

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

ORIGINAL

IN THE MATTER OF THE HEARING CALLED
BY THE OIL CONSERVATION DIVISION FOR
THE PURPOSE OF CONSIDERING:

CASE NO. 14876

APPLICATION OF THOMPSON ENGINEERING AND PRODUCTION
COMPANY FOR APPROVAL OF A UNIT AGREEMENT,
SAN JUAN COUNTY, NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

DOCKET NO. 21-12

BEFORE: RICHARD EZEANYIM, Hearing Officer
DAVID K. BROOKS, Legal Examiner

JULY 12, 2012

Santa Fe, New Mexico

8:42 AM

This matter came on for hearing before the
New Mexico Oil Conservation Division, RICHARD EZEANYIM,
Hearing Examiner, and DAVID K. BROOKS, Legal Examiner,
on THURSDAY, JULY 12, 2012, at the New Mexico Energy,
Minerals and Natural Resources Department, 1220 South
Street Francis Drive, Room 102, Santa Fe, New Mexico.

REPORTED BY: Lisa Reinicke
PAUL BACA PROFESSIONAL COURT REPORTERS
500 Fourth Street, NW, Suite 105
Albuquerque, NM 87102

1 A P P E A R A N C E S

2 For Mewbourne Oil Company:

3 JAMES GARRETT BRUCE, ATTORNEY AT LAW
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6 I N D E X

		PAGE
7	DIRECT EXAMINATION OF PAUL THOMPSON	
8	By Mr. Bruce	3
9	CERTIFICATE OF COMPLETION OF HEARING	12
10	EXHIBITS	MARKED/IDENTIFIED
11	1. May 25, 2012 Paul Thompson Letter	9
12	2. PGA Unit Application	9

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1 MR. EXAMINER: Now we call case
2 number 14876, and this is the application of Thompson
3 Engineering and Production Corporation for approval of a
4 unit agreement, San Juan County, New Mexico.

5 Call for appearances.

6 MR. BRUCE: Jim Bruce of Santa Fe
7 representing the applicant. I have one witness.

8 MR. EXAMINER: Any other appearances? Can
9 the witness stand to be sworn. State your name first.

10 MR. THOMPSON: Paul Thompson.

11 PAUL THOMPSON

12 after having been first duly sworn under oath,
13 was questioned and testified as follows:

14 DIRECT EXAMINATION

15 BY MR. BRUCE:

16 Q. Mr. Thompson, would you state your full name and
17 city of residence?

18 A. Paul Thompson. I live in Farmington, New Mexico.

19 Q. And what is your relationship to the applicant?

20 A. I'm the president of Thompson Engineering and
21 Production Corporation.

22 Q. Have you previously testified before the
23 division?

24 A. I have.

25 Q. And were your credentials as an expert accepted

1 as a matter of record?

2 A. They were, yes.

3 Q. And as a petroleum engineer?

4 A. Yes.

5 Q. Is Thompson Engineering and Production
6 Corporation going to be the operator of the proposed
7 unit?

8 A. Yes.

9 Q. And are you familiar with the matters related to
10 the formation of the unit area?

11 A. I am.

12 MR. BRUCE: Mr. Examiner, I'd tender
13 Mr. Thompson as an expert petroleum engineer.

14 MR. EXAMINER: Mr. Thompson is so qualified.

15 Q. (By Mr. Bruce) Mr. Thompson, I've handed you two
16 exhibits.

17 MR. BRUCE: Mr. Examiner, if you could go
18 back about five pages to the first land plat.

19 Q. (By Mr. Bruce) And, Mr. Thompson, could you
20 describe what that is and what you are seeking briefly
21 in this case.

22 A. The land plat listed as Exhibit A are all the
23 leases that we propose to include into this PGA unit.
24 The PGA unit would be limited in depth to the Fruitland
25 Coal Formation, and it would allow for the prudent

1 development of that lease considering the current
2 economic situation.

3 MR. BRUCE: And, Mr. Examiner, an exact
4 legal description of the lands is given in the
5 application.

6 Q. (By Mr. Bruce) Turning to the next page,
7 Mr. Thompson, what does that reflect?

8 A. What's listed as Exhibit B is a listing of all
9 the federal and state leases that will be included in
10 the unit. There are no fee or Indian leases involved.

11 MR. BRUCE: Mr. Examiner, we have a unit
12 agreement, unfortunately my computer couldn't print it
13 up this morning, but I will e-mail it to you. I know I
14 can e-mail it to you.

15 Q. (By Mr. Bruce) Insofar as the unit agreement,
16 Mr. Thompson, is it a standard land office form?

17 A. Yes. It's a standard federal, state, and fee
18 forms. The only changes that were made because all of
19 the working interests in the unit and all of the leases
20 are the same that we propose to have the initial
21 participating area encompass the whole unit. So all the
22 language that dealt with the expansion of the PA was
23 eliminated from the unit agreement.

24 Q. And if you'd flip back to the beginning of
25 Exhibit 1. What do the first four pages, three or four

1 pages, of Exhibit 1 show?

2 A. The first two pages are the determination letter
3 from the BLM that said the unit qualifies. You know,
4 it's a logical reason. The second two pages are the
5 preliminary approval of the unit from the state land
6 office.

7 Q. And both the state and federal governments did
8 not have any problem with your revision of the language
9 regarding participating area?

10 A. No. Actually, that was done at their request.

11 Q. Now let's flip back through Exhibit 1 to your
12 geologic plats.

13 MR. BRUCE: And also, Mr. Examiner, if you
14 would --

15 Q. (By Mr. Bruce) Mr. Thompson, could you identify
16 Exhibit 2 briefly for the Examiner?

17 A. Exhibit 2 is just an introduction to the unit
18 showing the -- briefly describing the unit boundaries as
19 well as the purpose of the unit and also the geologic,
20 economic, and plan of development sections that were
21 included with the application.

