

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
7 4 March, 1987

8 EXAMINER HEARING

9 IN THE MATTER OF:

10 Application of Reading and Bates for
11 compulsory pooling, Rio Arriba
12 County, New Mexico.

13 CASE
14 9090, 9091,
15 9092, 9093,
16 9094

17
18 BEFORE: Michael E. Stogner, Examiner

19
20 TRANSCRIPT OF HEARING

21
22 A P P E A R A N C E S

23 For the Commission:

24 Jeff Taylor
25 Legal Counsel for the Division
Oil Conservation Division
State Land Office Bldg.
Santa Fe, New Mexico 87501

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MR. STOGNER: Call next Case
Number 9090.

MR. TAYLOR: The application of
Reading & Bates for compulsory pooling, Rio Arriba County,
New Mexico.

The applicant has requested
that this case be continued.

MR. STOGNER: Case Number 9090
will be continued to the examiner hearing scheduled for
March 18th, 1987.

MR. STOGNER: Call next Case
Number 9091.

MR. TAYLOR: Application of
Reading & Bates for compulsory pooling, Rio Arriba County,
New Mexico.

The applicant as requested that
this case be continued.

MR. STOGNER: Case Number 9091
will also be continued to the examiner's hearing scheduled
for March 18th, 1987.

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MR. STOGNER: Call next Case Number 9092.

MR. TAYLOR: The application of Reading and Bates for compulsory pooling, Rio Arriba County, New Mexico.

The applicant has requested that this case be continued.

MR. STOGNER: Case 9092 will also be continued, however it will be continued for the examiner's hearing scheduled for April 8th, 1987.

MR. STOGNER: Call next Case Number 9093.

MR. TAYLOR: The application of Reading & Bates for compulsory pooling, Rio Arriba County, New Mexico.

The applicant has requested that this case be continued.

MR. STOGNER: Case Number 9093 will be continued to the examiner's hearing scheduled for March 18th, 1987.

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MR. STOGNER: Call next Case
Number 9094.

MR. TAYLOR: Application of
Reading & Bates for compulsory pooling, Rio Arriba County,
New Mexico.

The applicant has requested
that this case be continued.

MR. STOGNER: Case Number 9094
will be continued to the examiner's hearing scheduled for
April 8th, 1987.

(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 this portion 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 Nos, 9090, 9091, 9092 heard by me on 4 March 1987. 9093, and 9094
M. DeLozier, Examiner
Oil Conservation Division

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I N D E X

ERIC KOELLING

Direct Examination by Mr. Hall	3
Cross Examination by Mr. Catanach	9
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T. BRUCE PETITT

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E X H I B I T S

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1 MR. CATANACH: Call next Case
2 Number 9091.

3 MR. TAYLOR: Application of
4 Reading & Bates for compulsory pooling, Rio Arriba County,
5 New Mexico.

6 MR. CATANACH: Are there ap-
7 pearances in this case?

8 MR. HALL: Mr. Examiner, Scott
9 Hall from the Campbell and Black law firm, Santa Fe, on be-
10 half of the applicant. I have two witnesses this morning.

11 MR. CATANACH: Are there any
12 other appearances in this case?

13 Will the two witnesses please
14 stand to be sworn in at this time.

15
16 (Witnesses sworn.)

17
18 ERIC KOELLING,
19 being called as a witness and being duly sworn upon his
20 oath, testified as follows, to-wit:

21
22 DIRECT EXAMINATION

23 BY MR. HALL:

24 Q For the record please state your name.

25 A Eric Koelling.

1 Q Mr. Koelling, by whom are you employed
2 and in what capacity?

3 A Reading & Bates Petroleum, Assistant Land
4 Manager.

5 Q Have you previously testified before the
6 Division?

7 A No, I have not.

8 Q All right, if you would, please, Mr.
9 Koelling, why don't you give the examiner a brief summary of
10 your educational background and work experience?

