

1 STATE OF NEW MEXICO
2 ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
3 OIL CONSERVATION DIVISION
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7 EXAMINER HEARING
8

9 IN THE MATTER OF:
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12 Application of Bannon Energy, Case 9858
13 Incorporated, for an unorthodox
14 oil well location and simultaneous
15 dedication, Rio Arriba County,
16 New Mexico.

17 **ORIGINAL**
18

19 TRANSCRIPT OF PROCEEDINGS
20

21 BEFORE: MICHAEL E. STOGNER, EXAMINER
22

23 STATE LAND OFFICE BUILDING

24 SANTA FE, NEW MEXICO

25 January 24, 1990

CUMBRE COURT REPORTING
(505) 984-2244

A P P E A R A N C E S

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1 MR. STOGNER: We'll call the next case,
2 No. 9858, which is the application of Bannon Energy,
3 Incorporated, for an unorthodox oil well location and
4 simultaneous dedication, Rio Arriba County,
5 New Mexico. Call for appearances.

6 MR. CARR: May it please the Examiner, my
7 name is William F. Carr with the law firm of Campbell
8 & Black, P.A., of Santa Fe. We represent Bannon
9 Energy, Inc., and I have one witness.

10 MR. STOGNER: Are there are any other
11 appearances?

12 Will the witness please stand and be sworn.

13 WILLIAM J. HOLCOMB

14 The witness herein, after having been first
15 duly sworn upon his oath, was examined and testified
16 as follows:

17 DIRECT EXAMINATION

18 BY MR. CARR:

19 Q. Will you state your full name for the
20 record, please.

21 A. William J. Holcomb.

22 Q. Mr. Holcomb, where do reside?

23 A. In Farmington, New Mexico.

24 Q. By whom are you employed and in what
25 capacity?

1 A. I'm self-employed, and in this particular
2 interest, contract operator for Bannon Energy,
3 Incorporated.

4 Q. Have you previously testified before the
5 Oil Conservation Division?

6 A. No, I have not.

7 Q. Would you summarize for Mr. Stogner your
8 educational background and then review your work
9 experience.

10 A. Yes. I have a bachelor's degree in
11 engineering and have worked in the oil industry for
12 the past 16 years. The first 11 of that was with
13 AMOCO Production Company in various engineering,
14 supervisory, and managerial positions throughout the
15 United States. The last five as an independent
16 producer and operator.

17 Q. Are you familiar with the application filed
18 in this case by Bannon Energy, Inc.?

19 A. Yes, I am.

20 Q. Are you familiar with the area that is the
21 subject of this application?

22 A. Yes.

23 MR. CARR: We tender Mr. Holcomb as an
24 expert witness in petroleum engineering.

25 MR. STOGNER: Mr. Holcomb is so qualified.

1 Q. (BY MR. CARR) Mr. Holcomb, would you would
2 you briefly state what Bannon Energy, Inc., seeks with
3 this application.

4 A. Bannon Energy is seeking an unorthodox
5 location approval for the Federal 8-2 and,
6 concurrently, a simultaneous dedication of the 8-2 and
7 8-1 well in the Southeast 1/4 of Section 8.

8 Q. And in what pool do you propose to complete
9 the Federal 8 well?

10 A. In the Counselor's-Gallup Dakota Oil Pool.

11 Q. Could you refer to what has been marked as
12 Bannon Exhibit No. 1 and identify that for
13 Mr. Stogner, please.

14 A. Yes. Exhibit No. 1 is a plat prepared by
15 the OCD in Aztec, which details the orthodox window
16 locations in the Counselor's-Gallup Dakota Oil Pool,
17 specifically in each quarter-quarter section.

