

STATE OF NEW MEXICO

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION

CASE 10,609 and 10,610

EXAMINER HEARING

IN THE MATTER OF:

Application of SG Interests I, Ltd., for  
compulsory pooling, San Juan County, New Mexico

Application of SG Interests I, Ltd., for  
compulsory pooling and an unorthodox coal gas well  
location, San Juan County, New Mexico

TRANSCRIPT OF PROCEEDINGS

**ORIGINAL**

BEFORE: MICHAEL E. STOGNER, EXAMINER

RECEIVED

DEC 07 1992

OIL CONSERVATION DIVISION

STATE LAND OFFICE BUILDING

SANTA FE, NEW MEXICO

November 19th, 1992

## A P P E A R A N C E S

FOR THE DIVISION:

ROBERT G. STOVALL  
Attorney at Law  
Legal Counsel to the Division  
State Land Office Building  
Santa Fe, New Mexico 87504

FOR THE APPLICANT:

KELLAHIN & KELLAHIN  
Attorneys at Law  
By: W. THOMAS KELLAHIN  
117 N. Guadalupe  
P.O. Box 2265  
Santa Fe, New Mexico 87504-2265

\* \* \*

## I N D E X

## Page Number

Appearances 2

JIM FULLERTON

Direct Examination by Mr. Kellahin 6

Examination by Examiner Stogner 16

Certificate of Reporter 18

\* \* \*

## E X H I B I T S

## APPLICANT'S EXHIBITS:

Exhibit 1 7

Exhibit 2 7

Exhibit 3 8

Exhibit 4 9

Exhibit 5 10

Exhibit 6 10

Exhibit 7 11

Exhibit 8 15

Exhibit 9 15

Exhibit 10 13

Exhibit 11 14

\* \* \*

1                   WHEREUPON, the following proceedings were had  
2                   at 11:10 a.m.:

3  
4  
5  
6  
7                   EXAMINER STOGNER: Call Cases Numbers 10,609  
8                   and 10,610, which the general counsel for the Applicant  
9                   has requested that these be consolidated for purposes  
10                  of testimony.

11                  MR. STOVALL: This Case 10,609 is the  
12                  Application of SG Interests I, Ltd., for compulsory  
13                  pooling, San Juan County, New Mexico.

14                  10,610 is the Application of SG I Interests,  
15                  Ltd., for compulsory pooling and an unorthodox coal gas  
16                  well location, San Juan County, New Mexico.

17                  EXAMINER STOGNER: Call for appearances.

18                  MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin  
19                  of the Santa Fe law firm of Kellahin & Kellahin,  
20                  appearing in association with Tommy Roberts, an  
21                  attorney in Farmington. We represent the Applicant in  
22                  these two consolidated cases, and I have one witness to  
23                  be sworn.

24                  EXAMINER STOGNER: Any other appearances?  
25                  There being none, since the room is empty,

1 would the witness please stand to be sworn?

2 (Thereupon, the witness was sworn.)

3 EXAMINER STOGNER: Mr. Kellahin?

4 MR. KELLAHIN: Mr. Examiner, we have asked  
5 the two cases be consolidated because we are pooling  
6 the same interest owner, Frederick L. Lilly, who has  
7 the same interest in each of the two spacing units. He  
8 has a .625 percent in the spacing unit for each of the  
9 two cases.

10 Mr. Fullerton is my only witness. Mr.  
11 Fullerton is a petroleum landman, and despite his  
12 efforts for the last four or five months, has been  
13 unable to get Mr. Lilly to participate.

14 Because these are coal gas wells, SG has  
15 commenced the drilling of the two wells. They are  
16 drilled, but that is all. They are drilled and  
17 awaiting completion.

18 We have -- desire to request, Mr. Examiner,  
19 the standard risk factor, the 156 percent that the  
20 Commission normally utilizes for the coal gas wells.

21 We have elected not to bring Mr. Mickey over  
22 here today to try to persuade you to impose a higher  
23 percent penalty factor, and we'll simply go forward  
24 with Mr. Fullerton's testimony at this point.

25 EXAMINER STOGNER: Mr. Fullerton?

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

JIM FULLERTON,

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

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q. Mr. Fullerton, for the record would you  
please state your name and occupation?

A. Jim Fullerton, I'm a petroleum landman,  
Denver, Colorado.

Q. Mr. Fullerton, on prior occasions have you  
testified as an expert petroleum landman before the  
Division?

A. Yes, I have.

Q. And have you and others working under your  
direct supervision and control, determined the identify  
of the parties that are entitled to share in production  
from each of these two wells?

A. Yes, I have.

Q. Have you made an effort over the last several  
months to consolidate all working-interest owners on a  
voluntary basis for the drilling of these wells?

A. Yes, I have.

Q. And do you now have one individual remaining  
in each of the two cases that, despite your efforts,  
has not agreed to participate on a voluntary basis?

1           A.    That's correct, just one.

2                   MR. KELLAHIN:  We tender Mr. Fullerton as an  
3 expert petroleum landman.

4                   EXAMINER STOGNER:  Mr. Fullerton is so  
5 qualified.

6           Q.    (By Mr. Kellahin)  Mr. Fullerton, let's go  
7 through the package of exhibits, starting with Exhibit  
8 Number 1.  Would you identify and describe that plat?

9           A.    Exhibit Number 1 is basically a plat  
10 outlining the drilling and spacing unit for the  
11 Archunde 29-10-24 Number 1 well, north half of Section  
12 24, 29 North, 10 West.

13                   Also outlined are the various tracts which  
14 comprise the unit, different ownerships, and so forth.

15                   Also, as you'll see, the well location is  
16 depicted on the plat.

17           Q.    Let's turn now to Exhibit Number 2.  Is the  
18 information shown on this compilation, Exhibit Number  
19 2, information that you have obtained and verified as  
20 to its accuracy?

21           A.    Yes, that's correct.

22           Q.    And what have you concluded about the  
23 working-interest percentages within this spacing unit?

24           A.    The working-interest percentages outlined on  
25 this exhibit indicate that essentially Frederick L.

1 Lilly's interest, which is .625 percent, is the only  
2 interest that has not committed to the unit at this  
3 time.

4 Q. Have you been successful in either  
5 consolidating by assignment purchase or farmout or  
6 joinder in the well all other working-interest owners  
7 with the exception of Mr. Lilly?

8 A. Yes, we have. There were a number of other  
9 parties who -- that interest is now reflected under SG  
10 Interests I, Ltd., as we purchased and/or farmed out  
11 interests from three or four other parties who had  
12 similar interests to Mr. Lilly's in this spacing unit.

13 Q. Have you offered to Mr. Lilly the same terms,  
14 conditions and opportunities that you offered to others  
15 for participating in the well?

16 A. Yes, we have. He got -- His offer was  
17 identical to the others that were accepted by the other  
18 parties.

19 Q. Let me ask you to turn to Exhibit Number 3.  
20 Identify and describe Exhibit Number 3.

21 A. Exhibit Number 3 is the -- is a copy of the  
22 Authority for Expenditure for the Archunde 29-10-24  
23 Number 1 well that was presented to Mr. Lilly, among  
24 other parties in this unit, showing the estimated costs  
25 of drilling and completing the proposed well.



1           Q.    Have you determined whether or not the AFE  
2 represented on Exhibit Number 3 is still current and  
3 accurate for this well?

4           A.    We have gone back and reviewed the costs to  
5 date that have taken place on this particular well, and  
6 we have found that we're within five percent range,  
7 either way, as far as the drilling costs.

8                   Obviously, the well is not completed, so the  
9 completion costs have not been taken into  
10 consideration, only the drilling costs, which appear to  
11 be within the same range, very close range to the AFE  
12 outline.

13           Q.    Do you recommend to the Examiner that this  
14 AFE be utilized in the pooling order insofar as it  
15 affects Mr. Lilly's interest?

16           A.    Yes, we do.

17           Q.    Turn now to Exhibit Number 4, Mr. Fullerton,  
18 and would you identify and describe that plat?

19           A.    Exhibit Number 4, again, is a plat depicting  
20 the drilling and spacing unit for the Trujillo 29-10-21  
21 Number 2 well, located in the south half of Section 21,  
22 Township 29 North, Range 10 West.

23                   Also again in the gray color we have outlined  
24 the various tracts depicting different ownerships, and  
25 again the specific location of the well.

1           Q.    Have you calculated to determine what Mr.  
2   Lilly's percentage interest is within this 320-acre  
3   spacing unit for the Trujillo well?

4           A.    Yes, we have.

5           Q.    Is that reflected on Exhibit Number 5?

6           A.    Yes, it is, .625 percent.

7           Q.    Let's turn now to Exhibit Number 6.  Would  
8   you identify and describe Exhibit Number 6?

9           A.    Exhibit Number 6 is a copy of the Authority  
10   for Expenditure that was prepared in June for the  
11   Trujillo 29-10-21 Number 2 well.  This AFE was  
12   submitted to all the parties who owned an interest in  
13   the spacing unit for the well.

14          Q.    Have you received any objection to this AFE  
15   from any of the parties?

16          A.    No, we have not.

17          Q.    And have you determined for yourself that the  
18   estimated expenditure for this well is still accurate  
19   and current?

