STATE OF NEW MEXICO

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION

CASE 9986, CASE 10,003

EXAMINER HEARING

IN THE MATTER OF:

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

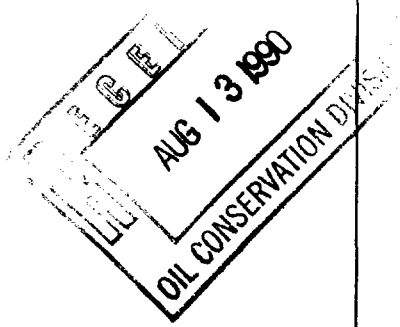
TRANSCRIPT OF PROCEEDINGS

BEFORE: MICHAEL E. STOGNER, EXAMINER

STATE LAND OFFICE BUILDING

SANTA FE, NEW MEXICO

July 11, 1990



A P P E A R A N C E S

FOR THE APPLICANT:

MILLER, STRATVERT, TORGERSON & SCHLENKER, P.A.
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
Suite 1 - 110 N. Guadalupe
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

* * *

E X H I B I T S

APPLICANT'S EXHIBITS:

* * *

WHEREUPON, the following proceedings were had at 12:00 noon:

EXAMINER STOGNER: This hearing will come to order.

At the Applicant's request, some of these cases, the next few cases, have been consolidated, and I'll call them as such.

At this time I'll call Cases Numbers 9986, and Case Number 10,003, which are both the Application of Mesa Operating Limited Partnership for compulsory pooling, San Juan County, New Mexico.

At this time I'll call for appearances.

MR. HALL: Mr. Examiner, Scott Hall from the Santa Fe office of the Miller, Stratvert, Torgerson and Schlenker law firm, with three witnesses this morning.

EXAMINER STOGNER: Are there any other appearances?

MR. CARR: May it please the Examiner, my name is William F. Carr with the law firm Campbell and Black, P.A., of Santa Fe. I represent Amoco Production Company. I do not intend to call a witness.

EXAMINER STOGNER: Thank you, Mr. Carr.

Mr. Hall, do you have any witnesses?

MR. HALL: I have three of them.

EXAMINER STOGNER: Will the witnesses please stand to be sworn at this time?

(Thereupon, the witnesses were sworn.)

EXAMINER STOGNER: Mr. Hall?

MR. HALL: Yes, sir.

MARK W. SEALE,

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

DIRECT EXAMINATION

BY MR. HALL:

Q. For the record, state your name and your place of employment and type of employment.

A. My name is Mark Wesley Seale. I'm employed by Mesa Limited Partnership in Amarillo, Texas, as a landman.

Q. Mr. Seale, you're familiar with the lands that are the subject of the consolidated Applications and the subject wells, are you not?

A. Yes, I am.

Q. And you've previously testified before the Division and had your credentials accepted as a matter of record?

A. Yes.

Q. Mr. Seale, you have prepared certain exhibits

in conjunction with the two cases, have you not?

A. Yes, I have.

Q. Let's look at those, if you'd identify those for the record and explain their contents.

A. Okay. Exhibit Number 1 in each case is a plat depicting the section in which the well is located. The spacing unit is identified, and I'll go -- each one of these, we can talk about each one of them separately.

In Case 9986 Mesa's well is named the FC State Com. Number 16. It is located 1870 feet from the north line, 1705 feet from the east line of Section 16, Township 30 North, Range 11 West.

In Case Number 10,003 Mesa's well is named the FC State Com. Number 17. It is located 1580 feet from the south line, 1335 feet from the west line of Section 36, Township 29 North, Range 10 West.

Page 2 of Exhibit 1 sets forth the working-interest owners that have committed their interests to the drilling of each of these wells and those owners which we are requesting be pooled.

In Case 9986 approximately 75 percent of the working interest has been committed to the well. We are requesting that Amoco Production Company with 25 percent be pooled.

Case 10,003, 75 percent of the working interest has been committed, and we're requesting that Amoco Production Company with 12-1/2 percent and Texaco with 12-1/2 percent be pooled.

