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STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION
CASE 9968, CASE 9961, CASE 9953, CASE 9973,
CASE 9950, CASE 9979, CASE 9980, CASE 9981,
CASE 9982, CASE 9983, CASE 9984, CASE 9985,
CASE 9986, CASE 9970, CASE 9924

EXAMINER HEARING

IN THE MATTER OF:

Continued and Dismissed Cases

TRANSCRIPT OF PROCEEDINGS

BEFORE: DAVID R. CATANACH, EXAMINER

STATE LAND OFFICE BUILDING

SANTA FE, NEW MEXICO

June 27, 1990

A P P E A R A N C E S

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FOR THE DIVISION:

RAND L. CARROLL
Attorney at Law
Natural Gas Programs
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FOR PACIFIC ENTERPRISES OIL COMPANY (USA):

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Attorneys at Law
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500 Marquette, N.W.
Albuquerque, New Mexico

* * *

1 WHEREUPON, the following proceedings were had
2 at 8:20 a.m.:

3 EXAMINER CATANACH: Call the hearing to order
4 this morning for Docket Number 18-90.

5 Call the continuances and dismissals first of
6 all this morning.

7 Call Case 9968.

8 MR. CARROLL: Application of Mobil
9 Exploration Producing U.S. Inc., for salt water
10 disposal, Lea County, New Mexico.

11 The Applicant has requested this case be
12 dismissed.

13 EXAMINER CATANACH: Case 9968 is hereby
14 dismissed.

15 * * *

16 EXAMINER CATANACH: Call Case 9961.

17 MR. CARROLL: Application of Mewbourne Oil
18 Company for compulsory pooling, Eddy County, New
19 Mexico.

20 The Applicant has requested that this case be
21 continued to August 8th, 1990.

22 EXAMINER CATANACH: Case 9961 is hereby
23 continued to the August 8th docket.

24 * * *

25 EXAMINER CATANACH: Call Case 9953.

1 MR. CARROLL: Application of Oryx Energy
2 Company for compulsory pooling, Lea County, New Mexico.

3 The Applicant has requested that this case be
4 dismissed.

5 EXAMINER CATANACH: Case 9953 is hereby
6 dismissed.

7 * * *

8 EXAMINER CATANACH: Call Case 9973.

9 MR. CARROLL: Application of Manzano Oil
10 Corporation for compulsory pooling and an unorthodox
11 gas well location, Lea County, New Mexico.

12 The Applicant has asked that this case be
13 continued to July 1st -- July 11th.

14 EXAMINER CATANACH: Case 9973 is hereby
15 continued to the July 11th docket.

16 * * *

17 EXAMINER CATANACH: Call Case 9950.

18 MR. CARROLL: Application of Meridian Oil,
19 Inc., for compulsory pooling, Eddy County, New Mexico.

20 The Applicant has requested that this case be
21 continued to July 11th.

22 EXAMINER CATANACH: Case 9950 is hereby
23 continued to the July 11th docket.

24 * * *

25 EXAMINER CATANACH: Call Case 9979.

1 MR. CARROLL: Application of Yates Petroleum
2 Corporation for downhole commingling, dual completion
3 and an exception to General Rule 303.A., Eddy County,
4 New Mexico.

5 The Applicant has requested that this case be
6 continued to July 11th.

7 EXAMINER CATANACH: Case 9979 is hereby
8 continued to July 11th.

9 * * *

10 EXAMINER CATANACH: Call Case 9980.

11 MR. CARROLL: Application of Mesa Operating
12 Limited Partnership for compulsory pooling, San Juan
13 County, New Mexico.

14 The Applicant has requested that this case be
15 continued to July 11th.

16 EXAMINER CATANACH: Case 9980 is hereby
17 continued to the July 11th docket.

18 * * *

19 EXAMINER CATANACH: Call Case 9981.

20 MR. CARROLL: Application of Mesa Operating
21 Limited Partnership for compulsory pooling, San Juan
22 County, New Mexico.

23 The Applicant has requested that this case be
24 continued to July 11th.

25 EXAMINER CATANACH: Case 9981 is hereby

1 continued to July 11th.

2 * * *

3 EXAMINER CATANACH: Call Case 9982.

4 MR. CARROLL: Application of Mesa Operating
5 Limited Partnership for Compulsory Pooling, San Juan
6 County, New Mexico.

