Exhibits A - H 304

21 A P P E A R A N C E S

22 For the Applicant: JAMES BRUCE, ESQ.
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25 COURT REPORTER'S CERTIFICATE 319

1 No. R-1960 to Determine Reasonable Costs and for
2 Authorization to Recover Costs for Production of Pooled
3 Mineral Interests in Rio Arriba County, New Mexico.

4 The Commission having deliberated on this,
5 instructed counsel to draft an Order, and counsel has
6 drafted said Order. Have the Commissioners had a chance
7 to review the Order?

8 COMMISSIONER BAILEY: Yes, I have, and I believe
9 it reflects our decisions made and I intend to sign it.

10 CHAIRMAN FESMIRE: Okay. Commissioner Olson?

11 COMMISSIONER OLSON: I agree with the assessment
12 of Commissioner Bailey and I second that motion.

13 CHAIRMAN FESMIRE: Okay. All those in favor of
14 adopting the Order as drafted by counsel in Case No. 13957
15 signify by saying "aye."

16 COMMISSIONER OLSON: Aye.

17 COMMISSIONER BAILEY: Aye.

18 CHAIRMAN FESMIRE: Let the record reflect that
19 the Order was unanimously adopted. It will be signed by
20 the members of the Commission and transmitted to the
21 secretary.

22 With that, we will proceed to the next order of
23 business before the Commission. That is two related
24 cases, Case No. 14149 and Case No. 14150.

25 Case No. 14149 is the De Novo Application of

1 El Paso E&P Company to abolish the Van Bremmer
2 Canyon-Vermejo Gas Pool, Expand the Castle Rock
3 Park-Vermejo Gas Pool, and Establish Special Rules and
4 Regulations for the Castle Rock Park-Vermejo Gas Pool in
5 Colfax County, New Mexico.

6 Case No. 14150 is a related case. It is also a
7 de novo application. It is the Application of El Paso E&P
8 Company, LP to Expand the Stubblefield Canyon Raton-
9 Vermejo Gas Pool, and to Establish Special Rules and
10 Regulations for the Pool in Colfax County, New Mexico.

11 Is the attorney -- single -- ready to make his
12 appearance?

13 MR. BRUCE: Yes, sir. Mr. Chairman, Jim Bruce
14 of Santa Fe representing the Applicant. I have three
15 witnesses.

16 CHAIRMAN FESMIRE: Okay. And I understand that
17 this is an uncontested hearing?

18 MR. BRUCE: That is correct.

19 CHAIRMAN FESMIRE: Okay. Mr. Bruce, would you
20 ask your witnesses to stand and be sworn, please?

21 (Note: The witnesses were placed under
22 oath by the court reporter).

23 CHAIRMAN FESMIRE: Mr. Bruce, do you have an
24 opening statement?

25 MR. BRUCE: Yes, just very briefly,

1 Mr. Chairman, just to focus what we're here for today.
2 First of all, I'd like to say this is not an enforcement
3 case, this is a pool rules case involving gas wells in the
4 Raton basin.

5 Under statewide rules, there is a requirement of
6 160 acres spacing, one well per 160 acres, and you have to
7 be 660 feet off the quarter section line.

8 El Paso filed these applications requesting
9 several things. First of all, the pools, although
10 numerous additional wells have been drilled, the pools
11 have never been expanded and the Division did go ahead and
12 expand the pools.

13 They also requested permission to be allowed to
14 drill two wells for 160 acres, and they also requested
15 substantial relief from the setback requirements of 660
16 feet.

17 The Division granted the Application and insofar
18 as two wells per 160 acres, and they relaxed the internal
19 setbacks in the section, but they required that wells
20 still be 660 feet from a section line.

21 El Paso is here today again requesting relief
22 from the setback requirements, and that is the main thrust
23 of this case today. It's really the only thrust.

24 This is an unusual case, because -- I put a plat
25 up in front of you here. What you're looking at is over

1 600,000 acres that has one mineral owner, and -- except in
2 140 acres, it has one mineral owner shaded in red, and for
3 that matter, it only has one surface owner.

4 The setback relief is requested due to the
5 common mineral ownership, and also due to the topography
6 in this area. However, it will probably help you to see
7 the geology and engineering to appreciate the setback
8 requests, so we will be presenting that.

9 And although I handed you -- or I previously
10 filed -- if I pay approach the bench, Mr. Chairman?

11 CHAIRMAN FESMIRE: You may, sir.

12 MR. BRUCE: I do have one extra large copy of
13 this plat. I think if you look at your set of exhibits,
14 there is an 8 1/2 by 11 land plat, and my clients, when
15 they came in, brought probably a little better plat than I
16 originally submitted. So you'll have a couple of exhibits
17 marked as Exhibit 1, but they're essentially showing the
18 same data.

19 CHAIRMAN FESMIRE: Proceed, sir.

20 MARY SHARON BALAKAS,
21 the witness herein, after first being duly sworn
22 upon her oath, was examined and testified as follows:

23 DIRECT EXAMINATION

24 BY MR. BRUCE:

25 Q. Would you please state your name for the record?

1 A. My name is Mary Sharon Balakas. I reside in
2 Castle Rock, Colorado.

3 Q. And who do you work for and in what capacity?

4 A. I work for El Paso E&P Company, LP, and I'm
5 currently the business asset manager for the Raton basin.

6 Q. Have you previously testified before the
7 Commission?

8 A. I have not.

9 Q. Would you please summarize your educational and
10 employment background?

11 A. Yes. I have a Bachelor of Science from Illinois
12 State University. I have almost 35 years experience in
13 land. I'm serving as a landman, senior landman and
14 landman manager for companies such as Persidio Oil
15 Company, Encenora, and El Paso.

16 Q. And as part of your duties at El Paso, were you
17 the landman in overall charge of the land matters in the
18 Raton basin?

19 A. Yes.

20 Q. And are you familiar with the land matters
21 involved in this application?

22 A. I am.

23 MR. BRUCE: Mr. Chairman, I tender Ms. Balakas
24 as an expert petroleum landman.

25 CHAIRMAN FESMIRE: She'll be so accepted.

1 Q. First, what does Exhibit 1, the big plat up in
2 front, show? And if you'd rather point to --

3 A. Can I get up and show you?

4 Q. Yes.

5 CHAIRMAN FESMIRE: As long as he let's you.

6 MR. BRUCE: Yes.

7 A. Okay, Exhibit 1 is a land map that shows our
8 ownership. The reddish brown area encompasses about
9 640,000 acres. We own 100 percent of the minerals. There
10 are approximately 605,000 acres in New Mexico, and the
11 remaining 35,000, approximately, are in Colorado.

12 The Colorado/New Mexico state line is depicted
13 here at this large black line across here, and it's
14 labeled also. Also on the map, you'll see a brown line to
15 the side, the western side squiggly line, and that's the
16 county line between Colfax County and Taos County.

