

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. 12,553

APPLICATION OF BURLINGTON RESOURCES OIL)
AND GAS COMPANY FOR AN UNORTHODOX COAL)
GAS WELL LOCATION, SAN JUAN COUNTY,)
NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

December 7th, 2000

Santa Fe, New Mexico

CO DEC 21 PM 10:20

OIL CONSERVATION DIV.

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, December 7th, 2000, 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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December 7th, 2000
Examiner Hearing
CASE NO. 12,553

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* * *

A P P E A R A N C E S

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 By: MICHAEL H. FELDEWERT

* * *

1 WHEREUPON, the following proceedings were had at
2 10:40 a.m.:

3 EXAMINER CATANACH: At this time I'll call Case
4 12,553, which is the Application of Burlington Resources
5 Oil and Gas Company for an unorthodox coal gas well
6 location, San Juan County, New Mexico.

7 Call for appearances in this case.

8 MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin of
9 the Santa Fe law firm of Kellahin and Kellahin, appearing
10 on behalf of the Applicant. I have three witnesses to be
11 sworn.

12 EXAMINER CATANACH: Call for additional
13 appearances.

14 MR. FELDEWERT: Mr. Examiner, Michael Feldewert
15 with the law firm of Campbell, Carr, Berge and Sheridan,
16 representing Yates Petroleum Corporation who, as I
17 understand it, has recently acquired an interest in
18 offsetting property that may be affected by Burlington's
19 Application. They are anxious to speak with Burlington
20 about this matter, and I understand that Burlington is
21 attempting to contact them at this point.

22 EXAMINER CATANACH: Okay. Will the witnesses
23 please stand to be sworn in?

24 (Thereupon, the witnesses were sworn.)

25 MR. KELLAHIN: Mr. Examiner, our first witness is

1 Mr. Alan Alexander.

2 ALAN ALEXANDER,

3 the witness herein, after having been first duly sworn upon
4 his oath, was examined and testified as follows:

5 DIRECT EXAMINATION

6 BY MR. KELLAHIN:

7 Q. Mr. Alexander, for the record, sir, would you
8 please state your name and occupation?

9 A. Yes, my name is Alan Alexander. I'm currently
10 employed with Burlington Resources Oil and Gas Company in
11 Farmington, New Mexico, as a senior land advisor.

12 Q. On prior occasions, Mr. Alexander, have you
13 testified before the Division as a petroleum landman?

14 A. Yes, I have.

15 Q. The primary responsibility for this particular
16 Application, insofar as the land matters are concerned, was
17 that of another landman for Burlington, is that not true?

18 A. Yes, sir, Mr. James Strickler did the contract
19 work to put this well together, and he started on that work
20 some year ago to date.

21 Q. Mr. Strickler is not available to testify this
22 morning, is he?

23 A. That's correct, and I work with the various teams
24 when we come to regulatory hearings, and my participation
25 in this project would be to request approval for the off-

1 pattern Fruitland Coal well location.

2 Q. As part of your review and preparation for
3 testifying today, did you review Mr. Strickler's land
4 records?

5 A. Yes.

6 Q. And did you have conversations with him about how
7 he compiled the notice list for notifying the appropriate
8 interest owners of this Application?

9 A. Yes, I did.

10 Q. And did you undertake to assure that those
11 notifications had been properly sent and the appropriate
12 parties notified?

13 A. Yes, I did.

14 Q. In addition, have you physically gone out on the
15 proposed location and made photographs of the location as
16 to the availability of surface use in Section 1?

17 A. Yes, I did.

18 MR. KELLAHIN: We tender Mr. Alexander as an
19 expert landman.

20 EXAMINER CATANACH: He is so qualified.

21 Q. (By Mr. Kellahin) Let's turn to the first issue,
22 Mr. Alexander, and that is to orient the Examiner as to
23 where this well is and where the affected parties are. If
24 you'll take a moment and turn behind Exhibit Tab Number 2,
25 let's have you identify and describe this display.

1 A. This is a display that we put together to help us
2 locate the offsetting parties. You'll notice that it's a
3 nine-section plat. It's for the Farmington A Number 100
4 well. It's located 660 feet from the south line and 705
5 feet from the east line of Section 1 of 29 North, 13 West.

6 The offsetting owners involve both leased working
7 interest owners, where there is no current well and no
8 operator, and there are a few Fruitland Coal wells in the
9 area, so it's a combination of notice to those parties.

10 You will see that in the specific blocks there is
11 a circle with a number in them, and that circle and number
12 relates to the exhibits that are behind the nine-section
13 plat, explaining whether it is a working interest owner or
14 owners that are involved in that particular area or if it
15 is an operator that is involved.

16 Q. Are you familiar with the Basin-Fruitland Coal
17 Gas Pool rules, Mr. Alexander?

18 A. Yes, sir, I am.

19 Q. This well would be at a standard footage location
20 pursuant to those rules, would it not?

21 A. It would be.

22 Q. And it is an exception to the rules because it is
23 what we characterize as being off-pattern?

24 A. That is correct.

25 Q. What does that mean?

1 A. The Fruitland Coal Pool Rules currently provide
2 that a well should be located in the northeast or the
3 southwest quarter of a section, and we were unable to
4 locate it in either one of those quarter sections. And our
5 best location to locate this well is actually in the
6 southeast quarter of this Section 1.

