

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

14 May 1986

EXAMINER HEARING

IN THE MATTER OF:

Application of Jerome P. McHugh for exceptions to the special pool rules for the Gavilan-Mancos Oil Pool as promulgated by Division Order No. R-7407, Rio Arriba County, New Mexico. CASE 8839

BEFORE: David M. Catanach, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation Division: Jeff Taylor
Legal Counsel to the Division
Oil Conservation Division
State Land Office Bldg.
Santa Fe, New Mexico 87501

For Jerome P. McHugh: W. Thomas Kellahin
Karen Aubrey
Attorneys at Law
KELLAHIN & KELLAHIN
P. O. Box 2265
Santa Fe, New Mexico 87501

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

MR. CATANACH: Call next Case
8839.

MR. TAYLOR: The application of
Jerome P. McHugh for exceptions to the special pool rules
for the Gavilan-Mancos Oil Pool as promulgated by Division
Order R-7407, Rio Arriba County, New Mexico.

MR. CATANACH: This case was
heard April 16th, 1986, and was readvertised for a new
nonstandard location.

Are there -- is there anything
further in this case at this time?

MR. KELLAHIN: Mr. Examiner,
Karen Aubrey and Tom Kellahin appearing for the applicant
and we have available for you our technical people if there
are any questions.

We believe the case is ready
for a decision, however.

MR. CATANACH: I have one
question, Mr. Kellahin, I can ask you this.

At the last hearing I asked for
Jerome McHugh to send new letters of notification to the
offset operators.

Has that been done?

MR. KELLAHIN: Yes, sir, Mr.

1 Kent Craig, and, I believe, Jerry McHugh, Junior, by the
2 applicant have sent new notifications to ARCO, was it?

3 MS. AUBREY: Yes.

4 MR. KELLAHIN: ARCO was the
5 operator that we missed notifying at the first hearing and I
6 renotified them and talked to both their attorneys and to
7 their staff people and we understand they have no objection.

8 We will provide you proof of
9 that service.

10 MR. CATANACH: Thank you, Mr.
11 Kellahin.

12 MS. AUBREY: Mr. Catanach, in
13 addition and with regard to the new nonstandard location,
14 all offset operators were notified of this -- of that new
15 location.

16 MR. CATANACH: Is there
17 anything further in Case 8839?

18 If not, it will be taken under
19 advisement.

20

21

(Hearing concluded.)

22

23

24

25

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. 8839, heard by me on May 14, 1986 19 86.
David R. Catavone, Examiner
Oil Conservation Division

A P P E A R A N C E S

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

For Alex Phillips and/or
Mesa Grande Resources:

James G. Bruce
Attorney at Law
HINKLE LAW FIRM
P. O. Box 2068
Santa Fe, New Mexico 87501

I N D E X

KENT CRAIG

Direct Examination by Ms. Aubrey 5
Cross Examination by Mr. Catanach 18

RICHARD ELLIS

Direct Examination by Ms. Aubrey 20

1

2

E X H I B I T S

3

4

Applicant Exhibit One, Return Receipts 16

5

Applicant Exhibit Two, Letter 15

6

Applicant Exhibit Three, Letter 15

7

Applicant Exhibit Four, Map 6

8

Applicant Exhibit Five, Well Data 8

9

Applicant Exhibit Six, Well Data 8

10

Applicant Exhibit Seven, Well Data 7

11

Applicant Exhibit Eight, Structure Map 21

12

Applicant Exhibit Nine, Map 22

13

Applicant Exhibit Ten, Cross Section 22

14

Applicant Exhibit Eleven, Drainage Information 22

15

Applicant Exhibit Twelve, Drainage Information 28

16

17

18

19

20

21

22

23

24

25

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

MR. CATANACH: We will call this hearing back to order in Case 8839.

MR. TAYLOR: The application of Jerome P. McHugh for exception to the the Special Pool Rules for the Gavilan-Mancos Oil Pool as promulgated by Division Order Number R-7407, Rio Arriba County, New Mexico.

MR. CATANACH: Are there appearances in this case?

MS. AUBREY: Karen Aubrey, with the law firm of Kellahin and Kellahin, appearing for the applicant.

MR. BRUCE: Jim Bruce of the Hinkle Law Firm in Santa Fe entering an appearance of record for Alex Phillips and/or Mesa Grande Resources.

MS. AUBREY: Mr. Examiner, I have two witnesses to be sworn.

MR. CATANACH: Mr. Bruce, do you have any witnesses?

MR. BRUCE: None.

