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STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

CASE 10,728

EXAMINER HEARING

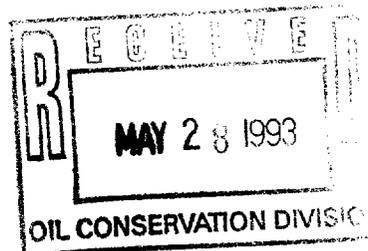
IN THE MATTER OF:

Application of Hallwood Petroleum, Inc., for an
unorthodox coal gas well location, San Juan
County, New Mexico

TRANSCRIPT OF PROCEEDINGS

ORIGINAL

BEFORE: DAVID R. CATANACH, EXAMINER



STATE LAND OFFICE BUILDING

SANTA FE, NEW MEXICO

May 6, 1993

A P P E A R A N C E S

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1 WHEREUPON, the following proceedings were had
2 at 9:19 a.m.:

3 EXAMINER CATANACH: Call Case 10,728.

4 MR. STOVALL: Application of Hallwood
5 Petroleum, Inc., for an unorthodox coal gas well
6 location San Juan County, New Mexico.

7 EXAMINER CATANACH: Are there appearances in
8 this case?

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

13 EXAMINER CATANACH: Any other appearances?
14 Will the witnesses please stand and be sworn
15 in?

16 (Thereupon, the witnesses were sworn.)

17 MR. KELLAHIN: Mr. Examiner, my first witness
18 is Kevin O'Connell. Mr. O'Connell is a petroleum
19 engineer with Hallwood Petroleum, Inc.

20 As a point of reference, on a prior case
21 heard by you back in September of 1992 Mr. O'Connell
22 testified about a similar situation for a well called
23 the USA Number 5. It's about two miles north and east
24 of this current Application.

25 The facts are very much similar, and for your

1 information, then, I share with you a copy of your
2 Order 9749, entered in that other case.

3 EXAMINER CATANACH: Did we approve that one?

4 MR. KELLAHIN: Yes, sir.

5 (Off the record)

6 KEVIN E. O'CONNELL,

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

9 DIRECT EXAMINATION

10 BY MR. KELLAHIN:

11 Q. Mr. O'Connell, for the record would you
12 please state your name and occupation?

13 A. My name is Kevin E. O'Connell, and I'm a
14 drilling and production supervisor for Hallwood
15 Petroleum in Denver, Colorado.

16 Q. On prior occasions, have you testified as a
17 petroleum and drilling engineer for your company?

18 A. Yes, sir.

19 Q. And were you the expert engineer that was
20 qualified by the Oil Conservation Division to hear the
21 case I just referred to for the drilling of the USA
22 Number 5?

23 A. Yes, sir.

24 Q. Pursuant to your employment as an engineer,
25 have you also made a study of the engineering details

1 surrounding your proposal to recompleate the Montoya
2 27-1 well as a coal gas well?

3 A. Yes, I have.

4 MR. KELLAHIN: We would tender Mr. O'Connell
5 as an expert engineer.

6 EXAMINER CATANACH: He is so qualified.

7 Q. (By Mr. Kellahin) Mr. O'Connell, let me ask
8 you, sir, to turn to the exhibit booklet, starting with
9 Exhibit Number 1.

10 Would you identify that display and orient us
11 as to where you are in the coal gas pool and what
12 you're seeking to accomplish by this particular
13 Application?

14 A. Yes, Exhibit Number 1 is just an overall view
15 of the Fruitland Coal in the San Juan Basin with the
16 outcrop and the edge of it highlighted by the dark
17 wider band.

18 And we've identified Hallwood's acreage
19 position and our current production as on the extreme
20 northwest edge of the basin, about 15 miles north of
21 Farmington and about three miles south of the Colorado-
22 New Mexico state line.

23 Our primary reason why we're seeking this
24 request to utilize the existing off-pattern shut-in
25 wellbore is, it's geologically controlled by the

1 Fruitland Coal formation, and basically an unpatterned
2 well in the southwest quarter of the laydown 320
3 spacing unit, in Hallwood's opinion, would be too risky
4 to drill, as it moves you further up on the limb and
5 into or possibly above the trapping mechanism here in
6 the Fruitland Coal.

