#### 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. 12,633

APPLICATION OF McELVAIN OIL AND GAS PROPERTIES, INC., FOR COMPULSORY POOLING, RIO ARRIBA COUNTY, NEW MEXICO

ORIGINAL

#### REPORTER'S TRANSCRIPT OF PROCEEDINGS

#### EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

01 APR 19 AT 7:5

April 5th, 2001

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH,
Hearing Examiner, on Thursday, April 5th, 2001, 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

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## EXHIBITS

Applicant's	Identified	Admitted
Exhibit Exhibit Exhibit	2 6	10 10 10
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\* \* \*

## APPEARANCES

# FOR THE APPLICANT:

HOLLAND & HART, L.L.P., and CAMPBELL & CARR 110 N. Guadalupe, Suite 1 P.O. Box 2208
Santa Fe, New Mexico 87504-2208
By: MICHAEL H. FELDEWERT

\* \* \*

WHEREUPON, the following proceedings were had at 1 10:05 a.m.: 2 EXAMINER CATANACH: At this time I'll call Case 3 12,633, the Application of McElvain Oil and Gas Properties, 4 Inc., for compulsory pooling, Rio Arriba County, New 5 Mexico. 6 Call for appearances in this case. 7 MR. FELDEWERT: If it please the Examiner, 8 Michael Feldewert with the Santa Fe office of Holland and 9 Hart and Campbell and Carr, on behalf of the Applicant, 10 McElvain Oil and Gas Properties, Inc. I have two witnesses 11 12 today. EXAMINER CATANACH: Any additional appearances? 13 Okay, will the two witnesses please stand to be 14 sworn in? 15 (Thereupon, the witnesses were sworn.) 16 MONA L. BINION, 17 18 the witness herein, after having been first duly sworn upon her oath, was examined and testified as follows: 19 DIRECT EXAMINATION 20 BY MR. FELDEWERT: 21 Ms. Binion, would you please state your full name 22 Q. and address for the record? 23 Mona Binion, 4824 Prospect, Littleton, Colorado, 24 Α. 25 80123.

Ms. Binion, by whom are you employed and in what 1 Q. 2 capacity? McElvain Oil and Gas Properties, Inc., land 3 Α. 4 manager. Have you previously testified before this 5 Q. Division? 6 7 Α. Yes. At that time were your credentials as an expert 8 9 in petroleum land matters accepted and made a matter of public record? 10 11 A. Yes. Are you familiar with the Application that has 12 Q. been filed by McElvain in this case? 13 Α. Yes. 14 And are you familiar with the status of the lands 15 0. in the subject area? 16 17 Α. Yes. MR. FELDEWERT: Mr. Examiner, I would tender Ms. 18 19 Binion as an expert in petroleum land matters. 20 EXAMINER CATANACH: She is so qualified. 21 Q. (By Mr. Feldewert) Would you please briefly outline for the Examiner what McElvain seeks with this 22 23 Application? McElvain seeks an order pooling all of the 24 mineral interests from the base of the Pictured Cliffs 25

formation to the base of the Dakota formation under the west half of Section 4, Township 25 North, Range 2 West, Rio Arriba County, New Mexico, for all the formations and pools developed on 320-acre spacing, to be dedicated to the Cougar Com Number 4 2-A well, to be drilled at a standard location in the southwest quarter of Section 4, intended to test the Basin-Dakota Pool.

- Q. Okay, why don't you identify for the Examiner McElvain Exhibit Number 1?
- A. McElvain Exhibit Number 1 is a land plat showing the proration unit of the west half of Section 4. It shows the working interest ownership for the horizons covered under this Application as to the west half on a tract-by-tract basis.
- Q. What is the status of the acreage in the west half of Section 4?
- A. The acreage is comprised of federal and fee lands.
- Q. Okay. And why don't you then identify and review for the Examiner McElvain Exhibit Number 2?
- A. McElvain Exhibit Number 2 is a composite list of working interest owners in the horizons covered under this Application, that is combined on a net-acre basis for the working interests in the west half of Section 4.
  - Q. And this shows McElvain as the largest interest

owner in the west half of Section 4; is that correct?

A. That's correct.

- Q. Okay. You have a column there, voluntarily committed. Does this indicate, then, the interest owners that are subject to this pooling Application if they do not have "voluntary commitment" after their names?
  - A. Yes, with two exceptions.
  - Q. And what are they?
- A. The exceptions are Dugan Production Company and Williams Production Company. Since we have filed this Application, Dugan Production Company has voluntarily committed, so we have removed them from this Application. And Williams Production Company does not have a current working interest in the properties, therefore they have not been noticed and would not be subject to this Application.

