

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 RICHARDSON OPERATING)	CASE NOS. 11,569
COMPANY FOR COMPULSORY POOLING AND AN)	
UNORTHODOX WELL LOCATION, SAN JUAN)	
COUNTY, NEW MEXICO)	
)	
APPLICATION OF RICHARDSON OPERATING)	and 11,570
COMPANY FOR COMPULSORY POOLING, DOWNHOLE)	
COMMINGLING AND AN UNORTHODOX GAS WELL)	
LOCATION, SAN JUAN COUNTY, NEW MEXICO)	(Consolidated)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

July 11th, 1996

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, July 11th, 1996, at the New Mexico Energy, Minerals and Natural Resources Department, Porter Hall, 2040 South Pacheco, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

I N D E X

July 11th, 1996
 Examiner Hearing
 CASE NOS. 11,569 and 11,570 (Consolidated)

	PAGE
APPEARANCES	4
APPLICANT'S WITNESSES:	
<u>CATHLEEN COLBY</u> (Landman)	
Direct Examination by Mr. Kellahin	9
Examination by Examiner Stogner	40
<u>DANA DELVENTHAL</u> (Engineer)	
Direct Examination by Mr. Kellahin	50
Examination by Examiner Stogner	63
STATEMENT BY MR. WARD	67
REPORTER'S CERTIFICATE	69

* * *

E X H I B I T S

Applicant's	Identified	Admitted
Exhibit 1	9, 11	40
Exhibit 1A	37	40
Exhibit 2	9, 11	40
Exhibit 3	13	40
Exhibit 4	24	40
Exhibit 5	26	40
Exhibit 6	27	40
Exhibit 7	29	40
Exhibit 8	31	40

(Continued...)

E X H I B I T S (Continued)

Applicant's	Identified	Admitted
Exhibit 9	32	40
Exhibit 10	33	40
Exhibit 11	33	40
Exhibit 12	33	40
Exhibit 13	34	40
Exhibit 14	34	40
Exhibit 15	27	40
Exhibit 16	27	40
Exhibit 17	35	40
Exhibit 18	35	40
Exhibit 19	37	40
Exhibit 20	52	63
Exhibit 21	54	63
Exhibit 22	58	63
Exhibit 23	59	63
Exhibit 24	60	63
Exhibit 25	61	63
Exhibit 26	61	63
Exhibit 27	61	63
Exhibit 28	52	66
Exhibit 29	52	66

* * *

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

ALSO PRESENT:

ALTON J. WARD
P.O. Box 88
Alamogordo, New Mexico 88311

* * *

1 WHEREUPON, the following proceedings were had at
2 11:15 a.m.:

3 EXAMINER STOGNER: At this time I'll call Case
4 Number 11,569, which is the Application of Richardson
5 Operating Company for compulsory pooling and an unorthodox
6 location, San Juan County, New Mexico.

7 At this time I'll call for appearances.

8 MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin of
9 the Santa Fe law firm of Kellahin and Kellahin, appearing
10 on behalf of the Applicant, and I have two witnesses to be
11 sworn.

12 EXAMINER STOGNER: Any other appearances in Case
13 Number 11,569?

14 Will the witnesses please stand to be sworn --
15 I'm sorry.

16 MR. KELLAHIN: Let me check something, Mr.
17 Examiner.

18 EXAMINER STOGNER: Okay. Mr. Kellahin, I'm going
19 to take about a five-minute recess. We'll go off the
20 record for five minutes.

21 MR. KELLAHIN: Okay, thank you, Mr. Examiner.

22 (Thereupon, a recess was taken at 11:17 a.m.)

23 (The following proceedings had at 11:28 a.m.)

24 EXAMINER STOGNER: Back on the record in Case
25 11,569.

1 Mr. Kellahin?

2 MR. KELLAHIN: Mr. Examiner, before the break you
3 were calling for appearances. You had called Case 11,569

4 With your permission, we would like to
5 consolidate for hearing purposes our next case, which is
6 11,570. It is the well in the northeast quarter of Section
7 15, and it will be the well that is to be proposed for
8 Pictured Cliff-Fruitland commingled well. And 11,569,
9 then, is its companion as a Pictured Cliff well down in the
10 southeast of 15.

11 With your permission, we'd like to have both
12 those cases called and consolidated for testimony.

13 EXAMINER STOGNER: Okay, at this time I'll call
14 Case Number 11,570, which is the Application of Richardson
15 Operating Company for compulsory pooling, downhole
16 commingling and an unorthodox gas well location, San Juan
17 County, New Mexico.

18 Let's see, other than Mr. Kellahin, are there any
19 other appearances in this matter?

20 MR. KELLAHIN: Yes, sir, Mr. Examiner. I'd like
21 to introduce for you Mr. Alton J. Ward.

22 EXAMINER STOGNER: Okay, do you want to spell
23 that?

24 MR. KELLAHIN: Yes, A-l-t-o-n, his middle initial
25 is J, and it's W-a-r-d.

1 EXAMINER STOGNER: Okay.

2 MR. KELLAHIN: Mr. Ward's address is Box 88, he
3 resides in Alamogordo, the zip code is 88311.

4 Mr. Ward is interested in Case 11,570. He is a
5 royalty owner in the northeast quarter of that section, and
6 we've provided him notification pursuant to the downhole
7 commingling requirement provisions of that portion of the
8 Application dealing with commingling.

9 EXAMINER STOGNER: Okay. Now, is Mr. Ward
10 entering appearance in just 11,570 or both of them?

11 MR. KELLAHIN: Just 11,570. He would have no
12 interest in 11,569.

13 EXAMINER STOGNER: Why are you consolidating
14 these two cases, Mr. Kellahin?

15 MR. KELLAHIN: For convenience of presentation,
16 Mr. Examiner.

17 Ms. Colby has presented all her ownership records
18 and her notifications in a way that it is convenient to
19 present this as one evidentiary case.

20 EXAMINER STOGNER: Okay.

21 MR. KELLAHIN: And that would help me in my
22 presentation, and it would substantially shorten our
23 presentation.

24 EXAMINER STOGNER: Okay. Let's see, in going
25 back to Case Number 11,570, before I get around -- other

1 than -- Okay, other than the Applicant Richardson and Alton
2 J. Ward, are there any other appearances?

3 MR. KELLAHIN: We are aware of none, Mr.
4 Examiner.

5 EXAMINER STOGNER: Okay. With that, just some
6 housekeeping on Case Number 11,570.

7 On July 3rd a request from Merrill Kempton of
8 Farmington, New Mexico, requesting Case Number 11,570 be
9 continued to the July 25th, 1996, date was received. That
10 letter was dated June 29th, but it was received by the
11 Division on July 3rd.

12 A response from Mr. Kellahin to that request or
13 motion was filed with the Division on July the 9th.
14 Subsequent to that time, or interfingering at that
15 particular time too, was a notice to the Division that Case
16 Number 11,570 was needing to be readvertised because of
17 location difference, and I as of yesterday responded to
18 those two motions, two correspondences.

19 I know I didn't e-mail it to you or fax it to
20 you, Mr. Kellahin, because I did not have a fax address to
21 Mr. Merrill Kempton.

22 So as opposed to appearing by Division of the two
23 parties not being treated fairly, since I didn't get a fax
24 from him, I wrote the letter and sent it out US mail and
25 will cover it today. I essentially stated that this matter

1 will be presented at today's hearing, at which time it will
2 be continued to rehearing on July 25th. At that time, if
3 it's necessary, additional testimony will be taken.

4 So with that, let me have the witnesses in this
5 matter stand.

6 (Thereupon, the witnesses were sworn.)

7 EXAMINER STOGNER: With that, Mr. Kellahin, you
8 may proceed.

9 MR. KELLAHIN: Mr. Examiner, we've distributed to
10 you the exhibit package. There should be a set before you.

11 The first two exhibits need to be unfolded.
12 Exhibit 1 is the tract arrangements in the northeast
13 quarter of Section 15, and Exhibit 2, then, is the
14 southeast quarter of 15.

15 My first witness is Cathy Colby. She spells her
16 last name C-o-l-b-y. She's a petroleum landman employed by
17 Richardson Operating Company.

18 CATHLEEN COLBY,
19 the witness herein, after having been first duly sworn upon
20 her oath, was examined and testified as follows:

21 DIRECT EXAMINATION

22 BY MR. KELLAHIN:

23 Q. For the record, Ms. Colby, would you please state
24 your name and occupation?

25 A. My name is Cathleen Colby. I am land manager at

1 Richardson Operating Company.

2 Q. On prior occasions have you testified before the
3 Oil Conservation Division and qualified as an expert in
4 petroleum land management matters?

5 A. Yes, I have.

6 Q. Pursuant to your employment, have you undertaken
7 what appears to be a substantial task in first of all
8 identifying all the subdivisions and tracts which
9 constitute the east half of Section 15? You've done that?

10 A. Yes, sir, I have.

11 Q. As part of your work, then, did you also identify
12 the owners of those various tracts?

13 A. Yes, sir.

14 Q. And with the assistance of title attorneys and
15 title examiners, have you satisfied yourself that you now
16 have an accurate compilation of the ownership with regards
17 to the oil and gas minerals underlying the east half of
18 Section 15?

