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STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION
CASE 9986, CASE 10,003

EXAMINER HEARING

IN THE MATTER OF:

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

TRANSCRIPT OF PROCEEDINGS

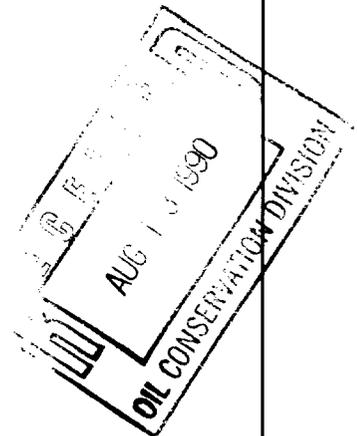
BEFORE: MICHAEL E. STOGNER, EXAMINER

STATE LAND OFFICE BUILDING

SANTA FE, NEW MEXICO

July 11, 1990

ORIGINAL



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
125 Lincoln Avenue
6 Suite 303
Santa Fe, New Mexico 87501
7

8 FOR AMOCO PRODUCTION COMPANY:

9 CAMPBELL & BLACK, P.A.
Attorneys at Law
10 By: WILLIAM F. CARR
Suite 1 - 110 N. Guadalupe
11 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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E X H I B I T S

APPLICANT'S EXHIBITS:

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* * *

1 WHEREUPON, the following proceedings were had
2 at 12:00 noon:

3

4

5 EXAMINER STOGNER: This hearing will come to
6 order.

7

8 At the Applicant's request, some of these
9 cases, the next few cases, have been consolidated, and
I'll call them as such.

10

11

12

13

At this time I'll call Cases Numbers 9986,
and Case Number 10,003, which are both the Application
of Mesa Operating Limited Partnership for compulsory
pooling, San Juan County, New Mexico.

14

At this time I'll call for appearances.

15

16

17

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.

18

19

EXAMINER STOGNER: Are there any other
appearances?

20

21

22

23

MR. CARR: May it please the Examiner, my
name is William F. Carr with the law firm Campbell and
Black, P.A., of Santa Fe. I represent Amoco Production
Company. I do not intend to call a witness.

24

EXAMINER STOGNER: Thank you, Mr. Carr.

25

Mr. Hall, do you have any witnesses?

1 MR. HALL: I have three of them.

2 EXAMINER STOGNER: Will the witnesses please
3 stand to be sworn at this time?

4 (Thereupon, the witnesses were sworn.)

5 EXAMINER STOGNER: Mr. Hall?

6 MR. HALL: Yes, sir.

7 MARK W. SEALE,

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

10 DIRECT EXAMINATION

11 BY MR. HALL:

12 Q. For the record, state your name and your
13 place of employment and type of employment.

14 A. My name is Mark Wesley Seale. I'm employed
15 by Mesa Limited Partnership in Amarillo, Texas, as a
16 landman.

17 Q. Mr. Seale, you're familiar with the lands
18 that are the subject of the consolidated Applications
19 and the subject wells, are you not?

20 A. Yes, I am.

21 Q. And you've previously testified before the
22 Division and had your credentials accepted as a matter
23 of record?

24 A. Yes.

25 Q. Mr. Seale, you have prepared certain exhibits

1 in conjunction with the two cases, have you not?

2 A. Yes, I have.

3 Q. Let's look at those, if you'd identify those
4 for the record and explain their contents.

5 A. Okay. Exhibit Number 1 in each case is a
6 plat depicting the section in which the well is
7 located. The spacing unit is identified, and I'll go
8 -- each one of these, we can talk about each one of
9 them separately.

10 In Case 9986 Mesa's well is named the FC
11 State Com. Number 16. It is located 1870 feet from the
12 north line, 1705 feet from the east line of Section 16,
13 Township 30 North, Range 11 West.

14 In Case Number 10,003 Mesa's well is named
15 the FC State Com. Number 17. It is located 1580 feet
16 from the south line, 1335 feet from the west line of
17 Section 36, Township 29 North, Range 10 West.

18 Page 2 of Exhibit 1 sets forth the working-
19 interest owners that have committed their interests to
20 the drilling of each of these wells and those owners
21 which we are requesting be pooled.

22 In Case 9986 approximately 75 percent of the
23 working interest has been committed to the well. We
24 are requesting that Amoco Production Company with 25
25 percent be pooled.

1 Case 10,003, 75 percent of the working
2 interest has been committed, and we're requesting that
3 Amoco Production Company with 12-1/2 percent and Texaco
4 with 12-1/2 percent be pooled.

5 Exhibit Number 2 is copies of the letters
6 that Mesa used to officially propose these wells to
7 partners. Along with the letter we attached an
8 operating agreement and an AFE cost estimate, both of
9 which are attached. The AFE cost estimate is labeled
10 Exhibit 3.

