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STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION
CASE 9863, CASE 9887 (CONSOLIDATED)

EXAMINER HEARING

IN THE MATTER OF:

Application of Hixon Development Company for
Compulsory Pooling, San Juan County, New Mexico

Application of Hixon Development Company for
Compulsory Pooling, San Juan County, New Mexico

TRANSCRIPT OF PROCEEDINGS

BEFORE: MICHAEL E. STOGNER, EXAMINER

STATE LAND OFFICE BUILDING

SANTA FE, NEW MEXICO

March 21, 1990

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FOR THE DIVISION:

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1 EXAMINER STOGNER: Call next case, No.
2 9863.

3 MR. STOVALL: Application of Hixon
4 Development Corporation for compulsory pooling, San
5 Juan County, New Mexico.

6 EXAMINER STOGNER: Call for appearances.

7 MR. ROBERTS: Mr. Examiner, my name is
8 Tommy Roberts. I'm an attorney in Farmington, New
9 Mexico. I'm appearing on behalf of the Applicant. We
10 have two witnesses to be sworn.

11 EXAMINER STOGNER: Are there any additional
12 appearances? If not, will the witnesses please stand
13 to be sworn at this time.

14 MR. STOVALL: Mr. Roberts, are you going
15 to--

16 MR. ROBERTS: I was going to, but I'll go
17 ahead and do it now.

18 Mr. Examiner, we would move at this time
19 that Case Nos. 9863 and 9887 be consolidated today for
20 purposes of testimony.

21 EXAMINER STOGNER: If there are no
22 objections, we'll now call Case No. 9887.

23 MR. STOVALL: Application of Hixon
24 Development Company for compulsory pooling, San Juan
25 County, New Mexico.

1 EXAMINER STOGNER: Other than the
2 Applicant, are there any appearances in this case?
3 All right. Now we can swear the witnesses.

4 (Thereupon, the witnesses were sworn.)

5 CHARLES FOSTER

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

8 EXAMINATION

9 BY MR. ROBERTS:

10 Q. Mr. Foster, would you state your name and
11 place of residence for the record.

12 A. My name is Charles Foster, and I live in
13 Durango, Colorado.

14 Q. What is your occupation?

15 A. Vice-president of land for Hixon
16 Development Company.

17 Q. How long have you been so employed?

18 A. I have been employed with Hixon Development
19 Company since January of 1984.

20 Q. Briefly describe your responsibilities in
21 that position.

22 A. My responsibilities are for the management
23 and negotiation for their oil and gas leases, farm-out
24 contracts, operating agreements, et cetera.

25 Q. Have you testified on any prior occasion

1 before the New Mexico Oil Conservation Division?

2 A. Yes, I have.

3 Q. In what capacity did you testify?

4 A. As petroleum landman for Hixon Development
5 Company.

6 Q. Have your qualifications as an expert in
7 the field of petroleum land work been made a matter of
8 record and accepted by the Division?

9 A. Yes, they were.

10 Q. Are you familiar with the applications in
11 these two cases?

12 A. Yes, I am.

13 Q. Did you prepare certain exhibits for each
14 of these cases to be submitted today?

15 A. Yes, I did.

16 MR. ROBERTS: Mr. Examiner, I would ask
17 that Mr. Foster's qualifications as an expert
18 petroleum landman be recognized.

19 EXAMINER STOGNER: Mr. Foster is so
20 qualified.

21 Q. Mr. Foster, refer to what has been marked
22 as Exhibit No. 1 in Case No. 9863, and describe that
23 exhibit, please.

24 A. This exhibit indicates the acres that we
25 want to commit to the drilling of our proposed Bisti

1 Coal 7 No. 1 Well in San Juan County, New Mexico.

2 Q. Before we go into detail on the exhibit,
3 would you briefly describe the purpose of these two
4 applications?

5 A. The purpose of these two applications is to
6 secure an Order from the Commission to pool all the
7 mineral interests in the Basin Fruitland Gas Pool that
8 underlie the lands covered by the two exhibits.

9 Q. Referring to Exhibit 1 in Case No. 9863,
10 what lands do you seek to force pool?

11 A. In Case No. 9863, we want to force pool
12 Lots 1, 2, 3 and 4 in the east half of the west half.

13 Q. Can you describe the ownership of the
14 leases which will be pooled, as well as the ownership
15 interests in the spacing unit which is proposed?

16 A. We want to pool all of the interests
17 there. The two interests, 50 percent of the proration
18 unit is owned by Hixon Development Company, et al.,
19 the other 50 percent is controlled by Sun Operating
20 Limited Partnership.

