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

**ORIGINAL**

IN THE MATTER OF THE HEARING CALLED  
BY THE OIL CONSERVATION DIVISION FOR  
THE PURPOSE OF CONSIDERING:

CASE NO. 14498

APPLICATION OF SAN JUAN RESOURCES,  
INC. TO AMEND DIVISION ORDER  
R-13053 FOR AN UNORTHODOX WELL  
LOCATION, SAN JUAN COUNTY, NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS  
EXAMINER HEARING

July 8, 2010  
Santa Fe, New Mexico

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BEFORE: TERRY WARNELL: Hearing Examiner  
DAVID BROOKS: Legal Adviser

This matter came for hearing before the New Mexico  
Oil Conservation Division, Terry Warnell Hearing Examiner,  
on July 8, 2010, 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  
Paul Baca Court Reporters  
500 Fourth Street, NW, Suite 105  
Albuquerque, NM 87102

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Page

APPLICANT'S WITNESS:

JEROME McHUGH

Direct Examination by Mr. Kellahin

4

APPLICANT'S EXHIBITS:

EXHIBITS 1 - 9

14

COURT REPORTER'S CERTIFICATE

21

A P P E A R A N C E S

FOR THE APPLICANT:

W. THOMAS KELLAHIN, ESQ.  
Kellahin and Kellahin  
706 Gonzales Road  
Santa Fe, NM 87501

FOR FRANK KING:

OCEAN MUNDS-DRY, Esq.  
Holland & Hart, LLC  
110 North Gonzales, Suite 1  
Santa Fe, NM 87501

1                   EXAMINER: Next case, Case No. 14498,  
2 Application of San Juan Resources, Inc. to Amend Division  
3 Order R-13053 for an Unorthodox Well Location, San Juan  
4 County, New Mexico. Call for appearances.

5                   MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin of  
6 the Santa Fe law firm Kellahin and Kellahin, appearing  
7 this morning on behalf of the Applicant. And I have one  
8 witness to be sworn.

9                   MS. MUNDS-DRY: Good morning, Mr. Examiner,  
10 Ocean Munds-Dry with the law firm Holland and Hart here  
11 representing Frank King this morning. I have no  
12 witnesses.

13                   HEARING EXAMINER: Thank you.

14                   MR. KELLAHIN: Mr. Examiner, Mr. McHugh is here  
15 on behalf of his company, San Juan Resources. He and I  
16 again appear before you this morning to correct an  
17 approved unorthodox well location.

18                   He's got a well location that's been approved by  
19 a prior order, the result of which has been determined  
20 that there were surveying errors that caused the actual  
21 physical location of the well on the ground to be  
22 different than what was approved by the Division.

23                   And so, we need to correct the well location for  
24 you so that we might go ahead and continue to drill and  
25 complete the well in question. And Mr. McHugh is my only

1 witness.

2 HEARING EXAMINER: Okay.

3 JEROME McHUGH,

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. KELLAHIN:

8 Q. MR. McHugh, would you state your name and  
9 occupation, sir?

10 A. Mr. Jerome P. McHugh, Jr.

11 Q. And where do you reside?

12 A. Denver, Colorado.

13 Q. What is your occupation, sir?

14 A. I'm president and owner of San Juan Resources.

15 Q. Are you familiar with the subject well and the  
16 adjacent wells towards which this well encroaches?

17 A. Yes, sir.

18 Q. Have you been on the field site and talked to  
19 the people involved?

20 A. Yes, sir.

21 Q. Are you familiar with the owner of the surface,  
22 Richard Blancett?

23 A. Yes, sir.

24 Q. Have you been on the surface with that man?

25 A. Numerous times, yes.

1 Q. And are you personally aware then of what I've  
2 represented to be surveying errors that were the cause  
3 that resulted in the initial order being approved at the  
4 incorrect location?

5 A. Correct.

6 MR. KELLAHIN: We tender Mr. McHugh as a expert  
7 witness.

8 HEARING EXAMINER: Mr. McHugh is recognized as  
9 an expert witness.

10 MR. BROOKS: Excuse me. What is his area of  
11 expertise, what's he being tendered as?

12 MR. KELLAHIN: As a qualified professional  
13 operator.

14 MR. BROOKS: In effect, as a practical oil man?

15 MR. KELLAHIN: Yes, sir.

16 MR. BROOKS: Okay. Go ahead.

17 Q. Mr. McHugh, when I look at what is marked as  
18 Exhibit 1 to this hearing, are you familiar with this topo  
19 map?

20 A. Yes, sir.

21 Q. Is this also the same topographic map that you  
22 testified to back in '08 when the Division heard your  
23 original unorthodox location application?

24 A. Yes, sir, that's correct.

25 Q. Let's show the Examiner and Mr. Brooks what the

1 basic situation is. If you'll look at the plat, can you  
2 identify the half section that's associated with the  
3 subject Blancett well?

4 A. Yes, sir. It's the east half of Section 24,  
5 Township 30 North, Range 12 West, San Juan County,  
6 New Mexico.

7 Q. Does that conform to a spacing unit size?

8 A. Yes, sir. It's a standup 320 acre spacing unit  
9 for the Dakota and Blanco-Mesaverde formations.

10 Q. There's an indication on the plat to the subject  
11 location; what is that intended to represent?

12 A. That's the stake and the location of where we  
13 spotted the Blancett Ranch 24 No. 1 Well.

14 Q. The original reason for requesting an unorthodox  
15 location was what, Mr. McHugh?

16 A. If you notice on the topo sheet, the fields to  
17 the north of the county road that run through that half  
18 section are irrigated, and the Blancett family requested  
19 that pursuant to us getting a lease, that we not go in  
20 their fields.

21 And so, we worked with them in obtaining --  
22 essentially working out this spacing location. What that  
23 ended up doing was, it ended up pushing us closer to the  
24 east line than we would have been. Had we gone farther  
25 west, the topographic features are even steeper.

1           And so, that was about the best location in the  
2 whole northeast quarter we could find.

3           Q.    When you look over to the east into Section 19,  
4 who is the operator of the spacing units associated with  
5 Section 19?

6           A.    San Juan Resources, Incorporated operates the  
7 north half of the Blanco-Mesaverde-Dakota.  And then,  
8 San Juan Resources operates the south half of  
9 Blanco-Mesaverde and the Kaempf No. 1 E Well, and the  
10 Dakota and Kaempf No. 1-E, and the Kaempf No. 1 Well.

11          Q.    If you'll set aside that display for a moment,  
12 let's turn to what is marked as Exhibit No. 2.  Would you  
13 identify for the record what this is?

14          A.    This is the original plat that we had when we  
15 applied for the nonstandard hearing in October of 2008.  
16 And it just showed where our location was.

17                If you'll note on the following pages, there's  
18 plats for the Dakota, and acreage dedication.  And the  
19 third page is a plat for the Blanco-Mesaverde dedication  
20 of the well spot on both of them.

21          Q.    And Exhibit 2 was used by you at the original  
22 hearing as the basis for the approved location then?

23          A.    Yes, sir.

24          Q.    If you'll turn now to what is marked as your  
25 Exhibit No. 3, would you identify for the record what

1 Exhibit No. 3 is?

2 A. This was the Order that the Commission gave San  
3 Juan Resources, including the nonstandard location. The  
4 footages are noted on Exhibit 2 for Blanco-Mesaverde and  
5 the base of the Dakota pools for the east half of  
6 Section 24.

7 Q. The purpose of the current application before  
8 the Division is to simply amended the approved unorthodox  
9 portion of that order?

10 A. Yes, sir.

11 Q. You are not seeking any other changes in that  
12 order, are you, sir?

13 A. No, just the -- get the right footages.

14 Q. Let's turn your attention now to the details of  
15 this case. And for reference, let's have you turn to what  
16 is marked as Exhibit No. 4. Can you identify this for us?

17 A. This is a blown-up topographic map. I'm not  
18 sure what the scale is, but you can see the line down the  
19 middle of it is a full mile, which indicates Blancett 24  
20 No. 1 location there on the hillside in the northeast  
21 quarter of Section 24.

22 It also highlights the topography of the fields  
23 to the north of the location. And it also highlights the  
24 terrain difficulties on the south side of the county road.

25 Q. If you'll set aside Exhibit No. 4 for a moment,

1 we'll come back and use it for the locator by which you  
2 can establish where the photographs were taken.

3 A. Okay.

4 Q. If you'll keep Exhibit 4 handy and turn to what  
5 we've marked as Exhibit 5, will you identify for the  
6 record where this picture was taken?

7 A. This is taken from the Blancett Ranch location  
8 before we drilled the well. And it's overlooking a  
9 compressor site that Maralex operates. And they pulled  
10 some shallow gas and stick it into the enterprise line.

11 Also, it's highlighting the fields to the north.  
12 So we're not right on the stake when I took this picture,  
13 but we're probably --

14 Q. We'll come back to that. You took the  
15 photograph?

16 A. Yes, sir, I took the photograph.

17 Q. Go back to Exhibit 4 and show the Examiner where  
18 you were standing and the direction and view you were in  
19 when you took the photograph.

20 A. I was not on the center stake of the location,  
21 but I was probably 30 feet off of it.

22 Q. Thirty feet off in which direction?

23 A. Thirty feet to the west.

24 Q. And your point of view for the camera was  
25 looking which direction?

1           A.    Overlooking almost directly north of the -- from  
2   the location up to that plat of mounds.  You can see the  
3   county road in the foreground here on the lower right.

4           And the Animus River is out there back in the  
5   trees.  And it's basically -- We had the same picture at  
6   the original hearing, but it wasn't in color.

7           So I feel with our new technology, that... I  
8   feel really good about that, you can really see a lot.

9           Q.    Subsequent to obtaining the approval, you  
10  commenced building the location approximately when?

11          A.    It was around Memorial Day this year, May 25th  
12  or 26th, somewhere in there.

13          Q.    During the course of the process of constructing  
14  the pad and developing the site, were you made aware that  
15  there were surveying discrepancies associated with finding  
16  the well location?

17          A.    No.  We felt we were in a great spot.

18          Q.    When did you become aware that the location  
19  shown on the C-102 that was approved in the original order  
20  was in fact incorrect?

21          A.    Well, what we did was -- If I could refer to  
22  Exhibit 6.

23          Q.    Let's do that now.  Before you talk about  
24  Exhibit 6, identify how this was taken, and what does it  
25  show in terms of relationship to your site?

1           A. Well, this was taken with my camera phone. And  
2 the Aztec foreman pictured in the photo is standing on the  
3 approved location.

4           And when our field engineer got out there, he  
5 said we needed to move the stake to the west maybe -- a  
6 little northwest also approximately 15 to 20 feet.

7           So the foreman standing here shows where the  
8 original stake was. And then the new stake to his  
9 right -- to our left -- is where they had to move it.

10          Now, when you look at Exhibit 4, you can see how  
11 tight the topography is and everything. And we just  
12 needed to move that direction.

13          Now, you never know how these things are going  
14 to play out until you build the location, and so, that's  
15 what we did.

16          Q. During the process then of relocating the stake  
17 to the west, did they reverify the location of where that  
18 was?

19          A. Yes. We called the surveyor and he replotted  
20 the exact location of where the actual stake is now.

21          Q. During the course of that activity, then, did  
22 you become aware that the original location on the ground  
23 wasn't in fact the location shown on the paper, Exhibit 2?

24          A. Right. It appeared that there was a survey  
25 error when we were working, when we had staked the

1 original location, and the surveyor explained to me what  
2 had happened.

3 Q. At this point, are you satisfied that the  
4 location we're requesting in this hearing is the correct  
5 location now as surveyed on the ground?

6 A. Yes, sir.

7 Q. You would turn to Exhibit 7 for me?

8 A. Yes.

9 Q. Would you identify this exhibit, please?

10 A. This is the updated acreage plot.

11 Q. And what does it show in terms of well location?

12 A. It shows that the location, even though we moved  
13 it -- looks like we moved it 19 feet, it really shows that  
14 it's 552 feet from the east line, and --

15 Q. There's also a different dimension from the  
16 north line?

17 A. And there's a different dimension from the north  
18 line. So. Obviously, we're off a bit from that original  
19 survey. The good thing is, we're not as orthodox as we  
20 were, we moved it to a more favorable orthodox position

21 Q. Are you satisfied based upon the representations  
22 of the surveyor that this current location, 552 from the  
23 east, and 2,463 from the north, is in fact the correct  
24 location both on the plat and on the ground?

25 A. Yes, sir. From the amount we've spent out there

1 surveying and redoing it, I'm very satisfied.

2 Q. In addition, have you approached Mr. Richard  
3 Blancett who is the owner of the surface, and was he  
4 present and made aware of the various changes in the  
5 actual location?

