

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 McELVAIN OIL AND GAS)
PROPERTIES, INC., FOR COMPULSORY)
POOLING RIO ARriba COUNTY, NEW MEXICO)

CASE NO. 12,636

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

April 5th, 2001

Santa Fe, New Mexico

OIL CONSERVATION DIV.
01 APR 19 AM 1:58

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, April 5th, 2001, 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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April 5th, 2001
Examiner Hearing
CASE NO. 12,636

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* * *

A P P E A R A N C E S

FOR THE APPLICANT:

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

* * *

1 WHEREUPON, the following proceedings were had at
2 10:55 a.m.:

3 EXAMINER CATANACH: At this time we'll call Case
4 12,636, the Application of McElvain Oil and Gas Properties,
5 Inc., for compulsory pooling, Rio Arriba County, New
6 Mexico.

7 Call for appearances in this case.

8 MR. FELDEWERT: Mr. Examiner, Michael Feldewert
9 with the Santa Fe office of Holland and Hart and Campbell
10 and Carr, appearing on behalf of the Applicant, McElvain
11 Oil and Gas Properties, Inc. I have two witnesses who have
12 been previously sworn and qualified.

13 EXAMINER CATANACH: Okay, any additional
14 appearances?

15 Okay.

16 MONA L. BINION,
17 the witness herein, having been previously duly sworn upon
18 her oath, was examined and testified as follows:

19 DIRECT EXAMINATION

20 BY MR. FELDEWERT:

21 Q. Ms. Binion, for the purposes of the record in
22 this case, would you state your name and address, by whom
23 you are employed and in what capacity?

24 A. My name is Mona Binion, I reside at 4824
25 Prospect, Littleton, Colorado, 80123. I'm employed by

1 McElvain Oil and Gas Properties, Inc., in the capacity of
2 land manager.

3 Q. And have you previously been qualified by the
4 Division as an expert in petroleum land matters?

5 A. Yes.

6 Q. And are you familiar with the Application filed
7 in this case?

8 A. Yes.

9 Q. And are you familiar with the status of the lands
10 in the subject area?

11 A. Yes.

12 MR. FELDEWERT: Are the witness's qualifications
13 acceptable?

14 EXAMINER CATANACH: They are.

15 Q. (By Mr. Feldewert) Would you briefly outline for
16 the Examiner what McElvain seeks with this Application?

17 A. McElvain seeks an order pooling all mineral
18 interests from the base of the Pictured Cliffs to the base
19 of the Dakota under the south half of Section 33, Township
20 26 North, Range 2 West, for all formations and pools
21 developed on 320-acre spacing to be dedicated to the
22 McElvain Cougar Com 33-1M well, to be drilled at a standard
23 location in the southwest quarter of Section 3 [sic],
24 intended to test the Basin-Dakota Pool.

25 Q. And this would be the southwest quarter of

1 Section 33; is that right?

2 A. That's correct.

3 Q. Okay. Would you identify and review for the
4 Examiner McElvain Exhibit Number 1?

5 A. Exhibit Number 1 is land plat showing the
6 ownership -- the horizons -- the working interest ownership
7 of the horizons covered under this Application covering the
8 tracts in the south half of Section 33. In addition, it
9 shows the location of the infill well known as the Cougar
10 Com 33-1M.

11 Q. And are you dealing with fee and federal land in
12 the south half of Section 33?

13 A. That's correct.

14 Q. Would you identify for the Examiner and review
15 McElvain Exhibit Number 2?

16 A. Exhibit Number 2 shows tract working interest
17 ownership combined to result in a composite ownership of
18 the horizons that are the subject of this Application in
19 the south half of Section 33.

20 Q. Does this show McElvain as the largest interest
21 owner?

22 A. Yes.

23 Q. How many of the interest owners shown on here are
24 subject to this pooling Application today?

25 A. There are four remaining owners that are still

1 subject to this pooling Application. Since the Application
2 filing, we've had subsequent voluntary commitment of Dugan
3 Production Company, so they're no longer subject to this
4 Application; and Williams Production Company has no current
5 working interest, they were not noticed, and we have not
6 requested they be subject to this pooling Application.

7 Q. Of the remaining parties on here, Johansen
8 Energy, Energen Resources, Mesa Grande and Gavilan Dome
9 Properties, have you been able to reach these interest
10 owners?

11 A. Yes.

12 Q. Okay, why don't you summarize your efforts to
13 obtain voluntary joinder of these interest owners for the
14 Examiner?

15 A. We've initially proposed the well under a letter
16 dated January 11th, 2001. Return receipts have been
17 received from all parties who are subject to this
18 Application. Subsequently if we had phone numbers, we've
19 attempted phone contact. Specifically with Energen we have
20 had verbal communication, and we have had indication from
21 them they will voluntarily commit to a farmout agreement,
22 although we have not received anything in writing from
23 them. The other parties have not responded directly to us
24 in any regard.

25 Q. Is McElvain Exhibit Number 3 your January 11th,

1 2001, letter that you just previously testified about?

2 A. Yes.

3 Q. Okay. It has attached to it an AFE; is that
4 correct?

5 A. That's correct.

6 Q. Okay. In your opinion, have you made a good-
7 faith effort to obtain the voluntary joinder of the
8 interest owners that are subject to this pooling
9 Application?

10 A. Yes.

11 Q. And is McElvain Exhibit Number 4 an affidavit
12 with letters giving notice of this hearing?

13 A. Yes.

14 Q. Again I note in this case that Gavilan Dome
15 Properties has not returned the receipt, and we show them
16 at an address of 1180 Cedarwood Drive, Moraga, California.
17 Have you had in the past success in reaching Gavilan Dome
18 Properties at this address?

19 A. Yes, we have.

20 Q. Would you identify for the record and review for
21 the Examiner McElvain Exhibit Number 4A?

22 A. Exhibit Number 4A is a reproduction of the return
23 receipt cards proving the receipt of the original January
24 11th proposal to the parties listed therein. On page 1,
25 Gavilan Dome Properties return receipt card, article number

1 7000 0520 0022 9542 6044, is shown having been received on
2 January 18th, 2001.

3 Q. Is that the same address that we used for
4 purposes of notifying them of this hearing?

5 A. Yes.

6 Q. In the past, have you experienced either
7 difficulty or success in reaching Gavilan Dome Properties
8 at this address?

9 A. We have had varying responses. There have been
10 times where the entire package has been returned by the
11 Post Office not received or accepted. We have had
12 occasions where the package has not been returned, but
13 neither has the green card return receipt been received,
14 and there have been times such as this one where the green
15 card has been received and the package has been accepted
16 and picked up.

17 Q. Were Exhibits 1 through 4A prepared by you or
18 compiled under your direction and supervision?

19 A. Yes.

20 MR. FELDEWERT: Mr. Examiner, I would move the
21 admission into evidence of McElvain Exhibits 1 through 4A.

22 EXAMINER CATANACH: Exhibits 1 through 4A will be
23 admitted as evidence.

24 MR. FELDEWERT: That concludes my examination of
25 this witness.

1 EXAMINER CATANACH: I have no questions of this
2 witness.

3 JOHN D. STEUBLE,
4 the witness herein, having been previously duly sworn upon
5 his oath, was examined and testified as follows:

6 DIRECT EXAMINATION

7 BY MR. FELDEWERT:

8 Q. Mr. Steuble, for purposes of the record in this
9 case, would you state your name, your address, by whom you
10 are employed and in what capacity?

11 A. John Steuble, 6522 South Hoyt Way, Littleton,
12 Colorado. I'm employed by McElvain Oil and Gas Properties,
13 Incorporated, as an engineering manager.

14 Q. And have you previously testified before this
15 Division and had your credentials as a petroleum engineer
16 accepted and made a matter of record?

17 A. Yes.

18 Q. Are you familiar with the Application filed in
19 this case?

20 A. Yes, I am.

21 Q. And have you studied the area that's the subject
22 of this Application, and are you prepared to share the
23 results of that examination with the Examiner?

24 A. Yes.

25 MR. FELDEWERT: Are the witness's qualifications

1 acceptable?

2 EXAMINER CATANACH: They are.

3 Q. (By Mr. Feldewert) Mr. Steuble, what is the
4 primary target of McElvain's proposed well?

5 A. The Basin-Dakota.

6 Q. Has McElvain drilled other Dakota wells in and
7 around the area that is the subject of this Application?

8 A. Yes, we have.

9 Q. Are you prepared to make a recommendation to the
10 Examiner as to the risk penalty that should be assessed
11 against nonconsenting interest owners?

12 A. Yes.

13 Q. And what is that?

14 A. Two hundred percent.

15 Q. Would you identify for the Examiner the exhibits
16 and the basis for your recommendation?

17 A. Exhibit Number 5 is a nine-section plat showing
18 the proposed well and the existing Dakota production in the
19 immediate area.

20 As you'll see, we have a noncommercial Dakota
21 test to the south of the proposed location, we have two
22 producing Dakota wells within the same section and a new
23 Dakota completion in the southeast of Section 29.

24 The wells in Section 33, the one in the northwest
25 is approximately 100 MCF a day, and the one in the

1 southeast is approximately 200 MCF a day.

2 Exhibit Number 6 is an extension of the area
3 showing the sparseness of the wells drilled within the area
4 around the proposed well. Again, a lot of these are
5 abandoned or have been tested and been recompleted in other
6 zones.

