

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 BURLINGTON RESOURCES)	CASE NOS. 11,808
OIL AND GAS COMPANY FOR COMPULSORY)	
POOLING AND A NONSTANDARD GAS PRORATION)	
AND SPACING UNIT, SAN JUAN COUNTY,)	
NEW MEXICO)	
)	
APPLICATION OF BURLINGTON RESOURCES OIL)	and 11,809
AND GAS COMPANY FOR COMPULSORY POOLING,)	
AN UNORTHODOX GAS WELL LOCATION AND A)	
NONSTANDARD PRORATION UNIT, SAN JUAN)	
COUNTY, NEW MEXICO)	
)	(Consolidated)

REPORTER'S TRANSCRIPT OF PROCEEDINGS (Volume I)

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

July 10th, 1997

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday and Friday, July 10th and 11th, 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.

* * *

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

Exhibit A

1 would have in Sections 8 and Section 9?

2 A. Yes, sir.

3 Q. As part of your duties, did they include efforts
4 to consolidate the interest owners in these two sections
5 for purposes of drilling the deep gas well tests we're
6 about to describe?

7 A. Yes, sir.

8 Q. And have you continued on to the present in those
9 efforts?

10 A. Continuing, yes, sir.

11 MR. KELLAHIN: We tender Mr. Strickler as an
12 expert petroleum landman.

13 EXAMINER CATANACH: Any objection?

14 MR. HALL: No objection.

15 EXAMINER CATANACH: Mr. Strickler is so
16 qualified.

17 MR. KELLAHIN: Mr. Examiner, we have presented to
18 you separate exhibit books for each case. There are some
19 exceptions with regard to the identify of parties, so that
20 you can be specific as to those interests per section. But
21 generally, the information is going to be applicable to
22 both cases.

23 And so Mr. Strickler and I will choose the
24 exhibit book that deals with the Marcotte well. It's the
25 exhibit book 11,809. We will start with that one, and then

1 A. Yes, sir.

2 Q. And you work jointly?

3 A. We work together, yes, sir.

4 Q. Okay. How long -- I realize you've only been on
5 the team since August of last year, but how long has the
6 team been assembled --

7 A. That I don't know.

8 Q. -- for Burlington?

9 A. That I don't know. I've been with the company
10 almost three years, and the Conoco-Burlington joint venture
11 started two and a half years ago. So...

12 Q. For what you'd call the call the deep
13 Pennsylvania --

14 A. Joint exploration program --

15 Q. Okay.

16 A. -- yes, sir.

17 Q. Well, just tell us -- We'll discuss changes, but
18 when you came on board in August of 1996, what was the
19 acreage target that you were given at that time?

20 A. That is confidential information. The geologists
21 and geophysicists came up with an outline. The asked me to
22 concentrate within that outline, and I'm not at liberty to
23 disclose that.

24 Q. Well, was it --

25 A. But it's centered around Section 8, I can tell

1 A. Oh, right.

2 Q. -- I'm simply asking -- That information was
3 furnished to Amoco, so it could make a decision on whether
4 or not to farm out; isn't that true?

5 A. I'm not at liberty to say. That information,
6 that agreement, is confidential between Amoco and
7 Burlington, and I'm not in a position or have the authority
8 to discuss the terms and conditions of that agreement.

9 Q. I didn't ask you that, sir.

10 A. Well --

11 Q. I just asked you, isn't it true that technical
12 data was furnished to Amoco --

13 MR. KELLAHIN: I'm going to object on relevance
14 grounds.

15 Q. (By Mr. Gallegos) -- surrounding the making of
16 the farmout agreement?

17 MR. KELLAHIN: It's confidential contracts
18 between these people, and I don't see it's relevant, Mr.
19 Examiner.

20 MR. GALLEGOS: I'm not asking for the terms of
21 the contract. It can just simply be answered yes or no,
22 the information was furnished; isn't that true?

23 EXAMINER CATANACH: I think it's relevant. I'm
24 going to direct the witness to answer that question.

25 THE WITNESS: The answer is yes.

1 Q. (By Mr. Gallegos) Okay. There's also a farmout
2 obtained from Cross Timbers on the Section 8 property,
3 correct?

4 A. Yes, sir.

5 Q. Okay, did you work on that?

6 A. I sure did.

7 Q. Okay. And about when did you accomplish
8 agreement with Cross Timbers?

9 A. That was in -- I'll have to refer to my book. I
10 don't have that with me. Late May, early June.

11 Q. Of this year?

12 A. Yes, sir.

13 Q. And isn't it true that Cross Timbers was provided
14 technical data and information concerning this project?

15 A. That is correct.

16 Q. Now, as to interest owners such as the Moores and
17 the GLA-66 owners, what instructions were you given in
18 regard to your efforts at obtaining their interest, either
19 by purchase or some other means?

20 A. Their acreage was important to our wells, and
21 naturally we attempted to purchase their interest or offer
22 them a farmout or offer them to participate. That's a
23 normal procedure in putting together a land area to support
24 a deep high-risk well.

25 Is that what you're referring to?

1 A. These are sample letters.

2 Q. Sample letters?

3 A. Yes.

4 Q. All right.

5 A. Right. They went to --

6 Q. It wasn't necessarily LaForce but it was one of
7 the --

8 A. Right --

9 Q. -- the GLA-66 group.

10 A. -- we didn't want to thicken up the book here.

11 Q. Okay. And doesn't the letter, first of all, tell
12 the recipient that it's a very high-risk well, ten-percent
13 chance of success?

14 A. Correct.

15 Q. You were discouraging voluntary participation?

16 A. No, sir, that's just our estimation of the risk
17 involved.

18 Q. Haven't you told various parties that you've
19 talked to personally that you wouldn't invest in this; it
20 would be better off putting their money in the stock
21 market?

22 A. That's my personal feeling.

23 Q. And that's what you told people?

24 A. That's right.

25 Q. All right. So that's discouraging them from

1 A. Yes, sir.

2 Q. And that's why it was placed outside of the
3 ordinary or standard window?

4 A. Well, let me clarify, because Section 8 -- the
5 Section 8 was a prime location. The location was chosen to
6 use an existing wellpad, and it was an acceptable location
7 to minimize surface disturbance.

8 So for topographic reasons and the using existing
9 wellpad and using existing roads, that location was picked.

10 Q. There are existing wellpads all over Section 8,
11 aren't there Mr. Strickler?

12 A. Oh, yes. This was, I guess, the best location.

13 Q. This specific location was selected by the
14 geologist and geophysicist, based on their evaluation and
15 decisions; isn't that right?

16 A. Based on their studies, yes.

17 Q. Okay. Now, what -- We can use any of these maps.
18 Let's just look at the first one in here, which is this
19 Scott 24. It's colored, and you were using it to show the
20 Section 9 spacing unit?

21 A. Correct.

22 Q. All right. What is the location distance from
23 the quarter-section line, for the Scott 24?

24 A. 210 feet.

25 Q. Do you have a plat or an APD plat or something

1 Q. What procedures do you usually follow? Let's
2 concentrate on a proposal that would involve commitment of
3 a working interest under your charge to participation in
4 drilling, rework or some proposal of that nature. What
5 steps do you typically follow?

6 A. When the AFE comes in we make sure we have
7 appropriate title, look at the amount of money involved.
8 If it's very small, like many of ours are, then sometimes
9 it only costs the trust about \$500 to participate, so we
10 don't do as much work in that event.

11 But if it's anything over \$1000 or \$2000 to
12 participate, I always call the operator, regardless of the
13 site, and find out what his plans are, find out all about
14 the information on the surrounding production. And if it's
15 of any size we hire an engineer to look at all the data.

16 Q. Do you request things such as logs, seismic
17 data --

18 A. Yes.

19 Q. -- that type of thing?

20 A. Yes, we do.

21 Q. And what has been your experience as to the
22 response that you typically received to those requests?

23 A. They're usually cooperative with supplying
24 information.

25 Q. If the matter does involve sizeable expenditures

1 Q. Have you frequently been a participant as a
2 nonoperator in wells that are proposed by other parties?

3 A. Oh, yes, yes.

4 Q. Have those included wells that are proposed and
5 operated by Burlington Resources?

6 A. That's correct.

7 Q. Conoco?

8 A. Burlington, Conoco, Texaco, Amoco, Tenneco when
9 they were there, Cross Timbers, Crown Central.

10 Q. Would it be fair to say that generally your
11 approach is to be a consent participant, paying your share
12 in wells that are being drilled?

13 A. I cannot remember a time in the San Juan Basin
14 that we have not been a working interest operator -- I mean
15 a working interest owner -- that we have not taken a part
16 in the well.

17 Q. Okay. And about how many wells do the Moore
18 interests have interest in in the San Juan Basin, just the
19 San Juan Basin?

20 A. Oh, including overriding royalties and royalties,
21 probably close to 300 wells, scattered throughout.

22 Q. Okay. Now, what has been the common practice
23 that you have followed, and what has been your experience
24 in following that practice, in regard to being able to
25 obtain information from the proponent of the well in order

1 for you to make a decision whether or not to participate?

2 A. Well, normally we receive structural maps, cross-
3 sections, seismic information, this sort of thing, prior,
4 so we'll know what we're doing. This is the industry norm,
5 whether it be in New Mexico or whether it be in Oklahoma or
6 Texas.

7 And I've been on both sides of this fence,
8 selling units and taking part in them, and wells, so I know
9 what the norm is on both sides on it. If we put together a
10 drilling block and try to sell it, we furnish all the
11 information we have on it.

12 Q. All right. Does the Wayne Moore ownership
13 include interest in both Section 8 and Section 9?

14 A. That's correct.

15 Q. Okay, and is that interest the extent that was
16 previously represented by Mr. Strickler in his testimony,
17 presented --

18 A. Yes, that's correct.

19 Q. Okay. Let me just quickly ask you about a few of
20 the exhibits you have here. Is Exhibit P a title takeoff
21 that illustrates the ownership in what's called the Arch
22 Rock prospect?

23 A. Yes.

24 Q. It would be the two sections in question?

25 A. I have Section 8 here; is this the one --

1 said, We can't send you the seismic.

2 And I said, Wait a minute, we own the property,
3 number one. I'm not sure we -- that it isn't seismic
4 trespass. We were never told that there was a 3-D shooting
5 going on through there, and this very well could represent
6 seismic trespass. It would in Texas.

7 And he said it was proprietary and we could not
8 have that information.

9 And I felt like it was a necessity to have it.

10 Q. Okay. And have you received seismic before from
11 others --

12 A. Oh, sure.

13 Q. -- who have drilled wells?

14 A. That's the industry norm, is -- Other wells,
15 sure, when you're going to -- when there's, you know, we
16 see some reason for drilling the well.

17 This well was just stuck out there and said,
18 We're going to drill it. The information we received was
19 not really pertinent when you look at something 20 or 30 or
20 80 miles away.

21 Q. Exhibit R is also dated April 22, 1997, and it's
22 referenced as a farmout letter of intent.

23 A. Okay.

24 Q. Did this farmout proposal involve only the
25 property in Section 8 and Section 9?

1 didn't have enough geology to support or oppose -- We did
2 nothing in that case.

3 The geologist on the February proposal requested
4 me to try and obtain for Mr. Strickler, as is customary
5 with any exploratory proposed well, to get some seismic
6 geology, anything that we could.

7 After many conversations during the month of
8 March, then we did receive a 4-1 proposal which did allow
9 Total Minatome to review the geology, only if we amended
10 the GLA-46 as to all depths, which was unacceptable at that
11 time.

12 Q. Let me ask you about that particular matter.
13 I'll provide you with what's been marked as Exhibit 9.

14 A. Right.

15 Q. Would you identify that for the record, please?

16 A. Exhibit 9 is the April 1st proposal whereby Total
17 Minatome would be allowed to see the 2-D and 3-D seismic by
18 amending the November 27, 1951, operating agreement and
19 that they would set out a mutually agreeable time to show
20 us the Arch Rock project.

21 Q. So Burlington did acknowledge the applicability
22 of GLA-46 to the deep rights; is that correct?

23 A. Yes. I mean, that's -- That's what this was
24 saying to us.

25 The second page also talks about Total agreeing

1 geologist, Brad Watts, could not make a determination to
2 farm out at that time without seeing any geology, which is
3 customary.

4 But on the 4-1-97 letter, we were offered to see
5 the geology if we amended the GLA-46 agreement as to all
6 depths, and that was unacceptable to my management.

7 Q. Why did you cease negotiations when you got the
8 news of the compulsory pooling application?

9 A. Because in our position, we were participating in
10 the well. That is our position. And we were shown as not
11 participating for this force-pooling hearing.

12 Q. So you chose just to discontinue negotiations?

13 A. On June 23rd. We then contacted Mr. Hall and
14 decided we needed some legal representation for this
15 hearing.

16 Q. You testified something to the effect about a
17 threat that Mr. Strickler -- something about -- I'm sorry,
18 could you go into that?

19 A. The first threat in a conversation was that if we
20 did not farm out, amend the agreement or participate under
21 the new agreement, this would impact the negotiations.
22 Someone at his office had talked to corporate -- I don't
23 know who that would be -- and that this was -- we were just
24 doing this to get more money for a deal we were working on
25 to sell all our San Juan Basin properties to Burlington.

1 evidence.

2 Mr. Kellahin?

3 MR. KELLAHIN: I have no questions for this
4 witness Mr. Examiner.

5 MR. HALL: That concludes our case, Mr. Examiner.

6 EXAMINER CATANACH: I've got a couple questions.

7 EXAMINATION

8 BY EXAMINER CATANACH:

9 Q. Ms. Gilchrist, under -- As I understand it, the
10 sequence of events, you elected to participate in the
11 drilling of the wells under the terms of the GLA-46
12 agreement?

13 A. That is correct.

14 Q. Was it afterwards that you entered into further
15 negotiations with Burlington?

16 A. After Bobby Kennedy talked to our vice president,
17 he asked that -- Burlington asked, could they, you know,
18 revise the terms of the farmout proposal? And our vice
19 president said yes, and that's what precipitated the June
20 16th, 1997 --

21 Q. Okay, so you were willing to change some of the
22 terms of the operating agreement?

23 A. Yes, I actually prepared memos, as I testified a
24 while ago, to amend certain portions of it, not as to the
25 carried interest, but without the geology, our senior