

1 STATE OF NEW MEXICO
2 ENERGY, MINERALS, AND NATURAL RESOURCES DEPARTMENT
3 OIL CONSERVATION DIVISION
4 STATE LAND OFFICE BLDG.
5 SANTA FE, NEW MEXICO

6 16 December 1987

7 EXAMINER HEARING

8 IN THE MATTER OF:

9 Application of Reading & Bates Pet- CASE
10 roleum Company for compulsory pooling, 9277
11 Rio Arriba County, New Mexico.

12
13
14 BEFORE: David R. Catanach, Examiner

15
16
17 TRANSCRIPT OF HEARING

18
19
20 A P P E A R A N C E S

21 For the Division: Jeff Taylor
22 Attorney at Law
23 Legal Counsel to the Division
24 State Land Office Bldg.
25 Santa Fe, New Mexico 87501

For the Applicant:

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

MR. CATANACH: Call next Case 9277.

MR. TAYLOR: Application of Reading & Bates Petroleum Company for compulsory pooling, Rio Arriba County, New Mexico.

The applicant has requested that this case be continued.

MR. CATANACH: Case 9277 will be continued to the January 6th, 1988 hearing.

(Hearing concluded.)

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

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

FILED
DEC 16 1987
HEARD BY ME ON December 16, 1987
David R. Catamb, Examiner
Oil Conservation Division

1 STATE OF NEW MEXICO
2 ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
3 OIL CONSERVATION DIVISION
4 STATE LAND OFFICE BUILDING
5 SANTA FE, NEW MEXICO

6 6 January 1988

7 EXAMINER HEARING

8 IN THE MATTER OF:

9 Application of Reading and Bates Com- CASE
10 pany for compulsory pooling, Rio 9277
11 Arriba County, New Mexico.

12
13 BEFORE: Michael E. Stogner, Examiner
14
15

16 TRANSCRIPT OF HEARING
17
18

19 A P P E A R A N C E S
20
21

22 For the Division:
23
24

25 For the Applicant: Scott Hall
Attorney at Law
CAMPBELL & BLACK P.A.
P. O. Box 2208
Santa Fe, New Mexico 87501

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

I N D E X

ERIC KOELLING

Direct Examination by Mr. Hall	4
Cross Examination by Mr. Stogner	8
Redirect Examination by Mr. Hall	16

T. BRUCE PETITT

Direct Examination by Mr. Hall	17
Cross Examination by Mr. Stogner	20

E X H I B I T S

R & B Exhibit One, Production Map	5
R & B Exhibit Two, Ownership Map	5
R & B Exhibit Three, Letter	6
R & B Exhibit Four, Notice	7
R & B Exhibit Five, AFE	17

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

MR. STOGNER: Call next Case Number 9277, which is in the matter of the application of Reading and Bates Company for compulsory pooling, Rio Arriba County, New Mexico.

Call for appearances in this case.

MR. HALL: Scott Hall with the Campbell & Black law firm, Santa Fe, appearing on behalf of Reading and Bates. I have two witnesses in this matter.

MR. STOGNER: Are there other appearances in this matter?

Will the witnesses please stand and be sworn?

(Witnesses sworn.)

MR. STOGNER: Mr. Hall, you may proceed.

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

DIRECT EXAMINATION

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

BY MR. HALL:

Q For the record please state your name.

A Eric Koelling.

Q Mr. Koelling, where do you live and by whom are you employed?

A I live in Tulsa, Oklahoma. I'm employed by Reading and Bates. I'm Assistant Land Manager.

Q And have you previously testified before the Division and had your credentials accepted?

A Yes, I have.

Q Are you familiar with the application in this case?

A Yes, I am.

Q What is it that Reading and Bates seeks by this application?

A We're seeking the compulsory pooling of those interests which haven't voluntarily joined for a well to be drilled in Section 10 of 25 North, 2 West, Rio Arriba County, New Mexico.

Q Okay, and in what formation will the well be completed?

