

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. 12,884
)
APPLICATION OF APPLICATION OF FOUR STAR)
OIL AND GAS COMPANY FOR AN UNORTHODOX)
GAS WELL LOCATION, SAN JUAN COUNTY,)
NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

June 27th, 2002

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, June 27th, 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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June 27th, 2002
 Examiner Hearing
 CASE NO. 12,884

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APPLICANT'S WITNESS:	
<u>JACK THOMAS SCHMID, JR.</u> (Engineer, Landman)	
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* * *

A P P E A R A N C E S

FOR THE DIVISION:

DAVID K. BROOKS
Attorney at Law
Energy, Minerals and Natural Resources Department
Assistant General Counsel
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

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:

WILL JONES
Engineer
New Mexico Oil Conservation Division
1220 South Saint Francis Drive
Santa Fe, NM 87501

* * *

1 WHEREUPON, the following proceedings were had at
2 11:28 a.m.:

3 EXAMINER CATANACH: At this time I'll call Case
4 12,844, the Application of Four Star Oil and Gas Company
5 for an unorthodox gas well location, San Juan County, New
6 Mexico.

7 Call for appearances.

8 MR. CARR: May it please the Examiner, my name is
9 William F. Carr. I'm with the Santa Fe office of Holland
10 and Hart, L.L.P. We represent Four Star Oil and Gas
11 Company, and I have one witness.

12 EXAMINER CATANACH: Any additional appearances?

13 Okay, would the witness please stand to be sworn
14 in?

15 (Thereupon, the witness was sworn.)

16 JACK T. SCHMID, JR.,

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

19 DIRECT EXAMINATION

20 BY MR. CARR:

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

23 A. Jack Thomas Schmid, Jr.

24 Q. Would you spell your last name?

25 A. It's S-c-h-m-i-d.

1 Q. Mr. Schmid, where do you reside?

2 A. I reside in Houston, Texas.

3 Q. By whom are you employed?

4 A. By Chevron USA, Inc.

5 Q. What is your relationship to Four Star Oil and
6 Gas Company?

7 A. Four Star Oil and Gas Company was a subsidiary
8 company of Texaco, Inc., prior to the merger, and with the
9 -- of course, you recall that Chevron and Texaco merged
10 effective October 1st of last year. It's now a subsidiary
11 company of Chevron USA, Inc., effective May 1st of this
12 year, and so I perform services for Four Star Oil and Gas,
13 who is still our operating entity in the San Juan Basin
14 area.

15 Q. But you are employed by Chevron?

16 A. I am employed by Chevron, that's correct.

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

19 A. No, I have not.

20 Q. Could you review for Mr. Catanach your
21 educational background?

22 A. Certainly. I have a bachelor of science in
23 mechanical engineering from Texas A&M University in 1978.
24 I'm a registered professional engineer in the State of
25 Texas. I also have a doctor of jurisprudence degree from

1 South Texas College of Law in Houston, in 1984 and am
2 licensed to practice law in the State of Texas.

3 Q. Could you review your employment history for the
4 Examiner?

5 A. Certainly. I started work as an offshore
6 drilling engineer for ARCO Oil and Gas in Houston. I've
7 had several engineering assignments, both in reservoir and
8 operations engineering.

9 Then worked for a few other companies there in
10 Houston also, Wanoco Oil and Gas Company; Samedan Oil,
11 reservoir engineering, production engineering and had
12 various other engineering assignments there; practiced law
13 for a year in 1987 and then went to work for Chevron in
14 1988 as a land attorney. I had several land/legal
15 assignments within Chevron.

16 Most recently I've been overseas with Caltex, an
17 affiliate company of Chevron/Texaco in Indonesia, as a
18 contract specialist. Just repatriated here, back to
19 Houston, in January of this year.

20 Q. Are you familiar with the Four Star New Mexico
21 State 32 Well Number 2?

22 A. Yes, I am familiar with it.

23 Q. And are you familiar with the Application filed
24 in this case on behalf of Four Star?

25 A. Yes, I am.

1 Q. Have you reviewed the records of Chevron and Four
2 Star concerning the drilling of this well?

3 A. Yes, I have reviewed the records.

4 MR. CARR: Mr. Catanach, we tender Mr. Schmid as
5 an expert witness in engineering and petroleum land
6 matters.

7 EXAMINER CATANACH: Mr. Schmid is so qualified,
8 Mr. Carr.

9 Q. (By Mr. Carr) Could you briefly summarize for us
10 what it is that Four Star seeks with this hearing?

11 A. Four Star is seeking exception to Rule 7 of the
12 special rules and regulations for the Basin-Fruitland Coal
13 Gas Pool, and specifically we're seeking exception for our
14 off-pattern location for our New Mexico State 32 Well
15 Number 2.

