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STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION
CASE 10,609 and 10,610

EXAMINER HEARING

IN THE MATTER OF:

Application of SG Interests I, Ltd., for
compulsory pooling, San Juan County, New Mexico

Application of SG Interests I, Ltd., for
compulsory pooling and an unorthodox coal gas well
location, San Juan County, New Mexico

TRANSCRIPT OF PROCEEDINGS

RECEIVED
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OIL CONSERVATION DIVISION

BEFORE: MICHAEL E. STOGNER, EXAMINER

STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO
November 19th, 1992

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A P P E A R A N C E S

FOR THE DIVISION:

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1 WHEREUPON, the following proceedings were had
2 at 11:10 a.m.:

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7 EXAMINER STOGNER: Call Cases Numbers 10,609
8 and 10,610, which the general counsel for the Applicant
9 has requested that these be consolidated for purposes
10 of testimony.

11 MR. STOVALL: This Case 10,609 is the
12 Application of SG Interests I, Ltd., for compulsory
13 pooling, San Juan County, New Mexico.

14 10,610 is the Application of SG I Interests,
15 Ltd., for compulsory pooling and an unorthodox coal gas
16 well location, San Juan County, New Mexico.

17 EXAMINER STOGNER: Call for appearances.

18 MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin
19 of the Santa Fe law firm of Kellahin & Kellahin,
20 appearing in association with Tommy Roberts, an
21 attorney in Farmington. We represent the Applicant in
22 these two consolidated cases, and I have one witness to
23 be sworn.

24 EXAMINER STOGNER: Any other appearances?

25 There being none, since the room is empty,

1 would the witness please stand to be sworn?

2 (Thereupon, the witness was sworn.)

3 EXAMINER STOGNER: Mr. Kellahin?

4 MR. KELLAHIN: Mr. Examiner, we have asked
5 the two cases be consolidated because we are pooling
6 the same interest owner, Frederick L. Lilly, who has
7 the same interest in each of the two spacing units. He
8 has a .625 percent in the spacing unit for each of the
9 two cases.

10 Mr. Fullerton is my only witness. Mr.
11 Fullerton is a petroleum landman, and despite his
12 efforts for the last four or five months, has been
13 unable to get Mr. Lilly to participate.

14 Because these are coal gas wells, SG has
15 commenced the drilling of the two wells. They are
16 drilled, but that is all. They are drilled and
17 awaiting completion.

18 We have -- desire to request, Mr. Examiner,
19 the standard risk factor, the 156 percent that the
20 Commission normally utilizes for the coal gas wells.

21 We have elected not to bring Mr. Mickey over
22 here today to try to persuade you to impose a higher
23 percent penalty factor, and we'll simply go forward
24 with Mr. Fullerton's testimony at this point.

25 EXAMINER STOGNER: Mr. Fullerton?

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JIM FULLERTON,

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

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q. Mr. Fullerton, for the record would you please state your name and occupation?

A. Jim Fullerton, I'm a petroleum landman, Denver, Colorado.

Q. Mr. Fullerton, on prior occasions have you testified as an expert petroleum landman before the Division?

A. Yes, I have.

Q. And have you and others working under your direct supervision and control, determined the identify of the parties that are entitled to share in production from each of these two wells?

A. Yes, I have.

Q. Have you made an effort over the last several months to consolidate all working-interest owners on a voluntary basis for the drilling of these wells?

A. Yes, I have.

Q. And do you now have one individual remaining in each of the two cases that, despite your efforts, has not agreed to participate on a voluntary basis?

1 A. That's correct, just one.

2 MR. KELLAHIN: We tender Mr. Fullerton as an
3 expert petroleum landman.

4 EXAMINER STOGNER: Mr. Fullerton is so
5 qualified.

6 Q. (By Mr. Kellahin) Mr. Fullerton, let's go
7 through the package of exhibits, starting with Exhibit
8 Number 1. Would you identify and describe that plat?

