

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 LCX ENERGY, LLC, FOR)	CASE NOS. 13,735
COMPULSORY POOLING, EDDY COUNTY,)	
NEW MEXICO)	
)	
APPLICATION OF LCX ENERGY, LLC, FOR)	13,736
COMPULSORY POOLING, EDDY COUNTY,)	
NEW MEXICO)	
)	
APPLICATION OF LCX ENERGY, LLC, FOR)	and 13,737
COMPULSORY POOLING, EDDY COUNTY,)	
NEW MEXICO)	
)	(Consolidated)

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REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

June 22nd, 2006

Santa Fe, New Mexico

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 NOS. 13,735, 13,736, and 13,737 (Consolidated)

	PAGE
EXHIBITS	3
APPEARANCES	4
APPLICANT'S WITNESS:	
<u>GARY W. STOLTZ</u> (Landman)	
Direct Examination by Mr. Hall	6
REPORTER'S CERTIFICATE	22

* * *

E X H I B I T S

Applicant's	Identified	Admitted
CASE NO. 13,735		
Exhibit 1	9	18
Exhibit 2	9	18
Exhibit 3	12	18
Exhibit 4	13	18
Exhibit 5	18	18
CASE NO. 13,736		
Exhibit 1	9	18
Exhibit 2	9	18
Exhibit 3	12	18
Exhibit 4	(does not exist)	
Exhibit 5	18	18
CASE NO. 13,737		
Exhibit 1	9	18
Exhibit 2	9	18
Exhibit 3	12	18
Exhibit 4	(does not exist)	
Exhibit 5	18	18

* * *

A P P E A R A N C E S

FOR THE DIVISION:

GAIL MacQUESTEN
Deputy General Counsel
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1220 South St. Francis Drive
Santa Fe, New Mexico 87505

FOR THE APPLICANT:

MILLER, STRATVERT P.A.
150 Washington
Suite 300
Santa Fe, New Mexico 87501
By: J. SCOTT HALL

* * *

1 WHEREUPON, the following proceedings were had at
2 9:36 a.m.:

3
4
5
6 EXAMINER CATANACH: Call Case 13,735, the
7 Application of LCX Energy, LLC, for compulsory pooling,
8 Eddy County, New Mexico.

9 Call for appearances.

10 MR. HALL: Mr. Examiner, Scott Hall, Miller
11 Stratvert law firm, Santa Fe, on behalf of the Applicant,
12 LCX Energy, LLC.

13 I have one witness this morning, and we also
14 request that Case 13,735 be consolidated with Case Numbers
15 13,736 and 13,737 for purposes of hearing.

16 EXAMINER CATANACH: At this time I'll call Case
17 13,736, the Application of LCX Energy, LLC, for compulsory
18 pooling, Eddy County, New Mexico, and call Case 13,737, the
19 Application of LCX Energy, LLC, for compulsory pooling,
20 Eddy County, New Mexico.

21 Are there any additional appearances in any of
22 these cases?

23 There being no additional appearances, can I get
24 the witness to stand and be sworn in?

25 (Thereupon, the witness was sworn.)

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GARY W. STOLTZ,

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

DIRECT EXAMINATION

BY MR. HALL:

Q. For the record, please state your name, sir.

A. Gary Stoltz.

Q. Mr. Stoltz, where do you live and how are you employed?

A. I'm an independent petroleum landman. I live at 2105 Winfield in Midland, Texas.

Q. And are you under contract with LCX Energy, LLC?

A. I work as a consulting landman for LCX.

Q. I see. And have you previously testified before the Division and had your credentials established as a matter of record?

A. No.

Q. If you would, please, give the Hearing Examiner a brief summary of your educational background, work experience.

A. I grew up in Midland, Texas, graduated from Midland High School, received a bachelor of science degree from the University of Oregon, worked for -- Well, I've been an independent petroleum landman in Midland since 1981.

1 Q. In what areas have you worked in your career?

2 A. Permian Basin, mainly west Texas, and lately Eddy
3 County and Lea Counties, New Mexico.

4 Q. Okay. And are you familiar with the three
5 Applications that have been filed in this case and the
6 lands that are the subject of those Applications?

