

CASE 10528: (Continued from October 1, 1992, Examiner Hearing and this case will be dismissed.)

Application of Yates Petroleum Corporation for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests from the surface to the base of the Canyon formation, underlying the SE/4 of Section 20, Township 19 South, Range 25 East, forming a 160-acre spacing and proration unit for any and all formations and/or pools developed on 160-acre spacing within said vertical extent, which presently includes only the Undesignated North Dagger Draw-Upper Pennsylvanian Pool. Said unit is to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as the operator of the well and a charge for risk involved in drilling said well. Said unit is located approximately 6 miles northwest of Seven Rivers, New Mexico.

CASE 10575: **Application of Klabzuba Operating Company for an unorthodox oil well location, Chaves County, New Mexico.** Applicant, in the above-styled cause, seeks approval for an unorthodox oil well location 1847 feet from the North line and 1310 feet from the East line (Unit H) of Section 13, Township 10 South, Range 27 East, Race Track-Devonian Pool. The SE/4 NE/4 of said Section 13 is to be dedicated to said well forming a standard 40-acre oil spacing and proration unit. Said unit is located approximately 1.5 miles north by west of U.S. Highway 380 at milepost 178.

CASE 10498: (Reopened)

In the matter of Case No. 10498 being reopened upon application of Monty D. McLane to exempt certain working interests from the compulsory pooling provisions of Division Order No. R-9690, Lea County, New Mexico. Division Order No. R-9690, issued in Case 10498 and dated July 1, 1992, granted the application of Charles Gillespie to compulsorily pool all mineral interests from the surface to the base of the Strawn formation underlying Lot 3 of Section 1, Township 16 South, Range 35 East, forming a non-standard 51.08-acre oil spacing and proration unit to be dedicated to a well to be drilled at a standard oil well location thereon. At this time Monty D. McLane requests the Division enter an order reopening Case No. 10498 and declare that the working interests of Henry H. Lawton and Amanda K. Parks are not subject to said Order No. R-9690.

CASE 10540: (Continued from October 1, 1992, Examiner Hearing.)

Application of American Hunter Exploration, Ltd. for an unorthodox oil well location, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks approval for an unorthodox oil well location 2480 feet from the South line and 915 feet from the West line (Unit J) of irregular Section 6, Township 27 North, Range 2 West, to test the Mancos formation. The NW/4 SE/4 of said Section 6 is to be dedicated to said well forming a standard 40-acre oil spacing and proration unit. Said unit is located approximately 19 miles west of El Vado, New Mexico.

CASE 10576: **Application of Merrion Oil & Gas Corporation for a unit agreement, Sandoval County, New Mexico.** Applicant, in the above-styled cause, seeks approval of the Rock Mesa Unit Agreement for an area comprising 10,823.16 acres, more or less, of Federal and State lands in portions of Townships 18 and 19 North, Range 3 West, which is centered approximately 18 miles south-southwest of Cuba, New Mexico.

CASE 10567: (Continued from October 15, 1992, Examiner Hearing.)

Application of SG Interests I, Ltd. for compulsory pooling, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Basin-Fruitland Coal (Gas) Pool underlying Lots 3 and 4, the E/2 SW/4 and the SE/4 (S/2 equivalent) of Section 30, Township 29 North, Range 10 West, forming a 319.80-acre gas spacing and proration unit for said pool. Said unit is to be dedicated to a well to be drilled at a standard coal gas well location in the SW/4 of said Section 30. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as the operator of the well and a charge for risk involved in drilling said well. Said unit is located approximately 3 miles east-southeast of Bloomfield, New Mexico.

CASE 10577: **Application of SG Interests I, Ltd. for compulsory pooling, San Juan County, New Mexico.** Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Basin-Fruitland Coal (Gas) Pool underlying Lots 1 through 4 and the S/2 N/2 (N/2 equivalent) of Section 2, Township 29 North, Range 9 West, forming a standard 324.00-acre gas spacing and proration unit for said pool. Said unit is to be dedicated to a well to be drilled at a standard coal gas well location in the NE/4 SW/4 (Unit G) of said Section 2. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as the operator of the well and a charge for risk involved in drilling said well. Said unit is located approximately 1 mile east-northeast of Turley, New Mexico.

os. 37-92 and 38-92 are tentatively set for November 5, 1992 and November 19, 1992. Applications for hearing must be filed at least 15 days in advance of hearing date.

DOCKET: EXAMINER HEARING - THURSDAY - OCTOBER 26, 1992

8:15 A.M. - OIL CONSERVATION DIVISION CONFERENCE ROOM, STATE LAND OFFICE BUILDING,
SANTA FE, NEW MEXICO

The following case will be heard before Michael E. Stogner, Examiner or David R. Catanach, Alternate Examiner:

CASE 10490: (Continued from September 3, 1992, Examiner Hearing.)

Application of Noranda Minerals Inc. requesting the Division to rescind or deny an application to drill a certain well in the oil/potash area, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order denying or rescinding the approval of an "Application for Permit to Drill" which would authorize Yates Petroleum Corporation to drill its Snyder "AKY" Well No. 1 at a standard oil well location in the NW/4 SW/4 (Unit L) of Section 1, Township 20 South, Range 32 East, (approximately 3 miles north of the junction of U.S. Highway 62/180 and State Highway 176). Said location is within the designated oil/potash area as described in and governed under the provisions of Division Order No. R-111-P.

DOCKET: EXAMINER HEARING - THURSDAY - OCTOBER 29, 1992

8:15 A.M. - OIL CONSERVATION DIVISION CONFERENCE ROOM, STATE LAND OFFICE BUILDING,
SANTA FE, NEW MEXICO

The following cases will be heard before Michael E. Stogner, Examiner or David R. Catanach, Alternate Examiner:

CASE 10100: In the matter of Case 10100 being reopened pursuant to the provisions of Division Order No. R-9330, which order promulgated special operating rules and regulations for the San Isidro (Shallow) Unit in Sandoval County. Operators in said unit may appear and show cause why the continuation of the foregoing special operating rules and regulations governing the Rio Puerco-Mancos Oil Pool within said Unit Area are consistent with sound engineering and conservation practices and show cause why such procedures should remain in effect.

CASE 10560: (Continued from October 15, 1992, Examiner Hearing.)

Application of Conoco Inc. for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests from the surface to the base of the Canyon formation underlying the NE/4 of Section 17, Township 19 South, Range 25 East, forming a standard 160-acre spacing and proration unit for any and all formations spaced on 160-acre spacing within said vertical extent, which presently includes but is not necessarily limited to the North Dagger Draw-Pennsylvanian Pool. Said unit is to be dedicated to the existing Southwest Royalties, Inc. Dagger Draw Well No. 1 located at a standard location 660 feet from the North line and 1980 feet from the East line (Unit B) of said Section 17, said unit and well were the subject of Division Case No. 10471. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well and a charge for risk involved in drilling said well. Said unit is located approximately 6.5 miles northwest of Seven Rivers, New Mexico.

CASE 10574: **Application of Yates Petroleum Corporation for compulsory pooling, Eddy County, New Mexico.** Applicant, in the above-styled cause, seeks an order pooling all mineral interests from the surface to the base of the Canyon formation, at approximately 8,200 feet, underlying the following described acreage in Section 14, Township 20 South, Range 24 East, and in the following described manner: the N/2 to form a single standard 320-acre spacing and proration unit for any and all formations and/or pools developed on 320-acre spacing within said vertical extent (which presently includes but is not necessarily limited to the South Dagger Draw-Upper Pennsylvanian Associated Pool); the NE/4 and NW/4 to form two standard 160-acre gas spacing and proration units for any and all formations and/or pools developed on 160-acre spacing within said vertical extent; and the NW/4 NE/4 and SW/4 NW/4 to form two standard 40-acre oil spacing and proration units for any and all formations and/or pools developed on 40-acre spacing within said vertical extent. The proposed 320-acre unit is to be dedicated to either a single well to be drilled at a standard location in Unit B or Unit E or to both wells to be simultaneously dedicated to the 320-acre unit. Further the 160-acre gas unit comprising the NE/4 and the 40-acre oil unit comprising the NW/4 NE/4 are to be dedicated to the proposed well to be drilled in Unit B. The 160-acre gas unit comprising the NW/4 and the 40-acre oil unit comprising the SW/4 NW/4 are to be dedicated to the proposed well to be drilled in Unit E. Also to be considered will be the cost of drilling and completing said well or wells and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as the operator of each well and a charge for risk involved in drilling said well or wells. The subject area in this matter is located approximately 7.5 miles west by south of Seven Rivers, New Mexico.

Dockets Nos. 35-92 and 36-92 are tentatively set for October 29, 1992 and November 5, 1992. Applications for hearing must be filed at least 23 days in advance of hearing date.

DOCKET: EXAMINER HEARING - THURSDAY - OCTOBER 15, 1992

**8:15 A.M. - OIL CONSERVATION DIVISION CONFERENCE ROOM, STATE LAND OFFICE BUILDING,
SANTA FE, NEW MEXICO**

The following cases will be heard before David R. Catanach, Examiner or Michael E. Stogner, Alternate Examiner:

CASE 10567: **Application of SG Interests I, Ltd. for compulsory pooling, San Juan County, New Mexico.** Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Basin-Fruitland Coal (Gas) Pool underlying Lots 3 and 4, the E/2 SW/4 and the SE/4 (S/2 equivalent) of Section 30, Township 29 North, Range 10 West, forming a 319.80-acre gas spacing and proration unit for said pool. Said unit is to be dedicated to a well to be drilled at a standard coal gas well location in the SW/4 of said Section 30. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as the operator of the well and a charge for risk involved in drilling said well. Said unit is located approximately 3 miles east-southeast of Bloomfield, New Mexico.

CASE 10568: **Application of Mewbourne Oil Company for an unorthodox infill gas well location and simultaneous dedication, Eddy County, New Mexico.** Applicant, in the above-styled cause, seeks approval of an unorthodox gas well location 1980 feet from the South line and 990 feet from the East line (Unit I) of Section 1, Township 18 South, Range 27 East, North Illinois Camp-Morrow Gas Pool. Further, the applicant seeks an exception to Division General Rule 104.C(2) to allow the existing 320-acre gas spacing and proration unit comprising the S/2 of said Section 1 to be simultaneously dedicated in the North Illinois Camp-Morrow Gas Pool to the proposed well and to the existing Chalk Bluff Federal Well No. 1 located at a standard gas well location 790 feet from the South line and 2250 feet from the West line (Unit N) of said Section 1. Said unit is located approximately 5.25 miles southeast of Riverside, New Mexico.

CASE 10557: (Readvertised)

Application of Hallwood Petroleum Inc. for an unorthodox coal gas well location, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks approval for an unorthodox coal gas well location 947 feet from the South line and 800 feet from the East line (Unit P) of Section 24, Township 32 North, Range 13 West, the E/2 of said Section 24 is to be dedicated to said well forming a standard 320-acre gas spacing and proration unit for the Basin-Fruitland Coal Gas Pool. Said unit is located approximately 3.5 miles northeast of La Plata, New Mexico.

CASE 10569: **Application of Hallwood Petroleum Inc. for compulsory pooling, San Juan County, New Mexico.** Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Basin-Fruitland Coal (Gas) Pool, underlying the E/2 of Section 35, Township 32 South, Range 13 West, forming a standard 320-acre gas spacing and proration unit for said pool. Said unit is to be dedicated to a well to be drilled at a standard location in the NE/4 of said Section 35. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as the operator of the well and a charge for risk involved in drilling said well. Said unit is located approximately 1.5 miles northeast of La Plata, New Mexico.

CASE 10555: (Readvertised. This case will be continued to November 5, 1992.)

Application of Meridian Oil Inc. for amendment of Division Order No. R-8170, as amended, to establish a minimum gas allowable in the Justis (Glorieta) Gas Pool, Lea County, New Mexico. Applicant, in the above-styled cause, seeks to amend the "General Rules For the Prorated Gas Pools of New Mexico/Special Rules and Regulations for the Justis (Glorieta) Gas Pool" as promulgated by Division Order No. R-8170, as amended, to provide for a minimum natural gas allowable for the Justis (Glorieta) Gas Pool for a three-year period of time equal to 600 MCF of gas per day for an Acreage Factor of 1.00 or 1,200 MCF of gas per day for a standard Justis 320-acre gas spacing and proration unit. The current pool boundaries include portions of Townships 24 and 25 South, Range 37 East, which is located approximately 4 miles east of Jal, New Mexico.

CASE 10570: **Application of Marathon Oil Company to qualify a portion of the South Eunice Seven Rivers Queen Unit Waterflood Project for the recovered oil tax rate pursuant to the "New Mexico Enhanced Oil Recovery Act", Lea County, New Mexico.** Applicant, in the above-styled cause, seeks an order pursuant to the Rules and Procedures for Qualifications of Enhanced Oil Recovery Projects and Certification for the Recovered Oil Tax Rate, as promulgated by Division Order No. R-9708, qualifying a portion of its South Eunice Seven Rivers Queen Unit Waterflood Project (authorized by Division Order No. R-4217), in Sections 35 and 36, Township 22 South, Range 36 East, South Eunice Seven Rivers Queen Unit, South Eunice Seven Rivers-Queen Pool, for the recovered oil tax rate under the "Enhanced Oil Recovery Act" (Laws 1992, Chapter 38, Sections 1 through 5). Said project area is located approximately 7.5 miles southwest by south of Eunice, New Mexico.

CASE 10571: **Application of Chevron U.S.A. Inc. for a high angle/horizontal directional drilling pilot project, special operating rules, unorthodox oil well location, non-standard oil proration unit, and simultaneous dedication, Lea County, New Mexico.** Applicant, in the above-styled cause, seeks to initiate a high angle/horizontal directional drilling pilot project in the South Brunson Drinkard-Abo Pool underlying the W/2 SE/4 of Section 30, Township 22 South, Range 38 East, thereby creating a non-standard 80-acre oil spacing and proration unit for said pool. The applicant proposes to recompleat its Drinkard (NCT-B) Well No. 5, located at a standard surface location 880 feet from the South line and 1980 feet from the East line (Unit O) of said Section 30, plug back from the Wantz-Granite Wash Pool, kick-off at approximately 6772 feet and drill in a north-northeasterly direction until an angle of approximately 90 degrees is achieved and continue drilling horizontally for approximately 400 feet. The applicant is proposing to establish a window for said project whereby the horizontal displacement of said well's producing interval will be confined to a rectangular area 880 feet from the South line, 1780 feet from the East line, 1280 feet from the South line, and 1980 feet from the East line of said Section 30. Further the applicant seeks the adoption of special operating provisions within the project area including a special project oil allowable. Also to be included is the simultaneous dedication of the proposed well with the existing Drinkard (NCT-B) Well No. 3 located at a standard oil well location 660 feet from the South line and 1980 feet from the East line (Unit O) which currently has dedicated the SW/4 SE/4 of said Section 30. The subject area is located approximately 6.5 miles southeast by south of Eunice, New Mexico.

CASE 10559: (Continued from September 17, 1992, Examiner Hearing.)

Application of Southwest Royalties, Inc. for salt water disposal, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks authority to re-enter the previously plugged and abandoned Conoco Inc. Julie Com Well No. 1 located 1980 feet from the North line and 990 feet from the East line (Unit H) of Section 17, Township 19 South, Range 25 East, and utilize said well to dispose of produced salt water into the Abo formation through the perforated interval from approximately 4000 feet to 5000 feet. Said well is located approximately 6.5 miles northwest of Seven Rivers, New Mexico.

CASE 10471: (Continued from September 17, 1992, Examiner Hearing.)

Application of Southwest Royalties, Inc. for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests from the surface to the base of the Canyon formation underlying the NE/4 of Section 17, Township 19 South, Range 25 East, forming a standard 160-acre spacing and proration unit for any and all formations spaced on 160-acre spacing within said vertical extent, which presently includes but is not necessarily limited to the North Dagger Draw-Pennsylvanian Pool. Said unit is to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well and a charge for risk involved in drilling said well. Said unit is located approximately 6.5 miles northwest of Seven Rivers, New Mexico.

CASE 10560: (Continued from September 17, 1992, Examiner Hearing.)

