

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. 12,813

APPLICATION OF RICHARDSON PRODUCTION)
COMPANY FOR COMPULSORY POOLING, SAN JUAN)
COUNTY, NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID K. BROOKS, Hearing Examiner

March 21st, 2002

Santa Fe, New Mexico

02 APR -4 AM 10:39

OIL CONSERVATION DIV

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID K. BROOKS, Hearing Examiner, on Thursday, March 21st, 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.

* * *

STEVEN T. BRENNER, CCR
(505) 989-9317

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March 21st, 2002
 Examiner Hearing
 CASE NO. 12,813

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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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By: W. THOMAS KELLAHIN

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 Case Number 12,813, the Application of Richardson
5 Production Company for compulsory pooling, San Juan County,
6 New Mexico.

7 Call for appearances.

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

12 EXAMINER BROOKS: Will the witnesses please stand
13 and state their names for the record?

14 MS. VAN BLARICOM: Rebecca Van Blaricom.

15 MR. RICHARDSON: David B. Richardson.

16 (Thereupon, the witnesses were sworn.)

17 REBECCA E. VAN BLARICOM,
18 the witness herein, after having been first duly sworn upon
19 her oath, was examined and testified as follows:

20 DIRECT EXAMINATION

21 BY MR. KELLAHIN:

22 Q. Would you please state your name and occupation?

23 A. Rebecca E. Van Blaricom -- it's V-a-n
24 B-l-a-r-i-c-o-m -- and I'm the manager of land for
25 Richardson Production Company.

1 Q. On prior occasions have you testified before the
2 Division and qualified as an expert in petroleum land
3 matters?

4 A. Yes, I have.

5 Q. And pursuant to your employment, have you been
6 responsible on behalf of Richardson for identifying the
7 interest owners in the spacing units involved in this case
8 and trying to find those parties?

9 A. Yes, I have.

10 MR. KELLAHIN: We tender this witness as an
11 expert.

12 EXAMINER BROOKS: She is so qualified.

13 Q. (By Mr. Kellahin) Let me have you orient us as
14 to what we're doing. Would you turn to Exhibit Number 1.
15 this is an exhibit that you prepared?

16 A. Yes, it is.

17 Q. Identify for me what this shows.

18 A. This shows the spacing for the Fruitland Coal,
19 which is the east half of Section 7, 29 North, 14 West.
20 The Fruitland Coal spacing is 320.

21 Q. Describe for me how the east half of the section
22 is subdivided.

23 A. The northeast quarter is owned 100 percent by
24 Richardson. In the southeast quarter there's 10.296875
25 that we have not been able to either find or come to terms

1 with for leasing.

2 Q. You've shown on this display the proposed well
3 location, the approximate location of the well?

4 A. Yes, I have.

5 Q. And that's on your tract in the northeast
6 quarter?

7 A. Yes, it is.

8 Q. The well is to be what type of well?

9 A. It will be a commingled Pictured Cliff-Fruitland
10 Coal well, gas well.

11 Q. And if you dedicate the northeast quarter to the
12 well, you're on 160-acre spacing?

13 A. If I dedicate the northeast quarter, it will be
14 320 for the Fruitland Coal.

15 Q. And for the Pictured Cliff?

16 A. 160.

17 Q. All right. So the consolidation of the interest
18 owners are those parties remaining in the southeast
19 quarter?

20 A. Yes, it is.

21 Q. Do you have an exhibit that shows a tabulation of
22 all the owners?

23 A. Exhibit 2 will give you a tract-by-tract
24 interest, as well as a summary of all the uncommitted
25 acreage.

1 Q. Let's turn to page 2 of the summary. At the
2 bottom you've indicated that Richardson has about 95
3 percent of the spacing unit?

4 A. Yes, we do.

5 Q. Have you been as of today successful in obtaining
6 voluntary agreement with any of the interest owners shown
7 as uncommitted?

8 A. Not -- No, I have not.

9 Q. Let's talk about your efforts to obtain voluntary
10 commitment.

11 A. First we sent out our AFE -- Well, we would have
12 sent out lease offers in the summer of 2001. And then in
13 November of 2002 we sent our first mailing requesting
14 either participation, once again leasing, or to sell their
15 minerals.

16 And then I did some follow-up phone calls with
17 parties. And when I found that parties had perhaps
18 transferred their interests, we sent out new letters to
19 owners and once again followed up with telephone calls to
20 those owners when we could locate them. And I used the
21 Internet as well as phone books and any other devices I
22 could to try to locate people or locate phone numbers,
23 because -- to talk to them one on one, to explain.