7 The Applicant has requested that this case be
8 continued to July 11th.

9 EXAMINER CATANACH: Case 9982 is hereby
10 continued to the July 11th docket.

11 * * *

12 EXAMINER CATANACH: Call Case 9983.

13 MR. CARROLL: Application of Mesa Operating
14 Limited Partnership for compulsory pooling, San Juan
15 County, New Mexico.

16 The Applicant has requested that this case be
17 continued to July 11th.

18 EXAMINER CATANACH: Case 9983 is hereby
19 continued to the July 11th docket.

20 * * *

21 EXAMINER CATANACH: Call Case 9984.

22 MR. CARROLL: Application of Mesa Operating
23 Limited Partnership for compulsory pooling, San Juan
24 County, New Mexico.

25 The Applicant has requested that this case be

1 continued to July 11th.

2 EXAMINER CATANACH: Case 9984 is hereby
3 continued to the July 11th docket.

4 * * *

5 EXAMINER CATANACH: Call Case 9985.

6 MR. CARROLL: Application of Mesa Operating
7 Limited Partnership for compulsory pooling, San Juan
8 County, New Mexico.

9 The Applicant has requested that this case be
10 continued to July 11th.

11 EXAMINER CATANACH: Case 9985 is hereby
12 continued to the July 11th docket.

13 * * *

14 EXAMINER CATANACH: Call Case 9986.

15 MR. CARROLL: Application of Mesa Operating
16 Limited Partnership for Compulsory Pooling, San Juan
17 County, New Mexico.

18 The Applicant has requested that this case be
19 continued to July 11th.

20 EXAMINER CATANACH: Case 9986 is hereby
21 continued to the July 11th docket.

22 (Thereupon, these proceedings were concluded
23 at 8:22 a.m.)

24 * * *

25

1 Production Company to amend Division Order Number
2 R-9097, Eddy County, New Mexico.

3 The Applicant has requested that this case be
4 dismissed.

5 EXAMINER CATANACH: Case 9924 is hereby
6 dismissed.

7 (Thereupon, these proceedings were concluded
8 at 9:24 a.m.)

9 * * *

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STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION
CASE 9984, CASE 9985

EXAMINER HEARING

IN THE MATTER OF:

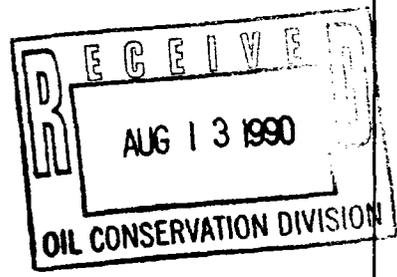
Application of Mesa Operating Limited Partnership
for Compulsory Pooling, San Juan County, New
Mexico

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

1
2
3 FOR THE APPLICANT:

4 MILLER, STRATVERT, TORGERSON & SCHLENKER, P.A.
Attorneys at Law
5 By: J. SCOTT HALL
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Santa Fe, New Mexico 87501
7

8 FOR AMOCO PRODUCTION COMPANY:

9 CAMPBELL & BLACK, P.A.
10 Attorneys at Law
By: WILLIAM F. CARR
11 Suite 1 - 110 N. Guadalupe
P.O. Box 2208
12 Santa Fe, New Mexico 87504-2208
13

14 ALSO PRESENT:

15 JAMES MORROW
Chief Engineer
16 Oil Conservation Division
State Land Office Building
17 Santa Fe, New Mexico 87504
18

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APPLICANT'S EXHIBITS:

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* * *

1 WHEREUPON, the following proceedings were had
2 at 1:00 p.m.:

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EXAMINER STOGNER: I'll call now the next cases, Numbers 9984 and 9985, which are both the Application of Mesa Operating Limited Partnership for compulsory pooling, San Juan County, New Mexico.

9

Call for appearances.

10

11

12

MR. HALL: Mr. Examiner, Scott Hall from the Santa Fe office of the Miller, Stratvert, Torgerson and Schlenker law firm, with three witnesses this morning.

13

14

15

We'd ask the record to reflect that these witnesses have been previously sworn, and their credentials accepted.

16

17

EXAMINER STOGNER: Let the record so show.

Any other appearances?

18

19

20

21

MR. CARR: May it please the Examiner, William F. Carr with the law firm Campbell and Black, P.A., of Santa Fe, representing Amoco Production Company.

22

I do not intend to call a witness.

