

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. 14548  
APPLICATION OF BLUE DOLPHIN PRODUCTION,  
LLC FOR UNORTHODOX WELL LOCATION IN  
NONSTANDARD SPACING UNIT,  
RIO ARriba COUNTY, NEW MEXICO

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REPORTER'S TRANSCRIPT OF PROCEEDINGS  
EXAMINER HEARING  
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BEFORE: MR. TERRY WARNELL, Technical Examiner  
MR. DAVID K. BROOKS, Legal Examiner

September 30, 2010

Santa Fe, New Mexico

This matter came on for hearing before the New  
Mexico Oil Conservation Division, TERRY WARNELL,  
Technical Examiner and DAVID K. BROOKS, Legal Examiner,  
on Thursday, September 30, 2010, at the New Mexico  
Energy, Minerals and Natural Resources Department, 1220  
South St. Francis Drive, Room 102, Santa Fe, New Mexico.

REPORTED BY: Jeannine K. Sims, RPR, NM CCR #12  
Paul Baca Court Reporters  
500 Fourth Street, NW, Suite 105

A P P E A R A N C E S

FOR THE APPLICANT:

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1 HEARING OFFICER BROOKS: I saw some people  
2 come in. We had a call from someone who was coming from  
3 Espanola. Are they among the people who came in?

4 UNKNOWN SPEAKER: Yes.

5 HEARING OFFICER BROOKS: Everybody's here?  
6 Let's take a ten-minute recess and then we'll go on with  
7 the remaining case.

8 (Break.)

9 HEARING OFFICER BROOKS: Okay. At this time  
10 we'll call Case No. 14548, application of Blue Dolphin  
11 Production, LLC for unorthodox well location in  
12 nonstandard spacing unit, Rio Arriba County, New Mexico.  
13 Call for appearances.

14 MR. HALL: Mr. Examiner, Scott Hall,  
15 Montgomery and Andrews law firm, Santa Fe, appearing on  
16 behalf of the applicant Blue Dolphin, LLC with one  
17 witness this morning.

18 HEARING OFFICER BROOKS: Okay. Will the  
19 witness be sworn.

20 (One witness was sworn.)

21 RICHARD VOLECEK,  
22 having been first duly sworn testified as follows:

23 \* \* \*

24 E X A M I N A T I O N

25 BY HEARING OFFICER BROOKS:

1 Q. Would you state your name for the record,  
2 please.

3 A. Richard D. Volecek.

4 HEARING OFFICER BROOKS: You may proceed,  
5 Mr. Hall.

6 Q. (BY MR. HALL) Again for the record, state  
7 your name and tell us where you live.

8 A. Richard D. Volecek, 33 Conifer Drive,  
9 Evergreen, Colorado.

10 Q. Who are you employed, Mr. Volecek?

11 A. Blue Dolphin Production and Discovery  
12 Exploration as manager of the New Mexico project and  
13 geophysicist by training.

14 Q. All right. You have previously testified  
15 before the Division and had your credentials accepted; is  
16 that correct?

17 A. Correct.

18 Q. Would you give the hearing examiner a brief  
19 summary of your educational background and work  
20 experience.

21 A. I have BS in geophysical engineering from  
22 Colorado School of Mines in 1970. Initially started  
23 working with Humble which then became Exxon, got 40 years  
24 of continuous experience in the oil industry, 15 years  
25 working on west bank of the San Juan Basin and Chama

1 Basin. Started really a little bit in the late '70s.  
2 And then from 1990 on countiously working on the  
3 Jicarilla reservation off on the east flank of the basin  
4 into the Chama Basin.

5 Q. Are you familiar with the lands in the  
6 application in this matter?

7 A. Yes.

8 MR. HALL: At this point, Mr. Examiner, we  
9 offer Mr. Volecek as a qualified expert petroleum  
10 geophysicist.

11 HEARING OFFICER BROOKS: So qualified.

12 Q. (BY MR. HALL) Mr. Volecek, tell us what  
13 Blue Dolphin is asking by its application.

14 A. We want to gain authorization for the  
15 establishment of a non-standard unit for the drilling of  
16 a well of an unorthodox location to test the Greenhorn  
17 and Mancos formation. It's on unsurveyed lands bordering  
18 the Jicarilla Apache reservation.

19 Q. All right. Let's turn to Exhibit 1, if you  
20 would identify that and tell us what that shows us.

21 A. This covers the area of Township 30 North  
22 Range 1 East, Section 27. The north/south green line on  
23 the map indicates the boundary of the Jicarilla  
24 reservation to the west and the Theis Ranch our leased  
25 area to the east proposed location is shown in the

1 southeast of the northeast of Section 27, and our  
2 proposed spacing is the east half of that southeast of  
3 the northeast.