18 Q. And these rules were promulgated by Order
19 No. R-7034?

20 A. That's correct.

21 Q. The well location requirements are
22 contained in Rule 4 of that order?

23 A. Yes, they are.

24 Q. Are multiple wells permitted on a unit
25 under these special pool rules?

1 A. Yes, they are, in Rule 6.

2 Q. Let's move to what has been marked as
3 Exhibit No. 2, and I'd ask you to identify that and
4 and review it for Mr. Stogner.

5 A. Exhibit No. 2 is a topographical map of the
6 area in question. You will note on Exhibit No. 2 a
7 330 foot square area which represents the orthodox
8 window in the Southwest 1/4 of the Southeast 1/4.

9 As you can also tell on this particular
10 topographic map, various archaeology sites have been
11 recorded. And in this particular instance, the
12 orthodox window is substantially consumed by site
13 No. DCA 89-309.

14 Q. And the orthodox site is what is shaded in
15 yellow in Exhibit No. 2?

16 A. That's right.

17 Q. Let's move on to Exhibit No. 3, and I would
18 ask you to identify that please. Before we do that, I
19 think it might be wise to explain to the Examiner why
20 this particular unorthodox location is being sought.

21 A. In this particular instance, Bannon wishes
22 to drill a second well in the Southeast 1/4 of
23 Section 8. We have investigated extensively the
24 available locations. The only one that we could find
25 that we could physically locate a well site, given the

1 archaeology constraints, was in the Southeast 1/4 --
2 Southwest 1/4 of the Southeast 1/4.

3 Q. The existing well on this 160-acre unit is
4 in the Northeast of the Southeast?

5 A. That's correct.

6 Q. If you move the well to the Northwest of
7 the Southeast, you would be, effectively, on a 40-acre
8 pattern; isn't that correct?

9 A. Essentially, that's correct.

10 Q. In your opinion, is that the prudent way to
11 develop this tract?

12 A. No, it is not.

13 Q. Could you locate a well in the Southeast of
14 the Southeast?

15 A. It is our opinion, having numerous
16 conversations with the DCA contractor of archaeology
17 in the San Juan Basin, that additional sites will be
18 found and that will be extensive in the Southeast 1/4.
19 This was the only available site that we can find.

20 Q. And so the archeological sites are the
21 primary reason for seeking the unorthodox location?

22 A. That's correct.

23 Q. What is the status of the proposed Federal
24 8 Well No. 2?

25 A. The Federal 8 Well No. 2 is currently

1 pending -- waiting approval by the BLM, from the state
2 on the unorthodox application.

3 Q. How is this proposed location unorthodox?

4 A. It is too close to the south line and the
5 interior quarter line.

6 Q. Now, you have indicated that you reviewed
7 this with the DCA?

8 A. That is correct.

9 Q. What does DCA stand for?

10 A. Just a moment, and I'll -- Division of
11 Conservation Archaeology.

12 Q. Have you also reviewed this location with
13 the BLM?

14 A. Yes, I have.

15 Q. And would you review those efforts for the
16 Examiner, please.

17 A. The BLM is -- the acreage itself is on
18 Federal acreage, and the BLM is actively involved in
19 trying to help us locate a site that would clear
20 archaeology constraints.

21 Q. Could you identify what has been marked as
22 Bannon Exhibit No. 3, please.

23 A. Bannon Exhibit No. 3 consists of the
24 Application for Permit to Drill, and the ensuing
25 sundry notices.

1 Q. Have you also dealt with the state, or is
2 that what the DCA actually is?

3 A. The DCA is an independent organization. We
4 have dealt with the state in trying to seek the
5 unorthodox location, further, the state historic
6 preservation office has been involved because of the
7 known archaeology sites in the area.

8 Q. Have you obtained their approval for the
9 proposed location?

10 A. We have from the state historic
11 preservation office. We have not yet from DCA.

12 Q. In your opinion, should the producing
13 ability of the proposed well be penalized or
14 restricted due to its unorthodox location?