Application of Conoco Inc. for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests from the surface to the base of the Canyon formation underlying the NE/4 of Section 17, Township 19 South, Range 25 East, forming a standard 160-acre spacing and proration unit for any and all formations spaced on 160-acre spacing within said vertical extent, which presently includes but is not necessarily limited to the North Dagger Draw-Pennsylvanian Pool. Said unit is to be dedicated to the existing Southwest Royalties, Inc. Dagger Draw Well No. 1 located at a standard location 660 feet from the North line and 1980 feet from the East line (Unit B) of said Section 17, said unit and well were the subject of Division Case No. 10471. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well and a charge for risk involved in drilling said well. Said unit is located approximately 6.5 miles northwest of Seven Rivers, New Mexico.

CASE 10572: **Application of Texaco Exploration & Production Inc. for waterflood expansion, Lea County, New Mexico.** Applicant, in the above-styled cause, seeks authority to expand its W. H. Rhodes "B" Federal Waterflood Project, authorized by Division Order No. R-2748, by converting its W. H. Rhodes "B" Federal (NCT-1) Well No. 6 located 1980 feet from the South line and 660 feet from the East line (Unit I) and its W. H. Rhodes "B" Federal (NCT-1) Well No. 13 located 990 feet from the South line and 1650 feet from the East line (Unit O), both in Section 27, Township 26 South, Range 37 East, from producing oil wells to water injection wells. Said project area is located approximately 7.5 miles south-southeast of Jal, New Mexico.

CASE 10573: **Application of Texaco Exploration & Production Inc. for waterflood expansion, Lea County, New Mexico.** Applicant, in the above-styled cause, seeks authority to expand its Rhodes Yates Unit Waterflood Project, authorized by Division Order No. R-3889, by converting its Rhodes Yates Unit Well No. 8 located 1875 feet from the North line and 765 feet from the West line (Unit E) and its Rhodes Yates Unit Well No. 13 located 660 feet from the South and West lines (Unit M), both in Section 27, Township 26 South, Range 37 East, Rhodes Yates Unit, Rhodes Yates-Seven Rivers Pool, from producing oil wells to water injection wells. Said project area is located approximately 7.5 miles south-southeast of Jal, New Mexico.

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NEW MEXICO OIL CONSERVATION DIVISION
STATE LAND OFFICE BUILDING
STATE OF NEW MEXICO
CASE NO. 10567

IN THE MATTER OF:

The Application of SG Interests I,
Ltd., for Compulsory Pooling, San Juan
County, New Mexico.

BEFORE:

MICHAEL E. STOGNER
Hearing Examiner
State Land Office Building
October 29, 1992

REPORTED BY:

CARLA DIANE RODRIGUEZ
Certified Shorthand Reporter
for the State of New Mexico

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A P P E A R A N C E S

FOR THE NEW MEXICO OIL CONSERVATION DIVISION:

ROBERT G. STOVALL, ESQ.

General Counsel
State Land Office Building
Santa Fe, New Mexico 87504

FOR THE APPLICANT:

THE TANSEY LAW FIRM
Post Office Box 1020
Farmington, New Mexico 87499
BY: B. TOMMY ROBERTS, ESQ.

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1 EXAMINER STOGNER: The hearing will
2 come to order. Call next case, No. 10567, which
3 is the application of SG Interests I, Ltd., for
4 compulsory pooling, San Juan County, New Mexico.

5 At this time I'll call for
6 appearances.

7 MR. ROBERTS: Mr. Examiner, my name is
8 Tommy Roberts. I'm an attorney with the Tansey
9 Law Firm in Farmington. I'm appearing on behalf
10 of the Applicant. I have two witnesses to be
11 sworn.

12 EXAMINER STOGNER: Will the witnesses
13 please stand to be sworn at this time.

14 [The witnesses were duly sworn.]

15 MR. ROBERTS: Call my first witness.

16 JAMES B. FULLERTON

17 Having been first duly sworn upon his oath, was
18 examined and testified as follows:

19 EXAMINATION

20 BY MR. ROBERTS:

21 Q. Would you please state your name and
22 your place of residence for the record, please.

23 A. James B. Fullerton. I live in Denver,
24 Colorado.

25 Q. What is your occupation?

1 A. Petroleum landman.

2 Q. By whom are you employed?

3 A. I'm an independent working for SG
4 Interests I, Ltd.

5 Q. How long have you had that relationship
6 with SG Interests I, Ltd.?

7 A. Approximately one year.

8 Q. Have you testified before the Oil
9 Conservation Division on prior occasions?

10 A. Yes.

11 Q. In what capacity did you testify?

12 A. As a petroleum landman.

13 Q. Are you familiar with the application
14 in this case?

15 A. Yes.

16 Q. Are you generally familiar with the
17 operations of SG in the area that is the subject
18 of this application?

19 A. Yes, I am.

20 MR. ROBERTS: Tender Mr. Fullerton as
21 an expert petroleum landman.

22 EXAMINER STOGNER: Mr. Fullerton is so
23 qualified.

24 Q. Mr. Fullerton, would you briefly
25 describe the purpose of this application?

1 A. The purpose of the application is
2 basically to pool the nonjoining mineral and
3 leasehold interests in the proposed well to be
4 drilled by SG Interests I, Ltd., the Sikes
5 29-10-30 #2 well, which is depicted on Exhibit
6 No. 1 as the spacing unit for the proposed well.

7 Q. What formation do you seek to force
8 pool?

9 A. Fruitland Coal.

10 Q. You have mentioned Exhibit No. 1 of the
11 Applicant. Would you go through this,
12 page-by-page, and identify the information that's
13 contained on the exhibit?

14 A. The first page of Exhibit 1 is an
15 outline. The gray area is the outline of the
16 320-acre drilling spacing unit established for
17 this well which would, again, be the south half
18 of Section 30, of 29 North, 10 West, San Juan
19 County, New Mexico.

20 The well location depicted on the map
21 in Tract 1 is a standard location, and it's shown
22 as a circle in Tract 1. The individual tracts,
23 the individual ownerships, are outlined also on
24 this plat. The various different ownerships are
25 depicted as Tracts 1 through 6.

1 Q. The spacing unit appears to contain
2 319.8 acres, and I'm assuming that's a standard
3 spacing unit in accordance with the rules and
4 regulations of the Division?

5 A. Yes.

6 Q. What's the status of the well?

7 A. The well at this point has been staked
8 and we're proposed to begin drilling operations
9 soon. We were attempting to get all the other
10 parties to join and haven't been successful at
11 this point.

12 Q. Turn to the next page which is marked
13 by the numeral "1." What information is depicted
14 there?

15 A. On page 1 is the information as to
16 the--basically the unit working interest owners.
17 This has been revised somewhat here in the past
18 few days.

19 Q. Would you explain the manner in which
20 it should be revised?

21 A. Okay. As stated there under unit
22 working interest, SG Interests, what their
23 interest is, the interest of James G. Morris and
24 T. J. McFarland are also participants along with
25 SG in the working interests associated with the

1 well.

2 The two individuals at the bottom, Don
3 Morris Davis and Tommy Key are the two parties we
4 have been unable to obtain joinders on, and the
5 two parties that are subject to this force
6 pooling.

7 EXAMINER STOGNER: Okay. Just so I'll
8 know what you're talking about, the Morris and
9 the McFarland interest has been obtained through
10 farmout or assignments, and that interest should
11 be part of that 93.68 percent, is that correct?

12 THE WITNESS: No. Actually, they have
13 agreed to participate for their working interest,
14 so they are actually participants.

15 EXAMINER STOGNER: Okay. And not
16 subject to the force pooling today?

17 THE WITNESS: Yes. Actually, the only
18 two parties are the two bottom ones that are
19 subject to that.

20 EXAMINER STOGNER: I just wanted to
21 double-check. I'm sorry, Mr. Roberts.

22 MR. ROBERTS: And to restate it for the
23 record, when Mr. Fullerton refers to the bottom
24 two parties being subject to the force pooling
25 application, he's referring to Don Morris Davis

1 and Tommy Key.

2 Q. (BY MR. ROBERTS) Okay. Mr. Fullerton,
3 now refer to what has been marked as page no. 2
4 of Exhibit No. 1.

5 A. Page 2 is basically an outline of the
6 various leasehold interests in the tracts that
7 are depicted on the front page, Tracts 1 through
8 6. We have just basically gone through here and
9 indicated the individual leasehold owners and
10 their interest within that individual tract.

