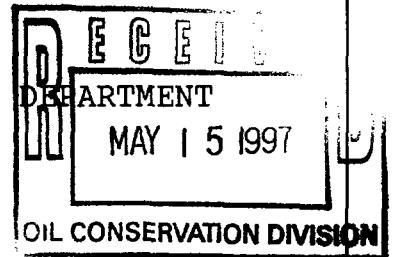


STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES
OIL CONSERVATION DIVISION



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

CASE NO. 11,767

APPLICATION OF MERRION OIL AND GAS)
CORPORATION FOR COMPULSORY POOLING,)
SAN JUAN COUNTY, NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

May 1st, 1997

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, May 1st, 1997, 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

May 1st, 1997
 Examiner Hearing
 CASE NO. 11,767

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* * *

A P P E A R A N C E S

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* * *

1 WHEREUPON, the following proceedings were had at
2 8:53 a.m.:

3
4
5 EXAMINER STOGNER: At this time I will call next
6 case, Number 11,767.

7 Call for appearances.

8 MR. ROBERTS: Mr. Examiner, my name is Tommy
9 Roberts. I'm with the law firm of Roberts and Strother in
10 Farmington, New Mexico. I'm appearing on behalf of the
11 Applicant, Merrion Oil and Gas Corporation.

12 We have one witness to be sworn.

13 EXAMINER STOGNER: Is your witness the same
14 witness, Mr. George Sharpe, who testified in the previous
15 case, 11,766?

16 MR. ROBERTS: Yes, he is, and we'd ask that you
17 take administrative notice of the acceptance of his
18 qualifications as an expert in the field of petroleum
19 engineering in that case, and we tender him as an expert in
20 that field.

21 EXAMINER STOGNER: Let the record show that Mr.
22 George Sharpe has been previously sworn in, and his
23 credentials were accepted as an expert witness.

24 Are there any other appearances in Case 11,767?
25 Mr. Roberts?

1 GEORGE F. SHARPE,

2 the witness herein, having been previously duly sworn upon
3 his oath, was examined and testified as follows:

4 DIRECT EXAMINATION

5 BY MR. ROBERTS:

6 Q. Mr. Sharpe, would you briefly state the purpose
7 of this Application?

8 A. The purpose of this Application is to request the
9 force pooling of one uncommitted mineral interest, the
10 drilling of a well in Section 22 of Township 32 North,
11 Range 13 West, San Juan County, New Mexico.

12 Q. And this pertains to the north half of Section
13 22; is that correct?

14 A. Yes, it is, yes.

15 Q. Refer to what you've marked as Exhibit Number 1
16 and identify that exhibit, please.

17 A. Exhibit Number 1 is a regional map showing the
18 outline of the San Juan Basin in the northwest corner of
19 New Mexico and southwest corner of Colorado.

20 Noted on the map, in the very northwestern part
21 of the Basin, is the Powell Number 1 location, the well
22 that we are proposing to drill.

23 Q. Turn to what you've marked as Exhibit Number 2,
24 please, and identify that exhibit.

25 A. Exhibit Number 2 Is the well location plat,

1 showing the spacing unit to be -- for the well to be the
2 north half of Section 22 for the Fruitland Coal formation.
3 It shows the location of the Powell well to be at a
4 standard location of 1850 feet from the north line and 790
5 from the east line of Section 22.

6 Q. Is the proposed spacing unit standard for
7 Fruitland Coal gas formation development?

8 A. The proposed spacing unit is standard.

9 Q. In this case, Mr. Sharpe, do you propose that
10 Merrion be authorized by the Oil Conservation Division to
11 either drill a new well at the location depicted on Exhibit
12 Number 2 or to re-enter an existing wellbore?

13 A. Yes, actually, I do not want -- We have several,
14 a couple of different locations staked, neither one of them
15 at those exact footages, but...

16 In addition, there is a well that has been
17 plugged that is within 100 feet of that location that we
18 are contemplating re-entering that well.

19 Q. And would the re-entry location be at a standard
20 location?

21 A. Yes, it would.

22 Q. Briefly describe the work that would be required
23 in order to utilize the existing wellbore.

24 A. The work that would be required -- It is a Dakota
25 well that was drilled through the Dakota, was dry, plugged

1 and abandoned. It has some deeper plugs, it has a cement
2 plug, open-hole cement plug, across the Fruitland Coal at a
3 depth of approximately -- or the main coal at 550 feet. It
4 has a surface plug across the casing shoe at approximately
5 250 feet.