21 Q. What is the location of the Bisti Coal 7
22 No. 1 Well?

23 A. The proposed location for the Bisti Coal 7
24 No. 1 Well will be 2375 from the south line, 1520 from
25 the west line of Section 7, Township 25 North, Range

1 12 West.

2 Q. What is the objective depth of that well?

3 A. The objective is 1400 feet subsurface.

4 Q. In what formation will that total depth
5 place you?

6 A. It will put us in the Fruitland Coal
7 formation.

8 Q. Is it Sun Operating Limited Partnership
9 that is the party who you seek to pool in this case?

10 A. Yes, it is.

11 Q. Now refer to Exhibit 1 in Case No. 9887.
12 Would you identify that exhibit.

13 A. This exhibit indicates all of the lands
14 that we wish to have contained within the proration
15 unit pooling all of the mineral interests together for
16 the drilling of the proposed Bisti Coal 17 No. 1 Well.

17 Q. Would you describe those lands which you
18 seek to pool?

19 A. Those lands are described as the east half
20 of Section 17, Township 25 North, Range 12 West, San
21 Juan County, New Mexico.

22 Q. Identify the lease ownership as well as the
23 ownership of the interest in the spacing unit which
24 you propose?

25 A. The lease ownership insofar as it covers

1 the north half of the northeast quarter and the
2 southeast of the northeast quarter is owned by Sun
3 Operating Limited Partnership along with the northeast
4 quarter of the southeast quarter.

5 The balance of the east half of the section
6 is owned by Hixon Development Company, et al. Each
7 company controls 50 percent of the total proration
8 unit.

9 Q. Would you identify the location of the
10 Bisti Coal 17 No. 1 Well?

11 A. The proposed location for the Bisti Coal 17
12 No. 1 Well is 790 feet from the north line, and 790
13 feet from the east line in Section 17, Township 25
14 North, Range 12 West.

15 Q. What is the objective depth of this well?

16 A. The objective is 1300 feet subsurface.

17 Q. And in what formation will that place you?

18 A. Within the Fruitland Coal formation.

19 Q. Let's turn to what's been marked as Exhibit
20 2 in Case No. 9863. Would you identify that exhibit.

21 A. Exhibit No. 2 is a letter providing an
22 operating agreement and authority for expenditure for
23 the drilling of the Bisti Coal 7 No. 1 Well.

24 Q. What is the date of that letter?

25 A. The letter is dated December 26, 1989.

1 Q. Who is it addressed to?

2 A. It's addressed to Ms. Lynn Luhman of Oryx
3 Energy Company, the managing general partner for Sun
4 Operating Limited Partnership.

5 Q. Describe the substance of that letter.

6 A. The substance of the letter indicates our
7 desire to drill a well in the lands covered in Exhibit
8 1, and places them essentially on notice of our
9 desires and gives them the opportunity to participate
10 in the well if they wish.

11 Q. Have you had any response to that letter?

12 A. We have had no written response at all.

13 Q. Have you had any verbal communications?

14 A. I've had verbal communications with Lynn
15 Luhman indicating Sun was not going to participate in
16 our well.

17 Q. Let's move on to the operating agreement
18 which is a part of Exhibit No. 2. I take it that
19 Hixon Development Company proposes to operate this
20 well?

21 A. Yes, we do.

22 Q. Are you familiar with the number of
23 Fruitland Coal wells Hixon has drilled in this general
24 area?

25 A. Yes, I am.

1 Q. How many have been drilled by Hixon
2 Development Company?

3 A. Approximately 10 wells.

4 Q. Has Hixon operated each of those wells?

5 A. Yes, they have.

6 Q. Mr. Foster, do you propose charges for the
7 supervision of this particular well during the
8 drilling and production stages?

9 A. Yes, we do.

10 Q. What charges do you propose?

11 A. During the drilling of the well we propose
12 a monthly drilling well rate of \$3,885. During the
13 producing stage of this well we propose a monthly
14 producing well rate of \$380.

15 Q. Are these proposed charges consistent with
16 the charges that you're familiar with in the area?

17 A. Yes, they are.

18 Q. For the depth of the well, the type of the
19 well and the area?

20 A. Yes, they are.

21 Q. Now refer to that portion of Exhibit No. 2
22 which is identified as the authority for expenditure.

23 A. It's right on the top.

24 Q. Who prepared this AFE?

25 A. This AFE was prepared under the supervision

1 of John Corbett.

