

OIL CONSERVATION DIVISION

CO SEP 23 PM 7:03

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 RICHARDSON OPERATING)
 COMPANY FOR AN UNORTHODOX GAS WELL)
 LOCATION, SAN JUAN COUNTY, NEW MEXICO)
)

CASE NO. 12,478

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

September 7th, 2000

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner on Thursday, September 7th, 2000, at the New Mexico Energy, Minerals and Natural Resources Department, Porter Hall, 2040 South Pacheco, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

I N D E X

September 7th, 2000
Examiner Hearing
CASE NO. 12,478

	PAGE
EXHIBITS	3
APPEARANCES	3
APPLICANT'S WITNESS:	
<u>BRIAN WOOD</u> (Landman)	
Direct Examination by Mr. Carr	4
Examination by Examiner Catanach	15
REPORTER'S CERTIFICATE	17

* * *

E X H I B I T S

Applicant's	Identified	Admitted
Exhibit 1	8	14
Exhibit 2	8	14
Exhibit 3	9	14
Exhibit 4	10	14
Exhibit 5	11	14

* * *

A P P E A R A N C E S

FOR THE DIVISION:

LYN S. HEBERT
 Attorney at Law
 Legal Counsel to the Division
 2040 South Pacheco
 Santa Fe, New Mexico 87505

FOR THE APPLICANT:

CAMPBELL, CARR, BERGE and SHERIDAN, P.A.
 Suite 1 - 110 N. Guadalupe
 P.O. Box 2208
 Santa Fe, New Mexico 87504-2208
 By: WILLIAM F. CARR

* * *

1 WHEREUPON, the following proceedings were had at
2 10:18 a.m.:

3 EXAMINER CATANACH: Call the hearing back to
4 Order, and at this time I'll call Case 12,478, the
5 Application of Richardson Operating Company for an
6 unorthodox gas well location, San Juan County, New Mexico.

7 Call for appearances in this case.

8 MR. CARR: May it please the Examiner, my name is
9 William F. Carr with the Santa Fe law firm Campbell, Carr,
10 Berge and Sheridan. We represent Richardson Operating
11 Company in this matter, and I have one witness.

12 EXAMINER CATANACH: Any additional appearances?

13 Will the witness please stand to be sworn?

14 (Thereupon, the witness was sworn.)

15 BRIAN WOOD,

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

18 DIRECT EXAMINATION

19 BY MR. CARR:

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

21 A. My name is Brian Wood.

22 Q. Mr. Wood, where do you reside?

23 A. Santa Fe, New Mexico.

24 Q. By whom are you employed?

25 A. I'm the president of Permits West, Incorporated.

1 Q. And what is your relationship with Richardson
2 Operating Company in regard to this Application?

3 A. I prepared the Application for permit to drill
4 and have visited the location since the well has been
5 drilled.

6 Q. Have you previously testified before the New
7 Mexico Oil Conservation Division?

8 A. Yes, sir.

9 Q. At the time of that testimony, were your
10 credentials as an expert in petroleum land matters accepted
11 and made a matter of record?

12 A. Yes, sir.

13 Q. Are you familiar with the Application filed in
14 this case?

15 A. Yes, sir.

16 Q. Are you familiar with the status of the lands in
17 the subject area?

18 A. Yes, sir.

19 Q. Are you familiar with the status of the well
20 which is the subject of the Application?

21 A. Yes, sir.

22 MR. CARR: We tender Mr. Wood as an expert
23 witness in petroleum land matters.

24 EXAMINER CATANACH: Mr. Wood is so qualified.

25 Q. (By Mr. Carr) Would you briefly state what

1 Richardson Operating Company seeks with this Application?

2 A. Richardson seeks an order approving an unorthodox
3 gas well location in the Pictured Cliffs formation for
4 their WF Federal 3 Number 2, which is located 2495 feet
5 from the south line and 1290 feet from the west line. That
6 would be Unit L of Section 3, Township 29 North, Range 14
7 West, New Mexico Prime Meridian, San Juan County, New
8 Mexico.

9 This well has been drilled at a standard coal gas
10 location, however Richardson seeks approval of a
11 nonstandard location in the Pictured Cliffs formation. If
12 approved, Richardson will seek authority to commingle the
13 production from the Fruitland Coal and the Pictured Cliffs
14 formations in this wellbore.

15 Q. What is the current status of the well?

16 A. It has been drilled and completed in the
17 Fruitland, however it has not been completed in the
18 Pictured Cliffs.

19 Q. Mr. Wood, what acreage will be dedicated to the
20 well?

21 A. The west half will be dedicated to the Basin-
22 Fruitland Coal Gas Pool, the southwest quarter will be
23 dedicated to the Undesignated Twin Mounds-Fruitland Sand-
24 Pictured Cliffs Pool.

25 Q. And what is the primary objective in the well?

1 A. The Fruitland Coal gas. It was originally
2 intended to complete in both the Fruitland and Pictured
3 Cliffs, but the Fruitland Coal has always been the primary
4 objective in the well.

5 Q. Has Richardson drilled other Fruitland Coal-
6 Pictured Cliffs wells in this area?

7 A. Yes, sir, there is a Pictured Cliffs well in the
8 northwest quarter of this section, which has also been
9 drilled by Richardson and completed.

10 Q. Why was the well drilled at this unorthodox
11 Fruitland Sand-Pictured Cliffs location?

12 A. There's really no geologic reason. The main
13 reason it was staked and drilled there was the, I guess,
14 inadvertent result of a surveyor's mistake. He was
15 focusing on the Fruitland Coal gas requirements and
16 overlooked the Pictured Cliffs requirements. What he was
17 specifically trying to do was to put us as far north in the
18 spacing unit to avoid having to bore under the paved county
19 road for a pipeline connection. It was estimated that the
20 boring would cost approximately \$30,000.

21 Q. Are there special pool rules in effect for the
22 Twin Mounds-Fruitland Sand-Pictured Cliffs Pool?

23 A. No, the statewide rules apply, which would be
24 160-acre spacing, and specifically there are 660-foot
25 setbacks from the outer boundary of the dedicated quarter

1 section. In this particular instance the well itself is
2 390 feet from the northern boundary of the spacing unit
3 instead of the standard 660 feet.

4 Q. Could you identify for Mr. Catanach what has been
5 marked Richardson Operating Company Exhibit Number 1?

6 A. Yes, this is the application for administrative
7 approval of a nonstandard location, filed by Richardson
8 Operating Company.

9 Q. And then Exhibit Number 2 is what?

10 A. That was the reply of the Division to
11 Richardson's application. It was dated July 21st, it
12 denied the application. The four reasons cited for denial
13 was:

14 That Richardson initially intended to drill
15 through the Pictured Cliff formation.

16 The second denial reason is, being standard in
17 one location is not sufficient; the operator is expected to
18 be at a standard location for all zones.

19 Third item, the location does not qualify for
20 administrative approval, based on the historical evolution
21 of Rule 104.

22 And the fourth reason, it's not clear that the
23 notification met all the requirements of Rule 1207.A(2)(a).

24 Q. And we're here today because the well was drilled
25 at a location that was in error?

1 A. That is correct.

2 Q. Let's go to what has been marked as Exhibit
3 Number 3.

4 A. Exhibit Number 3 is an orientation plat showing
5 the ownership interest. It shows the spacing and proration
6 unit. It shows the unorthodox gas well location. It shows
7 Richardson's W.F. Federal 3 Number 2, which is completed in
8 the Pictured Cliff formation and is located 1265 feet from
9 the north line and 1095 feet from the west line of Section
10 3. It shows the Division-designated operator of all
11 offsetting spacing units and wells, and it also shows that
12 they're the same owners in the Fruitland and Pictured
13 Cliffs formation.