Exhibit Number 2 is copies of the letters that Mesa used to officially propose these wells to partners. Along with the letter we attached an operating agreement and an AFE cost estimate, both of which are attached. The AFE cost estimate is labeled Exhibit 3.

Q. Would you briefly summarize your efforts to obtain the voluntary joinder of each of the parties you're seeking to have pooled?

A. Okay. In each case, by letters dated March 15th, 1990, the wells were proposed. They did receive the operating agreement and the cost estimate.

Since that time we have had numerous conversations with all the parties, but as of this date none of the parties being pooled have committed their interest to the wells in writing.

Q. In your opinion, have you made a good-faith effort to obtain their voluntary joinder?

A. Yes, we have.

Q. Were Exhibits 1 through 3 prepared by you and at your direction?

A. Yes, they were.

Q. In you opinion, Mr. Seale, will granting the Application be in the interest of conservation, the prevention of waste and protection of correlative rights?

A. Yes.

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

EXAMINER STOGNER: Are there any objections?

MR. CARR: No.

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

EXAMINATION

BY EXAMINER STOGNER:

Q. Mr. Seale --

A. Yes.

Q. -- the letters dated March 15th, is that the first written communication with either Amoco or Texaco in either -- in whatever case may be -- of your proposed well?

A. Yes.

EXAMINER STOGNER: Mr. Hall, do you propose to -- Oh, your notifications are going to be toward the end of the --

MR. HALL: Yes, the 1207 notification, yeah.

EXAMINER STOGNER: Okay.

Q. (By Examiner Stogner) Mr. Seale, who determined the well locations?

A. It was determined between our drilling engineers and our geologists.

EXAMINER STOGNER: Mr. Hall, are either or one of those parties here today?

MR. HALL: Yes, we have geologic and engineering testimony.

EXAMINER STOGNER: I hate to be nit-picky, but one of them is unorthodox. 10,003, by five feet.

However, I do not -- I understand the surveys out there. Maybe your geologist or engineer at that time can address that issue. That particular issue would be addressed at such time.

Okay, I have no other questions of Mr. Seale. Are there any other questions of this witness?

MR. HALL: No, sir.

EXAMINER STOGNER: If not, he may be excused.

Mr. Hall?

MR. HALL: At this time we'll call Stewart Sampson.

STEWART SAMPSON,

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

DIRECT EXAMINATION

BY MR. HALL:

Q. Mr. Sampson, for the record state your name, where you live, your place of employment and the capacity in which you are employed.

A. My name is Stewart Sampson. I live in Amarillo, Texas, employed by Mesa Limited Partnership as supervisor of geophysics.

Q. Mr. Sampson, you're also familiar with the subject lands and the wells proposed for each of the Applications, are you not?

A. Yes, I am.

Q. And you've previously testified before the Division and had your credentials made a matter of record?

A. Yes.

Q. You've prepared certain exhibits in connection with your testimony, have you not?

A. Yes.

Q. Let's look at those and have you identify those, please, and summarize those for the hearing Examiner.

A. Exhibit 4 in each case, 9986 and 10,003, is a coal isopach across the entire San Juan Basin which indicates by location of a red symbol the location of the well in question.

In each case -- I might point out that these wells have been drilled, and that's why they were consolidated -- we did encounter decent coal thickness, sufficient coal thickness. However, we feel like that is a -- only a minor risk factor involved.

Exhibit 5 in each case again shows the location of the wells on a bottomhole pressure map which is regional to the San Juan Basin. We are in an area of lower pressure in the Basin, in both cases.

And the last map is simply a more detailed map of the area which shows structure on the top of the Fruitland. It shows the location of each well by open red circle, and also the location of all Fruitland coal completions within a radius of two miles of the wells in question.

Again, by virtue of the fact that these wells are drilled, we're recommending a standard 156-percent penalty, although we feel that there is some significant risk in this area due to poor offset production.

Q. Do you believe that there's a chance that the

wells will not prove to be commercial wells?