9 A. Exhibit Number 1 is basically a plat
10 outlining the drilling and spacing unit for the
11 Archunde 29-10-24 Number 1 well, north half of Section
12 24, 29 North, 10 West.

13 Also outlined are the various tracts which
14 comprise the unit, different ownerships, and so forth.

15 Also, as you'll see, the well location is
16 depicted on the plat.

17 Q. Let's turn now to Exhibit Number 2. Is the
18 information shown on this compilation, Exhibit Number
19 2, information that you have obtained and verified as
20 to its accuracy?

21 A. Yes, that's correct.

22 Q. And what have you concluded about the
23 working-interest percentages within this spacing unit?

24 A. The working-interest percentages outlined on
25 this exhibit indicate that essentially Frederick L.

1 Lilly's interest, which is .625 percent, is the only
2 interest that has not committed to the unit at this
3 time.

4 Q. Have you been successful in either
5 consolidating by assignment purchase or farmout or
6 joinder in the well all other working-interest owners
7 with the exception of Mr. Lilly?

8 A. Yes, we have. There were a number of other
9 parties who -- that interest is now reflected under SG
10 Interests I, Ltd., as we purchased and/or farmed out
11 interests from three or four other parties who had
12 similar interests to Mr. Lilly's in this spacing unit.

13 Q. Have you offered to Mr. Lilly the same terms,
14 conditions and opportunities that you offered to others
15 for participating in the well?

16 A. Yes, we have. He got -- His offer was
17 identical to the others that were accepted by the other
18 parties.

19 Q. Let me ask you to turn to Exhibit Number 3.
20 Identify and describe Exhibit Number 3.

21 A. Exhibit Number 3 is the -- is a copy of the
22 Authority for Expenditure for the Archunde 29-10-24
23 Number 1 well that was presented to Mr. Lilly, among
24 other parties in this unit, showing the estimated costs
25 of drilling and completing the proposed well.

1 Q. Have you determined whether or not the AFE
2 represented on Exhibit Number 3 is still current and
3 accurate for this well?

4 A. We have gone back and reviewed the costs to
5 date that have taken place on this particular well, and
6 we have found that we're within five percent range,
7 either way, as far as the drilling costs.

8 Obviously, the well is not completed, so the
9 completion costs have not been taken into
10 consideration, only the drilling costs, which appear to
11 be within the same range, very close range to the AFE
12 outline.

13 Q. Do you recommend to the Examiner that this
14 AFE be utilized in the pooling order insofar as it
15 affects Mr. Lilly's interest?

16 A. Yes, we do.

17 Q. Turn now to Exhibit Number 4, Mr. Fullerton,
18 and would you identify and describe that plat?

19 A. Exhibit Number 4, again, is a plat depicting
20 the drilling and spacing unit for the Trujillo 29-10-21
21 Number 2 well, located in the south half of Section 21,
22 Township 29 North, Range 10 West.

23 Also again in the gray color we have outlined
24 the various tracts depicting different ownerships, and
25 again the specific location of the well.

1 Q. Have you calculated to determine what Mr.
2 Lilly's percentage interest is within this 320-acre
3 spacing unit for the Trujillo well?

4 A. Yes, we have.

5 Q. Is that reflected on Exhibit Number 5?

6 A. Yes, it is, .625 percent.

7 Q. Let's turn now to Exhibit Number 6. Would
8 you identify and describe Exhibit Number 6?

9 A. Exhibit Number 6 is a copy of the Authority
10 for Expenditure that was prepared in June for the
11 Trujillo 29-10-21 Number 2 well. This AFE was
12 submitted to all the parties who owned an interest in
13 the spacing unit for the well.

14 Q. Have you received any objection to this AFE
15 from any of the parties?

16 A. No, we have not.

17 Q. And have you determined for yourself that the
18 estimated expenditure for this well is still accurate
19 and current?