The balance of the parties who have not been shown as voluntarily committed remain subject to this Application, which make up three parties: Gavilan Dome Properties; Mesa Grande Resources, Inc.; and Johansen Energy Partnership.

- Q. Now, of those three parties is there any interest owner here that you've been unable to locate?
  - A. No.
- Q. Why don't you summarize your efforts for the Examiner to obtain voluntary joinders of the three interest

owners that you've been able to locate here?

A. On January 10th, 2001, we sent the original proposal by certified mail. We did receive indication that all parties have received this proposal. Subsequent to that, if we did have phone numbers, we did attempt phone calls, none of which were returned.

There have been indirect contacts attempted through common associations, none of which resulted in any response voluntarily committing any interest from any of these parties.

- Q. Is McElvain Exhibit Number 3 the January 10th, 2001, letter with the attached AFE that you just referenced as your first --
  - A. Yes, that's it.
- Q. Okay. In your opinion, have you made a goodfaith effort to obtain voluntary joinder of the three
  working interest owners that are subject to this pooling
  Application?
- A. Yes.

1.4

- Q. Is McElvain Exhibit Number 4 an affidavit giving notice of this hearing?
  - A. Yes.
- Q. Now, I note that in that exhibit there is no green card returned for Gavilan Dome properties.
  - A. Yes.

We show them at an address of 1180 Cedarwood 1 0. Drive, Moraga, California? 2 3 Α. Yes. Is that correct? 4 0. 5 Α. That's the correct address. 6 Have you had success in contacting Gavilan Dome Q. Properties in the past at this address? 7 Α. Yes, we have. 8 Could you identify for the Examiner McElvain 9 Q. Exhibit Number 4A? 10 Exhibit Number 4A is a xerox reproduction of the 11 certified return receipts from the original January 10th 12 mailout, one of which is the return receipt signed by 13 Gavilan Dome Properties, having received the January 10th 14 15 proposal at the same address that the notice of this 16 hearing was mailed. And it's noted on page 2 of that exhibit? 17 ο. Page 2 of the exhibit with Article Number Z 152 18 19 933 620, received. Date of delivery was January 16th, 2001. 20 In the past have you noticed whether Gavilan Dome 21 Q. Properties occasionally either refuses or does not pick up 22 their certified mail at this address? 23 Yes, occasionally -- on some occasions we've had 24 25 the packages returned to us nonreceived, and on other

occasions we've had them received with return receipts, 1 returned back to us. 2 Okay. Were Exhibits 1 through 4A prepared by you 3 Q. or compiled under your direction and supervision? 4 5 Α. Yes. MR. FELDEWERT: Mr. Examiner, I would move the 6 admission into evidence of McElvain Exhibits 1 through 4A. 7 EXAMINER CATANACH: Exhibits 1 through 4A will be 8 9 admitted as evidence. MR. FELDEWERT: And that concludes my examination 10 11 of this witness. 12 **EXAMINATION** BY EXAMINER CATANACH: 13 Ms. Binion, on Exhibit Number 2 you've got two 14 Q. footnotes on the bottom. Has the dispute between Mesa 15 Grande and Northwest been resolved, as far as you know, as 16 far as the interest owners? 17 On the Williams Production, the Number 2? 18 A. Yes. 19 Q. No, it has not. It is not really a dispute, it's 20 Α. just that a payout has never been officially determined, 21 and the information I've received from both sides, both 22 parties, is that the expectation is, that payout that is 23 written up in that purchase agreement will never occur. 24

But right now, legally, it still appears as a pending

interest of record, potential pending interest of record.

Q. Okay, so who owns the interest?

- A. Currently, the interest is owned by Gavilan Dome Properties, Neumann Family Trust, Noseco Corporation, NMO Operating, Mesa Grande Resources and Johansen Energy Partners. If the payout would ever occur which is referenced in that agreement, those parties would proportionately reduce by a certain percentage and return a working interest percentage to Williams. At least that's our understanding of the terms of that contract.
- Q. Okay, you've got Northwest Pipeline down here and Mesa Grande Resources.
- A. Those are the two original parties to the agreement. Northwest Pipeline ended up being through mergers and sales. It became Williams Production Company; they are the current owner.

