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STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION
CASE 9992, CASE 9993

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

FOR THE DIVISION:

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1 WHEREUPON, the following proceedings were had
2 at 3:30 p.m.:

3 EXAMINER CATANACH: At this time we'll call
4 Case 9992.

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

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

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

13 We'd also request that this matter be
14 consolidated with Case 9993.

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

18 I'm entering our appearance in each of these
19 cases on behalf of Amoco Production Company.

20 EXAMINER CATANACH: Okay, at this time call
21 Case 9993.

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

25 MR. HALL: At this time, Mr. Examiner, we'd

1 ask that the record reflect that the credentials of
2 each of the witnesses have previously been accepted as
3 a matter of record.

4 EXAMINER CATANACH: And sworn in.

5 MR. HALL: Yes.

6 EXAMINER CATANACH: Right. Let the record so
7 reflect.

8 MARK W. SEALE,

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

11 EXAMINATION

12 BY MR. HALL:

13 Q. Mr. Seale, let's look at Exhibits 1, 2 and 3
14 in both cases. Would you identify those --

15 EXAMINER CATANACH: Hold on a second, Mr.
16 Hall, I'm sorry.

17 Okay, you may proceed.

18 Q. (By Mr. Hall) -- and explain what those are
19 intended to reflect?

20 A. Okay, in both cases Exhibit 1 is a plat
21 depicting Section 36, Township 32 North, Range 11 West,
22 San Juan County, New Mexico.

23 For Case 9992, Mesa's proposed well is named
24 the FC State Com. Number 13. It is to be located 970
25 feet from the south line, 1235 feet from the west line

1 of said Section 36. Its location is identified on the
2 plat with the red dot, and this well is to be spaced on
3 the west half of Section 36, which is also identified
4 on the plat.

5 In Case 9993, the proposed well name is the
6 FC State Com. Number 12. It is located 1155 feet from
7 the north line, 1255 feet from the east line of said
8 Section 36.

9 Again the well location is identified with
10 the red dot, and the well shall be spaced on the east
11 half of Section 36.

12 Page 2 of this exhibit in both cases is a
13 listing of the interests that have been committed to
14 the well and those interests which we are attempting to
15 pool.

16 Case 9992, 62-1/2 percent has been committed
17 to the well. Mesa is requesting that El Paso with 25
18 percent, Amoco with 6-1/4 percent, and Conoco with
19 6-1/4 percent be pooled.

20 In Case 9993, 75 percent has been committed
21 to the well, and Mesa is requesting that El Paso with
22 25 percent be pooled.

23 Q. All right. Let's look at Exhibit 2, the
24 attachments to that. Would you identify those and also
25 summarize your efforts to secure the voluntary joinder

1 of the parties you're seeking to pool?

2 A. Okay. Mesa proposed both of these wells to
3 partners by a letter dated April 6, 1990.

4 Accompanying the letter was Mesa's AFE cost
5 estimate and an operating agreement which Mesa proposed
6 be used to govern the drilling of this well.

7 Along with sending this letter, I've had
8 telephone conversations with each of the parties, and
9 to date none of these parties have in writing committed
10 their interest to the drilling of these wells.

11 The letter and JOA are identified as Exhibit
12 2, and the AFE cost estimate is identified as Exhibit
13 3.

14 Q. Each of these wells are Fruitland wells, are
15 they not?

16 A. Yes, they are.

17 Q. And Mesa is seeking to be designated operator
18 in each case?

19 A. Yes.

20 Q. In your opinion, you've made a good-faith
21 effort to secure voluntary joinder of the parties
22 you're seeking to pool, have you not?

23 A. Yes.

24 Q. In your opinion, Mr. Seale, will granting the
25 Applications in each case be in the interests of

1 conservation, the prevention of waste and protection of
2 correlative rights?

3 A. Yes, it will.

4 Q. Exhibits 1 and 2 were prepared by you, with
5 the exception of the standard JOA and the AFE. You
6 believe both of those documents to be accurate, do you
7 not?

