

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:

ORIGINAL

CASES 15435

APPLICATION OF DUGAN PRODUCTION COMANY  
FOR APPROVAL OF THE SUNFLOWER FRUITLAND  
PICTURED CLIFFS, SAN JUAN COUNTY,  
NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

January 21, 2016

Santa Fe, New Mexico

BEFORE: MICHAEL McMILLAN, CHIEF EXAMINER  
SCOTT DAWSON, EXAMINER  
DAVID BROOKS, LEGAL COUNSEL

This matter came on for hearing before the  
New Mexico Oil Conservation Division, MICHAEL McMILLAN,  
Chief Examiner, SCOTT DAWSON, Examiner, and DAVID  
BROOKS, Legal Counsel, on January 21, 2016, at the New  
Mexico Energy, Minerals, and Natural Resources  
Department, Wendell Chino Building, 1220 South St.  
Francis Drive, Porter Hall, Room 102, Santa Fe, New  
Mexico.

REPORTED BY: ELLEN H. ALLANIC  
NEW MEXICO CCR 100  
CALIFORNIA CSR 8670  
PAUL BACA COURT REPORTERS  
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A P P E A R A N C E S

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I N D E X

CASE NUMBER 15435 CALLED

DUGAN PRODUCTION COMPANY  
CASE-IN-CHIEF:

WITNESS KURT H. FAGRELIUS

	Direct	Redirect	Further
By Mr. Feldewert	5		
	EXAMINATION		
By Examiner McMillan	13		
By Examiner Dawson	15		

Reporter's Certificate

PAGE  
17

1	E X H I B I T I N D E X	
2	Exhibits Offered and Admitted	
3		PAGE
4	DUGAN PRODUCTION COMPANY EXHIBIT 1	12
5	DUGAN PRODUCTION COMPANY EXHIBIT 2	12
6	DUGAN PRODUCTION COMPANY EXHIBIT 3	12
7	DUGAN PRODUCTION COMPANY EXHIBIT 4	12
8	DUGAN PRODUCTION COMPANY EXHIBIT 5	12
9	DUGAN PRODUCTION COMPANY EXHIBIT 6	12
10	DUGAN PRODUCTION COMPANY EXHIBIT 7	12
11	DUGAN PRODUCTION COMPANY EXHIBIT 8	12
12	DUGAN PRODUCTION COMPANY EXHIBIT 9	12
13		
14		
15		
16		
17		
18		
19		
20		
21		
22		
23		
24		
25		

1 (Time noted 11:05 a.m.)

2 EXAMINER McMILLAN: I would like to call the  
3 hearing back to order. I would like to call case 15435,  
4 Application of Dugan Production Company for Approval of  
5 the Sunflower Fruitland Pictured Cliffs, San Juan  
6 County, New Mexico.

7 Call for appearances.

8 MR. FELDEWERT: May it please the Examiner,  
9 Michael Feldewert with the Santa Fe Office of Holland  
10 and Hart appearing on behalf of the Applicant. I have  
11 one witness here today.

12 EXAMINER McMILLAN: Any other appearances?

13 THE WITNESS: I'm Kurt Fagrelus with Dugan  
14 Production.

15 EXAMINER McMILLAN: May you please be sworn  
16 in.

17 (WHEREUPON, the presenting witness  
18 was administered the oath.)

19 EXAMINER McMILLAN: Go ahead.

20 KURT FAGRELIUS  
21 having been first duly sworn,  
22 was examined and testified  
23 as follows:

24 ---oOo---

25 ---oOo---

1 DIRECT EXAMINATION

2 BY MR. FELDEWERT:

3 Q. Please state your full name, identify by whom  
4 you're employed and in what capacity.

5 A. My name is Kurt Fagrelus. I'm employed by Dugan  
6 Production in Farmington. And I am the vice president  
7 of land and exploration.

8 Q. How long have you held that title for Dugan?

9 A. I have held that title for ten years, and I've  
10 worked at Dugan for 38 years.

11 Q. And do you have a master's degree?

12 A. I have a master's of science in geology from the  
13 New Mexico Institute of Mining and Technology and a  
14 bachelor of science in geology from Fort Lewis College  
15 in Durango, Colorado.

16 Q. And, Mr. Fagrelus, have you previously  
17 testified before this Division as an expert in petroleum  
18 geology?

19 A. Yes, I have.

20 Q. And were your credentials accepted and made a  
21 matter of public record?

22 A. Yes, they were.

23 Q. Are you familiar with this application?

24 A. Yes, I am.

25 Q. Did you assist in putting this unit prospect

1 together?

2 A. Yes, I did.

3 Q. And in so doing have you conducted a geologic  
4 study of the area in question?

5 A. Yes, I did.

6 MR. FELDEWERT: I would tender Mr. Fagrelius  
7 once again as an expert witness in petroleum geology.

8 EXAMINER McMILLAN: So accepted.

9 Q. Please turn to what has been marked as Dugan  
10 Exhibit Number 1. Mr. Fagrelius, is this the unit  
11 agreement that would govern your proposed unitized area  
12 and formation?

13 A. Yes, it is.

14 Q. And what formation is being unitized?

15 A. We are asking to unitize the Fruitland Formation  
16 from the top of the Fruitland Formation to the base of  
17 Pictured Cliffs sandstone.

18 Q. If I turn to -- first off, before we leave this  
19 exhibit, does it conform with the federal and state  
20 exploratory unit form?

21 A. Yes, it does.

22 Q. If I turn to what has been marked as Dugan  
23 Exhibit 2, is this the Exhibit A to the unit agreement  
24 that provides the outline of the unit area and  
25 identifies leases that are involved?

1 A. Yes, it is.

2 Q. And how have you differentiated leases on here?

3 A. This red boundary is the outer boundary of our  
4 proposed Sunflower unit. Within it it contains multiple  
5 federal and state leases.

6 Each lease is designated by a circled No. 1, 2,  
7 3, up to seven different leases that are all presented  
8 on our Exhibit B. There's 6,976 acres of which 8-1/2  
9 percent is state and 91 percent is federal.

10 Q. And for the convenience of the Examiners, is that  
11 listed in the bottom right-hand corner of Exhibit 8,  
12 those percentages?

13 A. Yes, it is.

14 Q. And the acreage?

15 A. Yes, sir.

16 Q. And you identify on here two state leases that  
17 are identified with a gray shading?

18 A. Section 2 is shaded in gray, and those are two  
19 state leases.

20 Q. And the remaining leases are federal?

21 A. Correct.

22 Q. And does this unit area encompass the entirety of  
23 each lease; in other words, there's no portions of  
24 leases within the unitized area?

25 A. That's correct, no leases within the unitized

1 area extend outside of the unitized area.

2 Q. And if I turn to what's been marked as Dugan  
3 Exhibit 3, that would be the standard Exhibit B to the  
4 unit agreement showing the percentage of ownership?

5 A. That's correct.

6 Q. And then if I turn to what's been marked as Dugan  
7 Exhibit Number 4, is this the type log referenced in the  
8 unit agreement that identifies, by reference, to a type  
9 log for a specific well unitized interval?

10 A. Yes, it is.

11 Q. Now, moving on. If I go to Exhibit 5, is this  
12 the preliminary approval letter for the New Mexico State  
13 Land Office for this particular unit?

14 A. Yes, it is.

15 Q. And did you likewise meet with the BLM about this  
16 unit?

17 A. Yes, we did.

18 Q. And if I turn to what's been marked as Dugan  
19 Exhibit Number 6, is that the BLM preliminary approval  
20 letter?

21 A. Yes, it is.

22 Q. Moving on then to Exhibit 7, does this reflect  
23 your initial development plan for this particular  
24 unit?

25 A. It does. I've got seven wells proposed. We have



1 the first initial test well and then six others, one of  
2 which will be a saltwater disposal well. We've surveyed  
3 these locations, got the plats back. Notices of staking  
4 have been sent out. And we will do our on-site  
5 inspections on the 27th of this month.

6 Q. Are there some tribal trust lands involved here?

7 A. The surface is tribal trust surface, except for  
8 400 acres that is deeded fee land.

9 Q. So as part of your ongoing development process,  
10 you will be dealing with the tribes with respect to the  
11 necessary easements; is that correct?

12 A. That's correct. We have met twice with Navajo  
13 Minerals and also the Navajo Land Department. We are  
14 working on a surface use agreement.

15 Q. Okay. If I then move on to Exhibit Number 8,  
16 have you created a structure map extending across the  
17 unitized area?

18 A. Yes.

19 Q. And is that depicted on Exhibit Number 8?

20 A. Yes, it is. This structure map is drawn on the  
21 top of the Pictured Cliffs sandstone. And you can see  
22 the regional dip is about 100 feet per mile to the north  
23 down. There's no breaks in the structure to indicate  
24 faulting or discontinuities with the Pictured Cliffs.

25 Q. So you don't observe any geologic impediments to

1 developing this acreage with a unit?

2 A. None whatsoever. It also depicts a stratigraphic  
3 cross section from west to east. And that demonstrates  
4 that the formation is contiguous across the Sunflower  
5 Unit.

6 Q. For purposes of the record, you are looking at  
7 Exhibit 8 and there is a blue line; that's what you're  
8 referencing?

9 A. Yes, sir.

10 Q. A to A Prime?

11 A. Yes, sir.

12 Q. Then turn to Exhibit No. 9. Is this the cross  
13 section that corresponds to that blue line  
14 A to A Prime?

15 A. Yes, it does.

16 Q. And what do you observe -- first off, tell us  
17 where you identify the various formations and then  
18 what you observe looking at this cross section?

19 A. Okay. On the far right at A Prime is our type  
20 log that is also the exhibit we looked at earlier that  
21 showed the vertical limits of our proposed unit.

22 We propose to unitize from the top of the  
23 Fruitland Formation to the base of the Pictured Cliffs  
24 sandstone. Both units are contiguous across the unit.  
25 And we like to unitize both units or intervals because

1 we are able to commingle them in the same wellbore.

2 Q. And that leads to my next question, that is, do  
3 you intend to develop this unit with vertical wells or  
4 horizontal wells?

5 A. They'll all be vertical.

6 Q. And why is that?

7 A. The shallowness of our wells here -- on the west  
8 end of the unit, the Pictured Cliffs comes within  
9 450 feet of the surface. And on the north and east end,  
10 it's about 1,100 feet below the surface.

11 It's much too shallow with today's technology to  
12 build a curve and go horizontal. Plus these wells  
13 commonly produce large volumes of water with the gas and  
14 we don't have a way to pump it.

15 So a vertical well with a rod pump is the best  
16 way to complete these.

17 Q. Mr. Fagrelus, has Dugan, in your opinion, kind  
18 of developed a niche in this particular type of  
19 development?

20 A. Yes, we have. First and foremost is our people.  
21 But we are developing shallow coals at this depth, six  
22 miles to the east, and we have had success.

23 Q. And, in your opinion, can this unitized interval  
24 across the proposed unitized area be efficiently and  
25 effectively developed under your common plan of

1 development?

2 A. Yes, it can.

3 Q. And, in your opinion, will the approval of this  
4 application be in the best interest of conservation and  
5 the prevention of waste and the protection of  
6 correlative rights?

7 A. Yes, it will.

8 Q. Were Dugan Exhibits 1 through 9 prepared by you  
9 or compiled under your direction and supervision?

10 A. Yes, they were.

11 Q. And before I move them into evidence, I need to  
12 ask one thing. I think in reviewing the leases you  
13 didn't talk about ownership. Does Dugan own 100 percent  
14 of all of the leases?

15 A. Dugan production owns 100 percent of all of the  
16 leases. There are no overriding royalties.

17 We have the state royalty and the federal royalty  
18 of course. But we are 100 percent working interest  
19 owners.

20 MR. FELDEWERT: I move the admission into  
21 evidence of Dugan Exhibits 1 through 9.

22 EXAMINER McMILLAN: Exhibits 1 through 9 may  
23 now be accepted as part of the record.

24 (Dugan Production Company Exhibits 1 through  
25 9 were offered and admitted.)

1 MR. FELDEWERT: And that concludes my  
2 examination of this witness.

3 EXAMINATION BY EXAMINER McMILLAN

4 EXAMINER McMILLAN: Okay. The first  
5 question I have is Exhibit 7. Are you going to test the  
6 Pictured Cliffs in these or are you just going for the  
7 Fruitland?

8 THE WITNESS: In the event that we have a  
9 show in the Pictured Cliffs or at Fruitland Sand, we  
10 will complete both.

