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I N D E X

TERRY HOBBS

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MR. QUINTANA: We'll call next
Case 8637.

MR. TAYLOR: Application of
Southland Royalty Company for compulsory pooling, Rio Arriba
County, New Mexico.

MR. CARR: May it please the
Examiner, my name is William F. Carr, with the law firm of
Campbell and Black, P. A., of Santa Fe, appearing on behalf
of Southland Royalty Company.

I have one witness.

MR. QUINTANA: Are there other
appearances in this case?

If not, would you please stand
at this time and be sworn in?

(Witness sworn.)

TERRY HOBBS,
being called as a witness and being duly sworn upon his
oath, testified as follows, to-wit:

DIRECT EXAMINATION

BY MR. CARR:

Q Will you state your full name and place

1 of residence?

2 A Terry Hobbs, Hesperus, Colorado.

3 Q Mr. Hobbs, by whom are you employed?

4 A Southland Royalty Company in Farmington,
5 New Mexico.

6 Q And in what capacity?

7 A District Operations Engineer.

8 Q Have you previously testified before this
9 Division and had your credentials as an engineer accepted
10 and made a matter of record?

11 A Yes.

12 Q Were you qualified previously as a petro-
13 leum engineer?

14 A Yes.

15 Q Are you familiar with the application of
16 Southland Royalty Company in this case?

17 A Yes.

18 Q Are you familiar with the subject ac-
19 reage?

20 A Yes.

21 Q Are the witness' qualifications accept-
22 able?

23 MR. QUINTANA: They are. Pro-
24 ceed.

25 Q Mr. Hobbs, will you briefly state what

1 Southland seeks in this case today?

2 A We propose to pool the interest in the
3 north half of Section 25, Township 25 North, Range 2 West,
4 to drill and complete a Mancos Dakota oil well.

5 Q Is this a standard unit for a Mancos oil
6 well?

7 A Yes.

8 Q Would you refer to what's been marked for
9 identification as Southland Exhibit Number One, identify
10 this and review it with Mr. Quintana?

11 A It's a map of the area with the acreage
12 cross hatched that we propose as the proration unit. The
13 numbers where there are no -- where there are only numbers,
14 represent on the top part the cumulative oil production
15 through January '80 -- through January 1st of '85, and below
16 that the cumulative MC -- MMCF.

17 And then we have -- where we don't have
18 cumulative oil production we have the IP's shown on the
19 wells.

20 Q What are the primary objectives in this
21 proposed well?

22 A The Mancos oil zone and the Dakota, which
23 is a gas and oil zone.

24 Q Would you refer to Southland Exhibit
25 Number Two and review this for the Examiner?

1 A It's a detail of the working interest
2 owners in this well.

3 Q And of the interest owners depicted on
4 Exhibit Two, who has not yet voluntarily committed their in-
5 terest to the proposed well?

6 A Only Mountain States Natural Gas Corpora-
7 tion with a 6-1/4 percent interest.

8 Q And you represent here today the remain-
9 ing interest.

10 A Yes.

11 Q Would you now refer to Exhibit Number
12 Three and review this?

13 A This is an AFE that was sent to each of
14 the working interest owners showing the anticipated cost of
15 the well with the second from the bottom line there on the
16 lefthand side being the grand total cost anticipated to be
17 \$621,400; dry hole cost of \$467,800.

18 Q Are these costs in line with what is
19 being charged for similar wells in the area?

20 A Yes, it is.

21 Q Would you please summarize your efforts
22 to obtain voluntary joinder in this well, the voluntary
23 joinder of Mountain States?

24 A On May the 14th we sent them a copy of
25 our operating agreement and this was returned as undeliver-

1 able.

2 After considerable effort we got a phone
3 number to contact them and it turned out to be the President
4 of Mountain States' home phone and from an unidentified lady
5 we obtained a mailing address and then on that date we
6 mailed them an AFE package, which was received at that new
7 address on June the 5th, or excuse me, we got the address on
8 June the 4th, that we did that, and we mailed an AFE on June
9 the 4th. On June the 5th the green accompanying the AFE was
10 received and on June the 12th they signed the card and re-
11 ceived the operating agreement.

12 On June the 17th we again talked to an
13 unidentified woman at the home phone of the president and
14 she said that she would talk to him and give him our phone
15 number to call us back collect, and we've -- we've not re-
16 ceived any replies from any attempts.

17 Q Mr. Hobbs, would you identify for the
18 Examiner what has been marked as Southland Exhibit Number
19 Four?

20 A Yes. This is the letter sent to Mountain
21 States Natural Gas Corporation, along with the AFE, that's
22 correct, requesting their participation in the drilling of
23 the well.

24 Q Okay. Now refer to Exhibit Number Five
25 and identify that.

1 A Okay, this is a letter to Mountain States
2 Natural Gas from our attorney, sending the application for a
3 compulsory pooling and notifying him of the hearing sche-
4 duled for today, and the green card indicates that was re-
5 ceived by him, or by the company.

6 Q And does this appear to be the original
7 of the green card?

8 A Yes.

9 Q Mr. Hobbs, in your opinion have you made
10 a good faith effort to locate Mountain States Natural Gas
11 Corporation and obtain their voluntary joinder in this well?

12 A Yes, we have.

13 Q When does Southland propose to drill the
14 subject well?

15 A Well, we have a well drilling in the off-
16 setting section right now and we'd like to drill it within
17 about two weeks, but it's necessary that we drill it within
18 ninety days.

19 Q So you have an arrangement whereby you
20 must drill by, oh, the end of October, or something?

21 A Right. The farmout agreement that in-
22 cludes this acreage, as well as the one we're drilling pre-
23 sently.

24 Q Has Southland Royalty Company drilled
25 other Mancos-Dakota wells in this area?

1 A Yes, we have.

2 Q Are you prepared to make a recommendation
3 to the Examiner as to the risk penalty that should be im-
4 posed against Mountain States?

5 A Yes. We believe the 200 percent risk in
6 excess of the well cost is a fair assessment because, as
7 seen from the -- from this map, our location is a, is really
8 a stepout toward the east toward an undeveloped area, and
9 this undeveloped area just happens to be the area that was
10 previously discussed by Mr. Greer and is -- we're going to a
11 down dip area from our -- from the west to the east and
12 there's no geologic control that indicates where the edge of
13 this oil field lies, plus in our area, in all of this area,
14 the Mancos formation produces from a fractured interval and
15 there's no numeric (sic) or log control that really dic-
16 tates where these fractures are, really identifies them.

17 So only the structure variance enhances
18 the fracture and as you move away from the sharp changes in
19 structure you get less enhancement of fracture, so we're
20 moving, we feel, away from the enhanced fractured structure.

21 Q Due to this reservoir condition with the
22 fracturing, et cetera, what do you look to in terms of mak-
23 ing a judgment as to wheter or not you have a well that is a
24 -- possibly a risky venture or assessing a risk on an indi-
25 vidual well?

1 A Well, we look at the offset wells and
2 their productivity, which indicates their location in the
3 fractured zone, and we hope that we can get into it, close
4 enough into that same area to get into that same general
5 fracture system.

6 Q Are there other wells in the area that
7 have not been commercial successes?

8 A Well, the one that we show in Section 31
9 with an IP of 18 barrels of oil a day, to us is not commer-
10 cially successful, and so, yes.

11 Q In your professional opinion is there a
12 chance that the well which you proposed might not be a suc-
13 cessful completion?

14 A Very definitely.

15 Q Have you made an estimate of overhead and
16 administrative costs while drilling the well and also while
17 producing it if it is successful?

18 A Yes. We figure overhead during drilling
19 of \$3500 a month and after production of \$350 per month.

20 Q Are these costs in line with what's being
21 charged for other wells in the area?

22 A Yes, they are and they are the ones that
23 have been accepted by the other working interest owners in
24 this well.

25 Q Do you recommend that these figures be

1 incorporated into the order which results from this hearing?

2 A Yes.

3 Q Does Southland Royalty Company seek to be
4 designated operator of the proposed well?

5 A Yes.

6 Q In your opinion will granting this appli-
7 cation be in the best interest of conservation, the preven-
8 tion of waste, and the protection of correlative rights?

9 A Yes.

10 Q Were Exhibits One through Five prepared
11 by you or complied under your direction and supervision?

12 A Yes, they were.

13 MR. CARR: At this time, Mr.
14 Quintana, we would offer into evidence Southland Royalty
15 Company Exhibits One through Five.

16 MR. QUINTANA: Exhibits One
17 through Five will be accepted as evidence.

18 MR. CARR: And that concludes
19 my direct examination of Mr. Hobbs.

20

21 CROSS EXAMINATION

22 BY MR. QUINTANA:

23 Q Mr. Hobbs, would you repeat to me the
24 producing costs that you plan to present?

25 You said \$3500 for drilling.

1 A \$350.

2 Q And it's also your testimony that this is
3 in line with other operators in the area?

4 A Yes.

5 Q I was looking at the previous pooling
6 case where they asked for \$15 -- \$1,572 and \$273 producing.

7 How is it that if it's in the same ara
8 and approximately the same depth that they differe so much?
9 Almost -- almost double in drilling and aprroximatelsy the
10 same in producing?

11 A I don't know what they based their costs
12 on.

13 This -- this is the third well we've
14 drilled in this area and we've used the same numbers in all
15 wells, all three wells, and they are acceptable.

16 Q Would you send me a copy of two or three
17 examples, just as a matter of --

18 A Yes.

19 Q -- of backing up?

20 A Yes.

21 Q Also, on your Exhibit Number One, just
22 north of the proposed well location, is that a dry hole
23 that's drilled up there?

24 A Yeah, but I'm -- these -- this map was a
25 base map for something else. This is not a dry hole for

1 this zone.

2 Q It's not a dry hole for that zone.

3 A No. No, excuse me, that's not a dry
4 hole. That's a drilling symbol; we use that as a drilling
5 symbol.

6 That's a well that's not completed in
7 this interval.

8 Just as over in Section Number Eight,
9 that symbol is -- is the well that Mr. Greer referred to as
10 one that they have not yet completed.

11 Q And you recommend 200 percent penalty
12 based on the fact, as Mr. Greer had also testified, that the
13 formation is fractured and you're not sure where, exactly
14 where those fractures are and you're stepping out --

15 A Right.

16 Q -- down dip.

17 You didn't bring any geological maps, or
18 anything?

19 A No, I didn't. The gradient, geological
20 gradient, is so slight out there that it really wouldn't
21 show any -- it doesn't show any real drastic changes, so you
22 can't -- can't really pick them, you know, within a half
23 mile.

24 Q And again I'll ask the question, if
25 you're willing to spend, you know, a third of a million dol-

1 lars to drill the well, I take you recommended to management
2 that you would probably, most likely, get a producer?

3 A Yes. But we also realize there's a
4 potential for a dry hole.

5 Q I'm just trying to get a grip on risk,
6 maximum or whatever it is.

7 MR. QUINTANA: I have no fur-
8 ther questions.

9 Are there further questions of
10 the witness?

11 MR. CARR: No further ques-
12 tions.

13 MR. QUINTANA: If not, he may
14 be excused.

15 Case 8637 will be taken under
16 advisement.

17

18 (Hearing concluded.)

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C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY that the foregoing Transcript of Hearing before the Oil Conservation Division was reported by me; that the said transcript is a full, true, and correct record of the hearing, prepared by me to the best of my ability.

Sally W. Boyd CSR

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 8637, heard by me on July 2 1985.
Gilbert P. Quintana Examiner
Oil Conservation Division