

1 NEW MEXICO OIL CONSERVATION DIVISION

2 STATE LAND OFFICE BUILDING

3 STATE OF NEW MEXICO

4 CASE NO. 10639

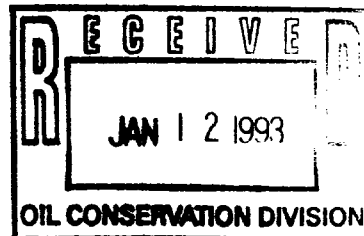
5
6 IN THE MATTER OF:7
8 The Application of American Hunter
9 Exploration, for Authorization to Flare
10 Gas as an Exception to Rule 306 and for
the Establishment of Special Allowable
Rates, Rio Arriba County, New Mexico.11
12
13 BEFORE:

14 MICHAEL E. STOGNER

15 Hearing Examiner

16 State Land Office Building

17 December 17, 1992

18
19
20
21 REPORTED BY:22 CARLA DIANE RODRIGUEZ
23 Certified Court Reporter
for the State of New Mexico24
25
ORIGINAL

A P P E A R A N C E S

FOR THE NEW MEXICO OIL CONSERVATION DIVISION:

ROBERT G. STOVALL, ESQ.

General Counsel
State Land Office Building
Santa Fe, New Mexico 87504

FOR THE APPLICANT:

CAMPBELL, CARR, BERGE & SHERIDAN, P.C.

Post Office Box 2208

Santa Fe, New Mexico 87504-2208

BY: **WILLIAM F. CARR, ESQ.**

FOR BENSON-MONTIN-GREER DRILLING CORPORATION:

KELLAHIN and KELLAHIN

Post Office Box 2265

Santa Fe, New Mexico 87504-2265

BY: **W. THOMAS KELLAHIN, ESQ.**

I N D E X

Page Number

Appearances

2

WITNESSES FOR THE APPLICANT:

1. J. HOWARD ANDERSON

Examination by Mr. Carr 5, 52

Examination by Mr. Kellahin 25, 53

Examination by Mr. Stogner 55, 58

Examination by Mr. Stovall 42, 58, 59

CLOSING STATEMENTS:

By Mr. Stovall 61

By Mr. Kellahin 62

By Mr. Carr 64

Certificate of Reporter

68

E X H I B I T S

Reference

Exhibit No. 1 8

Exhibit No. 2 17

Exhibit No. 3 22

1 EXAMINER STOGNER: The hearing will
2 come to order. Call next case, No. 10639.

3 MR. STOVALL: This is the application
4 of American Hunter Exploration for authorization
5 to flare gas as an exception to Rule 306 and for
6 the establishment of special allowable rates, Rio
7 Arriba County, New Mexico.

8 EXAMINER STOGNER: Call for
9 appearances.

10 MR. CARR: May it please the Examiner,
11 my name is William F. Carr with the Santa Fe law
12 firm Campbell, Carr, Berge & Sheridan. I
13 represent American Hunter Exploration, Ltd., and
14 I have one witness.

15 EXAMINER STOGNER: Other appearances?

16 MR. KELLAHIN: Mr. Examiner, I'm Tom
17 Kellahin of the Santa Fe law firm of Kellahin and
18 Kellahin, appearing today on behalf of
19 Benson-Montin-Greer Drilling Corporation.

20 EXAMINER STOGNER: Any other
21 appearances or people wishing to--

22 MR. STOVALL: Mr. Examiner, I believe
23 that we have a representative from the Bureau of
24 Land Management Farmington Office, Mr. Brian
25 Davis, who will enter a statement of position, I

1 guess, for the BLM. Is that correct, Brian?

2 MR. DAVIS: Yes.

3 MR. STOVALL: And also I will be making
4 a statement on behalf of the Aztec District
5 Office of the Oil Conservation Division.

6 EXAMINER STOGNER: Any other
7 appearances at this time? Mr. Carr.

8 MR. CARR: At this time we would call
9 Howard Anderson.

10 J. HOWARD ANDERSON

11 Having been first duly sworn upon his oath, was
12 examined and testified as follows:

13 EXAMINATION

14 BY MR. CARR:

15 Q. Would you state your name for the
16 record, please.

17 A. It's Howard Anderson.

18 Q. And where do you reside?

19 A. In Calgary, Alberta, Canada.

20 Q. By whom are you employed and in what
21 capacity?

22 A. I'm the engineering manager with
23 Canadian Hunter Exploration, Ltd., which is the
24 parent company of American Hunter Exploration.

25 Q. Have you previously testified before

1 the New Mexico Oil Conservation Division?

2 A. No.

3 Q. Could you briefly review your
4 educational background and work experience?

5 A. Yes. I have a bachelor of science in
6 engineering physics from Queens University,
7 Kingston, Ontario, Canada.

8 I have 13 years of experience in the
9 petroleum industry with S. O. Resources, Canada,
10 Ltd., and Canadian Hunter Exploration.

11 Q. Have you previously testified as an
12 expert engineering witness before other
13 regulatory boards?

14 A. Yes. Not in the U.S., but the Canadian
15 National Energy Board and less formal proceedings
16 in front of provincial boards.

17 Q. Are you familiar with the application
18 filed in this case on behalf of American Hunter?

19 A. Yes.

20 Q. Are you familiar with the Jicarilla 3F
21 well?

22 A. Yes.

23 Q. Are you also familiar with American
24 Hunter's efforts to develop this portion of the
25 Mancos formation, the portion which is the

1 subject of this case?

2 A. Yes.

3 Q. Are you a registered petroleum
4 engineer?

5 A. Yes, in the Province of Alberta.

6 MR. CARR: We would tender Mr. Anderson
7 as an expert witness in petroleum engineering.

8 EXAMINER STOGNER: Mr. Anderson is so
9 qualified. You need to speak up just a little
10 bit.

11 THE WITNESS: Okay.

12 Q. Would you briefly state what American
13 Hunter seeks with this application?

14 A. We're seeking an order authorizing
15 American Hunter to flare gas from its Jicarilla
16 3F oil well #1. It's located in the southeast
17 quarter of the northwest quarter of Section 3,
18 Township 27 North, Range 1 West, as an exception
19 to Division Rule 306, for a maximum period of six
20 months, at a maximum rate of the lower of 800
21 barrels of oil per day or 800 Mcf of gas per day,
22 up to a maximum cumulative volume of 146 million
23 cubic feet of gas flared, or 146,000 barrels of
24 oil produced while flaring that gas.

25 Q. What was the basis for these figures

1 that you're requesting?

2 A. Well, the established allowable is 800
3 barrels a day in this area of the West Puerto
4 Chiquito Field, and that's simply 800 barrels a
5 day times the time period that we're suggesting.

6 Q. Have you prepared exhibits for
7 presentation in this hearing?

8 A. Yes, I have.

9 Q. Could you refer to what has been marked
10 as American Hunter Exhibit No. 1 and refer to the
11 first page of that exhibit and review it for Mr.
12 Stogner?

13 A. Yes. This is a situation map. The
14 black outline encloses the American Hunter
15 lands. You can see a number of wells in the area
16 not marked by black dots. The two American
17 Hunter producing wells are the 3F and the 2A
18 wells which are marked.

19 In addition to that, there are four
20 open circles on the American Hunter acreage which
21 would indicate wells currently in progress which
22 have not yet been completed.

23 You also see a dashed line on the map
24 which indicates the proposed gas sales pipeline,
25 and we'll be talking more about that later, and a

1 pipeline tie-in connection point in Section 16 of
2 Township 27, Range 2. And we have been in
3 discussion with Northwest Pipe regarding that
4 tie-in point.

5 Q. What is the current status of the
6 proposed gas sales pipeline?

7 A. Well, the archaeology and the surface
8 survey work have been completed. We have Tribal
9 approval for the pipeline. We're expecting BIA
10 approval shortly. We're currently drafting up a
11 contract for sales of the gas with Northwest
12 Pipe. The BLM has approved the gas sales plan,
13 and we have purchased line pipe for this
14 pipeline.

