

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

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

**ORIGINAL**

REPORTER'S TRANSCRIPT OF PROCEEDINGS  
COMMISSION HEARING  
DOCKET NO. 28-09

2009 AUG 26 P 2:28  
RECEIVED OGD

August 13, 2009  
Santa Fe, New Mexico

BEFORE: MARK E. FESMIRE: Commission Chair  
JAMI BAILEY: Commissioner  
WILLIAM C. OLSON: Commissioner

This matter came for hearing before the New Mexico Oil Conservation Commission on August 13, 2009, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South St. Francis Drive, Room 102, Santa Fe, New Mexico.

REPORTED BY: PEGGY A. SEDILLO, NM CCR No. 88  
Paul Baca Court Reporters  
500 Fourth Street, NW, Suite 105  
Albuquerque, New Mexico 87102

1	I N D E X	
2		Page
3	CASE NO. 13957	4
4	CASE NO. 14055	5
5	OCD'S WITNESSES:	
	JANE PROUTY	
6	Examination by Mr. Padilla	6
	Examination by Mr. Swazo	16
7	Examination by Mr. Padilla	22
	DAVID BROOKS	
8	Examination by Mr. Swazo	24
	Examination by Mr. Padilla	30
9	Examination by Mr. Swazo	38
	Examination by Mr. Swazo	42
10		
	C&D MANAGEMENT'S WITNESSES:	
11	TOM KIZER	
	Examination by Mr. Padilla	44
12	Examination by Mr. Swazo	74
	Examination by Mr. Padilla	124
13	Examination by Mr. Swazo	191
	Examination by Mr. Padilla	198
14	GEORGE SHIPLEY	
	Examination by Mr. Padilla	199
15	Examination by Mr. Swazo	25
16	OCD'S REBUTTAL WITNESSES:	
	DANIEL SANCHEZ	
17	Examination by Mr. Swazo	238
	Examination by Mr. Padilla	240
18	Examination by Mr. Swazo	246
	JANE PROUTY	
19	Examination by Mr. Swazo	248
	Examination by Mr. Padilla	254
20		
	C&D MANAGEMENT'S REBUTTAL WITNESSES:	
21	GEORGE SHIPLEY	
	Examination by Mr. Padilla	257
22		
	E X H I B I T S	
23		
	OCD'S EXHIBITS:	
24	Exhibit 95	256
	Exhibit 96	256
25		

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

2 For the OCD: SONNY SWAZO, ESQ.  
 State of New Mexico  
 3 Oil Conservation Division  
 Assistant General Counsel  
 4 1220 S. St. Francis Drive  
 Santa Fe, NM 87505

5 For the OCC: MARK A. SMITH, ESQ.  
 6 State of New Mexico  
 Oil Conservation Division  
 7 Assistant General Counsel  
 1220 South St. Francis Drive  
 8 Santa Fe, NM 87505

9 FOR C&D MANAGEMENT: ERNEST L. PADILLA, ESQ.  
 Padilla Law Firm, PA  
 10 1512 S. St. Francis Drive  
 Santa Fe, NM 87504

11

12 CASE NOS. 14149 and 14150

13 APPLICANT'S WITNESSES:  
 MARY SHARON BALAKAS  
 14 Examination by Mr. Bruce 274  
 FREDERICK MARK  
 15 Examination by Mr. Bruce 291  
 HOWARD MUSGROVE  
 16 Examination by Mr. Bruce 305

17 E X H I B I T S

18 APPLICANT'S EXHIBITS

19 Exhibits 1 - 4 284  
 Exhibits 5 - 11 312  
 20 Exhibits A - H 304

21 A P P E A R A N C E S

22 For the Applicant: JAMES BRUCE, ESQ.  
 Attorney at Law  
 23 P. O. Box 1056  
 Santa Fe, NM 87504

24

25 COURT REPORTER'S CERTIFICATE 319

1 No. R-1960 to Determine Reasonable Costs and for  
2 Authorization to Recover Costs for Production of Pooled  
3 Mineral Interests in Rio Arriba County, New Mexico.

4 The Commission having deliberated on this,  
5 instructed counsel to draft an Order, and counsel has  
6 drafted said Order. Have the Commissioners had a chance  
7 to review the Order?

8 COMMISSIONER BAILEY: Yes, I have, and I believe  
9 it reflects our decisions made and I intend to sign it.

10 CHAIRMAN FESMIRE: Okay. Commissioner Olson?

11 COMMISSIONER OLSON: I agree with the assessment  
12 of Commissioner Bailey and I second that motion.

13 CHAIRMAN FESMIRE: Okay. All those in favor of  
14 adopting the Order as drafted by counsel in Case No. 13957  
15 signify by saying "aye."

16 COMMISSIONER OLSON: Aye.

17 COMMISSIONER BAILEY: Aye.

18 CHAIRMAN FESMIRE: Let the record reflect that  
19 the Order was unanimously adopted. It will be signed by  
20 the members of the Commission and transmitted to the  
21 secretary.

22 With that, we will proceed to the next order of  
23 business before the Commission. That is two related  
24 cases, Case No. 14149 and Case No. ~~14150~~

25 Case No. 14149 is the De Novo Application of

1 El Paso E&P Company to abolish the Van Bremmer  
2 Canyon-Vermejo Gas Pool, Expand the Castle Rock  
3 Park-Vermejo Gas Pool, and Establish Special Rules and  
4 Regulations for the Castle Rock Park-Vermejo Gas Pool in  
5 Colfax County, New Mexico.

6 Case No. 14150 is a related case. It is also a  
7 de novo application. It is the Application of El Paso E&P  
8 Company, LP to Expand the Stubblefield Canyon Raton-  
9 Vermejo Gas Pool, and to Establish Special Rules and  
10 Regulations for the Pool in Colfax County, New Mexico.

11 Is the attorney -- single -- ready to make his  
12 appearance?

13 MR. BRUCE: Yes, sir. Mr. Chairman, Jim Bruce  
14 of Santa Fe representing the Applicant. I have three  
15 witnesses.

16 CHAIRMAN FESMIRE: Okay. And I understand that  
17 this is an uncontested hearing?

18 MR. BRUCE: That is correct.

19 CHAIRMAN FESMIRE: Okay. Mr. Bruce, would you  
20 ask your witnesses to stand and be sworn, please?

21 (Note: The witnesses were placed under  
22 oath by the court reporter).

23 CHAIRMAN FESMIRE: Mr. Bruce, do you have an  
24 opening statement?

25 MR. BRUCE: Yes, just very briefly,

1 Mr. Chairman, just to focus what we're here for today.  
2 First of all, I'd like to say this is not an enforcement  
3 case, this is a pool rules case involving gas wells in the  
4 Raton basin.

5 Under statewide rules, there is a requirement of  
6 160 acres spacing, one well per 160 acres, and you have to  
7 be 660 feet off the quarter section line.

8 El Paso filed these applications requesting  
9 several things. First of all, the pools, although  
10 numerous additional wells have been drilled, the pools  
11 have never been expanded and the Division did go ahead and  
12 expand the pools.

13 They also requested permission to be allowed to  
14 drill two wells for 160 acres, and they also requested  
15 substantial relief from the setback requirements of 660  
16 feet.

17 The Division granted the Application and insofar  
18 as two wells per 160 acres, and they relaxed the internal  
19 setbacks in the section, but they required that wells  
20 still be 660 feet from a section line.

21 El Paso is here today again requesting relief  
22 from the setback requirements, and that is the main thrust  
23 of this case today. It's really the only thrust.

