

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:)
APPLICATION OF RIDGEWAY ARIZONA OIL)
CORPORATION FOR APPROVAL OF A UNIT)
AGREEMENT, CATRON COUNTY, NEW MEXICO)

CASE NO. 13,785

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

January 4th, 2007

Santa Fe, New Mexico

2007 JAN 18 AM 9 11

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, January 4th, 2007, 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.

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 Examiner Hearing
 CASE NO. 13,785

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A P P E A R A N C E S

FOR THE DIVISION:

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FOR THE APPLICANT:

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* * *

1 WHEREUPON, the following proceedings were had at
2 12:05 p.m.:

3
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5
6 EXAMINER CATANACH: At this time I'll call Case
7 13,785, the Application of Ridgeway Arizona Oil Corporation
8 for approval of a unit agreement, Catron County, New
9 Mexico.

10 Call for appearances.

11 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe,
12 representing the Applicant. I have one witness.

13 EXAMINER CATANACH: Any additional appearances?
14 Okay, can I get the witness to stand and be sworn
15 in?

16 (Thereupon, the witness was sworn.)

17 MR. BRUCE: Mr. Examiner, I do note that there
18 are a couple of gentlemen, I know I've spoken to one, in
19 the audience and I don't know if they would care to
20 identify themselves for the record.

21 MR. DRISKILL: I'm David Driskill with the Bureau
22 of Land Management in Amarillo, just observing.

23 EXAMINER CATANACH: Thank you.

24 MR. MATIS: John Matis with the BLM here in Santa
25 Fe, also monitoring.

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JOHN M. RICHARDSON,

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

DIRECT EXAMINATION

BY MR. BRUCE:

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

A. John Michael Richardson.

Q. And where do you reside?

A. Stanley, New Mexico.

Q. What is your occupation?

A. I am a petroleum landman.

Q. What is your relationship to Ridgeway Arizona Oil Corporation?

A. I have been a contract landman for Ridgeway for the last nine to 10 years.

Q. And as part of your responsibility -- Well, your responsibility for Ridgeway was dealing with leasing and other land matters related to Ridgeway's carbon dioxide prospect in Catron County and also over the state line in Arizona, has it not?

A. That is correct.

Q. And you spent nine or 10 years doing that; is that right?

A. Correct.

Q. So as a result could I say you are painfully

1 familiar with the land matters involved in this case?

2 A. Yes, sir.

3 Q. Mr. Examiner, I'd -- Have you previously
4 testified before the Division, Mr. Richardson?

5 A. I have.

6 Q. And were your credentials as an expert accepted
7 as a matter of record?

8 A. They were.

9 MR. BRUCE: Mr. Examiner, I'd tender Mr.
10 Richardson as an expert petroleum landman.

11 EXAMINER CATANACH: Mr. Richardson is so
12 qualified.

13 Q. (By Mr. Bruce) Mr. Richardson, could you
14 identify Exhibit 1 for the Examiner?

15 A. Exhibit 1 is a copy of Order R-11,168-A. Back in
16 1999 Ridgeway sought unitization of this area, and it was
17 approved by the OCD, and that is a copy of that order. It
18 was also approved by the State Land Office and the BLM.

19 Q. Now although that's not really applicable to this
20 case, originally Ridgeway sought a unit covering lands in
21 both Arizona and New Mexico, did it not?

22 A. That is correct.

23 Q. There were a number of state and federal lands in
24 New Mexico, and then some federal and a number of state
25 lands over in Arizona?

1 A. That is correct.

2 Q. And at the time, I believe, the Bureau of Land
3 Management favored a two-state unit, did it not?

4 A. That is -- according to my recollection, yes, it
5 did, that's correct.

6 Q. But approval could never be obtained from the
7 State Land Board in Arizona?

8 A. That is correct.

9 Q. So although Ridgeway originally sought a two-
10 state unit, subsequently it contracted the unit so it only
11 covered lands in Catron County, New Mexico?

12 A. Correct.

13 Q. Now Ridgeway got this order, but was the unit
14 ever finalized and drilling commenced under the terms of
15 the original unit agreement?

