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 LANCE OIL AND GAS COMPANY FOR COMPULSORY POOLING INCLUDING OPTIONAL INFILL WELL PROVISIONS, SAN JUAN COUNTY, NEW MEXICO	CASE NOS. 13,537
APPLICATION OF SYNERGY OPERATING, LLC, FOR COMPULSORY POOLING, SAN JUAN COUNTY,	and 13,539
NEW MEXICO	(Consolidated)

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REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

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BEFORE: RICHARD EZEANYIM, Hearing Examiner

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October 6th, 2005

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, RICHARD EZEANYIM, Hearing Examiner, on Thursday, October 6th, 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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EXHIBITS

Synergy Identified Admitted

Exhibit A 5 11
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* * *

Lance Identified Admitted

Affidavit 18 -

APPEARANCES

FOR THE DIVISION:

GAIL MacQUESTEN
Deputy General Counsel
Energy, Minerals and Natural Resources Department
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

FOR LANCE OIL AND GAS COMPANY:

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

FOR SYNERGY OPERATING:

JAMES G. BRUCE Attorney at Law P.O. Box 1056 Santa Fe, New Mexico 87504

* * *

WHEREUPON, the following proceedings were had at 8:22 a.m.:

EXAMINER EZEANYIM: Okay, at this point I call

Cases Number -- I'm going to call these two cases at the

same time, because we also heard this case on August 25th,

and it's a contested case, but for one reason or another,

due to public notice, we need to move it to today to be

able to collect the notification and some more information

which the Division requested and to be able to make this.

This is Case Number 13,537 and Case Number 13,539. They are all compulsory pooling cases. Case Number 13,537 is the Application of Lance Oil and Gas Company, and Case 13,539 is the Application of Synergy Operating.

Call for appearances, and if you have any other briefs you want to state, and then later I'm going to collect the information that I requested from both the attorneys.

MR. CARR: May it please the Examiner, my name is William F. Carr with the Santa Fe office of Holland and Hart, L.L.P. We represent Lance Oil and Gas Company in this matter.

MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe, representing Synergy Operating in these cases.

EXAMINER EZEANYIM: Okay, thank you. I

understand that you have some brief statements in this case, so who wants to go first.

MR. CARR: You'd better go first.

MR. BRUCE: Okay. Mr. Examiner, there were questions about notice -- Take a step back.

In this particular half-section well unit there are — both sides testified that there are dozens and dozens and dozens of interest owners, a number of whom were not locatable or who refused to pick up the certified notice that was mailed by each of the parties to the various interest owners. And although I think Synergy had published notice as against certain people, there were additional people they needed to publish notice. And also Lance — Mr. Carr has informed me that Lance has published notice of its pooling Application. So this matter was continued to provide that publication notice, which both Mr. Carr and I will present.

Secondly, I have provided Mr. Carr with the second exhibit I wish to present. Submitted as Exhibit A is Synergy's affidavit of publication or newspaper affidavit of publication, showing that it did publish notice as against the unlocatable or other interest owners in the well unit.

One of the issues raised at the prior hearing which the parties disagreed over was whether the proposed

location by Lance in the northwest quarter of this section was drillable.

Submitted as Exhibit B is a photo taken by

Synergy of Lance's proposed location, showing what Synergy
asserts is an undrillable location.

And I would move the admission of Exhibits A or B and turn it over to Mr. Carr.

MR. CARR: May it please the Examiner, we object to Exhibit B.

EXAMINER EZEANYIM: Exhibit B.

MR. CARR: The purpose of the hearing was to correct notice errors, and if it is your decision to admit Exhibit B, I will call a witness.

EXAMINER EZEANYIM: Mr. Bruce and Mr. Carr, I don't know whether you guys want us to reopen this case to be able to discuss this new Exhibit B, because it wasn't in that -- at the first hearing. And I think to give due process, if you guys wish, we might reopen this case and maybe hear it off-docket so that we could, you know, find out, you know, more about this exhibit before we admit it. What do you think on this case?

