

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

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

CASE NO. 13,579

APPLICATION OF BURLINGTON RESOURCES OIL)
AND GAS COMPANY, L.P., FOR AN UNORTHODOX)
GAS WELL LOCATION AND FOUR NONSTANDARD)
GAS PRORATION UNITS IN THE BASIN-DAKOTA)
POOL, SAN JUAN COUNTY, NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: WILLIAM V. JONES, JR., Hearing Examiner

October 20th, 2005

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, WILLIAM V. JONES, JR., Hearing Examiner, on Thursday, October 20th, 2005, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

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I N D E X

October 20th, 2005
 Examiner Hearing
 CASE NO. 13,579

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* * *

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* * *

A P P E A R A N C E S

FOR THE DIVISION:

GAIL MacQUESTEN
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FOR THE APPLICANT:

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By: WILLIAM F. CARR

* * *

STEVEN T. BRENNER, CCR
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1 WHEREUPON, the following proceedings were had at
2 8:17 a.m.:

3 EXAMINER JONES: Okay, let's call Case 13,579,
4 Application of Burlington Resources Oil and Gas Company,
5 L.P., for an unorthodox gas well location and four
6 nonstandard gas proration units in the Basin-Dakota Pool,
7 San Juan County, New Mexico.

8 Call for appearances.

9 MR. CARR: May it please the Examiner, my name is
10 William F. Carr with the Santa Fe office of Holland and
11 Hart, L.L.P. We represent Burlington Resources in this
12 matter, and I have one witness.

13 EXAMINER JONES: Any other appearances?
14 Will the witness please stand to be sworn?
15 (Thereupon, the witness was sworn.)

16 ALAN ALEXANDER,
17 the witness herein, after having been first duly sworn upon
18 his oath, was examined and testified as follows:

19 DIRECT EXAMINATION

20 BY MR. CARR:

21 Q. Would you state your name for the record, please?

22 A. Yes, my name is Alan Alexander and I'm currently
23 employed with Burlington Resources Oil and Gas Company,
24 L.P., in Farmington, New Mexico, as a senior land advisor.

25 Q. Have you previously testified before the New

1 Mexico Oil Conservation Division and had your credentials
2 as an expert in petroleum land matters accepted and made a
3 matter of record?

4 A. Yes, I have.

5 Q. Are you familiar with the Application in this
6 case filed on behalf of Burlington Oil and Gas Company,
7 Inc.?

8 A. Yes, I am.

9 Q. Did you work with the team that developed this
10 proposal?

11 A. I did.

12 Q. Are you familiar with the status of the lands in
13 the portion of the Basin-Dakota Gas Pool that's the subject
14 of this hearing?

15 A. I am.

16 MR. CARR: Are Mr. Alexander's qualifications
17 acceptable?

18 EXAMINER JONES: Mr. Alexander's qualifications
19 accepted.

20 Q. (By Mr. Carr) Would you briefly summarize for
21 Mr. Jones what Burlington seeks in this case?

22 A. We seek to establish nonstandard spacing or
23 proration units for the Basin-Dakota Pool, and these same
24 units are overlain by existing nonstandard proration units
25 for the Mesaverde and the Fruitland Coal formation. So we

1 would like to adopt the same units for the Dakota, which
2 would make the interest the same for the various
3 formations, because we were interested in developing
4 Mesaverde and Dakota commingled wells in this area.

5 Q. If the Application is granted, there would be the
6 same ownership in both zones in the individual wellbores?

7 A. That's correct.

8 Q. And the case as docketed also seeks approval of
9 an unorthodox well location for the Quinn Well Number 2-B;
10 is that correct?

11 A. That's correct.

12 Q. Why does Burlington seek these nonstandard units?

13 A. Well, basically so that we can develop the
14 Mesaverde and the Dakota formation on common spacing units,
15 since the way to develop these units, especially for the
16 Dakota, is to combine it with the Mesaverde, and we'll get
17 into that a little bit later.

18 Q. What spacing and acreage dedication rules govern
19 development of the Basin-Dakota Gas Pool?

20 A. The special pool rules for the Basin-Dakota Pool.

21 Q. And they provide for 320-acre spacing?

22 A. That's correct.

23 Q. And as many as four wells on a spacing unit?

24 A. That's correct, 80-acre density.

25 Q. And a standard setback of 660 feet?

1 A. Yes, that's correct.

2 Q. So basically the Quinn Well Number 2 is actually
3 200 feet too close to the east line of the dedication
4 acreage; is that correct?

5 A. I believe it's actually three hundred and -- it's
6 327 feet from the east line of the proposed spacing unit.

7 Q. Okay, so it encroaches toward the east?

8 A. Yes, and it is an existing wellbore in the
9 Mesaverde formation that we propose to deepen to the Dakota
10 formation.

11 Q. Mr. Alexander, do the special pool rules for the
12 Basin-Dakota Gas Pool authorize the Division Director to
13 administratively approve nonstandard units?

14 A. They do.

15 Q. Do they allow the Director to administratively
16 approve these, the Basin-Dakota rules?

17 A. No, they do not for the Basin-Dakota, that's
18 correct.

19 Q. The Fruitland Coal rules provide for this --

20 A. That's correct.

21 Q. -- administrative --

22 All right. Let's refer to what has been marked
23 as Burlington Resources Exhibit Number 1. I'd ask you to
24 identify that and review it for Mr. Jones.

25 A. Under Exhibit Tab Number 1 we have enclosed --

1 the first exhibit there is the letter from Mr. Stogner that
2 set our administrative request for hearing.

3 Behind Mr. Stogner's letter is our original
4 administrative request to develop these nonstandard spacing
5 units, and attached to that letter are various exhibits
6 that we submitted to Mr. Stogner for his approval.

7 We visited with Mr. Stogner before we submitted
8 this request to make sure we understood the notice
9 requirements, and since we are developing spacing units all
10 the way down the west half of this township, nobody is
11 excluded from the spacing, and Mr. Stogner agreed with us
12 that there was no notice required in that event. However,
13 there was no administrative process when we develop spacing
14 units across -- over section lines, so he thought it would
15 be best to come to hearing and establish a record for this
16 case.

17 Q. Could you identify the documents behind Tab 2 in
18 the exhibit book?

19 A. Yes, behind Exhibit Tab 2 we have provided copies
20 of two orders of the Commission. Order Number R-392, that
21 established the original Mesaverde -- Blanco-Mesaverde Pool
22 nonstandard proration units for the units that we're
23 talking about today.

24 Then immediately behind that we have included for
25 your information and review Order Number R-8768-A, which is

1 an order of the Basin-Fruitland Coal Pool, and in that
2 order the Division adopted any Mesaverde -- any existing
3 Mesaverde nonstandard proration units for the Fruitland
4 Coal formation.

5 So currently today, these nonstandard spacing
6 units for the Mesaverde and the Fruitland Coal have been
7 adopted by the Division, and we would like to apply these
8 same spacing units for the Basin-Dakota Pool.

9 Q. Let's go to Exhibit Number 3. Would you identify
10 and review that?

11 A. Yes, behind Exhibit Number 3 we have provided a
12 plat that illustrates the existing Mesaverde and Fruitland
13 Coal nonstandard proration units, and those are the same
14 units that we would like to adopt for the Dakota formation.
15 And you can see that they go down the western edge of
16 Township 31 North, Range 8 West, and they have a dotted
17 hatch pattern illustrating these nonstandard spacing units
18 that we would like to adopt.

19 Q. This exhibit also identifies the location of the
20 Quinn Number 2-B well?

21 A. Yes, it does. That's -- As I stated before,
22 that's an existing Mesaverde well that we are -- as a pilot
23 project, we are going to re-enter and deepen it to the
24 Dakota, and then come back up and re-open the Mesaverde
25 formation and commingle that with the Dakota formation.

1 Q. What is the second document behind this tab?

2 A. The second document behind this tab I included
3 for the Examiner just to see. It's an aerial photography
4 of the area. You can see it is quite densely populated
5 with wells currently.

6 That's one of our other objects, is to use
7 existing wellbores, existing infrastructure, existing
8 production equipment, roads and pipelines, so that we do
9 not disturb additional lands in this area.

10 Q. Let's go to Exhibit Number 4. What does this map
11 show?

12 A. Behind Exhibit Tab Number 4, I've included a map
13 showing all of the current wells in the immediate area of
14 these nonstandard spacing units. You can see it's quite
15 heavily populated at this time with Mesaverde, Fruitland
16 Coal and Dakota wells.

17 Q. Now, let's go to Exhibit 5, and I'd ask you to
18 review the production and economic data behind that tab.

19 A. Mr. Josh Cooper, who's on our team, who couldn't
20 be here this morning, provided these exhibits. He's a
21 reservoir engineer. The first exhibit there for the for
22 the Quinn 6A production, he looked in the nine-section area
23 offsetting our Quinn 2 well, which is kind of the focus of
24 our case insofar as wells are concerned.

