

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:)
APPLICATION OF MERRION OIL AND GAS)
CORPORATION FOR COMPULSORY POOLING AND A)
NONSTANDARD GAS WELL LOCATION, SAN JUAN)
COUNTY, NEW MEXICO)

CASE NO. 11,963

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

April 16th, 1998

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, April 16th, 1998, at the New Mexico Energy, Minerals and Natural Resources Department, Porter Hall, 2040 South Pacheco, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

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Examiner Hearing
CASE NO. 11,963

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A P P E A R A N C E S

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* * *

1 WHEREUPON, the following proceedings were had at
2 9:12 a.m.:

3 EXAMINER STOGNER: At this time I will call next
4 case, 11,963.

5 MR. CARROLL: Application of Merrion Oil and Gas
6 Corporation for compulsory pooling and a nonstandard gas
7 well location, San Juan County, New Mexico.

8 EXAMINER STOGNER: Call for appearances.

9 MR. ROBERTS: Mr. Examiner, I'm Tommy Roberts.
10 I'm with the law firm of Roberts and Strother in
11 Farmington, New Mexico, and I'm appearing on behalf of the
12 Applicant. I have one witness to be sworn.

13 EXAMINER STOGNER: Is that one witness the same
14 that appeared in the previous case?

15 MR. ROBERTS: Yes, and we would ask you to take
16 administrative notice that his qualifications as an expert
17 petroleum engineer have been recognized, accepted and made
18 a matter of record.

19 EXAMINER STOGNER: Let the record show that Mr.
20 George Sharpe, previous witness, sworn and qualified in
21 Case Number 11,962, also is appearing in this matter.

22 Okay, Mr. Roberts?

23 MR. ROBERTS: Mr. Examiner, before we begin with
24 testimony, I'd just mention that this Application is very
25 much similar to the Application in Case Number 11,962,

1 which you've just heard.

2 We will be utilizing some of the same exhibits.
3 Where they're not identical, they're very much similar.
4 There may be a difference as to ownership that we're
5 dealing with in terms of unleased mineral interest owners,
6 but procedurally we're going to follow the same process.

7 We'll try to get through it as quickly as
8 possible.

9 EXAMINER STOGNER: Are there any other parties
10 involved in this particular quarter section that haven't
11 been mentioned in the previous quarter section?

12 MR. ROBERTS: I believe there are -- there is a
13 difference of ownership.

14 EXAMINER STOGNER: Okay. You can modify your
15 record in this matter just by referring to the other one,
16 to the Case Number 11,962, and then noting the new parties
17 involved.

18 I see that this is also an unorthodox location --
19 it appears to be an unorthodox location encroaching --

20 MR. ROBERTS: It's a -- It's topographic.

21 EXAMINER STOGNER: -- an outer boundary.

22 MR. ROBERTS: Yes.

23 EXAMINER STOGNER: And I'm anticipating that
24 we'll continue this one to a later date --

25 MR. ROBERTS: I suspect so.

1 EXAMINER STOGNER: -- and handle the unorthodox-
2 location issue in this one perhaps a little bit
3 differently.

4 MR. ROBERTS: Okay.

5 GEORGE F. SHARPE,

6 the witness herein, having been previously duly sworn upon
7 his oath, was examined and testified as follows:

8 DIRECT EXAMINATION

9 BY MR. ROBERTS:

10 Q. Would you state your name and your place of
11 residence for the record?

12 A. My name is George Sharpe. I live in Farmington,
13 New Mexico.

14 Q. Mr. Sharpe, would you briefly state the purpose
15 of this Application?

16 A. The purpose of this Application is to request
17 approval of a nonstandard location for the drilling of the
18 Vine Com Number 1 well to the Pictured Cliff formation in
19 Section 15, Township 29 North, Range 13 West, San Juan
20 County, New Mexico.

21 Second purpose is to request compulsory pooling
22 of all uncommitted mineral and working interest owners.

23 Q. Mr. Sharpe, will this be a new drilling
24 situation?

25 A. Yes, it will.

1 Q. I want you to refer to what you've marked as
2 Exhibit Number 1, please, and identify that exhibit,
3 explain its significance to this case.

4 A. Exhibit Number 1 shows the location of the Vine
5 Com Number 1 in relation to the San Juan Basin. It shows
6 it's in the northwest portion of the Basin, located in the
7 town of Farmington, New Mexico.

8 Q. Have you refer to Exhibit Number 2, please, and
9 identify that exhibit.

10 A. Exhibit Number 2 is the well location plat. It
11 shows the spacing unit of the well to the northwest quarter
12 of Section 15. It shows the footages of the well to be
13 1290 -- or, excuse me, 670 from the north and 1290 from the
14 west.

