

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. 12,741

APPLICATION OF TEXAKOMA OIL AND GAS)
CORPORATION FOR COMPULSORY POOLING AND)
A NONSTANDARD GAS SPACING AND PRORATION)
UNIT, SAN JUAN COUNTY, NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID K. BROOKS, Hearing Examiner

October 18th, 2001

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID K. BROOKS, Hearing Examiner, on Thursday, October 18th, 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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October 18th, 2001
Examiner Hearing
CASE NO. 12,741

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* * *

A P P E A R A N C E S

FOR THE DIVISION:

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FOR THE APPLICANT:

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* * *

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

3 EXAMINER BROOKS: At this time we will call Case
4 Number 12,741, Application of Texakoma Oil and Gas for
5 compulsory pooling and a nonstandard gas spacing and
6 proration unit, San Juan County, New Mexico.

7 Call for appearances.

8 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe,
9 representing the Applicant. I have two witnesses to be
10 sworn.

11 EXAMINER BROOKS: Any other appearances?

12 You may swear the witnesses. Will the witnesses
13 please state their names for the record?

14 MR. RICHARDSON: John Michael Richardson.

15 MR. KENDRICK: A.R. Kendrick.

16 EXAMINER BROOKS: Okay.

17 (Thereupon, the witnesses were sworn.)

18 EXAMINER BROOKS: You may proceed.

19 JOHN MICHAEL RICHARDSON,
20 the witness herein, after having been first duly sworn upon
21 his oath, was examined and testified as follows:

22 DIRECT EXAMINATION

23 BY MR. BRUCE:

24 Q. Would you please state your full name and city of
25 residence for the record?

1 A. John Michael Richardson, Stanley, New Mexico.

2 Q. What is your occupation?

3 A. I'm a petroleum landman.

4 Q. What is your relationship to the Applicant in
5 this matter?

6 A. I'm a contract landman for Texakoma Oil and Gas
7 Corporation.

8 Q. Have you previously testified before the
9 Division?

10 A. Yes, I have.

11 Q. And were your credentials as an expert accepted
12 as a matter of record?

13 A. Yes, they were.

14 Q. And are you familiar with the land matters
15 involved in this case?

16 A. Yes, I am.

17 MR. BRUCE: Mr. Examiner, I tender Mr. Richardson
18 as an expert petroleum landman.

19 EXAMINER BROOKS: He is so qualified.

20 Q. (By Mr. Bruce) Mr. Richardson, what does
21 Texakoma seek in this case?

22 A. Texakoma seeks an order pooling all of the
23 mineral interests in the south half of Section 18 of
24 Township 31 North, Range 13 West, as to the Basin-Fruitland
25 Coal Gas Pool.

1 Q. What is Exhibit 1?

2 A. Exhibit 1 is a land plat. The south half of
3 Section 18 is comprised of lots 8, 9 and 10, the northeast
4 of the southwest and the southeast quarter containing
5 262.77 acres, and we ask for approval of the nonstandard
6 unit due to the variation of the governmental survey.

7 Q. And just for the Examiner's information, on what
8 you have listed or what is listed as USA Lease NM-86494,
9 those three governmental subdivisions are irregular in
10 size, are they not?

11 A. Yes, they are.

12 Q. Just due to the governmental survey?

13 A. Correct.

14 Q. Okay, which is the reason for the nonstandard
15 unit.

16 What is the well's location?

17 A. The well is in an unorthodox location at 1568
18 feet from the south line and 1640 feet from the east line
19 of Section 18.

20 Q. Okay, and has Texakoma applied for administrative
21 approval of this location?

22 A. Yes, they have, and our next witness has prepared
23 that Application.

24 Q. Now, what interests does Texakoma seek to pool in
25 this case?

1 A. The northeast quarter of the southwest quarter
2 and the northwest quarter of the southeast quarter of
3 Section 18 is a fee tract in which there are a number of
4 unlocatable mineral interest owners, and we seek to pool
5 the unlocatable interests.

6 Q. Who do you seek to pool? And I refer you to
7 Exhibit 2.

8 A. Exhibit 2 lists the interest owners that we seek
9 to pool, together with their fractional interest in the fee
10 tract.

11 Q. Now, are these interests unleased interests?

12 A. Yes.

13 Q. Why are these people difficult to locate?

14 A. This land was patented to Mr. James McGuinn in
15 1915. He died shortly thereafter in 1919 without any
16 surviving parents, brothers or sisters. One brother died
17 unmarried and was childless, but he had four other siblings
18 that had a combined total of 22 children, and these are the
19 people that inherited all of the land.

20 Q. Did these nephews and nieces of James McGuinn
21 reside in San Juan County?

22 A. No, primarily they were out of state in
23 Minnesota, Michigan and New York, and only these nephews
24 and nieces are alive now.

25 Q. Only one of them?

1 A. Only one, excuse me.

2 Q. Okay. So now you're talking grandnephews and
3 great-grandnephews and everybody else?

4 A. Correct.

5 Q. Okay. And some of them even reside out of the
6 country now, do they not?

7 A. That is correct, in Canada and Italy.

8 Q. Okay. Now, when these 22 nephews and nieces, or
9 21 of them now, nephews and nieces died, did they have New
10 Mexico probates conducted on their estates?

11 A. No, they did not. And in fact, very few of them
12 had probates conducted in their home states.

13 Q. Are there any deeds recorded with the County
14 Clerk of San Juan County affecting these interests?

15 A. Only a few.

16 Q. So what you've had to do is reconstruct ownership
17 for -- well, it's going on 82 years now, with virtually no
18 instruments recorded with the County Clerk?

19 A. That is correct.

20 Q. What sources did you examine in order to
21 determine the ownership and the addresses for these
22 interest owners?

23 A. First we examined the records of the County Clerk
24 and the Clerk of the District Court of San Juan County, New
25 Mexico, and then we did an Internet search. We used the

1 Social Security Index, Death Index and a few of the locator
2 directories that are found on the Internet, anyhoo.com or
3 versephone.com, infospace.com, whowhere.com,
4 peopleyahoo.com and rootsweb.com are some of the ones that
5 I remember we did extensively. In addition to that we
6 looked at the family history of the Mormon Church in Salt
7 Lake City, Utah, on the line and got what information we
8 could from there.

9 Q. Did you -- Of the family members you were able to
10 contact, were you able to get some family history out of
11 them?

12 A. Yes, we were. Some of them were very
13 knowledgeable, some of them didn't know much at all. And
14 in a lot of instances it was conflicting information.

15 Q. Okay. Are there any other sources you checked?

16 A. Yes, Jerry McHugh, Jr. had title to this land
17 examined during the last 10 or 15 years, and he purchased
18 leases on these interests. Texakoma has acquired that
19 leasehold. In addition, Merrion Oil and Gas Corporation
20 also had title examined to this land and acquired some
21 interest. Texaco has also acquired the Merrions' interest
22 in land records in this leasehold. For the most part,
23 those records are duplicate of ours.

24 Q. So what you've had is, at this point, three or
25 four companies over the last 10 to 15 years looking at

1 title to these tracts, and it's still pretty messed up?

2 A. That is correct.

3 Q. And you have had access to the McHugh and the
4 Merrion land records as well as your own?

5 A. Yes, we have.

6 Q. Okay. Obviously we're not force pooling
7 everybody here. Are there some locatable interests?

8 A. There are, and we have those under lease, but we
9 do not wish to force pool those interests, just the ones --
10 the mineral interest owners that we cannot locate.

11 Q. Okay, so a number of -- even at this point, title
12 is very questionable on some interests?

13 A. That is correct.

14 Q. But you've taken leases from a number of people,
15 and anybody that you've taken a lease from, you don't
16 desire to pool?

17 A. That is correct.

18 Q. Okay. Now, of these people listed on Exhibit 2,
19 did you mail offers or well proposals to the people on
20 Exhibit 2 for this particular well?

21 A. No, we did not. Texakoma has force pooled these
22 same people in the east half of Section 7 and the north
23 half of Section 18 in Township 31 North, 13 West. In those
24 cases we did send offers to the people for whom we had
25 addresses. However, these addresses are probably 40 years

1 old in some cases, and we never received any response.
2 Therefore in this case we have not sent any letters, since
3 the addresses were of no value to us.

4 Q. In your opinion, has Texakoma made a good-faith
5 effort to locate all possible interest owners in the
6 northeast quarter, southwest quarter and the northwest
7 quarter, southeast quarter of Section 18?

8 A. Yes, we have. We've spent approximately three to
9 five weeks searching for these people, and it's pretty much
10 come to a dead end.

11 Q. Okay. Other than these unlocatable interests, is
12 Texakoma the only other working interest owner in the
13 proposed well?

