

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 JTD RESOURCES, LLC,)
FOR COMPULSORY POOLING, LEA COUNTY,)
NEW MEXICO)

CASE NO. 13,495

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: RICHARD EZEANYIM, Hearing Examiner

June 2nd, 2005

Santa Fe, New Mexico

2005 JUN 16 AM 9 59

This matter came on for hearing before the New Mexico Oil Conservation Division, RICHARD EZEANYIM, Hearing Examiner, on Thursday, June 2nd, 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.

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 Examiner Hearing
 CASE NO. 13,495

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A P P E A R A N C E S

FOR THE DIVISION:

GAIL MacQUESTEN
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FOR THE APPLICANT:

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* * *

1 WHEREUPON, the following proceedings were had at
2 8:17 a.m.:

3 EXAMINER EZEANYIM: I will call Case Number
4 13,495. This is the Application of JTD Resources, LLC, for
5 compulsory pooling, Lea County, New Mexico.

6 Call for appearances.

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

9 EXAMINER EZEANYIM: Any other appearances?

10 Okay, may the witness stand to be sworn?

11 (Thereupon, the witness was sworn.)

12 DAN LEONARD,

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

15 DIRECT EXAMINATION

16 BY MR. BRUCE:

17 Q. Would you please state your name and city of
18 residence for the record?

19 A. Yes, my name is Dan Leonard, I live in Midland,
20 Texas.

21 Q. And what is your relationship to JTD Resources?

22 A. I manage that small independent company.

23 Q. And are you a landman by trade?

24 A. I am.

25 Q. Have you previously testified before the Division

1 as a petroleum landman?

2 A. Yes, I have.

3 Q. And are you familiar with the land matters
4 involved in this Application?

5 A. Yes, I am.

6 MR. BRUCE: Mr. Examiner, I'd tender Mr. Leonard
7 as an expert petroleum landman.

8 EXAMINER EZEANYIM: He's so qualified.

9 Q. (By Mr. Bruce) Mr. Leonard, will you identify
10 Exhibit 1 and briefly describe what JTD Resources seeks in
11 this case?

12 A. Exhibit 1 is a land plat from the Midland --
13 Midland County. It highlights the northeast northeast
14 quarter of Section 3 of Township 20 South, Range 38 East,
15 and we are seeking an order pooling the northeast northeast
16 of 3 from the surface to the base of the Abo formation.
17 This unit will be dedicated to the drilling of our Salem
18 Number 1 well.

19 Q. And this is in Lea County, correct?

20 A. Yes.

21 Q. What is the well's footage location?

22 A. Well, it would be located 990 feet from the north
23 line and 450 feet from the east line of Section 3.

24 Q. And that's an orthodox oil well location, is it
25 not?

1 A. Yes.

2 Q. Referring to Exhibit 2, could you identify the
3 working interest ownership in the well unit, please?

4 A. Yes, Exhibit 2, you will see, is -- There are
5 multiple small tracts in this 40-acre unit, and this
6 exhibit reflects the mineral ownership in each of those
7 small tracts. There are 27 mineral owners in the 40 acres.
8 We have acquired leases and a mineral deed from 20 of these
9 27 owners.

10 The leases and the mineral deed that we own cover
11 a total of 26.95 net acres, which represents 67.37 percent
12 of the unit. We've got the remaining 13.05 net acres that
13 seven people own, and that is what we're seeking to force
14 pool.

15 Q. Looking at Exhibit 2, which interest owners do
16 you seek to pool?

17 A. In the first tract at the top of the page, in the
18 north half, northeast, northeast, we seek to pool Anderson
19 Carter's interest.

20 In that little 5-acre tract, the east half, north
21 half, north half, south half, northeast, northeast, the
22 ones that are in bold there are unleased, Michael Chappell,
23 Steve Chappell, Bruce Chappell, Ronald Chappell and Beverly
24 Johnson.

25 And then in the last tract, which is a 10-acre

1 tract, the south half, south half, northeast, northeast, we
2 seek to pool the interest that Devon Energy owns.