15 A. No.

16 Q. Could you identify what has been marked as
17 Bannon Exhibit No. 4, please.

18 A. Exhibit No. 4 is a lease ownership map of
19 the area, color coded to represent offset operators.
20 The red dot that's located in the center of the page
21 is to represent the proposed site of the Federal 8-2.
22 The yellow highlighted acreage represents Bannon
23 acreage. The red highlighted acreage represents
24 Merrion Oil and Gas acreage. The blue highlighted
25 area is Dugan Production. In green is Ramsey Property

1 Management.

2 Q. And what we have as the proposed proration
3 unit is the Southeast 1/4 of Section 8?

4 A. That's correct.

5 Q. And the existing well is the well that is
6 indicated in the Northeast of the Southeast?

7 A. That's correct.

8 Q. And the proposed location in pink, is there
9 at least 1320 feet between these wells?

10 A. Yes, there is.

11 Q. You're seeking to simultaneously dedicate
12 the two wells in the Southeast of Section 8?

13 A. That's correct.

14 Q. Mr. Holcomb, would you identify what has
15 been marked as Bannon Exhibit No. 5, please.

16 A. Bannon Exhibit No. 5 is the application for
17 administrative approval for the unorthodox location,
18 filed November 27, 1989, and the notices to offsets, I
19 believe. Excuse me. That's Exhibit 6.

20 Q. And the notices to offsets are contained in
21 Exhibit 6?

22 A. That's correct.

23 Q. Also, in Exhibit 6 there are additional
24 letters providing notice of today's hearing; is that
25 correct?

1 A. That's correct.

2 Q. Those letters are dated, actually, on
3 January the 5th?

4 A. That's right.

5 Q. In your opinion, will approval of this
6 application, without penalty, be in the best interest
7 of conservation, the prevention of waste, and the
8 protection of correlative rights?

9 A. Yes.

10 Q. Will approval of this application enable
11 Bannon to effectively produce the reserves under the
12 Southeast 1/4 of Section 8?

13 A. We believe so.

14 Q. Were Exhibits 1 through 6 prepared by you
15 or compiled under your direction?

16 A. Yes, they were.

17 MR. CARR: At this time, Mr. Stogner, I
18 would move admission of Bannon Exhibits 1 through 6.

19 EXAMINER: Exhibits 1 through 6 will be
20 admitted into evidence.

21 MR. CARR: If I might at this time just
22 make one statement. This originally was filed as an
23 administrative application. On the 27th of December,
24 I think it was -- maybe it was before that in December --
25 we had a case involving Marathon and Oryx where an

1 administrative application had subsequently been set
2 for hearing, and there were questions about what was
3 appropriate notice in that situation. Once this
4 matter was going to hearing, notice was given of the
5 hearing by the letter dated January 5th. That's one
6 day short. We are willing to do whatever you deem is
7 appropriate, if additional notice is required.

8 As you can note from Exhibit No. 4, in
9 fact, the location is moving toward Bannon Energy, but
10 we simply were trying to deal with that notice
11 situation, and it kind of falls between various
12 division rules, and we're willing to do whatever you
13 decide.

14 MR. STOVALL: Mr. Carr, do you have a
15 recommendation as to a procedure the division might
16 establish in the future in the cases of administrative
17 cases going to hearing by the division?

18 MR. CARR: I really don't, because I'm
19 concerned that once an administrative application is
20 filed, if an objection is received, then a new notice
21 time period starts to run that might, in fact,
22 discourage administrative applications if there is any
23 time factor involved.

24 I really don't know how to handle it, but I
25 did want to point that out. We're aware that it is

1 one day short on this subsequent notice, although this
2 was originally proposed back in November.

3 In this case, we are moving towards
4 ourselves, so it may not be that much of an issue,
5 but, again, it sort of is a repeat of the problem we
6 saw in the Marathon-Oryx case in December.