22 Q. And was this submitted to the land office and the
23 Bureau of Land Management?

24 A. Yes, they have been.

25 Q. To justify the unit?

1 A. Yes.

2 Q. With that in mind, maybe you could summarize
3 what's in Exhibit 2 as you run through the geologic
4 exhibits for the Examiner.

5 A. What's listed as Exhibit C is an isopach map
6 showing the coal thickness. There are quite a few
7 existing producing wells to the north of the unit
8 operated by Coleman Oil and Gas and to the east of the
9 unit operated by Dugan Production Company. The Dazon
10 Wilderness area is to the west of the unit area. As you
11 can see from the isopach map, the Fruitland Coal is
12 expected to be present throughout the unit.

13 What's described as Exhibit D is a structure map
14 based on the top of the main Fruitland Coal. As you can
15 see, the coals get shallow or they start outcropping as
16 you move farther to the south. The well that was
17 drilled in the northwest quarter of section 16, the
18 Basal Fruitland Coals, are only about 365 feet deep at
19 that point.

20 What's described as Exhibit J is the future plan
21 of development. I've agreed with the BLM that the first
22 two wells will be drilled in the southeast of section
23 35. And the northeast of section 3 would be drilled in
24 cord and desorption analysis ran on the coals so we
25 could accurately calculate a gas and place number. From

1 that data then we could presume, based on that data and
2 the offset productions, that the wells would be capable
3 of producing gas in paying quantities.

4 The rest of those dates would be the future
5 development. That's all subject to change, but that's
6 the proposal now where you see a well in each of the
7 next three years, 2013, '14, and '15.

8 Q. Do you believe that your plan of development is a
9 prudent way to development the Fruitland Coal reservoir
10 in this area?

11 A. It is considering the price of gas. You know,
12 the project currently would be uneconomic due to the
13 fact that the closest gathering, commercial gathering
14 line is over five miles away. So until gas prices go up
15 and/or the pipeline gets closer we can do minimal
16 development here to hold the leases waiting for better
17 times.

18 Q. Now with respect to Exhibit B, the listing of
19 interest owners, have all of the working interest owners
20 joined in the unit?

21 A. Yes, they have.

22 Q. And you expect all the royalty owners to finally
23 ratify the unit; is that correct?

24 A. That's correct. I have approvals from James
25 Facet, Coleman Oil and Gas. I'm still trying to run

1 down the Oso Energy Resources people.

2 Q. So Facet is an overriding royalty owner?

3 A. Yes, they are.

4 Q. And Coleman owns both working interests and
5 overrides?

6 A. They'll be just an override owner. They're the
7 lessee of record. Our agreement with Coleman is that
8 I'll earn their acreage as we drill wells.

9 Q. Okay. So 100 percent of the working interests
10 will be joined in and virtually all of the overriding
11 royalties will also be joined in?

12 A. Yes.

13 Q. In your opinion, is the granting of the approval
14 of this unit agreement in the interest of conservation
15 and prevention of waste?

16 A. Yes.

17 Q. And were Exhibits 1 and 2 prepared by you or
18 compiled from company business records?

19 A. Yes.

20 MR. BRUCE: Mr. Examiner, I'd tender the
21 admission of Exhibits 1 and 2.

22 MR. EXAMINER: Exhibits 1 and 2 will be
23 admitted.

24 Any questions?

25 [Exhibits 1 and 2 admitted.]

1 EXAMINER BROOKS: No questions.

2 MR. EXAMINER: This is not a question, but
3 we have A, B, C, D and then you jump to J. Why did you
4 do that? Is there anything wrong with E?

5 MR. THOMPSON: Well, there were other
6 exhibits listed in here that were cash flow forecasts.

7 MR. EXAMINER: Oh, okay.

8 MR. THOMPSON: These happened to be the
9 colored exhibits.

10 MR. EXAMINER: What is the target formation
11 there?

12 MR. THOMPSON: Basin Fruitland Coal. And it
13 would be limited to just the Basin Fruitland Coal.

14 MR. EXAMINER: Do you have a secondary
15 target?

16 MR. THOMPSON: Pardon?

17 MR. EXAMINER: Do you have a secondary
18 target?

19 MR. THOMPSON: No.

20 MR. EXAMINER: Okay. And the only basin
21 everybody approved, right?

22 MR. THOMPSON: Yes.

23 MR. EXAMINER: You shouldn't be here. But
24 no matter, we have to approve it.

25 Anything further?

1 MR. BRUCE: Nothing further.

2 MR. EXAMINER: At this point case number
3 14876 will be taken under advisement.

4 [Case 14876 taken under advisement.]

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14 I do hereby certify that the foregoing is
a true and correct copy of the proceedings in
the hearing or hearing of Case No. 14876
heard by me on 10/18/11
[Signature], examiner
Oil Conservation Division

REPORTER'S CERTIFICATE

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I, Lisa Reinicke, New Mexico Provisional Reporter, License #P-405, working under the direction and direct supervision of Paul Baca, New Mexico CCR License #112, Official Court Reporter for the US District Court, District of New Mexico, do hereby certify that I reported the foregoing proceedings in stenographic shorthand and that the foregoing pages are a true and correct transcript of those proceedings and was reduced to printed form under my direct supervision.

I FURTHER CERTIFY that I am neither employed by nor related to any of the parties or attorneys in this case and that I have no interest whatsoever in the final disposition of this case in any court.



Lisa R. Reinicke,
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License expires: 8/21/2012

Ex count: