

NEW MEXICO OIL CONSERVATION DIVISION  
STATE LAND OFFICE BUILDING  
STATE OF NEW MEXICO  
CASE NO. 10585

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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OIL CONSERVATION DIVISION

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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

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Farmington, New Mexico 87499

BY: **B. TOMMY ROBERTS, ESQ.**

## I N D E X

## Page Number

Appearances 2

## WITNESSES FOR THE APPLICANT:

1. JAMES FULLERTON  
Examination by Mr. Roberts 5, 14  
Examination by Mr. Stovall 11

2. MICKEY O'HARE  
Examination by Mr. Roberts 20  
Examination by Examiner Stogner 28

Certificate of Reporter 33

## E X H I B I T S

## Reference

Exhibit No. 1 6  
Exhibit No. 2 20  
Exhibit No. 3 21  
Exhibit No. 4 22  
Exhibit No. 5 22  
Exhibit No. 6 24  
Exhibit No. 7 24

1 EXAMINER STOGNER: Call next case, No.  
2 10585.

3 MR. STOVALL: Application of SG  
4 Interests I, Ltd., San Juan County, New Mexico.

5 EXAMINER STOGNER: Call for  
6 appearances.

7 MR. ROBERTS: Mr. Examiner, my name is  
8 Tommy Roberts. I'm an attorney with the law firm  
9 of Tansey, Rosebrough, Gerding & Strother in  
10 Farmington, appearing on behalf of the Applicant,  
11 and I have two witnesses, both of whom have been  
12 sworn.

13 MR. STOVALL: And qualified, is that  
14 correct, Mr. Roberts?

15 MR. ROBERTS: And qualified. You don't  
16 want me to requalify them, do you?

17 MR. STOVALL: I don't think there's any  
18 need to requalify them.

19 EXAMINER STOGNER: Let the record show  
20 that the two witnesses have been previously sworn  
21 and qualified.

22 Mr. Roberts?

23 JAMES FULLERTON

24 Having been previously duly sworn upon his oath,  
25 was examined and testified as follows:

## EXAMINATION

BY MR. ROBERTS:

Q. Mr. Fullerton, would you basically describe the purpose of this application?

A. The purpose of this application is to pool the mineral leasehold interests that are outstanding and have not joined or agreed to participate in the subject well.

Q. Refer to what's been marked as Applicant's Exhibit No. 1 and identify the exhibit.

A. Exhibit No. 1 is--the front page is an outline of the drilling and spacing unit proposed for this well, the Bloomfield 29-11-26 #2 in Fruitland Coal formation. The outline of the spacing unit is the west half of 26, Township 29 North, Range 11 West.

The standard location for the well is depicted in the circular spot in the northwest of the southwest. It is a standard spacing unit of 320 acres. The individual ownership tracts are depicted as Tracts 1 through 4, and the location is also stated in footage.

Q. Turn to what has been marked as page 1 of Exhibit No. 1, and tell us what that

1 particular information is?

2 A. This information describes the working  
3 interest owners within the spacing unit, the west  
4 half of Section 26.

5 The parties are listed as to their  
6 actual leasehold interest within the spacing  
7 unit.

8 SG Interests I, Ltd., as operator, is  
9 obviously participating. F. B. Umbarger Estate,  
10 which owns 12-1/2 percent of the leasehold  
11 interest in the spacing unit. This has actually  
12 been corrected as of late. We have obtained some  
13 additional information indicating that this  
14 interest is now actually owned by a defunct  
15 company, Basin Natural Gas Company, or somebody  
16 associated with them. So that interest now  
17 apparently is Basin Natural Gas Company as of  
18 1955. Nothing since that time.

19 Q. Is that interest voluntarily joined in  
20 this unit?

21 A. No. We have had some discussion with  
22 parties who apparently previously had some  
23 interest in Basin Natural Gas Company or were  
24 parties to that company who were somewhat unaware  
25 of this interest or are unaware of this interest

1 and are not sure of the actual ownership at this  
2 time.

3 Q. And we'll come back to that particular  
4 interest. Also shown on page 1 of Exhibit No. 1,  
5 as interest owners, are Southland Royalty and  
6 Meridian Oil Production, Inc., each with an  
7 undivided 12-1/2 percent interest. Have those  
8 parties indicated they'll voluntarily join in  
9 this particular unit?

10 A. Yes. These parties have now indicated  
11 as of yesterday that they will participate on  
12 some basis with SG in the drilling of this well,  
13 so they are not parties actually to the pooling.

14 Q. Go on to page No. 2 in Exhibit No. 1  
15 and identify that?

16 A. Page 2 is basically a breakdown of the  
17 tracts as described in the plat on page No. 1, on  
18 the initial page, again indicating the ownership  
19 of the leasehold interest within each of these  
20 tracts.

21 Tract 1 through 4 is depicted in the  
22 acreage, description of the acreage, and the  
23 current lessees of record of that interest.

