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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. 12,224
APPLICATION OF McELVAIN OIL AND GAS)
PROPERTIES, INC., FOR COMPULSORY)
POOLING, RIO ARriba COUNTY, NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MARK W. ASHLEY, Hearing Examiner

September 2, 1999

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MARK W. ASHLEY, Hearing Examiner, on Thursday, September 2nd, 1999, 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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September 2nd, 1999
 Examiner Hearing
 CASE NO. 12,224

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* * *

A P P E A R A N C E S

FOR THE DIVISION:

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FOR THE APPLICANT:

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Santa Fe, New Mexico 87504-2208
By: WILLIAM F. CARR

* * *

1 WHEREUPON, the following proceedings were had at
2 9:02 a.m.:

3 EXAMINER ASHLEY: The Division calls Case 12,224.

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

7 EXAMINER ASHLEY: Call for appearances.

8 MR. CARR: May it please the Examiner, my name is
9 William F. Carr with the Santa Fe law firm Campbell, Carr,
10 Berge and Sheridan. We represent McElvain Oil and Gas
11 Properties, Inc., in this matter, and I have two witnesses.

12 EXAMINER ASHLEY: Any additional appearances?

13 Will the witnesses please stand to be sworn in?

14 (Thereupon, the witnesses were sworn.)

15 EXAMINER ASHLEY: Mr. Carr?

16 STEVEN R. JORDAN,

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

19 DIRECT EXAMINATION

20 BY MR. CARR:

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

22 A. Steven R. Jordan.

23 Q. Mr. Jordan, where do you reside?

24 A. Santa Fe, New Mexico.

25 Q. By whom are you employed?

1 A. McElvain Oil and Gas Properties, Inc.

2 Q. And what is your current position with McElvain?

3 A. Land manager.

4 Q. Have you previously testified before this
5 Division?

6 A. Yes.

7 Q. At the time of that testimony, were your
8 credentials as an expert in petroleum land matters accepted
9 and made a matter of record?

10 A. Yes.

11 Q. Are you familiar with the Application filed in
12 this case?

13 A. Yes.

14 Q. And are you familiar with the status of the lands
15 in the subject area?

16 A. Yes.

17 MR. CARR: May it please the Examiner, we tender
18 Mr. Jordan as an expert in petroleum land matters.

19 EXAMINER ASHLEY: Mr. Jordan is so qualified.

20 Q. (By Mr. Carr) Would you briefly state what it is
21 McElvain seeks with this Application?

22 A. We are seeking an order pooling all of the
23 minerals from the base of the Pictured Cliffs formation to
24 the base of the Mesaverde formation in the north half of
25 Section 10, Township 25 North, Range 2 West, Rio Arriba

1 County, New Mexico.

2 Q. To what well do you propose to dedicate this
3 pooled unit?

4 A. We proposed to dedicate the north-half pooled
5 unit to our Elk Com 10 Number 1 well, to be located at a
6 standard location in the northeast quarter of Section 10.

7 Q. In the Application we refer to the well as the
8 Elk Com Well Number 10-8. That number has been changed.
9 It's the Elk Com Well 10 Number 1?

10 A. Correct.

11 Q. And this was done simply to comply with State
12 requirements?

13 A. Yes, sir.

14 Q. Let's go to what's been marked as McElvain
15 Exhibit Number 1. Would you identify that and review it
16 for Mr. Ashley?

17 A. McElvain Exhibit Number 1 is a plat showing the
18 north-half dedication, along with our Elk Com 10 Number 1
19 approximate location in the northeast quarter, as well as
20 the ownership and lease blocks within that spacing unit.

21 Q. This is all federal land except the southeast of
22 the northeast --

23 A. Correct.

24 Q. -- is that correct?

25 A. What is the primary objective in the proposed

1 well?

2 A. The primary objective is the Mesaverde formation,
3 Blanco-Mesaverde Pool.

4 Q. Would you identify McElvain Exhibit Number 2?

5 A. Exhibit Number 2 is a list of working interest
6 owners in the north half of Section 10.

7 Q. Can you identify for me the interest owners who
8 are not voluntarily committed to the well at this time?

9 A. The only non-owner which has not voluntarily
10 committed to this well is Dugan Production Corporation,
11 which owns a 12-1/2-percent working interest.

12 Q. So what percentage is voluntarily committed?

13 A. Right now 87 1/2 percent has been voluntarily
14 committed to the well.

15 Q. Could you review your efforts to obtain the
16 voluntary participation of Dugan Production Corporation?

17 A. On May the 12th we sent out a well proposal to
18 Dugan Production Corporation, along with the other working
19 interest owners, together with a joint operating agreement
20 and AFE, proposing to drill a Mesaverde test in the north
21 half of Section 10.

22 Q. Have you been in communication with Dugan since
23 that time?

24 A. Yes, we've had numerous telephone communications
25 with Dugan Production Corporation, the last of which was

1 yesterday, but we've been talking with them and we believe
2 that we will have their interest committed to this well
3 prior to drilling.

4 Q. But at this time they aren't signed up?

5 A. Correct.

6 Q. If you are able to reach a voluntary agreement
7 with Dugan, will you advise the Division when that
8 agreement is reached?

9 A. Yes, sir.

10 Q. In your opinion, have you made a good-faith
11 effort to obtain Dugan's voluntary joinder in the well?

12 A. Yes, we have.

13 Q. Is what has been marked Exhibit Number 3 a copy
14 of the May 12 letter that was sent to working interest
15 owners, seeking their participation in this unit, or this
16 pooled unit?

17 A. Yes.

18 Q. And attached are return receipts, as well as
19 letters indicating the joinder by various parties?

20 A. Yes, sir.

21 Q. Let's go to what has been marked as Exhibit
22 Number 4. McElvain has drilled other Mesaverde wells in
23 the immediate area, have they not?

24 A. Yes, we've drilled two wells in this general
25 area.

1 Q. And what is Exhibit Number 4?

2 A. Exhibit Number 4 is the AFE for the Elk Com 10
3 Number 1 well.

4 Q. Would you review the total set forth on that
5 exhibit?

6 A. Yes, sir. Total AFE amount is \$597,280 for a
7 completed well.

8 Q. And are the costs set forth on this exhibit in
9 line with what has been incurred by McElvain in drilling
10 similar wells in the area?

11 A. Yes.

12 Q. Would you identify what has been marked as
13 Exhibit Number 5, please?

14 A. Exhibit Number 5 is AAPL Form 610-1982, Model
15 Form Operating Agreement, which was included with our
16 proposal, and which has been signed by the working interest
17 owners which have committed their interest to this well.

18 Q. Have you made an estimate of the overhead and
19 administrative costs to be incurred while drilling this
20 well and also while producing it if, in fact, it is a
21 commercial success?

22 A. Yes.

23 Q. And what are those figures?

24 A. The drilling well rate is \$5484.67. The monthly
25 producing well rate is \$548.47.

1 Q. And do you recommend that these figures be
2 incorporated into the order that results from today's
3 hearing?

4 A. Yes.

5 Q. Does McElvain request that these rates be
6 increased in accordance with the escalation provisions of
7 the 1994 onshore COPAS accounting provisions?

8 A. 1984.

9 Q. Right.

10 A. Yes, sir.

11 Q. And does McElvain seek to be designated operator
12 of the proposed well?

13 A. Yes.

14 Q. Is Exhibit Number 6 an affidavit confirming that
15 notice of today's hearing has been provided to affected
16 parties in accordance with OCD rules?

17 A. Yes.

18 Q. Mr. Jordan, identified on Exhibit A to this
19 affidavit is a large number of individuals. Could you tell
20 us who those people are?

21 A. Exhibit A is a list of royalty owners in the
22 40-acre fee lease to be dedicated to our north-half spacing
23 unit.

24 Q. And why have royalty interest owners been
25 provided with notice of this case?

1 A. The fee lease involved is about a 40-year-old
2 lease and did not contain the standard pooling provisions
3 that most leases today now include.

4 Q. And none of the interest owners listed, none of
5 the royalty interest owners, will bear any of the costs of
6 the development of this tract; is that correct?

7 A. Yes, sir.

8 Q. And they were not, therefore, required to join or
9 participate in the drilling of the well, correct?

10 A. Correct.

11 Q. You have provided them, however, with notice of
12 today's hearing, and that has been provided to them by
13 certified mail; is that right?

14 A. Yes.

15 Q. Have you received any response or objection from
16 any of these --

17 A. We have talked with the primary fee owner, Mr.
18 Davis with the Davis Family, LLC, and we've been in contact
19 with him on other matters and also have visited with him
20 with regards to this hearing.