11 I think as you can see from page 2
12 through page 5, which outlines the tracts, many
13 of these people have already agreed to join or
14 assign their interest or farmed out to SG
15 Interests I.

16 Q. Now refer to what has been marked as
17 page 6 of Exhibit 1 and identify the information
18 depicted there.

19 A. Okay. Starting on page 6 of Exhibit
20 No. 1. Again, we've broken down the individual
21 tracts in the same order as on this map again,
22 and this basically is a list of all the actual
23 leases in effect covering the various working
24 interest owners' interest in this spacing unit.

25 Q. It would appear we're dealing with

1 either fee or federal leases?

2 A. Yes. All these leases are still in
3 effect.

4 Q. Let me have you refer to what has been
5 marked as Applicant's Exhibit No. 2. Would you
6 identify that exhibit?

7 A. Exhibit No. 2, again referring back to
8 the two parties, Don Morris Davis and Tommy Key,
9 who are subject to this force pooling
10 application, Exhibit No. 2 is my original
11 correspondence with Don Morris Davis, dated June
12 24, 1992.

13 In this correspondence, I outlined SG's
14 plans for the drilling of the Fruitland Coal
15 well, and I provided him an AFE, indicated his
16 working interest in the well and the costs
17 associated with his interest.

18 In this letter, I also outlined the
19 options that SG would make available to him,
20 which would be a sale of his interest or farmout
21 of his interest, if he chose not to join.

22 Q. What response did you receive to this
23 communication?

24 A. As far as Don Morris Davis is
25 concerned, we sent the information certified and

1 received a notice back that it was undeliverable
2 and have not been successful in locating this
3 individual.

4 Q. Have you attempted to make any other
5 communications with him, either through mailing
6 or in any other way tried to locate his
7 whereabouts?

8 A. We have discussed--we attempted to
9 discuss this matter with Amoco Production Company
10 who also operates a well in this particular
11 section, and their records do not reflect that
12 they've been able to locate this party, either.

13 Q. This address that's listed on this
14 correspondence dated June 24, 1992, is his last
15 known address?

16 A. Yes.

17 Q. And attached to that letter addressed
18 to Mr. Davis, dated June 24, 1992, is an AFE.
19 And this is the AFE that you attempted to deliver
20 with the letter?

21 A. Yes.

22 Q. Let's refer to what you've marked as
23 Applicant's Exhibit No. 3, and would you identify
24 that exhibit?

25 A. Okay. This is my initial

1 correspondence to Tommy Key who is the remaining
2 party that we were attempting to pool here. This
3 letter, again, was dated June 24th and again I
4 enclosed an AFE, outlined his working interest in
5 the well, what the cost would be associated with
6 his interest and again gave him two options, one
7 being to sell his interest, the other being to
8 farm out his interest to SG. And the AFE was
9 attached.

10 If you go past the first AFE there,
11 there's correspondence dated August 25, 1992,
12 where I again attempted to correspond with Mr.
13 Key and advise him of our desire to drill this
14 well and his interest in participating or
15 possibly farming out, as I had indicated in the
16 June 24th letter. Both of these letters were
17 delivered to Mr. Key and I received no response.

18 Then, on September 9th I again wrote
19 him a letter and enclosed a joint operating
20 agreement, and again advised him of our plans to
21 drill this well and asked him to contact me
22 regarding his desire to participate, and I have
23 heard nothing from him on this.

24 Q. Is it accurate that the evidence that
25 he has received these communications are the

1 return receipt cards?

2 A. Yes.

3 Q. Now turn to what has been marked as
4 Applicant's Exhibit No. 4 and identify that
5 exhibit.

6 A. This exhibit is a letter dated
7 September 21, 1992, again to Tommy Key, where I
8 notified him of our application for compulsory
9 pooling to be heard October 29th, and generally
10 the information needed if he chose to come and
11 make an appearance.

12 Q. And is there evidence attached there
13 that he received that communication?

14 A. Yes.

15 Q. When did he receive it?

16 A. He received that communication on
17 September 28th. It was delivered on September
18 28th, it appears.

19 Q. Okay. In your opinion, have the notice
20 requirements applicable to this application and
21 hearing been satisfied?

22 A. Yes.

23 Q. Were Exhibits Nos. 1 through 4 either
24 prepared by you or at your direction, or under
25 your supervision?

1 A. Yes.

2 MR. ROBERTS: We would move the
3 admission of Exhibit Nos. 1 through 4.

4 EXAMINER STOGNER: Exhibits 1 through 4
5 will be admitted into evidence at this time.

6 MR. ROBERTS: I have no other questions
7 for this witness.

8 EXAMINATION

9 BY EXAMINER STOGNER:

10 Q. Again for the record, Mr. Davis, his
11 interest--

12 A. Yes.

13 Exhibit

20 No. 1. Again, we've broken down the individual
21 tracts in the same order as on 15 Mr. Davis?

16 A. Mr. Davis was not located. We received
17 the certified notice back saying that this was
18 undeliverable and there was no forwarding
19 address.

20 Q. And the Austin address that you did
21 have, how did you obtain that? What efforts were
22 made in trying to perhaps locate him, subsequent
23 to the return of Mr. Davis' correspondence?

24 A. Well, this address came through
25 assignments in the county records, and we

1 tried--attempted with Amoco Production Company
2 to, once we got the certified notice back
3 undeliverable, we contacted Amoco and attempted
4 to get a different address from them, and they
5 showed the same address and indicated that
6 apparently they were unable to deliver payments
7 to him on his working interest on the other wells
8 in this spacing unit, because they were unable to
9 locate him.

10 We did talk to a couple of other
11 parties who are not subject to this hearing but
12 who are working interest owners, James Morris,
13 and he hadn't talked to Mr. Davis in quite a
14 number of years and he was unable to give me any
15 information as to where he would be.

16 EXAMINER STOGNER: Any other questions
17 of this witness?

18 MR. ROBERTS: Mr. Examiner, I do have
19 another one or two questions.

20 FURTHER EXAMINATION

21 BY MR. ROBERTS:

22 Q. Mr. Fullerton, when would SG propose to
23 spud this well?

24 A. As soon as possible.

25 Q. Can you elaborate on the reasons for

1 the need to spud the well as soon as possible?

2 A. Yes. Basically, the two reasons are
3 the expiration of the Section 29 tax credit on
4 December 31st that would apply to any Fruitland
5 Coal wells drilled prior to the end of the year,
6 and the other being, this well is being drilled
7 and is subject to a farmout agreement with Amoco
8 and SG, and that farmout also expires December
9 31st.

10 As part of that farmout, there's a
11 continuous drilling program that requires some
12 fairly stringent drilling obligations as far as
13 the number of wells drilled under these various
14 properties, so it's pertinent we continue the
15 drilling program as quickly as we can.

16 Q. Is it your request, then, that the
17 Examiner expedite the issuance of an order in
18 this case?

19 A. Yes.

20 MR. ROBERTS: I have no other
21 questions.

22 EXAMINER STOGNER: Any other questions
23 the remaining
2 party that we were attempting to pool here. This
3 letter, again, was dat excused.

1 Mr. Roberts?

2 MR. ROBERTS: Call Mickey O'Hare.

3 MICKEY O'HARE

4 Having been first duly sworn upon his oath, was
5 examined and testified as follows:

6 EXAMINATION

7 BY MR. ROBERTS:

8 Q. Would you state your name and place of
9 residence for the record.

10 A. Mickey O'Hare. I live in Bloomfield,
11 New Mexico.

12 Q. What is your occupation?

13 A. I am president of Maralex Resources,
14 Incorporated.

15 Q. How long have you held that position?

16 A. About three years.

17 Q. What's the nature of the business?

18 A. It's an oil and gas production
19 operating and consulting company.

20 Q. What is your relationship to the
21 Applicant in this case?

22 A. Maralex is the contract operator for SG
23 Interests I, Ltd.

24 Q. How long have you had that
25 relationship?

1 A. A little over a year now.

2 Q. What duties or responsibilities do you
3 perform in the course of that relationship?

4 A. Maralex handles all of the field
5 operations and engineering functions for SG
6 Interests I.

7 Q. Are you familiar with the application
8 in this case?

9 A. Yes, I am.

10 Q. Are you familiar with the operations
11 proposed to be conducted by the Applicant in the
12 area which is the subject of this application?

