

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

16 March 1988

EXAMINER HEARING

IN THE MATTER OF:

Application of Dugan Production Corp- CASE
oration for an order pooling all min- 9327
eral interests in the Gavilan-Mancos
Oil Pool underlying a certain 640-acre
tract of land, or in the alternative,
for a non-standard 320-acre oil pro-
ration unit in said pool, and compulsory
pooling therein, Rio Arriba County,
New Mexico.

BEFORE: David R. Catanach, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Division: No attorney appearing.

For the Applicant: W. Thomas Kellahin
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I N D E X

RICAHRD CORCORAN

Direct Examination by Mr. Kellahin 6

Cross Examination by Mr. Catanach 28

JOHN D. ROE, JR.

Direct Examination by Mr. Kellahin 30

Cross Examination by Mr. Catanach 56

Cross Examination by Mr. Lund 58

E X H I B I T S

1		
2		
3		
4	Dugan Exhibit One, Display	7
5	Dugan Exhibit Two, Tabulation	15
6	Dugan Exhibit Three, Letter	22
7	Dugan Exhibit Four, Letter	22
8	Dugan Exhibit Five, APD	23
9	Dugan Exhibit Six, Certificate of Hearing	23
10	Dugan Exhibit Seven, Letter	24
11	Dugan Exhibit Eight, Letter Agreement	25
12	Dugan Exhibit Nine, Summary	31
13	Dugan Exhibit Ten, Document	37
14	Dugan Exhibit Eleven, Economics	42
15	Dugan Exhibit Twelve, Tabulation	44
16	Dugan Exhibit Thirteen, AFE	52
17	Dugan Exhibit Fourteen, Document	53

1
2 MR. CATANACH: Okay, call Case
3 9327. The application of Dugan Production Corporation for
4 an order pooling all mineral interests in the Gavilan-Mancos
5 Oil Pool underlying a certain 640-acre tract of land; or, in
6 the alternative, for a nonstandard 320-acre oil proration
7 unit in said pool and compulsory pooling therein, Rio Arriba
8 County, New Mexico.

9 Are there appearances in this
10 case?

11 MR. KELLAHIN: If the Examiner
12 please, I'm Tom Kellahin, Santa Fe law firm of Kellahin,
13 Kellahin & Aubrey, appearing on behalf of Dugan Production
14 Corporation.

15 I have two witnesses to be sworn.

16 MR. CATANACH: Are there any
17 other appearances in this case?

18 Will the two witnesses please
19 stand and be sworn in.

20
21 (Witnesses sworn.)

22
23 Oh, I'm sorry. Hold on a
24 minute.

25 MR. PADILLA: Mr. Examiner, Er-

1 nest L. Padilla, Santa Fe, New Mexico for Hooper, Williams
2 and Kimball, or I think it's Hooper, Kimball and Williams I
3 represent.

4 MR. LUND: I'm Kent Lund on be-
5 half of Amoco.

6 MR. BRUCE: Mr. Examiner, my
7 name is James Bruce, representing Mesa Grande, Limited. I
8 would state that Mesa Grande has no interest in this parti-
9 cular unit but is interested in the case mainly because of
10 the other pending forced pooling cases in the Gavilan-Mancos
11 Pool.

12 MR. PADILLA: Mr. Examiner, our
13 position will be the same. We have no -- no witnesses to
14 present.

15 MR. LUND: We have no
16 witnesses, either, and we're in support of developing it as
17 a 640 standard unit and in opposition to developing it as an
18 unorthodox 320.

19 MR. CATANACH: Okay. Now will
20 the witnesses please stand and be sworn in?

21
22 (Witnesses sworn.)

23
24 MR. CATANACH: You may be
25 seated.

1
2 RICHARD CORCORAN,
3 being called as a witness and being duly sworn upon his
4 oath, testified as follows, to-wit:

5
6 DIRECT EXAMINATION

7 BY MR. KELLAHIN:

8 Q Mr. Corcoran, would you please state your
9 name and occupation?

10 A My name is Richard Corcoran and I am a
11 landman for Dugan Production Corporation.

12 Q Your name is spelled C-O-R-C-O-R-A-N?

13 A That's correct.

14 Q Mr. Corcoran, have you previously testi-
15 fied before the Oil Conservation Division?

16 A I have.

17 Q What is your involvement with Dugan Pro-
18 duction Company insofar as this case is concerned?

19 A I am involved trying to put together the
20 land matters as pertains to the changing of the spacing
21 unit.

22 Q Have you been involved in the negotia-
23 tions with the working interest owners in both the undevel-
24 oped 320 acres as well as the operator and working interest
25 owners in the 320 acres that was developed by the Seifert

1 Well?

2 A I have.

3 MR. KELLAHIN: We tender Mr.
4 Corcoran as an expert petroleum landman.

5 MR. CATANACH: He is so quali-
6 fied.

7 Q Let me direct your attention to Exhibit
8 Number One and let's use this display to describe to the Ex-
9 aminer what we're trying to accomplish with the application.

10 A Right.

11 Q If you'll take just a moment and use the
12 display to orient the Examiner, first of all, to how you've
13 identified the boundary of the Gavilan-Mancos Pool.

14 A That is identified with the solid orange
15 line and it -- it is just depicting the north half of the
16 pool.

17 In addition to that, just to indicate
18 that there is on-going development, we have in a dashed line
19 identified the sections that have either recently been com-
20 mitted or completed or have been pooled, force pooled and
21 will be drilled shortly or have been drilled.

22 Additionally, the interests that we're
23 talking about or want to direct our attention to here, is
24 Section 22, and that is outlined in the pink.

25 In that section the east half has a

1 dashed line showing the existing 320-acre spacing unit for
2 the Seifert Well; the west half is where my client or where
3 my company owns an interest and we're here to ask that that
4 be included -- that the spacing be changed from 320 to 640
5 and include the west half with the east half.

6 Q Are you familiar with the Commission's
7 Order R-7407-E, entered by the Commission on January -- June
8 8th, 1987?

9 A I -- yes.

10 Q That order established 640-acre spacing
11 for the Gavilan-Mancos Pool, did it not?

12 A Yes.

13 Q In addition that order provided a -- un-
14 der Rule 2-A, for the exempting of certain spacing units
15 that previously existed prior to the pooling change.

16 A Okay.

17 Q What efforts have you made with Amoco, as
18 operator of the Seifert Gas "A" Well, to reform that 320 ac-
19 res into a 640-acre spacing unit?

20 A Okay. We -- we have been in communica-
21 tion with Amoco and have worked out details as to changing
22 the existing spacing unit to allow for a voluntary pool of
23 the entire 640 acres.

24 Q What's the reason that Dugan Production
25 Corporation has pursued that solution to spacing in the

1 section as opposed to drilling another well?

2 A For two reasons. One is that we have an
3 expiring Federal lease and in the event, for whatever reason
4 any party were not able to or chose not to -- to voluntarily
5 pool this -- this acreage, then we would want to go ahead
6 and drill a well on a 320 basis or -- or be entered into on
7 the 640 basis. I know that's not very clear.

8 And the second reason is that we don't
9 believe it's necessary to at this -- necessary to drill a
10 second well.

11 Q The acreage that's under an expiring
12 leases with Dugan, expires on what date?

13 A It expires April 30th, 1988.

14 Q And what acreage is subject to that
15 lease?

16 A That is the northwest quarter of Section
17 22.

18 Q Would you summarize for the Examiner what
19 is the current elements by which Amoco and Dugan have agreed
20 for the reformation of the spacing unit on 640 spacing and
21 the participation by which you will accomplish that?

