

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:)

CASE NO. 11,822

APPLICATION OF MCKELVAIN OIL AND GAS)
PROPERTIES, INC., FOR COMPULSORY)
POOLING, RIO ARriba COUNTY, NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

August 7th, 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, August 7th, 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.

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August 7th, 1997
Examiner Hearing
CASE NO. 11,822

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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 8:46 a.m.:

3 EXAMINER CATANACH: At this time we'll call Case
4 11,822.

5 MR. CARROLL: Application of McKelvain Oil and
6 Gas Properties, Inc., for compulsory pooling, Rio Arriba
7 County, New Mexico.

8 EXAMINER CATANACH: Call for appearances in this
9 case.

10 MR. CARR: May it please the Examiner, my name is
11 William F. Carr with the Santa Fe law firm Campbell, Carr,
12 Berge and Sheridan.

13 We represent McKelvain Oil and Gas Properties in
14 this matter, and I have two witnesses.

15 EXAMINER CATANACH: Any additional appearances?

16 MR. BRUCE: Mr. Examiner, Jim Bruce from Santa
17 Fe, representing NM&O Operating Company. I do not have any
18 witnesses.

19 EXAMINER CATANACH: Any additional appearances?

20 You have no witnesses, Mr. Bruce?

21 MR. BRUCE: (Shakes head)

22 EXAMINER CATANACH: Will the witnesses please
23 stand to be sworn in?

24 (Thereupon, the witnesses were sworn.)

25 MR. CARR: At this time we call Mr. Steve Jordan.

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

4 DIRECT EXAMINATION

5 BY MR. CARR:

6 Q. Would you state your name for the record, please?

7 A. Steven R. Jordan.

8 Q. Where do you reside?

9 A. Santa Fe, New Mexico.

10 Q. By whom are you employed?

11 A. McKelvain Oil and Gas Properties, Inc.

12 Q. And what is your current position with McKelvain?

13 A. Land manager.

14 Q. Mr. Jordan, have you previously testified before
15 this Division?

16 A. No.

17 Q. Would you review your educational background for
18 Mr. Catanach?

19 A. I have a bachelor's degree from the University of
20 New Mexico, 1973, and a law degree from the University of
21 New Mexico, 1978.

22 Q. Following graduation, for whom have you worked?

23 A. Beginning 1981, I've been an independent landman
24 working the southwest area, primarily. 1983, I worked for
25 Great Western Drilling Company in Houston, Texas. In 1985

1 I went independent again. I was an independent landman
2 through June of 1994, at which time I went to work for
3 McKelvain Oil and Gas and have been working for them since
4 that time.

5 Q. Does the geographic area of your responsibility
6 for McKelvain include the portion of northwestern New
7 Mexico involved in this case?

8 A. Yes.

9 Q. Are you familiar with the Application filed in
10 this matter on behalf of McKelvain?

11 A. Yes.

12 Q. Are you familiar with the status of the lands in
13 the subject area?

14 A. Yes.

15 MR. CARR: Mr. Catanach, we tender Mr. Jordan as
16 an expert witness in petroleum land matters.

17 EXAMINER CATANACH: Mr. Jordan is so qualified.

18 Q. (By Mr. Carr) Would you briefly state what
19 McKelvain seeks with this Application?

20 A. We seek an order pooling the minerals from the
21 surface to the base of the Mesaverde formation in the west-
22 half equivalent of Section 3, Township 25 North, Range 2
23 West, Rio Arriba County, New Mexico.

24 Q. And to what well will this acreage be dedicated?

25 A. This would be dedicated to our proposed Elk Com

1 Number 1 well, located at a standard location in the
2 northwest quarter of said Section 3.

3 Q. Now, what we're doing is, we're pooling the west
4 half of this section for spacing units developed on 320-
5 acre spacing; isn't that right?

6 A. Yes, sir.

7 Q. Anything on smaller spacing, 160s, 80s or 40s,
8 would be in the northwest quarter of Section 3, and
9 McKelvain owns 100 percent of that interest; is that not
10 correct?

11 A. That's correct.

12 Q. All right. Let's go to what has been marked for
13 identification as McKelvain Exhibit Number 1. Would you
14 identify that and review it for Mr. Catanach?

15 A. McKelvain Exhibit Number 1 is a plat showing the
16 proration unit for the proposed Elk Com Number 1, being the
17 west-half equivalent of Section 3, as well as the federal
18 lease numbers involved and the ownership in the proration
19 unit.