2 Q. Are you familiar with the contents of the
3 AFE?

4 A. Yes, I am.

5 Q. Has this AFE been sent to Sun Operating
6 Limited Partnership?

7 A. Yes, it was. It was sent along with the
8 operating agreement that we submitted under the cover
9 of the letter at the top of this exhibit.

10 Q. What are the projected dry hole costs for
11 the drilling of this well?

12 A. Projected dry hole costs are \$31,490.

13 Q. What are the projected completed well
14 costs?

15 A. Completed well costs are \$137,140.

16 Q. Mr. Foster, let's now turn to what's been
17 marked as Exhibit 2 in Case No. 9887. Will you
18 briefly describe the contents of that exhibit.

19 A. Exhibit No. 2 details on the cover a letter
20 sent to Ms. Lynn Luhman of Oryx Energy Company
21 offering them an opportunity to participate in the
22 proposed Bisti Coal 17 No. 1 Well. This letter
23 includes a copy of an operating agreement and an AFE.

24 Q. What is the date of this letter to Sun
25 Operating Limited Partnership?

1 A. This letter is dated February 22, 1990.

2 Q. Have you received any response to this
3 communication?

4 A. I've received no written response back from
5 Sun.

6 Q. Have you had any verbal communication with
7 Ms. Luhman?

8 A. Yes, I had verbal communication with Ms.
9 Luhman, wherein she indicated that Sun was not going
10 to participate in our well.

11 Q. Let's turn to the operating agreement which
12 has been made a part of this Exhibit No. 2 in Case No.
13 9887. Does Hixon Development Company propose to
14 operate this well?

15 A. Yes, we do.

16 Q. Do you propose charges for the supervision
17 of the drilling and production stages?

18 A. Yes, we do.

19 Q. What charges do you propose?

20 A. We propose a monthly drilling well rate of
21 \$3,885 and we have proposed a monthly producing well
22 rate of \$380.

23 Q. Are these proposed rates consistent with
24 rates charged in the area with which you are familiar?

25 A. Yes, they are.

1 Q. Let's turn to what has been designated as
2 an authority for expenditure for the Bisti Coal 17 No.
3 1 Well. Was this AFE also prepared under the
4 direction of Mr. Corbett of Hixon Development Company?

5 A. Yes, it was.

6 Q. What are the projected dry hole costs?

7 A. Projected dry hole costs in this well are
8 \$22,270.

9 Q. What are the projected completed well
10 costs?

11 A. Completed well costs are \$72,195.

12 Q. Mr. Foster, let's turn to what has been
13 marked as Exhibit No. 3 in Case No. 9863. Would you
14 identify that exhibit, please.

15 A. This exhibit is a photocopy of the Ernst &
16 Whinney survey results of oil and gas producers
17 nationwide from 1988, which details the median and
18 average monthly producing well rates and monthly
19 drilling well rates for oil and gas wells in the area
20 that these wells are located.

21 Q. Why do you enclose this as an exhibit in
22 this case?

23 A. Our company has used the Ernst & Whinney
24 survey results as the foundation for our proposal for
25 monthly drilling well rates and producing well rates.

1 Q. Are your proposed supervisory charges
2 consistent with these survey results?

3 A. Yes, they are.

4 Q. Refer to what's been marked as Exhibit No.
5 3 in Case No. 9887, and identify that exhibit.

6 A. Exhibit 3 is a photocopy of the Ernst &
7 Whinney survey of oil and gas operators surveying the
8 monthly producing well rates and monthly drilling well
9 rates for oil and gas wells in the area of the well
10 proposed in our application.

11 Q. And as with the Exhibit No. 3 in Case No.
12 9863, do you submit this exhibit in support of the
13 proposed supervisory charges for the Bisti Coal 17 No.
14 1 Well?

15 A. Yes, we do.

16 Q. Refer to what's been marked as Exhibit No.
17 4 in Case No. 9863 and identify that exhibit.

18 A. Exhibit No. 4 is the notification provided
19 to Sun Operating Limited Partnership of the hearing
20 that we're at here today.

21 Q. What is the date of that letter?

22 A. The letter is dated February 26, 1990.

23 Q. Was the letter mailed on February 26, 1990?

24 A. The letter was mailed the day after, on
25 February 27, 1990.

1 Q. Do you have evidence of when this letter
2 was received by Sun Operating Limited Partnership?

3 A. Yes. On the last page of the exhibit is an
4 open of the driver's manifest from the Airborne
5 Express Overnight Delivery Service driver. Indicated
6 in the third line is the package number that Sun
7 received from Hixon Development Company. It's
8 indicated as Shipment No. 902344111.