7 Q. This Application, then, is based upon topographic
8 or surface-use limitations for all of Section 1?

9 A. Yes, sir, that's correct.

10 Q. Before we go to that topic, let's complete the
11 issue of notification. You've given us the plat.
12 Subsequent to the plat, there are several pages listing the
13 working interest owners and the operators. If you will
14 turn to the second page of that listing, there is a heading
15 saying "Working Interest Owners and Addresses", starting
16 with the circled number 5 -- do you find that? We're still
17 behind Exhibit Tab Number 2.

18 A. Yes, sir.

19 Q. We've moved past the nine-section plat, we have
20 skipped the first page of tabulation and we're looking at
21 the second page of tabulation.

22 A. Correct.

23 Q. All right. In addition to sending notifications
24 out to the various interest owners of spacing units that
25 did not have coal gas wells, did Burlington contact the

1 operators of the offsetting wells that they believe to be
2 the operators at the time the Application was filed?

3 A. Yes, we did.

4 Q. Before we complete that, let's look for a moment
5 behind Exhibit Tab Number 5, there's another display. Do
6 you see that nine-section display behind Exhibit Tab Number
7 5?

8 A. Yes, sir.

9 Q. All right, what does this illustrate?

10 A. This illustrates the location of the existing
11 coal wells in the immediate area of our proposed Farmington
12 A Number 100 well. You will see that there are five
13 existing coal wells in this area.

14 Q. Okay. Your notice list says Circle 6 is a coal
15 gas well operated by Maralex?

16 A. Yes, sir.

17 Q. And the Maralex well is where?

18 A. If you'll look back on the plat --

19 Q. In Exhibit Tab 5?

20 A. -- behind Tab Number 2, would be the better place
21 to look at it, because I have circled there. You will see
22 up in Section 6, you will see the circle with the number 6
23 in it, the south half of Section 6. That's where Maralex
24 is located.

25 Q. All right. Have you contacted -- Or has

1 Burlington contacted Maralex to find out if they have any
2 objection to granting this Application?

3 A. Yes, sir, we have a waiver from both Maralex and
4 from Texakoma Oil and Gas Corporation, who's in the circled
5 tab number 8 on the nine-section plat.

6 Q. All right, and the waivers of objection are
7 included in the exhibit book?

8 A. That's correct.

9 Q. Let's turn to circle 7. That's associated with a
10 well operated by J.N. Exploration and Production Company.
11 Where is that well?

12 A. That well, if you look at the plat again, behind
13 Exhibit Tab Number 2, you'll see there are two wells that
14 are impacted by that. One is an east-half dedication of
15 Section 12, and the other one is a west-half dedication of
16 Section 7.

17 Q. Have you obtained a waiver of objection to this
18 Application from J.N. Exploration?

19 A. No, sir, we have not. We've just been informed
20 that those wells were sold to Yates Petroleum Corporation.

21 Q. And have you initiated an effort to contact the
22 appropriate personnel at Yates to advise them of this
23 Application and to determine whether or not they have any
24 objection?

25 A. Yes, we are currently doing that.

1 MR. KELLAHIN: Mr. Examiner, at the conclusion of
2 the hearing we will ask that you continue this case to
3 December 21st, so that we may determine whether Yates has
4 any objection. And if they do, we will come forward on the
5 21st and they can make their presentation. It's our hope
6 that we can persuade them to give us a waiver of objection
7 and we can conclude the case on that date.

8 Q. (By Mr. Kellahin) All right, let's proceed, Mr.
9 Alexander. Other than the notifications to J.N.
10 Exploration and now Yates, are you satisfied that you have
11 notified all the appropriate interest owners and that there
12 is, in fact, no objection or potential objection to the
13 granting of this Application, with the exception of Yates
14 Petroleum?

15 A. That is correct.

16 Q. Let's turn to the topic of the availability of
17 the surface for use of this wellbore anywhere in Section 1.
18 Is there a series of displays that will illustrate that?

19 A. Yes, sir, there is, behind Exhibit Tab Number 3,
20 we have presented those displays.

21 Q. Let's start with Exhibit Tab 3. Identify and
22 describe the first display.

23 A. The first display is simply a San Juan Basin
24 location map, and you will see that the proposed Farmington
25 A Number 100 Fruitland Coal well is located just on the

1 outskirts of the city limits of Farmington, New Mexico.

2 Q. Are you familiar with the fact that it is
3 commonly believed in the Basin Fruitland Coal Gas Pool that
4 there is an area called the overpressured area, and that a
5 substantial portion of the rest of the pool is in an
6 underpressured area?

7 A. Yes, sir.

8 Q. Where does this well lie in relation to the
9 overpressured area?

10 A. It lies approximately 15 miles to the south and
11 west of the overpressured area.

12 Q. All right, so this well would be located in the
13 underpressured area of the pool?

14 A. That is correct.

15 Q. When you go out on the surface and look at the
16 availability of Section 1 for a well location, do you have
17 an aerial photograph that helps illustrate the availability
18 of the property?

19 A. Yes, sir, we were able to obtain a 1997 ortho
20 photograph that fairly well describes the setting that
21 we're looking at, and it's the second exhibit behind
22 Exhibit Tab Number 3.

23 Q. Let's look at that and first of all have you
24 identify for us what the blue line is. What's that
25 outline?

1 A. The blue line is the Section 1 outline.

2 Q. And what is the red-dashed grid?

3 A. We broke that section up into quarter-quarter
4 parcels and described them by using the red dotted line.

5 Q. All right, so we're looking at essentially
6 40-acre tracts?

7 A. Yes, sir.

8 Q. You have some green dots and then a red dot?

9 A. Yes, sir, there are two green dots depicted.
10 They're both in the southeast quarter of Section 1. They
11 are both existing Basin-Dakota wells. We actually,
12 Burlington, or its predecessor El Paso, actually drilled
13 these wells when they were drilled. We have since sold
14 those to Energen Corporation and have no further interest
15 in the Dakota or in those wellbores.

16 Q. Are the well sites available, then, for the
17 Farmington AE-1 or A-1 for utilizing as a pad for the
18 proposed Coal well?

19 A. The Farmington A-1E well, which is over in the
20 southwest quarter of the southeast quarter, there is not
21 enough room. Both of these Farmington A-1 Dakota wells are
22 located in the El Paso Natural Gas Company's pipeyard, and
23 the area around the Farmington A-1E well, there is not
24 sufficient room to put an additional well in there.

25 We were able to work with El Paso Natural Gas

1 Company to put our proposed location over by the Farmington
2 A Number 1 Dakota well, which is in the southeast quarter
3 of the southeast quarter, and you will see that represented
4 by the red dot.

5 Q. In order to have this well at an on-pattern
6 location, you would have to find some location in the
7 southwest quarter, in this grid system, in the southwest
8 quarter, at which to position your well?

9 A. That is correct.

10 Q. Is there a place for the well over there?

11 A. No, sir, there is not. There are no existing
12 wells in the southwest quarter, and that's because it is in
13 the city limits of Farmington. And you will see, there is
14 kind of a dark area in there that appears to be grassland,
15 that is north and west of the main highway running through
16 Farmington. And you might think that we could have a
17 location in that area, but we took some additional
18 photographs to bring this photograph up to date. There's
19 significant work going on in that area.

20 Q. Principally, what's happened in the last four
21 years that would update this aerial photograph to the
22 current status of use?

23 A. All of that land is being cleared currently for a
24 shopping mart. Farmington has succeeded in bringing in
25 Home Depot to Farmington, and this land is all being

1 cleared for a complex of retail shops in that area.

2 Q. When I look in the southeast of the southwest,
3 there is a white dot with a blue circle around it. What
4 does that represent?

5 A. That represents the actual bottomhole location of
6 the Farmington A Number 1E Dakota well. That well was
7 directionally drilled from a location in the southeast
8 quarter to a bottomhole location in the southwest quarter.
9 That dot represents the bottomhole location of that well.

10 Q. Let's take a moment and look at the subsequent
11 photographs. You don't have to discuss these in detail,
12 but let's take a moment and identify where you were
13 standing when you took the first photograph.

14 A. Well, if you'll stay on the first aerial
15 photograph for just a moment, we took the subsequent
16 photographs to come immediately south from the Farmington A
17 Number 1E well, across the river, and there's a bluff on
18 the other side. We drove over to that area and we took all
19 the remaining photographs from that area.

20 So we will be looking north towards the
21 Farmington A-1E well, in that general direction, when we
22 discuss these remaining photographs, except for the
23 photographs that we actually took down in El Paso's
24 pipeyard.

25 Q. And you took these photographs?

1 A. Yes, sir, I did.

2 Q. Okay. The first photograph is from the point
3 you're standing on the bluff looking north. Help us orient
4 ourselves as to what you want us to see.

5 A. We're actually looking northwest at this point.
6 This is -- No, I'm sorry, we are actually looking basically
7 north from this point, and this is the El Paso Natural Gas
8 Company's pipeyard. It's a broad view of that yard. And
9 it basically includes a view which is slightly north and
10 east of where the Farmington A 100 proposed location is.

11 Q. There's a structure with a red roof. Do you see
12 that?

13 A. Yes, sir.

14 Q. And then there's a green tank?

15 A. Yes, sir.

16 Q. All right, if you look just to the south and west
17 of the red-roofed building, there's another structure. Do
18 you see that little white roof?

