

1 STATE OF NEW MEXICO  
2 ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT  
3 OIL CONSERVATION DIVISION  
4 CASE 10048

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EXAMINER HEARING

9

10 IN THE MATTER OF:

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12 Application of Great Western Drilling Company  
13 for a Nonstandard Gas Proration Unit,  
14 San Juan County, New Mexico

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TRANSCRIPT OF PROCEEDINGS

18

19 BEFORE: MICHAEL E. STOGNER, EXAMINER

20

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STATE LAND OFFICE BUILDING

22

SANTA FE, NEW MEXICO

23

September 5, 1990

24

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**ORIGINAL**

1           EXAMINER STOGNER: This hearing will come  
2 to order. I'll call the next case, No. 10048, which  
3 is the application of Great Western Drilling Company  
4 for a nonstandard gas proration unit, San Juan County,  
5 New Mexico.

6           This case was heard by David Catanach at  
7 the August 22, 1990 hearing and it was continued for  
8 some reason.

9           At this time I'll call for appearances.

10           There being none, this case will be taken  
11 under advisement.

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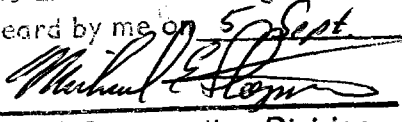
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I do hereby certify that the foregoing is  
a complete record of the proceedings in  
the Examiner hearing of Case No. 10048,  
heard by me on 5 Sept 1990.  
 , Examiner  
Oil Conservation Division

## 1 CERTIFICATE OF REPORTER

2

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

6

7 I, Carla Diane Rodriguez, Certified  
8 Shorthand Reporter and Notary Public, HEREBY CERTIFY  
9 that the foregoing transcript of proceedings before  
10 the Oil Conservation Division was reported by me; that  
11 I caused my notes to be transcribed under my personal  
12 supervision; and that the foregoing is a true and  
13 accurate record of the proceedings.

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

18 WITNESS MY HAND AND SEAL September 7, 1990.

19

20

21

22 My commission expires: May 25, 1991

23

24

25

*Carla Diane Rodriguez*  
CARLA DIANE RODRIGUEZ  
CSR No. 91

1 STATE OF NEW MEXICO  
2 ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT  
3 OIL CONSERVATION DIVISION  
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## EXAMINER HEARING

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12 Application of Great Western Drilling Company  
13 for a Nonstandard Gas Proration Unit,  
14 San Juan County, New Mexico

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## TRANSCRIPT OF PROCEEDINGS

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19 BEFORE: DAVID R. CATANACH, EXAMINER

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STATE LAND OFFICE BUILDING

22

SANTA FE, NEW MEXICO

23

August 22, 1990

24

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**ORIGINAL**

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1 EXAMINER CATANACH: At this time we'll call  
2 Case 10048.

3 MR. STOVALL: Application of Great Western  
4 Drilling Company for a nonstandard gas proration unit,  
5 San Juan County, New Mexico.

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

8 MR. HALL: Mr. Examiner, Scott Hall from  
9 the Miller, Stratvert, Torgerson & Schlenker Law Firm  
10 in Santa Fe, New Mexico, on behalf of the Applicant,  
11 with one witness this afternoon.

12 EXAMINER CATANACH: Other appearances in  
13 this case?

14 MR. COOTER: Paul Cooter with the Rodey Law  
15 Firm here in Santa Fe, appearing on behalf of  
16 Northwest Pipeline. We have two witnesses who we'll  
17 call.

18 EXAMINER CATANACH: Any other appearances?  
19 Will the three witnesses stand to be sworn in at this  
20 time.

21 (Thereupon, the witnesses were sworn.)

22 MR. COOTER: Before Mr. Hall commences, may  
23 I take just a moment and introduce co-counsel, Paul  
24 Pratt, who is in-house counsel for Northwest Pipeline  
25 in Salt Lake City. He's a member of the Utah bar.

1 EXAMINER CATANACH: Thank you, sir.

2 PAT L. SHANAHAN

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

5 EXAMINATION

6 BY MR. HALL:

7 Q. For the record, state your name and place  
8 of residence.

9 A. Pat L. Shanahan, Midland, Texas.

10 Q. Mr. Shanahan, by whom are you employed and  
11 in what capacity?

12 A. Great Western Drilling Company as land  
13 manager.

14 Q. I understand you've never testified before  
15 the New Mexico Division before. Would you please  
16 briefly give the Examiner a summary of your  
17 educational background and work experience?

18 A. I have a degree in business and I've been  
19 in the land business for 18 years, almost 9 years with  
20 Great Western.

21 Q. In what capacity?

22 A. Land manager.

23 Q. Have you had previous land management  
24 experience prior to working for Great Western?

25 A. No. I opened a division office in Southern

1 Illinois for Sahop Petroleum out of Tulsa and worked  
2 there two years. Prior to that I was an independent,  
3 on my own.

4 Q. You're familiar with the application filed  
5 in this case and the lands that are the subject of the  
6 application, are you not?

7 A. Yes, I am.

8 MR. HALL: Mr. Examiner, are the witness's  
9 credentials acceptable?

10 EXAMINER CATANACH: They are.

11 Q. Mr. Shanahan, briefly explain what you're  
12 seeking in this application today?

13 A. We want a 320-acre nonstandard proration  
14 unit. We would like to have the west half of Section  
15 8, which is a fractional section, and the west  
16 half/west half of Section 17.

17 The reason we want that there, Great  
18 Western has interest in that acreage and no other  
19 acreage around it, contiguous to it, except for more  
20 up in the--fractional acreage to the west of it.

21 Q. This is where the Basin Fruitland Coal is?

22 A. Yes, Basin Fruitland Coal.

23 Q. You're familiar with the spacing and well  
24 location requirements for that pool?

25 A. Yes, I am.

1 Q. What is the actual acreage of that  
2 proration unit?

3 A. 320 acres.

4 Q. In this case are you seeking approval for a  
5 327.8-acre nonstandard unit?

6 A. Yes.

7 Q. Let's look at Exhibit 1, if you would,  
8 please, and explain that to the Hearing Examiner.

9 A. Okay. Starting on the left-hand side and  
10 going across to your right, there are three Fruitland  
11 wells that Great Western has drilled, and the Picture  
12 Cliff is the Northwest Pipeline well.

13 In this it shows the thickness of the  
14 Fruitland Coal being about 40- or 50-feet thick all  
15 the way across in an east/west trend.

16 Q. All right. Let's look at the surface plat  
17 that is a portion of Exhibit 1. Would you explain  
18 that please, sir?

19 A. All right. Section 12, Section 7, and the  
20 west half of Section 8 is the acreage Great Western  
21 has or interest in, and the west half/west half of 17  
22 is what we have interest in.

23 This also shows other Fruitland wells in  
24 Colorado, and in this particular area close to us.

25 Q. Does the exhibit show your proposed well

1 location?

2 A. Yes, it does.

3 Q. What is the status of that well?

4 A. It's sitting there now. We've already  
5 drilled it. We got a permit on it and we permitted it  
6 wrong and drilled it, and we're trying to amend that  
7 permit, really. We permitted it using acreage that  
8 wasn't ours, that we didn't have interest in.

9 Q. What acreage did that embrace?

10 A. That embraced all of Section 8.

11 Q. Section 8 is an irregular section, is it  
12 not?

13 A. Yes, it is. And the east half of Section 8  
14 is in a unit, Cox Canyon Unit. I couldn't begin to  
15 tell you how we made this mistake, but we did.

16 Q. As I understand you, there is currently on  
17 file with the Division a C-102 showing the south half  
18 of Section 8 where, in fact, all of Section 8 is being  
19 dedicated to the well?

20 A. Yes.

21 Q. You're wishing to replace that with what  
22 has been marked as Exhibit 2, is that correct?

23 A. Yes.

24 Q. Exhibit 2 is a C-102 outlining the  
25 nonstandard unit, is that correct?

1 A. Yes.

2 Q. Let's refer back to Exhibit 1 and the  
3 surface plat again. Will you briefly discuss the  
4 ownership in Section 8 and Section 17?

5 A. Well, the west half of Section 8 is owned  
6 by Great Western, Mesa Petroleum and Davoil. The  
7 three of us own it. We had communitized this once  
8 before for a Mesaverde well back in 54 using this same  
9 configuration. This is what we're asking again, for  
10 it to be done to the Fruitland Coal.

11 Q. And within the nonstandard unit, where is  
12 Great Western's interest?

13 A. It's in all of this. The west half/west  
14 half of 17 and the west half of 8.

15 Q. Can you give the ownership percentages to  
16 the Hearing Examiner?

17 A. It's 55 percent, or a little over 50  
18 percent to Great Western, 25 to Mesa and the rest is  
19 owned by Davoil.

20 Q. And have Davoil and Mesa committed to the  
21 well, according to the acreage outlined on Exhibit 1,  
22 nonstandard unit acreage?