MR. CATANACH: Will the witnesses please stand and be sworn in at this time.

(Witnesses sworn.)

(At this time Mr. Bruce left the hearing.)

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

KENT CRAIG,

being called as a witness and being duly sworn upon his
oath, testified as follows, to-wit:

DIRECT EXAMINATION

BY MS. AUBREY:

Q Would you state your name and occupation
for the record?

A My name is Kent Craig, C-R-A-I-G, and I'm
the Land Manager for Jerome McHugh in Denver.

Q Mr. Craig, have you testified previously
before the Oil Conservation Division?

A Yes, I have.

Q And your qualifications as an expert in
petroleum land matters have been accepted?

A That's correct.

MS. AUBREY; Mr. Examiner, I
tender Mr. Craig as an expert witness.

MR. CATANACH: Mr. Craig, do
you recall the last time you testified before the Division?

A January of this year.

MR. CATANACH: Mr. Craig is
considered qualified.

Q Mr. Craig, are you familiar with the sub

1 ject matter of Jerome P. McHugh's application for a non-
2 standard proration unit, which is on the docket today?

3 A Yes, I am.

4 Q Can you explain briefly for the Examiner
5 what the survey problem is that has caused this case to be
6 docketed?

7 A I'd like to refer to Exhibit Number Four,
8 which is the map of -- specifically in this case the land
9 plat.

10 As you're probably aware, there -- cor-
11 rections were made in townships predominantly in the western
12 United States on the west side of townships which really is
13 for corrections of the earth's curvature, so -- is really
14 what it comes down to in a nutshell, and in this case in
15 Township 25 North, 2 West, the west tier of sections running
16 down the west side, being Sections 6, 7, 18, 19, 30, and 31,
17 are all what we call short sections. They only contain four
18 lots each; have approximately 185-187 acres, more or less.

19 You'll note in Sections 19 and 30 I have
20 the four lots listed running from north to south and on the
21 righthand side are the acreage figures for those four lots.

22 Q So Sections 19 and 30 are divided into
23 lots.

24 A Correct.

25 Q What is the acreage position of Jerome P.

1 McHugh in Sections 20 and 29?

2 A In Section 20 the west half of Section
3 20, we own approximately 51 percent of the section, west
4 half of 20.

5 In 29 the north half, we have 43.75 per-
6 cent and in the south half we have 87-1/2 percent.

7 Q And what is your -- what is the position
8 of Jerome P. McHugh in Sections 19 and 30?

9 A In Section 19 we own a 37-1/2 percent in-
10 terest in Lots 3 and 4. Lots 1 and 2 of Section 19 are
11 owned by Alex Phillips, or Mesa Grande Resources, if you
12 will, and then in Section 30 we own a 3/8ths interest or 37-
13 1/2 percent interest in Lots 1 and 2 and 4, and in Lot 3 we
14 own an 87-1/2 percent interest.

15 Q Now on your Exhibit Four in the red you
16 have shown what you call current spacing units. Would you
17 describe for the Examiner what producing wells are on those
18 units?

19 A Yes, ma'am.

20 Again on Exhibit Four, where we have that
21 "L" in the southeast of the northwest of Section 20, that's
22 called our Loddy No. 1 and there's also an Exhibit Number
23 Seven that you can refer to that goes along with this map
24 showing the working interest owners in that well. This is a
25 Gallup producer, Mancos producer. We drilled a Dakota well

1 and completed the well in the Gallup.

2 And in the north half of Section 29 is
3 the well we call the Full Sail No. 3, and I refer you to
4 Exhibit Number Six which again portrays the working inter-
5 est, the net revenue interest of the parties involved in
6 that well.

7 And then Exhibit Number Five will again
8 outline the parties interest in what we call our Full Sail
9 No. 1, which is in the southwest quarter -- southeast quar-
10 ter, excuse me, of Section 29.

11 All three of these wells were drilled to
12 the Dakota and are producers in the Gallup.

13 Q Is Jerome P. McHugh operating all those
14 wells?

15 A Yes.

16 Q Are there any wells drilled in 19 and 30?

17 A No, ma'am, there are not.

18 Q Mr. Craig, are you aware of the testimony
19 of Ernie Busch in Case 8854, a case which was put on before
20 the Examiner two weeks ago?

21 A I knew the case was held but no, I'm not
22 aware of the -- of what he had to say.

23 Q All right. Do you understand that Mr.
24 Busch excluded from the call of that case Sections 19 and
25 30?

1 A Yes. Mr. Busch sent me a letter to that
2 effect.

3 Q Do you understand that Mr. Busch testi-
4 fied in Case 8854 that he had no objection to the proposed
5 nonstandard proration units that are on the docket in Case
6 8839 today?

