

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

29 July 1987

EXAMINER HEARING

IN THE MATTER OF:

Application of Reading and Bates Pet- CASE
roleum Company for compulsory pooling, 9183
Rio Arriba County, New Mexico.

BEFORE: David R. Catanach, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Division: Jeff Taylor
Attorney at Law
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For the Applicant: Scott Hall
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I N D E X

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1

2

MR. CATANACH: Call next Case

3

9183.

4

MR. TAYLOR: The application of

5

Reading & Bates Petroleum Company for compulsory pooling,

6

Rio Arriba County, New Mexico.

7

MR. CATANACH: Are there

8

appearances in this case?

9

MR. HALL: Mr. Examiner, Scott

10

Hall from Campbell & Black law firm on behalf of Reading &

11

Bates Petroleum Company.

12

I have two witnesses to be

13

sworn this morning.

14

MR. CATANACH: Are there other

15

appearances?

16

Will the witnesses please stand

17

to be sworn in?

18

19

(Witnesses sworn.)

20

21

ERIC KOELLING,

22

being called as a witness and being duly sworn upon his

23

oath, testified as follows, to-wit:

24

25

1

2

DIRECT EXAMINATION

3

BY MR. HALL:

4

Q For the record state your name.

5

A Eric Koelling.

6

Q And where do you live and by whom are you

7

employed?

8

A Tulsa, Oklahoma, Reading & Bates Petroleum.

9

Q And what do you do for Reading & Bates?

10

A I'm Assistant Land Manager.

11

Q Have you previously testified before the

12

Division?

13

A Yes, I have.

14

Q And were your credentials accepted?

15

A Yes, they were.

16

Q And are you familiar with the application

17

in this case and the subject lands?

18

A Yes, I am.

19

MR. HALL: Mr. Examiner, are the

20

witness' qualifications acceptable?

21

MR. CATANACH: The witness is

22

so qualified. I'm sorry, I didn't catch your name.

23

A Eric Koelling.

24

MR. CATANACH: How do you spell

25

that? Koelling?

A E-R-I-C. Last name is K-O-E-L-L-I-N-G.

2 MR. CATANACH: Thank you.

3 Q Mr. Koelling, what is it that Reading &
4 Bates seeks in this case?

5 A We would like to seek the pooling of the
6 unjoined interests in Section 16 of 25 North, 2 West, to
7 drill a Gavilan-Greenhorn-Graneros-Dakota test.

8 Q Okay, what's the footage location of your
9 location?

10 A Our location is 915 feet from the east
11 line, 2025 feet from the south line of Section 16.

12 Q All right. Let's look at Exhibit One.

13 What is that intended to show?

14 A That shows the ownership and the prora-
15 tion unit for Section 16 for the well which is the 43-16 In-
16 gram Federal Well. It's a breakdown of the leasehold owner-
17 ship within that proration unit, which is the entire sec-
18 tion.

19 Q All right. Why don't you explain to the
20 Examiner which interest owners are committed and the per-
21 centage extent of the commitment and who you are seeking to
22 pool?

23 A Okay. At this point we have 93, over 93-
24 1/2 percent signed and with cash in hand.

25 There's an additional 3.3281 percent

1 which have signed operating agreements and AFE's but which
2 we do not have cash in hand for and we would like to force
3 pool them.

4 There is also an additional 3.125 percent
5 which has neither signed an operating agreement or an AFE or
6 sent in cash, and we would like to force pool that interest,
7 as well.

8 Q Okay, would you identify the owners of
9 those interests?

10 A The 3.125 percent which has not signed
11 the operating agreement or AFE or remitted cash, is Mountain
12 States, which is also Jack Blair.

13 The -- there is an additional 1.4531 per-
14 cent owned by Duer Wagner, Jr.. They have signed the oper-
15 ating agreement but not remitted their share of well costs;
16 and there is 1.875 percent owned by Arriba, Limited. They
17 have signed the operating agreement and AFE but have not re-
18 mitted their share of well costs, either.

19 Q All right. Have you had any response
20 from Mountain States at all?

21 A No, we have not.

22 Q Why don't you explain to the Examiner
23 what efforts you've made to try to seek their joinder?

24 A Okay. Originally we had planned the In-
25 gram Federal on a 320-acre spacing unit based on a previous

1 field rules for the Gavilan-Greenhorn-Graneros-Dakota and,
2 as you're aware, in June the spacing order was changed some-
3 what and as a result we came upon the question of whether we
4 should pool the west half in with our existing well.

5 At that point plans had proceeded to the
6 point that the well was ready to drill, the location was
7 made, and we were moving into the location. Mesa Grande,
8 who is the majority owner in the west half, advised they
9 wished to form a 640-acre unit and would protest a nonstand-
10 ard proration unit to form a 320.

11 In an effort to obtain a voluntary unit
12 and in the interest of economic and development and conser-
13 vation, we reached agreement on a 640-acre unit and obtained
14 joinder of the other parties in the west half.

15 Mesa Grande previous to this had a well
16 proposed in the west half, the Phantom Well, which they had
17 intended to drill and which they force pooled Mountain
18 States into under Order R-8287.

19 We were advised at the time Mesa Grande
20 wished to form the 640-acre unit that it was their belief
21 due to the change in spacing they could administratively
22 transfer in effect the forced pooling in the west half to be
23 a forced pooling in the entire section.

24 Since at first we believed that to be the
25 case, while we sent a cash call invoice to Mountain States,

1 we had not sent them an operating agreement or an AFE.

2 Upon further discussion with our counsel
3 it was determined that it would not be possible in our
4 opinion to administratively transfer the forced pooling and
5 as a result we have only recently sent Mountain States an
6 AFE and an operating agreement, but we have -- at this time
7 they should have an operating agreement and an AFE. Pre-
8 vious to this they had a cash call invoice with a cover let-
9 ter advising that instead of the Phantom Well we were going
10 to drill the Ingram Well and the spacing had been changed
11 from 320 to 640 acres.

12 Q Let me ask you, was Mesa Grande Resources
13 the party who obtained Order R-8287 pooling the interests in
14 the west half?

15 A Yes, they were.

16 Q And do you know if they had pooled the
17 Mountain States interest, as well?

18 A Yes. It's my understanding they pooled
19 the interest and it's my understanding they had no response
20 from Mountain States in their efforts to obtain voluntary
21 joinder in the west half.

22 Q All right, and have you sent an AFE to
23 Mountain States?

24 A We have.

25 Q And have you received a response?

1 A No, we have not and we received no re-
2 sponse to the cash call invoice or the letter explaining
3 what we were going to do.

4 Q All right, let's look at Exhibit Three.
5 Why don't you identify that and explain that?

6 A It's a letter dated July 24th, 1987,
7 which advises that we have created a 640-acre unit for the
8 Ingram Federal Well due to the recent Oil Conservation Divi-
9 sion order changing spacing and advising that we are enclos-
10 ing an operating agreement and AFE for execution.

11 It's been sent to Mountain States Natural
12 Gas and requests they execute and return them at their
13 earliest opportunity, along with dry hole costs.

14 Also attached to that letter is a letter
15 dated July 13th sent to Mountain States wherein we had ad-
16 vised them that we were forming a 640-acre unit for an In-
17 gram Federal Well rather than the 320-acre unit for the
18 Phantom Well, which they had previously been proposed, and
19 enclosing the invoice for their share of dry hole costs un-
20 der this 640-acre unit. It advises the well at that point
21 had started drilling and we would appreciate their earliest
22 attention to the invoice. The invoice specified that the
23 Ingram Federal Well, its full share of dry hole costs, and
24 gives the working interest and amount of Mountain States
25 Natural Gas.

1 Q In your view, do you believe that
2 Mountain States has been adequately apprised of your efforts
3 to drill the well and commit the entire section to the well?

4 A Yes, I do. It's my belief that not only
5 have we talked to them in this regard but that Mesa Grande
6 to some extent has talked to -- attempted to talk to them,
7 also.

8 Q Have you been required to pool interests
9 owned by Mesa -- excuse me, Mountain States in the past on
10 other wells?

11 A Yes. It's, to the best of my knowledge,
12 it's always been our experience and is always the experience
13 of other operators in the area, that Mountain States needs
14 to be force pooled and to the best of my knowledge, they
15 have never reached a voluntary agreement in this area.

16 Q In fact, aren't they generally unrespon-
17 sive to all your inquiries?

18 A To the best of my knowledge, they have
19 not responded to any other operator in this area and our ef-
20 forts to obtain response to them in the past -- from them in
21 the past, have been -- have met with no success.

22 Q And likewise, you've received no objec-
23 tion from Mountain States.

24 A That's correct. We've received no re-
25 sponse whatsoever.

1 Q All right, let's look at Exhibit Four.
2 If you could identify that, please.

3 A These are affidavits notifying all the
4 working interest owners in Section 16, notifying them of a
5 hearing for a forced pooling application to be heard on July
6 28th, 1987, which is the current date, and --

7 Q Did -- excuse me.

8 A And the return receipts signed by the
9 parties showing that they received the notification. It
10 would appear that the receipt for Mountain States is signed
11 with a signature that's very similar to an A. J. Blair.

12 Q All right. And did you direct your coun-
13 sel to send out notice to all the interested parties accor-
14 ding to Rule 1207?

15 A Yes, we did.

16 Q All right. In your opinion will granting
17 this application be in the best interest of conservation,
18 the prevention of waste, and protection of correlative
19 rights?

20 A Yes, it will.

21 Q And were Exhibits One, Three, and Four
22 prepared by you or at your direction?

23 A Yes, they were.

24 MR. HALL: All right. We'd
25 move the admission of One, Three, and Four, and that con-

1 cludes our direct of this witness.

2 MR. CATANACH: Exhibits One,
3 Three, and Four will be admitted into evidence at this time.

4 MR. HALL: I pass the witness.

5

6 CROSS EXAMINATION

7 BY MR. CATANACH:

8 Q Mr. Koelling, the west half was pulled by
9 R-8287 and that has expired, I guess.

10 A I believe that's the case.

11 Q The well was never drilled, was it?

12 A No. They had gone so far as to build a
13 location but in light of the arrangement we made on the In-
14 gram Federal, they've since abandoned that location with,
15 you know, there's -- as I understand it under the order
16 there's always the possibility of going ahead and drilling a
17 second well there. At this point it's -- the well's not
18 being planned to be drilled at this time.

19 Q Okay, but you do have voluntary agreement
20 for Mesa Grande.

21 A We have voluntary agreement from every-
22 body except Mountain States as to its signature on the oper-
23 ating agreement.

24 There are the two parties with the
25 small interests who, while they've signed the operating

1 agreement, have not remitted their share of dry hole costs.

2 Q Okay.

3 MR. CATANACH: I have nothing
4 further of this witness. He may be excused.

5

6 T. BRUCE PETITT,
7 being called as a witness and being duly sworn upon his
8 oath, testified as follows, to-wit:

9

10 DIRECT EXAMINATION

11 BY MR. HALL:

12 Q For the record state your name.

13 A My name is Bruce Petitt.

14 Q Mr. Petitt, where do you live and by whom
15 are you employed and in what capacity?

16 A I live in Tulsa, Oklahoma. I'm employed
17 by Reading & Bates Petroleum Company. I'm the Division
18 Manager for the Northwest Division.

19 Q And you previously testified before the
20 Division and had your credentials accepted, is that correct?

21 MR. HALL: Are the witness'
22 credentials acceptable at this time?

23 MR. CATANACH: He is so quali-
24 fied.

25 Q Mr. Petitt, are you familiar with the

1 subject well and application and land?

2 A Yes.

3 Q If you would, please, would you please
4 refer to Exhibit Two, identify that, and explain what it's
5 intended to reflect?

6 A Exhibit Two is our Authority for
7 Expenditure and Well Cost Estimate for the subject well, the
8 Ingram Federal 34-16, and it shows the breakdown of esti-
9 mated costs to drill and complete that well, and it shows
10 the total estimated costs for a completed well at this loca-
11 tion to be \$515,955.

12 Q Are those costs in line with what's being
13 charged in the area?

14 A Yes.

15 Q All right. Has Reading & Bates drilled
16 other Gavilan-Mancos wells in the area?

17 A One other.

18 Q And have participated in other Gavilan
19 wells?

20 A Yes. We've participated in others as a
21 non-operator.

22 Q Referring back to page two of Exhibit
23 Two, which is your well cost estimate, could you briefly re-
24 view some of those figures for the Examiner, the tangible
25 and intangible?

1 A Tangible well costs for the completed
2 well are estimated to be \$170,875. Intangible well costs for
3 a completed well are estimated to be \$345,080, giving you
4 that total of \$515,955.

5 Q All right. Now, I believe you testified
6 you've drilled other wells in the area.

7 Are you prepared to make a recommendation
8 as to the risk penalty that should be assessed against the
9 nonconsenting interest owners?

10 A Yes. We recommend that a 200 percent
11 penalty be assessed against the nonconsenting interest own-
12 ers.

13 Q And the basis of that recommendation is
14 what?

15 A It's based upon the risk of drilling poor
16 wells in the area. While we're drilling this well through
17 the Gavilan-Greenhorn-Graneros Pool it will be initially
18 completed in the Gavilan Mancos Pool and experience in that
19 pool has been that there's a wide variation of initial pot-
20 entials and reserves of those wells.

21 You can have a well like the well we
22 operate in the northeast southeast of Section 15 of Township
23 25 North, Range 2 West, that's capable of approximately 15
24 barrels a day and 480 MCF a day under the current high test-
25 ing allowable that's in place for that pool.

1 Or you can have a much better well than
2 that.

3 Q Okay. And does there exist a chance that
4 you will not drill a commercially successful well at this
5 location?

6 A Yes, that -- the results in this pool to
7 date would indicate to us that there's a risk of drilling an
8 uneconomic well at this location.

9 Q All right. What do you estimate your
10 overhead and administrative costs to be while drilling the
11 well and also while producing the well?

12 A We estimate the drilling overhead to be
13 \$3500 per month the producing overhead while the well is
14 producing to be \$500 per month.

15 Q And likewise are those costs in line with
16 what's being charged in the area?

17 A Yes.

18 Q Do you recommend that those figures be
19 incorporated into any order which results from the hearing?

20 A Yes.

21 Q And does Reading & Bates seek to be des-
22 ignated operator of the well?

23 A Yes.

24 Q In your opinion will granting the appli-
25 cation be in the best interests of conservation, the preven-

1 tion of waste, and protection of correlative rights?

2 A Yes.

3 Q And was Exhibit Two prepared by you or at
4 your direction?

5 A Yes.

6 MR. HALL: We move the admis-
7 sion of Exhibit Two and have no further questions of the
8 witness.

9 MR. CATANACH: Exhibit Two will
10 be admitted into evidence.

11

12 CROSS EXAMINATION

13 BY MR. CATANACH:

14 Q Mr. Petitt, what did you say the closest
15 producing well was to your proposed well?

16 A There may be a well that's closer in the
17 section immediately south to this one, but I believe the
18 closer well is the well that we operate in the northeast
19 southeast of Section 15. It's roughly one mile due east,
20 called the Howard Federal No. 43-15.

21 Q And that makes how much now, did you say?

22 A Approximately 15 barrel of oil per day
23 and about 480 MCF a day. This is under the -- in the Gavi-
24 lan Mancos Pool. This is the -- under the allowable that's
25 allowed for the months of July, August, and September.

1 Q Is that a fairly new well or --

2 A That well was drilled in the latter part
3 of 1985 and completed in the first part of 1986. It went on
4 production, I believe, November 26 of 1986.

5 So it's been on production about seven
6 months now.

7 Q Okay.

8 A The producing rate is essentially the
9 same or the capability is essentially the same as it was
10 when it was completed, or I'm sorry, not completed, but when
11 it went on initial production.

12 Q Where did you propose the well in rela-
13 tion to the -- to the Gavilan Mancos Pool? Is it in the
14 outer flank or --

15 A As it exists right now, it's roughly, the
16 pool could be seen as roughly a rectangle standing on end,
17 and this would be, I'd say, on the northwest fringes of the
18 pool. It would be, to my way of thinking, a step-out well
19 or a pool extension type well.