23

24

EXAMINER STOGNER: Are there any other appearances?

25

There being none, Mr. Hall?

1 33, Township 30 North, Range 10 West. It will be
2 spaced on the west half of said Section 33.

3 Page 2 of Exhibit 1 reflects those owners
4 which have committed their interest and their
5 percentage, and those owners Mesa is seeking to pool.

6 In Case 9984, 74.70 percent has been
7 committed to the drilling of the well, and Mesa is
8 seeking to pool R.K. O'Connell with 12.65 percent,
9 Amoco with 6.325 percent and Conoco with 6.325 percent.

10 Case 9985, 50.12 percent has been committed
11 to the well, and Mesa is seeking to pool Amoco with
12 49.88 percent.

13 Exhibit 2 and 3 is -- Or Exhibit 2 is a
14 letter by which Mesa used to officially propose these
15 wells to partners.

16 When the partners received these letters they
17 received Mesa's standard operating agreement which Mesa
18 proposed be used to govern the drilling of these wells,
19 along with Mesa's AFE cost estimate, which is Exhibit
20 3.

21 Q. Would you please summarize your efforts in
22 both cases to obtain voluntary joinder of the parties
23 you're seeking to pool?

24 A. In addition to sending the letters, or since
25 the time that the parties have received these letters,

1 I've had numerous conversations with the land
2 departments in each of the companies being pooled. And
3 as of this date, none of the companies being pooled
4 have committed their interest in writing to the
5 drilling of this well.

6 Q. In your opinion, has Mesa made a good-faith
7 effort to obtain the voluntary joinder of these
8 interest owners?

9 A. Yes, we have.

10 Q. Were Exhibits 1, 2 or 3 prepared by you or at
11 your direction?

12 A. Yes, they were.

13 Q. And in your opinion, will granting the
14 Applications be in the interests of conservation, the
15 prevention of waste and the protection of correlative
16 rights?

17 A. Yes, they will.

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

21 EXAMINER STOGNER: Are there any objections?

22 MR. CARR: No objections.

23 EXAMINER STOGNER: Exhibits 1, 2 and 3 will
24 be admitted into evidence.

25 Mr. Carr, your witness.

1 MR. CARR: I have no questions.

2 EXAMINATION

3 BY EXAMINER STOGNER:

4 Q. Mr. Seale --

5 A. Yes.

6 Q. -- is Mr. R.K. O'Connell -- Is that a company
7 or an individual?

8 A. It's an individual.

9 Q. It is an individual. And --

10 A. He may be incorporated, but we -- As far as I
11 know, he's just an individual.

12 Q. Okay. Now, you've mentioned in your
13 testimony that you talked to the land companies -- or
14 the land departments in these companies. Did you talk
15 to him personally?

16 A. I didn't talk to him. I talked to -- I
17 believe it's his daughter, Sue O'Connell.

18 Q. Sue O'Connell. And is there an R.K.
19 O'Connell living or is that an estate or -- ?

20 A. Mr. Examiner, I really don't know.

21 MR. HALL: That interest, Mr. Examiner, if I
22 might interject, is the interest that's carried on the
23 records, San Juan County.

24 EXAMINER STOGNER: Okay.

25 Q. (By Examiner Stogner) How many conversations

1 did you have with this Sue O'Connell?

2 A. Exactly, I don't know the number. We've had
3 at least three or four. We're still trying to work out
4 the terms of an operating agreement.

5 We have every reason to believe that they
6 will be participating, but as of this date we still
7 have some things that need to be worked out.

8 Q. Was she familiar with oil and gas operations?

9 A. Yes.

10 Q. Oh, okay.

11 A. Yes.

12 Q. So it wasn't like you were talking to a --

13 A. No.

14 Q. -- complete stranger? Okay.

15 A. In fact, when I called them, they answered
16 the phone, "Hawthorne Oil."

17 EXAMINER STOGNER: Okay. Are there any other
18 questions of Mr. Seale?

19 MR. MORROW: The wells have not been drilled?

20 THE WITNESS: No, they have not.

21 EXAMINER STOGNER: Any other questions?

22 If not, you may be excused.

23 Mr. Hall?

24 MR. HALL: Call Stewart Sampson.

25 (Off the record)

1 STEWART SAMPSON,

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. Sampson, let's look at Exhibits 4, 5 and
7 6 in both cases. If you would identify those and
8 explain them for the record, please, sir.