15 Q. Let's go to the second page in Exhibit
16 No. 1. Could you identify that, please?

17 A. Yes. It's a page of text marked
18 "Jicarilla 3F-1 Test Proposal."

19 Q. Referring to this page of Exhibit 1,
20 could you review for the Examiner the current
21 proposal for testing the Jicarilla 3F-1 well?

22 A. Yes. We see an opportunity to test
23 this well while we're waiting on the completion
24 of pipeline construction. We would plan to do a
25 flow and build-up test on this 3F well, including

1 pulse testing, and use the 2A well as an
2 observation well.

3 The purpose of the test would be to
4 augment previous testing that has taken place
5 during 1992.

6 Q. What does American Hunter propose to
7 achieve with this testing program?

8 A. Well, some of the objectives are to
9 quantify the relative contributions of radial
10 versus linear flow or fracture flow at 3F; to try
11 to quantify material balance in drainage areas of
12 the 3F well; to see if there are any boundary
13 affects present in the reservoir at 3F; and also
14 to look for subtle communication between 3F and
15 2A, using 2A as an observation well, which may
16 help quantify gravity drainage in the area.

17 We do recognize that gravity drainage
18 is fairly well understood and well established in
19 other parts of the Basin, but we want to check it
20 on our own lands.

21 Q. Are you ready to go to the third page
22 of Exhibit 1?

23 A. Yes.

24 Q. Could you identify that and review it
25 for Mr. Stogner?

1 A. It's a page of text entitled,
2 "Jicarilla 2A-1 History." What we have here is
3 a summary of the data that's been taken from the
4 2A well. A flow and build-up test was run in
5 November of 1991 and an extrapolated pressure of
6 621 psia was measured at the midpoint of
7 perforations, and a kh or permeability thickness
8 of 482 millidarcy feet was determined.

9 We then produced 3174 barrels of load
10 oil, 1219 barrels of new oil, and 6948 Mcf of gas
11 between the period of November through July
12 1992.

13 We then performed a build-up test which
14 was of longer duration, July 31st through October
15 12th, and we measured an extrapolated pressure of
16 581 psia and a very low kh this time, 20
17 millidarcy feet. We also saw radial flow on the
18 build-up.

19 Q. Based on the test that you conducted on
20 the 2A well, what conclusions were you able to
21 reach?

22 A. Well, the first test we feel now was
23 too short to see beyond the near wellbore
24 fractures which we feel were present.

25 The second test was long enough for

1 radial flow in the farther reaches of the
2 reservoir to be established, and we were able to
3 calculate an injectivity of 200 Mcf per day at a
4 1200 psia wellhead pressure.

5 The well was assumed to be at or near
6 the gas/oil contact, and the gas cap volume from
7 the P/Z analysis was calculated at 0.1 Bcf.

8 Because of these two pieces of
9 information, the gas injection program which we
10 had put forward was canceled, because that
11 program required injectivity of 800 Mcf a day and
12 we needed to inject .3 Bcf per year of storage.
13 So that program was canceled, and at that time we
14 proceeded with a gas sales program.

15 Q. Mr. Anderson, let's now go to the
16 pressure build-up data on the 2A well, which is
17 on the next page of Exhibit No. 1, page 4, and I
18 would ask you to review that for Mr. Stogner.

19 A. This is a graph of the raw data from
20 the 2A build-up. Pressure is shown on the Y axis
21 in kilopascals, and the dates or the time is
22 shown on the X axis.

23 This is the raw data from that test. I
24 apologize for "kilopascals." If you would like a
25 conversion, I can provide that later.

1 EXAMINER STOGNER: Oh, I think we have
2 one somewhere around here and I can blow dust off
3 of it.

4 A. The actual numbers aren't as important
5 as the shape of the build-up curve. You can see
6 that build-up is very sluggish, which intuitively
7 indicates a poor well. The other important part
8 on here is I've put a bar along the top that
9 indicates when the 3F well was produced at rates
10 of approximately 600 barrels per day during that
11 entire period. And then the 3F well was shut in
12 around about September 11th.

13 What you don't see, and this is the
14 significant part, is any up-turn on that build-up
15 curve after the shut in, which indicates lack of
16 any good connection between those two wells.

17 Q. Let's now move to the next page, a
18 superposition pressure build-up plot, and I would
19 ask you to explain to Mr. Stogner what this plot
20 shows you?

21 A. This is a plot that's used in
22 extrapolating to a final reservoir pressure. The
23 points are shown as little triangles. The ones
24 that are on the right-hand part of the graph lie
25 along a straight line. That straight line would

1 indicate radial flow, which is to say that we're
2 not seeing significant fracture flow in this
3 well.

4 Q. Let's move now to the next page, which
5 is the history on the Jicarilla 3F.

6 A. Okay. The first part of this page is
7 the data that's been collected on 3F,
8 summarized.

9 We ran a build-up test in January to
10 February of 92, and extrapolated the pressure of
11 1360 psia at the mid-point of perforations, and a
12 very high permeability thickness, 14,891
13 millidarcy feet. And we indicated fracture flow
14 from that build-up as well.

15 We then produced 1870 barrels of load
16 oil, 88,686 barrels of new oil, and 65,241,000
17 cubic feet of gas between February 2nd and
18 September 12th.

19 We then ran a build-up test again which
20 was of longer duration, from September 12th to
21 October 12th, and saw a P^* , an extrapolated
22 pressure, that is, of 1186 psia at the mid-point
23 of perforations. Although a lower kh, we also
24 see a very favorable number there, 7100
25 millidarcy feet.

1 However, the pressure gauge that was
2 used at that time showed erratic behavior in the
3 early part of the test and it made us question
4 whether the results were reasonable.

5 A static gradient taken later was tied
6 to the build-up curve to give a pressure
7 extrapolation, but it's the early part of the
8 build-up that we call into question.

9 The analysis from this data is that we
10 do have a very good well. It's a high
11 productivity well, capable of rates of at least
12 800 barrels per day. It does have an unusually
13 high gas/oil ratio of 1,000 cubic feet per
14 barrel.

15 So questions do remain on the
16 reliability, first of all, of the pressure data,
17 and that puts into question some of the important
18 information such as drainage area, fracture flow,
19 boundary effects, and gravity drainage.

20 Q. Let's go to the next page, the pressure
21 plot on the 3F, and I would ask you to review it
22 and explain the erratic behavior of the well to
23 the extent you can.

24 A. Yes. Again, this graph shows pressure
25 on the Y axis and time on the X axis. The first

1 part of the data shows the pressure measured at
2 the bottom of the hole when the well was in the
3 flowing condition. Those little jagged bumps
4 would indicate pulsing or slugging flow.

5 And then the well was shut in. You can
6 see the label of "shut-in" on the middle of the
7 graph, and the pressure bounced up and then it
8 went down and the build-up curve started.

9 Normally one would expect the build-up
10 curve to start at the same pressure as the last
11 flowing pressure; instead, we see a building up
12 pressure which is much lower than the final
13 flowing pressure, which is the reason for our
14 uncertainty about the results that were received
15 from this build-up.

16 Q. What are American Hunter's plans for
17 this well?

18 A. We want to get it back onto production
19 as soon as possible. We're waiting on having
20 that gas sales line tied into the well, and so we
21 do see an opportunity to gather additional test
22 data while we're waiting for that pipeline.

23 Q. Why are you interested in pursuing the
24 testing of the well at this time?

25 A. Well, that allows us to accelerate our

1 plans for development in the neighboring lands.
2 We do want to continue operating in this area.
3 We would like to continue drilling, and this
4 would assist us in our future plans in the area.

5 Q. If the requested relief isn't granted,
6 do you believe you'll be able to go forward with
7 this testing proposal?

8 A. No.

9 Q. First of all, you wouldn't have
10 anything to do with the gas, is that right?

11 A. That's correct.

12 Q. After the line is in place, would the
13 testing program go forward?

14 A. We would plan on doing periodic tests
15 as a matter of good engineering practice, but
16 commercial realities are it's not as easy to test
17 a well that's on production and tied into a gas
18 sales line.

