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STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION
CASE 9987, CASE 9988

EXAMINER HEARING

IN THE MATTER OF:

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

TRANSCRIPT OF PROCEEDINGS

BEFORE: DAVID R. CATANACH, EXAMINER

STATE LAND OFFICE BUILDING

SANTA FE, NEW MEXICO

June 27, 1990

ORIGINAL

A P P E A R A N C E S

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1 WHEREUPON, the following proceedings were had
2 at 2:40 p.m.:

3 EXAMINER CATANACH: Call Case 9987.

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

7 EXAMINER CATANACH: Are there appearances in
8 this case?

9 MR. HALL: Mr. Examiner, Scott Hall from the
10 Miller, Stratvert, Torgerson and Schlenker law firm, on
11 behalf of Mesa.

12 We would ask that this matter be consolidated
13 with Case 9988.

14 EXAMINER CATANACH: At this time we'll call
15 Case 9988.

16 MR. CARROLL: Application of Mesa Operating
17 Limited Partnership for compulsory pooling, San Juan
18 County, New Mexico.

19 EXAMINER CATANACH: Any other appearances in
20 these two cases?

21 MR. CARR: May it please the Examiner, my
22 name is William F. Carr; I'm with the law firm Campbell
23 and Black, P.A., of Santa Fe. We represent Amoco
24 Production Company.

25 I do not intend to call a witness.

1 EXAMINER CATANACH: Any other appearances?
2 Will the witnesses please stand to be sworn
3 in?

4 (Thereupon, the witnesses were sworn.)

5 MARK W. SEALE,
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. HALL:

10 Q. For the record, state your name.

11 A. My name is Mark Wesley Seale.

12 Q. Mr. Seale, where do you live, by whom are you
13 employed, and in what capacity?

14 A. I'm employed by Mesa Limited Partnership. I
15 live in Amarillo, Texas. I'm a landman.

16 Q. And you've previously testified before the
17 Division and had your credentials accepted as a
18 landman; is that correct?

19 A. Yes, I have.

20 Q. Mr. Seale, let's turn to Exhibits 1 in each
21 of the cases, and let's refer to these by well name.

22 A. Okay.

23 Q. Why don't you identify Exhibit 1 and explain
24 what that's intended to show.

25 A. Okay, in each case, each of these cases,

1 Exhibit 1 is a plat depicting Section 36, Township 31
2 North, Range 9 West in San Juan County, New Mexico.

3 For Case 9987, the well name is the FC State
4 Com. Number 4. It is located with the red dot. The
5 location of the well is 1340 feet from the north line,
6 800 feet from the east line.

7 For Case 9988, the well name is the FC State
8 Com. Number 3. Its location is identified by the red
9 dot. The location of the well is 970 feet from the
10 south line, 1075 feet from the west line.

11 In each case, the proration unit to be
12 dedicated to each well is reflected on the plat.

13 Page 2 of Exhibit 1 reflects the working
14 interest that has been committed to the well and the
15 interest we are requesting be pooled today.

16 For the FC State Com. Number 4, 75 percent
17 has been committed to the well. We are requesting that
18 El Paso with 12-1/2 percent, and Amoco Production
19 Company with 6-1/4 percent, be pooled. Oh, excuse me,
20 and Conoco, with 6-1/4 percent.

21 For the FC State Com. Number 3, 87-1/2
22 percent has been committed to the well. We are
23 requesting that Amoco with 6-1/4 percent and Conoco
24 with 6-1/4 percent be pooled.

25 Q. Right. Let's refer to Exhibit 2 in each

1 case, and what is that?

2 A. Okay, Exhibit 2 is a letter dated April 6th,
3 1990, through which both of these wells were proposed
4 to partners.

5 Along with the letter, a joint operating
6 agreement which Mesa proposed to be used for the
7 drilling of this well was enclosed and an AFE cost
8 estimate, which is Exhibit 3.