17 And also, there is a bold line on the northwest
18 part and a Colorado portion, and that's a county line
19 also.

20 CHAIRMAN FESMIRE: Now the important part.
21 Where's Philmont?

22 THE WITNESS: The Philmont?

23 CHAIRMAN FESMIRE: Yeah.

24 THE WITNESS: Okay, Philmont is going to be
25 south of this area (indicating). The boy's camp?

1 CHAIRMAN FESMIRE: Yeah.

2 THE WITNESS: Okay, that's close.

3 Approximately.

4 A. There are also two isolated reddish brown areas.
5 These are also tracts that El Paso owns 100 percent of the
6 mineral interests in, but we have no current wells in
7 there and they're not part of any pool.

8 Q. And you're not seeking any change in pool rules
9 for those two isolated areas to the southwest of the
10 tract?

11 A. That's correct. Can I also just point out,
12 there are two white areas on here where we don't own the
13 minerals. One is Brilliant Canyon Ranch, and the other
14 one is the NRA ownership.

15 Q. Okay. And also, I believe all the current wells
16 are located on that plat?

17 A. That's correct. I'm sorry. All the current
18 wells that are located within the Stubblefield and the
19 Castle Rock pools are on this map delineated.

20 CHAIRMAN FESMIRE: Are those the only two pools
21 up there?

22 MR. BRUCE: Those are the only two pools in
23 New Mexico.

24 Q. Now again, when we initially filed this
25 application, what setback requirements were requested from

1 the Division?

2 A. At that time, we requested ten feet from the
3 section line, and then ten feet from any quarter quarter
4 line.

5 Q. And the Division required wells to be 660 feet
6 from a section line?

7 A. Yes.

8 Q. But it did relax the internal lines in the
9 section?

10 A. That's correct.

11 Q. And you're here today requesting what?

12 A. We're here today to seek liberalization of the
13 660 foot setback that was in the previous Order.

14 Q. Okay. Now again, what is the ownership of the
15 red areas, mineral ownership?

16 A. The ownership of the reddish brown area is 100
17 percent mineral interests by El Paso E&P Company.

18 Q. Okay. Now, there is only one small little area
19 which is not owned, and I don't have the plat for that.

20 A. I have it here. Highway 555.

21 MR. BRUCE: Mr. Examiner, I haven't marked these
22 yet, but I'll mark these 1-A.

23 A. On Exhibit 1, there is a line that goes through
24 here. This is Highway 555. We've blown up that portion
25 on here of Highway 555. And on this exhibit, what we

1 delineated is mineral ownership in yellow that is owned by
2 Colfax County.

3 We have an existing oil and gas lease that
4 covers approximately 141 acres, and we have a 160 acre
5 unit. Where there is Colfax County minerals, we also have
6 a pooling agreement on that quarter section with them.

7 Q. Okay. So out of the 605,000 acres we're talking
8 about, there are 141 acres that are owned by the County of
9 Colfax?

10 A. That's correct.

11 MR. BRUCE: Mr. Chairman, it was in the record
12 for the first hearing, for some reason, the deeds or
13 documents granting the right-of-way just in those certain
14 colored areas that you see there, granted the minerals.
15 Why, we don't know, but that's why there is this odd
16 little breaking up of mineral ownership.

17 Q. But again, those areas are leased to El Paso?

18 A. That's correct.

19 Q. And so, again, El Paso is the only operator
20 within these pools?

21 A. Yes.

22 CHAIRMAN FESMIRE: Okay, and the uncolored areas
23 belong to Mr. Turner -- minerals belong to --

24 THE WITNESS: No.

25 MR. BRUCE: They belong to El Paso.

1 THE WITNESS: They're El Paso's minerals.

2 CHAIRMAN FESMIRE: Oh, okay.

3 THE WITNESS: Mr. Turner -- or Vermejo Park
4 Ranch only owns surface.

5 CHAIRMAN FESMIRE: Oh, okay. That's right. I'm
6 sorry, I knew that.

7 COMMISSIONER BAILEY: And where is the Vermejo
8 Park Ranch. It's the whole thing?

9 MR. BRUCE: And we've got some subsequent plats,
10 Commissioner Bailey -- I think our next witness could
11 point out where the ranch headquarters are and stuff like
12 that.

13 Q. Now, in looking at the plats, the acreage in
14 which Colfax County has an interest is being developed --
15 El Paso is not avoiding developing the Colfax County
16 acreage?

17 A. No. In fact, most of the area where we have the
18 minerals falls within a 160 acre spacing unit where we
19 have drilled a well, and we've formed a pool unit
20 agreement with the County.

21 Q. Okay. And El Paso's plans to develop these
22 wells were necessary, two wells on a well unit would
23 include the Colfax County acreage?

24 A. That's correct.

25 Q. Okay. And will the next witness address the

1 topography issues in this area?

2 A. Yes.

3 Q. Now, does El Paso request a buffer zone where
4 the statewide rules would apply?

5 A. Yes. What we're requesting is, there would be a
6 buffer zone that would include the outer boundary of the
7 Vermejo Park Ranch, every 160 acre unit -- on a 160 acre
8 basis outlying the ranch.

9 Q. Okay. So that would just be developed on the
10 statewide rules with the normal setbacks and one well per
11 160 acres?

12 A. That's correct.

13 MR. BRUCE: If I may approach the bench again,
14 Mr. Chairman?

15 CHAIRMAN FESMIRE: You may, sir.

16 MR. BRUCE: I'm handing you Exhibit 4-A.

17 Q. And Ms. Balakas, what does Exhibit 4-A
18 represent?

19 A. Exhibit 4-A is the actual land descriptions of
20 each 160 acre quarter section where we have entered into a
21 compensatory royalty agreement with the Bureau of Land
22 Management.

23 MR. BRUCE: And you can't see it so well on
24 these first two plats, Mr. Chairman, but our next witness
25 will have a plat where it will show where these

1 compensatory royalty agreements are.

2 Q. And that is where the El Paso lands adjoin
3 federal land; is that correct?

4 A. That's correct, on the west side of the ranch
5 where we've got forest land.

6 CHAIRMAN FESMIRE: Jim, could you take just a
7 second and explain that agreement to me?

8 MR. BRUCE: Yes. Mr. Chairman, if you look at
9 this plat -- and you'll be able to see quite clearly here
10 on the southwest side, the white area is mainly federal
11 land, national forest or wilderness. And the 160 acre
12 units were wells along this little stretch of land.

13 The federal government will not lease the land.
14 But they do have a provision in the federal regulations
15 whereby they are paid compensatory royalties. So in 160
16 acres, these 160 acre tracts -- I think there's 23 of
17 them, the federal government owns varying amounts of
18 acreage.

19 CHAIRMAN FESMIRE: So you can't drill on them
20 but they allow you to drain them?

21 MR. BRUCE: But they'll let you drill on your
22 land --

23 CHAIRMAN FESMIRE: And drain their reserves.

24 MR. BRUCE: And you pay them their regular
25 royalty. And I spoke with Mr. Jim Lovato at the BLM's

1 Farmington office on Tuesday, and he confirmed that, you
2 know, they do not want any additional development on their
3 compensatory royalty land. So we have agreed that nothing
4 would occur on these lands also.

5 Q. As a result, Ms. Balakas, the only parties
6 affected by this development or your development plans are
7 Colfax County and the United States?

8 A. That's correct.

9 MR. BRUCE: And Mr. Chairman, I meant to print
10 it up last night, in the case file, notice was given of
11 the original hearings to these entities and they did not
12 eappear before the Division. And as I said, I spoke to
13 Mr. Lovato at the BLM and he's fully aware of this
14 hearing.

15 And Mr. Chairman, I submitted the original
16 Division Orders as Exhibits 2 and 3 just so the
17 Commissioners would have those in front of them.

18 Q. Ms. Balakas, were Exhibits 1-A and 4-A prepared
19 by El Paso?

20 A. That's correct.

21 Q. And in your opinion, is the granting of the two
22 Applications of El Paso in the interest of conservation
23 and the prevention of waste?

24 A. That's correct.

25 MR. BRUCE: Mr. Chairman, I'd move the admission

1 of Exhibits 1, 1-A, 2, 3, and 4-A.

2 CHAIRMAN FESMIRE: Well, I assume the Commission
3 has no objection. They'll be so admitted.

4 MR. BRUCE: And I pass the witness.

5 CHAIRMAN FESMIRE: Commissioner?

6 COMMISSIONER BAILEY: The statement was just
7 made, the only parties involved were the BLM and Colfax
8 County and El Paso E&P?

9 THE WITNESS: Correct.

10 COMMISSIONER BAILEY: The surface owner is a
11 huge factor. Is there an agreement with the surface
12 owners for these additional wells that you're requesting
13 the relaxation of the setbacks?

14 THE WITNESS: Right. We work with -- we have a
15 mineral extraction agreement that covers all of our
16 operations with the Vermejo Park Ranch. And whenever we
17 permit a well or locate one, we're in agreement with them
18 as to where we move the well or where we put it.

19 COMMISSIONER BAILEY: Both the number and the
20 location of the wells?

21 THE WITNESS: The number of wells has got a cap
22 right now of how many existing wells we can have under the
23 agreement, the existing locations. So we still have -- I
24 mean, we still have the ability to drill additional
25 wells, yes.

1 COMMISSIONER BAILEY: I've gotten very confused
2 when you say that there's a cap on the number of wells and
3 that you have not yet drilled the number of wells for that
4 cap, is that what you just said?

5 THE WITNESS: Our existing mineral extraction
6 agreement provides for a cap on the number of locations we
7 can have on current producing wells on the ranch. We have
8 not reached that. We have the right to drill additional
9 wells, such as these infill wells, and be within
10 compliance of our agreement.

11 MR. MUSGROVE: On existing pads, is what she's
12 trying to say.

13 COMMISSIONER BAILEY: Okay. And the
14 infrastructure, the roads, the pipelines, whatever, that's
15 all taken care of within your agreement with Vermejo Park?

16 THE WITNESS: Yes.

17 COMMISSIONER BAILEY: You need a magnifying
18 glass for this. I certainly can't see. On Exhibit No. 1,
19 we have a rainbow of colors in the legend in the top
20 right, but not --

21 THE WITNESS: Right. That's standard El Paso
22 legend. It shows minerals, where we have a partial
23 interest. It comes out of our drafting department. So
24 that legend that comes up -- Here, Let me show you.

25 It shows where we own 100 percent working

1 interests, where we have depth restrictions, partial
2 interests, seismic options. We color code everything.
3 And that comes through our central land records in Houston
4 and our drafting department.

5 COMMISSIONER BAILEY: Okay, so if we only saw
6 pink, then that only applies to the pink color?

7 THE WITNESS: Yes. If it says "EPP, Mineral
8 Fee," that means we own the minerals. And in this case,
9 we have 100 percent.

10 COMMISSIONER BAILEY: The surrounding owners --
11 because the buffer zone on the outside, are you asking for
12 relaxation of that setback around the buffer zone of this?

13 THE WITNESS: No.

14 MR. BRUCE: No, the buffer zone would be, you
15 know, within the 160 acre well units on the exterior of
16 this acreage and where it adjoins the --

17 CHAIRMAN FESMIRE: The entire boundary?

18 MR. BRUCE: The entire boundary.

19 CHAIRMAN FESMIRE: But the exception is the
20 compensatory royalty agreements where you can --

21 MR. BRUCE: Well, it -- they kind of merge
22 together, actually, but the BLM wanted us to reflect what
23 was in the compensatory agreements. And with our next
24 witness, I will point them out on an exhibit we have.

25 But what we are asking is that, you know, that

1 there be 160 acre quarter sections, so a half a mile
2 buffer zone on the entire upside of this area including
3 south of the New Mexico/Colorado border.

4 And then also, joining the two white areas which
5 are Non-El Paso minerals so that, you know, until
6 something is done there, they would remain on statewide
7 rules. So they wouldn't be affected by the requests for
8 these pools.

9 CHAIRMAN FESMIRE: Which means you can't drill
10 any closer than 660 acres to the boundary?

11 MR. BRUCE: Yes.

12 CHAIRMAN FESMIRE: Except, does that apply to
13 the compensatory mineral --

14 MR. BRUCE: Yes, it would apply to that also.

15 CHAIRMAN FESMIRE: So why would you have to --
16 Never mind.

17 MR. BRUCE: Yeah, I -- But in talking with the
18 BLM, they wanted us to expressly list the lands that were
19 compensatory royalties.

20 CHAIRMAN FESMIRE: Okay. That doesn't make any
21 sense. I mean, you know, you're going to be statewide
22 rules where it would affect them, but in order not to
23 object to this, they just wanted to make sure that...

24 MR. BRUCE: I guess they just wanted no more
25 wells next to them. I think it's wilderness area up in

1 there. Tribal land.

2 CHAIRMAN FESMIRE: Okay. Yeah, good idea.

3 COMMISSIONER BAILEY: What is the cap for the
4 number of wells?

5 MR. MUSGROVE: Active well bores, 1,250. We're
6 currently at 944.

7 COMMISSIONER BAILEY: That's all I have.

8 CHAIRMAN FESMIRE: And your expansions, you're
9 going to drill from the same pads?

10 MR. MUSGROVE: The infills we were talking about
11 will be --

12 THE WITNESS: Will be both vertical and
13 directional.

14 MR. MUSGROVE: There are sites that have been
15 used up on an active site.

16 MR. BRUCE: That's all I have with this witness.

17 COMMISSIONER OLSON: So I guess you've reviewed
18 this through with the Vermejo Park Ranch, I'm assuming?

19 THE WITNESS: Yes, we have. And they were well
20 aware of our hearing last year on the infill. They had no
21 objection at the time. So they're aware that we have the
22 order.

23 COMMISSIONER OLSON: So they're wanting to see
24 things drilled from the same pad, is that kind of their
25 preference on this?

1 THE WITNESS: I think that we're under our
2 current agreement. Along the way we have amended, as
3 necessary, programs. So at this point, we have our
4 existing agreements with them.

5 COMMISSIONER OLSON: And this falls within the
6 existing agreement?

7 MR. BRUCE: Commissioner Olson, I've seen the
8 surface use agreement once, but it's -- it's
9 rather detailed. Rather large and detailed.

10 THE WITNESS: Yes, it is. Well, we have a very
11 sophisticated landowner. There's been a lot of thought
12 put into the agreement, back to Penzoil in '93, and 2003
13 when we entered into an agreement.

14 COMMISSIONER OLSON: I saw it a long time ago,
15 too. It's pretty big.

16 CHAIRMAN FESMIRE: I have no questions of this
17 witness.

18 MR. SMITH: May I ask a question?

19 CHAIRMAN FESMIRE: Oh, yes, surely.

20 MR. SMITH: Talking about notice, I think
21 someone earlier -- Mr. Bruce, you may have said it, that
22 Colfax and the federal government both had notice of the
23 last hearing?

24 MR. BRUCE: Yes.

25 MR. SMITH: And you spoke with someone from the

1 BLM about this hearing that you're currently in?

2 MR. BRUCE: Jim Lovato at the BLM Farmington
3 office.

4 MR. SMITH: Okay. So the BLM has notice of it.
5 Colfax, did you talk to anybody from Colfax?

6 MR. BRUCE: No. But, I mean, they were given
7 written notice of the original hearing and did not appear.

8 MR. SMITH: Okay. And Vermejo Park, I take it,
9 your position is that this is allowable under your
10 agreement with them, so there's no need to give them
11 notice of this hearing?

12 MR. BRUCE: Well, I think it's not only that
13 it's allowable -- these wells and locations would be
14 allowable under the surface use agreement, but I do not
15 read the Division's regulations to require us to give
16 notice to the surface owner. But they were aware of it,
17 as El Paso has testified. They had discussions before the
18 original hearing with Vermejo Park.

19 THE WITNESS: We did invited them if they were
20 interested in attending this meeting.

21 MR. SMITH: Vermejo Park or Colfax County?

22 THE WITNESS: Vermejo Ranch.

23 MR. SMITH: Okay. I have no questions.

24 MR. BRUCE: I call Mr. Mark to the stand.

25 CHAIRMAN FESMIRE: Mr. Mark, you've been

1 previously sworn?

2 MR. MARK: Yes, sir.

3 FREDERICK MARK,

4 the witness herein, after first being duly sworn
5 upon his oath, was examined and testified as follows:

6 DIRECT EXAMINATION

7 BY MR. BRUCE:

8 Q. Would you please state your name and city of
9 residence for the record?

10 A. My name is Frederick Earl Mark, and my residence
11 is Evergreen, Colorado.

12 Q. Who do you work for and in what capacity?

13 A. I work for El Paso Exploration and Production,
14 LLP, and I'm an advisor geologist.

15 Q. You've been qualified as an expert geologist
16 before the Division, but since we're in front of the
17 Commission, could you describe your educational and
18 employment background?

19 A. I have a Bachelor's Degree in Geology from the
20 University of Idaho. I've been in the business 35 years.
21 This the second time I've worked for El Paso in my career.
22 I worked for Sun, WM Petroleum, and TRC Consulting
23 Company.

24 Q. And how long have you been back with El Paso
25 this second time?

1 A. I've been with El Paso for almost four years
2 now.

3 Q. And does your area of responsibility at El Paso
4 include this part of New Mexico?

5 A. Yes.

6 Q. And are you familiar with the geology involved
7 in these two pools?

8 A. Yes, I am.

9 MR. BRUCE: Mr. Chairman, I tender Mr. Mark as
10 an expert petroleum geologist.

11 CHAIRMAN FESMIRE: Mr. Mark, are you a certified
12 petroleum geologist?

13 THE WITNESS: I am a certified petroleum
14 geologist in Wyoming.

15 CHAIRMAN FESMIRE: Okay. Mr. Mark is so
16 accepted.

17 Q. Mr. Mark, could you look at your Exhibit A and
18 describe zones of interest in Vermejo Park?

19 A. If I may stand up?

20 CHAIRMAN FESMIRE: You may.

21 A. This is a type log of the section that produces
22 gas from coal on the Vermejo Park Ranch. The lowest
23 formation that we penetrate is the Trinidad sandstone.
24 It's a massive sandstone from 50 to 200 feet thick.

25 It was deposited during the regression of the mid

1 continent seaway, the shoreline deposits and offshore
2 bars. It does not produce gas. And the work that we have
3 done in the field, it has nanotarcy permeability. It's
4 very tight.

5 The next formation is the Vermejo formation. It
6 contains coal. It was deposited during the late
7 cretaceous time in a lower delta plane environment. It
8 contains -- any given well can have between -- can
9 penetrate between no seams and up to 12 seams.

10 The seams in the Vermejo range from a maximum of
11 10 feet thick to less than one foot thick. The extent --
12 the coals are very lenticular in the Vermejo. The
13 thickest coal will be -- there's only one seam, it's over
14 10 feet thick, and it covers about 15 square miles.

15 The rest of the coals are between one and six
16 feet thick and cover at most three square miles. A
17 typical coal seam will be three feet thick and cover from
18 one to two sections. The coal is, as I said, quite
19 lenticular and discontinuous.

20 Above the Vermejo is the Raton formation.
21 Excuse me, I should have said that the Vermejo formation
22 is between 350 feet and 50 feet thick on the ranch. And
23 it thins from west to east.

24 Above the Vermejo formation is the Raton
25 formation. It's 1,800 feet thick. The base of the Raton

1 formation is the Raton conglomerate. It was deposited in
2 a graded stream with a little higher gradient. There are
3 no coals in it.

4 The lower part of the Raton formation is barren.
5 Coal occurs in the upper 600 to 800 feet. It's extremely
6 lenticular seams. And this formation was deposited in an
7 upper delta plane environment, meandering streams, and the
8 coals are very lenticular, although they can be thick
9 locally, up to 12 feet thick, but the extent is one to two
10 square miles even of those thick seams.

11 There can be up to 15 seams. A typical seam is
12 probably two and a half to three feet thick and less than
13 one square mile of extent.

14 One thing that I do want to emphasize once again
15 is there are a number of thin seams. There are no thick,
16 extensive seams as you would see in the San Juan basin.

17 I'll go ahead and take this down unless there
18 are any questions. Also, all of these formations crop out
19 along -- in the ranch or around the edge of the basin.

20 Q. Mr. Mark, you have a series of exhibits,
21 structure maps and cross-sections marked as Exhibit D
22 through F. And without interrupting you, could you just
23 briefly go through these?

24 A. Yes. Exhibit B is a structure map on the top of
25 the Trinidad sandstone. It's made up over 1,400 data

1 points. Basically, it shows the basin as an asymmetrical
2 north base trending northwest/southeast divided into two
3 sub basins by a dome in the center.

4 MR. BRUCE: Mr. Chairman, I filed a set of
5 exhibits about five weeks ago, and then I filed another
6 set last week. And if you don't have yours,
7 Mr. Chairman --

8 CHAIRMAN FESMIRE: I'll look over Jami's
9 shoulder here.

10 MR. BRUCE: Okay.

11 A. Like I said -- Let me start again. The red
12 line, the outline of the ranch -- and this is a structure
13 map on the top of the Trinidad. The yellow line, the
14 yellow shaded areas on the east side of the map and the
15 west side of the map, are an outcrop of undifferentiated
16 Vermejo and Trinidad formations which mark the limits of
17 the basin.

18 The white area in the center or the left center
19 of the map is the Vermejo Park dome, and that's where the
20 ranch headquarters are.

21 Just to give you an idea of the size of the
22 ranch, to drive from Raton, which is on the right hand of
23 the west corner, to the Vermejo Park headquarters, the
24 bulk of that is paved highway, takes about 45 minutes at
25 an average speed of around 50 miles an hour.

1 The ranch -- the basin itself, as I said, is an
2 asymmetrical basin trending northwest to southeast.
3 There's a dome in the center of the basin that divides it
4 into a northern sub basin and a southern sub basin.

5 On the eastern part of the ranch, dips are very
6 gentle from 100 to 300 feet per mile. The east side is
7 characterized by thrusting -- and actually, a little bit
8 west of the coal limit, and very -- The basin on the east
9 side is characterized by very steep dips from 1,500 to
10 2,000 feet per square mile.

11 And the western part of the basin there is also
12 a terrestrial decline and the Vermejo Park dome which are
13 also structures with a steep western limb.

14 Unless there are any questions, I'll go on to
15 the next exhibit.

16 Exhibit C is an isopach of total coal in the
17 Vermejo formation. Maximum thickness is about 35 feet.
18 And you can see it's thick on the western side of the
19 basin, and in certain ponds in the northern and central
20 part of the basin, it thins, the total coal thins to the
21 east.

22 I want to point out again that this is total
23 coal, and there can be up to 12 seams making up this total
24 coal. There is not one coal over the entire basin, but
25 numerous thin seams. I will later show on the

1 cross-sections AA Prime and BB Prime.

2 The next exhibit -- unless there are any
3 questions, Exhibit D is an isopach of the total Raton
4 pool. Once again, this is total coal added up -- a sum of
5 up to 15 seams. There are thick areas that trend
6 northwest/southeast.

7 The Raton coals are not present on the western
8 part of the basin, the gray areas. And the eastern part
9 of the basin, the productive coal measures are terminated
10 by erosion. So the total thickness of the Raton coal ends
11 due to erosion cropping of the coal to the east. Any
12 questions?

13 Exhibit E is Cross-section AA Prime shown on the
14 previous isopachs. This cross-section is intended to
15 illustrate the lateral variability of the Vermejo
16 formation and Raton formation.

17 There are no markers in either formation and can
18 be unreliably correlated. And the coals also are
19 extremely lenticular. You can see the thinning from the
20 Vermejo formation from west to east.

21 You can also see coals -- these wells are
22 separated by about one mile. You can see how difficult it
23 is to even attempt to correlate coals within the Vermejo.
24 These are the most continuous coals on the ranch because
25 they're lower delta plane coals.

1 Above it, the Raton formation, you can see the
2 coals are shaded black on the cross-section. Sandstones
3 are yellow, mudstones are gray.

4 Above in the Raton formation, in the upper third
5 of the Raton formation, you can see Raton coals. These
6 coals are even more difficult to correlate and lenticular
7 than the Vermejo coals.

8 If I may give an example of the lenticular
9 nature of the Raton coals, we planned a horizontal well in
10 the Raton formation. All the surrounding wells from the
11 well we kicked off from had six feet of coal. It appears
12 that the Raton formation is continuous over that area.

13 When we landed the well about 300 feet from the
14 well we kicked off from, we landed in the sandstone. The
15 coal was not present. That will give you an idea of the
16 variability that we have. A well with six feet of
17 coal, 400 feet away, there is no coal. What appeared to
18 be in wells up to half a mile away, we had coal.

19 There had been a point bar that apparently
20 coexisted with the sea deposition. The coal has never
21 been deposited there.

22 This is Section BB Prime, Exhibit F. It is a
23 section across the southern part of the basin shown on
24 your slide. And once again, it will give you an idea of
25 the lenticular nature of the coals and how laterally

1 discontinuous they are.

2 Q. Okay. And the final exhibit, Mr. Mark?

3 A. This is a composite map of a seven and a half
4 USGS topographical map. The ranch boundary is here. This
5 is Colorado. This is New Mexico. This is the ranch
6 headquarters. The yellow lines are, once again, the
7 outcrop of undifferentiated Vermejo and Trinidad
8 formations that mark the edges of the basin.

9 We have taken the liberty of showing the
10 Stubblefield gas pool, as well as the Castle Rock gas pool
11 in blue. All of our producing wells are shown on this map
12 in black. The black trails here are horizontal wells.

13 What we wish to show on this is first how rugged
14 the topography is on the ranch. In both pools, there are
15 canyons that are over 750 feet deep. This makes location
16 sites -- puts them at a premium.

17 We have also on this map have shown our proposed
18 infill wells. This was the subject of our earlier
19 hearing, was the order that allowed us to go to two wells
20 per 160 acres. They're shown in two colors, first red and
21 then blue.

22 These wells were sited based on criteria to
23 produce unique reserves so that their 80 acre drainages
24 did not overlap with the drainage areas of existing wells.
25 Mr. Musgrove will describe that process.

1 They're also sited with relation to topography
2 so that we could build a site and so that we have access
3 for both roads and infrastructure corridors.

4 They're also sited in accordance with the MEA.
5 This means that they can be sited -- they're sited for
6 viewsapes and other considerations of the ranch.

7 COMMISSIONER BAILEY: What does MEA stand for?

8 THE WITNESS: Mineral extraction agreement.
9 That's the agreement that we operate on the ranch with.
10 And it's an agreement with the landowner. If you have any
11 detailed questions, I would address them to --

12 COMMISSIONER BAILEY: No, you just made the
13 reference to MEA, and I didn't know what it meant.

14 THE WITNESS: Oh, yes. That's the initials for
15 mineral extraction agreement. It spells out how we
16 operate on the ranch.

17 COMMISSIONER BAILEY: Okay.

18 A. When we asked for a ten foot setback from
19 section lines in our original hearing, we hadn't counted
20 up the number of wells that would be within that 660 foot
21 setback.

22 And what I want to show here is, the wells in
23 red are wells that would fall between 660 -- less than 660
24 feet from a section line. You can see there are a large
25 number of them.

1 This would require us to file an exception
2 presently because they were less than 660 feet from a
3 section line. There are 235 wells in this program that
4 would fall within 660 feet of the section line. As I
5 said, they're shown in red. That would require us to file
6 exceptions, 235 exceptions.

7 What we're asking is, that we would be exempted
8 from that 660 foot rule so that we would not file those
9 235 exceptions which would burden the state with paperwork
10 and costs.

11 Q. And Mr. Mark, what you're talking about is
12 infill wells within the current point existing boundaries
13 of the pool?

14 A. Yes, that is correct.

15 Q. And if there is future development outside the
16 pools, that would not count any additional infill wells in
17 unorthodox locations outside the current boundaries of the
18 pools?

19 A. Yes.

20 Q. So that would be additional?

21 A. Those would be additional as the field expands
22 and the infill wells expand with it.

23 Q. Now, with respect to the existing wells, there
24 are already, looking at your plat, a number of unorthodox
25 locations for those existing wells, are there not?

1 A. Unorthodox?

2 Q. Unorthodox, location exceptions is how we --

3 A. Yes. We have in the past filed exceptions.

4 Q. And have any of them been denied?

5 A. They have not.

6 Q. Okay. So if the setback requirement that
7 El Paso is requesting isn't granted, you'll still have to
8 seek -- you would still want to drill at these unorthodox
9 locations to access mineral reserves?

10 A. That is correct. Because these have been sited
11 within the MEA, and they've also been sited to develop
12 unique reserves so that we're not producing from the
13 drainage areas of existing wells.

14 So we would have to file for exceptions. But
15 we're also -- As I said before and I might point out,
16 locations, because of topography, are at a premium.

17 MR. BRUCE: Mr. Chairman, one thing, Exhibit
18 4-A, which shows those compensatory royalty agreements
19 with the federal government, what you see down here in the
20 red line is the line of the ranch boundary.

21 And as you see on the southwest side where
22 there's a stair step, the blue line, that's the pool
23 boundaries. Any time you see 160 acres intersected by the
24 red line, that's the acreage with the compensatory royalty
25 agreements with the federal government.

1 COMMISSIONER OLSON: As far as the lie of it all
2 on this, is that the stair-stepped area?

3 MR. BRUCE: South of that. And as I said, in
4 those areas, the federal government is receiving its
5 royalty but does not want additional wells on that acreage
6 or near that acreage.

7 COMMISSIONER BAILEY: Are there similar
8 agreements to the east?

9 MR. BRUCE: Not that I know of. I don't
10 believe there are.

11 MS. BALAKAS: Just along there where there is
12 the federal land.

13 COMMISSIONER BAILEY: And these are fee lands to
14 the east?

15 MR. BRUCE: They are -- I think it's fee and --
16 a mixture of stuff. I think once you get to the -- it
17 doesn't show it on this plat, Commissioner Bailey, but
18 once you get to the east, it's more of typical New Mexico
19 land holdings than federal state fee.

20 MS. BALAKAS: We don't have any other existing
21 wells that we've drilled outside of our fee that we had to
22 pool other than Colfax County and the BLM that fall in
23 quarter sections where we've drilled wells.

24 MR. BRUCE: I didn't go through Exhibit G,
25 Mr. Chairman, but it's similar to Exhibit H.

1 Q. Mr. Mark, were Exhibits A through H prepared by
2 you or under your supervision?

3 A. That is correct.

4 Q. And in your opinion, is the granting of
5 El Paso's applications in the interest of conservation and
6 the prevention of waste?

7 A. Yes, it is.

8 MR. BRUCE: Mr. Chairman, I move the admission
9 of El Paso's Exhibits A through H.

10 CHAIRMAN FESMIRE: They'll be so admitted.

11 MR. BRUCE: I have no further questions of the
12 witness.

13 COMMISSIONER BAILEY: No questions.

14 COMMISSIONER OLSON: No questions.

15 CHAIRMAN FESMIRE: No questions.

16 MR. BRUCE: I would call Mr. Musgrove to the
17 stand.

18 CHAIRMAN FESMIRE: Mr. Musgrove, you've been
19 previously sworn?

20 MR. MUSGROVE: Yes, I have.

21 MR. BRUCE: And Mr. Chairman, Mr. Musgrove will
22 be testifying off of Exhibits 4 through 11 starting with
23 that package there.

24

25

1 HOWARD MUSGROVE,
2 the witness herein, after first being duly sworn
3 upon his oath, was examined and testified as follows:

4 DIRECT EXAMINATION

5 BY MR. BRUCE:

6 Q. Mr. Musgrove, would you please state your full
7 name for the record?

8 A. Howard Wayne Musgrove.

9 Q. And where do you reside?

10 A. Parker, Colorado.

11 Q. Who do you work for and in what capacity?

12 A. I work for El Paso Exploration and Production
13 Company, LP, and I'm a senior reservoir engineer.

14 Q. Would you please -- you've testified before the
15 Division but not the Commission, so would you please
16 summarize your educational and employment background for
17 the Commissioners?

18 A. I have a Professional Degree from the Colorado
19 School of Mines in Geological Engineering, 39 years of
20 experience mainly in the Rockies and in California.

21 Q. And what companies have you worked for along the
22 way?

23 A. Tank Euro Oil Company. I worked for EOG. I
24 worked for Costal Oil and Gas, and El Paso.

25 Q. Does your area of responsibility at El Paso

1 include this portion of northeast New Mexico?

2 A. Yes, it does.

3 Q. And are you familiar with the reservoir matters
4 related to these applications?

5 A. Yes.

6 MR. BRUCE: Mr. Chairman, I'd tender
7 Mr. Musgrove as an expert reservoir engineer.

8 CHAIRMAN FESMIRE: Mr. Musgrove, are you a
9 licensed engineer in any state?

10 THE WITNESS: No, I'm not.

11 CHAIRMAN FESMIRE: He'll be so admitted.

12 Q. Mr. Musgrove, it's getting late, let's be quick,
13 and I'll let you run through the exhibits. Would you
14 identify Exhibit 4?

15 A. Exhibit 4 is a locator plat, again of the
16 Vermejo Park Ranch. It's highlighted in red. I have
17 highlighted the wells which I'll be talking about in the
18 Stubblefield Canyon pool. It will be three wells going
19 east to west. That will be VPRA 17, VPR 29 and E 8. I
20 will then later discuss five wells in the Castle Rock Park
21 pool and then another plat.

22 Q. Okay. And what does Exhibit 5 show?

23 A. Exhibit 5 is a similar plat used across the
24 X axis production. The lower red curve is the daily gas
25 production. The dark blue is the daily water production.