9 Q. And what was the date of receipt?

10 A. Date of receipt was February 28, 1990.

11 Q. Refer to what has been marked as Exhibit
12 No. 4 in Case No. 9887, and identify that exhibit.

13 A. Exhibit No. 4 is a letter dated February
14 26, 1990, to Ms. Lynn Luhman of Sun Operating Limited
15 Partnership, wherein it outlines or provides notice
16 for the hearing that we're at today.

17 Q. Was this letter mailed on February 26,
18 1990?

19 A. No. It was mailed on February 27, 1990.

20 Q. Do you have evidence in your possession of
21 the date on which this correspondence was received by
22 Sun Operating Limited Partnership?

23 A. Yes, I do. On the last page of the exhibit
24 is a copy of the driver's manifest from the Airborne
25 Express Delivery driver. Indicated in the third entry

1 under Shipment No. 902344111, is the evidence that Sun
2 received it on February 28, 1990.

3 Q. Mr. Foster, were Exhibit Nos. 1 through 4,
4 with the exception of the authority for expenditure
5 which is included with Exhibit No. 2 in each of these
6 cases, either prepared by you or at your direction and
7 under your supervision?

8 A. Yes, they were.

9 MR. ROBERTS: Mr. Examiner I have no
10 further questions of this witness on direct, and I
11 would move for the admission of Exhibits 1 through 4.

12 EXAMINER STOGNER: Exhibits 1 through 4
13 will be admitted as evidence.

14 EXAMINATION

15 BY EXAMINER STOGNER:

16 Q. Mr. Foster, I would like to look at
17 Exhibits 1 on both cases. Let's first start with Case
18 No. 9863. I notice that there's two federal leases
19 involved?

20 A. Yes, there are.

21 Q. In the northern portion and the southern
22 portion. What is the makeup of the leases in the east
23 half of Section 7?

24 A. The makeup of the leases in the east half
25 of Section 7 is all acreage controlled by Hixon

1 Development Company. They are probably federal leases
2 on that.

3 Q. Do you know if those resources on the east
4 side are being developed at this time in the Basin
5 Fruitland Coal?

6 A. I believe we have plans to develop them in
7 the future.

8 Q. Same question for Case No. 9887.

9 A. In this situation it's identical as your
10 questions on the first one. We control the west half
11 of that section and we have plans in the future to
12 develop the west half.

13 Q. When you spoke with Ms. Luhman, did she
14 indicate why Oryx was not wanting to join you in this
15 well?

16 A. Oryx being the managing general partner for
17 Sun Operating Limited Partnership, indicated to me
18 that they would or they felt their money was better
19 spent in other areas of the Basin that had higher
20 potential for Fruitland Coal Gas, and that was the
21 same in both of these cases.

22 Q. About when did you speak to Ms. Luhman?

23 A. I would say within two weeks of mailing her
24 the AFE and the operating agreement, sometime within
25 that time period.

1 EXAMINER STOGNER: Thank you. Are there
2 any other questions of Mr. Foster?

3 MR. STOVALL: One.

4 EXAMINATION

5 BY MR. STOVALL:

6 Q. Mr. Foster, on the two Exhibit 1's, the
7 portions that are not a part of the respective cases,
8 are those different leases than the leases that are
9 involved in the proration units?

10 A. I believe they are. I didn't bring a map
11 of the rest of our field there, but this is in the
12 area of our Carson Unit, or excuse me, our Central
13 Bisti Unit, and that's a block of acreage that we
14 pretty much control in its entirety.

15 Q. The reason I asked that question, the BLM
16 tends to dislike communitization agreements where a
17 proration unit can be formed on a single lease. Have
18 you reviewed that to make sure that's not going to be
19 a problem with BLM?

20 A. As far as I know, that's not going to be a
21 problem with them.

22 MR. STOVALL: No further questions.

23 EXAMINER STOGNER: If there are no other
24 questions of Mr. Foster, he may be excused.

25 MR. ROBERTS: I would call John Corbett.

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JOHN CORBETT

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

EXAMINATION

BY MR. ROBERTS:

Q. Mr. Corbett, would you state your name and place of residence for the record?

A. My name is John Corbett. I reside in Farmington, New Mexico.

Q. What is your occupation?

A. I'm a petroleum geologist with Hixon Development Company.

Q. How long have you been employed with Hixon Development Company?

A. Since May of 1983.

Q. Briefly describe your responsibilities in that position.

A. I'm responsible for reserves and replacement, including drilling operations.

Q. Have you testified on any prior occasion before the New Mexico Oil Conservation Division?

A. Yes, I have.

Q. In what capacity?

A. As a petroleum geologist.

Q. Have your qualifications as an expert

1 petroleum geologist been made a matter of record and
2 accepted?