I would like to -- My preference would be to continue this case to some other date that is not a hearing date so that we could -- you could call witnesses on this issue, so we can take more transcript on this. So what do

you think? 1 MR. BRUCE: I don't have any objection to a 2 continuance, Mr. Examiner. I mean, I think this was one of 3 the issues originally addressed, and the case was never 4 taken under advisement, so it is still open. 5 I do object to a continuance. We've MR. CARR: 6 been trying to drill this well for over two years. We've 7 had a title opinion, we're ready to go forward. We were 8 ready to go forward two weeks ago. The case wasn't on the 9 docket. And I would even prefer to let Mr. Bruce at this 10 moment call a witness just to identify and admit this 11 exhibit so we can get the case taken under advisement and 12 have it continued again, because we're looking at issues 13 14 with a drilling rig, and we need to get the property developed. 15 MS. MacQUESTEN: Mr. Carr, do you need to present 16 any evidence on your own to address this? 17 MR. CARR: I can address it with one witness in 18 about five questions. 19 20 MS. MacQUESTEN: And can you do that today? 21 MR. CARR: I'm ready to do that right now. have had --22 I can do it in a couple of questions. 23 MR. BRUCE: 24 EXAMINER EZEANYIM: Could you do it today?

Right now.

MR. BRUCE:

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EXAMINER EZEANYIM: Okay, if you present your 1 witnesses, we can go ahead and go. 2 Swear in the witness. MR. BRUCE: Okay. 3 EXAMINER EZEANYIM: May the witnesses stand to be 4 5 sworn? MR. CARR: Will you stand up to be sworn? 6 (Thereupon, the witnesses were sworn.) 7 PATRICK HEGARTY, . 8 9 the witness herein, after having been first duly sworn upon 10 his oath, was examined and testified as follows: 11 DIRECT EXAMINATION BY MR. BRUCE: 12 13 Would you please state your name for the record? Q. 14 Patrick Hegarty. Α. MR. BRUCE: Mr. Examiner, if we could just have 15 16 the record reflect Mr. Hegarty was the witness who 17 testified for Synergy in the prior case and was qualified 18 as an expert landman. 19 EXAMINER EZEANYIM: Yeah. 20 Q. (By Mr. Bruce) Mr. Hegarty, I've handed you 21 what's been marked Synergy Exhibit B. What is that? 22 This is a picture of the Lance location and a Α. 23 picture of Mike Sullivan that is standing right next to the 24 fence. 25 Mike Sullivan is the Farmington City Planner, and

he's the individual that pointed this location out to me. 1 You will note the arrow, and that is basically, from what 2 Mike Sullivan told me, rocks that were piled up on one 3 another with some fluorescent paint on top, and that was the proposed drilling location for the Lance well. 5 Mike Sullivan also told me that this is at the 6 base of a city reservoir for fresh water that they pump 7 from the San Juan River, and that this location was in the 8 bottom of that reservoir and would be, you know, at some 9 10 point in the future filled. And so therefore it could not be --11 MR. CARR: Objection --12 THE WITNESS: -- the location --13 MR. CARR: -- objection --14 THE WITNESS: -- could not be drilled. 15 MR. CARR: Objection, stop. This is just rank 16 hearsay, a city official who isn't here to testify about 17 whether a location is drillable or not. I object to the 18 testimony, it's inadmissible, and it has to be stricken. 19 20 THE WITNESS: Well, you know, I can --MR. CARR: Now, wait a minute. 21 22 MS. MacQUESTEN: Please stop. 23 EXAMINER EZEANYIM: Objection sustained. 24 MR. BRUCE: Okay, and I'll ask just a couple other questions. 25

1	Q. (By Mr. Bruce) Mr. Hegarty, who took this
2	picture?
3	A. I did.
4	Q. Okay. And do you of your own personal knowledge
5	know that this arrow points out Lance's proposed location
6	in the northwest quarter, northwest quarter of Section 22?
7	A. Yes, I do.
8	Q. And does this picture form the basis of and
9	there is water on site already, is there?
10	A. It's The location is surrounded by water.
11	Q. As a manager, as a principal of Synergy
12	Operating, you've been in charge of drilling a number of
13	wells, have you not?
14	A. Yes, I have.
15	Q. In your opinion, is this location drillable?
16	A. No, it is not.
17	MR. BRUCE: That's all I have, Mr. Examiner, I'd
18	move the admission of Exhibit A.
19	EXAMINER EZEANYIM: Any objections?
20	CROSS-EXAMINATION
21	BY MR. CARR:
22	Q. Just a couple of questions, Mr. Hegarty. When
23	did you take this picture?
24	A. This picture was taken I can I'd have to
25	reference my calendar.

