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STATE OF NEW MEXICO  
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT  
OIL CONSERVATION DIVISION  
CASE 9976

EXAMINER HEARING

IN THE MATTER OF:

Application of Southland Royalty Company for Two  
Non-Standard Gas Proration Units, San Juan County,  
New Mexico

TRANSCRIPT OF PROCEEDINGS

BEFORE: DAVID R. CATANACH, EXAMINER

STATE LAND OFFICE BUILDING

SANTA FE, NEW MEXICO

June 27, 1990

**ORIGINAL**

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FOR THE DIVISION:

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1                   WHEREUPON, the following proceedings were had  
2                   at 11:22 a.m.:

3                   EXAMINER CATANACH: At this time we'll call  
4                   Case 9976.

5                   MR. CARROLL: Application of Southland  
6                   Royalty Company for two nonstandard gas proration  
7                   units, San Juan County, New Mexico.

8                   EXAMINER CATANACH: Appearances in this case?

9                   MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin  
10                  of the Santa Fe law firm of Kellahin, Kellahin and  
11                  Aubrey, appearing on behalf of the Applicant.

12                  We'd request the Examiner take note that both  
13                  Mr. Falconi and Mr. Alexander have previously qualified  
14                  as expert witnesses and are continuing under oath.

15                  EXAMINER CATANACH: Let the record so  
16                  reflect.

17                  You may proceed, Mr. Kellahin.

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

21   EXAMINATION

22                  BY MR. KELLAHIN:

23                         Q. Mr. Alexander, let me have you turn, sir, to  
24                         Exhibit Number 1 in the package of documents for this  
25                         case, and describe for the Examiner what you're

1 proposing to accomplish.

2 A. Exhibit Number 1 consists of our Application  
3 to the Commission to establish two nonstandard spacing  
4 units for the Basin Fruitland Coal Formation. It  
5 depicts the acreage that we are requesting.

6 It also lists two wells that are -- one of  
7 which is a proposed recompletion, the East Number 13  
8 Well, recompleted from the Pictured Cliffs to the  
9 Fruitland Coal Formation, and the other one is our  
10 proposed Hedges Number 100 well. We have not staked  
11 that well at the current time.

12 The Application also -- Behind the  
13 Application you will see an offset operator plat for  
14 the East Number 13 Well, and the offset owners are  
15 listed. And you will also see an area land map showing  
16 wells and the description of the acreage in the area in  
17 general.

18 Behind the land plat you will see another  
19 nonstandard offset operator plat for our proposed  
20 Hedges 100 Well, and the offset operator all around  
21 that proposed unit is Southland Royalty Company.

22 Q. When we look at Exhibit D to the Application,  
23 would you identify those three individuals or entities?

24 A. Those individuals listed in that exhibit are  
25 our partners that are located in the drilling block we

1 are requesting for the Hedges Number 100 Well, which  
2 consists primarily of acreage in Section 23, with a  
3 quarter section of Section 24 dedicated.

4 Q. Let's turn now to the displays behind Exhibit  
5 Number 2, and starting with the first display, describe  
6 that for us.

7 A. This is a land plat that depicts existing  
8 Mesa Verde or Dakota spacing in the area.

9 We have researched and found currently some  
10 prior Commission Orders governing the Mesa Verde and  
11 Dakota. The Orders that we have found so far are  
12 Number NWU-37 --

13 Q. Not so fast. Do it again, please.

14 A. All right. That would be NWU-37, which I  
15 believe is an administrative order.

16 Q. For what formation that would be?

17 A. That is for the Mesa Verde Formation.

18 Q. For which of the spacing units?

19 A. And that would be for the spacing unit that  
20 consists mostly of Section 23, which is the Hedges  
21 Number 100 proposed well location.

22 Q. Okay.

23 A. Following that Order, the Commission has  
24 entered another Order, companion Order, which is R-230  
25 and R-230-A, again for the Mesa Verde Formation.

1 Q. For what spacing unit?

2 A. That would be for the same spacing unit that  
3 we just talked about.

4 Q. Okay, any other Orders?

5 A. Yes, we have located another administrative  
6 order, NWU-411, again for the same spacing unit, and  
7 that administrative Order covers the Dakota Formation.

8 Q. Any others?

9 A. Yes, for the other proration unit, which is  
10 our East Number 13 Recompletion, which consists mostly  
11 of Section 24, we have located Order R-1902 for the  
12 Dakota Formation.

13 Q. Any others?

14 A. No, sir, that's all we've located today. I  
15 have not yet located, however I feel there is a Mesa  
16 Verde order for the Section 24 spacing unit, but I have  
17 not located it yet.

18 Q. Based upon your research and investigation,  
19 Mr. Alexander, can you determine for us what the reason  
20 was for establishing these nonstandard units?

21 A. Yes, sir, I believe the reason they were  
22 established is because each of the requested  
23 nonstandard units consists of one lease, and that  
24 alleviated many problems for the parties involved here.  
25 They did not require any communitization because of

1 that, and they could operate the properties as an  
2 entirety.

3 The parties did enter into operating  
4 agreement on the Section 23 spacing unit to cover  
5 operations there, and the existing wells, of course,  
6 are being conducted under that operating agreement.  
7 And we would likewise like to conduct operations for  
8 the Fruitland Coal Well under that existing operating  
9 agreement.

10 Now, the other -- the companion unit that's  
11 located mostly in Section 24 is owned 100 percent by  
12 Southland Royalty Company. It requires no operating  
13 agreement nor a communitization agreement.

14 Q. Were both Dakota and Mesa Verde Wells drilled  
15 on each of the two nonstandard proration units?

16 A. Yes, sir, that's correct.

17 Q. What is the proposed plan for the Basin  
18 Fruitland Coal spacing?

19 A. The proposed plan would be to follow the  
20 identical units as the Mesa Verde and the Dakota.

21 Q. Will there be Fruitland Coal Gas wells for  
22 each of the two spacing units?

23 A. Yes, sir, that is our plans, to have one for  
24 each.

25 Q. Turn to Exhibit 3 and identify and describe

1 the information behind that display.

2 A. Exhibit Number 3 consists of a New Mexico Oil  
3 Conservation Division Form C-102, and it's the form  
4 that we have recently filed to show the recompletion  
5 from the Pictured Cliffs Formation into the Basin  
6 Fruitland Coal Formation.

7 It also contains a plat that shows the  
8 identical requested nonstandard spacing unit.

9 Q. Why are you seeking approval of the two  
10 Fruitland Coal Gas spacing units?

11 A. The primary reason being that we have an  
12 operating agreement already in existence for one of the  
13 units. We would prefer to operate under that operating  
14 agreement; so would our partners.

15 And for the other unit that is a single  
16 lease, it's a single federal lease, and we would prefer  
17 to stay operating on that single federal lease, just as  
18 the Mesa Verde and the Dakota wells have been operated  
19 and produced.

20 Q. Can you see any adverse consequences to the  
21 correlative rights of any of the parties involved by  
22 approval of this Application?

23 A. No, sir, as long as the parties involved in  
24 these two particular spacing units agree, that does not  
25 set up an unusual situation for any of the surrounding

1 acreage, in my opinion, so I do not believe that  
2 anybody is adversely impacted.

3 MR. KELLAHIN: That concludes my examination  
4 of Mr. Alexander. We would move the introduction of  
5 Exhibits 1 through 3.

6 EXAMINER CATANACH: Exhibits 1 through 3 will  
7 be admitted as evidence.

8 EXAMINATION

9 BY EXAMINER CATANACH:

10 Q. Mr. Alexander, what's the advantage to your  
11 company to use an existing operating agreement instead  
12 of coming up with a new one?

13 A. The basic gain that -- Of course, we already  
14 have established Division Orders and revenue patterns  
15 established for these prior wells, and absent some  
16 impact to the contrary to correlative rights in the  
17 area, frankly we see no reason to depart from those  
18 historical patterns.

