

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 HOLCOMB OIL AND GAS,)
INC., FOR COMPULSORY POOLING, RIO)
ARRIBA COUNTY, NEW MEXICO)
)

CASE NO. 12,799

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID K. BROOKS, Hearing Examiner

January 24th, 2002

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID K. BROOKS, Hearing Examiner, on Thursday, January 24th, 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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I N D E X

January 24th, 2002
 Examiner Hearing
 CASE NO. 12,799

	PAGE
APPEARANCES	3
APPLICANT'S WITNESSES:	
<u>WILLIAM J. HOLCOMB</u> (Landman)	
Direct Examination by Mr. Carr	5
Examination by Examiner Brooks	16
Further Examination by Mr. Carr	19
REPORTER'S CERTIFICATE	21

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E X H I B I T S

Applicant's	Identified	Admitted
Exhibit 1	7	16
Exhibit 2	9	16
Exhibit 3	10	16
Exhibit 4	10	16
Exhibit 5	12	16
Exhibit 5-A	13	16
Exhibit 6	15	16

* * *

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

FOR NM&O OPERATING COMPANY and
THE RAMONA SWEET REVOCABLE TRUST:

JAMES G. BRUCE, Attorney at Law
324 McKenzie
Santa Fe, New Mexico 87501
P.O. Box 1056
Santa Fe, New Mexico 87504

ALSO PRESENT:

MICHAEL E. STOGNER
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 8:30 a.m.:

3 EXAMINER BROOKS: Okay, at this time we'll call
4 the one remaining case on this morning's docket, Case
5 Number 12,799. It's the Application of Holcomb Oil and
6 Gas, Inc., for compulsory pooling, Rio Arriba County, New
7 Mexico.

8 MR. CARR: May it please the Examiner, my name is
9 William F. Carr with the Santa Fe office of Holland and
10 Hart, L.L.P.

11 We represent Holcomb Oil and Gas, and I have one
12 witness.

13 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe.
14 I represent NM&O Operating Company and the Ramona Sweet
15 Revocable Trust.

16 I have no witnesses.

17 EXAMINER BROOKS: Very good. Will the witness
18 please identify himself for the record?

19 MR. HOLCOMB: I'm William Jeffrey Holcomb,
20 president of Holcomb Oil and Gas.

21 EXAMINER BROOKS: Swear the witness, please
22 (Thereupon, the witness was sworn.)

23 EXAMINER BROOKS: You may proceed when ready, Mr.
24 Carr.

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

1 WILLIAM J. HOLCOMB,
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. CARR:

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

8 A. William Jeffrey Holcomb.

9 Q. Mr. Holcomb, where do you reside?

10 A. Farmington, New Mexico.

11 Q. And by whom are you employed?

12 A. Holcomb Oil and Gas.

13 Q. What is your position with Holcomb Oil and Gas?

14 A. President.

15 Q. Have you previously testified before this
16 Division?

17 A. Yes, I have.

18 Q. Have you previously testified before Examiner
19 Brooks?

20 A. No.

21 Q. Could you just briefly summarize your educational
22 background for the Examiner?

23 A. I received a bachelor's in engineering from the
24 University of Missouri at Rolla in 1974, was employed by
25 Amoco Production Company in various engineering and

1 management positions through 1985 and have been self-
2 employed, involved in the oil and gas business in the Four
3 Corners since then.

4 Q. At all times since graduation you've worked as a
5 petroleum engineer?

6 A. Correct.

7 Q. Are you familiar with the Application filed in
8 this case on behalf of Holcomb Oil and Gas?

9 A. I am.

10 Q. And are you familiar with the status of the lands
11 in the area which is the subject of this Application?

12 A. I am.

13 MR. CARR: May it please the Examiner, we tender
14 Mr. Holcomb as an expert witness in petroleum engineering.

15 EXAMINER BROOKS: He is so qualified.

16 Q. (By Mr. Carr) Mr. Holcomb, would you summarize
17 for Examiner Brooks what it is that Holcomb seeks with this
18 Application?

19 A. We're seeking an order pooling all mineral
20 interests in the formations from the surface through the
21 base of the Pictured Cliffs in the southwest quarter of
22 Section 4 of Township 25 North, Range 3 West, Rio Arriba
23 County, New Mexico.

24 Q. And this spacing unit is to be dedicated to what
25 well?

1 A. The McCroden B Number 1 well, which is located at
2 a standard location in the southwest quarter of Section 4.

3 Q. Let's go to what has been marked as Holcomb
4 Exhibit Number 1, two plats, and I'd ask you to identify
5 those and review them for the Examiner.

6 A. The first plat is a nine-section plat which
7 delineates the Pictured Cliff completions in Townships 25
8 North, 3 West, and 26 North, portions of 26 North, 3 West.
9 The center of this is Section 4, with the McCroden B Number
10 1 well noted in the southwest quarter.