23 A. Yes, they have.

24 Q. Is there a communitization agreement  
25 pending?

1           A.       Yes.

2           Q.       And that's been executed by Davoil and  
3 Mesa?

4           A.       Yes.

5           Q.       Have those parties also executed a JOA  
6 committing to that?

7           A.       Yes, they have. They signed a letter  
8 agreement, AFE, and joint operating agreement.

9           Q.       All right. Did they indicate to you  
10 whether or not they would be willing to work out any  
11 swap of acreage to allow for the dedication of Section  
12 8 to a standard unit?

13          A.       Yes, they did. In fact, I spoke to  
14 Northwest Pipeline, and rather than come and go  
15 through all of this, I suggested that we just swap  
16 Fruitland formation in the west half/west half for the  
17 Fruitland formation only that they have in the east  
18 half of Section 8; and I believe we could have done  
19 this with just operating rights.

20                   If they assigned us their operating rights  
21 to that formation, we would have signed it. And  
22 everybody has agreed to it; in other words, everybody  
23 on our part.

24          Q.       But you were not able to consummate such a  
25 swap?

1 A. No.

2 Q. Why is that?

3 A. Northwest, when I talked to them, they said  
4 they would think about it but they didn't think they  
5 could get their partners to go along with it.

6 Q. There is also some uncertainty, is there  
7 not, whether or not you could get a proration unit or  
8 communitization agreement approved that would take you  
9 across the boundary of the Cox Canyon Unit if you  
10 included the southeast quarter of Section 8?

11 A. I think there is some question about it.

12 Q. As an aside, since we're not talking about  
13 that acreage, not being part of this application's  
14 lands, let me refer you to Exhibit 3.

15 Do you have that?

16 A. Yes.

17 Q. Exhibit 3 is Order No. R-5262 which spaced  
18 the Mesaverde formation for these lands along a  
19 nonstandard unit as we're asking for today?

20 A. Yes.

21 Q. Would you refer to Finding No. 8 of that  
22 exhibit and read it into the record, please?

23 A. It's kind of hard to read.

24 "That the applicant has requested  
25 the operator of the Cox Canyon Unit to join

1           in the formation of orthodox gas proration  
2           units in said Section 8 and 17, but that  
3           the said operator has declined; that it  
4           is therefore impossible to pool applicants  
5           said leases with adjoining acreage in  
6           the area so as to form orthodox units."

7           Q.     To your knowledge, has Northwest attempted  
8           to initiate compulsory pooling proceedings to include  
9           lands in Section 8?

10          A.     Not to my knowledge.

11          Q.     Mr. Shanahan, if your application is not  
12          granted, do you believe that it would be appropriate  
13          to have your production restricted from your well?

14          A.     Say that again, would you please?

15          Q.     If you're not successful in this  
16          application here today, say, for instance, you're  
17          going to be limited to 160-acre proration unit, or  
18          some such scenario, and were it also likely that your  
19          production would be restricted, would your plans for  
20          the well change?

21          A.     Well, it would be uneconomical to produce  
22          it.

23          Q.     Do you believe that would lead to premature  
24          abandonment?

25          A.     Yes, I do.

1 Q. Do you also believe that not all the  
2 reserves would be sufficiently produced if that were  
3 the case?

4 A. Absolutely.

5 Q. Would you explain to the Hearing Examiner  
6 what the current spacing is for the Mesaverde  
7 formation in all of Section 17 and Section 8?

8 A. The same as it is for the Fruitland,  
9 320-acre spacing.

10 Q. The current configuration of the spacing  
11 units on that acreage are what?

12 A. The current configuration unit that we have  
13 on the Mesaverde?

14 Q. Yes.

15 A. Is the west half of 8 and the west  
16 half/west half of 17.

17 Q. What is the configuration for the remaining  
18 acreage in 8 and 17, if you know?

19 A. Well, it would be the east half of the west  
20 half, the west half of the east half, and the rest of  
21 Section 8. I'm talking about 17, the east half and  
22 the west half.

23 Q. Those proration units are also nonstandard?

24 A. Yes.

25 Q. And who operates those?

1           A.       Northwest Pipeline.

2           Q.       Let's look at Exhibit 4, if you would  
3 please, sir. Exhibit 4 is the C-102 for a the Cox  
4 Canyon Unit #204, is it not?

5           A.       Yes.

6           Q.       That is for a proposed Fruitland well?

7           A.       Yes.

8           Q.       There is currently not a well located in  
9 that acreage, is there?

10          A.       No.

11          Q.       If you will refer to the middle portion of  
12 that C-102, it represents that the acreage is  
13 unitized?

14          A.       Yes.

15          Q.       To your knowledge, is it unitized?

16          A.       Well, this acreage where the location is,  
17 is in the Cox Canyon Unit.

18          Q.       Yes, but the question is whether or not the  
19 acreage embraced within the standard unit shown on the  
20 C-102, is whether or not, in fact, all of that acreage  
21 is unitized?

22          A.       No, it is not.

23          Q.       That's because you hold the interest in the  
24 west half/west half?

25          A.       Yes.

1           Q.     All right. Mr. Shanahan, you've given  
2 notice to all the offsets, to your knowledge. Have  
3 you received any waivers to the proposed unit?

4           A.     Yes. Just to the east of Section 17, Mesa  
5 has that and they've signed a waiver.

6           Q.     All right. Mr. Shanahan, in your view, in  
7 your opinion, will the granting of this application be  
8 in the interests of conservation, the prevention of  
9 waste and the protection of correlative rights?

10          A.     Yes, I do.

11          Q.     Were Exhibits 1 and 2 prepared by you or at  
12 your direction?

13          A.     At my direction.

14          Q.     All right.

15                 MR. HALL: We would move the admission of  
16 Exhibits 1 and 2. We would also ask that the Examiner  
17 take administrative notice of Exhibits 3 and 4, and we  
18 would also move the admission of Exhibit 5, which is  
19 our 1207 Affidavit.

20                 MR. STOVALL: Mr. Examiner, before you  
21 admit the exhibits, I would point out that Mr.  
22 Shanahan is a landman and has testified to the land  
23 portion of Exhibit 1, and I don't believe the  
24 cross-section or log sections is properly admissible  
25 unless Mr. Hall has other feelings about that that you

1 would like to address.

2 MR. HALL: I've moved the admission of the  
3 entire exhibit and there was no objection. It's  
4 correct, he was not testifying as an engineer today.  
5 He has knowledge of what the exhibit shows in that  
6 regard and he's offered testimony on it. The Examiner  
7 can give it the appropriate weight.

8 MR. STOVALL: I would not make it as an  
9 objection, provided that it is clear on the record  
10 that the landman has attached it to his land plat, and  
11 we understand there's been no geologic testimony using  
12 that as a geologic exhibit.

13 MR. HALL: Well, there has been brief  
14 reference to the geology as it's shown on there, but  
15 that is correct, he is not testifying as a geologist  
16 or an engineer.

17 MR. STOVALL: I'm saying that you can admit  
18 it, but with that caveat, that it's not--

19 EXAMINER CATANACH: We'll go ahead and  
20 allow it and give it the proper weight.

21 Exhibits 1, 2 and 5 will be admitted as  
22 evidence. And you wanted me to take administrative  
23 notice of Exhibits 3 and 4?

24 MR. HALL: Yes, sir.

25 EXAMINER CATANACH: What is that?

1           MR. STOVALL: I assume you're not offering  
2 those as exhibits, because one is a copy of a Division  
3 Order.

4           MR. HALL: They were not prepared by this  
5 witness, but they were kept on file as records kept in  
6 the ordinary course of business of the Division.

7           EXAMINER CATANACH: I think they can be  
8 admitted as exhibits, Mr. Hall.

9           MR. STOVALL: It makes it easier to  
10 identify them, and we can always verify them against  
11 the ones actually on file. Mr. Cooter, do you have  
12 any objection to that?

13          MR. COOTER: No, sir.

14          EXAMINER CATANACH: Exhibits 1 through 5  
15 will be admitted as evidence.

16          Mr. Cooter?

17          MR. COOTER: I have a few brief questions  
18 for Mr. Shanahan.

19                               EXAMINATION

20 BY MR. COOTER:

21          Q.       Who is D. E. Baxter?

22          A.       Doyle Baxter is our field superintendent in  
23 Farmington.

24          Q.       When Great Western filed the appropriate  
25 form for approval to drill its J. E. Decker #11 well,

1 this Division's form C-102 was prepared and submitted  
2 with that, was it not?

3 A. Yes.

4 Q. And that showed all of Section 8, that  
5 being a short section, otherwise it would have just  
6 been the south half of a regular section, but all  
7 Section 8 was dedicated to that well?

8 A. That's true.

9 Q. And that was done before that well was  
10 drilled?

11 A. Yes.

12 Q. And then the well was drilled and  
13 completed, was it not?

14 A. Yes.

15 Q. And when was it completed?

16 A. I don't have the exact date.

17 Q. Let me show you the C-105 on that.

18 A. Okay. 1/26/90.

19 Q. January 26th of this year?

20 A. Yes.

21 Q. And then when was it that Great Western  
22 revised its proposed spacing unit to conform with what  
23 you now seek?

