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STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION
CASE 9982, CASE 9983

EXAMINER HEARING

IN THE MATTER OF:

Application of Mesa Operating Limited Partnership
for Compulsory Pooling, San Juan County, New
Mexico

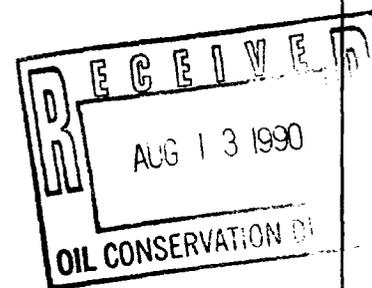
TRANSCRIPT OF PROCEEDINGS

BEFORE: MICHAEL E. STOGNER, EXAMINER

STATE LAND OFFICE BUILDING

SANTA FE, NEW MEXICO

July 11, 1990



A P P E A R A N C E S

FOR THE APPLICANT:

MILLER, STRATVERT, TORGERSON & SCHLENKER, P.A.

Attorneys at Law

By: J. SCOTT HALL

125 Lincoln Avenue

Suite 303

Santa Fe, New Mexico 87501

FOR AMOCO PRODUCTION COMPANY:

CAMPBELL & BLACK, P.A.

Attorneys at Law

By: WILLIAM F. CARR

Suite 1 - 110 N. Guadalupe

P.O. Box 2208

Santa Fe, New Mexico 87504-2208

ALSO PRESENT:

JAMES MORROW

Chief Engineer

Oil Conservation Division

State Land Office Building

Santa Fe, New Mexico 87504

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E X H I B I T S

APPLICANT'S EXHIBITS:

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* * *

1 WHEREUPON, the following proceedings were had
2 at 12:47 p.m.:

3
4
5 EXAMINER STOGNER: At this time I'm going to
6 call Cases Numbers 9992 -- I'm sorry, 9982 and 9983,
7 which are both the Application of Mesa Operating
8 Limited Partnership for compulsory pooling, San Juan
9 County, New Mexico.

10 I'll call for appearances.

11 MR. HALL: Mr. Examiner, Scott Hall from the
12 Santa Fe office of the Miller, Stratvert, Torgerson and
13 Schlenker law firm on behalf of the Applicant with
14 three witnesses.

15 MR. CARR: May it please the Examiner, my
16 name is William F. Carr with the law firm Campbell and
17 Black, P.A., of Santa Fe.

18 We represent Amoco Production Company, and I
19 have no witnesses.

20 MR. HALL: Again, Mr. Examiner, we would ask
21 that the record reflect that the credentials of the
22 three witnesses who have previously been sworn have
23 been accepted and made a matter of record.

24 EXAMINER STOGNER: Let the record show.

25 Mr. Hall, you may continue.

1 MARK W. SEALE,

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

4 DIRECT EXAMINATION

5 BY MR. HALL:

6 Q. Mr. Seale, let's briefly state what Mesa's
7 seeking in these two cases, identify the exhibits and
8 summarize those for the hearing Examiner.

9 A. Mesa is seeking an order pooling all
10 uncommitted mineral owners in the Basin Fruitland coal
11 gas pool underlying the proposed drilling and spacing
12 units for the two wells in each of these cases.

13 Exhibit 1 in each case depicts Section 36 of
14 Township 30 North, Range 9 West.

15 In Case 9982, Mesa's proposed well is named
16 the FC State Com. Number 19. It is located 1455 feet
17 from the north line, 2000 feet from the east line of
18 said Section 36, and it is to be spaced on the north
19 half of said Section 36.

20 In Case 9983 Mesa's proposed well is named
21 the FC State Com. Number 7. It's located 830 feet from
22 the south line, 2490 feet from the west line of said
23 Section 36, and it is to be spaced on the south half of
24 said Section 36.

25 Page 2 in each case reflects the working

1 interest that has been committed to the well and those
2 parties Mesa is seeking a pooling order.

3 In Case 9982, 36.34 percent of the drilling
4 spacing unit is committed to the well, and Mesa is
5 seeking an order pooling Amoco Production Company with
6 35.74 percent, Southland Royalty with 25 percent, and
7 Conoco with 2.92 percent.

8 In Case 9983, 84.57 percent is committed to
9 the well. Mesa is seeking an order pooling Amoco with
10 7.71 percent, and Conoco with 7.72 percent.

11 Exhibits 2 in each case are copies of the
12 letters dated April 6th, 1990, which were used to
13 officially propose these wells to partners.

14 Upon receiving this letter, the partners also
15 received Mesa's standard form operating agreement which
16 we propose be used to govern the drilling of these
17 wells, and Mesa's AFE cost estimate for drilling the
18 well.

19 The AFE cost estimate is attached as Exhibit
20 3.

21 Q. All right. Please summarize your efforts to
22 obtain voluntary joinder of the parties you're seeking
23 to pool today.

24 A. Upon receipt of the letter dated April 6th,
25 1990, proposing the well, I have had numerous

1 conversations with the land departments of each
2 company. And as of this date, neither -- none of the
3 parties have committed their interest to these wells in
4 writing.

5 Q. Let me ask you a question on Case 9982. Do
6 you have knowledge of a well proposed by Amoco in the
7 north half of Section 36?

8 A. I don't have knowledge of a well proposed by
9 Amoco, but I have knowledge of a permit -- or an
10 application for a permit.

11 Q. Amoco has not solicited Mesa's participation
12 in any well?

13 A. No, they have not.

14 Q. In your opinion, Mr. Seale, has Mesa made a
15 good-faith effort to obtain the voluntary joinder of
16 the parties in each of the cases?

17 A. Yes we have.

18 Q. In your opinion, will granting the
19 Applications be in the interests of conservation, the
20 prevention of waste and protection of correlative
21 rights?

