

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. 12,395
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: DAVID R. CATANACH, Hearing Examiner

May 4th, 2000

Santa Fe, New Mexico

00 MAY 23 AM 5:16
OIL CONSERVATION DIV

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, May 4th, 2000, 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

May 4th, 2000
 Examiner Hearing
 CASE NO. 12,395

	PAGE
EXHIBITS	3
APPEARANCES	3
APPLICANT'S WITNESSES:	
<u>STEVEN R. JORDAN</u> (Landman)	
Direct Examination by Mr. Carr	4
Examination by Examiner Catanach	9
<u>JOHN STEUBLE</u> (Engineer)	
Direct Examination by Mr. Carr	12
Examination by Examiner Catanach	18
REPORTER'S CERTIFICATE	23

* * *

E X H I B I T S

Applicant's	Identified	Admitted
Exhibit 1	6	9
Exhibit 2	6	9
Exhibit 3	8	9
Exhibit 4	8	9
Exhibit 5	13	18
Exhibit 6	13	18
Exhibit 7	14	18
Exhibit 8	14	18
Exhibit 9	15	18
Exhibit 10	16	18
Exhibit 11	17	18

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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 9:31 a.m.:

3 EXAMINER CATANACH: At this time we'll call Case
4 12,395, the Application of McElvain Oil and Gas Properties,
5 Inc., for compulsory pooling, Rio Arriba County, New
6 Mexico.

7 Call for appearances in this case.

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., and I have two witnesses.

12 EXAMINER CATANACH: Any additional appearances?
13 Will the two witnesses please stand to be sworn
14 in?

15 (Thereupon, the witnesses were sworn.)

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. Steve 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 position with McElvain?

3 A. Land manager.

4 Q. Have you previously testified before this
5 Division and had your credentials as an expert in petroleum
6 land matters accepted and made a matter of record?

7 A. Yes.

8 Q. Are you familiar with the Application filed in
9 this case?

10 A. Yes.

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

13 A. Yes.

14 MR. CARR: We tender Mr. Jordan as an expert
15 witness in petroleum land matters.

16 EXAMINER CATANACH: Mr. Jordan is so qualified.

17 Q. (By Mr. Carr) Would you briefly summarize for
18 Mr. Catanach what it is that McElvain seeks with this
19 Application?

20 A. McElvain seeks an order pooling all of the
21 minerals from the base of the Pictured Cliffs formation to
22 the base of the Dakota formation in the south half of
23 Section 29, Township 26 North, Range 2 West, Rio Arriba
24 County, New Mexico.

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

1 A. To be dedicated to our proposed Bear Com 29
2 Number 1 well, located at a standard location in the
3 southeast quarter of that Section 29.

4 Q. Mr. Jordan, let's go to what has been marked
5 McElvain Exhibit Number 1, and I would ask you to first
6 identify it and then review it for Mr. Catanach.

7 A. This is basically a land plat showing our
8 proposed spacing unit of the south half of Section 29, also
9 showing the three leases involved and the ownership of
10 those three leases in the south half of Section 29.

11 Q. What is the primary objective in the well?

12 A. The primary objective is the Dakota -- Basin-
13 Dakota Pool, Dakota formation.

14 Q. Are there secondary objectives?

15 A. The secondary objective would be the Mesaverde
16 formation.

17 Q. Let's go to McElvain Exhibit Number 2. Will you
18 review that for Mr. Catanach?

19 A. Exhibit Number 2 is a list of all of the working
20 interest owners in the south half of Section 29 that own
21 interest below the base of the Pictured Cliffs formation.

22 Q. Could you identify for us those interest owners
23 who have committed to this well?

24 A. Under this list, McElvain is the only committed
25 owner.

1 Q. So what percentage of the working interest is
2 voluntarily committed to the well?

3 A. Fifty percent.

4 Q. Could you review for the Examiner the efforts you
5 have made to obtain the voluntary joinder of the other
6 interest owners in this proposed spacing unit?