24 This is an unusual case, because -- I put a plat  
25 up in front of you here. What you're looking at is over

1 600,000 acres that has one mineral owner, and -- except in  
2 140 acres, it has one mineral owner shaded in red, and for  
3 that matter, it only has one surface owner.

4 The setback relief is requested due to the  
5 common mineral ownership, and also due to the topography  
6 in this area. However, it will probably help you to see  
7 the geology and engineering to appreciate the setback  
8 requests, so we will be presenting that.

9 And although I handed you -- or I previously  
10 filed -- if I pay approach the bench, Mr. Chairman?

11 CHAIRMAN FESMIRE: You may, sir.

12 MR. BRUCE: I do have one extra large copy of  
13 this plat. I think if you look at your set of exhibits,  
14 there is an 8 1/2 by 11 land plat, and my clients, when  
15 they came in, brought probably a little better plat than I  
16 originally submitted. So you'll have a couple of exhibits  
17 marked as Exhibit 1, but they're essentially showing the  
18 same data.

19 CHAIRMAN FESMIRE: Proceed, sir.

20 MARY SHARON BALAKAS,  
21 the witness herein, after first being duly sworn  
22 upon her oath, was examined and testified as follows:

23 DIRECT EXAMINATION

24 BY MR. BRUCE:

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

1           A.    My name is Mary Sharon Balakas.  I reside in  
2    Castle Rock, Colorado.

3           Q.    And who do you work for and in what capacity?

4           A.    I work for El Paso E&P Company, LP, and I'm  
5    currently the business asset manager for the Raton basin.

6           Q.    Have you previously testified before the  
7    Commission?

8           A.    I have not.

9           Q.    Would you please summarize your educational and  
10   employment background?

11          A.    Yes.  I have a Bachelor of Science from Illinois  
12   State University.  I have almost 35 years experience in  
13   land.  I'm serving as a landman, senior landman and  
14   landman manager for companies such as Persidio Oil  
15   Company, Encenora, and El Paso.

16          Q.    And as part of your duties at El Paso, were you  
17   the landman in overall charge of the land matters in the  
18   Raton basin?

19          A.    Yes.

20          Q.    And are you familiar with the land matters  
21   involved in this application?

22          A.    I am.

23                MR. BRUCE:  Mr. Chairman, I tender Ms. Balakas  
24   as an expert petroleum landman.

25                CHAIRMAN FESMIRE:  She'll be so accepted.

1 Q. First, what does Exhibit 1, the big plat up in  
2 front, show? And if you'd rather point to --

3 A. Can I get up and show you?

4 Q. Yes.

5 CHAIRMAN FESMIRE: As long as he let's you.

6 MR. BRUCE: Yes.

7 A. Okay, Exhibit 1 is a land map that shows our  
8 ownership. The reddish brown area encompasses about  
9 640,000 acres. We own 100 percent of the minerals. There  
10 are approximately 605,000 acres in New Mexico, and the  
11 remaining 35,000, approximately, are in Colorado.

12 The Colorado/New Mexico state line is depicted  
13 here at this large black line across here, and it's  
14 labeled also. Also on the map, you'll see a brown line to  
15 the side, the western side squiggly line, and that's the  
16 county line between Colfax County and Taos County.

17 And also, there is a bold line on the northwest  
18 part and a Colorado portion, and that's a county line  
19 also.

20 CHAIRMAN FESMIRE: Now the important part.  
21 Where's Philmont?

22 THE WITNESS: The Philmont?

23 CHAIRMAN FESMIRE: Yeah.

24 THE WITNESS: Okay, Philmont is going to be  
25 south of this area (indicating). The boy's camp?

1 CHAIRMAN FESMIRE: Yeah.

2 THE WITNESS: Okay, that's close.

3 Approximately.

4 A. There are also two isolated reddish brown areas.  
5 These are also tracts that El Paso owns 100 percent of the  
6 mineral interests in, but we have no current wells in  
7 there and they're not part of any pool.

8 Q. And you're not seeking any change in pool rules  
9 for those two isolated areas to the southwest of the  
10 tract?

11 A. That's correct. Can I also just point out,  
12 there are two white areas on here where we don't own the  
13 minerals. One is Brilliant Canyon Ranch, and the other  
14 one is the NRA ownership.

15 Q. Okay. And also, I believe all the current wells  
16 are located on that plat?

17 A. That's correct. I'm sorry. All the current  
18 wells that are located within the Stubblefield and the  
19 Castle Rock pools are on this map delineated.

20 CHAIRMAN FESMIRE: Are those the only two pools  
21 up there?

22 MR. BRUCE: Those are the only two pools in  
23 New Mexico.

24 Q. Now again, when we initially filed this  
25 application, what setback requirements were requested from

1 the Division?

2 A. At that time, we requested ten feet from the  
3 section line, and then ten feet from any quarter quarter  
4 line.

5 Q. And the Division required wells to be 660 feet  
6 from a section line?

7 A. Yes.

8 Q. But it did relax the internal lines in the  
9 section?

10 A. That's correct.

11 Q. And you're here today requesting what?

12 A. We're here today to seek liberalization of the  
13 660 foot setback that was in the previous Order.

14 Q. Okay. Now again, what is the ownership of the  
15 red areas, mineral ownership?

16 A. The ownership of the reddish brown area is 100  
17 percent mineral interests by El Paso E&P Company.

18 Q. Okay. Now, there is only one small little area  
19 which is not owned, and I don't have the plat for that.

20 A. I have it here. Highway 555.

21 MR. BRUCE: Mr. Examiner, I haven't marked these  
22 yet, but I'll mark these 1-A.

23 A. On Exhibit 1, there is a line that goes through  
24 here. This is Highway 555. We've blown up that portion  
25 on here of Highway 555. And on this exhibit, what we

1 delineated is mineral ownership in yellow that is owned by  
2 Colfax County.

3           We have an existing oil and gas lease that  
4 covers approximately 141 acres, and we have a 160 acre  
5 unit. Where there is Colfax County minerals, we also have  
6 a pooling agreement on that quarter section with them.

7           Q. Okay. So out of the 605,000 acres we're talking  
8 about, there are 141 acres that are owned by the County of  
9 Colfax?

10          A. That's correct.

11           MR. BRUCE: Mr. Chairman, it was in the record  
12 for the first hearing, for some reason, the deeds or  
13 documents granting the right-of-way just in those certain  
14 colored areas that you see there, granted the minerals.  
15 Why, we don't know, but that's why there is this odd  
16 little breaking up of mineral ownership.

17          Q. But again, those areas are leased to El Paso?

18          A. That's correct.

19          Q. And so, again, El Paso is the only operator  
20 within these pools?

21          A. Yes.

22           CHAIRMAN FESMIRE: Okay, and the uncolored areas  
23 belong to Mr. Turner -- minerals belong to --

24           THE WITNESS: No.

25           MR. BRUCE: They belong to El Paso.

1 THE WITNESS: They're El Paso's minerals.

2 CHAIRMAN FESMIRE: Oh, okay.

3 THE WITNESS: Mr. Turner -- or Vermejo Park  
4 Ranch only owns surface.

5 CHAIRMAN FESMIRE: Oh, okay. That's right. I'm  
6 sorry, I knew that.

7 COMMISSIONER BAILEY: And where is the Vermejo  
8 Park Ranch. It's the whole thing?

9 MR. BRUCE: And we've got some subsequent plats,  
10 Commissioner Bailey -- I think our next witness could  
11 point out where the ranch headquarters are and stuff like  
12 that.

13 Q. Now, in looking at the plats, the acreage in  
14 which Colfax County has an interest is being developed --  
15 El Paso is not avoiding developing the Colfax County  
16 acreage?

