

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 RICHARDSON PRODUCTION) CASE NO. 12,797
COMPANY FOR COMPULSORY POOLING SAN JUAN)
COUNTY, NEW MEXICO)
)
APPLICATION OF RICHARDSON PRODUCTION) CASE NO. 12,798
COMPANY FOR COMPULSORY POOLING SAN JUAN)
COUNTY, NEW MEXICO)
)

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID K. BROOKS, Hearing Examiner

February 7th, 2002

Santa Fe, New Mexico

02 FEB 21 AM 9:59
S. T. BRENNER

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID K. BROOKS, Hearing Examiner, on Thursday, February 7th, 2002, 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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February 7th, 2002
 Examiner Hearing
 CASE NOS. 12,797 and 12,798 (Consolidated)

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A P P E A R A N C E S

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: WILLIAM F. CARR

ALSO PRESENT:

DAVID R. CATANACH
 Hearing Examiner
 New Mexico Oil Conservation Division
 1220 South Saint Francis Drive
 Santa Fe, NM 87501

* * *

1 WHEREUPON, the following proceedings were had at
2 8:20 a.m.:

3
4 EXAMINER CATANACH: Okay, we'll call the hearing
5 to order for Docket Number 04-02.

6 We'll call continuances and dismissals at this
7 time.

8 (Off the record)

9 EXAMINER BROOKS: Okay, at this time we'll call
10 Case Number 12,797, Application of Richardson Production
11 Company for compulsory pooling, San Juan County, New
12 Mexico.

13 Call for appearances.

14 MR. CARR: May it please the Examiner, my name is
15 William F. Carr with the Santa Fe office of Holland and
16 Hart, L.L.P. I'm appearing in this matter in association
17 with W. Thomas Kellahin of Kellahin and Kellahin, the law
18 firm here in Santa Fe. We represent Richardson Production
19 Company in this case and also in the following case, which
20 is an additional pooling case. They are in the same 320-
21 acre tract.

22 We would request that the cases be consolidated
23 for the purpose of hearing.

24 EXAMINER BROOKS: And that would be Case 12,798?

25 MR. CARR: Yes, sir.

1 EXAMINER BROOKS: Okay, at this time we will also
2 call Case 12,798, Application of Richardson Production
3 Company for compulsory pooling, San Juan County, New
4 Mexico, and call for appearances.

5 MR. CARR: I'd like the record to note my
6 appearance.

7 EXAMINER BROOKS: Your appearance is noted.

8 Are there any other appearances in either 12,797
9 or 12,798?

10 Very good, your motion to consolidate will be
11 granted -- consolidate for the purpose of hearing, that is.

12 MR. CARR: May it please the Examiner, I have two
13 witnesses.

14 EXAMINER BROOKS: Will the witnesses please stand
15 and identify themselves?

16 MS. VAN BLARICOM: My name is Rebecca Van
17 Blaricom, and that's V- as in victory, -a-n, B as in boy,
18 l-a-r-i-c-o-m, as in Mary, from Denver, Colorado.

19 I'm with Richardson Production Company, and I'm
20 the land manager.

21 MR. RICHARDSON: David Richardson, Denver,
22 president.

23 (Thereupon, the witnesses were sworn.)

24 EXAMINER BROOKS: You may proceed, Mr. Carr.

25 MR. CARR: Thank you, Mr. Examiner.

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REBECCA E. VAN BLARICOM,

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

DIRECT EXAMINATION

BY MR. CARR:

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

A. Rebecca E. Van Blaricom. I'll spell it again, it's V- as in victory, -a-n, B as in boy, l-a-r-i-c-o-m, as in Mary. And I live in Denver, Colorado.

Q. And you are employed by Richardson Production Company?

A. Yes, I am the land manager for Richardson Production Company.

Q. Have you previously testified before the New Mexico Oil Conservation Division?

A. No, I have not.

Q. Would you summarize your educational background for Mr. Brooks?

A. Yes, I attended Central State University in Edmond, Oklahoma, and Metro State College in Denver, Colorado, pursuing a degree in business management.

Q. Following graduation, for whom have you worked?

A. I worked for City Services, now OXY, and I was employed by Mesa Petroleum Company. From there I went to

1 Petro-Lewis Corporation out of Denver; at that time I was
2 in Oklahoma City. Then I went to Maple Corporation, Bear
3 Paw Energy, L.L.C., and now Richardson Production. I did
4 leave out Santa Fe Snyder, who's now Devon.

