

NEW MEXICO OIL CONSERVATION DIVISION

EXAMINER HEARING

SANTA FE, NEW MEXICO

Hearing Date SEPTEMBER 17, 1998 Time 8:15 A.M.

NAME	REPRESENTING	LOCATION
W Kellahan	Kellahan & Kellahan	Santa Fe
Tommy Roberts	Roberts & Strouven	Farmington
Tom Tinney	Santa Fe Energy Pass	Midland
Steve Smith	Santa Fe Energy Res.	Midland
Paul Rowen	Campbell, Carr, Bruce & Sheridan	Santa Fe
George Sharpe	New Mexico Oil	Fruita
Rick Gallegos	Burlington Res.	Midland
Doug Seums	"	"
Keith Winfree	"	"
James Bruce	-	SF

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

CASE NO. 12,041

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

September 17th, 1998

Santa Fe, New Mexico

98 OCT -5 AM 9:57  
OIL CONSERVATION DIV.

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, September 17th, 1998, 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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## I N D E X

September 17th, 1998  
 Examiner Hearing  
 CASE NO. 12,041

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<u>GEORGE F. SHARPE</u> (Engineer)	
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\* \* \*

## A P P E A R A N C E S

## FOR THE DIVISION:

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Attorney at Law  
Legal Counsel to the Division  
2040 South Pacheco  
Santa Fe, New Mexico 87505

## FOR THE APPLICANT:

ROBERTS & STROTHER, P.C.  
Attorneys at Law  
By: TOMMY ROBERTS  
101 South Orchard, Suite B  
P.O. Box 129  
Farmington, New Mexico 87499

## ALSO PRESENT:

MARK W. ASHLEY  
NMOCD Petroleum Geologist  
2040 South Pacheco  
Santa Fe, New Mexico 87505

\* \* \*

1           WHEREUPON, the following proceedings were had at  
2 8:20 a.m.:

3           EXAMINER CATANACH: At this time we'll call Case  
4 12,041.

5           MR. CARROLL: Application of Merrion Oil and Gas  
6 Corporation for compulsory pooling, San Juan County, New  
7 Mexico.

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

10          MR. ROBERTS: Mr. Examiner, my name is Tommy  
11 Roberts, I'm with Roberts and Strother in Farmington, New  
12 Mexico. I'm appearing on behalf of the Applicant, Merrion  
13 Oil and Gas Corporation, and I have one witness to be  
14 sworn.

15          EXAMINER CATANACH: Any additional appearances?  
16 Please stand and be sworn in.

17          (Thereupon, the witness was sworn.)

18                         GEORGE F. SHARPE,  
19 the witness herein, after having been first duly sworn upon  
20 his oath, was examined and testified as follows:

21                                 DIRECT EXAMINATION

22 BY MR. ROBERTS:

23           Q.    Would you state your name and address for the  
24 record, please?

25           A.    My name is George Sharpe. I'm from Farmington,

1 New Mexico.

2 Q. And by whom are you employed?

3 A. Merrion Oil and Gas Corporation.

4 Q. And in what capacity?

5 A. I'm a petroleum engineer. I'm the manager of the  
6 investment group.

7 Q. How long have you been employed by Merrion?

8 A. Since 1990.

9 Q. Have you previously testified before the Oil  
10 Conservation Division?

11 A. Yes, I have.

12 Q. And in what capacity did you testify?

13 A. As an expert witness.

14 Q. And I take it your qualifications were accepted  
15 at that time?

16 A. Yes, they were.

17 Q. Are you familiar with the Application in this  
18 case?

19 A. Yes, I am.

20 Q. And have you prepared exhibits to be presented in  
21 conjunction with your testimony?

22 A. Yes, I have.

23 MR. ROBERTS: Mr. Examiner, I would tender Mr.  
24 Sharpe as an expert petroleum engineer.

25 EXAMINER CATANACH: Mr. Sharpe is so qualified.

1 Q. (By Mr. Roberts) Mr. Sharpe, would you briefly  
2 state the purpose of this Application?

3 A. The purpose of the Application is to force-pool  
4 some uncommitted mineral interest owners in the Redfern Com  
5 Number 3, a West Kutz-Pictured Cliffs well, to be drilled  
6 near the town of Farmington, New Mexico.

7 Q. And would you identify the particular section,  
8 township and range in which this well will be located?

9 A. The spacing unit for the well is the northwest  
10 quarter of Section 14, Township 29 North, Range 13 West,  
11 San Juan County, New Mexico.