3 A. Yes, they have.

4 Q. Are you familiar with the applications in
5 these cases?

6 A. I am.

7 Q. Have you prepared certain exhibits for
8 submittal today in these cases?

9 A. Yes, I have.

10 MR. ROBERTS: Mr. Examiner, I would ask
11 that the Division recognize Mr. Corbett as an expert
12 in the field of petroleum geology.

13 EXAMINER STOGNER: Mr. Corbett is so
14 qualified.

15 Q. Mr. Corbett, I would like for you to refer
16 back to what was marked as Exhibit 2 in Case No. 9863,
17 and particularly refer to the authority for
18 expenditure. Did you prepare this authority for
19 expenditure?

20 A. Yes, I did.

21 Q. And likewise, in Case No. 9887, Exhibit No.
22 2 and that portion which consists of the authority for
23 expenditure, did you prepare that exhibit?

24 A. Yes, I did.

25 Q. Mr. Corbett, I would like for you to

1 briefly describe the basis for the preparation of
2 these AFEs for these two wells.

3 A. We prepare an authority for expenditure for
4 any measured expense, in particular in drilling and
5 completion of new wells, to obtain the approval of all
6 the working interest owners involved in those wells.

7 Q. How did you arrive at these estimated
8 costs?

9 A. There's a second page attached to the AFE
10 that is a cost estimate that breaks out, based on
11 drilling expense, completion expense, location
12 expense, where we think that the costs are going to be
13 incurred in drilling a well.

14 Q. Mr. Foster testified that Hixon operates as
15 many as nine other Fruitland Coal gas wells in the
16 general area. Are you familiar with those operations?

17 A. Yes, I am.

18 Q. Have you monitored actual costs in drilling
19 and completing those wells?

20 A. Yes, I have. These are based on actual
21 costs incurred on previous wells.

22 Q. Okay. In your opinion, are these estimated
23 costs for these two wells, which are the subject of
24 these applications, reasonable?

25 A. Yes, they are.

1 Q. And they are consistent with actual
2 historical costs incurred in drilling and completing
3 similar wells in the area?

4 A. They are.

5 Q. I would like for you to refer to what has
6 been marked as Exhibit No. 5, please, in Case No.
7 9863, as well as Case No. 9887. Would you describe
8 that exhibit?

9 A. This is a map showing producing oil and gas
10 wells within the vicinity of the area in discussion.

11 Q. Are these maps identical in both cases, or
12 is there any difference in them?

13 A. For the two cases, the respective well in
14 question in the force pooling action is different.
15 The other wells shown on the map, the offset of
16 Fruitland Coal wells, are the same.

17 Q. Would you highlight the pertinent
18 information which you illustrate in Exhibit No. 5?

19 A. Exhibit No. 5 shows the Basin Fruitland
20 Coal Pool Gas Wells that Hixon Development Company has
21 drilled within the area covered by this map. These
22 are all the wells that I know of producing from the
23 Basin Fruitland Coal pool.

24 We have two wells in Section 1 of Township
25 North, Range 12 West, that are, at this time,

1 economic to produce. We have three other wells
2 ranging across the southern portion of the Bisti areas
3 that are producing large volumes of water and small
4 amounts of gas.

5 Q. Would you identify the wells you consider
6 to be economic to produce at this time?

7 A. The commercial wells are the Pete Morrow
8 Wells No. 1 and No. 2. Both wells are flowing natural
9 gas from the Fruitland Coal formation.

10 Q. Where are they located?

11 A. Those are in Section 1 of Township 25
12 North, Range 12 West.

13 Q. To your knowledge, are there other
14 operators active in development of the Fruitland Coal
15 formation in this area?

16 A. I believe there have been other wells
17 recently staked as a result of the commercial success
18 of the Pete Morrow Wells No. 1 and No. 2.

19 Q. Now, with respect to Exhibit 5 in Case No.
20 9887, do you have anything to add that is particular
21 to the application for the Bisti Coal 17 No. 1 Well?