13 A. Yes, I am.

14 MR. ROBERTS: We would tender Mr.
15 O'Hare as an expert petroleum engineer.

16 EXAMINER STOGNER: Mr. O'Hare is so
17 qualified.

18 Q. Mr. O'Hare, would you refer to what has
19 been marked as Applicant's Exhibit No. 5 and
20 identify it?

21 A. Exhibits No. 5 is the authority for
22 expenditure or the AFE for the Sikes 29-10-30 #2
23 well.

24 Q. Can you break down, just in summary
25 form, the dry hole costs and completion costs and

1 total costs?

2 A. The drilling cost for the well is
3 estimated to be a total of \$75,505. Completion
4 cost is estimated to total \$190,000 roughly.
5 Total well cost will be \$265,555.

6 Q. How did you arrive at these estimated
7 costs?

8 A. These were based on initial quotes from
9 vendors prior to the start of our drilling
10 program.

11 Q. And when was that accomplished?

12 A. In July.

13 Q. And would these numbers still be fairly
14 accurate today?

15 A. For the most part, yes. The drilling
16 footage cost has actually been reduced by the
17 size of our program by about a dollar per foot,
18 but in total the cost will be very close to what
19 we have projected on this AFE.

20 Q. Are these estimated costs
21 representative of actual historical costs that
22 have been experienced for comparable drilling?
23 In other words, drilling to the Basin Fruitland
24 Coal formation?

25 A. Yes, they have. We've drilled about 20

1 wells to date on this program and they're all
2 coming in fairly close to these same numbers.

3 Q. Let me have you move on to what's been
4 marked as Exhibit No. 6. Would you identify that
5 exhibit?

6 A. Exhibit No. 6 is taken from the
7 Kelso-Wicks Report that was published in the 1988
8 San Juan Basin symposium book. It gives an
9 estimate of the gas in place for the Basin, the
10 Fruitland Coal formation in the San Juan Basin on
11 a per section basis.

12 Q. Is the proposed well site located here
13 on this map?

14 A. Yes, it is highlighted in pink.

15 Q. I see a dark gray or black mark. Does
16 that have any significance?

17 A. Not to this case. That was from
18 another case.

19 Q. What conclusions can you draw with
20 respect to the information depicted on this
21 exhibit?

22 A. This exhibit, taken in conjunction with
23 several other exhibits that we'll present in a
24 minute, will show or at least give us an
25 indication of the risk involved in drilling this

1 well.

2 MR. STOVALL: Mr. Roberts, let me
3 interrupt you for a second. You were talking
4 about Exhibit 6, is that correct?

5 MR. ROBERTS: Yes.

6 MR. STOVALL: I believe Mr. O'Hare
7 testified that was a gas in place isopach or
8 contour? If I'm looking at Exhibit 6 and 7, No.
9 6 appears to be your coal thickness and Exhibit 7
10 is your gas in place?

11 THE WITNESS: Mine are mixed up, then.

12 EXAMINER STOGNER: For the record, why
13 don't you change yours, because mine has the same
14 as his.

15 MR. ROBERTS: Okay. Let's refer to the
16 net coal thickness isopach map, and that's what
17 we will designate as Exhibit No. 6.

18 A. Okay. Exhibit No. 6 is also taken from
19 the Kelso-Wicks Report published in the 1988
20 coal-bed methane symposium booklet, and this
21 shows the net coal thickness of the Fruitland
22 Coal formation throughout the San Juan Basin.

23 Q. This map also locates the proposed
24 well?

25 A. And it's also located in pink.

1 Q. What conclusion do you draw with
2 respect to the thickness of the coal in this
3 area?

4 A. This map indicates that the coal
5 thickness is starting to thin right in the area
6 of our proposed well.

7 Q. When you say "starting to thin," can
8 you quantify that in some way?

9 A. It sits right on the 60 and 40-foot
10 contour lines. This is a 20-foot contour
11 interval.

12 Q. What would the thickness of the coal in
13 this specific area indicate to you with respect
14 to the projections for the quality of this well?

15 A. Overall coal thickness generally does
16 not have as much impact on the quality of well as
17 other factors, such as gas in place,
18 permeability, and diffusivity of the coal.

19 However, generally speaking, the better
20 the coal thickness, the better the well, all
21 other factors being equal.

22 Q. Are you familiar with the concept of
23 cleat permeability?

24 A. Yes, I am.

25 Q. How would that concept be relevant to

1 the prospective nature of this well?

2 A. The cleat permeability has a very major
3 impact on the profitability of the well. Without
4 well-developed cleats in the Fruitland Coal
5 formation, producing rates will be low. With low
6 producing rates, the economics of the well are
7 greatly diminished.

8 Q. Do you have any information regarding
9 the existence or nonexistence of cleat
10 permeability in this location?

11 A. Only empirical or ephemeral type of
12 information.

13 Q. What is that information?

14 A. It's the combination of these two
15 exhibits, Nos. 6 and 7.

16 Q. Let's move on to Exhibit No. 7 which
17 you've already identified as the gas in place
18 contour map. Elaborate a little bit, if you will
19 for the Examiner, how the data that's depicted on
20 this exhibit is relevant to your application.

21 A. Okay. Exhibit 7 again shows the gas in
22 place estimated on a per-section basis for the
23 Fruitland Coal. Generally there are a couple of
24 factors that are used to determine the gas in
25 place. One of them is the coal thickness shown

1 on Exhibit 6. Another is the gas content of the
2 coals.

3 The fact that you have fairly thick
4 coals shown on Exhibit 6, but very low gas in
5 place relative to the northern part of the Basin,
6 is a good indication that the gas content of the
7 coals is diminishing fairly drastically in this
8 part of the Basin.

9 Q. From the data depicted on this exhibit,
10 can you quantify gas in place for this proposed
11 location?

12 A. The proposed location is estimated to
13 have less than two and a half Bcf of gas in
14 place. Recoverable reserves will probably be on
15 the order of 25 percent or less of that amount,
16 so we're probably looking at substantially less
17 than a Bcf of gas recoverable from this
18 particular wellbore.

19 Q. How would those numbers compare to an
20 area or location that might be more in the heart
21 of the Basin Fruitland Coal gas pool?

22 A. The better areas of the Basin will
23 produce upwards of five Bcf of gas from a single
24 economic wellbore. So, in relation to the better
25 parts of the area, it's a very poor drilling

1 candidate.

2 Q. Let's move on to what's been marked as
3 Applicant's Exhibit No. 8. Would you identify
4 that exhibit?

5 A. Exhibit No. 8 is a plot of the current
6 production in the surrounding sections of the
7 proposed wellbore.

8 Q. What is the effective date of that
9 production data?

10 A. That is June of 92. This information
11 was taken from the NMOCD records in Aztec.

12 Q. How is the location of this proposed
13 well depicted on this map?

14 A. It's shown as a red dot within a dark
15 outline.

16 Q. Describe the proximity of other
17 producing Fruitland Coal wells to the proposed
18 location?

19 A. The closest production we found at the
20 NMOCD office is in Section 27, Township 29 North,
21 Range 11 West. That wellbore is currently
22 producing only 42 Mcf per day, and there is no
23 other Fruitland Coal production on this map.

24 Q. Will you give us that location again?
25 Section 27--

1 A. It's in the northwest quarter of
2 Section 27.

3 Q. I'm having a hard time finding the
4 section numbers on my map. I see Section 36.

5 A. Go to the left there and then one
6 section up.

7 Q. Okay. It's the section adjacent to the
8 section in which the proposed well is located?

9 A. No, it's three sections away.

10 Q. Oh, three sections away. Okay. What
11 conclusions can you draw, if any, with respect to
12 the proximity of existing Fruitland Coal
13 production to your proposed location?

14 A. Really, there's very little conclusion
15 we can draw as to what the probable production
16 rate will be from our wellbore from the existing
17 information. Therefore, we feel there's
18 significant risk in obtaining economic producing
19 rates from this wellbore.

20 Q. Move on to what has been marked as
21 Applicant's Exhibit No. 9 and identify the
22 exhibit.

23 A. This is a little more detailed net coal
24 isopach map than what we looked at on Exhibit 6.
25 It shows detail in the area of the proposed

1 wellbore.