15 The 670 feet encroaches on the 790-foot offset.
16 It shows the offset operators to be Amoco and Richardson.
17 That's about all it shows.

18 Q. Does it also show the proposed spacing unit for
19 the well?

20 A. It does show the proposed spacing unit.

21 Q. And is that illustrated with the hachmarked area?

22 A. It is.

23 Q. Is this proposed spacing unit standard for
24 Pictured Cliffs development?

25 A. Yes, it is.

1 Q. And as you've testified, the location is
2 nonstandard Pictured Cliff gas well development?

3 A. Yes, it is.

4 Q. Okay. Refer to what you've marked as Exhibit
5 Number 3, please, and identify that exhibit.

6 A. Exhibit Number 3 is a topographic map showing the
7 location of the Vine Com Number 1 to be centered in the
8 middle of downtown Farmington, New Mexico, off of Main and
9 Butler Streets.

10 Q. Would you briefly describe the surface
11 restrictions that exist with respect to this location?

12 A. The surface restrictions are numerous. You have
13 neighborhoods to the north and multiple businesses to the
14 south along Main Street and Broadway. We basically had to
15 purchase a piece of property.

16 We looked at numerous alternatives for drill
17 sites and negotiated with a number of various parties and
18 ended up purchasing a section of land -- or not a section
19 but a small portion of land, from the City of Farmington
20 for the drilling of this well.

21 Q. Given those surface restrictions, was this the
22 only acreage available to you that was unoccupied and
23 undeveloped for the drilling of this well?

24 A. Yes, it was.

25 Q. Refer to what's been marked as Exhibit Number 3B,

1 please, and identify that exhibit.

2 A. Exhibit 3B is the production map of the Pictured
3 Cliffs in the area.

4 Refer to my testimony on the last case explaining
5 what all the numbers mean, but basically it shows the
6 location of the Vine Com Number 1, it shows that the Vine
7 Com Number 1 is definitely on the outreaches of the field,
8 extension of the field, and justifies the risky nature of
9 the venture and the need for a risk penalty in the
10 compulsory pooling order.

11 Q. So your testimony in the prior case, which is
12 Case Number 11,962, would be applicable to this case also
13 with respect to this exhibit?

14 A. Yes.

15 Q. Ask you to refer to Exhibit Number 4, please, and
16 identify that exhibit.

17 A. Exhibit Number 4 is the notification notice that
18 was sent to all the offset operators, unleased mineral
19 owners and uncommitted working interest owners. It states
20 that they have 20 days to notify the NMOCD, states the
21 matter will be set for hearing for April 16th, 1998. It
22 includes a list of all those parties that were notified and
23 their addresses.

24 Q. And how was this ownership ascertained?

25 A. It was ascertained through a title opinion of Mr.

1 Ken Hanks.

2 Q. Refer to Exhibit Number 5 and please describe
3 that exhibit for the Examiner.

4 A. Exhibit Number 5 is a list of the remaining
5 uncommitted mineral interest and working interest owners.
6 It shows that there are 12.7 acres uncommitted, owned by
7 mineral interest owners, and another 2.23 net acres working
8 interest owners, for a total uncommitted acreage of 14.92
9 acres.

10 Merrion owns the balance, roughly 91 percent of
11 the 160-acre spacing unit.

12 Q. And this exhibit appears to be separated by type
13 of owner, uncommitted mineral interest owners being one
14 category of ownership and uncommitted working interest
15 owners being another category?

16 A. Yes.

17 Q. And with respect to the ownership of the
18 Farmington "C" Com Number 1 well, which was the subject of
19 Case Number 11,962, is the ownership of the uncommitted
20 mineral interest different in some respects?

21 A. There are some people who own in both wells, but
22 there are numerous differences.

23 Q. And with respect to the ownership of the working
24 interest that's identified in this exhibit, is that
25 identical to the --

1 A. Those working interest partners are the same
2 working interest partners that are in the Farmington "C"
3 Com that are uncommitted.

4 Q. Turn to Exhibit Number 6 and describe that
5 exhibit.

6 A. If I may, while we're on Exhibit Number 5, for
7 the record, state that on the -- that this exhibit also
8 shows the net acreage and the working interests and net
9 revenue interests, assuming 100-percent participation of
10 the uncommitted mineral interest owners.

11 We are requesting in the force-pooling
12 Application for a 7/8 working interest and a 1/8 royalty
13 interest on the order.

14 Q. So you're asking that the 7/8 working interest be
15 the force pool?

16 A. Yes.

17 Q. Okay. Now turn to Exhibit 6 and identify that
18 exhibit.

19 A. Exhibit 6 is a letter from our land attorney, Mr.
20 Ken Hanks, who did the title opinion, indicating what
21 attempts he made to find the parties whom no address is
22 shown on Exhibit Number 4. There were two parties, I
23 believe, on Exhibit Number 4.

24 Also attached to that exhibit is subsequent
25 efforts that were made by Johnston Land Company, Mr. Rob

1 Johnston, to find addresses for those individuals.

2 Q. And those individuals specifically are Eloise
3 Vogel and John Dent Lamar; is that correct?

4 A. That is correct.

5 I would point out on Exhibit 4 that we did not
6 have an address for W.B. and Bessie Green. Subsequent
7 title searches indicated that that interest was acquired by
8 Gerald Cochran, below, who did receive notification.

9 Q. Refer to what's been marked as Exhibit Number 7,
10 please, and identify that exhibit.

11 A. Exhibit Number 7 is the letter that went out to
12 the unleased mineral interest owners, and I refer to the
13 last case in discussing the content of that letter.

14 Q. And with respect to the reference to the last
15 case, it's case Number 11,962; is that correct?

16 A. Yes.

17 Q. And have you had any responses to that letter?

18 A. Yes, we have. The difference in the Exhibit 4
19 and Exhibit 5 list is the people who have committed.

20 In addition, Ms. Evelyn Stange on Exhibit 5 has
21 decided to lease. And the Herd Partners, Limited., on page
22 2 of Exhibit 5, has agreed to participate in the well.

23 Q. Refer to Exhibit 8 and identify that exhibit.

24 A. Exhibit 8 is a letter that went out to the
25 working interest owners, and again I refer to Case 11,962

1 on the contents of the letter.

2 Q. And have you had any response from any of those
3 uncommitted working interest owners after the mailing of
4 this letter?

5 A. Again, the Herd Limited Partners noted on Exhibit
6 4 has agreed to -- or, excuse me, Exhibit 5, has agreed to
7 participate.

8 I would point out that on both Exhibit 7 and
9 Exhibit 8, those were sent March 13th, certified mail, to
10 the parties listed in Exhibit 4.

11 Q. Refer to Exhibit 9 and identify that exhibit
12 please.

13 A. Exhibit 9 is a list of the return receipts,
14 slips, that were -- both the mailing receipt and the return
15 receipt of the individuals on Exhibit 4.

16 Q. Okay. Refer to Exhibit 10, please, and identify
17 that exhibit.

18 A. Exhibit 10 is the AFE that was sent out with the
19 letters, Exhibits 7 and 8, the AFE that was sent out with
20 those, showing the cost of the well and the proportionate
21 share of each individual in those costs.

22 Q. And would you summarize the estimated costs,
23 please?

24 A. The estimated costs are \$239,125.

25 Q. And again, this is sent to all uncommitted

1 owners, both mineral interest owners and working interest
2 owners; is that correct?

3 A. That is correct.

4 Q. Are these costs reasonable, given the nature of
5 the operation?

6 A. These costs are reasonable.

7 Q. And are they consistent with your experience of
8 the drilling and completion of Pictured Cliffs gas wells in
9 this area?

10 A. Yes, they are.

11 Q. Let me have you refer to Exhibit Number 11 and
12 identify that exhibit.

13 A. Exhibit Number 11 is the operating agreement that
14 we've proposed to cover these wells.

15 It is the existing operating agreement covering
16 the Dakota well of that -- encompasses this acreage that
17 Merrion Oil and Gas operates, the Farmington "C" Com Number
18 1.

19 Q. And is this a standard form, commonly used in the
20 industry?

21 A. It is a standard form 610-1982, A.A.P.L.

22 Q. Has it been modified in any substantial way?

23 A. Not substantially.

24 Q. And who do you propose be designated as the
25 operator of the contract area?

1 A. Merrion Oil and Gas.

2 Q. Let me have you refer to Exhibit Number 12, and
3 Exhibit Number 12 is the Ernst and Young survey that was
4 submitted as Exhibit Number 12 in Case 11,962.

5 A. Yes.

6 Q. And do you propose the same producing and
7 drilling rates for this operation as you did for the well
8 that was the subject of Case 11,962?

9 A. Yes, with the same justification.

10 Q. Okay. Mr. Sharpe, let me have you go back to the
11 request for nonstandard gas well location and just
12 summarize quickly for the Examiner the basis for your
13 request.

14 A. The basis for our request is topographic, and the
15 fact that no other acceptable drilling location was able to
16 be obtained or negotiated in a year of efforts.

17 Q. And do you propose that a risk factor be charged
18 to those parties who elect to not participate in this
19 proposed operation?

20 A. I would propose that a 200-percent risk penalty
21 be assessed.

22 Q. And is the basis for that request evidenced by
23 the data that's depicted on Exhibit Number 3B?

24 A. Yes, it is.

25 Q. In your opinion, have the notice requirements of

1 the Oil Conservation Division been satisfied in this case
2 for this kind of application?