7 A. Yes.

8 MR. HALL: At this point, Mr. Examiner, we'd
9 offer Mr. Stoltz as a qualified expert petroleum landman.

10 EXAMINER CATANACH: He is so qualified.

11 MR. HALL: Mr. Stoltz, if you would, please,
12 explain what LCX is seeking in each of the explanations
13 [sic], and if you would, identify the wells, their
14 locations and the lands that are the subject of each
15 application.

16 A. The 1625 Sallee 141 --

17 Q. Now that's in Case Number 13,735; is that
18 correct?

19 A. That's right.

20 Q. First case?

21 A. That's right.

22 Q. And in Case 13,736?

23 A. Is the Ross 121.

24 Q. And in Case 13,737, which well is that?

25 A. The 1625 Fed Com 311.

1 Q. All right. In the case of the Sallee 141 well,
2 Case 13,735, identify the location of the spacing unit and
3 the well location.

4 A. It is located -- let's see here -- Surface
5 location is 760 feet from the south line and 660 feet from
6 the west line. Bottomhole location, 760 feet from the
7 south line, 660 from the east line.

8 Q. And is that in the south half of Section 14,
9 Township 16 South, Range 25 East?

10 A. That's correct.

11 Q. And in that case are you seeking to pool all 320-
12 acre units down to the base of the Wolfcamp formation

13 A. Yes.

14 Q. Now with respect to the well in Case Number
15 13,736, the 1724 Ross, what is the location of that spacing
16 unit?

17 A. Surface location, 660 feet from the south line
18 and 1880 feet from the east line of Section 12, 17 South,
19 24 East, bottomhole location 660 feet from the north line,
20 1880 feet from the east line of Section 12, 17 South, 24
21 East.

22 Q. And that's an east-half unit; is that correct?

23 A. That's right.

24 Q. And in Case Number 13,737, if you'd identify the
25 location of that unit and the surface and bottomhole

1 locations for the 1625 Fed Com 311 well.

2 A. Surface location, 660 feet from the south line,
3 1880 feet from the west line of Section 31, Township 16
4 South, Range 25 East. Bottomhole location, 660 feet from
5 the north line, 1880 feet from the west line of Section 31.

6 Q. And that is a west-half unit in Section 31 --

7 A. Correct.

8 Q. -- is that correct?

9 A. Yes.

10 Q. And are these well locations reflected on the
11 Exhibit 1's in each of those cases?

12 A. Yes.

13 Q. And in each case are you seeking to pool all 320-
14 acre units down to the base of the Wolfcamp formation?

15 A. Or any other formations on 320-acre spacing.

16 Q. Okay. And in each case, in each well, are the
17 surface and bottomhole locations at orthodox locations for
18 Wolfcamp wells?

19 A. Yes.

20 Q. And these are horizontal drills, are they not?

21 A. Uh-huh.

22 Q. Let's look at your Exhibit 2 in each of the
23 cases. If you would turn to those and, with reference to
24 the Exhibit 2 in Case Number 13,735, would you review the
25 dryhole and completed well costs on that AFE?

1 A. Dryhole cost is \$1,042,400, completed cost is
2 \$1,788,400.

3 Q. And let's look at the AFE for the next well in
4 Case 13,736, the Ross 121 well. What are those figures?

5 A. It is \$1,042,400 for a dryhole, \$1,788,400 for a
6 completed well.

7 Q. Let me check signals.

8 A. Oh, am I using the wrong AFE?

9 (Off the record)

10 Q. (By Mr. Hall) Let's look again at the AFE for
11 the Ross 121 well in Case 13,736. What is the completed
12 well cost for Exhibit 2 in that case?

13 A. \$1,749,200.

14 Q. All right. And again, if we would refer to
15 Exhibit 2 in Case Number 13,737, the AFE for the 1625 Fed
16 Com 311, what are the dryhole and completed well costs for
17 that well?

18 A. Dryhole is \$1,003,700, completed is \$1,749,200.

19 Q. Now in the case of each of those wells, are those
20 completed and dryhole costs in line with what's being
21 charged for similar wells by other operators in the area?

22 A. Yes.

23 Q. Now in the case of each well, has LCX made an
24 estimate of the overhead rates while drilling and producing
25 the wells?

