

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO

23 July 1986

EXAMINER HEARING

IN THE MATTER OF:

Application of Jerome P. McHugh and Associates for compulsory pooling, Rio Arriba County, New Mexico. CASE 8945

BEFORE: Michael E. Stogner, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

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KENT CRAIG

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MR. STOGNER: This hearing will
resume its order.

We'll call next Case Number
8945.

MR. TAYLOR: The application of
Jerome P. McHugh and Associates for compulsory pooling, Rio
Arriba County, New Mexico.

MR. STOGNER: Call for
appearances.

MR. KELLAHIN: If the Examiner
please, I'm Tom Kellahin, the Santa Fe law firm of Kellahin
& Kellahin, appearing on behalf of the applicant and I have
one witness to be sworn.

MR. STOGNER: Will the witness
please stand and be sworn at this time?

(Witness sworn.)

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

DIRECT EXAMINATION

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BY MR. KELLAHIN:

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

A My name is Kent Craig and I'm a land manager for Jerome McHugh in Denver.

Q Mr. Craig, have you previously testified as a petroleum landman before the Oil Conservation Division and had your qualifications accepted and made a matter of record?

A Yes, sir, I have.

Q Mr. Craig, did you previously testify before the Oil Conservation Division and in fact Examiner Michael Stogner on January 22nd of 1986 in Division Case 8788, which resulted in Order Number R-8144?

A Yes, sir, I did.

Q Would you describe for the Examiner what the subject matter of that application was?

A Basically it's a request for forced pooling, and which the Commission granted on January the 31st, I believe, yes, for an 8200 foot Dakota well that we proposed to drill in the -- or we had proposed to drill in the east half of Section 12, 25 North, 2 West, Rio Arriba County, New Mexico.

One of the parties involved owned an un-

1 divided 50 percent interest in a 40-acre parcel within the
2 east half of Section 12, that party being Mountain States
3 Natural Gas out of Tulsa, Oklahoma.

4 Q Subsequent to receiving the forced pool-
5 ing order, Mr. Craig, did you notify Mountain States Natural
6 Gas Company with notice of the proposed costs of the well
7 and a copy of the order notifying them of their opportunity
8 to elect to participate?

9 A Yes, we did.

10 Q And did natural states -- Mountain States
11 Natural Gas Company elect to participate within the thirty
12 day period?

13 A They didn't respond at all; no response.

14 Q The order that was entered by the Divi-
15 sion provided that the well must be commenced on or before
16 May 1st of 1986.

17 A That's correct.

18 Q Was the applicant, Jerome P. McHugh and
19 Associates able to commence the well on that date?

20 A No, sir, we were not.

21 Q And what were the reasons that you were
22 not able to do so?

23 A Basically the reasons, or the reason
24 stems from the fact that -- it's an access problem more than
25 anything. The fee owners coming from the north and the west

1 on this location refuse to let us cross and due to the fact
2 that we didn't have any lease from any of those fee owners,
3 we had to come in from the east.

4 The west border of Township 26 North,
5 Range 1 West is the west border of the Santa Fe National
6 Forest.

7 Q Let's look at Exhibit Number One for to-
8 day's hearing, Mr. Craig, and first of all have you identify
9 for us the proposed well location in the east half of Sec-
10 tion 12, which I believe is on the far left margin of the
11 exhibit?

12 A That's correct, and right above where
13 Section 12 is designated on the left margin. That location
14 right above it in the northwest northeast is our Continental
15 Divide location.

16 Q Would you describe for us the
17 significance of the shaded lines on the exhibit?

18 A Immediately east of that location the
19 darker north/south line again, which is the dividing line
20 between Township 25 North, 1 West, and 25 North, 2 West, is
21 also the west boundary of the Santa Fe National Forest.

22 As you will note up in Section 1
23 immediately north of our location there is a public road
24 which crosses in an east/west direction across the -- well,
25 basically bisects Section 1 in the middle of the section

1 there, and starts running east. Once you cross the
2 township line you're on private surface but within the Santa
3 Fe National Forest.

4 Shortly after we got our order in the end
5 of January on this forced pooling we contacted the Forest
6 Service to negotiate an access to our location and the
7 Forest Service came up with the highlighted yellow route,
8 which is about a six mile -- it's about six miles long.

9 About three miles of that we had to
10 improve at our own cost, of course.

11 We proposed again coming in on the public
12 route in Section 1, that thin green line which runs down
13 basically the west side of Section 6, we proposed that as
14 the access route, which entailed building a new road down
15 the west side of 6 and then turning back west into Section
16 12.

17 The Forest Service elected not to
18 approve that location; however, we have negotiated the line
19 I have designated in pink on this map as an approved road by
20 the Forest Service. We have, at the request of the Forest
21 Service, had to get an independent engineering study done on
22 the impacts of that road. That study was just completed
23 about ten days ago and has been filed with the Forest
24 Service for their approval, and if approved, we'll start
25 building the road.

1 MR. KELLAHIN: At this time,
2 Mr. Examiner, we would request that you take administrative
3 notice of the transcript, the exhibits, testimony, in Case
4 8788, and the resulting forced pooling Order R-8144, and we
5 have provided copies for the Examiner at this time.

6 Q Mr. --

7 MR. STOGNER: Oh, I'm sorry.

8 MR. KELLAHIN: Go ahead.

9 MR. STOGNER: I will take
10 administrative notice of Case Number 8788 and its subsequent
11 Order R-8144 will be made part of this record.

12 Q Mr. Craig, let me ask you whether or not
13 you have notified Mountain States Natural Gas Company of the
14 current application of Mr. McHugh for a new forced pooling
15 order covering the same subject matter as the prior forced
16 pooling order?

17 A Yes. I wrote Mountain States by certi-
18 fied mail on July the 1st outlining the previous forced
19 pooling which had been approved by the Commission. I again
20 sent a revised AFE to Mr. Albert Blair of Mountain States
21 Natural Gas by the same letter on July the 1st and informed
22 him that his failure to respond in any manner would leave us
23 no alternative but to come to the Commission once again and
24 ask for a forced pooling.

25

1 Q Is Exhibit Number Two for today's hearing
2 a true and correct copy of your July 1st letter, the return
3 receipt card, and the AFE that you submitted to Mr. Blair?

4 A Yes, sir, it is.

5 Q Have you had an opportunity to review the
6 transcript of the prior hearing in this case?

7 A Yes, I have.

8 Q Are there any other changes with regards
9 to Mr. McHugh's proposed operations for the well other than
10 the change in the AFE?

11 A No. Other than the change in the AFE and
12 with the hopeful approval of the Forest Service for this
13 route that we propose to use, there are no other changes.

14 Q For the Examiner's benefit, would you de-
15 scribe generally what the total dollars are between the two
16 AFE's?

17 A Yes. Our old AFE which we prepared in
18 October of 1985 for an 8200 foot well was \$629,000 completed
19 cost and our new AFE is \$516,000 for the same well.

20 So roughly \$113,000 difference.

21 Q Less.

22 A Less.

23 Q To your knowledge, Mr. Craig, are there
24 any additional wells drilled in the area or other geologic
25 information that would change or alter the facts upon which

1 the Division entered the risk factor in the original forced
2 pooling order?

3 A Not to my knowledge. I don't believe
4 there are.

5 Q And are the proposed overhead charges
6 that are included in the January order the same overhead
7 charges that you would propose to include in --

8 A Right.

9 Q -- the new order?

10 A Yes, sir. Our overhead charges are \$3500
11 for drilling and \$350 on producing well rate.

12 MR. KELLAHIN: That concludes
13 my examination of Mr. Craig.

14 We'd move the introduction of
15 Exhibits One and Two.

16 MR. STOGNER: Exhibits One and
17 Two in Case 8945 will be admitted into evidence.

18

19

CROSS EXAMINATION

20 BY MR. STOGNER:

21 Q Mr. Craig, has this road already been
22 built or do you see any kind of restraints that will be
23 limiting you on a subsequent order that should come out?

24 A Mr. Stogner, based on -- we didn't think
25 we would have the time delay we had, obviously, on -- with

1 the -- with the Forest Service. We knew we were going to
2 have to go across the Forest Service in January when we had
3 our previous hearing, but we certainly anticipated and had
4 hoped that we'd have that resolved within ninety days.

5 Barring any unforeseen problems with the
6 Forest Service, no, I don't. The -- the engineering study
7 which they requested be done is finished and we have it sub-
8 mitted to them and in light of their approval, or upon their
9 approval we'll be ready to start the road.

10 We have not physically started the road
11 at all.

12 Q Thank you, Mr. Craig. I have no further
13 questions of this witness. He may be excused.

14 MR. STOGNER: Is there anything
15 further in Case Number 8945 at this time?

16 MR. KELLAHIN: No, sir.

17 MR. STOGNER: There being none,
18 this case will be taken under advisement.

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20 (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 the foregoing Transcript of Hearing before the Oil
Conservation Division (Commission) 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. 8945
heard by me on 23 July 1986.

Michael E. Stogrow, Examiner
Oil Conservation Division