16 A. No, it was not. The BLM and the State Land
17 Office understood that we were trying to get the Arizona
18 side unitized as well, and they allowed us to -- or they
19 approved the unit subject to our commencing operations six
20 months from finalization, and they understood that we were
21 trying to postpone drilling expenditures until we were sure
22 we were sure we would get the Arizona side unitized, and we
23 have never done that. So that approval, I think, was...

24 Q. And the approval on the Arizona side was not for
25 lack of trying, was it?

1 A. No, we have been in negotiations with the Arizona
2 State Land Office for five to six years.

3 Q. Now in today's case, are the lands you're seeking
4 Division approval on for unitization the same lands as in
5 Exhibit 1?

6 A. Yes, essentially they are. There's a typo there
7 in Exhibit 1. It has 54 New Mexico state tracts, where
8 there should be 53.

9 Q. Okay, that's on page 2 of Exhibit 1, Mr.
10 Examiner, just right at the very end under "Acreage
11 Summary".

12 A. And that is not the fault of the OCD, that was
13 the information provided to them by the contract landman.

14 MR. BRUCE: Okay. Well, let's go -- let's move
15 on next to Exhibit 2, the unit agreement. Before we do
16 that, Mr Examiner, maybe Exhibit A attached to the
17 agreement, if you could fold that out you'll get a better
18 idea of the -- of this area.

19 And Mr. Examiner, on the exhibits attached to the
20 unit agreement there are some typos we have corrected by
21 hand just recently, and we can get clean copies for you.
22 But just for the record I would note that if you're looking
23 at Exhibit A under this area, the 47 federal tracts and
24 their acreage are correct. The six fee tracts and their
25 acreage are correct. And 53 state tracts is correct, but

1 the total acreage of the state land is 19,024.27 acres.

2 And then the grand acreage total is 89,574.12 acres.

3 Somehow a little 120-acre glitch got in there, and we've
4 corrected by hand on all of the exhibits.

5 EXAMINER CATANACH: So you're going to submit
6 revised exhibits?

7 MR. BRUCE: We will submit revised exhibits.

8 EXAMINER CATANACH: Okay.

9 Q. (By Mr. Bruce) But the unit agreement, Mr.
10 Richardson, this is a typical exploratory unit agreement,
11 federal/state form, which you can get off the Land Office
12 website, is it not?

13 A. Yes, it is.

14 Q. Except for a couple of special provisions?

15 A. Yes, paragraphs 14, 14A, 15 have special
16 provisions regarding CO₂ that the State Land Office had
17 requested, and those special provisions are incorporated in
18 this unit agreement.

19 Q. And on the royalty settlement, the State Land
20 Office wanted certain provisions because in many instances
21 there's not a full market for CO₂, and they wanted, in
22 essence, a minimum type of royalty in that?

23 A. That is correct.

24 Q. And then Section 14A provides for certain of the
25 carbon dioxide to be used in New Mexico under certain

1 circumstances?

2 A. That is also correct.

3 Q. And then under "Rental Settlement" down toward
4 the -- what it does is increases the rentals, I believe --

5 A. That is correct.

6 Q. -- until production is obtained?

7 A. Uh-huh.

8 Q. Other than that, it's just the standard unit
9 agreement, and it would be the same as the unit agreement
10 submitted in 1999 to the Division, correct?

11 A. (Nods)

12 Q. Now Exhibits B and C are just summaries of the
13 various leases, et cetera, are they not?

14 A. That is correct.

15 Q. Now the unit agreement -- Let's go into the
16 joinder. Almost all of these tracts are under lease to
17 Ridgeway Arizona Oil Corporation?

18 A. That is correct, with the exception of one
19 federal and two fee tracts.

20 Q. And we will get to those in a minute. Ridgeway
21 Arizona has signed the unit agreement, has it not?

22 A. Yes, it has.

23 Q. The only -- other than the United States, which
24 is a royalty owner, the State of New Mexico, the royalty
25 owner, and then a couple of fee tracts, the only other

1 interest owner is the Bueyeros Trust, which has an
2 override?

3 A. That is correct.

4 Q. Will the Bueyeros Trust be ratifying this unit?

5 A. Yes, they will. The Bueyeros Trust is a family
6 trust of George Scott, who was the generating geologist on
7 this, and they have an override on each and every tract
8 that is committed to the unit.

