

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO

21 November 1985

EXAMINER HEARING

IN THE MATTER OF:

Application of Reading & Bates Pet- CASE
roleum Corporation for compulsory 8766
pooling, Rio Arriba County, New
Mexico.

BEFORE: Michael E. Stogner, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Division:

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BUD SCOTT

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MR. STOGNER: This hearing will
come to order.

Call Case Number 8766.

MR. TAYLOR: The application of
Reading & Bates Petroleum Corporation for compulsory pool-
ing, Rio Arriba County, New Mexico.

MR. STOGNER: Call for appear-
ances in this matter.

MR. HALL: Now?

MR. STOGNER: Please.

MR. HALL: Mr. Examiner, my
name is Scott Hall from the law firm of Campbell and Black,
P. A., Santa Fe, New Mexico, on behalf of Reading and Bates
Petroleum Company.

I have two witnesses to be
sworn today.

MR. STOGNER: Are there any
other appearances?

Will the witnesses please stand
and be sworn.

(Witnesses sworn.)

MR. STOGNER: Mr. Hall, please

1 continue.

2

3

DIRECT EXAMINATION

4

BY MR. HALL:

5

Q Please state your name for the record.

6

A I'm Bud Scott.

7

Q And by whom are you employed and in what

8

capacity?

9

A I'm with Reading & Bates Petroleum Com-

10

pany and I'm a landman.

11

Q Mr. Scott, have you ever testified before

12

the Commission of one of its examiners before?

13

A No, I have not.

14

Q All right. I'm going to hand you what's

15

been marked as Exhibit One and ask you to identify that,

16

please.

17

A This is a copy of my resume. I graduated

18

from the University of Texas in 1976 with a BBA in petroleum

19

land management.

20

I have functioned as a landman since that

21

time, for a year with Harlow Corporation in Amarillo; with

22

AMAX Petroleum Corporation for two and a half years in Hous-

23

ton; and have been employed with Reading & Bates for five

24

years.

25

Q All right. What are your geographical

1 areas of responsibility for Reading & Bates?

2 A I'm now working in our Northwest Division
3 and have been working in Wyoming and the Gulf Coast is also
4 in our Northwest Division and also working New Mexico.

5 Q All right, and I take it that these sub-
6 ject lands are within your area of responsibility.

7 A Yes, they are.

8 Q Okay, are you familiar with the applica-
9 tion filed in this case?

10 A Yes, I am.

11 Q And are you familiar with the subject
12 lands?

13 A Yes.

14 MR. HALL: Mr. Examiner, we
15 would offer Mr. Scott as a qualified witness.

16 MR. STOGNER: Mr. Scott is so
17 qualified.

18 Q All right, Mr. Scott, what is it that
19 Reading & Bates seeks with this application?

20 A We are proposing to drill a well on a
21 unit comprising the east half of Section 15, 25 North, 2
22 West, and to that extent we are seeking the compulsory pool-
23 ing of Mountain States Natural Gas Corporation.

24 Q All right. If you'd refer to Exhibit Two
25 and identify that, please, what is that exhibit intended to

1 show?

2 A This is our proposed unit and the inter-
3 est in each of the tracts within that unit.

4 Q Okay, does it show the proration unit on
5 there?

6 A Yes, it does, as the east half of Section
7 15.

8 Q And is the well location reflected on
9 there, as well?

10 A Yes, it is located in the northeast of
11 the southeast and you will note that this is a change from
12 our original location, which was to be in the southeast of
13 the southeast, as we were unable to obtain a designation of
14 operator from Mountain States.

15 Q And that's a standard location, is it
16 not?

17 A Yes, it is.

18 Q Does that exhibit also reflect the owner-
19 ship for the party you're seeking to pool today?

20 A Yes, it does.

21 Q And where is that?

22 A In the southeast of the southeast Moun-
23 tain States owns a 50 percent interest.

24 Q All right, what's the primary objective
25 of the well?

1 A This is a Gavilan-Greenhorn-Graneros-Da-
2 kota Pool.

3 Q Okay. If you would, tell us what percen-
4 tage of the acreage is voluntarily committed to the project?

5 A 93.75 percent.

6 Q All right. I'll hand you what's been
7 marked Exhibit Three and ask you to identify that, please.

8 A This is a letter that I sent to Mountain
9 States, dated October 9th, with a copy of our proposed AFE
10 and an invoice for the dry hole cost of Mountain States'
11 share of the well.

12 Q Was this part of your efforts to seek
13 voluntary joinder for --

14 A Yes, it was.

15 Q -- the interest owners?

16 All right. Would you just briefly sum-
17 marize all of your efforts to seek voluntary joinder?

18 A We have obtained a farmout from the A. G.
19 Hill/Margaret Hill interest in the northeast quarter of Sec-
20 tion 15.