6 And so what would be required would be to re-
7 enter the well, drill out the casing shoe, drill out the
8 Fruitland Coal plug, possibly set a new plug below the
9 Fruitland Coal to protect the lower horizons, and complete
10 the well.

11 Q. What factors will ultimately determine whether
12 you choose to drill a new well or re-enter the existing
13 wellbore?

14 A. Truly, what we're weighing in our mind is the
15 cost benefits of using the old well. Also the -- excuse
16 me, the -- well, mainly the cost benefits of using the old
17 well, versus the desired reservoir benefits of having a new
18 hole drilled in a manner that we know is not going to
19 contaminate the Fruitland Coal, and potentially having a
20 better completion and a better productive well in the
21 Fruitland Coal with the new wellbore.

22 Q. Okay. Turn to what you've marked as Exhibit
23 Number 3 and identify that exhibit.

24 A. Exhibit Number 3 is a lease ownership plat of the
25 north half of Section 22. It shows that there are four

1 tracts in Section 22. It depicts the ownership of each of
2 those four tracts.

3 At the bottom of the exhibit, it shows the
4 summary of the ownership in the spacing unit to be
5 approximately 74 percent Merrion Oil and Gas, which is
6 committed, 25 percent Burlington, which is committed, and
7 approximately 1.1 percent Fields Estate, which is the
8 uncommitted mineral interest on which we do not have a
9 lease.

10 Q. And how were these ownership interests
11 ascertained?

12 A. These ownership interests were ascertained
13 through a title search of the county records.

14 Q. Again, this exhibit depicts the identity of four
15 separate tracts. Now, does this mean that there are four
16 separate leases that cover those individual tracts?

17 A. There are actually multiple leases within Tracts
18 I and Tracts II. For example, in Tract II field zones, a
19 20-percent partial interest in all of Tract II.

20 Q. So it's fair to say that the ownership within a
21 tract is common, basically?

22 A. Yes.

23 Q. Turn to what you've marked as Exhibit Number 4
24 and identify that exhibit.

25 A. Exhibit Number 4 is a synopsis of our attempts to

1 communicate with the Estate of Harold Fields --

2 Q. Mr. Sharpe, before you go on there, will your
3 testimony regarding this exhibit be identical to your
4 testimony that you submitted with respect to Exhibit Number
5 4 in Case 11,766?

6 A. Yes, it is.

7 Q. It would be identical with respect to your
8 attempts to communicate with the estate of Harold Fields
9 and your attempts to locate the heirs of the estate?

10 A. Identical testimony.

11 MR. ROBERTS: Mr. Examiner, I would just ask that
12 you take administrative notice of Mr. Sharp's testimony in
13 Case Number 11,766 with respect to Exhibit Number 4 in that
14 case, which is identical to the Exhibit Number 4 in this
15 case.

16 EXAMINER STOGNER: The record will so show that
17 administrative notice will be taken to the testimony
18 presented in Case Number 11,766 as it relates to this
19 matter.

20 Q. (By Mr. Roberts) In your opinion, Mr. Sharpe,
21 was a good faith, diligent effort made to locate the heirs
22 of Harold Fields?

23 A. Yes, it was.

24 Q. Now turn to what you have marked as Exhibit
25 Number 5 and identify that exhibit.

1 A. Exhibit Number 5 is the AFE that was submitted to
2 drill a new well at Powell Number 1 location. It shows the
3 dryhole cost for a new well to be approximately \$65,500 and
4 the completed cost to be an estimated \$228,330.

5 Q. In your opinion, are these estimated costs
6 reasonable, given the nature of the operation?

7 A. Yes, they are.

8 Q. And are these estimated costs consistent with
9 your experience in the drilling and completion of Fruitland
10 Coal gas wells in the San Juan Basin?

11 A. Yes, they are.

12 Q. Now, please refer to what you've marked as
13 Exhibit Number 6, identify that exhibit.

14 A. Exhibit Number 6 is the operating agreement, AAPL
15 Form 610-1989, dated February 1st, 1997, covering Section
16 22 as to the Fruitland Coal formation.

