

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 SYNERGY OPERATING,)
L.L.C., FOR COMPULSORY POOLING,)
SAN JUAN COUNTY, NEW MEXICO)

CASE NO. 13,662

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

March 30th, 2006

Santa Fe, New Mexico

2006 APR 13 PM 3 56

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, March 30th, 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.

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I N D E X

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 Examiner Hearing
 CASE NO. 13,662

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<u>PATRICK HEGARTY</u> (Landman)	
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A P P E A R A N C E S

FOR THE DIVISION:

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FOR THE APPLICANT:

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* * *

1 WHEREUPON, the following proceedings were had at
2 9:05 a.m.:

3 EXAMINER CATANACH: At this time I'll call Case
4 13,662, the Application of Synergy Operating, LLC, for
5 compulsory pooling, San Juan 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 to be
9 sworn.

10 EXAMINER CATANACH: Additional appearances in
11 this case?

12 Will the witness please stand to be sworn in at
13 this time?

14 (Thereupon, the witness was sworn.)

15 PATRICK HEGARTY,

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

18 DIRECT EXAMINATION

19 BY MR. BRUCE:

20 Q. Would you please state your name and city of
21 residence?

22 A. Patrick Hegarty, Aztec, New Mexico.

23 Q. And who do you work for?

24 A. I work for Synergy Operating, LLC.

25 Q. Are you a principal of Synergy?

1 A. Yes, I am.

2 Q. Are you also by profession a petroleum landman?

3 A. Yes, I am.

4 Q. Have you previously testified before the
5 Division?

6 A. Yes, I have.

7 Q. And were your credentials as an expert landman
8 accepted as a matter of record?

9 A. Yes, they were.

10 Q. And are you familiar with the land matters
11 involved in this Application?

12 A. Yes, I am.

13 MR. BRUCE: Mr. Examiner, I'd tender Mr. Hegarty
14 as an expert petroleum landman.

15 EXAMINER CATANACH: He is so qualified.

16 Q. (By Mr. Bruce) Mr. Hegarty, could you please
17 identify Exhibit 1 and describe the acreage that Synergy
18 seeks to pool in this Application?

19 A. Synergy seeks to pool the north half of Section
20 6, and that's in 29 North, 13 West.

21 Q. Okay. Now, this is a -- it's comprised of what,
22 Lots 1 through 5 and additional acreage comprising the
23 north half?

24 A. Yes, that's true.

25 Q. And it is comprised -- total acreage of 252.95

1 acres?

2 A. That's correct.

3 MR. BRUCE: Mr. Examiner, with that I think the
4 case will need to be readvertised, because the Application
5 states it's a 320-acre unit, the advertisement states it's
6 a 320-acre unit.

7 Q. (By Mr. Bruce) Would you identify Exhibit 1 for
8 the Examiner?

9 A. This is a Form C-102 that was filed with the Oil
10 Conservation Division, and it basically sets out the
11 location of the Madrid 29-13-6 Number 111 well.

12 Q. And that well will be located at a standard
13 location in lot 2 of Section 8?

14 A. That's correct.

15 Q. This Application also seeks to pool an infill
16 well, does it not?

17 A. Yes, it does.

18 Q. And what does the second page of Exhibit 1
19 reflect?

20 A. The second page is another Form C-102 filed with
21 the Oil Conservation Division, and it describes the
22 location for the Madrid 29-13 Number 6, the 112 well.

23 Q. Now, will these wells be drilled at a depth
24 sufficient to test the Pictured Cliffs formation?

25 A. Yes, they'll be -- yes.

1 Q. Okay. So what you seek to pool is the north half
2 for the Fruitland Coal and then the northeast quarter and,
3 separately, the northwest quarter for the Pictured Cliffs?

4 A. That's correct.

5 Q. In looking at Exhibit 1, what tract -- what is
6 the acreage of the unleased or uncommitted interest that
7 you seek to pool?