24 Q. Now refer to page No. 3 of Exhibit No.  
25 1.

1           A.       Page No. 3 is a list of the actual  
2 leases that are subject to each of these tracts  
3 and are currently in existence right now.

4           Q.       I want to return to the uncommitted  
5 interest which you've indicated is owned by Basin  
6 Natural Gas Company. What investigation have you  
7 done with respect to the status of that  
8 corporation?

9           A.       Some information was obtained through  
10 the Corporation Commission, I believe, New Mexico  
11 Corporation Commission. We attempted to locate  
12 this company and there was no indication this  
13 company existed anymore. We were able to run  
14 down one of the principals in this company that  
15 existed back in 1955, and did contact this one  
16 principal. He was unaware of the ownership of  
17 this interest, was actually unaware of the name  
18 Basin Natural Gas Company, but we indicated to  
19 him that his name appeared in the Corporation  
20 records as being one of the principals at one  
21 time, and he did recall the fact they had that  
22 company at one time but it's no longer in  
23 existence.

24           Q.       Who is that principal?

25           A.       His name is Thomas Catron.



1           Q.       Did he give any indication to you how  
2 he would deal with this potential force pooling?

3           A.       He indicated he would check and see  
4 what the status was, if any, if there was still  
5 any ownership or who actually was involved in  
6 this original transaction, and contact us back.  
7 We've never heard back from him.

8                   We attempted to contact him again last  
9 week and talked to his son, and he indicated his  
10 father was out of town, that we would have to get  
11 back to him at a later time. We told him of our  
12 plans for force pooling, and his son indicated to  
13 us, at least, that there would not be a problem  
14 with that, that they understood our position and  
15 that we should go forward.

16          Q.       Mr. Fullerton, for the record, as with  
17 the previous case, do you also in this case  
18 request an expedited order be issued?

19          A.       Yes.

20          Q.       Is that request based on the same  
21 considerations as you testified to in Case No.  
22 10567?

23          A.       Yes.

24                   MR. ROBERTS: Mr. Examiner, I have no  
25 other questions for this witness.

1                   EXAMINER STOGNER: Just for the record,  
2 Southland and Meridian have agreed, but you don't  
3 have anything in writing at this point?

4                   THE WITNESS: That's correct. It's  
5 apparently forthcoming.

6                   MR. STOVALL: Perhaps a technicality,  
7 Mr. Roberts, but I don't see any notice exhibit  
8 here.

9                   MR. ROBERTS: There were no--notice  
10 could not be given.

11                   EXAMINATION CONTINUED

12 BY MR. ROBERTS:

13       Q.       Mr. Fullerton, when was Mr. Catron  
14 contacted?

15       A.       He was originally contacted on August  
16 27th. The reason there's no notice shown here is  
17 because we had assumed that the F. B. Umbarger  
18 Estate was the owner until that time, and Mr.  
19 Catron indicated he wasn't even sure if he owned  
20 it, and so no attempt was given to give anybody  
21 notice because we didn't know who to give notice  
22 to.

23                   MR. STOVALL: You understand that if,  
24 in fact, Mr. Catron does own it, he's not subject  
25 to a force pooling order because this Commission

1 does not have jurisdiction over him or his  
2 interest if, in fact, it exists?

3 MR. ROBERTS: Mr. Stovall, I think the  
4 Applicant in this case recognizes there needs to  
5 be some additional contact made, and I think  
6 their hope is that they can work out some  
7 arrangement by which Basin Natural Gas Company or  
8 the successors to that interest will agree to  
9 participate in this well.

10 MR. STOVALL: Let's go back over that.

11 EXAMINATION

12 BY MR. STOVALL:

13 Q. We're talking about Tract No. 1, is  
14 that correct?

15 A. Yes.

16 Q. That indicates that's a federal lease?

17 A. That's correct.

18 Q. I assume that lease is HBP by some  
19 other well?

20 A. Yes. And the actual rights that the  
21 F. B. Umbarger Estate owned were only from the  
22 surface to the top of the Pictured Cliffs. The  
23 deep rights are owned by somebody else that keeps  
24 that federal lease in an HBP status.

25 Q. According to the federal records,

1 Umbarger owns the tract, is that correct? The  
2 mineral interests that we're concerned with  
3 pooling here.

4 A. Right.

5 Q. And how did you determine this was  
6 Basin Natural Gas or whoever it is?

7 A. We used records in the abstract office  
8 of San Juan County and the records did not  
9 reflect any assignments out of F. B. Umbarger at  
10 that time.

11 Q. Did you check the records of the Bureau  
12 of Land Management here in Santa Fe?

13 A. Yes. They showed the same thing. We  
14 did a general review of the index at the San Juan  
15 County courthouse and came up with this  
16 assignment from Umbarger to Basin Natural Gas  
17 Company.

18 Q. Which the abstract company that you  
19 used had not indexed, is that correct?

20 A. Right. It was not indexed.

21 Q. And that assignment includes these  
22 lands?

23 A. Yes, but only from the surface to the  
24 top of the Pictured Cliffs.

25 Q. When I'm talking about these lands, I'm

1 talking about the mineral interests we're seeking  
2 to pool.