11 Q. All right, and the second plat?

12 A. The second plat is a blow-up of that southwest
13 quarter, showing the two federal lease tracts, Tract 1 of
14 120 acres and Tract Number 2 which is 40 acres.

15 Q. Mr. Holcomb, the McCroden B Well Number 1 has
16 been drilled; is that correct?

17 A. That's correct.

18 Q. When was it drilled?

19 A. In July of 1957.

20 Q. And what is the current status of that well?

21 A. The well is currently shut in.

22 Q. And who has been the operator of that well?

23 A. Prior to Holcomb taking operations, Energen was
24 the operator and had recommended the well be plugged and
25 abandoned due to a suspected casing leak. We objected to

1 that, based upon offset performance felt that the well
2 could be repaired and returned to a producing status.

3 Q. And that's what you're proposing to do?

4 A. That's correct.

5 Q. When did you acquire your interest in the well?

6 A. In 1997.

7 Q. And what is your current interest in this spacing
8 unit?

9 A. Holcomb Oil and Gas's interest is approximately
10 12 1/2 percent.

11 We have a joint venture agreement with Whittier
12 Energy, which owns 49.7 percent, so the combined interest
13 is 62.2 percent of this particular wellbore.

14 Q. Now the spacing unit to be dedicated to this well
15 was the subject of a communitization agreement, was it not?

16 A. That's correct, it was.

17 Q. And what is the status of that?

18 A. In, I believe, early 1999 the communitization
19 agreement was terminated by the BLM office.

20 Q. And what is required to obtain a new
21 communitization agreement for this acreage?

22 A. In order to obtain a new communitization
23 agreement, we require voluntary agreement of all owners.

24 Q. And you have been unable to get -- reach
25 voluntary agreement with all owners; is that correct?

1 A. That's correct.

2 Q. What is required, if all owners do not
3 voluntarily agree to communitize the lands for this attempt
4 to re-enter and re-complete the well?

5 A. We had contacted the OCD office here in Santa Fe
6 and were instructed that a compulsory pooling order would
7 be in order to be able to effect this com agreement.

8 Q. And that's why this Application is before the
9 Division today?

10 A. That's correct.

11 Q. What is the primary objective in the well?

12 A. The primary objective is to re-establish
13 production in the Pictured Cliffs zone.

14 Q. Is there any real secondary objective in the
15 property?

16 A. No.

17 Q. Let's go to what has been marked as Holcomb
18 Exhibit Number 2, and I'd ask you to just identify this.

19 A. Exhibit Number 2 is comprised of two pages, the
20 first of which delineates the ownership from an operating
21 rights and record title position for the 40-acre tract that
22 was referenced in Exhibit 1. The second page does the same
23 for the 120-acre tract.

24 Q. Now, the status of the commitment for these
25 individual interest owners will be reviewed in a subsequent

1 exhibit; is that correct?

2 A. That's correct, yes.

3 Q. Would you refer to what has been marked as
4 Holcomb Exhibit Number 3 and review your efforts to reach a
5 voluntary agreement with all interest owners in this
6 property for the re-entry and recompletion of this well?

7 A. As you can tell from this exhibit, it's somewhat
8 lengthy, beginning with an original letter that was written
9 by the Bureau of Land Management in 1998 terminating the
10 communitization agreement.

11 If you'll go to approximately the fourth page of
12 this section, there's a time line which addresses our
13 proposal, which was initiated on March 17th of the year
14 2000, to attempt to establish production back in the
15 Pictured Cliffs zone.

16 And through this scenario, this time line, you'll
17 see references of which a lot of the documents are included
18 here, to our efforts to establish a new communitization
19 agreement, which weren't successful, and ultimately the
20 discussions with Mr. Stogner and Mr. Carr, which brings us
21 to this hearing today.

22 Q. What percentage of the working interest at this
23 time is voluntarily committed to the well?

24 A. I believe if we go to -- There's another exhibit.

25 Q. Exhibit Number 4, behind the tab. Mine is marked

1 Number 15.

2 A. Right.

3 Q. It's the next tab in the exhibit book,
4 "Voluntarily Committed".

5 A. Approximately 81 percent of the operating rights
6 are voluntarily committed.

7 Q. If we go to the second page behind that tab, it
8 says "Non-Committed" at the top.

9 A. That's correct.

10 Q. Can you review this for us, please, and identify
11 those interest owners who are not voluntarily committed to
12 the well, or to the re-entry?

13 A. The noncommitted interest represents
14 approximately 19 percent from the working interest
15 standpoint, with Hooper Kimball Williams and Mountain
16 States Natural Gass.