4 Q. And what is the size of your proposed  
5 non-standard unit?

6 A. 21 acres.

7 Q. Okay. What's the primary objective for the  
8 well?

9 A. The Mancos formation and secondary is the  
10 Greenhorn formation just below the Mancos.

11 Q. These are 40-acre wildcat oil wells for this  
12 area?

13 A. Yes.

14 Q. And Blue Dolphin has the right to drill in  
15 the proposed non-standard unit?

16 A. Yes. Blue Dolphin has an 8e percent mineral  
17 interest leased within that spacing unit or proposed  
18 spacing unit.

19 Q. Now, explain to us why you're seeking a  
20 non-standard unit rather than a standard 40-acre unit.

21 A. The well is proposed to be drilled on the  
22 Theis Ranch which is an unsurveyed area so the sections  
23 have not been defined. The Theis Ranch borders the  
24 Jicarilla Apache reservation. We have selected an  
25 optimum location for the location within the Theis Ranch

1 leased portion based on seismic control and project in  
2 the Township range and sections onto the unsurveyed Theis  
3 Ranch. This resulted in a 21-acre spacing unit.

4 Q. Let's turn to Exhibit 2. Is Exhibit 2 a  
5 copy of the Division C 102 form that you intend to file  
6 with the Division for this well?

7 A. Yes.

8 Q. And does it show the unorthodox location for  
9 the well?

10 A. Yes.

11 Q. The footage locations? Would you read those  
12 into the record, please.

13 A. We are 335 feet off of the Jicarilla  
14 boundary, 1575 feet from the east line of the section and  
15 1643 feet from the north line of the section.

16 Q. Now, because this area is unsurveyed how  
17 were the boundaries of the sections' subdivision  
18 established?

19 A. They were projected in from the Jicarilla  
20 reservation where the area has been surveyed up to the  
21 boundary line. So we just projected them on across.

22 Q. And your proposed unit is located entirely  
23 east of the reservation boundary; is that right?

24 A. Yes.

25 Q. The latitude and longitudinal position of the

1 well shown on the C 102 is accurate; is that correct?

2 A. Yes.

3 Q. Are the minerals underlying the west half  
4 equivalent of Unit G owned by the Jicarilla nation?

5 A. Yes.

6 Q. Have you attempted to obtain a lease or a  
7 mineral development agreement from the Jicarilla nation  
8 for those minerals?

9 A. Yes. We have attempted to lease lands on  
10 the Jicarilla reservation and were informed in that area  
11 they weren't leasable and would never be leasable.

12 Q. Now, Blue Dolphin owns the majority of the  
13 working interest in your proposed unit?

14 A. Yes.

15 Q. And those -- the owner of those interests  
16 were shown on Exhibit 1; is that correct?

17 A. Yes, sir. The Jicarilla reservation shows  
18 it has 100 percent minerals in surface on the Theis Ranch  
19 acreage it's hundred percent Jicarilla surface. And then  
20 it shows our lease positions with the remaining 16.63  
21 percent open, which is owned by the Jicarilla Apache  
22 nation.

23 Q. Does Blue Dolphin have any lease expiration  
24 issues on the acreage it controls?

25 A. Yes. We have a portion that's leased from



1 the Theis family that goes out October 9th of this year  
2 but it is extendable by an additional payment.

3 Q. Now, is the inability to include the tribal  
4 acreage in the west half of Unit G in a standard 40-acre  
5 unit preventing Blue Dolphin from drilling and developing  
6 the acreage it now owns or controls?

7 A. Yes.

8 Q. And if the non-standard unit is not approved  
9 will Blue Dolphin proceed to drill the well?

10 A. No.

11 Q. And if the well is not drilled is there a  
12 reasonable likelihood that waste will result?

13 A. Yes.

14 Q. Now, have the Jicarilla nation and the BLM  
15 been notified of this application?

16 A. Yes, they have. The Jicarilla interest we  
17 are attempting to work out a mineral development  
18 agreement at this time and we have worked out a surface  
19 use agreement as they own a hundred percent of the  
20 surface. We are working through the BIA and the BLM as  
21 well as through the state.

22 Q. To your knowledge, have either of the BIA,  
23 BLM or the Jicarilla nation expressed an objection to the  
24 proposed non-standard unit?

25 A. No, sir.

1 Q. And have they objected to the unorthodox  
2 location?

3 A. Nope. No, sir.

4 Q. Now, with respect to the unorthodox location  
5 why was this particular physical location selected?

6 A. If we can go to Exhibit 3.

7 Q. What is Exhibit 3?

8 A. It's a topo map showing the proposed  
9 location, the Jicarilla reservation boundary and the  
10 Theis Ranch boundary to -- or the Theis ranch onto the  
11 east of the proposed location is in red. As you can see  
12 it's a very rough terrain. We selected that location  
13 based on proprietary seismic, proprietary geochem data as  
14 well as surface topography and surface geology.