A It will be completed in the Gavilan Mancos Oil Pool, although it will be drilled through the Dakota.

1 Q All right, let's look at Exhibit One.
2 Would you identify that to the hearing examiner, please?

3 A Exhibit One is a production map of the
4 offset production for the Davis Federal Well. It shows the
5 (unclear) well located in Section 10.

6 Q All right, let's turn to Exhibit Two and
7 would you identify that and explain what that shows for the
8 hearing examiner?

9 A That shows -- that shows the leasehold
10 ownership in Section 10 of 25 North, 2 West, the parties in-
11 volved and lease numbers.

12 Q Will you tell the hearing examiner what
13 the breakdown is for the proposed spacing unit and what per-
14 centage of the unit (unclear)?

15 A Well, as you can see, the ownership
16 breakdown is somewhat extensive.

17 There are a number of companies in there
18 at this time. 37-1/2 percent has voluntarily agreed to
19 join. We expect to have joinder on another 31 percent from
20 Exxon, either through joining or farming out, although we
21 don't have that at this time.

22 The other small interests, we've either
23 received joinders or expect to join, except for Mountain
24 States, which we've not had a response from.

25 Q As of this date, anyway.

1 A As of this date.

2 Q How much of the interest is voluntarily
3 committed?

4 A As of this date voluntarily committed in
5 writing we have approximately 40 percent.

6 Q All right. Would you summarize the ef-
7 forts of Reading and Bates to secure voluntary joinder from
8 all the interest owners?

9 A We sent out initially letters to everyone
10 with an AFE and operating agreement. That was sent over-
11 night mail so we'd have records of delivery and that type of
12 thing.

13 We then followed it up with phone calls
14 to the various parties and have had various conversations
15 with parties since then.

16 Q All right. Is Exhibit Three a copy of
17 your notice letter (unclear tape).

18 A Yes, it did, AFE and operating agreement.

19 Q Has Reading and Bates made a good faith
20 effort to locate all individuals and interest owners and
21 obtain their voluntary joinder?

22 A Yes.

23 Q Has Reading and Bates drilled other
24 Gavilan Mancos Wells in the immediate area?

25 A Yes, we have.

1 Q Let's look at Exhibit Four, please.
2 Would you identify that for the hearing examiner?

3 A Oh, that's the notice of hearing sent by
4 registered mail.

5 MR. HALL: Also, Mr. Examiner,
6 I will state for the record that Reading and Bates directed
7 our law firm to send out notice and that we have complied
8 with the requirements of Rule 1207.

9 MR. STOGNER: Thank you, Mr.
10 Hall.

11 Q Mr. Koelling, has Reading and Bates re-
12 quested an extended effective date for any pooling order
13 that results from this application?

14 A Yes, we'd like, in an effort to make vol-
15 untary joinder as convenient as possible for our partners,
16 some of whom are still reviewing, we'd like to request, say,
17 a 90-day period for the order to be in effect, within which
18 they would have 30 days to remit their funds, to join before
19 being nonconsent, 30 days after our notice to them.

20 This would give some of the parties still
21 reviewing it time to sufficiently look at it and make up
22 their minds rather than putting them in a position to have
23 to go nonconsent right away.

24 Q Mr. Koelling, in your opinion will the
25 granting of this application be in the interest of conserva-

1 tion, the prevention of waste, and the protection of correl-
2 ative rights?

3 A Yes.

4 MR. HALL: We have nothing fur-
5 ther of this witness.

6

7 CROSS EXAMINATION

8 BY MR. STOGNER:

9 Q Let's go back to Exhibit Two, there are
10 several Federal leases and State and fee leases, is that
11 correct?

12 A Yes, it is.

13 Q All right, let's take a moment just for
14 safety and go over this.

15 The first one is SF081307. Have all
16 those parties agreed?

17 A Well, as you can see, Reading and Bates
18 and Hooper Kimbell has verbally agreed as we've indicated.
19 Petroleum Corporation of Texas has agreed. The W. Clark
20 Trust, Testamentary William Oatman and Carolyn Clark Oatman
21 have not agreed in writing. I've discussed it with them and
22 it appears they will join.

23 Q That W. C. Trust, they also are acting
24 for the Test Trust and the Oatman?

25 A Well, yeah. What you've got there is an

1 inter-mixed family and there's a Warren Clark Trust.
2 There's a testamentary under the will of Warren Clark and
3 then there's Carolyn Clark Oatman, and the parties are more
4 or less related and speak as one interest normally and
5 they've indicated their verbal willingness to join.

6 Q All righty. Let's go to the one under-
7 neath that. That's the NMO3756.

8 A Right. Mountain States we have not heard
9 back from yet. The Duer Wagner and the Ralph Gilliland in-
10 terest we've had responses from. They've signed the AFE.
11 We're still negotiating on the operating agreement but we
12 believe they'll join.

13 Q All righty, and then how about the next
14 one, the New Mexico 03757, Exxon, 100 percent.

15 A We've talked to Exxon at various times.
16 They have in the past indicated they'd join; however, this
17 being (unclear) well, I've talked to them several times in
18 the past couple of days. They think they'll join. They
19 might farmout. They'll probably do something.

20 Q How about Meridian?

21 A Meridian has indicated they would like to
22 sell their acreage. We've -- we know of a party who's prob-
23 ably interested in acquiring it. We put those two together.
24 They haven't negotiated the sale yet. We know the party in-
25 terested in buying it will join and so again with a little

1 extra time on the order Meridian should probably sell.

2 Q And SFO081332? It looks somewhat like
3 the first one.

4 A Well, actually they are more identical
5 than it looks like because Ibex, P.C. Ltd., is the more cur-
6 rent ownership of Petroleum Corporation of Texas. They're
7 in 081307 because they do have record title but it's held
8 for all practical purposes in Ibex and P.C. Limited, which
9 are the successors in interest (not understood) with common
10 management.

11 Q And the lease under that one is Exxon.
12 The same story as your previous Exxon?

13 A Exactly.

14 Q And then SFO79335 looks like a fee lease
15 with Dugan as 100 percent owner.

16 A That's correct. Dugan has entered into a
17 farmout agreement with us and that's been a letter of intent
18 signed and documents executed.

19 Q Okay. Does that hold true for Dugan in
20 the lease right directly under it?

21 A Yes, it does.

22 Q And underneath, E. L. Fundings Land?

23 A They've joined verbally and we haven't
24 executed the documents as yet.

25 Q Okay. Let's now refer now to Exhibit

1 Number Three. This is your letter to all the working inter-
2 est owners which you --

3 A Uh-huh.

4 Q -- which we have just gone through, is
5 that correct?

6 A Yes.

7 Q All right. Now when was this actually
8 sent?

9 A Well, it was sent, as you can see from
10 the letter, we originally proposed this well earlier, as --
11 as early as November, '86, at one time, and then our plans
12 changed. The spacing, of course, changed in this area, and
13 it was in effect taken out of active consideration by our-
14 selves as a well we wanted to drill.

15 We resubmitted it to everybody on October
16 the 9th in order to give them an opportunity to participate
17 at that time.

18 Q So this wasn't the document that was sent
19 out at the time that Exhibit Number Four reflects?

20 A No.

21 Q Okay.

22 A We sent the notice to everybody first to
23 see if they'd join; gave them time to join, talked to them,
24 and then entered into the forced pooling for those people
25 that we thought wouldn't join, primarily Mountain States,

1 and then just to have an administrative procedure in hand
2 that we could use so that we could get the -- the well put
3 together.

4 Q Okay. Now do I have a copy of the letter
5 which was sent out with the notice?

6 MR. HALL: Could we go off the
7 record just a second?

8 MR. STOGNER: Okay, this ought
9 to be interesting.

10

11 (Thereupon a discussion was had off the record.)

12

13 MR. STOGNER: Now we'll go back
14 on the record.

15 MR. HALL: Thank you. Mr. Exa-
16 miner, we're unable to provide you with a copy of the notice
17 letter. I'm preparing that today, but in time for the hear-
18 ing, so we will supplement the record later with the affida-
19 vit and original letter.

20 MR. STOGNER: Thank you, Mr.
21 Hall.

22 MR. HALL: You're welcome.

23 Q Mr. Koelling, you requested during your
24 testimony a 90-day effective period. Can you run that by me
25 again?

1 A Well, our thinking on it is, and we've
2 done this with good results in two other wells we've drilled
3 in the adjacent township to the west, if the order had -- if
4 -- normally, as I understand it, a forced pooling order is
5 effective for a period of 30 days within which the companies
6 that have been force pooled have the opportunity to respond
7 with funds to join in the well.

8 What we'd like to do is extend the period
9 of time for which the order is effective such that within,
10 say, a 90-day period of time we would be able to in effect
11 cash call the partners and have they provide funds within 30
12 days after that notice so that they would have more time for
13 on, Exxon to review their plans, Meridian to make their sale
14 arrangements, and give us the opportunity to put the deal
15 together with more voluntary participation, at the same time
16 providing us with an order in place so that we don't have to
17 delay unnecessarily to get -- let these other companies make
18 their arrangements and then come in for a hearing and then
19 have an additional 30-day period after that.

20 Q When do you got to have a well drilled?

21 A Well, we don't have a lease obligation
22 deadline at this time or we have a farmout obligation from
23 Dugan of, I believe, March 15th, although I'm going by
24 memory on that, and that's our -- that's our earliest
25 contractual deadline.

1 Q I guess what I'm wondering is if I was
2 one of those lease operators would I see this as a threat
3 held over my head?

4 A I don't think anybody has so far, and I
5 have discussed it with everybody in that light.

6 Our real concern, I really don't think
7 we'll have a problem with Meridian or Exxon, and one of the
8 reasons for the extension is to not make it appear as though
9 it's a threat over their head, to give them time to put
10 things together, which is the way I've explained it to them
11 and -- and what we've talked about.

12 My only concern is Mountain States, which
13 historically has never responded and I don't have any reason
14 to think they'll respond in this case, so I do think we'll
15 have to have a forced pooling hearing. If we can have it
16 now and if we have enough time to let the other companies --
17 give the other companies adequate time to make their deci-
18 sion on what they want to do, it seems to me we will have
19 succeeded in providing a mechanism for Mountain States so
20 that we don't have to have an outstanding interest at the
21 same time we will, through a longer time period, give the
22 other companies a chance to either join or sell or farmout
23 without making it appear that we're using that as a club
24 over their heads.

25 Q Now, when you say you've talked to these

1 other people, are you referring by letter or telephone or
2 how have you communicated to them?

3 A Primarily by telephone. As I say, Exxon
4 and Meridian both with several phone calls and Meridian with
5 one or two letters, and again I've talked to them in terms
6 of not wanting them to think this is something we're doing
7 to force them into a position they don't want to be in but
8 rather give them an opportunity to decide what they want to
9 do.

10 Exxon still sounds like they will prob-
11 ably join; it's just a matter of getting management appro-
12 val.

13 Meridian, I think, will be able to con-
14 summate a sale and consequently, the party they sell to will
15 join.

16 So I really don't think anybody has any
17 problem with it, and, of course, as you can see, nobody's
18 shown up to protest or in any way dispute the proceedings.

19 Q Okay, it appears to me, also, when I re-
20 view this list, most of them are independent oilmen.

21 A That's --

22 Q Correct?

23 A Yes.

24 Q Or an independent company.

25 A Yes.

1 Q And you normally find a larger company,
2 such as Exxon or Meridian, a little bit slower in responding
3 because of its internal bureaucracy?

4 A Absolutely.

5 MR. STOGNER: I have no further
6 questions of this witness.

7 Do you have any other
8 questions, Mr. Hall?

9 MR. HALL: One additional.

10

11

REDIRECT EXAMINATION

12 BY MR. HALL:

13 Q Mr. Koelling, were Exhibits One through
14 Four prepared by you or at your direction?

15 A Yes. they were.

16 MR. HALL: We'd move the
17 admission of Exhibits One through Four.

18 MR. STOGNER: Thank you, Mr.
19 Hall. Exhibits One through Four will be admitted into
20 evidence at this time.

21 If there's no other questions
22 of Mr. Koelling, he may be excused.

23 A Thank you.

24

25

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

T. BRUCE PETITT,

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

DIRECT EXAMINATION

BY MR. HALL:

Q For the record please state your name.

A Bruce Petitt.

Q Mr. Petitt, by whom are you employed?

A I'm employed by Reading and Bates Petroleum Company.

Q And in what capacity?

A I'm the Northwest Division Manager for the Northwest Division.

Q And are you a petroleum engineer?

A Yes.

Q All right. Have you previously testified before the Division?

A Yes, I have.

Q Have you prepared certain exhibits for this hearing today?

A Yes, I have.

Q All right, let's look at Exhibit Five. Why don't you identify that and explain to the hearing exam-

1 iner what that shows?

2 A Exhibit Five is an Authorization for
3 Expenditure, Authority for Expenditure, Authorization for
4 Expenditure, with an attached detailed well cost estimate
5 and an attachment showing the working interest participation
6 in this well.

7 Q And this is for the 24-10 Davis Federal
8 Well?

9 A Yes. This AFE is for the drilling of the
10 Davis Federal 24-10 Well.

11 Q All right. What is the total for the
12 completed well reflected on the AFE?

13 A That number is \$521,355.

14 Q Now is that cost in line with what's
15 being charged in the area for other like wells?

16 A Yes.

17 Q Mr. Petitt, can you make the recommenda-
18 tion to the Examiner as to a risk penalty that should be im-
19 posed on nonconsenting interest owners in this well?

20 A Yes. We're recommending that the
21 Examiner impose a 200 percent penalty against the noncon-
22 senting interest owners.

23 Q What do you base that on?

24 A We base the 200 percent risk penalty on
25 the possibility of drilling unsuccessful wells in this

1 area.

2 Q Do you believe that there is in fact a
3 chance you can drill a nonsuccessful well?

4 A Yes.

5 Q What is the basis of that?

6 A I think Exhibit One shows the offsetting
7 production in August of '87. In August of '87 the allow-
8 ables for this field were quite high and so I believe that
9 the daily production potential shown on Exhibit One is the
10 maximum potential of the wells in this area and you can see
11 that the Howard Federal Well in Section 15 was capable of 11
12 barrels of oil a day, 462 MCF.

13 The High Adventure No. 2 in Section 9 was
14 capable of 29 barrels of oil a day and 269 MCF.

15 So it shows that there's a variability in
16 the producing potential of the wells out there and there is
17 a chance of drilling a noncommercial well.

18 Q All right. Have you made an estimate of
19 overhead and administrative costs while both drilling and
20 producing the well?

21 A Yes. The drilling overhead is \$3500 per
22 month and the producing overhead would be \$500 per month.

23 Q And are those costs in line with what's
24 being charged in the area?

25 A Yes.

1 Q Would you recommend that those figures be
2 incorporated into any order that results from this hearing?

3 A Yes.

4 Q And Reading and Bates seeks to be desig-
5 nated operator, does it not?

6 A Yes, we do.

7 Q All right. Mr. Petitt, in your opinion
8 will the granting of this application be in the best inter-
9 est of conservation, the protection of correlative rights,
10 and prevention of waste?

11 A Yes, it will.

12 Q Was Exhibit Five prepared by you?

13 A Yes.

14 MR. HALL: We'd move the admis-
15 sion of Exhibit Five and that concludes our direct of this
16 witness.

17 MR. STOGNER: Exhibit Number
18 Five will be admitted into evidence.

19

20 CROSS EXAMINATION

21 BY MR. STOGNER:

22 Q Mr. Petitt, whenever I look at your AFE,
23 first page of it, what is the dry hole cost for this well?

24 A A dry hole cost is \$195,355. That number
25 appearing on this AFE is perhaps somewhat erroneous. In

1 most other areas that we drill a well can be properly eval-
2 uated after the dry hole phase of the well with logs, mud
3 logs, cores, et cetera.

4 The wells in the Gavilan Mancos Field
5 cannot be evaluated without running casing and preparing
6 them for completion and actually making the full production
7 test, so the cost of a dry hole or a completed well is
8 essentially the same in the Gavilan Mancos Pool.

9 Q The majority of that cost, of course,
10 being the casing and the cement, correct?

11 A Casing, cementing, and the completion,
12 I'd say.

13 Q Now you're proposing the TD on this well
14 to be 8200 feet.

15 A Right.

16 Q And that will -- that depth will cover
17 the entire Gavilan Mancos Pool?

18 A Yes, it will, and it will further extend
19 through the Gavilan Graneros, Greenhorn-Graneros-Dakota
20 Pool. We plan to complete in the Mancos and deplet it and
21 complete later after that's depleted in the Gavilan-
22 Greenhorn-Graneros-Dakota Pool.

23 Q Okay. Now, at the last page, or the
24 third page of your exhibit, you show an attachment to an AFE
25 and then you show some percentages for companies. Would you

1 explain that?

2 A If you went back to the first page it
3 says Reading and Bates Petroleum -- well, on the bottom
4 righthand corner of that page it shows companies percentage
5 and shares. We would -- Reading and Bates Petroleum Company
6 will start with a 6-1/4 percent interest participation in
7 this well. We'll gain other interests through farmouts, but
8 as it stands right now, the Reading and Bates 6-1/4 and the
9 list on the last page of companies and their interests are
10 what the actual lease holdings in that section are.

11 Q So if I add all those figures up on the
12 last page I wouldn't necessarily get 100 because you all are
13 not showing your own interest, is that correct?

14 A Right, you have to add another 6-1/4 per-
15 cent to get 100.

16 MR. HALL: Mr. Examiner, I
17 might also point out in the last page of that exhibit it re-
18 flects an interest for Mesa Grande Limited. It's since been
19 determined that Mesa Grande does not have any interest in
20 the objective horizon.

21 MR. STOGNER: So whose 18-3/4
22 percent should that go to?

23 MR. HALL: We can put Mr.
24 Koelling back on to explain that if you wish.

25 MR. STOGNER: Well, I don't

1 need an explanation in detail. Is it cut up with several of
2 the others?

3 MR. KOELLING: It just goes to
4 Dugan. We though at one time Mesa Grande owned the interest
5 but Dugan owns the interest shown there plus the amount Mesa
6 Grande is showing there. It turns out Mesa Grande's inter-
7 est was only in the shallow rights and Dugan owns the deep
8 rights there as well, so they've just got a bigger interest
9 than we first thought.

10 MR. STOGNER: So I'll just mark
11 out Mesa Grande and put Dugan. Thank you.

12 And you're requesting a 200
13 percent risk penalty, is that correct?

14 A Yes.

15 MR. STOGNER: Okay. I have no
16 further questions of Mr. Pettitt.

17 Are there any other questions
18 of this witness?

19 MR. HALL: No, sir.

20 MR. STOGNER: He may be
21 excused.

22 Mr. Hall, do you have anything
23 further in this case?

24 MR. HALL: No, sir.

25 MR. STOGNER: Does anybody else

1 have anything further in Case Number 9277?

2 This case will be taken under
3 advisement.

4

5

(Hearing concluded.)

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

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. 9277, heard by me on 6 January 1988.

Michael [Signature], Examiner
Oil Conservation Division