

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO

6 August 1986

EXAMINER HEARING

IN THE MATTER OF:

Application of Mesa Grande Resources, Inc., for compulsory pooling, Rio Arriba County, New Mexico. CASE 8964

BEFORE: Michael E. Stogner, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation Division: Jeff Taylor
Attorney at Law
Legal Counsel to the Division
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Santa Fe, New Mexico 87501

For Mesa Grande: William F. Carr
Attorney at Law
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I N D E X

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KATHLEEN A. MICHAEL

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Direct Examination by Mr. Carr

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Cross Examination by Mr. Stogner

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ALAN P. EMMENDORFER

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Direct Examination by Mr. Carr

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E X H I B I T S

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MG Exhibit One, Plat

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MG Exhibit Two, Plat

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MG Exhibit Three, Correspondence

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MG Exhibit Four, Letters

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MG Exhibit Five, AFE

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MG Exhibit Six, Structure Map

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MG Exhibit Seven, Cross Section A-A'

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MR. STOGNER: We'll call next

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Case Number 8064.

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MR. TAYLOR: The application of

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Mesa Grande Resources for compulsory pooling, Rio Arriba

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County, New Mexico.

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MR. CARR: May it please the

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Examiner, my name is William F. Carr with the law firm

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Campbell & Black, P. A., of Santa Fe, representing Mesa

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Grande Resources, Inc.

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I have two witnesses; they are

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the same witnesses that appeared in the last case and I

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would request that the record reflect that they have -- are

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both, they both remain under oath and have been qualified.

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MR. STOGNER: I will consider

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your suggestion and take it under advisement. Let the

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record so show that the witnesses have been previously sworn

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and qualified.

19

Please continue, Mr. Carr.

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MR. CARR: Thank you, Mr.

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Stogner.

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KATHLEEN A. MICHAEL,

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being called as a witness and having been previously sworn

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upon her oath, testified as follows, to-wit:

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DIRECT EXAMINATION

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BY MR. CARR:

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Q Ms. Michael, are you familiar with the application filed in this case?

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A Yes, I am.

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Q And are you familiar with the subject area and the well which is the subject of this application?

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A Yes, I am.

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Q Would you briefly state what Mesa Grande seeks with the application?

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A Again we are seeking to pool the working interest and also the royalty interest in the east half of Section 23 for our proposed Hawkeye No. 1 Well.

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Q Will you refer to what has been marked for identification as Exhibit Number One, identify this, and review it briefly for the examiner?

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A Yes. Exhibit Number One is the same exhibit that was used in the previous cases and it shows the east half of Section 23, which is the proposed drilling block for the Hawkeye Well and all the surrounding wells that have been drilled.

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Q Would you now go to Exhibit Number Two and review this?

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A Exhibit Number Two is a leasehold owner-

1 ship plat which shows a shaded area of the east half of Sec-
2 tion 23, and in the shaded area each separate lease that is
3 subject to the well and the working interest ownership
4 breakdown for each lease as well as a well ownership break-
5 down for the entire area.

6 Q Ms. Michael, what percent of the working
7 interest in this proposed proration unit has voluntarily
8 committed to the drilling of the well?

9 A Just over 78 percent has voluntarily com-
10 mitted.

11 Q Would you now refer to Mesa Grande Exhi-
12 bit Number Three, and using this exhibit summarize the ef-
13 forts you have made to obtain the voluntary joinder in the
14 well of all the working interest owners and the royalty in-
15 terest owners in this proposal?

16 A The first thing which we have in Exhibit
17 Number Three, which is on the bottom of the package, is a
18 copy of the Oil and Gas Mining Lease which is dated June
19 14th, 1947, between Ernest Hatley and his wife and C. W.
20 Gillette is the lessee, and you'll note that this lease does
21 not contain any pooling clause. The minerals have since the
22 date of this lease been severed and it's necessary for all
23 of the current mineral owners to commit their interest to
24 the well that we anticipate drilling.

25 The next thing in the package is a letter

1 dated June 16th, 1986, to all of the working interest own-
2 ers furnishing them with a copy of our proposed AFE and a
3 copy of the proposed operating agreement, and again we have
4 a certified receipt from Mountain States Natural Gas.

5 The next thing in our package is a copy
6 of the pooling agreement, which -- and a letter dated June
7 27th, 1986. This was furnished to all interest owners,
8 working interest, royalty interest, and overriding royalty
9 interest, with the request that they execute the agreement
10 to commit their interest to the pool to the drilling block,
11 and all of the letters were sent certified mail with the ex-
12 ception of New Mexico (not understood), which was hand
13 delivered.