7 A That is my understanding, yes, ma'am.

8 Q Do you understand that there have been
9 solutions to this short section problem proposed by the New
10 Mexico Oil Conservation Division in other areas of Township
11 25, which are different than the proposal today?

12 A Yes, ma'am.

13 Q And do you understand that those are for
14 the creation of larger spacing units in the neighborhood of
15 540 acres?

16 A Yes, ma'am, I'm aware of it.

17 Q You are proposing today that Jerome P.
18 McHugh be permitted to establish two nonstandard proration
19 units consisting of approximately 185-187 acres?

20 A Yes, ma'am.

21 Q Are you also proposing that the allowable
22 for any well that is drilled in Sections 19 and 30 be re-
23 duced?

24 A Right. In the proportion of -- we're
25 proposing the 187 acres over 320 acres, that ratio, reducing

1 our allowable by that ratio.

2 Q Let me have you look at your Exhibits
3 Five, Six, and Seven.

4 A Okay.

5 Q Particularly Number Seven, which is the
6 -- describes the working interest and royalty and overriding
7 royalty interest in the Loddy No. 1 Well.

8 A Right.

9 Q That well is in the west half of Section
10 20.

11 A Correct.

12 Q Could you explain for the Examiner what
13 will happen to the working interest, the overriding royalty
14 and royalty interest in the event that a 506-acre proration
15 unit is created out of the west half of 20 and 19?

16 A Yes, ma'am. As you will note on Exhibit
17 Number Seven, I have laid out here portrayed the working in-
18 terest participants who have paid for and completed the Lod-
19 dy Well, being McHugh, Dugan, and a company named Walker
20 Energy out of Denver, and their working interest, as well as
21 their appropriate net revenue interest as to their interest.

22 And then below that royalty owners, what
23 they're receiving as to the Loddy Well in the west half of
24 Section 20 and the overriding royalty owners, which in this
25 case is .41 percent.

1 Under the 506-acre scenario, which would
2 include all four lots of Section 19, as well as the west
3 half of Section 20, as you can see the working interest in
4 our particular case, McHugh goes from a 51 to a 39+; Dugan
5 goes from a 10 to an 8; Kenai goes up, actually, inasmuch as
6 they have a larger interest in Lots 3 and 4 than they do in
7 the west half of 20.

8 Walker is reduced and you bring in two
9 new companies into the well, being Alex Phillips, or Mesa
10 Grande, if you will, and one of their affiliated companies
11 called Arriba Company.

12 Q Let me stop you there, Mr. Craig. Alex
13 Phillips has entered an appearance in this case today, is
14 that correct?

15 A Yes.

16 Q And is it your testimony that Arriba is a
17 another company that is owned by Alex Phillips?

18 A I don't know if it's owned by Alex Phil-
19 lips but it's another company that is affiliated with --
20 with Mesa Grande Resources. I don't know if he owns total
21 control.

22 Q At this point in time with the -- in the
23 Loddy Well, which is now producing, has Mr. Phillips or any
24 -- Mesa Grande or Arriba contributed anything towards the
25 drilling of the well?

1 A No.

2 Q Was any penalty assessed against them in
3 connection with the drilling of the well?

4 A No. They were not involved in the drill-
5 ing of the well at all.

6 Q In the event that a 506 acre proration
7 unit is created, they will then come into the well with a
8 net revenue interest of 14.7 percent, is that correct?

9 A That's correct, on a totally risk-free
10 basis, which is our whole objection.

11 Q Now, if this were to happen and the 506
12 acre spacing unit were created, where would that 14 percent
13 net revenue interest come from?

14 A Well, what we'd have to do is, as por-
15 trayed by, again, look on Exhibit Seven under royalty own-
16 ers, not only the working interest of the current partici-
17 pants in the well will be reduced, your royalty owners,
18 which in this case are -- I think we have 20 or 25 royalty
19 owners, roughly 20, I can count them. Your 20 royalty own-
20 ers will be reduced, their current gross royalty of 17 per-
21 cent to approximately 11 percent, and you'll bring in new
22 royalty owners, one of which will be the Feds, the Federal
23 government, who owns the minerals in Lots 1 and 2. They'll
24 come in for 2 percent totally risk free.

25 Q The south half of 19 is fee land, is that

1 correct?