19 A. Yes, to the best of our ability. This is a very
20 complicated 320 acres, and we have spent quite a bit of
21 time, and we feel that we have a good understanding of the
22 ownership now.

23 Q. As part of your work, do you customarily
24 negotiate an attempt to consolidate tracts on a voluntary
25 basis, either by acquiring by purchase, leasing or farmout

1 or some other contractual means by which you consolidate
2 these interests on a voluntary basis?

3 A. Yes, I do.

4 Q. And are you familiar with and knowledgeable about
5 operating agreements and other contractual documents that
6 are involved in this process?

7 A. Yes, sir.

8 MR. KELLAHIN: We tender Ms. Colby as an expert
9 petroleum landman.

10 EXAMINER STOGNER: Ms. Colby is so qualified.

11 Q. (By Mr. Kellahin) Let's start with Exhibits 1
12 and 2 and have you identify for us the source of the plats.
13 Where did they come from?

14 A. The base plats are a reduced copy of the County
15 Assessor's surface ownership maps, and we have identified
16 lease boundaries by drawing the darker orange lines and
17 have identified tracts that are not subject to an oil and
18 gas lease.

19 Where we were not able to acquire an oil and gas
20 lease or purchase the minerals, those are identified by the
21 red coloring.

22 The yellow coloring are the tracts that were open
23 as to the Pictured Cliffs and Fruitland Coal Formations,
24 which we have subsequently picked up oil and gas leases.

25 Conoco has rights to two oil and gas leases that

1 are indicated in blue.

2 And the orange are the existing oil and gas
3 leases that Richardson has obtained farm-in on.

4 Q. The tract numbers refer to tract names?

5 A. Yes.

6 Q. And how were you able to associate the right name
7 with the right tract number?

8 A. By the legal description. And the name that's
9 tabulated is the original lessor on the lease.

10 Q. Okay. Let's look at the information on Exhibit
11 1. There is a red dot down in the southeast quarter of the
12 northeast quarter. What is that intended to represent?

13 A. That is our proposed location for our 15-1 well.

14 Q. And the 15-1 well is known by the Division case
15 number as 11,570?

16 A. Yes.

17 Q. All right. When we look at Exhibit 2 in the
18 southeast quarter, there's a red dot?

19 A. Yes.

20 Q. What is that red dot intended to represent?

21 A. That is our proposed location for our 15-2 well,
22 or the Division Case Number 11,569.

23 Q. All right. The one in the northeast is to be a
24 downhole commingled well. It's a Fruitland Coal gas plus
25 the PC?

1 A. Right.

2 Q. And the one in the southeast is a PC stand-alone?

3 A. That's correct.

4 Q. All right. Let's talk about the actual
5 descriptions. Lots of these are not regularly described
6 pieces of property but are done simply by metes and bounds
7 or other more complicated means of description.

8 When we look at Exhibit Number 3, what have you
9 compiled for us there?

10 A. Exhibit 3 is a tabulation of existing oil and gas
11 leases. It makes up the first part, those controlled by
12 Richardson Operating Company.

13 Q. So the Examiner can take Exhibit 3, and insofar
14 as the entire east half is concerned he can use Tract 1,
15 looking at Exhibit 1, and he can find Merrill Kempton and
16 his wife, and he can look over on Exhibit 3 and find that
17 Mr. Kempton has leased to Julander and knows the book and
18 page and date and then the actual description of Mr.
19 Kempton's property?

20 A. That is correct.

21 Q. And subsequently go through the display in that
22 fashion?

23 A. Yes.

24 Q. If we look at Exhibit 3 and with specific
25 emphasis on Mr. Kempton's property, and going back to

1 Exhibit 1, then, you can find how it's located on the
2 ground as Tract 1?

3 A. That is correct.

4 Q. Your well site for that well is on Mr. Kempton's
5 property?

6 A. Yes, it is.

7 Q. Okay. His interest is subject to an oil and gas
8 lease, and he controls the surface?

9 A. Yes, he owns both the surface and the minerals.

10 Q. At the time he executed this lease in 1959, did
11 Mr. Kempton have both the surface and the oil and gas
12 minerals?

13 A. Yes, he did.

14 Q. And has Richardson Operating Company now become
15 the lessee of the Kempton lease?

16 A. We have rights under a farmout agreement.

17 Q. Oh, so by contract you've acquired operations of
18 that lease?

19 A. Yes, and that is limited from the surface to the
20 base of the Pictured Cliffs formation.

21 Q. And from whom did you get your farmout?

22 A. We got farmouts from five parties.

23 Q. Are you satisfied that you have an adequate chain
24 of title that gives you legal rights to the access of the
25 surface to explore for the oil and gas minerals underlying

1 Mr. Kempton's property?

2 A. Yes, we do.

3 Q. The Exhibit 3 is organized in such a way that as
4 you move through the pages, you're going to get to another
5 section starting on page 14 where you're now dealing with
6 tracts that are identified on Exhibits 1 and 2 but are not
7 under lease?

8 A. That is correct.

9 Q. Starting with Tract 62, then, you've identified
10 on Exhibit Number 2 as well as Exhibit 3 those tracts for
11 which you do not have leases?

12 A. Yes.

13 Q. For those categories of individuals or entities,
14 have you exhausted every opportunity to obtain leases or
15 ask those parties to participate with you in this well?

16 A. Yes, I have. I spent quite a bit of time, where
17 I was able to contact the mineral owner, talking to them
18 and trying to explain what we were trying to do and making
19 offers to lease their minerals. And with this particular
20 group I got to a point where I felt I couldn't go any
21 further.

22 Q. And we will show the Examiner all that
23 correspondence here in just a minute?

24 A. Yes.

25 Q. Let's deal with the last entity on page 16, which

1 is Conoco's uncommitted lease interests?

2 A. Yes, sir.

3 Q. They control Tracts 48 and 49?

4 A. Yes, sir.

5 Q. Let's start at that point, then, with our general
6 discussion of your efforts. Have you been successful in
7 trying to get Conoco to participate with you on a voluntary
8 basis in the well?

9 A. Initially, Conoco indicated that they did want to
10 participate and asked that we provide them with an AFE and
11 an operating agreement, which we did. Conoco has a
12 relatively small interest in both of these wells, and they
13 were unable to make a decision by the time of the hearing,
14 so they asked that we put them on the uncommitted list.

15 Q. All right. There is a package of documents with
16 regards to Conoco. In your opinion, have you exhausted all
17 reasonable opportunity to have Conoco participate with you
18 on a voluntary basis?

19 A. Yes, I have.

20 Q. Let's deal now with the subject of moving the
21 well location of the 15-1 well. Remember, it was
22 originally located 2275 feet from the north line and 991
23 from the east line, which would have put it in proximity to
24 an existing Conoco well?

25 A. Right, our initial attempt was to, as much as

1 possible, share the existing Conoco well pad, to minimize
2 surface disturbance.

3 Q. The Conoco well is a well producing from what
4 formation?

5 A. It produces from the Dakota formation.

6 Q. Your interest in utilizing the same well pad was
7 to minimize surface disturbance and to accommodate the
8 neighbors with regards to that use?

9 A. Yes, to be as -- least obtrusive to Mr. Kempton's
10 use of his land.

11 Q. Did Mr. Kempton approve the use of his land for
12 the well at that location?

13 A. At our originally proposed location?

14 Q. Yes.

15 A. No, he did not. He was concerned that we were
16 too close to the trailer park.

17 Q. What's his relationship, if any, with the trailer
18 park?

19 A. Mr. Kempton owns the surface of the trailer park
20 and leases the space to the residents.

21 Q. Did you discuss with Mr. Kempton where you might
22 relocate this well on his property to satisfy your well
23 position, to access the minerals and accommodate his
24 concerns about the surface?

25 A. We did.

1 Q. With what result?

2 A. And we invited him to be present when we had the
3 survey team come back out to restake the location.

4 Q. Okay, with what result?

5 A. He was present, and Mr. Kempton doesn't feel that
6 the well should be located on his property at any location.

7 Q. All right. So you were unable to accommodate him
8 to find a location on his property for which he would have
9 agreement?

10 A. That is correct.

11 Q. Ultimately, where do you suggest that you put the
12 well?

13 A. He thought a better location would be in a city
14 park, Bird Park, to the north.

15 Q. And you've rejected utilizing the city park in
16 direct proximity to -- What's that? The Animas River?

17 A. Yes. Well, one of the problems is that Bird Park
18 is on the north side of the Animas River, and the gathering
19 system that we plan to tie into is on the south side of the
20 river, and we're hesitant to consider putting a well in a
21 city park.

22 Q. All right. Did you move the location in response
23 to a request by Conoco to have a certain minimum distance
24 between your well and their well?

25 A. That was another factor in moving the location.

1 Conoco felt that 100 feet between the two wellbores would
2 be the minimum acceptable to them.

3 Q. In addition, did you also move your original
4 location of this well in order to comply with the City of
5 Farmington zoning requirements for distances of well
6 locations from, I believe, structures?

7 A. That is correct. There's a 200-foot minimum from
8 existing structures. Our original location was 195 feet
9 from the corner of the trailer, and it was slightly closer
10 to some industrial buildings on the south side of the
11 quarter section.

