

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

IN THE MATTER OF THE HEARING)
CALLED BY THE OIL CONSERVATION)
DIVISION FOR THE PURPOSE OF)
CONSIDERING:)
)
APPLICATION OF SOUTHLAND ROYALTY)
COMPANY)
)

CASE NO. 11,116

ORIGINAL



REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: JIM MORROW, Hearing Examiner

October 13th, 1994

Santa Fe, New Mexico

This matter came on for hearing before the Oil Conservation Division on Thursday, October 13th, 1994, at Morgan Hall, State Land Office Building, 310 Old Santa Fe Trail, Santa Fe, New Mexico, before Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

STEVEN T. BRENNER, CCR
(505) 989-9317

I N D E X

October 13th, 1994
 Examiner Hearing
 CASE NO. 11,116

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A P P E A R A N C E S

FOR THE APPLICANT:

KELLAHIN & KELLAHIN
117 N. Guadalupe
P.O. Box 2265
Santa Fe, New Mexico 87504-2265
By: W. THOMAS KELLAHIN

* * *

1 WHEREUPON, the following proceedings were had at
2 11:20 a.m.:

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7 EXAMINER MORROW: Call Case 11,116, which is the
8 Application of Southland Royalty Company for compulsory
9 pooling, non-standard gas proration unit, and an unorthodox
10 coal gas well location, San Juan County, New Mexico.

11 Call for appearances.

12 MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin of
13 the Santa Fe law firm of Kellahin and Kellahin, appearing
14 on behalf of the Applicant.

15 May I take just a minute, Mr. Examiner --

16 EXAMINER MORROW: Okay.

17 MR. KELLAHIN: -- get organized here?

18 Mr. Examiner, I have two witnesses to be sworn in
19 this case.

20 (Thereupon, the witnesses were sworn.)

21 MR. KELLAHIN: Mr. Examiner, our first witness is
22 Mr. Dean Price.

23 Mr. Price is a landman with Meridian Oil, Inc.
24 He's testifying today on behalf of the Applicant, Southland
25 Royalty Company.

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DEAN PRICE,

the witness herein, after having been first duly sworn upon his oath, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q. For the record, sir, would you please state your name and occupation?

A. David Dean Price. I'm a senior landman with Meridian Oil, Inc.

Q. And you reside where, sir?

A. I live in Farmington, New Mexico.

Q. And on prior occasions you've testified before the Division as a petroleum landman?

A. Yes.

Q. As part of your responsibilities, are you familiar with the ownership of interests for production from this particular well?

A. Yes.

Q. And are you also familiar with the offsetting operators to this well?

A. Yes.

MR. KELLAHIN: We tender Mr. Price as an expert petroleum landman.

EXAMINER MORROW: All right, we accept Mr. Price.

Q. (By Mr. Kellahin) Mr. Price, the original

1 Application for Southland sought to compulsory-pool certain
2 interest owners into this project. Is that request
3 continued? Do we still need that action?

4 A. No longer. Those parties signed an operating
5 agreement.

6 Q. Why don't you give us a quick summary of what
7 you --

8 EXAMINER MORROW: What part of it was it?

9 MR. KELLAHIN: The compulsory pooling portion.

10 EXAMINER MORROW: The compulsory pooling is
11 dropped?

12 MR. KELLAHIN: Yes, sir, you could drop that for
13 us.

14 Q. (By Mr. Kellahin) This project is identified as
15 the Maddox Com Number 100 well?

16 A. Yes.

17 Q. Is that an existing wellbore?

18 A. No, sir, it's a new drill.

19 Q. All right. And what is the proposed formation to
20 which this well will be drilled?

21 A. It will be a Fruitland Coal well.

22 Q. In terms of the Fruitland Coal rules, is this
23 well located at a standard well location?

24 A. No, it would be an off-pattern location where
25 it's proposed.

1 Q. All right, sir. This is an irregular-size
2 section, is it not?

3 A. Yes, it is. It's due to the irregular-size
4 section.

5 Q. Let's turn to the Exhibit Tab Number 3 -- that's
6 the blue tab -- and if you'll look right behind that, let's
7 describe for the Examiner the area involved.

8 How have you describe or located for us Section
9 10 on the display?

10 A. Section 10 is located in the center of the land
11 plat. It's -- we've -- You'll notice to the very north,
12 the northern three sections are within the State of
13 Colorado, the southern six sections are in New Mexico, the
14 State of New Mexico, and our section is in the center.