24 Q. What does Exhibit 3 represent?

25 A. That is a brief summary of the contacts I made

1 with all the uncommitted parties.

2 Q. When was the well first proposed to these
3 interest owners along with the proposed well cost
4 statement?

5 A. November 2nd, 2001.

6 Q. When we turn to Exhibit 4, this package that has
7 been collated and stapled, what does this represent?

8 A. It will represent all correspondence with each
9 uncommitted owner.

10 Q. At this point do you believe you have exhausted
11 all good-faith efforts to obtain voluntary agreement from
12 the owners that are uncommitted at this point?

13 A. Yes, I do.

14 Q. Do you have a recommendation to the Examiner as
15 to overhead rates to apply to the parties being committed
16 by the pooling order?

17 A. It will be -- What we would recommend would be
18 \$5000 for drilling overhead rates and then \$500 for
19 operational rates.

20 Q. Are those rates consistent with the level of
21 costs that you have obtained from the Division in other
22 compulsory pooling cases in this area?

23 A. Yes, they are the same.

24 Q. As part of your efforts to consolidate the
25 interest owners, you submitted to them a proposed AFE?

1 A. Yes, I did.

2 Q. When I look at Exhibit 5, does that represent the
3 AFE that you sent to these people?

4 A. Yes, it is.

5 Q. To the best of your knowledge, is it still
6 current and accurate?

7 A. Yes, it is.

8 Q. How is this AFE prepared? Is it prepared by
9 Richardson?

10 A. Oh, yes, it's prepared by our engineer at
11 Richardson, yes.

12 Q. To the best of your knowledge, it's consistent
13 with the current cost of drilling such a dual completion
14 well?

15 A. Yes, it is.

16 Q. Have you received any objection from anyone as to
17 these costs?

18 A. Oh, no, no objections.

19 Q. Can't even get them to talk to you?

20 A. They'll talk to me --

21 Q. They won't commit.

22 A. -- but they won't commit. When I can reach them
23 they'll talk to me, but they won't commit.

24 MR. KELLAHIN: That concludes my examination of
25 this witness. We move the introduction of her Exhibits 1

1 through 5.

2 EXAMINER BROOKS: Exhibits 1 through 5 are
3 admitted.

4 EXAMINATION

5 BY EXAMINER BROOKS:

6 Q. I believe I recall that Richardson has a separate
7 entity, Richardson Operating Company, that operates their
8 wells; is that correct?

9 A. Yes, Richardson Operating will be the operator,
10 named operator.

11 Q. You're requesting that Richardson Operating
12 Company is the operator of the proposed well?

13 A. Yes, sir, I am.

14 Q. Okay. This is to be an east-half spacing unit,
15 as I understand it?

16 A. Yes, sir.

17 Q. And is this from the surface to the base of the
18 Pictured Cliffs?

19 A. Yes, it will be.

20 Q. Now, you have indicated that this is to be --
21 that your plan is to downhole commingle.

22 A. Yes, sir.

23 Q. Will that be the subject of a separate
24 application?

25 A. Yes, it will.

1 Q. Okay, so you're not asking at this point that the
2 Division authorize downhole commingling?

3 MR. KELLAHIN: It will be separate --

4 THE WITNESS: No, that will be separate --

5 EXAMINER BROOKS: Okay.

6 THE WITNESS: -- once we've proved it up.

7 EXAMINER BROOKS: Is this Basin-Fruitland Coal?

8 MR. KELLAHIN: Yes, sir.

9 Q. (By Examiner Brooks) And that's 320-acre
10 spacing. And what is the actual name of the Pictured
11 Cliffs pool up there?

