

1 STATE OF NEW MEXICO
2 ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
3 OIL CONSERVATION DIVISION
4 CASE 10114

5
6
7 EXAMINER HEARING

8
9 IN THE MATTER OF:

10
11 Application of Meridian Oil, Inc., for
12 Unorthodox Coal Gas Well Location,
13 Basin Fruitland Coal Gas Pool, San Juan
14 County, New Mexico

15
16
17 TRANSCRIPT OF PROCEEDINGS

18
19 BEFORE: MICHAEL E. STOGNER, EXAMINER

20
21 STATE LAND OFFICE BUILDING
22 SANTA FE, NEW MEXICO
23 October 31, 1990

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25 **ORIGINAL**

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A P P E A R A N C E S

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1 EXAMINER STOGNER: At this time I'll call
2 the next case, No. 10114.

3 MR. STOVALL: Application of Meridian Oil,
4 Inc., for an unorthodox coal gas well location, San
5 Juan County, New Mexico.

6 EXAMINER STOGNER: Call for appearances.

7 MR. KELLAHIN: Mr. Examiner, I'm Tom
8 Kellahin of the Santa Fe Law Firm of Kellahin,
9 Kellahin and Aubrey, appearing on behalf of Meridian
10 Oil, Inc.

11 EXAMINER STOGNER: Are there any other
12 appearances in this matter?

13 MR. KELLAHIN: Mr. Examiner, this case was
14 originally referred back to us for a hearing because
15 of the Division's request to have not only Meridian's
16 testimony but to have a knowledgeable representative
17 of the Bureau of Land Management appear and to have
18 the opportunity to discuss with the Examiner the
19 topography of the section that has resulted in the
20 application for an unorthodox location.

21 With Meridian's assistance, we have asked
22 the Bureau of Land Management to provide such an
23 individual. And I must apologize, I'm not sure which
24 one of them is here today. I know there are several
25 representatives of the BLM. I'm not sure which one is

1 here specifically to talk about this particular
2 section, but they might want to make their appearance
3 known at this time.

4 EXAMINER STOGNER: Would you please do
5 that? Who is here representing the Bureau of Land
6 Management?

7 MR. ELLSWORTH: Don Ellsworth.

8 MR. STOVALL: Are you going to testify, Mr.
9 Ellsworth? Is that the plan?

10 MR. ELLSWORTH: Yes.

11 MR. STOVALL: Okay.

12 MR. KELLAHIN: As a mechanism to put the
13 case on, Mr. Examiner, what I propose to do is call
14 Mr. Alexander first. He's a landman. The notice of
15 hearing, the prehearing statement we filed, lists our
16 petroleum engineer second, Mr. Bauer, and Mr. Neale
17 Edwards is a surveyor for Meridian. Then finally I
18 have listed Mr. Ellsworth and he is obviously
19 available today. I will ask him the direct questions,
20 if that's all right, and lead us into the discussion
21 of the topography, particularly around this campground
22 that is a question of interest in this section.

23 MR. STOVALL: I think that's probably the
24 most convenient and effective way to do it.

25 EXAMINER STOGNER: All right, thank you,

1 Mr. Kellahin.

2 Will the witnesses please stand to be
3 sworn, everyone.

4 ALAN ALEXANDER

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

7 EXAMINATION

8 BY MR. KELLAHIN:

9 Q. Mr. Alexander, would you please state your
10 name and occupation?

11 A. My name is Alan Alexander. I'm currently
12 employed as a senior land advisor with Meridian Oil,
13 Inc., in their Farmington, New Mexico, office.

14 Q. Is it part of your responsibilities to your
15 company as a landman to obtain the necessary
16 administrative and regulatory orders for these coal
17 gas wells in Rio Arriba County, New Mexico, and in
18 particular the unorthodox coal gas well location
19 that's requested today?

20 A. It is.

21 Q. Are you knowledgeable about the ownership
22 of this working interest and royalty for the spacing
23 unit and knowledgeable about the dealings with the
24 Bureau of Land Management concerning the surface?

25 A. I am.

1 MR. KELLAHIN: We tender Mr. Alexander as
2 an expert petroleum landman.

3 EXAMINER STOGNER: Mr. Alexander is so
4 qualified.

5 Q. Mr. Alexander, let me have you turn to the
6 exhibit book and let's simply commence by having you
7 identify the information behind Exhibit No. 1.

8 A. What we have placed behind Exhibit No. 1 is
9 a copy of the application that we have filed with the
10 Commission. It consists of several parts. This is
11 the first amended application that we are showing
12 today. We had a prior application that we had some
13 incorrect information that I supplied Mr. Kellahin
14 with.

15 Q. And that had to do with how the orientation
16 of the spacing units were established for Section 26?

17 A. That is correct.

18 Q. We'll come back to that in just a moment.
19 Go ahead.

20 A. All right. Behind the application you will
21 see a copy of the New Mexico C-102 plat showing the
22 spacing unit and the footage of the well.

23 Q. Let's take a minute on that one. The
24 proposed spacing unit for the coal gas well is what
25 portion of this section, Mr. Alexander?

1 A. It consists of the north half of Section
2 26, of 27 North, 10 West.

3 Q. And the south half of this section is
4 already dedicated to a currently producing coal gas
5 well?

6 A. That is correct.

7 Q. What is the proposed location for this
8 Frost 500 well?

9 A. The current proposed location is 790 feet
10 from the east line and 2510 feet from the north line.

11 Q. In terms of the rules for the Basin Coal
12 Gas Pool, the well is in the correct quarter section,
13 is it not?

14 A. It is.

15 Q. But it is too close to the south boundary
16 of that spacing unit?

17 A. That is correct.

18 Q. What is the footage distance to the south
19 boundary?

20 A. I haven't calculated here, but it's the
21 difference between 2510 feet and 2640 feet.

22 Q. About 130 feet, isn't it?

23 A. 130 feet, all right. Yes.

24 Q. Describe for us the next display.

25 A. Behind the C-102 form is a copy of a

1 topographic map. There is a better copy available
2 later in the exhibit, and we'll refer to that instead
3 of this map. As Exhibit C, we have the only offset
4 operator that's involved in this case being Amoco
5 Production Company, who was notified.

6 Q. Let's turn now, having completed the
7 information on the application, let's go to the
8 documents behind exhibit tab No. 2.

9 A. Behind Exhibit No. 2 we've displayed the
10 offset operator plat for this well, showing that Amoco
11 Production Company is the only offset operator. They
12 are offset to the north and to the northeast. And
13 behind the offset operator plat we have a land plat
14 which against describes the spacing unit, shows the
15 outlines of the leases surrounding this application,
16 and it also shows the existing wells in the immediate
17 area. There is a legend at the bottom of that map so
18 that you can tell which of the well symbols are
19 Fruitland Coal wells.

20 Q. Have you satisfied yourself that insofar as
21 Section 26 is concerned, that you have identified for
22 us the approximate location and the type of well for
23 each of the wells drilled in Section 26?

24 A. Yes.

25 Q. So that is an accurate inventory, then, of

1 the different kinds of wells within the section?

2 A. Yes, sir, it is.

3 Q. When we look at the northeast quarter of
4 Section 26, in addition to the location spot there
5 apparently, at some point in time, are two other wells
6 in that northeast quarter?

7 A. That is correct.

8 Q. Identify the types of wells that are shown
9 in the northeast quarter of the section.

10 A. The well shown as the #1 well there is the
11 Frost #1 well. It's shown to be--it's a little hard
12 to see, but it is a plugged and abandoned well and it
13 is the circle with the spikes running out from it.
14 The square symbol--

15 Q. All right. The circle with the spikes out
16 from it, the #1, that was a well to what formation?

17 A. That would be to the Pictured Cliffs
18 Formation.

19 Q. Does that still produce from the Pictured
20 Cliffs?

21 A. No, I believe that well is plugged and
22 abandoned at this point in time.

23 Q. All right. Just to the east of that, also
24 within the same quarter section, is the 1-E?

25 A. That is correct.

1 Q. It's a gas well symbol in a box?

2 A. That is correct.

3 Q. What does that represent?

4 A. It represents the Dakota formation.

5 Q. To your knowledge, what is the status of
6 that well?

7 A. To my knowledge, it is still producing.

8 Q. All right. Let's go, then, to the
9 information behind Exhibit No. 3.

10 A. Behind Exhibit No. 3 we have included a
11 more readable form of the New Mexico Conservation
12 Division C-102 form, which is the plat for this well
13 again, and then behind that we have a chronology of
14 events surrounding this well and our attempts to
15 obtain an appropriate location for it. And behind
16 that chronology of events we have a more readable
17 topographic map with other details described on that
18 topographic map.

19 Q. As of today, Mr. Alexander, to the best of
20 your knowledge, have you found a location for this
21 well, the requested location, 790 from the east
22 boundary and 2510 from the north boundary? Is that a
23 staked location for which it meets all the criteria of
24 the BLM for surface use?

25 A. That is correct.

1 Q. And that, to your knowledge, is the only
2 location you have been able to obtain that approval
3 for in the north half of 26 for a coal gas well?

4 A. That is correct.

5 MR. KELLAHIN: That concludes my
6 examination of Mr. Alexander, Mr. Stogner. We would
7 move the introduction of the documents shown behind
8 Exhibits 1, 2 and 3.

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

11 EXAMINATION

12 BY EXAMINER STOGNER:

13 Q. On Exhibit No. 2, the second page, are all
14 the coal gas wells listed on this plat that's in this
15 area of the map?

16 A. Yes, sir, they are supposed to be. Our
17 draftsmen keep up with the wells in the area and I'm
18 told this is a current representation of the wells.
19 We do have plans for two additional wells in Section
20 25 that are currently on our budget this year, but
21 they have not reached the point of development yet.

22 Q. I count five of them. Is that what you
23 have?

24 A. I believe that's correct. You're counting
25 all of the offset sections?

1 Q. Yes. I'm counting everything within the
2 map area.

3 A. They are the triangle shaped symbols, if I
4 didn't make that clear before.

5 EXAMINER STOGNER: I don't think I have any
6 more questions of Mr. Alexander. I may later on, Mr.
7 Kellahin.

8 MR. KELLAHIN: All right, sir. Thank you.

9 I would like to call Mr. Eric Bauer, a
10 petroleum engineer with Meridian, Mr. Examiner.

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

14 EXAMINATION

15 BY MR. KELLAHIN:

16 Q. Mr. Bauer, would you please state your name
17 and occupation?

18 A. My name is Eric Bauer and I'm a reservoir
19 engineer for Meridian Oil in Farmington, New Mexico.

20 Q. Mr. Bauer, on prior occasions have you
21 testified as a reservoir engineer?

22 A. No, I have not.

23 Q. Summarize for us your educational
24 background.

25 A. I graduated December 1989 with a Bachelor

1 of Science in petroleum engineering from the Colorado
2 School of Mines.