3 A. Yes, they have.

4 Q. And in your opinion, will the granting of this
5 Application be in the interest of conservation and result
6 in the prevention of waste and the protection of
7 correlative rights?

8 A. Yes, it will.

9 Q. Were Exhibit Numbers 1 through 12 either prepared
10 by you or at your direction and under your supervision?

11 A. Yes, they were.

12 MR. ROBERTS: Mr. Examiner, I would move
13 admission of Exhibit Numbers 1 through 12.

14 EXAMINER STOGNER: Exhibits 1 through 12 will be
15 admitted into evidence at this time.

16 MR. ROBERTS: I have no other questions for the
17 witness on direct.

18 EXAMINER STOGNER: At this time, the record in
19 Case Number 11,962 will be incorporated in Case Number
20 11,963.

21 Again, I'm going to request that this matter --
22 or order this matter be continued to May 14th.

23 EXAMINATION

24 BY EXAMINER STOGNER:

25 Q. But let's talk about the unorthodox location, Mr.

1 Sharpe. Is there a rig available, ready to go? When is
2 your proposed spud date on this one?

3 A. Well, actually we would like to get spudded
4 within the next three weeks if possible. We have a rig
5 currently available. It has one more well to drill, and
6 then would move to this well.

7 Q. Okay. Was Amoco notified?

8 A. Amoco was notified.

9 There is not -- We did not get the return receipt
10 back from them, nor do we have a copy, unfortunately, of
11 our letter that was sent out, but we can do an affidavit
12 that they were sent a certified mail copy of the
13 Application.

14 Q. How about the interest in Section 9 to the
15 northwest? Do you know what --

16 A. We -- There is no wells in Section 9, and we do
17 not know who the -- We have not done a title opinion to
18 ascertain ownership in Section 9.

19 Q. Have you had any inquiries about the unorthodox
20 location since this Application was -- appeared in the
21 paper under an advertisement as a nonstandard location?

22 A. We did not do a paper advertisement, no.

23 Q. Well, okay --

24 MR. ROBERTS: The OCD --

25 Q. (By Examiner Stogner) -- we did, though.

1 A. Oh, no. We have received none.

2 Q. In that this matter has been advertised as a
3 nonstandard gas well location, Amoco has been notified. If
4 you would submit to me, subsequent to today, a copy of the
5 letter notifying Amoco.

6 A. Okay. They were sent -- Okay, they were sent a
7 copy of the Application -- I don't believe there was
8 actually a cover letter with it. It had the explanation on
9 page -- or Exhibit 4, was their opportunity to sign and
10 return to us any waiver.

11 We have not received anything back from them on
12 that.

13 I can make an attempt to get something back from
14 Amoco.

15 Q. If you can get a signed waiver, that would be
16 better.

17 A. Okay.

18 EXAMINER STOGNER: I need something that Amoco
19 was notified. And Mr. Roberts, I would request an
20 affidavit to that --

21 MR. ROBERTS: With respect to Amoco?

22 EXAMINER STOGNER: -- fact. To Amoco, yes.

23 THE WITNESS: Okay.

24 EXAMINER STOGNER: With the record that we have
25 today in this matter and with that information that you can

1 provide, I could go ahead and submit some sort of an order,
2 either an order -- an administrative order based on today's
3 record, or reopen this matter on May 14th just to take the
4 compulsory pooling portion under advisement at that time.
5 We could do something, though.

6 But if you would provide that information to
7 me -- better yet, a signed waiver from Amoco --

8 THE WITNESS: Okay, I'll try to get that.

9 EXAMINER STOGNER: -- in this instance, we could
10 take care of that.

11 Does anybody else have anything further in Case
12 Number 11,963?

13 MR. ROBERTS: Mr. Examiner, just so I understand,
14 if we can get the waiver from Amoco, obviously we don't
15 need an affidavit with respect to the attempts to notify;
16 is that correct?

17 EXAMINER STOGNER: That's correct. And good luck
18 getting a signed waiver from Amoco.

19 THE WITNESS: I think we'll --

20 EXAMINER STOGNER: Good deal.

21 Since there's nothing further in Case Number
22 11,963, then this matter will be continued to the
23 Examiner's hearing scheduled for May 14th.

24 And assuming that we get this information on the
25 unorthodox location, that reopened portion would only be

1 for the compulsory pooling matter.

2 If there's nothing further, we'll continue on
3 with today's docket.

4 MR. ROBERTS: Thank you, Mr. Examiner.

5 THE WITNESS: Thank you, Mr. Examiner.

6 (Thereupon, these proceedings were concluded at
7 9:35 a.m.)

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I do hereby certify that the foregoing is a complete and correct transcript of the Examination heard by me on 11/26/98
[Signature]
Off Conservation Division

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 April 24th, 1998.


 STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 14, 1998