2 A That is correct.

3 Q And the north half of 19 is Federal.

4 A Federal. Minerals.

5 The west half of 20 is fee?

6 A Fee.

7 Q So there's no Federal royalty, United
8 States royalty at all now in connection with the Loddy Well.

9 A That's correct.

10 Q Let's move to Exhibit Six now, which
11 deals with the Full Sail No. 3, located in the north half of
12 29.

13 Can you describe for the Examiner what
14 your exhibit shows will happen to the present working inter-
15 est and the royalty and overriding royalty interests in the
16 event that the 413 acre proration unit is created?

17 A Right. Again in -- let's take the case
18 of -- as opposed to the Loddy in the west half of 20, the
19 two wells in 29 are on laydowns, as you can see from -- from
20 the map. So to include the acreage in Section 30 with that,
21 you're going to -- one would be a 413-acre unit, well, both
22 of them would be approximately 413-acre units.

23 Both the south half of 9 and the north
24 half of 29 are communitized tracts inasmuch as you have Fed-
25 eral and fee lands within 29 for both of those 320-acre

1 units.

2 In the case of the Full Sail 3, as you
3 can see from the scenario here, our working interest
4 relatively remains the same on the 300 versus the 413 acre
5 unit, relatively speaking.

6 The problem you come into is the current
7 royalty owners, which constitute 13 percent of the revenues
8 now will drop to 10 percent and you'll pick up some new roy-
9 alty owners at 2.8 percent, again under a risk-free
10 scenario.

11 Q And Exhibit Number Five has the same kind
12 of analysis for the Full Sail No. 1, is that correct?

13 A Right. It's for the Full Sail No. 1,
14 yeah.

15 The Full Sail No. 1, Kenai Oil and Gas,
16 who did not pay any of the costs on that well, would come in
17 for an 11 percent working interest, again risk-free, in a
18 producing well that's produced for over two years.

19 Q Would you --

20 A And the royalty owners, the same scenario
21 applies to them here.

22 The current royalty owners, which include
23 the Feds as to 7/8ths of this unit, the one fee owner as to
24 -- as to 40 acres, would go from 12.75 percent to 9.8 per-
25 cent and you would pick up some new fee royalty owners,

1 which would constitute 2.8 percent of the revenue.

2 Q Let me have you look at your Exhibit
3 Three now. It appears to be a letter from a person named
4 Hunt Walker. Can you describe for the Examiner his rela-
5 tionship to this acreage?

6 A Yes. Hunt Walker owns Walker Energy and
7 if you'll look back to Exhibit Number Seven you'll note that
8 he has a 17.7 percent interest in the Loddy Well, the west
9 half of 20, which, by virtue of an expanded 500-acre unit,
10 would go to an 11 percent working interest, and we're pro-
11 posing that this letter be included as an exhibit. It was
12 written to the Oil Conservation Division, wherein he opposes
13 the 506-acre unit due to dilution of interest that he will
14 receive in the event the unit is expanded to a larger unit.

15 Q Mr. Craig, in your opinion is it fair and
16 equitable to allow a party who did not participate in the
17 cost of drilling a well to come into a well simply by virtue
18 of the creation of a nonstandard proration unit?

19 A It is totally unequitable from a business
20 standpoint.

21 Q Now let me have you look at Exhibit Num-
22 ber Two, which is a letter to ARCO Oil and Gas, dated April
23 9th, 1986. ARCO was not given notice of this hearing by the
24 applicant as an offset with a lot or a tract cornering the
25 proposed proration unit, is that correct?

1 A That's correct. That is my error. At
2 the time we sent out our notices, which are covered by, I
3 believe, Exhibit Number One, yes, Exhibit Number One, all
4 the notices to all the offsetting -- the information I had
5 at the time was that the southeast southeast quarter of Sec-
6 tion 13 of 26, 3, in fact the whole east half east half of
7 13, I was informed that that was owned by Dugan Production
8 Corporation, which we had already notified, and then I found
9 out, well, on April the 8th that was owned by ARCO, and I
10 wrote them the very next day, on the 9th. This was -- it
11 was an error.

12 Q Would you have any objection, Mr. Craig,
13 to having this case readvertised so that ARCO could be given
14 notice of the subject matter of the hearing?

15 A No, that's fine.

16 Q Now Exhibit Number One constitutes the
17 return receipts to all offsetting operators other than ARCO,
18 is that correct?

