

STATE OF NEW MEXICO

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION

CASE 9982, CASE 9983

EXAMINER HEARING

IN THE MATTER OF:

Application of Mesa Operating Limited Partnership  
for Compulsory Pooling, San Juan County, New  
Mexico

TRANSCRIPT OF PROCEEDINGS

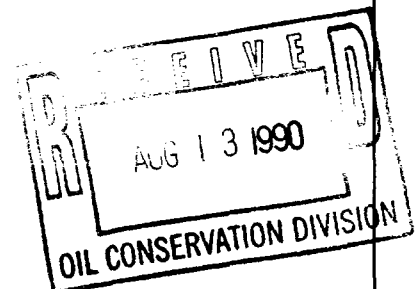
BEFORE: MICHAEL E. STOGNER, EXAMINER

STATE LAND OFFICE BUILDING

SANTA FE, NEW MEXICO

July 11, 1990

**ORIGINAL**



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

FOR THE APPLICANT:

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Attorneys at Law  
By: J. SCOTT HALL  
125 Lincoln Avenue  
Suite 303  
Santa Fe, New Mexico 87501

FOR AMOCO PRODUCTION COMPANY:

CAMPBELL & BLACK, P.A.  
Attorneys at Law  
By: WILLIAM F. CARR  
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P.O. Box 2208  
Santa Fe, New Mexico 87504-2208

ALSO PRESENT:

JAMES MORROW  
Chief Engineer  
Oil Conservation Division  
State Land Office Building  
Santa Fe, New Mexico 87504

\* \* \*

## I N D E X

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## E X H I B I T S

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1                   WHEREUPON, the following proceedings were had  
2                   at 12:47 p.m.:

3  
4  
5                   EXAMINER STOGNER: At this time I'm going to  
6                   call Cases Numbers 9992 -- I'm sorry, 9982 and 9983,  
7                   which are both the Application of Mesa Operating  
8                   Limited Partnership for compulsory pooling, San Juan  
9                   County, New Mexico.

10                  I'll call for appearances.

11                  MR. HALL: Mr. Examiner, Scott Hall from the  
12                  Santa Fe office of the Miller, Stratvert, Torgerson and  
13                  Schlenker law firm on behalf of the Applicant with  
14                  three witnesses.

15                  MR. CARR: May it please the Examiner, my  
16                  name is William F. Carr with the law firm Campbell and  
17                  Black, P.A., of Santa Fe.

18                  We represent Amoco Production Company, and I  
19                  have no witnesses.

20                  MR. HALL: Again, Mr. Examiner, we would ask  
21                  that the record reflect that the credentials of the  
22                  three witnesses who have previously been sworn have  
23                  been accepted and made a matter of record.

24                  EXAMINER STOGNER: Let the record show.

25                  Mr. Hall, you may continue.

1                   MARK W. SEALE,

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

4                   DIRECT EXAMINATION

5       BY MR. HALL:

6           Q.     Mr. Seale, let's briefly state what Mesa's  
7       seeking in these two cases, identify the exhibits and  
8       summarize those for the hearing Examiner.

9           A.     Mesa is seeking an order pooling all  
10      uncommitted mineral owners in the Basin Fruitland coal  
11      gas pool underlying the proposed drilling and spacing  
12      units for the two wells in each of these cases.

13                 Exhibit 1 in each case depicts Section 36 of  
14      Township 30 North, Range 9 West.

15                 In Case 9982, Mesa's proposed well is named  
16      the FC State Com. Number 19. It is located 1455 feet  
17      from the north line, 2000 feet from the east line of  
18      said Section 36, and it is to be spaced on the north  
19      half of said Section 36.

20                 In Case 9983 Mesa's proposed well is named  
21      the FC State Com. Number 7. It's located 830 feet from  
22      the south line, 2490 feet from the west line of said  
23      Section 36, and it is to be spaced on the south half of  
24      said Section 36.

25                 Page 2 in each case reflects the working

1 interest that has been committed to the well and those  
2 parties Mesa is seeking a pooling order.

3 In Case 9982, 36.34 percent of the drilling  
4 spacing unit is committed to the well, and Mesa is  
5 seeking an order pooling Amoco Production Company with  
6 35.74 percent, Southland Royalty with 25 percent, and  
7 Conoco with 2.92 percent.

8 In Case 9983, 84.57 percent is committed to  
9 the well. Mesa is seeking an order pooling Amoco with  
10 7.71 percent, and Conoco with 7.72 percent.

11 Exhibits 2 in each case are copies of the  
12 letters dated April 6th, 1990, which were used to  
13 officially propose these wells to partners.