14 A. Yes. Lots 8, 9 and 10 of Section 18 are subject
15 to federal lease NM-86494, and the east half of the
16 southeast and the southwest of the southeast is subject to
17 federal lease NM-10171, and both tracts are owned 100
18 percent by Texakoma as to the Fruitland Coal formation.

19 Q. Does Texakoma request that it be designated
20 operator?

21 A. Yes, it does.

22 Q. What is Exhibit 3?

23 A. Exhibit 3 is an AFE for the well. It is a
24 proposed 2000-foot Fruitland test with an estimated dryhole
25 cost of \$84,680 and a completed well cost of \$364,900.

1 Q. And because of the water produced in these wells
2 there has to be a fair amount of surface equipment, does
3 there not?

4 A. Yes, that is correct.

5 Q. And are these costs in line with the costs of
6 other wells drilled to this depth in this area of New
7 Mexico?

8 A. Yes, Texakoma has drilled eight to ten wells in
9 this immediate area, and those costs are in line with the
10 cost of those wells, those other wells.

11 Q. Do you have a recommendation for the amounts
12 which Texakoma should be paid for supervision and
13 administrative expenses?

14 A. Yes, we request that \$5000 a month be allowed for
15 a drilling well and \$500 a month be allowed for a producing
16 well.

17 Q. Are these amounts equivalent to those normally
18 charged by Texakoma and other operators in this part of the
19 state?

20 A. Yes, they are. These costs are somewhat high
21 because of the amount of water which these wells produce,
22 but these rates are equivalent to rates charged by
23 Burlington and other operators in the area.

24 Q. Does Texakoma request that the overhead rates be
25 adjusted periodically as provided in the COPAS accounting

1 procedure?

2 A. Yes, they do.

3 Q. In your opinion, is the granting of this
4 Application in the interests of conservation and the
5 prevention of waste?

6 A. Yes, it is.

7 Q. And were Exhibits 1 through 3 compiled from
8 company business records?

9 A. Yes, they were.

10 MR. BRUCE: Mr. Examiner, I'd move the admission
11 of Texakoma Exhibits 1 through 3.

12 EXAMINER BROOKS: Texakoma Exhibits 1 through 3
13 will be admitted.

14 MR. BRUCE: I have no further questions at this
15 time, Mr. Examiner.

16 EXAMINATION

17 BY EXAMINER BROOKS:

18 Q. Okay, let me review this and be sure I've copied
19 this down correctly.

20 The area to be pooled is the south half of
21 Section 18 as to the base of the Fruitland Coal only?

22 A. Yes, sir.

23 Q. And the acreage of that south half of the section
24 is 262.77; is that correct?

25 A. Yes, sir, that is correct.

1 Q. Now, the location I got down is 1568 feet from
2 the south line and 1640 feet from the east line; is that
3 correct?

4 A. Yes, sir, that is correct.

5 Q. And you said this is a nonstandard location, and
6 you have an administrative application pending?

7 A. Yes, sir, we do. Mr. Al Kendrick will address
8 that.

9 Q. Okay, very good. Texakoma is the owner of the
10 federal leases shown on this map, NM-86494 and NM-10171, as
11 far as relates to this land?

12 A. Yes, sir, as to the operating rights of the
13 Fruitland Coal formation.

14 Q. Okay. And Texakoma also owns interests --
15 undivided interests, working interest, in the McGuinn
16 tract?

17 A. Yes, sir, they do.

18 Q. And Texakoma seeks to be appointed or named to be
19 operator of this unit?

20 A. Yes, sir, that is correct.

21 EXAMINER BROOKS: I believe that covers all my
22 questions.

23 MR. BRUCE: Okay, I have nothing further of this
24 witness.

25 EXAMINER BROOKS: Very good, the witness may

1 stand down.

2 A.R. KENDRICK,

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. BRUCE:

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

8 A. A.R. Kendrick.

9 Q. Where do you reside?

10 A. Aztec, New Mexico.

11 Q. What is your relationship to Texakoma Oil and Gas
12 Corporation in this matter?

13 A. I'm a petroleum consultant for Texakoma.

14 Q. By education and training are you an engineer?

15 A. Yes, sir.

16 Q. And have you previously testified before the
17 Division?

18 A. Yes.

19 Q. And were your credentials accepted as a matter of
20 record?

21 A. They were.

22 Q. And are you familiar with the matters related to
23 the drilling of the proposed well?

24 A. Yes.

25 MR. BRUCE: Mr. Examiner, I'd ask if Mr.

1 Kendrick's qualifications are acceptable?

2 EXAMINER BROOKS: He is so qualified.

3 Q. (By Mr. Bruce) Before we move on to anything
4 else, Mr. Kendrick, regarding the unorthodox location, this
5 location is unorthodox because it's in the, quote, unquote,
6 wrong quarter section; is that correct?