5 Q. In all of these jobs, have you been employed as a
6 petroleum landman?

7 A. Yes, I have.

8 Q. Are you familiar with the Applications filed on
9 behalf of Richardson Production Company in consolidated
10 Cases 12,797 and 12,798?

11 A. Yes, I am.

12 Q. Are you familiar with the status of the lands in
13 the area which is the subject of these pooling
14 Applications?

15 A. Yes, I am.

16 MR. CARR: May it please the Examiner, we would
17 tender Ms. Van Blaricom as an expert witness in petroleum
18 land matters.

19 EXAMINER BROOKS: So qualified.

20 Q. (By Mr. Carr) Would you initially review for the
21 Examiner what it is that Richardson Production Company
22 seeks in first Case 12,797?

23 A. We would like an order that would commit all of
24 our unleased mineral owners to a 320-acre spacing unit from
25 the surface to the base of the Fruitland Coal in the south

1 half of Section 17, Township 29 North, Range 13 West, as
2 well as a 160-acre spacing unit in the southwest quarter of
3 this same section for the West Kutz-Pictured Cliff
4 producing horizon, and this is for the Richardson "RPC" 17-
5 3 well.

6 Q. And that will be drilled at a standard location?

7 A. Yes, it will.

8 Q. In the southwest quarter of Section 7?

9 A. Yes, it will. It will be drilled at 920 feet
10 from the south line and 707 feet from the west line.

11 Q. And that's a standard well location?

12 A. Yes, it is.

13 Q. Do Richardson Exhibits 1 and 2 reflect the
14 mineral interest in the southwest quarter and in the south
15 half of the spacing units that you just referenced?

16 A. Yes, they do.

17 Q. Attached to each of these exhibits is there an
18 ownership summary sheet which shows the status of the
19 ownership in each of those spacing units?

20 A. Yes, there is.

21 Q. Now, let's go to Richardson Production Company's
22 Application in Case 12,798. What are you seeking there?

23 A. We are also seeking to have the committing of all
24 unleased mineral owners in the southeast quarter of Section
25 17, spaced for 160 acres from the surface to the base of

1 the West Kutz-Pictured Cliff formation and dedicated to our
2 Richardson "RPC" 17-4 well.

3 Q. Does Richardson Exhibit Number 3 reflect the
4 mineral interests in the southeast quarter spacing unit
5 that you've just discussed?

6 A. Yes, it does.

7 Q. And attached to Exhibit 3, is there also an
8 ownership breakdown showing all the interests in that 160-
9 acre spacing unit?

10 A. Yes, there is.

11 Q. What is the footage location for the "RPC" 17
12 Well Number 4?

13 A. It is 562 feet from the south line and 1392 feet
14 from the east line.

15 Q. Is that an unorthodox well location?

16 A. Yes, it is.

17 Q. Has Richardson Production Company received
18 administrative approval of an unorthodox well location in
19 the southeast quarter of Section 17?

20 A. Yes, we have.

21 Q. And what is Exhibit Number 4?

22 A. Oh, I'm sorry, that's the administrative letter
23 we received from the OCD giving us the authorization for
24 the unorthodox location.

25 Q. And that's administrative letter NSL-4686?

1 A. Yes, it is.

2 Q. What is the status of the acreage in the south
3 half of Section 17?

4 A. It is primarily fee acreage, with one tract
5 belonging to the New Mexico State Highway Department.

6 Q. Let's go back to what has been marked Exhibit
7 Number 2. And referring to that exhibit, I'd ask you to
8 identify for us those interests which will be subject to
9 compulsory pooling.

10 A. That would be the estate of Howard E. Henderson;
11 Dr. William A. Hall; Elizabeth Fisk, Trustee; the First
12 National Bank of Iowa City, Iowa, as Trustee; the New
13 Mexico State Highway Department; and Julia Cremean
14 Satterly.

15 Q. Are there interest owners in these spacing units
16 who you've been unable to locate?

17 A. There has only been one, and that would be Julia
18 Cremean Satterly.

19 Q. Could you review for Mr. Brooks the efforts
20 undertaken by Richardson Production Company to obtain
21 voluntary joinder of the interest owners who are not
22 voluntarily committed to the well? You may want to refer
23 to Exhibits 5 and 6.