21 We have obtained a farmout of the E. L.
22 (not clearly understood) land interest in the northeast of
23 the southeast.

24 The remaining interest in the southeast
25 southeast being Ralph Gilliland and (not clearly understood)

1 Wagner and (not clearly understood) Wagner III have all exe-
2 cuted operating agreements and are going to participate in
3 the well, and --

4 Q All right, sir.

5 A -- then the remaining parties in the west
6 half of the southeast have also signed operating agreements
7 and are going to participate.

8 Q All right, so Exhibit Three shows the
9 letter seeking the participation of Mountain States. Was an
10 AFE attached to that request?

11 A Yes, it was.

12 Q In your opinion, Mr. Scott, have you made
13 a good faith effort to locate all the parties and seek their
14 voluntary joinder?

15 A Yes, I have.

16 Q Including Mountain States?

17 A I have.

18 Q All right. If you would refer now to
19 what's been marked as Exhibit Four and identify that for me,
20 please.

21 A This is the application of Reading &
22 Bates Petroleum for compulsory pooling for the Mountain
23 States interest.

24 Q All right. Are those, indeed, notices of
25 the application sent to the interest owners?

1 A Yes, they are.

2 Q And does that notice have attached to it
3 an AFE showing the projected well costs?

4 A Yes, it does.

5 Q Okay, did you request your counsel to
6 send copies of the notification and copies of the AFE --

7 A Yes, I did.

8 Q -- and docket to the interest owner?

9 Now is this the same AFE that was shown
10 attached to Exhibit Three earlier?

11 A Yes, it was.

12 Q Okay. If you would, at this time refer
13 to Exhibit Five and identify that for me, please.

14 A This is a letter also sent to Mr. Albert
15 Blair (sic) of Mountain States, application of Reading &
16 Bates Corporation for compulsory pooling for the docket for
17 the hearing.

18 Q It is a batch of letters, is it not, sent
19 to various addresses?

20 A Yes, it is.

21 Q All right.

22 A All of the known addresses that we know
23 for Mr. Albert Jack Blair.

24 Q All right. I'm going to hand you what's
25 been marked as Exhibit Six and ask you to identify it,

1 please.

2 A This is the corporate annual report for
3 Mountain States to the State Corporation Commission of New
4 Mexico.

5 Q All right, does that particular form evi-
6 dence the officers and members of the board for Mountain
7 States Natural Gas Corporation?

8 A Yes, it does.

9 Q And who are some of those individuals?

10 A A. J. (not clearly understood) and Ruth
11 Ann Blair.

12 Q All right, does that also indicate who
13 the registered agent for service is in New Mexico?

14 A Yes, W. Thomas Kellahin.

15 Q And is that shown at that column marked
16 Roman Numeral III?

17 A Yes.

18 Q It's a little illegible there.

19 A Yes.

20 Q All right. Now are some of these indivi-
21 duals the same individuals upon whom Exhibits Four and Five
22 were served?

23 A Yes.

24 Q Okay. Mr. Scott, I'll hand you what's
25 marked as Exhibit Number Seven and ask you to identify that,

1 please.

2 Q This is a list of phone calls in which I
3 attempted to contact Mr. Blair. After talking with other
4 operators in the area who had had problems contacting Mr.
5 Blair, I decided to keep accurate records of my attempts to
6 reach him.

7 Starting October 25th I obtained a phone
8 number for his house and he was unable to answer the phone
9 at that time so I left a message with his wife to please
10 have him call me in regards to our proposed well.

11 I also called his office and left a mes-
12 sage with Mr. Mark Pearson at the office.

13 Q Who is Mark Pearson?

14 A He is an employee of Mountain States and
15 Coventry Homes and he was the gentleman who had picked up
16 the correspondence that we had sent to Mr. Blair; said that
17 he had received it and that it was sitting on Mr. Blair's
18 desk.

19 Q You understood that he was representing
20 Mr. Blair?

21 A Yes.

22 Q Okay, is there anything else on this doc-
23 ument?

24 A Yes, I continued to contact him on Novem-
25 ber 6th. I again called his house and left a message with

1 his wife and explaining the situation to her again and she
2 said at that time she would try and see that he contacted
3 me.

4 I called his office again and left a mes-
5 sage on the phone recorder.

6 On November 7th I contacted his house
7 again and again he was not there. I left a message with his
8 wife; called his office again and left a message on his re-
9 corder.

10 On November 8th I again called his home
11 and left a message with his wife; called him again at his
12 office there and left a message with his son and gave him my
13 home phone number to call me to let me know, any time of the
14 day or evening.

15 On November 12th I went by his office.
16 Nobody was there so I left a business card attached to the
17 door and the following day Mark Pearson returned my call
18 and, you know, again stated he had received all the corres-
19 pondence but it did not appear that (not understood.)