Mesa Grande Resources, Inc., divested a portion of the interest they acquired under that purchase and sale to the other parties that I just named.

- Q. Okay. As far as the Dugan interest, there's no dispute as to Dugan's 25 percent?
- A. No, it's a matter of clearing up the record to reassign that 25 percent to Dugan. We reflect it as though they had received that assignment. And the parties have all -- all the parties that are affected have indicated

that they agree the assignment is being prepared and to be delivered to Dugan, so we've recognized their interest, and they have voluntarily committed. Okay. But the parties that you cannot get a deal with, have you actually tried to call them on occasion or --Yes, we have, and we've had these parties' Α. interests in numerous locations that McElvain has drilled in the last few years, with the same end result, you know, either no response or -- This time I think we have come as 10 close as we've ever come before, we've had indirect 11 indication they would be willing to do something with us. But everything we've sent to them they have not signed. So you've had experience with all three of these Q. parties before? Numerous times, both personally and my predecessor at McElvain. EXAMINER CATANACH: Okay, that's all I have of this witness. JOHN D. STEUBLE, the witness herein, after having been first duly sworn upon his oath, was examined and testified as follows: DIRECT EXAMINATION BY MR. FELDEWERT:

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Q.

Mr. Steuble, would you please state your full

name and address for the record? 1 John Steuble, I reside at 6522 South Hoyt Way in 2 Α. Littleton, Colorado. 3 And by whom are you employed and in what 4 capacity? 5 McElvain Oil and Gas Properties, Incorporated, as 6 Α. 7 the engineering manager. And have you previously testified before this 8 9 Division and had your credentials as a petroleum engineer accepted and made a matter of record? 10 Yes, I have. 11 Α. And are you familiar with the Application that's 12 Q. been filed in this case? 13 A. Yes, I am. 14 Mr. Steuble, have you conducted a study of the 15 area which is the subject of this Application? 16 Yes. 17 A. And are you prepared to share the results of your 18 work with the Examiner? 19 20 A. Yes. I would then tender Mr. Steuble 21 MR. FELDEWERT: as an expert witness in petroleum land -- or petroleum 22 23 engineering. EXAMINER CATANACH: He is so qualified. 24 25 (By Mr. Feldewert) Mr. Steuble, what is the Q.

primary target of McElvain's proposed well? 1 The primary target is the Basin-Dakota formation. 2 Α. And has McElvain drilled other Dakota wells in or 3 0. 4 around the area that is the subject of this Application? 5 Α. Yes, we have. 6 Are you prepared to make a recommendation to the Q. Examiner as to the risk penalty that should be assessed 7 8 against nonconsenting interest owners? 9 Yes, I am. Α. And what is that recommendation? 10 0. 11 Two hundred percent. Α. Would you please identify for the Examiner upon 12 Q. what you base this 200-percent recommendation? 13 We base it on the lack of success and lack of 14 Α. drilling in the immediate area, as is shown on Exhibit 15 16 Number 5. 17 Q. Okay, why don't you identify Exhibit Number 5 and 18 go through it with the Examiner, please? 19 A. This is a nine-section plat showing our proposed well, the Cougar Com 4 Number 2-A, and it shows the other 20 21 Dakota wells that have been attempted or are producing in 22 the area. 23 As you can see, just to the north we have drilled the Cougar Com 4 Number 2, and it is marked as a 24

noncommercial Dakota test in the same section.

The well in Section 3 was a Dakota attempt, that is no longer producing, by another operator. We do have two wells that are producing in Section 33.

- Q. How would you categorize the production of those wells in Section 33?
- A. The two wells in Section 33, the farthest north well is probably a marginal well. It's approximately 100 MCF a day, and the one in the southeast quarter is somewhat marginal, but it will produce about 200 MCF a day. Both of these wells are less than one year old.
- Q. Would you identify for the Examiner, then, and review McElvain Exhibit Number 6?
- A. Exhibit Number 6 is just a map showing the Basin-Dakota wells, or the wells that are completed in the Dakota formation in a larger around us, just trying to show that there are other wells in the area. But the area is sparsely drilled in the Dakota formation.
- Q. Do you believe there's a chance that you could drill a well at the proposed location that would not be a commercial success?
  - A. Yes, I do.

Q. I'd like to have you now turn to McElvain Exhibit
Number 3. There is attached to that an AFE. Would you
review the dryhole and completed well totals for the
Examiner, please?