19 A. Yes, sir.

20 Q. All right, as you move closer to the
21 photographer, there's a small white-sided building?

22 A. Correct.

23 Q. All right. Where in this area is the location of
24 your proposed coal gas well?

25 A. It would be just basically south of that white

1 building. You'll see a brown tank sitting there, right in
2 the treeline --

3 Q. Yes, sir.

4 A. -- and if you would come just a little bit -- You
5 can't see it, but if you would come just a little bit
6 further south, that's where our location would be.

7 Q. All right, let's turn to the next photograph.
8 Describe for us what you want us to conclude from this
9 display.

10 A. In this photograph we are looking north and west,
11 and we are looking at the area that was the dark-colored
12 grassy area in the original aerial photograph. I just
13 wanted to show that this land has now all been cleared and
14 they are beginning construction of the shopping area in
15 this area here.

16 Q. All right, the next photograph?

17 A. The next photograph, I zoomed in a little bit to
18 the El Paso pipeyard, and all of the trees blocked our view
19 a little bit. If you'll come basically directly south or
20 towards us as we're looking at this picture, from that
21 closer metal building, that's where the Farmington A-1E
22 well is located. That's that existing Dakota well that was
23 directionally drilled. That's the area where there is not
24 enough room for us to put a Fruitland Coal location by that
25 well.

1 Q. All right, sir, the next photograph?

2 A. The next photograph shows the actual staked
3 location of the Farmington A Number 100 Fruitland Coal
4 well. And it's located, as you will see, those tank
5 batteries, that brown tank battery, it's located in close
6 proximity to the Farmington A Number 1 Dakota well.

7 Q. Okay, and then the final photograph, Mr.
8 Alexander?

9 A. The final photograph actually is a photograph of
10 the Farmington A-1E directional Dakota well, and we shot it
11 just behind the big metal building that El Paso has there.

12 Q. All right. Then to conclude your presentation,
13 Mr. Alexander, Exhibit Tab 1 contains the Application and
14 copies of the green cards showing notification of this
15 Application and hearing to the various parties?

16 A. That is correct.

17 MR. KELLAHIN: Mr. Examiner, that concludes my
18 examination of Mr. Alexander.

19 We move the introduction of the exhibits he
20 sponsored, which are Exhibits 1 through 3.

21 EXAMINER CATANACH: Exhibits 1 through 3 will be
22 admitted as evidence.

23 EXAMINATION

24 BY EXAMINER CATANACH:

25 Q. Mr. Alexander, looking at the areal photograph

1 that you have, within that southwest quarter there is a
2 sort of white-colored line that goes from northwest to
3 southeast. Is that the highway there?

4 A. The line that goes from northwest to southeast?

5 Q. Just north of that white square that you have
6 there, on that aerial photograph.

7 A. There is a white building right above the block
8 that says Farmington A-1E --

9 Q. Right.

10 A. -- well. That is a furniture outlet. And then
11 the road that runs right immediately in front of that one
12 -- and it almost runs, not quite east to west but almost,
13 that is an access road that was there for El Paso Natural
14 Gas Company's pipeline that went through there.

15 Now, the main highway that runs through
16 Farmington makes an arc, and it starts down in the
17 southwest of the picture, and it arcs slowly north and a
18 little bit east and runs to the top of the picture. That's
19 the main highway in Farmington.

20 Q. Okay, I've got it. Now, the area that you were
21 talking about where they are clearing the land is located
22 in the southeast of the southwest?

23 A. It's located in all three of those quarter
24 sections. It's in the northeast of the southwest, the
25 southeast of the southwest and the southwest of the

1 southwest. All of that grassy area that you see in the
2 photograph is now being cleared out.

3 Q. That entire area is being cleared out, the entire
4 area?

5 A. Yes, sir.

6 Q. Is that going to be a fairly large complex?

7 A. Yes, it will be. There are several stores that
8 are scheduled to go in that area.

9 Q. Okay. Within the northwest of that quarter
10 section, are those houses in that area?

11 A. Yes, sir, that's all residential area in there.

12 Q. Okay, and in the quarter section just south of
13 there, the southwest of the southwest, it looks like there
14 is some housing and then it looks like there's -- What is
15 that on the south end of that quarter section?

16 A. That is a complex in there that there is a
17 restaurant -- It's kind of covered up by the Farmington
18 A-1E --

19 Q. Right.

20 A. -- logo. Is that the one you're --

21 Q. Right.

22 A. -- interested in? There is a restaurant in there
23 with a big parking lot, and then there's also a big car
24 dealership that's setting in there, that's covered up by
25 that sign.

1 Q. Okay. Now, you also testified that this well
2 cannot be drilled in the northeast quarter; is that
3 correct?

4 A. The northeast of the southwest?

5 Q. No, sir, the northeast quarter --

6 A. Northeast quarter --

7 Q. -- of this section?

8 A. We don't -- There's a couple of things that
9 impact that area up there. It is also located in the city
10 limits of Farmington.

11 There is a substantial housing development up
12 there. In fact, if you would look at the aerial photograph
13 immediately behind -- If you'll look at the photograph
14 immediately behind the aerial photograph, that goes north,
15 and that would go up into the northeast quarter. And there
16 is housing that has been built all over the place up in
17 that area up there.