22 A Okay, so you're -- are you asking me, let
23 me make sure I understand, what are the terms of our agree-
24 ment?

25 Q Yes.

1 A Okay. The terms of our agreement, basic-
2 ally, provide for each of the nonparticipating interests in
3 the west half to do one of the following:

4 To either pay 125 percent of the drilling
5 and completion cost within so many days from the Commis-
6 sion's order of establishing a 640-acre spacing unit, or
7 they -- those parties can have their interests, their --
8 those parties can pay 200 percent penalty plus 100 percent
9 of the drilling and completion costs out of production.

10 And further, the agreement provides that
11 in the event any additional wells are to be drilled in this
12 section, that they would be operated under an operating
13 agreement that's in existence for the -- for the 320-acre
14 spacing unit covering the east half. This operating agree-
15 ment, amongst other things, has drilling well rates of \$3084
16 and producing well rates of \$384 a month.

17 And that's the basic terms of this agree-
18 ment.

19 Q All right. The first element of the ag-
20 reement was negotiations with Amoco by which we could apply
21 a participation formula for the undeveloped acreage to ac-
22 quire an interest in the producing well as it existed, and
23 that agreement was that those owners would be afforded the
24 opportunity to pay their share of the actual completed well
25 costs plus an additional 25 percent.

1 A That's correct.

2 Q They would pay their proportionate share
3 of that zone.

4 A That's right.

5 Q All right, sir. The other element that
6 take existing operating agreement that applies to the Sei-
7 fert Well --

8 A Yes.

9 Q -- will be the operating agreement that
10 will continue to apply to all the owners in the undeveloped
11 acreage.

12 A That, that is right.

13 Q We will perpetuate that existing agree-
14 ment without modification other than to increase the size of
15 the spacing unit.

16 A Exactly.

17 Q If there are subsequent wells to be
18 drilled in the section, that same operating agreement will
19 apply?

20 A Yes, it will.

21 Q And the overhead rates that are used in
22 that operating agreement are the \$4840 drilling -- the --
23 what's the drilling well rate on a monthly basis?

24 A 3 -- well, let me check it so I can --

25 Q \$3840?

1 A Yes, okay, that's right, \$3083.

2 Q I'm sorry, \$3083.

3 A Right, and the producing well rate is
4 \$384.

5 Q All right. In the event there are
6 parties in the section that elect not to pay their
7 proportionate share of the actual cost plus the additional
8 25 percent within a 30-day election period --

9 A Yes.

10 Q -- at the end of that period, then the
11 operators that have consented can recover that investment
12 from those nonconsenting owners out of production.

13 A Yes, but that is limited to those
14 operators having an interest at this point in time in the
15 east half. But, yes, that's correct.

16 Q All right. For terms of the forced
17 pooling order in the -- the first option is that in the
18 event there are those in the undeveloped acreage that don't
19 want to participate --

20 A Okay.

21 Q -- then you're asking the Examiner to
22 enter a pooling order whereby under the pooling order, then,
23 you'll have the same overhead rates as are in the operating
24 agreement.

25 A That's right.

1 Q Okay. What is the agreement on the ef-
2 fective date at which the transfer will be made so that we
3 have 640 acres?

4 A We would -- we would ask that this be
5 made effective the date of first production of the Seifert
6 gas well.

7 Q In addition you're asking the Examiner to
8 make a specific finding and an order to delete any exemption
9 that may exist now under Rule 2 of the 640-acre Gavilan
10 spacing rules.

11 A That's correct.

12 Q All right. If that transaction is com-
13 pleted, what will be the effect on the working interest own-
14 ers in the undeveloped acreage?

15 A In the undeveloped acreage --

16 Q They will now participate in production
17 from the Seifert well.

18 A That's correct. Okay.

19 Q All right. What will happen to the cur-
20 rent ownership in the developed acreage in the east half,
21 what do they do?

22 A The working interest owners' interests
23 would in that be cut in half.

24 Q All right. What is the mechanism by
25 which that will apply to the royalty or overriding royalty

1 owners if -- if there are any in the section? What happens
2 to their interest, first of all, to those royalty and over-
3 riding royalty owners in the undivided tract?

4 A In the --

5 Q The undeveloped tract?

6 A All right, they would participate on the
7 basis of whatever their proportionate share over 640 acres
8 is.

9 Q What happens to those types of owners in
10 the existing 320 that's currently developed?

11 A Similarly, their interest would now be
12 based on what it is in 640 acres rather than within 320.

13 Q And the predicate upon which all that is
14 based is an engineering analysis that the second well is an
15 unnecessary well.

16 A Which we'll speak -- yes.

17 Q And we have Mr. Roe to talk to that.

18 A That's correct.

19 Q Okay. Apart from the technical details
20 of the second well --

21 A Yes.

22 Q -- and whether it's necessary or not,
23 you're involved with land transactions to formulate --

24 A Yes.

25 Q -- this on a 640-acre basis.

1 A Right.

2 Q All right. To what extent is the Bureau
3 of Land Management committed by way of a communitization
4 agreement for the reformation of the spacing unit on 640 ac-
5 res?

6 A They require one be submitted prior to
7 April 30th.

8 Q Are you in the process of accomplishing
9 that?

10 A Yes, we are.

11 Q Let's turn now to the specific details of
12 whose got how much of what.

13 A Okay.

14 Q And if you'll look at Exhibit Number Two,
15 if you'll take a moment and explain to the Examiner how the
16 exhibit is prepared.

17 A Okay. It is a tabulation of the working
18 interest ownership in Section 2 and it's set out according
19 to the following divisions:

20 The first division indicates the working
21 interest ownership in the west half. Okay, and that also, I
22 just want to direct your attention to the two pages that are
23 attached, the first being a C-102 for the west half and the
24 second being a C-102 for the Seifert Well as it exists (un-
25 clear).

1 Okay, so the first column indicates work-
2 ing interest owners in the west half.

3 The second column, the working interest
4 owners in the east half and the third, the working interest
5 owners as they would appear if we are granted those 640-acre
6 spacing units for the entire section.

7 The next column indicates those parties
8 that verbally have committed to a 640-acre spacing unit, or
9 -- or -- that's right, and as you'll note, that everyone has
10 verbally indicated that they are in agreement with that with
11 the exception of Meridian, who has not responded positively
12 or negatively at this point.

13 The fourth -- or the next column, being
14 -- indicates those parties that have executed an agreement
15 to voluntarily pool the 640 acres.

16 I need to advise you that -- that in ad-
17 dition to the two that we have indicated there, Dugan and
18 Amoco, there have been three others that have been received.
19 I do not have them in my possession but Amoco has received
20 them and they are Carolyn Clark Oatman, Warren Clark Trust,
21 Warren Clark Testamentary Trust, and with adding the addi-
22 tional interests it increases it to a 54.1618 percent.

23 The last column indicates the position of
24 the west half working interest owners with regards to the
25 drilling of the -- of a well on the west half, if that be-

1 comes necessary.

2 And it's footnoted below, again, setting
3 out A, indicating those that approved the AFE, with the
4 stipulation that drilling is a last resort, on a 320-acre
5 spaced basis; and B, verbally agreed to participate as a
6 last resort but have no executed an AFE, and there are no
7 parties that fall into the opposing, the drilling it
8 verbally.

9 Q Let's take a couple examples to see how
10 to analyze the display.

11 For example, start with the Dugan
12 Production Corporation interest, describe what choices that
13 Dugan has made and how that's tabulated.

14 A Okay. Dugan -- Dugan has in Column 1,
15 owns a 50 percent interest of the west half if a well has to
16 be drilled in the west half.