15 Q. And the BLM and the tribe were both informed  
16 of the proposed location?

17 A. Yes. We had meetings with all of them.

18 Q. And the surface where the well is located,  
19 is that tribal surface?

20 A. Yes.

21 Q. Now, is the unorthodox location more than  
22 340 feet from the western boundary of the proposed  
23 non-standard unit?

24 A. Yes.

25 Q. And is Blue Dolphin the operator of each of

1 the 40-acre subdivisions towards which the location  
2 encoaches?

3 A. Yes. Blue Dolphin has a consistent 83  
4 percent mineral interest in all of the offset locations.

5 Q. All right. And again, that ownership is  
6 shown on your plat Exhibit 1?

7 A. On the land plat, yes.

8 Q. Let's look at your geology exhibits if you  
9 would turn to Exhibit 4.

10 A. Okay. Exhibit 4 is a structure map on the  
11 Greenhorn formation in time. And then I have noted on  
12 that map also some depth numbers. The plat shows the  
13 seismic control we have in the area. That map is based  
14 on two lines, the north/south line and the northeast/  
15 southwest line.

16 It is proprietary data, you can see the  
17 proposed location in Section 27 where all the 40-acre  
18 units are outlined. It shows dip back to the west, the  
19 Mancos formation based on all the research in the area is  
20 a gravity drainage situation so we should be draining oil  
21 from up tip of that location which is off to the east.

22 Q. So you're satisfied that the relative rights  
23 of the mineral interest owner to the west will not be  
24 adversely acted by this location?

25 A. Yes.

1 Q. And your location is sensitive to geology  
2 structure?

3 A. Yes.

4 Q. Let's look at Exhibit 5 briefly. Would you  
5 identify that, please.

6 A. That's a well log from a well Blue Dolphin  
7 drilled a few miles to the south that shows the  
8 formations we're looking at for production. The Mancos A  
9 is noted on there, production in the area has come from  
10 the Mancos A, B and C formations that are noted as well  
11 as the Greenhorn formation that is right below the Mancos  
12 that is also a fractured shale that we have produced from  
13 in this well.

14 Q. You have a reasonable expectation that these  
15 productive wells will be present at your location?

16 A. Yes.

17 Q. And do you anticipate that the proposed  
18 non-standard unit will be productive --

19 A. Yes.

20 Q. -- prospective? And can the non-standard  
21 unit be efficiently and economically drained by the one  
22 well at that location?

23 A. Yes.

24 Q. In your opinion will granting Blue Dolphin's  
25 application be in the best interest of conservation,

1 prevention of waste, protection of relative rights?

2 A. Yes.

3 Q. Were Exhibit 1 through 5 prepared by you or  
4 at your direction?

5 A. Yes.

6 MR. HALL: Completes our direct of the  
7 witness, Mr. Examiner. We move the introduction of  
8 Exhibits 1 through 5.

9 HEARING OFFICER BROOKS: 1 through 5 are  
10 admitted.

11 \* \* \*

12 E X A M I N A T I O N

13 BY HEARING OFFICER BROOKS:

14 Q. Okay. What is the size of this unit that  
15 you propose, this non-standard unit?

16 A. 21 acres.

17 Q. 21 acres?

18 A. Yes, sir.

19 Q. And you said that the tribe had been given  
20 notice of this application, correct?

21 A. Yes, sir. By our attorneys and I also went  
22 to Dolce and had meetings with them.

23 Q. And they were given notice of hearing?

24 MR. HALL: Yes. I have a notice affidavit  
25 to submit.

1 HEARING OFFICER BROOKS: Very good.

2 Q. (BY HEARING OFFICER BROOKS) You said Blue  
3 Dolphin owned 83 percent mineral interest in the  
4 offsetting quarter quarters?

5 A. Yes, sir, they have at least.

6 Q. Yeah. The offsetting quarter quarters would  
7 be the northeast of the northeast and the northwest of  
8 the northeast and the southeast of the northeast.  
9 Because looks like it's less than 330 from both the north  
10 and the east lines of the projected section; is that  
11 correct?

12 A. Yes, I believe it is 330 from the north line  
13 of our quarter quarter section but they do own --

14 Q. That Says 1643. It would have to be 1650 if  
15 it were a standard section.

16 A. Okay.

17 Q. But does Blue Dolphin own its 83 percent  
18 mineral interest in all three of those quarter quarters?

19 A. Yes, except for where it gets into the  
20 Jicarilla Apache reservation.

21 Q. Okay. That is, in the portion of the  
22 north -- in the northeast -- northwest/northeast, the  
23 western portion of that is in the reservation?