9 Q. Okay, in each case?

10 A. Yes.

11 Q. In either case, you do not have written
12 commitments to join in the well from either of the
13 pooled parties; is that correct?

14 A. That is correct.

15 Q. And Mesa is seeking to be designated operator
16 of the proposed wells?

17 A. That is correct.

18 Q. Your primary objective is the Fruitland Coal;
19 is that correct?

20 A. Yes.

21 Q. Were Exhibits 1 through 3 prepared by you or
22 at your direction?

23 A. Exhibits 1 and 2 were. Exhibit 3 was
24 prepared by our drilling department.

25 Q. Exhibit 3 is the AFE, and that accompanied

1 Exhibit 2 --

2 A. Yes.

3 Q. -- to all the parties you're seeking to pool?

4 A. Yes.

5 Q. Mr. Seale, in your opinion will granting the
6 Application be in the interests of conservation, the
7 prevention of waste and protection of correlative
8 rights?

9 A. Yes, it will.

10 MR. HALL: That concludes our direct of this
11 witness. We would move the admission of Exhibits 1
12 through 3.

13 (Off the record)

14 EXAMINATION

15 BY MR. CATANACH:

16 Q. Mr. Seale, the letters that you have written
17 to the interest owners that have not joined in the
18 well, submitted as Exhibit Number 2 in each case, are
19 not dated.

20 A. Well, I noticed that for the FC State Com.
21 Number 4 they are not, except for the one that went to
22 El Paso. But all the wells -- We proposed quite a few
23 wells, and each one was proposed with a letter dated
24 April 6th.

25 Q. They are all the same date?

1 A. Yes.

2 Q. Or they should be, okay.

3 What has your response been from these
4 companies?

5 A. Well, we've had quite a few talks,
6 conversations back and forth. It looks like, I'd have
7 to say, most of the companies will probably participate
8 in the wells.

9 MR. HALL: But as of this date, you do not
10 have written commitments from any of them indicating
11 that they're going to join?

12 THE WITNESS: No, we don't.

13 Q. (By Examiner Catanach) Do any of these
14 exhibits have the actual well locations for each of
15 these respective wells?

16 A. Exhibit 1 does, down in the title block. Or
17 does each?

18 Q. Well, I mean in terms of footage.

19 A. I don't believe my letter does, the --

20 MR. HALL: The AFE does.

21 THE WITNESS: -- AFE does, yes. On the letter
22 and the operating agreement we have a quarter quarter
23 section.

24 Q. (By Examiner Catanach) Okay, so the AFE
25 should have the actual well location?

1 A. Yes.

2 Q. Have these locations been staked, do you
3 know?

4 A. I believe they have, yes.

5 Q. And they're all standard as far as you know?

6 A. Yes.

7 EXAMINER CATANACH: Okay. I believe that's
8 all I have of the witness at this time.

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

12 EXAMINATION

13 BY MR. HALL:

14 Q. Mr. Sampson, for the record state your name,
15 where you live, your place of employment, and in what
16 capacity you are employed?

17 A. My name is Stewart Sampson. I live in
18 Amarillo, Texas, and work for Mesa Limited Partnership.
19 My position is supervisor of geophysics.

20 Q. And you've previously testified before the
21 Division and had your credentials as a geophysicist
22 accepted as a matter of record; is that correct?

23 A. Yes, I have.

24 Q. You've prepared certain exhibits in
25 connection with these cases, have you not?

1 A. Yes.

2 Q. Let's look at Exhibits 4, 5 and 6. Would you
3 explain what those are intended to show?

4 A. Okay, Exhibit 4 in each case is a map of the
5 Basin showing the thickness of the entire Fruitland
6 Coal Section. The red dot indicates the approximate
7 location of the wells in question in each case.

8 As you can see, these wells are located very
9 nearly in the thickest coal in the Basin, and we expect
10 to encounter sufficient coal thickness to make these
11 locations attractive.