17 And then the record title section, again there's
18 a Hooper Kimball interest, the Mountain States, the Mary
19 Alice Gilliland and the Duer Wagner.

20 And you'll notice that there's an extensive
21 listing there of Damson Oil, which doesn't exist anymore.

22 Q. And who holds that interest?

23 A. We believe we do at this time.

24 Q. Okay, and you've acquired that through the
25 acquisition?

1 A. Through the acquisition of Energen's position.

2 Q. Let's go to Exhibit Number 5, the AFEs. Identify
3 and review these, please.

4 A. Well, I'm not sure which Exhibit 5 we're going to
5 talk about here.

6 Q. We've got both of them here.

7 A. We've got two of them. Would you like the 8-1/2-
8 by-11 discussion or the 8-1/2-by-14 discussion?

9 Q. Well, the numbers are different. Could you
10 explain what the difference is?

11 A. The 8-1/2-by-11 Exhibit 5 was the original AFE
12 that was prepared for the re-entry back in March of 2000.

13 Q. And then the larger exhibit is --

14 A. -- is a more current estimate of what the costs
15 would be incurred to complete this --

16 Q. And you've changed it because of changes in
17 various costs?

18 A. The costs have gone up in the last two years,
19 that's correct.

20 Q. Let's go to the 8-1/2-by-14 --

21 EXAMINER BROOKS: If I can interrupt for a
22 moment --

23 MR. CARR: Yes, sir.

24 EXAMINER BROOKS: -- in order that we have an
25 orderly record in this case, I'm going to suggest that we

1 redesignate the 8-1/2-by-14 AFE as Exhibit Number 5-A.

2 You may proceed, Mr. Carr.

3 Q. (By Mr. Carr) All right, Mr. Holcomb, let's go
4 to Exhibit 5-A, and I'd ask you to review the costs that
5 will be necessary for the re-entry and recompletion of this
6 well. You can go just really to the totals.

7 A. I'm sorry?

8 Q. If you'll just review the totals.

9 A. The total of the \$116,950 --

10 Q. Yes.

11 A. -- is comprised of approximately -- the efforts
12 that are going to be undertaken here are going to be to
13 repair a suspected casing leak if, in fact, it does exist,
14 by putting a liner in the wellbore -- we have a large
15 casing situation for a Pictured Cliff well here with 5-1/2-
16 inch casing -- cementing that to surface, reperforating and
17 frac'ing the Pictured Cliffs zone.

18 Q. Do you operate other Pictured Cliffs wells in the
19 area?

20 A. Yes, we do.

21 Q. Do the costs reflected on the AFE -- are those
22 consistent with costs for similar work on other wells in
23 the area?

24 A. Yes.

25 Q. Have you made an estimate of the overhead and

1 administrative costs to be incurred while operating this
2 well?

3 A. We have, and we've evaluated based upon Ernst &
4 Young's latest COPAS overhead releases, I think, for the
5 years 2000-2001, which for a well of this depth were
6 estimated at \$398 per month.

7 Q. And you recommend that this figure be
8 incorporated into the order?

9 A. I do.

10 Q. And there is no request for a drilling cost
11 because the wellbore exists, correct?

12 A. Correct.

13 Q. Are you prepared to make a recommendation to the
14 Examiner as to a risk penalty that should be assessed
15 against interest owners who do not voluntarily commit to
16 the re-entry?

17 A. I am.

18 Q. And what is that?

19 A. Well, in that the wellbore exists and we don't
20 feel that there's any risk, obviously, associated with
21 drilling of a well, the risk itself is more associated with
22 the recompletion attempt.

23 And in that, with the prior operator recommending
24 that the well be plugged and abandoned, there is some risk
25 associated with the mechanical problems of what we propose

1 to do, and that -- should the well be noncommercial. We
2 don't think that will happen, obviously, but it is
3 possible.

4 And with that, I believe the recommendation of
5 100 percent would be reasonable.

6 Q. Mr. Holcomb, is Exhibit Number 6 an affidavit
7 confirming that notice of this hearing has been provided
8 all affected interest owners in accordance with Division
9 rules?

10 A. Yes.

11 Q. And does Holcomb Oil and Gas seek to be
12 designated operator of the well in the order that results
13 from this hearing?

14 A. Yes.

15 Q. In your opinion, will approval of this
16 Application and the re-entry and recompletion of this well
17 result in the recovery of hydrocarbons that otherwise would
18 be left in the ground?

19 A. Yes.

20 Q. Is approval of the Application also in the best
21 interest of conservation, the prevention of waste and the
22 protection of correlative rights?

23 A. Yes.

24 Q. Were Exhibits 1 through 6 either prepared by you,
25 or have you reviewed them and can you testify to their

1 accuracy?

