

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

3 September 1986

EXAMINER HEARING

IN THE MATTER OF:

Application of Northwest Pipeline	CASE
Corporation for compulsory pooling,	8985
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:	No attorney present.
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For the Applicant:	Paul A. Cooter
	Attorney at Law
	RODEY LAW FIRM
	P. O. Box 1357
	Santa Fe, New Mexico 87504

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MR. STOGNER: We'll call next Case Number 8985, which is the application of Northwest Pipeline Corporation for compulsory pooling, Rio Arriba County, New Mexico.

Call for appearances.

MR. COOTER: Paul Cooter, with the Rodey Law Firm, appearing on behalf of the applicant, Northwest Pipeline.

MR. STOGNER: Are there any other appearances?

Will the witness please stand?

(Witness sworn.)

MR. STOGNER: Mr. Cooter?

MR. COOTER: If I may make an opening statement, I think we might shorten this a little bit.

MR. STOGNER: Mr. Cooter, go ahead.

MR. COOTER: The Rucker Lake No. 2 Well was drilled by the applicant, Northwest Pipeline Company in what later became the Gavilan-Mancos Oil Pool in 1983.

1                   The southwest quarter of Sec-  
2 tion 24, Township 25 North, Range 2 West, being 160 acres,  
3 was dedicated to the well.

4                   The well was spudded on July  
5 12, 1983, and completed on August 25.

6                   I ask the Examiner to take ad-  
7 ministrative notice and I've handed copies to you just for  
8 your information of the application for permit to drill with  
9 the survey plat attached to that.

10                  The well completion report, as  
11 well as the request for allowable, all of which substantiate  
12 the information that I have related to you, all of those do-  
13 cuments are on file and I do not give exhibits numbers to  
14 these documents; I'm merely furnishing copies for your ready  
15 information.

16                  MR. STOGNER: Thank you, Mr.  
17 Cooter, I will take administrative notice on the case -- I  
18 mean on the well file which we have in our Division offices  
19 and case files related to the Gavilan-Mancos Oil Pool.

20                  MR. COOTER: I would also ask  
21 the Examiner to take administrative notice of Order R-7407,  
22 which created the Gavilan-Mancos Oil Pool and provided for  
23 3320-acre spacing or proration units, that was effective  
24 March 1, 1984.

25                  A copy of that is attached to

1 the operating agreement, which is Exhibit Number One, and so  
2 I have not -- it's about halfway back, Mr. Stogner. Let's  
3 see where it is.

4 MR. STOGNER: It's in there,  
5 right?

6 MR. COOTER: Yeah, it's right  
7 after that, that you have, the statute. That was Exhibit B-  
8 1.

9 MR. STOGNER: Oh, all right.  
10 Thank you. And that was Order 7407 in Case Number 89 --  
11 7980. Correct?

12 MR. COOTER: Yes, sir.

13 MR. STOGNER: We'll take ad-  
14 ministrative notice of that case.

15

16 WARREN CURTIS,  
17 being called as a witness and being duly sworn upon his  
18 oath, testified as follows, to-wit:

19

20 DIRECT EXAMINATION

21 BY MR. COOTER:

22 A State your name for the record, please,  
23 sir.

24 A My name is Warren Curtis.

25 Q And by whom are you employed, Mr. Curtis?

1           A           Northwest Pipeline.

2           Q           And what's your position with Northwest  
3 Pipeline?

4           A           I'm the Manager of Land Prorationing.

5           Q           Relate your education and professional  
6 experience, if you would, sir.

7           A           I have received both a Bachelor's of Arts  
8 and a Master's of Business Administration from the  
9 University of Utah.

10                   I have worked for a utility company in  
11 Salt Lake City, and for the last seven years have worked for  
12 Northwest Pipeline in their land and proration areas.

13           Q           What does Northwest Pipeline seek by this  
14 application?

15           A           We seek to force pool the south half of  
16 Section 24 in Township 25 North, Range 2 West. We seek to  
17 establish the drilling and completion costs of \$725,467 and  
18 an overhead charge of \$475 dollars per month, and we also  
19 seek to designate Mesa Grande as the operator of this well.

20           Q           This well was drilled by Northwest Pipe-  
21 line but you seek -- you ask that Mesa Grande be designated  
22 as operator. Why is that?