11 A I have a Bachelor of Science degree and a
12 JD degree.

13 I worked approximately seven years for
14 Mobil Oil Corporation in the Rockies and I've worked for the
15 past six and a half years with Reading & Bates covering the
16 Rockies and more particularly the San Juan Basin.

17 Q In what capacity have you been working
18 for Mobil and Reading & Bates?

19 A Landman, Land Supervisor, Assistant Land
20 Manager.

21 Q Okay. Has your area of responsibility
22 included the San Juan Basin?

23 A It has all my time with Reading & Bates.

24 Q Okay. Are you familiar with the applica-
25 tion in this case?

1 A Yes.

2 Q And are you familiar with the subject
3 lands?

4 A Yes, I am.

5 MR. HALL: Mr. Examiner, we'd
6 tender Mr. Koelling as an expert landman.

7 MR. CATANACH: Mr. Koelling is
8 so qualified.

9 Q Mr. Koelling, if you would, please state
10 briefly what it is Reading & Bates seeks by this applica-
11 tion.

12 A We want to pool the remaining unjoined
13 interests in the Leeson Federal 42-27, which will be in the
14 northeast quarter of Section 27, 25 North, 3 West, Rio Arri-
15 ba County, New Mexico.

16 Q Okay. Have you prepared certain exhibits
17 for introduction in this case?

18 A Yes, we have.

19 Q All right. I'd ask you to refer to
20 what's been marked as Exhibit One and why don't you just
21 briefly explain to the examiner what that's intended to re-
22 flect?

23 A That shows the ownershp and well location
24 of the subject well along with other wells in the section
25 to the same horizon.

1 Q What is the footage location of the well?

2 A The footage location of the well is 1650
3 feet from the north line and 330 feet from the east line.

4 Q And is that a standard location?

5 A Yes, it is.

6 Q And again what is the primary objective
7 for the well?

8 A This well will be the Lindrith-Gallup-
9 Dakota West Pool.

10 Q Okay. Referring again to Exhibit One,
11 does it show the interests you are seeking to pool today?

12 A Yes, it does. The map shows the owner-
13 ship on a lease basis. The pooled interest would be half of
14 the interest shown for the spacing unit.

15 Q Okay, could you identify those interest
16 owners?

17 A The ones we're wanting to pool today?

18 Q Yes.

19 A Mountain States, which has 50 percent,
20 which would be 25 percent of the spacing unit; they have 50
21 percent of the lease; and the Ralph Gilliland Estate, which
22 would have 12-1/2 percent of the spacing unit.

23 Q Okay, and have all of the other interest
24 owners joined the well?

25 A All the other interest owners have either

1 joined or farmed out. All of them have joined except
2 Hooper, Kimball, who has joined and farmed out.

3 Q Okay. What's the percentage interest
4 committed to the well right now?

5 A At this point we have 62-1/2 percent com-
6 mitted.

7 Q All right. If you would, please, summar-
8 ize the efforts Reading & Bates has made secure voluntary
9 joinder of the parties you're pooling today.

10 A We have sent out an AFE, operating agree-
11 ment, and letter advising them that we'd like them to join
12 or farm out, along with tentative farmout terms. That's
13 been followed up with various phone calls where we were able
14 to contact people and then other conversations of that nat-
15 ure.

16 Q In your opinion has Reading & Bates un-
17 dertaken a good faith effort to locate all the individuals
18 and seek their voluntary joinder?

19 A Yes.

20 Q If you'd refer to Exhibit Two, please
21 state for the record what those exhibits reflect.

22 A That reflects our cover letter by which
23 we proposed the well to the other working interest owners.
24 We've used the Exhibit A from the operating agreement to
25 provide the addresses and indicate the parties it was sent

1 to.

2 It was sent to every working interest
3 owner we were aware of based on our title examination.

4 Q Okay, and if you'll refer to Exhibit
5 Three, is that exhibit a compilation of letters to the af-
6 fected interest owners giving them notice of the hearing
7 here today?