19 Q. Okay. Let's go to what's been marked
20 as American Hunter Exhibit No. 2. Would you
21 identify that, please, the first letter?

22 A. That's the letter to Mr. LeMay from
23 Nordhaus, et al.

24 Q. Could you explain what this letter is
25 and why it's included in the exhibit package?

1 A. Yes. This is a letter from the
2 attorneys of the Jicarilla Apache Tribe. It
3 essentially says that the Jicarilla are in favor
4 of our application to flare gas from the
5 Jicarilla 3F-1 well.

6 Q. And then there's another letter in that
7 packet of material. Would you identify that,
8 please?

9 A. Yes. That's a letter from the BLM
10 Farmington Resource Area to Mr. Jim Lister of
11 American Hunter.

12 Q. What does this letter actually do?

13 A. This letter gives conditional approval
14 or it sets conditions under which the BLM would
15 consider additional production without venting
16 restrictions from the well.

17 Q. Does it state that the 30 Mcf per day
18 rate will remain in effect until alternative
19 rates are approved by that agency?

20 A. Yes.

21 Q. Was this letter the result of
22 conversations between American Hunter and the
23 BLM?

24 A. That's correct.

25 Q. Mr. Anderson, should approval of this

1 application maximize recovery and prevent waste
2 of Indian minerals?

3 A. Yes, we believe so. It will provide
4 data that could lead to better drilling and
5 production practices in the area.

6 Q. In fact, the Jicarilla tribe has
7 supported the application?

8 A. Yes, that's correct.

9 Q. In your opinion, will the correlative
10 rights of offsetting operators be impaired if
11 this application is approved?

12 A. No, we don't think so. We're offset by
13 Benson-Montin-Greer on the south. This well is
14 well away from the common lease line between
15 Benson-Montin-Greer and American Hunter. In
16 fact, the 3F well is set back some 3594 feet from
17 that lease line.

18 We should point out, too, that
19 Benson-Montin-Greer has proposed drilling a well
20 on their land, only 1,650 feet from the common
21 lease line.

22 Q. So, you're actually farther away from
23 the common lease line than they would be able to
24 drill?

25 A. Yes. We're as far north in the section

1 as we could possibly go.

2 Q. And the Benson-Montin-Greer well has
3 not been drilled at this time?

4 A. No. That's correct.

5 Q. Now, north of you, who owns the acreage
6 to the north of you?

7 A. That's the Jicarilla Tribe.

8 Q. What is their relationship with
9 American Hunter?

10 A. We're in a joint venture with the
11 Jicarilla Tribe, and they have not opposed our
12 proposal to test this well.

13 Q. In your opinion, will approval of the
14 application result in premature depletion of the
15 reservoir drive mechanism?

16 A. No, because the gas will be produced
17 anyway, whether it goes into the pipeline or
18 whether it's flared. The issue really is the
19 disposition of the gas on the surface, not
20 reservoir depletion.

21 Q. What is the current status of American
22 Hunter's efforts to obtain government, Tribal and
23 agency approval for construction of this
24 pipeline?

25 A. We have Tribal Council approval now.

1 We have submitted to the BIA and we do expect
2 approval soon. The BLM has approved the sales
3 disposition as well.

4 Q. The status of the contract for the
5 actual construction of this pipeline, what is
6 that at this time?

7 A. Well, we're putting out bid packages
8 now. We would plan to start construction in
9 early January and expect to be completed as early
10 as March, if weather permits, but it could be as
11 late as June.

12 Q. Will American Hunter submit detailed
13 test plans to all affected agencies, including
14 test rates, duration of tests, and to find the
15 objectives and goals for each of the test
16 periods?

17 A. Yes. We're doing engineering work on
18 the test program right now, and we will submit it
19 as needed.

20 Q. Will this testing be continued when the
21 objectives or goals of the stated test procedure
22 are, in fact, achieved or met?

23 A. Yes, we will.

24 Q. And is it agreeable to American Hunter
25 that the test not be commenced until actual

1 pipeline construction has begun?

2 A. Yes, we can wait for the start of
3 pipeline construction.

4 Q. I think you indicated, you would have
5 the pipeline in place by what date?

6 A. Well, we would like to have it prior to
7 the 1st of March, but again it's very much
8 dependent on weather conditions at the site.

9 Q. Is American Hunter Exhibit No. 3 a copy
10 of an affidavit confirming that notice of this
11 hearing has been provided as required by Division
12 rules?

13 A. Yes.

14 Q. In your opinion, will approval of this
15 application be in the best interest of
16 conservation, the prevention of waste and the
17 protection of correlative rights?

18 A. Yes, we believe so.

19 Q. Were Exhibits 1 through 3 either
20 prepared by you or compiled at your direction?

21 A. Yes, they were.

22 MR. CARR: At this time, Mr. Stogner,
23 we would move the admission of American Hunter
24 Exhibits 1 through 3.

25 EXAMINER STOGNER: Are there any

1 objections?

2 MR. KELLAHIN: No objections.

3 EXAMINER STOGNER: Exhibits 1 through 3
4 will be admitted into evidence.

5 MR. CARR: That concludes my direct
6 examination of Mr. Anderson.

7 MR. STOVALL: Mr. Stogner, before we
8 start cross-examination, are you familiar with
9 the previous case of American Hunter, the request
10 for injection into the 2A and the request for the
11 flaring last summer?

12 THE WITNESS: Yes, although I didn't
13 participate in it.

14 MR. STOVALL: Mr. Examiner, at this
15 time I believe those cases should be incorporated
16 into the record of this case, because this is not
17 a short-term history case. This has been going
18 on essentially since the 3F was drilled, and
19 we've had two other cases dealing with the same
20 issue of the disposition of gas. I think the
21 history built in those cases is integral to a
22 decision in this case?

23 EXAMINER STOGNER: Mr. Carr, do you
24 remember offhand what those case numbers were?

25 MR. CARR: No, sir, I do not. But we

1 would certainly agree that they should be
2 incorporated into the record of this proceeding.

3 EXAMINER STOGNER: The two previous
4 cases at least, and I believe there might have
5 been more alluded to in the horizontal
6 applications.

7 MR. KELLAHIN: I have those for you,
8 Mr. Examiner. Case No. 10560.

9 MR. STOVALL: Which one was that, Tom?

10 MR. KELLAHIN: That is the exception to
11 the no-flare application. That's the one that
12 Mr. Stogner heard in July. It's Order No.
13 R-9766.

14 And the other case is 10534. It's
15 Order No. R-9735. And that was the order that
16 approved the reinjection of gas produced from the
17 3F into the 2A well in September of 92.

18 EXAMINER STOGNER: At this time I'll
19 take administrative notice of both Cases 10534
20 and 10567.

21 Do you have anything else at this
22 time?

23 MR. STOVALL: No. We'll let the
24 parties proceed and then I do have some questions
25 after that, but I wanted to get that in before we

1 started cross-examination.

2 EXAMINER STOGNER: Mr. Kellahin.

3 MR. KELLAHIN: Thank you, Mr. Examiner.

4 EXAMINATION

5 BY MR. KELLAHIN:

6 Q. Mr. Anderson, give me some of your
7 personal involvement in the project so that I
8 understand when you became personally involved in
9 the management of this well, particularly in
10 relationship to Mr. Artendale whom we've had
11 testify on previous occasions before the
12 Division?

13 A. Yes, Mr. Artendale handled the case up
14 through or around the beginning of September, at
15 which time he was assigned to other duties and
16 this particular project came into one of our
17 production business units and I was handed
18 reservoir responsibility.

19 The engineering had already been done
20 on the gas injection at that point, although the
21 summer test had not been completed and I was the
22 one who did the engineering on the summer test.

23 Q. Prior to the time you were involved,
24 did you have any other involvement with the
25 project, or was that Mr. Artendale's

1 responsibility?

2 A. It was Mr. Artendale's responsibility.

3 Q. In reviewing the information and the
4 activities of your company concerning this
5 flaring issue, have you reviewed the transcripts
6 and the exhibits and the orders from these other
7 two cases?