12 Exhibits 5 in each case are maps of bottom-
13 hole pressures, once again showing the location of the
14 wells in question, and again occurring at a pressure
15 which we feel is attractive.

16 These two exhibits are provided as a matter
17 of information and are not intended to demonstrate
18 sufficient -- or substantial risk in these wells.

19 Q. Let me correct you just briefly here. Isn't
20 the bottom-hole pressure Exhibit 6 in either case?

21 A. I have it numbered 5.

22 Q. Well, my mistake.

23 EXAMINER CATANACH: I have it numbered 5
24 also.

25 MR. HALL: Okay, never mind.

1 EXAMINER CATANACH: In Case Number --

2 MR. HALL: Somebody misnumbered mine.

3 EXAMINER CATANACH: -- 9988.

4 MR. HALL: All right.

5 THE WITNESS: Yes.

6 Exhibit 6 is a closer examination of the area
7 in question in each case, showing the well location of
8 the Number 3 and Number 4 in Section 36, and the red
9 dots indicate all offset Fruitland Coal completions.

10 As you can see, there is a considerable
11 amount of offset wells. However, the -- All proration
12 units offsetting have not been developed to date.

13 We feel like the one significant risk factor
14 involved in drilling these wells is permeability, and
15 that is demonstrated by the offset productions.

16 Mr. Hahn, who will follow me, will introduce
17 the productive rates of the offset wells. That's where
18 we feel like any potential risk, as well as the
19 completion, resides.

20 Q. (By Mr. Hall) What risk penalty are you
21 recommending be assessed against the nonconsenting
22 interest owners?

23 A. 156.

24 Q. Is there some risk that the wells will not be
25 commercially successful?

1 A. Yes, there appears to be.

2 Q. And are there, in fact, other wells in the
3 area that do not appear to be commercial wells?

4 A. Yes, there are.

5 Q. Do you have anything further you wish to add
6 with respect to these exhibits?

7 A. No.

8 Q. Mr. Sampson, in your opinion will granting
9 the Applications be in the interest of conservation,
10 the prevention of waste and the protection of
11 correlative rights?

12 A. Yes, it will.

13 Q. Were Exhibits 4, 5 and 6 prepared by you or
14 under your direction?

15 A. Yes, they were.

16 MR. HALL: That concludes our direct of this
17 witness. We would move the admission of Exhibits 4, 5
18 and 6.

19 EXAMINER CATANACH: Exhibits 4, 5 and 6 will
20 be admitted as evidence.

21 EXAMINATION

22 BY EXAMINER CATANACH:

23 Q. Mr. Sampson, you said there are some
24 noncommercial wells in this area. What do you
25 determine to be noncommercial?

1 A. We have productive rates from Dwight's, which
2 Mr. Hahn will go into, for all the wells in the area.
3 And there are some wells in the area which are
4 producing at apparently subeconomic rates, some of the
5 wells shown here on Exhibit 6, that are offset
6 producers.

7 Q. As far as you know, is that not typical
8 behavior for a coal well, to start out at lower rates
9 and then --

10 A. That is typically the case, but we have a
11 particular idea of what wells should produce in this
12 area to be good wells, and many of the wells in this
13 area are indeed quite attractive. But we do have some
14 which appear that even though they may increase, they
15 will not reach the rates which would make an economic
16 well.

17 Q. The potential of any given well in the coal
18 is a function, you said, of permeability? Or is it, in
19 fact, fracturing for the coal?

20 A. Fracturing and permeability are related, yes.
21 It definitely is fracturing.

22 I think there's very little risk of
23 encountering an adequate thickness. But whether or not
24 it's sufficiently fractured to produce at attractive
25 rates is really the question.

1 EXAMINER CATANACH: I have no further
2 questions of this witness.

3 THOMAS L. HAHN,
4 the witness herein, after having been first duly sworn
5 upon his oath, was examined and testified as follows:

6 EXAMINATION

7 BY MR. HALL:

8 Q. For the record, state your name.

9 A. My name is Thomas L. Hahn.

10 Q. Mr. Hahn, where do you live, by whom are you
11 employed, and in what capacity?

12 A. I live in Amarillo, Texas. I'm employed by
13 Mesa Limited Partnership as a reservoir engineer for
14 the San Juan Basin.

