

1 STATE OF NEW MEXICO
2 ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
3 OIL CONSERVATION DIVISION
4 CASE 10121

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EXAMINER HEARING

8

9 IN THE MATTER OF:

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11 Application of Mesa Operating Limited
12 Partnership for Compulsory Pooling,
13 San Juan County, New Mexico

14

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TRANSCRIPT OF PROCEEDINGS

17

18 BEFORE: MICHAEL E. STOGNER, EXAMINER

19

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STATE LAND OFFICE BUILDING

21

SANTA FE, NEW MEXICO

22

October 17, 1990

23

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25

1 A P P E A R A N C E S

FOR THE APPLICANT:

J. SCOTT HALL, ESQ.
Miller, Stratvert, Torgerson
& Schlenker, P.A.
125 Lincoln Avenue, Suite 303
Santa Fe, New Mexico 87501

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1 EXAMINER STOGNER: Call next case, No. 10121,
2 which is the application of Mesa Operating Limited
3 Partnership for compulsory pooling.

4 Call for any other appearances besides
5 Mesa?

6 Let the record show that the three
7 witnesses have been previously sworn and had their
8 credentials accepted.

9 Mr. Hall.

10 EDWARD L. "HANK " WOOD

11 the witness herein, after having been previously duly
12 sworn upon his oath, was examined and testified as
13 follows:

14 EXAMINATION

15 BY MR. HALL:

16 Q. For the record, please state your name.

17 A. Edward L. "Hank " Wood.

18 Q. Mr. Wood, let's review Exhibits 1 and 2 for
19 the Examiner, please, sir.

20 A. Exhibit 1 is a land plat for Mesa's
21 proposed FC State Com No. 35 well. It shows our
22 proposed proration unit to be the north half of
23 Section 16, 29 North, 14 West, San Juan County, New
24 Mexico.

25 It shows the well location to be 1,075 feet

1 from the north line, 1,495 feet from the east line of
2 said Section 16, and it shows the working interest
3 owners to the well and the tracts from which their
4 interest is derived.

5 Page 2 to Exhibit 1 shows a breakdown of
6 the working interest owners to the proposed test who
7 have committed their interest and those which have not
8 responded to Mesa.

9 In this case, Mesa as the proposing party
10 is the only party committed to the well. At this time
11 Union Texas Exploration Company with 6.25 percent has
12 not responded; Enron Oil & Gas Company with 6.25
13 percent has not responded; EVCO Development Company
14 with 12.5 percent has not responded; Texon Energy
15 Corporation with 12.5 percent has not responded.

16 Nearburg Producing Company with 50 percent
17 corresponded with us yesterday by telephone and
18 indicated to us that they would be joining the well
19 and sending us a FAX to substantiate their joinder,
20 but we have not received it, so we're considering them
21 to be a party standing out of the well at this time.
22 At this time we have 12.5 percent committed and 87.5
23 percent noncommitted to the well.

24 Q. Let's do Exhibit 2, please.

25 A. Exhibit 2 is Mesa's proposal letter whereby

1 we proposed the drilling of a 790-foot Fruitland Coal
2 test to be located 1,075 feet from the north and 1,495
3 from the east line of said Section 16. It contained
4 with it Mesa's AFE and Mesa's Operating Agreement.

5 Q. Mr. Wood, in your opinion, have you made a
6 good faith effort to secure the voluntary joinder of
7 all the parties you seek to pool?

8 A. Yes, we have.

9 Q. Were Exhibits 1 and 2 prepared by you or at
10 your direction?

11 A. Yes, they were.

12 MR. HALL: We'd move their admission, and
13 that completes our direct of this witness.

14 EXAMINER STOGNER: Exhibits 1 and 2 will be
15 admitted into evidence.

16 EXAMINATION

17 BY EXAMINER STOGNER:

18 Q. Who with Nearburg Producing did you talk
19 with?

20 A. Martin Nearburg.

21 EXAMINER STOGNER: These are the same
22 Nearburgs as in the southeast, Mr. Hall?

23 MR. HALL: Yes, sir.

24 EXAMINER STOGNER: I have no other
25 questions.

1 STEWART L. SAMPSON

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

5 EXAMINATION

6 BY MR. HALL:

7 Q. For the record state your name, please.

8 A. Stewart Sampson.

9 Q. Mr. Sampson, what is the risk penalty that
10 Mesa is seeking for this particular well?

11 A. 200 percent plus cost.

12 Q. Let's look at Exhibits 3, 4 and 5 if you
13 would, please, and explain them, sir?

14 A. Exhibit 3 is, once again, a coal isopach
15 for the entire San Juan Basin, with our proposed well,
16 the State Com 35 shown by the red dot.