14 Upon receiving this letter, the partners also  
15 received Mesa's standard form operating agreement which  
16 we propose be used to govern the drilling of these  
17 wells, and Mesa's AFE cost estimate for drilling the  
18 well.

19 The AFE cost estimate is attached as Exhibit  
20 3.

21 Q. All right. Please summarize your efforts to  
22 obtain voluntary joinder of the parties you're seeking  
23 to pool today.

24 A. Upon receipt of the letter dated April 6th,  
25 1990, proposing the well, I have had numerous

1 conversations with the land departments of each  
2 company. And as of this date, neither -- none of the  
3 parties have committed their interest to these wells in  
4 writing.

5 Q. Let me ask you a question on Case 9982. Do  
6 you have knowledge of a well proposed by Amoco in the  
7 north half of Section 36?

8 A. I don't have knowledge of a well proposed by  
9 Amoco, but I have knowledge of a permit -- or an  
10 application for a permit.

11 Q. Amoco has not solicited Mesa's participation  
12 in any well?

13 A. No, they have not.

14 Q. In your opinion, Mr. Seale, has Mesa made a  
15 good-faith effort to obtain the voluntary joinder of  
16 the parties in each of the cases?

17 A. Yes we have.

18 Q. In your opinion, will granting the  
19 Applications be in the interests of conservation, the  
20 prevention of waste and protection of correlative  
21 rights?

22 A. Yes, it will.

23 Q. And were Exhibits 1, 2 and 3 in each of the  
24 cases prepared by you or at your direction?

25 A. Yes.



1 MR. HALL: That concludes our direct of this  
2 witness. We would move the admission of Exhibits 1, 2  
3 and 3.

4 EXAMINER STOGNER: Exhibits 1, 2 and 3 will  
5 be admitted into evidence.

6 Are there any questions of Mr. Seale?

7 MR. CARR: No questions.

8 EXAMINER STOGNER: If not, he may be -- I'm  
9 sorry, Mr. Morrow?

10 MR. MORROW: I was going to ask you about the  
11 -- You said none of the working-interest owners had  
12 committed their interest?

13 THE WITNESS: None of the parties which we're  
14 seeking pooling for --

15 MR. MORROW: Oh --

16 THE WITNESS: -- have committed their  
17 interest.

18 MR. MORROW: -- okay. Some have, but not --

19 THE WITNESS: Yes.

20 EXAMINER STOGNER: Are there any other  
21 questions?

22 If not, Mr. Seale may be excused.

23 Mr. Hall?

24 MR. HALL: We would call Stewart Sampson.  
25

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

4                    DIRECT EXAMINATION

5       BY MR. HALL:

6                Q.     Mr. Sampson, in both cases let's examine  
7       Exhibits 4, 5 and 6, if you would identify those and  
8       explain those for the record, please.

9                A.     Exhibit 4 in each case is a coal isopach in  
10      the Basin showing the location of the proposed wells.  
11      These two wells are in the same section, therefore have  
12      similar geologic conditions, and that's why they've  
13      been consolidated. We expect to encounter some 50 feet  
14      of coal in these locations.

15               Exhibit 2 [sic] in each case shows the  
16      bottomhole pressure, which is another controlling  
17      factor. The higher the pressure, of course, the  
18      better. We expect to encounter around 1100 pounds per  
19      square inch of bottomhole pressure in this area, which  
20      is also relatively attractive.

21               And the last exhibit, Exhibit 6, shows the  
22      detailed map of the area, and the -- all offset  
23      completed Fruitland coal wells within a two-mile  
24      radius. We do have a fair amount of offset control,  
25      although the entire proration pattern is not full at

1 this point in time.

2 We're recommending a 156-percent penalty here  
3 in lieu of the fact that we have attractive geologic  
4 conditions and some offset wells with economic --  
5 apparent economic rates.

6 Q. Is there a risk in each case that the well  
7 will not be commercially successful?

8 A. Yes, there is.

9 Q. And would you care to elaborate on that?

10 A. We do see a significant variability in offset  
11 production, which we feel is not related to coal  
12 thickness or pressure but is indeed dependent on  
13 permeability. So we feel that that is a significant  
14 risk factor, encountering sufficient permeability.

15 Q. Mr. Sampson, in your opinion will the  
16 granting of the Applications be in the interests of  
17 conservation, the prevention of waste and protection of  
18 correlative rights?

19 A. Yes.

20 Q. Were Exhibits 4, 5 and 6 prepared by you or  
21 at your direction?

22 A. Yes, they were.

23 MR. HALL: That concludes our direct of this  
24 witness.

25 We would move the admission of Exhibits 4, 5

1 and 6.