8 A. Yes, but I don't think I could recite
9 them.

10 Q. I was hopeful that you perhaps could
11 take me through these in sequence with regards to
12 the order Mr. Stogner entered that approved, on a
13 short-time interval, the flaring of gas from the
14 3F well.

15 Let me show this one to you. It's
16 Order No. R-9766, and let me ask you if you're
17 familiar with that order?

18 A. Yes. This is the one that gave
19 approval to flare between July 9th and November
20 7th, a 120-day test period.

21 Q. In operating the well during that
22 allowed flaring interval, did you actually
23 produce the well and flare the gas?

24 A. Yes, we did, for the period July 9th
25 through September 11th or 12th. We didn't use

1 the entire period, but we used part of it.

2 Q. In flaring the gas and producing the
3 well, do you track your production on a daily
4 basis?

5 A. Yes, we do.

6 Q. Do you propose to continue to track
7 production during a test period on a daily basis?

8 A. Absolutely. Yes.

9 Q. In the past, American Hunter has had a
10 good working relationship with Mr. Greer and his
11 company to share and exchange data and
12 equipment. Do you see any reason not to continue
13 to share data with Mr. Greer with regards to the
14 test or the production information?

15 A. No. In this proposed test, we would be
16 happy to share the results.

17 Q. During the first flare period, 120-day
18 authorized period, can you tell me what was the
19 average gas/oil ratio for the well during that
20 period of time?

21 A. I can't. We could go back and look at
22 our records and tell you. I know that it was
23 running at about 1,000 cubic feet per barrel at
24 the end of the test, but I'm not sure what it was
25 at the beginning.

1 Q. The basis for your request today is not
2 tied back into the actual gas/oil ratio of the
3 well, but rather tied to the gas volume which you
4 realized from using the 2,000-to-1 gas/oil ratio?

5 A. No. The proposed volumes here are
6 based on that final thousand GOR, not the 2,000.

7 Q. Okay. I've confused myself, then. For
8 this proposed flaring period then, what would be
9 the limiting factor to the amount of gas you can
10 flare from the well?

11 A. The actual daily gas volume. We've
12 suggested capping it at 800 Mcf per day.

13 Q. All right. What is the ability of the
14 well to produce its allowable during the first
15 flaring exception period?

16 A. It was produced at about 600 barrels
17 per day during that period. The allowable was
18 800. I think there were mechanical reasons for
19 not going past 600 at the time, but we have put
20 new equipment on the well site and we're looking
21 at 800 barrels per day.

22 Q. You've demonstrated currently that the
23 well has the capacity to produce 800 barrels of
24 oil a day?

25 A. Oh, yes.

1 Q. The period of time that you're
2 proposing to be exempted from the no-flare rule
3 is a six-month period?

4 A. A six-month maximum, but we would stop
5 flaring naturally as soon as the pipeline was
6 available for taking gas.

7 Q. What date do you want approval to
8 commence?

9 A. January 1st. Or, I suppose, either
10 January 1st or whenever construction starts on
11 the pipeline.

12 Q. Tell me how this fits in with what the
13 BLM has required of you in one of these letters
14 attached to Exhibit No. 2.

15 If you'll find a copy of that for me,
16 it's the second letter in the package. I'm
17 looking for a date on it and I can't seem to find
18 a date on it. It's transmitted by facsimile. It
19 shows a facsimile date of December 15, 1992.

20 MR. DAVIS: I'll clarify that. It went
21 out right after I faxed it. It went out
22 certified mail on the same date. The secretary
23 stamps it and she mails it out. I didn't realize
24 she hadn't stamped it when I faxed it.

25 MR. STOVALL: Mr. Davis, let me ask you

1 this, too, to make sure that we're up to date and
2 current as we go into this. Is this the same
3 letter which you proposed to submit today--or at
4 least on the conditions and issues--

5 MR. DAVIS: The conditions and issues
6 are the same as what I would like to submit. I
7 have just a statement.

8 MR. STOVALL: So, if we ask questions
9 based upon this, we are asking questions based
10 upon the current BLM position with respect to
11 this letter?

12 MR. DAVIS: Exactly, and I have a
13 statement that covers the same issues. It's not
14 the same letter, it's just a hearing statement
15 covering this case.

16 MR. STOVALL: When Mr. Kellahin
17 finishes, I would like for you to make some
18 copies so we can get everybody a copy of that,
19 too. You can use our copier.

20 MR. DAVIS: Okay. That's fine.

21 Q. (BY MR. KELLAHIN) Mr. Anderson, have
22 you got a copy of the letter that is executed by
23 Mike Pool as Area Manager, that has a facsimile
24 date of December 15, 1992?

25 A. Yes.

1 Q. Has your company committed itself to
2 attempt to comply with the conditions of approval
3 from the Bureau of Land Management for the
4 flaring procedure?

5 A. Yes.

6 Q. Let me ask you to go down through this
7 with me and have you give me an update on where
8 we stand in terms of the conditions of approval.

9 The first one is at the bottom of the
10 paragraph with No. 1. What's the status of
11 satisfying that condition?

12 A. I think we've spoken about that
13 already. We do have Tribal Council approval, and
14 we have received a letter from the Tribe as of
15 today in our Denver office.

16 We are applying to the BIA. We do have
17 BLM approval, by way of this letter in fact, if
18 gas sales are approved.

19 Q. The only other approval necessary as
20 you would understand it would be one from the Oil
21 Conservation Division?

22 A. Yes, although I'm not aware they
23 approve gas sales. If so, then we would
24 certainly apply for it.

25 MR. STOVALL: Mr. Kellahin, let's make

1 sure were looking at the same thing here. It
2 sounds to me like he's talking about No. 1, is
3 that correct, the pipeline construction? Is that
4 what you're talking about?

5 THE WITNESS: Yes.

6 MR. STOVALL: There are two sets of
7 paragraphs identified like that.

8 Q. I had misread this, Mr. Anderson. I'm
9 looking at numbered paragraph one and, you're
10 right, it's approvals with regards to the
11 construction of pipeline. The Division here is
12 not going to act on that.

13 A. Right.

14 Q. So, you're telling me we've got our
15 approvals for construction?

16 A. Yes, or they're underway.

17 Q. Except for the BIA?

18 A. Yes.

19 Q. Are there any conditions left to be
20 satisfied with BIA?

21 A. Not that I'm aware of.

22 Q. Number 2, a contract with a pipeline
23 construction company has not yet been obtained.
24 I understood you to have those out for bid?

25 A. That's correct.

1 Q. What is the timing for obtaining an
2 actual contract?

3 A. We're hoping to have it by the
4 beginning of the new year.

5 Q. Have you selected a certain group of
6 construction companies in which to request bids
7 from?

8 A. I'm not sure. It is in the hands of
9 our project engineering group at Calgary.

10 Q. Do you know what the time frame is for
11 actual construction once construction commences?

12 A. Well, we think it could be as short as
13 about a month, but again it depends on how much
14 snow or freezing temperatures we have in the
15 area.

16 Q. No. 3, have you satisfied this
17 condition?

18 A. No. We're speaking in general terms at
19 this hearing of the 800 barrels, 800 Mcf per
20 day. We're still doing work in the office to
21 decide whether we'll do it as a series of pulses
22 and exactly how we would measure the pressure,
23 other than we would plan to use electronic
24 gauges.

25 Q. No. 4 says testing will be discontinued

1 when the objectives or goals have been met. What
2 would be the objectives or goals?

3 A. That would be getting good pressure
4 data from the pressure recorders at the base of
5 the well.

6 Q. All right. No. 5, that's simply a
7 condition that you had accepted?

8 A. We've accepted the condition that we
9 don't start testing until the physical pipeline
10 construction has begun.

11 Q. What is the status of No. 6?

12 A. Well, we don't see No. 6 to be an
13 issue. The 640 acre spacing in the area is
14 acceptable to us. We understand that that is
15 still acceptable to the BLM. We're drilled on
16 target within a 640-acre spacing unit, so we
17 don't see that there is a correlative rights
18 issue with either the landholders to the north or
19 to the south.

