

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. 13,718

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

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.

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June 22nd, 2006
 Examiner Hearing
 CASE NO. 13,718

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<u>DAVID RAY EVANS</u> (Landman)	
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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 8:51 a.m.:

3 EXAMINER CATANACH: Okay, at this time I'll call
4 Case 13,718, Application of OXY USA WTP Limited Partnership
5 for compulsory pooling, Eddy County, New Mexico.

6 Call for appearances.

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

11 EXAMINER CATANACH: Any additional appearances?

12 There being none, swear in the witness.

13 (Thereupon, the witness was sworn.)

14 DAVID RAY EVANS,

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. CARR:

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

20 A. David Ray Evans.

21 Q. And Mr. Evans, where do you reside?

22 A. 1506 Douglas, Midland, Texas.

23 Q. By whom are you employed?

24 A. OXY USA WTP Limited Partnership.

25 Q. And what is your position with OXY?

1 A. Land negotiator.

2 Q. Have you previously testified before the New
3 Mexico Oil Conservation Division?

4 A. Yes.

5 Q. At the time of that testimony, were your
6 credentials as an expert witness in petroleum land matters
7 accepted and made a matter of record?

8 A. Yes.

9 Q. Are you familiar with the Application filed on
10 behalf of OXY in this case?

11 A. Yes.

12 Q. And are you familiar with the status of the lands
13 in the subject area?

14 A. Yes.

15 MR. CARR: We tender Mr. Evans as an expert
16 witness in petroleum land matters.

17 EXAMINER CATANACH: Mr. Evans is so qualified.

18 Q. (By Mr. Carr) Would you briefly state for the
19 Examiner what it is that OXY seeks with this Application?

20 A. Order pooling all minerals, from the surface to
21 the base of the Morrow formation, under the following
22 standard spacing units located in the west half of Section
23 4, 19 South, 35 East, Eddy County, New Mexico, for the
24 Undesignated South Millman-Morrow Gas Pool on 320 acres and
25 the Undesignated Millman-Strawn Gas Pool, the northwest

1 quarter for all formations or pools developed on 160 acres,
2 and the southwest northwest for all formations and pools
3 developed on 40-acre spacing, which includes but not
4 necessarily limited to Travis-Upper Penn Pool and Travis-
5 Wolfcamp Pool.

6 Q. And these are to be dedicated to what well?

7 A. The Senita State Well Number 1.

8 Q. And where is that well located?

9 A. 1540 feet from the north and 1070 feet from the
10 west.

11 Q. Is that a standard well location in all horizons?

12 A. Yes.

13 Q. Let's go to what has been marked as OXY Exhibit
14 Number 1. Would you identify that and review it for Mr.
15 Catanach?

16 A. This is the west half of 4 and shows our location
17 as it appears to the 320 Morrow, the 160 in the northwest
18 and the 40 acres southwest northwest.

19 Q. We were unable to locate any 80-acre pools in
20 this area; isn't that right?

21 A. That's correct.

22 Q. What is the primary objective of the proposed
23 well?

24 A. Morrow formation.

25 Q. And that would be in the Undesignated South

1 Millman-Morrow Gas Pool?

2 A. Yes.

3 Q. What rules govern the development of this
4 acreage?

5 A. Statewide rules, 320-acre spacing, 660 foot
6 setbacks.

7 Q. Would you identify what's been marked OXY Exhibit
8 Number 2?

9 A. This is the identity of the interests that we're
10 trying to pool. Anne Johnson in the west half and
11 Katherine Malone.

12 Q. And those are the only two at this point in time
13 who we're seeking to pool?

14 A. That's correct.

15 Q. What percent of the working interest is
16 voluntarily committed to this well in any of the described
17 spacing units?

18 A. Over 99 1/2 percent.

19 Q. Could you summarize the efforts that you have
20 made on behalf of OXY to identify and obtain the voluntary
21 participation of the interest owners you're today seeking
22 to pool?

23 A. Well, we made first contact back in November 29th
24 of 2005, and we've continued that effort up until just
25 recently on June 12th.

1 Q. Is OXY Exhibit Number 3 a compilation of letters
2 both to the Charles Malone Trust and to the Johnson
3 interests?

4 A. Yes.

5 Q. And in your opinion have you made a good faith
6 effort to obtain their voluntary participation in the
7 proposed well?