24 A. We first sent out a letter in December of 2001,
25 certified, requesting that any unleased mineral owner

1 either participate in the well or lease to us, or to sell
2 their minerals.

3 After that point we tried to follow up with
4 telephone calls, as well as additional documentation. In
5 the case of Ms. Satterly I was able to contact her sister,
6 and her sister said that she moves quite frequently and the
7 family does not keep up with her current residence.

8 Q. Exhibit Number 5 is correspondence that relates
9 to the southwest quarter of Section 17, and Exhibit Number
10 6 is the correspondence which relates to the southeast
11 quarter; is that correct?

12 A. Yes, it is.

13 Q. Can you go to what has been marked as Exhibit
14 Number 7 and explain what that is?

15 A. Exhibit Number 7 is a summary of the efforts that
16 Richardson has pursued in obtaining voluntarily leases from
17 the parties that I mentioned earlier.

18 Q. And this identifies when you made your initial
19 written contact with these parties, correct?

20 A. Yes, it does.

21 Q. It summarizes the follow-up contacts with each of
22 these individuals and gives the current status of the
23 negotiations with each?

24 A. Yes, it does.

25 Q. If any of these individuals voluntarily commit

1 their interest to the proposed well and spacing units, will
2 you immediately notify the Oil Conservation Division so
3 they can be released from the pooling order?

4 A. Yes, I will.

5 Q. In your opinion, have you made a good-faith
6 effort to locate all individuals who hold interest in the
7 subject spacing units and obtain their voluntary
8 participation in the well?

9 A. Yes, we have.

10 Q. What is Exhibit Number 8?

11 A. That's the authority for expenditure, the AFE,
12 for the cost for the drilling and completion of the well.

13 Q. And this is the well that will be -- completions
14 attempted in both the Pictured Cliffs and the Fruitland
15 Coal; is that correct?

16 A. Yes, it is.

17 Q. And what are the totals as shown on that exhibit?

18 A. Just a moment. For the Fruitland Coal the
19 dryhole cost will be \$28,450, and for the Pictured Cliff it
20 will be \$33,005. For the completion cost it will be
21 \$70,225 for the Fruitland Coal, and for the Pictured Cliff
22 \$70,700.

23 Q. And in Exhibit Number 9?

24 A. And that would be for the PC well only, and that
25 would be dryhole cost of \$60,955 and completion cost of

1 \$115,925.

2 Q. Were copies of these AFEs sent to those parties
3 subject to pooling with the proposal letters sent by
4 Richardson Production Company?

5 A. Yes, they were.

6 Q. Has Richardson Production Company drilled similar
7 wells in the immediate area?

8 A. Yes, we have.

9 Q. And are the costs reflected on these AFEs in line
10 with what has, in fact, been charged by Richardson and
11 other operators for similar wells?

12 A. Yes, they are.

13 Q. Have you made an estimate of the overhead and
14 administrative costs to be incurred while drilling this
15 well and also while producing it if, in fact, it is
16 successful?

17 A. Yes.

18 Q. And what are those rates?

19 A. It is \$5000 per month for drilling and \$500 per
20 month for production.

21 Q. And are these the rates that are set forth or
22 contained in the joint operating agreement for these
23 parties that other individuals have voluntarily signed?

24 A. Yes, they are.

25 Q. Are these rates, rates that have been set forth

1 in the proposal letters you've sent to the parties subject
2 to pooling?

3 A. Yes, they are.

4 Q. And are these rates consistent with what
5 Richardson Production Company has charged and the Division
6 has approved for Richardson for other wells in this area?

7 A. Yes, they are.

8 Q. In fact, these are the rates that were approved
9 by the Division by Order Number R-11,581; is that correct?

10 A. Yes, that is correct.

11 Q. That was entered last May?

12 A. Yes, sir.

13 Q. Do you recommend that these overhead and
14 administrative costs be incorporated into any order which
15 results from this hearing?

16 A. Yes, I do.

17 Q. And does Richardson request that these rates be
18 adjusted annually, pursuant to Section 3 A (3) of the COPAS
19 form entitled "Accounting Procedures for Joint Operations"?

20 A. Yes, we do.

21 Q. Are Richardson Exhibits 10 and 11 affidavits
22 which confirm that notice of this hearing has been provided
23 in accordance with the rules of the Oil Conservation
24 Division?

25 A. Yes, sir.

1 Q. Who does Richardson Production Company request be
2 designated as operator of this well?

3 A. Richardson Operating Company.

4 Q. And that is simply the operating arm of
5 Richardson Production, correct?

6 A. Yes, it is.

7 Q. Were Exhibits 1 through 11 either prepared by you
8 or compiled under your direction and supervision?

9 A. Yes, they were.

10 Q. Can you testify as to the accuracy of these
11 exhibits?

12 A. Yes, I can.

13 MR. CARR: May it please the Examiner, at this
14 time we would move the admission of Richardson Exhibits 1
15 through 11.

16 EXAMINER BROOKS: 1 through 11 will be admitted.

17 MR. CARR: And that concludes my direct
18 examination of this witness.

19 EXAMINATION

20 BY EXAMINER BROOKS:

21 Q. Very good. Just to clarify a couple of things
22 here, the location of the "RPC" 17 Well Number 4, the form
23 that was provided to me says 562 feet from the south line
24 and 1392 feet from the west line.

25 A. It should say the east line.

1 Q. That's what I thought you testified, east line,
2 so I wanted to get that clarified.

3 Now, this is an unorthodox location; is that
4 correct?

5 A. Yes, sir, it is.

6 Q. This is one that's unorthodox?

7 A. Yes.

8 Q. And what is that order number? I believe it's an
9 exhibit here, but --

10 A. Let me look.

11 MR. CARR: Mr. Examiner, it's Administrative
12 Order NSL-4686.

13 EXAMINER BROOKS: 4686.

14 MR. CARR: Yes, sir.

15 EXAMINER BROOKS: And what date was that?

16 MR. CARR: January 15th, 2002.

17 Q. (By Examiner Brooks) Now, the "RPC" 17 Well
18 Number 3, is that orthodox in both the Pictured Cliffs and
19 the Fruitland Coal?

20 A. Yes, sir, it is.

21 Q. And of course these are 320-acre unit for the
22 Fruitland Coal and then two 160s, and those are the correct
23 spacing, as I understand it, for those --

24 A. Yes, sir.

25 Q. -- formations?

1 I don't really see anything else that I have a
2 question about here. Mr. Catanach?

3 EXAMINER CATANACH: Just a couple.

4 EXAMINATION

5 BY EXAMINER CATANACH:

6 Q. You are pooling the southwest quarter because
7 there's an interest owner that you can't locate; is that
8 correct?

9 A. Correct, as well as owners who have not committed
10 to lease their acreage.

11 Q. There are additional in the southwest quarter,
12 additional interest owners that haven't leased?

13 A. Just those that I mentioned.

14 Q. All right. And this well, the "RPC" 17-3, is
15 going to be a downhole-commingled well?

16 A. Yes, it will.

17 Q. And the drilling costs that you've represented
18 for that well represent cost to complete in both
19 formations; is that correct?

20 A. Yes, it does.

21 Q. What's the status of the lease that's owned by
22 the -- or the interest that's owned by the Highway
23 Department? I don't know that I've run across that before.

24 A. We contacted them first via the letter, and then
25 I've had several telephone conversations with them

1 explaining the advantages to leasing, what it would be to
2 participate and what a force-pooling would do for them, as
3 well as we had a broker go out to the San Juan County
4 Clerk's office and locate an existing oil and gas lease
5 that they had signed with another company, and we sent that
6 down to them to use as a format, and to this date we have
7 not gotten a response as to what they intend to do, whether
8 they will lease to us or not.

9 Q. But they have in the past leased?

10 A. They have in the past leased, yes.

11 EXAMINER CATANACH: I believe that's all I have.

12 FURTHER EXAMINATION

13 BY EXAMINER BROOKS:

14 Q. Just one clarification, I forgot to ask. In
15 attempting to compare these two maps that have been
16 introduced as Exhibits 2 and 3, Exhibit 2 is the entire
17 south half, right?

18 A. Yes.

19 Q. And Exhibit 3 is only the southeast quarter?

20 A. Right, the south half was for the Fruitland Coal.

21 Q. Okay, so the -- Does the Division, between the
22 two quarter sections, the quarter-section line -- it would
23 appear that doesn't --

24 A. It's my typing.

25 Q. Okay. The way it's -- I don't know if this is

1 drawn to scale. My question is, does the division between
2 the two quarter-section lines run along the right-hand side
3 of the green area in the upper half of the plat depicted on
4 Exhibit 2, or does it run through the middle of the blue
5 area?

6 A. No, it runs along the side.

7 Q. So although from the scaling it would appear that
8 that green area is less than half of the east-west
9 depiction, it actually is supposed to be half, correct?

10 A. Are we looking at the one that's for the full
11 south half?

12 Q. Yes, looking at Exhibit 2.

13 A. Okay, Exhibit 2 -- okay, let me -- Say it one
14 more time so I'll understand.

15 Q. Okay, I'll try to be more explicit. On Exhibit 2
16 -- and I'm trying to say it in a way that the record will
17 reflect what is said -- now, on Exhibit 2 the north half of
18 the southwest quarter is depicted in green and labeled
19 "north half, southwest quarter -- "

20 A. Yes.

21 Q. " -- Richardson Production Company, 100 percent".

22 A. Uh-huh.

23 Q. Now, just eyeballing that exhibit, that appears
24 to be actually less than half of the east-west distance
25 across the map. Now, is that actually the north half of

1 the southwest quarter?

2 A. No, it probably should go over almost to where
3 the first asterisk is.

4 Q. So actually the quarter-quarter section runs
5 through the middle of the horizontal blue area between the
6 green area labeled "Richardson Production Company, north
7 half, southwest quarter" and the green area labeled
8 "Richardson Production Company, east 38 acres"?

9 A. Yes, it does.

10 EXAMINER BROOKS: Okay, thank you. No further
11 questions.

12 MR. CARR: At this time we call David Richardson.

13 EXAMINER BROOKS: Very good.

14 DAVID B. RICHARDSON,

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

17 DIRECT EXAMINATION

18 BY MR. CARR:

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

20 A. David B. Richardson.

21 Q. And where do you reside?

22 A. In Denver, Colorado.

23 Q. By whom are you employed?

24 A. Richardson Operating Company and Richardson
25 Production.

1 Q. And what is your position with those companies?

2 A. President.

3 Q. Mr. Richardson, have you previously testified
4 before the New Mexico Oil Conservation Division?

5 A. Yes, I have.

6 Q. At the time of that testimony were your
7 credentials as an expert witness in petroleum engineering
8 accepted and made a matter of record?

9 A. Yes, they were.

10 Q. Are you familiar with the two consolidated
11 Applications which have been filed in these cases?

12 A. Yes.

13 Q. And have you made a technical study, an
14 engineering study, of the area which is involved in these
15 cases and the surrounding area?

16 A. Yes, I have.

17 Q. And are you prepared to share the results of that
18 technical work with the Examiner?

19 A. Yes.

20 MR. CARR: Are Mr. Richardson's qualifications
21 acceptable?

22 EXAMINER BROOKS: They are accepted.

23 Q. (By Mr. Carr) Initially, could you identify for
24 us the primary zones of interest in the "RPC" 17 Well
25 Numbers 3 and 4?

1 A. In the 17-3 it is the commingled Fruitland Coal-
2 Pictured Cliffs, and in the 17-4 it is the Pictured Cliffs
3 only.

4 Q. Are there any other real zones of interest in
5 this area?

6 A. Not for us, no.

7 Q. Have you drilled similar wells in the area
8 surrounding the spacing unit which is the subject -- or the
9 spacing units, which are the subject of this Application?

10 A. Yes, we have.

11 Q. And are you prepared to make recommendations to
12 the Examiner as to the risk penalty that should be assessed
13 against any interest owner who doesn't voluntarily
14 participate in the well?

15 A. Yes.

16 Q. Let's go to what has been marked Richardson
17 Exhibit Number 12, the contour map, and I'd ask you to
18 identify that and review it for Examiner Brooks.

19 A. Okay, this is a structure contour map of a nine-
20 section area in Township 29 North, 13 West, San Juan
21 County, centering on Section 17. For reference, the area
22 shaded in blue is the San Juan River, the dashed line is
23 the Farmington city limits. This is a structure contour
24 map showing a gentle northeast dip into the center of the
25 Basin, less than one degree per mile.

