

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 CHI ENERGY, INC.,)
FOR COMPULSORY POOLING, EDDY COUNTY,)
NEW MEXICO)

CASE NO. 13,380

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

November 18th, 2004

Santa Fe, New Mexico

2004 DEC 2 AM 11:42

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, November 18th, 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

November 18th, 2004
 Examiner Hearing
 CASE NO. 13,380

PAGE

APPLICANT'S WITNESS:

JOHN W. QUALLS (Landman)

Direct Examination by Mr. Bruce 3

Examination by Examiner Catanach 8

REPORTER'S CERTIFICATE

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E X H I B I T S

Applicant's

Identified

Admitted

Exhibit 1	3	8
Exhibit 2	4	8
Exhibit 3	5	8
Exhibit 4	6	8

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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 8:39 a.m.:

3 EXAMINER CATANACH: At this time I'll call Case
4 13,380, the Application of Chi Energy, Inc., for compulsory
5 pooling, Eddy County, New Mexico.

6 Call for appearances.

7 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe.
8 I have one witness.

9 EXAMINER CATANACH: Any additional appearances?

10 Okay, let the record show that Mr. Qualls has
11 been previously sworn in in a case and qualified as an
12 expert witness.

13 JOHN W. QUALLS,

14 the witness herein, having been previously duly sworn upon
15 his oath, was examined and testified as follows:

16 DIRECT EXAMINATION

17 BY MR. BRUCE:

18 Q. Mr. Qualls, could you identify Exhibit 1 for the
19 Examiner and briefly describe what Chi seeks in this case?

20 A. Exhibit 1 is a land map showing the north half of
21 Section 33 on the Otis Number 1 -- Otis 33 Number 1.

22 Q. And you seek to force pool the -- you only seek
23 to force pool the north half of 33 for 320-acre units in
24 this case; is that correct?

25 A. Right.

1 Q. The Otis Number 1 well, what is the status of
2 that well?

3 A. That is the well that we're going to re-enter.

4 Q. And what is its footage location?

5 A. It is 990 from the north and 2130 from the east
6 line.

7 Q. And this well is adjacent to the well units for
8 the prior two cases; is that correct?

9 A. Yes, sir.

10 Q. Who are the two parties you seek to force pool?

11 A. Eulalio Medrano and Lee Roy Lujan, we cannot
12 find.

13 Q. Okay. Now, were these also unlocatable people?

14 A. Yes.

15 Q. Now, Exhibit 2 is your proposal letter to these
16 people, correct?

17 A. Right.

18 Q. It was sent to their last known address?

19 A. Yes.

20 Q. Have you actually been out in this area looking
21 for these people, physically looking for these people?

22 A. Yes, I've been by both of these physical
23 addresses, and no one was living in either one of these
24 houses.

25 Q. And Mr. Medrano has two net acres out of the

1 three in the well unit; is that correct?

2 A. Yes.

3 Q. And Mr. Lujan has one net acres?

4 A. Yes.

5 Q. And you seek to force pool those -- they are
6 unleased interests, I presume?

7 A. Yes.

8 Q. Okay. And you seek to force pool those interests
9 into the 320-acre well unit?

10 A. Yes.

11 Q. Again, what records were searched -- besides
12 physically visiting the premises, what records were
13 searched?

14 A. Tax records in Eddy County, along with the county
15 courthouse records.

16 Q. Okay. And they just did not show up?

17 A. No.

18 Q. Do you recall the vintage of their acquisition of
19 these interests?

20 A. No, sir, I don't. I don't remember the date of
21 that.

22 Q. Okay, what is Exhibit 3?

23 A. Exhibit 3 is an AFE showing the total cost for
24 re-entry.

25 Q. And do you intend to test the Morrow, as well as

1 potentially other formations in this well?

2 A. Yes.

3 Q. What is the approximate cost of the re-entry?

4 A. \$276,800.

5 Q. And in your opinion is this a fair and reasonable
6 cost for re-entry to test the Morrow formation.

7 A. Yes.

8 Q. Do you again request that Chi Operating, Inc., be
9 named operator of this well?

10 A. Yes, sir.

11 Q. What overhead rates do you request?

12 A. \$6000 drilling and \$600 producing.

13 Q. And in your opinion, are those fair and
14 reasonable rates for re-entered wells of this depth?

15 A. Yes, sir.

16 Q. Do you request that the overhead rates be
17 adjusted periodically under the COPAS accounting procedure?

18 A. Yes, sir.

19 Q. And do you request the maximum cost-plus-200-
20 percent risk charge on nonconsenting interest owners?

21 A. Yes.

22 MR. BRUCE: Mr. Examiner, again Exhibit 4 is the
23 mailing I did to these two people, which the mailings came
24 back. Again, this advertisement was tied up with the other
25 one, so I haven't received it, so I'd ask the case just be

1 continued for two weeks, so I can submit that into
2 evidence, the affidavit of publication, at that time.

3 EXAMINER CATANACH: Looks like we hit the wrong
4 quarter quarter section again. If I'm correct, your well
5 is in Unit B?

6 THE WITNESS: It would be in Unit C, I believe.

7 EXAMINER CATANACH: Did you say 2130 from the
8 east or the west?

9 THE WITNESS: It should be from the west line.

10 EXAMINER CATANACH: 2130 from the west?

11 THE WITNESS: Should be.

12 EXAMINER CATANACH: Okay, I thought you said
13 east.

14 MR. BRUCE: Yeah, Mr. Examiner, I have 990 from
15 the west and 2130 -- 990 from the north and 2130 from the
16 west.

17 EXAMINER CATANACH: Okay, then this one is
18 correct.

19 Okay, we'll continue this for two weeks to allow
20 you to get that newspaper ad in.

21 And did we admit the exhibits?

22 Q. (By Mr. Bruce) Oh, again, were Exhibits 1
23 through 4 prepared by you or under your supervision, Mr.
24 Qualls?

25 A. Yes, sir.

1 Q. And in your opinion is the granting of this
2 Application in the interests of conservation and the
3 prevention of waste?

4 A. Yes.

5 MR. BRUCE: Mr. Examiner, I'd move the admission
6 of Chi Exhibits 1 through 4.

7 EXAMINER CATANACH: Exhibits 1 through 4 will be
8 admitted.

9 EXAMINATION

10 BY EXAMINER CATANACH:

11 Q. Mr. Qualls, did you use any other sources to try
12 and find these two parties, besides the tax records and the
13 County Clerk's records?

14 A. I had our pumper in the area try to go by these
15 houses a couple times to see if anybody ever showed up, and
16 we have not found anybody at these houses.

17 Q. It just doesn't look like they're occupied?

18 A. One of them looks like somebody's there, but
19 nobody's been home the times that I've been by or the times
20 that he's been by?

21 Q. Is there any phone numbers available for these
22 parties?

23 A. No phone numbers.

24 Q. Okay. Is this well -- is it already drilled deep
25 enough to test the Morrow?

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A. Yes.

EXAMINER CATANACH: Okay, I have nothing further.
There being nothing further, this case will be
continued to December 2nd.

(Thereupon, these proceedings were concluded at
8:48 a.m.)

* * *

I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 13380
heard by me on November 1st 2004
David R. Catanch, 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 November 25th, 2004.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 16th, 2006