

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 HEC PETROLEUM, INC.,)
FOR COMPULSORY POOLING, EDDY COUNTY,)
NEW MEXICO)

CASE NO. 13,302

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

July 22nd, 2004
Santa Fe, New Mexico

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Oil Conservation Division
1220 S. St. Francis Drive
Santa Fe, NM 87505

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, July 22nd, 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

July 22nd, 2004
 Examiner Hearing
 CASE NO. 13,302

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<u>ROBERT READY</u> (Landman)	
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* * *

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* * *

A P P E A R A N C E S

FOR THE APPLICANT:

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 8:20 a.m.:

3 EXAMINER STOGNER: At this time we'll go back to
4 page 1 and I'll call Case Number 13,302. This is the
5 Application of HEC Petroleum, Inc., for compulsory pooling,
6 Eddy County, New Mexico.

7 Call for appearances.

8 MR. FELDEWERT: May it please the Examiner,
9 Michael Feldewert with the Santa Fe office of the law firm
10 of Holland and Hart, appearing on behalf of the Applicant,
11 HEC Petroleum, Inc., and I have one witness.

12 EXAMINER STOGNER: Any other appearances?
13 Will the witness please stand to be sworn at this
14 time?

15 (Thereupon, the witness was sworn.)

16 EXAMINER STOGNER: Mr. Feldewert?

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

20 DIRECT EXAMINATION

21 BY MR. FELDEWERT:

22 Q. Please state your name and address for the
23 record.

24 A. My name is Robert Ready, I'm from Midland, Texas.

25 Q. Mr. Ready, by whom are you employed and in what

1 capacity?

2 A. I'm employed by Pure Resources, L.P., the parent
3 company of the Applicant, HEC Petroleum, Inc.

4 Q. Have you previously testified before this
5 Division?

6 A. And at the time of your testimony were your
7 credentials as an expert in petroleum land matters accepted
8 and made a matter of record?

9 A. Yes, they were.

10 Q. Are you familiar with the pooling Application
11 filed in this case?

12 A. Yes, I am.

13 Q. And are you familiar with the status of the lands
14 in the subject area?

15 A. Yes, I am.

16 MR. FELDEWERT: Mr. Examiner, are the witness's
17 qualifications acceptable?

18 EXAMINER STOGNER: Mr. Ready is so qualified.

19 A point of clarification: HEC Petroleum, Inc.,
20 is a company --

21 THE WITNESS: -- is a subsidiary of Pure
22 Resources, L.P. HEC Petroleum, Inc., is the Applicant and
23 is the operator of this spacing unit.

24 EXAMINER STOGNER: Thank you for clarifying that.

25 THE WITNESS: Yes.

1 EXAMINER STOGNER: Please continue, Mr.
2 Feldewert.

3 Q. (By Mr. Feldewert) Mr. Ready, why don't you turn
4 to HEC Exhibit Number 1?

5 A. Yes.

6 Q. Why don't you identify that and then briefly
7 explain to the Examiner what you're seeking here today.

8 A. Exhibit 1 is a plat of the immediate area. The
9 spacing unit is the east half of Section 7. We are seeking
10 a 160-acre infill location to be directionally drilled from
11 the existing surface location of the Number 1 well to a
12 legal bottomhole location in the southeast quarter.

13 Q. And you're pooling the east half of Section 7?

14 A. We are pooling the east half of Section 7 for all
15 pools, gas pools, spaced on 320 acres.

16 Q. And does that include the Carlsbad-Morrow South
17 Gas Pool?

18 A. Yes, it does.

19 Q. Okay. Then is there a -- I think you mentioned
20 it. Is there an existing Morrow well dedicated to this
21 spacing unit?

22 A. There is.

23 Q. And is that shown on this map?

24 A. It is. It's in the northeast quarter, the
25 southeast northeast, in particular, the Douglas Com Number

1 1.

2 Q. Okay. And what is the name and the proposed
3 location of your infill well?

4 A. The infill well is the Douglas Com Number 2. The
5 surface location will be immediately adjacent to the Number
6 1 location and again directionally drilled to a legal
7 bottomhole location in the southeast quarter.

8 Q. What's your footage going to be at bottomhole?

9 A. 990 feet from the south, 990 feet from the east.

10 Q. And is this fee acreage?

11 A. This is fee acreage.

12 Q. Is the Morrow formation the primary target of
13 your proposed well?

14 A. Yes, it is.

15 Q. Okay, and why don't you turn to HEC Exhibit
16 Number 2, identify that for the Examiner and explain the
17 status of your efforts to obtain agreement with these
18 interest owners.