3 Q. Okay. Everybody else is tied up in the well?

4 A. Yes.

5 Q. Let's discuss your efforts to obtain the
6 voluntary joinder of the locatable interest owners in the
7 well unit, and I'm going to refer you to Exhibit 3.

8 But preliminarily, how long have you been
9 interested in this tract and have been out there attempting
10 to lease the interest owners?

11 A. Well, oh, probably four or five years. We
12 drilled an offset to the east and had a force-pooling
13 action on that, and we began that process four or five
14 years ago, and we've been working this little area, trying
15 to tie these mineral owners up for quite some time, really.

16 Q. Okay.

17 A. It's a -- A lot of the lands in here are -- the
18 minerals are very cut up, and they haven't been leased for
19 a while, so finding people, finding the correct probates
20 and finding people is somewhat of a trick.

21 Q. In this area, just as more background, 20 South,
22 38 East, and just to the north, how many wells has JTD
23 Resources been involved in drilling over the last, say,
24 eight or ten years?

25 A. Oh, approximately 30.

1 Q. Okay. And most of this is fee land down in this
2 area?

3 A. Almost exclusively.

4 Q. And almost all of the tracks are cut up and have
5 dozens of interest owners, is it fair to say?

6 A. I think the most fun we had was a 160-acre gas
7 unit that we put together for a shallow gas well, and we
8 had over 100 people that owned the minerals in that quarter
9 section.

10 Q. Okay.

11 A. Pretty split up.

12 Q. So it does take some time to get a well drilled
13 in this area?

14 A. Yes, it does. I've run out of landmen to help
15 me. I think this is Leonard's Folly area.

16 Q. Now, you did spend quite a bit of time trying to
17 lease these unleased -- or these mineral interest owners;
18 is that correct?

19 A. We have, we've -- this go-around, we've been at
20 it since, oh, January or February of last year, of '04.

21 Q. Okay. After you had leased a number of people,
22 there were still some unleased people. What was the basic
23 problem? They just didn't respond?

24 A. No response. We had -- the five -- Five of the
25 seven we can locate, we know where they are. And we've

1 made numerous efforts to contact them by telephone, we've
2 left messages on home phones, office phones, cell phones,
3 and gotten no response from that.

4 We've got address for them, and we've sent them
5 offering letters. We have gone so far as to send oil and
6 gas leases and drafts, continuing in this effort. And
7 finally, when we got down to the point of knowing for sure
8 when we're going to drill this well, we sent out AFEs and
9 well proposals. I think the date of those were April
10 8th --

11 Q. Okay.

12 A. -- of this year, and we've just gotten no
13 response. It's not been a -- "You're not paying me enough
14 money or enough royalty to have anything to do with that."
15 There's just no response.

16 And you know, one of the difficulties we have in
17 here is, if you look at that Exhibit 2 and you look at the
18 size of those interests, like the interest of the
19 Chappells. They're just tiny, tiny interests, and they --
20 you have a very difficult time getting their attention to
21 do anything with it.

22 Q. And so eventually you sent out a proposal letter,
23 and is that marked Exhibit 3?

24 A. Yes.

25 Q. And that well proposal went out with an AFE; is

1 that correct?

2 A. Yes, it did.

3 Q. And again, even after they received the well
4 proposal, you have gotten no response from these people?

5 A. No, and we -- you know, we sent them out by
6 certified mail, so we know that they received them.

7 Q. Now, one of the interest owners you're seeking to
8 pool is Devon Louisiana Corporation, which was previously
9 Ocean Energy, Inc. Have you had numerous contacts with
10 Ocean or Devon over the years?

11 A. Yes, we started -- we started with Ocean -- Well,
12 it was before the merger with Devon, so it had to be over
13 two years ago. And they indicated to us early on that they
14 were not interested in leasing, but when we got ready to
15 drill a well that -- send them an AFE and they would
16 probably join in the well.

17 So you know, this spring when we got serious
18 about drilling it, we knew when we were going to drill it
19 and had an AFE ready, we -- well, we sent them an offering
20 letter first, to lease, and got no response to that. And
21 then we contacted their -- Devon's Lea County -- the
22 landman in Oklahoma City that handles Lea County and left
23 several messages on his answering machine and got no
24 response from him. And then we sent on April 8th a well
25 proposal and the AFE, and we've had no response to that.

1 Q. And the letter to Devon is also in Exhibit 3, is
2 it not?

3 A. Yes.

4 Q. The last letter of Exhibit 3?

5 A. Right.

6 Q. Now, if any of these parties do eventually join
7 in the well, perhaps Devon, will you notify the Division
8 that they are not subject to the pooling order?

9 A. Absolutely.

10 Q. And I think you already mentioned, besides the
11 letters as to the locatable owners, you also did contact
12 them by telephone, or attempted to --

13 A. We made an effort to.

14 Q. You made an effort to. And again, they wouldn't
15 even respond to the phone calls, as well as the letter?

16 A. No.

17 Q. Okay. Which interest owners, looking at Exhibit
18 2, did you have trouble locating?

19 A. In the Chappell family we were unable to locate
20 Michael and Bruce.

21 Q. Michael and Bruce Chappell?

22 A. Yes.

23 Q. And what efforts did you make -- I mean, they --
24 there's a family group there -- This is the same family,
25 isn't it --

1 A. It is the same family.

2 Q. -- those four or five people?

3 A. Of course, the first thing we tried to do was get
4 the -- talk to the family about addresses and phone
5 numbers. And I'm not sure exactly what the family
6 situation is here, but nobody seems to know where they are.
7 We had addresses from them. One was up -- Bruce was up in
8 Billings, Montana. And Michael's -- we found an address
9 for him, an old address; it was in Oregon. So we had
10 addresses. We could never find a telephone number for
11 either one of them, and none of the family seems to have
12 any information on either one of them; they don't even know
13 where they are.

14 So we -- you know, we went through the Internet
15 searches and the phone directories and the probates, we --
16 we're unable to find anything on either one of them. And
17 this envelope that we got back from both of them is that
18 they were undeliverable, the certified mail items that we
19 sent out when we sent out the well proposal and the AFE.

20 Q. In your opinion, have you made a good-faith
21 effort to obtain the voluntary joinder of the interest
22 owners in the well?

23 A. I think we have.

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

1 A. Exhibit 4 is an AFE that Capataz Operating, Inc.,
2 who is a -- is -- operator that we've used in this area for
3 years -- he built this AFE, and it reflects a dryhole cost
4 or cost to casingpoint of \$390,000 and a completed well
5 cost of \$905,385.

6 Q. What is the depth of the well?

7 A. 7800 feet.

8 Q. Are there several objectives in this well?

9 A. Multiple objectives. Of course, you start with
10 the San Andres, which is always -- is always something you
11 look at. But the primary objectives in this well are the
12 Blinebry, Tubb, Drinkard and Abo formations.

13 Q. Is this proposed well cost in line with the cost
14 of other wells drilled to this depth in this area of Lea
15 County?

16 A. Yes, sir, it is.

17 Q. Who do you request be designated operator of the
18 well?

19 A. Capataz Operating, Inc.

20 Q. And again, they have been your operator for your
21 -- all of your recent wells in this area?

22 A. Yeah, for about 10 years.

23 Q. Do you have --

24 A. Very familiar with the area.

25 Q. And a good handle on well costs?

1 A. Yes, sir.

2 Q. Do you have a recommendation for the amounts
3 which the operator should be paid for supervision and
4 administrative expenses?

5 A. Yes, we request \$4500 per month for drilling and
6 \$450 a month for a producing well.

7 Q. And are these amounts equivalent to those
8 normally charged by operators in this area for wells of
9 this depth?

10 A. In our experience they are. We've participated
11 with several other operators, and it's very comparable.

12 Q. Do you request that the overhead rate be adjusted
13 periodically as provided by the COPAS accounting procedure?

14 A. We do.

15 Q. Finally, were the interest owners notified of
16 this hearing?

17 A. Yes, they were.

18 Q. Is that the notice submitted as Exhibit 5?

19 A. Yes.

20 MR. BRUCE: Mr. Examiner, submitted as Exhibit 5,
21 Exhibit A is the mailed notice to everyone, and Exhibit B
22 to Exhibit 5 is the publication notice.

23 Q. (By Mr. Bruce) Were Exhibits 1 through 5
24 prepared by you or under your supervision or compiled from
25 company business records?

1 A. They were.

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

5 A. Yes.

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

8 EXAMINER EZEANYIM: Any objections? Well then,
9 Exhibits 1 through 5 will be admitted.

10 MR. BRUCE: That's all I have of the witness.

11 EXAMINER EZEANYIM: Thank you, Mr. Bruce.

12 Gail?

13 MS. MacQUESTEN: No questions, thank you.

14 THE WITNESS: No questions.

15 EXAMINER EZEANYIM: Okay, I have a couple.

16 EXAMINATION

17 BY EXAMINER EZEANYIM:

18 Q. First of all, let's go back to that -- One
19 question I have here is, I wanted the footage location, and
20 you say it's 990 from the north?

21 A. Yes, sir.

22 Q. Can you go back to that?

23 A. To the land plat?

24 Q. Yeah. And 660?

25 A. 450, 450 from the east.

1 Q. Okay, 450. Okay, because, you know, that is at
2 the edge of that unit, and I'm -- you know, make sure I
3 understand that. Otherwise, it will do something else,
4 so --

5 A. Yes, sir.

6 Q. -- that's why. And I appreciate you giving me
7 that, because that was one of the questions I wanted to
8 have you ask, because of the location of that well.

9 And you did all of your advertisements?

10 A. Sir?

11 Q. -- advertisements, you know, was done in a -- You
12 did all your advertisements?

13 A. Oh, yes, sir --

14 Q. Public notice --

15 A. -- we did.

16 Q. -- and everything? And if you go back to --

17 A. You mean for the -- I'm sorry, for the location?

18 Q. Yeah, for the hearing.

19 A. Yes.

20 Q. Yeah, so everybody knows that.

21 Then go back to Exhibit 2, and I'm looking at
22 your effort to get voluntary joinder of -- It looks like
23 everybody in both has not -- you know, either you were
24 unable to contact them or something. What happened with --
25 Is it Larry Maddux, on that Section 3?

1 A. Larry Maddux, we -- that lease expires in
2 September, and we're going to -- you know, we're going to
3 drill this well about the first of July, so --

4 Q. Oh, okay.

5 A. -- we hope -- hope to, anyway, with your help.
6 We're -- probably the middle of July, but we're -- we've
7 talked to him about renewing that lease if we need to, but
8 we're probably not going to need to.

9 Q. Okay, following on that line, you were talking
10 about lease expiration. And when did you say that will
11 happen?

12 A. This date that's on the right here, on that
13 list --

14 Q. Oh.

15 A. -- it shows September 15th.

16 Q. Oh, okay.

17 A. That's the expiration date of it.

18 Q. Okay.

19 A. Right now we've got a rig lined up for July for
20 two wells that we're going to drill back to back, and one
21 we just got the order from you yesterday for that one --

22 Q. Okay.

23 A. -- and then we're going to drill this one next.

24 Q. Okay, that's good.

25 So most of these that you called or you sent

1 letters, the letters came back to you on -- you know,
2 nobody received them and you tried to call again?

3 A. Yes, sir, the ones that we got back for sure are
4 these two certified mailings that we sent to Michael
5 Chappell and Bruce Chappell, the two guys we haven't been
6 able to find.

7 Q. Okay.

8 A. The rest of them got it. I got the green cards
9 back.

10 Q. But they didn't respond, they didn't say
11 anything?

12 A. No.

13 Q. Okay.

14 A. It's just -- The Chappells, I think -- I think
15 their interests are so small --

16 Q. Yeah.

17 A. -- and they know so little about it -- You know,
18 they inherited these minerals and I just don't think they
19 care anything about it, although, you know, the other
20 members in the family have.

21 Q. Okay.

22 A. The more curious ones are guys like Anderson
23 Carter, who -- we know him, we've dealt with him a number
24 of times, and we've gotten leases from him, and he just has
25 not responded to this. I don't know why. He certainly --

1 we've left numerous messages on his telephones and sent him
2 stuff, and we know he receives it, we know where he is.
3 Just no response.

4 MR. BRUCE: He's one of my ex- law partners --

5 EXAMINER EZEANYIM: Okay --

6 MR. BRUCE: -- so he's findable.

7 Q. (By Examiner Ezeanyim) These are fee lands.
8 Have you -- and it's standard-looking. Have you obtained
9 your APD for this well? An APD yet from Hobbs office?

10 A. You know, we just staked this well about a week
11 ago, so I doubt if the permit has been approved yet.

12 Q. Oh, okay, yeah.

13 A. I know it's been applied -- it's been submitted,
14 but -- or at least I feel confident it has. Capataz does
15 that, I don't do it. But I suspect that he's either done
16 it or he's going to do it very shortly, because he's got 30
17 says before his rig is going to be there. We're
18 negotiating the surface damages with the surface owners
19 already, so the well's been staked.

20 Q. Yeah, Capataz always drills your wells?

21 A. Yes, sir.

22 Q. And they are also responsible for obtaining your
23 APDs?

24 A. Yes. Well, in this area they are. We do
25 business with other operators in other areas in

1 southeastern New Mexico and west Texas. But in this area,
2 yes, Capataz handles all that for us.

3 Q. Okay. Now we talk about the objectives. You
4 know, you say you have multiple objectives. Which one is
5 your primary and which one is your secondary? Because
6 that's --

7 A. Well, you know, the primary -- I listed four, the
8 Blinebry, Tubb, Drinkard and Abo. They're -- I would say
9 probably the Blinebry, Tubb and Drinkard are the main
10 objectives. The Abo we always drill to and test it.
11 They're all very, very similar reservoirs, they're very
12 tight dolomites, and we usually get surprised about which
13 one of them works the best.

14 Q. These rates, these drilling rates, overhead
15 rates, this is what is supplied to you by Capataz as the
16 operator --

17 A. Yes.

18 Q. -- of the wells?

19 And you -- this is what they -- they use in
20 drilling oil wells. Is there any other difference between
21 these rates from other wells that you've drilled in the
22 area?

23 A. With other operators?

24 Q. Yeah.

25 A. Yeah, I think we're on the light end --

1 Q. Okay.

2 A. -- from our experience. We've participated with
3 a company called Collins and Ware, we've participated with
4 Apache, we're just going to participate with a well that
5 Apache is going to drill, and I think these are -- these
6 are definitely on the low end of what we've seen there.

7 EXAMINER EZEANYIM: Okay, thank you very much.
8 No other questions.

9 THE WITNESS: Thank you.

10 MR. BRUCE: I have nothing further in this case,
11 Mr. Examiner.

12 EXAMINER EZEANYIM: Well, nothing further, Case
13 Number 13,495 will be taken under advisement at this point.

14 THE WITNESS: We appreciate that, and we hope
15 that -- You know, this rig business today is very, very
16 difficult. And as I said, we have this rig lined up for
17 July, so we're hoping that we can get your consideration
18 for that so we can move from one of these to the other and
19 hang onto this rig, because we've been advised that if we
20 let this rig go, we're not likely to get it back until very
21 late this year or next year, so we're --

22 EXAMINER EZEANYIM: Okay --

23 THE WITNESS: I know you hear that from a lot of
24 people.

25 EXAMINER EZEANYIM: Well, you know, of course I

1 know, everybody has told me. Thank you for reminding me
2 about that.

3 THE WITNESS: Thank you.

4 (Thereupon, these proceedings were concluded at
5 8:41 a.m.)

6 * * *

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8
9
10
11 I do hereby certify that the foregoing is
12 a complete record of the proceedings in
13 the Examiner hearing of Case No. 3495
14 heard by me on 1/21/66
15 [Signature], Examiner
16 Oil Conservation Division
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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 2nd, 2005.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 16th, 2006