17 A. No. In fact, most of the area where we have the  
18 minerals falls within a 160 acre spacing unit where we  
19 have drilled a well, and we've formed a pool unit  
20 agreement with the County.

21 Q. Okay. And El Paso's plans to develop these  
22 wells were necessary, two wells on a well unit would  
23 include the Colfax County acreage?

24 A. That's correct.

25 Q. Okay. And will the next witness address the

1 topography issues in this area?

2 A. Yes.

3 Q. Now, does El Paso request a buffer zone where  
4 the statewide rules would apply?

5 A. Yes. What we're requesting is, there would be a  
6 buffer zone that would include the outer boundary of the  
7 Vermejo Park Ranch, every 160 acre unit -- on a 160 acre  
8 basis outlying the ranch.

9 Q. Okay. So that would just be developed on the  
10 statewide rules with the normal setbacks and one well per  
11 160 acres?

12 A. That's correct.

13 MR. BRUCE: If I may approach the bench again,  
14 Mr. Chairman?

15 CHAIRMAN FESMIRE: You may, sir.

16 MR. BRUCE: I'm handing you Exhibit 4-A.

17 Q. And Ms. Balakas, what does Exhibit 4-A  
18 represent?

19 A. Exhibit 4-A is the actual land descriptions of  
20 each 160 acre quarter section where we have entered into a  
21 compensatory royalty agreement with the Bureau of Land  
22 Management.

23 MR. BRUCE: And you can't see it so well on  
24 these first two plats, Mr. Chairman, but our next witness  
25 will have a plat where it will show where these

1 compensatory royalty agreements are.

2 Q. And that is where the El Paso lands adjoin  
3 federal land; is that correct?

4 A. That's correct, on the west side of the ranch  
5 where we've got forest land.

6 CHAIRMAN FESMIRE: Jim, could you take just a  
7 second and explain that agreement to me?

8 MR. BRUCE: Yes. Mr. Chairman, if you look at  
9 this plat -- and you'll be able to see quite clearly here  
10 on the southwest side, the white area is mainly federal  
11 land, national forest or wilderness. And the 160 acre  
12 units were wells along this little stretch of land.

13 The federal government will not lease the land.  
14 But they do have a provision in the federal regulations  
15 whereby they are paid compensatory royalties. So in 160  
16 acres, these 160 acre tracts -- I think there's 23 of  
17 them, the federal government owns varying amounts of  
18 acreage.

19 CHAIRMAN FESMIRE: So you can't drill on them  
20 but they allow you to drain them?

21 MR. BRUCE: But they'll let you drill on your  
22 land --

23 CHAIRMAN FESMIRE: And drain their reserves.

24 MR. BRUCE: And you pay them their regular  
25 royalty. And I spoke with Mr. Jim Lovato at the BLM's

1 Farmington office on Tuesday, and he confirmed that, you  
2 know, they do not want any additional development on their  
3 compensatory royalty land. So we have agreed that nothing  
4 would occur on these lands also.

5 Q. As a result, Ms. Balakas, the only parties  
6 affected by this development or your development plans are  
7 Colfax County and the United States?

8 A. That's correct.

9 MR. BRUCE: And Mr. Chairman, I meant to print  
10 it up last night, in the case file, notice was given of  
11 the original hearings to these entities and they did not  
12 eappear before the Division. And as I said, I spoke to  
13 Mr. Lovato at the BLM and he's fully aware of this  
14 hearing.

15 And Mr. Chairman, I submitted the original  
16 Division Orders as Exhibits 2 and 3 just so the  
17 Commissioners would have those in front of them.

18 Q. Ms. Balakas, were Exhibits 1-A and 4-A prepared  
19 by El Paso?

20 A. That's correct.

21 Q. And in your opinion, is the granting of the two  
22 Applications of El Paso in the interest of conservation  
23 and the prevention of waste?

24 A. That's correct.

25 MR. BRUCE: Mr. Chairman, I'd move the admission

1 of Exhibits 1, 1-A, 2, 3, and 4-A.

2 CHAIRMAN FESMIRE: Well, I assume the Commission  
3 has no objection. They'll be so admitted.

4 MR. BRUCE: And I pass the witness.

5 CHAIRMAN FESMIRE: Commissioner?

6 COMMISSIONER BAILEY: The statement was just  
7 made, the only parties involved were the BLM and Colfax  
8 County and El Paso E&P?

9 THE WITNESS: Correct.

10 COMMISSIONER BAILEY: The surface owner is a  
11 huge factor. Is there an agreement with the surface  
12 owners for these additional wells that you're requesting  
13 the relaxation of the setbacks?

14 THE WITNESS: Right. We work with -- we have a  
15 mineral extraction agreement that covers all of our  
16 operations with the Vermejo Park Ranch. And whenever we  
17 permit a well or locate one, we're in agreement with them  
18 as to where we move the well or where we put it.

19 COMMISSIONER BAILEY: Both the number and the  
20 location of the wells?

21 THE WITNESS: The number of wells has got a cap  
22 right now of how many existing wells we can have under the  
23 agreement, the existing locations. So we still have -- I  
24 mean, we still have the ability to drill additional  
25 wells, yes.

1           COMMISSIONER BAILEY: I've gotten very confused  
2 when you say that there's a cap on the number of wells and  
3 that you have not yet drilled the number of wells for that  
4 cap, is that what you just said?

5           THE WITNESS: Our existing mineral extraction  
6 agreement provides for a cap on the number of locations we  
7 can have on current producing wells on the ranch. We have  
8 not reached that. We have the right to drill additional  
9 wells, such as these infill wells, and be within  
10 compliance of our agreement.

11          MR. MUSGROVE: On existing pads, is what she's  
12 trying to say.

13          COMMISSIONER BAILEY: Okay. And the  
14 infrastructure, the roads, the pipelines, whatever, that's  
15 all taken care of within your agreement with Vermejo Park?

16          THE WITNESS: Yes.

17          COMMISSIONER BAILEY: You need a magnifying  
18 glass for this. I certainly can't see. On Exhibit No. 1,  
19 we have a rainbow of colors in the legend in the top  
20 right, but not --

21          THE WITNESS: Right. That's standard El Paso  
22 legend. It shows minerals, where we have a partial  
23 interest. It comes out of our drafting department. So  
24 that legend that comes up -- Here, Let me show you.

25                 It shows where we own 100 percent working

1 interests, where we have depth restrictions, partial  
2 interests, seismic options. We color code everything.  
3 And that comes through our central land records in Houston  
4 and our drafting department.

5 COMMISSIONER BAILEY: Okay, so if we only saw  
6 pink, then that only applies to the pink color?

7 THE WITNESS: Yes. If it says "EPP, Mineral  
8 Fee," that means we own the minerals. And in this case,  
9 we have 100 percent.

10 COMMISSIONER BAILEY: The surrounding owners --  
11 because the buffer zone on the outside, are you asking for  
12 relaxation of that setback around the buffer zone of this?

13 THE WITNESS: No.

14 MR. BRUCE: No, the buffer zone would be, you  
15 know, within the 160 acre well units on the exterior of  
16 this acreage and where it adjoins the --

17 CHAIRMAN FESMIRE: The entire boundary?

18 MR. BRUCE: The entire boundary.

19 CHAIRMAN FESMIRE: But the exception is the  
20 compensatory royalty agreements where you can --

21 MR. BRUCE: Well, it -- they kind of merge  
22 together, actually, but the BLM wanted us to reflect what  
23 was in the compensatory agreements. And with our next  
24 witness, I will point them out on an exhibit we have.

25 But what we are asking is that, you know, that

1 there be 160 acre quarter sections, so a half a mile  
2 buffer zone on the entire upside of this area including  
3 south of the New Mexico/Colorado border.

4 And then also, joining the two white areas which  
5 are Non-El Paso minerals so that, you know, until  
6 something is done there, they would remain on statewide  
7 rules. So they wouldn't be affected by the requests for  
8 these pools.

9 CHAIRMAN FESMIRE: Which means you can't drill  
10 any closer than 660 acres to the boundary?

11 MR. BRUCE: Yes.

12 CHAIRMAN FESMIRE: Except, does that apply to  
13 the compensatory mineral --

14 MR. BRUCE: Yes, it would apply to that also.

15 CHAIRMAN FESMIRE: So why would you have to --  
16 Never mind.

17 MR. BRUCE: Yeah, I -- But in talking with the  
18 BLM, they wanted us to expressly list the lands that were  
19 compensatory royalties.

20 CHAIRMAN FESMIRE: Okay. That doesn't make any  
21 sense. I mean, you know, you're going to be statewide  
22 rules where it would affect them, but in order not to  
23 object to this, they just wanted to make sure that...

24 MR. BRUCE: I guess they just wanted no more  
25 wells next to them. I think it's wilderness area up in

1 there. Tribal land.

2 CHAIRMAN FESMIRE: Okay. Yeah, good idea.

3 COMMISSIONER BAILEY: What is the cap for the  
4 number of wells?

5 MR. MUSGROVE: Active well bores, 1,250. We're  
6 currently at 944.

7 COMMISSIONER BAILEY: That's all I have.

8 CHAIRMAN FESMIRE: And your expansions, you're  
9 going to drill from the same pads?

10 MR. MUSGROVE: The infills we were talking about  
11 will be --

12 THE WITNESS: Will be both vertical and  
13 directional.

14 MR. MUSGROVE: There are sites that have been  
15 used up on an active site.

16 MR. BRUCE: That's all I have with this witness.

17 COMMISSIONER OLSON: So I guess you've reviewed  
18 this through with the Vermejo Park Ranch, I'm assuming?

19 THE WITNESS: Yes, we have. And they were well  
20 aware of our hearing last year on the infill. They had no  
21 objection at the time. So they're aware that we have the  
22 order.

23 COMMISSIONER OLSON: So they're wanting to see  
24 things drilled from the same pad, is that kind of their  
25 preference on this?

1 THE WITNESS: I think that we're under our  
2 current agreement. Along the way we have amended, as  
3 necessary, programs. So at this point, we have our  
4 existing agreements with them.

5 COMMISSIONER OLSON: And this falls within the  
6 existing agreement?

7 MR. BRUCE: Commissioner Olson, I've seen the  
8 surface use agreement once, but it's -- it's  
9 rather detailed. Rather large and detailed.

10 THE WITNESS: Yes, it is. Well, we have a very  
11 sophisticated landowner. There's been a lot of thought  
12 put into the agreement, back to Penzoil in '93, and 2003  
13 when we entered into an agreement.

14 COMMISSIONER OLSON: I saw it a long time ago,  
15 too. It's pretty big.

16 CHAIRMAN FESMIRE: I have no questions of this  
17 witness.

18 MR. SMITH: May I ask a question?

19 CHAIRMAN FESMIRE: Oh, yes, surely.

20 MR. SMITH: Talking about notice, I think  
21 someone earlier -- Mr. Bruce, you may have said it, that  
22 Colfax and the federal government both had notice of the  
23 last hearing?

24 MR. BRUCE: Yes.

25 MR. SMITH: And you spoke with someone from the

1 BLM about this hearing that you're currently in?

2 MR. BRUCE: Jim Lovato at the BLM Farmington  
3 office.

4 MR. SMITH: Okay. So the BLM has notice of it.  
5 Colfax, did you talk to anybody from Colfax?

6 MR. BRUCE: No. But, I mean, they were given  
7 written notice of the original hearing and did not appear.

8 MR. SMITH: Okay. And Vermejo Park, I take it,  
9 your position is that this is allowable under your  
10 agreement with them, so there's no need to give them  
11 notice of this hearing?

12 MR. BRUCE: Well, I think it's not only that  
13 it's allowable -- these wells and locations would be  
14 allowable under the surface use agreement, but I do not  
15 read the Division's regulations to require us to give  
16 notice to the surface owner. But they were aware of it,  
17 as El Paso has testified. They had discussions before the  
18 original hearing with Vermejo Park.

19 THE WITNESS: We did invited them if they were  
20 interested in attending this meeting.

21 MR. SMITH: Vermejo Park or Colfax County?

22 THE WITNESS: Vermejo Ranch.

23 MR. SMITH: Okay. I have no questions.

24 MR. BRUCE: I call Mr. Mark to the stand.

25 CHAIRMAN FESMIRE: Mr. Mark, you've been

1 previously sworn?

2 MR. MARK: Yes, sir.

3 FREDERICK MARK,

4 the witness herein, after first being duly sworn

5 upon his oath, was examined and testified as follows:

6 DIRECT EXAMINATION

7 BY MR. BRUCE:

8 Q. Would you please state your name and city of  
9 residence for the record?

10 A. My name is Frederick Earl Mark, and my residence  
11 is Evergreen, Colorado.

12 Q. Who do you work for and in what capacity?

13 A. I work for El Paso Exploration and Production,  
14 LLP, and I'm an advisor geologist.

15 Q. You've been qualified as an expert geologist  
16 before the Division, but since we're in front of the  
17 Commission, could you describe your educational and  
18 employment background?

19 A. I have a Bachelor's Degree in Geology from the  
20 University of Idaho. I've been in the business 35 years.  
21 This the second time I've worked for El Paso in my career.  
22 I worked for Sun, WM Petroleum, and TRC Consulting  
23 Company.

24 Q. And how long have you been back with El Paso  
25 this second time?

1           A.    I've been with El Paso for almost four years  
2    now.

3           Q.    And does your area of responsibility at El Paso  
4    include this part of New Mexico?

5           A.    Yes.

6           Q.    And are you familiar with the geology involved  
7    in these two pools?

8           A.    Yes, I am.

9           MR. BRUCE:  Mr. Chairman, I tender Mr. Mark as  
10   an expert petroleum geologist.

11          CHAIRMAN FESMIRE:  Mr. Mark, are you a certified  
12   petroleum geologist?

13          THE WITNESS:  I am a certified petroleum  
14   geologist in Wyoming.

15          CHAIRMAN FESMIRE:  Okay.  Mr. Mark is so  
16   accepted.

17          Q.    Mr. Mark, could you look at your Exhibit A and  
18   describe zones of interest in Vermejo Park?

19          A.    If I may stand up?

20          CHAIRMAN FESMIRE:  You may.

21          A.    This is a type log of the section that produces  
22   gas from coal on the Vermejo Park Ranch.  The lowest  
23   formation that we penetrate is the Trinidad sandstone.  
24   It's a massive sandstone from 50 to 200 feet thick.

25                It was deposited during the regression of the mid

1 continent seaway, the shoreline deposits and offshore  
2 bars. It does not produce gas. And the work that we have  
3 done in the field, it has nanotarcy permeability. It's  
4 very tight.

5 The next formation is the Vermejo formation. It  
6 contains coal. It was deposited during the late  
7 cretaceous time in a lower delta plane environment. It  
8 contains -- any given well can have between -- can  
9 penetrate between no seams and up to 12 seams.

10 The seams in the Vermejo range from a maximum of  
11 10 feet thick to less than one foot thick. The extent --  
12 the coals are very lenticular in the Vermejo. The  
13 thickest coal will be -- there's only one seam, it's over  
14 10 feet thick, and it covers about 15 square miles.