24 I think it's on the next page, if you want  
25 to turn to that.

1 A. The date?

2 Q. Yes.

3 A. February 22, 1990.

4 Q. And that, again, was signed by your Mr.  
5 Baxter?

6 A. Doyle Baxter.

7 MR. STOVALL: Mr. Cooter, may I ask, the  
8 documents which you had him refer to are copies of the  
9 C-105, the completion report, is that correct?

10 MR. COOTER: Yes, sir.

11 MR. STOVALL: And then an amended C-102?

12 MR. COOTER: Yes, sir.

13 MR. STOVALL: And would it be correct to  
14 assume you got those from Division files?

15 MR. COOTER: Yes, sir.

16 MR. STOVALL: So his testimony is based  
17 upon information which you have provided to him and  
18 not based upon his own understanding, is that correct?

19 MR. COOTER: Yes, sir.

20 Q. (BY MR. COOTER) Is there any question in  
21 your mind, Mr. Shanahan, but that the forms that I've  
22 shown you and we've talked about so far are true and  
23 correct copies of the forms actually filed by your  
24 company?

25 A. I would say yes.

1           Q.     Mr. Hall had you read from an Order entered  
2 by this Commission back in 1954 which created the  
3 gerrymander proration unit for the Mesaverde, and he  
4 had you read, I believe, paragraph 8 of the findings  
5 as set forth on page 2?

6           A.     That is correct. Let me direct your  
7 attention to a letter of May 1984 to Mr. Gillen, a  
8 copy of which is marked as Exhibit No. 16 in those  
9 that have been given to you here. Let me hand you my  
10 copy?

11          A.     All right.

12          Q.     That letter proposes, does it not, that  
13 Great Western and its interest owners join with  
14 Northwest Pipeline in forming a south half or all of  
15 Section 8 unit for your Decker #11 well?

16          A.     Yes.

17          Q.     And then it affords your company and your  
18 partners an opportunity to join with Northwest  
19 Pipeline in a unit that would be the west half of  
20 Section 17?

21          A.     That's what it says.

22          Q.     And you were afforded that opportunity and  
23 you declined it?

24          A.     We never declined it.

25          Q.     Well, you're right. It was just never

1     accepted?

2             A.     That's right.

3             Q.     But you were afforded that opportunity?

4             A.     Yes.

5                     MR. COOTER:  Thank you.  That's all I  
6     have.

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

9                                     EXAMINATION

10    BY EXAMINER CATANACH:

11             Q.     Mr. Shanahan, were you the operator of the  
12    Mesaverde spacing unit?

13             A.     Yes.

14             Q.     Is that still currently producing?

15             A.     Yes.

16             Q.     Are there any other Mesaverde wells in  
17    Section 8 or 17?

18             A.     Yes, I believe there is.

19             Q.     How many more?

20             A.     Four--five.

21             Q.     Now, in Sections 8 and 17, besides your  
22    nonstandard unit, are there one or two other  
23    nonstandard Mesaverde units?

24             A.     Not to my knowledge, no.

25             Q.     There's just one additional unit besides

1 yours?

2 A. Uh-huh.

3 MR. HALL: I'm sorry, what was the question  
4 again?

5 EXAMINER CATANACH: I was asking him how  
6 many nonstandard units exist in 8 and 17 in the  
7 Mesaverde.

8 MR. HALL: I believe I can shed some light  
9 on that. In fact, there are three, consisting of the  
10 southeast of 8 and the west half/west half of 17;  
11 there is another consisting of the east half--

12 MR. STOVALL: Was that the southwest of 8  
13 or southeast?

14 MR. HALL: Southwest of 8. There is  
15 another consisting of the west half/east half of 17  
16 and the east half/west half; and there's also another  
17 consisting of the east half/east half of 17 and the  
18 southeast of 8.

19 MR. HALL: I have those well names, if you  
20 would like them.

21 MR. STOVALL: Is that Mesaverde, or  
22 Mesaverde and Dakota, Mr. Hall?

23 MR. HALL: Mesaverde, I believe.

24 EXAMINER CATANACH: Is Northwest Pipeline  
25 the operator of those two?

1 MR. HALL: Yes, sir.

2 Q. (BY EXAMINER CATANACH) Mr. Shanahan, you  
3 said it may be difficult to get the acreage in the  
4 southeast quarter of 8 to participate in your well  
5 because it's part of a unit?

6 A. No. We never approached them to  
7 participate.

8 Q. They've never been approached?

9 A. No.

10 Q. But do you have any knowledge whether or  
11 not it could be done?

12 A. I think it could, probably.

13 EXAMINER CATANACH: That's all I have of  
14 the witness.

15 MR. STOVALL: Just one question. How many  
16 acres in Section 8, in the regular small section, do  
17 you know?

18 THE WITNESS: No, not right offhand I  
19 don't. I think it's in excess of 320, but not much.

20 MR. HALL: That's shown on Exhibit 2.

21 EXAMINER CATANACH: One more question.  
22 This is the first Fruitland Coal well to be drilled in  
23 these two sections?

24 THE WITNESS: Yes.

25 EXAMINER CATANACH: That's all I have.

1 MR. HALL: That concludes this witness.

2 MR. COOTER: I have distributed to each one  
3 of you a booklet which contains 16 exhibits.

4 JEFFREY R. VAUGHAN

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

7 EXAMINATION

8 BY MR. COOTER:

9 Q. Would you state your name for the record,  
10 sir?

11 A. My name is Jeff Vaughan.

12 Q. By whom are you employed, Mr. Vaughan?

13 A. Northwest Pipeline Corporation.

14 Q. In what capacity, sir?

15 A. I'm the supervisor of joint interests and  
16 acquisitions for the production drilling department.

17 Q. Have you previously testified before the  
18 New Mexico Oil Conservation Division?

19 A. Yes, I have.

20 Q. Recognizing that and not wanting to take up  
21 an inordinate amount of time, would you relate  
22 briefly, and just very briefly, your education and  
23 professional experience?

24 A. I'm a registered professional engineer in  
25 the State of New Mexico; I have a Bachelor of Science

1 degree in petroleum engineering from Colorado School  
2 of Mines; I have eight years with Northwest Pipeline  
3 in various production reservoir and drilling  
4 capacities.

5 Q. Have you reviewed the application filed in  
6 this case by Great Western Drilling Company?

7 A. Yes, I have.

8 Q. And are you familiar with what that company  
9 seeks and the lands involved?

10 A. Yes, I am.

11 Q. Let's turn to these exhibits. Have you  
12 prepared certain exhibits for your testimony here  
13 today?

14 A. Yes, I have.

15 Q. Is Exhibit No. 1 one of those?

16 A. Yes. Exhibit No. 1 is a plat which shows  
17 the approved proration units for the immediate area of  
18 the J. E. Decker #11 well, which is the subject well.  
19 That well is indicated by a star on your plats.

20 The approved proration unit is outlined  
21 with a dashed line.

22 The purpose of this exhibit is to show all  
23 the offset wells which are staked, which have approved  
24 proration units. All of these are standard proration  
25 units as set forth by the Fruitland Basin Coal

1 Proration Rules approved by this Division.

2 All of these proration units mesh with the  
3 originally proposed proration unit in Section 8, and  
4 all of the other wells are staked and approved. In  
5 fact, the Cox Canyon #200 in Section 9 has been  
6 drilled. The Cox Canyon #201 in Section 16, that  
7 would be the east half of Section 16, has been  
8 drilled. And there is another well not shown on the  
9 map which would be to the east of the J. E. Decker  
10 #10, and it's to the west of the J. E. Decker #10 in  
11 Section 7, drilled by Great Western, which is also a  
12 standard proration unit being a lay-down proration  
13 unit for that truncated row of sections on the state  
14 line.

15 Q. Let me interrupt you there for just a  
16 minute, Mr. Vaughan. You said west of the J. E.  
17 Decker #10 well, that would take it over into Section  
18 12, would it not?

19 A. That's correct, Section 12 of Range 12.

20 Q. That has been dedicated to a Basin  
21 Fruitland Coal and the well drilled?

22 A. That's direct.

23 Q. How about the one in Section 7?

24 A. The well in Section 7 has been drilled and  
25 completed by Great Western and it also was approved

1 with a standard proration unit as set forth in the  
2 Fruitland Coal Bed Pool Rules.

3 Q. Mr. Shanahan testified about approval from  
4 Mesa Operating. Where is their interest?

5 A. Okay. The wells staked by other operators  
6 are shown in orange dots. The Mesa wells are the Fed  
7 Com #8 and the Fed Com #7 in Section 18, just below  
8 the J. E. Decker #10. That acreage is owned by Mesa;  
9 the majority of it is owned by Mesa. Mesa staked the  
10 wells and they have approved standard proration units  
11 for those locations.

12 Q. Why is Section 8 shown within the dashed  
13 lines as you have?

14 A. Well, the purpose to show this within the  
15 dashed lines is that for proper drainage of this  
16 reservoir, Section 8, as it was originally approved,  
17 meshes with all of the offset wells, some of which are  
18 drilled, all of which are staked and approved, and  
19 many of which have locations already built.