1 Q. And the two locations are in the south half of
2 Section 17, right?

3 A. That's correct.

4 Q. Is structure a significant factor in determining
5 whether or not you have a successful well in this area?

6 A. No.

7 Q. This is just provided as a sort of general
8 orientation and background exhibit, right?

9 A. That's correct.

10 Q. All right, let's go to what has been marked as
11 Exhibit Number 13, the coal thickness map.

12 A. Okay. This shaded in yellow is the thickness of
13 the basal coal only in the Fruitland Coal. This is a
14 locally -- a thinning of the coal compared to the
15 surrounding area, from a low of six feet up to twelve feet
16 at the thickest, but as an average it's got about an eight-
17 foot thickness.

18 Q. And that's what you're hoping for in the subject
19 well?

20 A. Yes, we are.

21 Q. Let's go to Exhibit Number 14, the cumulative
22 production map.

23 A. Okay. There have been a total of five
24 completions in the Pictured Cliffs and zero completions in
25 the Fruitland Coal. There hasn't been any Fruitland Coal

1 production in this nine-section area. Of the five Pictured
2 Cliffs, two have produced zero. They never tied them into
3 a pipeline or were able to commercially produce them. The
4 other three have produced a low of .28 BCF cumulative to
5 .58 BCF.

6 Q. Let's move on, let's go to Exhibit Number 15.
7 These are the economic assumptions, and Exhibit Number 15
8 is for the "RPC" 17-3 well?

9 A. Yes.

10 Q. What does this show you?

11 A. We've made assumptions of what we anticipate the
12 total reserves of a Pictured Cliffs well would be, .45 BCF,
13 and a commingled Pictured Cliffs-Fruitland Coal of .645 BCF
14 per well, and we've made assumptions on water-disposal
15 costs, gas gathering, taxes and general overhead costs and
16 operating costs.

17 Q. And what does this tell you about the economic
18 viability of this proposed well in the Pictured Cliffs and
19 Fruitland Coal?

20 A. Both of them are marginal economics.

21 Q. You've used certain assumptions concerning
22 reserves. How would you characterize those assumptions?

23 A. I think that we've used very liberal reserves,
24 because there hasn't been any coalbed methane production in
25 the area. It may or may not produce, and giving it .64 BCF

1 is very generous. .45 for the Pictured Cliffs I think is
2 generous, in light of the fact that there could be
3 depletion from the offsetting wells.

4 Q. Would you identify what has been marked
5 Richardson Exhibit Number 16?

6 A. These are the economic runs?

7 Q. For the 17-4.

8 A. Okay, Exhibit 16 here is another economic
9 assumption.

10 Q. And this one would be for the other well, the
11 17-4; is that correct?

12 A. Yes, that's correct.

13 Q. And again, does this show that there is
14 substantial economic risk with the attempt to complete this
15 well?

16 A. Yes, it does.

17 Q. What percentage penalty do you recommend be
18 imposed against any operator who doesn't voluntarily join?

19 A. The maximum, 200 percent.

20 Q. That would be in the Pictured Cliffs, and the
21 maximum also in the Basin-Fruitland Coal of 156 would be
22 imposed; is that correct?

23 A. Yes.

24 Q. Could you summarize your reasons for this request
25 or recommendation?

1 A. Okay. First of all, there's no Fruitland Coal
2 Production in the area. There is a localized thinning of
3 the coal. By looking at offsetting wells, the logs on
4 them, it's shallow, low pressure, probably we're going to
5 have low reserves, high water production, which is high
6 disposal cost, possible drainage from offsetting wells, and
7 marginal economics.

8 Q. In your opinion, you could drill either of these
9 wells, and even if you encounter production you would have
10 economically unsuccessful wells; is that correct?

11 A. That's correct.

12 Q. In your opinion, is the geologic risk that you
13 have identified for the proposed Fruitland Coal completion
14 the same as it would be for any similar well drilled in
15 this nine-section area?

16 A. Yes.

17 Q. And would the same apply for the Pictured Cliffs?
18 Would the risk you've identified be applicable throughout
19 this nine-section area for any Pictured Cliffs well?

20 A. Yes.

21 Q. Would the economic analysis that you have
22 presented for the Pictured Cliffs and also for a Fruitland
23 Coal completion in this nine-section area be applicable
24 throughout the nine-section area?

