

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:)

) CASE NO. 13,281

APPLICATION OF SAMSON RESOURCES COMPANY)
FOR COMPULSORY POOLING AND APPROVAL OF)
AN UNORTHODOX GAS WELL LOCATION, LEA)
COUNTY, NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

June 24th, 2004

Santa Fe, New Mexico

2004 JUL 8 AM 10 08

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, June 24th, 2004, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

I N D E X

June 24th, 2004
 Examiner Hearing
 CASE NO. 13,281

	PAGE
APPEARANCES	3
APPLICANT'S WITNESSES:	
<u>PEGGY KERR</u> (Landman)	
Direct Examination by Mr. Bruce	5
Examination by Examiner Catanach	10
<u>RALPH WORTHINGTON</u> (Geologist)	
Direct Examination by Mr. Bruce	11
Examination by Examiner Catanach	16
REPORTER'S CERTIFICATE	20

* * *

E X H I B I T S

Applicant's	Identified	Admitted
Exhibit 1	5	9
Exhibit 2	6	9
Exhibit 3	7	9
Exhibit 4	8	9
Exhibit 5	9	9
Exhibit 6	13	16
Exhibit 7	13	16
Exhibit 8	14	16
Exhibit 9	14	16

* * *

A P P E A R A N C E S

FOR THE APPLICANT:

JAMES G. BRUCE
Attorney at Law
P.O. Box 1056
Santa Fe, New Mexico 87504

FOR PURE RESOURCES, L.P.; EDWARD R. HUDSON TRUSTS
NUMBERS 1, 2 and 3; EDWARD R. HUDSON, JR.; LINDY'S
LIVING TRUST; and DELMAR HUDSON LEWIS LIVING TRUST:

HOLLAND & HART, L.L.P., and CAMPBELL & CARR
110 N. Guadalupe, Suite 1
P.O. Box 2208
Santa Fe, New Mexico 87504-2208
By: MICHAEL H. FELDEWERT

* * *

1 WHEREUPON, the following proceedings were had at
2 8:16 a.m.:

3
4 EXAMINER CATANACH: And at this time I'll call
5 Case 13,281, the Application of Samson Resources Company
6 for compulsory pooling and approval of an unorthodox gas
7 well location, Lea County, New Mexico.

8 I'll call for appearances in this case.

9 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe,
10 representing the Applicant.

11 I have two witnesses.

12 EXAMINER CATANACH: Any additional appearances?

13 MR. FELDEWERT: May it please the Examiner,
14 Michael Feldewert with the Santa Fe office of the law firm
15 of Holland and Hart.

16 I'm appearing on behalf of Pure Resources, L.P.,
17 and then separately appearing on behalf of a group of
18 affected parties, Edward R. Hudson Trusts Numbers 1, 2 and
19 3; Edward R. Hudson, Jr.; Lindy's Living Trust; and Delmar
20 Hudson Lewis Living Trust.

21 And I have no witnesses.

22 EXAMINER CATANACH: Okay. Any additional
23 appearances?

24 Will the witnesses please stand to be sworn in?

25 (Thereupon, the witnesses were sworn.)

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

PEGGY KERR,

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

DIRECT EXAMINATION

BY MR. BRUCE:

Q. Would you please state your name and city of residence?

A. Peggy Kerr, Midland, Texas.

Q. And who do you work for and in what capacity?

A. Samson Resources, a district landman.

Q. Have you previously testified before the Division?

A. Yes.

Q. And were your credentials as an expert petroleum landman accepted as a matter of record?

A. Yes.

Q. And are you familiar with the land matters involved in this case?

A. I am.

MR. BRUCE: Mr. Examiner, I'd tender Ms. Kerr as an expert petroleum landman.

EXAMINER CATANACH: Ms. Kerr is so qualified.

Q. (By Mr. Bruce) Would you please identify Exhibit 1 and describe what Samson seeks in this case?

A. Exhibit 1 is a land plat highlighting the south

1 half of Section 14, Township 20 South, Range 33 East, in
2 which it describes a laydown 320-acre unit.

3 Q. And what depths do you seek to pool?

4 A. From the surface to the base of the Morrow.

5 Q. And what is the name of the well, and where is it
6 located?

7 A. The name of the well is the Maverick 14 Federal
8 Well Number 1, which is located 1980 from the south line
9 and 1830 from the west line of Section 14.

10 Q. Could you identify Exhibit 2 and briefly discuss
11 the interest ownership of the well?

12 A. Exhibit 2 is a list of leases, along with the
13 interests of the parties, according to a title opinion,
14 allocating the working interest ownership before and after
15 payout in the Maverick 14 Federal Com Number 1.