18 And we had our guys go out to look. We thought
19 we might talk with Energen or the operator of those --
20 Energen doesn't own those two wells, but the operator of
21 those Dakota wells that were existing up there, maybe
22 complete in those wellbores. But since they're Dakota
23 wells and they don't own any Fruitland Coal rights, they
24 did not want us recompleting in their wellbores and trying
25 to operate both the Fruitland and the Dakota wells up

1 there. And our people said that we could not find a
2 location up in the northeast quarter.

3 The other problem with that is that if we locate
4 a well in the northeast quarter, that's the only other --
5 and if we formed a drillblock that would run the east half
6 of the section, a couple of things happen.

7 We would reduce our ownership by 50 percent of
8 the well, one thing.

9 The other thing would be that we would never be
10 able to drill another Fruitland Coal well in there because
11 we can't locate a well anywhere in the west half of that
12 section. So we would actually be limiting the development
13 to Section 1 to one Fruitland Coal well.

14 It looks like the better plan would be -- to us
15 anyway, is to locate one well in the southeast quarter to
16 develop the south half, and then the people that own the
17 Fruitland Coal right, if they can find a location up in the
18 northeast quarter, they could develop a well on the north-
19 half spacing unit up there.

20 Q. So does Burlington not have any interest in the
21 north half?

22 A. No, sir, we do not.

23 Q. I see. So it is possible that a well may be
24 drilled in the northeast quarter at some point in time?

25 A. It's very difficult, but it's a possibility. If

1 you could locate it up from one of those existing Dakota
2 wells, you might be able to get it in there.

3 Q. And have you guys -- I take it -- Have you
4 examined the possibility of directionally drilling this
5 well?

6 A. Yes, sir, we have to a great degree, and we'll
7 bring that up in some subsequent testimony. I can tell you
8 the conclusion of that is, we cannot do it. But we have
9 investigated that.

10 Q. Okay. There's not a whole lot of Coal
11 development around this section at this point in time; is
12 that correct?

13 A. That's correct. And being in the City of
14 Farmington is one of the main reasons that we don't have
15 any development in here. It's very difficult to find a
16 location in this section to try to develop.

17 Q. Looking behind Tab Number 5, Mr. Alexander, is
18 this whole area within the city limits of Farmington
19 generally?

20 A. No, sir, the easternmost boundary -- although
21 there are houses outside it, the easternmost boundary of
22 the City of Farmington generally runs along the eastern
23 boundary of Section 1.

24 Where we have the Farmington A 100 well located,
25 most of the -- which is in the southeast quarter of the

1 southeast quarter, that quarter section is actually just
2 outside the city limits of Farmington.

3 But the rest of Section 1 is in the city limits
4 of Farmington.

5 Q. Speculate, if you will, Mr. Alexander, on whether
6 or not there's going to be development in the coal in the
7 sections to the west, 35, 2, 11 and 36.

8 A. I don't believe there will be, because that's
9 heavily populated with houses in there, and that's in the
10 city limits of Farmington also. I don't believe you can
11 get a location in there.

12 Q. So your drilling off-pattern essentially is not
13 going to have an effect on the sections to the west, in
14 your opinion?

15 A. No, sir, I don't believe so.

16 Q. And since the development has already occurred in
17 the sections to the south and east, it really won't have an
18 effect on them?

19 A. We believe it will not.

20 Q. Have you spoken at all to Yates Petroleum
21 Corporation?

22 A. We just found last night as we were leaving that
23 Yates apparently bought that from J.N.

24 We have -- One of our technical persons back in
25 Farmington made those initial contacts for us to confirm

1 it. They have confirmed that Yates did just buy it, and
2 she got me a phone number to talk with Chip Moran, or Chuck
3 Moran?

4 MR. KELLAHIN: Chuck Moran.

5 THE WITNESS: Chuck Moran. And we will be doing
6 that Monday or Tuesday, to see if we can alleviate any
7 concern that they have on those wells.

8 Q. (By Examiner Catanach) Okay. Now, in Section 7,
9 does Maralex operate -- Is that an east-half dedication on
10 that Maralex well?

11 A. The dedications -- Let me give you the
12 dedications for all of those up there.

13 The north half of Section 6 is a dedication for
14 that well up in the northeast-northeast.

15 Then we have a south-half dedication for the well
16 that's in the northeast of the southwest of 6.

17 And if we drop down to Section 7, that's on an
18 east-half and a west-half basis for those dedications.

19 And in Section 12, that's an east-half dedication
20 for that well. We went over to the Aztec office to get
21 those dedications from their records.

22 EXAMINER CATANACH: Okay, I have nothing further,
23 Mr. Kellahin.

24 MR. KELLAHIN: Mr. Examiner, our next witness is
25 Mr. Steve Thibodeaux.

1 STEVE THIBODEAUX,
2 the witness herein, after having been first duly sworn upon
3 his oath, was examined and testified as follows:

4 DIRECT EXAMINATION

5 BY MR. KELLAHIN:

6 Q. Mr. Thibodeaux, for the record, sir, would you
7 please state your name and occupation?

8 A. Steve Thibodeaux. I'm a senior geologist on the
9 Coal team for the San Juan Division, Burlington Resources.

10 Q. Mr. Thibodeaux, on prior occasions have you
11 qualified as a petroleum geologist before the Division in
12 hearings?