19 A. Exhibit 2 is a list of the parties named in this
20 pooling. Each of these parties' interest is shown in the
21 far right column. Each of these parties was delivered a
22 complete well proposal under date of April 19th. There
23 were subsequent follow-up telephone calls and other
24 communications. A subsequent written proposal was sent to
25 the parties.

1 We have communicated with each of these parties
2 or their representatives and at this time have verbal
3 commitments from all of the parties to make an election
4 pursuant to the AFE either to participate or not in the
5 well, and further to ratify the existing operating
6 agreement and designation of unit.

7 We do not at this time have those documents in
8 hand, so for the uncertainty that we will have original
9 documents executed, we're proceeding with the pooling.

10 Q. Okay. Now, these are the parties, then, that are
11 presently subject to the pooling Application?

12 A. That's correct.

13 Q. And is this their interest in the proposed 320-
14 acre spacing unit?

15 A. The interest shown is their interest in the 320-
16 acre spacing unit.

17 Q. Okay. And then you mentioned your initial
18 contact letter. Is that marked as HEC Exhibit Number 3?

19 A. Yes, it is.

20 Q. That's your April 19th letter?

21 A. That's correct.

22 Q. What have you done since you sent this April 19th
23 letter to each of these individuals?

24 A. Again, we have followed up by telephone call, we
25 have sent subsequent written proposal to the parties, we

1 have communicated verbally or in writing or by fax with all
2 of these parties, and again we have verbal commitments from
3 all of the parties. We have some documents executed by
4 fax, and we're waiting original executed documents.

5 Q. Okay, not I want to address just briefly George
6 Hutton. What is the status of your efforts to reach
7 agreement with him?

8 A. George Hutton has received both of our written
9 packages. We have spoken with him on the phone, but he was
10 unwilling to give us a phone number to contact him, to call
11 him back at in an effort to get his commitment, although he
12 verbally agreed to make an election and participate or
13 ratify the operating agreement and designation of unit. We
14 have not received anything from him.

15 I sent a landman to personally visit his address.
16 He visited there the evening, day before yesterday, and
17 then went back again yesterday morning. He left a written
18 note at the man's house requesting that he contact us and,
19 you know, follow up on the documents we've submitted.

20 Q. Have you been able to contact Mr. Hutton at that
21 address on previous occasions?

22 A. Yes.

23 Q. Okay. All right. Now, you mentioned HEC Exhibit
24 Number 3. Does that have the AFE with it?

25 A. Yes, it does. The first page is the election

1 letter, the third page -- or excuse me, fourth page, is the
2 cost estimate.

3 Q. Okay, why don't you just review for the Examiner
4 your anticipated dryhole and completed well costs?

5 A. The dryhole cost is estimated at \$1,436,400, the
6 total completed well cost is estimated at \$2,033,300.

7 Q. Has HEC drilled similar wells in this area?

8 A. Yes.

9 Q. And are these costs in line with what HEC and
10 other operators have incurred in this area for similar
11 Morrow wells?

12 A. Yes, they are.

13 Q. Have you made an estimate of the overhead and
14 administrative costs while drilling this well and also
15 while producing this well, if it is successful?

16 A. Yes, we have. This estimate is based on the
17 existing operating agreement governing the east half as to
18 production for the Douglas Com Number 1 and the working
19 interest parties committed to that. The drilling well rate
20 is \$6473.99 per month, the monthly producing well rate is
21 \$949.53.

22 Q. All right, so you have an existing JOA for this
23 property?

24 A. Yes.

25 Q. And everybody except the individuals shown on

1 Exhibit Number 2 have signed?

2 A. That is correct.

3 Q. And that has -- it's been in existence for some
4 time?

5 A. Yes, sir.

6 Q. And it has an escalation clause in the overhead
7 rates?

8 A. That's correct.

9 Q. And are these the current effective rates under
10 that joint operating agreement?

11 A. Yes, they are.

12 Q. Okay. Do you recommend that these figures be
13 incorporated into any order that results from this hearing?

14 A. Yes, I do.

15 EXAMINER STOGNER: Make sure I get those figures
16 right again. That's \$6473.99?

17 THE WITNESS: To the penny.

18 EXAMINER STOGNER: To the penny. And the
19 production is \$949.53?

20 THE WITNESS: Yes, sir.

21 EXAMINER STOGNER: That's right, okay.

22 THE WITNESS: Excuse me for -- I should have
23 rounded that up.

24 EXAMINER STOGNER: Oh, no, that's fine.

25 THE WITNESS: I just had the number, so...

1 EXAMINER STOGNER: Okay.

2 Q. (By Mr. Feldewert) Now, does HEC request that
3 these overhead figures approved by the Division be subject
4 to adjustment in accordance with the applicable COPAS
5 guidelines?

6 A. Yes, I do.

7 Q. And HEC Petroleum, Inc., is the party that seeks
8 to be designated operator of this well, correct?

9 A. Yes, we do. We are the operator of the parent
10 well and -- We're the operator of this spacing unit.

11 Q. Okay. So you're presently operating the well
12 that's in the northeast quarter of Section 7?

13 A. That's correct.

14 Q. All right. Does HEC request that the Division
15 impose the 200-percent risk penalty that's authorized by
16 statute and Division Rule 35 against any interest owner
17 that does not voluntarily participate in this well?

18 A. Yes, we do.

19 Q. And I think you indicated that you have verbal
20 agreement from a number of these individuals. Will you let
21 the Division know in the event that you reach an agreement
22 with these parties within the next week or so?

23 A. Yes, we will.

24 Q. All right. Is HEC Exhibit Number 4 an affidavit
25 with attached letters giving notice of this hearing?

1 A. Yes, it is.

2 Q. Okay. Now, as I flip through that exhibit I
3 notice that we did not get a certification back from George
4 and Elizabeth Hutton. Is Mr. Hutton the individual that
5 you spoke about earlier, that you sent a landman to his
6 address to meet with him?

7 A. Yes, he is.

8 Q. And you have had success in contacting Mr. Hutton
9 at this address previously?

10 A. Yes, he -- We sent the original April 19th
11 package to him by certified mail. I do have a signed,
12 returned receipt, green card. We sent a subsequent package
13 to him, and we likewise have a signed certified-mail
14 receipt card from him, and again we did speak with a man on
15 the phone representing himself as George Hutton --

16 Q. Okay, and just --

17 A. -- in response to those letters.

18 Q. And just to be clear for the record, the address
19 that is shown on Exhibit Number 4 for George E. and
20 Elizabeth Hutton, you have had success previously in
21 reaching him at this address?

22 A. That's correct.

23 Q. Okay. And is HEC Exhibit Number 5 an affidavit
24 of publication of this hearing in the *Artesia Daily Press*?

25 A. Yes, it is.

1 Q. Mr. Ready, were HEC Exhibits 1 through 5 prepared
2 by you or compiled under your direction and supervision?

3 A. Yes, they were.

4 MR. FELDEWERT: Mr. Examiner, at this time I
5 would move the admission into evidence of HEC Exhibits 1
6 through 5.

7 EXAMINER STOGNER: Exhibits 1 through 5 will be
8 admitted into evidence.

9 MR. FELDEWERT: And that concludes my examination
10 of this witness.

11 EXAMINATION

12 BY EXAMINER STOGNER:

13 Q. Mr. Ready, on the overhead charges, most of the
14 time that I've been familiar with, the producing rate is
15 about 10 percent of what the drilling rate is. Yours is
16 about 15 percent. And why the difference and what are
17 these numbers based on again?

18 A. These numbers are based on escalations from a
19 1976 operating agreement and, you know, straight COPAS
20 overhead escalations.

21 It should be noted that this is in a sensitive
22 area because of its proximity to Carlsbad, and so we
23 anticipate that there will be additional operating costs
24 for it.

25 Q. What was the date of that agreement again?

1 A. April 1st, 1976.

2 Q. Let's talk about the sensitive area for a second.
3 I'm referring now to Exhibit Number 1. The east half is
4 within the entire city limits of Carlsbad; is that correct?

5 A. No, that is not correct. The map outline is not
6 accurate.

7 Q. Oh, okay.

8 A. The well location there, as you come down that
9 east line, there is a notch out of the city limits that
10 surrounds the existing well and buffer zone around it. I
11 don't know the exact genesis of that, but the location is
12 not in the city limits.

13 Q. Okay. Could you describe what the general area
14 -- or let me back up a little. Have you been out there to
15 the actual well site?

16 A. I have not personally been there, but I have seen
17 aerial photos and spoken with persons who have.

18 Q. Okay, what is your understanding? Is the
19 drilling site located in what kind of an area? Residential
20 or business?

21 A. The drill site is an alfalfa field.

22 Q. How about the alfalfa field? Is it located on
23 the outskirts of town, on farmland, or is it kind of
24 nestled into some business areas?

25 A. There is a -- to the south of this there is a

1 sparsely -- well, sparsely -- there's a street that runs
2 north toward the location that has approximately 20
3 residences on that street.

4 Q. And to the north, in fact, I see the Pecos River,
5 I believe, runs through the spacing unit?

6 A. Correct.

7 Q. Or over it, I should say.

8 A. Yes.

9 Q. Okay.

10 A. I will point out that we do have approval of the
11 permit from the OCD, unapproved floodplain permit from the
12 County of Eddy, and the actions necessary to utilize this
13 surface location have been done.

14 Q. Does that include any kind of a permit from the
15 City of Carlsbad?

16 A. No permit is required. However, we have
17 communicated with the city, the fire marshall, the mayor,
18 the city manager, the city planning department. All are
19 aware of our activities and -- it's not as if there is a
20 written approval, but they have all approved our
21 activities.

22 Q. One other question. HEC operates the Number 1
23 well?

24 A. That's correct.

25 Q. And did HEC drill it, or who drilled that well?

1 A. I believe that well was drilled by Belco.

2 Q. Belco. Do you know how old of a well it is?

3 A. Approximately 1976 is my estimation. The
4 operating agreement is from that time.

5 Q. Do you know if that well had to be compulsory
6 pooled at that time?

7 A. That is the -- Yes. The way this occurred, there
8 was commitment of 88-plus percent of the working interest
9 ownership, something on that order. They pooled the
10 remaining parties, and the pooling order was not -- it was
11 necessary to re-pool these parties for the infill well.
12 That was our advice -- after first seeking, you know,
13 voluntary joinder.

14 Q. Do you by chance know what the order number was?
15 Or does somebody within your company know, or perhaps maybe
16 your hired attorney might know this information? While
17 your hired attorney flips through some pages, is he looking
18 at --

19 MR. FELDEWERT: I believe, Mr. Examiner, it would
20 be Order Number R-5209 --

21 EXAMINER STOGNER: R-5209.

22 MR. FELDEWERT: -- which was entered by the --
23 Commission, on April 27th, 1976. So it was a Commission
24 order. And it was Belco Petroleum.

25 EXAMINER STOGNER: I believe we were a Commission

1 at that time. I believe later in that year we became a
2 Division.

3 But okay, I'll take administrative notice of --
4 Do you have that case number?

5 MR. FELDEWERT: I do, it's Case Number 5666.

6 EXAMINER STOGNER: 5666. Take administrative
7 notice of Case Number 5666.

8 Q. (By Examiner Stogner) Now, this may be out of
9 your area of expertise, Mr. Ready, and if you don't know
10 the answer definitely tell me: Do you know if this well
11 has had any other production besides the Morrow?

12 A. I do not. I believe it is still producing from
13 the Morrow. We have an engineer here who can probably
14 answer that.

15 EXAMINER STOGNER: I don't know if that's
16 prevalent at this point, Mr. Feldewert. I'll just take
17 administrative notice on the production records and the
18 well records in this instance.

19 THE WITNESS: My understanding is that it is
20 producing from the Morrow Pool.

21 EXAMINER STOGNER: Okay, but it is currently
22 producing --

23 THE WITNESS: Currently producing from the Morrow
24 Pool.

25 EXAMINER STOGNER: Okay. Does anybody else have

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any other questions of this witness?

You may be excused. Thank you, Mr. Ready.

MR. FELDEWERT: Thank you, Mr. Examiner.

EXAMINER STOGNER: Do you have anything further,
Mr. Feldewert?

MR. FELDEWERT: No, I do not.

EXAMINER STOGNER: Case Number 13,302 will be
taken under advisement.

(Thereupon, these proceedings were concluded at
8:40 a.m.)

* * *

I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 13302,
heard by me on July 22, 2004.
Michael E. Stogner
Examiner
Oil Conservation Division

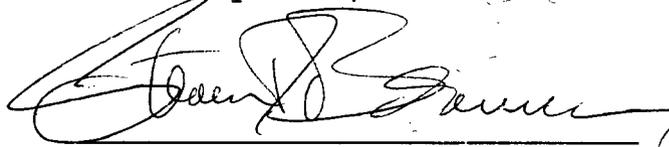
CERTIFICATE OF REPORTER

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 23rd, 2004.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 16th, 2006