3 A. Yes.

4 Q. So it appears to you that there is an  
5 assignment of record in San Juan County to Basin  
6 Natural Gas?

7 A. Right.

8 Q. And Basin Natural Gas was a  
9 corporation? Is that your interpretation or  
10 understanding?

11 A. Yes. Well, actually, no. I take that  
12 back. Yes, they are a corporation. The original  
13 assignment came out of F. B. Umbarger into  
14 Congress Oil Company. This is what confused us.  
15 And then apparently Congress became Basin Natural  
16 Gas Company.

17 Q. Was that a New Mexico corporation?

18 A. Yes. Congress Oil Company was a  
19 Colorado corporation; Basin Natural Gas Company  
20 was a New Mexico corporation.

21 Q. Have you checked the records of the  
22 Corporation Commission?

23 A. In New Mexico? Yes.

24 MR. ROBERTS: Mr. Stovall, our problem  
25 is that as we came to hearing, we didn't know who

1 to notify. We've got a defunct corporation, did  
2 pursue contacting the principals in that  
3 corporation who--I don't think it's a legal given  
4 that they are the successors in interest to that  
5 corporation.

6 MR. STOVALL: I don't accept that they  
7 are, either.

8 MR. ROBERTS: So we're left with a real  
9 serious problem of not being able to know who  
10 would claim an interest and not knowing who to  
11 notify.

12 FURTHER EXAMINATION

13 BY MR. ROBERTS:

14 Q. Now, Mr. Fullerton, did you notify Mr.  
15 Umbarger's estate of this application?

16 A. No knowledge of where this estate is  
17 located.

18 MR. STOVALL: There's simply no address  
19 in the records? Is that what you're saying?

20 THE WITNESS: No. Nothing.

21 MR. STOVALL: I guess I could  
22 understand how I could accept an affidavit with  
23 respect to the Umbarger estate. However, you've  
24 indicated in the records of San Juan County that  
25 there has been a transfer of the interest, and

1 the transferee has not been notified.

2 Even if it's not existent, there's a  
3 connection there, and I have a problem if you  
4 have a known party. If they don't have an  
5 interest, then you can get an affidavit that  
6 you've been unable to locate the Umbarger  
7 estate. They're not the owners, though.

8 MR. ROBERTS: My problem is that Basin  
9 Natural Gas Company would be the record owner of  
10 the interest, and Basin Natural Gas Company is a  
11 defunct corporation and has no legal being at  
12 this point.

13 The Applicant in this case went a  
14 little bit further and tried to contact the  
15 principals to try to learn how the interest had  
16 been disposed of, but just wasn't successful in  
17 doing that; wasn't able to acquire any  
18 information that could be relied upon. So we're  
19 left in the position of not knowing who owns the  
20 interest.

21 It appears to be an interest that's in  
22 limbo, and with no ability to ascertain who owns  
23 it at this point. The records don't indicate  
24 anything and, really, that's the source of  
25 information I think that we would be bound to

1 live with.

2 MR. STOVALL: I understand your  
3 quandary. My problem is, if, in fact, the  
4 people--who were the supposed successors, the  
5 Catrons?

6 MR. ROBERTS: They were principals in  
7 this Basin Natural Gas Company.

8 MR. STOVALL: If they are successors to  
9 the interest, then this order cannot pool them at  
10 this time. If they are not successors to the  
11 interest, then, in fact, you've got a limbo  
12 interest.

13 I think what we need is an affidavit of  
14 the inability to notify. I'm not familiar with  
15 what the law is with respect to possibly  
16 notifying the Secretary of State of the  
17 Corporation Commission for defunct corporations,  
18 but we need some record of the notice so we can  
19 have some knowledge of who, if anybody, we have  
20 jurisdiction over.

21 I'll tell you, for your information, we  
22 may very soon change the notice requirements in  
23 force poolings to require publication as in a  
24 quiet title action. At the present time I can  
25 tell you we do have a serious problem if, in



1 fact, the Catrons now own the interest.

2 MR. ROBERTS: If we were to assume that  
3 the Catrons owned the interest, I suppose we  
4 could remedy this problem by continuing this case  
5 or leaving it open until the November 19th  
6 hearing, and providing Catron notice.

7 But we still have the problem that if  
8 Catron doesn't own the interest, then it does no  
9 good to notify him and someone else may own the  
10 interest who we can't identify, and consequently  
11 we are not able to notify the rightful owner of  
12 the interest.

13 MR. STOVALL: I understand that  
14 problem. I'm only concerned about the Catrons in  
15 this case. I see what your problem is with  
16 respect to the others, and that is a problem with  
17 respect to notice by publication in this type of  
18 case.

19 Again, I think it's the company's risk,  
20 and I think you're correct that you don't know  
21 whether Catron owns it or not. There's no record  
22 interest, but you've got some constructive notice  
23 issues, constructive notice of their possible  
24 interest.