2 Q. Can you quantify the information that's
3 depicted on this exhibit?

4 A. Yes. This map shows the net coal
5 thickness is essentially decreasing to the west
6 of the wellbore and increasing to the east,
7 essentially giving the same trend as Exhibit No.
8 6 did.

9 Q. Refer to what has been marked as
10 Applicant's Exhibit No. 10, and identify that
11 exhibit and explain its contents.

12 A. Exhibit No. 10 is a summary of the
13 economics run to determine whether or not we
14 should drill this proposed well. It gives an
15 initial rate of 150 Mcf per day, and declines
16 that rate at five percent per year using an
17 initial gas price of \$1.50 per Mcf and escalating
18 that price at four percent per year.

19 Initial operating costs for the well
20 are projected to be \$1,000 per month, and those
21 have been escalated at five percent per year.

22 Without the tax credits, this well will
23 pay out in 87 months with a return on investment
24 of 1.1. A negative discount of return on
25 investment, 15 percent, about a -.18.

1 The rate of return is projected to be
2 10.6 percent, and the discounted present value at
3 15 percent. Discount rate is -\$48,000.

4 With the tax credits, the economics
5 improve substantially. Payout is reduced to
6 about 50 months. Return on investment is better
7 than 2-to-1. The discount of return on
8 investment at 15 percent is still negative, but
9 the rate of return improves to about 21 percent.
10 And the present value discounted at 15 percent,
11 is in excess of \$62,000.

12 Q. In your opinion, if this well is
13 drilled without the available tax credits, would
14 it be a commercial well?

15 A. No, it would not.

16 Q. An economic venture?

17 A. No. It probably will not be drilled
18 without the tax credits.

19 Q. In your opinion, what is the economic
20 risk associated with the drilling of this well?

21 A. The economic risk is fairly
22 substantial. If gas prices fall below our floor
23 rate there, our floor price of \$1.50 per Mcf, or
24 we have additional operating costs or higher
25 costs in drilling the well, then we probably will

1 not make an economic well even with the tax
2 credits.

3 Another very significant risk factor is
4 the production rates. Again, we estimate 150 Mcf
5 per day, whereas the only information in the area
6 shows only 42 Mcf per day of current production
7 rate.

8 Q. Do you ask that a charge for risk
9 involved in drilling this well be set by the
10 Examiner?

11 A. Yes, we do.

12 Q. At what rate do you propose?

13 A. We're proposing a rate of 200 percent.

14 Q. I assume that all of this information
15 you've submitted here as evidence is supportive
16 of that, but would you briefly summarize that
17 data?

18 A. Okay. Number one, we ask for a higher
19 risk level or compensation for risk due to the
20 fact that there is very little known production
21 information in the area. We have data that
22 indicates that gas contents are decreasing
23 dramatically in the area of the well. We also
24 have some geologic information showing that coal
25 thicknesses are also thinning in the area of the

1 wellbore.

2 And lastly, the economics are based on
3 fairly aggressive gas prices and a fairly
4 aggressive production rate, and without any
5 assurance that either one of those will come to
6 pass, there is a substantial risk in drilling
7 this well.

8 Q. When you said that you're asking for a
9 higher rate of risk, I assume that you're aware
10 that the Division has established a standard risk
11 factor for Fruitland Coal gas wells in the Basin
12 Fruitland Coal gas pool?

13 A. Yes, I am.

14 Q. You're aware that that standard risk
15 factor is 156 percent?

16 A. Yes, I am.

17 Q. Given that, you still believe it's
18 significant and appropriate that a 200 percent
19 risk factor be awarded?

20 A. Yes, I do.

21 Q. Who do you propose operate this well?

22 A. SG Interests I, Ltd.

23 Q. What experience in operating these
24 kinds of wells does SG have?

25 A. SG has been operating about 65 wells

1 for a little over a year now, and all of those
2 wells in the San Juan Basin are Fruitland
3 coal-bed methane wells.

4 In addition, they have undertaken the
5 drilling of as many as 100 wells before the end
6 of the year.

7 Q. Do you propose supervisory overhead
8 charges for the drilling and producing stages?

9 A. We're proposing a supervisory monthly
10 charge of \$4,000 for the drilling stage of the
11 well, and \$450 for the production stage of the
12 well on a monthly basis.

13 Q. What is the basis for those proposals?

14 A. That is based on past history, both
15 with SG's operations and operations under Amoco
16 and other operators in the Basin, along with the
17 Ernst & Young 1991 summary of overhead charges in
18 the Basin.

19 Q. In your opinion, will the granting of
20 this application afford all owners the
21 opportunity to recover or receive their fair
22 share of the hydrocarbons, without unnecessary
23 expense?

24 A. Yes, we believe it will.

25 Q. Will the granting of this application

1 be in the best interest of conservation and
2 result in the prevention of waste and protection
3 of correlative rights?

4 A. Yes, it will.

5 MR. ROBERTS: Mr. Examiner I have no
6 other questions for this witness. We'll move the
7 admission of Exhibits 5 through 10.

8 EXAMINER STOGNER: Exhibits 5 through
9 10 will be admitted into evidence.

10 EXAMINATION

11 BY EXAMINER STOGNER:

12 Q. Mr. O'Hare, referring to Exhibit Nos. 6
13 and 7, these Kelso and Wicks reports, they were
14 published in 1988, I see that date down there, is
15 that correct?

16 A. Yes, that is correct.

17 Q. Do you know if this information was
18 utilized at the time that the Basin Fruitland
19 Coal gas pool was established?

20 A. I believe it was referred to. I don't
21 know how extensively, though.

22 Q. Do you know when the Basin Fruitland
23 Coal gas pool was established?

24 A. I believe that was 1988, also.

25 Q. Order No. R-8768? Do you know if

1 that's right or not?

2 A. I really don't.

3 Q. Do you know if this area is within the
4 Basin Fruitland Coal gas pool boundaries?

5 A. Yes, it is.

6 Q. So it is an established pool, is it
7 not?

8 A. It is.

9 Q. Looking at today's docket, which this
10 is part of, it looks like there's an extensive
11 drilling program in this general area; but yet in
12 looking at the map on Exhibits 8 and 9, I show
13 only one other well. Is that what I'm led to
14 believe or what you're trying to show on here,
15 that there's only one other Basin Fruitland Coal
16 gas pool?

17 A. There's only one other Basin Fruitland
18 Coal gas well that we're force pooling in this
19 same area.

20 Q. How many other Basin Fruitland Coal
21 wells are there in this area?

22 A. In total, I don't know.

23 Q. Are there some offsetting the subject
24 well today?

25 A. Yes. SG interests has drilled another

1 well in Section 29 and one in 32. They just
2 finished drilling one in 31 and are currently
3 drilling one in the southwest quarter of 31.

4 MR. STOVALL: When you say "29," is
5 that 11 West?

6 THE WITNESS: No, 10 West. It would be
7 just to the right, the section to the right of
8 the proposed well location.

9 Q. In looking at Exhibits 8 and 9, there's
10 extensive well identifiers. Does this show the
11 Basin Fruitland Coal gas wells?

12 A. No, this shows all wells drilled in
13 that area.

14 Q. Excluding or including the Basin
15 Fruitland Coal?

16 A. Including the Fruitland Coal wells.

17 MR. STOVALL: Are they marked in any
18 way that they can be identified on this map, do
19 you know?

20 THE WITNESS: No, I don't know what the
21 legend would be for the identification of the
22 wells. None of the wells that SG Interests has
23 drilled to date in this large program have been
24 completed.

25 Q. But they have been drilled?

1 A. They have been drilled, yes.

2 Q. I would assume that you--that if you
3 drill them you plan to complete them?

4 A. Yes. We intend to start completions
5 about the middle of November.

6 EXAMINER STOGNER: Any other questions
7 of Mr. O'Hare?

8 EXAMINATION

9 BY MR. STOVALL:

10 Q. Just to clarify, in the area shown on
11 the map in Exhibits 8 and 9, which I think are
12 the same, how many wells has SG drilled, not
13 force pooling, but total wells you have drilled
14 or programmed for in, what is that, a 15,
15 20-section area is it? Is it a substantial
16 number? Do you own a substantial amount of--

17 A. Within the area of the map, there's
18 probably a total of five wells that either are
19 drilled or will be drilled by SG Interests.

20 Q. Based on your economic assumptions,
21 you've used some operating costs and a
22 five-percent escalator. Is there water in this
23 area?