19 A That's correct.

20 Q Jerome P. McHugh has notified everyone
21 with the exception of the omission of ARCO.

22 A That's correct. Notified and called, as
23 well as by mail.

24 Q Have you had any objection from ARCO or
25 any response at all to your April 9th letter?

1 A I have not heard from ARCO since the 9th.

2 Q Mr. Craig, in terms of the relative
3 ownership of working interest, royalty, and overriding roy-
4 alty in Sections 20 and 29 and Sections 19 and 30, will cor-
5 relative rights be protected by granting Jerome P. McHugh's
6 application for nonstandard proration units?

7 A Well, we certainly feel that they will
8 from both sides of the fence and in the case of the three
9 unit -- the three existing units which we have in the west
10 half of the north and south halves of 29, those are produc-
11 ing wells. The parties who have paid for the wells, taken
12 the risk in drilling the wells, should be the parties who
13 benefit on a dollar-in/dollar-out basis.

14 By the same token we are willing to drill
15 a well in Section 19 and 30 and produce under a restricted
16 allowable basis and the same scenario goes. If you drill a
17 well in 19 and you get a dry hole, then there's the risk for
18 the people who are involved in 19.

19 By the same token, if you get a good pro-
20 ducer in 19, those people will benefit. It's just a
21 straight across the board, the people who take the risk on
22 that particular well applicable to that particular tract
23 should be the people who benefit and in our opinion combin-
24 ing the lots of -- the four lots of Section 19 and 20 is
25 totally unequitable by virtue, even with the -- at one time

1 the Commission had proposed allowing two wells per 500-acre
2 tract. The problem we have with that is if you throw in 19
3 and 20 and you know 20 is a good producing well, you come
4 over to 19 and drill a dry hole, you've diluted the people's
5 interest in 20 by virtue of taking that, reducing their in-
6 terest in a good producing well, being the Loddy Well.

7 The people in 19 are benefiting from the
8 fact that they're in a producer already, the Loddy, and
9 there's no penalty there.

10 Q Mr. Craig, were Exhibits One through
11 Seven prepared by you or under your supervision and direc-
12 tion?

13 A Yeah, they were prepared by me.

14 MS. AUBREY: I offer Exhibits
15 One through Seven, Mr. Examiner, and I have no more ques-
16 tions at this time.

17 MR. CATANACH: Exhibits One
18 through Seven will be admitted as evidence.

19

20 CROSS EXAMINATION

21 BY MR. CATANACH:

22 Q Mr. Craig, do you have a map that shows
23 the offset ownership?

24 A I do not have a land map with me. I can
25 tell you.

1 Q Okay, why don't you do that?

2 A If that will help. Section 17 and 18 is
3 owned by Mesa Grande, the west half of 17 and 18 is owned by
4 Mesa Grande Resources.

5 18 is the same Federal lease that they
6 own in Lots 1 and 2 of 19, HBP lease.

7 As I mentioned, the east half east half
8 of 13 of 25, 3, is ARCO.

9 The east half of 24 is Tom Dugan.

10 The northeast quarter and the north half
11 southeast quarter of 25 is Kenai Oil and Gas.

12 The south half southeast of 25 is owned
13 by ourselves and Dugan.

14 And then the northeast of 36, I believe,
15 is owned by Kenai, as well.

16 Sections 31 and 32 of 25, 2, are owned
17 jointly by Mobil, Tenneco, and Conoco. That's -- that's the
18 same lease in 31 and 32. It's a Federal HBP lease.

19 Q Mr. Craig, were all of the parties that
20 you described, were they all notified?

21 A Yes, sir.

22 Q Everyone but ARCO.

23 A Everyone by ARCO, yeah, right.

24 Q Fine. I have no further questions.

25

1 RICHARD ELLIS,

2 being called as a witness and being duly sworn upon his
3 oath, testified as follows, to-wit:

4
5 DIRECT EXAMINATION

6 BY MS. AUBREY:

7 Q Would you state your name and occupation,
8 please?

9 A My name is Richard Ellis and I work as a
10 geologist for Mr. McHugh.

11 Q Mr. Ellis, have you testified previously
12 before the Oil Conservation Division and had your qualifica-
13 tions as a geologist made a matter of record?

14 A I have testified before. My qualifica-
15 tions were accepted by the Commission in January, the same
16 case that Mr. Craig testified.

17 MS. AUBREY: Mr. Examiner, I
18 tender Mr. Ellis as an expert geologist.

19 MR. CATANACH: Mr. Ellis is
20 considered qualified.

21 Q Mr. Ellis, in connection with Mr.
22 McHugh's application for two nonstandard proration units
23 have you prepared an exhibit which will help the Examiner to
24 understand how correlative rights are going to be protected
25 by granting this application?

1 A Yes, I have.

2 Q Let me refer you first to your Exhibit
3 Number Eight. On that exhibit there are two proposed well
4 locations. Are those well locations that are proposed by
5 Jerome P. McHugh?

6 A Yes, they are.

7 Q And you have outlined the proposed non-
8 standard units in yellow.

9 A That's correct.

10 Q This appears to be a structure map. Mr.
11 Ellis, can you explain its relevance to the nonstandard pro-
12 ration unit, please?

13 A We prepared the structure map primarily
14 to put some perspective on the arguments that are going to
15 follow this particular exhibit. All the structure map pur-
16 ports to show is just that the nonstandard units are at
17 least part of the Gavilan Pool as we envision it structural-
18 ly.

19 Q The Gavilan-Mancos Pool is currently un-
20 dergoing to some study by a study group, is that correct?

21 A That's correct.

22 Q And the results on that are not yet due.

23 A No.

24 Q Let me have you look at Exhibit Number
25 Nine, which is a cross section map and Exhibit Number Ten,

1 if you'd like at those two together, and explain those for
2 the Examiner.

3 A The first, Exhibit Number Number Nine is
4 a cross section location map. I've highlighted in red
5 toward the bottom of the page there a traverse of a cross
6 section that crosses our proposed units. It runs through
7 one of the proposed locations.

8 As with the structure map, the cross
9 section, which is Exhibit Number Ten, purports to put the
10 arguments that are going to follow into perspective. It
11 shows that some of our producing wells to the east, directly
12 to the east of the Section 30 proposed location, as well as
13 a producing well drilled by ARCO in the next township,
14 Township 20 North, Range 3 West, that also produced out of
15 the same zone in the Mancos that we currently have our
16 production.

17 Q It's your opinion that a well drilled at
18 the proposed location you've shown in Sections 19 and 30
19 will be productive in the Gavilan-Mancos Pool?

20 A Yes.

21 Q Let's look now at Exhibit Number Eleven.
22 Do you want to look at Eleven and Twelve together or just
23 Eleven by itself?

24 A We could start out with Exhibit Number
25 Eleven.

1 Q Could you explain what the circles are?

2 A This kind of cluttered up presentation on
3 this Exhibit Number Eleven is -- is purporting to show the
4 existing drainage scenario that has developed to date in the
5 west side of the Gavilan Pool.

6 There are quite a number of wells that
7 exist of the east, the righthand side of this map, which
8 would be the east side of the pool that I haven't included
9 for this presentation.

10 Basically the reason we draw these cir-
11 cles is to try and explain what we feel is the primary jus-
12 tification for having a rectangular proration unit, such as
13 -- such as the temporary rules have provided for.

14 These 320-acre rectangular units, in or-
15 der to -- well, excuse me, let me back up.

16 A 320-acre rectangle, obviously, can't be
17 drained by a single well placed anywhere within that rec-
18 tangle. The premise behind setting up such a rectangular
19 proration unit is the theory of compensatory drainage and
20 basically, you know, we feel in the Mancos Pool out there
21 that we have -- we have no evidence to the contrary, anyway,
22 but we have a radial drainage scenario, so we draw these
23 320-acre circles to show the drainage we expect from a
24 single wellbore.

25 Now all the wells east of the two pro-

1 posed nonstandard units have those circles drawn and where
2 we do have overlap between adjacent wells, I've colored
3 those portions in red, or pink.

4 Now, what the overlap shows is that we
5 have some inefficient drainage in the pool that exists as it
6 presently does today, and I've been through the calculations
7 on all areas within those red outlines and come up with an
8 average existing overlap for the pool, the west side of the
9 pool, of approximately 43 acres per proration unit, per 320-
10 acre proration unit.

11 Now, just by the very nature of, you
12 know, the drainage that is associated with these wells, half
13 of that overlap area that's attributed to a single well is
14 inefficient drainage, basically, and so we, you know, we've
15 calculated the percentage of uncompensated acreage, if you
16 will, per proration unit at approximately 7 percent per 320-
17 acre proration unit.

18 Now if you'll look at our proposal, the
19 units highlighted in yellow, we've got two proposed loca-
20 tions. We're proposing a prorated allowable, approximately
21 58 percent of the existing 320-acre Gavilan-Mancos allow-
22 able, and we have drawn circles with area equal to 187 acres
23 around those existing wells, figuring that we're going, you
24 know, we're going to encounter the same type of radial
25 drainage that we expect in the rest of the pool.

