

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

6 August 1986

EXAMINER HEARING

IN THE MATTER OF:

Application of Mesa Grande Resources, Inc., for compulsory pooling, Rio Arriba County, New Mexico. CASE 8965

BEFORE: Michael E. Stogner, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

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For Mesa Grande: William F. Carr  
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## I N D E X

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MR. STOGNER: Call next Case  
Number 8965.

MR. TAYLOR: The application of  
Mesa Grande Resources, Incorporated, for compulsory pooling,  
Rio Arriba County, New Mexico.

MR. STOGNER: Call for appear-  
ances.

MR. CARR: May it please the  
Examiner, my name is William F. Carr, with the law firm  
Campbell & Black, P. A., of Santa Fe. We represent Mesa  
Grande Resources, Inc., and I have two witnesses.

Both witnesses have testified  
in the preceding two cases and I request that the record re-  
flect that they remain under oath and have been qualified.

MR. STOGNER: Let the record so  
show.

KATHLEEN A. MICHAEL,  
being called as a witness and having been previously sworn  
and remaining under oath, testified as follows, to-wit:

DIRECT EXAMINATION

BY MR. CARR:

Q Will you state your name, please?

1 A Yes, my name is Kathleen A. Michael.

2 Q Ms. Michael, you are familiar with the  
3 application filed in this case?

4 A Yes, I am.

5 Q Are you familiar with the subject area  
6 and the well?

7 A Yes.

8 Q Would you briefly state what Mesa Grande  
9 Resources seeks with this application?

10 A In this application Mesa Grande Resources  
11 is seeking to pool all working interests under the Gavilan  
12 No. 2 Well which has previously been drilled.

13 Q When was this well drilled?

14 A In 1984, I believe.

15 Q And whose interests are you attempting to  
16 pool in this matter?

17 A Mountain States Natural Gas for 6.25 per-  
18 cent.

19 Q Now, could you explain to Mr. Stogner how  
20 it has developed that the well was drilled in 1984 and that  
21 this time period has run before Mesa Grande took an action  
22 to pool Mr. Blair, or Mountain States?

23 A Yes. The well, as we stated, was drilled  
24 in 1984. Prior to the drilling of the well an agreement was  
25 reached with Mr. Blair to farmout his interest to Alex Phil-

1 lips. Mr. Blair and Mr. Phillips have been close personal  
2 friends for many, many years, and so they reached a verbal  
3 agreement for a farmout.

4 As we'll see in a later exhibit, the  
5 farmout agreement was prepared and presented to Mr. Blair.  
6 It was never executed and neither were any of the other doc-  
7 uments pertinent to the well and communitization agreement,  
8 designation of operator, or any other -- any other agree-  
9 ment.

10 The well was drilled and it has been shut  
11 in until February of 1986. Since the well was not producing  
12 we did not consider it urgent to do anything about it. Also  
13 we felt that we probably would be able to reach an agreement  
14 with Mr. Blair and get the agreement signed, but that has  
15 not been the case.

16 Q And when did you last meet with Mr.  
17 Blair?

18 A Again of Tuesday of last week.

19 Q And that was one of -- this ws one of the  
20 issues that was discussed at that meeting?

21 A Yes, it was.

22 Q And you have no indication at this time  
23 that Mr. Blair will execute any of the agreements.

24 A No.

25 Q Would you refer to what has been marked

1 as Mesa Grande Exhibit Number One.

2 A Yes. The Exhibit Number One is a plat  
3 showing the drilling block for the Gavilan No. 2 Well and  
4 all the wells that have been drilled surrounding -- in the  
5 surrounding sections.

6 Q Would you now refer to and review Mesa  
7 Grande Exhibit Number Two?

8 A Exhibit Number Two is a plat that shows  
9 the leases subject to the drilling block for the Gavilan No.  
10 2 Well, a leasehold ownership breakdown for each lease, and  
11 well interest breakdown, and you'll notice that a number of  
12 the interests in that southeast quarter of Section 26 are  
13 subject to farmouts to Mesa Grande Resources.

14 Q But all of the interest owners in this  
15 drilling block, except for Mountain States Natural Gas Cor-  
16 poration have voluntarily come into the well.