12 EXAMINER STOGNER: Run that by me again?

13 THE WITNESS: Okay, on the Exhibit Number 1
14 there's an odd-shaped wedge at the very southern end of the
15 map, surface owned by Martin Garcia trustees. There's a
16 metal industrial shop on that tract of land that our
17 original location was about 150 feet from that shop.

18 EXAMINER STOGNER: And how far from the trailer?

19 THE WITNESS: We were 195 feet from the closest
20 trailer.

21 EXAMINER STOGNER: And so the new location gets
22 you further away from the --

23 THE WITNESS: It puts us 200 feet from all
24 structures --

25 EXAMINER STOGNER: Okay.

1 THE WITNESS: -- in compliance with the city
2 code.

3 EXAMINER STOGNER: The city -- Is it my
4 understanding that the City designates a mobile home as a
5 structure?

6 THE WITNESS: Yes, all buildings.

7 To my knowledge, the only additional requirement,
8 which is found in the fire code, is, if it's a place of
9 assembly such as a church or a school, you need to maintain
10 at least 300 feet.

11 EXAMINER STOGNER: Okay. But in accordance with
12 what you know, the City of Farmington designates a mobile
13 home the same as a building?

14 THE WITNESS: Yes.

15 EXAMINER STOGNER: Okay. I'm sorry, I just
16 wanted to clarify that so that's -- while we are on that
17 topic.

18 Go ahead, Mr. Kellahin.

19 MR. KELLAHIN: Yes, sir, please interrupt us at
20 any time. I want to make sure we've communicated this
21 clearly.

22 Q. (By Mr. Kellahin) At this point, then, the well
23 is moved, your application before the Division is amended
24 and you're seeking approval of what we're going to show is
25 a location 2171 from the north and now 775 feet from the

1 east line?

2 A. That is correct.

3 Q. And as a result of moving, you're now moving this
4 well closer to its eastern boundary of its spacing unit?

5 A. Yes.

6 Q. Previously it had been 991 feet, which would have
7 been standard as to that boundary --

8 A. Right.

9 Q. -- for both the Coal and the Pictured Cliff?
10 But now you're moving 775 and you've encroaching
11 towards the east?

12 A. That's correct.

13 Q. As a consequence, did you re-notify the operators
14 on the east side towards whom you're encroaching?

15 A. Yes, we did.

16 Q. You notified them originally, and you have
17 notified them of the amended Application?

18 A. Yes, we did.

19 Q. At this point, are you aware of any opposition
20 from any offset operator entitled to notice? Have they
21 objected?

22 A. No, we have received no objections.

23 Q. Mr. Kempton has objected to the well being
24 located on his property?

25 A. Yes.

1 Q. Describe for me, in terms of his mineral
2 interests, what's occurred. He's leased his oil and gas
3 minerals, and they're now controlled by entities that have
4 issued farmout agreements to Richardson so you can drill
5 the well, so his interest is committed by contract with
6 regards to his minerals?

7 A. That is correct.

8 Q. All right. Have you talked to Mr. Kempton about
9 your legal right to utilize in a reasonable way his surface
10 in order to access the oil and gas minerals?

11 A. Yes, we have.

12 Q. With what resolution?

13 A. Well, Mr. Kempton at one point in time did
14 consult with his attorney and our legal representative.
15 The two attorneys talked, and at that point Mr. Kempton was
16 made aware that he needed to let us on to do our survey
17 work.

18 At this point, Mr. Kempton then began his protest
19 through the Planning and Zoning and Oil and Gas Advisory
20 Committee level.

21 Q. What is the current resolution of those protests
22 and hearings within the governmental agencies of the City
23 of Farmington?

24 A. Because Richardson has changed its location with
25 the footages and to meet the city notification requirements

1 for offset property owners, we were asked to resubmit new
2 applications, which we have done.

3 Q. And when will those come to hearing?

4 A. It's scheduled to go before the Planning and
5 Zoning Commission on July 25th.

6 Q. What action did the Planning and Zoning
7 Commission take on the original well site?

8 A. On the original well site, the Planning and
9 Zoning Commission decided to recommend -- not to recommend
10 approval of -- for Richardson to obtain a special use
11 permit to the City Council.

12 The final decision is made by City Council after
13 recommendations from the Planning and Zoning Committee and
14 the Oil and Gas Geologic and Engineering Hazards Advisory
15 Committee.

16 Q. All right. What was the recommendations of the
17 Oil and Gas Advisory Committee of the City?

18 A. Their recommendation was to allow the drilling of
19 both wells, subject to certain requirements.

20 Q. Okay. What was the reason the Planning and
21 Zoning had recommended denial of the Application of
22 Richardson on the original location?

23 A. The Applications were heard first by the Planning
24 and Zoning. I believe Mr. Kempton had spent time talking
25 to them ahead of time, expressing concerns for safety, and

1 at the meeting he had lengthy discussions and brought
2 several residents of the trailer court with him expressing
3 concerns of safety. Most of their concerns addressed the
4 existing Dakota well, but they felt that their safety
5 concerns would be increased if there was an additional well
6 there.

7 Q. All right. So you still have to go through the
8 surface location issues, through the City of Farmington
9 process at this point?

10 A. Yes, we do.

11 Q. Have you been asked by the governmental officials
12 with the City of Farmington to proceed forward with the Oil
13 Commission determination of the correlative rights and
14 waste issues that are within its jurisdiction prior to your
15 next hearing at the City process?

16 A. Yes, we have.

17 Q. So you've asked to go forward with your
18 presentation before Examiner Stogner today?

19 A. That's correct.

20 Q. Let's talk about the Exhibit Number 4. Exhibit
21 3, now, is the leases and the uncommitted and unleased
22 interests for the east half. But you have recompiled that
23 with regards to the southeast quarter of Section 15, so the
24 Examiner can look specifically at that ownership in -- when
25 he deals with the well 15-2?

1 A. That is correct.

2 Q. All right. Let's go through that so he
3 understands how you've formulated it. Exhibit 4, then,
4 those are leases that you now control until we get down to
5 page 5 and you've got some nonleased interest, right?

6 A. That's correct.

7 Q. Are these going to be the same people that you
8 have been attempting to get leases from, providing
9 correspondence to and discussing their interests?

10 A. Yes, these people are also included in the 15-1
11 well, by virtue of the Fruitland Coal formation, which is
12 spaced on 320 acres.

13 Q. Have you also provided them -- Although they're
14 the same people, have you provided them notification and
15 opportunity for the PC well in the southeast of 15?

16 A. Yes, these people were notified for both cases.

17 Q. And again, finally on page 6, you've got the
18 Conoco uncommitted lease interest. You've gone through the
19 same process with Conoco with regards to the PC well in the
20 southeast of 15?

21 A. Yes, sir.

22 Q. And have you exhausted all reasonable opportunity
23 with all these entities or individuals concerning their
24 participation in both of these wells?

25 A. Yes, sir.

1 Q. At this point, are you asking the Examiner to
2 issue a compulsory pooling order?

3 A. Yes, sir.

4 Q. Do you have a recommendation to the Examiner as
5 to what overhead rate you would like to have him approve
6 for each of these two wells?

7 A. We're asking for a \$350 monthly operating rate
8 and a \$4500 drilling rate.

9 Q. And what is the basis of those rates?

10 A. Those are our standard rates in the area.

11 Q. And you've asked your next witness, Dana
12 Delventhal, the petroleum engineer, to examine your
13 overhead rates, and she has found that they're consistent
14 with the *Ernst & Young* rates? In fact, lower than those
15 rates?

16 A. Yes, sir.

17 Q. All right, let's turn to the package of
18 correspondence so we can document for the Examiner your
19 efforts to get these various parties to join you. Let's do
20 it in a summary fashion. Starting with Exhibit 5, describe
21 for us what you're doing and show us the result.

22 A. Okay, Exhibit 5 is the correspondence I've had
23 with Conoco. Our original proposal was to either take a
24 farm-in or to purchase their interest.

25 Q. That was going on -- Your proposal was November

1 15th of 1996 [sic], and then in January they responded to
2 you?

3 A. Right, and in January they were more interested
4 in participating and asked us to forward an AFE and
5 operating agreement, which we did in April of -- 24, 1996.
6 Copies of the AFEs are attached.

7 Conoco asked us to add a provision to the
8 operating agreement, which would dictate how to apportion
9 costs on the downhole commingled well, which we added their
10 recommended exhibit.

11 In conversations that I've had since with Conoco
12 in trying to find out what they were going to do in this
13 matter, they advised that they felt our AFEs were
14 reasonable, there was no problem with the operating
15 agreement. However, because of the small interest to them,
16 it was hard to get their people off of their bigger
17 projects to look at this, and they said just to go ahead
18 and they will not contest a compulsory pooling.

19 Q. Okay, let's turn to Exhibit 6 and have you -- Let
20 me do something that might be useful. Thumb through the
21 package and get to the end of the correspondence, and let's
22 extract Exhibits 15 and 16, which are spreadsheets and will
23 provide a way for us to keep track of these various
24 individuals and entities.