17 As you can see on this map, this well is
18 very near the basin margin at the coal and, in fact,
19 is only about six miles from the outcrop of the
20 Fruitland formation. Consequently this introduces
21 significant risk factors because the hydrologic regime
22 affects the possibility that this well could be
23 flushed with fresh water, introducing a significant
24 risk factor.

25 As you can see by the isopach also, the

1 coal thickness out in this area is not extremely
2 favorable in that we're in the range of 20 feet in
3 thickness of coal.

4 Exhibit 4 is the other important factor in
5 establishing production. It's the
6 bottom-hole-pressure map for the Fruitland formation.
7 This particular well located beyond the lowest contour
8 value established in the basin. The major reason for
9 this extremely low bottom-hole pressure out in this
10 area is because the shallow depth of this well at 790
11 feet, we would anticipate to have very low gas
12 content. The gas content throughout the basin goes up
13 when the pressure goes up because the reservoir is
14 able to store more gas. So, once again, another
15 factor indicating extreme risk for this particular
16 well.

17 And then finally, Exhibit 5, a detailed map
18 of the area showing any offset Fruitland Coal
19 completions in the area. And as you can see within
20 the 25-square-mile area surrounding Section 16 and the
21 proposed well, there are no completions which have
22 been reported to date.

23 In light of all these above factors, we
24 feel like this well should easily qualify for the 300
25 percent penalty.

1 Q. Although this well is located within the
2 established Fruitland Basin Coal Pool, would you
3 otherwise consider it a wildcat well?

4 A. Yes, I would. I might also add that this
5 well is really closer to the basin margin than some of
6 the 300 percent penalties which we believe have been
7 awarded to Hixon.

8 Q. How exactly does the low gas in place
9 figures affect risk for this well?

10 A. Well, at this depth, like I said, the
11 actual gas content of the coal drops with decreasing
12 depth, and at this very shallow depth I would think
13 that we would be fortunate to have 100 cubic feet of
14 gas per ton left, which gives us a small gas in place
15 target. We will have to achieve a relatively high
16 recovery factor to have an economic venture.

17 Q. And there is some uncertainty about what
18 recoverability rate you will realize? Is that an
19 unknown at this point?

20 A. Yes, that's always an unknown on any well.
21 The ranges throughout the basin are extremely wide on
22 the recovery factor.

23 Q. Were Exhibits 3, 4 and 5 prepared by you?

24 A. Yes, they were.

25 MR. HALL: We would move their admission,

1 and that completes our direct of this witness.

2 EXAMINER STOGNER: Exhibits 3, 4 and 5 will
3 be admitted into evidence.

4 EXAMINATION

5 BY EXAMINER STOGNER:

6 Q. Mr. Sampson, in your Exhibit No. 4 there
7 shows to be some wells that are within six miles and
8 even closer to the fringes of the coal pool up to the
9 north, along the Colorado/New Mexico line. How do
10 those differ from this?

11 A. On Exhibit 4?

12 Q. Yes.

13 A. Okay. The control points for the pressure
14 map is what you're looking at?

15 Q. Yes.

16 A. Okay, particularly the wells up by the
17 Colorado line there which are close to the outcrop are
18 much deeper. The outcrop--the angle at which the
19 Fruitland comes up in that area is much steeper, in
20 other words the dip rate, so consequently the wells
21 out in that area are probably on the order of 2,000
22 feet in depth as compared to our 790 feet here.
23 Consequently, they have much higher pressure and
24 higher gas content within the coal.

25 The entire flank of the basin up there

1 where the Colorado/New Mexico line crosses the outcrop
2 is a much steeper dip rate than it is once you pass
3 down to Farmington and further to the south. It
4 becomes a very shallow dip rate.

5 Q. Did you review logs on whether or not
6 there's too many wells?

7 A. Yes, I did. Any well you see on this map
8 with a symbol around it, either a square, circle or
9 triangle, I have looked at those logs, yes.

10 Q. And could you verify the thickness of 10
11 feet or less in this well?

12 A. No. There will be more on the order of 20
13 feet of coal. Of course in this area, with the very
14 low gas content, 20 feet of coal will not have as much
15 gas in place as five feet might, you know, another 20
16 miles into the basin.

17 As you can see on Exhibit 3, this well was
18 very near a 20-foot contour value.

19 Q. Again let's refer to Exhibit 4. You can
20 overlap Exhibit 3 and 4. There seems to be some wells
21 right under the word "Farmington," even down further,
22 between the 200- and 400-pounds pressure differential?

23 A. Right.

24 Q. There seem to be some wells within a
25 20-foot thickness contour and even higher pressure.

1 How do these wells compare to those, or have you had a
2 chance to do any corresponding type of work, looking
3 at the different production parameters and risk and
4 geological features between these various areas?

