

1 STATE OF NEW MEXICO  
2 ENERGY AND MINERALS DEPARTMENT  
3 OIL CONSERVATION DIVISION  
4 STATE LAND OFFICE BLDG.  
5 SANTA FE, NEW MEXICO

6 22 October 1986

7 EXAMINER HEARING

8 IN THE MATTER OF:

9 Application of Jerome P. McHugh & Associates for compulsory pooling, CASE  
10 Rio Arriba County, New Mexico. 9006

11  
12  
13 BEFORE: David R. Catanach, Examiner

14  
15  
16 TRANSCRIPT OF HEARING

17  
18 A P P E A R A N C E S

19 For the Division: Geoffrey Sloan  
20 Legal Counsel for the Division  
21 Energy and Minerals Dept.  
22 Santa Fe, New Mexico 87501

23 For the Applicant: W. Thomas Kellahin  
24 Attorney at Law  
25 KELLAHIN, KELLAHIN & AUBREY  
P. O. Box 2265  
Santa Fe, New Mexico 87501

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## I N D E X

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KENT CRAIG

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Direct Examination by Mr. Kellahin 3

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## E X H I B I T S

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McHugh Exhibit One, Plat 4

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McHugh Exhibit Two, Letter 5

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McHugh Exhibit Three, Letter 6

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McHugh Exhibit Four, Letter 6

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McHugh Exhibit Five, AFE 7

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McHugh Exhibit Six, Order 10

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McHugh Exhibit Seven, Order 10

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MR. CATANACH: We'll call next Case Number 9006.

MR. SLOAN: This is an application of Jerome P. McHugh and Associates for compulsory pooling, Rio Arriba County, New Mexico.

MR. CATANACH: Are there appearances in this case?

MR. KELLAHIN: If the Examiner please, I am Tom Kellahin of Santa Fe, New Mexico, appearing on behalf of the applicant and I have one witness to be sworn.

(Witness sworn.)

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

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q Mr. Craig, would you please state your name and occupation?

A Yes. My name is Kent Craig and I'm the Land Manager for Jerome McHugh in Denver.

1           Q           Mr. Craig, have you testified on previous  
2 occasions before this Division as a petroleum landman?

3           A           Yes, on several occasions.

4           Q           And have you been involved on behalf of  
5 Jerome P. McHugh and Associates with the land title matters  
6 and efforts to obtain voluntary joinder in the formation of  
7 a 320-acre spacing and proration unit for this well?

8           A           Yes, I have.

9                           MR. KELLAHIN: We tender Mr.  
10 Craig as an expert petroleum landman.

11                          MR. CATANACH: Mr. Craig is so  
12 qualified.

13           Q           Mr. Craig, let me direct your attention  
14 to what is marked as Exhibit Number One and have you first  
15 of all locate for the Examiner the proposed spacing and pro-  
16 ration unit for the well.

17           A           The well is located actually where I have  
18 marked in red pen. We've moved that location to the north-  
19 east southeast of Section 4 for a number of reasons; A, ac-  
20 cess, and B, that old PC well that is in -- or that well  
21 that shows in the northeast southeast is an abandoned well.  
22 We can use the same pad, and there's a road in there as well  
23 as a line, gas line.

24                           We propose to drill an 8200-foot Dakota  
25 well with the south half of Section 4 being designated as

1 our 320-acre Gallup-Dakota Unit.

2 Q In order to formulate a voluntary unit  
3 for this well, Mr. Craig, have you made an effort to contact  
4 all the working interest owners that would participate in  
5 such a well?

6 A Yes, sir, we have contacted all the work-  
7 ing interest owners.

8 Q Are there any working interest owners  
9 from whom you do not have voluntary agreement for participa-  
10 tion in this well?

11 A The only party that we have not had any  
12 response from at all, much less a voluntary agreement, is  
13 Mountain States Natural Gas in Tulsa, Oklahoma.

14 Q Would you describe for the Examiner what  
15 have been your various efforts to obtain voluntary agreement  
16 or any kind of response from Mountain States Natural Gas  
17 Corporation?

18 A Yes. Originally, when we proposed this  
19 well to all the working interest owners, we proposed it on  
20 May the 27th, 1986, which is Exhibit Number Two that we've  
21 prepared for the OCD here, and we sent this certified mail,  
22 not only to Mountain States but the other -- there are about  
23 17 or 18 other working interest owners in this well, and we  
24 received our return receipt signed on behalf of Mr. Blair on  
25 June the 2nd, but we have not heard a response since.