12 Q. What's the experience of Merrion Oil and Gas  
13 Corporation in drilling and completing Pictured Cliff wells  
14 in the San Juan Basin?

15 A. We've drilled and completed numerous Pictured  
16 Cliff wells.

17 Q. Let me have you refer to what you've marked as  
18 Exhibit Number 1. Would you identify that exhibit, please?

19 A. Exhibit 1 is a topographic map, locator map,  
20 showing the location of the Redfern Com Number 3 to be out  
21 on the southern edge of the City of Farmington, and the  
22 significance of being near the City of Farmington is that  
23 the mineral ownership is close to 100 fee tracts or 100 fee  
24 owners, and so it's a very broken up mineral ownership.

25 Q. Let's have you refer to what you've marked as

1 Exhibit Number 2. Could you identify that exhibit, please?

2 A. Exhibit Number 2 is the C-102 form for the  
3 Redfern Com Number 3, showing the footages of the well to  
4 be at -- the well to be at a standard location in the  
5 northwest quarter of Section 14.

6 Q. And is this proposed spacing and proration unit  
7 standard for the Pictured Cliffs formation in this area?

8 A. Yes, it is.

9 Q. Let's have you identify Exhibit Number 3.

10 A. Exhibit Number 3 is a list of the uncommitted  
11 mineral interest owners.

12 All of these owners were force-pooled on the  
13 Dakota wells that these leases are -- not these particular  
14 leases, but this particular acreage is developed in the  
15 Dakota. These interests were force-pooled on the Dakota,  
16 and so they have never been leased. And these are the ones  
17 that are still uncommitted, totaling 1.32 percent of the  
18 160-acre spacing unit.

19 Q. How was this ownership ascertained?

20 A. We had a title review done by a title attorney,  
21 Ken Hanks.

22 Q. What is the ownership interest of Merrion in the  
23 proposed spacing proration unit?

24 A. Merrion owns the -- and our partners, own the  
25 remainder of the working interest, so that would 98.7

1 percent, roughly.

2 Q. Let's have you refer to what you've marked as  
3 Exhibit Number 4. Would you identify that exhibit?

4 A. Exhibit Number 4 Is a list of correspondence that  
5 has been attempted with the unleased mineral interest  
6 owners.

7 If you go actually two pages back, is the first  
8 letter. After completing the title review, we sent out  
9 letters to any unleased mineral interest owners back in  
10 July, offering to either purchase their interest or to  
11 lease their interest under terms.

12 Behind that, the Johnston Land Company that --  
13 our contract land company that performed that service, is a  
14 list of their efforts to contact the interest owners that  
15 are listed in Exhibit 3.

16 And then back at the very first part, the August  
17 13th letter, the first of Exhibit 4, is our latest letter  
18 that went out to the unleased mineral interest owners,  
19 telling them that, again, we would like to purchase their  
20 interest, or they could join in the well, or notifying them  
21 that we were going to go to force pool or compulsory  
22 pooling hearing. And it was sent with the Application for  
23 compulsory pooling, and it was sent certified to these  
24 individuals.

25 Q. Now, that part of Exhibit 4, that is a letter

1 dated July 2nd, 1998, from Johnston Land Company to Mr. and  
2 Mrs. Peter Wilcox. Is that letter typical of what was sent  
3 to every one of these owners --

4 A. Yes.

5 Q. -- identified in Exhibit 3?

6 A. That is correct, that is a sample letter that was  
7 sent to all of the owners in Exhibit 3, except for the  
8 first two where we had no address and there was no known  
9 heirs, no known contacts.

10 Q. And then the letter from Merrion addressed to  
11 unleased mineral interest owners, dated August 13th, 1998,  
12 that is a letter typical of what was sent to all of these  
13 owners identified in Exhibit 3; is that correct?

14 A. Yes, sir.

15 Q. I'd like for you to, owner by owner, go through  
16 what communications you may have had subsequent to the date  
17 of the mailing of the August 13th, 1998, letter.

18 A. Okay, if we start at the bottom of the list, the  
19 Wilcox people are alive. They did pick up their  
20 notifications, and there has been no response from them.  
21 And they did apparently receive their letter from Mr.  
22 Johnston.