16 Q. Could you identify what's been marked as Exhibit
17 Number?

18 A. Exhibit Number 1 is the special rules and
19 regulations for the Basin-Fruitland Gas Pool.

20 Q. Could you just summarize for us what these rules
21 require in terms of well location?

22 A. Specifically in Rule 7, the pertinent provision
23 there is that for a nonstandard well location it must be
24 located in the northeast quarter or the southwest quarter
25 of the governmental section.

1 Q. At this time -- and what we have is a well that
2 was drilled in the northwest quarter?

3 A. That is correct.

4 Q. It's standard as to the setbacks from the outer
5 boundary, but it is in the wrong quarter section; is that
6 correct?

7 A. Right, the location of the well complies with the
8 standard setback requirements of the rule.

9 Q. And what is that well location?

10 A. It's located 905 feet from the north line, and
11 it's located 830 feet from the west line of Section 32,
12 Township 30 North, Range 11 West.

13 Q. Let's go to what has been marked as Exhibit
14 Number 2, and I would ask you to identify that and review
15 it for Mr. Catanach.

16 A. Certainly. Exhibit Number 2 shows our subject
17 well, the location right in the center with the big dot
18 there. It's our New Mexico State 32 Number 2 well. It
19 shows that it is in a west-half spacing unit. It's a
20 standup unit comprising 321.32 acres. And it also shows
21 the offset working interest owners surrounding the subject
22 spacing unit.

23 Q. Would you identify Exhibit Number 3?

24 A. Exhibit Number 3 is the regulatory filings for --
25 the well records for our New Mexico State 32 Number 2 well.

1 Q. Would you refer to these and, using these,
2 provide us with a general history of the well?

3 A. Certainly. The well was drilled -- I think it
4 was spud on June 21st of 2001, and in compliance with our
5 application for permit to drill it was approved by the
6 District Office on May 10th of 2001. It's noted that the
7 well is in the wrong quarter section.

8 The well was completed in March of 2002, of this
9 year. It was placed on production, I believe, in late
10 March of 2002.

11 We'd also note that the C-104 was also approved.

12 We subsequently received a call from Charlie
13 Perrin on or about April 17th to shut in the well. The
14 well was shut in on that day and has remained shut in up
15 until today.

16 Q. And because of his call, we filed the
17 Application --

18 A. Right, the next step was file an Application for
19 the off-pattern location.

20 Q. Now, Mr. Schmid, you inherited this problem, did
21 you not?

22 A. Yes, I did.

23 Q. And were you personally involved with this matter
24 at the time the well was drilled?

25 A. No, I was not even in the country at that time.

1 Q. And when did you first become involved with this
2 matter?

3 A. I first became involved with this matter on April
4 17th when we received a call from Charlie Perrin up there.
5 The field office in Farmington notified the Houston office,
6 and I was alerted to the potential problem.

7 Q. This problem, however, does fall within your
8 general area of responsibility now in Chevron, does it not?

9 A. Yes, it does.

10 Q. And that's why you're here?

11 A. That is correct.

12 Q. Could you review for the Examiner what you have
13 been able to put together and what your understanding is as
14 to why this well may not have been drilled in the proper
15 quarter section? And you may want to refer to Exhibit 4 as
16 you discuss the --

17 A. Yeah, let's look at Exhibit 4. It's a
18 topographical map, is going to help us a little bit. We
19 can't find much of a paper trail between the merger and the
20 integration of the companies, the closing down of our
21 Denver office and moving files and people leaving the
22 company. It's been very difficult to establish a paper
23 trail on exactly what happened.

24 But we've come together as a team, we've looked
25 at several areas that we think the reasons for drilling in

1 the northwest quarter were that the southwest quarter had a
2 very rugged terrain. There was a ridge along the -- kind
3 of going east or westerly direction in the south, that just
4 was extremely rocky. There was a peak down there. I had
5 my operations superintendent drive out to the location
6 maybe three weeks ago and just report back what he found,
7 and that was his finding, that there was a peak and there
8 was a big ledge around there that would have been very
9 difficult to build a location.

10 The other two reasons we believe that we went to
11 the northwest quarter was, there was a BLM policy in effect
12 -- at least at the time this well was drilled, and I
13 believe it's still in effect -- that limited new road being
14 built to 300 feet in length. And if we had built a
15 location in the southwest quarter, the road location would
16 have exceeded the 300-foot limit.

17 So we had a road location, or a road nearby, in
18 the north section, so we built a smaller, shorter-length
19 road and came into the northwest quarter from the north of
20 this section.

21 Q. Now, that's the best you've been able to piece
22 this together; isn't that right?

23 A. That's correct. We don't know exactly what
24 happened, it's just our best reasons, looking back on it.
25 We're somewhat speculating, but they are logical reasons

1 and they seem to be aligned with the reasoning at the time.

2 Q. You do know this is a mistake?

3 A. This is just a flat-out mistake, we're very
4 embarrassed by it, and we're trying to get all the correct
5 approvals to go further.

6 Q. Is Exhibit Number 5 an affidavit confirming that
7 notice of this Application has been provided by certified
8 mail to the offset owners identified on the plat which is
9 Exhibit 2?

10 A. Right, Exhibit 5 is the affidavit, notice
11 affidavit, and the copies of the letters are attached, and
12 it also lists all the offset working interest owners.

13 Q. And then your ownership report is also attached
14 to confirm that you have attempted to identify every offset
15 owner who could be affected by the Application?

16 A. Right, we did.

17 Q. In your opinion, will approval of this
18 Application impair the correlative rights of any --

19 A. No, I don't think it will. No offset operators
20 have objected, and no one's going to be denied the
21 opportunity to produce their fair share of gas from the gas
22 pool.

23 Q. In your opinion, will approval of the Application
24 prevent waste?

25 A. Yes, sir, it will. The well is currently shut in

1 and it is a commercially producible well, so as soon as we
2 get it put back on line, yes.

3 Q. Were Exhibits 1 through 5 either prepared by you
4 or have you reviewed them and can you testify as to their
5 accuracy?

6 A. That is correct, I have either reviewed or
7 prepared those exhibits.

8 MR. CARR: Mr. Catanach, at this time we'd move
9 the admission into evidence of Four Star Exhibits 1 through
10 5.

11 EXAMINER CATANACH: Exhibits 1 through 5 will be
12 admitted as evidence.

13 MR. CARR: That concludes my examination of Mr.
14 Schmid.

15 EXAMINATION

16 BY EXAMINER CATANACH:

17 Q. Mr. Schmid, I'm looking at your Exhibit 2, and
18 you show the offset operators and/or interest owners, I
19 assume. You don't show if there's any offset wells. Are
20 there, in fact, offset Basin-Fruitland Coal wells in this
21 area?

22 A. I was not able to get that information, I just
23 don't know.

24 Q. Now, this drilling permit that you submitted to
25 the Aztec office of the Division, it was signed by -- it

1 looks like -- I'm not sure if that's Steve Hayden's
2 signature.

3 MR. CARR: Yes, sir, it is.

4 Q. (By Examiner Catanach) As far as you know, were
5 there any conditions of approval that we placed on that
6 drilling permit?

7 A. At the bottom of that permit was stamped a "Hold
8 C-104 for..." and the initials "NSL" at the bottom of the
9 page.

10 Q. So we did catch that, and we knew it was an NSL
11 anyway?

12 A. Yeah.

13 Q. Okay. Does Mr. Archibeque still work in that
14 area up there?

15 A. Mr. Archibeque departed the company in May of
16 this year.

17 Q. Is it your testimony that the location within the
18 southwest quarter of Section 32 would not have been
19 feasible?

20 A. It wouldn't have been practical. I guess it was
21 possible, but the topography of the area looked like it was
22 going to be a difficult location to build, along with the
23 road access, were going to be the two primary issues that
24 were going to be difficult to overcome.

25 Q. Mr. Schmid, as far as you know, is this in the

1 area that is going to be proposed to be included in the
2 infill Basin-Fruitland Coal?

3 A. It's my understanding it is, but I may stand
4 corrected on that.

5 Q. So if that rule is, in fact, passed or approved
6 later on this summer, this really won't have an effect?

7 A. That's my understanding, that's correct.

8 MR. CARR: And Mr. Catanach, I can confirm it is
9 in the area covered by the hearing that's scheduled for the
10 9th of July.

11 Q. (By Examiner Catanach) And do you know what this
12 well is currently producing at, or capable of producing?

13 A. My petroleum engineer told me it came on line
14 about 250,000 a day, it was a good well. It was, of
15 course, unloading the water as it was coming on, so we're
16 real anxious to get it back on production.

17 Q. And when was it shut in?

18 A. April 17th is what our records show, the day we
19 received the call from Charlie Perrin.

20 EXAMINER CATANACH: I have no further questions.

21 MR. CARR: Mr. Catanach, we talked about the
22 change in the pool rules, but we were concerned that if
23 that should bog down because if there is opposition to
24 certain portions of the Application that have been set for
25 some time, and so that is the reason we were concerned

1 about getting this case to you as quickly as possible, not
2 just being tied into that larger matter.

3 EXAMINER CATANACH: Mr. Carr, just one other
4 thing. Could I get you to submit a map that does show the
5 offset Basin-Fruitland Coal --

6 MR. CARR: We can. We discussed that last night,
7 and we'll be happy to provide that to you.

8 THE WITNESS: Certainly.

9 EXAMINER CATANACH: Thank you. Anything further?
10 There being nothing further in this case, Case
11 12,884 will be taken under advisement.

12 (Thereupon, these proceedings were concluded at
13 11:43 a.m.)

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FILED
JUL 27 12 50 PM '02
D. Carr
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 July 1st, 2002.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 2002