8 A. Maxxam Corporation --

9 Q. Okay, before we get to the parties, what is the
10 acreage that is uncommitted?

11 A. Oh, the acreage that is uncommitted is the
12 acreage --

13 Q. Totally uncommitted, that is.

14 A. -- associated with a federal lease, and that's
15 Federal Lease NM-078977, and it's a portion of ownership in
16 that lease that is not committed.

17 Q. Okay, but what specific acreage on Exhibit 1?

18 A. Oh, that is associated with the federal lease?

19 Q. Yes.

20 A. Okay, the -- Let's see here. Okay, it is the
21 southwest of the northeast, the southeast of the northwest,
22 the south half of the southeast --

23 Q. Oh, well, you don't care about the southeast
24 quarter at this time?

25 A. Oh, that's right, yeah. And then lots 2, 3, 4

1 and 5.

2 Q. Okay.

3 A. And one thing I do want to make mention of is,
4 there seems to be some confusion at the BLM office as to
5 the description of the lots, and we've asked the BLM to
6 basically give us clarification as to the description of
7 the lots, because apparently these lands were resurveyed,
8 and when they were resurveyed there were some descriptions
9 that went under the old survey and some descriptions that
10 went under the new survey. So just for the record's sake,
11 I want to point out that the BLM is in the process of
12 clarifying the description of the lots.

13 Q. Okay. Now in that acreage you've just discussed,
14 which is approximately the western two-thirds of the north
15 half --

16 A. Right.

17 Q. -- what total percentage interest is uncommitted?

18 A. Okay, it's approximately -- and I say
19 approximately, it's 45 percent. And we are -- we've got a
20 title opinion that's in -- that's been prepared, and it's
21 in the final processes of being completed. We just have to
22 do a final review. And I can, you know, submit that as
23 evidence of the exact interest.

24 Q. Okay. Now before we get into the owners, because
25 that's kind of complicated, what is Exhibit 2?

1 A. Exhibit 2 is the letter that I wrote to Maxxam
2 Corporation, to a gentleman by the name of Jay Lerner, and
3 it's basically an invitation to participate in the two
4 Fruitland Coal and Pictured Cliff wells.

5 Q. And is it fair to say that the assignments and
6 the record title on this particular tract as to this 45-
7 percent interest is rather confused?

8 A. Yes.

9 Q. Could you just go into it a little bit? I notice
10 you did in your Exhibit 2 describe Maxxam's title as coming
11 out of McCulloch Oil Corporation, but could you go into it
12 a little bit so you can --

13 A. Well, the chain of title -- There was a company
14 called Compass, and apparently that company sold interest
15 to individuals like Groucho Marx and other Hollywood types,
16 and they were a promoter entity, so there's a multitude of
17 names and interest owners. And what we did was basically
18 contact everyone in the chain of title to the best of our
19 abilities, and also with a notification in the newspaper,
20 and if any of those entities such as Grouch Marx and the
21 other individuals want to make a claim at some later date,
22 then they have that opportunity. We also prepared -- are
23 in the process of the preparation of a title opinion to
24 help with that. So what we've done, as best we can,
25 identify all the various interest owners and attempt to

1 contact them if we can.

2 Q. Okay. So what you're basically saying, though,
3 is, Compass owned the interest, it assigned to a number of
4 people --

5 A. Yes.

6 Q. -- and there were a bunch of assignments back
7 into either Compass or McCulloch; is that --

8 A. Right.

9 Q. -- correct?

10 A. And then, see, McCulloch was absorbed into
11 Maxxam, and that's ultimately how Maxxam ended up with the
12 interest.

13 Q. Okay. And so to the best of your knowledge
14 Maxxam is the owner, but there are a number of title
15 problems --

16 A. Correct.

17 Q. -- connected with this?

18 A. Right. And this force pool hearing is being
19 utilized as a means to address those title problems, such
20 that if we can identify every potential interest owner and
21 force pool them, then we know we can -- with a great deal
22 of certainty that those interests are basically in a force
23 pool state.

24 Q. Now, what has Maxxam's response been to you
25 regarding the drilling of these wells?

1 A. Well, Maxxam is not an oil and gas corporation.
2 And basically we dealt with an attorney by the name of
3 Randy King who was hired by Maxxam, and they basically said
4 just force pool us. And then -- because, you know, they
5 just -- it's not a big enough issue to deal with. It's
6 very minute in their business dealings, and so they said
7 just go ahead, force pool them. But we are continuing,
8 after this force pool hearing, continuing to extend them
9 every means of, you know, participation, basically through
10 a farmout agreement.

11 The only problem with the farmout agreement,
12 though, is that this lease is heavily burdened, and it
13 appears that there's as much as 70 -- or 30 percent total
14 royalty, meaning that the net revenue interest that we are
15 going to receive, and everyone else associated with this
16 federal lease, is a 70-percent net revenue interest. So
17 there really isn't a lot of room to basically negotiate,
18 because there's not much that we can give them in terms of
19 a royalty.

20 But anyway, they said just go ahead, force pool
21 them, and that way they're not holding us up in the
22 drilling of the well. And at some point, once the well's
23 production is established and we can, you know, establish
24 some sort of value for that interest, most likely we'll
25 just buy them out.

1 Q. What are Exhibits 3 and 4?

2 A. These are the AFEs that we prepared for both
3 wells, or -- Yes.

4 Q. And what are the approximate costs of the wells?

5 A. The approximate cost to drill these wells is
6 \$440,000.

7 Q. And are these costs reasonable and comparable to
8 the cost of other wells drilled to this depth in this area
9 of New Mexico?

10 A. Yes, they are.

11 Q. And what overhead rates do you propose?

12 A. \$5000 drilling overhead rate and \$500 for an
13 operating overhead rate.

14 Q. And are those rates equivalent to those normally
15 charged by Synergy and other operators in this area for
16 Fruitland Coal and Pictured Cliffs wells?

17 A. Yes, they are.

18 Q. Does Synergy request that it be named operator of
19 the well?

20 A. Yes, we do.

21 Q. And was notice in writing given to Maxxam of this
22 Application?

23 A. Yes.

24 MR. BRUCE: Mr. Examiner, I did not make an extra
25 copy of this, but in connection with the prior questions of

1 Mr. Hegarty I did get a letter marked as Exhibit 7 from an
2 attorney, Randall King, at Porter and Hedges in Houston
3 regarding the maximum interest, and that will confirm what
4 Mr. Hegarty said.

5 Q. (By Mr. Bruce) Now, Mr. Hegarty, finally I'd
6 refer to Exhibit 6, and what is that?

7 A. Exhibit 6 is the notice -- a copy of the
8 publication, and this is basically just an affidavit of
9 that publication.

10 Q. Okay. Now I had you go into the background.
11 There are a number of people named in here. Are some of
12 these people who were assigned interests and then later
13 executed assignments back to McCulloch or whomever --

14 A. Uh-huh.

15 Q. -- but there is some question as to the efficacy
16 of the assignments?

17 A. Well, basically there was some -- because of the
18 problems with the survey, the resurvey that the BLM did,
19 the descriptions -- we're not sure if all the interests
20 were covered, because they lots that they described they
21 were assigning no longer exist.

22 And so if we can get some sort of BLM
23 verification, you know, what the history of the description
24 of the acreage is, you know, then one could, you know, very
25 definitely say what was assigned.

1 But because the lot descriptions are different
2 and we don't really have anything of record that describes
3 the transformation from the earlier versions, at least not
4 signed off by a BLM official or somebody that you could
5 feel comfortable that what you're looking is accurate, you
6 know, there's some question as to what was assigned.

7 So we felt it just better to, you know, notify
8 everybody, put everybody in the publication. And, you
9 know, if anybody wants to come back later and say they
10 didn't assign what they -- you know, certain acreage, then
11 we're covered.

12 Q. And the BLM's practice is, when they resurvey
13 acreage, even though like on Exhibit 1 it says lots 1
14 through 5, they -- since there are seven lots, they might
15 even start naming these lots 1 through 5, starting with lot
16 8 or something like --

17 A. Well, there's even some in the history, the chain
18 of title, they start giving them letter names. I mean,
19 it's -- you know, there's some confusion in that respect.
20 So that's one reason why we're just trying to protect
21 ourselves and put everybody in the notification.

22 Q. So again to the best of your knowledge, Maxxam
23 owns this interest, but there are title issues that --

24 A. Yes.

25 Q. -- Maxxam doesn't want to spend time --

1 A. Yeah.

2 Q. -- working on?

3 In your opinion, do you believe you made a good
4 faith effort to obtain the voluntary joinder of Maxxam's
5 interest in this well?

6 A. Yes.

7 Q. And were Exhibits 1 through 6 prepared by you or
8 under your supervision?

9 A. Yes.

10 MR. BRUCE: Mr. Examiner, I'd move the admission
11 of Exhibits 1 through 6, plus Exhibit 7, the letter.

12 EXAMINER CATANACH: Exhibits 1 through 7 will be
13 admitted.

14 EXAMINATION

15 BY EXAMINER CATANACH:

16 Q. Mr. Hegarty, are the title problems between
17 Maxxam and the other entities and not between you and these
18 other entities?

19 A. It appears that they were involved with
20 McCulloch, and McCulloch was Compass -- the properties of
21 Compass went into McCulloch, and so they appear to be with
22 Maxxam. But if any of those interests weren't properly,
23 you know, assigned -- and then some of the interests, it
24 didn't appear that they were assigned. But the point being
25 is that we would be, in effect, force pooling those

1 interests. So then in effect, they would be coming into
2 Synergy through the force pool process.

3 So in answer to your question, it would affect
4 our title to that extent, or affect our ownership.

5 Q. Okay, but if you're not -- if you're concerned
6 about whether or not some of these were valid or not,
7 wouldn't you want to force pool those interest owners
8 that --

9 A. Yes --

10 Q. -- didn't --

11 A. -- very definitely, and that's what I'm hop- --
12 you know, that's the purpose of including those entities in
13 here. And if that's not clear, then I appreciate your
14 question and I hope that it is clear.

15 Q. Well, why wouldn't you not give them personal
16 notice of this case then?

17 A. Well, the fact is, all of these individuals --
18 like for example, Groucho Marx, we'd have to do some
19 research in terms of finding out who their heirs are.
20 And -- you know, and then contacting them, that sort of
21 thing.

22 As far as all the corporations are concerned, you
23 know, those -- many of those corporations no longer exist.
24 Like, for example, McCulloch. You know, we tracked that
25 down to Maxxam, and there's other entities, you know, of

1 that nature.

2 But I mean, you know, the title opinion basically
3 is what we're going to rely upon in terms of, you know,
4 satisfying ourselves what interests -- to the best of our
5 abilities, what interests -- you know, what potential
6 parties potentially still own an interest.

7 But if you're saying like, for example, because
8 of these title questions, you're wanting us to basically
9 track down every, you know, heir -- because a lot -- you
10 know, these people aren't alive, you know, any longer,
11 and --

12 Q. Well, I mean, if they own a valid interest in
13 this unit, I'm not sure that you can just simply pool them
14 by providing publication notice in a newspaper.

15 A. Okay.

16 Q. If there are indeed heirs to these interest
17 owners, I mean, they -- if they do own valid interests, why
18 wouldn't you negotiate with these parties the same as you
19 would anybody else?

20 A. Well, the question is, I mean, to answer what --
21 to clean up that particular problem, once we got
22 confirmation of what these lots were, you know, at various
23 points of time, and the BLM will sign off on that, then we
24 can have that certainty of -- you know, that the interests
25 were actually assigned.

1 But you know, I mean, in answer to your question,
2 that's a risk -- the risk that we're taking is that
3 somebody at some later date could come back and, you know,
4 say, I don't think that you properly notified me or gave me
5 a chance to participate in this well and -- you know, so
6 that's a risk we're assuming.

7 But I think once we get the BLM to -- you know,
8 to confirm the history of the survey, then we'll know for
9 certainty, you know, that those assignments are valid.

10 So it's -- you know, it's a difficult issue. And
11 certainly we want to do whatever is best to protect our
12 interest, because we're spending a great deal of money and
13 effort to drill this well and get these, you know, revenues
14 producing. And so certainly we want to minimize our risks
15 as best we can.

16 Q. Is the Application a bit premature, do you think?

17 A. Well, I don't think so, because I think we did
18 everything that one could possibly do to -- you know,
19 outside of receipt of the BLM -- they have not responded to
20 our letters. And I'm not sure, maybe we have to go down
21 there and, you know, go to their superiors or something. I
22 don't know how you make an issue -- How do you make the BLM
23 do something, is my question, you know, to -- because we've
24 asked it and -- you know.

25 But we feel confident that we've done everything

1 necessary, and ultimately we're taking the risk as an
2 operator to drill this well and -- you know. But these
3 interests are so minute, you know, for them, they would
4 have to spend an exceptional amount of money, you know, if
5 they wanted to basically fight the issue.

6 But if they -- you know, if somebody wanted to do
7 the research and come back and say, Look, you know, I think
8 you missed -- you know, let's say one lot was missed or
9 something like that, you know, it would take a -- it would
10 be very difficult for them to, you know, come back and
11 challenge us, you know.

12 But certainly we'd want to minimize whatever risk
13 there was, so -- I mean, that's totally -- if you feel that
14 we need to do, you know, more, we can -- we -- you know,
15 how can I -- can I get the title people to basically -- you
16 know, I can submit a copy of this opinion and then, you
17 know -- and have a third party verify that everything's
18 been done that can be done to contact these people.

19 Q. Well, what if your title opinion says that there
20 are certain interest owners that do own an interest in
21 this, apart from Maxxam?

22 A. Well --

23 Q. Then what do you do at that point? Because you
24 have not contacted those parties --

25 A. Okay --

1 Q. -- you have not negotiated with those parties --

2 A. You know, I mean that's their -- you know, when
3 we are dealing with an issue here that because the way
4 Compass sold their interests, and they were a promoter
5 company, you know, it gets down to a question of assumption
6 of risk, and the operator has to make that decision, what
7 are they comfortable assuming? Because, you know, if --
8 and if we get a -- you know, a third-party opinion that
9 says that we're -- you know, this interest isn't covered,
10 obviously we've got to go after that or we're assuming a
11 great deal of risk, you know, in that they could come back
12 and take that interest from us, so on and so forth. You
13 know, and then there would be the question of, you know, so
14 we're opening up a can of worms.

15 Q. Well, my question about whether the Application
16 is premature -- I mean, wouldn't it have made more sense to
17 wait till the title opinion is done to know who these
18 people are?

19 A. Well, the title opinion is done, but we still --
20 like I said, until the BLM, you know, gives us some
21 verification as to what these lots are, you know -- But I'm
22 just telling you that in my opinion it's not done until we
23 get that, and we're doing everything we can to get that
24 verification. But certainly the title opinion, you know,
25 if we could be -- have a great deal of assurity that, you

1 know, what's been assigned actually covered the acreage,
2 then, you know, we feel comfortable we've got the matters
3 dealt with.

4 And you know, the point is, I can submit the copy
5 of the title opinion, I could submit the letters to the BLM
6 -- and I don't know if you -- you know, what avenues we can
7 go through to make the BLM, you know, do this. It's just
8 going to take a great deal of work. Or if we can have a
9 third party go in and maybe get -- do the work and then
10 maybe get the BLM to sign off on it, so that at this
11 particular date the lots were this. I know it can be done,
12 it's just a matter of going into the records.

13 But you know, until we get that done there's --
14 But as far as the title opinion is concerned, we've got
15 that completed, it's just a matter of getting the BLM, you
16 know -- at that point, then, it will be complete, you know,
17 so...

18 But the intent truly was to assign the interest.
19 I don't -- you know, one could certainly say the intent was
20 to assign their interest, but when you've got a
21 complication as to, you know, differences of opinion as to
22 what the lots were at various points in time in history,
23 that creates doubt.

24 Q. So your title opinion does state that these were
25 all transferred back to Maxxam?

1 A. Yeah, yeah, it does.

2 Q. So basically your question is whether or not
3 they're valid?

4 A. Well, yeah, exactly. I mean, until you know
5 exactly what acreage was assigned, it's -- you don't really
6 know, you know, and that's a valid concern.

7 But certainly, I mean, you know, no operator in
8 their right mind would assume -- would drill a well and not
9 have a high degree of certainty of their ownership, you
10 know. I mean, the risks are too great. And so there's a
11 prudent operator rule, I think, here, you know. And if
12 we're willing to assume that risk, then I think --

13 MS. MacQUESTEN: But aren't you asking us to
14 protect you from a certain amount of risk in that these
15 other entities outside of Maxxam may come back, and you're
16 asking us to issue a ruling pooling those entities?

17 THE WITNESS: Well, you know, if you don't --
18 yeah, if you don't feel comfortable pooling those entities,
19 then you shouldn't pool them. I mean, you know, I'd have
20 to -- You know, now certainly Maxxam, or only those
21 entities that we contacted, if there's that sort of -- you
22 know, that's fine.

23 MS. MacQUESTEN: From the documentation we have
24 here, the only entity you've contacted was Maxxam, and
25 that's --

1 THE WITNESS: That's correct.

2 MS. MacQUESTEN: -- the only evidence we have in
3 this case.

4 THE WITNESS: Right. So if you've got that
5 concern, then I'd say limit your force pooling to Maxxam.
6 Then the onus is on us to make certain that, you know...

7 But I think -- But I think from our standpoint,
8 we want to do everything that we possibly could to notify
9 everyone in the chain of title. I think that's just a
10 prudent practice to do, and we attempted to do that.

11 MR. CATANACH: Have you guys addressed the
12 nonstandard proration unit issue, Mr. Bruce?

13 MR. BRUCE: No, I haven't, Mr. Examiner, and
14 that's why -- you know, I forget exactly what the acreage
15 is that can be approved by the District Office, but that's
16 why the case --

17 THE WITNESS: Well, I spoke --

18 MR. BRUCE: -- needs to be readvertised.

19 THE WITNESS: I did. We spoke with the geologist
20 in the Aztec office, Steve Hayden -- Hayden, and he -- we
21 were originally going to make this an east-half proration
22 unit, because that's a full 320. And he told us to -- if
23 we made them a north half/south half, you know, as far as
24 the Fruitland Coal was concerned, then it wouldn't require
25 any additional hearing, but -- because there was just

1 enough acreage, basically, to fall within the -- you know,
2 the acceptable levels of the NMOCD. So Steve is who we
3 relied upon in order to file that north-half proration
4 unit.

5 Q. (By Examiner Catanach) So Steve conveyed that
6 the District Office would be able to approve that
7 nonstandard --

8 A. Yeah, well, matter of fact, I think -- and if I'm
9 not mistaken -- I mean, that's -- I'm not an absolute
10 expert on these C-102s, but if -- in order for a location
11 to be approved by their office, I think -- and both the
12 locations were approved -- that -- I would think that they
13 would check that. But maybe they don't, I don't know.

14 MR. BRUCE: Mr. Examiner, isn't it 70 -- the
15 District Office is able to approve something that's 70
16 percent of the normal acreage?

17 EXAMINER CATANACH: I believe it used to be 70
18 percent, I'm not sure if that's still in effect.

19 MR. BRUCE: I couldn't remember.

20 THE WITNESS: Okay, but anyway, that's what we
21 relied upon --

22 MR. BRUCE: Seventy percent would be like 224
23 acres.

24 EXAMINER CATANACH: I will check on that to make
25 sure.

1 THE WITNESS: Okay, and you might want to call
2 Steve and just verify our conversation, if there's any
3 question.

4 Q. (By Examiner Catanach) Synergy's interest is in
5 Lot 1 and the acreage immediately south of that; is that
6 correct?

7 A. We've got -- well, we purchased an interest in
8 the federal lease, and that was -- and then we also
9 acquired all the fee leases associated with that tract in
10 Lot 1, and then the southeast of the northeast, so...

11 Q. What is your percentage of interest in that unit?

12 A. Our percentage of interest in that unit -- I will
13 submit an exact number, but we've basically got 65 percent.
14 But I will give you exact numbers. I will send that to
15 you, with a copy of the title opinion.

16 Q. Is the 111 well going to be drilled first, or do
17 you know?

18 A. The 111 well will be drilled first, as a matter
19 of fact. The second well -- you know, there's elements of
20 risk associated with these wells as well, and I mean
21 there's not an assurance of production. And by virtue of
22 that fact, the second well may never be drilled.

23 Q. I'm just curious. Under your plan, does the --
24 if the second well is drilled, do the interest owners have
25 an opportunity to voluntarily participate in that well

1 prior to that well being drilled?

2 A. Well, okay, so basically what you're saying, that
3 after we drill the first well, do you want us to submit
4 another AFE and give them --

5 Q. Well, I'm asking you, I mean, is that how you
6 would normally do this, or -- Well, we're telling you to do
7 it.

8 A. Okay. Well, you tell us. I mean, you know --

9 Q. I'm just asking how you would normally do that.

10 A. Well, see, we -- you know, our -- we are being
11 educated in terms of the force pool process, and I can't
12 say that we've got a standard operating procedure in that
13 respect. And you know, all we want to make certain is that
14 all our t's are crossed, i's dotted, and whatever is, you
15 know, required of us we do. And so if you've got certain
16 things you want us to do, we'll certainly do that.

17 But basically that's going to be a part of your
18 order, is that after the first well is drilled an AFE is
19 submitted for the second well, giving them the ability to
20 participate in the second well.

21 MR. BRUCE: The only order I've seen is one in
22 which Synergy was involved, and that was the requirement, I
23 believe, that a second AFE be submitted, Mr. Examiner.

24 EXAMINER CATANACH: Okay, I know there's a
25 boilerplate subsequent operations order that's floating

1 around now. That may be the one, and I'm not sure of the
2 language in that either, so --

3 MR. BRUCE: I've only seen the one.

4 EXAMINER CATANACH: -- I'll check on that.

5 Okay, there being nothing further, Mr. Bruce? --

6 MR. BRUCE: Nothing further, Mr. Examiner.

7 EXAMINER CATANACH: -- Case Number 13,662 will be
8 -- We need to readvertise this, don't we?

9 MR. BRUCE: We need to readvertise it for the
10 27th --

11 EXAMINER CATANACH: So --

12 MR. BRUCE: Probably for the May -- It's too late
13 for the 27th, isn't it?

14 EXAMINER CATANACH: No, that's four weeks.

15 MR. BRUCE: If it can be. I'll e-mail something
16 in to the Division.

17 EXAMINER CATANACH: Okay, I think that the --
18 Let's continue it till the 27th, and then if we have to we
19 can continue it after that.

20 Case Number 13,662 will be continued to the April
21 27th hearing.

22 Let's take a 15-minute break here.

23 (Thereupon, these proceedings were concluded at
24 9:41 a.m.)

25 I do hereby certify that the foregoing is
a complete record of the proceedings of
the Examiner hearing of Case No. 13662
heard by me on May 30, 2006.

STEVEN T. BRENNER, OCR *Steven T. Brenner*, Examiner
(505) 989-9317
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 March 31st, 2006.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 16th, 2006