17 A Yes, they have.

18 Q What percentage of the acreage in this  
19 spacing or proration unit has voluntarily been committed?

20 A 95.75.

21 Q Would you refer to Mesa Grande Exhibit  
22 Number Three and review this exhibit and in so doing summar-  
23 ize for Mr. Stogner the efforts made by Mesa Grande to bring  
24 Mr. Blair and Mountain States into this well?

25 A Yes. Exhibit Number Three is copies of

1 correspondence relating to various documents that we have  
2 requested Mr. Blair to execute.

3 Beginning on the bottom of that package  
4 in January of 1984 we sent him a communitization agreement  
5 which we asked him to execute.

6 Again in March of 1984 a communitization  
7 agreement. We asked again for signature pages for that same  
8 communitization agreement.

9 On July 26th of 1984 we enclosed a copy  
10 of a declaration of pooling and a new copy of the communiti-  
11 zation agreement. You'll notice that the last paragraph of  
12 this letter also notes that we had not at that point re-  
13 ceived a signed farmout agreement.

14 On June 12th of 1985 we sent another com-  
15 munitization agreement.

16 In October of 1985 we requested that he  
17 execute a designation of successor operator. This is the  
18 point at which Mesa Grande Resources took -- oh, excuse me,  
19 that's -- oh, okay, this was to change the operator from E.  
20 Alex Phillips to Mesa Grande Resources.

21 We also enclosed another copy of the  
22 communitization agreement.

23 On January 7th of 1986 we requested as-  
24 signment from Mountain States under the unexecuted farmout  
25 agreement and at this point we started sending all of their

1 mail certified, so you'll see copies of the return receipts  
2 on that letter.

3 February 10th of 1986 another certified  
4 letter enclosing another copy of the communitization agree-  
5 ment.

6 April 4th of 1986 another request for as-  
7 signment under the farmout.

8 And July 16th of 1986 we requested again  
9 designation of successor operator from all the working in-  
10 terest owners and we have the certified receipt for Mountain  
11 States.

12 Q In your opinion has Mesa Grande made a  
13 good faith effort to obtain the voluntary joinder of Moun-  
14 tain States in this effort?

15 A Yes, we have.

16 Q What overhead and administrative costs  
17 while drilling the well and also while producing the well  
18 are set forth in the operating agreement governing this pro-  
19 perty?

20 A The operating agreement calls for a  
21 \$3,147 overhead charge during drilling and during producing,  
22 \$551, and these are the escalated rates.

23 Q Are these costs in line with what's being  
24 assessed against all those who have voluntarily participated  
25 in the well?



1           A           Yes, they are.

2           Q           And are these costs in line with what's  
3 being charged by other operators in the area?

4           A           Yes, they are.

5           Q           Do you recommend that these figures be  
6 incorporated into the order that results from today's hear-  
7 ing?

8           A           Yes.

9           Q           Does Mesa Grande Resources, Inc., seek  
10 designation as operator of the well?

11          A           Yes, we do.

12          Q           Would you just identify what has been  
13 marked as Mesa Grande Exhibit Number Four?

14          A           Exhibit Number Four is a copy of the cer-  
15 tified letter which was mailed to Mountain States notifying  
16 them of today's hearing and a copy of the return receipt.

17          Q           Were Exhibits One through Four prepared  
18 by you or compiled under your direction?

19          A           Yes, they were.

20                   MR. CARR: At this time, Mr.  
21 Stogner, we would offer into evidence Mesa Grande Exhibits  
22 One through Four.

23                   MR. STOGNER: Exhibits One  
24 through Four will be admitted into evidence.

25                   MR. CARR: That concludes my

1 examination of Ms. Michael.

2

3

CROSS EXAMINATION

4

BY MR. STOGNER:

5

Q Ms. Michael, is E. Alex Phillips still in  
6 any kind of relationship with Mesa Grande Resources?

7

A E. Alex Phillips is the President of Mesa  
8 Grande Resources.

9

Q Okay, now you mentioned in your testimony  
10 that Mr. Phillips and Mr. Blair were close friends?

11

A Yes, they have been for a long time.

12

Back in the days of San Juan Gas Corporation in the fifties,  
13 Mr. Blair worked for Mr. Phillips in the San Juan Gas Cor-  
14 poration, and they've been friends, as I understand it,  
15 prior to that time and since that time.