8 A. Yes.

9 MR. HALL: We would move the admission of
10 Exhibits 1 through 3. That concludes our direct.

11 EXAMINER CATANACH: Exhibits 1 through 3 will
12 be admitted as evidence, and I have no questions of the
13 witness.

14 STEWART SAMPSON,

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

17 EXAMINATION

18 BY MR. HALL:

19 Q. Mr. Sampson, let's look at Exhibits 4, 5 and
20 6 in each of the cases, if you would explain those to
21 the hearing examiner, please, sir.

22 A. Exhibit 4 in each case is an isopach map of
23 the Fruitland Coal in the Basin.

24 These wells were consolidated because they --
25 we anticipate similar geologic conditions as the wells

1 that are in the same section. We expect to anticipate
2 around 50 feet of coal.

3 Exhibit 5 in each case is a pressure map of
4 the Basin, once again, showing the locations of these
5 wells, and we expect to encounter about 1300 pounds
6 shut-in pressure, bottom-hole shut-in pressure, in the
7 Coal. Both of these are favorable conditions for coal
8 production.

9 The last exhibit, Exhibit 6, again shows the
10 location of the two wells in question and all offset
11 production that has been completed in the Fruitland
12 Coal Reservoir.

13 Again, any risk that we feel would be
14 inherent in drilling these wells would be associated
15 with encountering sufficient fracture and
16 impermeability.

17 Q. And are you seeking a 156-percent risk
18 penalty for both the wells?

19 A. Yes, I am.

20 Q. In your view, is there a chance that both
21 locations may not be commercially successful?

22 A. Yes.

23 Q. And Exhibits 4, 5 and 6 tend to support that?

24 A. Yes.

25 Q. Do you have anything else you wish to add

1 with respect to the --

2 A. No.

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

5 A. Yes, they were.

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

10 A. Yes, they will.

11 MR. HALL: We would move the admission of
12 Exhibits 4, 5 and 6. That concludes our direct of this
13 witness.

14 EXAMINER CATANACH: Exhibits 4, 5 and 6 will
15 be admitted as evidence, and I have no questions.

16 THOMAS L. HAHN,

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

19 EXAMINATION

20 BY MR. HALL:

21 Q. Mr. Hahn, let's refer to Exhibit 3, the AFE's
22 for both wells. Would you summarize the cost figures
23 on those, please, sir?

24 A. In Case 9992, Exhibit 3 is a detailed cost
25 estimate for drilling, completing and equipping the FC

1 State Com. Number 13.

2 Please note that the total cost is estimated
3 at \$406,300. This is the cost to -- The completion-
4 type will be a fracture-stimulation rather than an
5 open-hole cavity-type completion.

6 In Case 9993, Exhibit 3 is the AFE cost
7 estimate for drilling, completing and equipping the FC
8 State Com. Number 12. The total cost is estimated at
9 \$311,000. This is the cost for a cavity-type
10 completion.

11 Q. All right. What are the overhead rates for
12 drilling and producing for each of the wells?

13 A. The overhead rate for drilling the wells is
14 \$3831 per month. The overhead rate for producing the
15 wells is \$382 per month.

16 Q. And you're asking that those rates be
17 incorporated into any Orders resulting from this
18 hearing; is that correct?

19 A. Yes, I am.

20 Q. Are the rates that you seek and the costs
21 shown on Exhibit 3, the AFE's, in line with what's
22 being charged by other operators in the area?

23 A. Yes. The AFE cost estimates are comparative
24 to operators in the area, both for the fracture-
25 stimulated-type completion and the cavity-type

1 completion. The overhead rates are based upon the
2 Ernst and Whinney published data on overhead rates for
3 producing these wells.

4 Q. All right. With respect to the 156-percent
5 risk penalty that's being sought, let's refer to
6 Exhibit 6-2 in each case, if you would go over that,
7 please, sir.

8 A. The risk penalty that we seek is based on two
9 different risk factors, one being the variability in
10 production rates for offset wells in the area, the
11 second factor being the risks associated with drilling
12 and completing Fruitland Coal wells.