25 The Dakota in this area is fairly poor. As you

1 can see by the exhibit, they are not very good producers,
2 and hence probably would never be developed on a stand-
3 alone basis, and we would wind up wasting the gas if we
4 don't combine them with the Mesaverde formation and develop
5 these reserves.

6 Behind that exhibit he gave us a brief economic
7 summary to look at. And let me explain the economic
8 summary a little bit. In the first column it says
9 Mesaverde deepening. This is the cost figures and
10 economics for the Quinn 2-B well. You'll see that we have
11 a capital expenditure of \$700,000.

12 Now, in part, this is a higher figure than normal
13 because the Quinn 2-B is less than 20 years old, the
14 Mesaverde wellbore. So we're going to compensate the
15 Mesaverde owners for \$200,000 of wellbore compensation. So
16 there's \$200,000 added into this particular case.

17 Normally the cost for a Dakota in a Mesaverde-
18 Dakota completion is around \$450,000 to \$500,000, and --
19 which we will see as we discuss these other columns.

20 But if you look down there towards the bottom,
21 you'll see that we can get about an 18.9-percent rate of
22 return. Burlington's internal hurdle rate is about 15
23 percent, and so this would be an economic venture for us.

24 The middle column there is Dakota stand-alone for
25 a new-drill Dakota well. They typically would run us about

1 \$800,000. And we have a gross price deck here of about
2 five dollars. That actually is not what we would get on a
3 net-back basis, we would probably get about \$4.10. But at
4 five dollars, we get about a 15-percent rate of return,
5 which is just almost break-even for us. But if we actually
6 had a net back of \$4.10, we would probably get a 10-percent
7 rate of return. Clearly not economic for us to develop in
8 a stand-alone position.

9 Now, some of these wells, we may have to drill a
10 brand-new Mesaverde Dakota well, but most of the
11 Application in this area will be deepening the Mesaverde to
12 the Dakota. But if we did drill, the last column there
13 gives you what we think the economic figures would be for a
14 brand-new Mesaverde-Dakota new drill. We'd see the Dakota
15 portion of that is about \$450,000, so we're splitting --
16 roughly splitting the cost between the Mesaverde and the
17 Dakota. But the Dakota portion of that kind of development
18 would give us about a 37-percent rate of return, which is
19 an attractive rate of return. So developing the Dakota in
20 this area with the Mesaverde is certainly the way that we
21 think we ought to approach these projects.

22 Q. Mr. Alexander, if these proposed nonstandard
23 units are approved, will any interest owner be excluded
24 from a proration unit?

25 A. No, they will not be.

1 Q. As Burlington goes forward with the effort to
2 develop the Dakota in these units, how are you going to
3 approach the problem? You'll start with the Quinn?

4 A. Yes, we'll -- We have a pilot project for this
5 year, and BP -- we are going to request that BP join us in
6 that project. It'll be about a 75-percent Burlington/25-
7 percent BP project.

8 And if that project is successful, we will
9 proceed to develop the other wellbores in this area. It's
10 a little bit complicated, because we have to temporarily
11 shut off the Mesaverde production in these wells, drill
12 them deeper and then come back and re-open the Mesaverde,
13 after we have cleaned out the Dakota formation. So we're
14 interested to see exactly how this might work.

15 Q. The well is too close -- the Quinn well is too
16 close to the east line?

17 A. Yes, it is.

18 Q. Is the ownership identical to the east?

19 A. Yes, it's a common federal leasehold in all of
20 Section 19. It's the same leasehold.

21 Q. And to the southeast, Burlington -- I mean,
22 sorry, BP has an interest; is that right?

23 A. That's correct.

24 Q. And they are your partner in the Quinn Number 2
25 well?

1 A. That's correct.

2 Q. How will approval of this Application affect
3 correlative rights?

4 A. We don't believe that it will adversely affect
5 correlative rights.

6 Q. Is it going to enable you to produce reserves
7 that otherwise would be left in the ground, thereby
8 preventing waste?

9 A. It will.

10 Q. Were Exhibits 1 through 5 prepared by you or
11 compiled under your direction and supervision?

12 A. They were.

13 MR. CARR: I move the admission of Burlington
14 Exhibits 1 through 5.

15 EXAMINER JONES: Exhibits 1 through 5 will be
16 admitted to evidence.

17 MR. CARR: And that concludes my examination of
18 this witness.

19 EXAMINATION

20 BY EXAMINER JONES:

21 Q. Mr. Alexander, good luck on getting back into the
22 Mesaverde. Are you going to re-frac it at the time you --

23 A. We're going to put a -- As I understand it, we're
24 going to put an acid-soluble plug across the Mesaverde --

25 Q. Okay.

1 A. -- sealing off the formation, and we hope to be
2 able to re-energize by an acid, acid wash. We don't know
3 if we would have to re-frac it at this point in time.

