

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

6
7 16 March 1988

8 EXAMINER HEARING

9 IN THE MATTER OF:

10 Application of Amoco Production CASE
11 Company for compulsory pooling, Rio 9324
12 Arriba County, New Mexico.

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 Commission: No attorney appearing.

20
21 For the Applicant: Kent J. Lund
22 Attorney at Law
23 Amoco Production Company
24 P. O. Box 800
25 Denver, Colorado 80201

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1
2 MR. CATANACH: Call Case 9324,
3 the application of Amoco Production Company for compulsory
4 pooling, Rio Arriba County, New Mexico.

5 Are there appearances in this
6 case?

7 MR. LUND: Kent Lund on behalf
8 of Amoco.

9 MR. CATANACH: Any other ap-
10 pearances?

11 How many witnesses do you have?

12 MR. LUND: We have three wit-
13 nesses and we'll push it as fast as we can.

14 MR. CATANACH: Okay, will the
15 witnesses stand and be sworn?

16
17 (Witnesses sworn.)

18
19 MR. CATANACH: You may proceed.

20 MR. LUND: Thank you. Our
21 first witness is Mr. Hawkins and his qualifications have al-
22 ready been presented. Are they still acceptable?

23 MR. CATANACH: Yes, they are.
24
25

1 JAMES HAWKINS,
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 MR. LUND:

7 Q Real quickly, Mr. Hawkins, could you ex-
8 plain the nature of our application and what we're reques-
9 ting?

10 A Amoco is requesting a compulsory pooling
11 order from the New Mexico Oil Conservation Division for a
12 non-standard 505.2-acre proration unit that was created by
13 Order 8268. That proration unit encompasses Section 6 and
14 the west half of Section 5 in Township 25 North, Range 2
15 West in the Gavilan-Mancos Oil Pool. It's dedicated to the
16 Hill Trust Federal Com Well No. 1.

17 Q Is that an irregular section?

18 A That is an irregular section.

19 Q All right. Let's talk about notice
20 first. Would you please identify Exhibit Number One and ex-
21 plain its significance, please?

22 A Exhibit Number One is a copy of a letter
23 to the Commission with the application for the compulsory
24 pooling order. We've actually got a letter dated November
25 -- or excuse me, February the 5th, 1988, that has the origi

1 nal application, and a letter dated February 17th, which re-
2 quested a continuance in order to give proper notice to each
3 of the parties.

4 Also, on the back of this package of the
5 two letters is a -- copies of the certified receipts for
6 Mountain States Natural Gas and W. Thomas Kellahin, who is
7 shown as the Registered Agent for Service of Process for
8 Mountain States Natural Gas.

9 Q Now, to shorten it a little bit, every-
10 body has agreed to develop this on -- on the acreage that
11 we've requested, except for Mountain States, is that cor-
12 rect?

13 A That is correct.

14 Q All right, and each time, both on the
15 February 5 letter and on the February 17 letter, you sent
16 certified mail letters, return receipt requested, to Moun-
17 tain States, Care of Mr. Blair, and also to the registered
18 agent for Mountain States, is that correct?

19 A That's correct. The -- on the February
20 5th letter there was an original error in the mailing ad-
21 dress for Mountain States and we had the correct address as
22 6333 South Richmond in Tulsa, Oklahoma, an inadvertently it
23 was typed to -- or sent to 63 -- excuse me, 633, to make
24 that clear. We left one of the 3's off, so he did not re-
25 ceive the February 5th letter; however, he did receive a

1 copy of the February 17th letter, which had a copy of the
2 February 5th letter attached to it.

3 So he did receive all of those and his
4 permit, or excuse me, his certified receipt shows it was re-
5 ceived on February 26th of 1988.

6 Q And how did you ascertain that Mr. Kella-
7 hin is the Registered Agent for Service of Process for Moun-
8 tain States Natural Gas Company?

9 A We called the New Mexico --

10 Q Did you do it personally?

11 A Yes, I did. I called the New Mexico Cor-
12 poration Commission and was advised that Thomas Kellahin is
13 the Registered Agent, or Statutory Agent for that corpora-
14 tion.

15 Q Approximately when did you call the Cor-
16 poration Commission?

17 A It would have been just before the Feb-
18 ruary 5th mailing, or February 5th letter, so very early in
19 February. I don't recall the exact date.

20 Q All right. Would you please turn to Ex-
21 hibit Number Two, identify it and explain its significance?

22 A Exhibit Number Two is a plat showing the
23 Hill Trust Federal Com Well No. 1, located in Section 5. It
24 also shows in a solid outline the spacing unit that was
25 created by Order 8268 and has been dedicated to that Hill

1 Trust Well.

2 Some of the other wells that are located
3 on the outside of this have been -- some of the recent wells
4 have been omitted off of this map. They weren't available
5 through our computer system that printed it up; however, the
6 pertinent information is simply the spacing unit that has
7 been created and dedicated to the Hill Trust Well.

8 Q Would you turn to Exhibit Number Three,
9 please, identify it and explain its significance?

10 A Exhibit Number Three is an estimated cost
11 for the Hill Trust Federal Com Well, and we've had a break-
12 down here by various expenditure categories. The bottom
13 line is the total estimated cost for the well is about
14 \$525,000. The bulk of that has been spent.

15 The well is not producing. At this point
16 it is testing; however we expect it to be producing within,
17 say, a month. At that point we estimate that the operating
18 cost for the well will be about \$1800 per month, which is
19 consistent with the other wells that we operate in this vi-
20 cinity.

21 Q Do you have an opinion as to whether the
22 actual costs of the well is -- are reasonable?

23 A Yes, I do, as a matter of fact. These
24 costs are very comparable to other wells that have been
25 drilled in the area. We've seen today the Seifert Well that

1 was on the order of \$600,000. We've had an estimate from
2 Dugan for a well adjacent to that for about \$480,000, I
3 think. So it does appear that our cost is very reasonable
4 and the well was drilled with very little trouble, if any at
5 all.

6 Q Were Exhibits One through Three prepared
7 by you or under your supervision?

8 A Yes, they were.

9 MR. LUND: Move their admission
10 in evidence.

11 MR. CATANACH: Exhibits One
12 through three will be admitted into evidence.

13 Q Do you have anything further?

14 A No.

15 Q All right, thank you.

16

17

CROSS EXAMINATION

18 BY MR. CATANACH:

19 Q Mr. Hawkins, your costs on Exhibit Number
20 Three, those aren't actual costs, are they?

21 A These are estimated costs. I would say
22 90 percent of the \$525 is actual. We have tried to bring it
23 up to the full total costs based on the drillers' estimates
24 that come off the rig floor, but they are simply estimates,
25 and so each of these breakdowns is kind of rounded off to

1 the nearest \$5000 and in accordance with that driller's es-
2 timated costs.

3 But we have spent, you know, 90 percent
4 of this already and already been billed for it.

5 And we are in the process of completing
6 and we expect to off the well within about a month, so we
7 don't anticipate any major additional costs at all.

8 Q Okay, is that a standard well location
9 with respect to the outer boundaries?

10 A Af far as I know. The well is located
11 1960 from the north line and 1980 from the east line of
12 Section 5, west line of -- let me check it real quick; it's
13 not on there.

14 Pardon me, the location is 1660 from the
15 north line and 1680 from the west line of Section 5.

16 MR. CATANACH: That's all I
17 have. The witness may be excused.

18 MR. LUND: Thank you. We'll
19 next call Mike Cuba, our landman.

20
21 MICHAEL E. CUBA,
22 being called as a witness and being duly sworn upon his
23 oath, testified as follows, to-wit:
24
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DIRECT EXAMINATION

3

BY MR. LUND:

4

Q Would you please state your name and
business address?

5

6

A My name is Michael E. Cuba. I work for
Amoco Production Company at 1670 Broadway, Denver, Colorado.

7

8

Q In what capacity are you employed by Amoco?
co?

9

10

A Petroleum Landman.

11

Q Have you ever testified as a witness before
this Division?

12

13

A No.

14

Q Would you briefly state your educational
background from college on and state your work experience to
date?

15

16

A I graduated from the University of Colorado
in Boulder with a Bachelor degree in mineral land management
and finance.

17

18

19

I worked two years part time for --

20

Q What year did you graduate from college?

21

A 1980, December, 1980.

22

23

I worked two years part time for Mobil Oil
and then I've been employed by Amoco Production Company for
about 7 years and 3 months as a petroleum landman, worked in

24

25

1 various areas of the western United States.

2 Q Are you a member of any professional
3 societies?

4 A I'm a member of the American Association
5 of Petroleum Landmen and I have been since my college days.

6 Q Is the area subject of our application
7 within your duties and responsibilities?

8 A Yes.

9 Q And have you examined the land matters
10 for purposes of this hearing?

11 A Yes.

12 Q Have you prepared exhibits for the hear-
13 ing?

14 A Yes.

15 MR. LUND: I offer him as an
16 expert in petroleum land management.

17 MR. CATANACH: He is so quali-
18 fied.

19 Q Would you please refer to your Exhibit
20 Number Four, identify it, and explain its significance,
21 please.

22 A Exhibit Number Four is Exhibit A from the
23 communitization agreement currently circulating for the Hill
24 Trust spacing unit. The tracts are identified thereon and
25 the tract of interest in this case being Tract 6, also Lot 4

1 of Section 5, wherein Mountain States Natural Gas has a 50
2 percent interest.

3 Just to refer again to what Mr. Hawkins
4 said, all parties to the spacing unit have committed to the
5 participation in the well with the exception of Mountain
6 States; 50 percent of 40 acres, or 20 net acres of the
7 505.2.

8 Q Why is there a need for a communitization
9 agreement?

10 A Well, pursuant to the inclusion of Fed-
11 eral leases, the Federal government requires communitization
12 of their leases so production can be allocated proportion-
13 ately on a surface acre basis.

14 Q Would you turn to Exhibit Number Five,
15 then, please, identify it and explain its significance?

16 A Exhibit Number Five indicates a working
17 interest within the Hill Trust Well based upon a couple of
18 assumptions.

19 One, you'll note Amoco did have a farm-
20 in on the interest of the Margaret Hunt Hill and Albert Hill
21 Trust and then it includes the carried interest, which Amoco
22 has agreed to bear of the Albert or the Mountain States Nat-
23 ural Gas.

24 You'll see we have Mountain States coming
25 in after a 300 percent cost recovery. This is pursuant to

1 our request before the Commission to grant Amoco 100 percent
2 cost recovery plus a 200 percent penalty.

3 Mountain States Natural Gas interest in
4 the drill site is 3.95883 percent, and you can see the in-
5 terest of the other parties.

6 Q Would you turn to Exhibit Number Six,
7 identify it and explain its significance, please?

8 A Exhibit Number Six, I'm afraid, is back-
9 wards and you may want to turn to the second portion of it
10 first, which is in there somewhere, let's see --

11 Q That's the August 27th, '87 letter?

12 A Yes. August 27th, 1987 letter. With
13 this letter Amoco notified the parties in the spaced unit of
14 our intention to commence the drilling of a test well.

15 An AFE, or Authority for Expenditure, and
16 operating agreement were attached and also attached, as
17 you'll see, was a breakdown of the working interests and the
18 anticipated costs. They're coincident pretty much to the
19 figures on the Exhibit Number Five.

20 And you'll also see attached thereto cer-
21 tified mail receipts that all parties, including Mountain
22 States Natural Gas, did receive the notice.

23 Q And then turning to the first letter in
24 the exhibit, the January 6, '88 letter?

25 A All parties other than Mountain States

1 Natural Gas favorably responded to our proposed well and
2 elected to join that, except for the Hill interest, as I
3 mentioned, which farmed out to Amoco.

4 In January we made one more attempt to
5 get the joinder of Mountain States Natural Gas. Keep in
6 mind the well was drilled at this point and we were still
7 willing to allow them in on a ground floor basis.

8 Attached again you'll see a certified
9 mail receipts both to Mountain States Natural Gas Company in
10 Tulsa and also through their Statutory Agent here in Santa
11 Fe.

12 No response was received by -- from
13 Mountain States to this correspondence.

14 Q And you again included an AFE and an
15 operating agreement with that letter?

16 A That is correct?

17 Q All right. Let's turn then to Exhibit
18 Number Seven. Please identify it and explain its
19 significance.

20 A Exhibit Number Seven is a summary of the
21 basic provisions of the operating agreement which the
22 parties entered into for the drilling and operation of the
23 subject well. The date is August 25th, 1987. The lands
24 covered are coincident with the lands on Exhibit Four.
25 Operator is Amoco Production Company.

1 The formations covered are from the base
2 of the Pictured Cliffs formation down to the base of the
3 Dakota formation. Also incidentally, the formations were
4 requesting to be compulsory pooled.

5 The nonconsent penalty is 100 percent of
6 newly acquired equipment beyond the wellhead, plus 100 per-
7 cent of each such nonconsenting party's share of the cost of
8 operation; 300 percent of the costs and expenses of drill-
9 ing, testing, completing and 300 percent of the cost of
10 newly acquired equipment in the well.

11 These are the percentages agreed upon by
12 the parties. They're reasonable and normal in the industry
13 and also very similar to the penalty percentage that we're
14 asking the Commission to impose, 300 percent, equating to
15 100 plus a 200 percent penalty.

16 Our overhead rates, which we'd also ask
17 the Commission to -- to impose are drilling well rates of
18 \$3222 per month; producing well rates of \$401 per month, al-
19 so well within industry standards and significantly below, I
20 think you'll note, the figures Dugan presented earlier.

21 Q Was there ever any response by Mountain
22 States?

23 A No response.

24 Q Were Exhibits Four through Seven prepared
25 by you or under your supervision?

1 A Yes.

2 MR. LUND: Move for their admis-
3 sion, Mr. Examiner.

4 MR. CATANACH: Exhibits Four
5 through Seven will be admitted as evidence.

6 Q Do you have anything further?

7 A No, nothing.

8 MR. CATANACH: I have no ques-
9 tions of the witness.

10 MR. LUND: Thank you. Our
11 final witness is our geologist, Mr. Bottjer.

12
13 RICHARD BOTTJER,
14 being called as a witness and being duly sworn upon his
15 oath, testified as follows, to-wit:

16
17 DIRECT EXAMINATION

18 BY MR. LUND:

19 Q Would you please state your name and your
20 business address and by whom you're employed?

21 A My name is Richard Bottjer and I work for
22 Amoco Production Company at 1670 Broadway in Denver, Color-
23 ado.

24 Q And you're employed as a petroleum geolo-
25 gist?

1 A That's correct.

2 Q You've testified before the Division be-
3 fore?

4 A That's correct.

5 Q And your qualifications have been accep-
6 ted?

7 A That's correct.

8 Q You've testified before the Division be-
9 fore?

10 A That's correct.

11 Q And your qualifications have been accep-
12 ted?

13 A That's correct.

14 MR. LUND: Are they still ac-
15 ceptable?

16 MR. CATANACH: They are.

17 MR. LUND: Thank you.

18 Q Mr. Bottjer, would you please turn to Ex-
19 hibit Number Eight, identify it, and explain its signifi-
20 cance?

21 A Exhibit Number Eight is a list of wells
22 in the area surrounding the Amoco Hill Trust Federal Com No.
23 1. The Amoco well is located in Section 5 of Township 25
24 North, Range 2 West, and this list basically summarizes the
25 location of the wells, the original operator of those wells,

1 the name of the wells and the initial potential of those
2 wells in barrels of oil per day and MCFD.

3 As you can see on the bottom, it's indi-
4 cated as the wells with the "G" are producing only from the
5 Gallup, or Mancos, horizon and the wells with the "G-D" have
6 commingled Gallup and Dakota production in them.

7 Q And what is the source of the production
8 information?

9 A Okay, the information was derived from
10 petroleum informtion scout tickets, which are publicly
11 available and are essentially based on the sundry notices
12 which are filed in your office.

13 Q Just on a general review of the produc-
14 tion information, as a geologist who studied this area,
15 what's your conclusion of what the production information
16 represents?

17 A The main observation that you would make
18 looking at this production information is that the product-
19 ivity of the wells in the area is highly variable. You have
20 numerous wells that IP'd for less than 20 barrels a day and
21 there are also wells that are capable of producing greater
22 than 400 barrels of oil per day.

23 Q Let's look at a couple wells just in par-
24 ticular.

25 First, the Federal Prowler No. 2?

1 A That well was drilled by Mesa Grande and
2 has recently been completed. It's located in the northeast
3 quarter of Section 5, Township 25 North, Range 2 West, and
4 it had an IP, as reported in PI, of 16 barrels of oil per
5 day and 71 MCFD. As you can see, that's indicated to be a
6 poor well.

7 Q And that's an offset to the east of the
8 well in this unit?

9 A That's correct.

10 Q All right, and then how about the High
11 Adventure No. 1?

12 A A couple of years ago Jerome McHugh dril-
13 led the well called the High Adventure No. 1, located south-
14 east of the Hill Trust Well. It's located in Section 8 of
15 Township 25 North, Range 2 West, and the High Adventure No.
16 1 had an IP of 239 barrels of oil per day, 522 MCFD, so it's
17 a significantly better well.

18 Q And you've conducted a geologic study of
19 this area, haven't you?

20 A Yes.

21 Q And based -- based on your experience in
22 this area do you have an opinion as to whether a 200 percent
23 risk penalty is justified here?

24 A We believe that a 200 percent risk pen-
25 alty is justified based on the risk associated with the var-

1 iable -- variability of the fracturing and therefor the var-
2 iability of the production.

3 Also, as Mr. Roe testified earlier, there
4 is a significant engineering risk in this area where you
5 could have -- encounter drilling problems, such as lost cir-
6 culation.

7 Q Do you have anything further?

8 A I don't.

9 Q Was Exhibit Eight prepared by you or
10 under your supervision?

11 A Yes, it was.

12 MR. LUND: I move for the
13 admission of Exhibit Eight.

14 MR. CATANACH: Exhibit Eight
15 will be admitted as evidence.

16 MR. LUND: And we have nothing
17 further, Mr. Examiner.

18

19 CROSS EXAMINATION

20 BY MR. CATANACH:

21 Q Mr. Bottjer, the closest well to you
22 would be the -- which well would that be?

23 A I think the closest well to the Hill
24 Trust Well is the Mesa Grande Federal Prowler, which has
25 recently been completed.

1 Q Federal Prowler.

2 MR. LUND: Is that indicated on
3 Jim's exhibit?

4 MR. HAWKINS: No, that's why I
5 stated that some of the more recent wells are not shown on
6 that map, didn't get into the computer system to get printed
7 out.

8 MR. LUND: That's why.

9 A Yeah, that well was just completed a few
10 months ago so it's not in our computer system yet and that's
11 why it didn't show up on Exhibit 2.

12 MR. CATANACH: That's all I have
13 of this witness.

14 A Okay. Thank you.

15 MR. LUND: We would ask that
16 our application be granted with the 200 percent penalty.

17 MR. CATANACH: If there is no-
18 thing further in Case 9324, it will be taken under advise-
19 ment.

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21 (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 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. 9324, heard by me on March 16, 1988.

David R. Catanah, Examiner
Oil Conservation Division

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

6 2 March 1988

7 EXAMINER HEARING

8 IN THE MATTER OF:

9 Application of Amoco Production Comp- CASE
10 any for compulsory pooling, Rio Arriba 9324
11 County, New Mexico.

12 BEFORE: Michael E. Stogner, Examiner
13

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15 TRANSCRIPT OF HEARING
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18 A P P E A R A N C E S
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20 For the Division:
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23 For the Applicant:
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MR. STOGNER: Call next Case Number 9324, which is the application of Amoco Production Company for compulsory pooling, Rio Arriba County, New Mexico.

The applicant has requested that this case be continued to the Examiner's Hearing scheduled for March 16th, 1988.

(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 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. 9324 heard by me on 2 March 1988.
Michael J. Stogorb, Examiner
Oil Conservation Division