20 American Hunter has the lands to the
21 immediate east and west of this section.

22 Q. One of the offset leases is the
23 Benson-Montin-Greer lease, is it not?

24 A. Yes.

25 Q. Have you yet obtained the approval of

1 that lessee?

2 A. No, but we weren't aware that we had to
3 ask because we are on the standard spacing unit.

4 Q. How would you propose, then, to resolve
5 the correlative rights issues with offset
6 lessees?

7 A. Well, as I said a moment ago, I don't
8 think there is an issue. If the BLM wishes to
9 pursue this, we'll certainly have discussions
10 with them.

11 Q. You have not filed an appeal from this
12 area manager's decision with regards to that
13 item, have you?

14 A. No.

15 Q. Perhaps one of the ways to resolve
16 correlative rights with offsetting lessees would
17 be the ability to share and participate in the
18 gathering line when constructed. Have you
19 considered that, and is American Hunter willing
20 to consider participation in the gathering line
21 so that his gas produced from his well could be
22 taken to market?

23 A. Yeah, that would be a separate business
24 decision. I don't think it would have any effect
25 on whether or not we test this well.

1 Q. Is that an opportunity available to Mr.
2 Greer?

3 A. Well, we'll certainly listen to
4 proposals.

5 Q. Were there any tests conducted during
6 this first 120-day no-flare exception that Mr.
7 Stogner approved for you during the summer
8 period? Were there any tests conducted on the
9 well?

10 A. Yes. That was the test I reviewed in
11 my previous testimony.

12 Q. The pressure maintenance order
13 authorized gas injection into the 2A well, I
14 believe it is?

15 A. Yes.

16 Q. All right. Why have you not proceeded
17 with the reinjection of gas under a pressure
18 maintenance project?

19 A. Well, as I demonstrated in my
20 testimony, the test that we ran during the summer
21 did give us important information on the 2A that
22 indicated that it was not an acceptable injector,
23 and to go ahead with an injection program would
24 not be the prudent way to go.

25 Q. The flaring of gas now allows you to

1 produce oil that you would have to postpone
2 production on until you could actually take that
3 gas to market, unless you get a no-flare
4 exception?

5 A. That's correct.

6 Q. It's not going to have anything to do
7 with reducing ultimate recoveries from this well
8 or from the reservoir, is it?

9 A. No.

10 Q. Have you examined to determine the
11 relationship between the producer, the 3F--I'm
12 sorry. The 3F is the--

13 A. --is the producing well. 2A is the
14 offsetting well.

15 Q. The relationship between those two
16 wells, to see if there were any limitations in
17 the continuity of the reservoir between those two
18 wells?

19 A. We believe that those two wells are not
20 in sufficient communication to allow a gas
21 injection scheme to go ahead, but that there
22 still may be subtle communication that would
23 indicate gravity drainage.

24 And that's why we wanted to use, during
25 this proposed test, the 2A well as an observation

1 well. And it should be in a quiescent state now
2 so that any pressure variations in that well
3 could be observable.

4 Q. Mr. Artendale, in his prior testimony,
5 had rather strong opinions about the high
6 probability of gravity drainage between the two
7 wells with a 20-percent dip, the close proximity
8 of the wells, and the high-angle of vertical
9 difference between them because of structural
10 position. And so he was of a strong opinion that
11 we would have an effective pressure maintenance
12 opportunity here.

13 A. Yes.

14 Q. Has there been data developed that you
15 have looked at to give you an explanation as to
16 why that communication may not be better?

17 A. Yes. The data that Mr. Artendale had
18 at his disposal when he was making that
19 suggestion would indicate or would suggest to any
20 reasonable person that the 2A well was a good
21 well. We had done a build-up test that indicated
22 a fairly high permeability thickness in that the
23 well, on a short-term basis, would be able to
24 accept five million cubic feet a day, or
25 something in that order.

1 In addition, we did an oil injectivity
2 test which was about half a day of duration and
3 the well took a large volume of oil on vacuum.
4 Both of those things indicate that there was good
5 reservoir properties, at least in the immediate
6 wellbore vicinity.

7 We also had excellent wellbore
8 properties or reservoir properties around the 3F
9 well, so it was reasonable to assume that good
10 reservoir or good fractures existed between the
11 two wells.

12 As it turned out, the tests that we ran
13 in the summer, because it was of longer duration,
14 indicated that that connection isn't as good as
15 we had previously thought.

16 Q. Do you have any geophysical data to
17 indicate that there may be an explanation as to
18 why those connections are not as good as
19 anticipated?

20 A. Well, we have run seismic across both
21 wells. Both wells do show an anomaly, I believe,
22 at each well location, but interpreting seismic
23 in this area is a subtle art and I'm not sure if
24 you can use seismic to demonstrate continuity
25 between wells.

1 Q. Do you see any indication from the
2 geophysical data there may be any faulting or
3 displacement that would affect continuity?

4 A. No, not that would break the Mancos
5 formation, no.

6 Q. The testing procedures, all the
7 technical little goodies that you and Mr. Greer
8 do, are the ones that you propose to apply for
9 this flare exception period comparable or the
10 equivalent for those that were conducted in the
11 September period, I believe?

12 A. Yes. We'll review what we did in the
13 September period. We certainly want to do any
14 testing in the most cost-effective way possible.
15 We want to use the most accurate gauges we can
16 get, of course, but minimize the amount of time
17 you use them. So, we'll do some engineering work
18 on optimizing those factors.

19 Q. Can you give us a quick checklist of
20 those items within that first test period that
21 you propose to change or alter the next time
22 around?

23 A. Yeah. I think the biggest--there'll be
24 two changes. One is that we would intend to flow
25 the well intermittently as opposed to

1 continuously, in the hopes of imposing a pressure
2 pulse into the reservoir that might be
3 measureable in 2A.

4 We would plan to measure pressure at
5 the 2A well, and because it's been shut in now
6 for six months, its pressure should be fully
7 built up and we should be able to get better
8 quality data from that well.

9 Q. Again, is American Hunter willing to
10 exchange and share test information with Mr.
11 Greer so that the working knowledge of the
12 technical people in the reservoir is improved?

13 A. We'll certainly pass the raw pressure
14 data to other interest operators.

15 Q. Tell me something about what you're
16 going to do with the gas when you get it to
17 market. Where is it to be sold? You said
18 Northwest system?

19 A. Yeah, we would tie it into the
20 Northwest Pipe. There's a tie-in point in
21 Section 16, Township 27, Range 2. That's about
22 12 miles from the 3F well.

23 Once it goes into the Northwest system,
24 it's then gathered through and compressed and it
25 ends up in the Ignacio Gas Plant. We're

1 currently trying to find a gas sales contract at
2 the exit of that plant, but our marketing people
3 suggest that that won't be very difficult.

4 Q. Do you have any other options or
5 choices other than going to the Northwest system?

6 A. That seems to be the best one.

7 Q. Is there an option to go to the El Paso
8 system?

9 A. I don't think so. Our marketers have
10 looked at the options and feel this is the best
11 one.

12 Q. Can you relate to us the pros and cons
13 of which system and why you chose, ultimately,
14 the Northwest system?

15 A. No, I'm afraid I can't. I'm not a gas
16 marketing expert.

17 Q. Do you know anything about the gas
18 pricing with regards to where you might achieve
19 the greatest price for the gas sold?

20 A. No.

21 MR. KELLAHIN: Thank you, Mr.
22 Anderson.

23 EXAMINER STOGNER: Mr. Stovall?

24 MR. STOVALL: A couple of questions. I
25 think you've answered most of them for Mr.

1 Kellahin.

2 EXAMINATION

3 BY MR. STOVALL:

4 Q. Let me understand, because there have
5 been some changes of personnel here. What is the
6 hierarchy of authority within American Hunter, as
7 far as decision-making? I assume that Mr. Lister
8 is in the field, so to speak, is that correct?

9 A. Yes. And he reports to Jack Kern, who
10 is the manager of our Denver office or American
11 Hunter business unit.

12 I'm the engineering manager within a
13 unit called regional properties, which is a
14 production business unit that takes care of
15 Hunter properties in British Columbia, Alberta,
16 and here.