20 Also on this exhibit I've shown some  
21 production data which I would like to refer to later.

22 Q. Up at the top?

23 A. Yes, sir.

24 Q. You'll come back to that?

25 A. I'll come back to that.

1 Q. You're ready to go to Exhibit No. 2?

2 A. Yes, sir.

3 Q. Let's turn to Exhibit No. 2. Identify and  
4 explain that, if you would.

5 A. What's shown in Exhibit No. 2 is basically  
6 the same map as Exhibit No. 1. Outlined in green is  
7 the proration unit proposed by Great Western in this  
8 hearing. The well location again is shown with the  
9 star.

10 The purpose of this plat is to show the Oil  
11 Conservation Division what would result if that  
12 proration unit was approved. What would result is,  
13 the red and the brown proration units would be also  
14 nonstandard proration units for the Fruitland Coal,  
15 and the wells we've already staked would then become  
16 unorthodox locations because they're not within 790  
17 feet of the proration unit boundary and, furthermore,  
18 the well is not in the northeast quarter of what would  
19 be the southeast quarter of Section 8.

20 In other words, the first well in each  
21 proration unit should be in the northeast quarter or  
22 the southwest quarter.

23 Q. Turn to Exhibit 3, if you would, and  
24 identify and explain that?

25 A. What I've shown in Exhibit 3, which is

1 similar to Exhibit No. 2, is where we would have to  
2 move the locations we already have staked, approved  
3 and built, in order for them to be orthodox  
4 locations.

5           Also, in order to protect the Cox Canyon  
6 Unit acreage or the east half of what is Section 8  
7 from drainage by the existing well, in other words, to  
8 protect our interest or the combined interest of the  
9 unit, we would propose the well be drilled as shown by  
10 the yellow dot, Cox Canyon #203, and also Cox Canyon  
11 #204 would have to be moved over to be more than 790  
12 feet from the proration unit boundary.

13           Another point I would like to make with  
14 this plat is the entire north half of Section 17 would  
15 be left without a well. At this time there are no  
16 provisions for infill wells without a hearing, and if,  
17 in fact, the time did come down the road for infill  
18 wells, there would be difficulties as to where to  
19 locate them to be standard locations.

20           If you compare this to Exhibit 1, you can  
21 see that as originally filed, none of these problems  
22 would arise, and as originally filed the proration  
23 unit conforms to the rules of this Commission.

24           Q.     Keep on Exhibit 1 for just one minute if  
25 you would, Mr. Vaughan. If the area were developed in

1 that way under the existing rules and regulations of  
2 the Basin Fruitland Coal, would those wells, in your  
3 opinion, adequately drain the acreage as shown?

4 A. Yes. As shown on Exhibit 1, the wells in  
5 the spacing pattern there would be the best method to  
6 drain the Fruitland Coal wells.

7 Q. Identify and explain Exhibit 4, if you  
8 would?

9 A. Exhibit 4 is an isopach of the coal in the  
10 general area. I don't have the subject well  
11 identified, but I believe you can see Section 8,  
12 toward the center-top of the exhibit.

13 The purpose of this exhibit is to show that  
14 the coal is fairly continuous in thickness throughout  
15 all of Section 8, and actually thin somewhat towards  
16 the southwest quarter of Section 17, which would be  
17 the proration unit proposed by Great Western.

18 You can see the outline of the Cox Canyon  
19 Unit there. That would form the eastern boundary of  
20 the proposed proration unit. So, the coal is  
21 continuous through Section 8, and not continuous to  
22 the south, at least not as continuous as it is going  
23 in an east/west direction.

24 At this time I would like to refer back to  
25 Exhibit 1 very briefly. The production data is shown

1 there for the J. E. Decker #10, #11 and the Cox Canyon  
2 #200. Those wells are directly below the data.

3 As you can see, all the wells were frac'd  
4 and the production gauges are similar, especially for  
5 the well in Section 8 and the well in Section 9. This  
6 goes to show that the coal is, in fact, similar  
7 throughout all of Section 8 into Section 9.

8 Q. All right. Turn next, if you would, to  
9 Exhibit 5. Identify and explain that.

10 A. Exhibit 5 is a structural map on the base  
11 of the Lewis Shale Marker for the subject area.

12 The purpose of this exhibit is to show  
13 there is no significant structural variations  
14 throughout either east/west or north/south that would  
15 in any way geologically control production.

16 Also shown in this exhibit is the  
17 cross-section line for the cross-sections shown in  
18 Exhibit 6.

19 Q. Let's turn to Exhibit 6 and talk about  
20 that, if you would.

21 A. Mr. Examiner, Exhibit 6 shows a  
22 cross-section through the J. E. Decker #10, the  
23 J. E. Decker #11, and the Cox Canyon Unit #26. This  
24 is similar to the cross-section previously presented  
25 by Great Western. It continues into Section 9.

1           I would like to direct your attention to  
2 the J. E. Decker #11 well and Cox Canyon Unit #26  
3 well, and point out that the coals are fairly  
4 continuous between these two wells, and that the coal  
5 thicknesses are similar as shown on the isopach map.

6           Q.     Is your structure map and the wire line  
7 logs, are they corroborated by the production data as  
8 shown on Exhibit 1?

9           A.     Yes. I believe we've shown that  
10 geologically the coal is similar and also the  
11 production gauges are similar. What we're showing is  
12 that there is some continuity, and there would be  
13 drainage of the east half of Section 8 by the subject  
14 well.

15          Q.     Were Exhibits 1 through 6--

16          A.     I still have to refer to Exhibit 6(B).

17          Q.     Oh, okay. Thank you. Let's go to 6(B).

18          A.     Okay. Very briefly, 6(B) is a log from a  
19 well drilled in the southwest quarter of Section 17.  
20 The reason this was included was, to go back to my  
21 previous statement, the coals are thinning to the  
22 south. There's only 25 foot of coal in this well.  
23 The coals are more spread out and they're not  
24 contiguous in so much as that they do not correlate  
25 with the previously shown cross-section. In fact,

1 there are only 9 seams here, compared to 13 shown in  
2 the wells to the north.

3 And this would conclude my presentation of  
4 Exhibits 1 through 6.

5 Q. Including 6(B)?

6 A. Yes, sir.

7 Q. Were those seven exhibits, being numbered 1  
8 through 6, and 6(B), prepared by you or under your  
9 direction and supervision?

10 A. Yes, they were.

11 MR. COOTER: Mr. Examiner, we offer those  
12 exhibits at this time.

13 EXAMINER CATANACH: Exhibits 1 through 6  
14 and 6(B) will be admitted as evidence.

15 Q. (BY MR. COOTER) Now, let me direct your  
16 attention, and we can probably cover this fairly  
17 rapidly, to the documents we've attached as Exhibits 7  
18 through 15.

19 Could you identify those for us please,  
20 Mr. Vaughan?

21 A. Yes. As I previously stated, the wells  
22 shown on Exhibits 1 through 3 are approved and staked,  
23 and these are the C-102 forms for those wells.

24 Q. Exhibit 8 being the form C-102 that was  
25 filed by the Applicant in this case prior to the

1 drilling of its Decker #11 well?

2 A. That is correct.

3 Q. And that was on file when Great Western  
4 drilled and completed that well?

5 A. That is correct.

6 Q. And that is the same proration unit, is it  
7 not, as suggested by Northwest Pipeline on Exhibit 1?

8 A. Yes. We feel this would be the best  
9 proration unit.

10 Q. And that proposed unit and well location  
11 conforms to the special rules and regulations for the  
12 Basin Fruitland Coal Gas Pool adopted by this  
13 Division, does it not?

14 A. Yes, it does.

15 Q. Are Exhibits 7 through 15 true and correct  
16 copies of those forms C-102?

17 A. Yes, they are.

18 Q. While we don't cover it, look at the  
19 exhibit which has been marked Exhibit No. 9, which is  
20 the proposed proration unit for Section 9, that  
21 half-section.

22 Has there also been a well proposed in a  
23 similar proration unit over in Section 10, which would  
24 be to the east?

25 A. Yes. The purpose of including these as

1 exhibits is to show that there is a well staked in  
2 Section 9, as well as Section 10.

3 Q. Who staked that well in Section 10, do you  
4 know?

5 A. The well in Section 10 was originally  
6 staked was by Northwest Pipeline, subsequently  
7 dropped, and then previously restaked by Meridian.

8 The purpose is to show that all the way  
9 from Section 12 of Township 32 North, Range 12 West,  
10 continuous through Section 10 of Township 32 North,  
11 Range 11 West, the entire top row has been approved on  
12 standard proration units which meshes with the  
13 standard proration units of the remaining Exhibits 7  
14 through 15.

15 Q. As well as the standard proration units in  
16 the full sections to the south?

17 A. That's correct.

18 Q. Mr. Vaughan, in your opinion, would a  
19 standard proration unit, comprised of Section 8 being  
20 a little bit more than 320 acres as shown on your  
21 exhibits that you've talked about here, protect the  
22 correlative rights of offsetting operators?

23 A. Yes.

24 Q. Prevent waste?

25 A. Yes.

1 Q. Be in the best interests of conservation?

2 A. Yes.

3 Q. In your opinion, would the granting of  
4 Great Western's proposed nonstandard proration unit,  
5 in the manner that they have indicated, do so?