15 The rest of the coals are between one and six  
16 feet thick and cover at most three square miles. A  
17 typical coal seam will be three feet thick and cover from  
18 one to two sections. The coal is, as I said, quite  
19 lenticular and discontinuous.

20 Above the Vermejo is the Raton formation.  
21 Excuse me, I should have said that the Vermejo formation  
22 is between 350 feet and 50 feet thick on the ranch. And  
23 it thins from west to east.

24 Above the Vermejo formation is the Raton  
25 formation. It's 1,800 feet thick. The base of the Raton

1 formation is the Raton conglomerate. It was deposited in  
2 a graded stream with a little higher gradient. There are  
3 no coals in it.

4 The lower part of the Raton formation is barren.  
5 Coal occurs in the upper 600 to 800 feet. It's extremely  
6 lenticular seams. And this formation was deposited in an  
7 upper delta plane environment, meandering streams, and the  
8 coals are very lenticular, although they can be thick  
9 locally, up to 12 feet thick, but the extent is one to two  
10 square miles even of those thick seams.

11 There can be up to 15 seams. A typical seam is  
12 probably two and a half to three feet thick and less than  
13 one square mile of extent.

14 One thing that I do want to emphasize once again  
15 is there are a number of thin seams. There are no thick,  
16 extensive seams as you would see in the San Juan basin.

17 I'll go ahead and take this down unless there  
18 are any questions. Also, all of these formations crop out  
19 along -- in the ranch or around the edge of the basin.

20 Q. Mr. Mark, you have a series of exhibits,  
21 structure maps and cross-sections marked as Exhibit D  
22 through F. And without interrupting you, could you just  
23 briefly go through these?

24 A. Yes. Exhibit B is a structure map on the top of  
25 the Trinidad sandstone. It's made up over 1,400 data

1 points. Basically, it shows the basin as an asymmetrical  
2 north base trending northwest/southeast divided into two  
3 sub basins by a dome in the center.

4 MR. BRUCE: Mr. Chairman, I filed a set of  
5 exhibits about five weeks ago, and then I filed another  
6 set last week. And if you don't have yours,  
7 Mr. Chairman --

8 CHAIRMAN FESMIRE: I'll look over Jami's  
9 shoulder here.

10 MR. BRUCE: Okay.

11 A. Like I said -- Let me start again. The red  
12 line, the outline of the ranch -- and this is a structure  
13 map on the top of the Trinidad. The yellow line, the  
14 yellow shaded areas on the east side of the map and the  
15 west side of the map, are an outcrop of undifferentiated  
16 Vermejo and Trinidad formations which mark the limits of  
17 the basin.

18 The white area in the center or the left center  
19 of the map is the Vermejo Park dome, and that's where the  
20 ranch headquarters are.

21 Just to give you an idea of the size of the  
22 ranch, to drive from Raton, which is on the right hand of  
23 the west corner, to the Vermejo Park headquarters, the  
24 bulk of that is paved highway, takes about 45 minutes at  
25 an average speed of around 50 miles an hour.

1           The ranch -- the basin itself, as I said, is an  
2 asymmetrical basin trending northwest to southeast.  
3 There's a dome in the center of the basin that divides it  
4 into a northern sub basin and a southern sub basin.

5           On the eastern part of the ranch, dips are very  
6 gentle from 100 to 300 feet per mile. The east side is  
7 characterized by thrusting -- and actually, a little bit  
8 west of the coal limit, and very -- The basin on the east  
9 side is characterized by very steep dips from 1,500 to  
10 2,000 feet per square mile.

11           And the western part of the basin there is also  
12 a terrestrial decline and the Vermejo Park dome which are  
13 also structures with a steep western limb.

14           Unless there are any questions, I'll go on to  
15 the next exhibit.

16           Exhibit C is an isopach of total coal in the  
17 Vermejo formation. Maximum thickness is about 35 feet.  
18 And you can see it's thick on the western side of the  
19 basin, and in certain ponds in the northern and central  
20 part of the basin, it thins, the total coal thins to the  
21 east.

22           I want to point out again that this is total  
23 coal, and there can be up to 12 seams making up this total  
24 coal. There is not one coal over the entire basin, but  
25 numerous thin seams. I will later show on the

1 cross-sections AA Prime and BB Prime.

2 The next exhibit -- unless there are any  
3 questions, Exhibit D is an isopach of the total Raton  
4 pool. Once again, this is total coal added up -- a sum of  
5 up to 15 seams. There are thick areas that trend  
6 northwest/southeast.

7 The Raton coals are not present on the western  
8 part of the basin, the gray areas. And the eastern part  
9 of the basin, the productive coal measures are terminated  
10 by erosion. So the total thickness of the Raton coal ends  
11 due to erosion cropping of the coal to the east. Any  
12 questions?

13 Exhibit E is Cross-section AA Prime shown on the  
14 previous isopachs. This cross-section is intended to  
15 illustrate the lateral variability of the Vermejo  
16 formation and Raton formation.

17 There are no markers in either formation and can  
18 be unreliably correlated. And the coals also are  
19 extremely lenticular. You can see the thinning from the  
20 Vermejo formation from west to east.

21 You can also see coals -- these wells are  
22 separated by about one mile. You can see how difficult it  
23 is to even attempt to correlate coals within the Vermejo.  
24 These are the most continuous coals on the ranch because  
25 they're lower delta plane coals.

1           Above it, the Raton formation, you can see the  
2 coals are shaded black on the cross-section. Sandstones  
3 are yellow, mudstones are gray.

4           Above in the Raton formation, in the upper third  
5 of the Raton formation, you can see Raton coals. These  
6 coals are even more difficult to correlate and lenticular  
7 than the Vermejo coals.

8           If I may give an example of the lenticular  
9 nature of the Raton coals, we planned a horizontal well in  
10 the Raton formation. All the surrounding wells from the  
11 well we kicked off from had six feet of coal. It appears  
12 that the Raton formation is continuous over that area.

13           When we landed the well about 300 feet from the  
14 well we kicked off from, we landed in the sandstone. The  
15 coal was not present. That will give you an idea of the  
16 variability that we have. A well with six feet of  
17 coal, 400 feet away, there is no coal. What appeared to  
18 be in wells up to half a mile away, we had coal.

19           There had been a point bar that apparently  
20 coexisted with the sea deposition. The coal has never  
21 been deposited there.

22           This is Section BB Prime, Exhibit F. It is a  
23 section across the southern part of the basin shown on  
24 your slide. And once again, it will give you an idea of  
25 the lenticular nature of the coals and how laterally

1 discontinuous they are.

2 Q. Okay. And the final exhibit, Mr. Mark?

3 A. This is a composite map of a seven and a half  
4 USGS topographical map. The ranch boundary is here. This  
5 is Colorado. This is New Mexico. This is the ranch  
6 headquarters. The yellow lines are, once again, the  
7 outcrop of undifferentiated Vermejo and Trinidad  
8 formations that mark the edges of the basin.

9 We have taken the liberty of showing the  
10 Stubblefield gas pool, as well as the Castle Rock gas pool  
11 in blue. All of our producing wells are shown on this map  
12 in black. The black trails here are horizontal wells.

13 What we wish to show on this is first how rugged  
14 the topography is on the ranch. In both pools, there are  
15 canyons that are over 750 feet deep. This makes location  
16 sites -- puts them at a premium.

17 We have also on this map have shown our proposed  
18 infill wells. This was the subject of our earlier  
19 hearing, was the order that allowed us to go to two wells  
20 per 160 acres. They're shown in two colors, first red and  
21 then blue.

