

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

20 August 1986

EXAMINER HEARING

IN THE MATTER OF:

Hearings called on this docket for
which no testimony was presented.

CASE
8963, 8961,
8962, 8975

BEFORE: David R. Catanach, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation Division:	Jeff Taylor Attorney at Law Legal Counsel to the Division State Land Office Bldg. Santa Fe, New Mexico 87501
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For the Applicant:

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I N D E X

Case 8963	3
Case 8961	3
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MR. CATANACH: We will call Case 8963.

MR. TAYLOR: The application of Mesa Grande Resources, Incorporated, for compulsory pooling and unorthodox oil well location, Rio Arriba County, New Mexico.

MR. CATANACH: Case 8963 was heard August 6th, 1986. It had to be readvertised.

Is there any additional testimony at this time?

If not, this case will be taken under advisement.

(Hearing concluded.)

MR. CATANACH: Call next Case 8961.

MR. TAYLOR: Application of Mesa Grande Resources, Incorporated, for a nonstandard oil proration unit, and an unorthodox oil well location, Rio Arriba County, New Mexico.

The applicant has requested that that case be continued.

MR. CATANACH: Case 8961 is

1 hereby --

2 MR. TAYLOR: Did I say con-
3 tinued? The applicant has requested that this case be dis-
4 missed.

5 MR. CATANACH: Case 8961 is
6 hereby dismissed.

7

8 (Hearing concluded.)

9

10 MR. CATANACH: Call next Case
11 8962.

12 MR. TAYLOR: Application of
13 Mesa Grande Resources, Incorporated, for a nonstandard oil
14 proration unit and an unorthodox oil well location, Rio Ar-
15 riba County, New Mexico.

16 The applicant has requested
17 that this case be dismissed.

18 MR. CATANACH: Case 8962 is
19 hereby dismissed.

20

21 (Hearing concluded.)

22

23 MR. CATANACH: Call next Case
24 8975.

25 MR. TAYLOR: The application of

1 North American Royalties, Incorporated, for amendment of
2 Division Order No. R-8192, Lea County, New Mexico.

3 This case is just for the
4 change of operator on an already approved forced pooling and
5 I guess if there's no objection and the file shows correct
6 notice was given, we will go ahead and approve that change
7 of operator.

8 MR. CATANACH: Case 8975 will
9 be taken under advisement.

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(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 (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. _____, heard by me on August 20 1928.

David M. Calant, Examiner
Oil Conservation Division

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

6 August 1986

EXAMINER HEARING

IN THE MATTER OF:

Application of Mesa Grande Resources, Inc., for compulsory pooling, Rio Arriba County, New Mexico. CASE 8963

BEFORE: Michael E. Stogner, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation Division:	Jeff Taylor Attorney at Law Legal Counsel to the Division State Land Office Bldg. Santa Fe, New Mexico 87501
For Mesa Grande:	William F. Carr Attorney at Law CAMPBELL & BLACK P. A. P. O. Box 2208 Santa Fe, New Mexico 87501

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I N D E X

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KATHLEEN A. MICHAEL

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Direct Examination by Mr. Carr

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Cross Examination by Mr. Stogner

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ALAN P. EMMENDORFER

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Direct Examination by Mr. Carr

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Cross Examination by Mr. Stogner

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E X H I B I T S

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MG Exhibit One, Plat

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MG Exhibit Two, Plat

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MG Exhibit Three, Correspondence

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MG Exhibit Four, Letters

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MG Exhibit Five, AFE

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MG Exhibit Six, Structure Map

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MG Exhibit Seven, Cross Section A-A'

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2 MR. STOGNER: Call next Case
3 Number 8963.

4 MR. TAYLOR: The application of
5 Mesa Grande Resources, Inc., for compulsory pooling, Rio Ar-
6 riba County, New Mexico.

7 MR. CARR: May it please the
8 Examiner, my name is William F. Carr, with the law firm
9 Campbell & Black, P. A., of Santa Fe.

10 We represent Mesa Grande Re-
11 sources, Inc., today and we are representing them in this
12 case.

13 Initially I would like to point
14 out that the case will have to be continued and readver-
15 tised. We did not initially request the unorthodox well lo-
16 cation.

17 The pool rules in this area
18 provide that no well shall be located closer than 330 feet
19 to a quarter quarter section line. This well is slightly
20 closer to an interior quarter quarter section line and
21 therefore we will have to continue it, readvertise it to
22 take care of that matter.

23 We do, however, request permis-
24 sion to go forward with the hearing today.

25 MR. STOGNER: Okay, let me see,

1 if I understand, Mr. Carr, this case has already been con-
2 tinued and readvertised for the August 20th, 1986, hearing.

3 MR. CARR: And with your per-
4 mission we would like to present the case today since the
5 witnesses are here and this is really a companion case to
6 the next two cases.

7 MR. STOGNER: Thank you, Mr.
8 Carr, we shall continue, then.

9 Are there any other appear-
10 ances?

11 There being none, will the wit-
12 ness please stand, witnesses?

13

14 (Witnesses sworn.)

15

16 KATHLEEN A. MICHAEL,

17 being called as a witness and being duly sworn upon her
18 oath, testified as follows, to-wit:

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DIRECT EXAMINATION

21 BY MR. CARR:

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23

Q Will you state your full name and place
of residence?

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25

A My name is Kathleen A. Michael and I live
in Tulsa, Oklahoma.

1 Q By whom are you employed and in what ca-
2 pacity?

3 A I'm employed by Mesa Grande Resources as
4 a landman.

5 Q Have you previously testified before this
6 Division and had your credentials as a landman accepted and
7 made a matter of record?

8 A Yes, I have.

9 Q Are you familiar with the application
10 filed on behalf of Mesa Grande in this case?

11 A Yes.

12 Q Are you familiar with the subject area
13 and the subject well?

14 A Yes, I am.

15 MR. CARR: Are the witness'
16 qualifications acceptable?

17 MR. STOGNER: Mrs. -- I'm sor-
18 ry, Ms. Michael's qualifications are so accepted.

19 Q Ms. Michael, will you briefly state what
20 Mesa Grande seeks with this application?

21 A We are seeking to pool all of the working
22 interests in the west half of Section 16 under our proposed
23 Phantom No. 1 Well.

24 Q And what formations are you seeking to
25 pool?

1 A The Gallup and Dakota formations.

2 Q And does this include the Gavilan-Mancos
3 and the Gavilan-Greenhorn Dakota Oil Pools?

4 A Yes, it does.

5 Q Would you refer to what has been marked
6 for Exhibit Number One and I believe that is the bottom ex-
7 hibit in the packs of material given to you, Mr. Examiner.

8 Would you refer to that exhibit, identify
9 it, and review it for Mr. Stogner?

10 A Exhibit Number One is a plat showing the
11 proposed drilling block in the west half of Section 16 and
12 existing wells that have been drilled in the offsetting sec-
13 tions.

14 Q Would you now go to Exhibit Number Two,
15 identify that and review that?

16 A Exhibit Number Two is a plat that shows
17 in the shaded area the west half of Section 16 with each of
18 the leases that will be subject to the drilling block and
19 the leasehold ownership of each lease, as well as a working
20 interest breakdown for the well.

21 Q What are the well spacing rules for this
22 area?

23 A Well spacing rules are 320-acre dedica-
24 tion for the block with a well located not closer than 790
25 feet to the outer boundary of a section or 330 feet to a

1 quarter quarter line.

2 Q And what is the exact location of the
3 subject well?

4 A The subject well is to be located 1125
5 feet from the west line of Section 16 and 1035 feet from the
6 south line for archaeological reasons.

7 Q And it is therefore too close to a quar-
8 ter quarter section line.

9 A To a quarter quarter section line, yes,
10 sir.

11 Q And that is why we have to readvertise
12 it.

13 A Yes.

14 Q What percentage of the working ownership
15 under the proposed proration unit has voluntarily committed
16 to the well?

17 A Voluntarily committed we have 93.75 per-
18 cent.

19 Q And what interest owner still remains
20 outstanding?

21 A Mountain States Natural Gas for 6.25 per-
22 cent is the only outstanding one.

23 Q Would you refer to Mesa Grande Exhibit
24 Number Three, and using this exhibit summarize the effort
25 you've made to obtain the voluntary joinder of Mountain

1 States Natural Gas?

2 A Yes. Exhibit Number Three is copies of
3 correspondence which have been furnished to all the working
4 interest owners and beginning at the bottom of that package
5 of letters, is a letter dated June 17th, 1986, in which we
6 furnished to all working interest owners a copy of our AFE,
7 along with the proposed operating agreement for their re-
8 view, and included on that copy is a copy of the return re-
9 ceipt and returned card for having certified the (not under-
10 stood.)

11 The next exhibit is a letter dated July
12 14th, 1986, in which we sent a revised AFE, the costs hav-
13 ing been revised downward approximately \$90,000. And this
14 letter, I think, was not sent certified, but it was sent to
15 all the working interest owners.

16 Q In addition to these letters have there
17 been communications with Mountain States Natural Gas Corpor-
18 ation or its officers?

19 A Yes, there have. This past Tuesday he
20 was in our office and we discussed with him several out-
21 standing matters, among them this particular well, and we
22 have had no response.

23 Q And you're talking about Albert J. Blair?

24 A Yes.

25 Q And he's the President of Mountain

1 States?

2 A Mountain States Natural Gas, yes.

3 Q In your opinion has Mesa Grande made a
4 good faith effort to obtain the voluntary joinder of all in-
5 terest owners in the proposed well?

6 A Yes, we have.

7 Q Has Mesa Grande drilled other Gallup-Da-
8 kota wells in this area?

9 A Yes, we have.

10 Q Have you made an estimate of the overhead
11 and administrative costs that will incurred while drilling
12 and producing the well?

13 A Yes, we have. The drilling overhead is
14 estimated at \$3500 per month and the producing overhead at
15 \$500 per month.

16 Q And are these costs in line with what's
17 being charged other interest owners in wells you operate in
18 the area?

19 A Yes, they are.

20 Q Do you recommend that these figures be
21 incorporated into the order which results from today's hear-
22 ing?

23 A Yes.

24 Q Does Mesa Grande Resources seek to be de-
25 signated operator of the subject well?

1 A Yes, we do.

2 Q Would you now identify what has been mar-
3 ked as Mesa Grande Exhibit Number Four and identify that for
4 Mr. Stogner?

5 A Yes. Exhibit Number Four is a copy of
6 the certified letters which were sent to the working
7 interest owners who were outstanding at the time the
8 application was filed to notify them of the hearing today.

9 Q And was Mesa Grande notified?

10 A Yes, we were.

11 Q And you do have a return receipt from it?

12 A Yes, we do.

13 Q Will Mesa Grande also call a geological
14 witness to testify as to the risk incurred in drilling the
15 well?

16 A Yes, we will.

17 Q Did I say Mesa Grande having been
18 notified, was Mountain States Natural Gas notified?

19 A Mountain States was notified.

20 Q Were Exhibits One through Four either
21 prepared by you or compiled under your direction and
22 supervision?

23 A Yes, they were.

24 MR. CARR: At this time, Mr.
25 Stogner, we would offer Mesa Grande Exhibits One through

1 Four.

2 MR. STOGNER: I'm confused on
3 which one's Four. I don't have it.

4 MR. CARR: Four is for some
5 reason put on top.

6 MR. STOGNER: Exhibits One
7 through Four will be admitted into evidence at this time.

8 Q Ms. Michael, will Mesa Grande be calling
9 a geological witness?

10 A Yes, we will.

11 MR. CARR: That concludes my
12 direct examination of Ms. Michael.

13

14 CROSS EXAMINATION

15 BY MR. STOGNER:

16 Q Ms. Michael, you stated earlier that you
17 had personal contact with Mr. Blair. Was he in your office,
18 you said?

19 A He was in the office last Tuesday, yes.

20 Q All right. You're the first one I ever
21 met that ever met Mr. Blair.

22 A I have the privilege of having met Mr.
23 Blair twice, actually.

24 Q And did he state any reason why verbally
25 that he didn't want to go in on this well or as far as that

1 goes, any other well in Rio Arriba County?

2 A No, he just said he wasn't going to sign
3 anything and buzzed out the door.

4 Q Okay.

5 MR. STOGNER: I have no further
6 questions of Ms. Michael.

7 If there are no further
8 questions of this witness she may be excused.

9 MR. CARR: At this time I'd
10 call Alan Emmendorfer.

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12 ALAN P. EMMENDORFER,
13 being called as a witness and being duly sworn upon his
14 oath, testified as follows, to-wit:

15

16 DIRECT EXAMINATION

17 BY MR. CARR:

18 Q Will you state your full name and place
19 of residence?

20 A Alan P. Emmendorfer and I live in Tulsa,
21 Oklahoma.

22 Q Mr. Emmendorfer, by whom are you employed
23 and in what capacity?

24 A Employed by Mesa Grande Resources as a
25 geologist.

1 Q Have you previously testified before this
2 Division and had your credentials as a geologist accepted
3 and made a matter of record?

4 A Yes, I have.

5 Q Are you familiar with the application
6 filed on behalf of Mesa Grande in this case?

7 A Yes, I am.

8 Q Are you familiar with the subject prora-
9 tion unit and well?

10 A Yes, I am.

11 MR. CARR: Are the witness'
12 qualifications acceptable?

13 MR. STOGNER: Yes, they are.

14 Q Mr. Emmendorfer, what is the primary ob-
15 jective in the proposed well?

16 A We're going to drill down to the Dakota
17 formation but we're -- our current plans are to produce just
18 from the Gavilan-Mancos, if it is found productive.

19 Q Would you refer to what has been marked
20 as Mesa Grande Exhibit Number Five, identify this, and re-
21 view it for the Examiner, please?

22 A Okay. On the bottom of this exhibit is
23 the original AFE that we submitted to all the working inter-
24 est owners and we had a dry hole cost of \$222,485 and a to-
25 tal estimated well cost if found productive of \$611,420, and

1 we found out that a lot of the service companies are coming
2 way down on their costs and so we resubmitted an AFE and
3 dropped it by a substantial amount, not on the dry hole
4 cost, which, although it went down to \$208,784, but the to-
5 tal estimated well costs went down substantially to
6 \$524,852.

7 Q Are these costs in line with what's cur-
8 rently being charged by other operators in the area for sim-
9 ilar wells?

10 A Yes, they are.

11 Q Would you refer to what has been marked
12 as Mesa Grande Exhibit Number Six, identify this, and review
13 it, please?

14 A Yes. This is a structure map that I've
15 made on the -- it's contoured on the top of the Gallup A
16 Zone, which is the most commonly used mapping horizon within
17 the Gavilan-Mancos formation, and in there I have identified
18 the structure in there as a domal structure and I've out-
19 lined on here the proration unit in the west half of 16
20 where the Phantom No. 1 would be located.

21 Q There also is a shaded area in Section
22 23. Would you just for clarification identify what that is?

23 A Yes. That is the proration unit for the
24 -- another well which will be heard in the next case.

25 Q Would you now go to Mesa Grande Exhibit

1 Number Seven, identify this, and review the information con-
2 tained thereon?

3 A Exhibit Number Seven is a structural
4 cross section that I prepared running down dip on the struc-
5 ture directly going through the proposed location of our
6 well in Section 16, and it shows the current wells that are
7 drilled along this line and their structural nature as re-
8 lated to -- to each other and what zones and what their IP's
9 are.

10 Q Are you prepared to make a recommendation
11 to Mr. Stogner as to the risk penalty that should be asses-
12 sed against Mountain States if they do not voluntarily par-
13 ticipate in this well?

14 A Yes, I am.

15 Q And what is that figure?

16 A 200 percent.

17 Q Upon what do you base this recommenda-
18 tion?

19 A Well, in the Gavilan-Mancos Field it is
20 currently -- or widely known that you have to encounter a
21 fracture system to make a commercial well and fracture sys-
22 tems are hard to locate before the fact and the only way to
23 really determine if you're going to have a commercial well
24 is actually to drill it and complete it and see if you ac-
25 tually encounter the fracture system, and this -- within the

1 Gavilan-Mancos Pool some of the wells are poor wells and
2 they have not encountered them, and some have encountered
3 and are good, productive wells.

