

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

2 December, 1987

EXAMINER HEARING

IN THE MATTER OF:

Application of Dugan Production Cor- CASE
poration for compulsory pooling, Rio 9251
Arriba County, New Mexico.

BEFORE: Michael R. Stogner, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

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For Dugan Production: Robert G. Stovall
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For Amoco Production: W. Perry Pearce
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 MONTGOMERY & ANDREWS
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I N D E X

RICHARD CORCORAN

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MR. STOGNER: We'll call next Case Number 9251.

MR. TAYLOR: The application of Dugan Production Corporation for compulsory pooling, Rio Arriba County, New Mexico.

MR. STOGNER: This case was originally heard on November the 4th, which was taken under advisement but due to certain circumstances this case is being reopened at this time.

We'll call for appearances.

MR. STOVALL: Robert G. Stovall, Farmington, New Mexico, on behalf of the applicant.

MR. STOGNER: Other appearances?

MR. PEARCE: May it please the Examiner, I am W. Perry Pearce of the Santa Fe firm of Montgomery and Andrews, appearing in this matter on behalf of Amoco Production Company.

MR. STOGNER: Are there any other appearances?

Will all witnesses please stand to be sworn at this time?

(Witness sworn.)

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RICHARD CORCORAN,
being recalled as a witness and being duly sworn upon his
oath, testified as follows, to-wit:

DIRECT EXAMINATION

BY MR. STOVALL:

Q Will you state your name, please, and
where you reside?

A Richard Corcoran, Farmington, New Mexico.

Q And how are you employed?

A Work for Dugan Production Corporation as a
landman.

Q And have you previously testified before
the Commission and had your qualifications accepted?

A I have.

MR. STOVALL: I would offer him
as an expert landman in this case.

MR. STOGNER: Are there any ob-
jections?

The witness is so qualified.

Q Mr. Corcoran, is it not true that you ap-
peared at the original hearing in this matter and presented
testimony with respect to the land information?

A I did.

1 Q And with respect to the efforts to con-
2 tact the various working interests and unleased mineral own-
3 ers in the pool for obtaining their joinder prior to the
4 hearing?

5 A That's correct.

6 Q And at that time, subsequent to the clos-
7 ing of the case, did Dugan Production come across any infor-
8 mation which indicated that there was an inadequacy or weak-
9 ness in their notice provisions in their attempts to obtain
10 joinder?

11 A Yes, we did, and it involved a -- yes, we
12 did.

13 Q What parties were not notified prior to
14 that hearing who have an interest in Section 21, which is
15 the section sought to be pooled together into a well and who
16 were not previously notified and who were not identified as
17 either working interest owners or --

18 A They are as follows: Peter C. Neumann,
19 Venada National, and Jonansen Energy Partnership.

20 Q Do you know from whom their interests
21 were derived?

22 A Yes, I do. It was derived from Mesa
23 Grande Resources, Inc.

24 Q And Mesa Grande was originally notified,
25 given notice and the opportunity to join in the well, is

1 that correct?

2 A That's correct.

3 Q And have you -- subsequent to the last
4 hearing have you conducted any negotiations with Mesa Grande
5 or any of these other individuals with respect to their in-
6 terest and their participation?

7 A We have with all.

8 Q And have they committed their interest to
9 the well or otherwise agreed to participate?

10 A They have verbally advised that -- that
11 we will -- that we're both agreed that we will cross convey
12 certain interests, or cross farm those interests.

13 Q Does that mean that Dugan Production will
14 then acquire the Mesa Grande, et al, interest?

15 A That's my understanding.

16 Q And that would include Mr. Neumann and
17 Venda National and Johansen Energy.

18 A That's correct.

19 Q In the meantime, have you given notice to
20 these parties?

21 A I've -- we have, and they have all re-
22 ceived them.

23 Q And I'd ask you now to identify Exhibit
24 Number Seven, please.

25 A Exhibit Number Seven is a copy of the

1 notice sent to each of these parties that we just got done
2 mentioning, and with a cover letter indicating who it was
3 sent to.

4 Q Okay, now the notice indicated -- offered
5 that -- the various parties the opportunity to join and ad-
6 vise them that a forced pooling application had been filed,
7 is that correct?

8 A It included copies, yes, of the -- of the
9 -- the proposed forced pooling that was sent to the Commis-
10 sion, as well as it asked them to participate.

11 Q And the notices were sent certified mail,
12 return receipt requested.

13 A Yes, and a copy of the return receipt is
14 -- is attached to Exhibit Seven for each of the parties.

15 Q I notice also on page one of Exhibit
16 Seven you have identified Northwest Pipeline Corporation.
17 What is their interest?

18 A That was just in the event -- their in-
19 terest was an overriding royalty with the right to convert
20 after payout and consequently, as it was of record, I just
21 wanted to put them on notice in the event they chose to pro-
22 ceed.

23 Q Since the last hearing have you done ad-
24 ditional title checking and review of the public records to
25 insure that you have identified all parties who would have

1 an interest and be entitled to notice in this case?

