

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

IN THE MATTER OF THE HEARING CALLED BY)
THE OIL CONSERVATION DIVISION FOR THE)
PURPOSE OF CONSIDERING:)

CASE NO. 13,460

APPLICATION OF COLEMAN OIL AND GAS,)
INC., FOR AN EXCEPTION TO DIVISION)
RULE 104.C.(2).(c) TO AUTHORIZE TWO)
OPERATORS IN A SINGLE 320-ACRE BASIN-)
FRUITLAND COAL GAS POOL SPACING UNIT,)
SAN JUAN COUNTY, NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: WILLIAM V. JONES, JR., Hearing Examiner

April 7th, 2005

Santa Fe, New Mexico

2005 APR 21 AM 10 10

This matter came on for hearing before the New Mexico Oil Conservation Division, WILLIAM V. JONES, JR., Hearing Examiner, on Thursday, April 7th, 2005, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

I N D E X

April 7th, 2005
Examiner Hearing
CASE NO. 13,460

	PAGE
EXHIBITS	3
APPEARANCES	3
APPLICANT'S WITNESS:	
<u>ALAN P. EMMENDORFER</u> (Geologist)	
Direct Examination by Mr. Carr	5
Examination by Examiner Jones	13
REPORTER'S CERTIFICATE	17

* * *

E X H I B I T S

Applicant's	Identified	Admitted
Exhibit 1	7	12
Exhibit 2	8	12
Exhibit 3	11	12
Exhibit 4	12	12

* * *

A P P E A R A N C E S

FOR COLEMAN OIL AND GAS, INC.,
DUGAN PRODUCTION CORPORATION
and EOG RESOURCES, INC:

HOLLAND & HART, L.L.P., and CAMPBELL & CARR
110 N. Guadalupe, Suite 1
P.O. Box 2208
Santa Fe, New Mexico 87504-2208
By: WILLIAM F. CARR

* * *

1 WHEREUPON, the following proceedings were had at
2 8:52 a.m.:

3 EXAMINER JONES: At this time let's call Case
4 13,460, Application of Coleman Oil and Gas, Inc., for an
5 exception to Division Rule 104.C.(2).(c) to authorize two
6 operators in a single 320-acre Basin-Fruitland Coal Gas
7 Pool spacing unit, San Juan County, New Mexico.

8 Call for appearances.

9 MR. CARR: May it please the Examiner, my name is
10 William F. Carr with the Santa Fe office of Holland and
11 Hart, L.L.P. I would like to enter my appearance in this
12 case for Coleman Oil and Gas, Inc., Dugan Production
13 Corporation and EOG Resources, Inc. Those are the
14 principal working interest owners in the north half of the
15 section that's the subject of this hearing.

16 EXAMINER JONES: Any other appearances in this
17 case? So we've got an appearance from Coleman Oil and Gas
18 and EOG Resources --

19 MR. CARR: Yes, and Dugan Production Corporation.

20 EXAMINER JONES: And Dugan Production.

21 MR. CARR: Yes, sir.

22 EXAMINER JONES: Do you have a witness?

23 MR. CARR: I have one witness who needs to be
24 sworn.

25 EXAMINER JONES: Okay, will the witness please

1 stand to be sworn?

2 (Thereupon, the witness was sworn.)

3 ALAN P. EMMENDORFER,

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

6 DIRECT EXAMINATION

7 BY MR. CARR:

8 Q. Would you state your name for the record, please?

9 A. Alan Paul Emmendorfer.

10 Q. Mr. Emmendorfer, where do you reside?

11 A. I reside in Arvada, Colorado, 11,350 West 75th
12 Place.

13 Q. Where do you -- By whom are you employed?

14 A. Coleman Oil and Gas.

15 Q. And what is your position with Coleman Oil and
16 Gas?

17 A. I'm a petroleum geologist.

18 Q. Have you previously testified before the New
19 Mexico Oil Conservation Division and had your credentials
20 as a petroleum geologist accepted and made a matter of
21 record?

22 A. Yes, I have.

23 Q. Are you familiar with the Application filed in
24 this case on behalf of Coleman?

25 A. Yes.

1 Q. And are you familiar with the plans of both
2 Coleman and Dugan Production Corporation for the
3 development of this north-half spacing unit?

4 A. Yes, I am.

5 MR. CARR: May it please the Examiner, we tender
6 Mr. Emmendorfer as an expert witness in petroleum geology.

7 EXAMINER JONES: Mr. Emmendorfer is an expert
8 witness in -- is an expert in petroleum geology.

9 Now, he's representing -- he's a witness for all
10 three?

11 MR. CARR: Well, Mr. Emmendorfer is testifying
12 for Coleman. We do have a letter of support from Dugan.
13 And EOG, as you'll see, is a co-owner in the Coleman
14 properties, and I'm also representing them.

15 EXAMINER JONES: Okay.

16 Q. (By Mr. Carr) Mr. Emmendorfer, would you state
17 briefly what it is that Coleman seeks with its Application?

18 A. Coleman Oil and Gas seeks to have an exception to
19 Rule 104.C.(2).(c) to allow two operators in the Basin-
20 Fruitland Coal Gas Pool, in the standard 320-spacing unit,
21 making up the north half of Section 12, Township 24 North,
22 Range 11 West, San Juan County, New Mexico.

23 Q. Could you just identify what Coleman's plans are,
24 as well as Dugan's, for the development of this north half?

25 A. Dugan Production Company plans to drill a

1 Fruitland Coal well in the northwest quarter of Section 12
2 and operate it as their own, and Coleman Oil and Gas
3 desires to drill a Fruitland Basin Coal well in the
4 northeast quarter of Section 12 and produce it on their
5 behalf.

6 Q. Both of the wells will have dedicated to them the
7 north half of the section; is that correct?

8 A. That is correct.

9 Q. And so you'll have two operators on a single
10 spacing unit?

11 A. That is correct.

12 Q. And that's why you need to request this exception
13 to Rule 104?

14 A. Yes.

15 Q. Let's go to Exhibit Number 1. Would you identify
16 that and review it for Mr. Jones?

17 A. Mr. Examiner, Exhibit 1 is an activity map for
18 the Basin Fruitland Coal area in what Coleman refers to as
19 the Juniper Area. It's centered around Section -- or
20 Township 24 North, Range 10 West, but includes parts of
21 townships in 24 North, 9 West and 11 West and parts of 25
22 North, 9 West, 10 West and 11 West.

23 On this map are all the producing Fruitland Coal
24 wells in this area, and also all the wells that have been
25 -- approved APDs. Some of the wells may have been drilled

1 but not completed; they have not had a completion report
2 sent to the state yet, so they're still shown as a
3 location.

4 Also on this map is the acreage positions of both
5 Coleman Oil and Gas and Dugan Production Company.
6 Coleman's acreage is shown in yellow, and Dugan acreage is
7 shown in light blue.

8 And I'd also like to point your attention to the
9 north half of Section 12, 24 North, 11 West, which is the
10 subject of this case, where the north half is divided
11 between 50 percent by the Coleman Oil and Gas acreage, and
12 the northwest by the Dugan Production Company acreage.

13 Q. Mr. Emmendorfer, let's go to Exhibit Number 2,
14 which is a blowup of Section 12. What is the status of the
15 land in the north half of this section?

16 A. In the north half of Section 12, the northeast
17 quarter is a Navajo-allotted lease that is jointly owned
18 50-50 by Coleman Oil and Gas and by EOG resources. We have
19 staked the Juniper West Com 12 Number 32 in the northeast
20 quarter.

21 The northwest quarter is a portion of a federal
22 lease that is owned 99.7 percent by Dugan Production
23 Company and .3 percent by Fullerton Resources, and they
24 have staked the Kermit Com Number 90 in the northwest
25 quarter.

1 Q. Review for the Examiner again how it is that each
2 of you propose to develop the north half? How will you put
3 this spacing unit together?

4 A. Well, it's just as if it was one operator. It's
5 dedicated as a north-half 320 by the rules of 320-acre
6 spacing in the Fruitland Coal section. However, Dugan
7 desires to operate their well and Coleman desires to
8 operate their well separately.

9 We have reached an agreement where both
10 companies, and the interest owners within each of the
11 quarter sections, will drill and complete each -- their own
12 well, pay for their own well themselves, operate the well
13 as -- and pay for the operations of their own well, but
14 will pay royalties in a com-agreement situation, just like
15 if there had been one operator, because there's two leases
16 on the unit, it has to -- royalties have to be paid in a
17 com unit agreement.

18 And so Dugan Production Company will enjoy all
19 the proceeds from their well but pay royalties 50 percent
20 to the BLM, 50 percent to the Navajo-allotted lease.
21 Coleman will enjoy the revenue from their well and pay on
22 their prorated share of the royalties to the BLM for the
23 northwest quarter and for the Navajo-allotted lease in the
24 northeast quarter.

25 Q. Now, the parties discussed developing this as a

1 single spacing unit, correct?

2 A. Yes, they have.

3 Q. And they've been unable to reach an agreement for
4 development of the entire unit by either of them?

5 A. That's correct, we both have operations
6 contiguous with the unit, the north half, and we would each
7 like to operate each other's wells, but we've reached an
8 agreement that we would operate our own.

9 Q. Do you both have facilities to remove water from
10 the area, things of that nature?

11 A. Yes.

12 Q. Is that correct?

13 A. Yes, that's correct.

14 Q. And you each have those facilities readily
15 available?

16 A. Yes.

17 Q. And if you had -- and you'd each like to use your
18 own facilities and not be billed for the others --

19 A. That's correct.

20 Q. -- is that fair to say?

21 A. That's correct.

22 Q. EOG is shown on this exhibit as having a 50-
23 percent interest. EOG has an interest in Coleman
24 properties throughout the area, do they not?

25 A. That's correct. Actually on the Exhibit 1 map,

1 all the Coleman acreage in yellow is actually owned 50
2 percent by Coleman and 50 percent by EOG Resources. They
3 bought a 50-percent interest from us. It's an undivided
4 50-percent interest. It's also part of a greater AMI, area
5 of mutual interest, where if either company were to acquire
6 additional acreage in the area, the other company has an
7 option to participate at their 50 percent. And we're
8 listed as operator for all the -- within that area of
9 mutual interest.

10 Q. If Rule 104 as now written applies, you're simply
11 standing at an impasse, and it could delay the development
12 of this acreage; is that fair to say?

13 A. Yes.

14 Q. Would you identify what has been marked as
15 Coleman Exhibit Number 3?

16 A. Exhibit Number 3 is a letter drafted by Coleman
17 Oil and Gas to Dugan Production Company discussing the --
18 originally the problem of coming to an agreement as to who
19 is to operate the north half of Section 12, and asking that
20 Dugan Production Company be in agreement to separate
21 operations amongst the two wells.

22 And we have a copy of a signed -- this signed
23 letter from Tom Dugan, President and owner of Dugan
24 Production Corporation, agreeing to each company operating
25 a separate well within the north-half proration unit.

1 Q. Is Exhibit Number 6 an affidavit confirming that
2 notice of this hearing has been provided in accordance with
3 Division Rules?

4 A. Exhibit 4?

5 Q. I'm sorry, yes, Number 4.

6 A. Yes, it is.

7 Q. And was notice provided to all working interest
8 owners in the north-half unit --

9 A. Yes, they have.

10 Q. -- also to the BLM?

11 A. BLM and the BIA.

12 Q. To whom -- Will approval of this Application be
13 in the best interest of conservation, the prevention of
14 waste and the protection of correlative rights?

15 A. Yes.

16 Q. Were Coleman Exhibits 1 through 4 either prepared
17 by you or compiled under your direction and supervision?

18 A. Yes, they were.

19 MR. CARR: Mr. Jones, at this time we would move
20 the admission into evidence of Coleman Exhibits 1 through
21 4.

22 EXAMINER JONES: Exhibits 1 through 4 will be
23 admitted into evidence for this case.

24 MR. CARR: And that concludes my direct
25 examination.

1 EXAMINER JONES: Thank you, Mr. Carr.

2 EXAMINATION

3 BY EXAMINER JONES:

4 Q. So, I don't guess I need to ask whose AFE was
5 lower. Mr. Dugan will be carving out things all over the
6 San Juan Basin now.

7 (Laughter)

8 Q. (By Examiner Jones) So who's liable if something
9 happens on -- something -- Is EOG and Coleman liable for
10 something that happens on Tommy Dugan's well?

11 A. I --

12 Q. If you know.

13 A. My understanding would be no.

14 Q. Okay. I guess that's -- probably not.

15 Okay, it's going to be reported. Do they both
16 report to the state --

17 A. Yes.

18 Q. -- their production individually?

19 A. Yes.

20 Q. For that spacing unit?

21 A. Yes. Well, for each well.

22 Q. Yeah, okay.

23 A. Just like now, like say in Section 16 of 24 and
24 10 where Coleman operates four wells, two of them in a 320,
25 you don't report production on a 320-acre basis, you report

1 it on a per-well basis.

2 Q. In New Mexico, that way, anyway. Most states are
3 that way nowadays, I guess.

4 Okay, and the individual royalty owners didn't
5 have to be notified here?

6 A. We've notified the BLM and the BIA.

7 Q. So that pretty much covers everybody?

8 A. Yeah.

9 Q. And they didn't have a problem -- or they had a
10 chance to object, didn't they?

11 A. (Nods)

12 Q. What happens if it goes to -- this is for PC,
13 isn't it?

14 A. It's for Basin-Fruitland Coal.

15 Q. Fruitland Coal. It goes to PC, it will still be
16 -- it will just be that 160-acre spacing units?

17 A. That's correct.

18 Q. And what about your gathering systems, your --
19 Was this decision made based in part on your idea that you
20 have lower -- you might have lower -- Coleman might have
21 lower pressures on your gathering system than Dugan would
22 have on his?

23 A. Yes, we have been pretty lucky putting together a
24 large, contiguous block in this area, and the way we've
25 been developing it is, we've been burying water lines to a

1 central injection facility in conjunction with our own
2 gathering system and putting them behind compressors to get
3 them up to the existing El Paso gathering system pressures.

4 So -- and Dugan puts in his own gathering system
5 too. So this way it's kind of -- you know, everybody can
6 continue their own operations without being hampered by
7 each other.

8 Q. Yes, and -- but it's a com agreement for revenue
9 accounting, but who takes care of making sure all the
10 royalty owners get paid?

11 A. Well, there's really only two royalty owners, the
12 federal government and Indian allotted lease, which goes
13 through the office, and it's just part of the proration
14 unit, the com agreement, that has to be approved, before we
15 can get, you know, production from the State.

16 So each operator is responsible for paying the
17 royalties from that well, just as if there had only -- only
18 had been one well drilled on it, on a 320-acre spacing,
19 it's the same -- same thing applies, you would have to pay
20 royalties for both leases.

21 Q. Okay, in this case you've got two different
22 leases. If it was one lease and that royalty owner would
23 -- or royalty owners, in the case of two operators, would
24 get two different checks every month, right?

25 A. That's correct.

1 Q. Instead of one check from one operator. They'd
2 get two different checks?

3 A. Actually, I would imagine they'll still get two
4 different checks.

5 Q. They will in this case.

6 A. Yes.

7 EXAMINER JONES: Okay, that's -- beat this to
8 death, so thank you very much for explaining it. It's the
9 first one I've seen, so -- probably the last.

10 THE WITNESS: Probably the last.

11 MR. CARR: That concludes our presentation in
12 this case, Mr. Jones.

13 EXAMINER JONES: Thank you Emmendorfer. Thank
14 you very much.

15 With that, we'll take Case 13,460 under
16 advisement.

17 (Thereupon, these proceedings were concluded at
18 9:09 a.m.)

19 * * *

20

21

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

22

23

_____, Examiner
Oil Conservation Division

24

25

CERTIFICATE OF REPORTER

STATE OF NEW MEXICO)
)
) SS.
COUNTY OF SANTA FE)

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

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

WITNESS MY HAND AND SEAL April 10th, 2005.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2006