9 A. In each case, Exhibit 4 is a coal isopach for
10 the Basin showing the location of the FC Federal Com.
11 Number 9 and the FC Federal Com. Number 11. These
12 wells were consolidated by virtue of the fact that
13 they're about two miles apart, although they're in
14 separate sections.

15 In each case it shows that we expect to
16 encounter about 30 feet of coal, which is out of the
17 thickest trend within the Basin, which of course makes
18 the gas-in-place number significantly smaller. It
19 makes our target smaller that we're looking for in this
20 area.

21 Exhibit 5 in each case shows the anticipated
22 pressure at the Fruitland horizon in these areas.

23 As you can see, the center of the Basin where
24 excellent wells have been found is in excess of 1600
25 pounds bottomhole pressure, whereas these wells are out

1 in the area of less than half that pressure. That's
2 significant because it indicates that we're likely to
3 have less fracture permeability and less productive
4 rates due to the lower pressure in that area.

5 Exhibit 6 in each case is a more detailed map
6 of the area around the wells in question, showing the
7 offset locations of completed Fruitland coal wells,
8 shown by the solid red dots, and the location of our
9 subject well shown by the open circles.

10 The production in this area, which will be
11 detailed by Mr. Hahn, has been pretty poor.

12 Essentially all the wells on these maps are
13 producing at subeconomic rates, we think due to
14 insufficient permeability. Consequently we feel that
15 there is significant risk in this area compared to some
16 of the other areas we've looked at today.

17 Q. What risk penalty are you recommending be
18 assessed against the nonconsenting interest owners?

19 A. Cost plus 200 percent.

20 Q. Do you have anything further you wish to add
21 with respect to the risk aspect of these wells?

22 A. No.

23 Q. In your view, there is a chance that the
24 wells could be completed and not be commercially
25 successful wells?

- 1 A. That's correct.
- 2 Q. Mesa has also proposed a well in the east
3 half of Section 33; isn't that right?
- 4 A. Yes, we have a location.
- 5 Q. And that's not shown on this exhibit?
- 6 A. No, it is not.
- 7 Q. And that well was the subject of a hearing
8 four weeks ago before Examiner Stogner; is that
9 correct?
- 10 A. I don't recall whether it was or not.
- 11 Q. Were you a witness at the Mesa hearings four
12 weeks ago?
- 13 A. Yes, I was.
- 14 Q. Have you --
- 15 A. I don't have that list in front of me.
- 16 Q. Have you reviewed the Orders that were
17 entered as a result of that hearing?
- 18 A. Yes, I have.
- 19 Q. Let me hand you a copy of Oil Conservation
20 Division Order Number 9203, and I'd ask you if you've
21 seen that order.
- 22 A. Yes, I have.
- 23 Q. And is that not an Order approving the east
24 half of Section 33?
- 25 A. Yes, it is.

1 Q. And that is for a proposed Fruitland coal
2 well location?

3 A. Yes.

4 Q. Are you aware of what risk penalty was
5 imposed on that well?

6 A. Yes.

7 Q. And what was that?

8 A. 156.

9 MR. CARR: Now, Mr. Stogner, I'd ask you to
10 take administrative note of Order Number R-9203, which
11 was entered by the Division on June 28th, approving the
12 other half of Section 33, the east half -- the west
13 half being involved in today's hearing -- and
14 addressing the risk penalty that was imposed on that
15 well.

16 EXAMINER STOGNER: What case number was that,
17 Mr. Carr?

18 MR. CARR: That was Case 9919.

19 EXAMINER STOGNER: Thank you.

20 Q. (By Mr. Carr) Mr. Sampson, do you know what
21 the status of Mesa's plans are for the development of
22 the east half of Section 33 pursuant to this Order?

23 A. It is still a location. I don't know whether
24 it will be drilled or not. This certainly affects our
25 economics on that well.

1 Q. Now, if I look at Exhibit Number 6 and I
2 understood your testimony, you stated that all the
3 wells in this general area, or virtually all the wells,
4 were producing at subeconomic rates; is that correct?

5 A. That's correct.

6 Q. And is Mesa anticipating that the proposed
7 well may also perform like the offsetting wells?

8 A. Yes.

9 Q. So Mesa's proposing to drill a well that
10 would produce at subeconomic rates?

11 A. We feel like that's a significant risk, yes.

12 Q. And you're also proposing to do that and also
13 have to carry at the same time Amoco Production
14 Company, which has 49.8 percent of the working
15 interest?

16 A. Yes, if they go nonconsent.

17 Q. And you've recommended to your management
18 that they go forward with that well that would, in your
19 opinion --

20 A. No, we are --

21 Q. -- perhaps be subeconomic?

22 A. We have not recommended at this point that we
23 go forward. We are on -- We are permitting these wells
24 and going through the drilling procedure. We have not
25 actually committed to a rig.

1 Q. Have you filed a permit for this well or
2 sought a permit yet for the well?

3 A. Yes.

4 Q. Did you do that prior to the hearing?

5 A. Yes.

6 Q. Did you do that prior to contacting Amoco?

7 A. I'm not sure what the timing would be on
8 that. That was done by two different departments.

9 Q. If we look at the Basin Fruitland coal pool
10 in this area, the Fruitland coal is present throughout,
11 is it not?

12 A. There are areas in the Basin where it's
13 extremely thin, probably less than ten feet.

14 Q. But you're not testifying here, are you, that
15 there is a risk that you wouldn't intersect the
16 Fruitland coal?

17 A. No, I think we will find the presence of coal
18 here, yes.

19 Q. And that all the wells offsetting this,
20 whether they're economic by your standards or not,
21 they've been able to establish production of all of
22 those wells, have they not?

23 A. Yes, they are producing.

24 Q. Are there any dry holes in this immediate
25 area?

1 A. Not right on this map. However, Amoco has
2 drilled a dry hole, essentially in an area with similar
3 geologic pressure.

4 Q. And whereabouts is that?

5 A. That would be the Amoco Yaffee well, which is
6 located in 29/12, Section 9.

7 Q. In all of the -- In your experience with the
8 Fruitland coal, are you aware of any 200-percent
9 penalties that have been imposed in compulsory-pooling
10 cases?

11 A. Yes.

12 Q. And are they in similar areas to this, or are
13 they on more of a flank of the pool?

14 A. I have seen very few, but it was a little
15 further out than this.

16 MR. CARR: That's all I have.

17 EXAMINER STOGNER: Thank you, Mr. Carr.

18 EXAMINATION

19 BY EXAMINER STOGNER:

20 Q. Mr. Sampson, referring to Exhibits Number 6,
21 are there any -- What would you say? Dry holes, in the
22 Basin Fruitland coal gas pool? You show the red
23 completions or the completions, but are there any
24 unsuccessful attempts at the Basin Fruitland coal on
25 this -- on either of these plats?

1 A. There are no dry holes on these plats.
2 However, I would like to point out that commonly in
3 this Basin, since you are unable to determine the
4 economic viability of a well before completing it, the
5 standard procedure is to go ahead and complete wells at
6 this point in time, due to the fact that from log
7 analysis alone you cannot determine the economics of a
8 well.

9 In the cases where I have seen dry holes
10 drilled, the logs did not indicate that that was going
11 to be the case. So in other words, these people would
12 have completed these wells even though they were not
13 economic, because they wouldn't have known ahead of
14 time.

15 Q. Now, these wells go through a de-watering
16 process, do they not, in this particular area of the
17 coal pool?

18 A. Not in this area; there's very little water
19 production. In some areas that is a significant
20 factor. If you see a large water rate initially,
21 that's an encouraging sign in that you can expect your
22 gas rate to increase.

23 However, in this area the water production
24 has been relatively low. Many wells are producing no
25 water which would indicate that we conceivably would

1 not see an increase in gas rates.

2 Q. The wells in this particular area, the --
3 even though some of them might have a very short
4 production history -- I guess all of them have a short
5 production history --

6 A. Yes.

7 Q. -- but the initial phase, do you see a flat
8 decline curve or a sharp downturn or a slight upward?
9 What kind of a decline curve do you see in these wells?

10 A. We normally feel like we cannot establish any
11 type of trend, you know, within as short a period as
12 these wells have been producing.

13 Essentially, I would say that they appear to
14 be relatively flat at this point. They're not dropping
15 very quickly, but they're not going up.

16 Q. Are they erratic in nature? Change from
17 month to month, I should say?

18 A. Yes, we do see some changes. Of course that
19 may be due to other factors. That's hard. That's why
20 you need to look at the long-term trends, because you
21 don't know if the operators are doing work on the wells
22 or what the reasons for some of the differences in
23 production from month to month might be.