7 A. It's an off-pattern well, yes.

8 Q. And you did apply for administrative approval of
9 that location?

10 A. I did, and I received the approved order
11 yesterday, NSL Number 4651.

12 Q. Let's move on to your exhibits. Could you
13 identify Exhibit 3 for the Examiner and tell him a little
14 bit about the well's location and why it needed to be there
15 and --

16 A. Excuse me, Exhibit 4?

17 Q. Exhibit 4, excuse me.

18 A. Exhibit 4 is a topographic map, and on the west
19 side of the map there are areas of the topography
20 highlighted in yellow showing ridge lines of the competent
21 beds, sandstone beds, that remain, and those were caused by
22 the subsidence of the San Juan Basin and/or the uplift of
23 the Barker Dome uplift.

24 The Fruitland formation outcrops in the northwest
25 corner of this plat, and we're attempting to produce from

1 the Fruitland formation, so we want to stay as far away
2 from the outcrop as possible, to have a better chance for
3 making a commercial well.

4 The La Plata 18 Number 2 well is located down in
5 the southwest corner of this plat, and that's why we wanted
6 to set it in that -- as far south and east as possible, to
7 get away from the outcrop of the formation.

8 Q. Okay. Now, could you move on to your Exhibit 5,
9 identify that for the Examiner and discuss for the Examiner
10 the risk involved in drilling this well?

11 A. The risk is because it's next to the outcrop, and
12 this exhibit is a generic township plat of Township 31
13 North, Range 13 West. That is, assuming all the sections
14 are square. It shows the average monthly production and
15 the cumulative production from all of the Fruitland Coal
16 wells completed in this township, and you'll notice that
17 the La Plata 18 Number 2 well is a stepout from the wells
18 to the northeast that have developed in that direction, and
19 to the southeast there are no wells within two miles of
20 this location, so it's essentially an edge well.

21 Q. Do these wells on the western edge of your map
22 produce a fair amount of water?

23 A. I think all these wells produce a substantial
24 amount of water. Texakoma operates a water disposal well
25 in the southwest quarter of Section 18, about 1500 feet to

1 the west of this location, and that water is injected into
2 the Mesaverde formation.

3 Q. Do you have any idea on the daily rates of water
4 production from these wells?

5 A. I did not research the water rates, but the water
6 rates are high.

7 Q. Okay. And as you said, there's really no
8 Fruitland Coal wells to the east or south of your proposed
9 well?

10 A. Not within a couple of miles. They're all shown
11 on this Exhibit 5.

12 Q. Okay. Based on that and the nearness to the coal
13 outcrops, do you believe, in your opinion, should the
14 maximum penalty for coal gas wells, which is 156 percent, ✓
15 be assessed against any interest owner who goes nonconsent
16 in this well?

17 A. Yes.

18 Q. And were Exhibits 4 and 5 prepared by you or
19 under your supervision?

20 A. Yes, sir.

21 Q. In your opinion, is the granting of Texakoma's
22 Application in the interests of conservation and the
23 prevention of waste?

24 A. Yes.

25 MR. BRUCE: Mr. Examiner, I tender the admission

1 of Texakoma Exhibits 4 and 5.

2 EXAMINER BROOKS: Exhibits 4 and 5 will be
3 admitted.

4 EXAMINER BROOKS: Very good, I have no questions.

5 MR. BRUCE: That's all I have in this matter, Mr.
6 Examiner.

7 EXAMINER BROOKS: Thank you. If there's nothing
8 further, Case Number 12,741 will be taken under advisement.

9 (Thereupon, these proceedings were concluded at
10 11:10 a.m.)

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Case No. 12741
Filed for Record
October 18, 2001
David K. Brooks
Oil Conservation Division

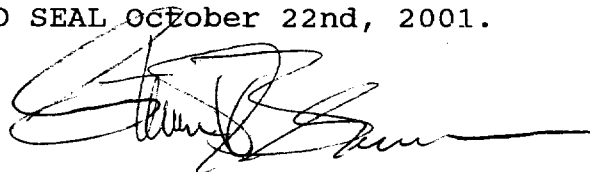
CERTIFICATE OF REPORTER

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 October 22nd, 2001.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 14, 2002