9 Q. Okay, and you have contacted them and they have
10 indicated that they will execute ratifications of this
11 agreement?

12 A. Yes, I have, and they will.

13 Q. Let's move on to Exhibit 2A. What does that
14 reflect, Mr. Richardson?

15 A. 2A shows the -- actually four tracts that are not
16 committed to the unit. However, we have been successful in
17 re-leasing the tract that is designated as P-05 from Nellie
18 Summers. P-06, Billie Jean Gillespie has either passed
19 away or she has moved and we don't have a good forwarding
20 address for her. And Robert and Mary Hooper have never
21 responded to any of our mailings, phone calls or inquiries.
22 So Tracts F-47, P-04 and P-06 are not committed to the
23 unit.

24 Q. Now you have had -- again, you have tried to
25 contact the Hoopers, and they've just never responded?

1 A. That is correct.

2 Q. And Billie Jean Gillespie --

3 A. She was --

4 Q. -- have you tried to track down her heirs?

5 A. Yes. In fact, she was actually under lease to
6 Ridgeway at one time but that lease expired, and in our
7 efforts to renew the leases we were unable to contact her
8 or her heirs.

9 Q. Okay. And have you also had contacts with the
10 Blanco Company, the owner of the only other federal lease
11 in this area?

12 A. Yes, we have.

13 Q. And what has been their response?

14 A. They were willing to sell the lease to Ridgeway,
15 but Ridgeway and the Blanco Company couldn't come to terms
16 on price.

17 Q. Okay. Now if -- since these people have not
18 joined in the -- have not agreed to terms with Ridgeway,
19 their interests are unaffected, are they not?

20 A. That is correct, it's a voluntary unit, and
21 they're not affected.

22 Q. So they would just -- if they are ever -- a well
23 is ever drilled on any other lands, it's just on a lease
24 basis?

25 A. That is correct.

1 Q. Now, the last hearing resulting in the order
2 marked Exhibit 1, you testified at that hearing as a
3 landman, did you not?

4 A. Yes, I did.

5 Q. And was geology supporting the unit boundaries
6 presented at that hearing?

7 A. Yes, it was.

8 Q. And is the geology marked as Exhibit 3?

9 A. That is correct.

10 Q. And did the geologist testify at that hearing?

11 A. Yes, he did.

12 Q. And he is now deceased?

13 A. Yes, that is correct.

14 MR. BRUCE: Mr. Examiner, I would ask that you
15 incorporate the record from the prior hearing to -- if you
16 wanted to review the testimony presented by the geologist
17 at the prior matter.

18 EXAMINER CATANACH: Okay, Mr. Bruce, I'll
19 incorporate the record and evidence presented in Case
20 Number 12,161.

21 Q. (By Mr. Bruce) And Mr. Scott is now deceased; is
22 that correct?

23 A. That is correct.

24 Q. Now it's been five or six years. A few wells
25 have been drilled on the New Mexico side of the border?

1 A. That is correct, six have been drilled.

2 Q. Since the original unitization hearing, have any
3 New Mexico wells been drilled?

4 A. No, they have not.

5 Q. So the geology wouldn't change from then to now?

6 A. From a landman's perspective, no, it would not.

7 Q. Which is why you're simply presenting at this
8 point the geology presented at the original hearing?

9 A. Correct.

10 Q. And just for information purposes, how many wells
11 have been drilled on the Arizona side?

12 A. Twelve on the Arizona side, six on New Mexico,
13 totaling 18 in all.

14 Q. Okay. Are any of the wells producing? Do you
15 have that information?

16 A. None are producing as of this point in time.
17 There was one CO₂ contract let to flow CO₂, and that -- one
18 of those Arizona wells produced for a short time. I'm not
19 sure what happened, but it's my understanding that that
20 well -- they're seeking shut-in status on that well, as
21 well as two or three other wells.

22 Q. Okay, but no production from the New Mexico side?

23 A. None.

24 Q. Now has Ridgeway applied for -- the entities use
25 different terms, but for preliminary approval from the Land

1 Office and from the Bureau of Land Management?

2 A. Yes, they have.

3 Q. We have not heard at this point what their
4 decision is?

5 A. No, we have not.

6 Q. You're simply hoping they will grant the
7 preliminary approval?

8 A. We are hoping, as they have approved this
9 previously.

10 Q. Okay. Even though they haven't granted
11 preliminary approval, do you need to proceed forward at
12 this point in order to get an order from the Division?

