

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 OXY USA WTP LIMITED)
PARTNERSHIP FOR COMPULSORY POOLING,)
EDDY COUNTY, NEW MEXICO)

CASE NO. 13,719

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

June 22nd, 2006

Santa Fe, New Mexico

2006 JUL 6 AM 8 07

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, June 22nd, 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.

* * *

I N D E X

June 22nd, 2006
 Examiner Hearing
 CASE NO. 13,719

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| APPEARANCES | 3 |
| APPLICANT'S WITNESS: | |
| <u>DAVID RAY EVANS</u> (Landman) | |
| Direct Examination by Mr. Carr | 5 |
| Examination by Examiner Catanach | 13 |
| REPORTER'S CERTIFICATE | 15 |

* * *

E X H I B I T S

| Applicant's | Identified | Admitted |
|-------------|------------|----------|
| Exhibit 1 | 7 | 13 |
| Exhibit 2 | 9 | 13 |
| Exhibit 3 | 9 | 13 |
| Exhibit 4 | 10 | 13 |
| Exhibit 5 | 12 | - |

* * *

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:

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

* * *

1 WHEREUPON, the following proceedings were had at
2 9:02 a.m.:

3 EXAMINER CATANACH: Call Case 13,719, Application
4 of OXY USA WTP Limited Partnership for compulsory pooling,
5 Eddy County, New Mexico.

6 Call for appearances.

7 MR. CARR: May it please the Examiner, William F.
8 Carr with the Santa Fe office of Holland and Hart, L.L.P.
9 We represent OXY USA WTP Limited Partnership in this
10 matter, and I have one witness.

11 EXAMINER CATANACH: Any additional appearances?

12 Okay, let the record show that Mr. Carr's witness
13 has been previously sworn in and qualified in the previous
14 case.

15 MR. CARR: Mr. Examiner, in this case, as you
16 will see, what OXY is seeking is an order pooling an
17 interest, and as we appear before you today we're seeking
18 an order pooling an interest of Chevron.

19 When the case was originally filed, the title
20 information we were working on showed that the only party
21 we needed to pool actually was Marathon. Then on about the
22 6th of this month the Chevron interest was discovered.

23 Since Mr. Evans had to come here today anyway,
24 and since we had the case on the docket, we're requesting
25 permission to let him put the case on. At the end of his

1 presentation we'll ask that it be continued to July 20th.
2 We anticipate by that time -- In fact, we hoped we wouldn't
3 be here at all today. I talked with Mr. Owen, attorney for
4 Chevron, yesterday, and they're simply finalizing one
5 remaining issue in the joint operating agreement, then the
6 matter will be resolved. Since we were here, we'd like
7 your permission to put this on, continue the case.
8 Hopefully, that will be the end of it. We can ask that it
9 be dismissed once the documents are signed.

10 EXAMINER CATANACH: Okay, you may proceed.

11 DAVID RAY EVANS,

12 the witness herein, having been previously duly sworn upon
13 his oath, was examined and testified as follows:

14 DIRECT EXAMINATION

15 BY MR. CARR:

16 Q. Mr. Evans, are you familiar with the Application
17 filed in this case?

18 A. Yes, I am.

19 Q. And are you familiar with the status of the lands
20 in this matter?

21 A. Yes, I am.

22 Q. Would you review for Mr. Catanach what it is that
23 OXY seeks with this Application?

24 A. Order pooling all minerals from the surface to
25 the base of the Morrow on the standard location of the west

1 half of Section 24, 18 South, 27 East, Eddy County, New
2 Mexico, west half for all formations including but not
3 limited to the Undesignated North Illinois Camp-Morrow Gas
4 Pool, the Undesignated Red Lake-Atoka Gas Pool, the
5 Undesignated Chalk Bluff-Wolfcamp Gas Pool; the northwest
6 quarter for all formations pooled or developed on 160
7 acres; and the southeast northwest for all formations or
8 pools developed on 40 acre spacing, which includes but not
9 limited to the Chalk Bluff-Wolfcamp.