7 Q. Before we discuss the specifics of the
8 Montoya well, let me have you turn to Exhibit 2 and
9 give us an illustration of your position in the coal
10 gas reservoir, as you've concluded it to be.

11 A. Exhibit Number 2, we've tried to basically
12 produce a picture that's worth a thousand words, so to
13 speak, because the coal is somewhat different, and
14 different in this area.

15 We are producing the coal literally two miles
16 from the Fruitland Coal outcrop, where it's surface
17 mined, and we prepared this diagram to show that we're
18 down in the coal at approximately 1800 to 2000 feet.

19 It's relatively flat dipping, but immediately
20 adjacent to the northwest of the said well it rises
21 steeply at a 27- to 30-degree angle and literally comes
22 up and outcrops within about a mile.

23 And further up on this limb, as I mentioned,
24 are what we believe to be nonproductive wells, because
25 the trapping mechanism is basically in that flexure

1 point.

2 Q. When we look at Section 27, is there
3 currently a coal gas well in the section?

4 A. No, sir. There's -- This is the only
5 existing wellbore in this. This is a former Mesa
6 Verde-Dakota well that's been shut in for over a year
7 now.

8 Q. Give us some of the history on that existing
9 well, approximately when it was drilled and by what
10 operator. Do you remember?

11 A. It was originally drilled in 1978 by Palmer
12 Oil, P-a-l-m-e-r.

13 Tenneco Oil took over the well, I believe, in
14 the mid-Eighties, and then we've had the well for about
15 the last six years.

16 Q. In what formations has it produced and in
17 what configuration?

18 A. It was originally a dual completion in the
19 Basin Dakota and Blanco Mesa Verde fields. It's been a
20 very marginal well for the last several years and, in
21 fact, we've had it shut in now over a year because of
22 uneconomic production. So it's --

23 Q. What's the opportunity to your company that
24 is presented by the Montoya well to now test the
25 potential for coal gas production?

1 A. Basically, it represents an opportunity for
2 us to turn an existing plugging liability into a
3 possible commercial Fruitland Coal well in Section 27.

4 And as I mentioned earlier, we, because of
5 the geological concerns that we'll discuss a little bit
6 in Exhibit 3, we would probably not drill an on-pattern
7 Fruitland Coal well in Section 27.

8 Q. Does this specific area of the reservoir
9 allow you to drill a new well to the Fruitland Coal Gas
10 Pool?

11 A. In this section?

12 Q. Yes, sir.

13 A. Yes. I mean, physically one could be
14 drilled.

15 But there are some constraints by the surface
16 location. The La Plata River is immediately adjacent
17 to the area. There's irrigated farmland and also a
18 difficult landowner that would not be supportive of a
19 new grassroots Fruitland Coal well.

20 Q. Can you assess the range of economic
21 advantage to utilizing the existing well over drilling
22 a new coal gas well?

23 A. Just right off the top, it will probably save
24 us upwards of \$75,000 to \$100,000 on this stand-alone
25 drilling cost.

1 Q. Let's turn now to Exhibit Number 3. Before
2 we talk about your conclusions, identify the display
3 for us.

4 A. Exhibit Number 3 is a structural cross-
5 section I have prepared through five wells in the
6 Fruitland Coal, and up in the upper left-hand corner is
7 the surface map showing you as you progress from A to
8 A' and go across and through that flexure point.

9 Q. Describe for us why you've selected these
10 five wells for your cross-section.

11 A. These five wells help to really bring out our
12 point and illustrate the rapid rise in the coal and
13 what's happening geologically in the south half of
14 Section 27 and the immediate offsetting area.

15 Q. Let's start with the center well, which is
16 the cross-section -- the log on the cross-section for
17 the Montoya 27-1 well.