13 A. Yes, I have.

14 Q. On this occasion, you're the geologist involved
15 as part of Burlington's team to locate and drill coal gas
16 wells in the Basin-Fruitland Coal Gas Pool?

17 A. Yes, I am.

18 Q. And the conclusions and opinions you're about to
19 express are yours?

20 A. Yes, sir.

21 Q. And the displays that we're about to look at were
22 also prepared by you?

23 A. Yes, sir.

24 MR. KELLAHIN: We tender Mr. Thibodeaux as an
25 expert petroleum geologist.

1 EXAMINER CATANACH: He is so qualified.

2 Q. (By Mr. Kellahin) Before we look at your cross-
3 sections, Mr. Thibodeaux, if we're attempting to locate a
4 coal gas well in Section 1, at any place in Section 1, are
5 we going to be in a position in the reservoir that would be
6 similar, regardless of where we put the well in the
7 section?

8 A. Yes, sir, I believe the primary targeted
9 reservoir in that area is fairly homogeneous throughout the
10 entire section.

11 Q. Does it compromise your preference as to a well
12 location to have the topography dictate that the only place
13 to put this well is at the location Mr. Alexander
14 described?

15 A. No, sir, it doesn't.

16 Q. Where are we in the Coal Gas Pool, in terms of
17 our relationship to the overpressured area?

18 A. We're approximately 15 miles to the southwest of
19 the overpressured or commonly known fairway production from
20 the Fruitland Coal.

21 Q. Let's look at your cross-sections and have you
22 give us a further illustration of what you think will occur
23 in the coal gas reservoir. Now, as we move to the western
24 portion here, the coal is getting substantially shallower
25 than we would find it other places in the Basin, true?

1 A. Yes, sir, we're approximately 1300 to 1400 feet
2 deep here, as opposed to primary production in the Basin
3 which generally occurs around 3500 feet.

4 Q. All right, so we're in that 1300-foot range?

5 A. Yes, sir.

6 Q. Identify and describe your cross-sections. Let's
7 start with A-A'. What are you illustrating for us here?

8 A. A-A' is a cross-section that runs from the
9 northwest to the southeast. It is a cross-section run
10 along structural and stratigraphic strike, and the coal
11 zones that I've illustrated are the zones that are commonly
12 produced from and targeted in the offset coal wells to the
13 east of us.

14 Q. The well in Section 1, the Farmington A-1E,
15 that's a Dakota well?

16 A. Yes, sir.

17 Q. But you have utilized that log to analyze the
18 existence of the coal?

19 A. Yes, sir, we're extremely limited in the
20 availability of wireline logs, and we found whatever we
21 could.

22 Q. As we go into Section 2, farther west, with the
23 first two, the Golden Bear 1 and 2 --

24 A. Yes, sir.

25 Q. -- what kind of wells are these?

1 A. I'm not entirely sure. We just recently
2 digitized all of the wells that we could locate in the
3 southern half of the area, and these wells were targeted
4 for our Fruitland Coal team so that we could begin a large-
5 scale stratigraphic and structural study of the Fruitland
6 Coal.

7 Q. Exhibit 5 would indicate that these are other
8 than coal gas wells?

9 A. Yes, sir, they are not coal wells.

10 Q. All right. That was my question.

11 A. Okay.

12 Q. The Golden Bears are not coal gas wells?

13 A. No, sir, they're not.

14 Q. What we're seeing is that we have fairly uniform
15 thicknesses and occurrences of the primary targets of coal
16 from the northwest to the southeast.

17 Q. And it appears that in a general way the coal is
18 reasonably consistent as you move from east to west through
19 the south half of Section 1?

20 A. Yes, sir, that's correct.

21 Q. Let's look at the next cross-section. It's the
22 B-B'. We're going in a slightly different orientation.
23 What does this show you?

24 A. B-B' is a southwest-northeast orientation.
25 Again, we're targeting on the basal coal sequence, which is

1 the primary producer in the area. And again, it shows that
2 occurrence of all the major targeted coal zones are present
3 with very little differences that are significant, from the
4 southwest to the northeast.

5 Q. In summary, then, Mr. Thibodeaux, you're not
6 being required to drill an inferior location in the
7 reservoir because of the topographic problems on the
8 surface?

9 A. No, sir, we believe that the primary producing
10 intervals in this reservoir are fairly consistent and
11 homogeneous throughout the entire section.

