

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. 13,430
APPLICATION OF REDMON OIL COMPANY, INC.,)
FOR COMPULSORY POOLING, LEA COUNTY,)
NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

February 17th, 2005

Santa Fe, New Mexico

2005 MAR 3 AM 8 09

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, February 17th, 2005, 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

February 17th, 2005
 Examiner Hearing
 CASE NO. 13,430

PAGE

APPLICANT'S WITNESS:

WILLIAM JONES (Engineer)

Direct Examination by Mr. Carr

3

Examination by Examiner Catanach

19

REPORTER'S CERTIFICATE

23

* * *

E X H I B I T S

Applicant's	Identified	Admitted
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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: WILLIAM F. CARR

* * *

1 WHEREUPON, the following proceedings were had at
2 10:40 a.m.:

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4
5 EXAMINER CATANACH: At this time we'll call Case
6 13,430, the Application of Redmon Oil Company, Inc., for
7 compulsory pooling, Lea County, New Mexico.

8 Call for appearances.

9 MR. CARR: May it please the Examiner, my name is
10 William F. Carr with the Santa Fe office of Holland and
11 Hart, L.L.P. We represent Redmon Oil Company, Inc., in
12 this matter, and I have one witness.

13 EXAMINER CATANACH: Okay. Will the witness
14 please stand to be sworn in?

15 (Thereupon, the witness was sworn.)

16 WILLIAM JONES,
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. CARR:

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

22 A. William Jones.

23 Q. Mr. Jones, where do you reside?

24 A. Dallas, Texas.

25 Q. And by whom are you employed?

1 A. By Redmon Oil Company.

2 Q. What is your position with Redmon Oil Company?

3 A. President, sir.

4 Q. Have you previously testified before the New
5 Mexico Oil Conservation Division?

6 A. Yes, sir, I have.

7 Q. At the time of that testimony, were your
8 credentials as an expert witness in petroleum engineering
9 accepted and made a matter of record?

10 A. Yes, sir.

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

13 A. I am.

14 Q. And are you familiar with the status of the lands
15 in the area that is the subject of this Application?

16 A. I am.

17 MR. CARR: Are the witness' qualifications
18 acceptable?

19 EXAMINER CATANACH: They are.

20 Q. (By Mr. Carr) Mr. Jones, would you briefly
21 summarize for the Examiner what it is that Redmon Oil
22 Company seeks with this Application?

23 A. We seek an order pooling all mineral interests in
24 all formations and pools in the following spacing and
25 proration units in Section 8, Township 22 South, Range 38

1 East: the northeast quarter for all formations and/or pools
2 developed on 160-acre spacing within that vertical extent
3 of shallow gas and Undesignated Tubb Oil and Gas Pool, and
4 in the southwest of the northeast quarter, Unit G, for all
5 formations and/or pools developed on 40-acre spacing within
6 that vertical extent that's the Undesignated Wantz-Granite
7 Wash Pool, Undesignated South Brunson-Drinkard-Abo Pool,
8 Undesignated Tubb Oil and Gas Pool, and Undesignated
9 Blinebry Oil and Gas Pool, and the Undesignated Paddock
10 Pool.

11 Q. Are all of these spacing units to be dedicated to
12 the Brabant Well Number 1?

13 A. Yes, sir, they are.

14 Q. And where is that well located?

15 A. It's at a standard location 1980 feet from the
16 north and 1980 from the east lines of Section 8.

17 Q. This well and these spacing units were actually
18 the subject of an Oil Conservation Division case in 2003;
19 is that not correct?

20 A. That is correct.

21 Q. It was Case Number 13- --

22 A. 13,017.

23 Q. And what was the order number on that case?

24 Order Number --

25 A. -- R-11,933. It was given on March 13th, 2003.

1 Q. And this order was a compulsory pooling order.
2 It was obtained by OXY for the purpose of drilling this
3 well; is that not right?

4 A. Yes, sir, that is correct.

5 Q. When you originally contacted -- when they
6 drilled the well, were there any shows or any signs of
7 production in the formations that are the subject of
8 today's hearing?

9 A. Yes, sir, there are.

10 Q. And you contacted them about acquiring the well
11 from them and attempting to change operator and attempt a
12 recompletion in these shallower zones; is that right?

13 A. Yes, sir, I would not call it a recompletion, but
14 just to do a better job of completing the well. They had
15 tested the Abo. The well was drilled originally to the
16 Fusselman, and ran pipe and cemented it all the way back to
17 the surface. And they tested the Fusselman and it was wet.
18 And they came up and shot and acidized the Abo and swabbed
19 and flowed probably 25 or 30 barrels of oil a day. And
20 that was in August of 2003. And in October, 2003, they
21 plugged the well without ever really doing further with it.

22 And I think there's a great opportunity to re-
23 enter the well and put the Abo back on formation -- I mean,
24 back on production. With proper stimulation it could
25 probably be a much better well.

1 Q. When you initially contacted them, you were
2 hoping that you would be able to change operations into
3 your name and then go to work on the well; is that fair to
4 say?

5 A. That is correct, yes, sir.

6 Q. And it was after you got into these discussions
7 that you discovered they had plugged the well and that the
8 pooling order had therefore slipped away?

9 A. Yes, sir.

10 Q. Would you identify what has been marked as Redmon
11 Exhibit Number 1?

12 A. It is a copy of Order R-11,933.

13 Q. Could you tell us when it was that you actually
14 acquired your interest in this lease?

15 A. We acquired the assignment of the lease from OXY
16 on February the 3rd, 2005.

17 Q. And when is this lease scheduled to expire?

18 A. In April the 1st, 2005.

19 Q. So you have a very limited time window within
20 which to try and get these interests back together; is that
21 not fair to say?

22 A. Yes, sir, they're very limited, time.

23 Q. When -- You contacted them, and they have
24 cooperated with us, have they not, in identifying the
25 interests in the property and assisting us in this effort?

1 A. Very much so. They gave us their title opinions,
2 they gave us a list of all of the participants and a --
3 They had produced enough oil in their testing of the Abo
4 that they had to go through and get a Division order put
5 together and actually make a distribution. So we had a
6 complete list of everyone there are in the two leases that
7 we're talking about. I think there's 85 lessors. And we
8 were able to contact all except for eight, I believe, and
9 those were the same eight that OXY was not able to --

10 Q. You actually did --

11 A. So we did contact some of them, that's right.

12 Q. And you actually commenced your effort to contact
13 these individuals and put this -- and re-pool these
14 particular units prior to the time that you had actually
15 acquired the assignment, had it in hand, from OXY?

16 A. That is correct. I had a verbal agreement with
17 them, and I felt like their word was good. So we commenced
18 to --

19 Q. And you worked with your attorney in Dallas who
20 contacted these individuals --

21 A. Yes, sir.

22 Q. -- for you and attempted to put the spacing units
23 back together?

24 A. Right.

25 Q. Let's take a look at what has been marked as

1 Redmon Exhibit 2. Would you identify this and review it
2 for Mr. Catanach?

3 A. Okay, that is the land plat which shows the --
4 both the spacing units, the 160- and the 40-acre, and it
5 also shows the two leases that exist in the northeast
6 quarter.

7 Q. OXY actually pooled the entire north half, did
8 they not?

9 A. Yes, sir, they did, because they were drilling a
10 deeper pool that allowed them to do a 320-acre.

11 Q. Coming up to try to put this well on production,
12 you can only dedicate the northeast quarter, but as to
13 Lease A shown on this exhibit, you have been able to get an
14 extension of that lease?

15 A. I have, yes, sir.

16 Q. And so if you are successful here, you will have
17 the option of drilling an additional well over on that
18 property; is that fair to say?

19 A. Yes, sir, that is.

20 Q. This property is actually governed by the
21 statewide rules; is that not correct?

22 A. That is correct, there are no special field rules
23 or regulations for any of these pools.

24 Q. There are perhaps some in some of these oil
25 pools, but they only would relate to matters like a special

1 gas-oil ratio or, at one time, prorationing.

2 If you are successful, you will be at a maximum
3 either on a 160-acre gas unit or a 40-acre oil; is that
4 right?

5 A. That is correct.

6 Q. Let's go to what has been marked Exhibit Number
7 3. Would you identify this?

8 A. That is the listing that was provided to us by
9 OXY of the interest owners and their interest in the
10 various leases or -- Tract 1, of course, is the west two-
11 thirds of the northwest quarter. Tract 2 is the east two-
12 thirds of the northeast quarter. And then Tract 3 is the
13 middle part there; it's the east one-third of the northwest
14 quarter and the west one-third of the northeast quarter.

15 Q. And these tracts relate back to the -- or are
16 shown on Exhibit Number 2 as leases A, B and C?

17 A. Yes, sir.

18 Q. What we have here is, we have a list of all the
19 interest owners that had to be contacted and either leased
20 to OXY or somehow put together initially for the
21 development of these properties?

22 A. That is correct.

23 Q. At this point in time, by assignment from OXY you
24 stand before the Examiner representing all of the people
25 except those on this exhibit that have the "N/C", not

1 committed, designation on the right?

2 A. That is right.

3 Q. And you stand before the Examiner representing
4 over 97 percent of the working interest in the property; is
5 that correct?

6 A. Yes, sir.

7 Q. Now the interest owners that are designated on
8 these exhibits that show -- they have the N/C designation
9 after them, can you just tell us who they are and what
10 we've done to try and bring these interests in?

11 A. We've sent out notifications to each one of them,
12 and there were several that we were not able to locate,
13 this George Walter Scarlett that -- we cannot find him at
14 all. Fred Tankersley is deceased also, and we're not able
15 to get any feedback there. And then Brian Thomas Houston
16 also, we're not able to get in touch with him. The rest of
17 them, I think we did establish some contact.

18 Q. And this has been handled by Mr. Hayworth, your
19 attorney in Dallas?

20 A. Yes, sir, that is correct. And we followed up
21 after receiving the information from OXY and went back to
22 the original land person that did all the work -- he was a
23 consultant for OXY -- and had him follow up, and he was not
24 able to locate any of these people either. And we did do
25 the Internet search again, since it had been about a year

1 since OXY -- or a year and a half, I guess, since OXY had
2 done that.

3 Q. And George Walter Scarlett and Fred Tankersley
4 remain just unknown, their whereabouts are unknown?

5 A. Right, yes, sir.

6 Q. We were able to send or attempt to send notice to
7 those other interest owners identified on this list, and
8 you did send an AFE to each and request their
9 participation; is that right?

10 A. Right, right.

11 MR. CARR: Mr. Catanach, I've been involved in
12 looking into the interest of Lori Jean Houston and Brian
13 Thomas Houston, and I can just advise you that they're the
14 heirs of a Robert Houston who died intestate in Douglas
15 County, Oregon, in 1986.

16 There was an ancillary probate filed in Lea
17 County, but there was nothing other than an order
18 appointing Lori Jean Houston, his wife, as the
19 administrator of that estate for the purpose of the probate
20 here to address really this small interest. There is no
21 record of any deed or any conveyance after that time.

22 Three years ago, when we sent notice, we had
23 addresses for both Lori Jean Houston and Brian Thomas
24 Houston. This is when OXY did it. We got those off an
25 Internet search. The letter from [sic] Brian Thomas

1 Houston was returned undeliverable, as was my notice letter
2 at that time. Since that time -- but we did get a return
3 back from Lori Jean Houston, and so we used that address,
4 and we wrote her again, and we have not gotten a response
5 to that letter.

6 Since the time we were here, I was here with OXY
7 in 2003, we have been to acquire the interest of a couple
8 of the Scarletts. They don't know where George Walter
9 Scarlett is. And an Ellen Barnes was also located and
10 leased.

11 But what we have before you are certain people
12 who have indicated -- who we -- were pooled before, we have
13 notified again, and the only response we've gotten to the
14 letters that I sent out was that Republic Royalty Company
15 advised us they did not desire to participate.

16 Q. (By Mr. Carr) Mr. Jones, do you believe you've
17 done what you can to put together the interest owners in
18 these spacing units to again attempt to establish
19 production in the subject well?

20 A. Yes, sir, I do.

21 Q. How will the production proceeds attributed to
22 the interest of any interest owner not voluntarily
23 committed to the well actually be handled?

24 A. It will be deposited in an escrow account in a
25 bank in Lea County, New Mexico.

1 Q. Is Exhibit Number 4 copies of the letters that
2 transmitted an AFE to each of these parties that we could
3 identify who were not committed?

4 A. Yes.

5 Q. And that was dated back on January the 18th of
6 this year, which predated the time you actually obtained
7 the assignment from OXY?

8 A. That is correct. Like I said, I was going on a
9 good faith verbal agreement with OXY.

10 Q. Let's go to Exhibit Number 5. Would you identify
11 that, please?

12 A. Okay, that is the AFE.

13 Q. Could you just review the dryhole cost and the
14 completed well cost that are set forth in the AFE?

15 A. Yes, sir, the dryhole costs are \$115,000, and
16 then \$288,000 for a completed well. We really feel like
17 the well needs to be fracture-stimulated to establish
18 whether it's a commercial production or not, so I included
19 the fracture stimulation as part of the dryhole cost.

20 Q. Have you -- were these costs -- Was this AFE
21 prepared by you?

22 A. Yes, sir, this was prepared by me.

23 Q. And are these costs reasonable, based on your
24 experience in the industry?

25 A. Yes, sir, they are. These are costs that are the

1 going rate for vendors in the area.

2 Q. Have you made an estimate of the overhead and
3 administrative costs that would be incurred while working
4 on this well and also while producing it, if it is
5 successful?

6 A. Yes, sir, \$5000 a month for the drilling of the
7 overhead cost and \$500 a month for a producing well.

8 Q. And how do these compare to the figures set in
9 the OXY order, do you know?

10 A. Well, the figures in the OXY order were \$6000 for
11 drilling overhead and \$600 a month.

12 Q. Do you recommend that the \$5000-a-month drilling
13 and \$500-a-month producing figures be incorporated into any
14 order that results from this hearing?

15 A. Yes, sir, I do recommend that.

16 Q. Does the Redmon Oil Company request that the
17 Division impose the 200-percent charge for risk authorized
18 by statute on each of the interest owners not voluntarily
19 committed to the well?

20 A. Yes, I do.

21 Q. And these should be mineral interest owners;
22 isn't that right?

23 A. That is correct.

24 Q. Are you familiar with the COPAS form entitled
25 "Accounting Procedures for Joint Operations"?

1 A. Yes, sir, I am very familiar with it.

2 Q. At this time -- I mean, you have acquired through
3 OXY 97 percent of the well, correct?

4 A. That is correct.

5 Q. And there is not other interest owner who has --
6 or at this time has executed a joint operating agreement
7 with you; is that right?

8 A. No, sir, there is no other interest owner that
9 has executed an operating agreement.

10 Q. Maecenas Minerals or the Fasken group decided to
11 participate, you would have an operating agreement?

12 A. I would have, yes.

13 Q. You would include this COPAS form?

14 A. I would.

15 Q. And this form provides for the periodic
16 adjustment of the overhead and administrative costs that
17 would be set by the Division?

18 A. Yes, sir.

19 Q. Do you request that these procedures be
20 incorporated by the Division into any order that would
21 result from this hearing?

22 A. I do make that request.

23 Q. Does the Redmon Oil Company, Inc., seek to be the
24 operator of this well?

25 A. Yes, we do.

1 Q. Is Exhibit Number 6 an affidavit confirming that
2 notice was provided of this hearing by Holland and Hart to
3 those parties whose interest will be subject to the
4 pooling?

5 A. Yes, it is.

6 Q. In your opinion, will the approval of this
7 Application and the attempt to re-establish production in
8 the subject well be in the best interest of conservation,
9 the prevention of waste, and the protection of correlative
10 rights?

11 A. I do believe that, yes.

12 Q. Mr. Jones, how soon do you plan to go back to
13 work on this well?

14 A. Very, very quickly. We have a -- as noted
15 before, an April 1 lease expiration. With the number of
16 people involved, it would be difficult to put all that back
17 together.

18 Q. Were Redmon Oil Company Exhibits 1 through 6
19 prepared by you or compiled under your direction and
20 supervision?

21 A. They were.

22 MR. CARR: Mr. Catanach, we move the admission
23 into evidence of the Redmon Oil Company, Inc., Exhibits 1
24 through 6.

25 EXAMINER CATANACH: Exhibits 1 through 6 will be

1 admitted.

2 MR. CARR: And that concludes my direct
3 examination of this witness.

4 EXAMINER CATANACH: Are we actually pooling the
5 north half in this case, Mr. Carr?

6 MR. CARR: No, we're not. We are -- this order
7 would be limited to the spacing units that at these depths
8 are available in this well. That would be the northeast
9 quarter and then the southwest of the northeast.

10 EXAMINER CATANACH: Okay. And I guess would this
11 be from the surface to -- it doesn't -- the advertisement
12 for this case doesn't specify any depth interval.

13 MR. CARR: I'll tell you why that is not in the
14 ad. At the time that we filed this, obviously everything
15 has been on a very short fuse, and there was some talk
16 about whether or not there would be a possibility of going
17 to a deeper horizon and thereby being able through a
18 pooling order to hold the north half, and that is something
19 we've concluded isn't reasonable.

20 And so we would want to go from the surface
21 through -- or what formation?

22 THE WITNESS: Through the Abo.

23 MR. CARR: Through the Abo.

24 THE WITNESS: Yes, sir, that would be about 8000
25 feet.

EXAMINATION

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BY EXAMINER CATANACH:

Q. So that will be the deepest formation tested, the Abo?

A. Yes, sir.

Q. So is it okay to do a surface to the base of the Abo?

A. Right.

Q. Now, OXY drilled the well and produced it a little bit and then plugged it.

A. Yes, sir.

Q. Now, did OXY have the participation of the 97 percent -- Had they leased these interests, or how did they acquire these interests?

A. They leased everything, yes, sir.

Q. Okay, so the owners that you have shown as committed were all leased by OXY?

A. Yes, sir.

Q. And by virtue of your agreement with OXY, these interest owners are still committed?

A. That's correct. OXY has assigned me their rights under those leases. There's a stack of leases about --

Q. So the only interest owners that you're pooling are the ones that you have nonconsent or N/C on?

A. Yes, sir, that OXY could not get a lease from,

1 and we've not been able to secure a lease or any kind of a
2 commitment to participate.

3 Q. Okay, and three where you were unable to contact,
4 so that there were some that you did attempt to secure
5 voluntary agreement with?

6 A. Yes, sir.

7 Q. And when did those efforts begin?

8 A. On January the 18th.

9 Q. January 18th.

10 A. That's when those letters went out.

11 Q. And you were actually able to find these parties,
12 and did you talk to them at all, or...

13 A. We made some attempts to talk, but we did not
14 verbally talk to anyone. We did get one response back from
15 a company that has taken Republic's place, and they
16 declined to participate.

17 Q. Okay. Was there anything expressed to you by any
18 of these interest owners that they didn't have enough time
19 to evaluate your proposal?

20 A. No, sir, not to my knowledge.

21 Q. And the well costs -- I assume it's just
22 recompletion cost, re-entry and recompletion cost?

23 A. That's correct.

24 Q. There's no drilling cost associated, or --

25 A. No, sir.

1 Q. -- you're not going to attempt to recover any
2 drilling costs?

3 A. No. No, the costs are to drill out all of the
4 cement plugs that were placed in the casing, and then the
5 major part of the cost is buying a pumping unit and tubing.
6 And as you well know, prices of those kind of things have
7 gone through the roof.

8 Q. Hopefully having to buy a pumping unit.

9 A. Yes, sir, hopefully having to buy a pumping unit.
10 That's the way, you know, it's really spelled out. The
11 risk cost is \$115,000, and the total costs are...

12 EXAMINER CATANACH: Okay. Mr. Carr, did Lori
13 Jean Houston have any knowledge of the other Houston
14 interests?

15 MR. CARR: We've never been able to talk to Lori
16 Jean. She took -- her return receipt from her in 2003, and
17 there were attempts by OXY to talk to her, but no one has
18 ever talked to her. I mean, her husband died in 1986. We
19 know that Brian is her son, and we know that under the
20 intestate laws here, she would get a quarter of that
21 estate. He actually is entitled, I believe, to two --
22 three quarters. They're very, very small interests.

23 So we went back to her again and have not been
24 able to get a response at the address that we had three
25 years ago.

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EXAMINER CATANACH: Okay, I have nothing further.

MR. CARR: What's all we have. Thank you, Mr. Catanach.

EXAMINER CATANACH: Okay, there being nothing further, Case 13,430 will be taken under advisement.

THE WITNESS: Thank you.

EXAMINER CATANACH: Thank you.

(Thereupon, these proceedings were concluded at 11:03 a.m.)

* * *

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 13430, heard by me on February 17, 2005.

David R. Catanach, 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 February 21st, 2005.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 16th, 2006