6 A. No.

7 MR. COOTER: We would offer or ask the  
8 Examiner to take administrative notice of those  
9 Exhibits 7 through 15, which are just the copies of  
10 the C-102s.

11 EXAMINER CATANACH: Administrative notice  
12 will be taken of Exhibits 7 through 15.

13 MR. COOTER: That concludes my direct  
14 testimony.

15 EXAMINER CATANACH: Mr. Hall.

16 MR. HALL: Very briefly.

17 EXAMINATION

18 BY MR. HALL:

19 Q. As I understand your testimony, with  
20 respect to Sections 8 and 17, as you explained on  
21 Exhibits 5 and 6, I believe you said that there was no  
22 structural variation throughout that acreage, that the  
23 coal was continuous throughout?

24 A. No. I said that there was no significant  
25 structural variation to control and protect the

1 production through that area. However the coals, as I  
2 showed on the isopach, are not continuous through that  
3 area. In other words, there's no structural boundary  
4 to prevent the well from draining the east half of  
5 Section 8.

6 Q. With respect to the lands in Sections 17  
7 and 8, addressing only those lands, there are only  
8 three possible locations available in those lands  
9 anyway, are there not?

10 A. I guess I'm not sure I understand your  
11 question.

12 Q. You have Section 8, consisting basically of  
13 320 sections? Section 17 is 640?

14 A. That's correct.

15 Q. Within that acreage there are only three  
16 possible Fruitland Coal cases on the current spacing,  
17 is that correct?

18 A. That's correct. The standard proration  
19 unit is approximately 320 acres.

20 Q. If I understand your testimony, there's  
21 really no geological impediment to moving your staked  
22 locations to nonstandard locations, is that correct?

23 A. Other than the fact that the drainage would  
24 be--you would end up with three wells across section 8  
25 and 9 and only one well in the south part of Section

1 7, thereby leaving the entire north half of Section 17  
2 void of drainage. In other words, there would be a  
3 large gap between the wells drilled on that acreage.

4 Q. Depending upon where you staked your wells,  
5 though, of course?

6 A. That is true.

7 Q. You could stake a well that would drain the  
8 reserves in the north half of 17?

9 A. We could stake a well. It would be an  
10 unorthodox location, and we have already staked a well  
11 that is an orthodox location.

12 Q. So were you to stake such a well and  
13 regardless of the configuration of the spacing units  
14 within that acreage, isn't it true that all of the  
15 reserves can be adequately and sufficiently produced,  
16 regardless of the configuration?

17 A. I believe it is possible to do that, but  
18 not without waste.

19 MR. HALL: No further questions.

20 MR. COOTER: May I ask a couple more  
21 questions?

22 EXAMINER CATANACH: Yes.

23 FURTHER EXAMINATION

24 BY MR. COOTER:

25 Q. Let me ask you to turn to Exhibit 3, which

1 shows Great Western's proposed nonstandard proration  
2 unit. You have testified that if that were granted,  
3 then you would have to resubdivide the two sections as  
4 indicated.

5 As indicated on that exhibit, would the two  
6 wells in Section 8, the Great Western well and the Cox  
7 Canyon #203 well, drain the production from the north  
8 half of Section 17?

9 A. I don't know that they would. I cannot say  
10 that they would. In other words, the two wells in  
11 Section 8 would drain Section 8, but I don't know that  
12 they would drain all of the north half of Section 17,  
13 because we don't know which direction these wells are  
14 going to be drained.

15 Q. Could they? Does the possibility exist?

16 A. Yes.

17 Q. Does the probability exist?

18 A. The probability exists.

19 Q. And if you moved your proposed #204 well to  
20 the north to counteract that, then you have the same  
21 problem, do you not, in the south half of 17?

22 A. That's correct.

23 MR. COOTER: Thank you, that's all.

24 /

25 /

1 EXAMINATION

2 BY EXAMINER CATANACH:

3 Q. Mr. Vaughan, do you know if it's possible  
4 for Great Western to form up a standard unit in  
5 Section 8? Could they include unit acreage in the  
6 standard unit?

7 A. Yes, I believe it's possible. I believe  
8 our land manager could testify better to that.

9 MR. COOTER: I'm going to present Mr.  
10 Gillen.

11 EXAMINER CATANACH: Okay.

12 Q. Mr. Vaughan, do you have an opinion as to  
13 whether the Mesaverde reserves under these two  
14 sections have been sufficiently drained?

15 A. Well, I believe it's an entirely different  
16 reservoir. The Mesaverde original provisions allowed  
17 for an infill well. With knowing ahead of time that  
18 you will be able to place an infill well gives you a  
19 great deal more flexibility in placing your original  
20 well.

21 As I understand at this time, there is no  
22 provision for an infill well without coming to a  
23 hearing. I believe that's correct.

24 Q. Well, that's correct at this time.

25 A. So, therefore, I believe it's two separate

1 and nonrelated reservoirs and rules.

2 Q. Now, does Northwest Pipeline propose that  
3 Great Western form a standard unit consisting of  
4 Section 8?

5 A. Yes, we do.

6 Q. And how would you propose to compensate  
7 Great Western for the risk they took in carrying your  
8 interest?

9 A. Well, first of all, it was their error that  
10 they did not notify us beforehand and submit an AFE  
11 for our approval based on their standard proration  
12 unit. Second of all, even though they did make that  
13 mistake, we're still willing to pay our share of the  
14 drilling costs based on our working interest in a  
15 proration unit that would be formed by all of Section  
16 8.

17 Q. You're willing to pay your share of the  
18 well costs and no more?

19 A. That's correct. We would pay our share of  
20 the cost as if we were notified, as we should have  
21 been, when they originally drilled the well.

22 EXAMINER CATANACH: Nothing further.

23 EXAMINATION

24 BY MR. STOVALL:

25 Q. You were not advised by Great Western of

1 their intent to drill the well on the standard Section  
2 8 proration unit as they filed it, is that correct?

3 A. That's correct.

4 Q. So you were never given either the  
5 opportunity to join a well on a standard proration  
6 unit or notice that the well was going to be drilled  
7 on a nonstandard, is that correct?

8 A. That is correct.

9 Q. You are, in fact, authorized to commit  
10 Northwest to join the Section 8 well?

11 A. Yes, I am, with proper approval.

12 MR. COOTER: Mr. Gillen will so state, I  
13 think.

14 MR. STOVALL: No further questions.

15 MR. HALL: One follow-up, in view of those  
16 questions.

17 FURTHER EXAMINATION

18 BY MR. HALL:

19 Q. Northwest currently has no application  
20 pending for either a compulsory pooling of Section 8  
21 or for the approval of a communitization agreement for  
22 Section 8, is that correct?

23 A. I believe Darrell could answer that  
24 question better, our land manager, but I believe we  
25 did try to approach Great Western to initiate such

1 proceedings.

2 Q. Do you have knowledge whether or not an  
3 application for compulsory pooling is pending before  
4 the Commission?

5 A. As that does not fall under my  
6 jurisdiction, I have no knowledge.

7 Q. Do you have knowledge whether or not a  
8 communitization agreement is pending approval with the  
9 BLM?

10 A. No, I do not have any knowledge.

11 MR. STOVALL: I did have a couple more  
12 questions I forgot to ask you, Mr. Vaughan.

13 FURTHER EXAMINATION

14 BY MR. STOVALL:

15 Q. You're talking about the locations in being  
16 forced if this application is approved, and you go to  
17 the Mesaverde configuration of these two sections,  
18 that you would have to go to the locations as shown on  
19 your Exhibit 3 or drill--come in and get approval for  
20 unorthodox, for what would now become unorthodox  
21 locations that would, under a normal proration  
22 pattern, would be orthodox locations, is that correct?

23 A. That's correct.

24 Q. As a reservoir engineer and without regard  
25 to artificial boundaries on the land as being a

1 controlling factor, which option would be better as  
2 far as development, to go ahead and attempt the  
3 unorthodox locations and seek approval, or to--

4 A. I believe that the proration unit formed by  
5 all of Section 8 as originally proposed would be the  
6 best to fit.

7 Q. I understand that. I'm sorry. Let me  
8 preface it with the condition that assuming that the  
9 Commission approved Great Western's application, as a  
10 reservoir engineer, would you from a recovery, waste  
11 and correlative rights standpoint, recommend to your  
12 management that they relocate the wells to make them  
13 orthodox, based upon nonstandard proration units, or  
14 would you recommend as a reservoir engineer from a  
15 engineering/reservoir standpoint that they apply to  
16 the Division for unorthodox locations on those  
17 nonstandard proration units?

18 A. I believe I would recommend that we move  
19 our location to the north, specifically for the Cox  
20 Canyon #203, because I believe I've shown that we know  
21 the coal is continuous through Section 8 and we know  
22 that it thins to the south. Therefore, we would move  
23 our location as far north as we could in order to  
24 develop that known coal train.

25 Q. So theoretically, actually, the granting of

1 this application could put you in a position to seek  
2 an advantageous location from a reservoir standpoint?

3 A. Well, it could and it couldn't, because  
4 under the original proposal, as the wells are now  
5 staked and if there were standard proration units, it  
6 would be unnecessary. We would get our share of the  
7 drainage from that well.