1                   We followed that up with two telephone  
2 calls in August. I sent a gentleman to Tulsa the end of  
3 August, and Mr. Blair's just impossible to find or get hold  
4 of. He's -- he's hard to talk to.

5                   I followed that up again after the  
6 notice, which is -- that we were going to -- that we were  
7 prepared to force pool him, which Mr. Kellahin sent him,  
8 marked as Exhibit Four, on September 23rd, and I again sent  
9 him another certified letter a week ago Tuesday on the 14th,  
10 October 14th, certified, informing Mr. Blair of our intent  
11 to have this hearing today and please respond to me by Mon-  
12 day, if possible.

13                   Q                   And have you received any response from  
14 Mr. Blair or his company, Mountain States Natural Gas?

15                   A                   We have received no response.

16                   Q                   Have you had occasion in the past, Mr.  
17 Craig, to force pool Mr. Blair and Mountain States Natural  
18 Gas in other wells in this area?

19                   A                   Yes, sir, we have. As operator, Jerome  
20 P. McHugh force pooled in August Mountain States Natural Gas  
21 as to the east half of Section 12 for a well we had desig-  
22 nated as the Continental Divide Well.

23                   Q                   Did Mr. Blair have the same percentage  
24 interest in that well that he will have in this proposed  
25 well?

1           A           I believe he did.

2           Q           Do you know from communication and  
3 discussions with other operators whether they have had any  
4 success in getting Mr. Blair to voluntarily participate in  
5 any of the wells in which he had interest?

6           A           To my knowledge, and in talking with --  
7 with the other operators in here, Mountain States has never  
8 participated in any well, and I know for a fact that they've  
9 been force pooled four times, to my knowledge, on other  
10 wells that we don't operate, so I don't believe they've ever  
11 joined any well.

12          Q           Do you have a proposed AFE, Mr. Craig,  
13 for inclusion in the compulsory pooling order?

14                    I believe we've marked an AFE as Exhibit  
15 Number Five.

16          A           Right. Exhibit Number Five is the AFE  
17 which was prepared by Gary Johnson, a petroleum engineer in  
18 Denver, and it was sent out with our May 27th certified let-  
19 ter to Mountain States Natural Gas.

20          Q           Has this AFE been approved by your other  
21 working interest owners?

22          A           Yes, it has.

23          Q           And with the exception of Mr. Blair have  
24 all of them agreed and concurred in the AFE?

25          A           They have agreed and concurred either by

1 joining or we are getting about three farmouts from people,  
2 so yes.

3 Q Based upon your experience, are the pro-  
4 posed AFE costs for this well reasonable and fair?

5 A Yes, sir, based on our experience -- we  
6 operate 22 wells in the Gavilan Field -- this AFE is consis-  
7 tent with the other 20 wells -- 22 wells that we operate.

8 MR. KELLAHIN: Mr. Examiner,  
9 Mr. Craig made reference to the forced pooling case done  
10 earlier this year in Section 12. We would request that you  
11 incorporate by reference the transcripts, exhibits, and tes-  
12 timony in two cases that involve that acreage. The first  
13 compulsory pooling case was 8788. The subsequent pooling  
14 case was 8945.

15 The first case involved the  
16 geologic and engineering testimony on risk. After that or-  
17 der was entered McHugh experienced difficulty with road ac-  
18 cess; the order expired and in Case 8945 the Commission gave  
19 us a new forced pooling order on the same subject matter.

20 So we would request that you  
21 look at both of those case files.

22 Q Mr. Craig, let me direct your attention  
23 to your recommendation to the Examiner as to proposed over-  
24 head charges to be assessed for the drilling and production  
25 of the subject well and in reference to that question will



1 you advise the Examiner of what overhead charges were ap-  
2 proved by the Division for the well drilled in Section 12?

3 A We use a drilling well rate, monthly  
4 drilling well rate of \$3500 and \$350 for a producing well  
5 rate on your fixed rate charges.

6 Q Do you have a recommendation to the Exa-  
7 miner as to what overhead charges you would request for the  
8 forced pooling in the south half of Section 4?