24 A. Yes, sir.

25 Q. Now, does the tribe own the other 17 percent

1 of the mineral interests?

2 A. Yes, sir.

3 Q. Okay.

4 A. It's held in trust by the BIA.

5 Q. Okay. There are no other interest owners  
6 other than the Blue Dolphin and the tribe then?

7 A. Correct.

8 Q. Okay. Does Blue Dolphin own the sections to  
9 the south also?

10 A. Okay.

11 Q. Are they quarter quarter sections to the  
12 south also?

13 A. Yes, sir, once we cross the Jicarilla  
14 reservation boundary.

15 Q. So the ownership is the same to the north  
16 and to the south?

17 A. Yes, sir.

18 HEARING OFFICER BROOKS: Okay. I believe  
19 that's all my questions. Mr. Warnell?

20 \* \* \*

21 E X A M I N A T I O N

22 BY MR. WARNELL:

23 Q. Yeah. Mr. Volecek, I admire the fact that  
24 you live in Evergreen but yet work the San Juan area.

25 That's quite a deal. You made mention that the Jicarilla

1 would not lease and would never lease. Why is that? Why  
2 would they say something like that?

3 A. You would probably be better asking them  
4 that, but that's what they told me, that area they  
5 consider important to their tribe and they are not  
6 interested in leasing it. They are not leasing much at  
7 this point but when I attempted to do that, I have a play  
8 over in that area, I've worked on the reservation before,  
9 shot a lot of seismic data and they said no, that will  
10 never be leased that's important culturally to our tribe.

11 Q. Never is a long time.

12 A. Yes. And it does change with as they get  
13 new directors I guess but that's what I was told.

14 Q. Now, this is I understand an oil play?

15 A. Yes, sir.

16 Q. So Macos oil play. And the well depth is  
17 going to be in the neighborhood of --

18 A. 2400 feet.

19 Q. 2400 feet. That won't take you very long to  
20 drill that, right? Vertical?

21 A. We think three days.

22 Q. Interesting. What other Mancos oil  
23 production do you have in that area? You mentioned at  
24 least one well I believe.

25 A. If You go south of there a few miles we



1 drilled -- Blue Dolphin drilled five Mancos Greenhorn  
2 tests, all of which were productive, but they are not  
3 commercial. We would frac the wells and they'd come on  
4 at 50 to 70 barrels a day and die off to one barrel a  
5 day. There is no base fracture system in the area based  
6 on my seismic data. The area we want to drill now looks  
7 completely different seismically and I'm anticipating a  
8 fracture system generated by the big fault that runs  
9 through the area.

10 MR. WARNELL: Thank you. I have no further  
11 questions.

12 MR. HALL: Mr. Examiner, we would offer into  
13 evidence our Exhibit No. 6, which is our notice  
14 affidavit. Pursuant to earlier direction from the  
15 Division we provided notice to all interest owners within  
16 a mile, and all operators including the Jicarilla nation,  
17 the BLM, the BIA, as well as the mineral interest owners  
18 who are leased to Blue Dolphin. We had returns of  
19 service on everyone except for one interest owner, Ferne  
20 Marshall Theis was returned addressee unknown to us. But  
21 Blue Dolphin's testified, controls that particular  
22 mineral interest.

23 HEARING OFFICER BROOKS: Okay. Very good.

24 MR. HALL: That's all we have.

25 HEARING OFFICER BROOKS: If there's nothing

1 further then Case No. 14548 will be taken under  
2 advisement. And that being all the business set on this  
3 docket, we will stand adjourned.  
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17 I do hereby certify that the foregoing is  
18 a complete record of the proceedings in  
19 the Examiner hearing of Case No. 14548  
20 heard by me on 9-30-2010  
21 David K. Burt Examiner  
22 Oil Conservation Division  
23  
24  
25

1 THE STATE OF NEW MEXICO :  
2 COUNTY OF BERNALILLO :

3

4 BE IT KNOWN that the foregoing transcript of  
5 proceedings was taken by me; that I was then and there a  
6 Certified Court Reporter and Notary Public in and for the  
7 County of Bernalillo, State of New Mexico, and by virtue  
8 thereof, authorized to administer an oath; that the  
9 witness before testifying was duly sworn by me; that the  
10 foregoing 18 pages contain a true and accurate transcript  
11 of the proceedings, all to the best of my skill and  
12 ability.

13

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

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*Jeanine Sims*

JEANNINE K. SIMS, CSR, RPR

NM Certified Court Reporter #12

License expires: 12/31/10

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