Dryhole cost is \$436,940, completed well cost is 1 Α. \$996,640. 2 Is this for a Dakota completion? 3 Q. This is for a Dakota-Mesaverde dual completion. 4 Α. 5 Q. Okay, why did you include the Mesaverde dual-6 completion figures on this? 7 The dual completion because the Dakota is the 8 primary target, but the Mesaverde is also what we call a 9 bailout zone, which would be completed in case the Dakota 10 was not as commercial as we had hoped. So in proposing the well to these interest 11 0. owners, you submitted an AFE that included costs for both 12 completions; is that correct? 13 That's correct. Α. 14 Okay. Have you drilled other Dakota wells -- I 15 think you said McElvain has drilled other Dakota wells in 16 17 the area? 18 Α. Yes, we have. Are these costs in line with what McElvain has 19 0. 20 incurred in the area for drilling similar wells? Yes, they are. 21 Α. Have you made an estimate of the overhead and 22 23 administrative costs while drilling this well and also 24 while producing it if it is successful?

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Α.

Yes.

And what are those estimates? 1 Q. \$6000 a month for drilling and \$600 a month for 2 3 producing. Is there a joint operating agreement for this 4 5 property that has been signed by the committed working interest owners? 6 7 Yes, there is. Α. Are these rates consistent with the rates in that 8 9 JOA as adjusted under the COPAS guidelines in effect at that time? 10 11 Yes, they are. Α. Do you recommend that these same drilling and 12 13 producing overhead and administrative rates be approved for this well? 14 15 Yes, I do. Α. Are there COPAS guidelines attached to that JOA? 16 Q. Yes, sir, I believe so. 17 Does McElvain request that the overhead figures 18 Q. approved by the Division here be subject to adjustment in 19 20 accordance with the COPAS guidelines applicable to other interest owners in the well? 21 22 Α. Yes, sir. 23 Does McElvain seek to be designated the operator 24 of the proposed well?

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Α.

Yes, we do.

Q. In your opinion, will granting this Application
be in the best interests of conservation, the prevention of
waste and the protection of correlative rights?
A. Yes.
Q. And were McElvain Exhibits 5 and 6 prepared by
you or compiled under your direction?
A. Yes, they were.
MR. FELDEWERT: Mr. Examiner, I would move the
admission into evidence of McElvain Exhibits Number 5 and
6.
EXAMINER CATANACH: Exhibits Number 5 and 6 will
be admitted as evidence.
MR. FELDEWERT: And that concludes my examination
of this witness.
EXAMINATION
BY EXAMINER CATANACH:
Q. Mr. Steuble, at this point you don't anticipate
Q. Mr. Steuble, at this point you don't anticipate dually completing the well in the Dakota and Mesaverde?
<u> </u>
dually completing the well in the Dakota and Mesaverde?
dually completing the well in the Dakota and Mesaverde?  A. No, we do not. What we do is The reason for
dually completing the well in the Dakota and Mesaverde?  A. No, we do not. What we do is The reason for the dual completion the AFE is an accounting function. We
dually completing the well in the Dakota and Mesaverde?  A. No, we do not. What we do is The reason for the dual completion the AFE is an accounting function. We have partners, and rather than having to re-AFE them in

Currently we are just completing the Dakota zones and

producing them for a period of time.

- Q. Until depletion or --
- A. Not until depletion but until we get a handle on just how good the Dakota is in this area. As you can see from the sparse drilling, we have numerous drilling plans and we're trying to evaluate if we still want to go to the Dakota depths on each well. So in order to do that, we target the Dakota as the primary objective and then produce it for a period of time until we feel we have a handle on what it will produce, or what its producing characteristics are.
  - Q. And then what?
- A. And then we'll go up and try to recomplete the Mesaverde. We have not yet applied for a commingling order. There are a number of wells that we're evaluating commingling on.
- Q. But a Mesaverde completion in this well is certainly possible; is that correct?
  - A. Yes, it is. Well, we would hope so.
- Q. Would you say that the risk penalty of 200 percent should apply to the Mesaverde as well?
  - A. Yes, I would.
- Q. I'm just curious. If you were to get a dry hole in the Dakota and you came uphole and completed in the Mesaverde, I'm just curious as to what drilling costs would

be attributed to the Mesaverde owners. Would it be just down in the Mesaverde?