11 EXAMINER McMILLAN: So you are going to test  
12 them both?

13 THE WITNESS: That's our plan, yes.

14 EXAMINER McMILLAN: Okay.

15 THE WITNESS: If the coal looks good, that's  
16 our main priority, that's our number one target.

17 EXAMINER McMILLAN: And a geology question.  
18 I don't know, I am ignorant of the geology. How did the  
19 Pictured Cliffs actually form? What is it?

20 THE WITNESS: It is a sandstone, a near  
21 short sandbar that was formed basinward of the swamps  
22 that deposited the coals.

23 EXAMINER McMILLAN: So it's crudely like the  
24 Mancos?

25 THE WITNESS: No. It's a shallow marine

1 environment the Pictured Cliffs was deposited in.

2 EXAMINER McMILLAN: Okay.

3 THE WITNESS: Okay.

4 EXAMINER McMILLAN: Are there any existing  
5 wells?

6 THE WITNESS: There's one. It was drilled  
7 three, four years ago by Koch Exploration.

8 EXAMINER McMILLAN: And you are now the  
9 operator of it?

10 THE WITNESS: Yes, sir.

11 EXAMINER McMILLAN: So I assume also you're  
12 asking for a surface commingle?

13 THE WITNESS: Yes, sir, within the unit.

14 EXAMINER McMILLAN: Okay. I just want to  
15 make sure that's clear.

16 MR. FELDEWERT: I think by unitizing it will  
17 be allowed to commingle --

18 EXAMINER McMILLAN: Yes, it will be one  
19 lease --

20 MR. FELDEWERT: Correct.

21 EXAMINER McMILLAN: So this is -- the  
22 surface is on tribal land?

23 THE WITNESS: Tribal trust surface.

24 EXAMINER McMILLAN: Tribal trust. And there  
25 are seven tracts, right?

1 THE WITNESS: Correct.

2 MR. FELDEWERT: I think Exhibit 2,  
3 Mr. Examiner.

4 EXAMINER McMILLAN: Okay.

5 MR. FELDEWERT: It identifies each of the  
6 tracts.

7 EXAMINER McMILLAN: Okay. I don't have any  
8 further questions. Any questions?

9 EXAMINER DAWSON: Yes, I have a few  
10 questions.

11 EXAMINATION BY EXAMINER DAWSON

12 EXAMINER DAWSON: The existing well within  
13 the unit, you said it was operative. Was it drilled by  
14 Koch Exploration?

15 THE WITNESS: Yes, sir.

16 EXAMINER DAWSON: And is that operated by  
17 Koch or --

18 THE WITNESS: No, sir. Dugan Production  
19 operates that well as well.

20 EXAMINER DAWSON: What formation is that  
21 producing from?

22 THE WITNESS: It's in the Fruitland coal.

23 EXAMINER DAWSON: Fruitland coal, okay.

24 THE WITNESS: They shot a little out of zone  
25 on one of the coals. That's why I hesitated.

1 EXAMINER DAWSON: Okay. I have no further  
2 questions. Thank you.

3 MR. BROOKS: No questions.

4 EXAMINER McMILLAN: Case No. 15435 shall be  
5 taken under advisement. Thank you very much.

6 MR. FELDEWERT: Thank you.

7

8

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10 (Time noted 11:18 a.m.)

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I do hereby certify that the foregoing is  
a complete record of the proceedings in  
the Examiner hearing of Case No. \_\_\_\_\_  
heard by me on \_\_\_\_\_

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\_\_\_\_\_, Examiner  
Oil Conservation Division

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1 STATE OF NEW MEXICO )  
2 ) ss.  
3 COUNTY OF BERNALILLO )  
4  
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7 REPORTER'S CERTIFICATE

8  
9 I, ELLEN H. ALLANIC, New Mexico Reporter CCR  
10 No. 100, DO HEREBY CERTIFY that on Thursday, January 21,  
11 2016, the proceedings in the above-captioned matter were  
12 taken before me, that I did report in stenographic  
13 shorthand the proceedings set forth herein, and the  
14 foregoing pages are a true and correct transcription to  
15 the best of my ability and control.  
16

17  
18 I FURTHER CERTIFY that I am neither employed by  
19 nor related to nor contracted with (unless excepted by  
20 the rules) any of the parties or attorneys in this case,  
21 and that I have no interest whatsoever in the final  
22 disposition of this case in any court.  
23  
24  
25

*Ellen Allanic*

ELLEN H. ALLANIC, CSR  
NM Certified Court Reporter No. 100  
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