8 Q. One last question. To the best of your  
9 knowledge, when did Northwest find out about Great  
10 Western's having drilled the well, and whatever they  
11 did? As I understand it, they filed the 102 showing  
12 Section 8, drilled the well, and then decided they had  
13 made a mistake and came back in. When, in that  
14 process, did Northwest, if you have knowledge--

15 A. I believe it was in June when we noticed  
16 that, in view of our reviewing the area in the joint  
17 interest department, we found the completion data and  
18 PI reports.

19 Q. You found out you were in a well which you  
20 didn't know about, huh?

21 A. That's correct.

22 MR. COOTER: Might I ask that the  
23 Commission hold an open mind on that answer until Mr.  
24 Gillen testifies?

25 MR. STOVALL: Oh, I intend to, Mr. Cooter.

1 I understand that he may not be the person who  
2 actually had the first knowledge. Nothing further.

3 MR. COOTER: Thank you. I would call  
4 Darrell Gillen.

5 DARRELL L. GILLEN

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. COOTER:

10 Q. Would you state your name, Mr. Gillen, for  
11 the record?

12 A. Darrell L. Gillen.

13 Q. And by whom are you employed?

14 A. Northwest Pipeline.

15 Q. What's your position with the company?

16 A. Land manager.

17 Q. Have you previously testified before the  
18 New Mexico Oil Conservation Division?

19 A. Yes, I have.

20 Q. Let me ask you to do what I asked Mr.  
21 Vaughan to do, relate briefly, but only briefly, your  
22 education and professional experience to refresh the  
23 Examiner's recollection.

24 A. I have a Bachelor of Science degree in  
25 business administration. I've worked with Northwest

1 Pipeline for 16 years; I've worked in their land  
2 department for six years and land manager for a year  
3 and a half.

4 Q. Have you reviewed the application of Great  
5 Western Drilling Company in this case?

6 A. Yes, I have.

7 Q. Are you familiar with what that company  
8 seeks?

9 A. I am.

10 Q. And the lands involved?

11 A. Yes.

12 Q. Describe your contacts with Great Western  
13 with reference to this immediate area?

14 A. Just briefly, Northwest Pipeline is the  
15 operator of the Cox Canyon Unit. Each year we need to  
16 present to the regulatory agencies, specifically the  
17 BLM, a plan of development for federal units that we  
18 operate.

19 In January we put together the plan of  
20 development for the Cox Canyon Unit, which included a  
21 well to be drilled in the southeast quarter of Section  
22 8.

23 In February we began our title work on our  
24 Cox Canyon Unit and we found that Section 8, the west  
25 half, was owned by Great Western. Our people

1 contacted Great Western to verify that ownership, and  
2 that was early February.

3 At that time, Great Western told us they  
4 had already drilled a well in the southwest section of  
5 8. We verified that with the Commission here, and  
6 found that the spacing for that well was all of 8, due  
7 to the unorthodox section acreage of that section, 336  
8 acres.

9 That very day we called Great Western back  
10 and told them that we understood that the well was  
11 drilled, we understood that the spacing was also all  
12 of Section 8, and requested that they send us a  
13 communitization agreement and joint operating  
14 agreement to communitize that acreage.

15 At that time their people stated they  
16 weren't sure how their management was going to view  
17 the drilling of that well or the situation there.  
18 There was nothing said or done, other than they said  
19 that they would get back to us, until approximately  
20 March the 5th. I called Great Western and again asked  
21 them if their management had decided yet what should  
22 be done with that well or what their plans were.

23 They said that they would get back with us,  
24 that no decisions were yet made. We let it go another  
25 month. On April the 16th I called again. Same type

1 of comments came out, and that's when I followed up  
2 with my letter of April the 24th, stating Northwest  
3 Pipeline's position.

4 Q. Let me direct your attention, is that the  
5 letter which has been marked as Exhibit No. 16?

6 A. Yes, it is.

7 Q. Is that a true and correct copy of your  
8 letter to Mr. Shanahan?

9 A. Yes, it is.

10 MR. COOTER: We offer Exhibit 16, Mr.  
11 Catanach.

12 EXAMINER CATANACH: Exhibit No. 16 will be  
13 admitted as evidence.

14 Q. Is the offer of Northwest Pipeline, as set  
15 forth in that April 24 letter, still open?

16 A. It is. Let me clarify one thing here.  
17 There is nothing magical or mystical about a unit  
18 boundary crossing of a well, so that part of it's in a  
19 unit and part of it's out of a unit.

20 The letter that I set forth Northwest  
21 Pipeline's position on this was that all of Section 8  
22 be adopted as one proration unit, which crossed Cox  
23 Canyon boundary line, and that there be a well drilled  
24 in the west half of 17 and a well drilled in the east  
25 half of 17, standard proration units, and that Great

1 Western, Mesa, Davoil, would all participate in their  
2 acreage share in the well drilled in the west half of  
3 17.

4 All that is needed to pull all that  
5 together is the same thing that is needed when a well  
6 crosses lease boundaries, a communitization agreement  
7 and a joint operating agreement and approval by those  
8 working interest owners that are pooled together.

9 Q. Is Northwest Pipeline and Cox Canyon Unit,  
10 at this date, ready and able to pay its share of the  
11 drilling and completion costs of the Great Western  
12 J. E. Decker #11 well?

13 A. All I can speak for is Northwest Pipeline's  
14 portion of our acreage in Section 8, and, yes,  
15 Northwest Pipeline is able and ready to pay our  
16 proportionate share of that in the Decker #11 well.

17 Q. A similar question. Are you still willing  
18 to permit Great Western and its partners to share in  
19 the proposed Cox Canyon Unit Well #24, which would  
20 comprise the standard proration unit of the west half  
21 of Section 17?

22 A. Yes. However, on the same subject, let me  
23 clarify a question that came out earlier. As far as  
24 the force pooling by Northwest Pipeline for a well  
25 drilled in Section 8, that's not needed. Section 8

1 falls under the special rules of the Basin Fruitland  
2 Rule No. 5 where it's under the 25-percent limit and  
3 can be approved administratively out of the Aztec  
4 District, which it has been.

5 As far as a communitization agreement, the  
6 well has already been drilled by Great Western, they  
7 are the operator, and they would be the ones that  
8 would submit a communitization agreement, and we  
9 requested that from them back in February of this  
10 year.

11 Q. With the development of the area as shown  
12 on Exhibit No. 1, in your opinion would it protect the  
13 correlative rights of the various parties in those  
14 lands?

15 A. It would.

16 Q. Prevent waste, both physical and economic  
17 waste?

18 A. In my opinion it would.

19 Q. And be in the best interest of  
20 conservation?

21 A. Yes.

22 MR. COOTER: That completes our direct  
23 examination.

24 EXAMINER CATANACH: Mr. Hall?

25 EXAMINATION

1 BY MR. HALL:

2 Q. Mr. Gillen, let me make sure I understand  
3 the scenario of events here.

4 When were you first aware of the  
5 nonstandard unit proposed by Great Western?

6 A. It was the first of February. The exact  
7 date I'm not sure, but it was the first part of  
8 February.

9 Q. And the filing of your C-102 for a standard  
10 unit on Section 8 came sometime after that?

11 MR. COOTER: They haven't filed one.

12 A. No, we haven't filed one.

13 Q. I'm sorry. You have not filed a C-102 for  
14 Section 8?

15 A. No. Section 8 has been drilled up.

16 Q. Okay. Nonetheless, there is no agreement  
17 between Northwest and Great Western for participation  
18 in the existing well in Section 8?

19 A. No, there isn't.

20 Q. There's no provision addressing allocation  
21 of costs or risks, is there?

22 A. There's a provision under a JOA that should  
23 have been cut before the well was drilled.

24 Q. There is no existing JOA?

25 A. No, there isn't.

1           Q.     There is no existing communitization  
2 agreement?

3           A.     No.

4           Q.     It is not a certainty that the BLM district  
5 supervisor would approve such a communitization  
6 agreement, is there?

7           A.     I've never seen one turned down on a  
8 standard unit like that. I guess there's always that  
9 possibility that they could turn that down. I can't  
10 speak for them.

11          Q.     In any event, there is no certainty that  
12 they would approve that?

13          A.     No. There's no certainty that they would  
14 approve, I guess, the way it's prorated right now or  
15 the way Great Western prorated it.

16          Q.     Or configured it?

17          A.     Or configured it, or whatever.

18          Q.     I assume you have some familiarity with the  
19 BLM approvals in your unit files of the Cox Canyon  
20 Unit?

21          A.     Yes.

22          Q.     Has the BLM district supervisor approved a  
23 Mesaverde nonstandard unit coterminous with the  
24 boundaries of the nonstandard unit Great Western seeks  
25 here today?

1           A.       From your exhibit letter dated 1954, they  
2 had approved that.

3           Q.       Yes, and they have like approvals for  
4 Mesaverde units in the southeast of 8, in the east  
5 half/east half of 17?

6           A.       And they also have approved two PC wells,  
7 #23 and #24 in Section 17 that crosses unit  
8 boundaries.