24 A. No, we expect these wells to be fairly
25 dry, less than five barrels of water per day.

1 Q. So I assume that may be part of why
2 your costs actually go up at a little higher
3 rate, because the watering issue doesn't become
4 less expensive as you go along?

5 A. That is correct. We do not expect to
6 have high operating costs initially because we
7 expect very low water production from these
8 wells.

9 MR. STOVALL: Nothing further.

10 MR. ROBERTS: Mr. Examiner, may I
11 follow-up?

12 EXAMINER STOGNER: Yes, go ahead,
13 because I have a follow-up, too.

14 FURTHER EXAMINATION

15 BY MR. ROBERTS:

16 Q. I believe you testified in response to
17 one of the questions by the Examiner that there
18 was an offset Fruitland Coal well to this
19 proposed location?

20 A. That is correct.

21 Q. Can you identify that location again?

22 A. There's one in the northeast quarter of
23 Section 31, directly south of the section where
24 the proposed well is shown.

25 Q. Are you familiar with that well?

1 A. Yes, I am.

2 Q. What quality is that well?

3 A. That well showed about 30 or 31 feet of
4 coal, and again we have not completed it so we
5 don't know what kind of production rates to
6 expect from it yet.

7 MR. ROBERTS: That's all I have.

8 FURTHER EXAMINATION

9 BY EXAMINER STOGNER:

10 Q. You don't know what kind of water
11 production or capability that well that Mr.
12 Roberts referred to in the northeast quarter of
13 31, what you're going to have?

14 A. No. Again, at this time, we haven't
15 completed the well but we are projecting less
16 than five barrels of water per day.

17 Q. Should the wet ability or the water
18 intake of these wells, should that be taken into
19 account for risk in drilling the coal gas well?

20 A. As far as the economics are concerned,
21 yes. Again, if there is some water production
22 from this well, it will greatly increase the
23 operating costs shown in our economics, which
24 will reduce our return on investment and rate of
25 return.

1 Q. Other than economics, with economics
2 aside, just looking at pure science, would
3 drilling into an area that doesn't have water,
4 wouldn't that lessen the risk of these wells?

5 A. It's hard to divorce that from
6 economics, from the standpoint that the risk is
7 an economic risk.

8 Q. So you are not intending to address
9 that issue?

10 MR. STOVALL: Let me ask the question
11 another way, to make sure I understand it. Does
12 the presence or absence of water affect the
13 actual ability to recover the gas? Does it
14 affect the reservoir quality?

15 THE WITNESS: The presence of water
16 actually improves--in most cases will improve the
17 economics of the well from the standpoint that
18 dewatering serves to lower the reservoir pressure
19 below the desorption pressure much quicker than
20 simply producing gas does. Gas is an expandable
21 fluid, and so it's much tougher to get any kind
22 of reservoir pressure drop out away from the
23 wellbore in a short amount of time.

24 Whereas with well that makes a
25 substantial amount of water, you can have a very

1 large impact on the lowering of the pressure
2 below the desorption pressure way out into the
3 formation in a much shorter time frame that you
4 can if it is just filled with gas.

5 MR. STOVALL: Which you interpret to
6 mean that it allows the gas to free up and flow
7 to the wellbore more rapidly? Is that what
8 you're saying?

9 THE WITNESS: Right. So water
10 production can really be a two-edged sword for a
11 coal-bed methane well.

12 MR. STOVALL: It's not like a
13 conventional well, where you've got a lot of
14 water it keeps your gas away?

15 THE WITNESS: Right. It's a totally
16 different concept from a conventional well.

17 Q. (BY EXAMINER STOGNER) Is there
18 anything about this particular well in this
19 particular location that's going to add to the
20 risk as opposed to drilling any other well in the
21 San Juan Basin? I'm just talking about drilling
22 to the pay zone at this point.

23 A. The physical risk of drilling the well?

24 Q. Yes.

25 A. No, there should not be any additional

1 risk there. Some of the wells in this area have
2 a shallow sand, called the Farmington sand, that
3 can be overpressured locally. We did encounter
4 that in a couple of the offset wells. However,
5 it did not significantly increase the physical
6 risk of drilling the well.

7 EXAMINER STOGNER: Any other questions
8 of Mr. O'Hare? He may be excused at this time,
9 unless you have some other questions?

10 MR. ROBERTS: No, I have no other
11 questions. Mr. Examiner, I would like to
12 readdress a couple of issues in a very brief
13 closing, and that is, first, the request of the
14 Applicant for an expedited order due to the
15 diminishing time in which to drill these wells to
16 obtain the benefits of the tax credit that is
17 available.

18 Also, I would ask the Examiner to take
19 administrative notice of Order Nos. R-9139 and
20 R-9140, which were issued in Case Nos. 9863 and
21 9887 respectively. These were applications
22 submitted by Hixon Development Company, I
23 believe, approximately two years ago, for force
24 pooling in which they requested 200 percent risk
25 factor and in which it was received.

1 EXAMINER STOGNER: Since you brought
2 that up, I'm going to recall Mr. O'Hare then.

3 MICKEY O'HARE

4 Having been previously duly sworn upon his oath,
5 was recalled to the stand and testified further
6 as follows:

7 FURTHER EXAMINATION

8 BY EXAMINER STOGNER:

9 Q. Are you familiar with these two orders
10 that Mr. Roberts referred to?

11 A. Yes, I am, slightly.

12 Q. Is this in the general area in which
13 these two wells are? I'm sorry, in which this
14 well is?

15 A. I believe this is north and east of the
16 area where the orders were.

17 Q. How far north and east?

18 MR. ROBERTS: Mr. Examiner, may I give
19 you the location? The locations were in the west
20 half of Section 27, 25 North 12 West, and the
21 east half of Section 17, 25 North, 12 East.

22 EXAMINER STOGNER: So they're nowhere
23 near this, are they? That's all I have. Thank
24 you, Mr. O'Hare.

25 MR. ROBERTS: Mr. Examiner, we would

1 also like to just basically summarize the
2 findings that were made in those two particular
3 orders regarding--I take it you don't want to
4 hear that.

5 MR. STOVALL: We'll take administrative
6 notice of them, Mr. Roberts. I think that would
7 probably be the best way.

8 EXAMINER STOGNER: No, I want to go
9 ahead and hear it, because I may want to recall
10 Mr. O'Hare again. Go ahead, Mr. Roberts.

11 MR. ROBERTS: Just judging from your
12 reaction I assumed you didn't want to hear it.

13 EXAMINER STOGNER: No, go ahead, Mr.
14 Roberts. Go ahead.

15 MR. ROBERTS: If you're tired of
16 hearing this case, that's fine.

17 EXAMINER STOGNER: I told you, go
18 ahead, Mr. Roberts.

19 MR. ROBERTS: The basic findings were
20 that very little coal gas development in this
21 area was shown to exist, and that the coal seam
22 was very thin. Those were the two elementary
23 findings in those two cases.

24 EXAMINER STOGNER: There was very
25 little coal gas, and what was the other one?

1 MR. ROBERTS: There was very little
2 coal gas development in the area and very thin
3 coal.

4 EXAMINER STOGNER: Okay. Let's recall
5 Mr. O'Hare.

6 MICKEY O'HARE

7 Having been previously duly sworn upon his oath,
8 was recalled to the stand and testified further
9 as follows:

10 FURTHER EXAMINATION

11 BY EXAMINER STOGNER:

12 Q. What's your definition of a very thin
13 coal interval, Mr. O'Hare?

14 A. The majority of the wells that we were
15 targeting for this large drilling program had in
16 excess of 35 to 40 feet of coals. This
17 particular location we're estimating is going to
18 have on the order of 33 feet of coal.

19 Q. Do you know what the coal thickness is
20 down in 25 North, using your words, just a little
21 bit south of this well?

22 A. In 25 North, 12 West, 26 North, 12 and
23 13 West, the coals are generally in the 20- to
24 30-foot thickness range.

25 Q. Do you know what the Hixon well, that

1 was the subject of these orders, what they
2 encountered subsequent to the wells being
3 drilled?

4 A. No, I don't.

5 Q. Is that information readily available?

6 A. Yes, I believe we can pull the logs
7 here at the Division office.

8 Q. I don't know when I'll be able to do
9 that, but I'll try to get that as soon as
10 possible. There are some other matters I'll have
11 to attend to before this one. I don't know when
12 I'll get to it, but I'll take administrative
13 notice of those two wells in which are referred
14 to in Order No. R-9139 and R-9140.