25 It may be in your interest to go ahead

1 and send them a notice of the hearing to satisfy  
2 that, in case they are the owners, and to provide  
3 an affidavit of your inability to locate--I'm not  
4 even sure where Umbarger fits into this. I'm not  
5 sure that.

6 MR. ROBERTS: I don't think it does,  
7 because it has no interest of record.

8 MR. STOVALL: I have a problem of--and  
9 I see what your problem is, but I have a problem  
10 force pooling people that have never been brought  
11 under the jurisdiction of the Commission. Part  
12 of that is the question of whether the  
13 publication notice satisfies that requirement,  
14 which we take care of.

15 I think an affidavit or something to  
16 set forth the procedure, and it would probably be  
17 in your best interest to notify Catron in case  
18 they do end up owning it at a later time.  
19 Whether the order applies to them, I can't tell  
20 you that.

21 MR. ROBERTS: So you want an affidavit  
22 in this case regarding the general facts  
23 concerning--

24 MR. STOVALL: The inability to give  
25 personal notice to the Umbarger Estate--

1           MR. ROBERTS: And the conveyance to  
2 Basin Natural Gas Company, and its status now as  
3 a viable corporation?

4           MR. STOVALL: Correct. Just so we have  
5 something in the file that says--

6           MR. ROBERTS: Are you requiring or only  
7 recommending that notification be sent to  
8 Catron?

9           MR. STOVALL: Yeah, I'm advising that  
10 if, in fact, they end up being the owners and  
11 they don't have notice, the order doesn't apply  
12 to them. So, I'm not advising anything, I'm just  
13 advising why, I think, we would have to take that  
14 position.

15           MR. ROBERTS: We'll have to make a  
16 decision whether to ask that this case remain  
17 open until the November 19th hearing, and prior  
18 to that time we would give them notice. My big  
19 problem is, I'm not sure who to give notice to.

20           MR. STOVALL: I understand your dilemma  
21 and I'm not sure--I think we need to document for  
22 the record that in addition to the testimony of  
23 Mr. Fullerton, so that when somebody comes and  
24 looks at this thing sometime down the road, we  
25 know who was involved.

1           It seems to me Mr. O'Hare has been  
2 involved in cases before with lost people.

3           MR. O'HARE: Yes, that is correct.

4           MR. ROBERTS: I have no other questions  
5 of this witness.

6           EXAMINER STOGNER: I most certainly do  
7 not, either. He may be excused.

8           MR. ROBERTS: Call Mr. O'Hare.

9                       MICKEY O'HARE

10          Having been previously duly sworn upon his oath,  
11 was examined and testified as follows:

12                       EXAMINATION

13          BY MR. ROBERTS:

14           Q.       Mr. O'Hare, would you refer to what has  
15 been marked as Applicant's Exhibit No. 2 in this  
16 case and identify the exhibit?

17           A.       This is an authority for expenditure,  
18 AFE, for the Bloomfield 29-11-26 #2 well.

19           Q.       Would you break down the drilling costs  
20 and completion costs for us, as depicted on this  
21 exhibit?

22           A.       Yes. The total of drilling costs is  
23 estimated to be \$66,520. The total completion  
24 cost is estimated to be \$189,410, giving a total  
25 well cost of \$255,930.

1 Q. How did you arrive at these costs?

2 A. These costs were based on actuals from  
3 the wells drilled previous to the preparation of  
4 this AFE.

5 Q. And when you say they were based on  
6 actuals of wells drilled previous to the AFE,  
7 you're talking about wells in the area of this  
8 proposed location?

9 A. That is correct.

10 Q. Turn to what's been marked as Exhibit  
11 No. 3 and identify that exhibit.

12 MR. STOVALL: Exhibit 3 is the gas in  
13 place and Exhibit 4 is the coal thickness?

14 MR. ROBERTS: I'm mixed up here.

15 MR. STOVALL: I think the Examiner's  
16 exhibits are that way, too.

17 A. Exhibit No. 3 is a gas in place contour  
18 map taken from the Kelso & Wicks report published  
19 in 1988 in the coal-bed methane symposium  
20 booklet, San Juan Basin.

21 Q. What is the relevant information  
22 depicted by this exhibit to this application?

23 A. Again, this shows that the gas in place  
24 for the proposed location is diminishing with  
25 respect to the gas in place in the northern end

1 of the Basin.

2 Q. Is it accurate to say that the proposed  
3 location is marked by the pink dot?

4 A. Yes, it is.

5 Q. Refer to Exhibit 4 and identify that  
6 exhibit.

7 A. Exhibit No. 4 is a net coal isopach  
8 map, again showing the relative coal thickness in  
9 the area of the proposed well. This map is taken  
10 from Kelso & Wicks, a report published in the  
11 1988 San Juan Basin coal-bed methane symposium  
12 booklet.

13 Q. Can you quantify the coal thickness for  
14 the proposed location?

15 A. Once again, the coal thickness appears  
16 to be thinning in the area of the proposed well.

17 Q. Refer to what's been marked as Exhibit  
18 No. 5 and identify that exhibit.

19 A. Exhibit No. 5 is the same production  
20 map showing current production as of June 1992 in  
21 the 20-section area surrounding the proposed well  
22 location.