2 A. Yes.

3 MR. CARR: At this time, Mr. Brooks, we move the
4 admission into evidence of Holcomb Exhibits 1 through 6.

5 EXAMINER BROOKS: 6 being your affidavit of
6 notice --

7 MR. CARR: Yes, sir.

8 EXAMINER BROOKS: -- which presumably is the
9 correct one this time.

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

11 EXAMINER BROOKS: Couldn't resist that.

12 THE WITNESS: That had to do with why you got
13 that piece of paper back earlier.

14 MR. CARR: Yes, it did.

15 EXAMINER BROOKS: Okay, Exhibits 1 through 5, 5-A
16 and 6 will be admitted.

17 MR. CARR: I did not notify Mr. Hartman in this
18 case.

19 EXAMINATION

20 BY EXAMINER BROOKS:

21 Q. Now, let me be sure I have everything correct,
22 see if I -- Holcomb Oil and Gas, Inc., is the Applicant and
23 also requests to be appointed as the operator; is that
24 correct?

25 A. Correct.

1 Q. And this is in -- Section 4 is in Township 25
2 North?

3 A. 25 North, 3 West, that's correct.

4 Q. Yeah, the line between 25 North and 26 North on
5 Exhibit 1 runs a third of the way down, correct?

6 A. Correct.

7 Q. And you've requested it be pooled from the
8 surface to the base of the Pictured Cliffs?

9 A. Yes, sir.

10 Q. Now, is that -- That's 160-acre spacing in the
11 Pictured Cliffs; is that correct?

12 A. Yes.

13 Q. So the southwest quarter would be the applicable
14 unit. And are there any other-size units that are to be
15 formed here, or just the 160?

16 A. Just the 160.

17 Q. Okay. And what is the pool name there?

18 A. Tapicito-Pictured Cliffs.

19 Q. How is that spelled?

20 A. T-a-p-a-c-i-t-o.

21 Q. T-a-p-a-c-i-t-o?

22 A. Yes. Is that right, Mike?

23 EXAMINER STOGNER: It's T-a-p-i-c-i-t-o.

24 THE WITNESS: Okay.

25 EXAMINER BROOKS: T-a-p-i-c- -- Tapicito-Pictured

1 Cliffs, and that's 160-acre spacing, correct?

2 A. Yes.

3 Q. I believe I already asked that. And of course
4 this well has already been drilled, it is at a standard
5 location, I assume?

6 A. Yes.

7 Q. And looking at this plat, it appears to be in the
8 northeast of the southwest; is that correct?

9 A. Yes, sir.

10 Q. Do you have the footages?

11 A. It's 1850 from the south line and 1850 from the
12 west line. I believe that's correct.

13 MR. CARR: That's correct.

14 Q. (By Examiner Brooks) And it's in the northeast
15 southwest.

16 A. Yes.

17 Q. And one thing I didn't hear was the
18 recommendation on administrative overhead.

19 A. We address that with the \$398 per month, based on
20 the Ernst and Young's latest survey of the year 2000-2001.

21 Q. \$398 producing rate, and there is no drilling
22 rate since you're already drilled the well?

23 A. Correct.

24 Q. Now, the well was drilled pursuant to the com
25 agreement; is that correct?

1 A. Yes. Well, it was drilled based upon an
2 operating agreement at that time and a subsequent com
3 agreement, that's right.

4 Q. Okay, so that the drilling costs have already
5 been paid by everyone?

6 A. Yes, sir.

7 Q. And the 100-percent penalty you recommend would
8 apply to the costs of recompletion -- to re-entry and
9 recompletion?

10 A. Yes, sir.

11 EXAMINER BROOKS: I think that's all I have. Do
12 you have anything, Mr. Stogner?

13 EXAMINER STOGNER: I have no questions.

14 MR. BRUCE: I have not questions.

15 MR. CARR: Mr. Examiner, we might confirm for the
16 record, if I could ask one more question.

17 FURTHER EXAMINATION

18 BY MR. CARR:

19 Q. Mr. Holcomb, the interests of the individuals
20 represented here today by Mr. Bruce are not going to be
21 subject to pooling; isn't that correct?

22 A. No, they're participating.

23 MR. CARR: That's all I have.

24 EXAMINER BROOKS: Very good. If there's nothing
25 further, then Case Number 12,799 will be taken under

1 advisement.

2 And there being no further matters pending on the
3 docket, the hearing docket will stand adjourned.

4 (Thereupon, these proceedings were concluded at
5 8:48 a.m.)

6 * * *

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12
13 do hereby certify that the foregoing is
14 a complete and correct transcript of the proceedings in
the Examiners' hearing on Case No. 12799,
heard by me on Jan 24, 2002.

15 David K. Berth Examiner
16 Of Correctional Services
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CERTIFICATE OF REPORTER

[illegible]

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 January 24th, 2002.

John J. Warner

STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 2002