12 MR. KELLAHIN: That concludes my examination of
13 Mr. Thibodeaux. We move the introduction of his Exhibit 4.

14 EXAMINER CATANACH: Exhibit 4 will be admitted as
15 evidence.

16 EXAMINATION

17 BY EXAMINER CATANACH:

18 Q. What's the thickness of the coals that are
19 usually present in this area, Mr. Thibodeaux?

20 A. We generally average about 28 feet of thickness
21 for the basal section coals in this area, Mr. Examiner.

22 Q. How does that compare to the deeper areas of the
23 Basin?

24 A. It's highly variable, depending on which coal
25 zone that we're targeting. This is what I would

1 characterize as very good thickness for the basal, at this
2 area. We can range anywhere down to less than 10 feet
3 about 10 or 15 miles south of us, to greater than 40 feet
4 about 20 miles to the northwest.

5 Q. So this is a good area to drill?

6 A. Yes, sir, it is.

7 EXAMINER CATANACH: I have nothing further of
8 this witness.

9 MR. KELLAHIN: Mr. Examiner, Leonard Biemer is
10 our last witness. He's a petroleum engineer.

11 LEONARD J. BIEMER, Jr.,
12 the witness herein, after having been first duly sworn upon
13 his oath, was examined and testified as follows:

14 DIRECT EXAMINATION

15 BY MR. KELLAHIN:

16 Q. Mr. Biemer, for the record, sir, would you please
17 state your name and occupation?

18 A. My name is Leonard J. Biemer, Jr. I'm a senior
19 staff reservoir engineer with the Fruitland Coal Team,
20 Burlington Resources, in Farmington, New Mexico.

21 Q. On prior occasions, Mr. Biemer, have you
22 qualified as an expert witness in petroleum engineering
23 before the Division?

24 A. Yes, sir, I have.

25 Q. And as part of the Burlington team for the Coal

1 Gas Pool, have you examined the engineering aspects of this
2 particular Application?

3 Q. In addition, did I ask you to examine and form an
4 opinion about the feasibility of directionally drilling
5 this well at its proposed surface location so that its
6 producing interval would be at a standard subsurface
7 location?

8 A. Yes, sir, you did.

9 MR. KELLAHIN: We tender Mr. Biemer as an expert
10 witness.

11 EXAMINER CATANACH: He is so qualified.

12 Q. (By Mr. Kellahin) Mr. Biemer, let's turn to that
13 last topic, and to set the stage for it, let's look behind
14 Exhibit Tab 5. Mr. Alexander has already identified this
15 display, but this represents the status of the development
16 of the coal gas in the nine sections adjoining Section 1?

17 A. Yes, sir.

18 Q. There is data associated with each well. What is
19 that data?

20 A. Yes, sir, what you're seeing in the first line is
21 the well name; in the second you're seeing the operator;
22 third, you're seeing the year that it was completed; fourth
23 is the cumulative production; and fifth is the current
24 rate.

25 Q. Do you share Mr. Thibodeaux's conclusion that it

1 is appropriate to locate a well in Section 1 to access and
2 produce the coal gas?

3 A. Yes, sir.

4 Q. Let's turn to the next display behind Exhibit Tab
5 5 and have you describe for us what we're looking at here.

6 A. Again, we're looking at existing Dakota and PC
7 wells. The Dakota wells are indicated in the red squares,
8 and the one PC is in the green circle. Again, we're
9 looking at well names, the operator, which formation it's
10 producing from, the current cumulative production and the
11 current rate.

12 Q. The Energen well, which Mr. Alexander described
13 as having been a well drilled by Burlington, is a Dakota
14 well that was directionally drilled to a certain bottomhole
15 location?

16 A. Yes, sir, that well was drilled back in 1981. It
17 was a deviated hole, and it was at 6250 feet deep, and it
18 went laterally out around 1100 feet.

19 Q. Have you examined the feasibility of drilling
20 this coal gas well?

21 A. Yes, sir, I have.

22 Q. So that it can be directionally drilled to a
23 location in the coal gas reservoir?

24 A. Yes, sir.

25 Q. Is that feasible?

1 A. No, sir.

2 Q. Describe for us why not.

3 A. There's a big difference. First of all, the coal
4 well, our total depth is only 1380 feet deep. The top of
5 the Coal is at 1042 feet. If you set your surface pipe at
6 200 feet and you start kicking off at 50 feet below that,
7 you're going to have to build up to an angle of 82 degrees
8 to hit that. You're basically drilling a horizontal well
9 at a very shallow depth. The problem that we run into
10 there is that we have no weight on our bit to drill that
11 hole.

12 Q. Do you have an illustration behind Exhibit Tab
13 Number 6 that demonstrates this?

14 A. Yes, sir, behind Exhibit Number 6 you'll see
15 again a copy of Section and where the staked location is.
16 In the blue you'll see what a legal bottomhole for the
17 Fruitland Coal would be. Down below that, again, you'll
18 see that our surface casing would be set at 200 feet. The
19 top of our coal which we'd have to hit is at 1042 feet, and
20 our total depth would then be around 1300.

21 We'd have to deviate this hole right at 2000 feet
22 in a horizontal direction.

23 Q. Let's turn to the next display and have you
24 identify and describe this.

25 A. This is a comparison of the deviated hole for the

1 Farmington A-1E.

2 Q. That's the Dakota well?

3 A. That is the Dakota well. And where it was
4 drilled, you can see that that hole had a maximum deviation
5 around 17.5 percent and went to a depth of 6250 feet.