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

1 If not, he may be --

2 MR. HALL: Brief redirect.

3 EXAMINER STOGNER: Oh, I'm sorry. Please,
4 Mr. Hall.

5 REDIRECT EXAMINATION

6 BY MR. HALL:

7 Q. Mr. Sampson, did you have an opportunity to
8 review the logs from Amoco's Yaffee dry hole?

9 A. Yes, I have.

10 Q. Notwithstanding the fact that the well was a
11 dry hole, did the logs themselves otherwise indicate
12 that the well would be probably successful?

13 A. Yes, they did. The logs looked just fine.
14 They looked as good as many other productive wells.

15 Q. Did they compare favorably with logs in the
16 immediate area of this proposal?

17 A. Yes, I'd say they were relatively similar.

18 Q. So the fact that you have logs and are
19 certain of encountering the coal in the first place
20 does not guarantee you a successful well, does it?

21 A. That's correct.

22 MR. HALL: Nothing further of this witness.

23 EXAMINER STOGNER: Mr. Carr?
24
25

1 RE-CROSS-EXAMINATION

2 BY MR. CARR:

3 Q. Mr. Sampson, do you have any idea how many
4 Fruitland coal wells have been drilled to date in this
5 pool?6 A. I could estimate probably somewhere over a
7 thousand wells.

8 Q. How many dry holes are you aware of?

9 A. Two. However, most of the wells were much
10 further in to the Basin than this.

11 MR. CARR: That's all I have.

12 EXAMINER STOGNER: Any other -- Mr. Morrow?

13 EXAMINATION

14 BY MR. MORROW:

15 Q. Do you know how the Amoco well was
16 stimulated, or these Meridian wells? How does the
17 stimulation compare to what you propose on your --18 A. These wells would be proposed to be cased and
19 frac-stimulated.20 The Amoco well was also -- They did attempt a
21 completion on that well. And our communications with
22 Amoco representatives indicate they just got no
23 quantities of gas or water from that well to indicate
24 that they felt it was worthy of continuing production.

25 Q. So how did you say they frac'd it, or did you

1 say?

2 A. They did, they cased and frac'd that well,
3 yes.

4 Q. You don't know how much?

5 A. Fracture-stimulated. No, I don't have the
6 actual amounts. But it was not a well that was early
7 on in the program. It would have been a standard Amoco
8 frac similar to the treatment they would have given to
9 many of their successful wells.

10 Q. And the Meridian wells, do you know how they
11 were stimulated?

12 A. Meridian has done more open-hole stimulations
13 where it's a cavity-type completion, but they have also
14 done some cased and frac'd completions, depending on
15 the geologic parameters in the area. If it's a highly
16 pressured area, they would do the open-hole.

17 Q. They would do what?

18 A. Do an open-hole completion.

19 I would like to point out that the risk here
20 is not exactly the dry hole. The risk is more of an
21 uneconomic well, and the fact that there were only two
22 dry holes only indicates that we cannot establish
23 whether a well will be economic or not, you know, prior
24 to completing a well.

25 EXAMINER STOGNER: Any other questions of

1 this witness?

2 MR. HALL: No, sir.

3 EXAMINER STOGNER: You may be excused.

4 Mr. Hall?

5 MR. HALL: Are Exhibits 4, 5 and 6 in, Mr.
6 Examiner?

7 EXAMINER STOGNER: If not, Exhibits 4, 5 and
8 6 will be admitted into evidence.

9 MR. HALL: Thank you. Call Tom Hahn.

10 THOMAS L. HAHN,

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

13 DIRECT EXAMINATION

14 BY MR. HALL:

15 Q. Mr. Hahn, for each of the cases, let's look
16 at Exhibit 3, the AFE, if you would briefly go over the
17 costs shown on those exhibits.

18 A. Okay, Case Number 9984, Exhibit 3 is the AFE
19 cost estimate for drilling, casing and completing the
20 FC Federal Com. Number 9. This cost is estimated at
21 \$407,400.

22 And in Case Number 9985, Exhibit 3 is the AFE
23 cost estimate for drilling, casing and completing the
24 FC Federal Com. Number 11. This cost is estimated at
25 \$399,800.

1 Q. What are Mesa's overhead charges for drilling
2 and producing the wells?

3 A. The overhead charge for drilling is \$3831 per
4 month. The overhead charge for producing the well is
5 \$382 per month.