2 A We have, and that's what we've found,
3 that these parties were entitled and consequently we noticed
4 them.

5 I have no further questions of
6 the witness.

7 Excuse me, one question.

8 Q Were Exhibits -- was Exhibit Number
9 Seven -- excuse me, I do have a question.

10 Would you identify, please, briefly, Ex-
11 hibit Number Eight?

12 A Exhibit Number Eight is a -- it's a
13 revised working interest tabulation because of the change in
14 the parties involved. We wanted to present a revised
15 working interest, and --

16 Q Okay.

17 A -- it further sets out the parties who at
18 this point in time have executed either AFE's or the oper-
19 ating agreement as proposed, or both.

20 Q And this is a -- basically a revision of
21 the tabulation originally presented at the original hearing?

22 A That's right.

23 Q And were these exhibits prepared by you
24 or under your supervision?

25 A They were.

1 MR. STOVALL: Move the admis-
2 sion of Exhibits Number Seven and Eight.

3 MR. STOGNER: Are there any ob-
4 jections?

5 MR. PEARCE: No objection.

6 MR. STOGNER: Dugan Production
7 Exhibits Seven and Eight will be admitted into evidence.

8 Mr. Pearce?

9 MR. PEARCE: No questions.

10

11

CROSS EXAMINATION

12

BY MR. STOGNER:

13

Q Looking at your Exhibit Number Eight --

14

A Yes.

15

Q -- I guess my arithmetic might be a lit-

16

tle off, but your working interest doesn't seem to add up to

17

100.

18

Do you know how far or how close we are?

19

A No, sir.

20

MR. STOVALL: We'll have that

21

answer for you in just a moment, Mr. Examiner.

22

A It turns out to be 99 point, and there

23

are one, two, three, four, five, six nines.

24

Q Okay. All right, I was just wanting to

25

see how far I was off.

1 Now, did you send your letters in Exhibit
2 Number Seven return receipt, and those are attached, are
3 they not?

4 A Yes, they are.

5 Q Have you had any response from any of
6 these parties?

7 A Yes, I have. Subsequent to Sunday those
8 letters, Johansen has executed the AFE.

9 I've talked to Venada, who is -- said --
10 advised me that they would probably go along with whatever
11 deal I work out with Mesa, and Mesa, furthermore, has sent
12 out a letter that we have executed and returned with certain
13 changes to affect an agreement whereby we exchange part of
14 our interest for part of their interest, all of their
15 interest in this particular section.

16 So, although it's not in writing, it is,
17 we feel it's imminent.

18 MR. STOGNER: Are there any
19 other questions of this witness?

20 A I can get you a copy of that letter if
21 you'd care for it.

22 MR. STOVALL: I'd just like to

23 --

24 MR. STOGNER: Why don't you
25 submit it afterwards.

1 A Okay.

2 MR. STOGNER: Make that part of
3 the record.

4 MR. STOVALL: One point of
5 clarification. You're referring to Mesa, you're referring
6 to Mesa Grande Resources, aren't you?

7 A Yes, sir, that's correct. That's what I
8 mean.

9 MR. STOGNER Are there any ques-
10 tions of this witness?

11 If not, he may be excused.

12 Mr. Stovall, do you have any-
13 thing further?

14 MR. STOVALL: No. I would just
15 ask that the Division review the closing statement and the
16 request made therein, particularly with respect to identi-
17 fying nte parties who are to be force pooled.

18 Quite frankly, we only antici-
19 pate that Mountain States Natural Gas Company is the only
20 party who will not join or farm out their interest to Dugan.

21 MR. STOGNER: Thank you, Mr.
22 Stovall.

23 Mr. Pearce, do you have any-
24 thing?

25 MR. PEARCE: Nothing, Mr. Exam-

1 iner.

2 MR. STOGNER: Then if there is
3 nothing else further in Case Number 9251, it will be taken
4 under advisement.

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(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 true and correct copy of the proceedings in
the hearing on the hearing of Case No. 9251,
held on 2 December 1987.

Michael E. Hagan, Examiner
Oil Conservation Division

1 STATE OF NEW MEXICO
2 ENERGY, MINERALS, AND NATURAL RESOURCES DEPARTMENT
3 OIL CONSERVATION DIVISION
4 STATE LAND OFFICE BLDG.
5 SANTA FE, NEW MEXICO

6 4 November 1987

7 IN THE MATTER OF:

8 Application of Dugan Production Cor- CASE
9 poration for compulsory pooling, Rio 9251
10 Arriba County, New Mexico.

11 BEFORE: Michael E. Stogner, Examiner
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16 TRANSCRIPT OF HEARING

17 A P P E A R A N C E S
18

19 For the Division:

20 Jeff Taylor
21 Attorney at Law
22 Legal Counsel to the Division
23 State Land Office Bldg.
24 Santa Fe, New Mexico 87501

25 For Dugan Production:

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I N D E X

RICHARD CORCORAN

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JOHN ROE

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MR. STOGNER: Call next Case
9251.

MR. TAYLOR: The application of
Dugan Production Corporation for compulsory pooling, Rio
Arriba County, New Mexico.

MR. STOGNER: Call for
appearances.

MR. STOVALL: Robert G.
Stovall, Farmington, New Mexico, on behalf of Dugan
Production Corp.

MR. STOGNER: Are there any
other appearances in this matter?

Mr. Stovall, do you have
witnesses?

MR. STOVALL: Two.

MR. STOGNER: Will they both
stand and be sworn at this time?

(Witnesses sworn.)

MR. STOGNER: Mr. Stovall?

MR. STOVALL: I'd first like to
call Rich Corcoran.

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RICHARD CORCORAN,
being called as a witness and being duly sworn upon his
oath, testified as follows, to-wit:

DIRECT EXAMINATION

BY MR. STOVALL:

Q Mr. Corcoran, would you state your full
name and place of residence, please?

A My name is Rich Corcoran and I reside in
Farmington, New Mexico.

Q And how are you employed?

A I'm employed by Dugan Production Corpora-
tion as their landman.

Q And in that capacity are you familiar
with the application in this case and the matters pertaining
thereto?

A Yes, I am.

Q Have you ever testified before this Com-
mission and had your credentials accepted as a --

A I have not.

Q -- petroleum landman? Would you please
tell the Examiner your educational background?

A I have a degree in minerals land manage-
ment from Colorado University and subsequent to that I have

1 approximately ten years in the industry, part of which time
2 -- most -- a lot of which is (unclear) title in part, re-
3 cords searching and general -- general land matters.

4 MR. STOVALL: I would tender
5 Mr. Corcoran as an expert petroleum landman.

6 MR. STOGNER: Mr. Corcoran is
7 so qualified.

8 Q I ask you to look at Exhibit Number One
9 and identify that, please.

10 A This exhibits covers an area including
11 Township -- parts of Township 25 North and 26 North, Range 2
12 West.

13 It further reflects by cross hatch inter-
14 est that Dugan has an interest in.

15 Additionally, in a bold, solid, orange
16 line it depicts the current Gavilan Mancos Pool boundary.
17 In a dashed orange line it describes the proposed expansion
18 or extension to the Gavilan Mancos Pool and in blue it out-
19 lines, solid blue line it outlines our proposed spacing for
20 this well.

21 Further, it indicates by black dot well
22 -- producing well locations from this -- this zone -- from
23 these zones.

24 Q All right, thank you. I would ask you
25 now to look at Exhibit Number Two and identify that exhibit,

1 please.

2 A Exhibit Number Two is a copy of the C-102
3 that we attached to the application for permit to drill for
4 the Evans Com No. 1 Well.

5 It identifies well location -- the well
6 location as surveyed and the lease ownership as it was known
7 to Dugan at the time the application was submitted to the
8 BLM.

9 Q Thank you. I'd now ask you that you turn
10 to Exhibit Number Three and identify that.

11 A Okay. Exhibit Number Three is a -- it's
12 a prototype letter which offers the opportunity to join to
13 the working interest owners without -- and advises that
14 without their joinder we would force pool their interest in
15 the -- in the proposed spacing unit.

16 Q How many -- how many actual letters did
17 you send to identified working interest owners?

18 A Initially we sent one out in July of 19
19 -- this year, 1987. We followed that up in September -- on
20 September 16th of 1987, covering the same, the same -- bas-
21 ically the same proposal with minor changes.

22 Q And both letters were sent to the people
23 identified on the first page, is that correct?

24 A No, that's -- the people that the indivi-
25 dual letters were sent to are identified by distribution

1 lists and they coincide with the exception of a couple were
2 added to the second letter and one person was deleted from
3 the first letter.

4 Do you want me to identify those?

5 Q If you would, please.

6 A Okay. Mr. Bayless was added to the sec-
7 ond letter. Hunt Walker -- Huntington T. Walker was also
8 added to the second letter, and a David Schaffnit was de-
9 leted from the second letter.

10 Q And why was David Schaffnit deleted?

11 A His interest was -- was controlled by the
12 Hills, Margaret Hill and Alinda Hunt Hill Trust.

13 Q And so you did say in this letter you of-
14 fered the people these -- who are these people? Are they
15 working interest owners or royalty owners or --

16 A Yes, they are. They're working interest
17 owners in the proposed well.

18 Q As identified on your Exhibit Two, I be-
19 lieve it is, is that correct?

20 A That's correct.

21 Q In their respective tracts?

22 A That's correct.

23 Q You offered them the opportunity to join
24 in the drilling of the well or alternatively to participate
25 in some way by farming out their interest or otherwise, and

1 advising them that we would force pool their interests if
2 they did not join?

3 A We offered them the opportunity to join
4 and we further advised that without their joinder we would
5 have to proceed with forced pooling.

6 At that -- in this particular letter we
7 may not have offered them a farmout or -- or lease, (un-
8 clear) lease.

9 Q Will you turn to Exhibit Number Four,
10 please and identify that exhibit?

11 A Okay. This exhibit consists of a list of
12 people that we sent -- that our attorney, Mr. Stovall, sent
13 to the people involved, to the working interest owners in-
14 volved, and giving that -- it provides them notice of Dugan
15 Production Corporation's application for forced pooling.

16 It further -- if further, it provides a
17 copy of all the return receipts involved in that.

18 Q All right, on the first page there's a
19 list of names. Then there are four pages of return re-
20 ceipts, and then a prototype letter, is that correct?

21 A That is correct.

22 Q And is that list of names the same inter-
23 est owners as were identified and to whom notice was sent on
24 September 16th --

25 A It is.

1 Q -- by Dugan Production? And has each of
2 those persons received a copy of the letter, according to
3 the return receipts?

4 A Yes, they have.

5 Q What step did you take to determine the
6 ownership of the oil and gas, and particularly the working
7 interest ownership, in Section 21 of Township 26 North, Ran-
8 ge 2 West?

9 A Okay. Initially we hired a contract
10 landman who researched the county records and he furnished
11 us a list of all the instruments that he found affecting
12 title to the lands as listed on the tract index in the ab-
13 stract office.

14 Then he reviewed certain of those docu-
15 ments in the county records and concluded what the ownership
16 he thought was.

17 I, after being supplied with the list of
18 the books and pages involved of the instruments that he
19 identified, I was able to obtain most of those instruments
20 from another operator who owns an interest in parts of these
21 lands, and reviewed those instruments and made my determina-
22 tion that -- that my finding paralleled, basically, the bro-
23 ker's.

24 Further, we reviewed the Federal abstract
25 takeoff information and our own files, which at points in-

1 cluded some title opinions and based on this information we
2 made a determination of the interests involved.

3 Q How many leases would you estimate are
4 involved in --

5 A In one particular --

6 Q -- the section?

7 A -- tract in this -- in this proposed
8 spacing unit, which -- which accounts for approximately 36
9 percent, contains over 40 leases which were in part acquired
10 back in 1950 and on through the years. It's -- they're
11 particularly -- particularly difficult to follow. There's
12 been several wells drilled which involve portions of these
13 same leases and other tracts, and there -- there were
14 numerous over-conveyances and subsequent conveyances from
15 the over-conveyances and it got very sticky.

16 Q Are you referring to Tract Number 5 on
17 your Exhibit Number Two, is that the tract to which you're
18 referring?

19 A Let's see, I -- yes, I am.

20 Q Is that a 6, I'm sorry.

21 A Yeah, it --

22 Q That's Tract Number 6, I stand corrected.

23 With respect to particularly the fee
24 leases involved in this -- in this acreage, have you
25 examined those leases to determine whether or not they

1 pooling clauses which would permit pooling --

2 A I have.

3 Q -- of the acreage required?

4 A I have reviewed them.

5 Q And do all of those leases contain pool-
6 ing clauses that allow pooling on 640 acres?

7 A With the exception of two leases, being
8 the Leota Jones and the Annie White leases.

9 Q And those leases do not contain pooling
10 clauses which allow for 640 acres, is that your --

11 A That's -- that's correct.

12 Q And have you notified the royalty owners
13 on those leases?

14 A We have.

15 Q And I point you to Exhibit Number Five.

16 A Yes, and that, Exhibit Number Five does
17 exactly that. It -- it provides notices to the -- the two
18 parties whose leases did not grant pooling language, and
19 further, that exhibit also provides a copy of the return re-
20 ceipt that -- that this information was received.

21 Q Now are you saying that the second page,
22 the letter that appears with that exhibit, was sent to both
23 of those parties?

24 A Yes, that's correct.

25 Q And who is Mrs. Erin Shaefer? Do you

1 know?

2 A Mrs. Erin Shaefer is the personal repre-
3 sentative of the Estate of Annie White, who was one of the
4 parties involved; one of the parties whose leases did not
5 contain pooling language allowing 640 acres.

6 Q And to the best of your knowledge with
7 respect to Tract No. 6, all the other leases provide for
8 pooling and allow for pooling up to 640 acres and you've no-
9 tified all the working interest owners on those leases?

10 A That is correct.

11 Q And with respect to Tract No. 5, you --
12 that's shown on Exhibit Number Two as Dugan Production,
13 which obviously does not require notice, is that correct?

14 A Yes, that's correct.

15 Q And with respect to Tracts Nos. 1 and 2,
16 you've notified the working interest owners there?

17 A Yes, we have notified them.

18 Q And with respect to Tract No. 4, you've
19 notified the working interest owners.

20 A That's correct.

21 Q And with respect to Tract No. 3, are you
22 aware of any working interests in that tract which have not
23 been notified?

24 A I received by phone call Monday -- of
25 Monday, I received information that -- that there is some

1 question as to whether or not some people that are -- that
2 have an interest may not have received notice.

3 Q And who did you receive that phone call
4 from?

5 A I received that phone call from Mesa
6 Grande, Mesa Grande, from a Mr. Greg Phillips.

7 Q And what did he tell you at that time?

8 A He advised me that -- that he made --
9 that there are some other parties involved in that -- in
10 their 75 percent interest that -- that I have identified as
11 Mesa Grande's 75 percent interest, that may not have re-
12 ceived notice.

13 Q Were you aware of any other parties other
14 than Mesa Grande and Dugan Production that had a working
15 interest in Tract No. 3?

16 A I was not, until Monday, and further, I
17 would like to just state that -- that we relied in part on
18 Mesa Grande's -- that, this has been relayed to me, that
19 Mesa Grande advised that they would advise their -- their --

20 Q You're referring to the people that Mr.
21 Phillips advised you about on Monday.

22 A Right, that's exactly right, that they
23 would take care of noticing them and had been talking with
24 them.

25 MR. STOVALL: Okay, I have no

1 further questions of this witness, Mr. Examiner.

2 MR. STOGNER: Which exhibits do
3 you wish to offer into evidence at this time, Mr. Stovall?

4 MR. STOVALL: Well, I can do it
5 now or I can do it later. I was going to do the whole pack-
6 age at the end.

7 MR. STOGNER: Oh, you have --
8 okay, that would be fine, but you only covered up to Five,
9 is that correct?

10 MR. STOVALL: I've only covered
11 up to Five at this time.

12 MR. STOGNER: Okay.

13 MR. STOVALL: There is one ad-
14 ditional exhibit but Mr. Roe will be using the exhibits to
15 testify.

16

17

CROSS EXAMINATION

18 BY MR. STOGNER:

19 Q Mr. Corcoran, I guess I'm still a little
20 confused. Let's go to Exhibit Number Three there. Mountain
21 States, they haven't joined, is that right?

22 A Not as of -- no, they have not.

23 Q Okay. Mesa Grande Resources?

24 A No.

25 Q Do you look for them to?

1 A Yes. Well, I look for us to either own
2 their interest or for them to join.

3 Q Okay, how about Margaret Hill?

4 A Her interest and Alinda Hunt Hill's Trust
5 interest has been farmed out to another party, Robert Bay-
6 less, and he is participating as to all of those interests.

7 Q Okay, so they're essentially taken care
8 of.

9 A Right.

10 MR. STOVALL: Excuse me, let me
11 clarify that for the moment.

12 As of this time to the best of
13 your knowledge, that farmout agreement has not been con-
14 cluded, however, and they have not entered into operating
15 agreement with Dugan Production as yet.

16 A No, they have not signed the operating
17 agreement. They have, however, signed the Authorization for
18 Expenditure and returned that as to their interest in the
19 Hills and Hunts.

20 Q They plan to, you just haven't got a firm
21 (unclear) for Mr. Bayless --

22 A That's correct.

23 Q -- is that correct?

24 A That's correct.

25 Q And how about Huntington Hill?

1 A Yes, they have joined and so has Kinder-
2 mac Partnership.

3 Q Okay, Exhibit Number Five, now that's the
4 two royalty interest owners --

5 A Yes.

6 Q -- that have old leases that did not con-
7 tain the original wording.

8 A Well, they happen to be newer leases, but
9 that's correct, yes.

10 Q Okay.

11 MR. STOVALL: Who is their les-
12 see? That might make that a little --

13 A It is Mr. Bayless.

14 Q So being royalty interest owners, they
15 would not be --

16 A Oh, he has agreed to participate for
17 their interest.

18 Q Oh, okay.

19 MR. STOVALL: Do you happen to
20 know of any relationship between the -- pardon me for inter-
21 rupting, but I can clarify some of your questions, Mr. Exa-
22 miner.

23 MR. STOGNER: Please do.

24 MR. STOVALL: Do you know of
25 any relationship between Mrs. Jone and Mr. Bayless?

1 A Yes, she is his mother-in-law, as I un-
2 derstand it, and so, too, is -- Annie White is also related
3 in some shirrtail way or --

4 MR. STOGNER: Shirrtail way?
5 I'm not sure I --

6 A Distant way, some distant way, yes.

7 Q Okay.

8 A Exhibit how, I'm not certain.

9 Q Okay.

10 MR. STOVALL: And you've had
11 conversations with Mr. Bayless with respect to the leases,
12 attempts to negotiate a broadened pooling clause?

13 A Yes, I have, and, you know, advised them
14 in writing of -- that he was going to participate in their
15 interest.

16 Q Who have you been in contact with at
17 Mountain States Natural Gas, have you been in contact with
18 Mr. Blair any?

19 A No, sir, we have written to Mr. Blair and
20 -- but we've not actually had phone conversations with Mr.
21 Blair.

22 Q Now I notice on your return receipts in
23 Exhibit Number Four --

24 A Yes.

25 Q -- Mr. Kellahin. Was he representing

1 Mountain States Natural Gas?

2 A Yes, he was.

3 Q Okay, but now --

4 MR. STOVALL: If I may clarify
5 that.

6 Q Okay.

7 A But just in a statutory --

8 MR. STOVALL: If I may clarify
9 that.

10 A Go ahead.

11 MR. STOVALL: If I may clarify
12 it, not his testimony, of course, but for your information,
13 Mr. Kellahin is the registered -- official registered agent
14 for Mountain States Natural Gas with the Corporation
15 Commission in New Mexico, although Mr. Kellahin apparently
16 was somewhat surprised when we advised him that he was still
17 there, but we felt we needed to notify him as the registered
18 agent, in addition to notifying Mountain States directly.

19 Q Do you concur with that, Mr. Corcoran?

20 A Yes, I do.

21 MR. STOGNER: I have no further
22 questions of this witness.

23 Mr. Stovall?

24 MR. STOVALL: I'd now like to
25 call John Roe.

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JOHN ROE,

being called as a witness and being duly sworn upon his
oath, testified as follows, to-wit:

DIRECT EXAMINATION

BY MR. STOVALL:

Q Mr. Roe, would you please state your name
and place of residence?

A My name is John Roe and I reside in
Farmington, New Mexico.

Q And how are you employed, Mr. Roe?

A I am the Engineering Manager for Dugan
Production Corporation.

Q And have you testified previously before
this commission and had your credentials accepted?

A Yes, I have.

Q And are you familiar with the application
in this case and the materials thereto and knowledgable
about the matters about which you're to testify?

A Yes.

MR. STOVALL: I offer Mr. Roe
as a qualified petroleum engineer.

MR. STOGNER: Mr. Roe is so
qualified.

1 Q You heard Mr. Corcoran testify that he
2 had some conversation with Mesa Grande Resources regarding
3 some interests apparently somehow derived through Mesa Grande
4 Resources with respect to Tract No. 3 on Exhibit Two.
5 Did you -- did you hear Mr. Corcoran so testify?

6 A Yes, I did.

7 Q And do you have any particular knowledge
8 or were you aware of those interests at any time prior to
9 this week?

10 A Yes. In fact the actual conversation
11 with Mesa Grande Resources that resulted in us becoming
12 aware of Mesa Grande having investor interests related to
13 their 75 percent interest in our common lease, which is
14 identified in Tract 3, occurred between a conversation be-
15 tween Greg Phillips and myself prior to us submitting our
16 letter requesting their participation in this drilling pro-
17 ject on July 31st of 1987.

18 Q And what was the nature of that conversa-
19 tion?

20 A Well, the phone conversation originally,
21 I had called Mesa Grande Resources to confirm their owner-
22 ship as -- as we had tracked it down through the records
23 that were available to us.

24 At that time Greg Phillips had indicated
25 to me that -- that they in fact compositely owned with an

1 investor group the 75 percent interest of the lease that was
2 held common with Dugan Production. This interest was pur-
3 chased from Northwest Pipeline several years ago and appar-
4 ently at -- during that purchase Mesa Grande shared the
5 leasehold interest with other investors.

6 Q And did Mr. Phillips make any
7 representations to you or identify those investors for you
8 or in any way let you know who they were so that you could
9 notify them?

10 A I had asked Greg Phillips for a list of
11 the people that we needed to send the necessary AFE to and
12 the notices that we knew would be forthcoming in our
13 proposal, and Greg advised me that he would prefer to have
14 contact with his investing group and that he assured me that
15 the necessary notice and the securing of the necessary
16 approvals from their investor group, he would take care of
17 that as long as I would send him the -- a copy sufficient
18 for reproduction for him to take care of that notice.

19 And as a result, our original letter and
20 our subsequent letter, which transmitted an amended AFE, was
21 sent ot Mesa Grande Resources, et al.

22 Q And to the best of your knowledge Mesa
23 Grande was the nominal owner of that 75 percent interest and
24 represented any investors it might have in --

25 A That was what Greg had left me with, yes.

1 Q I would ask you now to turn back to Exhi-
2 bit Number One, which Mr. Corcoran identified as a map of
3 the area and identified the various markings on that, and
4 just looking at that in general I would ask you, are you
5 familiar with the pool rules for the Gavilan Mancos Oil
6 Pool?

7 A Yes, I am, am familiar with the Gavilan
8 Mancos Oil Pool Rules.

9 Q And are you familir with the boundaries
10 of that pool?

11 A Yes.

12 Q And the nomenclature case which was pre-
13 viously heard, 9250, heard just before this case?

14 A Yes.

15 Q And are those boundaries of the original
16 pool and the nomenclature actually represented on this map?

17 A Yes, they are.

18 Q And are you -- it appears from this map
19 that the well, the location and the spacing unit for the
20 Evans is not within the -- either the pool or the extension
21 by the nomenclature case, is that correct?

22 A That is correct.

23 Q And do the rules of the pool take -- pro-
24 vide for the drilling of any well outside the boundaries of
25 the pool?

1 A Yes. Rule 1 of the Gavilan Mancos Pool
2 Rules stipulates that any well either drilled or reworked
3 within a mile of the boundary of the Gavilan Mancos Pool
4 will operate under the Gavilan Mancos Special Pool Rules.

5 Q Is the location which has been selected
6 for the Evans No. 1 Well a legal location within the -- un-
7 der -- under those rules for the Gavilan Mancos Oil Pool?

8 A Yes, it is.

9 Q And 640 acres is the proration unit for a
10 well drilled in the Gavilan Mancos Oil Pool?

11 A Yes.

12 Q In the application before the Division
13 the Dugan Production Corporation is asking that it be desig-
14 nated the operator and makes the allegation that it is qual-
15 ified to so act.

16 Would you briefly describe Dugan's quali-
17 fications to act as an operator?

18 A Yes, I will. Dugan Production has lease-
19 hold interest within Section 21 that represents 40.635 per-
20 cent of the total ownership. We are the largest single
21 working interest owner within Section 21. The second lar-
22 gest interest owner would be Mountain States Natural Gas
23 Corporation.

24 We have been involved in the Gavilan Man-
25 cos Pool since the discovery well was drilled in 1981 and we

1 have participated in a little over half of the 72 wells that
2 have been drilled within the pool and we've actually super-
3 vised the drilling, completion, and operation during the
4 field development of approximately 23 wells.

5 Q And you're referring only to the Gavilan
6 Mancos Oil Pool and not the --

7 A Yes, sir.

8 Q -- not to Dugan's other operations.

9 A Right. That -- that is just wells within
10 the boundary of the Gavilan Mancos Oil Pool.

11 Q I'd ask you now to look at what's been
12 identified as Exhibit Number Three, Dugan, and turn to the
13 pages that are identified as Authorizations for Expenditure,
14 and is this -- there are two of those in the exhibit, is
15 that correct?

16 A Yes, that would be the -- yes, that's
17 correct.

18 Page 5 --

19 Q And the last page of the --

20 A -- and page number 10, which is the last
21 page.

22 Q And would you tell the Examiner why there
23 are actually two AFE's in this -- this is the package that
24 is the notice and request for joinder to the working inter-
25 est owners, is that correct?

1 A Yes, that is correct. The original AFE,
2 or the last page of this package, was prepared on July 16th
3 of 1987 and at that time it was our intention to drill a
4 well to a depth of 8390 feet to investigate the potential in
5 the Dakota formation; however, our primary objective was the
6 Mancos formation.

7 For many reasons we later revised our
8 plans to drill to the Dakota. We revised our TD from 8390
9 to 8090, which is a depth adequate to drill through and
10 evaluate the Mancos formation and it is our revised inten-
11 tion, which is reflected on the September 16th of 1987 AFE,
12 and this is the AFE that Mr. Corcoran identified as having
13 been executed by the working interest owners.

14 It is our intention to drill through the
15 Mancos and complete in the Mancos formation.

16 Q In your -- based upon your experience as
17 a petroleum engineer, do you believe this AFE represents a
18 reasonable estimated cost for a well of this depth?

19 A Based upon our recent experience, this is
20 our best estimate of the costs from a relatively trouble-
21 free well, yes.

22 Q And if the Division were to approve your
23 application for forced pooling, would you also ask the Divi-
24 sion to approve this Authorization for Expenditure as an es-
25 timated cost, reasonable estimated cost for the drilling of

1 this well?

2 A Yes, we would. That is our request.

3 Q And would you ask the Commission to
4 include in its order, should it approve the application for
5 forced pooling, provisions that would allow the operator to
6 recover, first from parties that are forced pooled, a
7 prepayment of estimated costs and then upon completion to
8 allow the operator to collect actual costs of drilling and
9 completion from other working interest owners who elect to
10 participate?

11 A Yes.

12 Q And the application also requests that
13 the Division authorize the operator to collect from those
14 interest owners who elect -- who choose to pay their costs
15 out of proceeds rather than to prepay their costs an
16 additional risk factor of 200 percent. Do you believe that's
17 reasonable?

18 A It's our request that the Commission
19 authorize the maximum permissible penalties, which it's my
20 understanding the statutes provide that at 200 percent.

21 Q And on what basis do you justify
22 collecting the maximum authorized risk penalty?

23 A Well, this is an area that there is a
24 substantial amount of potential for drilling problems
25 ranging from lost circulation to deviated wells. It's an

1 area we have quite a bit of experience in and there are on
2 occasion a substantial amount of drilling problems encoun-
3 tered.

4 Q I would ask you now to turn to what's
5 been marked as Exhibit Number Six, Mr. Roe, would you iden-
6 tify that, please?

7 A Okay. Exhibit Number Six is -- consists
8 of two pages, which are basically information reproduced
9 from the current survey which presents 1985 and '86 results
10 by a firm, Ernst and Whinney, and the primary purpose of
11 this survey is to identify reasonable and industry-wide
12 overhead costs that are typical -- that vary with well
13 depth.

14 Q And what does this exhibit show with re-
15 spect to administrative overhead for a drilling well rate
16 and for a producing well rate for a well in this region at
17 this depth?

18 A Well, the actual survey figures, the re-
19 sults from the survey for a well that would be in the depth
20 range of 5-to-10,000 feet indicates that the average over-
21 head rate was \$4138 and the -- once the well is on produ-
22 cing, on production and in an operating status, the month;y
23 operating overhead would be \$446 per well month during 1986.

24 Q And is Dugan Production requesting that
25 the Division set an administrative overhead for drilling and

1 operating in its order?

2 A Yes, we are requesting a drilling over-
3 head rate of \$4000 per month and a producing overhead rate
4 of \$400 per month.

5 Q Do you see any reason why you would re-
6 quest the Division to expedite its findings in this matter
7 and issue an order in an expedited manner?

8 A We -- we do request that the Commission
9 expedite an order as much as possible from the standpoint
10 that we we would like to drill this well prior to end of the
11 year and this is an area that once winter sets in, if we
12 don't have a real cold winter, it's a very expensive place
13 to operate it, and because of our concern to minimize the
14 environmental impact of getting in and out and during drill-
15 ling operations, we would prefer not to operate after winter
16 sets in and so we would like to commence this well as -- at
17 an earliest possible date.

18 Q And in the event that you are unable to
19 commence the drilling of the well prior to the onslaught of
20 the winter season, would you request that the order -- the
21 effective period of the order to extended beyond the normal
22 90 days?

23 A Yes. In the event, for some unforeseen
24 reason, we're not able to commence drilling operations prior
25 to winter setting in, it would be our plans to wait until

1 early spring and the roads dry out and if that is the cir-
2 cumstances, we would be beyond the normal 90-day period of
3 the forced pooling, so we would request that this forced
4 pooling order be effective to June 1st in order to allow us
5 the flexibility of postponing our drilling plans until early
6 spring of '88 in the event winter and weather prohibits
7 drilling during the latter part of this year.

8 Q Mr. Roe, I have just asked you to briefly
9 review Exhibits One through Six. Are you familiar with all
10 of those exhibits?

11 A Yes, I am familiar with them all.

12 Q And were they prepared by you or under
13 your supervision and do you have specific reason to know of
14 their accuracy?

15 A Yes, these exhibits were prepared by --
16 jointly by Mr. Corcoran and myself or under our supervision.

17 MR. STOVALL: I'd ask that
18 Exhibits One through Six be admitted.

19 MR. STOGNER: Exhibits One
20 through Six will be admitted into evidence at this time.

21 Q And, Mr. Roe, would you -- do you believe
22 that the granting of this application would be in the
23 interest of conservation, the prevention of waste, and the
24 protection of correlative rights?

25 A Yes, that's my belief.

1 MR. STOGNER: Mr. Roe, do you
2 have a rig ready to go on this thing? What would be the
3 earliest possible time you can drill on it?

4 A We have surveyed and made our archaeolo-
5 gical inspection. We -- we are not waiting to move a rig
6 on; however, it would be just a matter of finding a rig that
7 was ready to move.

8 We would like to be ready to -- we would
9 like to actually -- this hearing was actually -- it was our
10 intention to have had this hearing during the Examiner hear-
11 ing in mid-October; however, it was not advertised in a man-
12 ner that we could have our hearing earlier. Our initial
13 plans was to be drilling by mid-November to for sure avoid
14 the -- the bad roads that come with winter.

15 Our plan, again, we're not setting and a
16 day after the order is approved we won't be ready to move a
17 rig on, but it won't be long after that.

18 MR. STOGNER: Okay.

19 A I would like to add to that, Mr. Stogner,
20 that the -- having not been able to have had our hearing in
21 the October Examiner Hearing, it has basically put us a
22 couple of months or a couple of weeks behind schedule, so
23 any expedition that could be on the part of the Commission,
24 we sure would appreciate.

25 MR. STOGNER: Okay, thank you,

1 Mr. Roe. We'll definitely take that under advisement.

2 Is there anything else further
3 in this case, Mr. Stovall?

4 MR. STOVALL: Only I'd like to
5 make a brief closing statement.

6 MR. STOGNER: Okay. Is there
7 any further questions of --

8 MR. STOVALL: No further ques-
9 tions or examination, no.

10 MR. STOGNER: Okay. They may
11 be excused.

12 Mr. Stovall?

13 MR. STOVALL: I will expedite
14 this, likewise.

15 We'd ask that the Division ap-
16 prove Dugan's application as set forth in their application.
17 We would ask that the order be applicable to those identi-
18 fied working interest owners who have not executed an AFE
19 and an operating agreement within the specified period of
20 time after the Division has entered its order. We believe
21 the operating agreement is an essential part of joinder in
22 the well because it provides for -- not only for an expres-
23 sion of intent to participate in the well but for a manner
24 in which the operator can function, collect their money, ad-
25 ministrative overhead, and many matters -- some of which

1 are otherwise provided for in the forced pooling order.

2 In other words, we'd like the
3 order to specifically state that joinder will be accom-
4 plished by those parties not wishing to be force pooled by
5 execution of an operating agreement.

6 And we're not asking the Com-
7 mission to approve the agreement but rather that there be an
8 agreement negotiated between the parties.

9 For the reasons stated, we'd
10 also request that this AFE, which have been attached to Ex-
11 hibit Three, be the approved estimated well costs for the
12 Commission, for the Division, and be -- be so approved in
13 the order in order to expedite the time period after the en-
14 try of the order for Dugan to get on location and begin
15 drilling the well, and, as Mr. Roe said, we do request that
16 the order to expedited and to protect us on both ends, that
17 the date, the effective period during which Dugan must com-
18 mence the well be extended to June 1st, 1988, so that if
19 Dugan can't beat the weather on the fall side of winter,
20 then they have time into the spring side of winter to wait
21 for better weather in order to drill the well at a lesser
22 cost.

23 MR. STOGNER: Anything further?

24 MR. STOVALL: Nothing further.

25 MR. STOGNER: Does anybody else

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have anything further in Case Number 9251?

If not, this case will be taken under advisement.

(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 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

... of the ... is
... hearing of ... 9251
... heard by me on 4 November 1987
Michael H. Stegman, Examiner
Oil Conservation Division