6 Q. Compare that to your deviation.

7 A. What we'd have to do in order to drill a deviated
8 hole for the Farmington A 100 in the Fruitland Coal, again,
9 you'd set your surface at 200 feet, and you'd start kicking
10 off -- You'd be kicking off at 12 degrees per hundred feet,
11 and you had to do that for 600 feet until you've built your
12 angle at 82 degrees.

13 What you're seeing in the two dark vertical lines
14 would be a legal bottomhole vertical location in the
15 southwest corner.

16 Q. Apart from discussing this with Burlington
17 personnel about its feasibility, have you discussed this
18 with any consultants or outside companies concerning the
19 feasibility of engaging in this type of drilling?

20 A. Yes, sir, we got ahold of Baker-Hughes, and
21 actually John Hosford in our drilling department talked to
22 them. We gave them the parameters of what we were trying
23 to do. And you can see from the fax page -- and I'll read
24 it -- it says, "John, I don't think this is possible".
25 There's "No weight in the vertical hole."

1 Following that fax transmittal is some diagrams
2 and the information that we gave them that they entered
3 into their program.

4 Q. All right, it shows, if the Examiner chooses to
5 study it, the specific details of how the Baker-Hughes
6 expert came to the conclusion that this was not feasible?

7 A. It was not feasible.

8 Q. Apart from the feasibility of engaging in such a
9 drilling prospect, let's compare what would happen
10 economically. If you'll turn behind Exhibit Tab Number 7,
11 describe for us what you have concluded and how you have
12 reached that conclusion.

13 A. What I have, Mr. Examiner, is an economic summary
14 for the Farmington A 100. There's two columns. The first
15 is "As Proposed", drilling in the location that we
16 currently have it staked. The second column would be a
17 "Deviated Hole".

18 Our cost here would be around \$300,000, and our
19 rate of return around 67 percent, and it would pay out in a
20 little over three years, and our P/I would be 1.7. The
21 reserves it would recover is around 1.5 BCF.

22 Now, when you compare that to the deviated hole,
23 our cost goes up to over -- right at \$750,000, our rate of
24 return drops to 1 percent, payout runs into a little over
25 18 years, our P/I goes negative, and our reserves are cut

1 in half. The reason the reserves are cut in half is the
2 high likelihood of us not being able to get that hole down,
3 and it's due to a mechanical risk, the hole caving in on
4 us.

5 Q. Has Burlington ever been successful in drilling
6 such a shallow coal gas well directionally?

7 A. Not at this depth.

8 MR. KELLAHIN: That concludes my examination of
9 Mr. Biemer. We move the introduction of his Exhibits 5, 6
10 and 7.

11 EXAMINER CATANACH: Exhibits 5, 6 and 7 will be
12 admitted as evidence.

13 EXAMINATION

14 BY EXAMINER CATANACH:

15 Q. This is kind of off the subject, Mr. Biemer, but
16 from the information that you've looked at on this proposed
17 well, in your opinion, will that well adequately drain the
18 south half of the section as proposed?

19 A. That is something that is currently being studied
20 by the State, as to whether 160s or 320s will drain, and
21 that's currently being looked a through the State.

22 EXAMINER CATANACH: Okay. I don't have any more
23 questions of this witness, Mr. Kellahin.

24 MR. KELLAHIN: That concludes our presentation,
25 Mr. Examiner.

1 EXAMINER CATANACH: Mr. Feldewert, I didn't ask
2 you. Did you have any questions or anything, statements in
3 this case?

4 MR. FELDEWERT: Not at this time, Mr. Examiner.
5 As I understand it, they are continuing this until the
6 21st.

7 EXAMINER CATANACH: Okay. And that's sufficient
8 for Yates at this point?

9 MR. FELDEWERT: Yes.

10 EXAMINER CATANACH: Okay. All right, then. We
11 will continue the case to December 21st, at which time I
12 guess we'll either take it under advisement or we'll have
13 some more testimony.

14 MR. KELLAHIN: Yes, sir. I hope next week Mr.
15 Carr and I and Mr. Feldewert can resolve this, and we'll
16 advise you as soon as we can.

17 EXAMINER CATANACH: Okay, thank you.

18 (Thereupon, these proceedings were concluded at
19 11:26 a.m.)

20 * * *

21 I hereby certify that the foregoing is a true and correct copy of the proceedings of the
22 Board of Conservation of the State of California, held on December 7, 1955.
23 By me on December 7, 1955.
24 David R. Catnach
25 Off Conservation Division

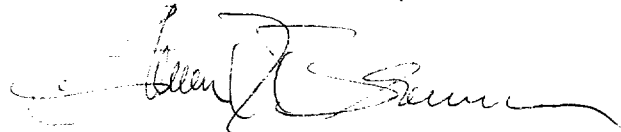
CERTIFICATE OF REPORTER

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 December 10th, 2000.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 2002