6 Q. And that's for both wells?

7 A. Yes.

8 Q. Are those costs and charges in line with
9 what's being charged in the area?

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

12 Q. And you're recommending that those charges be
13 incorporated in any Order resulting from these
14 hearings?

15 A. Yes, I am.

16 Q. Mr. Hahn, do you concur in the request for
17 the 200-percent risk penalty?

18 A. Yes, I do.

19 Q. What's the basis of that recommendation?

20 A. The basis of that recommendation is three
21 elements for risk. One risk in particular is the
22 drilling and completion of a Fruitland coal well in the
23 San Juan Basin.

24 In this area in particular, it requires a
25 very large hydraulic fracture stimulation. When we do

1 these fracture stimulations, it requires high pump
2 rates, up to 60 barrels per minute, large volumes of
3 sand, and consequently we do see high injection
4 pressures.

5 There is one case in particular where we were
6 pumping the fluid at about a 2000-, 2200-p.s.i. surface
7 pressure. Immediately the coal screened out and we saw
8 5400 p.s.i. at the surface. We feel like when we
9 operate under these type of conditions that there is a
10 significant risk with completing a Fruitland coal well.

11 Q. Will both of these wells be cased and frac'd?

12 A. Both wells are cased and frac'd.

13 The second element of risk that we'd like to
14 consider is the element of encountering sufficient
15 permeability to make a commercially attractive
16 Fruitland coal well. Mr. Sampson discussed this; I
17 won't go into it any further. But there is this
18 element of risk.

19 The third significant element of risk is the
20 risk associated with making a commercially attractive,
21 viable Fruitland coal well in this area.

22 I'd like to introduce Exhibits 7 to explain
23 that a little further.

24 Q. Let's discuss those.

25 A. Exhibit 7 -- We'll take this case by case.

1 Case Number 9984, Exhibit 7 is the offset production
2 detail for the Fruitland coal wells that are completed
3 as shown on Exhibit 6.

4 The information that I'd like to point out
5 here is both the surface pressures that were seen in
6 the offset wells and then the current production.
7 There is several completed Fruitland coal wells, so we
8 have what I feel very good control a far as the type of
9 production and pressures that we're seeing.

10 As I look at the pressures, I see that we're
11 not in a -- definitely not in an overpressured area,
12 and that the coals may not exhibit the permeability or
13 gas in place that may be required for a commercial
14 well.

15 Along with this, when I look at the current
16 production on the offset wells, I'm seeing production
17 that does not look attractive at this time. Mesa will
18 have to drill and complete a better well than we're
19 seeing in all the offset wells. If we drill and
20 complete a well with these type of production rates, we
21 will -- It's likely we will discontinue drilling in
22 this area.

23 In Exhibit 7, in Case Number 9985, we have
24 the similar type of information. We have fairly good
25 control, once again. There's several completed

1 Fruitland coal wells. The pressures and the rates,
2 once again, are not attractive and we feel like we have
3 a great deal of risk in that we will have to drill and
4 complete a better well than the operators are -- or
5 that the operators have right now in the area.

6 Q. The gas/water production column in each of
7 the Exhibits 7 show relatively little water production
8 from the offsets. What does that indicate?

9 A. The idea here is that -- and a lot of this is
10 theory that I have read -- is that this area is not
11 being recharged by an aquifer from the surface.

12 That recharge is attractive in some of the
13 higher-pressured areas, because it -- for one thing, it
14 helps keep gas in place, and we see greater
15 permeability also in those areas.

16 On the flip side of that, we -- If you don't
17 have the water production, you don't have the cost of
18 disposing the water, but yet we don't expect these gas
19 rates to increase appreciably over the life of the
20 well.

21 Q. In the event that Mesa is unable to obtain
22 200-percent risk penalty, will Mesa have to reassess
23 its plans for drilling these wells?

24 A. Yes, we will.

25 Q. Was Exhibit 7 prepared by you or at your

1 direction?

2 A. Yes.

3 Q. In your opinion, Mr. Hahn, will the granting
4 of both Applications be in the interests of
5 conservation, the prevention of waste and the
6 protection of correlative rights?