6 A. Yes, he was.

7 Q. Have you received a waiver of any objection from  
8 Mr. Blancett?

9 A. Yes, sir. That's Exhibit No. 8.

10 Q. For the record, sir, then, would you identify  
11 that?

12 A. This is a letter from Mr. Blancett, the manager  
13 of Blancett Land and Cattle. In the letter, he waives his  
14 objection to us moving the actual stake slightly, and he  
15 is waiving objection to the revised location.

16 Q. And finally, Mr. McHugh, would you turn to what  
17 is marked as Exhibit No. 9? This is the certificate of  
18 notification. Do you see that?

19 A. Yes, sir.

20 Q. Would you turn to Page 3 of the certificate?  
21 There's a tabulation of this notice list?

22 A. Right.

23 Q. Names and addresses. To the best of your  
24 knowledge, is this a correct list of names and addresses  
25 for the working interest owners and mineral owners

1 associated with your operations in Section 19 to the east?

2 A. Yes, sir, that's correct.

3 MR. KELLAHIN: Mr. Examiner, for the record, we  
4 now move the introduction of Mr. McHugh's Exhibits 1  
5 through 9.

6 MS. MUNDS-DRY: No objection.

7 HEARING EXAMINER: Exhibit 1 through 9 are  
8 admitted. Ms. Munds-Dry, any questions?

9 MS. MUNDS-DRY: Mr. Examiner, I have no  
10 questions.

11 HEARING EXAMINER: I apologize. When we began,  
12 I should have given you an opportunity to make an opening  
13 statement if you wished or something. Excuse me.  
14 Mr. Brooks, any questions?

15 MR. BROOKS: No questions.

16 HEARING EXAMINER: I have a few questions. I  
17 think I may have been down here with Mr. Brooks when we  
18 first heard this case.

19 At that time, I recall there was someone that  
20 was objecting. I don't know if they objected or maybe  
21 just sent a letter saying that they were questioning what  
22 was going on. It was Mr. Mammel from Dallas.

23 THE WITNESS: Right. And I contacted him and he  
24 had no objection. I think the testimony of my engineer at  
25 the time showed the A, B, C, and D formations of the

1 Dakota. He was only a Dakota owner, by the way,  
2 Section 19.

3 But due to the tightness of the formation, there  
4 was probably not any communication between the original  
5 Kaempf No. 1 Well and the proposed well location.

6 HEARING EXAMINER: Uh-huh. So Mr. Mammel and  
7 Mr. King both living in Dallas?

8 THE WITNESS: That's right.

9 HEARING EXAMINER: And you've spoken to both of  
10 these gentlemen?

11 THE WITNESS: Yes, sir. I talked with  
12 Mr. Mammel a couple weeks ago when we sent him the notice.  
13 And I believe my landman, Cheryl Olson, talked with  
14 Mr. King about this also. I'm not sure if they talked  
15 directly, but I think they communicated through e-mail, or  
16 perhaps with counsel here in Santa Fe.

17 HEARING EXAMINER: All right. So, you moved the  
18 location not a great deal?

19 THE WITNESS: Correct.

20 HEARING EXAMINER: Or you're wanting to move the  
21 location about 102 feet?

22 THE WITNESS: We moved it 102 feet to the west,  
23 correct.

24 HEARING EXAMINER: And about 28 feet to the  
25 south?

1 THE WITNESS: Yes, sir.

2 HEARING EXAMINER: And why did you do that?

3 THE WITNESS: If you look at Exhibit 6, where  
4 the foreman is standing was the approved location. And  
5 physically, we only moved it about 15 or 20 feet from the  
6 location to the left.

7 HEARING EXAMINER: And that's where that stake  
8 is?

9 THE WITNESS: Right. But what happened was, if  
10 you look at Exhibit 4, the surveyor -- If you notice out  
11 in this area, this is a rural area where you really  
12 can't -- it's hard to find the quarter sections of the  
13 governmental survey and the half sections.

14 If you notice on this map, there's a section  
15 there just south of the railroad. There'd be a little  
16 cross. And so, what a surveyor would do is start from  
17 that point and spin off here to the legal location, and he  
18 could step those off or mark those off with a lath.

19 What happens now is, they take GPS positions.  
20 And so, I'm not sure where the surveyor's spot was, but  
21 apparently where they had staked the original well, the  
22 spot he picked was not -- it turned out to be an erroneous  
23 spot. So he had the GPS numbers -- or the GPS location  
24 was not exactly correct.

25 So that's why when he did come back in here on

1 June 1, they corrected where they had been on that.

2 And -- I mean, the technology is great in that respect  
3 that you could just get your lat and long coordinates from  
4 where you are.

5 And in this area, there's a lot of traffic on  
6 the county road, and then there's a lot of traffic on this  
7 county road going up to Section 19. So, the importance is  
8 to find a safe place where you can triangulate off your  
9 point.

10 So there must be something that the surveyors  
11 use in the area when they're plotting new wells, laying  
12 down pipe lines, surveying someone's lot. So I think that  
13 was the surveyor's fault on that.

14 MR. BROOKS: Well, are you saying he was in the  
15 wrong place when he pulled the lat-long for the location,  
16 or when he pulled the lat-long for the corner?

17 THE WITNESS: I think it was the corner. The  
18 corner was not --

19 MR. BROOKS: So he wasn't exactly at the corner  
20 when he --

21 THE WITNESS: Yeah. Like I say, I'm not saying  
22 that it's an actual corner, it's not an actual corner on  
23 the section, but it's a spot on the road, or a spot on a  
24 county road where it's safe, and then they triangulate off  
25 that.

1 MR. BROOKS: Okay. So they stand at some other  
2 point that they believe is a known distance from the  
3 corner and they figure out where the corner --

4 THE WITNESS: Right.

5 MR. BROOKS: They figure out the lat-long from  
6 the corner based on working back from that corner?

7 THE WITNESS: That's right.

8 MR. BROOKS: Okay.

9 THE WITNESS: It's like a -- I guess you would  
10 call it a GPS corner.

11 MR. BROOKS: Because what you're saying is, the  
12 corner is in the middle of the road, which I guess is not  
13 unusual, because the old roads on the section lines are --

14 THE WITNESS: It could be. In this instance, I  
15 don't think the road goes through the corner or anything.  
16 If you look on Exhibit 4, just right above that --  
17 Probably those corners are probably picked up or lost.

18 MR. BROOKS: Yeah.

19 THE WITNESS: Someone's house.

20 MR. BROOKS: Okay.

21 HEARING EXAMINER: So the end of May or so you  
22 go out and you start making your location. And then your  
23 engineer goes out to the location, he says, well, wait a  
24 minute --

25 THE WITNESS: He's plotting the -- he's

1 estimating where the rig equipment is going to sit. And  
2 admittedly, it's in a tight location. Because it's on a  
3 hillside, we didn't want to use that much of  
4 Mr. Blancett's land.

5 And we had a closed-loop system, too, so it  
6 was -- We don't have a pit there, either, with all that  
7 extra room. And so -- That's just the way it was  
8 configured. It was a little too close to the access road  
9 on the west.

10 And on the access road on the west is a water  
11 line that comes down for the Users Association out there.  
12 So, we obviously didn't want to encroach on that.

13 HEARING EXAMINER: And on your Exhibit 4 there  
14 where your location is --

15 THE WITNESS: Yes, sir.

16 HEARING EXAMINER: Just kind of to the north or  
17 northwest, is that the Blancett Ranch or homestead house?  
18 What are those buildings up there at the end of that road?

19 THE WITNESS: Yes, that's Mr. Blancett's home.

20 HEARING EXAMINER: And we don't really see that  
21 in Exhibit 5, do we, your --

22 THE WITNESS: You're correct. If you look at  
23 the photo that I took out of there straight ahead, it's  
24 pointing just to the -- probably to the right of the Aztec  
25 ruins.

1           And so, Mr. Blancett's house is just kind of  
2 along this fence line here in the middle of the  
3 photograph. It's just on the left-hand side. There's a  
4 house, and he's got a barn and some stables, and some --  
5 you know, ranching equipment and storage down there.

6           HEARING EXAMINER: Okay. I don't have any more  
7 questions.

8           MR. BROOKS: No questions.

9           HEARING EXAMINER: Okay, if there are no more  
10 questions -- Ms. Munds-Dry, would you like to -- Just  
11 making an appearance?

12           MS. MUNDS-DRY: I have nothing to contribute.

13           HEARING EXAMINER: Okay. Then, with that, Case  
14 No. 14498 will be taken under advisement.

15                   (Whereupon, the proceedings concluded.)

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

\_\_\_\_\_, Examiner  
Oil Conservation Division

1 STATE OF NEW MEXICO )  
 ) ss.  
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 12th day of July, 2010.

  
PEGGY A. SEDILLO, CCR NO. 88  
License Expires 12/31/10