22 A. Yes, it will.

23 Q. And were Exhibits 1, 2 and 3 in each of the
24 cases prepared by you or at your direction?

25 A. Yes.

1 MR. HALL: That concludes our direct of this
2 witness. We would move the admission of Exhibits 1, 2
3 and 3.

4 EXAMINER STOGNER: Exhibits 1, 2 and 3 will
5 be admitted into evidence.

6 Are there any questions of Mr. Seale?

7 MR. CARR: No questions.

8 EXAMINER STOGNER: If not, he may be -- I'm
9 sorry, Mr. Morrow?

10 MR. MORROW: I was going to ask you about the
11 -- You said none of the working-interest owners had
12 committed their interest?

13 THE WITNESS: None of the parties which we're
14 seeking pooling for --

15 MR. MORROW: Oh --

16 THE WITNESS: -- have committed their
17 interest.

18 MR. MORROW: -- okay. Some have, but not --

19 THE WITNESS: Yes.

20 EXAMINER STOGNER: Are there any other
21 questions?

22 If not, Mr. Seale may be excused.

23 Mr. Hall?

24 MR. HALL: We would call Stewart Sampson.

25

1 this point in time.

2 We're recommending a 156-percent penalty here
3 in lieu of the fact that we have attractive geologic
4 conditions and some offset wells with economic --
5 apparent economic rates.

6 Q. Is there a risk in each case that the well
7 will not be commercially successful?

8 A. Yes, there is.

9 Q. And would you care to elaborate on that?

10 A. We do see a significant variability in offset
11 production, which we feel is not related to coal
12 thickness or pressure but is indeed dependent on
13 permeability. So we feel that that is a significant
14 risk factor, encountering sufficient permeability.

15 Q. Mr. Sampson, in your opinion will the
16 granting of the Applications be in the interests of
17 conservation, the prevention of waste and protection of
18 correlative rights?

19 A. Yes.

20 Q. Were Exhibits 4, 5 and 6 prepared by you or
21 at your direction?

22 A. Yes, they were.

23 MR. HALL: That concludes our direct of this
24 witness.

25 We would move the admission of Exhibits 4, 5

1 and 6.

2 EXAMINER STOGNER: Exhibits 4, 5 and 6 will
3 be admitted into evidence at this time.

4 Are there any questions of Mr. Sampson?

5 MR. CARR: No questions.

6 EXAMINER STOGNER: If not, he may be excused.
7 Mr. Hall?

8 MR. HALL: Call Tom Hahn.

9 THOMAS L. HAHN,

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

12 DIRECT EXAMINATION

13 BY MR. HALL:

14 Q. Mr. Hahn, in each of the cases, let's refer
15 back to Exhibit 3, the AFE's, if you would, and briefly
16 summarize the costs shown on that exhibit.

17 A. Okay. Case Number 9982, Exhibit 3 is the AFE
18 cost estimate for drilling, casing and completing the
19 FC State Com. 19. This cost is estimated at \$395,700.

20 Case Number 9983, Exhibit 3, is the AFE cost
21 estimate for drilling, completing -- casing and
22 completing the FC State Com. Number 7. This cost is
23 estimated also at \$395,700.

24 Q. Mesa's participated in or drilled other
25 Fruitland wells in the area, has it not?

1 A. Yes, it has.

2 Q. And these costs are in line with what's being
3 charged for Fruitland wells?

4 A. Yes.

5 Q. What is Mesa's overhead charges for drilling
6 a producing well?

7 A. For drilling the well, the produced -- or the
8 overhead rate is \$3831 per month. For producing the
9 well the overhead rate is \$382 per month.

10 Q. And are those costs, charges, in line with
11 what's being charged as well?

12 A. Yes, those costs are based on the Ernst and
13 Whinney publication on overhead rates.

14 Q. Do you ask that those charges be incorporated
15 into any Orders resulting from these hearings?

16 A. Yes, I do.

17 Q. Let's look now at Exhibit 7. Do you concur
18 in the request for the 156-percent risk penalty?

19 A. Yes, I do.

20 Q. And what's the basis of that recommendation?

21 A. The basis of that recommendation is really
22 three elements of risk. One is the risk associated
23 with drilling and completing a Fruitland coal well in
24 the San Juan Basin. The second risk would be that risk
25 of encountering sufficient permeability. And a third,

1 related risk to permeability, is the risk associated
2 with finding a commercially economic well.

3 In both cases, the well is in the same
4 section, so Exhibit 7 is identical in both cases. This
5 exhibit shows the surface shut-in pressures and the
6 production rates from the offset wells.

7 As we look at the offset wells, we're seeing
8 rates that some, we believe, are uneconomic and some
9 that are economic. So we believe that there is a risk
10 associated with drilling a well here.

11 Q. Anything further you wish to add with respect
12 to the risk or Exhibit 7?

13 A. No.

14 Q. Was Exhibit 7 prepared by you or at your
15 direction?

16 A. Yes.

17 MR. HALL: We'd move the admission of Exhibit
18 7 and Exhibit 8, which is the 1207 notice affidavit.

19 Q. (By Mr. Hall) One final question, Mr. Hahn:
20 In your opinion, will granting the Applications be in
21 the interests of conservation, the prevention of waste
22 and protection of correlative rights?

23 A. Yes.

24 EXAMINER STOGNER: Are there any other
25 questions of Mr. Hahn?

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MR. CARR: No questions.

EXAMINER STOGNER: If not, he may be excused.
Does anybody else have anything either in Case Number
9982 or 9983?

If not, these two cases will be taken under
advisement.

(Thereupon, these proceedings were concluded
at 12:59 p.m.)

* * *