23           A           In August of 1983, excuse me, 1984, we  
24 entered into an agreement with Mesa Grande wherein we sold  
25 the interest in this well and several other interests in

1

2 that area to Mesa Grande, and we do not at this point in  
3 time hold an interest in that well.

4

Q That sale was effective March 1, 1984?

5

A That is correct.

6

Q Mesa Grande, while it operates and has  
7 operated the well effective that -- from that March 1, 1984  
8 date, did not reimburse or pay the drilling costs of  
9 Northwest for the Rucker Lake No. 2 Well.

10

A No, they did not; not to the extent of  
11 these two entities.

12

Q Let me hand you what has been marked as  
13 Exhibit Number One. Would you identify that for the exam-  
14 iner?

15

A This is a model form operating agreement.  
16 It is for the particular well, the Rucker Lake No. 2, indi-  
17 cating the south half of Section 24 as the dedicated acreage  
18 for that well.

19

Q And was that operating agreement signed  
20 by all parties of interest?

21

A It was signed by all parties of interest  
22 with the exception of Mountain States Natural Gas and  
23 Hooper, Kimball, and Williams.

24

MR. COOTER: At this time, Mr.  
25 Examiner, we would invite your attention to the original re-  
turn receipts as it appears copies of the original applica-

1 tion were mailed to both companies and the return receipts  
2 duly received thereafter.

3 Also, as an assignment, we  
4 might make this statement at this time, an agreement has  
5 been reached with Hooper, Kimball, and Williams. They have  
6 now elected to participate in production and operating ex-  
7 penses from first production, from date of first production  
8 in August, 1983, and pay 150 percent of their share of the  
9 costs of drilling and completing the well, which all parties  
10 have agreed is the \$725,000 sum mentioned by the witness.

11 That has not been formalized.  
12 Hopper, Kimball, and Williams is represented by Scott Hall  
13 with the Campbell & Black firm, and that agreement has been  
14 entered into and evidenced by letters, a letter from Scott  
15 Hall to me, but has not yet been finalized.

16 So that the only party with  
17 which we are concerned here, the only interest is Mountain  
18 States Natural Gas Corporation's interest.

19 Q Was a communitization agreement prepared  
20 for this south half unit?

21 A A communitization agreement has been pre-  
22 pared. It has been signed by every party, with the excep-  
23 tion of Mountain States.

24 It was originally submitted to the BLM.  
25 The BLM is holding that communitization agreements pending



1 this -- this hearing.

2 Q That communitization agreement has been  
3 signed by Mountain -- by Hooper, Kimball, and Williams.

4 A That is correct.

5 Q What were the costs of drilling and  
6 completing the Rucker Lake No. 2 Well?

7 A The costs of drilling and completing were  
8 \$725,467.

9 Q Were those reasonable and proper charges?

10 A Yes, they were.

11 Q Have all parties except Mountain States  
12 either paid or agreed to pay their -- 150 percent of those  
13 drilling costs?

14 A Yes, each party has elected to  
15 participate in the first production and receive -- or pay  
16 150 percent of the drilling costs.

17 Q That figure of 150 percent is as set  
18 forth in the operating agreement, which is Exhibit One?

19 A That is correct.

20 Q Pursuant to the operating agreement, what  
21 are the overhead charges?

22 A \$475 per month.

23 Q And has that been agreed by all of the  
24 working interest owners?

25 A Yes, it has.

1           Q           Is that sum a reasonable and proper  
2 amount?

3           A           Yes, it is.

4           Q           Would the granting of this application be  
5 in the best interest of conservation?

6           A           Yes, we feel that it very definitely is;  
7 that it protects the correlative rights and prevents waste.

8                       MR. COOTER:   Mr. Examiner, we  
9 offer Exhibit One, which is a copy of the operating agree-  
10 ment, signed by everyone with the exception of Hooper, Kim-  
11 ball, & Williams and Mountain States.

12                      Attached to that are some  
13 amendments that the original operating agreement, or the  
14 operating agreement as originally proposed with some Septem-  
15 ber 5, 1984 amendments. The amendments have been signed as  
16 well as the operating agreement by all parties of interest  
17 except those two, and as I related to you, an agreement has  
18 been reached with Hooper, Kimball & Williams.