9           Q.       The point is, there are existing  
10 nonstandard units for the Mesaverde?

11          A.       For the Mesaverde.

12          Q.       Coterminous with the application lands here  
13 today?

14          A.       That is correct.

15          Q.       The present situation for the distribution  
16 of unit benefits from those Mesaverde wells is set up  
17 in your division orders, is it not?

18          A.       Yes.

19          Q.       You would be required to set out new  
20 division orders, and different participating area  
21 division orders would have to be established that  
22 would be different from the Mesaverde participating  
23 areas?

24          A.       Just let me give a clarification here. For  
25 a federal unit, we don't cut division orders. The gas

1 now is not dedicated to a given pipeline, it's going  
2 on a spot market. The exhibits of the expansions that  
3 are created by a participating area are the exhibits  
4 that are shown for ownership for a given unit, and  
5 that's what are being used.

6 So, no, there wouldn't be any additional  
7 division orders that would be cut for this ownership,  
8 but the accounting certainly would be handled  
9 differently in the accounting department, yes.

10 Q. There's presently no set-up to handle  
11 accounting for a com that would cover Section 8, which  
12 would also cross the unit boundary, is that correct?

13 A. Well, the accounting is set up; the  
14 ownership would have to be input in the system.

15 MR. HALL: Nothing further.

16 EXAMINATION

17 BY MR. STOVALL:

18 Q. Mr. Gillen, is that a major problem, to  
19 input the revised ownership in--

20 A. We would have to put the revised ownership  
21 in anyway. When any well is drilled, whether it be  
22 under the existing configuration of the Mesaverde or  
23 under a standard proration unit, as we're seeking, we  
24 would still have to place the owners there and their  
25 ownership in the accounting system.

1           Q.       From the land standpoint, would you prefer  
2 to operate it-- It appears that Northwest will be the  
3 operator of two wells in these two sections, is that  
4 correct, assuming you drill both of the proposed wells  
5 that you've got?

6           A.       We would be the operator of the wells in  
7 the Cox Canyon Unit, right. The well drilled in  
8 Section 8 already, we would not operate.

9           Q.       Correct. Regardless of the configuration  
10 of the proration unit, it appears in Sections 8 and 17  
11 there will probably be three wells, two of which will  
12 be operated by Northwest Pipeline and one by Great  
13 Western.

14                   Does Northwest Pipeline, do you know, would  
15 you have a previous reference for operating those  
16 Fruitland wells on a similar ownership and spacing to  
17 Mesaverde--well, Mesaverde in this case?

18                   Many companies have come in, and I think  
19 Northwest has been involved in other proration units  
20 where that has been a basis for establishing  
21 nonstandard section crossing.

22           A.       Right. For clarification there again,  
23 though, as far as I'm familiar, those proration units  
24 that are trying to maintain a similarity between  
25 Mesaverde and Fruitland are sections that are all

1 unorthodox down a whole west half, or over the top of  
2 a north half equally with the same acreage  
3 differences. This isn't the case with this area. You  
4 have good standard proration units to apply with  
5 special rules and regulations of the Basin Fruitland  
6 that you don't need to deviate from.

7           As a land manager of Northwest Pipeline, I  
8 would prefer to keep, as I stated in this April 24th  
9 letter, the acreage as orthodox as possible for the  
10 Fruitland Coal. I don't see a similarity between that  
11 and the Mesaverde formation.

12       Q.     Given the fact that Great Western has, in  
13 fact, drilled the well and they erroneously either did  
14 not offer you a chance to participate on the proration  
15 unit they formed or didn't attempt to form a  
16 nonstandard and give you notice of that, as you've  
17 proposed it, Northwest has, in fact, gotten a free  
18 look at the well and is now offering to join the well  
19 based upon, in part at least, that look, is that  
20 correct?

21       A.     That's correct.

22       Q.     Do you have an opinion as to whether that  
23 is fair and equitable?

24       A.     I think that that's probably-- Let me say  
25 that it's fair, and I guess I could flip it around and

1 say maybe Great Western drilled Northwest a free well,  
2 if we wanted to push it hard enough. I don't know.  
3 No, we don't want to do that.

4 Yes, I feel it's fair that they drilled the  
5 well, that we'll participate in that well, and we'll  
6 keep the proration units orthodox.

7 Q. And then if you went and drilled a well in  
8 Section 17 in the west half, on a west half proration  
9 unit, Great Western would be a 50-percent partner in  
10 that well. Would you expect them, then, to  
11 participate on the basis of a normal operating  
12 agreement and precommit to the well?

13 A. You bet. Sure.

14 Q. Did Great Western ever respond to your  
15 Exhibit 16 letter?

16 A. Yes, they did.

17 Q. In writing?

18 A. They responded in writing on April the  
19 30th, I believe, and it was a waiver to waive our  
20 objection. And I turned around and responded to that  
21 letter with a letter stating basically what we did  
22 here.

23 And then we didn't hear back from them  
24 until July 26th, with their notice of this  
25 application.

1 Q. Is the well producing, to your knowledge?

2 A. It's shut in. It's not producing, no. It  
3 can't produce until this is all resolved..

4 MR. STOVALL: I have nothing further.

5 MR. HALL: I have a couple of follow-ups.  
6 I'm sorry. Go ahead.

7 EXAMINATION

8 BY EXAMINER CATANACH:

9 Q. Just out of curiosity, Mr. Gillen, who was  
10 the operator of the Cox Canyon Unit in 1954?

11 A. I believe Pacific--I mean Phillips  
12 Petroleum. Either Phillips Petroleum or Pacific  
13 Northwest. I don't know

14 Q. It wasn't Northwest Pipeline?

15 A. No.

16 MR. STOVALL: Northwest didn't exist at  
17 that time.

18 THE WITNESS: No. Northwest didn't exist  
19 until 1974.

20 EXAMINER CATANACH: Okay. That's all I  
21 have. Mr. Hall?

22 EXAMINATION

23 BY MR. HALL:

24 Q. With respect to the Mesa's interest and  
25 Davoil's interest in the west half/west half of 17,

1 you do not have any agreement with them securing the  
2 joinder of their interest in that well, do you?

3 A. In June of this year we sent out AFEs and  
4 joint operating agreements for the west half/west half  
5 of 17 to Great Western, to Davoil and to Mesa, for the  
6 drilling of that well, and I believe that's partly  
7 what's prompted this hearing today.

8 Three of those companies said that they  
9 would not commit to another AFE because they have  
10 already paid their drilling cost of the well drilled  
11 up in number 8, and until they get refunded those  
12 drilling costs, they won't participating in another  
13 well. So, yes, we've sent out a notice, we've sent  
14 out the paperwork, and it's pending this hearing.

15 Q. You do not have a joinder, then?

16 A. No.

17 Q. In the highly unlikely event that you are  
18 able to establish a proration unit covering Section 8,  
19 do you have any sort of plan to compensate Mesa and  
20 Davoil for their interests that would be eliminated?

21 A. I'm not following. Their acreage leverage  
22 would not change when a well is drilled in the west  
23 half of 17 any different than what it's there now.

24 Q. The question was addressing a well with a  
25 proration unit covering Section 8, thereby eliminating

1 Mesa's interest and Davoil's interest in Section 17 as  
2 participating in the Section 8 well.

3 A. That their acreage would participate in the  
4 well in the west half of 17? I don't see an economic  
5 loss to them.

6 Q. They have, as I understand your testimony  
7 to me, they have already contributed their costs based  
8 upon their acreage ownership in Section 17 to the well  
9 drilled in the southwest of 8?

10 A. Right. Great Western had billed them for  
11 drilling costs as if this proration unit that's been  
12 proposed here had already gone through.

13 Q. It's your understanding that those costs  
14 have been paid? Did I understand you to testify to  
15 that?

16 A. That's what I understand.

17 Q. If their acreage position is eliminated  
18 from the Section 8 well, would they be compensated for  
19 that loss at all?

20 A. I hope by Great Western.

21 Q. How about by Northwest?

22 A. I'm not getting the correlation.

23 MR. STOVALL: I think I understand the  
24 question, Mr. Hall. May I do this, Mr. Hall?

25 MR. HALL: We're upsetting the reporter.

1 EXAMINATION

2 BY MR. STOVALL:

3 Q. What you're saying, Mr. Gillen, would it be  
4 correct to say that Northwest would pay its costs for  
5 the Decker well in Section 8?

6 A. We figured that.

7 Q. You would presume that once you paid your  
8 costs, that Great Western would reimburse those  
9 parties in Section 17 who paid the cost of that well  
10 and make them whole for that investment?

11 A. That's right.

12 MR. STOVALL: I thought that's where you  
13 were going, Mr. Hall, but I wasn't sure.

14 Let me ask you another question, Mr.  
15 Gillen.

16 Q. (BY MR. STOVALL) We talked about a penalty  
17 factor. What about the use of money factor? Would  
18 you been willing to pay some sort of interest  
19 compensation?