14 Q. Is the ownership common between the 160-acre
15 Pictured Cliff spacing unit and the offsetting 160-acre
16 spacing unit to the north comprised of the northwest
17 quarter of the section?

18 A. Yes, sir, it's one federal lease. The ownership
19 is common among both the working interest and royalty
20 interest owners, and there are no overriding royalty
21 owners.

22 Q. And what we've shown here on our Exhibit Number 3
23 is shaded in yellow, the Richardson interest, and also
24 shaded the Dugan interest; is that correct?

25 A. That is correct. I might expand on that. The

1 yellow also happens to constitute one continuous federal
2 lease of over 2500 acres.

3 Q. And so we would have a difference of ownership
4 because of the Dugan acreage being included in the 160-acre
5 Pictured Cliffs unit?

6 A. Yes, sir.

7 Q. But as to the owners in the tract toward whom the
8 well is being moved by virtue of the unorthodox location,
9 the ownership is the same?

10 A. That's correct, we're just moving towards the
11 interior of the lease.

12 Q. Are there any operators or affected parties
13 toward whom the well encroaches, who must be notified of
14 this Application under Oil Conservation Division rules?

15 A. The only encroachment is upon Richardson-operated
16 properties, and there were no affected parties to notify.

17 Q. Let's go to what has been marked as Exhibit
18 Number 4. Could you identify this, please?

19 A. Yes, this was a letter dated July 11th that
20 Richardson sent to Dugan as a courtesy.

21 Q. And he's the only other operator in the area, or
22 the only other person who could be affected?

23 A. That's correct.

24 Q. And what response did you receive?

25 A. They signed a waiver of objection to the

1 nonstandard location.

2 Q. And that's indicated on the exhibit?

3 A. That's correct.

4 Q. Let's go to Exhibit Number 5. Will you identify
5 and review that, please?

6 A. Yes, this is a topographic map that is excerpted
7 from the APD. What it shows on here is a road, which now
8 there is a county road there, but what appears to be a dirt
9 road on the topo map was the pipeline patrol road for El
10 Paso Natural Gas. Immediately south of that you see an
11 inked-in solid line. That represents a paved county road
12 called the Twin Peaks Parkway.

13 The well location itself is just -- The south
14 edge of the well location is 50 feet north of the El Paso
15 Pipeline. The west edge of the well pad is 50 feet east of
16 some power lines, transmission power lines. And also the
17 west edge of the location is the access road that leads
18 north to the 3 Number 1 well.

19 Q. And as you've indicated, the location was placed
20 north of the road and the pipeline to facilitate connecting
21 the well?

22 A. That's correct. Richardson's gathering system
23 runs north into Section 34.

24 Q. And the truth and the simple bottom line on this
25 is, the well could have been drilled at the standard

1 location for all formations?

2 A. That's correct.

3 Q. And that was Richardson's intention, was it not?

4 A. That's correct.

5 Q. You had talked a few minutes ago about how
6 drilling at the standard location would have increased the
7 cost of connecting the well.

8 A. That's correct. Based on our previous boring
9 jobs out there, it costs a minimum of \$30,000 to bore under
10 a paved road. This one would probably have been just a
11 little bit more expensive because we also would have had to
12 have gone under the El Paso pipelines that are immediately
13 north of the county road.

14 Q. Even with that additional cost, the well could
15 have been at a standard location?

16 A. That's correct.

17 Q. And there is really no geological or technical
18 components to this case?

19 A. That's correct.

20 Q. Could Richardson now drill a well at a standard
21 location to the Pictured Cliffs formation on the 160-acre
22 spacing unit consisting of the southeast quarter of this
23 section?

24 A. Richardson cannot economically justify the well.
25 They've got a well in Section 3 in the Pictured Cliffs, and

1 that well only makes 30 to 40 MCF a day. They don't feel
2 that they can justify it at this point.