20 A. Yes, based on drilling costs to date, which -
21 - the costs incurred should cover the entire drilling
22 at cost.

23 The accuracy of this AFE is within, again,
24 five percent either way.

25 Q. And do you recommend to the Examiner that he

1 utilize Exhibit 6 in assessing the proportionate share
2 of costs attributable to Mr. Lilly for the drilling of
3 the Trujillo well?

4 A. Yes, we do.

5 Q. All right. Let's turn now to your specific
6 efforts to contact and persuade Mr. Lilly to
7 participate.

8 Describe for us approximately when you first
9 found him and had any conversations with him.

10 A. Originally, June of 1992, we were supplied
11 some information from Amoco -- these wells were drilled
12 under farmouts from Amoco Production Company --
13 regarding Mr. Lilly's location.

14 We were able to get an address for him, and
15 on June 25th, along with the other parties, sent out
16 letters to him regarding our plans to drill both the
17 Trujillo well and the Archunde well.

18 Q. And that is what is shown as Exhibit Number
19 7?

20 A. Yes.

21 Q. It was your first written contact to him, and
22 it proposed both of the two wells that are now the
23 subject of these two pooling cases?

24 A. That's correct.

25 Q. All right. What, if any, response did you

1 receive from Mr. Lilly?

2 A. We received no response from Mr. Lilly. We
3 received response from some of the other parties, and
4 so -- But Mr. Lilly was -- did not respond to the June
5 25th letter, whatsoever.

6 Q. What then did you do, Mr. Fullerton,
7 concerning Mr. Lilly?

8 A. In between the June 25th letter and our next
9 correspondence in July, I finally did talk to him on
10 the telephone and advised him that if he had -- asked
11 him if he had reviewed our correspondence of June 25th,
12 and he indicated that he had, but he didn't really have
13 time to bother with it, it was too small an interest,
14 and that he'd get around to it whenever he could,
15 essentially.

16 Q. Okay, what then did you do?

17 A. On July 29th, I sent him a farmout agreement,
18 the reason for this being in our telephone conversation
19 he had indicated that he would possibly do the same
20 thing as one of the other parties who had already
21 agreed to farm out in both of these wells.

22 So I -- Under that indication from him, July
23 29th, I did send him additional correspondence with
24 farmout agreements and terms that were agreed to by the
25 other parties, and requested that he again consider

1 this farmout if he decided he did not want to
2 participate in the well.

3 Q. And what if any response did you receive from
4 Mr. Lilly?

5 A. None whatsoever to this letter, and I did
6 attempt to contact him by telephone numerous times,
7 left messages, and never received a return phone call.

8 Q. All right. What then did you do, Mr.
9 Fullerton?

10 A. Then again on September 29th, I decided that
11 he apparently did not like the idea of a farmout, so I
12 decided on one last alternative, and that would be for
13 him to sell his interest to SG under an assignment. So
14 on September 29th, I did send him an assignment and
15 indicated our terms that we would agree to purchase his
16 interest in both these wells.

17 Q. After that, did you receive any response from
18 him, either verbal or written?

19 A. No response whatsoever.

20 Q. Let me direct your attention to Exhibit
21 Number 10, to Mr. Roberts' notification of hearing to
22 Mr. Lilly. Did you receive any written communication
23 or oral communication from Mr. Lilly in response to Mr.
24 Roberts' letter of October 27th?

25 A. No, we did not.

1 Q. Exhibit Number 11 applies to the well in the
2 north half of 24. Again, did you receive any response
3 from Mr. Lilly to Mr. Roberts' letter concerning that
4 well?

5 A. No, we did not.

6 Q. Do you have a recommendation to the Examiner
7 for an overhead rate to apply to Mr. Lilly's interest
8 for the drilling and producing rates on a monthly basis
9 for this well?