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

18 A. Yes, I have.

19 Q. Let's refer back to Exhibits 3, the AFE.
20 Would you briefly summarize the costs shown on that
21 exhibit, please?

22 A. In Exhibit 3 of Case 9987 we have shown the
23 estimated costs for drilling, completing and equipping
24 a Fruitland Coal well. You'll notice that the total
25 cost is \$319,600.

1 This is the estimated cost to drill the well
2 down to the top of the coal and perform a cavity-type
3 or open-hole-type completion, through this coal
4 interval and complete it this way with a liner and
5 equip and produce -- get the well on line for
6 production.

7 Under Case 9988, Exhibit 3 is the same well-
8 cost estimate, total cost of \$305,100 for a drilled,
9 completed and equipped well. This well also will be a
10 cavity-type completion.

11 Q. All right. Have you made an estimate of the
12 overhead and administrative costs while drilling the
13 well and also while producing the well, if a successful
14 well?

15 A. Yes, we have.

16 Q. What are those rates?

17 A. The overhead rate for drilling a well is
18 \$3831 per month. The overhead rate for producing the
19 well is \$382 per month.

20 Q. And are those rates and the costs on the
21 AFE's in line with what's being charged by the
22 operators in the area?

23 A. Yes, the AFE costs are very comparative with
24 the cavity-type completion for other operators in the
25 area.

1 The overhead costs for drilling and operating
2 are in accordance with some of the standard published
3 overhead costs, specifically the Ernst and Whinney
4 overhead costs.

5 Q. All right. And you're recommending that
6 those rates be incorporated into any Order that results
7 from this hearing?

8 A. Yes, I am.

9 Q. Mr. Hahn, with respect to the risk penalty
10 that's being sought for these wells, do you have any
11 testimony to add to that?

12 A. Yes, I do.

13 Q. Let's refer to Exhibits 6 and the attachment
14 to that. What is that intended to show?

15 A. Exhibits 6, for both Case 9987 and 9988, are
16 identical exhibits for the two different wells. Both
17 wells are in the same section, so when I speak of one
18 we'll apply it to the other well.

19 There are two main factors we would like you
20 to consider for risk here, the first being the
21 variability in production rates from offset wells, and
22 second the risk that's inherent with completing a
23 Fruitland Coal well.

24 Regarding the risk for production, if you'll
25 look at page 2 of Exhibit 6, you'll notice that we're

1 showing surface shut-in pressures and current
2 production rates. This information is reported from
3 Dwight's Energy Data.

4 The surface shut-in pressures do vary
5 somewhat. In general it appears that this area is
6 overpressured, and this is attractive in the sense that
7 gas contents and production rates typically will be
8 higher near these type of conditions.

9 But when you look at the current production
10 on some of the wells, you see quite a bit of
11 variability. Some of the rates are very attractive,
12 some are not attractive.

13 In particular, if you'll look at the Howell A
14 Number 302 in 30 and 8, Section 8, southeast quarter,
15 it produces 11 MCF per day, zero barrels of water.

16 The Riddle Number 250 produces 121 MCFD, 291
17 barrels of water.

18 And the Riddle Com Number 200 produces 80
19 MCFD and 8 barrels of water.

20 If you'll compare these rates with some of
21 the higher rates you can see that there is an element
22 of risk in drilling and completing a Fruitland Coal
23 well in the area, as far as the production of those.

24 Q. These wells will be drilled with air tools;
25 is that correct?

1 A. Yeah, the second risk factor that we'd like
2 you to consider is the factor that we will be drilling
3 these under a cavity-type completion.

