

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

IN THE MATTER OF THE HEARING CALLED BY)
THE OIL CONSERVATION DIVISION FOR THE)
PURPOSE OF CONSIDERING:) CASE NO. 12,796
)
APPLICATION OF SAN JUAN RESOURCES, INC.,)
FOR COMPULSORY POOLING AND DOWNHOLE)
COMMINGLING, SAN JUAN COUNTY, NEW MEXICO)
_____)

ORIGINAL
FEB - 7 AM 8:07

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

February 21st, 2002

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, February 21st, 2002, 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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I N D E X

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 Examiner Hearing
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A P P E A R A N C E S

FOR THE DIVISION:

DAVID K. BROOKS
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Assistant General Counsel
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FOR THE APPLICANT:

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By: W. THOMAS KELLAHIN

FOR FRANK KING:

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P.O. Box 1056
Santa Fe, New Mexico 87504

* * *

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

3 EXAMINER STOGNER: I'll call Case Number 12,796,
4 which is the Application of San Juan Resources, Inc., for
5 compulsory pooling and downhole commingling, San Juan
6 County, New Mexico. Call for appearances.

7 MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin of
8 Santa Fe, New Mexico, appearing on behalf of the Applicant.

9 MR. BRUCE: Mr. Examiner, James Bruce of Santa
10 Fe, representing Frank King. I have no witnesses.

11 EXAMINER STOGNER: Any other appearances?

12 Mr. Kellahin, do you have any witnesses to swear
13 in today?

14 MR. KELLAHIN: No, sir.

15 Mr. Examiner, we're seeking permission to submit
16 this pooling Application by affidavit. Exhibit Number 1 is
17 an affidavit of Jerry McHugh. He's the owner and president
18 of San Juan Resources.

19 If you'll turn to Exhibit Number 2, these are the
20 parties which we're originally seeking to pool. They
21 include Mr. King. The other gentleman, Mr. Mammel, has
22 executed a lease, and he is to be deleted from the pooling
23 Application. Mr. Bruce represents Mr. King.

24 If you'll turn to Exhibit Number 3, I will show
25 you where the well is located. Exhibit Number 3 shows the

1 south half of Section 19. The Applicant is seeking to
2 downhole commingle the Mesaverde and the Dakota. Mr.
3 King's interest is confined to the Mesaverde. He has a
4 5.63-percent interest.

5 Mr. Bruce and I have agreed that by stipulation
6 the penalty to be assessed should be reduced cost plus 150
7 percent.

8 In addition, because the well is to be
9 commingled, I have provided Mr. Bruce with an allocation
10 methodology, which is included in the exhibit package,
11 where we will allocate the cost between the two zones. So
12 his client is now aware of the proposed allocation of
13 costs, based upon the AFE.

14 In addition, we have agreed to actually test each
15 of the two zones to come up with a production allocation,
16 and we will provide Mr. King with a payout statement,
17 either monthly or quarterly. I still have to find out from
18 Mr. McHugh how often they will report on the status of
19 payout, but we will do so to Mr. King in a timely fashion.

20 The affidavit also reflects that the spacing unit
21 is slightly irregular. You'll notice that there is 327.7
22 acres. That's due to some lots in Section 19. They're
23 described on page 2 of the affidavit, where Mr. McHugh
24 describes the actual acreage. He narrates his
25 conversations and efforts with Mr. King to get a voluntary

1 agreement.

2 He also proposes that the overhead rates to be
3 assigned to the well would be \$4906 a month and a producing
4 well rate would be \$670 a month. That's shown on page 4 of
5 the affidavit.

6 And then he provides the rest of the information
7 required under the rule for the submittal of a pooling
8 application by affidavit.

9 Exhibit Number 4 attached to the affidavit shows
10 the application for permit to drill. On page 2 he has his
11 Form C-102, he shows the well location. For purposes of
12 notification to Mr. King, we have advised him of the
13 commingling. Mr. McHugh has not yet filed his Application
14 to commingle. He will do that in an appropriate fashion.

15 Exhibit Number 5 is a summary of Mr. McHugh's
16 contacts with Mr. King, followed by all the correspondence
17 he's had with Mr. King from Exhibit 6 through Exhibit 10.

18 When you get to Exhibit 11, this is the cost
19 allocation methodology that Mr. McHugh proposes to use and
20 that I have supplied to Mr. Bruce, and it's based upon the
21 estimated AFE costs.

22 The last two attachments are lines of cross-
23 section for the Dakota and Mesaverde, which give you a
24 reference as to the status of development in the area.
25 That issue has been removed by our stipulation as to the

1 cost factor for risk in cost plus 150 percent.

2 With your permission, Mr. Examiner, we would move
3 the introduction of Exhibits 1 through 13.

4 EXAMINER STOGNER: Exhibits 1 through 13 will be
5 admitted into evidence.

6 MR. KELLAHIN: That concludes our submittal of
7 evidence for your consideration, Mr. Examiner.

8 MR. BRUCE: Mr. Examiner, I have nothing further
9 to add. I agree with the proposal presented by Mr.
10 Kellahin.

11 EXAMINER STOGNER: I have a question, if I may.
12 On page 4 of the affidavit --

13 MR. KELLAHIN: Let me find that, sir.

14 EXAMINER STOGNER: -- paragraph (8), subsection
15 (c) --

16 MR. KELLAHIN: Yes.

17 EXAMINER STOGNER: -- you reference a risk
18 penalty factor of 200 percent.

19 MR. KELLAHIN: That's my fault, it's a typo on my
20 part, if you'll change that for me.

21 EXAMINER STOGNER: So that should be 150.

22 MR. KELLAHIN: Page 5 reflects the 150 percent.

23 EXAMINER STOGNER: Okay.

24 MR. BROOKS: At this time you're seeking only a
25 compulsory pooling and not the downhole commingling

1 authority; is that correct?

2 MR. KELLAHIN: That's true, we'll file that
3 separately with the district.

4 MR. BROOKS: Now, the cost allocation, that would
5 be that allocation that you were talking about, Exhibit
6 Number 11, that's relevant to the downhole commingling,
7 correct?

8 MR. KELLAHIN: It will be relevant to the cost
9 share that Mr. King will bear. The representation about
10 production allocation is that each zone would be tested
11 separately.

12 MR. BROOKS: Okay. Have you and Mr. Bruce agreed
13 on this allocation expenditure?

14 MR. KELLAHIN: I have submitted to him some time
15 ago, and I have not received any objection.

16 MR. BRUCE: No, we agree to it, Mr. Examiner.

17 MR. BROOKS: Okay, so it is agreed to?

18 MR. BRUCE: Yes.

19 MR. BROOKS: Thank you.

20 EXAMINER STOGNER: Okay, this is an infill well
21 to both zones; is that correct? And I'm referring to
22 Exhibit Number 3. I believe I see a producing red dot over
23 in the southwest quarter of Section 19.

24 MR. KELLAHIN: I believe it's an infill well.

25 EXAMINER STOGNER: Do you know if that production

1 is shared or how that's shared between the interest owners
2 today, Mr. King and the operator in the original well?

3 MR. KELLAHIN: I have a spreadsheet that I can
4 provide you after the hearing that shows that. I don't
5 have it right here in front of me.

6 EXAMINER STOGNER: I don't think that will be
7 necessary, I was just -- But there is an agreement, and the
8 production is there; is that correct?

9 MR. KELLAHIN: There is no agreement about his
10 lease interest in this well.

11 EXAMINER STOGNER: In this well, but in the old
12 well?

13 MR. KELLAHIN: I'll have to find out. I'm not
14 sure how that was done.

15 MR. BRUCE: Mr. Examiner, I think that is a
16 Dakota well, and Mr. King does not have Dakota mineral
17 rights.

18 MR. KELLAHIN: My Exhibit Number 3 shows that's a
19 Dakota well, so he would not share. This would be the --
20 His interest is confined to the Mesaverde.

21 EXAMINER STOGNER: Okay. I don't have anything
22 else. Mr. Brooks?

23 MR. BROOKS: I don't either.

24 EXAMINER STOGNER: Anything further in Case
25 Number 12,796?

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MR. KELLAHIN: No, sir.

EXAMINER STOGNER: Then this matter will be taken under advisement.

(Thereupon, these proceedings were concluded at 9:02 a.m.)

* * *

I do hereby certify that the foregoing is a true and correct copy of the transcript of the hearing held on the above captioned matter before the Board of Oil Conservation on Feb 21, 2002. 12796
David K. Smith
Oil Conservation Division

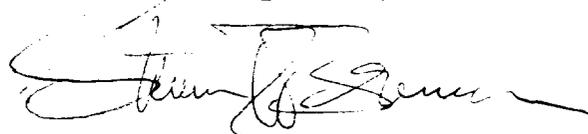
CERTIFICATE OF REPORTER

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 February 27th, 2002.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 2002