21 Q. And this exhibit packet also contains a copy of
22 the certified letter to Dugan giving them notice of the
23 hearing in this case?

24 A. Yes.

25 Q. Were Exhibits 1 through 6 either prepared by you

1 or compiled under your direction?

2 A. Yes.

3 MR. CARR: At this time, Mr. Ashley, we would
4 move the admission into evidence of McElvain Exhibits 1
5 through 6.

6 EXAMINER ASHLEY: Exhibits 1 through 6 will be
7 admitted as evidence.

8 MR. CARR: And that concludes my direct
9 examination of Mr. Jordan.

10 EXAMINATION

11 BY EXAMINER ASHLEY:

12 Q. Mr. Jordan, the overhead rates that you provided,
13 have those been agreed upon by the other interest owners?

14 A. Yes, sir.

15 Q. And are those costs in line with equivalent wells
16 in the area?

17 A. Yes.

18 Q. You say you've completed a couple other wells in
19 this area?

20 A. Yes.

21 Q. Could you tell me where those are?

22 A. The first is located in the northwest quarter of
23 Section 3, Township 25 North, Range 2 West. The second is
24 located in the west half of Section 34, Township 26 North,
25 Range 2 West.

1 Q. Were either one of those wells drilled under a
2 compulsory pooling order?

3 A. The first was, in Section 3.

4 EXAMINER ASHLEY: I don't have any other
5 questions. Thank you, Mr. Jordan.

6 MR. CARR: At this time we'd call John Steuble.

7 EXAMINER ASHLEY: Mr. Carr?

8 JOHN STEUBLE,

9 the witness herein, after having been first duly sworn upon
10 his oath, was examined and testified as follows:

11 DIRECT EXAMINATION

12 BY MR. CARR:

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

14 A. My name is John Steuble.

15 Q. Would you spell your last name, please?

16 A. S-t-e-u-b-l-e.

17 Q. Where do you reside?

18 A. Denver, Colorado.

19 Q. By whom are you employed?

20 A. McElvain Oil and Gas Properties.

21 Q. And what is your position with McElvain?

22 A. The engineering manager.

23 Q. Mr. Steuble, have you previously testified before
24 this Division?

25 A. No, I have not.

1 Q. Would you briefly review your educational
2 background for the Examiner?

3 A. I attended college at the University of Wyoming
4 and graduated as a petroleum engineer in 1972. I went to
5 work directly out of school. I have attended various
6 colleges throughout my career as just an update to my
7 education.

8 Q. Could you summarize your work experience?

9 A. I went to work out of school for four years for a
10 company called Odessa Natural Corporation as a field
11 engineer. Then I went to work with Northwest Pipeline and
12 Northwest Exploration as a production engineer and working
13 my way up to production manager. When Williams took those
14 over, took over Northwest, I went to work for a company
15 called Max Exploration in the Uintah Basin as their
16 production manager.

17 During the downturn I've been a petroleum
18 consultant for five to six years, and then I went to work
19 for McElvain Oil and Gas for about a year and a half --

20 Q. At all times --

21 A. -- as their manager.

22 Q. -- since graduation, have you been employed as a
23 petroleum engineer?

24 A. Yes, I have.

25 Q. Are you familiar with the Application filed in

1 this case on behalf of McElvain Oil and Gas property?

2 A. Yes.

3 Q. Have you made an engineering study of the area
4 which is the subject of this Application?

5 A. Yes, sir.

6 Q. And are you prepared to share the results of that
7 work with Mr. Ashley?

8 A. Yes.

9 MR. CARR: We tender Mr. Steuble as an expert
10 witness in petroleum engineering.

11 EXAMINER ASHLEY: Mr. Steuble is so qualified.

12 Q. (By Mr. Carr) Mr. Steuble, have you prepared
13 exhibits for presentation here today?

14 A. Yes, I have.

15 Q. Let's go to what has been marked for
16 identification as McElvain Exhibit Number 7. I would ask
17 you to first identify this and then review the information
18 on this exhibit for the Examiner.

19 A. Exhibit 7 is a compilation of Mesaverde
20 production wells, or attempted production, in the immediate
21 area of our well that we're trying to get on the
22 Application?

23 It shows the MCF-per-month production versus
24 time, and at the top it has cumulative numbers for gas,
25 water and oil production also.