8 A Yes.

9 Q Did you direct your attorneys to send
10 that notice out?

11 A Yes, we did.

12 Q Mr. Koelling, is Reading & Bates reques-
13 ting an extended effective date --

14 A Yes --

15 Q -- on the order?

16 A -- we are. We'd like six months.

17 Q Okay. Could you explain why?

18 A We still have -- we'd still like to make
19 some final arrangements with financing and things like that
20 and get it worked into our budget. We'd like to have things
21 in a position where it's ready to go to obtain that finan-
22 cing and get the wells drilled.

23 Q All right, Reading & Bates is not reques-
24 ting an order that would compel the pooled parties to elect
25 to make payment within thirty days of the issuance of the

1 order, are they?

2 A No, we're more interested in having them
3 committed to join or force pooled in a certain period of
4 time. We have language in the operating agreement providing
5 for payment in advance of the spud date that we would be
6 happy to live with rather than hold their money for a period
7 of time.

8 Q And are you using a standard form opera-
9 tor's agreement?

10 A Yes, we are.

11 Q All right.

12 MR. HALL: Mr. Examiner, that
13 concludes our direct to this witness.

14

15 CROSS EXAMINATION

16 BY MR. CATANACH:

17 Q As I understand it, Mr. Koelling, you
18 want no provision in the order restricting them to thirty
19 days in which to join.

20 A We'd like the thirty days in which to
21 join. We don't care if it's thirty days within which they
22 have to put up their share of the well costs, since we are
23 asking for an extended order.

24 In other words, if they will just join
25 under the operating agreement and make a contractual commit-

1 ment in that fashion, we would be satisfied with that.

2 Q Within thirty days.

3 A Within thirty days.

4 Q Mr. Koelling, when did you first try and
5 contact Mountain States and the Gilliland Estate?

6 A In this location we sent our first let-
7 ters out in February of 1987. Then, of course, obviously,
8 we followed up with the hearing notices after that.

9 The Gilliland Estate, we were successful
10 in contacting by phone and I have had conversations with
11 them that have indicated they probably will join. They just
12 haven't gotten the paperwork back to us and I've advised
13 them we would probably go ahead with the hearing and that
14 appeared to be fine with them. But obviously they'll have
15 this period of time in which to join and I anticipate they
16 will.

17 Mountain States, I have not been success-
18 ful in contacting by phone. We were using the addresses we
19 have to contact them by mail.

20 We have tried in the past numerous times
21 to contact Mountain States with varying degrees of success
22 but never able to work out any arrangement with them.

23 We've had experience with them before and
24 they're --

25 Q Your Exhibit Number Two, Mr. Koelling,

1 that is the letter that you initially sent out all the in-
2 terest owners?

3 A That's correct.

4

5

CROSS EXAMINATION

6

BY MR. TAYLOR:

7

Q How would you propose that the language
8 in the order deal with the payment of funds?

9

Do you want to at some point give notice
10 to them that drilling will commence within so long and they
11 have to pay within thirty days of that?

12

A Yeah, we have a provision now in the
13 operating agreement which everyoe else has joined and agreed
14 to, providing for an invoice period of three days from date
15 of invoice prior to spud date within which they have to sup-
16 ply their funds to us. And if they will commit, as the
17 other parties have, to that type of invoicing arrangement,
18 then that would be acceptable to us.

19

Q Okay, but if -- if -- I assume Mountain
20 States will not. How should be handle that? You don't need
21 the money within thirty days but we need to have a special
22 provision that they do need to pay within a certain period.

23

A Well, we could make that so many days
24 prior to spud date; on or before, say, ten to fifteen days
25 prior to spud. I think that would be acceptable to us.

1 Q How about if we do it this way: You give
2 them notice would you say forty-five days before spud date?

3 A Yes, I think so.

4 Q And they -- they have to then give you
5 the money within thirty days of then?

6 A Yeah.

7 Q Would that be reasonable?

8 A That would be fine.

9 Q We can have the same language about
10 they'll have thirty days from the date of the order within
11 which to indicate whether they will join.