15 Q. Section 10 contains approximately how many acres,
16 Mr. Price?

17 A. It is 336.

18 Q. The docket says 355.6.

19 A. Excuse me, 355.6. Excuse me, yes.

20 Q. So it's a substantially undersized section?

21 A. Yes.

22 Q. Do you propose to dedicate the entire acreage
23 within that section to the coal gas well?

24 A. Yes.

25 Q. Describe for us the location that your technical

1 people have requested.

2 A. They have requested essentially what would be a
3 location in the northeast of the southeast quarter of
4 Section 10.

5 Q. Has that location been staked and approved by all
6 the appropriate agencies that do that activity?

7 A. It is in the process of being staked. It has
8 been approved by all the other outside parties.

9 Q. What agency has control over the location of that
10 well?

11 A. It's a federal lease, and the BLM has approved
12 the staking of the location where it's located.

13 Q. All right, sir. In terms of your activity, then,
14 do you have a display or information that will show us the
15 offsetting operators towards whom this well may be
16 encroaching?

17 A. That would be Exhibit 2.

18 Q. All right, let's turn to Exhibit 2. When we look
19 at Exhibit 2, identify for us how you have shown the
20 offsetting operators.

21 A. Well, the northern half is the State of Colorado,
22 so we have indicated the offsetting operators, which are
23 within the State of New Mexico, and those are indicated by
24 the numbers around the outline of Section 10, and then
25 we've indicated for each number the name and address of

1 those outside operators.

2 Q. Did Meridian cause notification of this hearing
3 to be sent at least 20 days prior to this hearing by
4 certified mail, return receipt, to all those offsetting
5 operators?

6 A. Yes, we have.

7 Q. And how have you evidenced that fact to the
8 Examiner?

9 A. A copy of the green cards which were returned to
10 us are indicated behind here.

11 Also, there's a list of the owners. Well, those
12 owners that are listed on the plat, their green cards would
13 be included in that -- with those copies.

14 Q. To your knowledge, did Southland Royalty Company
15 receive any objection to the granting of this Application?

16 A. No, every -- We received no objection.

17 MR. KELLAHIN: That concludes my examination of
18 Mr. Price, Mr. Examiner.

19 We would move the introduction of the exhibits
20 that represent his testimony, which are Exhibits 1, 2 and
21 3.

22 EXAMINER MORROW: 1, 2 and 3?

23 MR. KELLAHIN: Yes, sir. 1 is simply the
24 Application repeated for you. Exhibit 2 is the offset
25 operators. Exhibit 3 is the locator map.

1 EXAMINER MORROW: 1, 2 and 3 are admitted.

2 EXAMINATION

3 BY EXAMINER MORROW:

4 Q. This is a federal lease, sir?

5 A. Yes, sir, there's also included within Section 10
6 a fee lease.

7 Q. Okay, that's the reason for the name, Maddox?

8 A. Yes, sir.

9 Q. But the location itself is on federal acreage, I
10 assume?

11 A. Yes, sir.

12 Q. How about the notification of Colorado? Do you
13 know who owns the acreage up there?

14 A. I did not include a list here, no. I did not do
15 a study on that.

16 Q. Is it -- Is this location unorthodox with respect
17 to the north line or not?

18 A. It's within the 790-foot hard line, so it -- for
19 the Fruitland Coal, so it's within that window.

20 Q. And it's -- What is allowed on the acreage
21 assignment? Do you remember? There's plus or minus a
22 little bit for it to still be a standard spacing unit, I
23 believe.

24 A. In addition to 320 acres?

25 Q. Yes, sir.

1 A. We're close if it's ten percent. I mean, this
2 is --

3 Q. 32 and 320. So it -- yeah, that would be -- It
4 would be a little over, I guess.

5 A. It little over, it would be larger than if it's
6 ten percent.

7 Q. And what are the -- What makes it nonstandard as
8 to the location?

9 A. The only thing that makes it nonstandard would
10 be, a normal location would be in the southwest quadrant.

11 Q. The southwest quarter?

12 A. Southwest quadrant.

13 If this were a full section, a standard location
14 would either be in the northeast quarter or the southwest
15 quarter, and unfortunately there's no northeast quarter
16 because it's a short section. It's just being described as
17 the south half, in essence, it's lots 1, 2, 3 and 4 in the
18 south half, south half.