3 Q. Subsequent to graduation, describe for us
4 your employment as a reservoir engineer.

5 A. I worked one summer for Unical up in
6 Casper, Wyoming, as a reservoir engineer.

7 Q. As a reservoir engineer, have you performed
8 certain calculations and reviewed certain data with
9 with regards to this application?

10 A. That is correct.

11 Q. Let me ask you to turn to the information
12 shown behind Exhibit No. 4. The work you have
13 performed involves the exhibits shown behind Exhibit 4
14 as well as Exhibit 5?

15 A. That is correct.

16 Q. Were you asked to make an economic
17 investigation, as a reservoir engineer, to determine
18 whether or not, for the north half of Section 12, you
19 could determine the economics for a vertical well
20 versus a directionally drilled well from this proposed
21 surface location to a standard bottom-hole location
22 directionally?

23 A. I believe that's incorrect. It was Section
24 26.

25 Q. All right. Section 26--

1 A. But, yes.

2 Q. --the procedure was that? You were asked
3 that task?

4 A. Yes.

5 Q. Within 26, then, were you able to satisfy
6 yourself on some engineering basis of the volume of
7 gas in the north half of 26 from which you make your
8 calculations?

9 A. Yes, I was.

10 Q. What method did you apply?

11 A. Volumetrics.

12 Q. In applying a volumetric method, what
13 geologic information did you utilize to assist you in
14 determining that volume?

15 A. Okay. Under Exhibit 4 I used a net coal
16 isopach map and took the average for the north half,
17 dedicated 320, which incidentally came out to be 32
18 feet.

19 Q. All right. Summarize for us generally the
20 methods you used to obtain your volumetric
21 calculation.

22 A. Generally we use the net coal thickness
23 shown here in Exhibit 4. We would also use a
24 desorption figure which we generally get from gas
25 cuttings of offsetting wells. We would use recovery

1 factors of 320-acre spacing and a density of coal.

2 Q. In having run through the calculation,
3 then, you have an amount of recoverable gas from this
4 formation that you'll allocate to the north half of
5 Section 26?

6 A. That is correct.

7 Q. Were you also provided with the economics
8 for a vertical well versus a directionally drilled
9 well?

10 A. Yes, I was.

11 Q. Let's turn to the information behind
12 Exhibit No. 5 and look at the first page of those
13 documents. What does that show?

14 A. This is comparing a vertical wellbore on
15 the top and a directional wellbore on the bottom. The
16 costs are split out in drilling, completion and
17 facilities, and there's a total in the right-hand
18 portion of each section.

19 Q. So, when we take the economics or the cost,
20 if you will, of a vertical well at the proposed
21 unorthodox location, it's slightly in excess of
22 \$300,000?

23 A. That is correct.

24 Q. And if we use what the drilling engineers
25 give you for a directionally drilled well at the

1 proposed surface location to the nearest standard
2 bottom-hole location, you get the \$457,000 number?

3 A. That is correct.

4 Q. That's an approximate difference of, what,
5 \$150,000?

6 A. Right.

7 Q. All right. Let's go behind that tab. What
8 is the next display?

9 A. The next page is the drilling cost estimate
10 for the vertical wellbore.

11 Q. This is the itemized cost, then, to show
12 where the summary sheet came from for the vertical
13 well?

14 A. Yes, it is, for the drilling portion.

15 Q. When we look at the drilling portion for
16 the directional drill, do you have an itemized
17 estimate for that?

18 A. Yes, I do, and that is the next page.

19 Q. Okay. What did you do, then, as a
20 reservoir engineer, to analyze the economics and come
21 to some conclusion about whether or not it was
22 economic to directionally drill this well?

23 A. What I did is I came up with a production
24 profile for this well, an amount of reserves, ran
25 economics based on the cost estimates provided to me,

1 and I have those results shown on the last portion of
2 Exhibit 5--or middle portion, excuse me.

3 Q. The next display I have runs horizontally
4 on the page?

5 A. Correct.

6 Q. And it shows the economic cases with about
7 four or five different assumptions?

8 A. Right.

9 Q. First of all, before we discuss your
10 conclusions, simply tell me how to read and understand
11 the display.

12 A. First of all we have the vertical case
13 starting on the left-hand portion and extending on the
14 top row of the tabulation. Next we have three cases
15 below for the directional hole, and then the final row
16 is the directional risk consolidation, which is a
17 consolidation of the three cases for the directional
18 hole, based at different probability of occurrences.

19 Q. When you go through the analysis and get to
20 the conclusions on the far right margin of the
21 display, what do your economic conclusions tell you in
22 terms of the risk net present value of dollars for a
23 vertical hole?

24 A. That we will make \$91,000 net present value
25 discount.

1 Q. Under the assumption that there is a
2 trouble-free or risk-free directionally drilled well
3 and there are no modifications necessary because of
4 those contingencies, what do your economics tell you
5 as a conclusion if the Division requires you to
6 directionally drill the well to a standard bottom-hole
7 location?

8 A. That we will lose approximately \$26,000.

9 Q. And that presumes no difficulty and no lost
10 time and no lost wellbore?

11 A. That is correct.

12 Q. To assess those contingencies, have you
13 assimilated information by which to draw an analysis
14 of the range of risks to apply to the directionally
15 drilling analysis?

16 A. Yes, I have. That is shown on the next
17 page of Exhibit 5.

18 Q. It's a document entitled "Trouble Time
19 Documentation"?

20 A. Correct.

21 Q. Without reading it to us, describe for us
22 what you were doing.

23 A. Basically I was taking the directional
24 wells that we have drilled into the Fruitland Coal and
25 coming up with the amount of trouble time that it has

1 actually taken us to do those wells. In addition, I
2 have one well at the bottom, which is a Mesaverde
3 well, also directional, to show that there's a
4 possibility of coming up with a hundred-percent
5 trouble time case. And this is from Meridian's
6 experience in directional wellbores.

7 Q. If we get a hundred-percent trouble time
8 case, what does that mean?

9 A. That means that you spend roughly two times
10 the amount of allotted time for the well. For
11 instance, if it was supposed to take 10 days, now it
12 would take approximately 20 days.

13 Q. Does that analysis add a dollar amount for
14 any other item other than the charge for the
15 additional days?

16 A. For items like mud, for items like bits and
17 things like that, which would be incurred on a time
18 basis for the directional well, those costs will be
19 increased.

20 Q. If you get to a situation in this well
21 where you have a hundred-percent trouble time, you
22 have doubled the amount of time allotted for the
23 directional drilling of the well?

24 A. Correct.

25 Q. If that occurs, what does your economic

1 analysis show you in terms of the risk net present
2 value of that effort?

3 A. That we would lose \$181,000.

4 Q. You can't afford to do that, can you?

5 A. No, we cannot.

6 Q. If instead of a hundred-percent trouble
7 time you have only 50 percent trouble time?

8 A. We would therefore lose approximately
9 \$116,000.

10 Q. And if there's no trouble time, you're
11 still looking at a net loss?

12 A. A net loss of \$26,000.

13 Q. In conclusion, Mr. Bauer, is this a
14 wellbore that you can directionally drill and
15 economically undertake that type of operation?

16 A. No, we cannot.

17 MR. KELLAHIN: That concludes my
18 examination of Mr. Bauer, Mr. Examiner. We would move
19 the introduction of Exhibits 4 and 5.

20 EXAMINER STOGNER: Exhibits 4 and 5 will be
21 admitted into evidence.

22 EXAMINATION

23 BY EXAMINER STOGNER:

24 Q. Mr. Bauer, I'm looking at both of the
25 drilling well cost estimates. This is for the same

1 well, one directional, the other as it is proposed
2 today?

3 A. That is correct.

4 Q. Were these prepared at the same time?

5 A. Yes, they were. They were prepared on
6 August 13th of 90.

7 Q. I'm comparing the two here. Help me get
8 everything understood. Intangible drilling costs, we
9 go down, environmental studies is the same, as
10 \$1,000.

11 Location and road construction, Item No. 2
12 for the straight well, \$7,500, and for your
13 directional well it's \$15,000. What's the discrepancy
14 there?

15 A. Really I am--this is out of my area of
16 expertise as to get into a drilling cost estimate.

17 Q. Aren't you testifying to these costs?

18 MR. KELLAHIN: Well, perhaps I didn't make
19 it clear, Mr. Examiner. Mr. Bauer was the engineer
20 that was provided with the two separate AFEs. Mr.
21 Boone prepared them and he's not available to me
22 today, and unfortunately I was not able to bring him.

23 Mr. Bauer assumed that these well costs
24 were reliable and he did the economic analysis from
25 that point. I'm certainly happy to have him attempt

1 to answer the questions as best he can, but I want to
2 let you know that he didn't actually prepare these
3 AFEs. And if there are questions he can't answer, I
4 would have to ask you to let me have time to bring
5 down the drilling engineer that actually prepared the
6 estimates, because I don't have him available today.

7 MR. STOVALL: Mr. Kellahin, based on your
8 comments, I would recommend that we not spend a lot of
9 time with this witness going over something he doesn't
10 know. The concern is, there's a pretty substantial
11 difference--

12 MR. KELLAHIN: Oh, there's no question.

13 MR. STOVALL: --perhaps not consistent with
14 other directional programs. Let's get on with this
15 case, and then we'll determine or I'll recommend we
16 determine what we do at the end, or we can take it
17 under advisement and consider the weight of this
18 evidence appropriately based upon what's available to
19 us.

20 MR. KELLAHIN: I'm happy to bring down the
21 drilling engineer that prepared them. Unfortunately,
22 I simply don't have him available to me today, and
23 perhaps I could, with your permission, continue with
24 the presentation, then, of the witnesses that are
25 here, and if it's still of a concern, then, we'll

1 bring the gentleman down to justify the AFEs.

2 MR. STOVALL: I think that makes sense at
3 the moment. And we'll determine at the conclusion of
4 the hearing whether to do that or just take it under
5 advisement.

