

STATE OF NEW MEXICO
 ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
 OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING CALLED BY)
 THE OIL CONSERVATION DIVISION FOR THE)
 PURPOSE OF CONSIDERING:)
)
 APPLICATION OF RICHARDSON PRODUCTION)
 COMPANY FOR COMPULSORY POOLING, SAN JUAN)
 COUNTY, NEW MEXICO)
)

CASE NO. 12,853

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID K. BROOKS, Hearing Examiner

July 11th, 2002

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID K. BROOKS, Hearing Examiner, on Thursday, July 11th, 2002, at the Aztec City Council Chamber, Aztec City Hall, 201 West Chaco, Aztec, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

STEVEN T. BRENNER, CCR
 (505) 989-9317

OIL CONSERVATION DIV.
 JUL 30 AM 12:56

I N D E X

July 11th, 2002
Examiner Hearing
CASE NO. 12,853

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* * *

A P P E A R A N C E S

FOR THE DIVISION:

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FOR THE APPLICANT:

KELLAHIN & KELLAHIN
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P.O. Box 2265
Santa Fe, New Mexico 87504-2265
By: W. THOMAS KELLAHIN

ALSO PRESENT:

MICHAEL E. STOGNER
Hearing Examiner
New Mexico Oil Conservation Division
1220 South Saint Francis Drive
Santa Fe, NM 87501

* * *

1 WHEREUPON, the following proceedings were had at
2 11:42 a.m.:

3

4 EXAMINER BROOKS: Call the hearing back to order.
5 At this time we'll call -- Well, first of all, Mr.
6 Kellahin, you said we were going to consolidate two of
7 these. Which two are those?

8 MR. KELLAHIN: Let me show you what the ownership
9 is, and we can decide in the first case for the A-3 well
10 that is in Section 8. It's a group of owners that are
11 different from the next two.

12 EXAMINER BROOKS: Okay.

13 MR. KELLAHIN: The second two is a different
14 section, but the coal well and the additional PC well are
15 the same group of owners, so the last two could be
16 consolidated.

17 EXAMINER BROOKS: Okay, at this time we'll call
18 Case Number 12,853, Application of Richardson Production
19 Company for compulsory pooling, San Juan County, New
20 Mexico.

21 Call for appearances.

22 MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin of
23 the Santa Fe law firm of Kellahin and Kellahin, appearing
24 on behalf of the Applicant, and I have two witnesses to be
25 sworn.

1 EXAMINER BROOKS: Okay, would the witnesses
2 please be sworn? Will you state your names, please for the
3 record?

4 MR. LEHRMAN: Paul Lehrman.

5 MR. RICHARDSON: David Richardson.

6 (Thereupon, the witnesses were sworn.)

7 MR. KELLAHIN: Paul, if you'll come up here.

8 PAUL LEHRMAN,

9 the witness herein, after having been first duly sworn upon
10 his oath, was examined and testified as follows:

11 DIRECT EXAMINATION

12 BY MR. KELLAHIN:

13 Q. Mr. Lehrman, on prior occasions have you
14 testified before the Division?

15 A. No, I have not.

16 Q. What is your occupation?

17 A. Independent landman.

18 Q. Let's go through some of your qualifications.

19 For the record, sir, would you please state your name and
20 how to spell your last name?

21 A. Paul Lehrman, L-e-h-r-m-a-n.

22 Q. And where do you reside?

23 A. Farmington, New Mexico.

24 Q. For this case and the following two cases, you're
25 acting as a consulting landman for Richardson Operating

1 Company?

2 A. That's correct.

3 Q. Are you familiar with the land titles and chains
4 of title and identifying ownership?

5 A. Yes, I am.

6 Q. Okay. And have you been provided Richardson's
7 records in this case to review and compile the remaining
8 interest owners who have not committed their interest to
9 the spacing unit?