19 MR. KELLAHIN: It doesn't make any sense to me
20 either, Mr. Examiner. It looks like the northeast portion
21 of the section, but the section is described in such a way
22 that it at least arguably puts us in the wrong quarter
23 section, although I think it's a peculiarity.

24 EXAMINER MORROW: Yeah, I agree with that.

25 MR. KELLAHIN: Its actual footage, though, is

1 more than 790 setback from the outer boundaries.

2 EXAMINER MORROW: How about from the --

3 MR. KELLAHIN: -- Colorado line?

4 EXAMINER MORROW: -- from the end boundary?

5 MR. KELLAHIN: Yes, sir, I believe that's --

6 EXAMINER MORROW: What is required from the end
7 boundary?

8 MR. KELLAHIN: 790 all the way around.

9 EXAMINER MORROW: From any boundary?

10 THE WITNESS: Yeah.

11 MR. KELLAHIN: Plus you're supposed to be either
12 in the northeast or the southwest quarter.

13 THE WITNESS: This is --

14 EXAMINER MORROW: So that makes it a nonstandard
15 location, because we -- someone has described it as being
16 the north half?

17 MR. KELLAHIN: That's right, sir.

18 EXAMINER MORROW: Okay.

19 MR. KELLAHIN: Now I'm not certain it is a
20 nonstandard proration unit. Mr. Stogner put that in there
21 for me.

22 You can have a standard spacing unit in the coal
23 gas that is at least 70 percent of 320 or not greater than
24 30 percent more than 320.

25 EXAMINER MORROW: 30 percent more?

1 MR. KELLAHIN: Yes, sir.

2 EXAMINER MORROW: Well, so this would qualify?

3 MR. KELLAHIN: This would qualify as being a
4 standard.

5 EXAMINER MORROW: Okay. Okay. Well, let's
6 hurry; we don't have much of a case here.

7 MR. KELLAHIN: Yes, sir, I didn't think so.
8 Let me call my next witness.

9 EXAMINER MORROW: All right.

10 MR. KELLAHIN: Call our geologic witness, Mr.
11 Paul Basinski.

12 PAUL BASINSKI,
13 the witness herein, after having been first duly sworn upon
14 his oath, was examined and testified as follows:

15 DIRECT EXAMINATION

16 BY MR. KELLAHIN:

17 Q. Would you please state your name and occupation
18 for the record?

19 A. Paul Basinski, senior staff geologist with
20 Meridian Oil, Inc.

21 Q. And where do you reside, sir?

22 A. Farmington, New Mexico.

23 Q. On prior occasions have you testified before the
24 Division?

25 A. Yes, I have.

1 Q. And pursuant to your employment as a staff
2 geologist for, in this case, Southland Royalty Company,
3 have you made a study of the particular reasons for this
4 well's location?

5 A. Yes, I have.

6 MR. KELLAHIN: We tender Mr. Basinski as an
7 expert petroleum geologist.

8 EXAMINER MORROW: Fine, we accept his
9 qualifications.

10 Q. (By Mr. Kellahin) You've included a number of
11 things for us, Mr. Basinski, but let's look specifically at
12 only a couple of the displays.

13 I'd like to direct your attention, sir, to the --
14 Let's look at the mud density map; I think that's perhaps a
15 good one to start with. Is that all right?

16 A. That sounds fine.

17 Q. All right.

18 A. Exhibit Number 6.

19 Q. Yes, sir. If you'll look behind the green tab
20 which is Exhibit Number 6, is this an exhibit you prepared?

21 A. Yes, this is actually modified from an GRI study,
22 the Western Cretaceous Seam Project, coal site maps. And
23 down it is contoured mud weight density in half-pound-per-
24 gallon increments.

25 And what it demonstrates is the -- an

1 overpressured situation coincident with the overpressured
2 envelope of the Fruitland Coal where the Maddox Com is
3 located.

4 There's a green-shaded area that extends down to
5 the south and across the northeastern portion of Section 10
6 which is greater than ten pounds per gallon mud weight
7 density that was contoured, and that indicates superior
8 reservoir quality and an optimum location for a Fruitland
9 Coal well.

10 Q. When you're trying to pick a Fruitland Coal gas
11 well location for this irregular-size Section 10, what
12 caused you to put this well where you propose to locate it?

13 A. The idea is to get as far into the overpressured
14 envelope as possible, because when one is proximal to the
15 underpressured envelope the reservoir performance is
16 severely inhibited.