25 Exhibit 15, if you have that before you, Ms.

1 Colby, is your spreadsheet on the well in the northeast
2 quarter, which is your 15-1, and Exhibit 16 is the
3 spreadsheet on the Pictured Cliff well in the southeast
4 quarter. Did I get that right?

5 A. Yes.

6 Q. All right. So the first one we've come across
7 here is the Conoco interest. You've documented that you've
8 been unsuccessful with Conoco. Let's look at the next set
9 of documents -- it's Exhibit 6 -- and this deals with
10 Koski?

11 A. Yes.

12 Q. All right, summarize for us what you've done
13 here.

14 A. There was an initial proposal on January 19th,
15 1996, to take an oil and gas lease on his unleased mineral
16 interests, surface to base of Pictured Cliffs formation.

17 In a follow-up telephone call, Mr. Koski informed
18 me that he was not interested in leasing, that he wanted an
19 outright sell. He had a couple people in Albuquerque that
20 had been after him to buy his interest and wanted me to
21 make an offer.

22 I called back and offered to buy the surface to
23 the base of the Pictured Cliffs for \$150 an acre, and he
24 checked with Conoco and was informed that that was low by
25 Conoco's estimation. He informed me that his Dakota rights

1 had made \$400 in 1995, and he wanted \$6000 for his 2.45 net
2 acres, which comes to about \$2400 an acre, and he said that
3 he wouldn't take anything less than that.

4 That was much higher than what we were willing to
5 pay. I could see that there was a considerable distance
6 between what he felt that he wanted from the property, and
7 so we did not pursue trying to lease or buy his interest.

8 At that point, we sent an AFE and invited him to
9 participate in the well, and we also offered that he could
10 lease or farm out to us.

11 Q. Okay, let's go to the exhibit package that's
12 Number 7.

13 A. Number 7 is an unleased mineral interest owned by
14 a Darrell Gene Hardy. It has a mortgage on it.

15 Originally, I -- Well, to go back, the real
16 estate contract provided that the seller specifically
17 retained ownership, and so that was what the original offer
18 was made to the seller, Derald Hawkes, Trustee.

19 Q. Are all these individuals involved with the
20 Western United Life Assurance entry?

21 A. Well, the -- Yes, the Western United Life
22 Assurance then obtained title, because they were providing
23 the mortgage, and a subsequent offer to lease was made to
24 them.

25 In attempts to follow up, I was told by their

1 attorneys that Mr. Hardy could speak for himself on this
2 matter. And they gave me Mr. Hardy's attorney. So the May
3 13th, 1996, letter went to Mr. Hardy in care of his
4 attorney.

5 Q. With what final result?

6 A. I talked to Mr. Parmly, the attorney, and offered
7 to either lease -- to lease or buy. And he said that Mr.
8 Hardy wanted to sell his three-quarters of an acre for
9 \$5000, which equated to about \$6600 an acre.

10 There was a follow-up call from a consultant
11 who's familiar with the oil and gas business, who said that
12 he would be willing to sell it outright for \$4000.

13 Q. These are all substantially more than you were
14 able to acquire leases for in this particular area?

15 A. Yes, our average price for buying a lease was \$50
16 an acre.

17 Q. Okay.

18 A. So there was quite a range. And --

19 Q. All right. When I look at the spreadsheet, now,
20 all this deals with Exhibit 15, and I'm looking at the
21 fourth entry down. This is all under that Western United
22 Life Assurance Company?

23 A. Yes, I did not update this, that's right.

24 Q. All right. Make sure the Examiner realizes your
25 efforts go to all these entities.

1 All right, let's go to Number 8. What's Number
2 8?

3 A. Okay, Number 8 is another very small interest of
4 .85-acre, and this has two entities also. Originally, the
5 interest was owned by 515, Inc., and after -- during the
6 process of working on this, the interest was transferred to
7 E.M., Inc., I believe.

8 Q. All right. So when we look at Exhibit 15, it's
9 the next one down after Western on the spreadsheet?

10 A. Yes, that's correct.

11 Q. Okay. Again, you were unsuccessful in obtaining
12 an interest or having them participate in the well?

13 A. Yes, on this one Mr. Martin's daughter called me
14 and asked for some information on what tracts, specific
15 tracts this referred to, because he owns quite a bit of --
16 well, various tracts in the subdivisions in this half
17 section, some of which are under existing oil and gas
18 leases.

19 And I identified which three were not subject to
20 a lease, and I made three follow-up calls to see if I could
21 negotiate a lease or a purchase and did not have call-backs
22 from them.

23 Q. Is it true that in all these cases, Ms. Colby,
24 that in addition to trying to acquire the leases, you
25 provided them a written opportunity to participate in the

1 well and gave them an itemized AFE by which to make an
2 analysis of that choice?

3 A. Yes, I did. When I felt that I couldn't go any
4 further in taking the lease or accommodating them in any
5 manner, then I sent via certified mail a well proposal,
6 asking them if they would like to participate, with an AFE
7 attached, and also at that time extended the offer to again
8 lease, purchase their interest, or take a farm-in.

9 Q. Okay, let's turn now to Exhibit 9. Identify the
10 entity you're trying to get to participate in the well.

11 A. Okay, Exhibit 9, there are quite a few owners.
12 At the bottom, in my handwriting, I've listed out who the
13 owners are. They're all family members. And when I sent
14 out proposals, the entire family did get together and
15 discuss the proposals, and their decision was made on a
16 group basis.

17 Exhibit 9 is a letter I received from Mrs. Tyler
18 and Ms. Pitchford where they declined to lease. They felt
19 that their father would not have leased, and they wanted to
20 follow in his footsteps.

21 Q. So if we look at spreadsheet 15, Exhibit 15, and
22 find the name Clarence Everett Hodgson Estate --

23 A. Right.

24 Q. -- read the rest of the way down, all of those
25 people are involved in Exhibit 9?

1 A. That is correct.

2 Q. Again, the end result was that you were unable to
3 get them to lease with you, and you offered them a chance
4 to participate in the well, and they have not elected to
5 participate?

6 A. That is correct.

7 Q. All right. Exhibit 10?

8 A. Exhibit 10 is another small tract, .2 net acres.
9 I talked to Mrs. Lane several times and tried to answer her
10 questions and explain what we were doing, and she did not
11 have any interest in leasing or selling.

12 Q. Again, she was afforded an opportunity to
13 participate and has chosen not to?

14 A. That is correct.

15 Q. Exhibit 11?

16 A. Exhibit 11 is the same mineral owner, Mrs. Lane,
17 and her son. There are two tracts that are side by side;
18 they're joint owners in the second tract. And when I was
19 speaking with Mrs. Lane she was speaking on behalf of the
20 entire family, and we discussed both tracts.

21 Q. Okay, Exhibit 12?

22 A. Exhibit 12 is .2 net acres. I was never able to
23 locate a telephone number for Mr. and Mrs. Fred Shorty, so
24 my communication was limited to my correspondence, both in
25 the offer to lease and the well proposal with other

1 opportunities offered.

2 They did receive the certified mail.

3 Q. Let's turn to Exhibit 13.

4 A. Exhibit 13 is the same type of a situation. I
5 was not able to obtain a telephone number. I do have proof
6 that the certified mail was received, and Ms. Gordon did
7 not make contact with me.

8 Q. And finally Exhibit 14?

9 A. Exhibit 14 is .2 net acres. I talked to Ms.
10 Casaus several times and I tried to explain what we were
11 doing. I did get a call from her finally on February 27th
12 where she said, I'm not interested. And at that point, I
13 sent via certified mail a well proposal, AFE and the same
14 offers -- offer to lease, to buy or to farm in.

15 Q. I've checked on the spreadsheet, and I think
16 you've covered all the parties listed on both Exhibit 15
17 and 16, with the exception of a John Dent Lamar.

18 A. Oh, yeah, John Dent Lamar, I was not able to get
19 an address or a telephone number. I had no way of
20 contacting him.

21 Q. So you couldn't find that individual, and how did
22 you go about searching?

23 A. We looked on documents with the courthouse, we
24 checked with the County Assessor, and we asked the people
25 that we were working with at Guardian Title and checked the

1 phone book.

2 Q. Okay. I'm losing track of the exhibits. You've
3 talked about 15 and 16.

4 A. Right.

5 Q. What's 17 and 18?

6 A. 17 and 18 are notifications.

7 Q. I'm with you now. Okay, let's turn to Exhibit
8 17. What is Exhibit 17, Ms. Colby?

9 A. 17 is our --

10 MR. KELLAHIN: 17 is -- and I had the same
11 trouble, Mr. Examiner. I had these misplaced. Here's 17
12 and 18. You have 18, here's 17. There you go.

13 EXAMINER STOGNER: Okay.

14 Q. (By Mr. Kellahin) Okay, what's 17 again?

15 A. 17 is the listed notification on owners.

16 Q. All right, this is for the hearing purpose?

17 A. Yes.

18 Q. All right. So this represents notification of
19 the royalty and overrides for the commingling case?

20 A. And further into the list, it also notifies the
21 -- Well, there's a list of royalty owners unable to locate.

22 Q. That will be on page 6?

23 A. Right.

24 Q. Starting on page 7, then, we'll get the unleased
25 people for the force-pooling?

1 A. That's correct.

2 Q. Plus the downhole commingling?

3 A. Yes.

4 Q. And then on page 8 you've got the offset
5 operators?

6 A. That's correct.

7 Q. All right. And all of those got notification of
8 the Case 11,570?

9 A. That is correct.

10 Q. Exhibit 18 represents what?

11 A. Exhibit 18 are the people that got notification
12 of both cases.

13 Q. All right. And 18, then, is those parties being
14 pooled in the southeast quarter for that PC well, plus the
15 offsets that got notice, Amoco and Mulford?

16 A. Yes.

17 Q. All right, let's look now at your documentation
18 of the return receipt cards that went along with that
19 notification. You sent this notice out for both of these
20 cases on -- I believe it was June 18th? June 19th. I've
21 lost track of my days.

22 A. Okay, let's see. June 18th.

23 Q. June 18th, all these were sent out?

24 A. Yes.

25 Q. When I look at Exhibit 19, what are we seeing?

1 A. Exhibit 19, first, are photocopies of the
2 certified receipts where people have signed that they
3 received the mailing.

4 Q. All right, these are all the green cards --

5 A. Yes.

6 Q. -- on the big-size paper that's 8 1/2 by 17?

7 And behind that, then, you have stapled the
8 returns that have come back to you for --

9 A. -- bad address or unable to deliver.

10 Q. Yeah, and you subsequently tried to fix those
11 that you could, and this represents that process?

12 A. Yes.

13 Q. And then there's a copy of the actual letter that
14 they got with the notification?

15 A. The next group with the letters are the ones that
16 were mailed -- they have not come back from the post
17 office, nor have we received the green card back.

18 Q. All right. Finally, if you'll take the pointer
19 that's in front of you, let's go identify the aerial
20 photograph -- I have marked that as Exhibit 1A -- and
21 provide the Examiner with an orientation as to where he
22 will find each of these two wells on that aerial
23 photograph.

24 A. Okay, this reads like a regular map with north
25 being up. The white box, large white box, is the northeast

1 quarter of Section 15, and Section 15 continues down here
2 towards the southeast quarter, our 15-1 to be located in
3 the northeast quarter, our proposed location is in the very
4 corner of this field. That's with the new footages. And
5 the 15 --

6 Q. And it's slightly shaded in yellow, so --

7 A. Yes.

8 Q. -- we didn't want to blur the photograph, but you
9 can help find it with the yellow shading?

10 A. Yes, you can see the existing Conoco Dakota well
11 in the yellow.

12 EXAMINER STOGNER: Okay, let's stop there. When
13 you refer to that existing Conoco well that is in the
14 southeast quarter of the northeast quarter, and in the
15 middle of that quarter-quarter section on the black-and-
16 white photograph is a large field, and it looks like it's
17 in the middle of it, and it is essentially off center -- I
18 should say the directions -- and the Conoco well is a light
19 indentation directly to the west -- I'm sorry, off of the
20 southwest corner of that large field; is that correct?

21 THE WITNESS: That's correct.

22 EXAMINER STOGNER: And you referred to the
23 northeast corner -- the southeast -- I'm sorry, the
24 northeast corner is shown in the box, and you referred to
25 the southeast corner -- quarter of that section as being

1 essentially, if you took that mirror image and brought it
2 down to the southern end of that northeast quarter, that
3 would be shown in the southeast quarter?

4 THE WITNESS: Yes, it would.

5 EXAMINER STOGNER: Okay, I just wanted to make
6 sure that that was on the record and that one could then
7 take that record and refer back to that exhibit and then
8 see where you're talking about.

9 Okay, you may continue.

10 Q. (By Mr. Kellahin) Find the Pictured Cliff well
11 in the southeast quarter so that the Examiner or anybody
12 else looking at the photograph can find the proposed site
13 for that well.

14 A. Our proposed location for the Pictured Cliffs
15 well would be here. It can be identified as being just
16 north of an irrigation ditch.

17 Q. Again, there is a light yellow shading on the
18 aerial photograph that will help you find that position,
19 and if you can more closely identify it, it would be
20 helpful.

21 A. Let's see, if --

22 EXAMINER STOGNER: I believe --

23 THE WITNESS: Okay, this would be Carlton Avenue,
24 and we're in between Carlton --

25 Q. (By Mr. Kellahin) Carlton Avenue would be on the

1 east side of the well site?

2 A. Yes, and on the west of the well site is
3 McCormick Road.

4 Q. Okay. And on the south side of the well site is
5 the -- What is that? The Bloomfield highway?

6 A. That's a prominent -- If you can locate the
7 McCormick School, with fields around it, we're south and
8 east from there, directly north of the irrigation ditch.

9 MR. KELLAHIN: All right, I think that's as
10 accurate as you can show it on the photograph. Thank you,
11 Ms. Colby.

12 MR. KELLAHIN: Mr. Examiner, that completes my
13 presentation of Ms. Colby's testimony.

14 We would move the introduction of her Exhibits 1
15 through 19, plus the areal photograph, which is marked as
16 Exhibit 1A.

17 EXAMINER STOGNER: Exhibits 1 through 19 will be
18 admitted into evidence.

19 EXAMINATION

20 BY EXAMINER STOGNER:

21 Q. Ms. Colby, what -- So that I understand, what is
22 the next procedure with the City of Farmington's zoning
23 concerning -- and I'm assuming just concerning the one well
24 in the northeast quarter of the section; is that correct?

25 A. Both of our wells -- We have re-applied for the

1 special use permit because of changes in footages.

2 We had a problem. When we were originally given
3 the city code on the wells, there was no mention of the
4 300-foot requirement from places of assembly. Our 15-2
5 well, which is in the southeast quarter, our original
6 location there was within the 300-foot range of a church.
7 We changed our footages on that well prior to submitting
8 our Applications to the Division.

9 So we don't have to ask for an amended -- that it
10 be looked at, because our -- even though our footages
11 changed after we applied for our special-use permit in
12 Farmington, when we applied to the OCD we had our corrected
13 footages.

14 We have -- Now that we have two Applications in
15 to the City of Farmington, we will be going before the
16 Planning and Zoning Commission on July 25th, which is an
17 advisory board to the City Council made up of citizens. I
18 believe it's composed of realtors, and there might be an
19 appraiser or two in there.

20 The Planning and Zoning Commission will hear our
21 case and hear public comment on -- It then would go to the
22 Oil and Gas Advisory Commission, and then their
23 recommendations go back to the Planning and Zoning
24 Commission for their review.

25 This is a new procedure that will be used for the

1 first time. The Planning and Zoning, prior -- they felt
2 that they were having to make a recommendation to City and
3 Council without being able to have the benefit of hearing
4 what the experts in the oil and gas side are recommending,
5 and they wanted to be able to review their recommendations
6 and have that knowledge before they will be making their
7 recommendation to City Council.

8 Then the two advisory commissions make
9 recommendations to go to City Council, and the Council
10 would review it.

11 Q. Special Use Permit and Planning Commission, do
12 they review a location? And should that location be moved,
13 would it necessitate a whole re-hearing process and the
14 whole works?

15 A. The reason why you re-apply, if you have to move
16 your location, is because there's a requirement that owners
17 within 100 feet of the tract where you're drilling need to
18 be notified. And when we shifted our location on both of
19 the wells, that brought new players into the 100-foot area.
20 So it needed to be readvertised and notification sent out.

21 Most of the issues had been brought up and are on
22 the table, and the basic facts are out, but because of
23 property owners of adjacent tracts not being notified on
24 the first round that now need to be notified, we are going
25 through the application process again.

1 EXAMINER STOGNER: Mr. Kellahin, I'd like to get
2 something on the record, and perhaps you might be the one
3 to address such an issue.

4 Do you view -- or should this be viewed more as a
5 city limits -- or an issue within a city as a cooperative
6 issue to get everybody's input, as opposed to a surface-use
7 restriction, something that puts surface use over mineral
8 interest?

9 MR. KELLAHIN: I apologize for never having had
10 the misfortune of having to permit one of these in the City
11 of Farmington. I know there are hundreds of wells in the
12 City of Farmington, and I simply was astonished to find out
13 from Ms. Colby that it had this incredible level of
14 complexity to what I thought would be a quickly resolved
15 issue.

16 EXAMINER STOGNER: This appears to be more of a
17 cooperation, as opposed to a statutory obligation. Perhaps
18 this issue has not been taken to court before --

19 MR. KELLAHIN: I assume it has. I think the City
20 certainly has requirements that we have to abide by in
21 terms of their zoning and use permits, and so I think we
22 have a dual obligation to satisfy you as a regulator and to
23 satisfy them, and we may have different answers ultimately.
24 I guess that opportunity exists.

25 EXAMINER STOGNER: With that, I'll let that stand

1 as is, then.

2 Also, I was a little bit concerned about footage
3 locations, and should the Commission or whoever, the
4 planning board, recommend some other movement of this
5 particular well, and then how could -- how would you
6 say? -- the bureaucracy of all these changes, any change,
7 how could this be incorporated from this point, as dealing
8 with the Oil Conservation Commission? Would this need to
9 be issued, or is that a real danger that a location could
10 be changed?

11 MR. KELLAHIN: It's certainly been changed
12 before, Mr. Examiner. And I'm like you: I'd prefer to
13 have the city approval first, before we come here. Ms.
14 Colby advises me that they're relying on your expertise in
15 terms of waste and correlative rights for hydrocarbons, to
16 have the benefit of your decision before they finally
17 decide.

18 So it's a chicken-and-egg problem, and we don't
19 know how to break out of the circle. We may have to come
20 back if it gets changed and ask you to look at our
21 amendment.

22 EXAMINER STOGNER: Do you want to review that
23 procedure for me? You're saying that any decision coming
24 from this Commission -- or this Division -- will be taken
25 to the Board at the next meeting?

1 MR. KELLAHIN: That's my understanding, that if
2 the timing allows itself for you to decide this matter, by
3 the time I assume it's going to get to City Council, Mr.
4 Kemper [sic] seems intent on moving it in that direction.
5 We've been told that staff would appreciate knowing what
6 this regulatory body thinks should happen for this project.

7 EXAMINER STOGNER: Mr. Kellahin, I would
8 entertain, subsequent to this proceedings, any suggestions
9 that would make it easier upon Richardson Operating to
10 accommodate any move, or we wouldn't have to go through
11 this procedure, even perhaps lessening the notification
12 process, just because an unorthodox location has moved a
13 few feet.

14 I certainly wouldn't want -- And I'm moving more
15 toward a cooperative effort here, to make it easier upon
16 your company, should they require a small move. If it was
17 a large move, that might be something else. But a small
18 move, to be able to accommodate Richardson in the best way
19 possible and --

20 MR. KELLAHIN: We would recommend this to you,
21 that you can see from the offset notice list for the well
22 location that it really is a very small list. It's Amoco
23 and a couple of others. And if this moves to a more
24 unorthodox location, we'll do our best to get waivers from
25 those parties.

1 That's really what we were doing with the amended
2 Application. We think these people that were being force-
3 pooled or interested in the downhole commingling should be
4 here today to talk about those aspects. And when the case
5 is readvertised, we're truly looking at simply shifting it
6 towards offsetting operators, and we're encroaching
7 slightly more than we were originally.

8 I know Mr. Kemper [sic] has asked for more time.
9 I will be back on the 25th to see if he shows up and if he
10 has something to say.

11 EXAMINER STOGNER: I'll also entertain, perhaps,
12 should a location be moved that is closer to one of the
13 offsets and making some sort of an abbreviated effort, not
14 through the hearing process but through an administrative
15 or an addendum to that order, to be done administratively,
16 even by securing from whoever you're moving closer to,
17 notification procedure.

18 MR. KELLAHIN: That would be most helpful, and I
19 appreciate that. It will take advantage --

20 EXAMINER STOGNER: And I would even entertain,
21 since we do have until the 25th, especially on the one up
22 to the north, perhaps even approach that offset operator
23 about what the situation is and what their tolerance level
24 would be in that, to incorporate and help out in any way a
25 small move.

1 MR. KELLAHIN: We --

2 EXAMINER STOGNER: I see this more as a
3 cooperative effort. Yes, I do question statutory efforts
4 on cities to saying yea or nay on the drilling of a well.
5 That is the state's or federal government's leasing
6 authority or statutes in that matter.

7 MR. KELLAHIN: If I --

8 EXAMINER STOGNER: But that's not what I want to
9 perceive this as. I want to perceive it as a -- how would
10 you say? -- a cooperative effort in finding the best
11 location available that's accommodating to the City of
12 Farmington but yet doesn't encroach upon the correlative
13 rights of others. And perhaps -- We've got a little time
14 to address that issue.

15 MR. KELLAHIN: I think it may be a drilling-
16 window concept, where we say within the confines of this
17 neighborhood we're looking at the possibility of a well
18 within a certain window, notifying the offsets of the size
19 of the window and then having the flexibility to put the
20 well somewhere in that window.

21 EXAMINER STOGNER: Yes. And perhaps, should
22 Richardson be fortunate in drilling another well in this
23 area, perhaps that's how we can entertain any future
24 applications. In fact, I think we did that on the
25 Richardson-Amoco cases a few months ago.

1 MS. COLBY: Uh-huh.

2 MR. KELLAHIN: Yeah.

3 EXAMINER STOGNER: There was a drilling window
4 asked for, and that's how we addressed those locations.

5 MR. KELLAHIN: And that's the same kind of
6 challenge they have here. I'm sure they're as frustrated
7 as anybody has ever been frustrated, but drilling in the
8 city is very complicated. You can see the abundance of
9 title work that's required just to find these people. So
10 it's an extraordinary effort, and I'm not sure many people
11 will want to do it.

12 EXAMINER STOGNER: But it is necessary. You look
13 at the other cities in New Mexico that do have it, make it
14 as easy upon the operators and those interested parties
15 within the cities. I'm just essentially talking out loud
16 and making sure this gets on the record too.

17 I don't have any other questions of this witness
18 at this time.

19 MR. KELLAHIN: Okay.

20 EXAMINER STOGNER: Mr. Kellahin, you also had
21 mentioned about Mr. Alton Ward's presence here.

22 MR. KELLAHIN: Yes.

23 EXAMINER STOGNER: Is this more the nature of a
24 land issue or a technical issue?

25 MR. KELLAHIN: Mr. Ward is here as a royalty

1 owner. His property is already unleased. I should have
2 asked Ms. Colby to help me identify his tract. It is shown
3 on Exhibit Number 1. I believe it's up there in the
4 northwest portion.

5 MS. COLBY: It's Tract Number 12, which is due
6 south of --

7 EXAMINER STOGNER: Tract number what? I'm sorry.

8 MS. COLBY: Twelve.

9 EXAMINER STOGNER: Twelve.

10 MS. COLBY: If you look at the large yellow,
11 "Tract 50, 51", it's the one directly south of there.

12 EXAMINER STOGNER: Okay, now, that's under Bob
13 Ledbetter?

14 MS. COLBY: That was the original lessor.
15 Predecessors-in-interest to Mr. Ward assigned -- tract
16 number -- That Bob Ledbetter, et al., had about 15 or 20
17 mineral owners sign that same lease form, of which Mr.
18 Ward's predecessors-in-interest executed that particular
19 lease.

20 EXAMINER STOGNER: Okay. Since Mr. Ward has
21 traveled such a great distance, I want to make sure that
22 your concerns are properly addressed and identified, and
23 that was the reason I was asking Mr. Kellahin, would it be
24 proper for him if he has any statement at this time on this
25 issue, perhaps a technical issue, or perhaps at the end of

1 the hearing?

2 MR. KELLAHIN: I think he -- it might be helpful
3 to him -- I can't speak for him, but it might be helpful to
4 go ahead and let Ms. Delventhal present her technical case
5 and then let Mr. Ward provide a statement if he cares to do
6 so at the end of the presentation.

7 As you can see, his property is well removed from
8 the well site itself, and his interest is not being force-
9 pooled; his interest is already subject to a lease.

10 EXAMINER STOGNER: Okay, with that information
11 and background, Mr. Ward, I am going to proceed with this
12 hearing and let Mr. Kellahin present a technical witness,
13 after which, if you'd like, you can make a statement at the
14 end.

15 EXAMINER STOGNER: Mr. Kellahin, you may proceed.

16 MR. KELLAHIN: All right.

17 DANA DELVENTHAL,
18 the witness herein, after having been first duly sworn upon
19 her oath, was examined and testified as follows:

20 DIRECT EXAMINATION

21 BY MR. KELLAHIN:

22 Q. Would you please state your name and occupation?

23 A. I'm Dana Delventhal, and I'm a petroleum engineer
24 based out of Farmington, New Mexico.

25 Q. Ms. Delventhal, on prior occasions have you

1 qualified before the Division as an expert in petroleum
2 engineering?

3 A. Yes, I have.

4 Q. And have you been employed by Richardson
5 Operating Company to assist them with regards to these two
6 wells?

7 A. Yes, I have.

8 Q. On past occasions have you testified before the
9 Division with regards to a Richardson case where they
10 obtained Division approval to downhole commingle Fruitland
11 and Pictured Cliff production?

12 A. We have.

13 Q. As part of your employment as a consultant, have
14 you aided them with the commingling aspects of their 15-1
15 well in the northeast quarter of Section 15?

16 A. Yes, I have.

17 Q. In addition, as part of your study, have you
18 reviewed a geologic presentation made by Randy Miller
19 concerning the geologic aspects of the case?

20 A. Yes, sir.

21 Q. And have you reached an opinion as to an
22 appropriate risk factor penalty to apply against any
23 nonconsenting working interest owner or unleased mineral
24 owner in the two pooling cases?

25 A. We would recommend a standard 300-percent

1 penalty.

2 MR. KELLAHIN: We tender Ms. Delventhal as an
3 expert witness, Mr. Examiner.

4 EXAMINER STOGNER: Ms. Delventhal is so
5 qualified.

6 Q. (By Mr. Kellahin) Let's start with some of the
7 loose ends. First of all, did you have an opinion or a
8 recommendation concerning the overhead rates that Ms. Colby
9 has recommended to the Examiner be included in the two
10 force-pooling cases?

11 A. The overhead rates that are in the operating
12 agreements that are the later exhibits, the last two, 28
13 and 29, are normal for this area and these type of wells.
14 They're well within the *Ernst & Young* boundaries for Rocky
15 Mountain shallow gas wells.