7 MR. STOVALL: I agree with you, and I think
8 it is a problem. And I recognize the concerns you've
9 raised.

10 MR. CARR: We weren't trying to ignore
11 that, we just didn't know what to do with it.

12 MR. STOVALL: I understand. That's why I'm
13 asking the question, because I would like for us to
14 figure out a way to do this most efficiently.

15 If I'm not mistaken, and the Examiner can
16 correct me if I'm wrong, this was put to hearing by
17 the division and not because of objection by any
18 offset.

19 MR. CARR: That's correct. And it is
20 another question that we weren't clear on. We thought
21 archaeological sites were topographical conditions.
22 They may not be. And so, anyway, we're here, and if
23 additional notice is required -- I might ask one
24 question.

25 Q. Mr. Holcomb, how soon does Bannon need to

1 spud this well?

2 A. We can't really spud it for the next couple
3 of months, anyway, because of weather constraints.

4 MR. CARR: I see. In other words, we have --

5 MR. STOVALL: Time isn't an issue?

6 MR. CARR: Time isn't the issue, and we are
7 prepared to do whatever you think is appropriate in
8 that regard.

9 MR. STOVALL: Well, let me also explain for
10 the record why we have set cases involving these
11 archaeological considerations and that leads me into a
12 question I want to ask Mr. Holcomb.

13 What has happened in those -- what we'll
14 call topographical considerations, and we do consider
15 archaeological, under that category, is justifiable
16 for administrative approval -- is that while a
17 specific location in a particular area may be
18 condemned because of surface conditions, whatever they
19 may be, there may be additional locations at a legal
20 location which are archaeologically, topographically
21 acceptable, but the operator, for other reasons,
22 elects not to go to those locations. And at that
23 point, we consider that's generally a geological
24 reason for seeking an unorthodox location, because you
25 do have an orthodox available topographically.

1 We recognize, also, that this is a growing
2 problem, particularly in the northwest part of the
3 region. And just for your information, we will be
4 meeting with the BLM to discuss their requirements and
5 ours, to try to come up with more consistency and
6 to help operators figure out what the rules of the
7 game are. But right at the moment, we're trying to
8 work that out. We do have a meeting scheduled and,
9 hopefully, we can make some progress in that area.

10 EXAMINATION

11 BY MR. STOVALL:

12 Q. If I understand what you said previously in
13 response to Mr. Carr, Mr. Holcomb, is that you have,
14 in fact, looked at other legal locations in this
15 proration unit; is that correct?

16 A. That's correct.

17 Q. And those locations, based upon what, have
18 you determined that those are unacceptable locations?

19 A. There are two issues that come up. One is
20 from the archaeologists that reviewed the area. They
21 felt that there was a high probability of incidence of
22 encountering additional archaeology.

23 We felt that because we had gone through
24 such extensive work in trying to locate the well on a
25 diagonal pattern from the existing well, i.e., Federal

1 8-1, that that would be the most satisfactory location
2 for us for the depletion of the reserves in that
3 particular 160-acre tract.

4 When we look at a location that would
5 either be due south or due west of the 8-1, we,
6 effectively, are establishing a 40-acre pattern in our
7 interpretation, and we did not want to pursue it that
8 way.

9 Q. It's a satisfactory answer, but it puts us
10 into that gray area. Just for my edification, on your
11 Exhibit 4, the stippled areas, what does the stippling
12 pattern represent?

13 A. The stippling has reference only to
14 Bannon's varying interest and overriding interest in
15 particular tracts.

16 MR. STOVALL: I don't think I have any
17 further questions of this witness with respect to this
18 case, but I certainly would ask, Mr. Carr, that you,
19 and I've spoken to other counsel regarding this issue
20 of how to properly give notice in an
21 administrative-turned-into-hearing type of case.

22 And Mr. Holcomb, also, if you have thoughts
23 with respect to how better to coordinate BLM and OCD,
24 we certainly would appreciate any comments you'd want
25 to make, off the record, at a later date. As I say,

1 we are attempting to get some order into this
2 situation as quickly as we can.