11 Q. Would you briefly summarize your efforts to
12 obtain the voluntary joinder of each of the parties
13 you're seeking to have pooled?

14 A. Okay. In each case, by letters dated March
15 15th, 1990, the wells were proposed. They did receive
16 the operating agreement and the cost estimate.

17 Since that time we have had numerous
18 conversations with all the parties, but as of this date
19 none of the parties being pooled have committed their
20 interest to the wells in writing.

21 Q. In your opinion, have you made a good-faith
22 effort to obtain their voluntary joinder?

23 A. Yes, we have.

24 Q. Were Exhibits 1 through 3 prepared by you and
25 at your direction?

1 A. Yes, they were.

2 Q. In you opinion, Mr. Seale, will granting the
3 Application be in the interest of conservation, the
4 prevention of waste and protection of correlative
5 rights?

6 A. Yes.

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

10 EXAMINER STOGNER: Are there any objections?

11 MR. CARR: No.

12 EXAMINER STOGNER: Exhibits 1, 2 and 3 will
13 be admitted into evidence.

14 EXAMINATION

15 BY EXAMINER STOGNER:

16 Q. Mr. Seale --

17 A. Yes.

18 Q. -- the letters dated March 15th, is that the
19 first written communication with either Amoco or Texaco
20 in either -- in whatever case may be -- of your
21 proposed well?

22 A. Yes.

23 EXAMINER STOGNER: Mr. Hall, do you propose
24 to -- Oh, your notifications are going to be toward the
25 end of the --

1 MR. HALL: Yes, the 1207 notification, yeah.

2 EXAMINER STOGNER: Okay.

3 Q. (By Examiner Stogner) Mr. Seale, who
4 determined the well locations?

5 A. It was determined between our drilling
6 engineers and our geologists.

7 EXAMINER STOGNER: Mr. Hall, are either or
8 one of those parties here today?

9 MR. HALL: Yes, we have geologic and
10 engineering testimony.

11 EXAMINER STOGNER: I hate to be nit-picky,
12 but one of them is unorthodox. 10,003, by five feet.

13 However, I do not -- I understand the surveys
14 out there. Maybe your geologist or engineer at that
15 time can address that issue. That particular issue
16 would be addressed at such time.

17 Okay, I have no other questions of Mr. Seale.
18 Are there any other questions of this witness?

19 MR. HALL: No, sir.

20 EXAMINER STOGNER: If not, he may be excused.

21 Mr. Hall?

22 MR. HALL: At this time we'll call Stewart
23 Sampson.

24

25

1 A. Exhibit 4 in each case, 9986 and 10,003, is a
2 coal isopach across the entire San Juan Basin which
3 indicates by location of a red symbol the location of
4 the well in question.

5 In each case -- I might point out that these
6 wells have been drilled, and that's why they were
7 consolidated -- we did encounter decent coal thickness,
8 sufficient coal thickness. However, we feel like that
9 is a -- only a minor risk factor involved.

10 Exhibit 5 in each case again shows the
11 location of the wells on a bottomhole pressure map
12 which is regional to the San Juan Basin. We are in an
13 area of lower pressure in the Basin, in both cases.

14 And the last map is simply a more detailed
15 map of the area which shows structure on the top of the
16 Fruitland. It shows the location of each well by open
17 red circle, and also the location of all Fruitland coal
18 completions within a radius of two miles of the wells
19 in question.

20 Again, by virtue of the fact that these wells
21 are drilled, we're recommending a standard 156-percent
22 penalty, although we feel that there is some
23 significant risk in this area due to poor offset
24 production.

25 Q. Do you believe that there's a chance that the

1 wells will not prove to be commercial wells?

2 A. Yes, I do.

3 Q. Do you have any basis for that statement?

4 A. Again, we encountered enough coal that we
5 feel like in this area the permeability is a
6 significant question, as demonstrated by some of the
7 offset production not being apparently economic.

8 Mr. Hahn will go into those production rates
9 in his testimony.

10 By far the most important factor in
11 establishing commercial production is the fracture
12 permeability of the coals.

13 Q. All right. Do you have anything further you
14 wish to add with respect to the risk penalty?

15 A. No.

16 Q. Were exhibits 4, 5 and 6 prepared by you or
17 at your direction?

18 A. Yes, they were.

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

23 A. Yes.

24 MR. HALL: That concludes our direct of this
25 witness, Mr. Stogner. We would move the admission of

1 Exhibits 4, 5 and 6.

2 EXAMINER STOGNER: Exhibits 4, 5 and 6 will
3 be admitted into evidence if there are no objections.

4 MR. CARR: No objection.

5 EXAMINER STOGNER: I have no questions of Mr.
6 Sampson.

7 Do you have anything further of this witness?

8 MR. HALL: No, sir.

9 EXAMINER STOGNER: Mr. Carr?

10 MR. CARR: No questions.

11 EXAMINER STOGNER: Are there any further
12 questions of the witness?

13 He may be excused.

14 I'm sorry, Mr. Morrow?

15 MR. MORROW: Did you say the wells had
16 already been drilled?

17 THE WITNESS: Yes, these two wells have been
18 drilled.

19 EXAMINER STOGNER: Mr. Hall?

20 MR. HALL: Mr. Stogner, with respect to the
21 apparent unorthodox location in Case 10,003, if the
22 Examiner prefers, we can verify the exact location with
23 a phone call.

24 EXAMINER STOGNER: Let's do that, and if
25 there's any discrepancy with the Order 8768, Special

1 Pool Rules for the Basin-Fruitland coal gas pool, I
2 feel that can be done administratively.

3 MR. HALL: All right.

4 EXAMINER STOGNER: And if you'll verify that
5 with me.

6 MR. HALL: We do understand wellhead's been
7 permitted by the Division, so...

8 EXAMINER STOGNER: That's so, and this -- Was
9 this on federal or fee land?

10 MR. HALL: State.

11 EXAMINER STOGNER: State land, all right.

12 If you'll verify that. And this is Case
13 Number 10,003; is that correct?

14 MR. HALL: Yes, correct. We can do it right
15 now if you would like, or we could provide you that
16 information.

17 EXAMINER STOGNER: Why don't you provide that
18 with me later --

19 MR. HALL: All right.

20 EXAMINER STOGNER: -- and we can continue on
21 with these.

22 Mr. Hall?

23 MR. HALL: At this time, we would call Tom
24 Hahn.

25

1 THOMAS L. HAHN,

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. For the record, Mr. Hahn, state your name,
7 your place of residence, place of employment and the
8 capacity in which you are employed.

9 A. My name is Thomas L. Hahn. I work for the
10 Mesa Limited Partnership in Amarillo, Texas, as a
11 reservoir engineer.

12 Q. Mr. Hahn, you're familiar with the
13 Applications, the subject lands and the wells, are you
14 not?

15 A. Yes, I am.

16 Q. And you've previously testified before the
17 Division and had your credentials accepted as a matter
18 of record, have you not?

19 A. Yes, I have.

20 Q. Let's look back at Exhibit 3, please, the
21 AFE. If you would go over those costs for the hearing
22 Examiner.

23 A. Okay, Exhibit 3 in Case 9986 is a detailed
24 AFE cost estimate for drilling and completing the FC
25 State Com. 16. The AFE shows that the total cost is

1 estimated at \$365,000 -- \$365,500. This is a cost to
2 drill, case, perforate and complete the FC State Com.
3 Number 16.

4 In Case Number 10,003, Exhibit 3 is an AFE
5 cost estimate for the drilling and the casing complete
6 on the FC State Com. Number 17. Total cost is
7 estimated at \$367,600.

8 Q. Mesa has drilled other Fruitland wells in the
9 area, have they not?

10 A. Yes, we have drilled, of course, both of
11 these wells, and there are other wells in the area we
12 have drilled.

13 Q. These costs are in line with what's being
14 charged in the area?

15 A. Yes, they are.

16 Q. What are Mesa's overhead costs for drilling
17 and producing the well?

18 A. The drilling overhead rate is \$3831 per
19 month; the producing overhead rate is \$382 per month.

20 EXAMINER STOGNER: I'm sorry, what was the
21 drilling cost, again?

22 THE WITNESS: \$3831.

23 EXAMINER STOGNER: Thank you.

24 Q. (By Mr. Hall) And those charges are also in
25 line with what's being charged in the area?

1 A. Yes, they are. They are based on the Ernst
2 and Whinney published information for overhead rates.

3 Q. And are you recommending that those costs --
4 charges be incorporated in any Order that results from
5 these hearings?

6 A. Yes, I am.

7 Q. Let's look at Exhibit 7. Would you identify
8 that and explain that for the hearing officer?

9 A. Exhibit 7 in Case Number 9986 is some offset
10 production detail for the offset wells shown on Exhibit
11 Number 6. In this case there are four offset wells.
12 Three of them we do have production information on, and
13 the fourth we just have a surface shut-in pressure.

14 Looking at this information, it's very easy
15 to tell that production rates are marginal in Mesa's
16 opinion, and the pressures would indicate that we may
17 not drill a commercially attractive well here.

18 Q. So you concur in the request for a 156-
19 percent risk penalty against the nonconsenting
20 interests?

21 A. Yes, I do.

22 Q. Was Exhibit 7 prepared by you?

23 A. Yes, it was.

24 Q. In your opinion, Mr. Hahn, will granting the
25 Applications be in the interest of conservation and the

1 prevention of waste, protection of correlative rights?