16 Q. Could you go down this list and note for the
17 Examiner which parties you seek to force pool at this time?

18 A. At this time, Pure Resources, L.P.; Lindy Living
19 Trust; Edward Hudson Trust 1, 2 and 3; Delmar Hudson Living
20 Trust, and that is the only one. I have made a deal with
21 one other that was referenced, on the Edward R. Hudson
22 Trust Number 4.

23 Q. Okay, you've made a deal with that interest?

24 A. That's correct.

25 Q. Okay. Let's discuss your efforts to obtain the

1 voluntary joinder of the interest owners. What does
2 Exhibit 3 contain?

3 A. Exhibit 3 are letters submitted to these parties
4 dated March 24th, indicating our desire to -- Excuse me,
5 the first letter is March 24th, indicating our desire to
6 farm out the lands from Pure Resources.

7 The second letter is an April 24th letter dating
8 our proposal to drill the well, sent certified mail to Pure
9 Resources.

10 May 4th letter dated -- or sent certified mail to
11 Lindy's Living Trust, again asking for participation in the
12 well.

13 Q. And then the rest of the letters, are they
14 basically the same, various dates -- farmouts or proposing
15 the well to the parties?

16 A. That is correct.

17 Q. Now, in addition to these letters, have there
18 been numerous phone calls between the parties?

19 A. Numerous phone calls.

20 Q. Okay. And in your opinion has Samson made a
21 good-faith effort to obtain the voluntary joinder of the
22 interest owners in the well?

23 A. Yes.

24 Q. Could you identify Exhibit 4 and discuss the cost
25 of the well?

1 A. Exhibit 4 is an AFE for the drilling of the
2 Maverick 14 Federal Com Number 1, reference the costs of
3 the well for a dryhole cost of \$1,340,362, with a completed
4 well cost of \$2,189,352.

5 Q. And is this cost in line with the cost of other
6 wells drilled to this depth in this area of Lea County?

7 A. Yes.

8 Q. And does Samson request that it be designated
9 operator of the well?

10 A. Yes, we do.

11 Q. Do you have a recommendation for the amounts
12 which Samson should be paid for supervision and
13 administrative expenses?

14 A. I do, \$6500 a month for the drilling well and
15 \$650 a month for a producing well.

16 Q. And are these amounts equivalent to those
17 normally charged by operators in this area for wells of
18 this depth?

19 A. Yes.

20 Q. Do you request that these rates be adjusted
21 periodically as provided in the COPAS accounting procedure?

22 A. Yes.

23 Q. And do you also request the maximum cost-plus-
24 200-percent penalty in the event any interest owners will
25 not consent in this well?

1 A. I do.

2 Q. Were the parties being pooled notified of this
3 Application?

4 A. Yes.

5 Q. And is that shown on Exhibit 5? The affidavit of
6 notice.

7 A. Yes.

8 Q. Now, these wells are at an unorthodox location.
9 Will the next witness testify about the reasons for the
10 unorthodox location?

11 A. Yes.

12 Q. Were Exhibits 1 through 5 prepared by you or
13 under your supervision or compiled from company business
14 records?

15 A. Yes.

16 Q. And in your opinion, is the granting of Samson's
17 Application in the interests of conservation and the
18 prevention of waste?

19 A. Yes.

20 MR. BRUCE: Mr. Examiner, I'd move the admission
21 of Samson Exhibits 1 through 5.

22 EXAMINER CATANACH: Exhibits 1 through 5 will be
23 admitted.

24 Did you have any questions, Mr. Feldewert?

25 MR. FELDEWERT: No, Mr. Examiner.

EXAMINATION

BY EXAMINER CATANACH:

Q. Ms. Kerr, your initial letter to most of these parties occurred May 4th; is that correct? I'm sorry, is that --

A. My initial letter to Pure Resources was a request for farmout on March 24th, but subsequent letters were submitted indicating our desire to drill a well and asking for their participation in the well.

Q. And that was dated when?

A. That was dated April 24th.

Q. Okay. As to the other parties, it was later than that, that you sent out --

A. It was later than that. Subsequent well letters were sent on May the 4th, after Samson received additional title information from the Hudson heirs as to allocations of their interest among the family members.

Q. And those letters were sent out May 4th?

A. Yes, sir.

Q. And you've been in contact with the various Hudson parties?

A. Yes, I have.

Q. And do you anticipate them joining?

A. I anticipate them joining. We are working out some conditions in a joint operating agreement at this

1 time.

2 Q. What about Pure, any idea?

3 A. Pure will not join at this time.

4 Q. I notice the Lindy's Living Trust and the Delmar.
5 Is that the same party?

6 A. They're at the same address; they are two
7 different parties --

8 Q. They are at the same address?

9 A. -- but at the same address.

10 EXAMINER CATANACH: Okay, that's all I have.
11 This witness may be excused.

12 THE WITNESS: Thank you.

13 RALPH WORTHINGTON,
14 the witness herein, after having been first duly sworn upon
15 his oath, was examined and testified as follows:

16 DIRECT EXAMINATION

17 BY MR. BRUCE:

18 Q. Would you please state your name for the record?

19 A. Ralph Worthington.

20 Q. And who do you work for?

21 A. I work for Samson Resources.

22 Q. What is your job with Samson?

23 A. I am a senior geologist.

24 Q. Have you previously testified before the
25 Division?

1 A. No, I have not.

2 Q. Could you please summarize your educational and
3 employment background for the Examiner?

4 A. I have a bachelor of science degree from the
5 University of Southern Colorado with a major in geology. I
6 have a master of science degree from the University of Iowa
7 with a major in geology. I've worked primarily in the
8 Permian Basin for various oil companies for over 20 years.

9 Q. How long have you been with Samson?

10 A. About two and a half years.

11 Q. And does your area of responsibility at Samson
12 include southeast New Mexico?

13 A. Yes, it does.

14 Q. And are you familiar with the geologic matters
15 involved in this case?

16 A. Yes, I am.

17 Q. And have you also been dealing with certain
18 potash matters related to the unorthodox location?

19 A. Yes.

20 MR. BRUCE: Mr. Examiner, I'd tender Mr.
21 Worthington as an expert petroleum geologist.

22 EXAMINER CATANACH: He is so qualified.

23 MR. BRUCE: Mr. Examiner, before Mr. Worthington
24 begins testifying, this well would be within the -- it
25 abuts the Teas-Pennsylvanian Gas Pool, which requires wells

1 to be no closer than 990 feet to the outer boundary of the
2 unit and no closer than 330 feet to a quarter quarter
3 section line. Obviously those are very restrictive well-
4 location requirements.

5 Q. (By Mr. Bruce) First of all, Mr. Worthington,
6 this well is in the oil-potash area, is it not?

7 A. Yes, it is.

8 Q. And have you been in touch with the BLM with
9 respect to locating a well on the south half of Section 14?

10 A. Yes, we have.

11 Q. What do Exhibits 6 and 7 show?

12 A. Exhibit 6 is a copy of an e-mail that we received
13 from Mr. Craig Cranston at the BLM office, who is the
14 potash person there, with a list of possible locations that
15 we could have within that drilling window in Section 14.

16 Q. Okay, and then on Exhibit 7 are those locations
17 depicted, hand-depicted on there?

18 A. Yes, they are, they're hand-drawn circles on that
19 map. The shading on that map represents the measured
20 potash reserves --

21 Q. Okay, so the -- most of Section 14 is in measured
22 potash reserves?

23 A. Yes, it is.

24 Q. And as a result, locations are restricted by the
25 BLM?

1 A. Yes.

2 Q. Okay. Now, with respect to the unorthodox
3 location -- Well, there's a couple other features, but
4 let's go into the geology. Why would you rather remain in
5 the southeast quarter of Section 14 -- excuse me, in the
6 southwest quarter of Section 14, than move over to the east
7 in the southeast quarter?

8 A. Okay, I'll refer to Exhibits --

9 Q. -- 8 and 9.

10 A. -- 8 and 9. Exhibit 8 would be the isopach map
11 of the total sand within the Morrow formation. On the map
12 itself, the red outline shows the boundaries of the Teas
13 Pool. The green outline shows the proration unit
14 associated with the Maverick well. The triangle with the
15 circle in it shows the location of our Maverick well.

16 All wells are shown on the map, and those that
17 penetrated the Morrow formation indicate the amount of sand
18 within the Morrow formation by the number adjacent to that
19 well.

20 We are directly south of the McHaffey ARC well,
21 which was the discovery well for the Teas-Penn field, one
22 location from one -- north half of the section to the south
23 half.

24 Our next point of control is over a mile to the
25 south in Section 23. The trendology that I have mapped

1 here in the Morrow shows that we have a northeast-
2 southwest-trending sand, controlled with wells down in
3 Section 28, productive wells, and our trend would connect
4 those wells in Section 28 with the McHaffey ARC well in
5 Section 14.

6 Sands in the McHaffey ARC well tested over 5
7 million a day from the lower Morrow, the lower middle
8 Morrow interval, and that middle Morrow interval is not
9 present down to the south in the south half of -- or in
10 Section 23. So for that reason, I think trying to get as
11 close as we can to the McHaffey ARC well is the most
12 favorable and desirable location.

13 Q. Okay. And under statewide rules, the well
14 location would be orthodox --

15 A. Yes.

16 Q. -- would it not?

17 And I think originally, you had -- the location
18 was 1980 feet from the south and west lines; is that
19 correct?

20 A. Yes, it was, we picked a standard statewide rule
21 location without first consulting the Teas-Penn field
22 rules, and that was a 1980-1980 location. It was moved to
23 the west because of a county road.

24 Q. Okay, so there are other topographic features out
25 there --

1 A. Yes.

2 Q. -- at the well locations?

3 Mr. Worthington, were Exhibits 6 through 9
4 prepared by you or under your supervision?

5 A. Yes.

6 Q. And in your opinion is the granting of this
7 Application in the interests of conservation and the
8 prevention of waste?

9 A. Yes, it is.

10 MR. BRUCE: Mr. Examiner, I'd move the admission
11 of Samson Exhibits 6 through 9.

12 EXAMINER CATANACH: Exhibits 6 through 9 will be
13 admitted.

14 EXAMINATION

15 BY EXAMINER CATANACH:

16 Q. Mr. Worthington, the well is in the potash area?

17 A. Yes, it is.

18 Q. Were you required to notify any potash companies?

19 A. We contacted the BLM. We did contact a potash
20 company, and I believe there are no active potash leases
21 being held by the potash company at this time, so the BLM,
22 I believe, was the governing authority on that.

23 Q. Okay. And you said the discovery well for the
24 pool was in the north half of Section 14?

25 A. Yes, it's the McHaffey ARC well, and if you're

1 looking at my isopach, it's the well the gas well and oil
2 well symbol there, with the number 65 right below it --

3 Q. Okay.

4 A. -- that is the discovery well.

5 Q. And that produced from the middle Morrow section?

6 A. Yes, uh-huh.

7 Q. Okay, and that's the target in this well?

8 A. Yes, it is.

9 Q. And moving to the southeast quarter of Section
10 14, you would get a reduction in the sand thickness; is
11 that --

12 A. I believe so, yes.

13 Q. So you want to stay in that southwest quarter?

14 A. Yes.

15 Q. And you're really, I guess -- well, under the --
16 Do you know where Teas-Penn Pool is?

17 A. According to the OCD website, the boundaries are
18 the north half of 14, the west half of 12 and all of
19 Section 11 --

20 Q. Okay.

21 A. -- and that's the area I've outlined there in the
22 dashed line, red dashed line.

23 Q. Okay. Who operates the north half of Section 14?

24 A. That is not a currently producing Morrow gas
25 well. That well has been recompleted in the Bone Spring

1 formation, and I believe Merit is the operator of that
2 well.

3 EXAMINER CATANACH: Mr. Bruce, pursuant to the
4 unorthodox location, is there any notice required?

5 MR. BRUCE: Mr. Examiner, I forgot to ask Ms.
6 Kerr the question, and we can drag her back up here, but
7 the interest owners in the north half are the same as the
8 interest owners in the south half, so everybody has
9 received notice of the unorthodox location.

10 EXAMINER CATANACH: Okay, we don't need her to
11 get back up.

12 Q. (By Examiner Catanach) And is that Morrow
13 section the only target in the well?

14 A. No, it is not.

15 Q. Pardon me?

16 A. No, it is not. The Bone Spring formation is also
17 a secondary objective. And again, the closest producing
18 well from the Bone Spring formation is the McHaffey Arc
19 well.

20 Q. Now, was the well staked before you guys realized
21 what the pool rules were, or why couldn't you conform to
22 the 990 setback?

23 A. Okay, I believe the well was staked before we
24 knew what the field rules were, and the -- a couple of
25 reasons management would prefer to move closer to the well,

1 not away from it, the 990 setback would require us to move
2 further away. Secondly, the potash restrictions would not
3 allow us to move further away from that well.

4 Q. Okay, BLM told you that, that they wouldn't let
5 you move further south?

6 A. Yes.

7 EXAMINER CATANACH: That's all I have, Mr.
8 Bruce. Anything further?

9 MR. BRUCE: I have nothing further, Mr. Examiner

10 EXAMINER CATANACH: All right. Did you have
11 anything else, Mr. Feldewert?

12 MR. FELDEWERT: No, Mr. Examiner, thank you.

13 EXAMINER CATANACH: Okay. There being nothing
14 further, Case 13,281 will be taken under advisement.

15 (Thereupon, these proceedings were concluded at
16 8:38 a.m.)

17 * * *

18
19 I do hereby certify that the foregoing is
20 a complete record of the proceedings in
the Examiner hearing of Case No. 13281,
21 heard by me on June 24, 2004.

22 David R. Catanach, Examiner
Oil Conservation Division
23
24
25

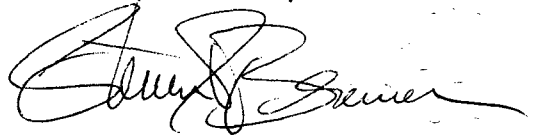
CERTIFICATE OF REPORTER

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 June 29th, 2004.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2006