A. Yes, I do.

Q. Do you have any basis for that statement?

A. Again, we encountered enough coal that we feel like in this area the permeability is a significant question, as demonstrated by some of the offset production not being apparently economic.

Mr. Hahn will go into those production rates in his testimony.

By far the most important factor in establishing commercial production is the fracture permeability of the coals.

Q. All right. Do you have anything further you wish to add with respect to the risk penalty?

A. No.

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

A. Yes, they were.

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

A. Yes.

MR. HALL: That concludes our direct of this witness, Mr. Stogner. We would move the admission of

Exhibits 4, 5 and 6.

EXAMINER STOGNER: Exhibits 4, 5 and 6 will be admitted into evidence if there are no objections.

MR. CARR: No objection.

EXAMINER STOGNER: I have no questions of Mr. Sampson.

Do you have anything further of this witness?

MR. HALL: No, sir.

EXAMINER STOGNER: Mr. Carr?

MR. CARR: No questions.

EXAMINER STOGNER: Are there any further questions of the witness?

He may be excused.

I'm sorry, Mr. Morrow?

MR. MORROW: Did you say the wells had already been drilled?

THE WITNESS: Yes, these two wells have been drilled.

EXAMINER STOGNER: Mr. Hall?

MR. HALL: Mr. Stogner, with respect to the apparent unorthodox location in Case 10,003, if the Examiner prefers, we can verify the exact location with a phone call.

EXAMINER STOGNER: Let's do that, and if there's any discrepancy with the Order 8768, Special

Pool Rules for the Basin-Fruitland coal gas pool, I feel that can be done administratively.

MR. HALL: All right.

EXAMINER STOGNER: And if you'll verify that with me.

MR. HALL: We do understand wellhead's been permitted by the Division, so...

EXAMINER STOGNER: That's so, and this -- Was this on federal or fee land?

MR. HALL: State.

EXAMINER STOGNER: State land, all right.

If you'll verify that. And this is Case Number 10,003; is that correct?

MR. HALL: Yes, correct. We can do it right now if you would like, or we could provide you that information.

EXAMINER STOGNER: Why don't you provide that with me later --

MR. HALL: All right.

EXAMINER STOGNER: -- and we can continue on with these.

Mr. Hall?

MR. HALL: At this time, we would call Tom Hahn.

THOMAS L. HAHN,

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

DIRECT EXAMINATION

BY MR. HALL:

Q. For the record, Mr. Hahn, state your name, your place of residence, place of employment and the capacity in which you are employed.

A. My name is Thomas L. Hahn. I work for the Mesa Limited Partnership in Amarillo, Texas, as a reservoir engineer.

Q. Mr. Hahn, you're familiar with the Applications, the subject lands and the wells, are you not?

A. Yes, I am.

Q. And you've previously testified before the Division and had your credentials accepted as a matter of record, have you not?

A. Yes, I have.

Q. Let's look back at Exhibit 3, please, the AFE. If you would go over those costs for the hearing Examiner.

A. Okay, Exhibit 3 in Case 9986 is a detailed AFE cost estimate for drilling and completing the FC State Com. 16. The AFE shows that the total cost is

estimated at $365,000 -- $365,500. This is a cost to drill, case, perforate and complete the FC State Com. Number 16.

In Case Number 10,003, Exhibit 3 is an AFE cost estimate for the drilling and the casing complete on the FC State Com. Number 17. Total cost is estimated at $367,600.

Q. Mesa has drilled other Fruitland wells in the area, have they not?

A. Yes, we have drilled, of course, both of these wells, and there are other wells in the area we have drilled.

Q. These costs are in line with what's being charged in the area?

A. Yes, they are.

Q. What are Mesa's overhead costs for drilling and producing the well?

A. The drilling overhead rate is $3831 per month; the producing overhead rate is $382 per month.

EXAMINER STOGNER: I'm sorry, what was the drilling cost, again?

THE WITNESS: $3831.

EXAMINER STOGNER: Thank you.