23 Q. How is that proposed location depicted?

24 A. It is shown as a green dot in the  
25 southwest corner of Section 26.

1           Q.       What other Fruitland Coal production  
2 exists in this area?

3           A.       We were only able to locate one other  
4 well that's currently producing from the  
5 Fruitland Coal interval, and that well is shown  
6 in the northwest corner of Section 27, to the  
7 left of the proposed well location. That well is  
8 currently producing, or as of June 92, was  
9 producing 42 Mcf per day.

10          Q.       Have other Fruitland Coal wells been  
11 drilled in the area that have not been completed?

12          A.       SG Interests have drilled other  
13 Fruitland Coal wells in Township 29 North, Range  
14 10 West, and none of those have yet been  
15 completed.

16          Q.       How many wells have been drilled but  
17 not completed by SG?

18          A.       Approximately five.

19          Q.       Are you able draw any conclusion with  
20 respect to the data depicted on Exhibit No. 5  
21 with respect to your application in this case?

22          A.       Again, there's not sufficient data for  
23 us to draw a conclusion as to the probable  
24 producing rate of the proposed well.

25          Q.       Let's move on to what's been marked as

1 Exhibit No. 6. Would you identify that exhibit?

2 A. Exhibit No. 6 is a detailed Fruitland  
3 Coal net pay isopach map showing the coal  
4 thicknesses at the location, as well as at other  
5 well locations drilled through the Fruitland Coal  
6 zone in the area of the proposed well.

7 Q. What does this data indicate the coal  
8 thickness would be at the proposed location?

9 A. It shows about 26 feet of net coal  
10 thickness at the proposed location.

11 Q. Let's turn to what's been marked as  
12 Exhibit No. 7, and identify that exhibit.

13 A. Exhibit No. 7 is a summary of the  
14 economics prepared for the drilling of the  
15 proposed well. These economics were based on an  
16 initial rate of 125 Mcf per day, five percent per  
17 year decline rate, gas price of \$1.50 per Mcf,  
18 with an escalation rate to that gas price of four  
19 percent per year. Operating costs are estimated  
20 to be \$1,000 per month escalated at a five  
21 percent per year rate.

22 Without the tax credits, these  
23 economics result in 175-month payout, return on  
24 investment of .4, rate of return of 7.35, and a  
25 negative discounted present value of \$64,500.



1           Q.       In your opinion, without the  
2       availability of the tax credit, would this be a  
3       commercial operation?

4           A.       No, it would not.

5           Q.       Mr. O'Hare, do you ask that a charge  
6       for risk involved in drilling this well be set by  
7       the Examiner?

8           A.       Yes.   SG Interests I, Ltd., is asking  
9       for a 200 percent risk factor.

10          Q.       How do you support that request?

11          A.       Again, we are basing that request on  
12       the fact that there is a diminishing gas content,  
13       diminishing coal thickness in the area of the  
14       proposed well.   We also seek recognition for the  
15       aggressive gas price that we've applied towards  
16       our economics, along with the lack of sufficient  
17       production in the area to justify the initial  
18       rate that we used in preparing our economics.

19                 MR. STOVALL:   Mr. Roberts, excuse the  
20       interruption.   We had a similar discussion of  
21       risk in Case 10567, which I believe is two  
22       sections away, is that correct?

23                 THE WITNESS:   That is correct.

24                 MR. STOVALL:   Is it safe to assume you  
25       incorporate the same sort of argument or the same

1 sort of evidence, rather, and the rationale in  
2 the request for a 200 percent risk penalty in  
3 this location?

4 THE WITNESS: That is correct. Being a  
5 little bit farther removed from known production  
6 to the east, we feel we have a little bit  
7 stronger case for this well.

8 MR. STOVALL: I didn't mean to  
9 short-circuit you.

10 MR. ROBERTS: We were going to minimize  
11 the questions with respect to risk here. But  
12 they are very--the position of SG in this case is  
13 very similar to the more detailed position it  
14 took in 10567. The same will be true of the next  
15 case that will be heard.

16 MR. STOVALL: Are there any specific  
17 questions to this case that you want to get  
18 into? When you talk about it being further away,  
19 are there any other distinguishing  
20 characteristics which would set this out? You  
21 might just proceed on that.

22 MR. ROBERTS: I'll just ask that  
23 question.

24 Q. Are there any other distinguishing  
25 characteristics between the proposed location in

1 this case and the proposed location in Case  
2 10567?

3 A. No, other than the fact that it is  
4 farther away from known gas production and known  
5 gas contents of the coals, no.

6 MR. STOVALL: Is it thinner?

7 THE WITNESS: Yes, it is thinner.  
8 About seven feet thinner.

9 Q. Who do you propose operate this well?

10 A. We're proposing that SG Interests I,  
11 Ltd., be named as operator of the well.

12 Q. In Case 10567, you testified as to the  
13 experience of SG. Are those still relevant  
14 comments?

15 A. Yes, they are.

16 Q. What charges do you propose be made for  
17 overhead supervisory charges during the drilling  
18 and production stages?