17 Essentially, we provide engineering
18 services to Mr. Kern's office and we deal, more
19 or less, on an equal basis with Mr. Lister.

20 Q. It's not a hierarchy but rather you are
21 a service center to him, is that correct?

22 A. A member of the team, yes.

23 Q. Are the shots made as far as whether to
24 do testing, whether to apply for flaring, whether
25 to build pipelines, are those be made in Calgary?

1 A. That would be on my recommendation,
2 yes.

3 Q. You make the recommendation to somebody
4 higher than you, is that correct?

5 A. Well, I would make it to Mr. Kern.

6 Q. To Mr. Kern?

7 A. Yes.

8 Q. And he would make that final decision?

9 A. Yes, but depending on the magnitude,
10 naturally. Management always likes to exercise
11 their authority.

12 Q. If we're talking a million dollars or
13 so?

14 A. This sort of an operation would be
15 within Mr. Kern's purview.

16 Q. Let's use the BLM letter as a framework
17 at the moment. I would kind of like to get this
18 down to what is really--what this is all about.
19 They have some concerns, again referring to their
20 letter, and I'm going to go to the lettered
21 paragraphs, their trust obligation regarding
22 Indian minerals, and their obligation to prevent
23 waste.

24 Just reading--actually, just reading
25 Exhibit 2, it appears that there may be some

1 inconsistency between the position of the
2 Jicarilla Apache Tribal Council and the Bureau of
3 Land Management with respect to what is an
4 appropriate protection of Indian Tribal
5 minerals. Would you agree that that is true, or
6 not?

7 A. You lost me somewhere along the way.

8 Q. Well, your first letter from Mr. Bladh,
9 representing the Jicarilla Tribe--and I will
10 state that they are not entering an appearance
11 and this is information only to us, to make sure
12 that they don't assume anything, that we take
13 anything more than they do--they have stated that
14 they support your application.

15 A. Yes.

16 Q. And the BLM, referring specifically to
17 paragraph A of the letter that's part of Exhibit
18 2 that you answered Mr. Kellahin's questions
19 about, says that they have to prevent waste of
20 Indian minerals. Now, presumably, that means the
21 gas, would you assume?

22 A. I would assume it would mean all
23 minerals.

24 Q. The concern in this case is the gas
25 because the oil is going to be sold if it's

1 produced, is that correct?

2 A. Yes. So it sounds like the Jicarilla
3 have given their support with fewer conditions
4 than the BLM. Is that the point?

5 Q. I guess the Jicarilla would like the
6 oil revenue, and the BLM would like to protect
7 the gas, it sounds like. I'm asking what your
8 understanding of that is. You've dealt with both
9 agencies or your company has.

10 A. I think the BLM is more experienced in
11 dealing with issues such as this and are probably
12 aware of more of the intricacies of an
13 application such as this.

14 Q. I guess it raises kind of an authority
15 question, which I don't expect you to answer.
16 Who speaks for the Jicarilla Apache Tribe? Is it
17 the BLM or is it the Jicarilla Tribal Council and
18 through their attorneys?

19 And please don't answer that question.
20 I don't even want to know what you think.

21 Now, you have stated, I think
22 specifically you were talking about paragraph No.
23 6 of that letter, but paragraph B also talks
24 about correlative rights. Why do you say there's
25 not a correlative rights issue?

1 A. Well, earlier this year,
2 Benson-Montin-Greer applied to drill a horizontal
3 well in Section 9 and Section 10, which are south
4 of Section 3 that we have our well on.

5 At that time, and I'm not sure which
6 agency started the ball rolling, but a moratorium
7 was placed on all drilling within that township
8 until the BLM--and it was the BIA that placed the
9 moratorium, as I understand it--until the BLM had
10 performed a reservoir study to decide whether or
11 not 640-acre spacing was appropriate and whether
12 or not drainage would occur between the proposed
13 well and the Hunter lands.

14 The answer, as I understand it, as it
15 came back from the BLM recently, was that 640
16 acres was appropriate spacing, that if
17 Benson-Montin-Greer were to drill a well on their
18 lands immediately south of the Hunter lands, that
19 correlative rights, from Hunter's perspective,
20 would not be adversely affected.

21 So, it seems to me that you can't have
22 it both ways. If you have permission to drill a
23 well and you won't affect the section to the
24 north, then that well that's already there to the
25 north won't affect the section to the south.

1 Q. Now, with respect to correlative
2 rights, the production levels which you are
3 requesting for this well, are within the
4 allowables established by the pool rules, is that
5 correct?

6 A. Yes. That's correct.

7 Q. So, if you were to produce the gas into
8 a pipeline rather than flare it, you could
9 produce at at least the rate you're asking for,
10 is that correct?

11 A. That is correct.

12 Q. So, is there any difference with
13 respect to correlative rights between whether you
14 flare the gas or whether you produce it into a
15 pipeline?

16 A. There's no difference. We're simply
17 suggesting doing it a little earlier than having
18 the pipeline in place.

19 Q. The other question is depletion of the
20 drive mechanism. Would the same answer apply to
21 that?

22 A. The reservoir would be equally depleted
23 with a pipeline or without.

24 Q. So, with respect to that issue, a waste
25 issue more has to do with the gas?

1 A. Yes. The issue is around the
2 disposition of the gas once it reaches the
3 surface; not what happens to it in the reservoir.

4 Q. You indicated in, I think, response to
5 to Mr. Carr's question, and I'll ask you, could
6 you do the same sort of testing after you got the
7 well connected and gas was flowing into a
8 pipeline?

9 A. It's harder to do because you have a
10 gas contract that requires that you sell gas,
11 usually on a daily basis. Naturally, our
12 managers want to maximize cash flow from a well
13 like this, and it's difficult for an engineer to
14 suggest shutting in a well for an extended period
15 while a gas pipeline is standing there waiting to
16 take the gas.

17 Q. Let me stop you right there. What
18 you're asking now, it's okay to do that same
19 testing and send that same gas into the
20 atmosphere, is that correct?

21 A. Yes, but the majority of the revenue
22 comes from the oil, so to be shut in when we're
23 unable to produce, essentially, unlimited later
24 on, is more difficult. It's perhaps a little bit
25 psychological, but we do see an opportunity here

1 to test the well somewhat unfettered by economic
2 concerns, because we don't have that sales
3 pipeline.

4 Q. You also see an opportunity to have a
5 cash flow from the well while you're building the
6 pipeline, is that correct?

7 A. Yes, that's true.

8 EXAMINER STOGNER: Let's take about a
9 five-minute recess.

10 [A recess was taken.]

11 EXAMINER STOGNER: Mr. Stovall?

12 MR. STOVALL: I have no further
13 questions, Mr. Examiner. I do want to make a
14 statement at the end, but I suppose other people
15 might want to ask some questions.

16 EXAMINER STOGNER: Are there any other
17 questions of this witness?

18 MR. CARR: I might have one on redirect
19 in nature. And we may be out of order, because
20 there's just one thing in the statement from the
21 BLM that I think is important to clarify. And I
22 would have a question in response to that of Mr.
23 Anderson.

24 MR. STOVALL: At this time, then, let's
25 identify that there has been handed out to all

1 the parties in this case a document from the
2 United States Department of Interior, Bureau of
3 Land Management, Farmington Resource Area, dated
4 December 16th, that refers to this case and is
5 identified as a hearing statement.

6 Mr. Brian Davis with the Bureau of Land
7 Management is here. Brian, would you identify
8 yourself, who you are, and your position?

9 MR. DAVIS: I'm Brian Davis. I'm a
10 petroleum engineer with the reservoir management
11 group of the Farmington Resource Area of the
12 BLM.

13 MR. STOVALL: And, Mr. Davis, have you
14 been asked by your area manager to come down to
15 this hearing and present this written statement
16 to the Examiner and to the parties in this case?

17 MR. DAVIS: Yes, I have.

18 MR. STOVALL: It's your understanding
19 that this does represent the position of the BLM
20 with respect to this application at this time?