6 EXAMINATION RESUMED

7 BY EXAMINER STOGNER:

8 Q. In the last page of Exhibit 5, Trouble Time
9 Documentation, are these Meridian wells?

10 A. Yes, they are.

11 Q. Are they all coal wells?

12 A. No. The last one, the Howell E #2R is a
13 Mesaverde well. The top three, Sunray H Com #201, San
14 Juan 32-5 #100 and San Juan 30-6 #404 are indeed
15 instead Fruitland Coal wells.

16 MR. STOVALL: Let me ask a follow-up.

17 EXAMINATION

18 BY MR. STOVALL:

19 Q. How many directionally drilled Fruitland
20 Coal wells has Meridian drilled?

21 A. Meridian has drilled three, the top three
22 listed on this page.

23 Q. Those are the only three directional wells
24 you've drilled in that Fruitland Coal?

25 A. Directional Fruitland Coal wells, yes.

1 Q. So 100 percent of the directional wells
2 have had problems, is that what you're saying?

3 A. That is correct.

4 EXAMINATION RESUMED

5 BY EXAMINER STOGNER:

6 Q. Were any of these classified as horizontal
7 or high angle?

8 A. I know that some of these have been
9 classified as high angle. I'm not sure which ones.

10 Q. You don't know which ones?

11 A. I'm not sure which ones.

12 Q. So, really, it's not conventional
13 directional drilling in what you're showing here on
14 the trouble time, and you don't know which ones are
15 which?

16 A. Right. Again, that is out of my area.

17 Q. And naturally high angle and horizontal
18 wells are going to be more troublesome than a
19 directional drilling, in the sense of the standard in
20 which you're--and in this case we're talking about a
21 directional drilling of 600 feet?

22 A. That is possible.

23 Q. On your Exhibit No. 4, your net coal
24 isopach, what wells did you use as your control?

25 A. I used the Frost #6 located in Section 27

1 in the northeast quarter. I also used that as my type
2 log. And I used the Graham #1 located in the
3 southwest quarter of Section 26, which is a Fruitland
4 Coal recompletion.

5 EXAMINER STOGNER: Mr. Kellahin, do you
6 have a witness that's going to present any production
7 data and actual production figures to substantiate the
8 figures that you also put on Exhibit 5?

9 MR. KELLAHIN: The rate of production that
10 is inherently involved in the last display tabulation
11 to show you pay out?

12 EXAMINER STOGNER: Yes.

13 MR. KELLAHIN: If Mr. Bauer is not
14 knowledgeable about that, then I don't have a witness
15 that can talk to you about producing rates.

16 Q. (BY EXAMINER STOGNER) How did you get
17 these figures on the third page of Exhibit 5, as far
18 as the pay back goes?

19 A. I went and came up with the production
20 profile which included an initial production rate.

21 Q. Which was?

22 A. Which was 325 Mcf a day based on offset
23 production. I can give you some examples of initial
24 rates in the area.

25 Q. Okay. Do you want to give them to me?

1 A. Sure. If we go up north and west into the
2 next section, you might see the Triangle Gordon #500?

3 Q. Okay.

4 A. It's currently producing in the
5 neighborhood of 220 Mcf a day.

6 Q. And how long has that well been on
7 production?

8 A. That well has been on production since the
9 first quarter of this year.

10 Q. Has it not reached its peak production
11 performance for a coal gas well yet?

12 A. Generally in this area we keep the initial
13 rate flat for some time, and then decline it. We
14 don't generally incline in this area.

15 Q. Okay. Please continue.

16 A. I can give you the Frost #6, which is in
17 the northeast quarter section, Section 27, came in at
18 286. The Frost #6 is a recompletion. The Rowley C in
19 Section 28, which is in the southwest quarter there,
20 that is 440.

21 Q. How long has the one that's produced to 440
22 in Section 28 been on line?

23 A. That has been on line since October of
24 1989, I believe. The Rowley B #1 produces--that's
25 north of the Rowley C #2 in the northwest quarter of

1 the section above--that is producing in the
2 neighborhood of 350 Mcf a day.

3 Just to the west of the Frost #6, sorry I
4 missed it, was the McAdams #2 and that's also a
5 recompletion producing in the neighborhood of 300 a
6 day.

7 Q. So with these figures, 325, it looks like
8 you might be a little on the high side. Well, no,
9 anywhere from 440 to 220.

10 A. Right. And if I carried on to the
11 northwest, we have wells up to 800 Mcf a day. There
12 are actually two wells, the Rowley D #1 and the Rowley
13 C #2 down there that are at the 440 range.

14 Q. How far north do you go to get the 800 Mcf
15 a day?

16 A. That is Section 17, I believe.

17 Q. And which well would that be?

18 A. It's the Pipkin #7. And that was the 800
19 Mcf a day well?

20 Q. Yeah.

21 A. Okay. That's the Pipkin #7.

22 EXAMINER STOGNER: I don't have any other
23 questions of this witness at this time.

24 Mr. Kellahin?

25 MR. KELLAHIN: Let me ask you a couple of

1 follow-ups.

2 FURTHER EXAMINATION

3 BY MR. KELLAHIN:

4 Q. Mr. Bauer, based upon your study of the
5 producing rates of the various coal wells in this
6 immediate vicinity, what then is your recommendation
7 for the producing rate that you used in the
8 calculation for your economics?

9 A. 325 Mcf a day.

10 Q. In terms of the analysis of the volumetrics
11 using the net coal isopach that was behind Exhibit No.
12 4, is that a reliable and accurate method by which to
13 calculate the volumetrics?

14 A. Yes, it is.

15 Q. And you have applied a desorption value to
16 that calculation and made it adjustable and reliable
17 for the coal gas production?

18 A. Yes, I have.

19 Q. When we look at your display and exclude
20 any question about a horizontal well or a high angle
21 well, when we look at the table--

22 A. Yes.

23 Q. --forget those kinds of creatures for the
24 moment and deal just with a conventional directional
25 drilling. Assuming the cost that the drilling

1 engineer gave you, your economic analysis with your
2 assumption still shows a net loss, doesn't it?

3 A. Yes, they do.

4 Q. Of a minus--almost \$26,000?

5 A. Correct.

6 MR. KELLAHIN: No further questions.

7 EXAMINER STOGNER: Thank you, Mr.

8 Kellahin.

9 MR. KELLAHIN: I would call at this time
10 Mr. Neale Edwards.

11 NEALE C. EDWARDS

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

14 EXAMINATION

15 BY MR. KELLAHIN:

16 Q. Mr. Edwards, would you state your name and
17 occupation?

18 A. My name is Neale Edwards. I'm a land
19 surveyor in the state of New Mexico.

20 Q. Mr. Edwards, on prior occasions you've
21 testified before the Division about the surveying and
22 staking of coal gas wells in the San Juan Basin, have
23 you not?

24 A. Yes, I have.

25 Q. As part of your consulting duties to

1 Meridian, have you been involved in the staking of a
2 well in the northeast quarter of Section 26 that we're
3 discussing today?

4 A. Yes, I have.

5 Q. And you have been on the surface of the
6 land in Section 26?

7 A. Yes, sir.

8 Q. And you have been involved and understand
9 the various efforts to find a suitable topographic
10 location to utilize the surface in Section 26 for a
11 coal gas well?

12 A. Yes.

13 MR. KELLAHIN: We tender Mr. Edwards as an
14 expert surveyor.

15 EXAMINER STOGNER: Mr. Edwards is so
16 qualified. You are registered, are you not, Mr.
17 Edwards?

18 THE WITNESS: Yes, I am.

19 EXAMINER STOGNER: What's your
20 certification number?

21 THE WITNESS: 6857.

22 EXAMINER STOGNER: Thank you, Mr. Edwards.

23 Q. (BY MR. KELLAHIN) Let me ask you to turn,
24 Mr. Edwards, to the documents behind Exhibit No. 3.
25 Are you with me?

1 A. Yes.

2 Q. When you look at the Form C-102, is this
3 the location and acreage dedication plat that you
4 certified as a registered surveyor?

5 A. Yes, it is.

6 Q. And the original bears your certification
7 and your seal?

8 A. Yes.

9 Q. What is the location you've surveyed on the
10 ground for this well?

11 A. 2510 from the north line, 790 from the east
12 line in Section 26.

13 MR. STOVALL: Mr. Kellahin, is this a
14 standard 640-acre section? Standard shape? Standard
15 size?

16 THE WITNESS: Yes, it is.

17 MR. STOVALL: So you can do the mathematics
18 Mr. Kellahin did earlier. It's 130 feet from the
19 quarter section line?

20 THE WITNESS: Yes. This is based on, if
21 you look on the next sheet there, at one time I
22 received a staking memo with the east half dedication,
23 and we were trying to get this away from the
24 campgrounds and so on and stay with a standard
25 location. But, when the dedication was changed, it

1 would no longer stay orthodox.

2 MR. STOVALL: Okay. I just wanted to make
3 sure I knew the dimensions on the land.

4 Q. (BY MR. KELLAHIN) Let's look at the two
5 other pieces of evidence, the two documents behind the
6 C-102 also contained behind Exhibit No. 3. One is a
7 summary to which Mr. Alexander has already referred
8 and then the last is a topo map that has drawn on it
9 some additional information. Let me make sure that
10 the Examiner's has been colored the same way yours
11 has, Mr. Edwards, because mine is not.

12 All right. The Examiner has the same
13 information as the one you have before you, Mr.
14 Edwards.

15 Let's look at Section 26. Within the
16 northeast quarter of 26, help us understand the
17 topography. When we look at that display, what's the
18 significance of the little black triangles?

19 A. Those are existing campsites for the Angel
20 Peak Campground.

21 Q. In looking at a location of the northeast
22 quarter of 26 for this particular well, did you find
23 any locations that you found to have sufficient size
24 in order to build a location for this well, separate
25 and apart from campgrounds or any kinds of surface

1 concerns?

2 A. No, we didn't. Anything we found that was
3 going to give us the room we needed was in direct
4 conflict with the campsites that are existing.

5 Q. Mr. Alexander earlier talked about the
6 existence in the northeast quarter of some wells
7 drilled to other formations, and I'll give you a copy
8 of what he was discussing. While there's no topo on
9 that display, he did mention that there were two other
10 wells within the northeast quarter separate and apart
11 from the well you're proposing to drill now, is that
12 correct?