22 These wells were sited based on criteria to  
23 produce unique reserves so that their 80 acre drainages  
24 did not overlap with the drainage areas of existing wells.  
25 Mr. Musgrove will describe that process.

1           They're also sited with relation to topography  
2           so that we could build a site and so that we have access  
3           for both roads and infrastructure corridors.

4           They're also sited in accordance with the MEA.  
5           This means that they can be sited -- they're sited for  
6           viewscales and other considerations of the ranch.

7           COMMISSIONER BAILEY: What does MEA stand for?

8           THE WITNESS: Mineral extraction agreement.  
9           That's the agreement that we operate on the ranch with.  
10          And it's an agreement with the landowner. If you have any  
11          detailed questions, I would address them to --

12          COMMISSIONER BAILEY: No, you just made the  
13          reference to MEA, and I didn't know what it meant.

14          THE WITNESS: Oh, yes. That's the initials for  
15          mineral extraction agreement. It spells out how we  
16          operate on the ranch.

17          COMMISSIONER BAILEY: Okay.

18          A. When we asked for a ten foot setback from  
19          section lines in our original hearing, we hadn't counted  
20          up the number of wells that would be within that 660 foot  
21          setback.

22          And what I want to show here is, the wells in  
23          red are wells that would fall between 660 -- less than 660  
24          feet from a section line. You can see there are a large  
25          number of them.

1           This would require us to file an exception  
2 presently because they were less than 660 feet from a  
3 section line. There are 235 wells in this program that  
4 would fall within 660 feet of the section line. As I  
5 said, they're shown in red. That would require us to file  
6 exceptions, 235 exceptions.

7           What we're asking is, that we would be exempted  
8 from that 660 foot rule so that we would not file those  
9 235 exceptions which would burden the state with paperwork  
10 and costs.

11          Q. And Mr. Mark, what you're talking about is  
12 infill wells within the current point existing boundaries  
13 of the pool?

14          A. Yes, that is correct.

15          Q. And if there is future development outside the  
16 pools, that would not count any additional infill wells in  
17 unorthodox locations outside the current boundaries of the  
18 pools?

19          A. Yes.

20          Q. So that would be additional?

21          A. Those would be additional as the field expands  
22 and the infill wells expand with it.

23          Q. Now, with respect to the existing wells, there  
24 are already, looking at your plat, a number of unorthodox  
25 locations for those existing wells, are there not?

1 A. Unorthodox?

2 Q. Unorthodox, location exceptions is how we --

3 A. Yes. We have in the past filed exceptions.

4 Q. And have any of them been denied?

5 A. They have not.

6 Q. Okay. So if the setback requirement that  
7 El Paso is requesting isn't granted, you'll still have to  
8 seek -- you would still want to drill at these unorthodox  
9 locations to access mineral reserves?

10 A. That is correct. Because these have been sited  
11 within the MEA, and they've also been sited to develop  
12 unique reserves so that we're not producing from the  
13 drainage areas of existing wells.

14 So we would have to file for exceptions. But  
15 we're also -- As I said before and I might point out,  
16 locations, because of topography, are at a premium.

17 MR. BRUCE: Mr. Chairman, one thing, Exhibit  
18 4-A, which shows those compensatory royalty agreements  
19 with the federal government, what you see down here in the  
20 red line is the line of the ranch boundary.

21 And as you see on the southwest side where  
22 there's a stair step, the blue line, that's the pool  
23 boundaries. Any time you see 160 acres intersected by the  
24 red line, that's the acreage with the compensatory royalty  
25 agreements with the federal government.

1           COMMISSIONER OLSON: As far as the lie of it all  
2 on this, is that the stair-stepped area?

3           MR. BRUCE: South of that. And as I said, in  
4 those areas, the federal government is receiving its  
5 royalty but does not want additional wells on that acreage  
6 or near that acreage.

7           COMMISSIONER BAILEY: Are there similar  
8 agreements to the east?

9           MR. BRUCE: Not that I know of. I don't  
10 believe there are.

11          MS. BALAKAS: Just along there where there is  
12 the federal land.

13          COMMISSIONER BAILEY: And these are fee lands to  
14 the east?

15          MR. BRUCE: They are -- I think it's fee and --  
16 a mixture of stuff. I think once you get to the -- it  
17 doesn't show it on this plat, Commissioner Bailey, but  
18 once you get to the east, it's more of typical New Mexico  
19 land holdings than federal state fee.

20          MS. BALAKAS: We don't have any other existing  
21 wells that we've drilled outside of our fee that we had to  
22 pool other than Colfax County and the BLM that fall in  
23 quarter sections where we've drilled wells.

24          MR. BRUCE: I didn't go through Exhibit G,  
25 Mr. Chairman, but it's similar to Exhibit H.

1 Q. Mr. Mark, were Exhibits A through H prepared by  
2 you or under your supervision?

3 A. That is correct.

4 Q. And in your opinion, is the granting of  
5 El Paso's applications in the interest of conservation and  
6 the prevention of waste?

7 A. Yes, it is.

8 MR. BRUCE: Mr. Chairman, I move the admission  
9 of El Paso's Exhibits A through H.

10 CHAIRMAN FESMIRE: They'll be so admitted.

11 MR. BRUCE: I have no further questions of the  
12 witness.

13 COMMISSIONER BAILEY: No questions.

14 COMMISSIONER OLSON: No questions.

15 CHAIRMAN FESMIRE: No questions.

16 MR. BRUCE: I would call Mr. Musgrove to the  
17 stand.

18 CHAIRMAN FESMIRE: Mr. Musgrove, you've been  
19 previously sworn?

20 MR. MUSGROVE: Yes, I have.

21 MR. BRUCE: And Mr. Chairman, Mr. Musgrove will  
22 be testifying off of Exhibits 4 through 11 starting with  
23 that package there.

24

25

1                                   HOWARD MUSGROVE,  
2           the witness herein, after first being duly sworn  
3           upon his oath, was examined and testified as follows:

4                                   DIRECT EXAMINATION

5   BY MR. BRUCE:

6           Q.   Mr. Musgrove, would you please state your full  
7   name for the record?

8           A.   Howard Wayne Musgrove.

9           Q.   And where do you reside?

10          A.   Parker, Colorado.

11          Q.   Who do you work for and in what capacity?

12          A.   I work for El Paso Exploration and Production  
13   Company, LP, and I'm a senior reservoir engineer.

14          Q.   Would you please -- you've testified before the  
15   Division but not the Commission, so would you please  
16   summarize your educational and employment background for  
17   the Commissioners?

18          A.   I have a Professional Degree from the Colorado  
19   School of Mines in Geological Engineering, 39 years of  
20   experience mainly in the Rockies and in California.

21          Q.   And what companies have you worked for along the  
22   way?

23          A.   Tank Euro Oil Company. I worked for EOG. I  
24   worked for Costal Oil and Gas, and El Paso.

25          Q.   Does your area of responsibility at El Paso

1 include this portion of northeast New Mexico?

2 A. Yes, it does.

3 Q. And are you familiar with the reservoir matters  
4 related to these applications?

5 A. Yes.

6 MR. BRUCE: Mr. Chairman, I'd tender  
7 Mr. Musgrove as an expert reservoir engineer.

8 CHAIRMAN FESMIRE: Mr. Musgrove, are you a  
9 licensed engineer in any state?

10 THE WITNESS: No, I'm not.

11 CHAIRMAN FESMIRE: He'll be so admitted.

12 Q. Mr. Musgrove, it's getting late, let's be quick,  
13 and I'll let you run through the exhibits. Would you  
14 identify Exhibit 4?