22 A. I don't believe there's anything
23 significantly different in the two cases.

24 Q. Okay. Then let's put this exhibit up and
25 refer to what's been marked as Exhibit No. 6 in Case

1 No. 9863. Would you identify that exhibit?

2 A. This is a section of the induction electric
3 log from Hixon Development Company's Central Bisti
4 Unit No. 97. This well is a direct offset to the
5 proposed Bisti Coal 7 No. 1.

6 The log section highlights the Fruitland
7 Coal section and is included to illustrate the fact
8 that we have approximately 30 feet of coal section in
9 this area. This is what's expected to appear in the 7
10 No. 1. It's considerably thinner than the Fruitland
11 Coal in the heart of the productive fairway in the San
12 Juan Basin.

13 Q. When you say it's considerably thinner than
14 the Fruitland Coal in the heart of the Basin, can you
15 quantify that?

16 A. We have some slightly less than 30 feet of
17 coal section in this area in Section 7 where we've
18 proposed our well. In the areas where other major
19 operators are developing Fruitland Coal, they're
20 encountering sections 60 to 80 feet thick.

21 Q. And does this information regarding
22 thickness of the coal form the basis for the
23 assessment of economics of drilling this well?

24 A. It does because recoverable reserves are
25 tied directly to the thickness of the coal formation.

1 We have considerably less coal and we have less
2 recoverable reserves.

3 Q. And have you, on this information, reached
4 a conclusion as to the economics of drilling this
5 particular well?

6 A. We feel that this can be an economic
7 project if the well produces either very little water
8 or dew waters rapidly.

9 Q. Do you have any information available to
10 you now that would indicate the amount of water that
11 you might encounter in the drilling of this well?

12 A. In areas as illustrated in Exhibit 5,
13 across the Bisti area we have wells that have produced
14 significant quantities of water relative to the amount
15 of gas they've produced. We do have one lease that is
16 producing very little water. This area is of
17 relatively unknown quantity.

18 Q. Let's refer to what's been marked as
19 Exhibit 6 in Case No. 9887. Would you identify that
20 exhibit?

21 A. This is a section of an electric log from a
22 well that Hixon Development currently operates. The
23 Central Bisti Unit No. 42. The section of the log
24 shown here illustrates and highlights the Fruitland
25 Coal Section in that well.

1 Q. And what does this show the thickness of
2 the coal to be?

3 A. We have slightly over 30 feet of coal
4 thickness in this well.

5 Q. Mr. Corbett, would it be fair to say you
6 have the same comments and observations regarding the
7 information on Exhibit 6 in Case No. 9887 as you had
8 for Exhibit 6 in Case No. 9863?

9 A. Yes.

10 Q. Let's refer to what's been marked as
11 Exhibit No. 7 in Case No. 9863. Please identify that
12 exhibit.

13 A. This is a Fruitland Formation Net Coal
14 Thickness Isopach Map taken from Kelso and Wicks and
15 published by the Rocky Mountain Association of
16 Geologists and the Southeastern Union Coal-Bed Methane
17 Symposium.

18 Q. Is the proposed location of Visti Coal 7
19 No. 1 Well highlighted on this map?

20 A. Yes, it is.

21 Q. How is it highlighted?

22 A. There's a red dot placed over the area of
23 the Visti Coal 7 No. 1.

24 Q. Have you been able to draw any conclusions
25 based on the information illustrated in this exhibit

1 regarding the potential recovery?

2 A. This is roughly correlative to recovery
3 from the Fruitland Coal. The measure productive
4 fairway north of the San Juan River around, say, the
5 Navajo Dam area, has approximately 80 feet of coal as
6 can be seen on this map.

7 There are areas into La Plata County,
8 Colorado, that have as much as 100 feet of Fruitland
9 Coal section. We have considerably less; we have
10 approximately 30 feet. That would suggest a lower
11 recovery.

12 Q. Refer to Exhibit No. 7 in Case No. 9887 and
13 identify that exhibit.

14 A. This is the same isopach map as was shown
15 in the other case, Exhibit No. 7, taken from Kelso and
16 Wicks and published by the Rocky Mountain Association
17 of Geologists. This map highlights the location with
18 a red dot of the proposed Bisti Coal 17 No. 1.

19 Q. Would it be fair to say you have the same
20 general observations and that you made the same
21 general conclusions with respect to the data
22 illustrated on this exhibit as you made in Exhibit No.
23 7 in Case No. 9863?

24 A. That's correct.

25 Q. Refer to Exhibit No. 8 in Case No. 9863 and

1 identify that exhibit.