14 And the next thing in the package is a
15 letter dated July 29th, 1986, to -- directed to the royalty
16 interest owners who at that date were still uncommitted and
17 this letter just explains briefly the answer to a question
18 which several mineral owners had raised, which was why their
19 specific mineral ownership was not requested on the exhibit
20 to the pooling agreement and when we explained to them that
21 the exhibit to the pooling agreement is only intended to re-
22 flect the leases that are subject to the pooling and not in-
23 dividual mineral interests but that they mineral interest
24 will be correctly reflected on the Division order when it's
25 issued and we do have a Division order title opinion, which

1 shows their interest.

2 Q Would you give the percentage of the roy-
3 alty interest that has as of this date voluntarily agreed to
4 be pooled into this well?

5 A Yes. We have 72.5 percent of the royalty
6 interest committed to the well.

7 Q In your opinion has Mesa Grande Resources
8 made a good faith effort to locate all these individuals and
9 obtain their voluntary joinder?

10 A Yes.

11 Q Has Mesa Grande drilled other Gallup-
12 Dakota wells in the area?

13 A Yes.

14 Q And have you made an estimate of overhead
15 and administrative charges for this well while drilling and
16 also while producing?

17 A Yes, we have. The drilling rate that we
18 propose is \$3,500 and the producing rate is \$500.

19 Q Are these costs in line with what's being
20 charged by other operators in the area?

21 A Yes, they are.

22 Q And do you recommend that these figures
23 be incorporated into the order which results from today's
24 hearing?

25 A Yes.

1 Q Does Mesa Grande Resources, Inc., seek to
2 be designated operator of the proposed well?

3 A Yes, we do.

4 Q Would you identify what has been marked
5 for identification as Mesa Grande Exhibit Number Four?

6 A Yes. Mesa Grande Exhibit Number Four is
7 a copy of certified letters which were furnished to the
8 working interest owners and the royalty interest owners who
9 were uncommitted as of the date the application was filed in
10 this case.

11 Q And that letter gives notice of today's
12 hearing?

13 A Yes, it does.

14 Q And copies of certified receipts are at-
15 tached.

16 A Yes, they are.

17 Q Were Exhibits One through four either
18 prepared by you or compiled under your direction and super-
19 vision?

20 A Yes, they were.

21 MR. CARR: At this time, Mr.
22 Stogner, we would offer into evidence Mesa Grande Resources
23 Exhibits One through Four.

24 MR. STOGNER: Exhibits One
25 through Four will be admitted into evidence.

1 MR. CARR: That concludes by
2 direct examination of Ms. Michael in this case.

3 MR. STOGNER: Thank you.
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5 CROSS EXAMINATION

6 BY MR. STOGNER:

7 Q Ms. Michael, let's look at Exhibit Number
8 Three. Now, you referred to an old agreement back in 1948
9 or --

10 A '47. It's the Oil and Gas Lease.

11 Q And is that part of Exhibit Number Three?

12 A Yes, it is.

13 Q I'm sorry, I can't seem to find that,
14 either.

15 Ms. Michael, when did this practice of
16 including the royalty interest in a pooling agreement such
17 as this change where the royalty interest went with the
18 operator or whatever you want to call him?

19 A I'm not sure I understand the question.

20 Q I'm not sure I understand the question
21 myself.

22 MR. TAYLOR: He wants to know
23 when they started putting in the provision to allow automa-
24 tic pooling.

25 Q Yes.

1 A I don't know.

2 Q Let's refer back to Exhibit Number Two.
3 Now you mentioned that the well interest breakdown, you had
4 78, around 78 percent --

5 A Yes.

6 Q -- of interest committed. Other than
7 Mountain States Natural Gas Corp. who else has not agreed?

8 A Dugan Production and Duer Wagner, Junior.

9 Q But Duer Wagner, III, has agreed, huh?

10 A Duer Wagner III has agreed. Duer Wagner,
11 Junior has not.

12 Q Okay.

13 MR. STOGNER: I have no further
14 questions of Ms. Michael.

15 A Thank you.

16 MR. STOGNER: She may be
17 excused.

18 Mr. Carr?

19 MR. CARR: At this time we call
20 Mr. Emmendorfer.

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22 ALAN P. EMMENDORFER,
23 being called as a witness and having been previously sworn
24 upon his oath, testified as follows, to-wit:

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DIRECT EXAMINATION

BY MR. CARR:

Q Mr. Emmendorfer, are you familiar with the application filed in this case?

A Yes, I am.

Q And are you familiar with the subject area and the proposed well?

A Yes, I am.

Q What is the primary objective in the proposed well?

A Well, it's like the other well and all wells we have drilled in the past. We drill down to test the Dakota with the bit and then go after and try to complete the Gavilan-Mancos formation.

Q Would you refer to what has been marked as Mesa Grande Exhibit Number Five and identify that, please?

A Yes. This is the AFE that we sent out to all the working interest owners, and it has a dry hole cost of \$224,495 and a total estimated well cost of \$612,145.