9 A Again the operating agreement that we  
10 have put together for this well with the other working  
11 interest owners provides for a \$3500 drilling well rate per  
12 month and a \$350 per month producing well rate.

13 Q What was the risk factor penalty that the  
14 Division used in the forced pooling case in the east half of  
15 Section 12?

16 A I believe it's 200 percent.

17 Q What is your company's recommendation to  
18 the Commission -- to the Division with regards to a risk  
19 factor penalty on the well in the south half of 4?

20 A We would again as for 200 percent from  
21 the standpoint of this case is similar in that -- in the  
22 case we had in Section 12 earlier this year, lack of con-  
23 trol.

24 The proposed well, as you'll note on Ex-  
25 hibit One in Section 4, the closest well, to my knowledge,

1 is a well that's over in the west half of Section 5 or the  
2 southwest southwest of Section 9, which shows as a location  
3 on this plat. Now that is a well we drilled about a month  
4 ago and that well has not even been completed, so it's in-  
5 conclusive at this point, and this well, the proposed Dewey  
6 Bartlett Well in Section 4, is more of a wildcat nature or  
7 as much of a wildcat nature as our proposed Continental  
8 Divide Well was in Section 12, that we used earlier this  
9 year.

10 Q What are your proposed times in which to  
11 commence the drilling of this well, Mr. Craig?

12 A This is fee land so we shouldn't have any  
13 -- we are not going to have any problems with surface as we  
14 did on the Continental Divide and we propose -- we want to  
15 drill this well before winter sets in, before the end of the  
16 year.

17 We're aided in that by the existing  
18 pad and road that are already in there. That helps a lot.

19 MR. KELLAHIN: Mr. Examiner, we  
20 have marked for purposes of this hearing copies of the  
21 orders that I have discussed earlier.

22 Exhibit Number Six is a copy of  
23 Order R-8144.

24 Exhibit Nubmer Seven is the  
25 order in the subsequent case.

1 Q Do you have anything further, Mr. Craig,  
2 to present?

3 A No, sir, I do not.

4 MR. KELLAHIN: We would move at  
5 this time, Mr. Examiner, to the introduction of Exhibits One  
6 through Seven.

7 MR. CATANACH: Exhibits One  
8 through Seven will be admitted into evidence.

9 MR. KELLAHIN: That concludes  
10 our examination of Mr. Craig.

11

12 CROSS EXAMINATION

13 BY MR. CATANACH:

14 Q Mr. Craig, I have a couple of questions.

15 A Yes, sir.

16 Q Is this proposed well, is this in the --  
17 is this in a Dakota Pool?

18 A It's the Gavilan-Graneros-Greenhorn-  
19 Dakota Pool.

20 I believe it's within a mile of the boun-  
21 dary, isn't it, Tom?

22 MR. KELLAHIN: I think so.

23 Q And is your proposed well at a standard  
24 location?

25 A Yes, sir, it is. I don't have the foot-

1 ages here, Mr. Catanach. I can provide those if you need  
2 them. I didn't bring a location plat but I can send you  
3 one.

4 Q I'm not sure that will be necessary, Mr.  
5 Craig. If I need it I'll give you a call.

6 Mr. Craig, have you or has your company  
7 completed the Continental Divide Well?

8 A No, sir, that well has not been drilled  
9 and the reason for that is, as you may or may not be aware,  
10 I think Mr. Stogner heard it, the only access into that lo-  
11 cation, which is two little circles in the northeast quarter  
12 of Section 12, is from the east, and as you realize, that's  
13 Santa Fe National Forest.

14 We have gone in there, and it's in that  
15 case file, as a matter of fact, you will note the proposed  
16 access by the forest versus the access we propose, we final-  
17 ly reached an agreement as to the access and we have taken  
18 bids from contractors to conform to the requirements of the  
19 forest people and the lowest bid we have is \$100,000 for  
20 that road.

21 And I don't know if we'll drill that well  
22 because the road costs are so expensive.

23 We've got to lay about a mile and a half  
24 of 5-inch gravel and that's expensive.

25 Q Okay.

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MR. CATANACH: I have nothing further of Mr. Craig.

He may be excused.

Is there anything further in Case 9006?

MR. KELLAHIN: No, sir.

MR. CATANACH: It will be taken under advisement.

(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. 9006,  
heard by me on Oct 23, 1986.

David R. Catant, Examiner  
Oil Conservation Division