13 Regarding the risk or production rates in the
14 offset wells, in both Case 9992 and 9993 -- the
15 exhibits are identical -- both wells are in the same
16 section.

17 In Case 9992, Exhibit 6, page 2, we have the
18 surface shut-in pressures and the current production
19 rates that I'd like to focus on for this well and this
20 section.

21 We do not have a great deal of surface shut-
22 in pressure data, other than our own Hamilton Number 3
23 Well and the Primo Mudge Number 100.

24 Our Hamilton Number 3 Well was in an
25 overpressured condition when we drilled the well in

1 1988.

2 The Primo Mudge Number 100 appears to be a
3 normally pressured-type test.

4 If you'll examine the production information
5 on each of these offset wells, you'll note that there
6 is a great deal of variability in the production rates.

7 One of the lows is the Childers Number 2,
8 which is currently producing at 21 MCF per day and zero
9 barrels of water.

10 The production rates vary a great deal, all
11 the way up to 1.56 million per day and 22 barrels of
12 water from the -- well, actually from the State Gas
13 Com. BW Number 1 and 2.4 million a day from the Primo
14 Mudge Number 100.

15 Once again, we feel like there's a great deal
16 of variability in both the gas rates and the water-
17 production rates for any well drilled in the area.

18 The second factor I'd like you to consider in
19 this case, 9992, is the risk associated with the
20 fracture-stimulation completion procedure on the well.

21 Once again, with the high pump rates, the
22 large volumes of sand, and consequently the large
23 pumping pressures that we see, we feel like there is a
24 great deal of risk with this type of completion and
25 feel like we need -- this is justification for the 156

1 risk penalty.

2 In Case 9993, the well-completion procedure
3 will be a cavity-type completion.

4 You'll note that these wells, of course, are
5 both in the same section, the idea being here that we
6 are in a pressure-transition area, and we would like to
7 examine the fracture-stimulated completion versus the
8 open-hole completion in the same section.

9 The open-hole completion on Case 9993 will be
10 in the northwest quarter of Section 36. It will be in
11 between the Hamilton Number 3, which we operate, which
12 is a cased and frac'd completion, and the well location
13 in the southwest quarter, which will be cased and
14 frac'd. It will provide a good comparison of the type
15 of completion procedures that is best for the area.

16 With the open-hole cavity-type completion, we
17 are dealing with live gas at the surface. It's a
18 controlled blowout situation. I think if we were to
19 lose the well, we would have to redrill it.

20 If we had to dump mud down the casing to
21 control the well, we feel like this will damage the
22 productivity of the well, and we would like to be
23 compensated for the risks associated with the
24 completion procedure.

25 Q. Anything further you wish to add with respect

1 to risk?

2 A. No, there is not.

3 Q. The offset production detail attached to
4 Exhibit 6 in each case was prepared by you or at your
5 direction, was it not?

6 A. Yes, it was.

7 Q. Mr. Hahn, in your opinion will granting the
8 Applications in each case be in the interests of
9 conservation, the prevention of waste and protection of
10 correlative rights?

11 A. Yes, it will.

12 MR. HALL: That concludes our direct of this
13 witness. We would also move the admission of Exhibit
14 7, which is the Affidavit of Notice.

15 EXAMINER CATANACH: Exhibit 7 in each of
16 these cases will be admitted as evidence.

17 And I have no questions of the witness.

18 Mr. Carr?

19 MR. CARR: May it please the Examiner, Amoco
20 Production Company requests that a risk penalty of 156
21 percent be imposed on each of the wells that are the
22 subject of each of these cases.

23 EXAMINER CATANACH: Thank you, Mr. Carr.

24 And Mr. Hall, I will ask you again to submit
25 that information on each of these separate cases.

1 MR. HALL: Okay.

2 EXAMINER CATANACH: And at this time, there
3 being nothing further in Case 9992 or 9993, they will
4 be taken under advisement.

5 (Thereupon, these proceedings were concluded
6 at 3:45 p.m.)

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