Q And at the time this AFE was prepared were these costs comparable to those being charged by other operators in the area?

A Yes, they were.

1 Q And may these costs have come down since
2 the time this was prepared?

3 A Yes, indeed.

4 Q If this pooling order is granted the es-
5 timate of costs that would be submitted to interest owners
6 would reflect current costs, would they not?

7 A Yes.

8 Q Would you now go to Mesa Grande Exhibit
9 Number Six, identify that, and review it?

10 A This is a structure map, again, that I
11 compiled for the Gavilan-Mancos interval in the Gavilan
12 area, and I contoured this on the top of the Gallup A Zone,
13 and which is the mappable horizon within the Gavilan-Mancos
14 formation.

15 Q Would you now to to Exhibit Number Seven,
16 your cross section, and review that for Mr. Stogner?

17 A This is a structural cross section with
18 the cross section trace back on -- this shows the structural
19 relationship of offsetting wells on either side of the pro-
20 posed proration unit and I tink the important thing to note
21 here is how at the top of the structure between the Gavilan
22 Howard No. 1 and the Rucker Lake No. 2, where the proposed
23 well would be drilled, it is relatively flat and unfortu-
24 nately the top of the structure many times is flat and is
25 not subjected to as much fracturing as the other parts of

1 the structure.

2 Q Are you prepared to make a recommendation
3 to Mr. Stogner as to the risk penalty that should be asses-
4 sed?

5 A Yes, I am.

6 Q And what figure do you recommend?

7 A 200 percent.

8 Q Would you refer back to your Exhibit Num-
9 ber Six and using Exhibit Number Six review the wells immed-
10 iately surrounding the proposed drilling block and just ad-
11 vise Mr. Stogner as to the producing capabilities of those
12 wells?

13 A Yes. The northwest of Section 23 is a
14 well, Mesa Grande well, and it is a very good producing well
15 within the Gavilan-Mancos interval.

16 Q This is also at the top of the structure
17 like the proposed well.

18 A Close to the very top of the structure.
19 To the south in the northeast of Section 26 is a Mesa Grande
20 well that is probably an average well, a low average well
21 for the pool to date, and to the west of the proposed --
22 excuse me, to the east of the proposed location in the
23 southwest of Section 24, Mesa Grande has a high average
24 well, productive well, in the Gavilan-Mancos Pool.

25 Southland's well up to the northwest of

1 24 is productive also in the Mancos interval and I believe
2 it to be of average productive capability.

3 Q What kind of producing capability do the
4 two other Mesa Grande wells in Section 26 possess?

5 A They're probably, well, they are the
6 poorest wells that we have. The one in the northwest of 26
7 is very low average production, capable of production, and
8 the southeast of 26 is the poor, poorest well we have, and
9 its current production is out of the Mancos. It's two bar-
10 rels of oil per day and 150 MCF. Since it has come on line
11 in February of '86 it has produced a total of 285 barrels of
12 oil -- I'm sorry, excuse me, it has produced 982 barrels of
13 oil, 22,716 of gas. It's a very poor well.

14 Q Do you believe there is a chance that you
15 could drill a well at the proposed location that would not
16 be a commercial success?

17 A Yes. As I pointed out, the southeast of
18 26, one of the reasons I feel that well is so poor is I feel
19 it is a flat area in the structure and it is pointed out by
20 the structural values underneath each of those wells, and I
21 feel that the very top of the structure, which we'll be
22 drilling close to is -- will probably be flat, too. In a
23 normal reservoir the top of the structure is a very enviable
24 position to be in, but in a fractured reservoir, such as
25 this, that is not necessarily the case.

1 You sometimes have the poorer wells lo-
2 cated at the crest of your structure.

3 Q In your opinion will granting this appli-
4 cation and the imposition of a 200 percent risk penalty be
5 in the best interests of conservation, the prevention of
6 waste, and the protection of correlative rights?

7 A Yes.

8 Q Were Exhibits Five through Seven prepared
9 by you or compiled undere your direction?

10 A Yes, they were.

11 MR. CARR: At this time, Mr.
12 Stogner, we would offer into evidence Exhibits Five through
13 Seven.

14 MR. STOGNER: Exhibits Five
15 through Seven will be admitted into evidence.

16 MR. CARR: That concludes my
17 direct examination of this witness.

18 MR. STOGNER: I have no further
19 questions of Mr. Emmendorfer.

20 He may be excused.

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22 (Hearing concluded.)

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C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY that the foregoing Transcript of Hearing before the Oil Conservation Division (Commission) was reported by me; that the said transcript is a full, true, and correct record of the hearing prepared by me to the best of my ability.

Sally W. Boyd CSR

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 8964 heard by me on 6 August 1986.

Michael E. Rogers Examiner
Oil Conservation Division

10/20/86