4 Q. Do you know what production rate that well is
5 making in the Mesaverde right now?

6 A. It's a good well in the Mesaverde. I did not
7 bring those production figures with me.

8 Q. But maybe over 200 MCF a day?

9 A. I believe that it is, yes.

10 Q. Okay. So you don't have to swab it to kick it
11 off again?

12 A. Hopefully not.

13 Q. Maybe not. But -- You said something about
14 giving \$200,000 to the owners of the Mesaverde, but I
15 thought the ownership was identical between the
16 Mesaverde --

17 A. It is. When we have wellbores -- Our policy at
18 Burlington is, when we have existing wellbores -- and of
19 course the Mesaverde owners paid for this existing wellbore
20 -- and if we're going to utilize that same wellbore, if the
21 well is less than 20 years old and we haven't amortized or
22 appreciated it out, we feel that the original owners of
23 that wellbore are entitled to some compensation for the
24 other formation owners to utilize that wellbore.

25 Now, generally if it's older than 20 years, we do

1 not recommend any wellbore compensation to the original
2 wellbore owners.

3 Q. Okay. It looks like you've studied it, and you
4 know when to do the breakover from the 20 years.

5 A. Yes, sir, and other companies are adopting that
6 philosophy too, up in the San Juan Basin, so it's becoming
7 fairly generalized up there.

8 Q. Twenty years puts you back in 1985, so was there
9 differences in the practices of cementing or something?

10 A. There have been. There's been continuous
11 attempts to improve both cementing and fracturing processes
12 over time, and we are still exploring those opportunities.

13 EXAMINER JONES: Okay. You guys want to re- --
14 just amend the existing order to include the Dakota. The
15 new orders for the Dakota, the new special pool rules,
16 would supersede these well-density -- in the original order
17 here, I take it, because that says only one well per
18 spacing unit.

19 MR. CARR: Right, the new wells increase the
20 density. And our understanding, the reason we came to
21 hearing, was that although other pools, the special pool
22 rules do allow administrative approval in this
23 circumstance, the Basin-Dakota rules do not.

24 EXAMINER JONES: Okay. I can't calculate that
25 that well is too close to the east line. I see that it's

1 300 feet from the south line of Section 19, but if you have
2 this nonstandard proration unit, it wouldn't be --

3 MR. CARR: Well, Mr. Jones, when -- if you look
4 at our Application, we didn't file for an unorthodox
5 location. Mr. Stogner told us it was --

6 (Laughter)

7 EXAMINER JONES: Okay, okay.

8 MR. CARR: -- and it seemed easier to present
9 that, since we were going to be here, than argue with Mr.
10 Stogner.

11 EXAMINER JONES: Okay, I understand, I've tried
12 arguing with him myself.

13 (Laughter)

14 EXAMINER JONES: Okay.

15 THE WITNESS: Well then, I might clarify that a
16 little bit. We wanted to establish what spacing we were
17 going to have first, and then we would have gone back for
18 an administrative procedure on the NSL. But it's fine that
19 we address both of them in this Application, that's not a
20 problem.

21 EXAMINER JONES: Okay, and good luck in your
22 venture.

23 THE WITNESS: Thanks.

24 EXAMINER JONES: Do you have any questions?

25 MS. MacQUESTEN: I have no questions, thank you.

1 EXAMINER JONES: Okay, thanks, Mr. Alexander, Mr.
2 Carr.

3 MR. CARR: Thank you, Mr. Jones.

4 EXAMINER JONES: With that, we'll take Case
5 13,579 under advisement.

6 (Thereupon, these proceedings were concluded at
7 8:36 a.m.)

8 * * *

9
10
11 I do hereby certify that the foregoing is
12 a complete record of the proceedings in
13 the Examiner hearing of Case No. _____
14 heard by me on _____

15 _____, Examiner
16 Oil Conservation Division
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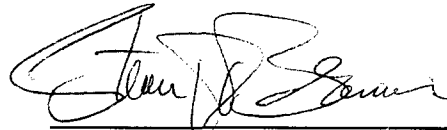
CERTIFICATE OF REPORTER

STATE OF NEW MEXICO)
) ss.
COUNTY OF SANTA FE)

I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.

WITNESS MY HAND AND SEAL October 28th, 2005.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2006