19 A. Again, we're asking for a \$4,000  
20 monthly charge for the drilling and completion  
21 phase of the well, and then a \$450 per month  
22 charge for the production phase of the well.

23 Q. What is the basis for those proposed  
24 charges?

25 A. The basis is again historical in

1 nature, based on what SG Interests has been  
2 charging for the last year on the remaining wells  
3 it operates in the Basin, along with charges that  
4 they pay to other operators.

5 Q. In your opinion, will the granting of  
6 this application result in the prevention of  
7 waste and the protection of correlative rights,  
8 and be in the best interest of conservation?

9 A. Yes, it will.

10 Q. Were Exhibit Nos. 2 through 7 either  
11 prepared by you or at your direction and under  
12 your supervision?

13 A. Yes, they were.

14 MR. ROBERTS: I would move the  
15 admission of Exhibit Nos. 2 through 7, and I'm  
16 not sure I moved the admission of Exhibit No. 1  
17 that was introduced by Mr. Fullerton, but I'll do  
18 that at this time, too.

19 EXAMINER STOGNER: Exhibits 1 through 7  
20 will be admitted into evidence.

21 MR. ROBERTS: I have no other questions  
22 for this witness.

23 EXAMINATION

24 BY EXAMINER STOGNER:

25 Q. Mr. O'Hare, was there any reason why

1 the well location changed from your application  
2 to the proposed one as shown on Exhibit No. 1  
3 today, and subsequently on all the other  
4 exhibits?

5 A. Yes. There was a problem with the  
6 pipeline on our original location staking.

7 Q. You mean avoiding a pipeline, or to  
8 make it closer to accessibility to the pipeline?

9 A. No, avoiding a pipeline.

10 Q. So, purely topographic?

11 A. Right.

12 Q. But it is a standard location, is that  
13 correct?

14 A. Yes, it is.

15 EXAMINER STOGNER: The application  
16 today or the advertisement shows the well  
17 location to be a standard location within the  
18 southwest quarter as opposed to naming the  
19 location, as your application did. If we would  
20 have done that, we would have had to  
21 readvertise. It being general enough, we won't  
22 have to do that at this point.

23 Mr. Roberts, I'll take administrative  
24 notice of the transcript of Case 10567 as it  
25 relates to Mr. O'Hare's testimony as to the

1 geology in the area and such as that. However, I  
2 would request also a copy of the Ernst & Young  
3 report which you're alluding to today.

4 MR. ROBERTS: We can submit that.

5 EXAMINER STOGNER: Just submit a copy  
6 as a record, not as an exhibit or anything. With  
7 that are there any other questions?

8 MR. STOVALL: Yes. Obviously the same  
9 issue with respect to penalty and time comes up.  
10 You have the additional issue of the notice  
11 thing.

12 Let me indicate that under our rules I  
13 think that I'm concerned that the notice was  
14 proper under the rules and I'm concerned about  
15 who we have jurisdiction over, there being a  
16 named living person now who might have an  
17 interest. We may have to change the way we  
18 publish notice in these unknown bodies cases.

19 I think that is, again, a decision you  
20 have to make as to the likelihood of the Catron  
21 family actually owning an interest and whether  
22 you wish to continue it. What's more important,  
23 get the well drilled, and also the previous  
24 discussion about the risk penalty factor.

25 Bearing in mind in both cases that

1     delaying the case in the hopes of getting 200  
2     percent is not a guarantee of 200 percent, so  
3     evaluate that in your decision as to whether or  
4     not it's worth the delay.

5             EXAMINER STOGNER:  Regardless, we're  
6     talking about a 12-1/2 percent interest that's  
7     being force pooled, or that's the topic of  
8     today's application, is that correct?

9             MR. ROBERTS:  That's correct.

10            MR. STOVALL:  The question is, if they  
11     find a known body that owns the interest or if  
12     they're able to identify the known living entity  
13     or the person that owns the interest, that  
14     interest is not pooled.  The problem is, do you  
15     know who that is?  I've been through title  
16     searches in San Juan County and understand how  
17     that works.

18            EXAMINER STOGNER:  If there's nothing  
19     further of Mr. O'Hare, he may be excused.

20            Let's take a five-minute recess.

21            [A recess was taken.]

22            EXAMINER STOGNER:  Go ahead, Mr.  
23     Roberts.

24            MR. ROBERTS:  Mr. Examiner, we request  
25     that Case 10585 be left open until the November

1 19, 1992 hearing. We make no revision to our  
2 request for risk in that case.

3 MR. STOVALL: You intend, if I  
4 understand, to attempt to provide notice to  
5 parties that might own an interest, just to make  
6 sure--

7 MR. ROBERTS: We'll try and do a  
8 thorough investigation of potential owners of  
9 that interest and provide notice to all of them.

10 And our intent would be to provide  
11 proof of that notice or notification effort at  
12 the November 19th hearing.

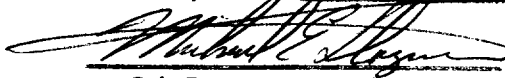
13 MR. STOVALL: That can be done in the  
14 form of an affidavit which can be sent in, unless  
15 you feel there's a need for further testimony.

16 MR. ROBERTS: We'll be down here  
17 anyway, for other cases.

18 EXAMINER STOGNER: Case 10585 will be  
19 continued to the Examiner's hearing scheduled for  
20 November 19, 1992.

21 (And the proceedings concluded.)  
22

23 I do hereby certify that the foregoing is  
24 a complete record of the proceedings in  
25 the Examiner hearing of Case No. 10585,  
heard by me on 29 Oct. 1992.

  
\_\_\_\_\_, Examiner  
Oil Conservation Division



## 1 CERTIFICATE OF REPORTER

2  
3 STATE OF NEW MEXICO )  
4 COUNTY OF SANTA FE ) ss.  
5

6 I, Carla Diane Rodriguez, Certified  
7 Shorthand Reporter and Notary Public, HEREBY  
8 CERTIFY that the foregoing transcript of  
9 proceedings before the Oil Conservation Division  
10 was reported by me; that I caused my notes to be  
11 transcribed under my personal supervision; and  
12 that the foregoing is a true and accurate record  
13 of the proceedings.

14 I FURTHER CERTIFY that I am not a  
15 relative or employee of any of the parties or  
16 attorneys involved in this matter and that I have  
17 no personal interest in the final disposition of  
18 this matter.

19 WITNESS MY HAND AND SEAL November 25,  
20 1992.  
21

22  
23   
24 CARLA DIANE RODRIGUEZ, RPR  
25 CSR No. 4

STATE OF NEW MEXICO

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION

CASE 10,585

EXAMINER HEARING

IN THE MATTER OF:

Application of SG Interests I, Ltd., for  
compulsory pooling, San Juan County, New Mexico

TRANSCRIPT OF PROCEEDINGS

**ORIGINAL**

RECEIVED

DEC 07 1992

OIL CONSERVATION DIVISION

BEFORE: MICHAEL E. STOGNER, EXAMINER

STATE LAND OFFICE BUILDING

SANTA FE, NEW MEXICO

November 19, 1992

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

FOR THE DIVISION:

ROBERT G. STOVALL  
Attorney at Law  
Legal Counsel to the Division  
State Land Office Building  
Santa Fe, New Mexico 87504

FOR THE APPLICANT:

KELLAHIN & KELLAHIN  
Attorneys at Law  
By: W. THOMAS KELLAHIN  
117 N. Guadalupe  
P.O. Box 2265  
Santa Fe, New Mexico 87504-2265

\* \* \*

## I N D E X

## Page Number

Appearances

2

JAMES B. FULLERTON

Direct Examination by Mr. Kellahin

5

Certificate of Reporter

9

\* \* \*

## E X H I B I T S

## APPLICANT'S EXHIBITS:

Exhibit A

5

Exhibit B

5

Exhibit C

5

Exhibit D

5

\* \* \*

1           WHEREUPON, the following proceedings were had  
2           at 11:25 a.m.:

3           EXAMINER STOGNER: Call the next case, Number  
4           10,585.

5           MR. STOVALL: Application of SG Interests I,  
6           Ltd., for compulsory pooling, San Juan County, New  
7           Mexico.

8           EXAMINER STOGNER: We began hearing this case  
9           on -- What was that? October -- ?

10          MR. STOVALL: -- 29th, it says here on the  
11          docket.

12          EXAMINER STOGNER: -- 29th, and I think there  
13          were some issues that were brought up that we continued  
14          this case until now, at this time.

15          Mr. Kellahin?

16          MR. KELLAHIN: Mr. Examiner, I think it may  
17          expedite the process to simply acknowledge Mr.  
18          Fullerton as a continuing expert under oath in this  
19          case, and let me go through with him his efforts to  
20          locate the continuing principals in what appears to be  
21          a defunct corporation and his efforts to then run down  
22          participation by anyone that may now have an interest  
23          that was originally attributed to the Basin Natural Gas  
24          Corporation, and if I may do so, I think he and I can  
25          cover on that very quickly.

1 EXAMINER STOGNER: Mr. Kellahin?

2 JAMES B. FULLERTON,

3 the witness herein, after having been previously duly  
4 sworn upon his oath, was examined and testified as  
5 follows:

6 DIRECT EXAMINATION

7 BY MR. KELLAHIN:

8 Q. Mr. Fullerton, let me show you what I've  
9 marked as a series of exhibits to supplement the  
10 earlier presentation that you had made. They're marked  
11 as SG exhibits A through the letter D, and let's simply  
12 go through those with you.

13 Subsequent to the last hearing, did you make  
14 an investigation to determine whether or not you could  
15 locate and, if you could locate, whether you could  
16 obtain the joinder of any of the principals that were  
17 identified as having interest in the Basin Natural Gas  
18 Corporation?

19 A. Well, actually prior to the last hearing we  
20 did do some research on this, and as to Exhibit A, this  
21 information was obtained in August, regarding this  
22 Basin Natural Gas Corporation.

23 And as you go in here to the articles of  
24 incorporation, we did note at that time that the  
25 parties to this apparent defunct corporation were

1 Thomas Catron, A.L. Bergere and June Catron, and this  
2 information was known prior to the last hearing.

3 It was followed up on with a conversation  
4 with Mr. Catron, both the senior and the son, who I  
5 believe possibly in the last case I did indicate, at  
6 the last hearing, that they were not really aware of  
7 this Basin Natural Gas Corporation. They were not  
8 knowledgeable about the situation at the present time.

9 Q. Let me turn your attention to Exhibit B,  
10 which is a memorandum dated October 22nd of 1992.

11 Identify for us who Michael J. Finney is, Mr.  
12 Fullerton.

13 A. Michael Finney is a petroleum landman who is  
14 working under my control and who did the research  
15 regarding this Basin Natural Gas Corporation. He also  
16 made the contacts with Mr. Catron and therefore sent me  
17 a memo which is Exhibit Number B, indicating his  
18 conversations up through October 22nd with Mr. Catron.

19 Q. Subsequent to that, Exhibit C is a  
20 communication from Mr. Roberts to Mr. Catron by October  
21 30th, 1992, in which he identifies to Mr. Catron the  
22 proposed application for hearing and asked him to  
23 contact either you or Mr. Roberts concerning his  
24 interest, if he has any.

25 Has Mr. Catron talked to you, or any of his

1 family members discussed with you participation of  
2 their interests in this pooling?

3 A. The -- Subsequent to the October 30th letter  
4 that Mr. Roberts did write, Mike Finney did talk to Mr.  
5 Catron again, and he said that he hadn't really had  
6 time to look into this, he would try to go through his  
7 files and see if he could find anything as to the  
8 status or parties who may have had an interest or  
9 something in this defunct corporation.

10 We advised him at that time of our plans for  
11 the forced pooling, which he knew about, and he really  
12 wasn't concerned in the least, one way or the other,  
13 about it. He said he'd try to get some information  
14 together and review the situation and get back to us,  
15 and we assume that he will.

16 MR. KELLAHIN: That concludes my examination  
17 of Mr. Fullerton.

18 We would move for the introduction of  
19 Exhibits A through D.

20 EXAMINER STOGNER: Exhibits A through D will  
21 be admitted into evidence.

22 Mr. Stovall?

23 MR. STOVALL: I think that fulfills the  
24 requirement or request that I made of Mr. Roberts at  
25 the time of the last hearing, as far as we don't know



1 if Catron has a good interest or who does, but at least  
2 some attempt has been made to notify the party who may  
3 have an interest. That satisfies that requirement.

4 EXAMINER STOGNER: I have no questions of Mr.  
5 Fullerton. He may be excused.

6 Is there anything further in Case Number  
7 10,585?

8 MR. KELLAHIN: We would request that you take  
9 that case under advisement.

10 EXAMINER STOGNER: And I can, because this  
11 was not a subject of said misadvertisement in the  
12 Farmington paper.

13 With that, I'll take Case Number 10,585 under  
14 advisement and take a recess until 1:15.

15 (Thereupon, these proceedings were concluded  
16 at 11:31 a.m.)

17 \* \* \*

18  
19  
20 I do hereby certify that the foregoing is  
21 a complete record of the proceedings in  
22 the Examiner hearing of Case No. 10585,  
23 heard by me on 19 Nov. 1992.  
24 Michael E. Stogner, Examiner  
25 Oil Conservation Division

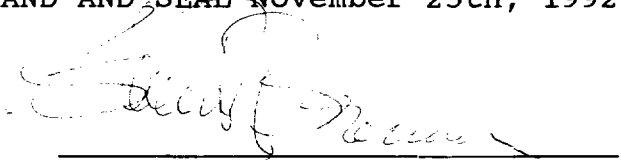
## 1 CERTIFICATE OF REPORTER

2  
3 STATE OF NEW MEXICO )  
4 ) ss.  
COUNTY OF SANTA FE )

5  
6 I, Steven T. Brenner, Certified Court  
7 Reporter and Notary Public, HEREBY CERTIFY that the  
8 foregoing transcript of proceedings before the Oil  
9 Conservation Division was reported by me; that I  
10 transcribed my notes; and that the foregoing is a true  
11 and accurate record of the proceedings.

12 I FURTHER CERTIFY that I am not a relative or  
13 employee of any of the parties or attorneys involved in  
14 this matter and that I have no personal interest in the  
15 final disposition of this matter.

16 WITNESS MY HAND AND SEAL November 25th, 1992.

17  
18   
19 STEVEN T. BRENNER  
CCR No. 7

20 My commission expires: October 14, 1994  
21  
22  
23  
24  
25