2 EXAMINER STOGNER: Exhibits 4, 5 and 6 will  
3 be admitted into evidence at this time.

4 Are there any questions of Mr. Sampson?

5 MR. CARR: No questions.

6 EXAMINER STOGNER: If not, he may be excused.  
7 Mr. Hall?

8 MR. HALL: Call Tom Hahn.

9 THOMAS L. HAHN,  
10 the witness herein, after having been first duly sworn  
11 upon his oath, was examined and testified as follows:

12 DIRECT EXAMINATION

13 BY MR. HALL:

14 Q. Mr. Hahn, in each of the cases, let's refer  
15 back to Exhibit 3, the AFE's, if you would, and briefly  
16 summarize the costs shown on that exhibit.

17 A. Okay. Case Number 9982, Exhibit 3 is the AFE  
18 cost estimate for drilling, casing and completing the  
19 FC State Com. 19. This cost is estimated at \$395,700.

20 Case Number 9983, Exhibit 3, is the AFE cost  
21 estimate for drilling, completing -- casing and  
22 completing the FC State Com. Number 7. This cost is  
23 estimated also at \$395,700.

24 Q. Mesa's participated in or drilled other  
25 Fruitland wells in the area, has it not?

1 A. Yes, it has.

2 Q. And these costs are in line with what's being  
3 charged for Fruitland wells?

4 A. Yes.

5 Q. What is Mesa's overhead charges for drilling  
6 a producing well?

7 A. For drilling the well, the produced -- or the  
8 overhead rate is \$3831 per month. For producing the  
9 well the overhead rate is \$382 per month.

10 Q. And are those costs, charges, in line with  
11 what's being charged as well?

12 A. Yes, those costs are based on the Ernst and  
13 Whinney publication on overhead rates.

14 Q. Do you ask that those charges be incorporated  
15 into any Orders resulting from these hearings?

16 A. Yes, I do.

17 Q. Let's look now at Exhibit 7. Do you concur  
18 in the request for the 156-percent risk penalty?

19 A. Yes, I do.

20 Q. And what's the basis of that recommendation?

21 A. The basis of that recommendation is really  
22 three elements of risk. One is the risk associated  
23 with drilling and completing a Fruitland coal well in  
24 the San Juan Basin. The second risk would be that risk  
25 of encountering sufficient permeability. And a third,

1 related risk to permeability, is the risk associated  
2 with finding a commercially economic well.

3 In both cases, the well is in the same  
4 section, so Exhibit 7 is identical in both cases. This  
5 exhibit shows the surface shut-in pressures and the  
6 production rates from the offset wells.

7 As we look at the offset wells, we're seeing  
8 rates that some, we believe, are uneconomic and some  
9 that are economic. So we believe that there is a risk  
10 associated with drilling a well here.

11 Q. Anything further you wish to add with respect  
12 to the risk or Exhibit 7?

13 A. No.

14 Q. Was Exhibit 7 prepared by you or at your  
15 direction?

16 A. Yes.

17 MR. HALL: We'd move the admission of Exhibit  
18 7 and Exhibit 8, which is the 1207 notice affidavit.

19 Q. (By Mr. Hall) One final question, Mr. Hahn:  
20 In your opinion, will granting the Applications be in  
21 the interests of conservation, the prevention of waste  
22 and protection of correlative rights?

23 A. Yes.

24 EXAMINER STOGNER: Are there any other  
25 questions of Mr. Hahn?

1 MR. CARR: No questions.

2 EXAMINER STOGNER: If not, he may be excused.

3 Does anybody else have anything either in Case Number  
4 9982 or 9983?

5 If not, these two cases will be taken under  
6 advisement.

7 (Thereupon, these proceedings were concluded  
8 at 12:59 p.m.)

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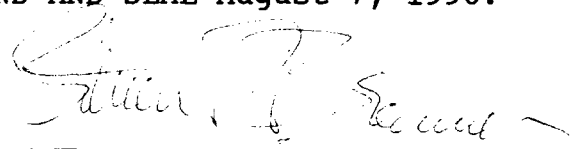
## CERTIFICATE OF REPORTER

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

I, Steven T. Brenner, Certified Shorthand 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.

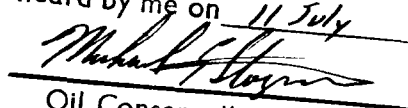
I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.

WITNESS MY HAND AND SEAL August 7, 1990.

  
STEVEN T. BRENNER  
CSR No. 106

My commission expires: October 14, 1990

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case Nos. 9982 and 9983 heard by me on 11 July 1990.

  
\_\_\_\_\_, Examiner  
Oil Conservation Division