

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 POGO PRODUCING COMPANY)
FOR COMPULSORY POOLING, LEA COUNTY,)
NEW MEXICO)

CASE NO. 13,319

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

August 5th, 2004

Santa Fe, New Mexico

2004 AUG 19 AM 10 28

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, August 5th, 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.

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I N D E X

August 5th, 2004
 Examiner Hearing
 CASE NO. 13,319

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APPLICANT'S WITNESS:

R. SCOTT McDANIEL (Landman)

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* * *

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

* * *

1 WHEREUPON, the following proceedings were had at
2 10:47 a.m.:

3 EXAMINER CATANACH: All right, call the hearing
4 back to order, and at this time I'll call Case 13,319, the
5 Application of Pogo Producing Company for compulsory
6 pooling, Lea County, New Mexico.

7 Call for appearances.

8 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe,
9 representing the Applicant. I have one witness.

10 EXAMINER CATANACH: Will the witness please stand
11 to be sworn in?

12 (Thereupon, the witness was sworn.)

13 R. SCOTT McDANIEL,
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 and city of
19 residence?

20 A. My name is Scott McDaniel, and I reside in
21 Midland, Texas.

22 Q. Who do you work for and in what capacity?

23 A. I am a landman for Pogo Producing Company.

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

1 A. Yes, I have.

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

4 A. Yes, they were.

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

7 A. Yes, I am.

8 MR. BRUCE: Mr. Examiner, I'd tender Mr. McDaniel
9 as an expert petroleum landman.

10 EXAMINER CATANACH: He is so qualified.

11 Q. (By Mr. Bruce) Mr. McDaniel, would you identify
12 Exhibit 1 and describe what Pogo seeks in this case?

13 A. Yes, Exhibit 1 is a land plat highlighting the
14 east half of Section 30, Township 23 South, 33 East. We
15 seek an order pooling all mineral interests from the top of
16 the Cherry Canyon formation to the base of the Morrow
17 formation underlying the east half of Section 30.

18 Q. Do you seek to pool any other well units?

19 A. Yes, we do, we seek to pool the southeast quarter
20 for 160-acre units and the northeast of the southeast
21 quarter for 40-acre units.

22 Q. What well is involved?

23 A. The unit will be dedicated to the Foxglove 30
24 Federal Number 1 well, which is to be located 1980 from the
25 south line and 660 from the east line of Section 30.

1 Q. And what is the ownership of the well unit?

2 A. The east half is comprised of two leases.
3 Federal Lease NM-97146, which covers the southeast quarter
4 of the southeast quarter, is owned by Pogo Producing
5 Company. The remainder of the remaining acreage there is
6 covered by Federal Lease NM-31224, and this lease is owned
7 50-percent by ConocoPhillips and 50-percent by Tom Brown,
8 Inc., as to depths from the top of the Cherry Canyon to
9 17,899 feet.

10 And as Mr. Gray had indicated in the last
11 hearing, the Tom Brown interest is now owned by Magnum-
12 Hunter.

13 Q. What is -- And I'll just continue to refer to Tom
14 Brown here, since that's in the correspondence. What is
15 the status of Tom Brown's interest?

16 A. Tom Brown had entered into a letter agreement
17 with Pogo providing it the opportunity to review certain of
18 Pogo's geological and geophysical data, in exchange for its
19 commitment of its leasehold interest to the working
20 interest unit and either participate in the initial unit
21 well or farm out its interest to Pogo.

22 Q. So the only party we're here pooling today is
23 ConocoPhillips; is that correct?

24 A. That's correct.

25 Q. Now, let's discuss -- you mentioned that Tom

1 Brown had committed to either join in a working interest
2 unit or farm out its interest. What is -- When we're
3 talking the working interest unit, we're not talking this
4 well unit, we're talking a larger area, are we not?

5 A. Yes, that's correct.

6 Q. And what acreage is in that working interest
7 unit?

8 A. The working interest unit that we have proposed
9 will consist of the west half of Section 29, the east half
10 of Section 30, the east half of Section 31 and the west
11 half of Section 32, there again in 23 South, 33 East.

12 Q. Okay. And what is Exhibit 2?

13 A. Exhibit 2 is a copy of a letter proposing this
14 working interest unit to ConocoPhillips, Tom Brown, Yates
15 Petroleum, Yates Drilling, Myco Industries and Abo
16 Petroleum.

17 Q. And this letter was what, dated last October, was
18 it not?

19 A. Yes, it was, it was sent on October the 27th of
20 2003.

21 Q. Now, you already mentioned that Tom Brown has
22 agreed, has entered into a letter agreement with Pogo.
23 Have Yates and the Yates group of companies agreed to your
24 proposal?

25 A. Yes, like Tom Brown the Yates group there has

1 entered into a letter agreement with Pogo providing them
2 the opportunity to review certain geological and
3 geophysical data in exchange for their commitment of their
4 leasehold interest to the working interest unit and again
5 to either participate in the initial unit well or farm out
6 its interest to Pogo.

7 Q. What has been ConocoPhillips' response to the
8 working interest unit proposal?

9 A. Well, initially we received no response from
10 ConocoPhillips, so I called them a number of times trying
11 to get some support from them. We were finally told that
12 they would not support our proposal, and in late May of
13 this year, you know, after working out some matters with
14 Tom Brown and Yates, we again forwarded the working
15 interest unit proposal to them, and I believe that's marked
16 as Exhibit 3.

17 Q. Okay, so you re-faxed the working interest unit
18 proposal to ConocoPhillips?

19 A. Yes, that's correct.

20 Q. Okay. And then what is Exhibit 4?

21 A. Exhibit 4 is a letter that I -- it's a letter
22 dated June 7th of this year that I sent to ConocoPhillips,
23 and basically we sent them a revised AFE covering the
24 initial well to be drilled there in the working interest
25 unit.

1 Q. Okay. Now, where is the initial working interest
2 unit well?

3 A. That will be in the west half of Section 29.

4 Q. Now, Pogo does still have plans to drill that
5 well; is that correct?

6 A. Yes, we do.

7 Q. Does ConocoPhillips own an interest in Section
8 29?

9 A. No, they do not own an interest, but Pogo may
10 drill a second well in the east half of Section 30, and
11 that is the current proposal to ConocoPhillips.

12 Q. What is Exhibit 5?

13 A. As I said after several months of discussions
14 with ConocoPhillips verbally -- after several months of
15 discussions, ConocoPhillips verbally informed us that they
16 would not support a Section 29 well, so we sent them a well
17 proposal on the east half of Section 30, and I believe
18 that's marked as Exhibit 5.

19 Q. And have you called ConocoPhillips about the well
20 in the east half of Section 30?

21 A. Yes, I have, I've called them several times, but
22 ConocoPhillips has never formally agreed to either join or
23 farm out their interest there for that well.

24 Q. Now, have you had any recent discussions with
25 ConocoPhillips?

1 A. Yes, I have. In fact, on a couple of occasions
2 this week I've had discussions with ConocoPhillips, and it
3 appears that we may be developing terms for a farmout
4 agreement covering its interest there in the east half of
5 Section 30, although at this point we do not have anything
6 finalized.

7 Q. Okay, but ConocoPhillips, to the best of your
8 knowledge, does not want to participate in the well --

9 A. That's correct.

10 Q. -- as a working interest; is that right?

11 A. That's correct, yes.

12 Q. In your opinion, has Conoco -- has Pogo made a
13 good faith effort to obtain the voluntary joinder of
14 ConocoPhillips in the Section 30 well?

15 A. Yes, I believe we have.

16 Q. And please discuss the cost of the proposed well?
17 And I think -- I don't have a separate AFE. I think
18 there's -- The most recent AFE is attached as part of
19 Exhibit 5, Mr. McDaniel. What is the cost of the proposed
20 well?

21 A. Yes, the estimated dryhole cost of this well is
22 believed to be \$2,247,000, and a completed well cost of
23 \$2,684,128.

24 Q. And that's a substantial cost. Is this a pretty
25 deep test?

1 A. Yes, it is. I believe it's to be drilled to
2 15,700 feet.

3 Q. Is this cost in line with the cost of other wells
4 drilled to this depth in this area of Lea County?

5 A. Yes, I believe it is.

6 Q. And does Pogo request that it be designated
7 operator of the well?

8 A. Yes, it does.

9 Q. Do you have a recommendation for the amounts
10 which Pogo should be paid for supervision and
11 administrative expenses?

12 A. Yes, we request \$6000 per month for a drilling
13 well and \$600 a month for a producing well.

14 Q. And are these amounts equivalent to those
15 normally charged by Pogo and other operators in this area
16 for wells of this depth?

17 A. Yes.

18 Q. Do you request that the overhead rates be
19 adjusted periodically as provided by the COPAS accounting
20 procedure?

21 A. Yes, we do.

22 Q. Do you request the maximum cost-plus-200-percent
23 risk charge be assessed against nonconsenting interest
24 owners?

25 A. Yes.

1 Q. Was ConocoPhillips notified of this hearing?

2 A. Yes, they were.

3 Q. And is that marked as Exhibit 6?

4 A. Yes, it is.

5 Q. Were Exhibits 1 through 6 prepared by you or
6 under your supervision or compiled from company business
7 records?

8 A. Yes, they were.

9 Q. And in your opinion is the granting of Pogo's
10 Application in the interests of conservation and the
11 prevention of waste?

12 A. Yes.

13 Q. Just one final question, Mr. McDaniel. If you'll
14 look at Exhibit 1 --

15 A. Yes.

16 Q. -- the east half of Section 31 in the working
17 interest unit, it has my name on the lease. How come I
18 wasn't notified of the working interest unit?

19 A. Well, I do believe that you assisted our
20 predecessors in the acquisition of that lease.

21 MR. BRUCE: Well, just as long as I'm still
22 alerted.

23 EXAMINER CATANACH: Great.

24 MR. BRUCE: Mr. Examiner, I'd move the admission
25 of Exhibits 1 through 6.

1 EXAMINER CATANACH: Exhibits 1 through 6 will be
2 admitted.

3 EXAMINATION

4 BY EXAMINER CATANACH:

5 Q. Now, Mr. McDaniel, in your dealings with
6 ConocoPhillips you proposed the formation of a working
7 interest unit to them?

8 A. Yes, I have.

9 Q. Have you also given them the option of
10 participating in the well or farming out, just on an
11 acreage basis in the east half of Section 30?

12 A. Well, now, that's -- we have done that via our
13 proposal back, I guess, in June of this year.

14 Q. But you --

15 A. Initially the proposal was to form the working
16 interest unit and to have everyone, you know, commit their
17 interest to that working interest and either participate or
18 farm out on that, to the working interest unit.

19 Q. Which they apparently did not think they wanted
20 to participate in a working interest unit; is that correct?

21 A. Yes, basically they did not want to participate
22 in anything in this part of the world at that time.

23 Q. Okay. So then you gave them the option of
24 participating on a tract basis?

25 A. That's correct.

1 Q. And Tom Brown, they're also not participating in
2 the working interest unit?

3 A. Well, no, huh-uh, they will ultimately commit
4 their interest to the working interest unit and either
5 participate in the well or farm out their interest to Pogo.
6 Those are the terms of the letter agreement that we both
7 have entered into.

8 Q. And that's predicated upon your providing them
9 with certain information?

10 A. Yes, that's right, certain geological and
11 geophysical information, which we have -- well, again as
12 Ken indicated previously, Magnum-Hunter closed on the
13 acquisition of the Tom Brown interest, I believe, last
14 week, and they were wanting to get that done before they
15 actually reviewed out data, which they have now done, and
16 we are scheduled to show them our data next week.

17 Q. Okay, and that would be data on what? Just the
18 well data you've developed in this area?

19 A. Yes, we have seismic and we have, you know, well
20 control in the area.

21 Q. Okay. Now, the well in Section 29, that's going
22 to be drilled first?

23 A. Yes, it will be.

24 EXAMINER CATANACH: Okay. I think that's all I
25 have.

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MR. BRUCE: Nothing further, Mr. Examiner.

EXAMINER CATANACH: Okay, there being nothing further, Case 13,319 will be taken under advisement.

(Thereupon, these proceedings were concluded at 11:00 a.m.)

* * *

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 13319, heard by me on Apr 15 2007.
David R. Catnach, Examiner
Oil Conservation Division