8 A. Yes.

9 Q. Would you identify what is marked OXY Exhibit
10 Number 4?

11 A. Number 4. Is that the AFE?

12 Q. Yes, sir.

13 A. Okay, it's OXY's AFE proposed to drill the well,
14 dated January 13th.

15 Q. And could you review for the Examiner the totals
16 that are set forth on this exhibit?

17 A. The dryhole cost is \$1,535,606 and the completed
18 well will be \$2,135,750.

19 Q. Are these costs in line with the costs that are
20 charged by other operators in the area for similar wells?

21 A. Yes.

22 Q. And these, in fact, are OXY's costs as of January
23 of this year?

24 A. Yes.

25 Q. If anything, they've gone up since then?

1 A. They've gone up since then.

2 Q. What is OXY Exhibit Number 5?

3 A. Okay, the accounting, COPAS.

4 Q. Is this joint -- Are these accounting procedures
5 part of the joint operating agreement for this proposed
6 well?

7 A. Yes.

8 Q. Do these procedures provide for the periodic
9 adjustment of overhead and administrative charges?

10 A. Yes.

11 Q. And do you seek that the overhead and
12 administrative costs set by the order entered in this case
13 also be adjusted in accordance with these COPAS procedures?

14 A. Yes.

15 Q. Have you made an estimate of the overhead and
16 administrative costs to be incurred while drilling the well
17 and also while producing it, if it is successful?

18 A. Yes, \$6000 drilling, \$600 a month producing.

19 Q. And how do these compare to the Ernst and Young
20 figures?

21 A. On target.

22 Q. Were these figures also accepted by the other
23 interest owners who are voluntarily participating in the
24 well?

25 A. Yes, they were.

1 Q. And you recommend that these be incorporated in
2 the order?

3 A. Yes, I do.

4 Q. Does OXY request that the 200-percent charge for
5 risk authorized by statute on each cost-bearing interest
6 not committed to the well be assessed by this pooling
7 order?

8 A. Yes.

9 Q. And you're asking that -- is it OXY USA WTP,
10 Limited Partnership, is that who you would like to have
11 designated operator of the well?

12 A. Yes.

13 Q. Is Exhibit Number 6 an affidavit confirming that
14 notice of this hearing has been provided in accordance with
15 the Rules of the OCD?

16 A. Yes.

17 Q. You have return receipts in the exhibit --

18 A. Yes.

19 Q. -- the notice letter of the hearing, and also a
20 copy of the advertisement that was run in the newspaper as
21 required by Division Rules?

22 A. Right.

23 Q. How soon do you plan to commence operations on
24 this well?

25 A. Within the next 60 days.

1 Q. Were OXY Exhibits 1 through 6 either prepared by
2 you or compiled at your direction?

3 A. Yes, they were.

4 MR. CARR: May it please the Examiner, at this
5 time we'd move the admission into evidence of OXY Exhibits
6 1 through 6.

7 EXAMINER CATANACH: OXY's Exhibits 1 through 6
8 will be admitted.

9 MR. CARR: That concludes my direct examination
10 of Mr. Evans.

11 EXAMINATION

12 BY EXAMINER CATANACH:

13 Q. Mr. Evans, BP did the initial land work on this?

14 A. Yes, sir, it's a joint development agreement with
15 BP and OXY, a 3-D seismic.

16 Q. But OXY is going to drill the well?

17 A. Yes, sir.

18 Q. BP initially sent these two interest owners
19 notice on November 29th, 2005, and actually gave them two
20 weeks to make a decision, and this letter says this offer
21 shall remain open until December 15th, 2005. I was a
22 little concerned about that, but then the well was proposed
23 to them in March; is that --

24 A. Yes, sir.

25 Q. -- my understanding?

1 A. Yes, sir, and we've made continuous contact with
2 them. In fact, we think we will have term assignments from
3 them, it's just -- They're slow to respond. We've talked
4 to them every month, and they keep saying they're going to
5 send us the term assignment, they just haven't.

6 Q. But at this point in time, the offer to either
7 farm out or get a term assignment or participate in the
8 well is still open --

9 A. Still open, yes, sir.

10 Q. Okay. And the operator is going to be the same
11 as the Applicant, right? OXY USA WTP Limited Partnership?

12 A. Yes, sir.

13 Q. Okay. Now is OXY actually going to drill and be
14 the operator?

15 A. Yes, sir.

16 EXAMINER CATANACH: Okay, I have nothing further.

17 MR. CARR: That concludes our presentation in
18 this case.

19 EXAMINER CATANACH: Case Number 13,718 will be
20 taken under advisement.

21 (Thereupon, these proceedings were concluded at
22 9:01 a.m.)

23 I do hereby certify that the foregoing is
* * * a complete record of the proceedings in
24 the Examiner hearing of Case No. 13718,
heard by me on June 22, 2006.

25 David R. Catnach, 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