3 EXAMINATION

4 BY EXAMINER:

5 Q. Mr. Holcomb, let's review the existing
6 Federal 8 Well No. 1. What's its present status,
7 again?

8 A. The well is currently producing.

9 Q. How long has it been producing?

10 A. I believe the well began producing in
11 November of 1989.

12 Q. Do you have any rates, initial and current?

13 A. I have some current production rates,
14 Mr. Examiner. I do not have with me the initial test
15 data on that particular well.

16 The current producing rate is -- as of the
17 19th of this month the well was making 37 mcf of gas a
18 day and 23.4 barrels of oil per day for a gas-oil
19 ratio of less than 2,000.

20 Q. Well below the allowable?

21 A. Yes, sir.

22 Q. Let's look at the location on your No. 2.

23 Do you have any engineering figures or any proposals
24 of directly drilling this well from this unorthodox
25 location and bottom in at a standard location?

1 A. No, sir.

2 Q. Why not?

3 A. Cost considerations. We propose to drill
4 it as a straight hole, or as straight as we can get
5 it.

6 Q. You want to elaborate on the cost
7 constraints?

8 A. Any investment in an oil and gas well has
9 certain investment parameters. In this particular
10 instance, we project the well cost to be in the
11 vicinity of \$350,000, completed to the tanks. With
12 that investment cost, those yield acceptable economics
13 to the investors. Costs exceeding \$400,000
14 substantially reduce the overall return on the
15 investment to the investors.

16 Directionally drilling this well would, in
17 our opinion, cause the cost to exceed \$400,000.

18 Q. You haven't offered any geological data
19 today, have you, concerning this particular pool?

20 A. No, sir.

21 Q. Are there any producing wells from the same
22 pool to the south and west?

23 A. There is one well currently producing south
24 and west, and that's the Bannon operated Marcus "A"
25 No. 3.

1 Q. Do you have production figures on that
2 well?

3 A. No, sir.

4 Q. Is it a Bannon well?

5 A. Yes, it is.

6 Q. How about the No. 1, back to the north and
7 west?

8 A. That is also a Bannon operated well.

9 Q. I suppose you don't have the figures on
10 that one either?

11 A. No, sir.

12 Q. Do you know if they are making their
13 allowable?

14 A. They are not.

15 Q. Do you know how long they have been
16 producing?

17 A. Most of Bannon operated wells in this area
18 were drilled in the vicinity time frame of 1985 and
19 1986.

20 Q. If you find the proposed No. 2 well to be
21 the same production rate as your No. 1 well, do you
22 feel this will be an economic well at 23 barrels a
23 day?

24 A. It will be marginal. Now, we have not
25 completely done all of the things that we're

1 attempting to do, from an optimization standpoint, on
2 the Federal 8-1. We have recently put the well on
3 being pumping status, and we do not yet yet have that
4 lined out to our satisfaction.

5 Q. Is this second well being drilled to drain
6 a portion of the proration unit which the No. 1 is not
7 draining?

8 A. We think so.

9 Q. Was an actual well site survey made in the
10 Southeast Southeast 1/4 at a standard location, or an
11 unorthodox location, for that matter?

12 A. There was not a specific survey and a stake
13 put in the ground in the Southeast of the
14 Southeast 1/4, no.

15 Q. Why not?

16 A. We based our decision to go to the
17 Southwest of the Southeast 1/4 on surface inspection
18 by the archaeology department, San Juan County Museum,
19 I believe.

20 Q. Are there any other independent agencies up
21 there besides the San Juan County that does
22 archaeology?

23 A. Yes.

24 Q. Did you get a second opinion?

25 A. No, sir. We have used them extensively in

1 this particular area and have found that in working
2 with BLM, that they have been extremely receptive to
3 the work that the DCA has performed. And since that
4 work has been satisfactory to both Bannon and the
5 Department of Interior, BLM, we have chosen to stay
6 with that particular contract service.