23 All of the other individuals received their  
24 interest. The original mineral interest owner was well  
25 down the line; they are the second generation. The Miller

1 group and Helen Parigi or however you say that, and Vida  
2 Blankenship are also in that same family.

3           The second generation received their ownership  
4 after the first generation passed away. Most of these, it  
5 turns out, have also passed away, and there's no record of  
6 any transfer of ownership of any heirs in the county  
7 records. For most of them, we have contacted -- been able  
8 to successfully contact some of their family members,  
9 cousins and have made efforts through their cousins to try  
10 to get current addresses and make contacts where we could.

11           Again, going down -- And so some of these  
12 comments, "deceased", "think deceased", these are comments  
13 from some of these family members that try to remember,  
14 Well, yeah, she was a cousin of somebody; I think she's  
15 gone, type thing.

16           Estel Miller is deceased, no known heirs. Vida  
17 Blankenship, they think she's deceased, no known heirs.  
18 Basil Miller is deceased, and the wife -- we believe that's  
19 the wife, M. Miller -- did pick up the certified letter and  
20 has been notified. We have not talked with her. We have no  
21 phone number. She is in Richland, Virginia.

22           Robert Miller is deceased. We think that's his  
23 niece that picked up the letter. She also -- We think it's  
24 the daughter of William Miller. And those are two separate  
25 addresses, but the same person picked up both those contact

1 letters. We think it's the daughter of one and the niece  
2 of the other. We've got a phone number of a son that we're  
3 trying to contact still on Robert Miller.

4 Leonard Miller is deceased. We contacted the  
5 daughter just yesterday, as recent as yesterday, and we are  
6 going to send her a follow-up and send her a package.

7 Helen Parigi is alive. We have talked with her  
8 nephew, who did -- who also was in the line. He is leased.  
9 And he has talked to her, and she's 83 and semi-coherent,  
10 and she didn't pick up her mail, but she has been contacted  
11 and she is -- I think he's trying to talk her into leasing  
12 as well.

13 Raymond Miller is deceased. Justin Miller, the  
14 cousin, is trying to contact his -- her daughter. We did  
15 not -- He didn't give us her name, but he's trying to  
16 contact her.

17 So again, it's a very difficult situation. Most  
18 of these people do not live in and around Farmington  
19 anymore, and we've made some effort and are continuing to  
20 make efforts to try to contact them.

21 Q. I believe you had indicated that most of these  
22 uncommitted mineral interest owners had been force-pooled  
23 at the time the area was developed in the Dakota formation.  
24 What's the source of that information?

25 A. The source of that information, we purchased the

1 Conoco wells. These wells were purchased -- These leases  
2 were purchased from Conoco, and we purchased the Dakota  
3 wells from Conoco. And in the division of interest these  
4 folks are shown as uncommitted and suspended in Conoco's  
5 division of interest that came to us.

6 Q. Now, as a part of Exhibit 4 you've attached  
7 what's labeled "Lessor Ownership Information", and it's  
8 apparently prepared by Johnston Land Company. Does that  
9 provide further information with respect to efforts to  
10 contact these people?

11 A. Yes, it is really the background behind the  
12 comments that are on that front page. There's also, at the  
13 very end of Exhibit 4, behind those lessor ownership  
14 informations, there's some notes that Crystal Williams, our  
15 in-house landman, made as to efforts she made as late as  
16 yesterday to try to contact some of the heirs of the  
17 deceased.

18 Q. And just a point of clarity. I believe you  
19 testified that the August 13th, 1998, letter that went out  
20 to the owners identified in Exhibit 3 contained the notice  
21 of the hearing being conducted today; is that correct?

22 A. Yes, it did.

23 Q. Let's have you refer to what you have marked as  
24 Exhibit Number 5, and would you identify that exhibit?

25 A. Exhibit Number 5 is the AFE for the Redfern Com

1 Number 3 that was sent to all the uncommitted interest  
2 owners, with the prior letter in Exhibit 4. It shows the  
3 total estimated well cost to be \$178,000.

4 Q. Okay. And what are the total dryhole costs?

5 A. Total dryhole costs are \$57,000.

6 Q. Now, in your opinion, are these estimated costs  
7 reasonable, given the nature of this operation?

8 A. Yes, they are.

9 Q. And are they consistent with your experience in  
10 drilling and completing Pictured Cliffs wells in this area?

11 A. Yes, they are.

12 Q. Let's have you refer to what we've marked as  
13 Exhibit Number 6 and have you identify that exhibit.

14 A. Exhibit 6 is the Model Form Operating Agreement,  
15 it's the operating agreement we propose for the Redfern Com  
16 3.