7 A. Yes, it will.

8 MR. HALL: That concludes our direct of this
9 witness.

10 We would move the admission of Exhibit 7 and
11 Exhibit 8, which is the 1207 notice affidavit.

12 EXAMINER STOGNER: Exhibit 7 will be admitted
13 into evidence and also Exhibit 8.

14 Mr. Carr, your witness.

15 CROSS-EXAMINATION

16 BY MR. CARR:

17 Q. Mr. Hahn, you stated that Mesa will need to
18 drill a well that is better than the offsetting wells
19 to have a commercial success; is that right?

20 A. Yes, we will.

21 Q. And is that Mesa's position, that they're
22 going to -- that they're -- will be able to do that?

23 A. That's the risk that we feel like we are
24 taking on, that we, you know, will be able -- or may be
25 able to do that.

1 Q. And what do you base that on?

2 A. We have entered the Fruitland coal program
3 later than some of the other operators. We've had the
4 advantage of being able to sit back and look at some of
5 the stimulation treatments and some of the methods of
6 completing the well. We feel like we may have a
7 superior method and may make a better well than some of
8 the offset operators.

9 Q. And was it your testimony that if a 200-
10 percent penalty is not imposed, that Mesa would not
11 drill the well?

12 A. No, we will have to reconsider the economics.

13 MR. CARR: That's all I have.

14 EXAMINER STOGNER: Thank you, Mr. Carr. Are
15 there any other questions of this witness?

16 If not, he may be excused.

17 Mr. Hall, Mr. Carr, do either one of you have
18 anything further in this case?

19 MR. CARR: Very brief statement.

20 EXAMINER STOGNER: Mr. Carr, I'll let you
21 proceed first. And Mr. Hall, you may be after him.

22 MR. CARR: May it please the Examiner, the
23 only issue in this case between Amoco and Mesa is
24 really the size of the penalty.

25 The pre-hearing statement filed in this case

1 stated that Mesa would seek a 156-percent penalty in
2 each of these cases, and yesterday we were advised that
3 on the two cases that are before you in this particular
4 consolidated matter they advised us they would seek the
5 200-percent penalty.

6 We believe that is inappropriate.

7 If you look at the penalties that have been
8 imposed on other wells in the area, a 156-percent
9 penalty has been utilized, and this has been
10 established after numerous cases in which the Division
11 has reviewed the risks associated with drilling wells
12 in this area.

13 Mesa comes before you, and on the one hand
14 they say this is a high-risk venture, they've got to
15 drill a better well than any well in the area. And I
16 think when you think about that, one, they've admitted
17 that they think they've got a better, perhaps,
18 completion method. And also, when you weigh what kind
19 of risks they think they're taking, remember they're
20 carrying a 50-percent owner in the tract.

21 We submit to you there is no risk in terms of
22 encountering the Fruitland coal. The production has
23 been established in virtually all of these wells.
24 They're all wells in the area that, as to the risk, 156
25 percent is appropriate. And if they can't make an

1 economic well in this area by drilling into the same
2 kind of procedures which have been established by the
3 Division, then we submit perhaps they should reconsider
4 whether they should go forward.

5 EXAMINER STOGNER: Thank you, Mr. Carr.
6 Mr. Hall?

7 MR. HALL: A few brief comments. We don't
8 believe that the pre-hearing statements are in any way
9 controlling with respect to what an Applicant seeks in
10 this case. Had Mr. Carr made an effort to return his
11 phone calls on a timely basis, he would have found out
12 we were proposing 200 percent before yesterday.

13 Also, Amoco shows up at the hearing with
14 absolutely no evidence at all. Record testimony
15 establishes that 200-percent risk is appropriate in the
16 absence of any countervailing evidence. I feel that
17 the hearing Examiner has no choice but to grant us 200
18 percent.

19 EXAMINER STOGNER: Thank you, Mr. Hall.

20 MR. CARR: On that statement, I would move
21 that the case be continued so that we have ample
22 opportunity to prepare a case.

23 MR. HALL: To which we oppose.

24 EXAMINER STOGNER: Mr. Carr, do you propose
25 to bring in witnesses if we continue this case?

1 MR. CARR: Mr. Stogner, we have entered our
2 appearance. We will go de novo if a 200-percent
3 penalty is imposed. You may take the case under
4 advisement.

5 EXAMINER STOGNER: Does anybody else have
6 anything else further?

7 MR. HALL: No, sir.

8 EXAMINER STOGNER: Both cases, Numbers 9984
9 and 9985, will be taken under advisement.

10 And then that -- Hearing adjourned.

11 (Thereupon, these proceedings were concluded
12 at 1:32 p.m.)

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