20          A.    Yes, based on drilling costs to date, which -  
21   - the costs incurred should cover the entire drilling  
22   at cost.

23                   The accuracy of this AFE is within, again,  
24   five percent either way.

25          Q.    And do you recommend to the Examiner that he

1 utilize Exhibit 6 in assessing the proportionate share  
2 of costs attributable to Mr. Lilly for the drilling of  
3 the Trujillo well?

4 A. Yes, we do.

5 Q. All right. Let's turn now to your specific  
6 efforts to contact and persuade Mr. Lilly to  
7 participate.

8 Describe for us approximately when you first  
9 found him and had any conversations with him.

10 A. Originally, June of 1992, we were supplied  
11 some information from Amoco -- these wells were drilled  
12 under farmouts from Amoco Production Company --  
13 regarding Mr. Lilly's location.

14 We were able to get an address for him, and  
15 on June 25th, along with the other parties, sent out  
16 letters to him regarding our plans to drill both the  
17 Trujillo well and the Archunde well.

18 Q. And that is what is shown as Exhibit Number  
19 7?

20 A. Yes.

21 Q. It was your first written contact to him, and  
22 it proposed both of the two wells that are now the  
23 subject of these two pooling cases?

24 A. That's correct.

25 Q. All right. What, if any, response did you

1 receive from Mr. Lilly?

2 A. We received no response from Mr. Lilly. We  
3 received response from some of the other parties, and  
4 so -- But Mr. Lilly was -- did not respond to the June  
5 25th letter, whatsoever.

6 Q. What then did you do, Mr. Fullerton,  
7 concerning Mr. Lilly?

8 A. In between the June 25th letter and our next  
9 correspondence in July, I finally did talk to him on  
10 the telephone and advised him that if he had -- asked  
11 him if he had reviewed our correspondence of June 25th,  
12 and he indicated that he had, but he didn't really have  
13 time to bother with it, it was too small an interest,  
14 and that he'd get around to it whenever he could,  
15 essentially.

16 Q. Okay, what then did you do?

17 A. On July 29th, I sent him a farmout agreement,  
18 the reason for this being in our telephone conversation  
19 he had indicated that he would possibly do the same  
20 thing as one of the other parties who had already  
21 agreed to farm out in both of these wells.

22 So I -- Under that indication from him, July  
23 29th, I did send him additional correspondence with  
24 farmout agreements and terms that were agreed to by the  
25 other parties, and requested that he again consider

1       this farmout if he decided he did not want to  
2       participate in the well.

3           Q.     And what if any response did you receive from  
4       Mr. Lilly?

5           A.     None whatsoever to this letter, and I did  
6       attempt to contact him by telephone numerous times,  
7       left messages, and never received a return phone call.

8           Q.     All right. What then did you do, Mr.  
9       Fullerton?

10          A.     Then again on September 29th, I decided that  
11       he apparently did not like the idea of a farmout, so I  
12       decided on one last alternative, and that would be for  
13       him to sell his interest to SG under an assignment. So  
14       on September 29th, I did send him an assignment and  
15       indicated our terms that we would agree to purchase his  
16       interest in both these wells.

17          Q.     After that, did you receive any response from  
18       him, either verbal or written?

19          A.     No response whatsoever.

20          Q.     Let me direct your attention to Exhibit  
21       Number 10, to Mr. Roberts' notification of hearing to  
22       Mr. Lilly. Did you receive any written communication  
23       or oral communication from Mr. Lilly in response to Mr.  
24       Roberts' letter of October 27th?

25          A.     No, we did not.

1           Q.   Exhibit Number 11 applies to the well in the  
2 north half of 24. Again, did you receive any response  
3 from Mr. Lilly to Mr. Roberts' letter concerning that  
4 well?

5           A.   No, we did not.

6           Q.   Do you have a recommendation to the Examiner  
7 for an overhead rate to apply to Mr. Lilly's interest  
8 for the drilling and producing rates on a monthly basis  
9 for this well?

10          A.   We have -- Yes, we do. We have rates that we  
11 have used on other wells in this area that have  
12 generally been based on Amoco-approved rates for  
13 drilling and producing wells, well rates, and have  
14 determined that \$4000 for drilling and \$450 for  
15 producing well rates are the rates that we would tender  
16 in the operating agreement to Mr. Lilly.

17          Q.   Do you recommend to the Examiner that he  
18 utilize those rates in the pooling order that applies  
19 in each of these two cases?

20          A.   Yes we do.

21          Q.   And those rates are comparable to the ones  
22 that Amoco is charging and to what SG proposes to  
23 charge interest owners under operating agreements that  
24 are already signed by the parties?

25          A.   Yes, other parties have agreed to those

1 rates.

2 MR. KELLAHIN: That concludes my examination  
3 of Mr. Fullerton.

4 I have not yet received from Mr. Roberts a  
5 certificate of mailing that confirms the return receipt  
6 cards for the two letters. I will obtain that from Mr.  
7 Roberts.

8 If you will allow me to do so, subject to the  
9 certificate of mailing being permitted to be introduced  
10 later, we would now move the introduction of Exhibits 1  
11 through 11.

12 EXAMINER STOGNER: Exhibits 1 through 11 will  
13 be admitted into evidence.

14 And on top of that, these two particular  
15 cases were also a victim of the misadvertisement in the  
16 Farmington paper that affected so many. These two  
17 cases are going to be readvertised for the December 3rd  
18 hearing, so I think you'll have ample time.

19 MR. KELLAHIN: Okay.

20 EXAMINER STOGNER: Do you have any questions  
21 of this witness, Mr. Stovall?

22 MR. STOVALL: (Shakes head)

23 EXAMINER STOGNER: Mr. Kellahin, there is one  
24 item here in which -- your witness didn't light upon,  
25 and it doesn't appear that perhaps Mr. Fullerton

1 doesn't know, the unorthodox location and the reasons  
2 why on that.

3 EXAMINATION

4 BY EXAMINER STOGNER:

5 Q. Do you have any idea, Mr. Fullerton?

6 A. I was -- When Mr. Stovall brought that up, I  
7 was unaware of any unorthodox location. I'm not sure  
8 it was advertised that way, was it, in this particular  
9 case?

10 EXAMINER STOGNER: It wasn't requested, but -  
11 - in my review -- and he was site-specific in his  
12 application, and the well is 645 feet from the west  
13 line, which does make it unorthodox, pursuant to the  
14 rules and regulations of the Basin Fruitland Coal Gas  
15 Pool.

16 Since we do have until the December 3rd  
17 deadline, I don't see why we couldn't take some sort of  
18 an affidavit, Mr. Stovall, do you? I assume that it's  
19 due to topography.

20 MR. KELLAHIN: I'm happy to try to determine  
21 that.

22 MR. STOVALL: Yeah, I think we need to try to  
23 find out what it is and why and --

24 EXAMINER STOGNER: I would accept the minimal  
25 information that I would accept for an administrative



1 application, Mr. Kellahin, with, of course, the  
2 exception of notification.

3 Or, if the well can be moved to a standard  
4 location, we can always amend that.

5 But you have until the 3rd.

6 MR. KELLAHIN: All right, sir. We'll take  
7 care of that.

8 EXAMINER STOGNER: Anything else, Mr.  
9 Stovall, on this?

10 MR. STOVALL: I don't think so.

11 EXAMINER STOGNER: With that, that takes care  
12 of everything for Case 10,609 and 10,610. Both of  
13 these cases will be continued to the examiner hearing  
14 scheduled for December 3rd, which will give you ample  
15 time, Mr. Kellahin.

16 (Thereupon, these proceedings were concluded  
17 at 11:25 a.m.)

18 \* \* \*

19  
20 I do hereby certify that the foregoing is  
21 a complete record of the proceedings in  
22 the Examiner hearing of Cases Nos. 10609 and 10610  
23 heard by me on 19 Nov. 1992.  
24 Thomas Stogner, Examiner  
25 Oil Conservation Division

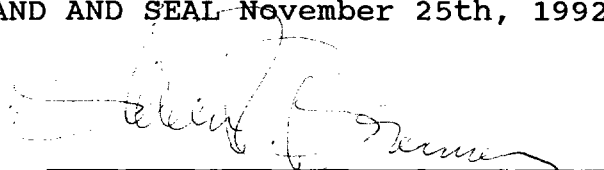
## 1 CERTIFICATE OF REPORTER

2  
3 STATE OF NEW MEXICO )  
4 ) ss.  
COUNTY OF SANTA FE )

5  
6 I, Steven T. Brenner, Certified Court  
7 Reporter and Notary Public, HEREBY CERTIFY that the  
8 foregoing transcript of proceedings before the Oil  
9 Conservation Division was reported by me; that I  
10 transcribed my notes; and that the foregoing is a true  
11 and accurate record of the proceedings.

12 I FURTHER CERTIFY that I am not a relative or  
13 employee of any of the parties or attorneys involved in  
14 this matter and that I have no personal interest in the  
15 final disposition of this matter.

16 WITNESS MY HAND AND SEAL ~~November 25th, 1992.~~

17  
18   
19 STEVEN T. BRENNER  
CCR No. 7

20 My commission expires: October 14, 1994  
21  
22  
23  
24  
25