17 Again, copies of the operating agreement were  
18 sent to all uncommitted interest owners. I believe the  
19 Examiners have a full copy of the operating agreement. It  
20 is AAPL Form 610-1989, standard operating agreement form.

21 Q. And would you identify for the record what the  
22 contract area is, covered by the operating agreement?

23 A. The contract area is Township 29 North, 13 West,  
24 South half of Section 11 and the west half of Section 14.  
25 It includes the Pictured Cliffs and the Dakota formations,

1 and three wells that we plan on drilling actually right at  
2 the Redfern Com Number 3 site that will be covered by the  
3 operating agreement.

4 Q. You've testified that this is a standard form  
5 operating agreement commonly used in the oil and gas  
6 industry. Has it been modified as to any substantive  
7 provision?

8 A. No.

9 Q. Who do you propose be designated as the operator  
10 of the contract area?

11 A. Merrion Oil and Gas Corporation.

12 Q. Let's have you refer to Exhibit Number 7, have  
13 you identify that.

14 A. Exhibit 7 is a survey of the monthly overhead  
15 rates that are common in the Rocky Mountain area. I have  
16 circled the gas wells, depth zero to 5000 feet, which would  
17 be applicable for the Redfern Com 3, shows that the  
18 drilling overhead rates are normally around \$3000 to \$3100  
19 and that the monthly producing overhead rates are from \$340  
20 to \$433 per month.

21 Q. And what rates do you propose in this case to be  
22 assessed for supervisory charges?

23 A. We propose a drilling overhead rate of \$3250 and  
24 a monthly producing overhead rate of \$350 per month.

25 Q. And in your opinion, are these rates reasonable

1 and customary, given the nature and location of your  
2 operation?

3 A. Yes, they are.

4 Q. Let's have you refer to Exhibit Number 8,  
5 identify that exhibit.

6 A. Exhibit Number 8 is a production map of the  
7 Pictured Cliffs formation in the area surrounding the  
8 Redfern Com Number 3.

9 You can see there's been substantial drilling to  
10 the south and east of the well, but that our well is an  
11 extension to the west of that trend. There are a couple of  
12 wells to the west of us, but very, very few, and that would  
13 speak to the fact that it is a risky venture and warrants  
14 the 200-percent risk penalty that we've requested.

15 Q. Okay. And then let's have you refer to Exhibit  
16 Number 9 and have you identify that exhibit?

17 A. Exhibit Number 9 is the certified receipt  
18 notification of the documentation that was sent on the  
19 hearing to the unleased mineral interest owners.

20 Q. Now, do these receipts indicate receipt by these  
21 addresses?

22 A. They do except for three of them, and those three  
23 were noted in Exhibit 3, that they did not pick up their  
24 packets.

25 Q. Are you familiar with the notice requirements of

1 the Oil Conservation Division?

2 A. Yes, I am.

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

5 A. Yes, they have.

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

10 A. Yes, it will.

11 Q. And have Exhibits numbered 1 through 9 either  
12 been prepared by you or at your direction, under your  
13 supervision?

14 A. Yes, they have.

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

17 EXAMINER CATANACH: Exhibits 1 through 9 will be  
18 admitted as evidence.

19 MR. ROBERTS: And I have no other questions on  
20 direct for Mr. Sharpe.

21 EXAMINATION

22 BY EXAMINER CATANACH:

23 Q. Mr. Sharpe, are your efforts with regards to  
24 trying to sign up these people, are they going to continue?

25 A. Yes, they will.

1 Q. You've noted, for instance, on Leonard Miller,  
2 "Contacted daughter. Will send her package." That will be  
3 done, and she will be offered the opportunity to  
4 voluntarily join?

5 A. Yes, she will. And I can send you documentation  
6 to that effect.

7 Q. Was there any attempt to phone the Wilcox  
8 interests who live in Farmington?

9 A. No. There probably should have been, and we can  
10 do that.

11 I say no. Let me check Mr. Johnston's notes on  
12 the Wilcox -- He did attempt to phone, it appears, on  
13 August 7th and August 11th. There was no answer and no  
14 answering machine, and he did note that the phone -- in the  
15 phone book, the address -- at that particular address was a  
16 Rick Wilcox, as opposed to a Peter Wilcox, which could well  
17 be their son.