25 A. Yes.

1 Q. In your opinion, should the maximum risk penalty
2 apply to any nonconsenting interest owner in the Fruitland
3 Coal or in the Pictured Cliffs formation in any well that
4 you would drill in this area?

5 A. Yes, it would.

6 Q. This is just simply a very high-risk area, is
7 that about right?

8 A. Yes, it is.

9 Q. In your opinion, will the granting of this
10 Application and similar applications and the drilling of
11 wells to attempt to recover the reserves in this low-
12 productive area result in the recovery of hydrocarbons that
13 otherwise would be left in the ground?

14 A. Yes.

15 Q. And will approval of the Applications and the
16 drilling of these wells otherwise be in the best interest
17 of correlative rights and the prevention -- the best
18 interests of conservation and the protection of correlative
19 rights?

20 A. Yes.

21 Q. Mr. Catanach noted a few minutes ago that you're
22 intending to commingle the Number 3 well; is that correct?

23 A. That's correct.

24 Q. And the formations that you plan to commingle the
25 Pictured Cliffs and the Fruitland Coal, do you know the

1 names of those pools?

2 A. Yes.

3 Q. And what are they?

4 A. It is the -- For the Pictured Cliffs it's the
5 West Kutz Gas Pool, and the Fruitland Coal is the Basin-
6 Fruitland Coal.

7 Q. Now, will the ownership percentages in the pools
8 to be commingled differ?

9 A. Yes, very similar, but they are different.

10 Q. And it's because you've got a 160 on one tract,
11 and then you'll move to a 320 where there are slight
12 variations?

13 A. Yes.

14 Q. How does Richardson propose to allocate costs
15 between these two zones?

16 A. We will allocate the costs 50-50 to the base of
17 the Fruitland Coal, the incremental cost to the base of the
18 Pictured Cliffs will be borne by the Pictured Cliffs well.

19 Q. And how do you propose to allocate production
20 between the producers?

21 A. We will individually test each zone.

22 Q. Will Richardson seek approval of the commingling
23 pursuant to Division Rule 303 by filing with this Division
24 a completed Form C-107?

25 A. Yes.

1 Q. Were Richardson Exhibits 12 through 1 prepared by
2 you or compiled under your direction?

3 A. Yes.

4 Q. You can testify as to their accuracy?

5 A. Yes, I can.

6 MR. CARR: Mr. Examiner, at this time we move the
7 admission into evidence of Richardson Exhibits 12 through
8 16.

9 EXAMINER BROOKS: Exhibits 12 through 16 will be
10 admitted.

11 MR. CARR: That concludes my direct examination
12 of Mr. Richardson.

13 EXAMINATION

14 BY EXAMINER BROOKS:

15 Q. The downhole commingling would be the subject of
16 a separate administrative application, I assume; is that
17 correct?

18 A. That's correct.

19 EXAMINER BROOKS: So that will not be a part of
20 this order?

21 MR. CARR: That is correct.

22 EXAMINER BROOKS: Okay. However, it will be
23 necessary to deal with cost allocation in some manner since
24 we customarily apply a different cost-recovery percentage,
25 and the testimony of the witness indicated that you were

1 not requesting that we do otherwise in this case?

2 MR. CARR: That is correct.

3 Q. (By Examiner Brooks) So that -- How do you
4 envision that working? You said, as I understand it, that
5 the cost allocation, the drilling costs were to be
6 allocated 50-50 down to the Fruitland Coal --

7 A. Yes.

8 Q. -- and then the additional cost of drilling below
9 that would be allocated to the Pictured Cliffs?

10 A. That's true.

11 Q. Okay. And then the completion costs, I assume,
12 would be specifically allocated?

13 A. To each zone.

14 Q. Right.

15 A. Yes.

16 Q. Now, is this a reasonable and customary method of
17 allocating costs in the industry?

18 A. I believe it is, yes.

19 Q. Okay.

20 A. We have similar-size fracs for each zone, similar
21 completion fluids. It's very close.

22 Q. And do you believe that the results obtained by
23 this method will fairly compensate the owners of each
24 formation for their respective shares of production?

25 A. Yes, I do.

1 EXAMINER BROOKS: Okay. Mr. Catanach?

2 EXAMINATION

3 BY EXAMINER CATANACH:

4 Q. Mr. Richardson, we've had some problems in the
5 Basin with some communication between these zones. I
6 suspect that in this area they're not very segregated by
7 very much depth; is that correct?

8 A. That's true.

9 Q. How do you go about maintaining the integrity and
10 making sure that there's no communication downhole, behind
11 pipe or --

12 A. We can't guarantee that. There is a separation
13 that we don't complete each zone directly next to each
14 other, so there may be a five- or a ten-foot differential
15 in the two zones.

16 And when we're flow-testing we'll start with the
17 Pictured Cliff first, we'll get an accurate flow test on
18 that and produce it for a while, and then we will add the
19 incremental of the Fruitland Coal.

20 Q. So you go in and frac both zones, and then you
21 flow-test the PC for how long?

22 A. It could be -- Until it cleans up. It could be
23 two weeks, it could be three months until we feel like we
24 have a good test on it.

25 Q. And is the Fruitland Coal in this area one that

1 exhibits increased production over time, as you define it?

2 A. In this nine-section area nobody knows, because
3 there has not been a completion. But typically we're
4 hoping that we do see the incline. That's what we're
5 anticipating as the well dewateres.

6 Q. Okay, so there is water in this area?

7 A. Yes, there is.

8 Q. How are you going to go about allocating
9 production? Do you know at this point?

10 A. Not exactly for this well. We'll have to flow-
11 test each zone.

12 Q. Have you guys done in the past a subtraction-type
13 method where you, say, maybe project PC production, and
14 then everything else subtracted will be Fruitland Coal?

15 A. We have tried the 50-50, allocating 50 percent of
16 the production to the PC and 50 percent to the Dugan and --
17 other operator that we have shared interest in this area
18 has proposed that.

19 We don't think that's accurate. We think we need
20 to test these zones separately, maybe at various times
21 through the life of the well, by setting retrievable bridge
22 plugs or various ways.

23 Q. Yeah, I've heard about that 50-percent deal.

24 A. Right, so you know who I'm talking about?

25 Q. Yeah.

1 A. Okay. The only other way to do it is to drill
2 separate wells for the Fruitland Coal and the Pictured
3 Cliffs. Then you certainly have an economic problem.

4 Q. How about dual completion? Is that not
5 economically feasible either?

6 A. Dually complete at the same time?

7 Q. (Nods)

8 A. We could do that, yes.

9 Q. Have you looked at that?

10 A. We've looked at that. Allocating to each zone is
11 somewhat difficult.

12 Q. On a dual completion?

13 A. Are you talking about --

14 Q. Where you're producing a zone separate in the
15 same wellbore?

16 A. We can't do that with the water production,
17 because both the PC and the Coal produce a lot of water.
18 So we need either the tubing annulus or the casing annulus
19 for the gas. We can't have both coming up both sides.

20 Q. We may need to get -- Whenever you file that
21 application for downhole commingling, we may have to take a
22 close look at that to make sure we get it as reasonable and
23 as accurate as we can.

24 A. Right.

25 EXAMINER CATANACH: Okay, that's all I have.

FURTHER EXAMINATION

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BY EXAMINER BROOKS:

Q. Just one more thing. You said the ownership differed between the two zones. Is it just different percentages, or are there owners who own in one zone and not in the other?

A. That would be a question for Rebecca, but I'm sure in the southwest quarter you probably have different mineral owners as the southeast quarter, and where you've pooled the south half of the section you probably have different owners in each quarter section.

Q. So the people who own only in the southeast quarter would not have an interest in Pictured Cliffs production from the commingled well?

A. No, they would not.

EXAMINER BROOKS: Okay, thank you.

MR. CARR: That concludes our presentation in this matter.

EXAMINER BROOKS: Very good.

THE WITNESS: Thank you.

EXAMINER BROOKS: Case Number 12,797 and Case Number 12,798 will be taken under advisement.

(Thereupon, these proceedings were concluded at 8:58 a.m.)

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 12797 and 12798 heard by me on Feb 7, 2000.

David R. Bell, Examiner

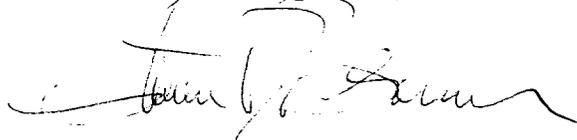
CERTIFICATE OF REPORTER

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 February 8th, 2002.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 14, 2002