16

Q In looking through here I see no corres-  
17 pondence to Mr. Blair signed by Mr. Phillips. Has Mr. Phil-  
18 lips ever approached Mr. Blair about getting it signed?

19

A Yes, he has. In fact they've spoken on  
20 the phone about it numerous times. Mr. Blair has made sev-  
21 eral earlier appointments prior to last week in which he  
22 agreed to come in and sign all the necessary papers. He's  
23 even discussed selling all of his interest to Mr. Phillips.

24

He talks about it. He makes an appoint-

25

ment to come in and do it, but somehow when the hour of the

1 appointment arrives he's nowhere to be found.

2 Q Thank you, Ms. Michael.

3 MR. STOGNER: I have no further  
4 questions of this witness. She may step down.

5  
6 ALAN P. EMMENDORFER,  
7 being called as a witness, having been previously sworn and  
8 remaining under oath, testified as follows, to-wit:

9  
10 DIRECT EXAMINATION

11 BY MR. CARR:

12 Q Will you state your name for the record?

13 A Alan P. Emmendorfer.

14 Q Mr. Emmendorfer, are you familiar with the  
15 application filed in this case on behalf of Mesa Grande?

16 A Yes, I am.

17 Q Are you familiar with the subject well and  
18 area?

19 A Yes, I am.

20 Q What were the primary objectives in the  
21 subject well when it was drilled?

22 A Primary objectives were to the Dakota  
23 formation and the Mancos formation.

24 Q And from what formation is it now produc-  
25 ing?

1           A           Currently producing from the Mancos for-  
2 mation.

3           Q           Is there any Dakota Production at this  
4 time?

5           A           No.

6           Q           How would you characterize this well's  
7 producing capability?

8           A           Poor to almost nonexistent.

9           Q           Would you refer to what has been marked  
10 for identification as Mesa Grande Exhibit Number Five, iden-  
11 tify this, and review it for Mr. Stogner?

12          A           Yes. This is a total well cost that we've  
13 billed out to all the working interest owners in the Gavilan  
14 2 Well to date, and it has -- I've broken down between  
15 equipment and IDP and the date to which each of these bills  
16 were sent out to all the working interest owners.

17          Q           And is this the total cost that's being  
18 billed to the interest owners who voluntarily have joined in  
19 and are participating in the well?

20          A           Yes, it is.

21          Q           Would you refer to what has been marked  
22 for identification as Exhibit Number Six and identify this?

23          A           This is a structure map of the Gavilan  
24 area and the Gavilan-Mancos Oil Pool, and it is mapped on  
25 the top of the Gallup A Zone, the mappable horizon within

1 this Gavilan-Mancos Pool.

2 Q Would you now go to your Exhibit Number  
3 Seven and review that?

4 A This is a stratigraphic cross section  
5 with the cross section trace back on the structure map in  
6 Exhibit Number Six, and it shows what wells were drilled im-  
7 mediately adjacent to the Gavilan No. 2 at the time that the  
8 Gavilan No. 2 was spudded, and also beside the well logs it  
9 shows what information was available to E. Alex Phillips at  
10 that time to base his determination to drill the well.

11 It shows cum production and the IP's of  
12 the wells at that time.

13 You'll notice that the Rucker Lake No. 3,  
14 which offsets the location of the Gavilan No. 2 was drilled  
15 only to the base of the Sonastee, which is the lower bound-  
16 ary of the Gavilan-Mancos Pool and it never did penetrate  
17 the Dakota formation.

18 Q Are you prepared to make a recommendation  
19 to Mr. Stogner as to the risk penalty that should be asses-  
20 sed against Mountain States in this case?

21 A Yes, I am.

22 Q And what do you recommend?

23 A 200 percent.

24 Q Upon what do you base this recommenda-  
25 tion?

1           A           I base the recommendation on several  
2 things, one being the lack of Dakota formation information  
3 to the -- directly to the east of the proposed well, the  
4 Gavilan No. 2, and to the structural configuration of the  
5 field at the time.

6                       The structure map that I've prepared as  
7 Exhibit Number Six has in excess of 50 wells to give us a  
8 good interpretation of the structure. It's my understanding  
9 that at that time there were approximately about a dozen  
10 wells penetrating both the Gavilan-Mancos and/or the Dakota  
11 formations within the mapped area, and the structure to date  
12 shows that this is a flat area and that the fracture system  
13 was not effectively penetrated.