1 A. Drilling rate is \$5500 per month, and the
2 producing is \$500 per month.

3 EXAMINER CATANACH: I'm sorry?

4 THE WITNESS: \$500 a month, producing.

5 Q. (By Mr. Hall) Is that -- let me make sure I
6 understood you correctly -- \$5500 per month drilling and
7 \$550 producing?

8 A. Yeah, I'm sorry, above \$5000 it's \$5000 per month
9 drilling, \$500 producing; below \$5000, \$5500 per month
10 drilling --

11 Q. And those --

12 A. -- and \$550 producing.

13 Q. And those overhead rates apply to each of the
14 three wells --

15 A. That's correct.

16 Q. -- in each of the three cases? And are those --

17 EXAMINER CATANACH: I'm sorry, can we run over
18 that one more time? Do we have different overhead rates?

19 MR. HALL: No, they are the same.

20 EXAMINER CATANACH: Okay, \$5500 --

21 MR. HALL: -- and \$550.

22 EXAMINER CATANACH: -- and \$550. Okay.

23 Q. (By Mr. Hall) And Mr. Stoltz, are those overhead
24 rates in line with what's being charged in the area --

25 A. Yes.

1 Q. -- for other wells?

2 And are you recommending that these drilling and
3 producing overhead rates be incorporated into the pooling
4 order that results from this hearing?

5 A. Yes.

6 Q. And does LCX also ask that the Division's order
7 provide for an adjustment of the overhead rates in
8 accordance with the current COPAS bulletin for the area?

9 A. Yes.

10 Q. Let's look at you Exhibit 3's in each of the
11 cases, starting with Case Number 13,735. Would you
12 identify Exhibit 3, please?

13 A. It is for the Sallee 1425 [sic] --

14 Q. Is that an ownership breakdown for current
15 participation in the Sallee well?

16 A. Yes.

17 Q. And what percentage of the working interest is
18 currently committed to the Sallee 141 well in Case 13,735?

19 A. 96.65 percent.

20 Q. Okay. Now with respect to the 1724 Ross 121 well
21 in Case Number 13,636, what percentage is committed to the
22 well in that case?

23 A. 87 1/2 percent.

24 Q. Now with respect to the 1625 Fed Com Well Number
25 311 in Case 13,737, what percentage is currently committed

1 to that well?

2 A. 93.75 percent.

3 Q. Okay. The unjoined interest in each of the
4 wells, are they mineral interests?

5 A. Yes.

6 Q. And are you asking the Division to issue an order
7 pooling those unjoined mineral interests?

8 A. Yes.

9 Q. And are you also asking that those unjoined
10 mineral interests be pooled at the statutory 1/8 royalty
11 rate?

12 A. Yes.

13 Q. Is LCX also asking for the imposition of a 200-
14 percent risk penalty against those mineral interests?

15 A. Yes.

16 Q. Let's identify the locatable and locatable [*sic*]
17 mineral interests for each well. If you would turn to --
18 first to Exhibit 4 in Case Number 13,735, can you identify
19 the owners of those mineral interest owners for the Sallee
20 14 well?

21 A. We have three interest owners that we have not
22 been able to locate -- they are Ellen Stone Roady, Sharon
23 Roady Isenhart and Lori Ellen Carey -- and three that we
24 have addresses for, Jeffrey David Roady and Stephen
25 Isenhart and Jennifer Roady. But we haven't got a

1 commitment from them.

2 Q. All right. Let's talk a little bit more about
3 Exhibit 4. Is Exhibit 4 a compilation of your letters
4 evidencing your efforts to try to locate those interest
5 owners and obtain their voluntary participation in the
6 drilling of the Sallee 14 well?

7 A. Yes.

8 Q. All right. Would you explain to the Hearing
9 Examiner what steps you took to try to obtain current valid
10 mailing addresses for each of those interest owners?

11 A. We've looked through the records of Eddy County,
12 Internet directories, conversations with other family
13 members.

14 Q. And were you successful in contacting any of
15 those family members?

16 A. Yes, yes, but they didn't know the location of
17 these particular entities.

18 Q. With respect to the first letter on Exhibit 4 in
19 Case 13,735, you sent the well proposal to Jennifer Roady,
20 care of Mark Alan Roady, on January 17th, 2006; is that
21 correct?

22 A. That's correct.

23 Q. And did you get a response?

24 A. I've never gotten a response from Jennifer. We
25 have a lease from her brother Mark, and she was moving at

1 the time that we were talking to him, and efforts to
2 communicate further with Mark with regard to his sister's
3 address, or with her, have been unsuccessful.

4 Q. And the efforts to communicate with the remaining
5 interest owners, were they successful?

6 A. We have no information on the -- Well, I have a
7 letter that's reaching -- for Jeffrey David Roady. We're
8 not getting that letter kicked back, the address seems to
9 be good. But anyway, no contact, no telephone number.

10 And Stephen Isenhardt I've had contact with but
11 haven't been able to reach him. I've had no contact since
12 March 27th.

13 Q. All right. With respect to the letter to Jeffrey
14 David Roady, it was addressed care of Tom Brush. Who is
15 Tom Brush?

16 A. I'm not certain what Tom Brush's relationship is
17 to...

18 Q. Did you communicate with Tom Brush?

19 A. Never.

20 Q. Why did you send a letter care of Tom Brush?

21 A. It was an address that was taken from an earlier
22 oil and gas lease.

23 Q. I see. And no response to that --

24 A. No.

25 Q. -- communication?

1 With respect to the 1724 Ross 121 well in Case
2 13,736, we have no exhibit for -- no letters to interest
3 owners. Is the interest owner you're seeking to pool in
4 that case unlocatable?

5 A. Jacqueline Baldwin was the interest owner. She's
6 deceased, died in 1989. Her husband survived her. He died
7 shortly after that.

8 They have a son, Sean Baldwin, who shows up in
9 the Eddy County records as personal representative of
10 William Baldwin, the deceased husband of Jacqueline
11 Baldwin, so he's their heir and sole survivor. He
12 inherited their home in Artesia, New Mexico. The records
13 indicate the home was foreclosed on at that time. He lived
14 in Sierra Vista, Arizona. That was 1992. Internet
15 searches and Eddy County searches haven't turned up
16 anything or -- any address or record of him since that
17 date. And I've made several phone calls to Sean Baldwins
18 around the country and haven't turned up anything on him
19 anyway.

20 Q. But as far as the Eddy County Clerk's records
21 reflect, Jacqueline Baldwin is the interest owner of record
22 for that interest?

23 A. That's right.

24 Q. And is there any evidence of a probate of her
25 estate in Eddy County?

1 A. Not a probate. There's a -- Her will was
2 probated in Houston, Texas.

3 Q. Okay. With respect to the 1625 Fed Com Well
4 Number 311 in Case 13,737, who was the unlocatable mineral
5 interest owner you're seeking to pool in that well?

6 A. E.L. Booth received a half-interest in lot 3 of
7 40.25 acres by a mineral deed dated April 2nd, 1926. There
8 was a quiet-title suit covering this tract in 1946, and he
9 was not name as one of the defendants. And as far as Eddy
10 County records go, the last trace of him is in April 2nd,
11 1926, and -- anyway, Internet record searches and searches
12 of the records of the County Clerk's Office produced no
13 evidence as to what's become of him.

14 Q. All right. In your opinion, Mr. Stoltz, have you
15 and LCX made a good faith effort to locate all these
16 unleased mineral interest owners to obtain their voluntary
17 participation in the well?

18 A. Yes.

19 Q. And in your opinion, would granting LCX's
20 Application be in the interest of conservation, the
21 prevention of waste and protection of correlative rights?

22 A. Yes.

23 Q. And in Case Number 13,735, were Exhibits 1
24 through 4 prepared by you or at your direction?

25 A. Yes.

1 Q. And in Case Numbers 13,736 and 13,737, were
2 Exhibits 1 through 3 prepared by you?

3 A. Yes.

4 MR. HALL: That concludes our direct of this
5 witness, Mr. Examiner.

6 We'd move the admission of Exhibits 1 through 4
7 in Case Number 13,735, along with our notice affidavit,
8 which is Exhibit 5. Included in that affidavit is a copy
9 of the legal advertisement in the *Carlsbad Current-Argus*
10 newspaper, attempting to notify the unlocatable mineral
11 interest owners.

12 In Case Numbers 13,736 and 13,737 we would move
13 the admission of Exhibits 1 through 3, as well as Exhibit 5
14 in each of those cases. There is no Exhibit 4 in those
15 latter two cases, but Exhibit 5 in each of those cases also
16 includes copies of the legal advertisement in the Carlsbad
17 newspaper.

18 EXAMINER CATANACH: Exhibits Number 1 through 4
19 in Case 13,735, Exhibits 1 through 4 plus the notice
20 affidavit, are hereby admitted as evidence.

21 Exhibits 1 through 3 and Number 5 in Case 13,736
22 is hereby admitted.

23 And Exhibits 1 through 3 and 5 in Case Number
24 13,737 are admitted.

25 EXAMINER CATANACH: I'm a little concerned in the

1 last two cases that your exhibits don't really reflect the
2 parties being pooled. At least I can't find it. Is that
3 somewhere on there?

4 MR. HALL: If you would look at Exhibit 5,
5 Exhibit A to that is a copy of the legal publication, and
6 it references the names in there.

7 In 13,736 it's Jacqueline Baldwin, and in Case
8 Number 13,737, it's the heirs of E.L. Booth.

9 EXAMINER CATANACH: Okay. Okay, I don't think I
10 have any more questions.

11 I wanted to point out that in the first case it
12 looks like your surface location is incorrect in the docket
13 advertisement. Surface location is 760 feet from the
14 south, 660 feet from the east, and I believe that should be
15 660 feet from the west.

16 There wasn't any notice provided to anybody else
17 with regards to location or anything like that; it's a
18 standard location?

19 MR. HALL: Standard location. In that case, the
20 first case, 13,735, we did provide copies of the
21 Application, and it shows -- the Application shows 760 from
22 the south and 660 from the west for the surface location.

23 EXAMINER CATANACH: You did provide that to who?

24 MR. HALL: The interest owners under Exhibit 5 --
25 the ones we had addresses, anyway, Lori Ellen Roady Carey,

1 Ellen Stone Roady --

2 EXAMINER CATANACH: Okay.

3 MR. HALL: -- Jeffrey Tom -- Jeffrey David Roady,
4 care of Tom Rush.

5 (Off the record)

6 EXAMINER CATANACH: Scott, is your publication
7 notice -- did that have the correct locations?

8 MR. HALL: It does. Well, I take that back, the
9 surface location is correct, the bottomhole location is not
10 correct.

11 EXAMINER CATANACH: Okay. Okay, let's go ahead
12 and -- for those who may benefit by that --

13 MR. HALL: You want that readvertised?

14 EXAMINER CATANACH: Yeah, let's readvertise --

15 MR. HALL: Okay, we'll do that.

16 EXAMINER CATANACH: -- and correct the
17 advertisement, publication notice and correct the
18 advertisement for that --

19 MR. HALL: We'll do that.

20 EXAMINER CATANACH: -- docket, and continue for
21 four weeks on this particular case.

22 And I hope I didn't -- I think everything is
23 correct on the other two cases. I did not -- I didn't
24 notice anything right offhand that was incorrect, so I
25 think those two were all right.

1 And I don't have any other questions of this
2 witness. Do you have anything further?

3 MR. HALL: That's all we have.

4 EXAMINER CATANACH: Okay, thank you.

5 There being nothing further, Case 13,735 will be
6 continued to July 20th -- and you'll run that publication
7 notice again, right? --

8 MR. HALL: Yes.

9 EXAMINER CATANACH: -- and Case Number 13,736 and
10 13,737 will be taken under advisement.

11 MR. HALL: Do you need me to provide a corrected
12 advertisement for -- to Theresa, for your publication?

13 EXAMINER CATANACH: Yes --

14 MR. HALL: Okay.

15 EXAMINER CATANACH: -- if you would.

16 MR. HALL: Okay.

17 (Thereupon, these proceedings were concluded at
18 10:00 a.m.)

19 * * *

20
21 I do hereby certify that the foregoing is
22 a complete record of the proceedings in
the Examiner hearing of Case No. 13735,
heard by me on June 22, 2006 13736
13737

23 David R. Catnach, Examiner
24 Oil Conservation Division
25

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 25th, 2006.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 16th, 2006