1	Q.	Do you know approximately?
2	Α.	About three weeks ago.
3	Q.	After the last hearing?
4	А.	Yes.
5	Q.	And you've met with Mr. Sullivan?
6	А.	Yes.
7	Q.	Who else have you met with?
8	Α.	Mike Sullivan is the only individual that
9	Q.	And was that three weeks ago?
10	А.	It was three weeks ago and prior to the hearing
11	as well.	This backs up the statements that I made at the
12	hearing.	
13	Q.	But you've only met with Mr. Sullivan?
14	Α.	Yes.
15		MR. CARR: That's all. I don't object to the
16	admission	of the exhibit.
17		EXAMINER EZEANYIM: Okay, at this point Exhibits
18	1 and 2 [sic] will be admitted into evidence.
19		Mr. Carr?
20		MR. CARR: At this time, Mr. Examiner, we'd call
21	Paul Lehr	man.
22		EXAMINER EZEANYIM: You've been sworn.
23		MR. CARR: May the record reflect the witness has
24	been swor	n and that Mr. Lehrman is the witness who
25	testified	on behalf of Lance at the hearing six weeks ago.

PAUL LEHRMAN, 1 the witness herein, after having been first duly sworn upon 2 3 his oath, was examined and testified as follows: 4 DIRECT EXAMINATION BY MR. CARR: 5 State your name for the record. 6 Q. Α. Paul Lehrman. 7 And Mr. Lehrman, you're the -- what is your 8 position with Lance? 9 Α. I'm a landman with Lance Oil and Gas Company. 10 In your role as a landman with Lance, is it also 11 Q. -- do your responsibilities include negotiations in dealing 12 with the City of Farmington for wells drilled in this area? 13 Α. That's correct. 14 And have you seen the picture that has been --15 I saw it briefly earlier, but I'd like to look at 16 Α. it again, please. 17 18 Q. That arrow does point to the proposed location, 19 does it not? 20 Α. That's correct. 21 You have met with the City, have you not? Q. 22 Α. Yes, we've met with the City on several 23 occasions, and different people with the City. 24 Q. Concerning this location? 25 Α. Yes.

13 And have you not prepared an agreement that is 1 Q. now before the City for a cost-sharing arrangement to fill 2 3 in at this location? 4 That's correct. 5 And doesn't that agreement also provide for Q. 6 certain berms to protect the site from water if, in fact, there is additional water in the area? 7 Yes. Could I elaborate on that? 8 9 Yes, go ahead. 0. Prior to the hearing, I met with Mr. Sullivan, 10 11 who's in the picture, and a gentleman from the City whose name is Jeff Smaka -- he's one of the City engineers -- and 12 we discussed this location. 13 And you know, as part of the staking of -- you 14 15 know, with the City, what Lance does, we sent out a 16

certified letter notifying the City that, you know, the staking would take place. We had no objections to the location.

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When I met with Mr. Sullivan and Mr. Smaka, we discussed the proposed -- you know, what Mr. Hegarty referred to as a reservoir. The City has no firm plans at this time to make this a reservoir. It's something they're thinking about.

MR. BRUCE: I would object to that. Once again, he's speculating about what the City is --

1	THE WITNESS: No, that's fact
2	MR. BRUCE: that's fact that we received from
3	the City.
4	EXAMINER EZEANYIM: Well, objection sustained.
5	THE WITNESS: Anyway, we met with the City, Mr.
6	Sullivan and Mr. Smaka, prior to the hearing. We also met
7	on September 20th and Mr. Jay Burnham, who's counsel for
8	the City, to discuss this cost-sharing arrangement for the
9	berm.
10	At no time has the City objected to the location,
11	we're just in negotiation with the cost-sharing arrangement
12	and the agreement.
13	MR. CARR: That's all we have, thank you. Pass
14	the witness.
15	MR. BRUCE: Has the
16	CROSS-EXAMINATION
17	BY MR. BRUCE:
18	Q. Has the city approved this location formally?
19	A. No.
20	MR. BRUCE: That's all I have.
21	EXAMINER EZEANYIM: Go ahead, Gail.
22	EXAMINATION
23	BY MS. MacQUESTEN:
24	Q. Mr. Lehrman, what is the status of this pending
25	agreement? When do you expect to have some resolution?

Maybe there's -- as next Tuesday. We have written communication with the City, and we're finalizing the terms of it, and they have proposed to bring that before the City Council.

Q. And what is the substance of this agreement?

It's cost-sharing?

- A. Well, it's a surface-use agreement for the location itself and for some cost-sharing based on what might happen in the future, up to a certain amount, we would agree to pay a certain amount for the engineering and the construction of the berm.
 - Q. And what is the plan for the berm?
- A. Well, there is no plan at this point. That's what we're working on, because they don't really have any firm plans for what they want to do. There's all this stuff left up in the open, so we're trying to work through that.
 - Q. Is this what the area looks like normally, or --
- A. Well, this is ground water that fluctuates somewhat. This isn't water that's actually being brought into this reservoir by the City at this time. That's why I said it's a proposed facility.

This is water that -- you know, it's basically an old gravel pit. It was taken down to, you know, a certain substrate, so the water is going to fluctuate somewhat, not

1 a great amount. It's anybody's guess as to what the City is going 2 to do in the future. They don't even really know. 3 4 So they're not bringing any water into this site --5 No. 6 Α. 7 Q. -- at this point? No. 8 Α. **EXAMINATION** 9 BY EXAMINER EZEANYIM: 10 Okay, could you tell me again who is -- Is this 11 0. Mr. Sullivan we're talking about? 12 Yes, Mr. Sullivan works for the City of 13 Α. 14 Farmington. He's, for lack of a better term, the City head 15 planner, city planner. 16 Q. And you met with him personally, or you sent a certified mail --17 18 No, I met with him and Mr. Smaka personally before the hearing, and we have met with Mr. Sullivan and 19 20 Mr. Burnham on September 20th. 21 Q. And what was the nature of your discussions? 22 What did they tell you? I mean, the -- when you met with 23 them, what --Well, the discussions prior to the hearing were 24 25 to discuss the location and what they had planned for this

in the future, which there was no definitive resolution. 1 The hearing -- or the meeting on the 20th was to discuss 2 this cost-sharing basis for the proposed berm. 3 Okay. I wrote down here that you sent a 4 certified letter to them, to the City --5 Ves. Α. 6 -- in regards to this location. Did you get any 7 8 reply from that letter? 9 Α. No. Q. And then when you met with them personally, what 10 was indicated here, you could go ahead and -- I mean, I'm 11 just -- I'm curious what the results of that meeting were. 12 Are you talking about the first meeting? 13 Α. 14 0. Yes. They had just discussed what they -- you know, it 15 Α. 16 was very difficult because they don't have any definitive 17 They've never objected to the location, they've just never had any definitive plans on what they want to do 18 with this -- they refer to it as --19 20 MR. BRUCE: Well, I would object to him testifying about the City's intent, Mr. Examiner. 21 22 MR. CARR: I would note that he's only responding 23 to the question that was asked. 24 THE WITNESS: Well, I'm responding to the

question based on my conversation with Mr. Sullivan and Mr.

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Smaka --1 MR. BRUCE: Yeah, which is -- which I object as 2 3 hearsay. EXAMINER EZEANYIM: 4 Okav --(Off the record) 5 (By Examiner Ezeanyim) So the next question now 6 0. -- I'm coming to this -- have you received any objection to 7 drilling the well in that location? 8 9 Α. No. 10 EXAMINER EZEANYIM: Anything further? 11 MR. CARR: I just have a brief statement, and I 12 need to tender my notice affidavit. At the hearing six 13 weeks ago the case was continued to enable us, as Mr. Bruce indicated, to correct notice errors. 14 The notice of 15 publication filed on behalf of Lance was late. We have republished to correct errors in that ad. 16 17 I have a notice affidavit confirming not only that -- with an attached affidavit of publication, but also 18 19 identifying the interest owners subject to pooling, with copies of the letters that were sent to each of those. 20 21 will note that it includes the City of Farmington. 22 have been advised of this hearing, and there is no objection from the City presented here today. 23 24 I would also request that you expedite your

consideration of this Application. We've been working on

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the project for two years.

Six weeks ago, we came to hearing on the matter, and we continue to have these after-the-fact issues being raised. But nothing that has been raised changes the fact that there is only one party before you with a proper APD that has a one-year duration, that we were the first to propose and proposed it to people based on a title opinion, and that we're the only one who's entitled to operate the entire property under the terms of the new Rule 104.

MR. BRUCE: Mr. Examiner, Mr. Carr has said a couple of times that Lance was working on this project for two years, although apparently not much happened until Synergy got involved. Synergy is the one who got the ball rolling on this particular well and I think should be given deference. They both own substantial interest in the well unit.

Insofar as the APD is concerned, there are questions about the locations of Lance's well, which indicates that Synergy's location should be approved.

Synergy has a definite location 830 feet from the south line and 790 feet from the west line, and we would just ask that you take the matter under advisement and approve Synergy's Application. Thank you.

EXAMINER EZEANYIM: Anything further?

MR. CARR: Nothing further.

EXAMINER EZEANYIM: Yeah, you -- the two 1 2 attorneys, you know we met after the hearing six weeks ago and I requested additional information. I've obtained --3 you have notice of publication, and I asked each of you to 4 get me the -- Synergy -- there is a well in the PC in the 5 southwest quarter. What is the location of that well? 6 What is the location of that well? 7 MR. BRUCE: 830 feet from the south line and 790 8 feet from the west line. 9 10 EXAMINER EZEANYIM: That is the second well, the 11 one I was asking you at the other meeting, is that the --12 of course, the location of the other well -- I hope you're 13 not giving me the location of the other well. I'm looking 14 for the location of the second well. 15 MR. BRUCE: Synergy's well, that is the location, 16 the footage location, for Synergy's proposed well. 17 believe, Mr. Examiner -- and Mr. Lehrman can correct me if I'm wrong, that if Lance -- even if Lance drilled that 18 well, it would be pretty close to that location; is that 19 20 correct? 21 MR. LEHRMAN: We haven't actually been down 22 there. We've spoken to Mr. Bolack but -- I don't know, do 23 you guys have an agreement with Mr. Bolack? 24 MR. BRUCE: I think... 25 MR. HEGARTY: We -- talk to that.

EXAMINER EZEANYIM: Okay.

MR. BRUCE: I think Mr. Synergy -- "Mr. Synergy" -- Mr. Hegarty testified at the last hearing that they had met -- that Synergy had met with Mr. Bolack regarding that location, and that location was acceptable to Mr. Bolack, the surface owner, but it depended on the outcome of who got to pool the well. That's the status right now.

EXAMINER EZEANYIM: Okay. One other question is that I -- you know, we discussed also whether -- when Synergy applied for their APD they didn't finalize their -- applying for their APD, do you remember I asked that question?

MR. BRUCE: Yes, Mr. Examiner, and I did ask Mr. Hegarty, and when they applied for the APD they did not -Synergy did not send written notice to Lance. And I would merely state with respect to that, that Lance -- they had met with Lance even before the hearing, and they were aware of Synergy's plans.

But insofar as a written notice when the APD was filed, they did not.

EXAMINER EZEANYIM: Okay. And related to Lance, do you have the location of that second well that I requested you? I have a location on the first well.

You're proposing two wells, in the west quarter -- the west half. I have the location of the first well. The second

1	well, do you have a location on that?
2	MR. LEHRMAN: Do we have a second location?
3	EXAMINER EZEANYIM: Yeah, the location of that
4	second well?
5	MR. LEHRMAN: Well, the second location would be
6	the based on the Synergy location.
7	EXAMINER EZEANYIM: What?
8	MR. LEHRMAN: Second location would basically be
9	pretty close to where the Synergy location is.
10	EXAMINER EZEANYIM: Oh, so actually in the same
11	spot, so we're talking about 830 from the south line and
12	790 from the west, practically?
13	MR. LEHRMAN: Yes.
14	EXAMINER EZEANYIM: Okay.
15	MR. BRUCE: I think both wells are projected to
16	the Pictured Cliffs, Mr. Examiner.
17	EXAMINER EZEANYIM: To the PC, okay.
18	MR. BRUCE: Yeah, which is
19	EXAMINER EZEANYIM: Yeah
20	MR. BRUCE: 160-acre spacing.
21	EXAMINER EZEANYIM: yeah, that's right. Okay,
22	so Anything further?
23	MR. BRUCE: No, sir.
24	MR. CARR: No, sir.
25	EXAMINER EZEANYIM: Okay, at this point both

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cases will be taken under advisement at this time.
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                  (Thereupon, these proceedings were concluded at
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      8:45 a.m.)
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                                          I de hereby certify that the foregoing to
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                                          complete record of the proceedings in
                                          the Examiner hearing of
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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 October 6th, 2005.

STEVEN T. BRENNER

CCR No. 7

My commission expires: October 16th, 2006