13 A. We do. We are in the 11th hour of the terms of
14 some of these leases, so we've got some leases that are
15 going to expire shortly.

16 Q. And so you would like to get it unitized and
17 commence drilling?

18 A. Yes, we would.

19 Q. And Ridgeway does have a drilling rig, does it
20 not?

21 A. It does.

22 Q. Its own drilling rig?

23 A. Yes.

24 Q. Recently acquired?

25 A. Yes, they do.

1 Q. Were Exhibits 1 through 3 prepared by your under
2 your supervision or compiled from company business records?

3 A. They were.

4 Q. And in your opinion is the granting of this
5 Application in the interests of conservation and the
6 prevention of waste?

7 A. It is.

8 MR. BRUCE: Mr. Examiner, I'd move the admission
9 of Exhibits 1 through 3.

10 EXAMINER CATANACH: Exhibits 1 through 3 will be
11 admitted.

12 Mr. Bruce, I guess I'm not clear on -- Is it your
13 position that the previous order that unitized this
14 interval is not in effect?

15 MR. BRUCE: It's not in effect because, under the
16 terms of the unit agreement or -- unit agreement, the old
17 unit agreement or any exploratory unit agreement, you have
18 to commence drilling within a certain time period and
19 establish commercial production, and under this unit
20 agreement, then they have to drill successive wells to hold
21 acreage.

22 This is not an undivided unit. Units with
23 federal land in them have participating areas that are
24 formed, and so in order to hold the acreage beyond a
25 certain time, once drilling commences they do have to drill

1 wells, establish commercial production, obtain approval
2 from the Land Office and the Bureau of Land Management for
3 participating areas, which means it is a commercial well,
4 et cetera.

5 So -- But because of the items that Mr.
6 Richardson discussed, the unit never went into effect,
7 which is why we are seeking approval again. And we will
8 contact the BLM and the Land Office to see if they -- you
9 know, I would ask that the record be held open. Of course,
10 if the BLM does not approve it, you know, the unit couldn't
11 be formed. But I would ask that the record be held open
12 for two weeks so that we could submit that approval if
13 necessary.

14 And then if it is preliminarily approved, we
15 would ask for an expedited order at that point so that we
16 could get final approvals and commence drilling thereunder.

17 EXAMINER CATANACH: This Application has been
18 submitted to the Land Office and to BLM?

19 MR. BRUCE: Yes, sir.

20 EXAMINER CATANACH: You're just waiting on the
21 preliminary approval?

22 MR. BRUCE: Yes.

23 EXAMINER CATANACH: Okay. But nothing as far as
24 the unitized interval or -- nothing has changed from the
25 previous order?

1 MR. BRUCE: Nothing. And this unit is -- the
 2 unit agreement -- I suppose another difference in this unit
 3 agreement from a typical unit agreement, like the one you
 4 just went through, is, this only covers carbon dioxide and
 5 any other small other gases incident thereto. It does not
 6 cover oil and gas, nor does it cover -- I don't think it
 7 covers helium either, which I know there's some issues on
 8 the federal side about ownership of helium. So it only
 9 covers carbon dioxide gas.

10 EXAMINER CATANACH: Okay.

11 Do you have any questions?

12 MR. BROOKS: No questions.

13 EXAMINER CATANACH: BLM representatives have any
 14 questions or comments?

15 MR. DRISKILL: I don't have any.

16 EXAMINER CATANACH: Okay. Anything further, Mr.
 17 Bruce?

18 MR. BRUCE: Nothing further.

19 EXAMINER CATANACH: Okay. There being nothing
 20 further, Case Number 13,785 will be taken under advisement.
 21 And let me know if you get those --

22 (Thereupon, these proceedings were concluded at
 23 12:25 p.m.)

24 * * *

25 I do hereby certify that the foregoing is
 a complete and correct transcript of the
 the Examining Proceedings No. 13785
 heard by January 4, 2007
David K. Catanach, Examiner

STEVEN T. BRENNER, CCR
 Oil Conservation Division
 (505) 989-9317

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 January 7th, 2007.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2010