- A. Luckily, the interest owners are pretty much the same in both zones, in most of the wells. We have looked at one, and I think we have one where our overriding royalty is a little bit different, but most of these wells have the same working interests and revenue interests in both zones.
- Q. As far as -- Say these three nonconsenting working interest owners, if they went nonconsent, which they're obviously going to in the Dakota and the Mesaverde, if you didn't make a Dakota completion and you ended up making a Mesaverde, what drilling costs would you charge them for the Mesaverde completion? Would it be just down to the Mesaverde?
- A. No, sir, because we're proposing it as a Dakota and Mesaverde, so on all of the Mesaverdes that we've done in the area with this same group, none of them went with us. We've had to force pool them even on the Mesaverde completions.
- Q. Well, I'm a little bit confused. Why would you charge them drilling costs to the Dakota if they were, say, interest owners in the Mesaverde, but you would charge them drilling costs to the Dakota, and if you didn't make a completion in the Dakota; is that your --?

- A. I guess I'm not following you.
- Q. If you drilled this well and you did not -- it was dry in the Dakota formation --
  - A. Okay.

- Q. -- okay? So you came uphole and completed and made a successful completion in the Mesaverde formation --
  - A. Okay.
- Q. -- and these three interest owners that are still out there, what drilling costs would you charge them for this well?
- A. Well, the drilling costs would be for the entire well.
  - Q. Down to the Dakota?
- A. Down to the Dakota, because there are interest owners in the Dakota also.

The other option -- and I don't think it's ever come up, that's why I'm stammering with the question -- the other option is to consider it just a Mesaverde well and come up with the incremental costs going to the Dakota and then back out those costs and charge the Mesaverde owners with the cost to go to the Mesaverde.

- Q. Right, that's what I'm getting at. Don't you think that would be more fair? I'm just...
- A. I guess there's multiple ways of looking at it.
  We're trying to develop their reserves in the Dakota. They

ought not to go with us. Like I say, we have approached them on numerous Mesaverde wells which they've opted not to go with us and ended up in force pooling hearings.

- Q. Okay. You haven't run across that situation yet?
- A. No, we have not.

- Q. Okay. As far as the Mesaverde, it is essentially -- you're kind of off the main producing area of the Mesaverde as well?
- A. Yes, we've drilled a number of Mesaverdes. We've had some successes, and we've had some uneconomic successes also. Between that section and to the township to the west there are no Mesaverde-producing wells. And basically to the east of that section there is -- In Section 3 there is some producing Mesaverde wells, but east of that there have been some attempts in the Mesaverde but nothing commercial.
- Q. As far as you know, the well that you're drilling in Section 4, that will be a Basin-Dakota and not one of these other Dakota Pools that's combined with the Gallup?
- A. This is a problem, because as you can see that -we're right in the middle of the overlap of the three
  different pools where we happen to be operating.

I've talked to the Aztec Office, Steve Hayden, and he has informed me to permit everything as Basin-Dakotas, inasmuch as he does not want to extend pools in these three particular pools, because we're right in an

area where the pool rules actually overlap, because of the mileage -- one-mile extensions on them.

- Q. Okay, so you're not in one of the Gallup-Dakota Pools?
  - A. No.
  - Q. Okay.

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- A. And we don't really have any intentions to complete the Gallup. We've not seen any evidence that we can make a Gallup well there.
- Q. Okay. Those two wells up in Section 33, are those your wells?
  - A. Yes, they're our wells.
  - Q. And you said those were less than a year old?
- A. Yes, sir.
- 15 Q. Producing 100 and 200 MCF a day --
- 16 | A. Yes.
- 17 | Q. -- approximately?
  - A. Now, we have tried the Mesaverde in the southeast quarter. We have a bridge plug over the Dakota, and it was making about 200 a day when we shut it off, and we've tried to complete the Mesaverde, and we've got a lot of water problems there. It currently has not been applied for commingling. We're still trying to dewater the Mesaverde there, and we're not sure if we're going to be able to.

EXAMINER CATANACH: Okay. All right, that's all

1	the questions I have in this case.
2	Anything further, Mr. Feldewert?
3	MR. FELDEWERT: No, Mr. Examiner.
4	EXAMINER CATANACH: There being nothing further,
5	Case 12,633 will be taken under advisement.
6	(Thereupon, these proceedings were concluded at
7	10:31 a.m.)
8	* * *
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13	I do havely certify that the foregoing is a complete record of the proceedings in
14	the Examiner hearing of Case No. 12633, heard by me on 19201
15	David Rlota L
16	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 April 12th, 2001.

STEVEN T. BRENNER

CCR No. 7

My commission expires: October 14, 2002