4 Q And do these good wells offset bad wells
5 and vice versa?

6 A Yes, they do.

7 Q So when you drill there is a reasonable
8 chance that you could drill a well that would in fact not be
9 a commercial success?

10 A Very reasonable chance.

11 Q In your opinion would granting this ap-
12 plication imposing the risk penalty, be in the best interest
13 of conservation, the prevention of waste, and the protection
14 of correlative rights?

15 A Yes, I believe that.

16 Q Were Exhibits Five through Seven prepared
17 by you or compiled under your direction and supervision?

18 A Yes, they were.

19 MR. CARR: At this time, Mr.
20 Stogner, we would offer into evidence Mesa Grande Exhibits
21 Five through Seven.

22 MR. STOGNER: Five through
23 Seven will be admitted into evidence at this time.

24 MR. CARR: That concludes my
25 direct examination of Mr. Emmendorfer.

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CROSS EXAMINATION

BY MR. STOGNER:

Q Mr. Emmendorfer, I notice on Exhibit Number Six as I referred to it, the proration unit actually lays outside of the horizontal boundaries of both the Gavilan-Greenhorn-Dakota and the Gavilan-Mancos Pool, is that correct?

A Yes, it is. It's adjacent to it.

Q But it's within a mile and therefore under the pool rules, right?

A Yes, that's correct.

Q You mentioned drilling through a fractured zone. What depth is that fractured zone usually in?

A Well, it varies depending where you are on the structure and if indeed at that point there is a fracture system, but it basically goes -- could be found anywhere within the Gavilan-Mancos productive interval, as defined within the pool rules, from above the top of the Gallup to the base of the Sonastee, which is the bottom of the Gavilan-Mancos interval. They could be found anywhere in there.

Q Okay. How thick is that zone?

A I don't believe I understand the question.

1 Q What's the thickness of that particular
2 zone that's fractured?

3 A That could vary depending -- are you ask-
4 ing me how thick is the Gavilan-Mancos or how thick is the
5 fractured interval?

6 Q The fractured interval.

7 A It would all depend on how well it was
8 fractured in that particular wellbore. The whole interval
9 could be fractured down to no fractures.

10 Q Well, now, let's refer back to Exhibit
11 Number Six. I look over in Section 17 to the west and on
12 the east side there is a McHugh and then the number 284. Is
13 that well symbol?

14 A Yes, it is. It's a producing well.

15 Q And where are they producing from?

16 A The Gavilan-Mancos.

17 Q How old is that well?

18 A I believe it was drilled in '85. It
19 could have been a late '84, but I think it -- I know it -- I
20 think it was '85, and I believe that it is not currently
21 productive. It's waiting on a gas pipeline.

22 Q Okay. Now, if I look directly south of
23 there in the -- there's another well symbol marked, the num-
24 ber 364, McHugh, also, is that a producing Gavilan-Mancos
25 well?

1 A Yes, it is.

2 Q You also show a McHugh location up to the
3 north. What is that?

4 A That is a current location as posted
5 through commercial sources of Hot Line Energy.

6 Q Okay, is that -- it's just a location, it
7 hasn't started drilling yet, or anything?

8 A To the best of my knowledge, it hasn't
9 yet. I know last week it was not.

10 Q Okay.

11 MR. STOGNER: I have no
12 further questions of this witness.

13 Are there any other questions?

14 MR. CARR: Nothing further.

15 MR. STOGNER: Pardon?

16 MR. CARR: Nothing further.

17 MR. STOGNER: Does anybody else
18 have anything further in Case Number 8963?

19 If not, Mr. Emmendorfer may be
20 excused and this case will be taken under advisement.

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22 (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 (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. 8963, heard by me on 6 August 1986.

Michael E. Legner, Examiner
Oil Conservation Division 10/20/86