10 Q. And to what well does OXY propose to dedicate the
11 spacing and proration units?

12 A. OXY's Peso State Number 1.

13 Q. And what is the location you propose for that
14 well?

15 A. 1650 feet from the north and 1850 feet from the
16 west.

17 Q. And you've indicated that's a standard location
18 in all formations?

19 A. Yes.

20 EXAMINER CATANACH: I'm sorry, could you repeat
21 those locations -- that location again?

22 THE WITNESS: 1650 feet from the north, 1850 from
23 the west.

24 EXAMINER CATANACH: That's not what your -- the
25 docket advertises, docket says. Well, your Exhibit 1 says

1 1980 feet from the north, 1530 feet from the west.

2 MR. CARR: Right.

3 THE WITNESS: Okay, we've got a typo.

4 MS. MacQUESTEN: That's what the advertisement
5 says.

6 EXAMINER CATANACH: Right, but that's not what
7 you're testifying to.

8 MR. CARR: No, that isn't.

9 Q. (By Mr. Carr) What is the correct location for
10 the well, Mr. Evans?

11 A. 1980 from the north, 1530 from the west.

12 EXAMINER CATANACH: Okay.

13 Q. (By Mr. Carr) So it was correctly advertised?

14 A. Yes.

15 Q. And that is the actual location where you plan to
16 locate the well?

17 A. I believe it is, yes.

18 Q. And that is standard in all horizons?

19 A. Yes.

20 Q. All right, let's go to what has been marked
21 Exhibit Number 1. Would you identify and review that,
22 please?

23 A. That's a plat reflecting the location of the well
24 in the 320 spacing, west half of 24.

25 Q. At this point in time, who are we seeking to

1 pool?

2 A. Chevron USA.

3 Q. All right, and that is the only outstanding
4 interest at this point in time?

5 A. Yes, it is.

6 Q. What is the primary objective in this well?

7 A. Morrow formation, Undesignated North Illinois
8 Camp-Morrow Gas Pool.

9 Q. And this would also be developed under statewide
10 rules?

11 A. Statewide rules.

12 Q. Can you identify for the Examiner what is the
13 ownership of Chevron USA, Inc., in this 320-acre proposed
14 spacing and proration unit?

15 A. They have 10.6590-percent interest.

16 Q. And so everyone else is voluntarily committed?

17 A. Yes.

18 Q. And so we have in excess of 89 percent in the
19 well?

20 A. Yes, sir.

21 Q. Can you summarize for Mr. Catanach the efforts
22 made to bring the Chevron interest voluntarily into this
23 well?

24 A. Well, we made first contact on February 21st of
25 2006. We've had numerous phone conversations and e-mails

1 back and forth negotiating the terms.

2 Q. And are copies of the e-mails and the letters
3 what has been marked for identification as OXY Exhibit
4 Number 2?

5 A. Yes, sir.

6 Q. And as we were developing this prospect and going
7 through this, we were initially only seeking to pool the
8 interest of Marathon; is that right?

9 A. That's right.

10 Q. And it was only later this month that it was
11 discovered that the pooling application had not also
12 identified the Chevron interest?

13 A. That's correct.

14 Q. Marathon's interest is voluntarily committed?

15 A. We have had their interest --

16 Q. And what is the current status of the discussions
17 with Chevron?

18 A. Well, we're just waiting for a re-draft from
19 their legal department.

20 Q. And when we get that and have the agreement, the
21 joint operating agreement issues resolved, would we advise
22 the Division that all interests are voluntarily in?

23 A. Yes, sir.

24 Q. Let's go to the AFE, which is marked Exhibit
25 Number 3. Would you review the totals set forth on that

1 exhibit for Mr. Catanach?

2 A. \$1,469,250 dryhole cost and \$2,004,518 completed.

3 Q. And those are based on a February 21, 2006, AFE?

4 A. That's correct.

5 Q. Are these costs in line with what's charged by
6 other operators in the area for similar wells?

7 A. Yes.

8 Q. And these are, in fact, the actual costs that OXY
9 uses?

10 A. Yes.

11 Q. And based on this AFE, other interest owners have
12 voluntarily agreed to participate in the well?

13 A. Yes.

14 Q. Is Exhibit Number 4 a copy of the COPAS
15 accounting procedures that are attached to the joint
16 operating agreement in this matter?

17 A. Yes.

18 Q. Does OXY request that the order that is entered
19 in this case provide for the adjustment of overhead and
20 administrative costs as provided in these accounting
21 procedures?

22 A. Yes.

23 Q. What are the overhead and administrative costs
24 that OXY is seeking in this matter?

25 A. \$6000 a month drilling, \$600 producing.

1 Q. And these are the same that we discussed in the
2 preceding case --

3 A. Yes.

4 Q. -- is that right?

5 A. That's right.

6 Q. And these have been accepted by those who
7 voluntarily agreed to participate?

8 A. Yes.

9 Q. In this case, if you're unable to bring the
10 Chevron interest in, does OXY request that the 200-percent
11 charge for risk authorized by statute be imposed on that
12 interest?

13 A. Yes.

14 Q. And what is the name of the entity, the OXY
15 entity, that will actually be the operator of this well?

16 A. OXY USA WTP Limited Partnership.

17 Q. Exhibit Number 4 is an affidavit that in fact
18 confirms that notice of the Application was provided to
19 Marathon; isn't that correct?

20 A. That's correct.

21 Q. We have sent notice to Chevron?

22 A. Yes.

23 Q. And if the case when it's re-opened has to be re-
24 opened, we will provide the appropriate notice at that
25 time?

1 A. Yes.

2 Q. That interest has been covered?

3 A. (Nods)

4 Q. Were Exhibits 1 through 4 either prepared by you
5 or compiled at your direction?

6 A. Yes.

7 MR. CARR: Mr. Examiner, at this time we would
8 move the admission into evidence of OXY Exhibits 1 through
9 4 and would request that at the conclusion of the case it
10 be continued to the July 20th Examiner Hearing. In the
11 meantime, once we reach agreement with Chevron -- which we
12 believe we will do -- we'll advise the Commission -- the
13 Division, that the case can be dismissed.

14 EXAMINER CATANACH: Exhibits 1 through 4, or do
15 you want to include 5 in that also, Mr. Carr?

16 MR. CARR: You know, Mr. Catanach, what -- We can
17 include Exhibit 5. It is -- That's the problem we have,
18 it's an affidavit directed at the Marathon interest that
19 has now joined, and we are -- we have reached agreement
20 with Marathon, and it was just that internally we
21 discovered Chevron should have been included, and we've
22 been back and forth with them on the JOA. We think it'll
23 be done. And since Mr. Evans was here, we thought with
24 your permission we'd put the case on so it wouldn't have to
25 come back if something slipped.

1 docket that helps get documents signed.

2 Q. (By Examiner Catanach) So you anticipate Chevron
3 joining?

4 A. Yes, sir.

5 Q. But if they don't, we'll have --

6 MR. CARR: On the 20th I'll show up with the
7 notice affidavit.

8 EXAMINER CATANACH: Okay. Okay, I don't have
9 anything else.

10 MR. CARR: Thank you. That concludes our
11 presentation.

12 EXAMINER CATANACH: Okay, Case Number 13,719 will
13 be continued to the July 20th docket.

14 And let's take a 15-minute break here before we
15 start.

16 (Thereupon, these proceedings were concluded at
17 9:13 a.m.)

18 * * *

19
20 I do hereby certify that the foregoing is
21 a complete record of the proceedings in
22 the Examiner hearing of Case No. 13719
23 heard by me on June 22, 2006

24
25 David P. Catanach, 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 June 24th, 2006.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 16th, 2006