13 A. Yes.

14 Q. Did you find those on the ground when you
15 went out there?

16 A. Yes, I did.

17 Q. Help us understand on your topo map where
18 those other well pads are.

19 A. Okay. If you look where the red lines take
20 off there, I am going to guess approximately 1000 from
21 the east and maybe 1800 from the north, that well
22 there, which is referred to over here as the #1, is a
23 drilled and abandoned location. The other one, to the
24 east, the circle to the east there, is an existing
25 well being produced by Amoco.

1 Q. When you look in the northeast quarter and
2 separate and apart from those two, are there evidences
3 in the northeast quarter of any other pads or wells?

4 A. No, sir.

5 Q. All right. So the two you refer to are the
6 two little dots just to the north of the road into the
7 campground?

8 A. Yes.

9 Q. And just to the east, then, of the first
10 black triangle that's north of the road?

11 A. Yes.

12 Q. As you follow the curve of the road going
13 from west to east, on the north side of the road are
14 two dots, one after the other, right?

15 A. Yes.

16 Q. Those are the two existing locations for
17 other formations?

18 A. Yes.

19 Q. Why are those not available to you for
20 drilling of the coal gas well?

21 A. In order to get a blow pit and so on in on
22 the one to the west, we're directly cutting and
23 blowing into the campground to put a reserve pit on
24 the other side of the pad with the room that exists,
25 and the facilities and so on would be hanging over the

1 edge that drops down into the canyon.

2 The other location is an Amoco location,
3 and it sits against the bluff now, and in order to
4 move completely off the pad to the east and get away
5 from the little red line I have dotted along the
6 ridge, which is a foot path, a hiker's trail that
7 takes them from the campsites out around onto that
8 ridge where they can overlook Angel Peak and some of
9 the canyons, and it seems to interfere with all that
10 unless we get far enough east, and by then we're up
11 there where that little red dot is, where we tried to
12 get a location which is nonstandard, too, in the far
13 northeast.

14 Q. The proposed location that is shown on the
15 display, is that the only location that you have been
16 able to find in the northeast quarter for the subject
17 well that meets all the criteria of the BLM for
18 surface use?

19 A. Yes.

20 Q. Does it, in fact, meet their surface use
21 requirements?

22 A. Yes. It will probably have some
23 stipulations still to keep it down in there, but it is
24 in the process of meeting what we need.

25 MR. KELLAHIN: Okay. That concludes my

1 examination of Mr. Edwards.

2 EXAMINATION

3 BY EXAMINER STOGNER:

4 Q. Mr. Edwards, were you involved in the
5 staking of the Frost 500?

6 A. Yes.

7 Q. And that location was--well, it's on
8 Exhibit No. 3 on the second page, 1040 feet from the
9 north line and 130 feet from the east line?

10 A. Yes.

11 Q. And that location, to the best of your
12 knowledge, was approved by the BLM?

13 A. No. We, upon looking at it with the BLM,
14 and we staked that before it was approved, we looked
15 at that and at that time is when the foot path and so
16 on was looked at that I've dotted in there in the red
17 lines, and it interfered with that; along with it was
18 nonstandard, as you'll notice from that diagram.

19 Then I received an order to go on the
20 assumption of east half dedication, which we moved to
21 an orthodox position at 2510 and 790. But it never
22 was completely approved by the BLM, no, sir.

23 Q. Were you directed to look specifically at
24 2510, 790, or is that where you decided was the best
25 place to put the well?

1 A. Well, to stay in a standard spacing with an
2 east half, that was as far as we could go and still,
3 with some stipulations, try and meet their approval.
4 It is by far the best cut-and-fill wise. The terrain
5 is better to the north, but it directly interferes
6 with that campground. You'll notice the ridge
7 disappears and we're just right in the campground
8 there if we move north with that location.

9 There is a ridge that shows up there
10 directly west of the big square where the 2510/790 is,
11 which is high enough with keeping the production
12 facilities all on the west and cut side of the
13 location, we can attempt to keep them down out of the
14 view of the campground.

15 Q. When were you aware that this location or
16 this well that was drilled in the northeast quarter
17 would receive a north half dedication? and did you
18 ever try to look for a standard location with this
19 kind of a designation?

20 A. Yes, we did, at the very beginning. We
21 were looking for a location that we could fit in there
22 and we couldn't get one in there. At that time we
23 went nonstandard to the east and then, later on, when
24 that one was under question with the BLM, under
25 advisement, we looked with the east half dedication

1 and tried to fit one in there. So, we moved back to
2 the other one we had previously looked at, trying to
3 meet the north half before, in the beginning.

4 Q. But the location you're asking for today is
5 standard for an east half, isn't it?

6 A. For an east half, yes.

7 EXAMINER STOGNER: Mr. Kellahin, I don't
8 understand why we keep bouncing around from the east
9 half to the north half to the south half to the west
10 half, but I don't think Mr. Edwards is the one to
11 really answer that question.

12 MR. KELLAHIN: Certainly not. Mr.
13 Alexander can address that question. Why don't we
14 recall him.

15 MR. STOVALL: Why don't we do that real
16 quick.

17 MR. KELLAHIN: Sure.

18 EXAMINER STOGNER: Thank you, Mr. Edwards.
19 I have no other questions of Mr. Edwards. Do you have
20 any questions?

21 MR. STOVALL: No.

22 ALAN ALEXANDER

23 the witness herein, after having been previously duly
24 sworn upon his oath, was examined and testified
25 further as follows:

1 EXAMINATION

2 BY MR. KELLAHIN:

3 Q. Let me direct your attention back, Mr.
4 Alexander, to the display. You'll have to help me. I
5 think it's behind tab Exhibit 2. It's one of the
6 documents that shows the ownership in the area. Do
7 you have that?

8 A. Yes.

9 Q. Let's go through the ownership and then the
10 chronology for the coal gas development in Section
11 26. The currently producing coal gas well in the
12 southwest quarter is identified as what, sir?

13 A. That would be the Graham #1 well that you
14 see up in the northwest of the southwest quarter.

15 MR. STOVALL: It has the "FC" next to it,
16 is that correct?

17 THE WITNESS: That is correct.

18 Q. What is the history on that well?

19 A. We have been, for quite some time, working
20 on two wells in this section. One of them we
21 determined the best feasible means of testing the
22 Fruitland Coal would be through recompletion to the
23 Graham #1.

24 Q. The Graham #1 was recompleted from what
25 formation?

1 A. It was recompleted from the Pictured Cliffs
2 formation.

3 Q. So you utilized an existing wellbore for
4 the recompletion, then, into the Fruitland Coal?

5 A. That's correct.

6 Q. The Pictured Cliff was on 160 gas spacing?

7 A. That's correct.

8 Q. All right. In terms of your choices as a
9 landman, why did you ultimately choose to dedicate the
10 south half of 26 to the Graham well, as opposed to the
11 west half?

12 A. That dedication was the quickest method
13 whereby we could test the coal, because the northwest
14 quarter of Section 26 was at that time owned by Amoco
15 and, therefore, the way that we could proceed the
16 quickest and on the first well available, would be to
17 recomplete the Graham #1 in the southwest quarter and
18 dedicate 100 percent Meridian leasehold to it. So
19 that meant that we would have a south half dedication
20 for that well.

21 Q. When we look at the consolidation of the
22 leases for a south-half orientation for the spacing
23 unit, is that an arrangement where Meridian has 100
24 percent of the working interests?

25 A. That's correct.

1 Q. So you had in place the ability to dedicate
2 the south half to that well?

3 A. That's correct.

4 Q. To the Graham well?

5 A. That's correct.

6 Q. And it has been dedicated and so approved
7 for the south half dedication?

8 A. That's correct. It's dedicated under a
9 nonstandard order from the Commission.

10 Q. And that well is also at an unorthodox
11 location, is it not?

12 A. That's correct.

13 Q. It's too close to the northern side of that
14 spacing unit?

15 A. Yes.

16 Q. When we look at the north half, what is the
17 ownership arrangement of the north half prior to
18 Meridian's involvement? The northwest quarter was
19 controlled by what operator?

20 A. It was controlled by Amoco Production
21 Company.

22 Q. How about the northeast quarter?

23 A. The northeast quarter is controlled by
24 Meridian.

25 Q. How long have you controlled the northeast

1 quarter?

2 A. Since inception of the leases. The
3 northwest quarter we have recently farmed in from
4 Amoco at this point in time now for the dedication of
5 the Frost 500 well on a north-half basis, under a
6 farm-in arrangement. And under that farm-in
7 arrangement, we must commence the drilling of this
8 well by December 25th in order to earn their
9 leasehold.

10 MR. STOVALL: Mr. Alexander, let me
11 interrupt just for a second. Under the Graham well,
12 would that be standard location if it were a west half
13 dedication?

14 THE WITNESS: No, sir, it's also too close
15 to the western boundary.

16 EXAMINER STOGNER: But that was a
17 recompletion from a deeper horizon, was it not?

18 THE WITNESS: That's correct.

19 Q. (BY MR. KELLAHIN) So the arrangement you
20 finally found yourself with is for a north half
21 dedication for the Frost 500?

22 A. Yes, sir, since it was the second in the
23 series of wells to be drilled, that simply left it as
24 a north half dedication.

25 MR. STOVALL: Let me ask you some question

1 to get off onto Section 25.

2 FURTHER EXAMINATION

3 BY MR. STOVALL:

4 Q. Is there a Fruitland well in Section 25?

5 A. Not at the present time. We have plans for
6 wells there on this year's budget.

7 Q. Meridian controls Section 25, is that
8 correct?

9 A. Yes, sir, that's correct.

10 Q. Now, if--you understand, I assume, because
11 you've participated in the Fruitland virtually since
12 its inception, I believe? Is that not an accurate
13 statement? That is accurate, is it not?

14 A. It is.

15 Q. One of the purposes of the spacing rules
16 and location rules is try to prevent well clustering
17 and try to get fairly even development of the
18 formation throughout, is that correct?

19 A. That's correct.

20 Q. Now, would Meridian keep that in mind in
21 looking at a location, legal location that would be in
22 the southwest of 25 with prospective west half or
23 south half dedication; it doesn't really matter. Is
24 that not also correct?

25 A. Yes. We would normally first and foremost

1 look for the dedicated pattern, being the
2 northeast/southwest to drill any wells, if that were
3 available.

4 Q. Now, assuming that is the case, assuming
5 that is available, are you in a position to say, on
6 behalf of Meridian, that you would go into the
7 southwest of 25 in an attempt to find a location that
8 was, if you will, compensated for the somewhat
9 southerly encroachment of this proposed well in order
10 to continue to promote the, as uniform as possible,
11 development of the Fruitland Coal in this area?

12 A. We would. Now, I did not bring with me the
13 information about the preliminary stakings for those
14 wells in Section 25, so I can't give you reliable
15 information on that; but that would be our intent,
16 yes.

17 Q. We've had numerous discussions with respect
18 to locations in the Fruitland Coal. A lot of that
19 land is federal. My concern is that in discussions
20 that we will have, and I'll state this on the record,
21 we've had discussions with the BLM and I believe with
22 operators, that to the extent you can do more regional
23 planning then unorthodox locations become more
24 justifiable because, in fact, you can continue to
25 ensure uniform development.

1 I guess at this point I would say that some
2 of the concerns that are raised by the encroachment to
3 the south can be mitigated if, in fact, Meridian is
4 willing to say that if possible they will move away
5 from Section 26 in the southwest quarter of Section 25
6 to try to keep distance between wells.

7 Is that in conformity with what you would
8 anticipate Meridian's plans to be?

9 A. It would. However, I should point out that
10 the current location there for the Frost #500 is not
11 off-pattern insofar as it would relate to the west
12 half of Section 25. It's at a legal location insofar
13 as it's concerned. So I didn't feel that we were
14 encroaching upon the west half of 25.

15 Certainly there is some encroachment on the
16 south half of 26, but we feel that there is a
17 balancing going on there because of the position of
18 the Graham #1 and because its position encroaches upon
19 the north half of 26. So we feel we have some balance
20 there in Section 26 between those two wells, and we
21 don't feel that we have an imbalance for correlative
22 rights or encroachment for the offsetting sections,
23 per se.

24 Q. I understand what you're saying there. If
25 you had a west half dedication in Section 25 and you

1 went to a legal location, you could be 130 feet from
2 the quarter section line dividing the north half and
3 the south half, is that not correct under the rules?

4 A. That's correct.

5 Q. You would be 790 from the west line and 130
6 feet from that quarter section line. It might be
7 preferable, for example, to move a little further
8 south, being in the southwest quarter of 25, and
9 obviously you're not committing and the Order can't
10 order you to do so because if you're legal you're
11 legal, but--

12 A. Yes, sir, I understand.

13 Q. --but does Meridian consider that when they
14 look at the development plan, particularly in view of
15 the acreage control Meridian has in the area?

16 A. Most certainly we would consider those
17 criteria when we look for a location.

18 MR. STOVALL: Okay.

19 EXAMINER STOGNER: Good. While we're on
20 this subject--

21 FURTHER EXAMINATION

22 BY EXAMINER STOGNER:

23 Q. --in 26 there is a Pictured Cliffs well in
24 the northwest quarter. Meridian has been engaged on
25 recompleting a bunch of these Pictured Cliff wells,

1 have they not, to the Fruitland Coal?

2 A. Yes, sir.

3 Q. Going back to what Mr. Stovall had asked,
4 do you ever look at the position of the Pictured
5 Cliffs well, whether it's on the right pattern, into
6 the northeast or the southwest on these Pictured
7 Cliffs wells, before you recomplete?

8 A. Yes, sir. We would prefer to be on-pattern
9 when we look at these wells. But probably the more
10 important criteria would be not to recomplete a well,
11 in other words, to plug a currently producing
12 formation where we would leave reserves in the ground,
13 over the availability of another well that might be
14 off-pattern but is not what we would think seriously
15 off-pattern on a well that is not economic currently,
16 and we would use that as our candidate because we
17 would not be leaving reserves in the ground. But we
18 do look at those criteria.

19 Q. What's the Pictured Cliffs well in the
20 northwest quarter of 25? Is that one being looked at
21 for recompletion?

22 A. I don't know that personally, Mr. Examiner,
23 but I would assume it was looked at for recompletion,
24 and that well is owned and operated by Amoco
25 Production Company.

1 Q. And in looking at the designations, whether
2 the north half or the south half or the east half,
3 whenever you made this application back in May of 89,
4 you were requesting an east half dedication of a well
5 being 1040 feet from the north line and 130 feet from
6 the east line, is that correct?

7 A. Yes, sir, as shown on the chronology
8 exhibit. Is that what you're looking at?

9 Q. No. I'm looking at the original
10 application dated May 24, 1989, for an administrative
11 application.

12 MR. STOVALL: It's also reflected on the
13 chronology, I believe, that's correct; Exhibit 3.

14 Q. And then on September 14th I wrote a letter
15 stating that this application would not be considered
16 administratively.

17 Then, when I did get some more
18 correspondence again, written, concerning this
19 application to be set for hearing, you were requesting
20 this location of 1040 feet from the north, 130 feet
21 from the east line, and that letter was dated
22 September 17th.

23 But it appears in your chronology you had
24 this location of 2510 from the north and 790 feet from
25 the east back in 89; but yet I get an application here

1 in September of 90 requesting the old application.

2 Not only that, it changed again after I
3 wrote a letter on September 20th, asking about the
4 east half and the south half dedication because your
5 ground well already had a south half dedication.

6 A. Yes, sir. The location was being moved
7 from place to place from the very start, when we
8 started on the Frost 500, and then it was impacted by
9 the occurrences of the Graham well being able to put
10 that together. So it had to move several different
11 times. We probably did not approach the Commission on
12 each of the moves trying to find a suitable location
13 in here. We probably only approached them when we
14 thought we had a solution and were ready to proceed at
15 that point and then later we found out that was not
16 workable because of one event or another, and we had
17 to come back. But you're correct, it has moved
18 considerably.

19 Q. How about the south half and east half
20 dedication orientation of the proration units in this
21 area? It wasn't until the Division wrote you a letter
22 asking about that again, you wanted the north half
23 dedicated to this well today?

24 A. Well, and that was one of the reasons that
25 we had to do an amended application, was because--

1 Q. I'm sorry. You knew about your north half
2 dedication prior to you making this application.
3 You're making applications that you don't want.

4 A. That's correct, and I furnished Mr.
5 Kellahin with an incorrect dedication plat that I had
6 in my file when I was asked to set this for hearing.
7 The spacing had reverted to a north half dedication at
8 that time and I simply missed it.

9 We immediately corrected that, and it was
10 based upon your inquiry that I became aware that the
11 dedication had changed to this well, and we
12 immediately corrected that with an amended
13 application. So, you are correct, once we settled the
14 Graham well as a south half dedication, we did, in
15 fact, intensify our efforts to find a suitable
16 location for a north half spacing for the Frost 500 at
17 that point.

18 Q. You settled on the south half in August of
19 89, is that correct, for the Graham well?

20 A. For the Graham well? Yes, sir. It was
21 during that time period, and then you issued the Order
22 for the nonstandard location for the Graham well based
23 upon a south half dedication.

24 Q. So the Division personnel, whenever they're
25 checking out your applications, have to go find these

1 mistakes?

2 A. Well, we would hope that we would not make
3 these mistakes on a regular basis.

4 EXAMINER STOGNER: No questions of this
5 witness or comments.

6 Mr. Kellahin?

7 MR. KELLAHIN: We've finished with the
8 Meridian witnesses, and if it's appropriate at this
9 time we'll call the representative from the Bureau of
10 Land Management.

11 EXAMINER STOGNER: Let's take a break at
12 this point, about a 10-minute recess.

13 (Thereupon, a recess was taken.)

14 EXAMINER STOGNER: Mr. Kellahin?

15 MR. KELLAHIN: Mr. Examiner, at this time I
16 would like to call Mr. Don Ellsworth.

17 MR. STOVALL: May I ask you what your plan
18 is as far as questioning Mr. Ellsworth? We've got
19 some specific interests with the BLM.

20 MR. KELLAHIN: I don't want to presume to
21 try to guess what your concerns are. Perhaps at this
22 point, we've had Mr. Edwards talk about our
23 understanding of the topography and reasons, and
24 perhaps it might be more expeditious to simply have
25 you talk to Mr. Ellsworth about his position with the

1 BLM and what their concerns are about the surface.

2 MR. STOVALL: Why don't you go ahead and
3 introduce him and let's do that. I think that might
4 be more efficient than to have you try to guess what
5 we're interested in.

6 MR. KELLAHIN: Certainly.

7 DON ELLSWORTH

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

10 EXAMINATION

11 BY MR. KELLAHIN:

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

14 A. Don Ellsworth, and I'm an environmental
15 protection specialist with the Bureau of Land
16 Management, Environment and Resource area.

17 Q. Describe for the Examiner what it is that
18 you do.

19 A. Mainly I work with the oil and gas
20 companies to review or to look at proposed well sites
21 for either oil or gas wells, and to see if there's any
22 other conflicts in the areas that we may have, say
23 with T and E, wildlife mitigation. In this case it
24 was recreation.

25 We would also look at the road routes, if

1 there are any new roads going to these locations,
2 proposed pipelines, other things that went along with
3 the drilling of these wells.

4 Q. Describe for us the arrangement within the
5 BLM and what job description you have. Who do you
6 report to and who reports to you in the exercise and
7 performance of these duties?

8 A. In assigning these?

9 Q. Yes, sir. What is your area of
10 responsibility, then? Who do you report to?

11 A. I report to Bruce Flynn.

12 Q. And what is his job?

13 A. Right now he's supervising four different
14 staffs and resource areas. He's got archaeologists,
15 the recreation department--

16 Q. Mr. Flynn, is it?

17 A. Yes, Bruce Flynn. And as far as areas of
18 concern that I have in the resource area, I take care
19 of the hole resource area.

20 Q. Are there BLM employees that report to you
21 or that are under your control and direction with
22 regards to the performance of your duties?

23 A. No, sir.

24 Q. To whom does Mr. Flynn report?

25 A. He reports to Joe Farrell.

1 Q. How long have you been in this particular
2 job with the BLM?

3 A. For the last three years.

4 Q. And you're located in Farmington, New
5 Mexico?

6 A. Yes, sir.

7 Q. The guidelines by which you make the
8 judgments about these areas is set forth where? Where
9 do we find the rules and regulations and the
10 procedures that give you the guidance for performing
11 your duties?

12 A. A lot of it came out of the RMP or the
13 Resource Management Plan. It was set up with the
14 different programs that we have going and different
15 things that we would like to accomplish within those
16 different programs.