20 Q How deep is the proposed well going to
21 be?

22 A The proposed well, we show a proposed TD
23 of 8200 feet. Excuse me. In fact, this well has already
24 been drilled. It hasn't been completed yet but we've fin-
25 ished the drilling, I believe, July 19th, and our total

1 depth was 8,025 feet.

2 Q I want to make sure I understand the pool
3 situation in this area.

4 The Gavilan Mancos is one pool and your
5 secondary target is the Dakota?

6 A Right, and that Dakota formation is pro-
7 duced, the pool that produces the Dakota formation in that
8 area is called the Gavilan-Greenhorn-Graneros-Dakota. All
9 three of those formations are commonly perforated and fraced
10 together and so they're commingled when they're produced.

11 Q Do these two pools overlap?

12 A The Dakota is underneath. The Dakota-
13 Greenhorn-Graneros is underneath the Gavilan Mancos Pool.

14 The development in this area is mostly
15 the Cavilan-Mancos Pool. There are some Gavilan-Greenhorn-
16 Graneros-Dakota wells but the thrust of our drilling and it
17 seem to be most other people's drilling in this immediate
18 area is to get the Gavilan Mancos on production as it's
19 being drained by offsetting wells.

20 Q What's the spacing in the Greenhorn-Gra-
21 neros-Dakota?

22 A I believe the standard spacing unit in
23 that is 320 acres. That pool is due for rehearing as the
24 Gavilan-Mancos was, but to my knowledge the rehearing of
25 that has not been set yet.

1 Q Well, is there a chance that this well
2 could be dually completed or I'm not sure I understand what
3 --

4 A We don't intend to dual complete this
5 well. We intend to complete it in the Mancos, the Gavilan
6 Mancos Pool and deplete the Gavilan Mancos Pool and then re-
7 complete the well at a later date into the Gavilan-Green-
8 horn-Graneros-Dakota Pool.

9 But it would be physically possible to
10 dual complete this well.

11 Q Okay, so --

12 A But there -- but there are risks asso-
13 ciated with that, too, and producing problems --

14 Q I'm not suggesting --

15 A -- associated with that.

16 Q But you will deplete the Mancos first and
17 then probably go down --

18 A Right. We feel that that's the priority
19 required by the situation here.

20 Q Mr. Pettitt, your overhead rate of \$3500 a
21 month, is that in line with what's being charged in that
22 area?

23 A Yes.

24 Q Generally the rule of thumb was producing
25 rates about 10 percent of the drilling rates. That's not

1 correct in your case? How would you determine the producing
2 rates?

3 A Based on what we've seen lately, I would
4 make the general comment that our drilling overhead rate is
5 probably below what is being charged.

6 The producing overhead rate of \$500 per
7 month, I'd say is the middle of the road as far as what's
8 being charged now. I approved an invoice for about a 15-
9 barrel a day pumping well in Wyoming that was \$616 per month
10 and depending on the date of the -- and the terms of the
11 operating agreements involved, it, you know, varies within
12 that range. But I'd say \$500 is an average monthly produc-
13 ing overhead rate and \$3500 per month for a drilling over-
14 head rate is probably on the order of \$1000 or \$1500 less
15 than the going rate.

16 Q Have your consenting interest owners
17 signed operating agreements that reflect those overhead
18 rates?

19 A Yes, they have.

20 Q Nobody's objected to them?

21 A No, no objections.

22 Mr. Examiner, if I may make a point, ac-
23 tually we got those rates from some of the operating agree-
24 ments which some of our partners initiated when they were
25 operating, so --

1 Q Okay.

2 MR. CATANACH: I don't think I
3 have any more questions. The witness may be excused.

4 Is there anything further in
5 Case 9183?

6 MR. HALL: We'll request an
7 expedited order.

8 MR. CATANACH: Okay, is that it,
9 then?

10 MR. HALL: That's it.

11 MR. CATANACH: There being
12 nothing further in Case 9183, it will be taken under
13 advisement.

14

15 (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. 7183,
heard by me on 7/29/ 1987.

David R. Catant, Examiner
Oil Conservation Division