3 Q. Are there problems with getting an additional
4 surface location approved on this 160-acre tract?

5 A. Yes, BLM has instituted a new policy. I believe
6 it was instituted approximately July 17th.

7 Basically what BLM is saying is that their
8 resource management plan has a ceiling on the maximum
9 number of acres that can be disturbed in the San Juan
10 Basin.

11 That ceiling has now been reached. Therefore,
12 they're mandating to operators that they locate either on
13 or next to existing disturbance.

14 This, you know, fits the requirements to a T. As
15 I've mentioned earlier, we're right next to a power line, a
16 pipeline and a road.

17 Q. Could Richardson directionally drill a well from
18 this surface to a standard bottomhole location in the
19 Pictured Cliffs?

20 A. The Fruitland Coal is the primary objective, and
21 Richardson does not think they could economically justify
22 directionally drilling a PC well, and the reason why is,
23 they usually commingle the wells that are marginal.

24 Q. What are the benefits that will be obtained if
25 you are permitted to commingle the production?

1 A. It would be the most efficient way and economical
2 way to develop the reserves.

3 Q. And if the Application is denied, what would be
4 the impact on Richardson?

5 A. The reserves will not be produced from the PC
6 formation and in essence they would be wasted.

7 Q. What impact would approval of this Application
8 have on the orderly development of the Pictured Cliffs
9 formation in this area?

10 A. There would be no adverse impact. We're 1540 feet
11 between this wellbore and the closest offsetting.

12 Q. In your opinion, will granting the Application
13 and the commingling of the production in these wells, both
14 Pictured Cliffs and Fruitland Coal, be in the best
15 interests of conservation, the prevention of waste, and the
16 protection of correlative rights?

17 A. Yes, sir.

18 Q. Were Exhibits 1 through 5 prepared by you or
19 compiled at your direction?

20 A. Yes, sir.

21 MR. CARR: At this time, Mr. Catanach, we move
22 the admission into evidence of Richardson Exhibits 1
23 through 5.

24 EXAMINER CATANACH: Exhibits 1 through 5 will be
25 admitted as evidence.

EXAMINATION

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

BY EXAMINER CATANACH:

Q. Mr. Wood, I know you can't really speak for Richardson, but in the future will they attempt to locate these wells at a standard location?

A. Attempt, given, like I say, the buffeting we get from BLM.

Q. Has anybody done any reserve estimates on the PC in this quarter section to see how much can be recovered?

A. I'm not aware of any formal estimate.

Q. And I believe you said that there was some offset PC that was producing 30 to 40 MCF a day?

A. Right, in Section 33, in the township to the northwest of us, there's a Richardson well there, and like I say it's making currently 30 to 40 MCF a day.

Q. Is this about what they expect to get in this new well?

A. Approximately.

Q. Do you know if Richardson is the only interest owner in this quarter section -- well, not in this quarter section; Dugan is an interest owner -- but in the quarter section to the north?

A. That is correct, in the quarter section to the north, the northwest of 3, they are the only interest owner.

1 Q. They are the only interest owner?

2 A. Exactly, they have 100 percent.

3 Q. And it's a federal lease, federal royalty?

4 A. Right.

5 Q. Okay. Has Richardson done any studies to
6 determine whether or not this well will adequately drain
7 this quarter-quarter -- this quarter section?

8 A. No, no formal studies.

9 EXAMINER CATANACH: Okay, that's all I have.

10 MR. CARR: Thank you, Mr. Catanach. That
11 concludes our presentation in this matter.

12 EXAMINER CATANACH: Okay, there being nothing
13 further in this case, Case 12,478 will be taken under
14 advisement.

15 (Thereupon, these proceedings were concluded at
16 10:30 a.m.)

17 * * *

18

19

20

21

22

23

24

25

I hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 12478,
heard by me on September 7 192000.
David R. Catanach, Examiner
Of Conservation Division

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 September 11th, 2000.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 14, 2002