10 A. Yes, I have.

11 MR. KELLAHIN: We tender Mr. Lehrman as an expert
12 witness.

13 EXAMINER BROOKS: He is so qualified.

14 Q. (By Mr. Kellahin) Let's start with the exhibit
15 package, and if you'll turn to Exhibit Number 1 --

16 A. Okay.

17 Q. -- let's orient the Examiner to what Mr.
18 Richardson proposes to do with this well. If you'll look
19 at the plan, it shows an entire section?

20 A. That's correct.

21 Q. How is that section to be dedicated to the coal
22 formation for this well?

23 A. The ROPCO 8-3 will be a south-half Basin
24 Fruitland Coal.

25 Q. In addition, is the Well also to be completed in

1 the Pictured Cliffs?

2 A. That's correct, in the southwest quarter.

3 Q. The southwest quarter of the section would be the
4 dedication for the 160-acre Pictured Cliff?

5 A. That's correct.

6 Q. Is the ownership the same in the southwest
7 quarter as in the southeast quarter?

8 A. No, it is not.

9 Q. Okay. Do you have a tabulation of the ownership?

10 A. Yes, we do. Those are the further exhibits
11 attached as part of the package.

12 Q. Let's look at those together. If you'll look at
13 Exhibit 2, what portion of the south half does this
14 represent?

15 A. I'm sorry, could you repeat that question?

16 Q. Do you have Exhibit Number 2?

17 A. Yes.

18 Q. All right. What portion of the south-half
19 ownership does this display represent?

20 A. Just a little over 2 percent.

21 Q. No, I meant what portion, what acreage portion?

22 A. Oh, the southwest quarter.

23 Q. All right. Within the southwest quarter, this
24 identifies what type of owners?

25 A. The mineral owners, unleased mineral owners.

1 Q. Okay, and the total uncommitted percentage is a
2 little over 2 percent?

3 A. That's correct.

4 Q. The remaining owners are already voluntarily
5 committed in some fashion?

6 A. That's correct.

7 Q. If you move over into Exhibit 3, in Exhibit 3,
8 what are we seeing here?

9 A. This is a tabulation of the unleased mineral
10 owners in the entire south half of Section 8.

11 Q. So we could use Exhibit 3 to see the remaining
12 uncommitted owners for the south half?

13 A. That's correct.

14 Q. And they repeat some of the same parties that are
15 shown on Exhibit 2?

16 A. They do.

17 Q. When we look for a spacing unit to be committed
18 in the south half of the section for the Coal Pool, what's
19 the total uncommitted percentage?

20 A. 1.9 percent.

21 Q. As a result of your examinations of the
22 Richardson records, are you satisfied that these are still
23 the parties that are uncommitted to the well?

24 A. Yes, I am.

25 Q. With regards to the addresses, are these the most

1 current efforts by Richardson to locate proper addresses
2 for these people?

3 A. Yes, it appears after going through their files
4 that they went through the county records, Internet, phone
5 book, they made every attempt to try to find the local
6 addresses for all these individual land owners, mineral
7 owners.

8 Q. Let's turn to the package of correspondence that
9 is collectively stapled together as Exhibit Number 4.

10 A. Okay.

11 Q. What is contained within this package of
12 documents?

13 A. This is a copy of the certified letter that was
14 mailed out to each individual mineral owner, along with
15 copies of the envelopes and the return receipt cards that
16 were part of the package that were mailed to each owner.

17 Q. What's the date of the letter?

18 A. March 6th, 2002.

19 Q. What is the purported purpose of the letter?

20 A. To ask the individual mineral owners to join in
21 the well.

22 Q. Did that letter also submit to those parties a
23 proposed AFE for the cost of that well?

24 A. Yes, it did.

25 Q. Do the files reflect whether or not any of these

1 parties have responded to this proposal?

2 A. Yes, some of the certified cards were signed and
3 returned to Richardson. I believe some of these were not
4 deliverable for different reasons, which are shown on the
5 copies for the envelopes.