17 The other ones that would go along the same
18 line would be the T and E species, the threatened and
19 endangered species. That was also identified in the
20 RMP. So the majority of the information came out of
21 the RMP.

22 Q. When we look at the Section 26 problem,
23 from your perspective, identify for us those issues
24 that you are concerned about when you're looking for a
25 well location for Meridian in the northeast quarter of

1 Section 26?

2 A. Okay. Our biggest concern on this one was
3 the location of the Angel Peak Campground and the
4 financial investment that we had as the BLM in the
5 campground.

6 Q. Are there any other issues or concerns for
7 the BLM in approving this location, other than the
8 campground?

9 A. Not in the northeast quarter, no.

10 Q. Is it your decision that you exercise about
11 the location of wells concerning the campground?

12 A. It would be in the discussion with the
13 recreation planner at the office. When it first
14 initiated and when we first started looking at the
15 sites and everything, I was, in coordination with Bill
16 Overbaugh, who was our rec planner at that time, the
17 different locations adjacent to the campground.

18 Q. Who signs off on the approval of the
19 location for the BLM?

20 A. The area manager ultimately would have the
21 last say so. It would come from recommendations from
22 people below.

23 Q. Have you been physically on the ground of
24 Section 26 and know the topography?

25 A. Yes, sir.

1 MR. KELLAHIN: Your witness.

2 EXAMINATION

3 BY MR. STOVALL:

4 Q. You say the guidelines come from an RMP on
5 this area. You don't happen to have that available,
6 do you?

7 A. I didn't bring that copy with me, no.

8 Q. RMP stands for what?

9 A. Resource Management Plan.

10 Q. How familiar are you with the BLM policy,
11 the multi-use resource, whatever terminology that is
12 that the BLM's got that says you can do more than two
13 things with a piece of land?

14 A. We have to deal with it every day when
15 we're in the field. I guess on this one, coming back
16 to it, we were looking up in the RMP to see if there
17 was any direct conflict with the Angel Peak Campground
18 area as it was written up in the RMP. There was only
19 one, but it was a future designation for no leasing in
20 the area because of the campground.

21 Other than that, visual impacts, as far as
22 coloring of production equipment to blend in with the
23 environment. We had no real--I think the other one
24 was the impacts or the closeness to the campgrounds
25 themselves. Right offhand those were two of the major

1 ones that we were trying to, you know, be within when
2 we were setting up this one location.

3 Q. What is your understanding with respect to
4 the priority of surface use, such as a campground and
5 development of underground resources? Is there a
6 priority? Which one is more important than the other?

7 A. Well, as far as, take BLM's financial
8 investment into the campground, it would work to
9 protect that first and, at the same time, develop the
10 resources under the ground.

11 Q. Now, from a financial standpoint, do you
12 have any idea, yourself, what the financial investment
13 in the campground is?

14 A. No, sir, I don't.

15 Q. So you wouldn't know what the financial
16 impact, just that limited dollars and cents side of it
17 would be all that you know of?

18 A. That we are looking at now.

19 Q. Do you have any concept of what the value
20 to the government might be of the underground
21 resource?

22 A. In dollar figures? No.

23 Q. You've talked in terms of your looking at
24 protecting the financial investment in the campground?

25 A. Right.

1 Q. I believe these are federal minerals in
2 this case, federal gas?

3 A. I believe they are.

4 Q. So the government has got two resources--

5 A. Exactly.

6 Q. --which have a financial worth, which it
7 has to decide. Do you make any evaluations? For
8 example, if you could produce several million dollars'
9 worth of royalty out of gas, it would seem to me that
10 a hundred-thousand-dollar campground site might be
11 properly sacrificed from a financial standpoint
12 without any other concerns?

13 A. Or, unless you could work it the same way
14 and have your campground, go ahead and develop the
15 minerals, without interfering with the use of the
16 campground.

17 Q. Okay. I buy that, too.

18 A. Which is what we attempted to do with the
19 second location or the 2510 and 790. When we placed
20 that location, those were some of the parameters we
21 were looking at to go ahead and develop the resources
22 but, at the same time, protect the recreational values
23 that we had in place.

24 Q. Now, protect in what sense? Are we talking
25 about physical damage to the campground?

1 A. No. It would be more of your recreational
2 values, using the areas and not having to look at a
3 pump jack or a dehy unit, storage tanks or whatever.

4 Q. Is it your understanding that BLM policy is
5 that having to look at production equipment from a
6 campsite destroys the value of that campsite?

7 A. I think you would have to ask the
8 individual using the campsite on that one.

9 Q. The BLM is the surface owner. I'm asking
10 you from the official standpoint.

11 A. I think we go back again, too, if we look
12 at the San Juan Basin we have a lot of oil and gas
13 production in the area. And in this one little area,
14 if we could save some of it for the recreationalists
15 and still have the oil and gas, it would be better for
16 both worlds.

17 That's what we were looking at in this one
18 particular case. You have to go back and ask the
19 individual using the campground. I would rather use
20 the campground without having to look at the oil and
21 gas facilities, if I could, in knowing they're still
22 there. For somebody else it probably wouldn't matter
23 to them. That's my personal feeling.

24 Q. And I understand that now we've gotten
25 into--and that's why I've asked you to perhaps, if you

1 can, separate your personal--and there's nothing wrong
2 with--I don't challenge your personal, but rather as a
3 representative of the BLM, does the BLM have any
4 guidelines by which you would say your personal
5 preferences are tempered or guided? Is there
6 something to help you in that as an official
7 representative of the BLM?

8 A. Well, going back to our visual resources,
9 where you try to blend in with the surrounding
10 environment, would be some criteria that we follow.

11 Q. You're referring to what, as a
12 documentation?

13 A. As a VRM, Visual Resource Management
14 criteria. I can't tell you when it was passed in, but
15 it was for color-coding in certain areas, related oil
16 and gas activity. Say if you were in the pinon,
17 juniper area, you would paint the stuff green to blend
18 in with the surrounding environment.

19 Q. Certainly the OCD isn't concerned about
20 what color the production facilities are.

21 A. Exactly.

22 Q. I'm more concerned, in terms of placing a
23 facility, you heard Mr. Edwards' testimony, I believe,
24 regarding his on-site inspection in attempting to
25 determine a location?

1 A. Yes, sir.

2 Q. This location encroaches by what, 660 feet
3 from what we would consider, for spacing purposes, an
4 orthodox location. If you reduce that 660 feet to
5 something less, in other words, move the well pad
6 further north, what, based on your observation out
7 there, what does that do to the campsite? Does it
8 simply move it closer so that you can see it better?
9 Does it encroach into the campsite, actually make a
10 campsite unusable, or what does it do?

11 A. Yes, on the one corner.

12 Q. Please feel free to refer to that, yes.

13 A. I believe it was in, what, Exhibit 3?

14 EXAMINER STOGNER: And you're looking at a
15 copy of the topo map, is that correct?

16 THE WITNESS: Yes, sir.

17 Q. I look at Exhibit 3, the topo map behind
18 Meridian's Exhibit 3, and I see four triangles which
19 represent campsites?

20 A. Right. That's the east half of the
21 campground. Between that last triangle there to the
22 northeast and the dot, that's the P & A'd location.

23 Q. The red dot?

24 A. On mine it's just black and white.

25 Q. With an arrow pointing at it?

1 A. No, it's the one south of that.

2 Q. Okay. Okay. I'm with you.

3 A. We have a parking area and then a picnic
4 table is adjacent to it. From that dot it's
5 approximately 150 feet to our campground and our
6 parking facilities. What Neale was explaining is that
7 if he laid it out the way they've been laying out the
8 Fruitland Coal wells, half of our parking area would
9 be taken out and that one campsite would be no longer.

10 Q. You're looking at the north most triangle,
11 right? and going slightly northeast of that? Is that
12 the dot you're talking about, the parking area you're
13 talking about?

14 A. Okay, yeah. There's a red line that goes
15 through a black dot. I just now noticed that.

16 Q. A red line through a black dot.

17 A. Does that show up on yours?

18 Q. The dot you're talking about, I see as
19 circles, is that correct?

20 A. Yeah, circles.

21 Q. Okay. North of the road?

22 A. Right, north of the road.

23 Q. Now, that square, the dark square, is the
24 proposed location, is that right?

25 A. That's the proposed location at 2510 from

1 the north and 790 from the east.

2 Q. If that were moved, say, 200 feet north and
3 I don't have a scale here so I can't exactly tell you,
4 still south of the road, what does that do to the
5 campsite?

6 A. It puts us closer to the campsite and in
7 direct vision of the campsite. Where that black
8 square is now, we've got it tucked back in behind the
9 hill so that you can't see it visually from any one of
10 the campsites.

11 Q. Okay. So purely from a surface
12 recreational use standpoint, that is preferable to
13 have that out of sight?

14 A. Yes.

15 Q. But if you moved it north, say, and again
16 I'm saying 200 feet but somewhere south of the road in
17 what appears to be terrain, it might be visually--

18 A. Unattractive?

19 Q. You might see it, it might be visually
20 there, let's not put a value judgment on it at the
21 moment, it might be visually there? You could see it?

22 A. Yes, it would be there in the open where
23 you could see it.

24 Q. But you could still have access to the
25 campsite, right?

1 A. Yes, sir.

2 Q. Now we run into the issue that we're really
3 concerned about, what this agency is concerned with is
4 the effective drainage area. Do you know if the BLM
5 owns Section 25 minerals?

6 A. No.

7 Q. Do you know if they own the south half of
8 26? Do you have any idea?

9 A. I believe all of 26 is federal minerals.

10 Q. When you look at attempting to set up,
11 looking at the underground resource now, the gas in
12 place and particularly in the Fruitland Coal
13 formation, is there anybody in the BLM who gets
14 involved in this decision process in looking at this
15 thing and saying, wait a minute, let's balance the
16 underground resource, how can we develop and make sure
17 we're not--for example, we're trying to make sure that
18 two wells aren't draining the same little spot of gas
19 and that there isn't gas being left behind. We're
20 trying to keep these wells spaced at roughly a uniform
21 pattern around the pool to make sure that the gas is
22 being fairly completely developed.

23 A. Um-hm.

24 Q. Is there anybody, when you go through this
25 site approval process, is there anybody who looks at

1 that aspect of it?

2 A. The reservoir drainage.

3 Q. Yes. Who does that? Do you do that, sir?

4 A. No, sir, I'm not involved in that.

5 Q. Who is the individual that does that in the

6 Farmington area?

7 A. Gail Keller.

8 Q. Is that done at the time of location

9 approval?

10 A. I couldn't tell you when the cases are done

11 on the reservoir management.

12 Q. What I'm asking you is, when a location is

13 submitted to the BLM for approval-- If I understand

14 what happens, you go out and go through an on-site--

15 A. Can I take you through the steps?

16 Q. Sure. That would be great.

17 A. What I'll do is, we'll set up our meetings

18 with the companies to go look at the sites in the

19 field. We'll do all of our work in the field and make

20 sure everything is complete to that point that we're

21 involved with. We'll do any surface tips that we may

22 want to add to the pad for building it in that

23 location, say like for proper water drainage, cut

24 slopes, keep them down under a certain percentage or

25 whatever.

1 We'll also get an archaeological report, an
2 in-house arc report checklist that we'll put with our
3 package. When we approve that and sign off on that,
4 then we send it over to the engineer section,
5 petroleum engineers and all, and then that is
6 when--they have already worked on some of their
7 down-hole information up until then, but they put the
8 final package together before the APD is approved.

9 Q. Okay, so that the underground folks do look
10 at this before the APD is approved, and not sometime
11 later when they're doing a drainage--

12 A. As far as I understand the process, yes.

13 Q. Is there an individual in the Farmington
14 resource area who is responsible, then, for
15 balancing--oh, let me back up a step first and ask you
16 a question.

17 Taking this as an example, you've taken
18 this location, you've picked one that is visually the
19 least offensive, most acceptable based upon your
20 criteria, but there are locations which are more
21 offensive, less acceptable based upon your criteria,
22 but there are locations which are more offensive, less
23 acceptable based upon your criteria but are more
24 standard according to the spacing criteria of the
25 pool, correct? Further north? In other words, my

1 location 200 feet further north?

2 A. Yeah. When the dedication was changed,
3 yeah.

4 Q. I mean, I'm not going to get into the stuff
5 that Meridian did bouncing us around on that. I'm
6 just using this case to describe the process.

7 When you send that to the reservoir people,
8 do you send them the alternatives? Do you explain the
9 alternatives? Do you say, Okay, here's Choice 1 from
10 our use, here's Choice 2 or Choice 3, and we have a
11 rating and we rate this one higher by so many points
12 or something? Now, you reservoir people look and
13 see--

14 A. No, we don't. It would be nice to do it,
15 if you had the time to do it, but we don't.

16 Q. Oh, we understand the time factor, believe
17 me. We all operate under the same constraints.

18 So, in other words, when the reservoir
19 people get it, they look at your surface-approved
20 location and what do they do with it, then? Do you
21 have any idea?

22 A. No, sir.

23 Q. You say Gail Keller does that?

24 A. Gail is in reservoir management. Steve
25 Mason also does--works a lot with, say, the unorthodox

1 locations, which, I guess, he works a lot with you
2 guys on understanding orthodox locations, and then he
3 waits for approvals from the State before approving
4 these certain locations that may be unorthodox. But
5 as far as the working order within the engineer part
6 of it, I can't answer that one for you.

7 Q. Where I'm headed with this, and we probably
8 need to develop more information with some people that
9 aren't here, perhaps--and there are other people from
10 the BLM in this room--is there anybody that's involved
11 in that process who is in the room, on the reservoir
12 side?

13 A. Yes, sir.

14 Q. Where I'm headed is, we're sort of
15 balancing values, if you will. We talked about the
16 straight economic analysis of giving up a
17 hundred-thousand-dollar campground for a
18 multi-million-dollar royalty, and that's pure
19 economics. That's easy to make that judgment, right,
20 if you don't throw any personal judgments into it?

21 A. Yes.

22 Q. Does somebody in the BLM oversee you, say,
23 in the engineering and say, okay, this is visually
24 more acceptable but from a reservoir standpoint this
25 location is more acceptable and we're going to balance

1 the importance or significance?

2 A. Which ultimately would be the area
3 manager's responsibility, which is really all of our
4 job is what we were talking about earlier, what you
5 brought up about the multiple-use management of the
6 public land, which is how we're trying to balance
7 these out and make them both work in the same areas.

8 Yes, that would ultimately be the area
9 manager's call, I guess you could call it, on sticky
10 situations or trouble spots that you may get into.

11 Q. Again, I point out that I'm more looking at
12 this as a process. The purpose for this whole
13 exercise in this case is to build a record to help us
14 continue the cooperative effort to make these things
15 work. Is there anybody here who is involved in that
16 balancing in this room, that you know of, that's
17 involved in the balancing?

18 A. Bruce Flynn.

19 Q. I may ask Mr. Flynn to address this in a
20 moment, but I want to make sure that we've covered all
21 bases with you first.

22 I am going to try to sum up what I think I
23 understand you've said with respect to your specific
24 role in the approval process. What I understand is
25 that when the operator picks a tentative location and

1 they've gone out and we understand they've done a lot
2 of elimination of sites because they know you won't
3 approve it? In other words, somewhere between--in
4 that little loop of the road is probably an
5 unacceptable location, right? right in the middle of
6 the triangle there?

7 A. Yes, sir.

8 Q. They could safely eliminate that without
9 your help, I would think. After they pick what they
10 think is an acceptable location, they make
11 arrangements to go out with you and then perhaps an
12 archaeologist and whoever else may be involved in
13 evaluating the surface location, is that correct?

14 A. Yes, sir.

15 Q. You go out and look at it and do your best
16 to apply the BLM guidelines and the management plan
17 and the visual impact rules or whatever all those
18 things are called, and you make a determination as to
19 whether or not that is an acceptable site from a
20 surface use location, is that correct?

21 A. Yes, sir. Nine times out of ten that will
22 happen. And then, those other ten percent, you'll
23 probably take the specialist for that field, whether
24 it would be threatened and endangered plants,
25 wildlife, recreation, and take him or her back to the

1 field and have them look at the location and try to
2 come up with some alternatives from there.

3 Q. So when you're out in the field, you may
4 sit there and say, well, I really don't like this but
5 if we go 50 yards this way we may be better off, is
6 that correct?

7 A. That's correct.

8 Q. You don't do the threatened and endangered
9 species?

10 A. I was doing one of them for awhile. That's
11 when we were shorthanded and we didn't have our
12 coordinator. Since then the role has been turned back
13 over to that individual.

14 Q. How many BLM people could be involved in
15 just the surface evaluation? I mean, just actually
16 out in the field and looking at it? How many
17 different specialists do you have that could be
18 involved in it? In other words, you could have some
19 threatened and endangered species in here as well,
20 right?

21 A. Um-hm.

22 Q. And somebody else would have to go look at
23 that, is that correct?

24 A. Correct. You could get up to five or six
25 different specialists. That's if you had a unique

1 situation where everything went wrong at once.

2 Q. You could have archaeology, threatened and
3 endangered--

4 A. Wildlife.

5 Q. Recreation. And then somebody else who is
6 involved with the underground analysis of it, what's
7 going on, to get the resource out?

8 A. Right.

9 Q. And each of you specialists would go back
10 and make your recommendations within your field of
11 expertise, and some sort of consolidated report goes
12 to the area manager who says yea or nay to the EPD?

13 A. Yes.

14 Q. Yea or nay with stipulations, or yea with
15 stipulations?

16 A. Yes. It may be you'll want to move it
17 some, you may want to stip it certain ways to bring it
18 up, I guess.

19 Q. But your individual responsibility doesn't
20 include any of the balancing? You really are
21 strictly, largely, surface?

22 A. Some of the balancing may come up with an
23 idea to make both ends work out and be happy and go
24 ahead and produce the resources and protect the
25 environment, whatever it may be, on the surface.

1 MR. STOVALL: Okay. I don't think I have
2 any more questions for Mr. Ellsworth.

3 EXAMINATION

4 BY EXAMINER STOGNER:

5 Q. Mr. Ellsworth, is the foot bath in
6 existence at this time, or is it a proposed foot path?

7 A. There is one there.

8 MR. STOVALL: The red dotted line that
9 goes--

10 THE WITNESS: Yeah, it goes from the
11 parking lot--it's hard to tell on here--and kinds of
12 goes in that northerly direction.

13 Q. Now, we acknowledged that dot being a
14 plugged and abandoned well. Was that plugged and
15 abandoned well in existence before the campground was
16 put there?

17 A. I can't answer that one. All I know is,
18 the eight years I've been in Farmington, the P & A'd
19 location has been right there where it is now.

20 Q. How old is the campground?

21 A. 25 to 30 years old, so it's been there for
22 quite a few years.

23 MR. STOVALL: Let me ask a purely
24 judgmental question, Mr. Ellsworth. Have esoteric
25 values changed on perceptions oil and gas production

1 and use of campsites over that 25-year period, to your
2 knowledge?

3 THE WITNESS: I'm sure it has.

4 Q. (BY EXAMINER STOGNER) That well was spud
5 in 51 and P & A'd in 1982, so what you're telling me,
6 the campground converged on that unsightly--I'm sorry,
7 the test well.

8 Is there a dry-hole marker on that well, do
9 you know?

10 A. Yes, sir, there is.

11 EXAMINER STOGNER: No further questions of
12 Mr. Ellsworth.

13 MR. STOVALL: I would like to ask Mr. Flynn
14 if he would be willing to describe the process from
15 the supervisor's standpoint. Let's go ahead and since
16 we are on the record, let's go ahead and administer an
17 oath.

18 BRUCE FLYNN

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

21 EXAMINATION

22 BY MR. STOVALL:

23 Q. Let me ask you, for the record, to identify
24 yourself and your occupation,?

25 A. Bruce Flynn. I'm the staff chief of the

1 Lands, Cultural and Environmental Compliance Staff
2 with the Farmington office of the BLM.

3 Q. What does that entail? What are your
4 responsibilities?

5 A. My staff is responsible for conducting
6 on-site, such as this for this well, conducting
7 cultural reviews, issuing rights-of-way for pipelines,
8 power lines, many multiple-use facets of it. I have
9 15 employees that work for me.

10 Q. Mr. Ellsworth identified the various
11 specialists who may be involved in any given surface
12 location. With respect to the surface people, do they
13 all report to you?

14 A. No. I don't have the wildlife staff and
15 range and those types of specialists, but I do have
16 recreation, cultural, realty and surface compliance.

17 I think the one point I would like to make
18 is that when these tough situations, these tough
19 locations come up, that's being kind of presented here
20 earlier, this is Don's call. This isn't Don's call.
21 When he comes up against a tough location that's got
22 some potential controversy or problems with it,
23 management gets involved early on in that process.
24 Myself, the other staff chiefs and the area manager,
25 Ron Fellows, have been on this location, have

1 physically walked it. And this is the BLM's position,
2 it is not Don Ellsworth's position, that this is the
3 best location for that well, balancing, as you've
4 described, the multiple-use tradeoffs that are
5 involved here. We're trying to create a win-win
6 situation here, where we preserve and manage that
7 recreational facility there and develop the mineral
8 resources here, too.

9 I think most of the issue from our
10 perspective, as has been discussed many times here
11 already in the last hour, actually the dedication of
12 the section. It is an orthodox location for an east
13 half dedication, and the driving force that even
14 created this is the previous administrative approval
15 of an unorthodox location in the southwest corner; and
16 that, tied to this situation, has created a need to
17 create multiple-use tradeoffs.

18 Q. I would assume as a surface supervisor--and
19 I'll use that for lack of a better term--that you
20 would concur in the use of an existing well for
21 recompletion rather than new drilling, is that
22 correct?

23 A. We try and do that all the time. That's
24 our normal policy. We try and twin locations and use
25 existing facilities. As I think Don and everyone has

1 talked about, that existing P & A, the location site
2 that Meridian has been using for these existing coal
3 gas wells is much larger than the old Pictured Cliff
4 wells and stuff that were built many years ago, and
5 that pad size and the way they're completing them
6 would create much more significant impacts to the
7 campground than the old Pictured Cliff well that was
8 drilled there many years ago. That basically has
9 healed itself and is not that much of a scar to what
10 the situation is there.

11 Q. What facility specifically are you talking
12 about in terms of this visual impact?

13 A. The facilities for these coal wells? Is
14 that what you're asking?

15 Q. Yes. You said they were worse visually?

16 A. Well, the size and the number of facilities
17 is much more numerous for the Fruitland Coal types of
18 wells in the Basin than for the Pictured Cliff wells.
19 The pad size for these is running 240 by 300, is what
20 Meridian is asking for. We paced off that existing
21 location last week and it's about 150 by 200, the
22 existing disturbance.

23 Q. Is that a drilling pad size or is that a
24 producing pad size that you're talking about?

25 A. Basically they leave it all the same.

1 There's no rehab, no pull back on that because they
2 place their production tanks, their separators and
3 their dehydrators on that thing, asking for certain
4 distances for safety purposes.

5 Most of the Fruitland wells have got one to
6 two to three, up to five, around the reservoir, water
7 tanks on them based upon the amount of water that's
8 produced. You end up having much more facilities on
9 these Fruitland Coal gas wells than we have in the
10 past with a Pictured Cliff well or a Dakota well.

11 Q. You heard me going through the exercise
12 with Mr. Ellsworth on this balancing, and discussing
13 locations with the reservoir people. Can you describe
14 that process more completely than he did?

15 A. I think I can add a couple of things to
16 it. All the alternative locations looked at in the
17 package goes over to the drilling and production
18 department. They're attached. If we looked at a
19 Meridian or Amoco location three or four different
20 times, all of those on-site forms go over' to the
21 drilling and become part of the official case file for
22 that well.

23 We run a line through them and say this
24 thing has been moved for whatever the reason may be.
25 Archaeology may be a reason, threatened and endangered

1 plants, whatever it may be, but those become part of
2 the official case file and we retain those. Basically
3 what Don described is correct, the APD is filed, the
4 drilling and the engineers do their work at the same
5 time we're doing our surface work, and the surface
6 work comes back together, the drilling engineers and
7 the various people do the final looks at it and make
8 the determination whether it's orthodox or unorthodox,
9 and then wait for those approvals on that.

10 Q. When that's done, does it ever happen that
11 the reservoir folks will say, that's a great surface
12 location but it inadequately drains the reservoir?

13 For example, you can see a situation where
14 an encroachment would drain some leave some federal
15 gas in the ground. Have they ever looked at that and
16 said, gee, that's great, fellas, but we need to move
17 this well--again, to use my example on Exhibit 3--200
18 feet north, a little closer to the road? You may be
19 able to see it from the campground, but in fact we're
20 going to get more gas out of the reservoir if we do
21 that and that's an acceptable trade off?

22 A. I haven't been involved in that kind of a
23 conversation, but I know we have numerous
24 conversations or even field trips. Again, two weeks
25 ago the minerals group went out with us on a proposed

1 location by a company that would have created a
2 drainage situation, and we were looking for those
3 kinds of alternatives. And we recognized up front, in
4 our on-site, that the alternatives were going to
5 create a drainage situation. In that case it was
6 going to be draining State minerals.

7 We realized that and we involved them in
8 that thought process. It happens. But I think it's
9 to our credit. We did over 1,600 on-sites in that
10 office this year for new wells, that ery few of these
11 get to you because we can work out these suitable
12 solutions.

13 Q. When you're having these discussions, and
14 this is where the reservoir people get involved, do
15 they look at-- For example, you heard me when I was
16 talking to Mr. Alexander and talking about locations
17 in Section 25 and getting some distance from the well
18 even though it might not be required by the rules. Is
19 that looked at by reservoir folks?

20 A. We would involve them in that thought
21 process, yes, sir. In this case, as I think Mr.
22 Alexander explained, the present location is 790 from
23 the east line. Theoretically it's within the window
24 from the east line, so there wouldn't be overall that
25 much effect on the east section, Section 25, the way I

1 understand it, because we've probably approved
2 hundreds of locations that are that close to that east
3 line.

4 The theory for the window at that point,
5 and the involvement by the drainage and those types of
6 people would be minimal at that point. Now, if we
7 came in with something that was 200 from the east
8 line, we definitely would be involving those and
9 telling them, hey, this is the situation. What is the
10 effect and who is the adjacent mineral holder? What
11 can we do to mitigate that? Are we going to have to
12 form communitization agreements, what are we going to
13 have to do, or can we go to some other trade-off? But
14 they're involved in that discussion.

15 Q. I'm using this case more as an example than
16 being specific, if you look at what Meridian's applied
17 for in Section 26--and I believe we have on the record
18 that Meridian also owns Section 25--have you ever been
19 in the situation where you say, all right, let's look
20 at this, but let's look at what you plan to do around
21 it? tentative plans for around that, and try to come
22 up with more of an area plan for development?

23 A. We've asked the companies, and these folks
24 with Meridian probably haven't been present, but the
25 building department, John Caldwell and them, for

1 regional development plans, and in most cases it's
2 very, very difficult for a company to come in on, say,
3 a township or a given geographic situation. I'll
4 give you an example.

5 The Rosa area up there around the
6 reservoir, a very complex geographic area, numerous
7 archaeological sites and very few drilling locations
8 because of steep topography and other limitations. We
9 asked Meridian, bring in a plan of development for
10 that Rosa Unit. They said, we hear you and we would
11 like to work with you, but it's so hard to get all the
12 partners together in those working units and have a
13 firm plan that they can come in to us and work out all
14 those problems. That question has been posed to
15 numerous companies, and it's very hard for them to
16 come to us with a 30-40 well program that they feel
17 solid about with all the partners in those areas. We
18 have been successful at getting smaller programs, 10
19 or 15 on a given mesa top or something.

20 Again, normally we work out all those
21 problems so that you don't see a lot of unorthodox
22 applications. That's our goal. That's my staff's
23 goal when they do the on-site, is try and find an
24 orthodox location because we want to work within the
25 rules that are established by your agency. That's our

1 goal.

2 Q. And one last question, or maybe a couple.
3 In terms of surface impact, you talk about archaeology
4 just within the area that you're concerned-- The
5 archaeology is under you, right?

6 A. Yes.

7 Q. Recreation. Are there some negative
8 surface impacts which can be acceptable to get
9 effective development? I mean, not all archaeological
10 evidence needs to be fully preserved and protected?

11 A. That's exactly right.

12 Q. And not all visual is--

13 A. That's an agreement we have to work out
14 with another State agency called the State Historic
15 Preservation Officer, and we have to consult with them
16 on any of those types of sites that's established
17 under the Antiquities Act, and that's the Section 106
18 consultation process.

19 We work in very great amount of detail.
20 Over 3,000 actions went to Len Sebastian, the Deputy
21 SHPO this year concerning actions such as this, to try
22 and work out those kinds of solutions. Everything is
23 not saved. That kind of trade-off occurs every day in
24 our office.

25 MR. STOVALL: I have no further questions

1 of Mr. Flynn.

2 EXAMINER STOGNER: Are there any other
3 questions of this witness?

4 MR. KELLAHIN: No, sir.

5 EXAMINER STOGNER: You may be excused.

6 Mr. Kellahin, do you have anything
7 further? Mr. Stovall? Does anybody else have
8 anything further in this case?

9 If not, this case will be taken under
10 advisement. Let's take a lunch break, and we'll be
11 back here at 1:30.

12 (Thereupon, the proceedings concluded.)

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CERTIFICATE OF REPORTER

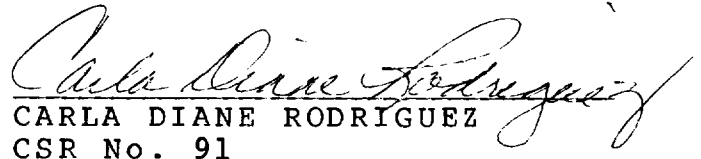
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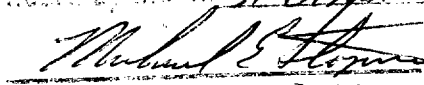
I, Carla Diane Rodriguez, Certified
Shorthand Reporter and Notary Public, HEREBY CERTIFY
that the foregoing transcript of proceedings before
the Oil Conservation Division was reported by me; that
I caused my notes to be transcribed under my personal
supervision; and that the foregoing is a true and
accurate 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 November 14, 1990.


CARLA DIANE RODRIGUEZ
CSR No. 91

My commission expires: May 25, 1991

I do hereby certify that the foregoing is
a correct and true transcript of the
proceedings heard by me on 10/11/90
heard by me on 31 October 1990
 Examiner
Oil Conservation Division