21 MR. DAVIS: Yes, it does.

22 MR. STOVALL: Okay. And that will not
23 be marked as an exhibit because it is a statement
24 of position by one regulatory agency to another
25 rather than a documentation of any sort of

1 factual information.

2 EXAMINER STOGNER: This document will
3 be accepted into the record and made a part
4 thereof.

5 Mr. Carr, I believe you wanted to make
6 or you have a question on this particular
7 statement?

8 MR. CARR: I think I can do it by just
9 asking Mr. Anderson a couple of questions, with
10 your permission, just in the nature of
11 clarification.

12 EXAMINER STOGNER: Go ahead, Mr. Carr.

13 FURTHER EXAMINATION

14 BY MR. CARR:

15 Q. Mr. Anderson, you've reviewed the
16 hearing statement that has just been presented by
17 the Bureau of Land Management, have you not?

18 A. Yes.

19 Q. The second paragraph in that letter
20 reads, "The subject application seeks permission
21 to produce without venting restrictions while gas
22 sales line construction is proceeding to 'gather
23 data to determine if gravity drainage is an
24 effective depletion mechanism."

25 It then goes on to note that the

1 Farmington BLM Office granted the six-month
2 testing period with unrestricted venting for this
3 very reason.

4 Is it your understanding that the
5 original test was to gather data to determine if
6 gravity drainage was, in fact, an effective
7 depletion mechanism?

8 A. No. We weren't really considering that
9 at the time of the previous test. The BLM
10 approved the test back in June--or, excuse me,
11 July of 92, to gather additional data on oil
12 production and corresponding GOR, but really no
13 mention was made of gravity drainage back at that
14 time.

15 The statement that Mr. Carr quoted in
16 quotes just now, "to gather data to determine if
17 gravity drainage is an effective depletion
18 mechanism," is but one of several objectives of
19 the test and it's probably a minor piece of the
20 data that we expect to get from this. And I
21 think I've outlined the information that we do
22 propose to get from this test.

23 MR. CARR: That's all.

24 EXAMINER STOGNER: Are there any other
25 questions of this witness?

1 MR. KELLAHIN: Just one point of
2 clarification. I believe he's already answered
3 my question, but let me put it to him again.

4 FURTHER EXAMINATION

5 BY MR. KELLAHIN:

6 Q. The reservoir at this point has one
7 producing well?

8 A. Hunter has one producing well on its
9 land, yes.

10 Q. We're an extension or subject to the
11 West Puerto Chiquito-Mancos oil pool?

12 A. Yes.

13 Q. We're 640 oil spacing?

14 A. Yes.

15 Q. Mr. Greer's Sections 9 and 10 to the
16 south and west of you, have wells proposed for
17 those two sections as you understand it?

18 A. Yes.

19 Q. American Hunter has no objection to Mr.
20 Greer drilling those wells?

21 A. Well, we can neither object nor approve
22 so long as Mr. Greer drills those wells within
23 the standard spacing unit, according to all the
24 application regulations. 640-acre spacing is the
25 established spacing in that area, so we,

1 essentially, cannot have an opinion.

2 Q. And, as I understand it, his proposal
3 would be consistent with those rules? He's not
4 seeking unorthodox locations? He has a standard
5 640 spacing unit, so there would be no
6 opportunity for you to object to his wells?

7 A. That's correct.

8 Q. And if Mr. Greer has the authority to
9 go ahead and drill his wells, complete them and
10 produce his gas, then that will be his exercise
11 of an opportunity to protect his correlative
12 rights?

13 A. Yes. And we would expect the same
14 rights on our land offsetting him.

15 MR. KELLAHIN: All right. Thank you,
16 Mr. Stogner.

17 EXAMINER STOGNER: I have a few
18 questions.

19 EXAMINATION

20 BY EXAMINER STOGNER:

21 Q. Without bringing economics into the
22 picture just for a moment, and just looking at
23 the scientific/engineering data, would there be
24 any harm done to the reservoir itself for leaving
25 the well, in this particular case, shut in until

1 such time as the pipeline is hooked up? Is there
2 going to be any potential drainage or loss of
3 either oil or gas production?

4 A. No.

5 Q. But if the gas is hooked up, you don't
6 see that your test results will be adequate
7 unless the well is being vented to atmosphere?
8 Am I hearing that right?

9 A. No. The disposition of the gas is not
10 critical to the test. We simply see an
11 opportunity to test the well now, get the
12 information out as early as possible, and that
13 will let us accelerate whatever future
14 development we may do.

15 Q. By six months, in this particular
16 instance?

17 A. Yes.

18 Q. Okay. Now, in looking at Exhibit No.
19 1, and I want to make sure I understand American
20 Hunter's position on this, this is on Jicarilla
21 Reservation land?

22 A. Yes.

23 Q. And essentially the royalty belongs to
24 who?

25 A. The Jicarilla, as I understand.

1 Q. The Jicarilla Tribe?

2 A. Yes.

3 Q. You have a lease with the Jicarilla
4 Tribe?

5 A. Yes.

6 Q. You, being "American Hunter."

7 A. Yes.

8 Q. So, American Hunter, acting for the
9 royalty in this particular instance, and your
10 position through Exhibit No. 2, you feel that the
11 royalty interest has given you authorization to
12 vent the gas at this point under these terms?

13 A. Yes.

14 Q. So, essentially, the royalty interest
15 owner has given you their permission to put the
16 oil interest, produce it, sell it now, and let
17 the gas go at this particular point, one
18 particular mineral over another, this being oil
19 and gas?

20 A. Yes.

21 Q. And you're working through this
22 arrangement with the royalty interest?

23 A. Yes.

24 Q. I wish I had a pipeline map out there,
25 but you did allude to the fact that you looked at

1 a Northwest and an El Paso proposal. Am I to see
2 or think that the El Paso well is closer, just as
3 close, or further than this particular--

4 A. It was my understanding that El Paso
5 was much further. They're not on this map that I
6 provided, and I'm at a loss to tell you where
7 they are, but it was my understanding that
8 they're much further away.

9 MR. STOVALL: I have just one question
10 on that.

11 EXAMINATION

12 BY MR. STOVALL:

13 Q. You're talking about the physical line
14 from where you'll connect in 27-2 to get into
15 Ignacio? Once you get into Ignacio, you have
16 access to about anybody, don't you?

17 A. Just about anybody, yes. We're really
18 only talking about who gathers the gas up to the
19 processing plant. Where it's sold from then on
20 is really not an issue. I'm not sure that the
21 commercial issue of who we sell the gas to and at
22 what price it is, isn't--

23 Q. I don't think it's relevant here, but
24 I think they're expressing some concern and it's
25 been raised a couple of times. I just wanted to

1 make it clear that you're, in fact, just
2 gathering through Northwest to Ignacio, from
3 which point your gas marketing people take over
4 and presumably cut the best deal they can for
5 American Hunter?

6 A. That's right.

7 FURTHER EXAMINATION

8 BY EXAMINER STOGNER:

9 Q. One other question. Is there any kind
10 of obligation to pay the royalty for the gas that
11 is flared if the application was approved, or for
12 any gas that was flared previously, for that
13 matter?

14 A. I don't know.

15 FURTHER EXAMINATION

16 BY MR. STOVALL:

17 Q. I would like to take that one step
18 further, if I might. My understanding, from
19 previous testimony, is that this is not just a
20 straight lease royalty arrangement with the
21 Jicarilla Tribe. Are you knowledgeable about
22 that arrangement?

23 A. In general terms I am. It's not a set
24 royalty. It has back-in and working interest
25 provisions as well with the Jicarilla, and with

1 two other companies, Richmond and a company
2 called EnRe.

3 Q. Is it safe to say you can speak for
4 Richmond and EnRe?

5 A. Yes.

6 Q. They're working partners with you?

7 A. Yes.

8 Q. The Jicarilla's royalties, they are the
9 owners of the minerals and the people with whom
10 you have to deal in order to acquire rights to
11 develop the minerals?

12 A. Yes.

13 Q. I think it's important, possibly more
14 for you than for us, to understand that the
15 Jicarillas are more than just a royalty owner on
16 these operations.