20 A. I can't address that. Our financial  
21 management area would have to address that. I  
22 wouldn't know why.

23 Q. You wouldn't recommend it that way?

24 A. I wouldn't recommend it that way, no. I  
25 wouldn't feel there should be interest imposed on

1 Northwest Pipeline where we haven't had the  
2 opportunity to participate in that well all along.

3 Q. One other question I forgot to ask you a  
4 minute ago. If the east half of Section 8 is joined  
5 in the well, does the Cox Canyon Unit as an entity  
6 tight join the well, or do the individual working  
7 interest owners join the well? Is that the sort of a  
8 thing that would go to a vote and then the unit join,  
9 or do each interest owner have a say?

10 A. No, each working interest owner in that 160  
11 acres on the east half of 8, the southeast quarter  
12 specifically, would participate in that well as  
13 one--one well. There's no vote to the working  
14 interest owners in the unit.

15 The only difference, as the unit is  
16 developed and commercial wells are determined, those  
17 commercial wells and that acreage is brought into a  
18 participating area where they then become common, but  
19 not during the drilling stage. And that would not  
20 impact the outside acreage of the unit anyway.

21 Q. Correct, yes, I understand. Of course,  
22 that would be a single or several entities joining the  
23 well based on the east half of 8, and you're saying  
24 there would be several entities?

25 A. There's two other entities. There's ARCO

1 and Coastal, that has ownership. ARCO has a  
2 50-percent interest in the east half of 8, and Coastal  
3 has a 27 percent, and Northwest Pipeline has a 23  
4 percent.

5 MR. STOVALL: Nothing further from me.

6 MR. HALL: Let's follow-up, Darrell, to my  
7 previous round of questions.

8 FURTHER EXAMINATION

9 BY MR. HALL:

10 Q. There's no contractual arrangement in place  
11 now between Northwest or Davoil or Mesa or Great  
12 Western compensating those other parties for their  
13 interest in the west half of the west half of 17?

14 A. That's correct.

15 Q. Would you agree with me when I say that the  
16 Oil Conservation Division lacks the authority to  
17 affect those contractual rights that are in place now  
18 pursuant to the JOA covering Great Western's  
19 nonstandard unit?

20 A. The only way they could do that is by force  
21 pooling the other parties into the ownership of that  
22 well.

23 Q. And Northwest has no pending force pooling  
24 application, is that correct?

25 A. Again, it's not needed. It can be

1 administratively approved, which it has been already.  
2 That's why the well was drilled.

3 MR. STOVALL: You're saying the proration  
4 unit could be approved, but if Great Western didn't  
5 let you in, assuming we denied their application, then  
6 some action would have to be taken?

7 THE WITNESS: Then we would go to force  
8 pooling.

9 MR. HALL: Nothing further.

10 EXAMINER CATANACH: Anything further?

11 MR. COOTER: Nothing further, but I would  
12 like to make a brief statement when it's appropriate.

13 EXAMINER CATANACH: It's appropriate right  
14 now.

15 MR. COOTER: It will be very brief. I  
16 would refer the Examiner to the Order R-8768 which  
17 established the 320-acre proration units. At that  
18 time it was contested between 160 versus 320, but in  
19 finding--

20 MR. STOVALL: This is the Fruitland Coal  
21 order, is that correct, Mr. Cooter?

22 MR. COOTER: Yes, which sets forth the  
23 special rules and regulations. It established it at  
24 320 acres. I don't want to go back into what was  
25 behind that, but it would be my thought that if

1 someone seeks an unorthodox or a nonstandard proration  
2 unit, that inherent in that is evidence that the  
3 proposed well, be it at an orthodox or unorthodox  
4 location, would drain that proposed nonstandard  
5 proration unit.

6 And I respectfully submit to you that the  
7 evidence here before you today is absolutely devoid of  
8 any such testimony that the Great Western Decker #11  
9 well would drain the 320 acres that they seek as a  
10 nonstandard unit. That concludes our case.

11 EXAMINER CATANACH: Mr. Hall?

12 MR. HALL: A brief comment. I would ask  
13 that the Examiner take administrative notice of the  
14 many orders approving nonstandard gas proration units  
15 for the Fruitland in the northern part of the state  
16 along the border of Colorado.

17 Typical of those orders is Order No.  
18 R-9222. Finding 6 in that order states: "The  
19 proposed nonstandard gas proration units have  
20 previously been approved by the Division for use in  
21 developing gas reserves in the Blanco-Mesaverde, Eagle  
22 Basin, Dakota Gas Pools, and have proven to be  
23 effective in promoting orderly development in the  
24 area.

25 That's all we have, Mr. Examiner.

1                   MR. STOVALL: Just to keep the record  
2 complete, because I'm aware that there is also an  
3 order which denied an application, I would like, if  
4 we're going to administratively review that, I think  
5 we'll want to look at the reasoning behind the  
6 denial. And I'll have to find that order and identify  
7 it. And for the parties, I'll provide you with a copy  
8 or identification. To the extent that we're going to  
9 use other orders as a basis for making a decision, I  
10 think all the information should be in.

11                  EXAMINER CATANACH: Anything further?

12                  MR. STOVALL: No.

13                  EXAMINER CATANACH: If not, Case 10048 will  
14 be taken under advisement.

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1 CERTIFICATE OF REPORTER

2

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

5

6 I, Carla Diane Rodriguez, Certified  
 7 Shorthand Reporter and Notary Public, HEREBY CERTIFY  
 8 that the foregoing transcript of proceedings before  
 9 the Oil Conservation Division was reported by me; that  
 10 I caused my notes to be transcribed under my personal  
 11 supervision; and that the foregoing is a true and  
 12 accurate record of the proceedings.

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

17 WITNESS MY HAND AND SEAL August 31, 1990.

18

19

*Carla Diane Rodriguez*  
 CARLA DIANE RODRIGUEZ  
 CSR No. 91

20

21 My commission expires: May 25, 1991

22

23

24

25

I do hereby certify that the foregoing is  
 a complete record of the proceedings in  
 the Examiner hearing of Case No. 10048,  
 heard by me on August 22 1990.  
David R. Cabant, Examiner  
 Oil Conservation Division

## NEW MEXICO OIL CONSERVATION COMMISSION

## EXAMINER HEARING

SANTA FE, NEW MEXICOHearing Date AUGUST 22, 1990 Time: 8:15 A.M.

NAME	REPRESENTING	LOCATION
William A. Tom	Campbell and Clark	Santa Fe
Shari Hahn	Explosives Petroleum Corp.	Roswell, NM
Paul Cooter	Rodey Law Firm	Santa Fe
Robert M. Altany	Unocal	Midland, TX
Charles Retsch	"	"
Maurice Trimmer	Byram Co.	SF
Jerry Hoover	Conoco	Midland TX
Tom MAIRS	Woodbine Petr Inc.	Dallas TX
CHET McLean	"	"
JOE RAMEY	SHELL	HOBBS, NM
Bill LANCHSTER	SIRELL.	Houston TX.
DAN CURENS	Amoco Production Co.	" "
DAN JANIK	"	" "
ROBERT DODSON	Amoco Production Co.	Houston, TX
Mark W. Walbridge	Self	Albany, TX
ROBERT RYAN	SHELL	Houston, TX
Lisa Corder	Shell	Houston, TX
Jim Smitherman	"	"
		MIDLAND TX

## NEW MEXICO OIL CONSERVATION COMMISSION

EXAMINER HEARINGSANTA FE, NEW MEXICOHearing Date AUGUST 22, 1990 Time: 8:15 A.M.

NAME	REPRESENTING	LOCATION
MIKE BURCH	YATES PETROLEUM CORP.	ARTESIA, NM.
Edward E. Connel	Zopee Jensen & Connel	Artesia, NM
James Bruce	Humble Law Firm	ABQ, NM
Gary Green	Santa Fe Energy	Midland
BOB SEILER	SANTA FE ENERGY RES	MIDLAND
DARRELL ROBERTS	SANTA FE ENERGY RESOURCES	MIDLAND
Bill Mullan	Phillips 76 TX	Odessa, TX
Jim Dolan	Chevron	Midland, TX
David A. Brown	Phillips Petroleum Company	Odessa TX
L. A. Sugg	Phillips Petroleum Co	Odessa, TX
Guy Haykus	SHELL WESTERN EUROPE INC	Hobbs NM
Scott Hall	MILLER LAW FIRM	SANTA FE
Ernst L. Pfeiffer	PADILLA + SNYDER	SANTA FE
Bob Kellum	Kellum, Kellum, Anderson	Santa Fe
Dan Veirs	John H. Hendrix Corp	Midland, TX
Mickey Cochran	CHEVRON	Midland, TX
Alan W. Bihling	Chevron	Midland, TX
RAY VADEN	CHEVRON	Houston TX
Jack Lowder	ARCO	Midland, TX
CHANDU THAKUR	chevron	Midland, TX

## NEW MEXICO OIL CONSERVATION COMMISSION

\_\_\_\_\_, NEW MEXICO

Hearing Date \_\_\_\_\_ Time: \_\_\_\_\_

NAME	REPRESENTING	LOCATION
Frank Mauck	Five states	Dallas
Josh Fu	ARCO	Midland
W. Perry Pearce	Montgomery Andrews, P.A.	Santa Fe
JAMAL AUWAD	CHEVRON	MIDLAND