2 A. This is a gas in place contour map again
3 taken from Kelso and Wicks and published by the Rocky
4 Mountain Association of Geologists in the Southern
5 Union Coal-Bed Methane Symposium. The map highlights
6 the proposed location of the Bisti Coal 7 No. 1.

7 Q. What conclusions do you draw or do you make
8 from the data illustrated on this exhibit?

9 A. This map shows a better picture of the
10 estimated recoverable reserves for an area than the
11 previous map, and illustrates that through parts of La
12 Plata County, Colorado, and the northern portions of
13 San Juan and Rio Arriba Counties, New Mexico, an
14 operator might expect as much as four or five times
15 the recoverable reserves that we can expect south of
16 the San Juan River in the San Juan Basin.

17 Q. Does this information have any bearing on
18 your assessment of the economics of the drilling of
19 the Bisti Coal 7 No. 1 Well?

20 A. Again, it gives us less of a reserves base
21 to fall back on. Should the well produce water or if
22 it produces water-free, our recoverable reserves will
23 be considerably less than they would be in the heart
24 of the Basin.

25 Q. Turn to Exhibit 8 in Case No. 9887 and

1 identify that exhibit.

2 A. This is the same contour map taken from
3 Kelso and Wicks as described before, and highlights
4 with a red dot the proposed Bisti Coal 17 No. 1.

5 Q. And again, Mr. Corbett, would you be able
6 to make the same observations and draw the same basic
7 conclusions with respect to the data illustrated on
8 this exhibit as you made with respect to the
9 information illustrated on Exhibit No. 8 in Case No.
10 9863?

11 A. Yes.

12 Q. Mr. Corbett, do you ask that a charge for
13 the risk involved in the drilling of these two wells
14 be set by the Examiner?

15 A. Yes, we do.

16 Q. And what charge do you propose be set?

17 A. We propose a 200-percent risk penalty.

18 Q. How do you support that request?

19 A. Exhibit 5 illustrates a number of the wells
20 in this area are producing large volumes of water and
21 small volumes of gas, suggesting that there's
22 considerable economic risk involved in drilling in a
23 sparsely developed area of the Basin.

24 Q. In your opinion, would the granting of this
25 application or these two applications afford all

1 owners the opportunity to recover or receive their
2 fair share of the hydrocarbons without unreasonable
3 expense?

4 A. Yes, it would.

5 Q. In your opinion, will the granting of this
6 application be in the interest of conservation and
7 result in the prevention of waste and the protection
8 of correlative rights?

9 A. Yes, they would.

10 Q. Were Exhibits 5 through 8 in each of these
11 cases, and the AFEs in each of these cases which were
12 part of Exhibit No. 2, either prepared by you or at
13 your direction and under your supervision?

14 A. They were.

15 MR. ROBERTS: Mr. Examiner, we would move
16 the admission of Exhibits 5 through 8 in each of these
17 cases, as well as the authorities for expenditure
18 which were submitted as part of Exhibit 2 in each of
19 these cases.

20 EXAMINER STOGNER: Exhibits 5 through 8 in
21 both cases will be admitted into evidence at this
22 time.

23 MR. ROBERTS: We have no other questions of
24 this witness on direct.

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EXAMINATION

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BY EXAMINER STOGNER:

Q. Mr. Corbett, is this area--and when I say "this area," 25 North, 12 West--is that within the bounds of the Basin Fruitland Coal Gas Pool?

A. Yes, it is.

Q. Now, I notice on this map, Exhibit No. 5, that there are several red marks and those are yours, or I should say, Hixon's, coal gas wells or coal gas proposed wells, I would assume?

A. With the exception of the two proposed wells that we're looking for today, these wells have been drilled and completed in the Basin Fruitland Coal Pool.

Q. Are there any other Basin Fruitland Coal Gas Pools indicated on here operated by others?

A. There are no other Fruitland Coal gas wells that I know of in this area.

Q. So Hixon is the only one within this map frame that has any Basin Fruitland Coal gas wells?

A. Drilled wells, that's correct. I understand that as a result of some of the success that we've had, other wells are in the process of being staked now.

Q. By other operators?

1 A. That's correct. Hixon Development has
2 staked approximately 50 wells within the area
3 described within the dots on this map--the red dots.
4 And based on the success that we have with our test
5 program, we'll attempt to drill those wells this year.

6 Q. Are there any Fruitland sand pools within
7 this area on map five?

8 A. There are, within the northern portion of
9 25 North and 12 West, and 26 North, 12 and 13 West, a
10 number of Waw Fruitland sand picture cliffs.

11 Q. That's waw, W A W, right?

12 A. Yes, sir.

13 Q. Now, it appears that in Exhibit 6 in both
14 cases today, from the portions of the logs that you
15 handed me, the coal is fairly prolific, is that
16 correct? or does it extend either up or down outside
17 of the realm of this particular exhibit?

18 A. That is the vertical extent of the
19 Fruitland Coal in these wells and essentially in this
20 area.

21 Q. How does the thickness differ in the
22 southern portion or this portion of the coal gas pool
23 as opposed to further north, in some of the more
24 less-sparsely developed portions of this pool?

25 A. In the more densely drilled and prolific

1 areas of the Basin, other operators are encountering
2 Fruitland sections as much as 60 to 80 feet thick.

3 Q. Are you aware of what the risk penalty
4 factors have been in other compulsory pooling cases in
5 the Basin Fruitland Coal gas pool?

6 A. I am.

7 Q. That's 156 percent, if I remember right, is
8 that correct?

9 A. That's correct.

10 Q. Why do you think yours should be 200 as
11 opposed to 156 percent?

12 A. To shed some light on the subject, acreage
13 in recent sales in the vicinity of Navajo Dam has sold
14 for as high as \$700-plus per acre. That, in itself,
15 indicates there's very little risk and a high degree
16 of certainty that the coal will produce.

17 In our areas, operators have been adding to
18 their acreage position for less than \$100 and in many
19 cases \$50 per acre, suggesting that the coal is in
20 unknown quantity and a much greater risk economically
21 and geologically.

22 Q. I know you don't work for Kelso or Wicks,
23 but there are maps and contour maps you presented
24 today that do show some coal. These maps would, of
25 course, indicate that there is some coal present down

1 there. Would that necessarily mean that there is gas
2 associated with this production, or do you know how
3 these maps were prepared?

4 A. These maps were prepared and they
5 illustrate with a dot on these penetrations through
6 the Fruitland Coal where our reading was taken and a
7 value was input to create the map not necessarily for
8 a Fruitland Coal well, in many cases probably a Gallup
9 or Dakota well.

10 There is coal that's pervasive across the
11 Basin, in the southern portion of the Basin; however,
12 generally considered to be south of the San Juan
13 River. There has been very sparse development in the
14 Fruitland Coal and there are very few productive
15 wells.

16 MR. STOVALL: If I may interject a
17 question, Mr. Examiner?

18 EXAMINATION

19 BY MR. STOVALL:

20 Q. Mr. Corbett, looking at Exhibit 5, there's
21 a fair amount of wells indicated on that exhibit
22 within the vicinity of your two applications. Do you
23 know what depths those wells are? Are those PC or do
24 they tend to be--or are they lower Dakota?

25 A. The majority of the wells within, say, a

1 two-mile radius of our proposed locations were drilled
2 to the Bisti Lower Gallup formation.

3 Q. They did penetrate through the Fruitland
4 formation?

5 A. That's correct.

6 Q. Have you examined any logs on those wells
7 to determine the thickness, other than the ones you
8 presented?

9 A. Yes, I have.

10 Q. What conclusions did you reach to form an
11 opinion regarding the thickness of the coal?

12 A. That was just the case through even the
13 most productive parts of the Basin, the Fruitland Coal
14 thickness changes rapidly throughout this area. There
15 is however, almost without exception, Fruitland Coal
16 in all of these wells. There are a couple of these
17 wells here that I've not seen any Fruitland Coal.

18 EXAMINER STOGNER: Any other questions of
19 Mr. Corbett?

20 MR. STOVALL: Just one. Perhaps this
21 should be Mr. Foster's question, I'm not sure.

22 Q. The Famous Amos well, you being the
23 oficianado of interesting well names, can you tell me
24 the origin of that name?

25 A. Hixon Development went through a phase where

1 we were allowing our employees to name wells. One of
2 our office workers has a dog named Amos; thus Famous
3 Amos.

4 Q. And you ceased doing that? What a shame.

5 A. It was terminated shortly after the
6 drilling of the Famous Amos and Your Mama San No. 1.

7 EXAMINER STOGNER: Any other questions of
8 this witness back on the subject? There being none,
9 Mr. Corbett may be excused.

10 Mr. Roberts, anything further?

11 MR. ROBERTS: We have nothing further.

12 EXAMINER STOGNER: Does anybody else have
13 anything further in either Case 9863 or Case 9887?
14 Both these cases will be taken under advisement.

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