14           Q           In your opinion will granting this appli-  
15 cation and imposition of a 200 percent risk penalty, be in  
16 the best interest of conservation, the prevention of waste,  
17 and the protection of correlative rights?

18           A           Yes.

19           Q           Were Exhibits Five through Seven prepared  
20 by you or compiled under your direction and supervision?

21           A           Yes, they were.

22                       MR. CARR: At this time, Mr.  
23 Stogner, we would offer Exhibits Five through Seven into  
24 evidence.

25                       MR. STOGNER: Exhibits Five

1 through Seven will be admitted into evidence.

2 MR. CARR: That concludes my  
3 direct examination of Mr. Emmendorfer.

4  
5 CROSS EXAMINATION

6 BY MR. STOGNER:

7 Q Mr. Emmendorfer, you stated earlier that  
8 there is now presently about 50 wells in this area, right?

9 A Yes.

10 Q And back in 1984 when this well was  
11 spudded there was only about a dozen.

12 A Yes, there were.

13 Q Which was the closest well at this time  
14 that the No. 2 Well was drilled?

15 A Well, the Gavilan No. 1, which is in the  
16 northeast of 26; the Gavilan No. 3, which is in the  
17 northwest of 26; and the Rucker Lake No. 3, which is in the  
18 southwest of Section 25; and I believe the Southland well in  
19 the northwest of Section 35 was drilled but was not  
20 completed. I believe it was in the process of being  
21 completed and they had no information as to its productive  
22 capabilities.

23 Q Of these 50 wells how many of them are  
24 Mesa Grande's?

25 A Eleven. These 50 wells are including

1 wells that are in the West Puerto Chiquito Unit and in the  
2 Northeast Ojito Gallup-Dakota Pool and in the Ojito Gallup-  
3 Dakota Pool.

4 Q Are any of them dry holes?

5 A There is an old well in the southwest of  
6 Section 1, 24, and 2, that were drilled in the fifties that  
7 was a dry hole. That is the only well to date that's been a  
8 dry hole but there are some wells that are marginally com-  
9 mercial.

10 Q Of the 11 that Mesa Grande has drilled,  
11 has there been any drilling problems, any problems occurred  
12 while drilling, lost pipe?

13 A To my knowledge, no. Lost circulation is  
14 usually the biggest problem that we do have.

15 Q Okay. What kind of dangers would that  
16 entail?

17 A Spending large sums of money to regain  
18 circulation to continue drilling the hole; pumping in all  
19 that lost circulation material could clog up the fractures,  
20 which are getting the lost circulation problems, and when-  
21 ever you do, what you put in the well to stop the flow from  
22 one direction stops the flow from the other direction, also,  
23 and losing circulation you also run the risk of losing the  
24 hole and you can never regain circulation. You may stick  
25 the pipe and other problems like that. You may have to skid



1 the rig or just plug and abandon the hole, junk and abandon  
2 the well.

3 MR. STOGNER: I have no further  
4 questions of Mr. Emmendorfer.

5 Anything further in this case?

6 MR. CARR: Nothing further.  
7 Mr. Stogner, I would point out, however, that we are asking  
8 for the imposition of a risk penalty on a well that has  
9 already been drilled.

10 On the 8th of July this year  
11 the Division entered Order R-8245 in Case 8897, in which  
12 they did just that, and I'd ask you to consider that as just  
13 a precedent for this.

14 MR. STOGNER: What was the  
15 order again?

16 MR. CARR: R-8245.

17 MR. STOGNER: Who was the  
18 examiner?

19 MR. CARR: The examiner was Mr.  
20 Catanach and the applicant was Mesa Grande Resources.

21 MR. STOGNER: What was the --  
22 Ms. Michael, what was the overhead charges again on that  
23 one?

24 MS. MICHAEL: Oh, for drilling  
25 \$3147 and producing, \$551.

1 MR. STOGNER: Thank you. I  
2 have no further questions for either one of these.

3 Is there anything further in  
4 Case Number 8965?

5 MR. CARR: Nothing further.

6 MR. STOGNER: It will be taken  
7 under advisement.

8

9 (Hearing concluded.)

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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 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. 8965,  
heard by me on 6 August 1986.

Michael E. Sagers, Examiner  
Oil Conservation Division

10/20/86