10 A. We have -- Yes, we do. We have rates that we
11 have used on other wells in this area that have
12 generally been based on Amoco-approved rates for
13 drilling and producing wells, well rates, and have
14 determined that \$4000 for drilling and \$450 for
15 producing well rates are the rates that we would tender
16 in the operating agreement to Mr. Lilly.

17 Q. Do you recommend to the Examiner that he
18 utilize those rates in the pooling order that applies
19 in each of these two cases?

20 A. Yes we do.

21 Q. And those rates are comparable to the ones
22 that Amoco is charging and to what SG proposes to
23 charge interest owners under operating agreements that
24 are already signed by the parties?

25 A. Yes, other parties have agreed to those

1 rates.

2 MR. KELLAHIN: That concludes my examination
3 of Mr. Fullerton.

4 I have not yet received from Mr. Roberts a
5 certificate of mailing that confirms the return receipt
6 cards for the two letters. I will obtain that from Mr.
7 Roberts.

8 If you will allow me to do so, subject to the
9 certificate of mailing being permitted to be introduced
10 later, we would now move the introduction of Exhibits 1
11 through 11.

12 EXAMINER STOGNER: Exhibits 1 through 11 will
13 be admitted into evidence.

14 And on top of that, these two particular
15 cases were also a victim of the misadvertisement in the
16 Farmington paper that affected so many. These two
17 cases are going to be readvertised for the December 3rd
18 hearing, so I think you'll have ample time.

19 MR. KELLAHIN: Okay.

20 EXAMINER STOGNER: Do you have any questions
21 of this witness, Mr. Stovall?

22 MR. STOVALL: (Shakes head)

23 EXAMINER STOGNER: Mr. Kellahin, there is one
24 item here in which -- your witness didn't light upon,
25 and it doesn't appear that perhaps Mr. Fullerton

1 doesn't know, the unorthodox location and the reasons
2 why on that.

3 EXAMINATION

4 BY EXAMINER STOGNER:

5 Q. Do you have any idea, Mr. Fullerton?

6 A. I was -- When Mr. Stovall brought that up, I
7 was unaware of any unorthodox location. I'm not sure
8 it was advertised that way, was it, in this particular
9 case?

10 EXAMINER STOGNER: It wasn't requested, but -
11 - in my review -- and he was site-specific in his
12 application, and the well is 645 feet from the west
13 line, which does make it unorthodox, pursuant to the
14 rules and regulations of the Basin Fruitland Coal Gas
15 Pool.

16 Since we do have until the December 3rd
17 deadline, I don't see why we couldn't take some sort of
18 an affidavit, Mr. Stovall, do you? I assume that it's
19 due to topography.

20 MR. KELLAHIN: I'm happy to try to determine
21 that.

22 MR. STOVALL: Yeah, I think we need to try to
23 find out what it is and why and --

24 EXAMINER STOGNER: I would accept the minimal
25 information that I would accept for an administrative

1 application, Mr. Kellahin, with, of course, the
2 exception of notification.

3 Or, if the well can be moved to a standard
4 location, we can always amend that.

5 But you have until the 3rd.

6 MR. KELLAHIN: All right, sir. We'll take
7 care of that.

8 EXAMINER STOGNER: Anything else, Mr.
9 Stovall, on this?

10 MR. STOVALL: I don't think so.

11 EXAMINER STOGNER: With that, that takes care
12 of everything for Case 10,609 and 10,610. Both of
13 these cases will be continued to the examiner hearing
14 scheduled for December 3rd, which will give you ample
15 time, Mr. Kellahin.

16 (Thereupon, these proceedings were concluded
17 at 11:25 a.m.)

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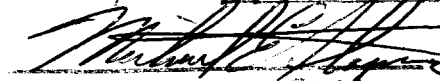
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I do hereby certify that the foregoing is
a complete and correct transcript of the proceedings in
the Examiner hearing of Cases Nos. 10609 and 10610
heard by me on 19 Nov 1992.


Examiner
Oil Conservation Division

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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 November 25th, 1992.

STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 1994