16 Q. Mr. Examiner has spent a lot of time looking at
17 the surface ownership relationships. Let's turn to Exhibit
18 20 and show him where other wells are located in the area,
19 and to do so would you help me identify and describe this
20 Exhibit 20?

21 A. Exhibit 20 is a nine-section plat showing our
22 area of interest, being the east half of Section 15,
23 outlined in red.

24 Our proposed wells are the commingled yellow and
25 orange, being the PC and Fruitland Coal in the northeast

1 and the PC stand-alone in the southeast corner.

2 Most of the development in the past in this area
3 is Dakota production. Most of the wells, original parent
4 wells, were drilled in the early Fifties with infills in
5 the early Eighties, once that was allowed.

6 There's very little long-term PC or Fruitland
7 Coal production. Obviously, in the six sections on the
8 west half there is none. On the east half there is four
9 Fruitland Coal and one PC well, the PC being a newly
10 completed well with no information.

11 So from a producing standpoint, most of the PC
12 and Fruitland Coal production is further east of this
13 particular section.

14 Q. The Fruitland and PC production is further east
15 than this section?

16 A. Generally, yes.

17 Q. All right, so we're on the western side of that
18 development?

19 A. That's correct.

20 Q. Are these going to generally be low-volume, low-
21 pressured reservoirs in both the Fruitland and the Pictured
22 Cliff?

23 A. We're anticipating very low pressures, probably
24 in the range of 200 p.s.i. bottomhole pressure.

25 The volumes of gas production we would estimate

1 the Pictured Cliffs to come in around 400 MCF per day,
2 under compression. Fruitland Coal will be more than in the
3 range of probably 250 to 100 MCF per day. It's fairly
4 marginal.

5 I'll refer to it in our next exhibit, but there's
6 some geologic reasons, as well as the low reservoir
7 pressure.

8 Q. Let's talk about some of the geologic reasons
9 that set the environment in which Richardson Operating
10 Company proposes to drill these two wells.

11 If you'll turn with me to Exhibit 21 and identify
12 what we're going to look at when we see this exhibit
13 package.

14 A. Exhibit 21 is a report we had asked a certified
15 petroleum geologist to prepare concerning both the Pictured
16 Cliff and Fruitland Coal in this east half. We have his
17 write-up and then also the exhibits that he drew his
18 conclusions on. I can touch on them briefly.

19 Q. Let's do that. Let's fold out the two-well
20 cross-section, which is attached as his Exhibit A, and have
21 you help me understand what we're seeing.

22 A. Exhibit A is a north-south cross-section.
23 Luckily, we have pretty good well control, because we'll be
24 drilling next to existing Conoco Dakota wells, which at
25 least in the north half, they did log through the Pictured

1 Cliff and Fruitland Coal.

2 This north-south cross-section shows that the
3 Pictured Cliff sand is fairly thick and well developed.
4 We're looking at probably 40 to 50 feet of net pay within
5 the Pictured Cliff, and it's fairly consistent.

6 The Fruitland Coal, however, gets a little bit --
7 even -- This is within half a mile. You can see there's a
8 large variation in the thickness of the Fruitland Coal.
9 The north part of the section exhibits about 20 feet of
10 Fruitland Coal, and down to the south it narrows down to
11 about six feet.

12 Q. Do you have any opinion with regards to why
13 operators have not chosen to explore for the Pictured Cliff
14 in this particular area? They drill for the Dakota. Why
15 haven't people gone for the Pictured Cliff?

16 A. At the time that the Dakota development took
17 place in the early Sixties, the Pictured Cliff sand was
18 there and was available. However, being low pressure, it
19 certainly wasn't attractive at that time, or a primary
20 goal.

21 Now, as we've gone in and done more intense
22 development over the years, we've found that the low
23 pressuring of Pictured Cliffs can still make an economic
24 well under compression scenarios.

25 Q. That forms the basis, then, for your

1 recommendation of a 200-percent risk factor for the
2 Pictured Cliff?

3 A. That's correct.

4 Q. Because we're going to get a low-pressure, low-
5 volume reservoir that you have to be very careful about
6 your expenses and how you manage your operating costs?

7 A. Correct. Unfortunately, trying to drill within
8 the city limits has some cost problems associated, so the
9 cost of even a shallow well goes up significantly. If you
10 were to be off by 50 p.s.i., you're losing a quarter of
11 your reserves. It's a bit touchy.

12 Q. When you look at the opportunity for the coal
13 production, do you also have an opinion that that
14 represents a 200-percent risk?

15 A. I believe so. As I mentioned, there is a little
16 bit of Fruitland Coal developed to the east, but at this
17 point it's new development. We're not sure what sort of
18 reserves that coal is going to develop.

19 Based off of analogy and corollaries to other
20 coal wells in the area further east and to coal
21 thicknesses, we would estimate it should be about a half-a-
22 BCF well for the coal formation.

23 Q. Do you concur in the statements made by Mr.
24 Jennings this morning for Meridian? You know, he's looking
25 for coal gas production for Meridian, and coal thickness is

1 not a real important criteria for him.

2 A. It would depend on -- You know, the coal is so
3 different in different areas. Here we're looking at more
4 of a typical reservoir-type response. It's not high
5 permeability, therefore coal thickness has a direct play on
6 gas in place.

7 Q. And here --

8 A. He's looking at fracture plays where thickness is
9 not a primary factor.

10 Q. And he was up in 40 and 56 feet of thickness, and
11 you're down to what? Fourteen to 15 feet?

12 A. At best, yes.

13 Q. So there is a substantial element of risk in
14 obtaining a coal gas well that will be economic?

15 A. Correct.

16 Q. All right. Let's talk about the concept that the
17 15-1 well, the dual-completed well -- the downhole-
18 commingled well, downhole commingled with the PC and the
19 Fruitland Coal. What's the argument for doing that?

20 A. The Fruitland Coal as a stand alone with a half a
21 BCF of reserves would be uneconomic to drill as a separate
22 wellbore, which gives us a choice if we want to go after
23 those potential reserves, two choices. One would be to
24 dual complete the well, and the other being to downhole
25 commingle it.

1 In this area, it's a bit odd, but the Pictured
2 Cliffs is water-productive. It will produce anywhere from
3 40 to 100 barrels of water per day, so it is not a good
4 candidate to complete uphole in the Fruitland Coal with a
5 packer and try to efficiently produce the Pictured Cliffs.
6 We would be hurting that formation, were we to do so.

7 For that reason, downhole commingling is the
8 perfect choice. One, you do get a choice to recover those
9 reserves. The formations are similar in nature and depth,
10 in gas quality, in reservoir pressure. Other than name,
11 there is very little difference between the products.

12 Q. Let's turn and have you identify for me what is
13 marked as Exhibit 22.

14 A. Exhibit 22 is a map that shows the four standard
15 drilling locations within the northeast quarter for a
16 Pictured Cliffs and Fruitland Coal well. The black star is
17 an indication of Conoco's location, and the red dot is our
18 currently staked proposed location.

19 Again, this area is heavily developed. The
20 southeast quarter is really the only tract that we could
21 drill in.

22 Q. The yellow indicates what, now?

23 A. The yellow is land that is leasehold to -- or
24 surface owned and available for a well to be placed on it.
25 The green indicates mineral tracts in which there is no

1 surface occupancy allowed.

2 Ideally --

3 Q. And the white would represent available tracts,
4 but they're not under -- I misunderstood. What's the
5 point?

6 A. The yellow is land owned by Mr. Kempton, the
7 lessor of the tract on which we're drilling.

8 Q. I'm with you.

9 A. And the white are other potential locations, but
10 they are generally buildings and businesses for roads.

11 The ideal location to put it would be, of course,
12 in the middle of Mr. Kempton's field. We could squeeze on
13 the east side of a legal drilling location. But of course,
14 he has requested that we not do so.

15 Although Mr. Kempton does not want a well on his
16 land, he was with us when we restaked the well in its
17 current location and agreed that it would be the least
18 offensive of the possible locations that we had to choose
19 from.

20 Q. Let me ask you to identify for the Examiner
21 Exhibit 23.

22 A. This case is very similar to a case that was
23 heard in 1994. We were granted an order, R-10,231, and
24 it's concerning the downhole commingle of a Pictured Cliff-
25 Fruitland Coal well that is actually about three miles east

1 of here.

2 Most of the testimony will show that this is a
3 good reference case for this downhole commingle
4 Application. The wells, the rates, the reservoir pressures
5 are all anticipated to be very similar to this case.

6 Q. When you go through the criteria for downhole
7 commingling, in your opinion, will approval of the 15-1
8 well satisfy all the criteria for commingling?

9 A. I believe it will.

10 Q. The pressure differentials, the fluid
11 compatibilities, all those kinds of issues?

12 A. That's correct.

13 Q. Let's turn now to the specifics of what you
14 anticipate for the 15-1 well. If you'll look at Exhibit 24
15 with me --

16 A. Okay.

17 Q. -- show us what we're seeing here.

18 A. Although it's fairly repetitious, because the
19 reference case has similar-type exhibits, I did do an
20 estimated bottomhole pressure that we anticipate to see in
21 this east half, and basically for the Fruitland Coal we're
22 expecting about 205 pounds, and for the Pictured Cliffs 236
23 p.s.i.