1 The upper red curve is the monthly gas. And the very
2 light blue is the gas/water ratio curve.

3 Q. Now -- and perhaps we didn't get into this
4 before, why did you select these three wells from the
5 Stubblefield Canyon pool?

6 A. All the wells that I have selected have at least
7 six years of production history, which gives us more
8 confidence in the calculated remaining reserves, as well
9 as the cumulative gas production. And when you add those
10 two together, you get the estimated ultimate recovery of
11 the well which we will be using on a later exhibit.

12 Q. Okay. And what is Exhibit 6?

13 A. Exhibit 6 is a file that I put together to show
14 the methodology of calculating the volumetric calculation
15 of gas in place on an 80 acre drainage.

16 Gas in place is simply the thickness of the
17 coal, times the gas content of those coal seams, times the
18 area of the drainage, times the tonnage factor which
19 represents the ash content of the coal.

20 I've calculated this for both the Vermejo coals,
21 as well as the Raton, and added them together to get the
22 column marked "OGIP" for 80 acres, which is the original
23 gas in place for each of the 80 acre tracts.

24 Since 93 percent of our producers in the
25 Stubblefield Canyon pool are commingled Vermejo and Raton

1 production, I then calculated an equivalent feet of coal
2 so that I can relate the feet of Vermejo coal and their
3 gas content, which is generally higher than the feet of
4 coal that we perforate in the Raton and its gas content.

5 I chose 316 standard cubic feet per ton as a
6 standard gas content. And by taking the ratio of the
7 Vermejo gas content, dividing it by 316 times the feet of
8 the Vermejo coal, plus the Raton gas content divided by
9 316 times the feet of coal in the Raton, we calculate an
10 equivalent feet of coal based at 316 standard cubic feet
11 per ton.

12 Q. And what do the results of your calculations
13 show with respect to drainage and the need for additional
14 wells?

15 A. On this particular file, what we show is the EUR
16 and the decline curve analysis for each of the wells in
17 the Stubblefield Canyon pool. The equivalent drainage
18 area is simply the estimated ultimate recovery divided by
19 the product of the gas in place divided by 80, which will
20 give us gas in place per acre, times .528.

21 The .528 was derived from langmere (phonetic)
22 absorption isotherm data to determine the recovery factor
23 from the initial pressures down to a bariment (phonetic)
24 pressure of both the Vermejo and the Raton coals.

25 I then applied an 88 percent completion

1 efficiency to account for screenouts and various things as
2 we frac'ed the various stages of the well to determine the
3 recovery factor that I mentioned.

4 Q. And looking both at Exhibits 6 and 7, what do
5 these numbers show with respect to the need to drill
6 additional wells?

7 A. I think that is on the very next one, which is
8 Exhibit 7. This is a cumulative frequent distribution of
9 the calculated drainage areas of the Stubblefield Canyon
10 pool. It can be seen on this plot that the simple
11 arithmetic means of all our producers, 438, is 78 acres.

12 This plot also shows that 90 percent of all our
13 wells in the Stubblefield Canyon pool will not drain 160
14 acres. As a matter of fact, we follow across the 350, 50
15 percent of the wells are draining less than 66 acres.

16 The technical conclusion from this plot is that
17 most of our wells in the Stubblefield Canyon, one well
18 will not effectively drain 160 acres.

19 CHAIRMAN FESMIRE: It's just a coincidence that
20 it will drain 78 or 80 acres?

21 THE WITNESS: Actually, earlier we calculated
22 this, that's why we use 80 as standard drainage area.

23 CHAIRMAN FESMIRE: Okay.

24 A. If you go back to the prior slide, like
25 Exhibit 5, you'll see there are drainage radiuses larger

1 than 100 percent recovery factor, and that's because we're
2 using 80 acres.

3 Q. Not every well unit will require an infill well?

4 A. That is correct.

5 Q. But a lot of them will?

6 A. Approximately 90 percent of them in the
7 Stubblefield Canyon pool would require a second well to
8 completely drain the 160.

9 Q. Okay. Then let's move on to the Castle Rock
10 pool starting with Exhibit 8.

11 A. Exhibit 8 is the same locator plat of the
12 Vermejo Park Ranch outlined in red. Located from the
13 south going north are five sample wells, VPR 1, VPR 14 D
14 39, VPR D 11, and VPR D 29.

15 Q. And those are reflected on the decline curves on
16 Exhibit 9?

17 A. That is correct. Exhibit 9 on the five decline
18 curves, again, these wells were selected because they had
19 anywhere from seven to nine years of production history.

20 We have recently recompleted the VPR B 01,
21 adding Raton pay. However, all the rest are still in the
22 Vermejo only.

23 You'll see the overall shape of the curve of
24 variability, and the rates that these wells produce that
25 are also variable. And this reflects the very good

1 conductivity that we have in the northern portion of that
2 well pool where some of the wells have produced in excess
3 of 3 million a day.

4 Q. And Exhibit 10 is similar to your prior
5 Exhibit 6, I believe?

6 A. Yes. It's a parallel file which shows again the
7 calculation of the original gas in place, as well as the
8 calculation of the equivalent feet of coal in each well.

9 And by taking the estimated ultimate recovery,
10 again, dividing by 80 to get us a gas content divided by
11 80 to get a gas content per acre, and again, multiply by
12 .528, we get the equivalent drainage area as shown here.

13 Q. Okay. And what are the median rates of
14 drainage? And let's move on to Exhibit 11.

15 A. Exhibit 11 is another cum frequency plot, this
16 time of the Castle Rock pool. And as you can see, the
17 median arithmetic average is 114 acres, approximately.
18 But if you take a look at the plot a little carefully, 82
19 percent of the wells will drain less than 160 acres. And
20 again, 66 percent of these wells will not drain 80 acres.

21 Q. So again, there is a need for additional infill
22 development in order to adequately produce the reserves
23 underlying the land?

24 A. That is my technical conclusion.

25 Q. And because that is necessary combined with the

1 topography that Mr. Mark discussed, it is quite difficult
2 to come up with well locations, is it not?

3 A. It is. What we did between the two of us, we
4 took an 80 acre drainage radius and moved it around such
5 that it was not overlapping any of the existing parent
6 well drainage areas. And that's how we located infill
7 potential wells.

8 We took into account whether or not they were on
9 very steep grades and we tried to locate them along
10 existing borders where there would be little or no impact
11 on the ranch's surface.

12 Q. And were Exhibits 4 through 11 prepared by you
13 or under your supervision?

14 A. They were.

15 Q. And in your opinion, is the granting of these
16 two applications in the interest of conservation and the
17 prevention of waste?

18 A. Yes.

19 MR. BRUCE: Mr. Chairman, I'd move the admission
20 of Exhibits 4 through 11.

21 CHAIRMAN FESMIRE: Exhibits 4 through 11 will be
22 so admitted.

23 MR. BRUCE: No further questions of the witness.

24 CHAIRMAN FESMIRE: Commissioner Bailey?

25 COMMISSIONER BAILEY: What are you doing with

1 all the water?