1 Q So let me stop you there. So because of
2 your reduced, reduced allowable that you're proposing, you
3 have drawn a smaller circle around the well locations --

4 A That's correct.

5 Q -- in Sections 19 and 30.

6 A Uh-huh. Now, these, these locations that
7 we have proposed also overlap the existing 320-acre circles
8 that, you know, are set up by the Loddy Well and the Full
9 Sail No. 3 Well.

10 I've summarized that in a short paragraph
11 at the lower lefthand side of the page. We have a total
12 overlap for our proposed scenario of approximately 28 acres
13 and that would be the area you see highlighted in blue.

14 Approximately half of that acreage we
15 consider would not contribute and therefore be inefficient
16 drainage not contribute to the compensatory drainage idea
17 that we -- that the Commission, you know, feels operates
18 when they set up a rectangular unit.

19 The average per well ends up being about
20 7 acres per our proposal, which is about 4 percent.

21 As I mentioned before, the average over-
22 lap for the rest of the pool is 43 acres, so the average
23 uncompensating acreage is approximately 21-1/2 acres and
24 that number works out about 7 percent.

25 So we feel that my making this display

1 and -- and setting up the proration allowable, that our pro-
2 posal is certainly no worse, in fact it's better, from an
3 efficient drainage standpoint, than the existing separations
4 overlap in the pool.

5 Q Now, you have -- you have two proposed
6 well locations, one in 19 and one in 30, shown on Exhibit
7 Number Eleven. How did you select those locations?

8 A We selected them primarily to maintain
9 the most efficient separation between the wells and also ac-
10 commodate any kind of topographical problems that we might
11 encounter.

12 You'll see that we've -- we've high-
13 lighted a distance, a closest distance between adjacent
14 wells using dashed lines and numbers. These numbers are ac-
15 curate to within 50 feet based on the scale of this map.

16 Our well in Section 19, for example, is
17 2900 feet linear distance from the Loddy Well. It's also
18 4450 feet from the Full Sail No. 3.

19 Our well in the south half of Section 30
20 is 3600 feet from the Full Sail 3 and about, just a little
21 less than a mile or 5100 feet from that Mobil Unit B-34 Well
22 in Section 32.

23 If you'll just scan the closest distances
24 that I've placed on the map for the rest of the pool, you'll
25 see that these numbers are certainly no worse and in some

1 cases better than -- than some of the separations that al-
2 ready exist.

3 Q Mr. Ellis, in choosing not only the pro-
4 posed locations but also in support of the 187-acre units,
5 have you taken into consideration a consistent pattern of
6 well spacing throughout the Gavilan-Mancos Pool that will
7 allow for the most development of the reserves and also pro-
8 tect against uncompensated drainage?

9 A Yes. Yes, I feel we have, based on the
10 topographical situation out there, tried to accommodate that
11 as much as possible. One could argue, however, that you
12 could place that well on Section 19 in the south half or in
13 the south half south half of Section 19 and therefore, you
14 know, create less of an overlap between it and the Loddy
15 Well; however, in so doing you would end up creating a new
16 overlap with the Full Sail No. 3.

17 When you draw that, when you work that
18 all out, you find out that your percentage overlap is still
19 approximately the same, so these proposed locations are
20 really kind of an accommodation of a couple of different
21 factors, but they appear to be the most efficient separation
22 that we can get.

23 Q In connection with your well location in
24 Section 30, this case has been advertised as the proposed
25 location being 660 from the south and east lines. Is that

1 the location which you want the Commission to grant?

2 A Unfortunately, at the time we initially
3 proposed that back in January we hadn't checked our topogra-
4 phic map and it turns out that that particular location
5 would be in the middle of Gavilan Lake, which is a seasonal
6 body of water right in there. At the time we propose to
7 drill that there will probably be a body of water there, so
8 we -- and this is reflected in the location that I've drawn
9 on this display, placed that well north of that location.

10 Q Can you give the Examiner the footage --

11 A Yes, we --

12 Q -- that you are requesting approval for
13 for the unorthodox well location?

14 A Our unorthodox well location for the
15 south half south half of 30, we would request at 1420 feet
16 from the south, 660 feet from the east line.

17 MR. DAN NUTTER: And that's
18 going from 660 from the south up to 1420?

19 A That's correct.

20 MR. DAN NUTTER: That would be
21 760 north (not understood).

22 A That's correct.

23 Q Let me refer you now to Exhibit Number
24 Twelve. This exhibit shows hypothetical well locations to
25 the west of the area that we've discussed. Can you explain

1 those to the Examiner?