17 A. Yes.

18 MR. STOVALL: That's all.

19 EXAMINER STOGNER: That's all the
20 follow-up questions I had.

21 Are there any other questions of this
22 witness?

23 MR. CARR: No other questions.

24 EXAMINER STOGNER: You may be excused.
25 I believe we're ready for--well, excuse me, do

1 you have another witness?

2 MR. CARR: No, sir. That concludes our
3 presentation.

4 EXAMINER STOGNER: Do you have a
5 witness at this time, Mr. Kellahin?

6 MR. KELLAHIN: No.

7 EXAMINER STOGNER: I believe we're
8 ready for closing statements, arguments. Excuse
9 me just for a second.

10 [Discussion off the record.]

11 EXAMINER STOGNER: Since this is
12 somewhat a unique situation with closing
13 statements, I'll allow Mr. Stovall to go first,
14 Mr. Kellahin may go second, and Mr. Carr you can
15 follow.

16 MR. STOVALL: Let me make it very clear
17 that the statements I am making are on behalf of
18 the Aztec District Office of the OCD as the
19 office responsible for regulating production in
20 this area. It does not necessarily represent the
21 official position of the OCD, and certainly not
22 of the Director, who does not have an official
23 position at this time. This is the only way by
24 which he will hear anything of what the Aztec
25 Office recommends.

1 Essentially, it's very simple. The
2 Aztec office doesn't disagree that there may be
3 some need for some additional testing out there,
4 but they're very concerned that there has been a
5 substantial amount of gas already wasted by
6 flaring or venting into the atmosphere, and at
7 this time they cannot support an application to
8 waste additional gas at this time, and believe
9 that the testing necessary and the information to
10 be obtained could be best obtained after the
11 pipeline is connected and no additional gas is
12 wasted or flared. That's it. I have nothing
13 further.

14 EXAMINER STOGNER: Thank you, Mr.
15 Stovall. Mr. Kellahin?

16 MR. KELLAHIN: Thank you, Mr.
17 Examiner. You may have to draw on some of the
18 prior information from the other transcripts, but
19 let me, without a lot of detail, summarize for
20 you Mr. Greer's predicament.

21 He has tremendous sympathy for the
22 incredible number of regulatory hurdles that
23 American Hunter has had to crawl under, jump
24 over, and pass through, but he has been faced
25 with those same issues himself.

1 We've talked a little bit about
2 correlative rights, and here in a nutshell is the
3 problem. Mr. Greer is ready, willing and able to
4 commence the drilling of his wells that will let
5 him have the opportunity to protect his
6 correlative rights so that he can compete for the
7 oil to be produced out of this portion of the
8 reservoir with American Hunter.

9 You need to understand, though, that
10 the Jicarilla Tribe has placed Mr. Greer in the
11 position where, despite his willingness, he is
12 unable to obtain an approved permit to drill
13 these wells. There are reasons for that, and
14 they're economically advantageous to the Tribe,
15 which has a better financial arrangement with
16 American Hunter interest owners than they have
17 under their lease with Mr. Greer.

18 Apart from that, though, Mr. Greer has
19 supported in the past the flaring of gas in order
20 to arrive at necessary reservoir information.
21 There is an opportunity to achieve additional
22 reservoir data with the adoption by this Division
23 of approvals consistent with the BLM letter, and
24 Mr. Greer and his company support this Division
25 entering an order consistent with the BLM

1 letter.

2 It provides a testing period. It will
3 provide the opportunity to flare smaller volumes
4 of gas to achieve the objectives of all of the
5 parties involved in the production. As I
6 understand Mr. Anderson's testimony, though, the
7 only reason to proceed now is to improve the cash
8 flow of American Hunter.

9 I think the proposal prepared by the
10 Bureau of Land Management is consistent with the
11 best interests of all parties. It protects the
12 hydrocarbons from being wasted, whether it's oil
13 or gas, and this is an appropriate resolution of
14 the issue, and we would support you entering an
15 order consistent with the BLM statement.

16 EXAMINER STOGNER: Thank you Mr.
17 Kellahin. Mr. Carr?

18 MR. CARR: Mr. Stogner, Canadian Hunter
19 formed an American Hunter business unit and
20 arrived in Northwest New Mexico to discover they
21 were confronted with tiers and tiers of
22 regulations--

23 MR. STOVALL: Is that T-E-A-R-S?

24 MR. CARR: Probably both. --and
25 confusing questions concerning jurisdiction.

1 They've drilled and expended substantial sums,
2 and they have one well that is very good and we
3 have been going down a very long road trying to
4 figure out what we're going to do with the gas.

5 As you recall, this summer we were
6 before you and we were able to get your
7 permission to conduct a testing program. We
8 structured the tests in various ways to
9 accommodate agencies and other interest owners,
10 and the result of that test was no conclusive
11 results, and one other result of that test was
12 really delays.

13 If we had not been making those
14 efforts, we would probably be--well, we would be
15 much farther ahead in efforts to construct a
16 pipeline today. We have learned we can't use the
17 two-way well for injection as we had initially
18 hoped, and we are now, therefore, proceeding with
19 what we understood was the desired next
20 alternative, and that was to construct a
21 pipeline.

22 What we're doing while we are going
23 forward with this effort and while the line is
24 under construction, is we're requesting authority
25 to conduct certain additional tests that will

1 provide information which is going to enable us
2 to go forward with development plans sooner, data
3 which may not otherwise be available once there
4 is the pressure of a gas contract causing us to
5 deliver, not shut wells in and run tests in what
6 we believe to be the most efficient engineering
7 way, and we believe in view of this it's sound
8 from a conservation point of view.

9 We recognize that the OCD is concerned
10 about venting gas, but I don't think you should
11 have tunnel vision on that subject when there is
12 also valuable information that can be acquired
13 now, shared with other operators, and we really
14 believe the acquisition of that data has
15 substantial value not only to the individual
16 operators but to you, as an agency, trying to
17 assure that this resource is developed in a
18 prudent fashion.

19 For that reason, we request that the
20 application be granted. We believe that it would
21 be appropriate to permit the testing while the
22 pipeline is under construction, and require that
23 the goals and objectives of the test be clearly
24 defined to the agency at the time the test
25 commences.

1 EXAMINER STOGNER: Thank you, Mr. Carr.
2 Does anybody else have anything further
3 in Case 10639?

4 If not, this case will taken under
5 advisement.

6 (And the proceedings concluded.)
7
8
9
10
11
12

13 I do hereby certify that the foregoing is
14 a complete record of the proceedings in
15 the Examiner hearing of Case No. _____,
16 heard by me on _____ 19____.

17 _____, Examiner
18 Oil Conservation Division
19
20
21
22
23
24
25

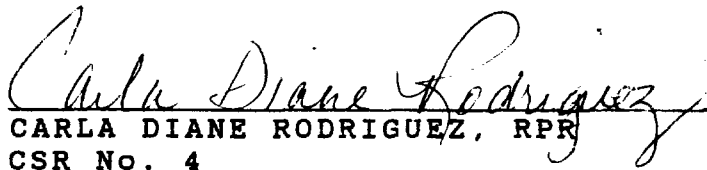
1 CERTIFICATE OF REPORTER

2
3 STATE OF NEW MEXICO)
4) ss.
COUNTY OF SANTA FE)

5
6 I, Carla Diane Rodriguez, Certified
7 Shorthand Reporter and Notary Public, HEREBY
8 CERTIFY that the foregoing transcript of
9 proceedings before the Oil Conservation Division
10 was reported by me; that I caused my notes to be
11 transcribed under my personal supervision; and
12 that the foregoing is a true and accurate record
13 of the proceedings.

14 I FURTHER CERTIFY that I am not a
15 relative or employee of any of the parties or
16 attorneys involved in this matter and that I have
17 no personal interest in the final disposition of
18 this matter.

19 WITNESS MY HAND AND SEAL January 4,
20 1993.

21
22
23 
24 CARLA DIANE RODRIGUEZ, RPR
25 CSR No. 4