17 In the east half we own no interest.

18 In the entire section our interest would
19 be 25 percent.

20 We have verbally committed to -- to
21 pooling the entire 640 acres and furthermore, we have
22 executed a letter agreement, or formal letter agreement,
23 with Amoco to this end, and it is our position that we would
24 approve the AFE as a last resort and drill a well in the
25 west half.

1 Q Let's look at the Meridian interest as
2 another example of what the display shows us, and let us as-
3 sume for the discussion that despite efforts to reach a vol-
4 untary agreement with Meridian, they failed to do so.

5 A Okay.

6 Q And therefor you will need the compulsory
7 pooling order on 640-acre spaces -- basis -- in order to
8 complete the commitment of all the working interest owners
9 to the well.

10 Let's take Meridian and see what they
11 have.

12 In the west half --

13 A Okay.

14 Q -- what interest?

15 A In the west half they have no interest.
16 In the east half they own a 6.25 percent interest. That in-
17 terest, over the entire 640 acres is 3.125 percent.

18 As of this date they have not committed,
19 either verbally nor in writing, to voluntarily pool the 640
20 acres.

21 Q Because they don't have an interest in
22 the undeveloped acreage, what we're asking them to do is ap-
23 prove the dilution of their interest.

24 A That's correct, we are.

25 Q And that would be accomplished with the

1 compulsory pooling order or in the alternative by their vol-
2 untary agreement.

3 A That's right.

4 Q All right, let's take another example of
5 an owner that is in only the west half.

6 A Okay.

7 Q Hooper, Kimball and Williams, for exam-
8 ple.

9 A Okay, their interest in the west half
10 amounts to 16.66 percent. They have no interest in the east
11 half; consequently, their interest in the entire section is
12 8.33 percent.

13 They have verbally indicated that they --
14 that they would prefer a 640-acre spacing unit. They have
15 not executed a pooling agreement as of this time. We be-
16 lieve that's forthcoming.

17 And their position regarding drilling in
18 the west half is that they have verbally agreed as a last
19 resort but they have not executed an AFE to accomplish this.

20 Q All right, let's assume that Hooper, Kim-
21 ball and Williams signs the voluntary agreement and is fully
22 committed to 640.

23 A Yes.

24 Q What percentage of the 125 percent of the
25 actual well cost do they pay for their proportionate share?

1 A It would --

2 Q Is it the 16 percent or the 8 percent?

3 A It's the 8 --

4 Q Which one is it?

5 A Yes, the 8.33 percent times the -- their
6 proportionate share -- or times the 125 percent.

7 Q All right. In the -- let's assume under
8 the other hypothesis that they don't execute a voluntary
9 agreement and are subject to the pooling order.

10 A Yes.

11 Q At that point, then, the owners in the
12 developed acreage, Amoco and the rest --

13 A Yes.

14 Q -- can recover out of Hooper's share of
15 the production Hooper's share of the costs of the well plus
16 that 25 percent.

17 A Plus 200 percent.

18 Q Plus 200 percent --

19 A Yes.

20 Q -- at that point because they have gone
21 beyond the voluntary election period.

22 A That's correct.

23 Q All right.

24 A And that would come out of production.

25 Now that's in the event of a 640 spacing unit. Did you --

1 Q Yes.

2 A No, in the event of a 320-acre spacing
3 unit, they would be back to the 16.66 percent and that --
4 they would have a choice to either pay 100 percent of the
5 cost as the Commission would see fit to order, or -- or a
6 penalty as the Commission would see fit to order.

7 Q So this display can be utilized to deter-
8 mine what the impact is on each of the various owners in the
9 two combinations of choices that you're suggesting.

10 A That's right.

11 Q Let's go on now and discuss the timeframe
12 in which you have started your efforts to reform the Seifert
13 spacing unit to 640 acres.

14 When did you first commence that project
15 or did Dugan Production Corporation commence it?

16 A Dugan recognized that they had a lease
17 they needed something to do with back in mid to -- mid-part
18 of '87, and at that point in time when they were doing work
19 in-house, they also were involved in two other wells, one
20 being the Loddy and one being the High Adventure, which both
21 had similar spacing concerns, and they were due to be held
22 -- or heard shortly, or prior to this.

23 Consequently, we began telephone conver-
24 sations in maybe October or November of '87; some place
25 around there, and we were waiting for -- for -- for the out-

1 come of the Commission hearings on those other wells to
2 guide us into what to do here.

3 And subsequent to that, we -- we began
4 writing letters and --

5 Q Let's go through the correspondence,
6 then, and identify for the Examiner the various efforts you
7 have made to reach voluntary agreement with all the neces-
8 sary participants.

9 If you'll start with Exhibit Three and
10 identify that for us.

11 Q Okay. Just prior to that I would like to
12 point out that this -- that we had discussions regarding
13 this prior to the written, the written material.

14 Exhibit Three is a letter dated January
15 29th and it's -- it's the initial written request to all
16 working interest owners as we knew them to be at the time in
17 the section and requesting that they voluntarily pool the
18 entire section.

19 It also has attached to it the return re-
20 ceipts indicating receipt of the letter.

21 Q All right, sir, what is the next Exhibit,
22 Number Four?

23 A The next exhibit was the same date, Jan-
24 uary 29th, and it's to the working interest owners in the
25 west half. It basically advises them that we, Dugan Produc-

1 tion Corporation, would prefer a 640-acre spacing unit but
2 as a last resort we would drill a 320-acre spacing unit, and
3 requested that each of these parties, by farmout or partici-
4 pation or -- would -- would support our efforts and we en-
5 closed an AFE to that end.

6 It also has the return receipts attached,
7 indicating delivery.

8 Q All right, sir, would you identify Exhi-
9 bit Number Five for us?

10 A Number Five is an APD for the west half
11 and it was submitted to the BLM just in the event that we
12 had to drill this well, that we wanted to be prepared to
13 drill the west half, if necessary.

14 Q Dugan's identified that second well in
15 the section as the Rasmes (sic) Well?

16 A Ramses, yes.

17 Q Ramses Well?

18 A Yes, that's correct.

19 Q Okay.

20 A The next exhibit is Number Seven and it's

21 --

22 Q Let's see, Six --

23 A I'm sorry.

24 Q -- at this point, Mr. Corcoran, is the --

25 A Okay, excuse me.

1 Q -- certificate of mailing for the hear-
2 ing.

3 A I'm out of order here, I'm sorry, and
4 that's exactly what it is. It's a notice from our attorney
5 of the application for this hearing and attached to it are
6 the return receipts, again, indicating they were sent and
7 received by all the -- by the parties that we indicated on
8 the Exhibit Two.

9 Q And those are the interest owners in the
10 east half of the section as well as the working interest
11 owners in the west half of the section.

12 A Yes, they are, as we knew them to be at
13 that time.

14 Q All right. All right, what is Number
15 Seven?

16 A Okay, Number Seven is a letter again from
17 Dugan Production Corporation and it's to the working
18 interest owners in the west half and a copy was sent to the
19 working interest owners in the east half.

20 It advises of the terms under which Dugan
21 had reached agreement with Amoco. It further urges these
22 parties to support a like agreement as to their interests
23 and it continues to explain that Amoco would be sending a
24 similar agreement to all -- all of those parties; all those
25 parties in the west half.

1 Q All right, sir, let's turn to Exhibit
2 Number Eight and have you identify that exhibit.

3 A Exhibit Number Eight is the -- Amoco's
4 formal letter agreement to all working interest owners again
5 setting out the terms for voluntary pooling of all of Sec-
6 tion 22 and attached to it is the operating agreement that
7 -- that this new spacing unit would be operated under or any
8 new well would be operated under, as well as the existing
9 well.