4 The plan is to drill down to the top of the
5 coal, set 7-inch casing, and drill through the coal in
6 an underbalanced situation with air and water. And
7 what we're dealing with is live gas at the surface,
8 trying to induce a controlled blowout.

9 In these circumstances, there is always an
10 element of risk of the well getting out of control. In
11 that instance, if that were to happen, we would have to
12 kill the well with mud, and we feel like this will
13 damage the productivity of the well.

14 In the worst situation, if we lost the hole,
15 we would have to redrill the entire well.

16 We feel like, with the cavity-type
17 completion, that it is the best completion for the
18 area, as far as recovery of the gas in place. But yet
19 we are introducing ourselves to a great deal of
20 exposure, as far as expenditure if there were to be
21 problems.

22 Q. Do you have anything further you wish to add
23 with respect to risk penalty?

24 A. No, I don't.

25 Q. All right. Mr. Hahn, was Exhibit 6-2 in each

1 case prepared by you or at your direction?

2 A. Yes, they were.

3 MR. HALL: All right. We would move the
4 admission of that exhibit as well.

5 That completes my direct of this witness.

6 EXAMINER CATANACH: What are you admitting at
7 this time, Mr. Hall?

8 MR. HALL: It's part of 6. He's simply
9 authenticating it. 6 is already in.

10 EXAMINER CATANACH: Okay, so the -- We've
11 already admitted Exhibit Number 6, so that's --

12 MR. HALL: Yes. Also move the admission of
13 Exhibit 7, which is the affidavit of mailing service.

14 EXAMINER CATANACH: Exhibit Number 7 will be
15 admitted in each case.

16 EXAMINATION

17 BY EXAMINER CATANACH:

18 Q. Mr. Hahn, the over -- the proposed overhead
19 rates, are those in line with the survey results of
20 Ernst and Young?

21 A. Ernst and Whinney, I believe.

22 Q. Ernst and Whinney, Ernst and Young, either
23 one?

24 A. Yes, they are in line with Ernst and Whinney.
25 That's where we base our costs on.

1 Q. Okay. All of these wells are approximately
2 the same depth, around 3300?

3 A. Yes. Some are shallower, you know, 2800 to
4 3300. Of course it depends on the elevation. 3000 is
5 usually a pretty good average.

6 EXAMINER CATANACH: I have no further
7 questions of this witness.

8 MR. HALL: I'm going to clear up one matter.
9 There was a question about the footage location.

10 The location on the AFE may not correspond
11 with the footage location on Exhibit 1 in either case,
12 but the footage location on Exhibit 1 is the proposed
13 location for this Application. They're all standard.

14 EXAMINER CATANACH: Okay. Well, Mr. Hall,
15 I'm going to have you submit a summary sheet on each of
16 these cases that shows the parties being pooled in each
17 case, the interest percentage, and the well location
18 and name.

19 MR. HALL: Okay.

20 EXAMINER CATANACH: Oh, I'm sorry, Mr. Carr?
21 Yes.

22 MR. CARR: May it please the Examiner, you
23 should have in the file for this in each of the Mesa
24 compulsory pooling cases a letter from Mr. J.W. Hawkins
25 of Amoco Production Company.

1 Basically that letter sets forth Amoco's
2 position, and it is that in a number of hearings
3 involving the compulsory pooling of Fruitland Coals, a
4 risk penalty of 156 percent has been set.

5 We believe that this is -- has been set
6 because in the prior hearings and the result of the
7 activity following those hearings, it's been
8 established that the coals are present throughout the
9 Basin and production is established in virtually all
10 wells.

11 Therefore Amoco recommends that in each of
12 these cases a penalty of 156 percent for risk be
13 assessed.

14 EXAMINER CATANACH: Thank you, Mr. Carr.

15 Is there anything else in Case 9987 or 9988?

16 MR. HALL: No, sir.

17 EXAMINER CATANACH: If not, these cases will
18 be taken under advisement.

19 (Thereupon, these proceedings were concluded
20 at 3:05 p.m.)

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