2 THE WITNESS: We inject it into deeper
3 formations. We have eight water injection wells located
4 across the ranch. And they are currently going into the
5 Glorieta unit, as well as the Dakota and the and the Lower
6 Entrada.

7 COMMISSIONER BAILEY: And how much carbon
8 dioxide are you also producing with coalbed methane?

9 THE WITNESS: Currently, we're very low in CO2
10 production. We've yet to get over half a percent.

11 COMMISSIONER BAILEY: Okay. That's all I have.

12 CHAIRMAN FESMIRE: Commissioner Olson?

13 COMMISSIONER OLSON: How much water are you
14 generating right now?

15 THE WITNESS: We're injecting around 55,000
16 barrels of water a day.

17 COMMISSIONER OLSON: That's all I have.

18 CHAIRMAN FESMIRE: What's your average
19 production rate up there now with the, what, thousand
20 wells?

21 THE WITNESS: We're at 944 total well bore
22 count. We have a total of 4 nine barrel wells (phonetic)
23 and two Raton collaborative wells. The rest are all
24 coalbed methane producers, and one producing right at
25 about 82 million a day total. That includes our Colorado

1 production. Average rate is, plus or minus, 95 to 100 APF
2 a day.

3 CHAIRMAN FESMIRE: Per well?

4 THE WITNESS: Per well.

5 CHAIRMAN FESMIRE: And what is your EUR average
6 on the coal wells?

7 THE WITNESS: It varies. In the Stubblefield
8 Canyon area, it's about 580 million standard cubic feet
9 per well. And in the Castle Rock Park pool, it's about
10 675 million. The maximum well up there is 7.2 BCM, and
11 the minimum well in Castle Rock Park is a 10.

12 CHAIRMAN FESMIRE: I have no further questions.
13 Mr. Bruce?

14 MR. BRUCE: I only have one thing. If I may
15 approach the Commission, and I'd submit this as an
16 exhibit. Just as closing, Mr. Chairman, we're requesting
17 a whole lot of relief from the setback requirements. And
18 what I've submitted to you is, first of all, an Order
19 involving the West Pecos Slope-Abo that at least in this
20 -- that pool, which is not all one owner or one operator,
21 did grant a 330 foot setback requirement, and I would
22 contend that with the circumstances of this case, even
23 additional relief should be granted.

24 The second matter is an application that has not
25 yet been heard by the Division, but it is an application

1 of Williams Production Company regarding its Rosa unit
2 where it is asking within the unit area or at least within
3 the participating area of the unit essentially the same
4 relief that El Paso is requesting in this case.

5 And I would also note that, again, although this
6 concerns oil matters, you know, it's current Division
7 policy that within a water flood unit, you can locate
8 wells pretty much anywhere within -- no closer than within
9 330 to the outer boundary of a water flood unit, you can
10 locate them as long as they're ten feet off the quarter
11 quarter section line.

12 I just bring that up as there is neither
13 precedent nor movement toward doing this where it doesn't
14 affect any exterior interest owners or any mineral owners.
15 So, I'd just bring these to your attention.

16 CHAIRMAN FESMIRE: Mr. Bruce, why did the
17 Division decide against this -- the one provision that
18 you're asking for, the ten foot --

19 MR. BRUCE: I'm not sure. I asked Mr. Warnell
20 at one point and he said he didn't remember. So I did
21 ask.

22 CHAIRMAN FESMIRE: Because there's just --
23 there's one owner, one operator, there's never been any
24 thought to unitizing this?

25 MR. BRUCE: Yeah, unitizing you usually do when

1 there is multiple ownership, multiple leases, et cetera,
2 but because they're -- it's -- if there's -- you know,
3 other than those, that one small Colfax County lease, you
4 know -- there's not even a lease covering this acreage,
5 it's just mineral fee acreage.

6 CHAIRMAN FESMIRE: Right. And I don't suppose
7 the surface owner is going to subdivide any time in the
8 near future.

9 MR. BRUCE: I don't think he's into selling the
10 property.

11 CHAIRMAN FESMIRE: Okay. Anything else,
12 Commissioners?

13 COMMISSIONER BAILEY: No.

14 COMMISSIONER OLSON: No.

15 CHAIRMAN FESMIRE: Do you have anything else to
16 add, Mr. Bruce?

17 MR. BRUCE: No, sir.

18 CHAIRMAN FESMIRE: Thank you very much. At this
19 time, we'll go into executive session and figure this one
20 out.

21 (Note: Executive session took place.)

22 CHAIRMAN FESMIRE: The record should reflect
23 that the Commission met in executive session and has made
24 a decision in Case No. 14149, the Application of El Paso
25 Exploration and Production Company, LP, to Abolish the Van

1 Bremmer Canyon-Vermejo Gas Pool, Expand the Castle Rock Park-
2 Vermejo Gas Pool, and to Establish Special Rules and
3 Regulations for the Castle Rock Park-Vermejo Gas Pool,
4 Colfax County, New Mexico.

5 And in addition, Case No. 14150, a related case,
6 entitled The Application of El Paso Exploration and
7 Production Company, LP to Extend the Stubblefield Canyon
8 Raton-Vermejo Gas Pool and to Establish Special Rules and
9 Regulations for the Gas Pool, Colfax County, New Mexico.

10 The record should reflect that all three
11 Commissioners were present during the deliberation, and
12 the only thing that the Commissioners discussed during the
13 deliberation was the outcome of those two cases.

14 We have instructed counsel to draft an Order.
15 He will draft it and circulate it prior to the next
16 meeting of the Oil Conservation Commission, and the
17 Commissioners will have the opportunity to review it at
18 that time.

19 Is there any other business before the
20 Commission?

21 COMMISSIONER BAILEY: No, that's it.

22 CHAIRMAN FESMIRE: At this time, the Chair would
23 very happily entertain a motion to adjourn.

24 COMMISSIONER BAILEY: I so move.

25 COMMISSIONER OLSON: Second.

1 CHAIRMAN FESMIRE: All those in favor signify by
2 saying "aye."

3 COMMISSIONER BAILEY: Aye.

4 COMMISSIONER OLSON: Aye.

5 CHAIRMAN FESMIRE: The record should reflect it
6 was unanimous.

7 (Whereupon, the proceedings concluded.)

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1 STATE OF NEW MEXICO)
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2 COUNTY OF BERNALILLO)

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REPORTER'S CERTIFICATE

I, PEGGY A. SEDILLO, Certified Court Reporter of the firm Paul Baca Professional Court Reporters do hereby certify that the foregoing transcript is a complete and accurate record of said proceedings as the same were recorded by me or under my supervision.

Dated at Albuquerque, New Mexico this 24th day of August, 2009.


PEGGY A. SEDILLO, CCR NO. 88
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