5 A. If you move down to the group of wells
6 that's located between the 200- and 400-pound
7 contour, the very southernmost wells in the basin.

8 Q. On the map, right?

9 A. Right, on Exhibit 4. Those wells, I
10 believe, are in the Bisti area, and we have
11 information that indicates that the 300 percent
12 penalty has been awarded in that area, and we would
13 certainly feel like our geologic conditions in this
14 particular well are inferior to those particular wells
15 in that you can see our pressure is going to be
16 significantly lower in this area and the coal
17 thickness will not, you know, be substantially
18 higher. Some of those wells have been reported to
19 have established initial rates, at least, of 200 Mcf a
20 day. If we could establish those type of rates, we
21 would be pleased.

22 EXAMINER STOGNER: I have no other
23 questions of Mr. Sampson.

24 Mr. Hall.

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1 TROY A. HOEFER

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

5 EXAMINATION

6 BY MR. HALL:

7 Q. Mr. Hoefer, you've previously been sworn.
8 Let's look at the AFE in Exhibit 2. Would you please
9 review those costs for the Examiner?

10 A. The AFE for this well, Exhibit 2, is a
11 detailed cost estimate for the drilling, equipping and
12 completing of the FC State Com No. 35. This will be a
13 790-foot Fruitland Coal test. Completed cost would be
14 \$179,000.

15 Q. Are those drilling costs in line with
16 what's being charged in the area?

17 A. Yes, they are.

18 Q. What are the estimated overhead and
19 administrative costs while drilling and producing the
20 well?

21 A. \$3,831 while drilling, \$382 while
22 producing.

23 Q. Are those costs also in line with what's
24 being charged?

25 A. Yes, they are.

1 Q. Are you recommending that those charges be
2 incorporated into any Order that results from the
3 hearing?

4 A. Yes, I am.

5 Q. Mesa seeks to be designated as the
6 operator, does it not?

7 A. That's correct.

8 Q. Let's look at Exhibit 6. If you would
9 explain that to the Examiner, please?

10 A. Exhibit 6 shows all offset Fruitland Coal
11 wells which have been drilled within an approximate
12 two-mile radius of the proposed FC State Com No. 35.
13 As you can see, there have been no offset Fruitland
14 Coal producing wells in this area.

15 Q. You concur in the request for a 200 percent
16 risk penalty factor in this case?

17 A. I do, and I believe that the risk is
18 justified in this well due to the inherent risks of
19 casing and fracturing, and the fact that we have no
20 production offsetting this well.

21 Q. What particular risks are associated with
22 performing a frac job in this particular case?

23 A. The risks are the same as I stated in Case
24 10117. We will have a very large fracture treatment,
25 which would have high rates, high pump volumes and

1 high pressures. In addition we would have a
2 possibility of screening out nature coals as a
3 screen-out can occur rather quickly and there is that
4 possibility in this case.

5 Q. As I understand it, this will be a cased
6 and frac'd well, is that correct?

7 A. That's correct. We will case and
8 fracture-treat this well in order to enhance the
9 natural fracturing and permeability of the coal.

10 Q. And the fact that you're required to incur
11 those completion costs, does that exacerbate the
12 economic risk associated with this well?

13 A. That is correct.

14 Q. Do you expect you will have to realize a
15 greater than average recoverability rate to consider
16 this a commercially successful well?

17 A. Yes. As Mr. Sampson had previously
18 testified, this well will not have a high rate of--gas
19 rate per ton, and we would need a higher recovery to
20 justify an economic success.

21 Q. Do you have anything further you wish to
22 add with respect to the risk penalty?

23 A. No.

24 Q. Was Exhibit 6 prepared by you?

25 A. Yes.

1 MR. HALL: We would move its admission
2 along with Exhibit 7, which is our 12-07 Affidavit,
3 and that concludes our direct of this witness.

4 EXAMINER STOGNER: I have no questions of
5 this witness.

6 There again, Mr. Hall, I'll take
7 administrative notice of the case in which Order No.
8 R-8768 was produced.

9 This case will be continued to the
10 Examiner's Hearing scheduled for October 31st, at
11 which time it will be taken under advisement.

12 (Thereupon, the proceedings concluded.)

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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 CERTIFY
8 that the foregoing transcript of proceedings before
9 the Oil Conservation Division was reported by me; that
10 I caused my notes to be transcribed under my personal
11 supervision; and that the foregoing is a true and
12 accurate record of the proceedings.

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

17 WITNESS MY HAND AND SEAL October 21, 1990.

18

19

20

Carla Diane Rodriguez
CARLA DIANE RODRIGUEZ
CSR No. 91

21 My commission expires: May 25, 1991

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I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 10121,
heard by me on 17 October 19 90.

Michael P. [Signature], Examiner
Oil Conservation Division