2 A. Yes, it will.

3 Q. Do you have anything further you wish to add?

4 A. Yes, I should speak about Exhibit 7 in Case
5 Number 10,003.

6 Q. Good idea.

7 A. Once again, it's offset production detail for
8 two offset wells from the proposed FC State Com. Number
9 17.

10 Both of these wells appear to be commercial
11 wells. The pressures in the area are very typical for
12 this area, so I recommend a 156-percent penalty here
13 also.

14 MR. HALL: All right. That concludes our
15 direct of this witness.

16 We'd move the admission of Exhibit 7 and
17 Exhibit 8. Exhibit 8 is the 1207 Notice Affidavit
18 prepared by counsel.

19 EXAMINER STOGNER: Are there any questions of
20 this witness?

21 Mr. Carr?

22 MR. CARR: No questions.

23 EXAMINATION

24 BY MR. STOGNER:

25 Q. On your AFE's, these were estimates prior to

1 you drilling the wells, or do these reflect some of the
2 actual costs?

3 A. These are estimates prior to drilling the
4 wells. These are the estimates we've sent to partners.

5 Q. Okay, and what did the actuals turn out?

6 A. The actuals, I don't have the exact number,
7 but I can tell you that the actuals are approximately
8 \$30,000 to \$40,000 less than the costs shown on both of
9 these AFE's.

10 We are not finished with the completion on
11 either of them as far as the surface equipment, so all
12 the costs have not come in yet.

13 Q. Now, when you say they're \$30,000 or \$40,000
14 under, are you talking about the final, total cost, or
15 the cost up to the point that you haven't started
16 tallying the rest of your completion costs?

17 A. I'm talking about the total cost.

18 Q. The total cost, okay.

19 So this -- These figures could be made up
20 later as you start adding your other equipment?

21 A. Right.

22 Q. Okay. Was there any noticeable difference on
23 any of your drilling costs?

24 A. Mr. Examiner, I do have the estimated -- the
25 actual cost as of this day, as of June 15th.

1 Q. On which well?

2 A. On the 16 and the 17.

3 Q. Okay.

4 A. On the Number 16, as of June 15th, we were at
5 \$236,000.

6 On the State Com. Number 17 we are at
7 \$229,100.

8 Q. Do you have those costs broken out in any way
9 that resembles your AFE? Or is that just total?

10 A. I don't have them here.

11 EXAMINER STOGNER: Okay. Are there any other
12 questions of this witness?

13 MR. MORROW: Explain the 150 percent -- or
14 156 percent; is that what you said?

15 THE WITNESS: 156 percent.

16 MR. MORROW: And that would be times the cost
17 or in addition to the cost?

18 THE WITNESS: In addition to the cost.

19 EXAMINER STOGNER: Are there any other
20 questions?

21 MR. HALL: No, sir.

22 EXAMINER STOGNER: If not, he may be excused
23 at this time.

24 Mr. Hall, do you have anything further?

25 MR. HALL: No, sir.

1 EXAMINER STOGNER: Does anybody else have
2 anything further in these two cases?

3 MR. CARR: No, sir.

4 EXAMINER STOGNER: In that case, I'll take
5 Case Number 10,003 and 9986 under advisement.

6 (Thereupon, these proceedings were concluded
7 at 12:18 p.m.)

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1 CERTIFICATE OF REPORTER

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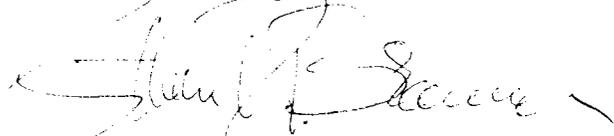
3 STATE OF NEW MEXICO)
 4 COUNTY OF SANTA FE) ss.

5

6 I, Steven T. Brenner, Certified Shorthand
 7 Reporter and Notary Public, HEREBY CERTIFY that the
 8 foregoing transcript of proceedings before the Oil
 9 Conservation Division was reported by me; that I
 10 transcribed my notes; and that the foregoing is a true
 11 and accurate record of the proceedings.

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

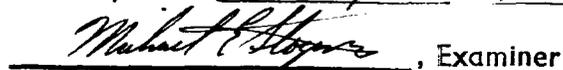
16 WITNESS MY HAND AND SEAL August 6, 1990.

17 

18 STEVEN T. BRENNER
 19 CSR No. 106

20 My commission expires: October 14, 1990

21 I do hereby certify that the foregoing is
 22 a complete record of the proceedings in
 23 the Examiner hearing of Case nos. 9986 and 10,003
 heard by me on 11 July 1990.

24 
 25 _____, Examiner
 Oil Conservation Division