6 Q. And if it was a proposal for a well that was
7 returned to Richardson, did Richardson make an effort to
8 reconfirm that the address used was the best available
9 address?

10 A. Yes, I believe they did.

11 Q. Let's turn now to Exhibit Number 5. This is my
12 certificate of notice for the hearing. If you'll look at
13 the certificate, there is a tabulation of parties to whom
14 notice of hearing was sent.

15 A. Page 3?

16 Q. Yes, sir.

17 A. Okay.

18 Q. Does this still represent the parties that are
19 uncommitted as to participation on a voluntary basis in
20 this well?

21 A. Yes, it does.

22 MR. KELLAHIN: That concludes my examination of
23 this witness.

24 We move the introduction of his Exhibits 1
25 through 5.

1 EXAMINER BROOKS: Exhibits 1 through 5 are
2 admitted.

3 I assume, as usually is the case with Richardson,
4 as has been the case with previous Richardson compulsory
5 poolings that I've done, that it will be requested that
6 Richardson Operating Company be named as operator of this
7 unit?

8 MR. KELLAHIN: Yes, sir. Mr. David Richardson,
9 the owner of the company, will testify that the ownership
10 company is Richardson Production Company, and that the
11 operational portion of his organization would be Richardson
12 Operating Company, and that's the party to whom you name as
13 the designated operator.

14 EXAMINER BROOKS: Very good, thank you.

15 Now, the two horizons that have been identified
16 were the Fruitland Coal and the Pictured Cliffs. Is the
17 request for pooling from the surface to the base of the
18 Pictured Cliffs?

19 MR. KELLAHIN: I believe the -- Let me make sure
20 there's no subdivision of the ownership.

21 Mr. Examiner, the request is from the surface to
22 the base of the Pictured Cliffs, the Pictured Cliffs being
23 identified as the primary formation that's spaced on 160
24 acres, and then pooling down through the base of the coal
25 for the 320-acre-spaced pools of which we've identified the

1 Coal Pool as the major target.

2 EXAMINER BROOKS: Okay, and this is the Basin-
3 Fruitland Coal and the Twin Mounds-Pictured Cliffs?

4 MR. KELLAHIN: We believe those to be correct
5 nomenclatures.

6 EXAMINATION

7 BY MR. BROOKS:

8 Q. Okay. Now, except for these percentages of
9 unleased mineral interests that are shown on these
10 exhibits, 2.06 percent in the Pictured Cliffs and 1.91
11 percent in the Fruitland, have all owners of working
12 interests voluntarily joined in the proposed unit?

13 A. That's correct.

14 EXAMINER BROOKS: That's all I have.

15 MR. KELLAHIN: Thank you.

16 DAVID B. RICHARDSON,

17 the witness herein, after having been first duly sworn upon
18 his oath, was examined and testified as follows:

19 DIRECT EXAMINATION

20 BY MR. KELLAHIN:

21 Q. Mr. Richardson, for the record, sir, would you
22 please state your name and occupation?

23 A. David B. Richardson, president, Richardson
24 Operating Company.

25 Q. Where do you reside, sir?

1 A. Denver, Colorado.

2 Q. You are an experienced geologist by profession?

3 A. Yes, I am.

4 Q. And this is your company, both the operating
5 company and the ownership company?

6 A. Yes, it is.

7 Q. And questions about this well proposal, the cost
8 and the risk associated with this well, are your opinions
9 and conclusions?

10 A. Yes, they are.

11 Q. Have you testified before the Division in prior
12 pooling cases that are like this?

13 A. Yes, I have.

14 Q. You have sought pooling orders for Pictured Cliff
15 wells, and then for combinations of a PC dualled or
16 commingled with the coal?

17 A. Yes, I have.

18 MR. KELLAHIN: We tender Mr. Richardson as an
19 expert witness.

20 EXAMINER BROOKS: His qualifications are
21 accepted.

22 Q. (By Mr. Kellahin) Mr. Richardson, let's start
23 with a short review of your geologic summaries concerning
24 this particular well. After the summary, are you able to
25 reach an expert conclusion about the risk associated with

1 the Pictured Cliff portion of this well?

2 A. Yes.

3 Q. The Division is entitled or allowed by statute to
4 award you the recovery out of future production of the
5 costs of the well plus two more times --

6 A. Yes.

7 Q. -- as to the Pictured Cliffs. You're aware of
8 that?

9 A. Yes, I am.

10 Q. Within that range of penalty, what do you
11 recommend to the Examiner as a penalty component?

12 A. The maximum penalty.

13 Q. Are you aware for the coal portion of the pooling
14 case --

15 A. Yes, I am.

16 Q. -- yeah, that the Division's custom and practice
17 is to allow cost plus 156-percent?

18 A. Yes.

19 Q. What is your request for the coal risk factor
20 penalty component?

21 A. The maximum 156.

22 Q. All right. Let's talk about the bases that
23 support your conclusions. If you'll start with Exhibit 6,
24 tell us what we're looking at.

25 A. Okay, this is a structure-contour map of the

1 nine-section area surrounding the proposed ROPCO 8-3.

2 Exhibit 6 shows a gentle northeast dip into the San Juan
3 Basin. Structure has very little influence on production
4 from the wells. Our estimated total depth is 850 feet to
5 the coal, a total depth of approximately 950 feet.

6 Q. If we subdivide Section 8, we can see the open
7 circle as the approximate proposed location for the A-3
8 well?

9 A. Yes.

10 Q. And your estimate of thickness is about 15 feet
11 at that location?

12 A. Yes, it is.

13 Q. The rest of the well data shown on here is
14 reproduced on other displays?

15 A. Yes, it is.

16 Q. Let's turn to those. Let's look at Exhibit
17 Number 7. What type of exhibit are we seeing here?

18 A. This is a cumulative production map of the area.
19 We have drilled 16 wells. Most of them have not gone on
20 line yet, and we have the production from the Pictured
21 Cliffs and the Fruitland Coal identified.

22 Q. Let's look at the bottom summaries. Show us how
23 you've identified the Pictured Cliff production and
24 segregated it from the Coal production.

25 A. Okay, there are two columns, one for the Pictured

1 Cliffs and one column for the Fruitland Coal.

2 Q. What is represented here is the cumulative
3 production?

4 A. Yes, in million cubic feet.

5 EXAMINER BROOKS: Excuse me, you're on Exhibit 8
6 now?

7 MR. KELLAHIN: I'm on Exhibit 7.

8 EXAMINER BROOKS: Where are the two columns?

9 MR. KELLAHIN: At the very bottom of the display,
10 if we've given you the right --

11 EXAMINER BROOKS: They don't seem to exist on my
12 copy --

13 MR. KELLAHIN: All right, let's trade this --

14 EXAMINER BROOKS: -- or on Examiner Stogner's.
15 Now that's Exhibit 8.

16 MR. KELLAHIN: I'm sorry, they're misnumbered.
17 Let's --

18 EXAMINER BROOKS: Okay.

19 MR. KELLAHIN: What we're describing is Exhibit
20 7, and it is the map that shows the production in the area,
21 so your Exhibit 7 now is what the Examiner is looking at?

22 THE WITNESS: Yes.

23 MR. KELLAHIN: Are we straight? Exhibit 6 --

24 EXAMINER BROOKS: There's some confusion here.

25 Mr. Stogner does not have a copy of Exhibit 7, the revised

1 Exhibit 7 that you gave me. Do you have another copy of
2 the one with the table on it?

3 THE WITNESS: You can take that one.

4 EXAMINER BROOKS: Okay, I'm sorry, go ahead.

5 MR. KELLAHIN: That's my fault, we mis-collated
6 the exhibits.

7 Q. (By Mr. Kellahin) So Exhibit 7 is the cumulative
8 production data?

9 A. Yes.

10 Q. Exhibit 8 is marked as the coal isopach?

11 A. That's right.

12 Q. Let's start back on the cumulative production
13 map. When you look at that map and look at your cumulative
14 production, where is the production in relation to your
15 proposed well, the A-3 well?

16 A. The closest production and the oldest production
17 is the Bushman 6-1, and we've drilled these 16 wells
18 basically on the strength of that well.

19 Q. Okay.

20 A. There were several unknowns.

21 Q. Describe for us after reviewing the structure
22 position and the cumulative production of existing wells,
23 what risk is associated with your current well in
24 relationship to that existing production.

25 A. High water production, low bottomhole pressure.

1 Q. Let's turn to the isopach, which is Exhibit 8.

2 A. Yes.

3 MR. KELLAHIN: Gentlemen, do you have Exhibits 8,
4 or --

5 EXAMINER BROOKS: We only have one copy --

6 MR. KELLAHIN: All right, sir.

7 EXAMINER BROOKS: Okay. Well, now, this is
8 the --

9 MR. KELLAHIN: That should be the coal.

10 EXAMINER BROOKS: Okay, the structure contour is
11 labeled Exhibit 8, was the one we had, and this is the coal
12 isopach, so there seem to be several discrepancies in these
13 exhibits.

14 Okay, there's another -- That's another Exhibit
15 8. Is this correct? Are these two the correct exhibits?

16 MR. KELLAHIN: Six, 7, 8.

17 EXAMINER BROOKS: Okay, do we have another copy
18 of 8?

19 MR. KELLAHIN: You can have mine.

20 EXAMINER BROOKS: Thanks. Now you may proceed.

21 Q. (By Mr. Kellahin) When we look at the Exhibit 8
22 now, Mr. Richardson, what are we seeing displayed by you on
23 that exhibit?

24 A. The basal coal thickness.

25 Q. And when we get to the proposed location of this

1 well, what have you estimated to be that thickness?

2 A. Fifteen feet.

3 Q. What risks are associated with a well at this
4 location, based upon thickness?

5 A. The high water production would be the risk.

6 Q. Okay. Is this an area where you have to dewater
7 the coal to obtain a point at which you can get pressures
8 that then begin to decline?

9 A. Yes, it is.

10 Q. So you have a water-disposal component to the
11 risk?

12 A. That's a very large component.

13 Q. When we turn to the Pictured Cliff Pools,
14 summarize for the Examiner what are the risks associated
15 with the Pictured Cliff that caused you to conclude that
16 they deserve the maximum penalty?

17 A. Two things. Number one is, the Pictured Cliffs
18 also has a high water-production component and a low
19 bottomhole pressure.

20 Q. Okay. Let me ask you now, sir, to turn to
21 Exhibit 9.

22 A. Yes.

23 Q. Do you have a recommendation to the Examiner as
24 to what overhead rates to include in the pooling order for
25 this well on a drilling-well basis and as a producing well?

1 A. Yes, I do. For a drilling rate, \$5000 and an
2 overhead rate, \$500.

3 Q. Are these numbers consistent with the rates that
4 you have received from the Division on similar pooling
5 cases in the recent past?

6 A. Yes, they are.

7 Q. And are they comparable to the range of
8 expectations tabulated by the Ernst and Young summary --

9 A. Yes, they are.

10 Q. -- which we see on Exhibit 10?

11 A. Yes.

12 Q. In your opinion, are those fair and reasonable
13 overhead rates?

14 A. Yes, they are.

15 Q. Let's take a look now at Exhibit 11. What are we
16 seeing here?

17 A. This is an AFE for a proposed Pictured Cliffs-
18 Fruitland Coal well.

19 Q. Is this something that you have prepared, you
20 review and you approve it?

21 A. Yes, I do.

22 Q. Does this represent the total cost for the
23 Pictured Cliffs, including the coal?

24 A. Yes, it is.

25 Q. In your opinion, is this fair and reasonable?

1 A. Yes, it is.

2 Q. Is it comparable to what actual well costs are
3 for you in this area?

4 A. Yes, they are.

5 MR. KELLAHIN: That concludes my examination of
6 Mr. Richardson.

7 We would move the introduction of his Exhibits 6
8 through 11.

9 EXAMINER BROOKS: Richardson Exhibits 6 through
10 11 are admitted.

11 EXAMINATION

12 BY EXAMINER BROOKS:

13 Q. Mr. Richardson, first thing I wanted to ask you
14 is something that appeared on these exhibits that I haven't
15 heard anything about here, and that's the ROPCO 8-4 well,
16 which appears to be within this unit. It doesn't show any
17 production, but it appears to be a well that's been
18 drilled.

19 A. Yes, we have drilled a number of wells recently,
20 have completed most of the wells within the last two
21 months. I've pulled the production off of the online
22 ONGARD.

23 Q. Has that well been completed?

24 A. It has been completed. I believe we're waiting
25 on final orders from the OCD on that well.

1 Q. In what formation is it completed?

2 A. Pictured Cliffs.

3 Q. Pictured Cliffs only?

4 A. Yes.

5 Q. And what type of order are you waiting for on
6 that?

7 A. I believe the C-104, but I'm not certain on that.

8 Q. Is there any kind of nonstandard location or type
9 of orders, administrative order, or is it just waiting on
10 the processing?

11 A. I believe just the processing.

12 Q. Okay. Does Richardson own the entire working
13 interest in the southeast quarter?

14 A. Yes.

15 Q. So that's the reason, then, that this is not in
16 the -- the unit will not need to be dedicated to this well?

17 A. No.

18 Q. The force-pooled unit, will not need to be --
19 there will not need to be a force-pooled unit dedicated to
20 this well, right?

21 A. To the 8-4?

22 Q. Right, because you own all the working interest.

23 A. Well, possibly. We've gone through a force-
24 pooling for the Pictured Cliffs on that well at a previous
25 time.

1 Q. Okay. And do you contemplate downhole
2 commingling in the 8-3? It's going to be completed in both
3 the Fruitland and the --

4 A. Yes, we do.

5 Q. Okay. And you understand that that will need to
6 be the subject of a separate order?

7 A. Yes.

8 Q. Okay. I don't believe I got the footages on the
9 location for the 8-3. Do you have that information?

10 MR. KELLAHIN: You can find that on Exhibit
11 Number 1.

12 EXAMINER BROOKS: Okay, yes, I see that. My
13 mistake. 936 from the south and 1276 from the west.

14 Okay, I think that's all I have.

15 Mr. Stogner?

16 EXAMINER STOGNER: I have no questions.

17 EXAMINER BROOKS: Very good, you may step down.

18 THE WITNESS: Thank you.

19 MR. KELLAHIN: That concludes our presentation on
20 this case, Mr. Examiner.

21 EXAMINER BROOKS: Case Number 12,853 will be
22 taken under advisement at this time.

23 (Thereupon, these proceedings were concluded at
24 12:15 p.m.)

25 I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 12853
heard by me on July 11, 2002.

STEVEN T. BRENNER, Examiner
(505) 989-9317
Oil Conservation Division

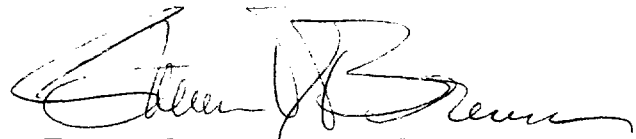
CERTIFICATE OF REPORTER

STATE OF NEW MEXICO)
) ss.
COUNTY OF SANTA FE)

I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.

WITNESS MY HAND AND SEAL July 28th, 2002.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 2002