2 A This particular display is simplified
3 from the previous one. To begin with I started out with a
4 series of circles that were immediately adjacent to our pro-
5 posed nonstandard units on the east side and again it shows
6 the same red overlap that we had on the previous page but
7 just for the wells that are immediately closest to the non-
8 standard unit.

9 Then you'll notice we have the two pro-
10 posed locations in 19 and 30. The revised location in 30 is
11 -- is also as we previously discussed.

12 And the rest in the meaty (sic) part of
13 this display is really what happens to the rest of our pro-
14 posed units. We are at the present time strong advocates of
15 the 320-acre temporary rule that the Commission has promul-
16 gated and we wish to preserve, you know, that kind of separ-
17 ation geometry between the wells in future drilling because
18 we think that's the most efficient way to drain the reser-
19 voir.

20 To accommodate or to at least hypothesize
21 future development and how it might be impacted by our pro-
22 posed change today, I've placed a number of locations in
23 Sections 24, 25, and 36. These are optimum locations. I
24 picked those to maximize the separation distance between our
25 proposed new wells in 19 and 30 and also to minimize the

1 amount of overlap and therefore uncompensated drainage
2 between the wells.

3 And you can see that we can return to ex-
4 cellent 320-acre separations, very efficient 320-acre separ-
5 ations, quite easily once we've, you know, drilled our wells
6 in 19 and 30 with the prorated allowable.

7 Q Mr. Ellis, did you prepare Exhibits Nine,
8 Ten, Eleven, and Twelve -- I'm sorry, Eight through Twelve?

9 A Yes, I did.

10 Q In your opinion, Mr. Ellis, will granting
11 the application of Jerome P. McHugh protect correlative
12 rights by creating nonstandard proration units with reduced
13 allowables which will allow the production of hydrocarbons
14 but will not permit or create a situation where there's
15 going to be uncompensated drainage in the pool?

16 A Yeah, it certainly, in our opinion, most
17 efficiently accommodates that problem. There's no way you
18 can completely overcome the uncompensated acreage but it's
19 certainly, we feel, a long way ahead of the original OCD
20 proposal and, you know, we're satisfied with it.

21 Q The Jerome P. McHugh proposal also pro-
22 tects the correlative rights of those working interest and
23 royalty owners in the presently producing wells on the adja-
24 cent sections.

25 A We feel it best does that, yes.

1 MS. AUBREY: Mr. Examiner, we
2 offer Exhibits Eight through Twelve and have no further
3 questions at this time.

4 MR. CATANACH: Exhibits Eight
5 through Twelve will be admitted as evidence.

6 I have no questions of the wit-
7 ness at this time.

8 We don't have any questions of
9 the witness. The witness may be excused.

10 MS. AUBREY: While we're still
11 on the record, Mr. Catanach, is it the Division's intent to
12 readvertise this matter for the May 14th Examiner docket so
13 that ARCO, if they choose, will have a chance to appear and
14 present testimony?

15 MR. CATANACH: Ms. Aubrey, what
16 we'll do is correct the advertisement for the location and
17 readvertise it for the 14th and just continue the case till
18 it is readvertised.

19 MS. AUBREY: Thank you.

20 MR. CATANACH: Is there any-
21 thing further in Case 8839?

22 If not, it will be taken under
23 advisement.

24 (Hearing concluded.)

25

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY 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. 8839 heard by me on April 16, 1986.

David Cataract, Examiner
Oil Conservation Division

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

19 March 1986

DIVISION HEARING

IN THE MATTER OF:

Disposition of cases called on
Docket No. 10-86 for which no tes-
timony was presented.

CASE 8852,
8853, 8854,
8839, 8855,
8773, 8798,
8806, 8856,
8857.

*Transcript in
Case 8852*

BEFORE: David R. Catanach, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Division:

Jeff Taylor
Attorney at Law
Legal Counsel to the Division
State Land Office Bldg.
Santa Fe, New Mexico 87501

For the Applicant:

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

5 March 1986

DIVISION HEARING

IN THE MATTER OF:

Disposition of cases called on
Docket No. 8-86 for which no tes-
timony was presented.

CASE 8836,
8837, 8838,
8839, 8842,
8845, 8846,
8848, 8849,
8826.

BEFORE: Michael E. Stogner, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Division:

Jeff Taylor
Attorney at Law
Legal Counsel to the Division
State Land Office Bldg.
Santa Fe, New Mexico 87501

For the Applicant: