

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. 13,565

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

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: RICHARD EZEANYIM, Hearing Examiner

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.

* * *

STEVEN T. BRENNER, CCR
(505) 989-9317

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I N D E X

October 6th, 2005
 Examiner Hearing
 CASE NO. 13,565

	PAGE
APPEARANCES	3
APPLICANT'S WITNESS:	
<u>JOHN QUALLS</u> (Landman)	
Direct Examination by Mr. Bruce	6
Examination by Examiner Ezeanyim	14
REPORTER'S CERTIFICATE	16

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E X H I B I T S

Applicant's	Identified	Admitted
Exhibit 1	7	13
Exhibit 2	7	13
Exhibit 3	8	13
Exhibit 4	10	13
Exhibit 5	12	13
Exhibit 6	13	13

* * *

A P P E A R A N C E S

FOR THE DIVISION:

GAIL MacQUESTEN
Deputy General Counsel
Energy, Minerals and Natural Resources Department
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Santa Fe, New Mexico 87505

FOR THE APPLICANT:

JAMES G. BRUCE
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Santa Fe, New Mexico 87504

FOR YATES PETROLEUM CORPORATION:

HOLLAND & HART, L.L.P., and CAMPBELL & CARR
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P.O. Box 2208
Santa Fe, New Mexico 87504-2208
By: WILLIAM F. CARR

* * *

1 WHEREUPON, the following proceedings were had at
2 9:09 a.m.:

3 EXAMINER EZEANYIM: At this time I call Case
4 Number 13,565. This is the Application of Chi Energy,
5 Inc., for compulsory pooling, Eddy County, New Mexico.
6 Call for appearances.

7 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe,
8 representing the Applicant. I have one witnesses to be
9 sworn in.

10 EXAMINER EZEANYIM: Any other appearances?

11 MR. CARR: May it please the Examiner, my name is
12 William F. Carr with the Santa Fe office of Holland and
13 Hart, L.L.P. I represent Yates Petroleum Corporation. I
14 have no witness.

15 EXAMINER EZEANYIM: May the witness stand up to
16 be sworn, please?

17 (Thereupon, the witness was sworn.)

18 EXAMINER EZEANYIM: I would like to make a
19 statement, Mr. Bruce, before we go. Yesterday I discovered
20 from your Application a little bit of inconsistency here.
21 The Application states, pooling all uncommitted mineral
22 interests from the base of the Wolfcamp to the base of the
23 Morrow.

24 Then when you go back to what you are asking
25 relief for, it says from the surface to the base of the

1 Morrow.

2 Before we go ahead in this testimony, what are
3 you seeking?

4 MR. BRUCE: I'll have the witness testify about
5 this, Mr. Examiner. I believe their rights are depth-
6 limited --

7 MR. QUALLS: Yes, sir.

8 MR. BRUCE: -- to Wolfcamp on down.

9 EXAMINER EZEANYIM: Oh, okay. It's not --

10 MR. BRUCE: So I believe that on one -- I don't
11 know if it was the proposed advertisement or something, I
12 did put surface to base of, but it is -- they are depth-
13 limited.

14 EXAMINER EZEANYIM: You know, that's correct, if
15 it's from the base of the Wolfcamp to the base of the
16 Morrow then we can go ahead, because that's what the
17 advertisement says.

18 MR. BRUCE: Okay.

19 EXAMINER EZEANYIM: Okay, but if it's from the
20 surface --

21 MR. BRUCE: I'll have him testify --

22 EXAMINER EZEANYIM: -- we're leaving some
23 interests owners out, and that's why -- so if that is the
24 case, we might decide what to do.

25 But if it's from the base of the Wolfcamp --

1 MR. QUALLS: Yes, sir.

2 EXAMINER EZEANYIM: -- to the base of the Morrow,
3 then we can go ahead with this testimony.

4 MR. BRUCE: Okay, yes.

5 JOHN QUALLS,
6 the witness herein, after having been first duly sworn upon
7 his oath, was examined and testified as follows:

8 DIRECT EXAMINATION

9 BY MR. BRUCE:

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

12 A. John Qualls, Midland, Texas.

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

14 A. Chi Energy, Inc., as a landman.

15 Q. Have you previously testified before the
16 Division?

17 A. Yes, sir.

18 Q. And were your credentials as an expert petroleum
19 landman accepted as a matter of record?

20 A. Yes.

21 Q. And are you familiar with the land matters
22 involved in this Application?

23 A. Yes, sir.

24 MR. BRUCE: Mr. Examiner, I tender Mr. Qualls as
25 an expert petroleum landman.

1 MR. CARR: No objection.

2 EXAMINER EZEANYIM: He's so qualified. Is there
3 any objection?

4 MR. CARR: No objection.

5 EXAMINER EZEANYIM: Okay, Mr. Qualls is so
6 qualified.

7 Q. (By Mr. Bruce) Mr. Qualls, could you identify
8 Exhibit 1 and explain, including the depth limitations,
9 what exactly Chi Energy seeks in this Application?

10 A. Exhibit 1 is a land plat highlighting the east
11 half of Section 7 in Township 19 South, Range 26 East. We
12 seek to pool the east half of Section 7 from the base of
13 the Wolfcamp formation to the base of the Morrow formation.

14 Q. Okay. And you are only seeking pooling for 320-
15 acre units?

16 A. Yes, sir.

17 MR. BRUCE: Okay. And I apologize if I put an
18 incorrect thing, but it is from the base of the Wolfcamp on
19 down, Mr. Examiner.

20 EXAMINER EZEANYIM: Very good.

21 Q. (By Mr. Bruce) What does Exhibit 2 reflect, Mr.
22 Qualls?

23 A. Exhibit 2 lists the working interest owners in
24 the 320-acre well unit, and the percentages.

25 Q. Now on this list, who do you seek to pool?

1 A. We seek to pool everybody that I have listed on
2 here. I've talked to other people, but I haven't got a
3 response back from them.

4 Q. Okay, and we'll get into that in a minute. Are
5 these -- I notice Yates, et cetera. Are those leasehold
6 working interests that you're seeking to pool?

7 A. Yes, yes.

8 Q. And then there's some other smaller interest
9 owners. Are those unleased mineral interests?

10 A. Yes.

11 Q. Okay. Let's discuss your efforts to obtain the
12 voluntary joinder of these parties. What is Exhibit 3?

13 A. Exhibit 3 contains copies of our correspondence
14 with the uncommitted interest owners.

15 Q. Okay.

16 A. Several of these people are unleased mineral
17 owners.

18 Q. And you sent out the proposal letter. Did it
19 include an AFE?

20 A. Yes.

21 Q. Now, had you previously -- at least as to the
22 unleased mineral interest owners, had you been trying to
23 lease their interests?

24 A. Yes.

25 Q. And besides this letter, have you had any

1 telephone or other written contacts with any of these
2 interest owners?

3 A. Yes, I've talked with Joe Bohannon, who's a
4 working -- or an unleased mineral interest owner, and he's
5 an attorney in Tulsa, Oklahoma. I talked with him two or
6 three times.

7 Q. And he's indicated that -- or what has he
8 indicated?

9 A. He helped me actually track down Marvin Bohannon,
10 who is a relative who's deceased, and I talked to his son
11 who is Paul Bohannon in Houston, and they were going to
12 visit with each other and then get back with me, and I
13 haven't heard back from them.

14 Q. Okay. Have you had phone calls with a
15 representative of Yates, Abo, et al.?

16 A. Yes, I have.

17 Q. Have you had several -- Who did you talk with?

18 A. I talked with Chuck Moran at Yates Petroleum.

19 Q. He's a landman with Yates, is he not?

20 A. Yes, sir.

21 Q. And have you had more than one conversation with
22 him?

23 A. Yes, I believe I've had two or three
24 conversations with him.

25 Q. Okay. Do you intend to continue to try to come

1 to terms with Yates and any of the other interest owners
2 who you are seeking to pool even after the hearing?

3 A. Yes.

4 Q. And will Chi notify the Division in the event
5 that you come to voluntary agreements with any of these
6 interest owners?

7 A. Yes.

8 Q. Okay. Now, with respect -- You mentioned Marvin
9 Bohannon is deceased. Were any of these interest owners
10 unlocatable?

11 A. No, we found everybody except Marvin. I sent
12 that in care of Joe Bohannon, who I did talk to later. He
13 sent all the letters, the correspondence, to Paul Bohannon,
14 who is Marvin's son in Houston.

15 Q. Okay. In your opinion has Chi made a good-faith
16 effort to obtain the voluntary joinder of the uncommitted
17 interest owners in the well?

18 A. Yes.

19 Q. What is Exhibit 4?

20 A. Exhibit 4 is our AFE for the well. It's a 9700-
21 foot Morrow test with a dryhole cost of \$820,937 and a
22 completed well cost of \$1,415,287.

23 Q. Are these costs in line with the cost of other
24 wells drilled to this depth in this area of New Mexico?

25 A. Yes.

1 Q. You said it's what, a 9700-foot test?

2 A. Yes, sir.

3 Q. Where is the well proposed to be located?

4 A. 660 from the north and 660 from the east.

5 Q. Okay, so in the northeast quarter, northeast
6 quarter?

7 A. Northeast, northeast.

8 Q. At a standard well location?

9 A. Yes, sir.

10 EXAMINER EZEANYIM: Can you repeat that well
11 location?

12 THE WITNESS: 660 from the north and 660 from the
13 east.

14 Q. (By Mr. Bruce) Who do you request be named
15 operator of the well?

16 A. Chi Operating, Inc. J

17 Q. And what overhead rates do you propose the
18 operator receive?

19 A. \$6000 a month for the drilling well rate and a
20 producing rate of \$600 a month.

21 Q. And are these rates equivalent to those charged
22 by Chi Operating and other operators in this area for wells
23 of this depth?

24 A. Yes.

25 EXAMINER EZEANYIM: What are those rates again?

1 THE WITNESS: \$6000 for drilling per month and
2 \$600 for operating.

3 EXAMINER EZEANYIM: Okay.

4 Q. (By Mr. Bruce) And were the parties being pooled
5 notified of this hearing?

6 A. Yes.

7 Q. And is an affidavit of notice submitted as
8 Exhibit 5?

9 A. Yes.

10 MR. BRUCE: And this is the certified mail
11 notice. Mr. Examiner, if you'd turn to Exhibit 5, if you
12 go to the last two pages, there are two green cards I
13 hadn't gotten back yet. The very last page shows the --
14 this is from the US Postal Service website -- shows that it
15 was, in fact, accepted, but I have not received the green
16 card back.

17 EXAMINER EZEANYIM: Which one is that, on the
18 last --

19 MR. BRUCE: The very last page.

20 EXAMINER EZEANYIM: Oh, okay.

21 MR. BRUCE: And the second to the last page,
22 notice was left, but apparently this person has never --
23 has refused to sign for the card.

24 Q. (By Mr. Bruce) Mr. Qualls, was notice also
25 published against the unleased mineral interest owners in a

1 newspaper?

2 A. Yes.

3 Q. And is that submitted as Exhibit 6?

4 A. Yes.

5 MR. BRUCE: And Mr. Examiner, that publication
6 notice does include both Gail Bohannon and Brian Scott
7 Manning, against whom I haven't gotten the green cards back
8 yet, for whatever reason.

9 EXAMINER EZEANYIM: Okay.

10 Q. (By Mr. Bruce) Were Exhibits 1 through 6
11 prepared by you or under your supervision or compiled from
12 company business records?

13 A. Yes.

14 Q. And in your opinion, is the granting of this
15 Application in the interests of conservation and the
16 prevention of waste?

17 A. Yes.

18 MR. BRUCE: Mr. Examiner, I'd move the admission
19 of Exhibits 1 through 6?

20 EXAMINER EZEANYIM: Any objection?

21 MR. CARR: No objection.

22 EXAMINER EZEANYIM: Exhibits 1 through 6 will be
23 admitted into evidence.

24 MR. BRUCE: I have nothing further of this
25 witness.

1 MS. MacQUESTEN: No questions, thank you.

2 EXAMINATION

3 BY EXAMINER EZEANYIM:

4 Q. What is your primary target in this well, the
5 Morrow?

6 A. Yes, sir.

7 Q. And then do you have a secondary target?

8 A. Sir?

9 Q. Do you have a secondary target, or just the
10 Morrow?

11 A. There possibly could be some Atoka in the area,
12 we're not sure. We hope.

13 EXAMINER EZEANYIM: Have you -- Where is Mr.
14 Carr?

15 MR. CARR: Sir?

16 EXAMINER EZEANYIM: I don't know whether you want
17 to make any statement.

18 MR. CARR: No, I have no statement and no
19 questions of this witness.

20 Q. (By Examiner Ezeanyim) Do you have an APD for
21 this well?


22 A. Yes, it's a fee well. We got an APD from the OCD
23 in Artesia.

24 EXAMINER EZEANYIM: Nothing further, you may be
25 excused.

At this point, Case Number 13,565 will be taken under advisement.

(Thereupon, these proceedings were concluded at
9:20 a.m.)

* * *

I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 3565
heard by me on 10/6/05
 EXAMINER
Oil Conservation Division

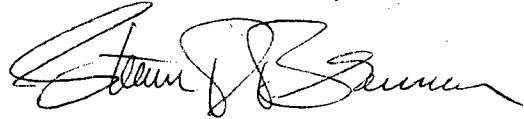
CERTIFICATE OF REPORTER

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 October 7th, 2005.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2006