17 Q. And is this a standard operating agreement within
18 the oil and gas community?

19 A. Yes, it is.

20 Q. Have there been any substantive revisions to this
21 proposed operating agreement?

22 A. There have not.

23 Q. And who do you propose be designated as the
24 operator of the wells to be drilled in the contract area?

25 A. Merrion Oil and Gas.

1 Q. Mr. Sharpe, were copies of the operating
2 agreement and the AFE sent to all parties who may
3 participate in the drilling of this well?

4 A. They were sent to all parties, including the
5 Harold Fields estate.

6 Q. Identify what you've marked as Exhibit Number 7,
7 please.

8 A. Exhibit Number 7 is an Ernst and Young survey for
9 overhead rates for the drilling of wells and for the
10 producing operation of wells in the Colorado Plateau, Basin
11 and Range area for the years 1994 and 1995.

12 Q. What producing and drilling rates do you propose
13 for the Powell Number 1 well?

14 A. The Powell Number 1 well, on a drilling well
15 rate, we propose \$3500 a month. That compares on the gas
16 wells from zero to 5000 feet on the Ernst and Young survey
17 of approximately \$4800, so our \$3500 is well within
18 reasonable rates.

19 Q. And what producing well rate do you propose?

20 A. Producing well rate that's proposed is \$350 a
21 month, compared to \$421 to \$429 a month on the Ernst and
22 Young survey.

23 Q. And are these rates reasonable and customary,
24 given the nature of your proposed operation?

25 A. Yes, they are.

1 Q. Refer to what you've marked as Exhibit Number 8,
2 identify that exhibit.

3 A. Exhibit Number 8 is a map showing the surrounding
4 Fruitland Coal production near the Powell Number 1
5 location. Also noted on the exhibit is a line designated
6 the "Fruitland Outcrop", which is the location along the
7 surface where the Fruitland Coal outcrops on the surface.

8 Noted on the map are the peak gas rates and peak
9 water rates of the surrounding wells. And I'd like to draw
10 your attention to the fact that there's wide variability in
11 the productivity of the given wells and some relatively
12 high water rates in the area, which will cost significantly
13 to dispose of.

14 Q. From the data and information depicted on this
15 exhibit, what conclusions, if any, do you draw with respect
16 to the risk inherent in this proposed operation?

17 A. I indicate that the Powell Number 1 is a highly
18 risky location. No other well has been drilled as close to
19 the Fruitland outcrop as we're proposing the Powell Number
20 1. And it is a significant stepout from existing
21 production.

22 Q. Now refer to what you've marked as Exhibit Number
23 9, identify that exhibit.

24 A. Exhibit Number 9 is a structure map of the top of
25 the main Fruitland Coal in the area near the Powell Number

1 1.

2 Shown on this map is the dry hole that we might
3 possibly re-enter again. It is at a standard location in
4 the northeast quarter of Section 22. Again, we would like
5 the Order to allow us to either drill a new well or re-
6 enter this old well, whichever is deemed appropriate.

7 Q. From the data and information depicted on Exhibit
8 Number 9, what conclusions, if any, can you draw with
9 respect to the risk inherent in this proposed operation?

10 A. Again, it displays the fact that the Powell
11 Number 1 is at a very shallow location with respect to the
12 Fruitland Coal and a highly risky venture.

13 Q. What risk factor do you propose be charged
14 against any interest owner who does not voluntarily join in
15 this operation?

16 A. We propose a risk factor of 156 percent.

17 Q. And is it your understanding that this is the
18 maximum allowable by the Oil Conservation Division?

19 A. That is our understanding.

20 Q. Would your risk request be affected at all by the
21 choice of location of this well, whether it be a new well
22 or a re-entry of the existing wellbore?

23 A. The risk would not be affected. Both are risky.

24 Q. Mr. Sharpe, are you familiar with the notice
25 requirements of the Oil Conservation Division applicable to

1 cases of this type?

2 A. Yes, we are.

3 Q. And in your opinion, have those requirements been
4 satisfied?

5 A. Yes, they have.

6 Q. In your opinion, will the granting of this
7 Application be in the interest of conservation and result
8 in the prevention of waste and the protection of
9 correlative rights?

10 A. Yes, it will.

11 Q. And were Exhibit Numbers 1 through 9 either
12 prepared by you or at your direction and under your
13 supervision?

14 A. Yes, they were.

15 MR. ROBERTS: Mr. Examiner, I would move the
16 admission of Exhibit Numbers 1 through 9.

17 EXAMINER STOGNER: Exhibits 1 through 9 will be
18 admitted into evidence.

19 MR. ROBERTS: I have no other questions.

20 EXAMINATION

21 BY EXAMINER STOGNER:

22 Q. Mr. Sharpe, the existing well or the old
23 wellbore, do you have a little bit more information about
24 it, when it was drilled, who it was drilled by and how it
25 was completed, or do you have --

1 A. I did not -- Oversight, I did not bring that with
2 me. It was drilled -- I do know it was drilled in 1960
3 through the Dakota formation. I do know it's at an
4 approximate location of 1800 feet from the north line and
5 800 feet from the east line, and I cannot remember who
6 drilled it.

7 Q. Now, on Exhibit Number 9, is that the total depth
8 of that well, 5461?

9 A. That is the -- That is the elevation of the
10 Fruitland Coal outcrop -- or, excuse me, the main Fruitland
11 Coal feet subsea. That is not the total depth. The --

12 Q. Do you know what the total depth of this well is,
13 or was, approximately?

14 A. I would say approximately 6000 feet.

15 Q. 6000 feet. Do you know if the production casing
16 was run in that well?

17 A. Production casing was not run.

18 Q. Was not run, so it was open hole?

19 A. That well -- they did run -- Excuse me, they ran
20 a 7-inch intermediate string, tack-cemented it with a
21 couple hundred feet of cement at an approximate depth of
22 4000 feet across the Mesaverde, and when they plugged the
23 well they cut it off and pulled the casing string. There
24 is surface casing, I believe to be 8 5/8, at an approximate
25 depth of 250 feet.

1 One of the issues in looking at that well is the
2 desirability -- if we drill a Fruitland Coal well, is to
3 make sure that that well is adequately plugged. We would
4 not want to have that wellbore be a conduit of any
5 crossflow of gas to shallower horizons or -- and/or deeper
6 horizons.

7 So that's one of the factors weighing in our
8 decision to re-enter that well, is the fact that we may
9 need to re-enter it to adequately P-and-A it, if we choose
10 to drill a new well. So we may be re-entering it anyway.

11 Q. What is the proposed depth of the production in
12 the coal for this well?

13 A. Approximately 600 feet. The P-and-A'd well is
14 actually -- the main Fruitland Coal is at a depth of
15 approximately 550 feet.

16 Q. If you were to drill a new well in there, or re-
17 enter this one, would that be a cased hole completion or an
18 open hole completion in that interval, in the coal
19 interval?

20 A. Hallwood's method has been to -- and they have
21 the majority of the production in that area -- has been to
22 set a slotted liner through the coal and pack and cement
23 the liner above the Fruitland Coal, but the coal itself,
24 the main coal itself, was left open, and stimulated through
25 the slotted liner.

1 We don't know what our approach -- I think our
2 approach, we would prefer to try to do what Hallwood has
3 been successful in doing.

4 Q. You had mentioned about the high water cut in
5 some of these wells. What is the disposal method of the
6 water being produced in this area, and what was your water
7 disposal method?

8 A. Our water disposal method, we are planning on
9 running a water line for both the Powell and the Havasu
10 well, which were discussed in the last case, south across
11 the haul road to a disposal well operated by Hallwood,
12 disposing of water in the Entrada in Section 27, which is
13 just south of Section 22.

14 So we would pipe the water to a disposal well.

15 Q. On Exhibit Number 3, I was trying to figure out
16 the rhyme or reason on the way the tracts are cut up in
17 this area. Have you been able to come up with any idea?

18 A. No, I really haven't. Tract IV is a federal
19 lease, so that one is clean and easy. How Tract I and
20 Tract II got so convoluted in winding around -- They're all
21 fee, so I don't now who owned them originally and divided
22 them up between their current partial owners.

23 Q. How about Tract III? Was that an old railroad
24 bed or --

25 A. I -- I don't know. It is kind of an odd little,

1 skinny section.

2 EXAMINER STOGNER: I would have expected that
3 over on the San Juan River but not the La Plata.

4 Any other questions of Mr. Sharpe?

5 You may be excused.

6 Anything further, Mr. Roberts?

7 MR. ROBERTS: No, sir. Thank you.

8 THE WITNESS: Thank you.

9 EXAMINER STOGNER: Oh, one other request, Mr.
10 Roberts, in this matter. Subsequent to today's case, could
11 you submit to me a reference to that existing well so I can
12 then make administrative notice to the records that we have
13 at the OCD in the Aztec Office and/or the Santa Fe Office
14 of that old well?

15 MR. ROBERTS: This would be the well that may be
16 re-entered?

17 EXAMINER STOGNER: That's right.

18 MR. ROBERTS: Okay.

19 EXAMINER STOGNER: And reference it by API
20 number, if it was assigned one. Just something that I can
21 tie in to our records for -- in this case.

22 THE WITNESS: May I make one additional statement
23 and make sure that this is clear, Mr. Stogner, and that is
24 that again, if we drill a new well, we would like the
25 opportunity to drill that -- for this force-pool hearing,

1 to drill that anywhere in the north half of Section 22. If
2 it turns out that would be a nonstandard location, we would
3 have to come back and get approval for a nonstandard
4 location.

5 But indeed, if we drill a new well, the right
6 thing to do may be to try to get away from that old
7 wellbore to where we won't frac into it or cause problems
8 with it, and that may move us into a nonstandard location.

9 EXAMINER STOGNER: Okay, you brought some
10 scenarios back up, so let's go back on --

11 THE WITNESS: Okay.

12 EXAMINER STOGNER: -- make sure that we are on
13 the record and that you're still under oath.

14 THE WITNESS: Okay.

15 Q. (By Examiner Stogner) In referring to Exhibit
16 Number 9, what is the likelihood that you would put a well
17 or drill a new well over in the northwest quarter?

18 Is that --

19 A. That is unlikely. If we go nonstandard, we would
20 go closer to the southeast boundary of the spacing unit and
21 actually have a well that's been surveyed in and flagged
22 that is 790 from the east but less than -- or more than
23 1850 from the north, which would make it a nonstandard
24 location.

25 I don't have the topographic map which we

1 referred to in the last deal, but for topographic reasons,
2 we couldn't move north of this well. For geologic reasons,
3 we wouldn't want to. So we possibly could be coming back
4 for a nonstandard application in being too close to the
5 southern boundary of the spacing unit.

6 We would propose that that would not affect this
7 force-pool hearing, and especially since we haven't been
8 able to notify the Harold Fields Estate and cannot contact
9 them, you know, where we drill the well and all the issues
10 really are not germane to their ability to participate or
11 not participate. We would still need to force-pool their
12 interest.

13 Q. Okay, so you're requesting at this point the
14 compulsory pooling show a re-entry of the old well or the
15 possible drilling of a new well.

16 Now, the way the Application is worded at this
17 point, it is at a standard location. But since there are
18 extenuating circumstances that could require you to drill
19 at an unorthodox location, then, you're seeking to be able
20 to come in under administrative rules and procedures
21 pursuant to this pool and the OCD general rules for that
22 exception, but yet it wouldn't affect the compulsory
23 pooling?

24 A. Yes, sir.

25 Q. I don't see a problem in that, as long as the

1 request for an unorthodox location is filed properly, with
2 the proper information and adequate notice is given.

3 A. Okay, thank you, sir.

4 EXAMINER STOGNER: Anything else, Mr. Roberts?

5 MR. ROBERTS: No, sir.

6 EXAMINER STOGNER: Mr. Sharpe, do you have
7 anything else?

8 THE WITNESS: No, sir.

9 EXAMINER STOGNER: Okay, now you may be excused.

10 If nobody else has anything further in Case
11 Number 11,767, then this matter will be taken under
12 advisement.

13 (Thereupon, these proceedings were concluded at
14 9:15 a.m.)

15 * * *

16
17
18
19
20
21 I do hereby certify that the foregoing is
22 a complete record of the proceedings in
the Examiner hearing of Case No. 11767,
heard by me on 1 May 1977.

23  Examiner
24 Oil Conservation Division
25

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 May 2nd, 1997.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 14, 1998