17 So this location was selected because it gets us
18 the farthest into the envelope itself, as demonstrated by
19 this map.

20 Q. Let's turn now to Exhibit Number 7. First of
21 all, show the Examiner what he's looking at. What is this?

22 A. This is a daily production rate from the first
23 quarter of 1994, contoured in 1-million-cubic-feet-per-day
24 increments of current producing Fruitland Coal wells.

25 Q. This is only as to the Fruitland Coal gas wells?

1 A. That is correct. The --

2 Q. What is the color-code, if you will, that's
3 shaded in between the contour lines?

4 A. We have colored in increments of the daily
5 production rate, with the yellow indicating a daily
6 production between 1 and 3 million cubic feet of gas a day,
7 the orange between 3 and 5 million cubic feet of gas a day,
8 the rose color 5 to 7 million cubic feet of gas a day, and
9 greater than 7 million cubic feet of gas a day in green.

10 And the map indicates that the location for the
11 Maddox Com should encounter a production rate, current
12 production rate situation, in excess of 5 million cubic
13 feet of gas a day from the Fruitland Coal.

14 Q. As you move to the north and east, then, you
15 increase the probability of more productive coal gas wells?

16 A. That is correct.

17 Q. And as you move, contrastingly, to the south and
18 west, there's a significant risk of achieving substantially
19 less productivity in the coal?

20 A. That's correct.

21 Q. Therefore the justification for the location?

22 A. (No response)

23 MR. KELLAHIN: That concludes my examination of
24 Mr. Basinski.

25 We would move the introduction specifically of

1 his Exhibits 6 and 7.

2 In addition, however, he has provided
3 supplemental information, other geologic displays to
4 further document his geology. I'll simply submit it to
5 you, Mr. Examiner. You may look at it if you desire.

6 EXAMINER MORROW: And I assume these were
7 submitted to show the desirability of the east-side
8 location, as opposed to the west-side location in this half
9 section?

10 THE WITNESS: That is correct, sir.

11 EXAMINER MORROW: Okay.

12 Tell me again about the coal seam gas rules.

13 They require the southeast and the northwest, is that --

14 MR. KELLAHIN: -- be left alone.

15 EXAMINER MORROW: -- be left alone.

16 MR. KELLAHIN: You have to drill your wells --

17 EXAMINER MORROW: Southeast and --

18 MR. KELLAHIN: You have to drill your wells --

19 EXAMINER MORROW: -- southwest --

20 MR. KELLAHIN: -- in a northeast-southwest --

21 EXAMINER MORROW: Okay.

22 MR. KELLAHIN: -- to be on pattern.

23 EXAMINER MORROW: All right.

24 MR. KELLAHIN: And then within the 320 you have
25 to stay no closer than 790 to the outer boundary of the

1 320. That was the initial spacing pattern.

2 EXAMINER MORROW: Okay. Thank you, Mr. Basinski.

3 THE WITNESS: Thank you.

4 MR. KELLAHIN: With the introduction of his
5 exhibits, which are marked 4 through 8, that concludes our
6 presentation.

7 EXAMINER MORROW: 4 through 8 are admitted, and
8 Case 11,116 will be taken under advisement.

9 (Thereupon, these proceedings were concluded at
10 11:38 a.m.)

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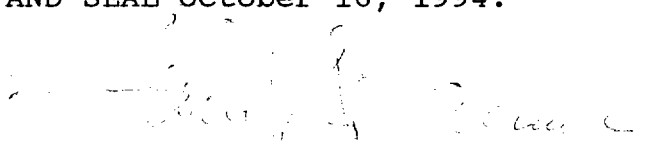
CERTIFICATE OF REPORTER

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

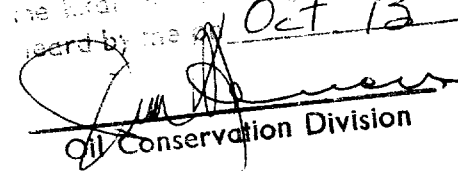
I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

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

WITNESS MY HAND AND SEAL, October 16, 1994.


 STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 14, 1998

I do hereby certify that the foregoing is a complete and true transcript of the proceedings in the above captioned case No. 14116, heard by me on Oct 13 1994.

 Examiner
 Oil Conservation Division

STEVEN T. BRENNER, CCR
 (505) 989-9317