15 Also, talking about little coal gas
16 development, in the area of 25 North, 12 West, do
17 you know how many coal gas wells were drilled in
18 that particular area?

19 A. Before that order was issued?

20 Q. Yes.

21 A. I believe there's only one or two.

22 Q. How many wells have been drilled in
23 this area?

24 A. Again, on the 20 sections surrounding
25 the proposed well, there's only one that is

1 currently on production.

2 Q. I didn't ask that. How many have been
3 drilled?

4 A. SG, to date, has drilled five wells in
5 that area.

6 Q. How about other operators?

7 A. I'm not aware of any others other than
8 the one I pointed out on that map.

9 Q. Are you telling me you don't know if
10 there's any other operators or there are no other
11 operators that you know of?

12 A. I don't know of any other operators
13 other than the one well that I pointed out on
14 that map.

15 Q. So there could be other operators in
16 that same area?

17 A. There could be.

18 Q. That could be readily available with
19 some research, I would assume?

20 A. Right.

21 Q. There again, looking at the docket
22 today, it looks like there's an extensive
23 drilling program within this area, is that
24 correct?

25 A. Yes. SG has embarked on about a

1 100-well drilling program in the Basin.
2 Approximately 20 wells will be drilled in
3 Township 29 North, Range 10 West.

4 Q. That seems like a very extensive
5 drilling program and somewhat of a significant
6 gas development in this particular area, if this
7 many wells are being planned in this area and
8 that many wells have already been drilled in this
9 area.

10 Granted, only one's come on
11 production. Perhaps you need to enlighten me why
12 only one is in production. Are there gas line
13 problems, or why is there only one still only
14 producing?

15 A. The focus of SG's efforts this year are
16 to get all the wells drilled before the tax
17 credit expires and to complete them as time
18 allows. The reason the large program is planned
19 for 29-10, you'll notice the majority of those
20 wells are east of the proposed well involved in
21 this case.

22 As I pointed out on Exhibits 6 and 7,
23 both the gas contents and the coal thickness is
24 increased to the east.

25 Q. So SG Interests is planning this

1 extensive drilling plan in this area? Granted, I
2 understand there's a tax incentive, but am I also
3 to assume that this one well that does have
4 production has stimulated this drilling program
5 within this general area?

6 A. No. That is not correct. To the east
7 of the plats shown in Exhibits 6 and 7, there are
8 several additional wells that are on production.
9 In fact, SG Interests operates approximately 20
10 to 25 wells in Township 29 North, Range 9 West.

11 MR. STOVALL: You were referring to
12 Exhibits 8 and 9, actually, were you not?

13 THE WITNESS: Yes, I'm sorry. Yes,
14 Exhibits 8 and 9.

15 MR. STOVALL: Let me ask a question,
16 just a purely pragmatic question, Mr. O'Hare.

17 Right now we're at the end of October.
18 Assuming you get an order, you have an AFE notice
19 requirement that you've got to satisfy. Given
20 the various factors and given the fact that if
21 you're seeking a 200 percent it will require some
22 additional research into the other materials that
23 have been referenced in cases.

24 What would be in SG's best interest to
25 get a 200 percent penalty at the risk of having

1 an order delayed for some time, or to have an
2 expedited order possibly with 156 percent
3 penalty?

4 THE WITNESS: More than likely, this
5 well and another well that we are asking for
6 force pooling here today would not be drilled
7 without the higher risk penalty. We are hoping
8 that the expedited order can be issued in time
9 for us to drill the wells before the end of the
10 Section 29 qualifying period.

11 Maybe this is a lack of knowledge on my
12 part as far as procedures go for the AFE, but we
13 have issued an AFE to all parties involved or
14 attempted to issue an AFE months ago. And so we
15 are--at least it is my belief that one of the
16 time frames for proceeding with the order has
17 already been met.

18 MR. ROBERTS: Mr. Examiner, Mr.
19 Fullerton is aware of the procedure for force
20 pooling orders, so Mr. O'Hare is not aware of
21 that procedure. We recognize that there is an
22 option period subsequent to the issuance of the
23 order.

24 MR. STOVALL: Let me tell you, just for
25 your information, to help you in the evaluation

1 of the decision, that generally force pooling
2 orders require a 30-day option period for the
3 parties pooled to join the well.

4 THE WITNESS: Does the well have to be
5 delayed during that option period?

6 MR. STOVALL: You run the risk of
7 having parties get a look at the well before they
8 join.

9 Again, given that, I guess my question
10 is, in trying to do this so we can help you and
11 do what best meets SG's interests, assuming we
12 grant the order, which is more important, the tax
13 credit or the penalty?

14 The problem that we're faced with is
15 that yours is not the only order. You have 11
16 other cases or nine other cases which I
17 understand may not come on, but you'll be faced
18 with those same issues.

19 MR. ROBERTS: Mr. Examiner, may we get
20 back with you on that question and give you an
21 indication of what the preference of the
22 Applicant would be, in terms of the risk?

23 MR. STOVALL: Yeah. I think you
24 understand the situation we're talking about.

25 MR. ROBERTS: You're telling us that if

1 you're going to consider seriously a 200 percent
2 risk factor, there's some additional evidence
3 that you need to review. That may take time and
4 you may not be able to get the order issued as
5 promptly as we would need to be able to drill the
6 well.

7 Mr. O'Hare has indicated what his
8 thinking is in terms of the two options, but I
9 think we would like a chance to discuss it and
10 then be able to get back with you and give you an
11 indication.

12 MR. STOVALL: I would think if you're
13 pooling a three-percent interest, I think that's
14 something you want to consider. If you're
15 talking a 50-percent interest, you might be
16 talking something different, but you do need to
17 take some time and have some discussion about
18 that so that we don't inordinately delay it with
19 no assurance of getting the higher risk penalty.

20 We'll leave this record open and do the
21 other cases and have some discussion? Is that
22 what you would like to do, Mr. Roberts?

23 MR. ROBERTS: Do you think we can
24 discuss that today, or do you need to make a
25 contact?

1 We might be able to get back with you
2 today on that.

3 MR. STOVALL: It's your time, so I
4 guess that's--

5 MR. ROBERTS: Okay. I have nothing
6 else for the witness and nothing else in this
7 case.

8 MR. STOVALL: We'll leave the record
9 open for five days? Would that give you enough
10 time? And we will close it at such time as you
11 respond to the inquiry.

12 MR. ROBERTS: Okay.

13 EXAMINER STOGNER: I have no other
14 questions of Mr. O'Hare at this time.

15 THE WITNESS: Thank you.

16 EXAMINER STOGNER: The record will
17 remain open for five days. At that time it will
18 be taken under advisement, and that should give
19 you plenty of time, Mr. Roberts.

20 [A recess was taken.]

21 EXAMINER STOGNER: Let's go back on the
22 record.

23 Mr. Roberts, I believe you want to make
24 a statement at this time?

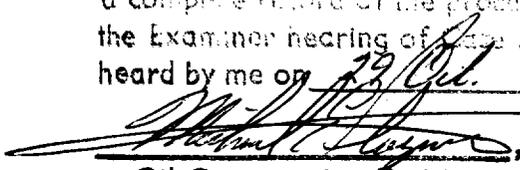
25 MR. ROBERTS: Mr. Examiner, in Case

1 10567, the Applicant has reconsidered the request
2 for risk and would ask the Examiner to consider
3 its request to be for a risk factor of 156
4 percent as opposed to 200 percent.

5 EXAMINER STOGNER: In that case, I'll
6 take Case 10567 under advisement.

7 (And the proceedings concluded.)
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14 I do hereby certify that the foregoing is
15 a complete record of the proceedings in
16 the Examiner hearing of Case No. 10567,
heard by me on 23 Oct. 1992.

17  , Examiner
18 Oil Conservation Division
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CERTIFICATE OF REPORTER

STATE OF NEW MEXICO)
) ss.
COUNTY OF SANTA FE)

I, Carla Diane Rodriguez, Certified Shorthand Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I caused my notes to be transcribed under my personal supervision; 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 November 25, 1992.


CARLA DIANE RODRIGUEZ, RPR
CSR No. 4