7 Q. Is there a potential that you could recomplete
8 this well in the Mesaverde?

9 A. Yes, there is.

10 Q. How does this well compare, to your knowledge,
11 with the Mesaverde production in this area?

12 A. The nearest Mesaverde that we have attempted is
13 the well to the east in the same section. Currently our
14 efforts have yielded a lot of water and approximately 130,
15 140 MCF a day. To the west there are no Mesaverde wells,
16 so it is an extension of the Blanco-Mesaverde field.

17 Q. So do you believe there's a chance you could
18 drill a well at the proposed location that would not be a
19 commercial success?

20 A. Yes.

21 Q. I'd like you to turn to McElvain Exhibit Number 3
22 and review the completed and dryhole totals on the AFE as
23 attached to that exhibit.

24 A. Dryhole cost is \$436,940, completed well cost is
25 \$996,640, for a completed Mesaverde-Dakota dual.

1 Q. And has McElvain drilled other wells, Dakota
2 wells, in the area?

3 A. Yes, sir.

4 Q. Are these costs in line with what's been charged
5 by McElvain in the area for similar wells?

6 A. Yes.

7 Q. Have you made an estimate of the overhead and
8 administrative costs while drilling this well and also
9 while producing it, if you are successful?

10 A. Yes.

11 Q. And what are those estimates?

12 A. \$6000 per month for drilling and \$600 per month
13 for producing.

14 Q. And is there a joint operating agreement that has
15 been signed by the interest owners who have agreed to
16 participate in this project?

17 A. Yes.

18 Q. Are these overhead rates consistent with the
19 rates under the JOA for this well as adjusted under the
20 COPAS guidelines?

21 A. Yes, they are.

22 Q. Does McElvain request that the overhead figures
23 approved by the Division be subject to adjustment in
24 accordance with the COPAS guidelines that are applicable to
25 the other interest owners in this well?

1 A. Yes, we do.

2 Q. Does McElvain seek to be designated the
3 operator --

4 A. Yes, we do.

5 Q. -- of the proposed well?

6 And in your opinion will the granting of this
7 Application be in the best interests of conservation, the
8 prevention of waste and the protection of correlative
9 rights?

10 A. Yes.

11 Q. Were McElvain Exhibits 5 and 6 prepared by you or
12 compiled under your direction and supervision?

13 A. Yes, they were.

14 MR. FELDEWERT: Mr. Examiner, I would move the
15 admission into evidence of McElvain Exhibits Numbers 5 and
16 6.

17 EXAMINER CATANACH: Exhibits 5 and 6 will be
18 admitted as evidence.

19 MR. FELDEWERT: And I have no other questions of
20 this witness.

21 EXAMINATION

22 BY EXAMINER CATANACH:

23 Q. Mr. Steuble, the well that you're proposing to
24 drill, that will be the second well on the proration unit?

25 A. Yes, it will.

1 Q. Do you recall if the interest was pooled for the
2 first well?

3 A. I believe it was, yes, sir.

4 Q. So this would be an infill well under a different
5 pooling order?

6 MR. FELDEWERT: I would believe -- I'm not sure.

7 EXAMINER CATANACH: Can you research that, Mr.
8 Feldewert --

9 MR. FELDEWERT: Yes, I will do that.

10 EXAMINER CATANACH: -- and provide that
11 information to me?

12 Q. (By Examiner Catanach) And the first well is
13 making 205 MCF per day?

14 A. That was its initial potential. Right now it's
15 making about 200. Like I stated, we are in the process of
16 trying to recomplete that well in the Mesaverde. The
17 Dakota presently is under a bridge plug, but when we shut
18 it off it was about 200 a day.

19 Q. Is that considered economic or noneconomic?

20 A. We would consider it economic, but it's only
21 economic if we can complete something uphole with it. I
22 mean, to drill a Dakota well is probably not real economic.
23 It would probably meet some criteria, but probably not our
24 internal criteria.

25 Q. And the well in the northwest quarter up there,

1 is that currently a Dakota well?

2 A. That is currently a Dakota well.

3 Q. And that's producing 113 a day?

4 A. That was its initial potential. Currently it's
5 about 90 a day.

6 Q. Ninety a day.

7 A. Yeah.

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

10 MR. FELDEWERT: Mr. Examiner, I understand from
11 further consultation that there was a prior pooling order
12 for this south half covering all the way down to the
13 Dakota. I will get you the order numbers as soon as I can.

14 EXAMINER CATANACH: Okay. Anything further, Mr.
15 Feldewert?

16 MR. FELDEWERT: No, sir.

17 EXAMINER CATANACH: Okay, there being nothing
18 further, Case 12,636 will be taken under advisement.

19 (Thereupon, these proceedings were concluded at
20 11:09 a.m.)

21 * * *

22
23 I do hereby certify that the foregoing is
24 a complete record of the proceedings in
the Examiner hearing of Case No. 12636
heard by me on April 5 192001
25 David R. Catanach, Examiner,
Oil 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 April 12th, 2001.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 2002