18 A. Yeah, that's our proposed location, proposed
19 wellbore that we are anticipating to utilize. It's
20 located 790 from the south line, 790 from the east line
21 in Section 27.

22 The main basal Fruitland Coal is just below
23 2000 feet, and the well does have a good 30 to 35 feet
24 of main basal Fruitland Coal.

25 It's only slightly updip to the two wells

1 left of it.

2 The first well to the left is our Ripley N 2
3 Number 26. This well was just drilled at the end of
4 1992. It's been completed, but it has not produced
5 yet. We're waiting on a pipeline hookup and surface
6 equipment.

7 The well furthest to the left is one of our
8 original six coal wells that we've drilled out in this
9 area in 1990. It's our Tafoya 2-35, and it's located
10 in the southwest of Section 35, and it's producing from
11 the main basal Fruitland Coal and also a couple of
12 small minor coal stringers up the hole. This well is
13 now producing about 280 MCF a day. It's made a little
14 over 130 million cubic feet.

15 Q. Take the two wells now that you've identified
16 to the left of the control well, the Montoya 27 well.

17 A. Yes, sir.

18 Q. Contrast that, now, to what you find in the
19 reservoir as you move upstructure and look at the two
20 logs of the wells farther to the north.

21 A. The two wells to the right are up and on this
22 limb and above what we've -- we believe is the
23 commercially productive area. I've tried to illustrate
24 that with a dashed line just below the 3900-foot
25 contour, and then cross-hatched the area up on the limb

1 as you move up towards the outcrop.

2 The first well to the right of the Montoya is
3 Meridian Oil's USA Number 2 well. This was in a
4 similar situation to our well. Although it's an on-
5 pattern well, it was a former Basin Dakota well that
6 they've recompleted. And reports we have are that
7 after testing three Fruitland Coal intervals above 1850
8 feet, that the well is non productive; it's producing
9 at rates of up to 2000 barrels of water a day with no
10 measurable gas.

11 And then the other well, the furthest on the
12 right on this exhibit, near A', is an old Tenneco
13 dryhole that was drilled in Section 27. This wellbore
14 would be at a legal location for a coal well in a
15 north-half spacing unit, but you can see that it's up
16 400 to 500 feet higher than the productive basal
17 Fruitland Coal. And we just feel that the reservoir
18 either becomes too tight or too wet or there's --
19 You're above the trapping mechanism and there's no
20 commercial gas at these elevations.

21 Q. When you look at the Montoya 27-1, has that
22 well yet been tested in any of the coal zones in the
23 coal gas pool?

24 A. No, no, it's never -- It's always been in the
25 Basin Dakota and Mesa Verde and never been worked over

1 or recompleted.

2 Q. Having provided the Examiner with this
3 illustration of your concerns and conclusions about the
4 reservoir, summarize your conclusions for us, Mr.
5 O'Connell.

6 A. Basically, we have an excellent opportunity
7 to utilize an existing wellbore that is truly, in its
8 current status, a plugging liability to Hallwood. The
9 wellbore could drain commercial quantities of gas
10 underlying Section 27 that might not be produced at a
11 legal on-pattern location. And it would eliminate the
12 necessity to build -- to drill a new well, build a new
13 location and go through the problems associated with
14 that.

15 And also, I'd like to point out, too, on
16 there, just up in Section 24, you can see the existing
17 USA Number 5 well in that southeast southeast quarter
18 on this map, and you can see the similarities these two
19 wells have in common with each other. They basically
20 clip a small 180- to 220-acre productive portion of the
21 Fruitland Coal that, to produce it, needs to be handled
22 through an off-pattern wellbore.

23 Q. Based upon your analysis of the reservoir,
24 are there recoverable coal gas reserves underlying the
25 proposed Basin unit?

1 A. Yes, sir.

2 Q. And is this Hallwood's best opportunity to
3 extract those recoverable gas reserves?

4 A. Yes, sir.

5 Q. Can you do so without the impairment of
6 correlative rights of any of the other interest owners
7 in the area?

8 A. Yes, we believe so.

9 MR. KELLAHIN: That concludes my examination
10 of Mr. O'Connell. We move the introduction of his
11 Exhibits 1, 2 and 3.