7 A. Yes, we sent -- on February the 23rd, sent a
8 proposal letter to drill the Bear Com 29 Number 1 well. It
9 was actually a revised proposal as we had revised our
10 previous proposal to drill to the base of the Mesaverde and
11 have revised that to drill to the base of the Dakota
12 formation.

13 That was sent along with an AFE and an operating
14 agreement to all of the working interest owners in the
15 south half of Section 29, below the base of the PC.

16 Subsequent to that, we have attempted to call all
17 of the owners and have talked to most of them, with the
18 exception of Gavilan Dome Properties, which we have not
19 been able to locate that party as far as a phone number.

20 All the owners did sign for the certified mailing
21 with the original proposal and the revised proposal, and we
22 did get our green cards back from all of the owners.

23 Q. Mr. Jordan, McElvain has been drilling -- has
24 recently drilled other wells in this same general area; is
25 that not correct?

1 A. Yes, we've been drilling wells in a two-township
2 area, and this same ownership group has been involved in a
3 number of those wells.

4 Q. And you've been required to force pool them each
5 time?

6 A. Each time. None of them have elected to
7 participate in the well at this point.

8 Q. In your opinion, have you made a good faith
9 effort to obtain the voluntary participation of each of
10 these interest owners in the proposed well?

11 A. Yes.

12 Q. And Exhibit Number 3 is a copy of the well
13 proposal letter that you referenced, dated February 23,
14 2000?

15 A. Yes, sir.

16 Q. Is Exhibit Number 4 an affidavit confirming that
17 notice of today's hearing has been provided in accordance
18 with Oil Conservation Division rules and regulations?

19 A. Yes.

20 Q. And attached to that affidavit are copies of
21 letters and return receipts; is that correct?

22 A. Yes.

23 Q. To whom was notice of this hearing provided?

24 A. It was provided to all of the working interest
25 owners below the base of the Pictured Cliffs formation in

1 the south half of Section 29.

2 Q. Is every interest owner who would be subject to
3 this pooling order included in this list?

4 A. Yes, sir.

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

7 A. Yes.

8 Q. Will McElvain be calling an engineering witness
9 to review the technical portion of the case?

10 A. Yes, we will.

11 MR. CARR: Mr. Catanach, at this time we move the
12 admission into evidence of McElvain Exhibits 1 through 4.

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

15 MR. CARR: And that concludes my direct
16 examination of Mr. Jordan.

17 EXAMINATION

18 BY EXAMINER CATANACH:

19 Q. Mr. Jordan, you said the Gavilan Dome -- you
20 couldn't find a phone number for them?

21 A. No. No, sir, we've been looking for them, as far
22 as a phone number, for a year and a half now.

23 And a lot of times they don't even pick up their
24 certified mailings, and we have to then mail one regular
25 mail as well.

1 My understanding from some of the other parties
2 in which -- their ownership is based in a common set of
3 title chain with these other parties, and they're having a
4 very difficult time locating or dealing with this same
5 group.

6 Along those same lines, I might mention that
7 Dugan Production Corporation is listed as a zero-percent
8 working interest owner, but we've listed them and notified
9 them of this hearing.

10 It is our understanding that this other group of
11 owners are owing them a partial reassignment of an interest
12 in these lands, and that's why we've listed them. That
13 same group has had difficulty finding and dealing with
14 Gavilan Dome Properties as well, as they're trying to get
15 that reassignment prepared, and having the same kind of
16 problem that we're having.

17 Q. Dugan can't participate at this point because
18 they don't have the interest yet; is that correct?

19 A. Correct. We've talked to Dugan and their
20 position is, if and when they do get a reassignment, you
21 know, they'll be more in a position to make a decision as
22 far as participation in these wells.

23 But until then, they feel like their hands are
24 tied.

25 Q. Do you know why some of these other interest

1 owners are reluctant to participate?

2 A. It's my understanding that Noseco Corporation and
3 Neumann Family Trust are in the middle of attempting to
4 sell their undeveloped acreage to a third party.

5 Mesa Grande Resources, the president is E. Alex
6 Phillips, and he just underwent triple bypass surgery and
7 indicated that he's not in a position to do very much at
8 all.

9 We've talked with NM&O Operating Company a number
10 of times, and I'm not sure, other than maybe economic
11 reasons, why they're not electing to participate.

12 I've also spoken with the president of Johansen
13 Energy Partnerships, and basically just not interested.

14 Williams Production Company owns a reversionary
15 working interest after payout, under a purchase and sale
16 agreement with Mesa Grande Corporation.

17 Q. You don't anticipate anybody coming on board?

18 A. They haven't -- In previous wells we've drilled
19 in the last couple of years, none of them have elected to
20 participate, none of them have elected to sign a JOA and go
21 nonconsent, and none have ultimately elected after the
22 compulsory pooling to participate in any of our wells..

23 EXAMINER CATANACH: Okay, I have no further
24 questions.

25 MR. CARR: At this time we call Mr. John Steuble.

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JOHN STEUBLE,

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

DIRECT EXAMINATION

BY MR. CARR:

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

A. John Steuble.

Q. Where do you reside?

A. I reside in Denver, Colorado.

Q. By whom are you employed?

A. McElvain Oil and Gas Properties.

Q. And what is your position with McElvain?

A. I'm the engineering manager.

Q. Have you previously testified before this Division and had your credentials as an expert in petroleum engineering accepted and made a matter of record?

A. Yes, I have.

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

A. Yes, I am.

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

A. Yes, I have.

Q. Are you prepared to share the results of that work with the Examiner?

1 A. Yes.

2 MR. CARR: Are the witness's qualifications
3 acceptable?

4 EXAMINER CATANACH: They are.

5 Q. (By Mr. Carr) Mr. Steuble, let's go to what has
6 been marked for identification as McElvain Exhibit Number
7 5. Would you identify this and review it for the Examiner?

8 A. This is just a plat of the immediate area around
9 our proposed Bear Com 29 Number 1, and showing the south-
10 half spacing that we're requesting.

11 It's also showing the offset wells and their
12 producing formations that are in the immediate area.

13 Q. Let's go to Exhibit Number 6, the Mesaverde IP
14 and cumulative production map. Would you review the
15 information on this exhibit?

16 A. This exhibit is a larger -- covering more of the
17 townships around the proposed well, and what I've done is
18 shown the existing Mesaverde wells, their IP, reported IPs,
19 and the cumulative production as of November 30th, 1999.

20 Q. Basically, what does this show you?

21 A. I think what we're trying to show is the
22 scarceness of the Mesaverde production in the area as
23 compared with other areas of the Basin.

24 The other thing that it shows is, some of the
25 wells have very high IPs and marginal cumulative

1 recoveries, and that's basically it.

2 Q. What does McElvain Exhibit Number 7 show?

3 A. Exhibit Number 7 is time-rate plots that I've
4 done for selected wells in the area, trying to show the
5 differences in wells that are in the area, as far as the
6 producing characteristics in the Mesaverde formation.

7 These curves do not include all of the wells on
8 Exhibit 6, but just some selected wells that show there is
9 a high risk in the area concerning potential production
10 problems.

11 Q. And this is on the Mesaverde formation?

12 A. This is on the Mesaverde.

13 Q. Let's go now to the Dakota. Would you identify
14 and review McElvain Exhibit Number 8?

15 A. Exhibit Number 8 is again, the same geographical
16 area, showing the Dakota completions. And I might add that
17 not all these are strictly Dakota. Some are Dakota-Gallup.
18 As you can see, we're dealing with three different pools.
19 We have the Ojito Gallup-Dakota Northeast, we have the
20 Lindrith Gallup-Dakota West, and we have the Triple G Pool
21 or the Gavilan Greenhorn Graneros-Dakota Pool to the south.

22 Our Bear Com well is offsetting the Ojito Gallup-
23 Dakota Pool, but we are also pooled in our 33 well into the
24 Gavilan Greenhorn Graneros Pool. We are permitting this as
25 a Basin-Dakota well.

1 Q. Would you identify and review Exhibit Number 9?

2 A. Number 9 is selected time-rate curves for some of
3 these wells that are on Exhibit 8. Again, I have not
4 prepared curves on each individual well, but what we're
5 trying to show is some of the characteristics or the
6 different characteristics of the producing horizon in one
7 of these pools.

8 Q. Are you prepared to make a recommendation to the
9 Examiner concerning the risk penalty which should be
10 assessed against any nonparticipating interest owner?

11 A. Yes, I am.

12 Q. And summarize the basis -- Or what is your
13 recommendation?

14 A. My recommendation is a 200-percent penalty.

15 Q. And summarize briefly the basis for that
16 recommendation.

17 A. It goes back to the previous exhibit showing the
18 potential for poor wells in the area, both in the Mesaverde
19 and the Dakota formations.

20 Q. In your opinion, is it possible to drill a well
21 at the proposed location that would not be an economic
22 success?

23 A. Yes, it is.

24 Q. Would you identify McElvain Exhibit Number 10,
25 please?

1 A. Exhibit Number 10 is an AFE I prepared to drill
2 and complete the well to the Dakota formation as a Dakota
3 producer.

4 Q. And would you review the dryhole and completed
5 well costs?

6 A. Dryhole costs are \$374,370, completed well costs
7 are \$686,520.

8 Q. Are these costs in line with what you have
9 incurred in the drilling of similar wells in the immediate
10 area?

11 A. Yes, they are.

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

15 A. Yes, we have.

16 Q. And what are those figures?

17 A. The drilling rate would be \$5484.67, the monthly
18 producing rate would be \$548.47.

19 I would like to add that we estimated these in
20 January, and as of April 1st they will be decreased by five
21 percent.

22 Q. And what was the figure for the drilling well --
23 what was the drilling well rate?

24 A. \$5484.67.

25 Q. Do you recommend that these figures be

1 incorporated into any order which results from this
2 hearing?

3 A. Yes, I do.

4 Q. Would you identify McElvain Exhibit Number 11?

5 A. Exhibit Number 11 is the model operating
6 agreement form.

7 Q. Does this joint operating agreement set overhead
8 rates and provide for adjustment of those rates?

9 A. Yes, it does.

10 Q. Does McElvain request that the overhead rates
11 approved by the Division be subject to adjustment in
12 accordance with the COPAS guidelines applicable to all
13 interest owners in the well?

14 A. Yes, we do.

15 Q. In your opinion, will the granting of this
16 Application and the drilling of the proposed well be in the
17 best interest of conservation, the prevention of waste and
18 the protection of correlative rights?

19 A. Most definitely.

20 Q. Were McElvain Exhibits 5 through 11 prepared by
21 you or compiled at your direction?

22 A. Yes, sir.

23 MR. CARR: At this time, Mr. Catanach, we move
24 the admission into evidence of McElvain Exhibits 5 through
25 11.

1 EXAMINER CATANACH: Exhibits 5 through 11 will be
2 admitted as evidence.

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

5 EXAMINATION
6 BY EXAMINER CATANACH:

7 Q. Mr. Steuble, why is it risky to drill a Dakota in
8 this area of the Basin?

9 A. Well, that can be shown in the time-rate curve.
10 We have drilled one Dakota well in Section 33. I think
11 it's shown on -- On Exhibit Number 8, it is shown in
12 Section 33, completed February of this year.

13 We had one sand, the Dakota "A" sand, that we
14 completed. We also tried to complete up in the Greenhorn,
15 and that's why we got put in that Greenhorn Gavilan
16 Graneros Pool. The Greenhorn proved to be very tight and
17 probably nonproductive. The Dakota zone actually screened
18 out on the frac job. So we're not sure that we'll get a
19 decent stimulation. But you're drilling to 8400-8500 feet
20 for a 30-foot pay zone, basically.

21 We have had enormous lost circulation problems in
22 this area, to the east of this. We're right on the eastern
23 edge of the Basin. We think we have -- You know, the
24 outcrops to the east of us on the Mesaverde. So we're in a
25 very -- what's the word I'm looking for? -- unstable, if

1 you will, environment as far as drilling. It's not like
2 drilling in the middle of the Basin.

3 And so it is risky.

4 Q. How do you -- Is there any way to explain why the
5 IPs on these Dakota wells are so different?

6 A. No, sir.

7 Q. I mean, in the same section you can have an IP of
8 30 and an IP of 713. I mean, it's quite a substantial
9 difference.

10 A. A lot of it is probably how the operator chooses
11 to report the IP. But over here in these other pools, it's
12 not always just Dakota open. It could be -- You know, the
13 Gallup could be open. And the Gallup notoriously has a
14 high IP and a quick drawdown.

15 Q. And you're talking about this same kind of risk
16 in the Mesaverde formation?

17 A. Yes, we've drilled a number of Mesaverde wells,
18 as shown on our Exhibit Number 6, primarily in Section 3
19 and 4 of 25-2, we drilled in 34, and we've tried a
20 recompletion up in Section 22 in the Mesaverde, which
21 netted us nothing, we walked away from it. It's quite
22 inconsistent, we've had a lot of water problems, water
23 production problems. We've had water rates of 90 to 125
24 barrels of water a day that we're having to dispose of.

25 We've had other wells -- We think we're getting a

1 handle on better completion techniques, but we still have
2 water in the Mesaverde. We're not sure if it's in the
3 Cliffhouse or the Point Lookout or the Menefee.

4 A good example is our Section 34 well, which we
5 have walked away, basically, from the Point Lookout zone
6 and have recently recompleted in the Lewis. And right now
7 it's an uneconomic well, yet it offsets one of our better
8 wells in the northwest quarter of 3. But the logs look
9 totally different.

10 I'm not sure that we're in your conventional
11 Mesaverde system, as you would expect in other parts of the
12 Basin.

13 Q. Just to repeat your overhead rates, for drilling
14 rates you've got \$5484.67?

15 A. \$5484.67.

16 Q. And a producing rate of \$548.47?

17 A. Yes.

18 Q. Would you mind if we rounded those off?

19 A. Can I defer to our land guy for that?

20 EXAMINER CATANACH: Is that a problem?

21 MR. JORDAN: We're trying to keep all of our
22 wells of a similar depth at a similar level as far as the
23 overhead, and those rates have been adjusted under COPAS
24 guideline every year, and due to those adjustments they've
25 ended up with the pennies involved.

1 So to keep these wells at the exact same rate as
2 our other wells, we'd like to keep it at the same penny
3 denomination.

4 EXAMINER CATANACH: I see.

5 Q. (By Examiner Catanach) Now, you did mention
6 something about these were going to be reduced?

7 A. Yes, the COPAS -- it reduced by five percent,
8 April 1st.

9 MR. JORDAN: Point five percent --

10 THE WITNESS: Point five.

11 MR. JORDAN: -- approximately.

12 THE WITNESS: Okay.

13 MR. JORDAN: Under COPAS guidelines, every year
14 the rates are adjusted. And again, in keeping these rates
15 similar to other rates that are being adjusted, we would
16 adjust these rates down by .5 percent as of April 1st.

17 EXAMINER CATANACH: Okay.

18 Q. (By Examiner Catanach) And you guys have
19 drilled, obviously, similar wells in this area to similar
20 depths recently?

21 A. Yes.

22 Q. Okay. So these drilling costs are pretty much in
23 line with what you've encountered so far?

24 A. Yes.

25 Q. That AFE that you've got as Exhibit Number 10,

1 who was that prepared by?

2 A. Myself.

3 Q. Okay.

4 A. And most of those, the big prices like the
5 drilling footage, the drilling prices and the pipe prices
6 were -- at the time I'd done the AFE, which was in
7 December, those were the current prices. Pipe prices may
8 have gone up since that time.

9 EXAMINER CATANACH: Okay. All right, I have
10 nothing further.

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

13 EXAMINER CATANACH: Okay, there being nothing
14 further, Case 12,395 will be taken under advisement.

15 (Thereupon, these proceedings were concluded at
16 9:55 a.m.)

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I do hereby certify that the foregoing is
a true and correct record of the proceedings
of the Examiner hearing of Case No. 12395
heard by me on May 4 1966
David R. Catanach
Off Conservation Division