Q. (By Mr. Hall) And those charges are also in line with what's being charged in the area?

A. Yes, they are. They are based on the Ernst and Whinney published information for overhead rates.

Q. And are you recommending that those costs -- charges be incorporated in any Order that results from these hearings?

A. Yes, I am.

Q. Let's look at Exhibit 7. Would you identify that and explain that for the hearing officer?

A. Exhibit 7 in Case Number 9986 is some offset production detail for the offset wells shown on Exhibit Number 6. In this case there are four offset wells. Three of them we do have production information on, and the fourth we just have a surface shut-in pressure.

Looking at this information, it's very easy to tell that production rates are marginal in Mesa's opinion, and the pressures would indicate that we may not drill a commercially attractive well here.

Q. So you concur in the request for a 156-percent risk penalty against the nonconsenting interests?

A. Yes, I do.

Q. Was Exhibit 7 prepared by you?

A. Yes, it was.

Q. In your opinion, Mr. Hahn, will granting the Applications be in the interest of conservation and the

prevention of waste, protection of correlative rights?

A. Yes, it will.

Q. Do you have anything further you wish to add?

A. Yes, I should speak about Exhibit 7 in Case Number 10,003.

Q. Good idea.

A. Once again, it's offset production detail for two offset wells from the proposed FC State Com. Number 17.

Both of these wells appear to be commercial wells. The pressures in the area are very typical for this area, so I recommend a 156-percent penalty here also.

MR. HALL: All right. That concludes our direct of this witness.

We'd move the admission of Exhibit 7 and Exhibit 8. Exhibit 8 is the 1207 Notice Affidavit prepared by counsel.

EXAMINER STOGNER: Are there any questions of this witness?

Mr. Carr?

MR. CARR: No questions.

EXAMINATION

BY MR. STOGNER:

Q. On your AFE's, these were estimates prior to

you drilling the wells, or do these reflect some of the actual costs?

A. These are estimates prior to drilling the wells. These are the estimates we've sent to partners.

Q. Okay, and what did the actuals turn out?

A. The actuals, I don't have the exact number, but I can tell you that the actuals are approximately $30,000 to $40,000 less than the costs shown on both of these AFE's.

We are not finished with the completion on either of them as far as the surface equipment, so all the costs have not come in yet.

Q. Now, when you say they're $30,000 or $40,000 under, are you talking about the final, total cost, or the cost up to the point that you haven't started tallying the rest of your completion costs?

A. I'm talking about the total cost.

Q. The total cost, okay.

So this -- These figures could be made up later as you start adding your other equipment?

A. Right.

Q. Okay. Was there any noticeable difference on any of your drilling costs?

A. Mr. Examiner, I do have the estimated -- the actual cost as of this day, as of June 15th.

Q. On which well?

A. On the 16 and the 17.

Q. Okay.

A. On the Number 16, as of June 15th, we were at $236,000.

On the State Com. Number 17 we are at $229,100.

Q. Do you have those costs broken out in any way that resembles your AFE? Or is that just total?

A. I don't have them here.

EXAMINER STOGNER: Okay. Are there any other questions of this witness?

MR. MORROW: Explain the 150 percent -- or 156 percent; is that what you said?

THE WITNESS: 156 percent.

MR. MORROW: And that would be times the cost or in addition to the cost?

THE WITNESS: In addition to the cost.

EXAMINER STOGNER: Are there any other questions?

MR. HALL: No, sir.

EXAMINER STOGNER: If not, he may be excused at this time.

Mr. Hall, do you have anything further?

MR. HALL: No, sir.

EXAMINER STOGNER: Does anybody else have anything further in these two cases?

MR. CARR: No, sir.

EXAMINER STOGNER: In that case, I'll take Case Number 10,003 and 9986 under advisement.

(Thereupon, these proceedings were concluded at 12:18 p.m.)

* * *

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 6, 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. 9986 and 10,003 heard by me on 11 July 1990.

, Examiner
Oil Conservation Division