19                      We offer Exhibit One and Exhi-  
20 bit Two, which are the return receipts.

21                      MR. STOGNER:   Exhibits One and  
22 Two will be admitted into evidence at this time.

23                      MR. COOTER:   And that concludes  
24 our direct presentation.  
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CROSS EXAMINATION

BY MR. STOGNER:

Q So as I understand the charges, the overhead charges are \$4000 while drilling.

A That is correct.

Q And \$475 a month while producing.

A That is right. That \$4000 drilling at this point in time really does not have any bearing on the matter --

Q Right.

A -- but that is correct.

Q But as far as the nonconsent penalty, you're requesting 150 percent?

A No, we are not requesting any penalty at all. We are requesting that the working interest owner pay his share of the investment and completion, the drilling and completion and receive revenues from the date of the spacing order.

Q Which was March 4?

A March 4, 1984.

MR. COOTER: March 1.

A March 1st, excuse me.

Q 1984. And the actual drilling cost was \$725,467?

1           A           That is correct.

2           Q           Does Mountain States Natural Gas  
3 Corporation's interest in the south half is 6.25 percent?

4           A           Yes.

5           Q           So his interest was 12-1/2 percent in the  
6 southeast quarter only before that portion was put into the  
7 proration unit pursuant to 320-acres.

8           A           If I recall correctly, Mr. Stogner, he  
9 had a 50 percent interest in that 40-acre tract.

10          Q           Okay, but overall in that quarter  
11 section, which would have been the southeast quarter, that  
12 would have been 12-1/2 percent.

13          A           Yes.

14          Q           Okay, just wanted to make sure I had my  
15 figures here.

16                      When do you expect a written agreement  
17 from Hooper, Kimball & Williams?

18          A           We would hope that that agreement will be  
19 completed within the next week to ten days.

20          Q           Is this well still producing?

21          A           Yes, it is.

22          Q           Okay. Now when did the well change  
23 operators from Northwest Pipeline to Mesa Grande?

24          A           It would have effectively changed  
25 operator March 1st of '84.

In actuality, because of the sell to Mesa Grande that occurred in August of '84, it changed operator at approximately that time, August/September of 1984 is when Mesa Grande assumed operatorship.

I think it was sometime thereafter, Mr. Stogner, that the paperwork was completed and approved by the Commission.

But that would have been the approximate date that operatorship changed.

Q           Why hasn't this been brought -- why hasn't this been brought forward sooner?

A                    We have attempted to deal with Mountain States on two or three issues. We have had very little luck in dealing with the principals of Mountain States but had wanted to settle three or four concerns at one time and we, after finally having a chance to discuss the matters with the principals of Mountain States, we have decided that this is the only action we could take to settle the concerns.

Q Who is the individual of Mountain States  
which you've contacted?

A Jack Blair.

Q Okay.

MR. STOGNER: I have no further questions of Mr. Curtis.

Are there any other questions

1 of this witness?

2 MR. COOTER: Not of this wit-  
3 ness.

4 I would like to make certain in  
5 light of one of your questions, Northwest does not seek a  
6 risk penalty against Mountain States. It only seeks forced  
7 pooling as of the date of the Commission order creating the  
8 320-acre unit, and effective that date subject to the  
9 payment of its share of the drilling and completion costs of  
10 \$725 -- of course from that date on, it would pay its share  
11 of operating expenses and including the overhead charge.

12 MR. STOGNER: No drilling being  
13 involved but the \$475 --

14 MR. COOTER: Yes, sir.

15 MR. STOGNER: -- a month  
16 producing.

17 MR. COOTER: Yes, sir, but no  
18 risk factor on the \$725,000 sum.

19 MR. STOGNER: Thank you, Mr.  
20 Cooter.

21 Is there anything further of  
22 this witness?

23 MR. COOTER: Nothing further.

24 MR. STOGNER: If not, he may  
25 step down.

1 Is there anything further in  
2 Case Number 8985?

3 MR. COOTER: We have nothing  
4 further, sir.

5 MR. STOGNER: Thank you.

6 Case Number 8985 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. 8985  
heard by me on 3 Sept. 19 86

Marion E. Shogren, Examiner  
Oil Conservation Division