19 Q. You say your -- you -- Meridian and your  
20 partners are -- would rather leave things the way they  
21 are. Who are the partners involved in that?

22 A. They are the same parties that were listed on  
23 the Application as Exhibit -- the last exhibit in  
24 there. I think Mr. Kellahin said that was Exhibit D.

25 Q. Okay.

1           A.    And that would be V.F. Neuhaus Properties,  
2   Cecil Lanier Estate and Lee Killgore.

3           Q.    Okay.  From the orders that you gave me, it  
4   seems that those wells, the Mesa Verde and Dakota  
5   wells, are pretty old, they've been producing a long  
6   time?

7           A.    Yes, sir, I believe that's correct.

8           Q.    As far as the offset operators, those are the  
9   only offset operators, or who is the offset operator to  
10  these units?

11          A.    As you will -- Well, you can't readily  
12  determine it, but the offset operator in this area, the  
13  Southland Royalty Company owns nearly all of the  
14  acreage in this area, especially surrounding these two  
15  units, and you'll see on the one offset operator plat  
16  that consists mostly of Section 24, that in fact  
17  Southland is the offset operator to that.

18          Q.    So they are the only offset operator to the  
19  units?

20          A.    Yes, sir.

21          Q.    Now, Southland Royalty Company is still an  
22  operating entity?

23          A.    They are still a legal entity -- an entity  
24  that is a part of the Burlington Resources corporate --  
25  company.  And we still operate under their name.

1 Q. What's their association with Meridian?

2 A. They're a sister company.

3 EXAMINER CATANACH: I have no further  
4 questions.

5 MR. KELLAHIN: I'd like to call Mr. Falconi  
6 at this time.

7 JAMES D. FALCONI,

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

10 EXAMINATION

11 BY MR. KELLAHIN:

12 Q. Mr. Falconi, let me have you turn to the plat  
13 shown behind Exhibit Number 4 and have you identify  
14 that for us.

15 A. Exhibit Number 4 is a Fruitland Coal net  
16 isopach map, and it depicts the net clean coal  
17 thickness of the Basin Fruitland Coal.

18 Q. Have you examined the two proposed  
19 nonstandard proration units that you're -- that  
20 Southland is proposing the Division approve for these  
21 two Fruitland Coal Gas wells?

22 A. Yes, I have.

23 Q. In your opinion, can the Fruitland Coal Gas  
24 Formation and Pool production be developed effectively  
25 for these two nonstandard units by the approval of the

1 nonstandard units?

2 A. Yes, it can.

3 Q. Will it disrupt your plans for well locations  
4 or unduly restrict your choices on well locations for  
5 either one of those spacing units?

6 A. No, the layout of the proration units will  
7 not disrupt my well pattern.

8 Q. Can you effectively and efficiently, then,  
9 develop the Fruitland Coal Gas production with the  
10 approval of this Application?

11 A. Yes, we can.

12 MR. KELLAHIN: That concludes my examination  
13 of Mr. Falconi.

14 EXAMINER CATANACH: I have no questions of  
15 the witness. He may be excused.

16 MR. KELLAHIN: Exhibit Number 5, Mr.  
17 Examiner, is the certificate of mailing. We would move  
18 at this time the introduction of Exhibits 4 and 5.

19 EXAMINER CATANACH: Exhibits 4 and 5 will be  
20 admitted as evidence.

21 MR. KELLAHIN: That concludes my examination  
22 and presentation in this case.

23 EXAMINER CATANACH: Mr. Kellahin, this is  
24 marked 6, Exhibit Number 6.

25 MR. KELLAHIN: Well, let's change.

1                   EXAMINER CATANACH: Okay, there being nothing  
2 further in this case, Case 9976 will be taken under  
3 advisement.

4                   (Thereupon, these proceedings were concluded  
5 at 11:37 a.m.)

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