20 Q. And this Elk Com Number 1 is at a standard
21 location?

22 A. Yes, sir.

23 Q. Let's go to Exhibit Number 2. Will you identify
24 and review that, please?

25 A. Exhibit Number 2 is a breakdown of the ownership

1 in the west-half equivalent of Section 3.

2 Q. And what percentage of the acreage in the west
3 half has been voluntarily committed at this point in time
4 to this well?

5 A. Right now we have 67.018 percent.

6 Q. And the primary objective here is the Mesaverde
7 formation, which would be developed on 320; is that right?

8 A. Yes, sir.

9 Q. Could you summarize the efforts you've made to
10 obtain the voluntary joinder of all working interest and
11 mineral interest owners in the proposed spacing unit?

12 A. I sent out well-proposal letters, both by regular
13 mail and certified mail, return receipt request, May 12th
14 and May 14th of this year to all the owners listed.

15 Q. If we go to Exhibit Number 2, could you refer to
16 that and review for Mr. Catanach the status of the
17 participation of each of the interest owners identified on
18 that exhibit?

19 A. Okay, T.H. McKelvain Oil and Gas Limited
20 Partnership is a voluntary participant.

21 Noseco Corporation is a voluntary participant.

22 Richard L. Harris, we received the green card
23 back as delivered, and they are a nonvoluntary participant.

24 Q. So they'd be subject to pooling?

25 A. Yes, sir.

1 Q. Okay. What about Gavilan Dome Properties?

2 A. Gavilan Dome Properties, did not get a green card
3 back for some time from them.

4 Called information to try to get a telephone
5 number, both for the Gavilan Dome and their general partner
6 in the Moraga, California, area; could not get a telephone
7 number.

8 Contacted the Secretary of State for the State of
9 California. They confirmed that the address shown is the
10 address they are showing for Gavilan Dome Properties.

11 And we also contacted NM&O Operating. They also
12 confirmed this address as the address they are showing for
13 Gavilan Dome Properties.

14 Contacted the Post Office, indicated we did not
15 get our green card back, and in about two days we did get
16 it back undelivered, indicating that the package was
17 undelivered.

18 Q. So you've been unable to locate any -- make any
19 contact with anyone for Gavilan Dome Properties?

20 A. That's correct.

21 Q. Mesa Grande Resources?

22 A. Mesa Grande Resources is a party that needs to be
23 pooled. They have not voluntarily committed their
24 interest, as has NM&O, is not voluntarily committed,
25 Johansen Energy has not voluntarily committed, all of which

1 have indicated they have received their package.

2 Williams Production Company has an after-payout
3 interest, and Dugan Production Company has a potential
4 claim to title, vis-a-vis some title anomalies. Therefore
5 they were named, as does Alex Phillips. Due to some title
6 anomalies, they may assert a claim to title to the leases
7 in the southwest quarter.

8 Q. There are questions as to the Dugan and the
9 Phillips interests; is that right?

10 A. That's correct.

11 Q. How will McKelvain handle payment to these
12 interests if, in fact, they are ultimately able to
13 establish they have an interest?

14 A. McKelvain will have a Division Order title
15 opinion rendered upon payout of costs and any penalty, and
16 -- at which time we will pay the interest in accordance
17 with that title opinion, unless there are outstanding
18 curative requirements, in which case we will escrow any
19 revenue attributed to those interests in Rio Arriba County,
20 pending satisfaction of those title requirements.

21 Q. As to NM&O Operating, you have been in
22 discussions with them in the past concerning a farmout; is
23 that right?

24 A. We've received a letter from NM&O in response to
25 our proposal indicating a desire to possibly farm out their

1 interest to us.

2 Q. At this time have you been able to reach a
3 voluntary agreement for the farmout of that interest?

4 A. No, sir.

5 Q. In your opinion, have you made a good-faith
6 effort to locate all individuals who own interest in the
7 west half of Section 3 and obtain their voluntary
8 participation in this well?

9 A. Yes, sir.

10 Q. Is McKelvain Exhibit Number 3 a copy of
11 correspondence that basically documents the efforts that
12 you have made to obtain voluntary participation in the
13 well?

14 A. Yes.

15 Q. Is Exhibit Number 4 an affidavit with attached
16 letters confirming that notice of this hearing has been
17 provided in accordance with Oil Conservation Division
18 Rules?

19 A. Yes.

20 Q. Were Exhibits 1 through 4 either prepared by you
21 or compiled under your direction and supervision?

22 A. Yes.

23 MR. CARR: At this time, Mr. Catanach, we would
24 move the admission into evidence of McKelvain Exhibits 1
25 through 4.

1 EXAMINER CATANACH: Exhibits 1 through 4 will be
2 admitted as evidence.

3 MR. CARR: And that concludes my direct
4 examination of Mr. Jordan.

5 EXAMINER CATANACH: Mr. Bruce, do you have any
6 questions?

7 MR. BRUCE: Just one question.

8 EXAMINATION

9 BY MR. BRUCE:

10 Q. Mr. Jordan, on your operating agreement -- I
11 don't remember which exhibit that is -- the penalty
12 provision in there, the 300-percent penalty, is that the
13 cost plus 300 percent, or is it what we would call here
14 cost plus 200 percent?

15 A. Cost plus 200 percent.

16 MR. BRUCE: Nothing further.

17 EXAMINATION

18 BY EXAMINER CATANACH:

19 Q. Mr. Jordan, have you actually been in contact
20 with some of these other interest owners that are not
21 committed?

22 A. Yes, sir, I have.

23 Q. Do you anticipate any of them joining in the
24 well?

25 A. No, sir.

1 Q. Even NM&O, you don't think they're going to
2 ultimately join in the well?

3 A. I don't believe so. I hope so, but that's up to
4 them.

5 Q. Do you know what the relationship is between NM&O
6 and Gavilan Dome Properties?

7 A. No, sir, other than I believe Gavilan Dome is a
8 working interest owner in one or more wells which NM&O
9 operate.

10 Q. Your efforts to locate that interest owner were
11 limited to -- You contacted the state, did you say?

12 A. Well, I initially acquired an address from the
13 last assignment of record, which is the one shown here.
14 After not receiving any response, contacted the State of
15 California. They basically said, We're not giving you
16 anything without a formula and a check.

17 And I said, Well, can you at least confirm an
18 address for me?

19 And they said, Well, what are you showing for
20 them?

21 And I gave them the address, and they said, Yes,
22 that's the address we have. And I confirmed that as well
23 with NM&O, so...

24 Q. You're just getting the letters back as
25 undeliverable?

1 A. They did get a letter sent regular mail, and the
2 one that was sent certified did end up coming back to us as
3 undeliverable after a couple of attempts to deliver.

4 MR. BRUCE: Mr. Examiner, if I may, Mr. Sweet's
5 company is the operator of a number of wells in which
6 Gavilan Dome is a working interest owner. That is their
7 address. All the mailings, regular mailings, go out and
8 are received by them.

9 Mr. Sweet could tell you, but they probably just
10 didn't want to pick up a certified mailing because they
11 have been in touch with Gavilan Dome Properties for years.

12 Q. (By Examiner Catanach) Did you try calling this
13 company at all?

14 A. Tried getting phone numbers. NM&O didn't say
15 they had a phone number for them. Tried the operator,
16 couldn't find a phone number for either this Skredynski or
17 Gavilan Domes in the Moraga, California, area.

18 Q. But you believe they got your first proposal
19 letter?

20 A. It went to that address.

21 Q. Did you send -- try and send them notice of the
22 hearing in this case?

23 A. Yes, sir.

24 Q. Did you get that -- They didn't get that either?

25 MR. CARR: And the receipt has not come back on

1 that letter. It is the last page attached to the notice
2 affidavit. It was sent certified.

3 Q. (By Examiner Catanach) Mr. Jordan, the well will
4 be operated under McKelvain Oil and Gas Properties, Inc.?

5 A. Yes, sir.

6 Q. Okay. And can you explain what the relationship
7 is between the two different -- the T.H. McKelvain Oil and
8 Gas Limited Partnership?

9 A. McKelvain Oil and Gas Properties, Inc., is the
10 operating company. It's also the sole general partner for
11 T. H. McKelvain Oil and Gas Limited Partnership. But it's
12 basically our operating company.

13 EXAMINER CATANACH: Okay. That's all we have of
14 this witness. This witness may be excused.

15 MR. CARR: At this time we would call Larry Van
16 Ryan.

17 LAWRENCE O. VAN RYAN,
18 the witness herein, after having been first duly sworn upon
19 his oath, was examined and testified as follows:

20 DIRECT EXAMINATION

21 BY MR. CARR:

22 Q. Would you state your name for the record, please?

23 A. Larry Van Ryan.

24 Q. Where do you reside?

25 A. Santa Fe, New Mexico.

1 Q. By whom are you employed?

2 A. McKelvain Oil and Gas.

3 Q. And what is your position with McKelvain Oil and
4 Gas?

5 A. I'm the vice president of exploration and
6 production.

7 Q. Mr. Van Ryan, have you previously testified
8 before this Division?

9 A. Yes, I have.

10 Q. At the time of that testimony were your
11 credentials as an expert in petroleum engineering accepted
12 and made a matter of record?

13 A. Yes.

14 Q. Are you familiar with the Application filed in
15 this case on behalf of McKelvain?

16 A. Yes, I am.

17 Q. Have you prepared a study of the general area
18 involved in this case?

19 A. Yes.

20 Q. Are you prepared to share the results of that
21 study with the Examiner?

22 A. Yes.

23 MR. CARR: Are Mr. Van Ryan's qualifications
24 acceptable?

25 EXAMINER CATANACH: They are.

1 Q. (By Mr. Carr) Let's go to what has been marked
2 for identification as our Exhibit Number 5. I'd ask you to
3 identify Exhibit 5 and review that for Mr. Catanach.

4 A. Exhibit Number 5 is a plat of the area
5 surrounding our subject well, the Elk Com Number 1. It
6 shows the production information on the Mesaverde wells
7 completed in that area.

8 The first line of the information beside the well
9 spot is the date of first production for that well, the
10 second line is the cumulative production for the year 1996,
11 and the bottom line is the cumulative production through
12 December of 1996 for that well.

13 What we wanted to show here is that there are
14 very few Mesaverde completions in this area and even less
15 -- or fewer wells that are economically viable for new well
16 completions.

17 However, our geologic study has shown that we
18 believe there is a trend that exists through here, and we
19 can drill an economical well in Section 3. However, it is
20 a high-risk area due to the lack of production in the area,
21 and the lack of Mesaverde wells. Our control is not that
22 good.

23 Q. Mr. Van Ryan, let's go to McKelvain Exhibit 5A
24 that was handed out separate from the exhibit package, and
25 I'd ask you to identify and review this exhibit for the

1 Examiner.

2 A. Exhibit 5A shows all the wells that penetrated
3 the Mesaverde formation in the same area. We're attempting
4 to show here that we do not have that many open-hole logs
5 or that much other information on the Mesaverde.

6 We've used an area with -- We've used a geologist
7 to analyze this area, and we feel that we have some
8 information -- a geologic interpretation, that is -- that
9 would lead us to drill our well in Section 3. However, we
10 don't have a lot of real good information in the area as
11 far as what we expect to encounter in the way of pay zone.

12 Q. Are you prepared to make a recommendation to the
13 Examiner as to the risk penalty that should be assessed
14 against any nonparticipating interest owners?

15 A. Yes, I think this is a very high risk area. We
16 might be called a stepout well, but there's a lack of
17 control in the northeast or northwesterly direction, and I
18 think that we ought to receive the maximum possible.

19 Q. Do you believe there's a chance that you could
20 drill a well at this location that, in fact, would not be a
21 commercial success?

22 A. Yes.

23 Q. Has McKelvain drilled other Mesaverde wells in
24 the area?

25 A. No, we have not.

1 Q. Let's go to what has been marked for
2 identification as McKelvain Exhibit Number 6. Would you
3 identify that for Mr. Catanach?

4 A. Exhibit Number 6 is a copy of the AFE for the
5 subject well, the Elk Com Number 1.

6 Q. Would you review the totals as shown on that
7 exhibit?

8 A. We have estimated the dryhole costs for this well
9 to be approximately \$187,740, completion costs to be
10 \$272,770, for a total well cost of \$460,510.

11 Q. Are these costs in line with what's charged by
12 other operators for similar wells?

13 A. Yes, they are.

14 Q. Have you made an estimate of the overhead and
15 administrative costs to be incurred while drilling the well
16 and also while producing it, if it is successful?

17 A. Yes, we have.

18 Q. And what are those figures?

19 A. A producing well rate would be \$470 per month and
20 the drilling rate would be \$4700 per month.

21 Q. How do these figures compare with the Ernst and
22 Young figures for the area?

23 A. These are lower than the Ernst and Young figures.

24 Q. And do you recommend that these figures be
25 incorporated into the order that results from this hearing?

1 A. Yes.

2 Q. Does McKelvain Oil and Gas Properties, Inc., seek
3 to be designated operator of the well?

4 A. Yes, we do.

5 Q. In your opinion, will the granting of this
6 Application and the drilling of the proposed well be in the
7 best interests of conservation, the prevention of waste and
8 the protection of correlative rights?

9 A. Yes.

10 Q. Were Exhibits 5, 5A and 6 prepared by you or
11 compiled under your direction?

12 A. Yes.

13 MR. CARR: At this time, Mr. Catanach, we would
14 move the admission into evidence of McKelvain Exhibits
15 Numbers 5, 5A and 6.

16 EXAMINER CATANACH: Exhibits 5, 5A and 6 will be
17 admitted as evidence.

18 MR. CARR: And that concludes my direct
19 examination of Mr. Van Ryan.

20 EXAMINER CATANACH: Any questions, Mr. Bruce?

21 MR. BRUCE: No.

22 EXAMINATION

23 BY EXAMINER CATANACH:

24 Q. Mr. Van Ryan, McKelvain has not drilled any
25 Mesaverde wells up in the San Juan Basin?

1 A. In the San Juan Basin, but not in this area.

2 Q. Have they recently drilled any wells?

3 A. We have recently drilled some Mesaverde wells up
4 in the area north of Aztec, which is quite a distance from
5 this area.

6 Q. Are they approximately the same depth?

7 A. They're about the same depth.

8 Q. So you've got a pretty good handle on the well
9 cost?

10 A. Yes, but the drilling conditions in that area are
11 a little bit different than the drilling conditions in this
12 area. The area north of Aztec, you're able to set
13 intermediate pipe through the Pictured Cliffs formation and
14 then air drill to TD. In this particular area, we probably
15 would end up drilling a well with mud after setting surface
16 pipe.

17 Drilling costs would be a little bit higher here.
18 It's a little more remote from the supply centers in
19 Farmington.

20 Q. This is on this -- kind of the southern edge of
21 the limits of the Mesaverde Pool?

22 A. Pretty close, yes.

23 Q. Have you got a well location staked yet?

24 A. We -- As opposed to what's shown here, we intend
25 to drill the well in the northeast of the northwest

1 quarter.

2 Q. That well in the southeast quarter of Section 3,
3 that's been on since 1988?

4 A. Yes, that's correct.

5 Q. And has produced 539 million?

6 A. 539,000 MCF.

7 Q. Who operates that well? Do you know?

8 A. Mallon Petroleum. That well was a plugback from
9 a deeper well that they had originally completed.

10 Q. Your geologic interpretation shows that you might
11 get something better in that west half than what's present
12 in the east half?

13 A. We're hoping to get a well that would be
14 equivalent to the well in the east half. We believe that
15 will meet our economic criteria.

16 But we would point out on that map, most of the
17 other wells than the well in the east half of Section 3,
18 there are a number of uneconomical wells that would not
19 support new drilling. That would be the well in Section 35
20 shown there; the well in Section 22 has never produced into
21 the line; the well in Section 16 would not meet our
22 economic criteria; and the well in Section 30 would not
23 meet our economic criteria.

24 We're feeling that we have a trend identified
25 that we go from the well in Section 3 and somehow connect

1 to the wells that are shown up in Section 17, 20 and 19.

2 Q. But you feel there's still pretty good risk
3 involved?

4 A. Yes, I do, because even in Section 20, the well
5 in the southwest quarter, having been drilled in 1969, it
6 only cum'd a half a BCF of gas. It's probably not economic
7 under our current standards.

8 EXAMINER CATANACH: That's all we have of the
9 witness.

10 MR. CARR: That concludes our presentation in
11 this case.

12 EXAMINER CATANACH: All right, there being
13 nothing further, Case 11,822 will be taken under
14 advisement.

15 (Thereupon, these proceedings were concluded at
16 9:13 a.m.)

17 * * *

18
19 I do hereby certify that the foregoing is
20 a complete report of the proceedings in
the Examiner hearing of Case No. 11,822,
21 heard by me on April 17, 1987.

22 David P. Catnach, Examiner
Oil Conservation Division
23
24
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 August 8th, 1997.


STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 1998