20 This past Monday, November the 18th, I
21 went by his house. He was unable to see me and I discussed
22 the situation again with his wife and asked her to please
23 have him give me a call and then there is another phone call
24 that is not listed on here. I called back to him Tuesday
25 morning and he finally agreed to talk to me and at that time

1 said that he had not looked at any geology for the prospect.
2 He would like to be able to review that. Our Division Geo-
3 logist was out of town at the time so I told him I would
4 have to get back with him and see when we could set an ap-
5 pointment up. He said Friday would be the earliest he would
6 be available. We contacted our geologist and attempted to
7 call Mr. Blair back. His son answered the phone, said he
8 was unable to come to the phone at that time but would call
9 me back that afternoon and he never returned my call.

10 Q All right, are there any other efforts to
11 contact Mr. Blair that aren't reflected on this exhibit?

12 A We had originally sent out AFE's to all
13 the parties back in the first week of August, which I do not
14 have a cover letter for. We had a temporary secretary at
15 that time and apparently copies had failed to be made.

16 Q But it's your testimony that you sent an
17 AFE to Mr. Blair?

18 A Yes.

19 Q When did you say, in August?

20 A That's right, in the first week of Au-
21 gust.

22 Q All right. Does Reading & Bates seek to
23 be designated operator of this proposed well?

24 A Yes, they do.

25 Q All right, Mr. Scott, in your opinion

1 will granting this application be in the best interest of
2 conservation, the preventio of waste, and the protection of
3 correlative rights?

4 A Yes.

5 Q And were Exhibits One through Seven pre-
6 pared by you or under your direction?

7 A Yes.

8 MR. HALL: That concludes my
9 direct of this witness, Mr. Examiner.

10 MR. STOGNER: Exhibits One
11 through Eight?

12 MR. HALL: Seven.

13 MR. STOGNER: Exhibits One
14 through Seven will be admitted into evidence at this time.

15 Will you have somebody --

16 MR. HALL: Yes. If there is
17 nothing further, I'd call Mr. Bruce Petitt.

18 MR. STOGNER: I have one more
19 question.

20 MR. HALL: All right.

21

22

CROSS EXAMINATION

23 BY MR. STOGNER:

24 Q You mentioned you contacted or sent an
25 AFE to Mountain States in August?

1 A Yes.

2 Q Was that by letter?

3 A Yes, sir.

4 Q How come you didn't put that in with --
5 as an exhibit today?

6 A Well, I did not have any way of verifying
7 that correspondence and had left it off of this exhibit I
8 had prepared as to the phone calls.

9 Q Okay.

10 MR. STOGNER: I have no further
11 questions of this witness.

12 Are there any other questions
13 of Mr. Scott?

14 If not, he may be excused.

15 Mr. Hall?

16 MR. HALL: At this time we'd
17 call Mr. Bruce Petitt.

18
19 BRUCE PETITT,
20 being called as a witness and being duly sworn upon his
21 oath, testified as follows, to-wit:

22
23 DIRECT EXAMINATION

24 BY MR. SCOTT:

25 Q For the record please state your name.

1 A My name is Bruce Petitt.

2 Q Mr. Petitt, how are you employed?

3 A I'm employed by Reading & Bates petroleum
4 Company as the Division Engineer in the Northwest Division
5 in Denver, Colorado.

6 Q Does that Division include New Mexico and
7 the subject lands?

8 A Yes.

9 Q Okay. You have previously testified and
10 had your credentials accepted before the Examiner, have you
11 not?

12 A Yes.

13 Q Okay. Are you familiar with the
14 application filed by Reading & Bates in this case?

15 A Yes.

16 Q If you would, at this time I'll ask you
17 to look at Exhibit Eight and ask you to identify that,
18 please.

19 A Exhibit Eight is a copy of the
20 Authorization for Expenditure and well cost estimate for the
21 well that's the subject of this hearing.

22 Q All right. Is that the same AFE that was
23 previously mailed to all the interest owners shown in
24 Exhibit Three?

25 A Yes.

1 Q Would you briefly review the AFE for us?

2 A This AFE shows the estimated cost to
3 drill the subject well. We've got an estimated dry hole
4 cost of \$267,000.40 and an estimated total cost of \$679,665.

5 The second page is the well cost estimate
6 showing the breakdown of the individual categories of expen-
7 ditures.

8 Q Okay. Are these costs shown on the AFE
9 in line with what has been charged in the area by other
10 operators?

11 A Yes.

12 Q Okay. Now, do you know if Readin & Bates
13 has drilled other wells in the vicinity of this proposed
14 well?

15 A We've both drilled other wells and parti-
16 cipated in other wells in the immediate vicinity.

17 Q Including Dakota wells?

18 A Yes.

19 Q All right. Are you prepared to make a
20 recommendation to the Examiner as to the risk penalty that
21 should be imposed for non-joining interests?