12 A. Kutz Mounds-Pictured Cliff -- Twin Mounds, I'm
13 sorry, Twin Mounds.

14 Q. Twin Mounds. And that is on 160?

15 A. Yes, it is.

16 Q. And you're asking for the northeast quarter for
17 the 160?

18 A. Right, yes, sir.

19 Q. And what is the name of the well going to be?

20 A. The ROPCO 7-1.

21 Q. R-O-P-C-O?

22 A. Yes, sir.

23 Q. And will that be at a standard location?

24 A. Yes, it is.

25 Q. And do you have the footages on that, or --

1 MR. KELLAHIN: It's on the top of Exhibit 1.

2 Q. (By Examiner Brooks) The top of Exhibit 1, okay.

3 A. It's 1254 from the north line and 1939 from the
4 east line.

5 Q. 1254 from the north and 19- --

6 A. -- -39 from the east.

7 EXAMINER BROOKS: -- -39 from the east.

8 I guess that's all I have, Mr. Stogner.

9 EXAMINER STOGNER: Yes, I have a couple of
10 questions, if I may.

11 EXAMINER BROOKS: Go ahead.

12 EXAMINATION

13 BY EXAMINER STOGNER:

14 Q. The Application is for compulsory pooling for the
15 Pictured Cliffs in the northeast quarter --

16 A. No --

17 MR. KELLAHIN: Mr. Examiner,

18 THE WITNESS: -- the Fruitland Coal.

19 MR. KELLAHIN: -- that's not necessary for the
20 Pictured Cliffs. The only reason we put it on the docket
21 is to notify the owners in the coal that it would be a
22 commingled wellbore and that production would be allocated
23 between the two pools.

24 But there is no uncommitted owner in the
25 northeast quarter.

1 EXAMINER STOGNER: Okay, that was the gist of my
2 question at this point.

3 EXAMINER BROOKS: So the actual pooling order,
4 then, should read from the surface to the base of the
5 Fruitland Coal, since you're not --

6 THE WITNESS: Right, yes --

7 EXAMINER BROOKS: -- you're not --

8 THE WITNESS: -- I was in error.

9 EXAMINER BROOKS: -- doing the Pictured Cliffs.
10 Okay, the witness may stand down.

11 MR. KELLAHIN: Let me ask the witness another
12 question.

13 FURTHER EXAMINATION

14 BY MR. KELLAHIN:

15 Q. Exhibits 9 and 10 behind the geologic displays,
16 have you reviewed those two exhibits?

17 A. Yes, I have.

18 Q. And are they consistent with the notification
19 lists that you were utilizing for these parties?

20 A. Yes, they are.

21 MR. KELLAHIN: Mr. Examiner, we would ask that
22 you also introduce Exhibits 9 and 10, which are our
23 certificates of notification for this hearing.

24 EXAMINER BROOKS: Exhibits 9 and 10 are admitted.

25 MR. KELLAHIN: That concludes my examination of

1 this witness.

2 EXAMINER BROOKS: Thank you.

3 MS. VAN BLARICOM: Thank you.

4 MR. KELLAHIN: Mr. Examiner, our next witness is
5 Mr. David Richardson.

6 DAVID B. RICHARDSON,

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

9 DIRECT EXAMINATION

10 BY MR. KELLAHIN:

11 Q. Mr. Richardson, for the record, sir, would you
12 please state your name and occupation?

13 A. David B. Richardson, President, Richardson
14 Production Company.

15 Q. Do you hold a technical degree, Mr. Richardson?

16 A. Yes, I do.

17 Q. What is that degree in?

18 A. In geology, from the University of Oklahoma.

19 Q. On prior occasions have you testified before the
20 Division?

21 A. Yes, I have.

22 Q. This is your company and your prospect?

23 A. Yes, it is.

24 Q. Have you analyzed the geology involved in this
25 Application?

1 A. Yes, I have.

2 MR. KELLAHIN: We tender Mr. Richardson as an
3 expert witness.

4 EXAMINER BROOKS: He is so qualified.

5 Q. (By Mr. Kellahin) Mr. Richardson, I want you to
6 look at Exhibits 6, 7 and 8, and before we talk about them
7 specifically, do you have an opinion about the risk
8 associated with the Fruitland Coal gas formation involved
9 in this well?

10 A. Yes, I do.

11 Q. The statute provides a maximum penalty for the
12 Division, and that's cost plus 200 percent. Are you aware
13 of that?

14 A. Yes.

15 Q. In your opinion, is the risk associated with this
16 well based upon that maximum limit?

17 A. Yes.

18 Q. What is it?

19 A. It should be the highest allowable.

20 Q. Let's talk about your reasons to support that
21 opinion.

22 A. Okay.

23 Q. If you'll turn to Exhibit 6, identify for us what
24 we're looking at.

25 A. This is a nine-section area of the proposed Ropco

1 7-1 well. As a reference point, the San Juan River is
2 approximately a mile to the south. The oil well spots are
3 old Gallup wells. Most of those have been plugged. There
4 are several recent Pictured Cliffs and Coal completions in
5 the area.

6 Q. Is it your current exploration strategy to drill
7 commingled wellbores with the Coal and the Pictured Cliffs?

8 A. Yes, it is.

9 Q. When you talk about the risk, what are the
10 factors that cause you to conclude the risk is the maximum?

11 A. In this particular case, we're on the far edge of
12 the San Juan Basin, far western edge. This well, the coal
13 is only approximately 560 feet deep. It outcrops three
14 miles to the west.

15 Of particular concern to us is the San Juan
16 River. It intersects the outcrop to the west, and we're
17 concerned --

18 Q. You've shown that river on the display?

19 A. Yes, I have.

20 Q. That outline on Section 13, 18 and 17 is the
21 approximate location of the river?

22 A. Yes, it is.

23 Q. Let's look at the structure map. If you'll look
24 at Exhibit 7, that gives us a structural reference point
25 for the coal?

1 A. That would be Exhibit 8.

2 Q. I'm sorry. Give us the structural reference
3 point for the coal on the structure map.

4 A. Okay, this is -- the structure map shows a gentle
5 northeast dip of the -- into the center -- northeast part
6 of the Basin. The coal is approximately 560 feet deep
7 here. As you can see, the further west you go, you have
8 the outcrop.

9 Q. Let's look at the display that shows the
10 cumulative production in the area.

11 A. Okay.

12 Q. On the bottom of that display you've shown
13 Pictured Cliff and Fruitland Coal cum production?

14 A. Yes, I have.

15 Q. When we look at the coal production, you
16 currently find that information on wells to the east of
17 your location?

18 A. That's true.

19 Q. Is there a water component associated with the
20 risk here?

21 A. Yes, there is.

22 Q. And what is that?

23 A. High water production.

24 Q. Generally, what do these kind of wells cost?

25 A. These wells -- a commingle well is approximately

1 \$220,000, and a single Pictured Cliffs well is about
2 \$40,000 less.

3 Q. So it's justifiable to you to try to commingle
4 both of those reservoirs together in a single wellbore?

5 A. It's necessary, yes.

6 Q. Any other factors that associate reasons for the
7 risk factor penalty, Mr. Richardson?

8 A. The shallow depth and low bottomhole pressure.

9 Q. What kind of rates would you anticipate for this
10 well?

11 A. In the beginning it's very low production. As we
12 dewater it, we're anticipating up to approximately 300 MCF
13 a day.

14 Q. So these are very low rate wells once you reach
15 the point at dewatering?

16 A. Yes.

17 MR. KELLAHIN: All right. That concludes my
18 examination of Mr. Richardson.

19 We move the introduction of his Exhibits 6, 7 and
20 8.

21 EXAMINER BROOKS: Exhibits 6, 7 and 8 are
22 admitted.

23 EXAMINATION

24 BY EXAMINER BROOKS:

25 Q. Mr. Richardson, you're aware that the Division's

1 usual practice has been to provide for a 156-percent risk
2 penalty in the case of Fruitland Coal wells, are you not?

3 A. Yes, sir.

4 Q. And do you believe that the reasons you have
5 suggested justify a departure from that practice in this
6 case?

7 A. Yes, I do.

8 EXAMINER BROOKS: Okay, Mr. Stogner?

9 EXAMINER STOGNER: Yes, I have some questions
10 based on this in particular.

11 EXAMINATION

12 BY EXAMINER STOGNER:

13 Q. Now, I'm looking at Exhibit Number 8, and you're
14 referencing other Fruitland Coal gas production in Section
15 1, two wells in Section 5, one well in Section 13, the
16 Number 3X.

17 When I look down in Section 13, is that the oil
18 well with the gas hachmarks on it?

19 A. Yes.

20 Q. All right. And then in Section 6, which well in
21 Section 6 is that?

22 A. The producing well is the Bushman Federal 6-1.

23 Q. That would be the one designated that's not
24 plugged --

25 A. Yes.

1 Q. -- correct? Now, is that -- Let's look at the
2 well in Number 6. Is that well currently producing?

3 A. Yes, it is.

4 Q. And what's the rate?

5 A. Today's rate is about 350 MCF a day.

6 Q. Any water?

7 A. Yes, between 200 and 400 barrels per day.

8 Q. Okay, now how long has this well been producing?

9 A. Since 1999.

10 Q. Okay. What was the initial rate or --

11 A. About -- Approximately 15 MCF.

12 Q. Fifteen. What was the water rate at that time?

13 A. It was very high.

14 Q. The rates that you just mentioned in that Well
15 Number 6, is this typical for the wells in this particular
16 area?

17 A. This seems to be abnormally high.

18 Q. Abnormally high. What would be a normal high,
19 then?

20 A. We don't know because most of these are new
21 wells.

22 The well in Section 1 is producing approximately
23 50 MCF per day, and it's remained fairly constant at that
24 level.

25 The wells in Section 5 and 8 are new wells. We

1 don't have that much production, but we are experiencing an
2 incline in the production.

3 Q. Now, the well down in Section 13, is that a
4 Richardson well?

5 A. It is, we purchased this well from another
6 operator who attempted a completion in the Fruitland. It's
7 very shallow, about 200 feet, and it's never had any
8 production.

9 Q. Okay, so that well --

10 A. Zero production.

11 Q. Now, you show a .5 MM on your exhibit.

12 A. That must have produced that out of the Gallup.

13 Q. So that --

14 A. That hasn't produced that out of the Fruitland
15 Coal. At least I'm not aware of any production from the
16 Fruitland coal.

17 We haven't sold any gas there.

18 Q. Were any of your coal gas wells depicted on this
19 exhibit that you've mentioned in Sections 1, 6 and 5, are
20 they also subject to a compulsory pooling order?

21 A. I believe the ROPCO 8-1 and the 5-2 and the 5-4.

22 Q. Okay. Do you remember what the risk penalty
23 factors were on those wells?

24 A. I believe 156.

25 Q. Are you expecting this well in section 7 to be

1 any different from the ones up in Sections 1, 6 and 5?

2 A. The risk would be, it would be the furthest west
3 and the highest structural well, and the high water
4 production closer to the river.

5 Q. Are any of these other wells that we've discussed
6 in Sections 1, 6 and 5, are they also downhole commingled
7 with the PC?

8 A. Yes, they are.

9 Q. Okay, would downhole commingling a well -- would
10 that lower or raise the risk, in your opinion?

11 A. From an economic point it would lower the risk;
12 from an engineering point it could increase the risk.

13 Q. How would it increase the risk?

14 A. If one zone produces considerably more water than
15 the other, say if the PC produces 300 barrels a day of
16 water and it's continuing to do so, and one dewateres
17 faster, it's going to restrict the flow from the other
18 zone.

19 Q. Would this have potential harm to the PC?

20 A. I don't think so, it's just going to take longer
21 to dewater and affect your economics.

22 Q. So the PC is not water-rate-sensitive, in your
23 opinion?

24 A. It is somewhat, yes. It also dewateres.

25 Q. Okay, again, where is the outcrop of the Coal?

1 A. It would be probably -- I know the coal mine is
2 in Section 35 to the northwest, so probably in Section 11
3 or 10, the east half of 10 or the west half of 11 would be
4 the coal outcrop.

5 Q. What is the nature of the coal -- or does it
6 differ, the nature of the coal, as far as fracturing,
7 cleating, the closer you get to the outcrop versus the
8 other direction as you go deeper into the Basin?

9 A. It seems to have the same frac gradient as
10 further to the east. There's not much difference.

11 Q. Now, the water effect here you have talked about,
12 this would come from water introduced into the coal from
13 the river and from just natural water flow?

14 A. From natural water, and we're hoping that it's
15 not recharging.

16 Q. Are you seeing any indication of that in those
17 other wells?

18 A. No, as far as the salinity, the TDS's remain very
19 high, so that would tell us initially that we're not seeing
20 a recharge.

21 EXAMINER STOGNER: I have no other questions.
22 Mr. Brooks?

23 EXAMINER BROOKS: Neither do I at this point.
24 You may stand down.

25 THE WITNESS: Thank you, sir.

1 MR. KELLAHIN: That concludes our presentation in
2 this case, Mr. Examiner.

3 EXAMINER BROOKS: Very good. Case Number 12,813
4 will be taken under advisement.

5 (Thereupon, these proceedings were concluded at
6 8:54 a.m.)

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The following is a true and correct copy of the proceedings of the hearing held by me on _____
Oil Conservation Division

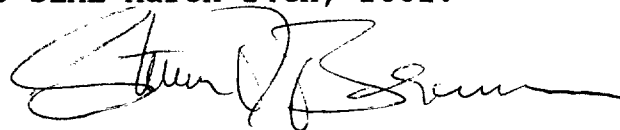
CERTIFICATE OF REPORTER

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 March 24th, 2002.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 2002