12 A Yes. I might suggest just as I think
13 about that, that if we could maybe change that period to,
14 say, sixty days prior to spud and thirty days after that,
15 that does give us -- in this particular location they have a
16 rather substantial interest that we'd have to make arrange-
17 ments for and for our planning purposes if we could invoice
18 them sixty days prior with thirty days to respond, that
19 would give us thirty days to make arrangements for that 25
20 percent share of the well.

21 Q Sure, that would be fine. If this is the
22 company I recall, I don't recall them every joining in a
23 well.

24 A They never have with us.

25 Q Is this a Mr. Blair, or something?

1 A Alvin J. Blair, who lives in Tulsa, as a
2 matter of fact and we still haven't had any success.

3 Q Somebody actually reported seeing him one
4 time.

5 A Well, that was one of our people on the
6 Howard Federal, so -- but never with any success.

7 MR. CATANACH: I have no
8 further questions of the witness.

9 He may be excused.

10 MR. HALL: I have a housekeep-
11 ing question. Mr. Koelling, were Exhibits One through Three
12 prepared by you or at your direction?

13 A Yes, they were.

14
15 T. BRUCE PETITT,
16 being called as a witness and being duly sworn upon his
17 oath, testified as follows, to-wit:

18
19 DIRECT EXAMINATION

20 BY MR. HALL:

21 Q For the record please state your name and
22 place of residence.

23 A My name is Bruce Petitt. I reside in
24 Tulsa, Oklahoma.

25 Q Mr. Petitt, by whom are you employed and

1 in what capacity?

2 A I'm employed by Reading & Bates Petroleum
3 Company. I'm the Division Manager of the Northwest Divi-
4 sion.

5 Q And have you previously testified before
6 this Division?

7 A Yes, I have.

8 MR. HALL: Mr. Examiner, are the
9 witness' qualifications accepted?

10 Q Mr. Petitt, again would you explain what
11 it is Reading & Bates is seeking by this application?

12 A Reading & Bates is seeking an order pool-
13 ing all the mineral interests in the West Lindrith-Gallup-
14 Dakota Pool underlying the northeast quarter of Section 27,
15 Township 25 North, Range 3 West, in Rio Arriba County, to
16 form a standard 160-acre oil spacing and proration unit to
17 be dedicated to the well to be drilled in that -- at that
18 location.

19 Q Okay, and does Reading & Bates seek to be
20 designated operator?

21 A Yes.

22 Q If you'd refer to what's been marked as
23 Exhibit Four and I understand that's an AFE, would you
24 please review those figures in the AFE for the examiner?

25 A Exhibit Four is our Authority for Expen-

1 diture for the subject well, called the Leeson Federal No.
2 42-27.

3 It shows the estimated well costs. The
4 second page is a detail of those estimated well costs.

5 It shows the dry hole cost is estimated
6 to be \$217,940 and a completed well should cost \$684,950.

7 Q All right, are these costs in line with
8 what's being charged by other operators in the area?

9 A Yes.

10 Q Mr. Petitt, are you prepared to make a
11 recommendation to the examiner as to a risk penalty that
12 should be assessed against the nonconsenting interest own-
13 ers?

14 A Yes. We recommend that a 200 percent
15 risk penalty be assessed against nonconsenting interest own-
16 ers.

17 Q And upon what do you base that recommen-
18 dation?

19 A First, it's common industry practice, and
20 it's just common to the operating agreements we use in this
21 area.

22 Secondly, I tender Exhibit Five. It's a
23 -- Exhibit Five are well histories. They show the comple-
24 tion -- or not the completion, they show the initial poten-
25 tial and the producing histories of five offsetting wells,

1 three in Section 27 and two in Section 22, demonstrates that
2 there's a considerable variability in the intial potentials
3 of those wells and in the producing characteristics of those
4 wells; therefore you can assume that there's a risk involved
5 in drilling this well. You might have a poor well or you
6 might have a good well.

7 Q All right, do you believe that there's a
8 chance you could drill a well that would not be a commercial
9 --

10 A Yes.

11 Q -- commercially successful well?

12 A Yes.

13 Q All right. Have you made an estimate of
14 the overhead and administrative costs while drilling and al-
15 so while producing the well?

16 A Yes, we'd request that the drilling over-
17 head be \$3500 per month and the producing overhead be \$500
18 per month.

19 Q And are these costs in line with what's
20 being charged in the area?

21 A Yes.

22 Q Do you recommend that those cost figures
23 be incorporated into the order?

24 A Yes.

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

1 will the granting of this application be in the best inter-
2 est of conservation, the prevention of waste, and protection
3 of correlative rights?

4 A Yes.

5 Q Were Exhibits Four and Five prepared by
6 you or at your direction?

7 A Yes.

8 MR. HALL: At this time, Mr.
9 Examiner, we have nothing further of this witness and we
10 would move the admission of Exhibits One through Five.

11 MR. CATANACH: Exhibits One
12 through Five are -- will be admitted into evidence.

13

14 CROSS EXAMINATION

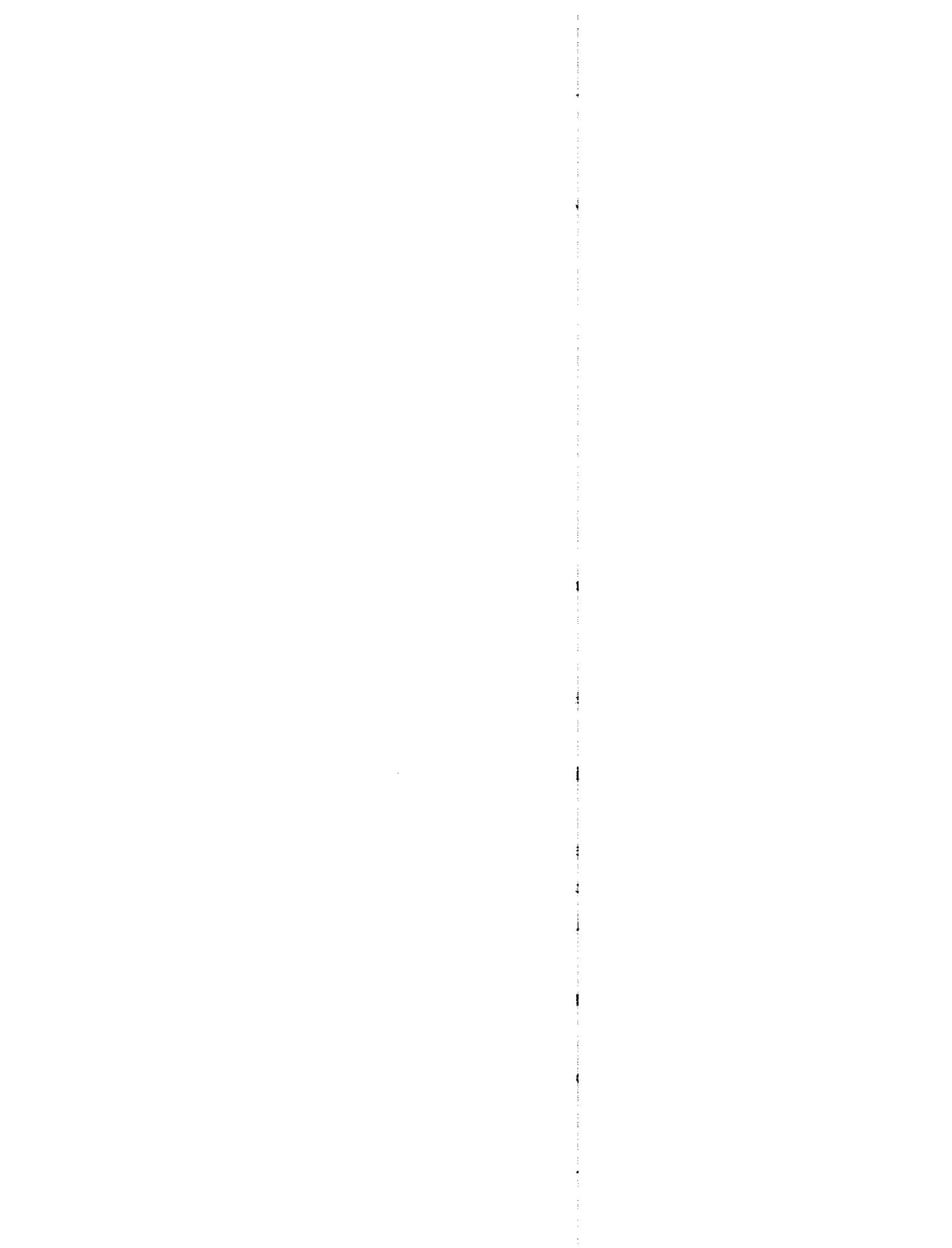
15 BY MR. CATANACH:

16 Q Mr. Petitt, the current drill costs,
17 those are in line with the current costs, are they not?

18 A I think so. This was prepared the first
19 week in November. It's dated November 5th, 1986, and are
20 based on the best information that's available at that time
21 and I believe it would be fairly accurate to this time.

22 Q Would you arrive at your overhead char-
23 ges, or how did you arrive?

24 A We participate in quite a few wells that
25 we're not an operator on in this area. We also operate at



1 the present time three wells in this area, and those over-
2 head charges as in line with the charges that are -- that we
3 charge and that are charged in this area.

4 Q The production histories that you
5 submitted as Exhibit Number Five, how close are these wells
6 to the proposed well, or are they -- they're in the same
7 general area.

8 A Yes. The three wells in Section 27 are
9 roughly 1/2 to 2/3rds of a mile from this well.

10 The well in the southwest section of --
11 southwest of Section 22 is roughly one mile and the well in
12 the northeast of Section 22 is roughly one mile away.

13 These are the closest five offsetting
14 producers to this well.

15 Q You indicated that some of the wells were
16 good and some of the wells were bad. Can you tell me which,
17 which are the good wells?

18 A Relatively speaking, of these offsetting
19 wells, the best well is the ARCO Leeson 1 in the southwest
20 of Section 27, 25, 3. It initialed for 184 barrels a day.

21 The two ARCO Gardner wells in the south-
22 east of 27 and the northwest -- I'm sorry, not the Gardner.

23 The Gardner in the southwest of 27 and
24 the Leeson in the northwest of 27 both show initial poten-
25 tials of 81 barrels per day.



1 The ARCO Hill No. 2 in the southwest of
2 22 is the poorest of these five wells. It initial
3 potentialled for 23 barrels per day and the ARCO Hill in the
4 northeast of 22 of Township 25 North, 3 West, initial
5 potentialled for 48 barrels per day. So these last two wells
6 you could consider marginal wells. You'd probably not
7 recovery your money.

8 Q Mr. Petitt, have you done a geologic
9 study or has someone under you done a geologic study to
10 determine if this is a good location?

11 A Yes, we have. I'm a petroleum engineer,
12 not a geologist, but our company is intensely studying this
13 area. As you know, this area has a lot of interest at the
14 present moment. There's an intense amount of work being
15 done to understand this and we believe this is a good
16 geological location.

17 MR. CATANACH: I have no
18 further questions of the witness. He may be excused.

19 MR. HALL: We have nothing
20 further in the case.

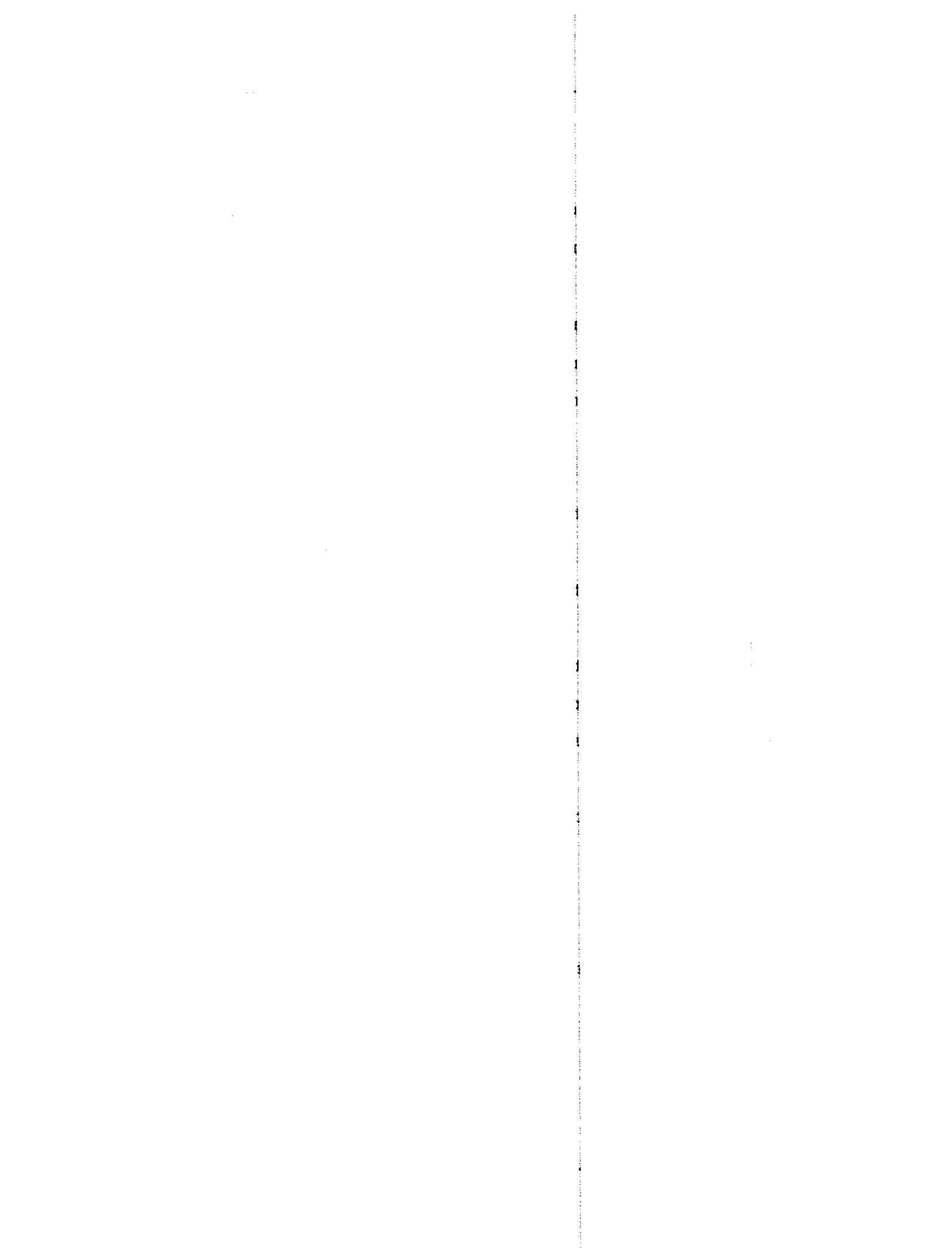
21 MR. CATANACH: Being nothing
22 further in Case 9091, it will be taken under advisement.

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(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. 9091,
heard by me on March 18 1987.

David R. Catanzel, Examiner
Oil Conservation Division