7 MR. STOVALL: Let me interject here at the
8 moment, again, reflecting on an issue which is a
9 current, under-study issue with the division.

10 FURTHER EXAMINATION

11 BY MR. STOVALL:

12 Q. Mr. Holcomb, would you describe, briefly,
13 the steps that -- you represent Bannon, if I'm not
14 mistaken, in all of their activities in northwest; is
15 that correct?

16 A. That's correct.

17 Q. Would you describe the steps that you go
18 through in selecting a site, a location, for a well,
19 particularly as regards the topographical, including
20 archaeological considerations that are taken into
21 account?

22 A. Once the investment decision has been made
23 to drill a well, and that is done by Bannon, not by
24 myself, they ask us to go stake a location which they
25 provide us. And they provide us a general spacing

1 type pattern in which they would prefer to develop.
2 And in this particular instance, it's a simultaneous
3 well on a 160-acre proration unit.

4 Once we receive that information, we
5 contract a surveyor and we send one of our field
6 representatives out in the field with that particular
7 surveyor, and we try to determine -- let me back up a
8 minute. We also send an archaeologist with them. And
9 we try to find a location that generally fits the
10 orthodox window, if it's available for their
11 particular desires in that particular development
12 pattern that they have given us.

13 Q. If I may interrupt you for a moment here.
14 If we're using this situation as an example, did
15 Bannon go to you and tell you they wanted to be in the
16 Southwest of the Northeast? To look for a location
17 there?

18 A. Yes.

19 Q. So Bannon, based upon other than
20 topographic -- before they knew anything about what
21 the ground looked like out there, they said, "This is
22 the area we want to be"; is that correct?

23 A. "We want to drill two wells in that
24 particular proration unit. We prefer to drill one in
25 the Northeast 1/4 of that 160 acre tract and the

1 Southwest 1/4 of that 160 acre tract, which, by
2 definition, gives you the maximum well spacing between
3 wells for simultaneous dedication.

4 Q. Now, if you would continue. You then go
5 out with the surveyor and the archaeologist?

6 A. Right. And we try to find a location that
7 will be topographically and archaeologically
8 acceptable that would fit an orthodox location. Where
9 we cannot, we move to the nearest location that we can
10 to effectively stake the well in that particular
11 quarter-quarter section that they have asked us to
12 stake it.

13 In this particular instance, we did this
14 numerous times in trying to achieve that particular
15 goal. Once that is done, we then start submitting the
16 paperwork to the BLM. We have art reports submitted.
17 They review all of these things, and where we run into
18 an issue where we do have to have an unorthodox
19 approval, those are not granted until we obtain
20 approval from the state.

21 EXAMINER: Mr. Holcomb, what I'm hearing
22 here, you're trying to get an unorthodox location
23 based on topography, but really you have geology.

24 THE WITNESS: I can't answer that. I don't
25 believe that that's the case.

1 MR. STOGNER: Okay. I have no further
2 questions of this witness. Are there any other
3 questions?

4 MR. CARR: No, sir.

5 MR. STOGNER: Is there anything further in
6 this case, 9858?

7 MR. CARR: Nothing further.

8 MR. STOGNER: This case will be taken under
9 advisement.

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11
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13
14
15
16
17 I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examinor hearing of Case No. 9858,
18 heard by me on 24 January 1990.

19  Examiner
20 Oil Conservation Division


1 CERTIFICATE OF REPORTER

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

6 I, Diana Abeyta, Certified Shorthand
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 caused my notes to be transcribed under my personal
11 supervision; and that the foregoing is a true and
12 accurate record of the proceedings.

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

17
18 WITNESS MY HAND AND SEAL January 31, 1990.

19
20
21 
22 DIANA ABEYTA
CSR No. 267

23 My commission expires: May 7, 1993
24
25