12 EXAMINER CATANACH: Exhibits 1, 2 and 3 will
13 be admitted as evidence.

14 EXAMINATION

15 BY MR. STOVALL:

16 Q. Mr. O'Connell, how far away is the La Plata
17 Mine?

18 A. The mine -- On your map there, the mine is
19 just above Section 22 and 23. You can see where it
20 says "Fruitland outcrop", that dark black line.

21 Q. Yeah.

22 A. That swings around, and the mine is right
23 there in -- yes, that would be Sections --

24 Q. Just out of -- In other words, it's just a
25 couple of miles north of your location; is that

1 correct?

2 A. Yeah, it's exactly two miles north. In fact,
3 you can see the mine right there from our operations.

4 Q. And that is a surface coal-mining operation,
5 is it not?

6 A. Yes, it's -- BHP Minerals operates it. It's
7 the La Plata Mine.

8 Q. Correct, yes.

9 A. Yeah.

10 EXAMINATION

11 BY EXAMINER CATANACH:

12 Q. Mr. O'Connell, did you encounter commercial
13 production in the USA Number 5 well?

14 A. Yes, we believe so from our initial testing.
15 That well was completed in January and pump tested for
16 about 20 days in February. It is not hooked up and
17 producing. It's currently shut in, waiting on a
18 pipeline installation.

19 But yeah, we've tested rates between 300 and
20 500 MCF a day with water rates of about 350 barrels of
21 water a day.

22 We anticipate the water production to decline
23 on some of these wells. We are starting to see some
24 evidence that -- from our existing seven producing
25 wells, that we are starting to dewater the coal.

1 So we're much more encouraged on the area
2 because we've had some classic gas increases and water
3 decreases, classic coal gas history match on some of
4 these wells.

5 Q. Okay. The well in the northeast quarter of
6 Section 27, the Tenneco well, that was tested in the
7 coal?

8 A. No, sir, it was tested in the Mesa Verde.

9 Q. Okay.

10 A. It was 41- -- Or that might have been the
11 Dakota. No, I believe that's the Mesa Verde, 4137 to
12 4496. It was tested and frac'd right after drilling,
13 and it's been plugged now for over ten years. It never
14 produced, it never was hooked up. But they -- we did
15 happen -- They did log over the coal.

16 Q. Does the logging data that you have on that
17 well, is that any indication that that Fruitland may
18 not be productive in that well?

19 A. You really can't tell from the logs on these.
20 This coal out here is fairly good. It's got good gas
21 quantity. It's good coal, but it's extremely tight
22 from some of the work we've done. You have to
23 perforate, fracture-stimulate.

24 We're frac'ing all these wells with about a
25 quarter-of-a-million-pound sand job. And then you've

1 got to bear with them and have patience for a year or
2 so to see if they start increasing on the gas
3 production.

4 Q. Okay. What does offset development in the
5 coal look like in this area?

6 A. The large black dots on this map --

7 Q. Uh-huh.

8 A. -- are all existing Fruitland coal wells, and
9 they're all operated by us. So you can see, we've got
10 two wells in 25, two wells in 26, two wells in 35, one
11 well in the southwest of 34, and then one well in the
12 southwest of 36. So...

13 Q. Is all the offset acreage owned by Hallwood?

14 A. No.

15 Q. Or do you have another witness to testify?

16 A. Yeah, maybe --

17 Q. Okay.

18 A. -- just defer that.

19 Q. Okay. Do you believe, Mr. O'Connell, that
20 the proposed well in Section 27 will be the only
21 producing well in that section --

22 A. Yes, sir.

23 Q. -- in the coal?

24 A. Yeah, we would not drill over in the
25 southwest quarter. It would just be too risky of a

1 well for fear of movement up on that limb and just
2 getting closer to uncommercial production.

3 MR. STOVALL: Likewise with the north half?

4 THE WITNESS: Pardon me?

5 MR. STOVALL: Likewise with the north half?

6 THE WITNESS: Yes, we don't have the lease in
7 the north half, but we would have no interest in
8 obtaining it and trying to drill a well up there.

9 Q. (By Examiner Catanach) I missed the figures
10 on the recompletion as opposed to new drill. You said
11 you would save approximately how much?

12 A. Approximately \$75,000. That's basically our
13 cost to build a location, drill and case and cement a
14 wellbore.

15 Q. Do you know the producing rates from the
16 subject well at last production?

17 A. From the Mesa Verde and Dakota?

18 Q. Right.

19 A. It was down to about 20 MCF a day from one
20 zone, and I think the -- and I'm not sure which zone.
21 But the other has been shut in even before that, so...

22 Q. It should be approximately the same, you
23 would think?

24 A. Yeah, it's --

25 Q. So that well is probably not economically --

1 A. No.

2 Q. -- producible?

3 A. We tried to produce it a little over a year
4 ago, and it wouldn't produce against line pressure, and
5 it wouldn't produce at economical rates.

6 EXAMINER CATANACH: That's all I have.

7 THE WITNESS: Thank you, sir.

8 (Off the record)

9 MR. KELLAHIN: I'd like to call at this time,
10 Mr. Examiner, Kathleen Volk. Ms. Volk is a petroleum
11 landman with Hallwood Energy Company.

12 KATHLEEN VOLK,

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

15 DIRECT EXAMINATION

16 BY MR. KELLAHIN:

17 Q. For the record, would you please state your
18 name and occupation?

19 A. Yes, my name is Kathleen Doyle Volk. I'm the
20 western district land manager for Hallwood Petroleum,
21 Inc., in Denver.

22 Q. On prior occasions, Ms. Volk, have you
23 testified and qualified as an expert landman before the
24 Oil Conservation Division in New Mexico?

25 A. Yes, I have.

1 Q. And pursuant to your employment as land
2 manager for your company, have you made an
3 investigation of the offset operators and interest
4 owners that surround the proposed spacing unit for the
5 Montoya 27-1 well?

6 A. Yes, I have.

7 MR. KELLAHIN: We would tender Ms. Volk as an
8 expert petroleum landman.

9 EXAMINER CATANACH: Ms. Volk is so qualified.

10 Q. (By Mr. Kellahin) Let me ask you to use some
11 of the illustrations that you have marked as exhibits
12 and identify for the Examiner what each of those
13 displays shows.

14 First of all, let's start with Exhibit Number
15 4. Identify for us what you've indicated is the
16 significance of the red-shaded area in the south half
17 of 27.

18 MR. STOVALL: Mr. Kellahin, before we do
19 that, we notice our exhibits don't have numbers. Is
20 this Number 4?

21 THE WITNESS: Yes, that is Number 4.

22 MR. KELLAHIN: I'm sorry, it should be Number
23 4.

24 MR. STOVALL: Headed up by "Montoya 27-1
25 Fruitland Coal", is the heading at the top?

1 THE WITNESS: Yes.

2 MR. STOVALL: Okay, good, we'll put a number
3 on it.

4 Let's go back and do the others while we're
5 here. Three is the cross-section?

6 MR. KELLAHIN: Yes.

7 EXAMINER CATANACH: One?

8 MR. KELLAHIN: One.

9 MR. STOVALL: And 2 is the picture --

10 EXAMINER CATANACH: Okay.

11 MR. KELLAHIN: Okay, thanks.

12 Q. (By Mr. Kellahin) All right, let's start
13 with Exhibit 4, the nine-section plat. Identify for us
14 the south half of 27.

15 A. Yes, the portion highlighted in the reddish
16 color is the spacing unit for that existing wellbore,
17 being that Montoya 27-1.

18 Q. Is that ownership of acreage that's under the
19 control of Hallwood Petroleum, Inc., as the operator of
20 that spacing unit?

21 A. Yes.

22 Q. When you've searched the records for other
23 offsetting operators, have you found other offsetting
24 operators?

25 A. Yes, and I've shown those with the green dots

1 showing the other existing wells.

2 At the beginning of the well name is the
3 operator, then the well name, the quarter quarter
4 section with the letter designation, and then in
5 parentheses is the producing formation for the well.

6 You can see that there are only producing
7 wells around our Montoya 27-1 to the east, to the
8 southeast and to the south. We didn't find any
9 producing wells north or to the west.

10 Q. Okay. Your proposed location is off-pattern
11 and moves towards, then, spacing units that are already
12 under operations and have producing coal gas wells on
13 them?

14 A. Hallwood Petroleum, Inc., is the only
15 operator of Fruitland Coal gas wells in this area, but
16 the other operators who are producing wells from other
17 formations have also been notified.

18 Q. Let me skip back to the last exhibit, which
19 is my certificate of mailing. It's Exhibit Number 7.
20 There's attached to that mailing list photocopies of
21 the green cards?

22 A. Yes.

23 Q. Would you take a moment and run down that
24 list and show the Examiner where the operators are for
25 each of those cards?

1 A. Yes. First of all, I'll explain, when we
2 began the search for the offsetting ownership, we began
3 with a PI report to see what were the existing wells.

4 Then I used a local abstractor.

5 When the title became more complicated and he
6 didn't have the time to give me all the information
7 that I needed, I eventually hired a broker, a landman,
8 to go down there and finish the job for me.

9 I think as a result, we did get some -- we
10 did get some names of owners in this area that I think
11 later proved out to be unnecessary, but I'll go through
12 the list here as I provided them to Mr. Kellahin.

13 The first one here is Enron Oil and Gas
14 Company. I think that from further title search we did
15 not find them -- we did not find it necessary to have
16 notified them. But at the time, to be safe and
17 prudent, we went ahead, based on the abstractor's
18 information.

19 BHP Petroleum, Inc., we found them to be an
20 owner, not an operator, but an owner of the lands as
21 shown to the east of our well. And they're also known
22 as San Juan Coal Company. They're in the north half of
23 Section 27.

24 Marbob Energy Corp. we found to have not --
25 we did not need to notify them. We could not find

1 where they actually owned an interest offsetting here.

2 Union Oil Company of California, we notified
3 them because they're shown as the operator of that well
4 in the northeast quarter of Section 34.

5 Meridian Oil, Inc., is the operator of two
6 wells in the east half of Section 26. Southland
7 Royalty is a lessee of acreage, and Meridian has taken
8 the notification as Southland Royalty, as a subsidiary
9 of Meridian.

10 Consolidated Oil and Gas, Inc. -- Hallwood
11 Petroleum, Inc., acquired our interest from
12 Consolidated Oil and Gas, Inc. We only acquired the
13 Fruitland Coal formation; we didn't acquire other
14 formations in this area. So we also notified
15 Consolidated, since they may have other formations in
16 the same areas where Hallwood operates.

17 And then Snyder Oil Company, you can see,
18 operates in that west half of 35 and in that south half
19 of 34.

20 Q. Have you received on behalf of your company
21 any objection from any of those parties notified
22 pursuant to Exhibit Number 7?

23 A. No, we haven't.

24 Q. All right. Let's turn to Exhibit 5 now. If
25 you go back and look at the tabulation that you've

1 provided --

2 MR. STOVALL: Is that the one that starts
3 out, "Notices sent regarding the Application of
4 Hallwood"?

5 MR. KELLAHIN: No, sir, it's the page before
6 that.

7 THE WITNESS: It's the page before that.

8 MR. STOVALL: Oh, okay, I can mark it.

9 Q. (By Mr. Kellahin) What's the purpose of
10 Exhibit 5, Ms. Volk?

11 A. This sets out the complete ownership. It
12 shows for all the offsetting spacing units whether or
13 not there is an operator of an existing well and, where
14 there's not an operator, who the lessees of record are,
15 either mineral interest ownership or lessees of record.

16 Q. And when we go back to the last exhibit,
17 which is a two-page exhibit, Number 6 --

18 A. Yes.

19 Q. -- and that's captioned, "Notices sent
20 regarding..."

21 A. That's correct.

22 Q. What does this represent?

23 A. This represents all of the notices that were
24 sent out regarding our Application.

25 You can see that the first group of notices

1 were sent out April 13th. That was based on the
2 information we had received from the abstractor.

3 I had a broker landman continue because the
4 title seemed more complicated than the abstractor had
5 time to deal with on a short notice, and as a result we
6 sent out some notices at a later date.

7 As you can see, we sent out notices April
8 21st to four additional parties.

9 Of those four additional parties, we received
10 back three signed waivers to show they had no
11 objections.

12 At Yates Petroleum Corporation, I did speak
13 with Janet Richardson. She was unaware of any
14 objections they would have, but they didn't necessarily
15 want to sign the waiver either, I think in order to
16 leave their options open.

17 And on the last page here, there were a
18 number of -- other than San Juan -- well, San Juan Coal
19 Company also, which is BHP Minerals. These are
20 basically unleased mineral interest owners, and you can
21 see that they are in the east half of Section 33, and
22 these people were also provided with notice.

23 San Juan Coal Company did return a waiver,
24 which I received yesterday, so that's not shown as
25 waiver received on this page.

1 MR. KELLAHIN: That concludes my examination
2 of Ms. Volk.

3 We move the introduction of Exhibits 4
4 through 7.

5 EXAMINER CATANACH: Exhibits 4 through 7 will
6 be admitted as evidence.

7 MR. KELLAHIN: Mr. Examiner, just a point of
8 comment.

9 The notifications sent by me as represented
10 on Exhibit 7 are complete insofar as they notify the
11 offset operators to which the well encroaches.

12 There's an opportunity for confusion in the
13 notice rules, I think, for a coal gas pool, when you're
14 dealing with an off-pattern request, and it has been
15 our practice in the past, then, to notify all interest
16 owners surrounding that off-pattern location.

17 In this situation, it's been rather
18 complicated, because we're right at the edge of the
19 pool, and there has not been active development and
20 therefore an absence of operators.

21 If you choose to apply notice to us in terms
22 of moving towards operators, we've satisfied the
23 requirement.

24 If you want us to meet the requirement to
25 notify all offsetting spacing units of our off-pattern

1 request, then we would seek to have this case remain
2 open until we can satisfy the 20-day period, which
3 commenced on April 27th, for the last series of
4 interest owners.

5 EXAMINATION

6 BY MR. STOVALL:

7 Q. Mr. Kellahin -- Ms. Volk, actually, I'll ask
8 you the question. Back to Exhibit 4.

9 A. Uh-huh.

10 Q. Who owns the coal or coal gas rights under
11 the north half of 27?

12 A. Hallwood does have a partial interest in that
13 north half. So does the San Juan Coal Company. And we
14 have also Ed Thomas and Elva Thomas as mineral interest
15 owners who are unleased under that north half. We also
16 show Moncrief and Union Oil Company of California.

17 Q. Okay. They would conceivably be affected,
18 because it could affect the spacing in that spacing
19 although your engineer has testified you wouldn't drill
20 that or even attempt to lease any more of it, that --

21 A. Well, as I said, we already do own a partial
22 lease interest, because the Montoya lease extends into
23 the north half.

24 Q. Understand. But I think for the purpose of
25 notice, they would be -- Those other owners who could

1 also drill might be affected by it.

2 What about that north half of 34? Is that
3 all Unocal?

4 A. That north half of 34. It's Unocal and
5 Snyder Oil.

6 Q. Both of whom were notified?

7 A. Yes.

8 MR. STOVALL: I'm inclined, to say, Mr.
9 Kellahin, that in view of the ownership of the north
10 half of 27, we probably ought to go ahead and leave the
11 record open.

12 MR. KELLAHIN: That's the most conservative
13 approach, and it is not a problem for us to wait an
14 additional notice period to obtain the Order.

15 Q. (By Mr. Stovall) The other question on that
16 is, you indicated that you only purchased the Fruitland
17 Coal formation rights from Unocal; is that correct? I
18 mean from --

19 A. We purchased them from Consolidated Oil and
20 Gas.

21 I will say, you can see that the existing
22 Fruitland Coal wells are in Section 26, 34 and 35.
23 Those were lands that we purchased from Consolidated
24 Oil and Gas, only as to the Fruitland.

25 The Montoya well we actually bought from

1 Tenneco, and as a result, we have other formations. We
2 got everything that Tenneco owned, so we had the
3 Fruitland, and we also had the Mesa Verde-Dakota and --

4 Q. Well, that answers that question. So in
5 other words, you have the rights to plug that well back
6 in the Dakota?

7 A. Yes.

8 Q. You're not plugging back somebody else's
9 formation there?

10 A. Right. No, we have the right to plug back to
11 the Fruitland Coal in that 27-1.

12 MR. STOVALL: Okay, that answers that
13 question.

14 I think that the only other question I have,
15 Mr. Kellahin, is, you submitted the original of your
16 notice, and it does not have the attachments. Would
17 you -- I assume you'd like to put a copy on there so it
18 is a complete original.

19 And I don't have any other questions -- Oh,
20 yes, I do, I have one other. I'm sorry. Just because
21 I happened to know -- The last page of the 4-27 notice.

22 THE WITNESS: Yes.

23 Q. (By Mr. Stovall) Mr. Stanley Norris Harris
24 care of -- You've got Joel Bun. Is there any chance
25 that could be Joel Burr? Or is that how it shows up in

1 the -- Because there is a Joel Burr in Farmington who
2 is an attorney, who -- and that's why I would ask if
3 you --

4 A. That is possible. I'd have to check my green
5 certified cards, which I do have with me, if you would
6 like me to confirm that.

7 Q. It might be useful. I mean, if you've got
8 those cards, it might be useful to go ahead and submit
9 copies of those cards.

10 MR. KELLAHIN: I thought I would have her
11 prepare a certificate that she can execute.

12 MR. STOVALL: That would great. Let's do
13 that. And I don't need to see that at this time. I
14 just make that -- And it happens to be somebody I just
15 know, so I wouldn't have --

16 THE WITNESS: Sure.

17 MR. STOVALL: I wouldn't caught it.

18 MR. KELLAHIN: We'll take care of that after
19 the hearing, Mr. Examiner.

20 EXAMINER CATANACH: Mr. Kellahin, if we
21 continue this case for two weeks, will that take care
22 of the notice period?

23 MR. STOVALL: The 20th, it should, yes.

24 MR. KELLAHIN: Yes, sir.

25 EXAMINER CATANACH: Okay. I have no further

1 questions of the witness. You may be excused.

2 Anything further, Mr. Kellahin?

3 MR. KELLAHIN: No, sir, that concludes this
4 case.

5 EXAMINER CATANACH: All right, there being
6 nothing further, this case will be continued to May
7 20th.

8 (Thereupon, these proceedings were concluded
9 at 9:57 a.m.)

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I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 10728
heard by me on May 6 1993.
David R. Catanch, Examiner
Oil Conservation Division

1 CERTIFICATE OF REPORTER

2

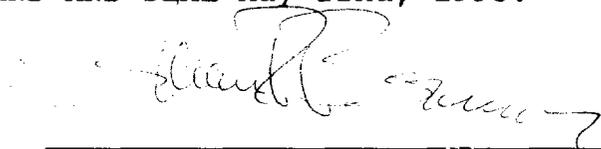
3 STATE OF NEW MEXICO)
 4) ss.
 COUNTY OF SANTA FE)

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 May 22nd, 1993.

17 
 18 _____
 19 STEVEN T. BRENNER
 CCR No. 7

20 My commission expires: October 14, 1994

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