18 And again, he did try twice to phone Rick Wilcox.

19 Q. Mr. Sharpe, on this acreage, is there an existing  
20 Dakota well?

21 A. Yes, there is.

22 Q. Okay, and do you operate that as well?

23 A. Yes, we do.

24 Q. Is there an existing operating agreement for that  
25 well?

1           A.    There is an existing operating agreement for that  
2 well, but on the infill wells we have brought in partners,  
3 and they're not party to that original operating agreement,  
4 and so we're making them a party to it through this one.  
5 It's virtually the same operating agreement, but we...

6           Q.    Conoco was the party that originally drilled the  
7 Dakota well?

8           A.    Yes.

9           Q.    Do you know when that was?

10          A.    Early Sixties.

11                    I may have misspoke, Mr. Examiner. Did you ask  
12 me if Conoco originally drilled it? They did not  
13 originally drill it; they purchased it from Mesa, who  
14 purchased it from the Pioneer Corporation, who I believe  
15 drilled the well. So it's...

16          Q.    That's in the west half of Section 14?

17          A.    Yes, sir.

18          Q.    Is there also an additional Dakota well in  
19 Section 11?

20          A.    We are drilling a directional well. There is a  
21 Dakota well in the south half of Section 11. On Exhibit 1  
22 you can see the Farmington 1 in the south half of Section  
23 11. We are drilling north from this location, up under  
24 Main Street, basically, directionally, to drill an infill  
25 well in the southwest quarter of Section 11.

1           We're also drilling a vertical Dakota well, an  
2           infill well, which is an infill to the Farmington A 1,  
3           which you see in the southwest quarter of Section 14.

4           Q.    Okay, on your Exhibit Number 8, Pictured Cliffs  
5           production map, there's an area in there that seems to have  
6           not been developed in the Pictured Cliffs.  Is there a  
7           reason for that?  Is that because it's in town, or do you  
8           know?

9           A.    Let me find Exhibit 8.  That actually is the  
10          center of town, or is towards town, yes.  Yes, sir.

11          But actually, some of these wells are within the  
12          city limits.  Some of the existing wells are within city  
13          limits.

14          But certainly the center of town has had an  
15          effect on the drilling of all sorts of wells.

16          Q.    But there is production in the Pictured Cliffs to  
17          the west of your well?

18          A.    There is.  You can see the two wells in the east  
19          half of Section 15 are both completed in the Pictured  
20          Cliffs.

21          Q.    Are those fairly new wells?

22          A.    They are fairly new wells.

23          Q.    And they are -- Well, so tell me, what do you  
24          think the risk is in this location?

25          A.    I think we're going to find gas.  We'll complete

1 it. I don't believe it will be a dry hole.

2 Q. Okay. And the well costs are pretty much in line  
3 with recent PC wells in this area?

4 A. Excuse me, again?

5 Q. That you drilled?

6 A. The -- Oh, the well costs --

7 Q. Well costs.

8 A. -- I thought you were talking about the Wilcox  
9 again.

10 Yes, they are. They are higher than we would  
11 like, but the in-town nature, the in-town drilling, the  
12 need for special lease or surface-use provisions, have made  
13 them a little higher than we would hope. If we were out of  
14 town, we would probably think we could probably do it for a  
15 hundred and fifty.

16 EXAMINER CATANACH: Okay. I think that's all we  
17 have, Mr. Roberts. This witness may be excused.

18 Is there anything further in this case?

19 THE WITNESS: Mr. Examiner, would you like to  
20 receive a copy of the certified notice that we send if we  
21 are able to send, if we are able to send something to  
22 Raymond Miller's daughter, that we're trying to contact?  
23 Or no, the one we were going to send -- Leonard Miller, I  
24 believe.

25 EXAMINER CATANACH: Yeah, if you have something

1 subsequent to the hearing that you've been able to contact  
2 these parties or something, you might send it in.

3 THE WITNESS: Okay. Thank you.

4 EXAMINER CATANACH: There being nothing further  
5 in this case, Case 12,041 will be taken under advisement.

6 (Thereupon, these proceedings were concluded at  
7 8:47 a.m.)

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I do hereby certify that the foregoing is  
a complete record of the proceedings in  
the Examiner hearing of Case No. 12041,  
heard by me on 9/17 1998.  
David White, Examiner  
Off. Conservation Division