15 A. Exhibit 4 is a locator plat, again of the  
16 Vermejo Park Ranch. It's highlighted in red. I have  
17 highlighted the wells which I'll be talking about in the  
18 Stubblefield Canyon pool. It will be three wells going  
19 east to west. That will be VPRA 17, VPR 29 and E 8. I  
20 will then later discuss five wells in the Castle Rock Park  
21 pool and then another plat.

22 Q. Okay. And what does Exhibit 5 show?

23 A. Exhibit 5 is a similar plat used across the  
24 X axis production. The lower red curve is the daily gas  
25 production. The dark blue is the daily water production.

1 The upper red curve is the monthly gas. And the very  
2 light blue is the gas/water ratio curve.

3 Q. Now -- and perhaps we didn't get into this  
4 before, why did you select these three wells from the  
5 Stubblefield Canyon pool?

6 A. All the wells that I have selected have at least  
7 six years of production history, which gives us more  
8 confidence in the calculated remaining reserves, as well  
9 as the cumulative gas production. And when you add those  
10 two together, you get the estimated ultimate recovery of  
11 the well which we will be using on a later exhibit.

12 Q. Okay. And what is Exhibit 6?

13 A. Exhibit 6 is a file that I put together to show  
14 the methodology of calculating the volumetric calculation  
15 of gas in place on an 80 acre drainage.

16 Gas in place is simply the thickness of the  
17 coal, times the gas content of those coal seams, times the  
18 area of the drainage, times the tonnage factor which  
19 represents the ash content of the coal.

20 I've calculated this for both the Vermejo coals,  
21 as well as the Raton, and added them together to get the  
22 column marked "OGIP" for 80 acres, which is the original  
23 gas in place for each of the 80 acre tracts.

24 Since 93 percent of our producers in the  
25 Stubblefield Canyon pool are commingled Vermejo and Raton

1 production, I then calculated an equivalent feet of coal  
2 so that I can relate the feet of Vermejo coal and their  
3 gas content, which is generally higher than the feet of  
4 coal that we perforate in the Raton and its gas content.

5 I chose 316 standard cubic feet per ton as a  
6 standard gas content. And by taking the ratio of the  
7 Vermejo gas content, dividing it by 316 times the feet of  
8 the Vermejo coal, plus the Raton gas content divided by  
9 316 times the feet of coal in the Raton, we calculate an  
10 equivalent feet of coal based at 316 standard cubic feet  
11 per ton.

12 Q. And what do the results of your calculations  
13 show with respect to drainage and the need for additional  
14 wells?

15 A. On this particular file, what we show is the EUR  
16 and the decline curve analysis for each of the wells in  
17 the Stubblefield Canyon pool. The equivalent drainage  
18 area is simply the estimated ultimate recovery divided by  
19 the product of the gas in place divided by 80, which will  
20 give us gas in place per acre, times .528.

21 The .528 was derived from langmere (phonetic)  
22 absorption isotherm data to determine the recovery factor  
23 from the initial pressures down to a bariment (phonetic)  
24 pressure of both the Vermejo and the Raton coals.

25 I then applied an 88 percent completion

1 efficiency to account for screenouts and various things as  
2 we frac'ed the various stages of the well to determine the  
3 recovery factor that I mentioned.

4 Q. And looking both at Exhibits 6 and 7, what do  
5 these numbers show with respect to the need to drill  
6 additional wells?

7 A. I think that is on the very next one, which is  
8 Exhibit 7. This is a cumulative frequent distribution of  
9 the calculated drainage areas of the Stubblefield Canyon  
10 pool. It can be seen on this plot that the simple  
11 arithmetic means of all our producers, 438, is 78 acres.

12 This plot also shows that 90 percent of all our  
13 wells in the Stubblefield Canyon pool will not drain 160  
14 acres. As a matter of fact, we follow across the 350, 50  
15 percent of the wells are draining less than 66 acres.

16 The technical conclusion from this plot is that  
17 most of our wells in the Stubblefield Canyon, one well  
18 will not effectively drain 160 acres.

19 CHAIRMAN FESMIRE: It's just a coincidence that  
20 it will drain 78 or 80 acres?

21 THE WITNESS: Actually, earlier we calculated  
22 this, that's why we use 80 as standard drainage area.

23 CHAIRMAN FESMIRE: Okay.

24 A. If you go back to the prior slide, like  
25 Exhibit 5, you'll see there are drainage radiuses larger

1 than 100 percent recovery factor, and that's because we're  
2 using 80 acres.

3 Q. Not every well unit will require an infill well?

4 A. That is correct.

5 Q. But a lot of them will?

6 A. Approximately 90 percent of them in the  
7 Stubblefield Canyon pool would require a second well to  
8 completely drain the 160.

9 Q. Okay. Then let's move on to the Castle Rock  
10 pool starting with Exhibit 8.

11 A. Exhibit 8 is the same locator plat of the  
12 Vermejo Park Ranch outlined in red. Located from the  
13 south going north are five sample wells, VPR 1, VPR 14 D  
14 39, VPR D 11, and VPR D 29.

15 Q. And those are reflected on the decline curves on  
16 Exhibit 9?

17 A. That is correct. Exhibit 9 on the five decline  
18 curves, again, these wells were selected because they had  
19 anywhere from seven to nine years of production history.

20 We have recently recompleted the VPR B 01,  
21 adding Raton pay. However, all the rest are still in the  
22 Vermejo only.

23 You'll see the overall shape of the curve of  
24 variability, and the rates that these wells produce that  
25 are also variable. And this reflects the very good

1 conductivity that we have in the northern portion of that  
2 well pool where some of the wells have produced in excess  
3 of 3 million a day.

4 Q. And Exhibit 10 is similar to your prior  
5 Exhibit 6, I believe?

6 A. Yes. It's a parallel file which shows again the  
7 calculation of the original gas in place, as well as the  
8 calculation of the equivalent feet of coal in each well.

9 And by taking the estimated ultimate recovery,  
10 again, dividing by 80 to get us a gas content divided by  
11 80 to get a gas content per acre, and again, multiply by  
12 .528, we get the equivalent drainage area as shown here.

13 Q. Okay. And what are the median rates of  
14 drainage? And let's move on to Exhibit 11.

15 A. Exhibit 11 is another cum frequency plot, this  
16 time of the Castle Rock pool. And as you can see, the  
17 median arithmetic average is 114 acres, approximately.  
18 But if you take a look at the plot a little carefully, 82  
19 percent of the wells will drain less than 160 acres. And  
20 again, 66 percent of these wells will not drain 80 acres.

21 Q. So again, there is a need for additional infill  
22 development in order to adequately produce the reserves  
23 underlying the land?

24 A. That is my technical conclusion.

25 Q. And because that is necessary combined with the

1 topography that Mr. Mark discussed, it is quite difficult  
2 to come up with well locations, is it not?

3 A. It is. What we did between the two of us, we  
4 took an 80 acre drainage radius and moved it around such  
5 that it was not overlapping any of the existing parent  
6 well drainage areas. And that's how we located infill  
7 potential wells.

8 We took into account whether or not they were on  
9 very steep grades and we tried to locate them along  
10 existing borders where there would be little or no impact  
11 on the ranch's surface.

12 Q. And were Exhibits 4 through 11 prepared by you  
13 or under your supervision?

14 A. They were.

15 Q. And in your opinion, is the granting of these  
16 two applications in the interest of conservation and the  
17 prevention of waste?