22 A Yes. Reading & Bates feels that the risk
23 penalty should be 200 percent as authorized under the OCD
24 rules.

25 Q And what's the basis for that risk penal-

1 ty?

2 A Reading & Bates Petroleum Company feels
3 that 200 percent is a reasonable charge for supervision and
4 drilling operations and that such a charge is reasonable for
5 the risk involved.

6 Q Now, do you believe there is a chance
7 that this well could be completed and it would not be a com-
8 mercially successful well?

9 A Yes.

10 Q Have you made an estimate of overhead and
11 administrative costs while drilling this well and also while
12 producing the well?

13 A Yes, I have. We estimate that the over-
14 head and administrative costs should be \$3500 a month while
15 drilling and \$350 a month while operating.

16 Q Okay, is that shown on Exhibit Eight at
17 all?

18 A No, it's not. It's reflected, the drill-
19 ing overhead charges are reflected on the second category
20 from the bottom under Overhead, showing that it would take
21 approximately two months to drill and complete this well and
22 a little bit less than one month to drill a dry hole at this
23 location.

24 Q All right. Are those administrative and
25 overhead costs in line with what you understand to be

1 charged for wells in the area?

2 A Yes.

3 Q And do you recommend that these estimated
4 costs be incorporated into any order pursuant to this pro-
5 ceeding?

6 A Yes.

7 Q And does Reading & Bates also seek to be
8 designated operator of this well?

9 A Yes.

10 Q All right, Mr. Petitt, in your opinion
11 will granting this application be in the best interest of
12 conservation, the prevention of waste and protection of cor-
13 relative rights?

14 A Yes.

15 Q Now, did you prepare Exhibit Eight or was
16 it prepared under your direction?

17 A Yes.

18 Q Okay.

19 MR. HALL: At this time we move
20 the admission of Exhibit Eight.

21 MR. STOGNER: Exhibit Eight
22 will be admitted into evidence at this time.

23

24

25

CROSS EXAMINATION

1
2 BY MR. STOGNER:

3 Q Mr. Petitt, could you be a little more
4 specific on what you're basing your 200 percent risk on?

5 A Basically that drilling of any oil and
6 gas well is risky. This is a risky well to drill. We feel
7 like a 200 percent risk penalty is a reasonable amount to
8 ask in this case.

9 Q Why? What are you basing your opinion
10 on? Can you be a little more specific on what you --

11 A Field practice.

12 Q Usual in a -- well, I mean is this a rank
13 wildcat, a wildcat, or development, or is there any produc-
14 tion offsetting it?

15 A There is some offsetting production.

16 Q In what direction?

17 A To the southeast.

18 Q About how far?

19 A Can't be exact but I'd say a half mile to
20 three-quarters of a mile.

21 Q Are you on the outskirts of this pool or
22 are you in the middle of it or --

23 A I'd say we're on the outskirts.

24 Q Okay. Do you know if drilling out in
25 this area has any particular problems, any unique situations

1 that arise?

2 A Most nearly every well has severe lost
3 circulation.

4 Q Okay, thank you, Mr. Petitt.

5 MR. STOGNER: Does anybody else
6 have any questions of this witness?

7 If not, he may be excused.

8 Is there anything further in
9 Case Number 8766?

10 MR. HALL: For the record, Mr.
11 Examiner, we note that the official advertisement for this
12 application is for the Basin Dakota Pool. We were since ad-
13 vised that the correct pool designation is the Gavilan-
14 Greenhorn-Graneros Dakota, so we'd request that this case be
15 readvertised for the next docket.

16 MR. STOGNER: Thank you, Mr.
17 Hall.

18 Fortunately, this was caught
19 earlier and this case will be readvertised and continued for
20 the Examiner's Hearing scheduled for December 4th, 1985.

21 And the record on this case
22 will be open pending that hearing.

23 Anything further at this time?

24 MR. HALL: Nothing further.

25 MR. STOGNER: Being nothing,
thank you.

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C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY that the foregoing Transcript of Hearing before the Oil Conservation Division (Commission) was reported by me; that the said transcript is a full, true, and correct record of the hearing, prepared by me to the best of my ability.

Sally W. Boyd CSR

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 8766, heard by me on 21 November 1985.

Michael E. Stogner, Examiner
Oil Conservation Division

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO

4 December 1985

EXAMINER HEARING

IN THE MATTER OF:

The disposition of cases called in
which no testimony was presented.

CASE 8751
8773, 8774,
8753, 8775,
8744, 8766

*Transcript in
Case 8751*

BEFORE: David R. Catanach, Examiner

TRANSCRIPT OF HEARING

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