10 We -- I basically touched on the terms of
11 this agreement but if you'd like, I could go on more.

12 Q This letter represents the actual, speci-
13 fics of the terms and conditions that we generalized earlier
14 in your testimony.

15 A That's -- that's correct.

16 Q And it also shows the approximate cost on
17 the Seifert Well as being \$600,000?

18 A Yes, it's -- that's completion and equip-
19 ment.

20 Q Apart from the correspondence, did you
21 have telephone conversations or conferences in person with
22 any of the working interest owners?

23 A Yes, I have. We have pooled -- polled by
24 phone prior to the original date that this -- this hearing
25 was set for, and then again about a week ago, what each of

1 these parties that we have identified on that Exhibit Two,
2 what their feeling was towards all of the -- towards all the
3 factors that I'd set out in those various columns, whether
4 their -- what their feeling was towards 320, 640, and exact-
5 ly how strong they felt about it.

6 Q Have -- with all your conversations and
7 correspondence and efforts in discussing this matter with
8 the working interest owners in the entire section, have you
9 received any comments or communications from any of the
10 working interest owners that they will refuse to participate
11 on a voluntary basis in the 640-acre?

12 A No, not -- none whatsoever.

13 Q Because of the time constraints of your
14 expiring lease, Mr. Corcoran, is it possible to devote any
15 more time to obtaining voluntary agreement before initiating
16 compulsory pooling?

17 A We're -- we're in a real time constraint
18 and we're down to the wire. Am I answering your question?

19 Q Yes, sir. Will you continue to negotiate
20 on a voluntary basis with these working interest owners?

21 A We will and we, you know, intend to clear
22 up any other matters that are brought to our, you know, that
23 have been brought to our attention.

24 Q In the event however, that you are unable
25 to do so by the time your lease expires, you would propose

1 to use the compulsory pooling order in order to complete the
2 communitization approval --

3 A Yes.

4 Q -- by the BLM.

5 A That's right. That's right, we do need
6 that assistance.

7 Q And in the absence of any of these
8 working interest owners approving the communitization
9 agreement, --

10 A Yes.

11 Q -- then under the procedures of the BLM
12 you must use the compulsory pooling order to satisfy that
13 missing signature.

14 A That's right, and they will and do accept
15 that.

16 Q Do you have anything else?

17 A No.

18 MR. KELLAHIN: We'd move the
19 introduction of Exhibits One through Eight at this time, Mr.
20 Catanach.

21 MR. CATANACH: Exhibits One
22 through Eight will be admitted into evidence.

23

24

25

CROSS EXAMINATION

BY MR. CATANACH:

Q As I understand it, Mr. Corcoran, the -- should we decide on 640 acres, all the interest owners would be governed by the operating agreement now in effect.

A That's correct. They would be.

Q The options you would want in the order, in the Division order, would be that any nonconsenting interest owner has the right within 30 days to pay their -- to consent to the drilling of the well and pay 125 percent of their share of the well cost.

A That's right. Those are parties in the west half, that's correct.

Q Any nonconsenting owner would pay 200 percent plus an additional -- I mean 100 percent plus an additional 200 percent out of production.

A If they choose not to pay their money in the time allotted, yes.

Q Right. Okay, and the proposed overhead rates for the 640-acre unit are \$3083 while drilling?

A Yes.

Q And \$384 production.

A That's right.

Q In the event of a 320-acre unit, what --

1 do you propose the same overhad rates?

2 A No, we don't. What -- John, do you have
3 them?

4 MR. KELLAHIN: Mr. Roe's got
5 some discussion about those overhead rates, Mr. Examiner.

6 MR. CATANACH: And on the --
7 how about the risk penalty, has that been decided?

8 MR. KELLAHIN: Yes, sir, he's
9 got testimony on that issue.

10 Q Mr. Corcoran, do you know if the east
11 half was originally a voluntary unit?

12 A Yeah, Yes, I believe it was, according
13 to the record. Yes, it was.

14 Q So Meridian -- Meridian did participate
15 in that well?

16 A Yes, I believe they did participate in
17 the well.

18 Q Okay. And they are the only ones who you
19 haven't heard from --

20 A That's --

21 Q -- either way in this proposal.

22 A Uh-huh, that's correct.

23 MR. KELLAHIN: Well, he's heard
24 from them but they have not been able to tell him yes or no.

25 A Yeah, I have heard from them but they --

1 their management hasn't had a chance to make the decision.

2 MR. CATANACH: I think that's
3 all I have right now. The witness may be excused.

4
5 JOHN D. ROE, JR.,
6 being called as a witness and being duly sworn upon his
7 oath, testified as follows, to-wit:

8
9 DIRECT EXAMINATION

10 BY MR. KELLAHIN:

11 Q Mr. Roe, would you please state your anme
12 and occupation?

13 A My name is John D. Roe, Junior.

14 Q Mr. Roe, have you previously testified
15 before the Division as an expert petroleum engineer?

16 A Yes, I have.

17 Q And you've testified on numerous
18 occasions about Gavilan-Mancos and Gavilan-Mancos wells.

19 A Yes, I have.

20 Q You have made an engineering study and
21 evaluation of the Seifert Gas Com "A" Well, is that it?

22 A Yes. Yes, sir.

23 Q And this is Section 22 --

24 A Yes.

25 Q -- in Rio Arriba County, New Mexico.

1 A Yes.

2 MR. KELLAHIN: We tender Mr.
3 Roe as an expert petroleum engineer.

4 MR. CATANACH: He is so quali-
5 fied.

6 Q Mr. Roe, let's lay a foundation of some
7 of the information that you have re-evaluated and re-studied
8 in the Gavilan-Mancos as it applies to the Amoco Seifert
9 Well.

10 And let me direct your attention now to
11 Exhibit Number Nine and have you simply identify that for
12 me.

13 A Okay. Exhibit Number Nine is an exhibit
14 taht I prepared. It consists of four pages and the first
15 two pages are basically my summary of the information that
16 I had available as it pertains to the Seifert Gas Com "A"
17 Well No. 1, operated by Amoco.

18 And the last two pages of Exhibit Number
19 Nine would be copies of the completion reports filed with
20 the Commission, the Commission Form C-105.

21 The third page of this would reflect the
22 completion that was filed for the Gallup or what I refer to
23 as the Mancos formation, and this is the completion or the
24 -- basically the interval within the Gavilan-Mancos Pool.

25 The last page would reflect a completion

1 attempt in the Dakota formation, an unsuccessful attempt.
2 That particular completion was plugged and abandoned on Jan-
3 uary 13th of 1987.

4 Q Because of your involvement over the
5 years with the development of the Gavilan-Mancos rules be-
6 fore the Commission and your involvement on behalf of your
7 company and other companies with regards to the drilling and
8 completion of these wells, I think it would be helpful if
9 you would give us a brief summary of how we got to where we
10 are now on the Seifert Well.

11 If you'll talk to the Examiner about the
12 transfer from 320 to 640-acre spacing in the Gavilan and how
13 that occurred as a result of Order 7407-E.

14 A Well, if I could back just a little ear-
15 lier, initially the spacing within the Gavilan-Mancos Pool
16 was established in 1980 -- the early part of '84, I forget
17 the exact date, but it was established for a temporary basis
18 as 320-acre spacing.

19 Beginning about that time we -- there was
20 a tremendous amount of development within the Gavilan-Mancos
21 Pool. During this development there was a tremendous amount
22 of engineering data that was compiled. In fact there was
23 even an effort by all operators within the Gavilan-Mancos
24 Pool to review the data and evaluate and study what was hap-
25 pening in the Gavilan-Mancos Pool in an effort to determine

1 if there was a better way to develop the reservoir or an ef-
2 fort to determine the optimum method for development.

3 In the -- the pool rules were set for an
4 initial period of three years. That hearing reopening --
5 the original case was reopened in March, latter part of
6 March and April of 1987 at the end of the 3-year period, and
7 during that -- that 5-day hearing the spacing was changed
8 from the temporary 320-acre spacing unit to 640-acre on a
9 permanent basis, based upon the engineering and geologic da-
10 ta that had been accumulated during the initial development
11 of the pool, which encompassed about 75 wells.

12 The Seifert Gas Com "A" Well No. 1 was,
13 as I've indicated on the front page of Exhibit Nine, or as
14 can be seen from the completion reports, was actually spud-
15 ded October 25th of 1986. Amoco initially -- and at the
16 time they spudded the well, there was a tremendous amount of
17 data available to suggest that 640 acres was probably a more
18 appropriate spacing than 320 acres; however, 320 acres was
19 the current spacing at the time.

20 Amoco, because of the effective spacing
21 being 320, put the 320-acre spacing unit comprising the east
22 half and the working interest ownership was Kindermac Part-
23 ners, Meridian, and Amoco, with Amoco owning greater than 50
24 percent.

25 The completion and testing of the Seifert

1 Gas Com resulted in the well actually being -- or not actu-
2 ally having a completion filed until June 28th of 1987, ap-
3 proximately 20 days after the pool rules were effective,
4 making or adopting 640 acres as the official spacing for the
5 Gavilan-Mancos Pool rules.

6 Having no interest in the Seifert Gas Com
7 "A" Well No. 1 during its initial drilling and completion
8 efforts, our information is limited pretty much to what's
9 available through the Commission, but it does appear that
10 Amoco completed the well in a manner similar to what most --
11 most other wells within the Gavilan-Mancos Pool are com-
12 pleted and it had an initial pumping potential of 54 barrels
13 of oil a day and 120 MCF per day.

14 Q At this point as a result of the spacing
15 change, there was the Seifert spacing unit, as well as other
16 spacing units in which there was yet just a single Gavilan-
17 Mancos well in a section.

18 A That is correct.

19 Q You have -- have you examined to deter-
20 mine whether or not a second well ought to be drilled in
21 Section 22?

22 A Yes, yes, I have.

23 Q And what is your conclusion about the
24 prudent operation of drilling a second well in the west half
25 of Section 22?

1 A As a result of my study of this area and
2 as it relates to the rest of the Gavilan-Mancos Pool,
3 there's no doubt in my mind that if the acreage within the
4 west half of Section 22 is required to drill a second well
5 in order to place that acreage in a developed status, it
6 will probably be the best example of an unnecessary wellbore
7 that exists in Gavilan.

8 Q Let's come back to the issue of the sec-
9 ond well and go forward with whether or not you have made a
10 study of how the undeveloped acreage can participate with
11 the developed acreage in the Seifert Well on a reasonable
12 basis.

13 Have you made such a study?

14 A I, yes, I've been involved with that par-
15 ticular issue for -- Dugan Production has been involved in,
16 as Mr. Corcoran said earlier, there were two other cases ac-
17 tually before the Commission, one by Mesa Grande Resources
18 in the Federal Invader Well No. 1, and a second case by Mesa
19 Grande Limited in the Loddy No. 1, a well operated by Sun in
20 Section 20 of 25 North, Range 2 West.

21 Because Dugan has an interest both in the
22 developed and/or undeveloped acreage in those two wells, we
23 were involved throughout that and we have also been attempt-
24 ing to come up with a manner that would deal with this
25 exact issue because Dugan also has several other instances

1 that this -- a similar situation exists.

2 Q What was the Commission's choice on par-
3 ticipation in the Federal Invader Well between Mallon and
4 Mesa Grande?

5 A Well, the case was actually dismissed
6 primarily, it's my understanding Mesa Grande felt that they
7 would concentrate their efforts in the Loddy, that the Fed-
8 eral Invader was not a very good well, and they were becom-
9 ing frustrated with an effort to develop a 640-acre spacing
10 unit and the poorer a well gets the harder it becomes.

11 Q So there was no -- ultimately no order
12 issued by the Commission deciding participation in the Fed-
13 eral Invader Well.

14 A That is correct.

15 Q And the Commission has not yet entered an
16 order on the Loddy Well.

17 A That's correct. That particular case was
18 heard and -- and we were watching that very closely, hoping
19 that maybe some guidelines would result from that order be-
20 cause it is very similar to the situation we have here.

21 Q Has the Commission entered a participa-
22 tion allocation when the pool was re-spaced from 40's to
23 32's and allowed undeveloped acreage to participate in an
24 existing well? Has this occurred before?

25 A Well, we had a very -- the circumstances

1 were exactly the same initially. The pool was initially a
2 few wells drilled on undesignated 40-acre spacing. At the
3 time the pool rules were initially set at 320. The Commis-
4 sion, as part of that order, mandated that the operators,
5 and they provided I forget the exact time, but I believe it
6 was 60 days, for the operators of all existing wells to
7 either obtain a nonstandard spacing unit from the Commission
8 after hearing or create a 320-acre spacing unit, and if
9 neither were accomplished at the end of 60 days, or the
10 timeframe, that their allowable would be cancelled.

11 Q Do you have an opinion as to whether or
12 not the 125 percent participation is a reasonable method by
13 which the undeveloped acreage can participate in the Seifert
14 Well?

15 A Yes. I -- I think 125 percent reflects a
16 number that Dugan Production can live with because we are
17 involved on both sides and it is a number that does reflect
18 a reasonable value both from the drilling parties and the
19 nondrilling parties.

20 Q Let me direct your attention to Exhibit
21 Number Ten, Mr. Roe and have you summarize for us how you
22 have supported and reached your conclusion that the 125 per-
23 cent participation formula is fair and reasonable to all
24 parties.

25 A Okay. This -- this, again, is an effort

1 to come up with a number that will help remove the emotion
2 that becomes involved when you're dealing with taking a well
3 that only half of the people have taken all of the risk on,
4 have drilled, in some instances have produced, they may have
5 a good well or they may have a bad well. There is just
6 whole, whole bunch of things that happen when you say,
7 you've taken all of the risk, you've done all of the work,
8 you complied with the rules, but now we want half of what
9 you've got, and so the people that are drilling parties,
10 they basically have to take the dilution of interest. The
11 people that were not originally drilling parties, they re-
12 sent having to pay too awful much extra simply because they
13 didn't participate in the well, primarily because they had
14 no opportunity to participate in the well; in other words,
15 the spacing unit that was in effect at the time was com-
16 plied with and it did not include the undeveloped acreage.

17 But it's entirely possible that had the
18 undeveloped acreage been offered the opportunity, they would
19 have joined and shared in whatever risk existed.

20 So what I've presented here on Exhibit
21 Ten is tried to figure out what -- what risk really did --
22 did occur and -- and it's my feeling that we'd have to re-
23 move the quality of the well as a consideration, because you
24 -- you have, you know, everybody wants to participate in a
25 good well and not necessarily everybody wants to participate

1 in an existing bad well.

2 So it's my belief that well quality has
3 to be removed from the consideration if we can agree that
4 640 acres is the proper spacing, which it's my opinion that
5 is -- is the fact.

6 So the only other risk that really invol-
7 ves is the risk in -- in effectively drilling and getting a
8 wellbore to total depth and in a manner that you can com-
9 plete it, and that risk is somewhat limited by the fact that
10 most drilling contractors are willing to guarantee a well-
11 bore to TD, guarantee your logs from TD, and guarantee you
12 that you can get to TD, and this is generally tendered in
13 the form of a turnkey bid.

14 The last page of Exhibit Number Ten is a
15 copy of such a turnkey bid that I asked Four Corners Dril-
16 ling Company to submit to Dugan Production for the drilling
17 of our Ramses 2 Com Well No. 1, which is our proposed well
18 in the northwest quarter of Section 22, in the event that we
19 have no other alternative to develop our acreage but to
20 drill.

21 So in the event we feel we have to drill
22 a well, which we -- Exhibit Number Five was the APD which
23 reflects our plans to do that as a last resort, the -- this
24 letter was tendered to Dugan Production as a proposal by
25 Four Corners, and they will guarantee us a well to TD for a

1 total price I've got in handwritten notes at the bottom as
2 Item A for \$262,000, approximately, we can have our well to
3 TD and our logs recorded.

4 They also set forth in this letter, if we
5 want to absorb all of the risk of accomplishing that
6 ourselves, it's my estimate, using their -- their numbers
7 that they gave us, that we would spend about \$147,145 to do
8 the same thing.

9 So the real risk involved that we as
10 drilling parties take upon ourselves, is the difference
11 between those two numbers, or approximately \$114,800.
12 That's the actual cash risk or exposure, because at any
13 point prior to drilling we could have turnkeyed the well
14 for a fixed price.

15 Now, if you relate that \$114,800 to our
16 AFE, which was included in one of our prior exhibits, ot
17 drill the Ramses 2 Com No. 1, which we're estimating a
18 drilled and completed cost of \$479,000, that risk factor
19 represents 24 percent of what it would cost us to drill and
20 complete a well if all goes well.

21 If we relate that to Amoco's estimated
22 actual drilling and completion costs on the Seifert Gas Com
23 "A" Well No. 1, that \$114,800 represents 19.1 percent of the
24 total cost.

25 The second factor that I feel is reason-

1 able to -- is reasonable for the non-drilling parties to
2 provide the drilling parties with a compensation, is for the
3 fact that the drilling parties did spend the money; they did
4 pay for taking -- for whatever work was done. They basical-
5 ly have their money tied up with no return on it, no inter-
6 est being paid.

7 So I took a look at what would happen if
8 Dugan Production spent \$479,000 for a well, took it out of
9 service for approximately six months, which is probably an
10 overall average from the time you spud the well until you
11 actually have production going to the tank. It ranges any-
12 where from two months -- the Seifert Well, it was nearly
13 thirteen months before they were able to actually have their
14 facilities in place, all of the right-of-ways, and have the
15 well producing.

16 So using an average of six months, the
17 interest that would relate to \$479,000 being out of service
18 is a value of about \$20,000 to Dugan's share -- I mean based
19 upon our AFE, or about \$25,000 if you relate it to Amoco's
20 actual cost.

21 And comparing these two numbers the aver-
22 age of -- and I feel \$479,000 represents a fairly trouble-
23 free well, and the -- Amoco's number, \$600,000 represents
24 probably a fairly typical well drilled by most of the opera-
25 tors.

1 Dugan has drilled more than half of the
2 wells in Gavilan and we were -- we feel that there are some
3 things we do that allow us to have a little lower cost. But
4 at any rate, the \$479-to-600,000 does give you the range of
5 actual well cost we would expect to encounter, and the com-
6 pensation that I've outlined hered for the risk plus the in-
7 terest compensation averages about 25 percent of the well
8 cost, and that is what we propoe is a reasonable number to
9 -- for the nondrilling parties to pay to the drilling par-
10 ties for the fact that they're coming into an existing well.

11 Q Turn now to Exhibit Number Eleven, Mr.
12 Roe, and ask you whether or not you've made an economic ana-
13 lysis based upon voluntary participation on a 640-acre
14 basis using this 125 percent formula to determine whether or
15 not the remaining reserves attributable to the well will
16 justify and support that participation.

17 A Yes, I have made that analysis and Exhi-
18 bit Eleven is a copy of the printout from a computer program
19 that basically did this analysis. It pretty much reflects
20 what I believe to be the future production performance of
21 the Seifert Gas Com "A" No. 1. The economics presented on
22 this page reflect the economics as they relate to Dugan Pro-
23 duction's 25 percent interest in the 640-acre spacing unit.

24 It's my believe that if Dugan Production
25 does pay as a front end investment 125 percent of the

1 \$600,000 our share of that would pay out in 3.7 years, and
2 it would generate an undiscounted cash flow to Dugan Produc-
3 tion of about \$84,000, which our share of the 125 percent
4 investment would be approximately \$181,000, so our profit to
5 investment ratio is about 1/2 to 1.

6 These economics naturally are contingent
7 upon a lot of things. I have to fix oil and gas prices that
8 vary from day-to-day. I have to be accurate that the fore-
9 cast, as you can see, the Seifert Well is not going to be a
10 great well. It's -- I forecast that there will be about
11 59,000 barrels of oil recovered from this well, and approxi-
12 mately 342-million cubic feet of gas. But --

13 Q These are not great economics but they are
14 sufficient in your mind for Dugan's participation in order
15 to avoid the drilling of that unnecessary well.

16 A Yes, sir. It's my opinion that I can in
17 clear conscience recommend to Mr. Dugan that this justifies
18 our participation and we're not doing it because it's an
19 economically sound deal but it's an economically sounder deal
20 than us drilling a second well to develop our acreage.

21 Q Let's turn now, Mr. Roe, to further docu-
22 mentation you have that supports your opinion that the
23 second well in fact is an unnecessary well in this reser-
24 voir.

25 Can you identify for us Exhibit Number

1 Twelve?

2 A Okay. Exhibit Number Twelve is a tabula-
3 tion on which I have attempted to summarize the pressure da-
4 ta that has been accumulated from ten wells that are located
5 in the general vicinity of the Seifert Well.

6 Now, the specific wells that are pre-
7 sented on Exhibit Number Twelve are if you would refer to
8 Exhibit Number One, which was the map of the general area,
9 the wells that we've got blue circles written around, those
10 are the wells that I have utilized pressure data from and
11 the pressure that I'm using is the pressure that basically
12 was obtained in compliance with Commission's Order 7407-E,
13 wherein we were to shut in both the West Puerto Chiquito and
14 Gavilan-Mancos Pools completely for a 72-hour period and we
15 measured with these conditions a bottom hole pressure on
16 June 30th of 1987, November 19th of 1987, and the last test
17 ordered by the Commission was taken on February 23rd of
18 1988.

19 Q During that test period was the Sun Ex-
20 ploration Wildfire No. 1 Well used as an observation well?

21 A Yes. During this period, and that's why
22 the Wildfire is so important to consider in -- in our analy-
23 sis here, is the Wildfire, not only was it used as a pres-
24 sure observation well, as -- as were the other wells -- but
25 the Wildfire was not producing. It was shut in awaiting ef-

1 forts to get right-of-ways and pipelines and it was shut in.
2 There was no production that occurred from the Wildfire dur
3 ing this period.

4 Q With the Wildfire as the observation
5 well, what other wells were being produced? What's the
6 closest offsetting well that was being produced?

7 A Well, the nearest well that was producing
8 consistently throughout this -- this time, with the start of
9 this time being June 30th of 1987, was a well operated by --
10 currently operated by Hixon Development Company in the
11 southwest quarter of Section 35, and it's approximately a
12 mile to the south.

13 A A little more than a mile to the east,
14 another well operated by Hixon is the Tapacitos No. 2.

15 During this time period the Seifert Gas
16 Com "A" Well No. 1, which is located to the northwest, was
17 not producing and so it -- even though the completion was
18 there, it was shut in awaiting on a pipeline connection.

19 Q Did the Wildfire well experience any loss
20 in pressure during the period?

21 A Yes, as you'll note there, the first
22 pressure in the first column under the June 30th, 1987,
23 date, now all of these pressures have been adjusted to a
24 common datum of +370 feet above sea level, which is a datum
25 depth that the engineering study committee in their efforts

1 to analyze Gavilan, that is a datum that they selected, and
2 abundant -- the abundance of pressure information that has
3 been testified to the Commission has been at this datum.

4 But if we look at the pressure we
5 measured, and, again, this is measured with a bottom hole
6 pressure bomb, June 30th of 1987 we had 1190 psia at our
7 datum depth.

8 November 19th of 1987 we measured a pres-
9 sure of 1028 psia, which is a decrease of 162 psi, for an
10 average overall of about 35 pounds a month.

11 If we look further at the pressure that
12 was recorded on February 23rd of 1988, the pressure had con-
13 tinued to decline and was now at 969 psia, which is an addi-
14 tional decline of 59 psi, or during this latter period,
15 which was the lower production rates from the reservoir, the
16 rate of pressure decline was -- averaged 18 pounds per
17 month.

18 Q As a result of the analysis of the pres-
19 sure information from the Gavilan Pool, what's your conclu-
20 sion about Section 22 in the Seifert Well?

21 A Okay. Well, from -- it would have been
22 great if we would have been able to have had pressure infor-
23 mation in the Seifert Well.

24 It was not one of the wells designated to
25 observe pressure, the closest well being the Wildfire. I

1 feel very certain that the data presented on Exhibit Twelve
2 shows me first off that the pressure, say, in June 30th of
3 1987, of 1190 pounds, that compares fairly close to an over-
4 all average of 1134 pounds for the ten wells.

5 If I look at the February pressure of 969
6 psi in the Wildfire, thqt compares reasonably well with the
7 overall arithmetic average of the ten wells we're looking at
8 of 912 psi.

9 So, first off, I know that at least at
10 the Wildfire the pressure at that point in the reservoir is
11 connected fairly well with what's happening in the rest of
12 Gavilan, again remembering that the Wildfire is not produc-
13 ing. The pressure decline we see is a result of some other
14 mechanism somewhere in Gavilan.

15 A second thing that makes me feel that
16 this pressure communication in the Wildfire, at least that
17 far north, is -- is very good, not only is it at the same
18 magnitude of pressure but I see that the rate of pressure
19 decline between June and November of 34 compared to an over-
20 all pool average of 42, that is very similar. The rate of
21 pressure decline between November and February, 18 pounds
22 per month, compared to an overall pool average of about 8,
23 tells me that the -- what's happening in the Wildfire is re-
24 flecting very well what's happening somewhere else in Gavi-
25 lan.

1 Q How do you apply that to what's occurring
2 in the Seifert Well, now?

3 A Well, we -- we have some other informa-
4 tion that tells us that there's -- that leads us to believe
5 that the fracturing doesn't stop at the Wildfire. The frac-
6 tured nature of the reservoir is evidenced in the Bear Can-
7 yon Unit wells. Dugan Production is a working interest own-
8 er within those wells and we do know that --

9 Q And they're to the north of the Seifert
10 Well?

11 A Yes. In other words, the Seifert would
12 be located basically between the Bear Canyon Unit and the
13 Wildfire.

14 So having followed the drilling and com-
15 pletion of the Bear Canyon Unit wells, we know that the
16 fractured nature of the Mancos formation exists within the
17 Bear Canyon Unit. Having the pressure data that is measured
18 data in the Wildfire, we know that the fractured nature of
19 the Mancos exists to the Wildfire, and so we have projected
20 that the Seifert, it's very reasonable to expect that ac-
21 reage to also be enclosed by the natural fracturing, which I
22 feel is responsible for this tremendous pressure communica-
23 tion throughout the Gavilan-Mancos reservoir.

24 Q Based upon your studies, Mr. Roe, do you
25 have an opinion as to whether a second well in the section

1 will develop reserves that won't be produced by the Seifert
2 Well?

3 A Yes, I have an opinion on that.

4 Q And what is that opinion?

5 A It's my opinion that -- that about half
6 of the wells within Gavilan should be shut in right now, but
7 an additional well in Section 22 will not result in addi-
8 tional reserves being developed.

9 Q Let's talk for a moment about the risk
10 factor penalty to be applied in two instances. One, where
11 the undeveloped acreage owners fail within the election per-
12 iod ot pay their share of the Seifert costs and are subject,
13 then, to a penalty to be recovered out of production, and in
14 the second alternative, the risk factor penalty to be ap-
15 plied in the event your -- you have to go forward with drill-
16 ling a well in the west half half.

17 What penalty would you propose in a per-
18 centage be applied in both those instances?

19 A I was -- I was anticipating your ques-
20 tion, Mr. Kellahin. I didn't follow through completely.

21 In -- in the west half we would propose
22 that in the event there was a nonconsenting party, that the
23 penalty be 200 perent in addition to the well cost and this
24 would be -- this is basically the same arrangement that ex-
25 ists under the operating agreement that is in effect for the

1 Seifert Well in the east half.

2 Q In the event there is sufficient agree-
3 ment to go forward with the reformation on a 640 basis and
4 we have a party that doesn't reach voluntary agreement on
5 the 640 and we need the mechanism of the compulsory pooling
6 order to give them a notice and opportunity to pay their
7 share of the cost plus the 25 percent, and they fail to do
8 so, what should Amoco and the other owners in the developed
9 tract be allowed to recover out of production to compensate
10 them?

11 A They --

12 Q Should it be 125 percent or should it be
13 some other percentage?

14 A The percentage that Dugan Production has
15 agreed to and is stipulated in their operating agreement,
16 that is in effect, is Amoco and the initial drilling parties
17 only will be allowed to recover the well costs plus 200 per-
18 cent from the people that elect to not participate in the
19 initial drilling or up front, the well's already drilled, so
20 I can't say initial drilling, but those that do not pay Amo-
21 co and the initial drilling parties their share of 125 per-
22 cent of Amoco's \$600,000 well cost, then they would be sub-
23 ject to the initial drilling parties recovering well cost
24 plus 200 percent.

25 Q All right. In your opinion is that 200

1 percent number fair and reasonable?

2 A Yes, it is.

3 Q As applied to the 200 percent risk factor
4 in the west half if that well is drilled on a 320, you've
5 indicated a 200 percent risk factor was reasonable in that
6 instance.

7 A In fact, our reason for asking for 200
8 percent in the west half basically is the same line of
9 thinking that resulted in Amoco having 200 percent in thir
10 current operating agreement, is that that is a reasonable --
11 it's the maximum that is allowed by the Commission.

12 Q We've spent a lot of time talking about
13 the correlative rights and how to be fair among the working
14 interest owners in the section so that they can participate
15 in the Seifert Well and avoid the unnecessary well.

16 Do you have an opinio, Mr. Roe, as to
17 whether or not there are any adverse impacts on the correla-
18 tive rights of royalty or overriding royalty owners if this
19 agreement is approved?

20 A It's my firm belief that there will be no
21 negative impact. It is true that -- that if we did nothing
22 the royalty -- in other words, compared to doing nothing,
23 everybody's interest in the Seifert Well is going to be re-
24 duced in half, but if the west half is put in a position
25 that the only way to put that acreage into development is by

1 drilling a well, there's going to be at least that 50 per-
2 cent reduction in revenue even though the ownership doesn't
3 change. It's my firm belief that a second well in that sec-
4 tion will reduce the ultimate recovery from the Seifert.

5 Q The impact is that the royalty owner in
6 the developed acreage may received a larger share of income
7 but over a shorter period of time.

8 A A shorter period of time and probably a
9 smaller number; a smaller ultimate recovery, a smaller vol-
10 ume.

11 Q And that's simply a fact of having two
12 wells compete for the same reserves.

13 A That is correct.

14 Q Where one well, in fact, would do the
15 job.

16 A Right.

17 Q Let's turn now to the AFE on the well in
18 the west half, Mr. Roe. I think it's marked as Exhibit Num-
19 ber Thirteen. Would you identify that for us?

20 A Okay. This is nothing more than a copy
21 of the AFE that Dugan Production sent to the working inter-
22 est owners in the west half of Section 22 of Township 26
23 North, Range 2 West, and we transmitted this with our Janu-
24 ary 29th letter, which was Exhibit Number Four, and this --
25 te reason for this being Exhibit Thirteen is this is what we

1 would offer the Commission as being our anticipated drilling
2 and completion costs in the event we have no other alterna-
3 tive to develop our acreage but to drill a well, and that
4 well will be the Ramses 2 Com Well No. 1.

5 Q This AFE is generated by Dugan Production
6 Corporation and represents, as you understand it, a fair and
7 reasonable estimate of those costs?

8 A Yes, that is correct.

9 Q Let's turn now to what you would request
10 of the Examiner for overhead rates in the pooling order if
11 we're required to go forward with the west half well, and
12 let me invite your attention to Exhibit Number Fourteen.

13 A Exhibit Fourteen is a two-page -- two
14 pages out of the 1986 survey of -- of drilling and producing
15 well overhead rates throughout the U.S. This -- these two
16 pages are from their 1986 survey and it is my understanding
17 there probably is a more recent survey available, although
18 this is the most recent I had available and we are willing
19 to use this as guidelines.

20 I, in blue, have highlighted the numbers
21 that are pertinent to our particular well and that is we are
22 dealing with a well that would fall into the region that
23 they identify as the Colorado Plateau, and we are dealing
24 with a well that would -- an oil well that would range or
25 fall into the depth bracket of the 5000 to 10,000 foot

1 depth, and the average monthly drilling well overhead rate
2 that is reported here would be \$4138 and the average monthly
3 producing well overhead rate would be \$446.

4 Now Dugan Production is proposing and
5 asking the Commission to accept as part of our forced pool-
6 ing of the west half of Section 22 in the event we drill, a
7 producing well rate of \$400 per month and a drilling well
8 overhead rate of \$4000 per month.

9 And again, those numbers, the 400 and
10 4000 aren't highlighted but the numbers with which we feel
11 we're in range of are highlighted in this.

12 Q In your opinion, Mr. Roe, will approval
13 of this application be in the best interests of conserva-
14 tion, the prevention of waste, and the protection of correl-
15 ative rights?

16 A Yes, that is my belief.

17 Q Why?

18 A Well, the -- if -- if we are not able to
19 put together a spacing unit for the Seifert Gas Com "A" Well
20 No. 1, because of our expiring lease -- in other words, if
21 we aren't able to put together a 640-acre spacing unit for
22 that well, Dugan Production will be in the position that we
23 have to drill a well that we've identified as the Ramses 2
24 Com Well No. 1. We have our APD submitted. It is pending
25 approval; however, we anticipate receiving that approval so

1 that we can commence drilling operations on or before April
2 30th, which is our last resort to place our lease in produc-
3 tion.

4 In the event we have to resort to drill-
5 ling for development, it will be contradictory to all of
6 the other work that we've done within the Gavilan-Mancos
7 Pool which says 640 acres is the appropriate spacing.

8 I've presented on one of my exhibits
9 pressure data that definitely suggests that one well is
10 being drained by -- or at least in pressure communication
11 with 640 acres, and that being the fact, a second well in
12 Section 22 is just going to basically redistribute the re-
13 serves that are in this general area of the Gavilan-Mancos
14 Pool.

15 It's, considering the fact that the pres-
16 sure in this area of the reservoir is currently at roughly
17 50 percent of its virgin pressure, it's questionable in my
18 mind that Dugan's economics by drilling a well in the west
19 half would even be a viable economic venture, although we're
20 willing to take that risk as a last resort.

21 MR. KELLAHIN: That concludes
22 my examination of Mr. Roe.

23 We'd move the introduction for
24 the introduction of Exhibits Nine through Fourteen.

25 MR. CATANACH: Exhibits Nine

1 through Fourteen will be admitted into evidence.

2

3

CROSS EXAMINATION

4 BY MR. CATANACH:

5 Q Mr. Roe, what is the date of first pro-
6 duction from the Amoco well?

7 A Okay. I -- on my Exhibit Number Nine,
8 the bottom of the first page, I've -- there's really two
9 dates of first production.

10 During June of 1987, during the comple-
11 tion of the well, Amoco produced 1930 barrels of oil and did
12 report that to the Commission on their Form C-115; however,
13 upon producing that oil the well was shut in until they had
14 their gas line in place and were able to cease venting the
15 gas and deliver gas into a sales market. That well then was
16 returned to production on January 12th of 1988.

17 On the second page of that I have tabu-
18 lated the daily rates that Amoco has reported to the Commis-
19 sion in compliance with the testing ordered by R-7407-E, the
20 daily rates through February 15th of 1988, which is the data
21 I had available at the time I made this exhibit.

22 Q Well, what I'm trying ot get at is you
23 requested that the -- an order pooling 640 acres be effec-
24 tive the date of first production. Which date would yo re-
25 commend?

1 A The -- what we discussed with Amoco and
2 -- is that quite honestly, we didn't address whether that
3 should be June, 1987, which would be my proposal, but I
4 think I could say that that should not be something that
5 would keep us from agreeing, whether we make it June 1st of
6 1987 and include the 1930 barrels of oil, or we make it Jan-
7 uary 12th of 1988, which is really the date that the well
8 commenced producing on a sustained basis.

9 I Dugan Production has been able so
10 far to work something out. It's that important to us to set
11 this 640. So I wouldn't let that be a big factor, although
12 I would propose that we make the first production being
13 June, '87.

14 Q Okay, then it is your opinion that that
15 second well would be unnecessary. It wouldn't drain any ad-
16 ditional reserves in that -- in a 640 area.

17 A Based upon all of the pressure data we've
18 had and analyzed, yes. I believe that.

19 The only way you're ever going to know
20 that for sure is to drill but we sure do have a lot of data
21 to tell us that that will be the case.

22 MR. CATANACH: I think that's
23 all I have of the witness.

24 Is there any other questions of
25 the witness?

1 MR. LUND: May I ask one, Mr.
2 Examiner?

3 MR. CATANACH: Sure.

4
5 CROSS EXAMINATION

6 BY MR. LUND:

7 Q Mr. Roe, just one question. In your
8 conclusions that this ought to be developed on 640 in all of
9 Section 22, is it also your opinion that Section 22 ought to
10 be subject to the pool rules for the Gavilan-Mancos Pool?

11 A Yes. The effect -- the entire section
12 falls withi the boundary of the Gavilan-Mancos Pool now and
13 so upon re-spacing it, the full section would actually oper-
14 ate under the same pool rules which just the east half is
15 currently operating under.

16 Q Thank you.

17 MR. LUND: Nothing further.

18 MR. CATANACH: Okay, there being
19 nothing further in this case, Case --

20 MR. LUND: Oh, Mr. Examiner, we
21 wouldn't have any objection to making it effective at the
22 earlier date, that June date which Mr. Roe --

23 MR CATANACH: Okay.

24 MR. LUND: -- mentioned.

25 MR. CATANACH: Okay. There

1 being nothing further in Case 9327, it will be taken under
2 advisement.

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4 (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. 9327,
heard by me on March 16, 1988.

David R. Cabanau, Examiner
Oil Conservation Division