18 A. Yes.

19 MR. BRUCE: Mr. Chairman, I'd move the admission  
20 of Exhibits 4 through 11.

21 CHAIRMAN FESMIRE: Exhibits 4 through 11 will be  
22 so admitted.

23 MR. BRUCE: No further questions of the witness.

24 CHAIRMAN FESMIRE: Commissioner Bailey?

25 COMMISSIONER BAILEY: What are you doing with

1 all the water?

2 THE WITNESS: We inject it into deeper  
3 formations. We have eight water injection wells located  
4 across the ranch. And they are currently going into the  
5 Glorieta unit, as well as the Dakota and the and the Lower  
6 Entrada.

7 COMMISSIONER BAILEY: And how much carbon  
8 dioxide are you also producing with coalbed methane?

9 THE WITNESS: Currently, we're very low in CO2  
10 production. We've yet to get over half a percent.

11 COMMISSIONER BAILEY: Okay. That's all I have.

12 CHAIRMAN FESMIRE: Commissioner Olson?

13 COMMISSIONER OLSON: How much water are you  
14 generating right now?

15 THE WITNESS: We're injecting around 55,000  
16 barrels of water a day.

17 COMMISSIONER OLSON: That's all I have.

18 CHAIRMAN FESMIRE: What's your average  
19 production rate up there now with the, what, thousand  
20 wells?

21 THE WITNESS: We're at 944 total well bore  
22 count. We have a total of 4 nine barrel wells (phonetic)  
23 and two Raton collaborative wells. The rest are all  
24 coalbed methane producers, and one producing right at  
25 about 82 million a day total. That includes our Colorado

1 production. Average rate is, plus or minus, 95 to 100 APF  
2 a day.

3 CHAIRMAN FESMIRE: Per well?

4 THE WITNESS: Per well.

5 CHAIRMAN FESMIRE: And what is your EUR average  
6 on the coal wells?

7 THE WITNESS: It varies. In the Stubblefield  
8 Canyon area, it's about 580 million standard cubic feet  
9 per well. And in the Castle Rock Park pool, it's about  
10 675 million. The maximum well up there is 7.2 BCM, and  
11 the minimum well in Castle Rock Park is a 10.

12 CHAIRMAN FESMIRE: I have no further questions.  
13 Mr. Bruce?

14 MR. BRUCE: I only have one thing. If I may  
15 approach the Commission, and I'd submit this as an  
16 exhibit. Just as closing, Mr. Chairman, we're requesting  
17 a whole lot of relief from the setback requirements. And  
18 what I've submitted to you is, first of all, an Order  
19 involving the West Pecos Slope-Abo that at least in this  
20 -- that pool, which is not all one owner or one operator,  
21 did grant a 330 foot setback requirement, and I would  
22 contend that with the circumstances of this case, even  
23 additional relief should be granted.

24 The second matter is an application that has not  
25 yet been heard by the Division, but it is an application

1 of Williams Production Company regarding its Rosa unit  
2 where it is asking within the unit area or at least within  
3 the participating area of the unit essentially the same  
4 relief that El Paso is requesting in this case.

5 And I would also note that, again, although this  
6 concerns oil matters, you know, it's current Division  
7 policy that within a water flood unit, you can locate  
8 wells pretty much anywhere within -- no closer than within  
9 330 to the outer boundary of a water flood unit, you can  
10 locate them as long as they're ten feet off the quarter  
11 quarter section line.

12 I just bring that up as there is neither  
13 precedent nor movement toward doing this where it doesn't  
14 affect any exterior interest owners or any mineral owners.  
15 So, I'd just bring these to your attention.

16 CHAIRMAN FESMIRE: Mr. Bruce, why did the  
17 Division decide against this -- the one provision that  
18 you're asking for, the ten foot --

19 MR. BRUCE: I'm not sure. I asked Mr. Warnell  
20 at one point and he said he didn't remember. So I did  
21 ask.

22 CHAIRMAN FESMIRE: Because there's just --  
23 there's one owner, one operator, there's never been any  
24 thought to unitizing this?

25 MR. BRUCE: Yeah, unitizing you usually do when

1 there is multiple ownership, multiple leases, et cetera,  
2 but because they're -- it's -- if there's -- you know,  
3 other than those, that one small Colfax County lease, you  
4 know -- there's not even a lease covering this acreage,  
5 it's just mineral fee acreage.

6 CHAIRMAN FESMIRE: Right. And I don't suppose  
7 the surface owner is going to subdivide any time in the  
8 near future.

9 MR. BRUCE: I don't think he's into selling the  
10 property.

11 CHAIRMAN FESMIRE: Okay. Anything else,  
12 Commissioners?

13 COMMISSIONER BAILEY: No.

14 COMMISSIONER OLSON: No.

15 CHAIRMAN FESMIRE: Do you have anything else to  
16 add, Mr. Bruce?

17 MR. BRUCE: No, sir.

18 CHAIRMAN FESMIRE: Thank you very much. At this  
19 time, we'll go into executive session and figure this one  
20 out.

21 (Note: Executive session took place.)

22 CHAIRMAN FESMIRE: The record should reflect  
23 that the Commission met in executive session and has made  
24 a decision in Case No. 14149, the Application of El Paso  
25 Exploration and Production Company, LP, to Abolish the Van

1       Bremmer Canyon-Vermejo Gas Pool, Expand the Castle Rock Park-  
2       Vermejo Gas Pool, and to Establish Special Rules and  
3       Regulations for the Castle Rock Park-Vermejo Gas Pool,  
4       Colfax County, New Mexico.

5               And in addition, Case No. 14150, a related case,  
6       entitled The Application of El Paso Exploration and  
7       Production Company, LP to Extend the Stubblefield Canyon  
8       Raton-Vermejo Gas Pool and to Establish Special Rules and  
9       Regulations for the Gas Pool, Colfax County, New Mexico.

10               The record should reflect that all three  
11       Commissioners were present during the deliberation, and  
12       the only thing that the Commissioners discussed during the  
13       deliberation was the outcome of those two cases.

14               We have instructed counsel to draft an Order.  
15       He will draft it and circulate it prior to the next  
16       meeting of the Oil Conservation Commission, and the  
17       Commissioners will have the opportunity to review it at  
18       that time.

19               Is there any other business before the  
20       Commission?

21               COMMISSIONER BAILEY: No, that's it.

22               CHAIRMAN FESMIRE: At this time, the Chair would  
23       very happily entertain a motion to adjourn.

24               COMMISSIONER BAILEY: I so move.

25               COMMISSIONER OLSON: Second.

1 CHAIRMAN FESMIRE: All those in favor signify by  
2 saying "aye."

3 COMMISSIONER BAILEY: Aye.

4 COMMISSIONER OLSON: Aye.

5 CHAIRMAN FESMIRE: The record should reflect it  
6 was unanimous.

7 (Whereupon, the proceedings concluded.)

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

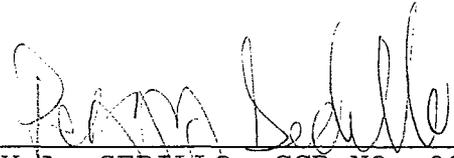
1 STATE OF NEW MEXICO )  
2 COUNTY OF BERNALILLO ) ss.

3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

REPORTER'S CERTIFICATE

I, PEGGY A. SEDILLO, Certified Court Reporter of the firm Paul Baca Professional Court Reporters do hereby certify that the foregoing transcript is a complete and accurate record of said proceedings as the same were recorded by me or under my supervision.

Dated at Albuquerque, New Mexico this 24th day of August, 2009.

  
PEGGY A. SEDILLO, CCR NO. 88  
License Expires 12/31/09