

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 NADEL AND GUSSMAN)
PERMIAN, L.L.C., FOR COMPULSORY)
POOLING, EDDY COUNTY, NEW MEXICO)

CASE NO. 13,632

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: RICHARD EZEANYIM, Hearing Examiner

January 19th, 2006

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, RICHARD EZEANYIM, Hearing Examiner, on Thursday, January 19th, 2006, 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.

2006 JUN 30 AM 7 58

* * *

I N D E X

January 19th, 2006
 Examiner Hearing
 CASE NO. 13,632

	PAGE
APPEARANCES	3
APPLICANT'S WITNESSES:	
<u>SAM H. JOLLIFFE, IV</u> (Landman)	
Direct Examination by Mr. Bruce	4
Examination by Examiner Ezeanyim	15
REPORTER'S CERTIFICATE	18

* * *

E X H I B I T S

Applicant's	Identified	Admitted
Exhibit 1	5	15
Exhibit 2	6	15
Exhibit 3	7	15
Exhibit 4	12	15
Exhibit 5	13	15
Exhibit 6	14	15
Exhibit 7	14	15

* * *

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
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

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 9:30 a.m.:

3 EXAMINER EZEANYIM: Let's now call Case Number
4 13,632. This is the Application of Nadel and Gussman
5 Permian, L.L.C., for compulsory pooling, Eddy County, New
6 Mexico.

7 Call for appearances.

8 MR. BRUCE: Mr. Examiner, James Bruce of Santa
9 Fe, representing the Applicant. I have one witness to be
10 sworn.

11 EXAMINER EZEANYIM: Any other appearances? May
12 the witness stand to be sworn, please?

13 (Thereupon, the witness was sworn.)

14 SAM H. JOLLIFFE, IV,
15 the witness herein, after having been first duly sworn upon
16 his oath, was examined and testified as follows:

17 DIRECT EXAMINATION

18 BY MR. BRUCE:

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

20 A. Yes, my name is Sam Jolliffe.

21 Q. Would you --

22 EXAMINER EZEANYIM: Jolliffe?

23 THE WITNESS: Jolliffe.

24 Q. (By Mr. Bruce) Would you spell your last name
25 for --

1 A. Yes --

2 Q. -- the Examiner?

3 A. J-o-l-l-i-f-f-e.

4 Q. And where do you reside?

5 A. Midland, Texas.

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

7 A. I work for Nadel and Gussman Permian in the
8 capacity as land manager.

9 Q. Have you previously testified before the
10 Division?

11 A. Yes, I have.

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

14 A. Yes, they were.

15 MR. BRUCE: Mr. Examiner, I tender Mr. Jolliffe
16 as an expert petroleum landman.

17 EXAMINER EZEANYIM: Mr. Jolliffe is so qualified.

18 Q. (By Mr. Bruce) Mr. Jolliffe, you were in charge
19 of the land matters involved in this Application, were you
20 not?

21 A. Yes.

22 Q. Could you identify Exhibit 1 and just briefly
23 describe what Nadel and Gussman seeks in this Application?

24 A. Okay, Exhibit 1 is a land plat highlighting the
25 east half of Section 30, Township 23 South, Range 28 East,

1 in Eddy County, and we seek -- Nadel and Gussman seeks to
2 pool the east half of that Section 30 from the surface to
3 the base of the Morrow with 320-acre units, and we also
4 seek to pool the northwest-northeast for 40-acre units, and
5 the northeast quarter for 160-acre units.

6 Q. And that dark triangle in the northwest quarter
7 of the northeast quarter is the proposed location?

8 A. Yes, that location is approximate location 660
9 feet from the north line and 1980 feet from the east line
10 of Section 30.

11 Q. Okay. And before we move off of this, I mean,
12 there are a number of wells located on this plat. Those
13 are mainly the deep wells that have been put on this plat?

14 A. Right, there's -- That's correct.

15 Q. And the Morrow formation is Nadel and Gussman's
16 main objective in this well, is it not?

17 A. That's right, yes.

18 Q. Let's identify the working interest owners for
19 the Examiner. What does Exhibit 2 reflect?

20 A. Okay, Exhibit 2 lists the working interest owners
21 in this 320-acre well unit. Nadel and Gussman and our
22 partner -- again, these are all approximate numbers but
23 pretty close -- we would have 30.565 percent. Yates will
24 have 21.05 percent, Chi Energy 19.44 percent, Chevron 9.375
25 percent, DEBCO LLC 1.95 percent, and then the remaining

1 unlocatable or nonresponding owners have approximately
2 17.62 percent.

3 Q. Okay. Now all of these, what you list as
4 unlocatable or nonresponsive owners, those are all unleased
5 mineral interest owners, are they not?

6 A. That's correct.

7 Q. Okay.

8 A. Yes, under that 17 percent, that's correct.

9 Q. Okay. On Exhibit 2, which parties do you seek to
10 pool? Or perhaps it's easiest to say, in going down this
11 list, obviously you as operator do not seek to pool
12 yourself or your working interest partners; is that
13 correct?

14 A. Right, that's correct, yes.

15 Q. And you do not -- With respect to Yates
16 Petroleum, they have signed an AFE?

17 A. Yes, Yates has signed the AFE, and they are going
18 to participate in the well.

19 Q. Okay. But other than those two parties, do you
20 seek to force pool all of the other named parties?

21 A. Yes.

22 Q. Okay. Now, let's discuss your efforts to obtain
23 the consent of these parties to the drilling of the wells.
24 What is Exhibit 3?

25 A. Okay, Exhibit 3 contains copies of the

1 correspondence sent to the currently uncommitted interest
2 owners. We mailed proposal letters to these owners in
3 early December. And of course prior to that, back in
4 October, as far as some of the unleased mineral owners, we
5 tried to contact them by phone and then sent letters, and
6 some letters came back unreturnable, and a couple -- the
7 green cards did make it. But on the unlocatable,
8 nonresponse owners, we definitely don't have phone
9 numbers --

10 Q. Okay.

11 A. -- even when they replied via mail, a couple --
12 one of them did. We still don't have a phone number for
13 him, so --

14 Q. Okay --

15 A. -- that's basically --

16 Q. -- so with companies -- even though we put Yates
17 Petroleum, we just put the Yates Petroleum correspondence
18 in for reference purposes, did we not?

19 A. Yes.

20 Q. But with respect to Yates and Chi and Chevron,
21 those are working interest owners, are they not? Leasehold
22 owners?

23 A. Yes, Chi owns leases that they -- they had taken
24 a couple leases in there within the last three months.
25 Chevron's ownership is based on -- in that northwest-

1 northeast quarter is an HBP 40-acre tract, by wells in the
2 west of that section, but that was the only HBP -- held by
3 production -- tract in that section.

4 Q. Okay. So with respect to the leased owners, you
5 sent out an AFE and a request to join or farm out its
6 interest?

7 A. Right.

8 Q. With respect to the unleased owners, before you
9 sent these well proposal letters, you had sent lease offers
10 too?

11 A. That's right, that's right. And there again, we
12 even tried to -- when we typically undertake our leasing
13 efforts, we always try the phone first --

14 Q. Okay.

15 A. -- and -- whether we talk to them or not. But if
16 we have a good address, can't find a phone number, then we
17 do follow up with a letter and an offer to lease --

18 Q. Okay --

19 A. -- and hopefully it gets there.

20 Q. -- now, with respect to certain of the parties,
21 have they verbally indicated that they would either farm
22 out or join in the well?

23 A. Yes, DEB- --

24 Q. Other than Yates?

25 A. Yes, DEBCO LLC has indicated they will probably

1 join. Chi Energy has indicated they will farm out or
2 probably grant us a term assignment, we just haven't worked
3 out all the details yet, but we feel comfortable making a
4 deal with Chi. I told them we were going to list them on
5 the pooling order today, and they had no problem -- I
6 talked to them yesterday, they had no problem with that.

7 The reason we wanted to keep this thing moving is
8 because we have a critical -- an 80-acre tract down in the
9 south half of the southeast which expires March 18th, and
10 so we really need to try to get something going and
11 hopefully have production by that date.

12 Q. If any of these parties eventually either lease
13 or join in the well or farm out, will you notify the
14 Division --

15 A. Yes.

16 Q. -- so that they are not subject to a pooling
17 order?

18 A. Yes, we can do that.

19 Q. Okay. Now, referring back to Exhibit 2, under
20 the unlocatable nonresponse, which of these interest owners
21 were not locatable?

22 A. The owners that were not locatable were R.M.
23 Williams, Jim Sharp, H.W. Smith and Barry Antweil, Mark
24 Antweil, and John Tipton.

25 Q. Okay. Now, on most of those people you had

1 addresses, but they turned out to be a bad address?

2 A. That's right. Matter of fact, the Williams,
3 Sharp, Smith, and the two Antweils, they all -- it was the
4 same address, a P.O. box in Hobbs, so we assumed that they
5 were all the same group, part of that old Antweil Oil
6 Company in Hobbs, which is no longer in existence.

7 Q. And that was decades ago when that ceased to
8 exist?

9 A. Yes.

10 Q. What steps did you take to find the unlocatable
11 parties?

12 A. Okay there again, internet, directory assistance,
13 of course a thorough record check of the Eddy County
14 records, the -- you know, county clerk, district court and
15 that kind of thing.

16 Q. Okay, so you sent out an independent landman to
17 go --

18 A. Yes.

19 Q. -- check the county records and find what was
20 available there and -- so that you knew who the leased and
21 unleased owners were?

22 A. That's correct, that's correct.

23 Q. In your opinion, has Nadel and Gussman made a
24 good faith effort either to obtain the voluntary joinder of
25 the uncommitted interest owners in the well or to locate

1 these parties who turned out to have bad addresses?

2 A. Yes.

3 Q. Mr. Jolliffe, one of the unleased parties is a
4 gentleman named Larry A. Jones, or on behalf of the Robert
5 J. Jones Estate.

6 A. Yes.

7 Q. You have had correspondence with him?

8 A. Written correspondence only. There again, he
9 does have a phone number, and when he gives us written
10 correspondence back, he does not include a phone number.
11 So I don't know, it's probably unlisted. However, he has
12 sent us two different letters. Basically in summary, those
13 two letters, he doesn't want to do anything.

14 MR. BRUCE: Okay. Mr. Examiner, submitted as
15 Exhibit Number 4 is a letter which was copied to the
16 Division, so it should be in the Division's file. The only
17 thing I would note is that every couple of years I seem to
18 receive correspondence regarding these matters where people
19 start quoting the Bible, and this is one of them, so...

20 THE WITNESS: This gentleman doesn't appear to
21 understand the oil and gas business at all.

22 EXAMINER EZEANYIM: Well, the Division will take
23 administrative notice of that letter, so thank you for
24 bringing it up.

25 Q. (By Mr. Bruce) Mr. Jolliffe, what is Exhibit 5?

1 A. Okay, Exhibit 5 is the AFE for --

2 Q. What are the --

3 A. -- for the well.

4 Q. What is the approximate depth of this well?

5 A. Approximate depth is 12,900 feet, in the Morrow.

6 Q. And what are the dryhole and completed well

7 costs?

8 A. Dryhole cost is approximately \$1.5 million. On
9 the AFE we've got \$1,499,999, total completed well cost at
10 \$2,424,607.

11 Q. Nadel and Gussman has drilled a number of wells
12 in this township and --

13 A. Yes, we have.

14 Q. -- and in the township to the north, has it not?

15 A. Right, we have drilled quite a few more wells in
16 the north part of this township, one offset to this one and
17 quite a few up in 22 South, 28 East.

18 Q. Okay, so Nadel and Gussman does have an accurate
19 handle on the well costs in this area?

20 A. Yes.

21 Q. And this would be a normal well cost for wells of
22 this depth in this area of Eddy County, would it not?

23 A. Yes.

24 Q. Do you request that Nadel and Gussman be named
25 operator of the well?

1 A. Yes, we do.

2 Q. And what overhead rates does Nadel and Gussman
3 propose?

4 A. We request a drilling rate of \$7000 per month and
5 a producing well rate of \$700 per month.

6 Q. And are these rates equivalent to those normally
7 charged by Nadel and Gussman and other operators in this
8 area for wells of this depth?

9 A. Yes.

10 Q. And were the parties being pooled notified of
11 this Application?

12 A. Yes.

13 Q. And is Exhibit 6 an affidavit of notice given to
14 those persons who had addresses, whether good or bad?

15 A. Yes.

16 Q. And was notice also published in the Carlsbad
17 paper, giving the legal publication notice of this
18 Application?

19 A. Yes.

20 Q. And that affidavit is marked as Exhibit 7, is it
21 not?

22 A. I believe that's correct. Yes.

23 Q. A couple of final questions. With respect to any
24 nonconsenting interest owners, does Nadel and Gussman
25 request the maximum cost-plus-200-percent risk factor --

1 A. Yes.

2 Q. -- for this well?

3 Were Exhibits 1 through 7 prepared by you or
4 under your supervision or compiled from company business
5 records?

6 A. Yes.

7 Q. And in your opinion, is the granting of this
8 Application in the interest of conservation and the
9 prevention of waste?

10 A. Yes.

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

13 EXAMINER EZEANYIM: Exhibits 1 through 7 will be
14 admitted into evidence.

15 EXAMINATION

16 BY EXAMINER EZEANYIM:

17 Q. All right, give me the location of that well
18 again.

19 A. Yes, sir, it is -- we've got 660 feet from the
20 north line and 1980 feet from the east line.

21 Q. Your primary target here is the Morrow?

22 A. Yes.

23 Q. Are you going to do anything in the Delaware?

24 A. I don't know. We've done other drilling in the
25 area; sometimes we've found the Delaware and sometimes we

1 haven't.

2 Q. Okay.

3 A. But we'll certainly -- you know, we'll certainly
4 look for it, look at it.

5 Q. Okay. It's a standard location, so have you
6 obtained an APD for it?

7 A. The APD will be filed the -- according to my
8 regular department, at the end of this week --

9 Q. Okay.

10 A. -- and I believe they're going -- you know, it
11 will be filed with the District 2 Office in Artesia. But
12 they told me they should get it done in the next few days.

13 Q. You know, you mentioned bad addresses. I mean,
14 how do you get those addresses, and then when you send it
15 there, I mean --

16 A. Well, the --

17 Q. -- bad addresses?

18 A. Yeah, the bad addresses, really, that we've got
19 is just one group, the Williams, Sharp, Smith, and the
20 Antweils, and that was -- our landman got that from the
21 county records. I don't know if that was based on, you
22 know, some old leasing they had done or mineral deeds that
23 had those addresses. But that was really the group with
24 the bad address --

25 Q. Okay.

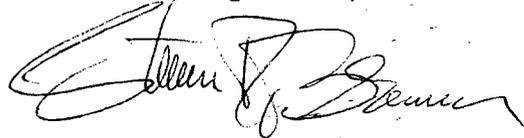
CERTIFICATE OF REPORTER

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 January 20th, 2006.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 16th, 2006