1 There are four wells included in this immediate
2 area.

3 Q. When you look at these four wells, what does it
4 tell you?

5 A. The most striking thing is the erratic nature of
6 the Mesaverde formation. As you can see, some of the wells
7 have cum'd 3000 MCF. Our Elk Com well has cum'd 118,000
8 MCF in a short period of time. The Davis Federal well has
9 cum'd 634,000, but it's taken approximately ten years.

10 So the whole point is, it's not consistent.

11 Q. What's the name of the first well on this
12 exhibit?

13 A. That's an acronym. I believe the well name is --
14 was originally named by the operator as Rich Beyond Your
15 Wildest Dreams, and because the well name was so long they
16 shortened it. I don't know how to pronounce it.

17 Q. Has it been a very good well?

18 A. No, it hasn't been a very good well.

19 Q. All right. Let's go to Exhibit Number 8. Would
20 you identify and review this, please?

21 A. This exhibit is an exhibit of the area showing
22 the Mesaverde completions or attempted completions, giving
23 the initial production on the upper part of the numbering
24 and the cumulative production on the lower part.

25 It also shows where our proposed 10-1 well is.

1 Q. When you look at this exhibit, Exhibit Number 8,
2 what does this tell you?

3 A. What this shows you is the lack of development
4 drilling in the area, and it also shows you the lack of
5 consistent production in the area.

6 Q. Are you prepared to make a recommendation to the
7 Examiner as to the risk penalty that should be assessed
8 against any nonparticipating interest owner?

9 A. Yes, I am.

10 Q. And what is that?

11 A. 200 percent.

12 Q. And just briefly summarize the basis for that
13 recommendation.

14 A. The basis for the recommendation is in the
15 inconsistency in the production in the area. You can have
16 good wells.

17 One other thing that I might add, our good well,
18 the Elk Com well, has a lot of water associated with it.
19 We recently completed our well in Section 34, and we're not
20 sure it's an economical well yet either, because of large
21 water production in the area.

22 So it's not an easy area to figure out
23 geologically.

24 Q. In your opinion, will the granting of this
25 Application and the drilling of the proposed well be in the

1 best interests of conservation, the prevention of waste and
2 the protection of correlative rights?

3 A. Yes.

4 Q. Were Exhibits 6 -- or, I'm sorry, 7 and 8 either
5 prepared by you or compiled under your direction?

6 A. Yes.

7 MR. CARR: At this time, Mr. Ashley, we would
8 move the admission into evidence of McElvain Oil and Gas
9 Properties, Inc., Exhibits 7 and 8.

10 EXAMINER ASHLEY: Exhibits 7 and 8 will be
11 admitted at this time.

12 MR. CARR: And that concludes my direct
13 examination of this witness.

14 EXAMINATION

15 BY EXAMINER ASHLEY:

16 Q. Mr. Steuble, could you help me with the other
17 wells that are on Exhibit 8?

18 A. Yes, sir.

19 Q. The two wells in Number 3, which ones are those?

20 A. Pardon me?

21 Q. The two wells in Section 3, which ones are those?

22 A. The two wells in Section 3, the one in the
23 northwest corner is our Elk Com Number 1, and the one in
24 the southeast is the Davis 3-15.

25 Q. And what about in Section 34?

1 A. 34, that is our Elk Com 34 Number 1. It's just
2 recently been completed, and there's just minimal
3 production information.

4 Q. And what about the well in Section 2? Is that --

5 A. That's the Rich Beyond Your Wildest Dreams.

6 Q. Okay.

7 A. That -- Yes, in the southeast of 2.

8 EXAMINER ASHLEY: Okay. I don't have any more
9 questions. Thank you, Mr. Steuble.

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

12 EXAMINER ASHLEY: There being nothing further in
13 this case, Case 12,224 will be taken under advisement.

14 Let's take a ten-minute recess and be back at
15 9:35.

16 (Thereupon, these proceedings were concluded at
17 9:25 a.m.)

18 * * *

19
20 I do hereby certify that the foregoing is
21 a correct record of the proceedings in
22 the Examiners hearing of Case No. 12224,
23 heard by me on 9-2-1999.

24 Mark Ashley, Examiner
25 Oil Conservation Division

CERTIFICATE OF REPORTER

[illegible]

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 September 30th, 1999.

Steve Benson

STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 2002