24 Q. All right. So you're going to be well below the
25 original bottomhole pressure of the lowest-pressured

1 reservoir?

2 A. Yes --

3 Q. All right.

4 A. -- and they're well within the 50-percent --

5 Q. Okay. Let's turn to Exhibit 25 and have you
6 identify and describe that display.

7 A. Both Exhibits 25 and Exhibits 26 are a gas
8 analysis of produced gas. This shows that for both the
9 Pictured Cliffs and the Fruitland Coal, the primary
10 component is methane with very small percentages of
11 lighter, heavier ends. The gas is compatible. Both
12 formations produce water, and it's of the same type of
13 quality, fairly fresh.

14 So we don't anticipate any damage due to
15 commingled fluids.

16 Q. Let's turn to the allocation procedures, if
17 you'll look at Exhibit 27 with me.

18 A. I prepared Exhibit 27, which is an extension of a
19 common allocation formula, used in this area by many
20 operators, and which was used in our reference case.

21 The actual formula cannot be determined until
22 after the individual formations have been completed and
23 tested. Some of the information that goes into the
24 allocation formula is both the reservoir pressures actually
25 found, initial production rates actually tested, and also

1 if there's significant differences in net pay or porosity,
2 those figures would be taken into account also.

3 But the general method of doing the allocation
4 formula is to use Pictured Cliffs producibility over time,
5 which is fairly well documented, determine the initial
6 production rate and initial reservoir pressure, and provide
7 a historic expectation of what Pictured Cliff production
8 would be. And then at that point, any additional
9 production ahead and above that expectation would be
10 contributed to the Fruitland Coal formation.

11 Q. Again, that's a conventional method that's been
12 used by Richardson and Amoco and Meridian and other
13 operators for commingling purposes?

14 A. That's correct, and it takes into account, or at
15 least takes out a little level of uncertainty, where the
16 Fruitland Coal can be very erratic in the first few years
17 before it gets on to a long-term decline curve.

18 And instead of doing just a by-the-book 75-25
19 split forever, this would be a little bit more particular
20 to the formations involved.

21 Q. We're going to have spacing units that the
22 ownerships differ --

23 A. That's correct.

24 Q. -- between the PC and the Fruitland, and this
25 particular formula is as accurate and reliable a method as

1 we could use so that everybody gets their fair share of
2 production from the appropriate reservoir?

3 A. It's our best estimate.

4 Q. Okay. And this is your recommendation as the
5 allocation formula of first choice for adoption in this
6 case?

7 A. Yes, it would be.

8 MR. KELLAHIN: Mr. Examiner, that concludes my
9 examination of Ms. Delventhal.

10 I move the introduction of her Exhibits 20
11 through 27.

12 EXAMINER STOGNER: Exhibits 20 through 27 will be
13 admitted into evidence.

14 EXAMINATION

15 BY EXAMINER STOGNER:

16 Q. Ms. Delventhal, in looking at Exhibit Number 27,
17 and also you can pull Exhibit Number 23 and go to Exhibit
18 A, that attachment, if you look down toward the bottom of
19 both pages in the "Where" section, about the Pictured
20 Cliffs estimated ultimate recovery --

21 A. Uh-huh.

22 Q. -- right below there, there's a P* factor.

23 Now, in Exhibit A of the Order, it was a 0.84-
24 MMCF-per-p.s.i. figure, but in yours, on Exhibit Number 27,
25 it shows to be a 9.5. That's a -- quite a significant

1 difference there.

2 A. Okay. The P^* is 9.5 MMCF per p.s.i. recovery
3 factor.

4 I believe the one that we're looking at, at
5 Exhibit A, where P^* is 0.84, is multiplied by that recovery
6 factor.

7 The P^* is determined, as best we can, from
8 porosities and thicknesses. And we made our best estimate
9 of total reserves for the Pictured Cliffs, and then based
10 off of IP and decline you would get well life estimated,
11 which is the T in months where that falls into the
12 equation.

13 Again, what we generally do is, after the well is
14 drilled and we have logs and test rates we resubmit this
15 exhibit with specific numbers for the well, as opposed to
16 just an estimate of what that figure might be. This just
17 shows how that sample would be calculated.

18 But in this case we're expecting probably close
19 to 2 BCF in reserves, as total production for the Pictured
20 Cliffs, which is the last page of Exhibit 27. And based
21 off of our estimated reservoir pressure of 241 p.s.i., you
22 back into your factor. Again, the initial production rate
23 of roughly 400 MCF per day may or may not be accurate. And
24 again, those particular figures will be recalculated as
25 soon as they're known.

1 Q. Now, you're requesting a 200-percent maximum risk
2 penalty factor, but there's only been a couple of occasions
3 that I know of where that has been issued on coal gas, and
4 usually because of special circumstances, and I'm still a
5 little bit unclear of what special circumstances that 200
6 percent, as opposed to a 156-percent that covers most
7 compulsory poolings in the coal gas, is active here as
8 opposed to the majority of the others.

9 A. I believe the standard 156 percent is a standard
10 factor, factoring out the costs which are associated with
11 the wellbore tubulars and the materials and the facilities
12 and those type costs which are basically not subject to
13 risk to the extreme that a reservoir-type aspect would be.

14 In this case, more of our costs associated with
15 the Fruitland Coal are intangible. There's certainly the
16 cost that will go into the well AFE for the legal and the
17 title and that sort of thing.

18 We do have a little bit of geology risk, which,
19 depending on where you're drawing the Fruitland Coal in the
20 Basin, may or may not be an issue. We're on the west side
21 of Fruitland Coal development. There is some geologic
22 reason to assume that that is tapering off. Whether it
23 does in our wellbore is -- In our opinion, we think we will
24 encounter Fruitland Coal production and plan on completing
25 it. But those -- that net thickness is up to some

1 question.

2 And the primary problem with the Fruitland Coal
3 in this area is the very low pressure. We're looking at
4 starting at about 200 p.s.i., and it will be very sensitive
5 to maintaining as low wellhead pressure through compression
6 as possible, to maintain those production rates and to
7 develop those reserves.

8 EXAMINER STOGNER: I have no other questions, Mr.
9 Kellahin.

10 Do you have anything?

11 MR. KELLAHIN: Mr. Examiner, I neglected to
12 introduce Exhibits 28 and 29. They are included as a
13 sample of the operating agreement that Richardson is
14 utilizing. It shows the overhead rates and is a standard-
15 form operating agreement.

16 So with the introduction of Exhibits 28 and 29,
17 that completes our presentation.

18 EXAMINER STOGNER: Take notice of Exhibits 28 and
19 29 as being admitted.

20 It is my understanding, or it appears that I can
21 take that first case, being Case Number 11,569 -- I'm
22 sorry, let me go back and take care of a few issues here.

23 Mr. Ward, would you like to make a statement at
24 this time?

25 MR. WARD: Mr. Examiner, I --

1 EXAMINER STOGNER: Why don't you come on up here?
2 You don't have to -- Sit there if you'd like, or if you'd
3 like to stand by Mr. Kellahin so the court reporter can see
4 you.

5 MR. WARD: This has been my first experience at a
6 hearing of this nature, and I had a lot of questions.
7 Really, I was curious as to what this procedure was and
8 also how it might affect us as a property owner, and I
9 think all of my questions have been satisfied. I have no
10 other questions.

11 EXAMINER STOGNER: Okay. Thank you, Mr. Ward.
12 Appreciate your time coming up, and hopefully this was some
13 assistance to you and...

14 MR. WARD: Thank you.

15 EXAMINER STOGNER: With that, I'm ready to take
16 Case Number 11,569 under advisement.

17 MR. KELLAHIN: Yes, sir, that one's all done.

18 EXAMINER STOGNER: That one's all done, and an
19 order can be issued subsequent to today.

20 However, Case Number 11,570 will need to be
21 readvertised for the location issue and -- at which time,
22 Mr. Kellahin, I don't see at this point where it will be
23 necessary for any further testimony. However, that could
24 change, as you know, should other parties come in at that
25 time.

Inasmuch as the Zoning Committee is relying on an order from this agency, I don't know if that will even be possible, since their hearing is the same day.

MR. KELLAHIN: Yes, sir.

EXAMINER STOGNER: I don't know if that's going to be at night or during the daytime. But if you have any suggestions to make this an expedient process, to assist them, I would be more than happy to entertain it.

Also, I would also request that you submit me a rough draft order, especially in Case 11,570, so perhaps we can call that the first thing at the hearing of that day and, if nobody is here, take it under advisement, get a signature on it and perhaps fax it to them. Maybe that might be of some assistance to us and them.

So with that, it looks like we can continue that case and adjourn the hearing today.

MR. KELLAHIN: All right, sir. Thank you, Mr. Examiner.

EXAMINER STOGNER: Thank you.

(Thereupon, these proceedings were concluded at
1:08 p.m.)

I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case Nos. 11569 and 11570
held by me on 11 JULY 1996.
Michael J. Kelly, Examiner
Off Conservation Division

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 July 18th, 1996.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 14, 1998