

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,)
 LEA COUNTY, NEW MEXICO)

CASE NO. 13,774

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

September 28th, 2006

Santa Fe, New Mexico

2006 OCT 12 AM 10 15

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, September 28th, 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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September 28th, 2006
 Examiner Hearing
 CASE NO. 13,774

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APPLICANT'S WITNESS:	
<u>DAVID RAY EVANS</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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By: WILLIAM F. CARR

FOR LATIGO PETROLEUM, INC.:

JAMES G. BRUCE
Attorney at Law
P.O. Box 1056
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* * *

1 WHEREUPON, the following proceedings were had at
2 8:48 a.m.:

3 EXAMINER CATANACH: Okay, call Case 13,774,
4 Application of OXY USA WTP Limited Partnership for
5 compulsory pooling, Lea 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 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe
12 representing Latigo Petroleum, Inc. I have no witnesses.

13 MR. CARR: Again, Mr. Catanach, I would ask the
14 record reflect that my witness, David Evans, has been
15 sworn, his credentials as an expert in petroleum land
16 matters accepted since he was the witness in the previous
17 cases.

18 EXAMINER CATANACH: Okay, the record shall so
19 reflect. And Mr. Bruce, do you have any objection to this
20 witness?

21 MR. BRUCE: I guess not.

22 EXAMINER CATANACH: And is Latigo an interest
23 owner in this unit?

24 MR. BRUCE: Yeah, they're a working interest
25 owner in the unit.

1 EXAMINER CATANACH: Okay. Okay, Mr. Carr, you
2 may proceed.

3 DAVID RAY EVANS,
4 the witness herein, having been previously duly sworn upon
5 his oath, was examined and testified as follows:

6 DIRECT EXAMINATION

7 BY MR. CARR:

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

10 A. Yes, I am.

11 Q. And are you also familiar with the status of the
12 lands in the area that is the subject of this pooling
13 Application?

14 A. Yes.

15 Q. Would you briefly state what it is that OXY seeks
16 in this matter?

17 A. Order pooling all minerals and leasehold from the
18 surface to the base of the Morrow formation under the
19 following standard spacing units in the north half of
20 Section 29, Township 16 South, 32 East, Lea County, New
21 Mexico: north half for all formations or pools developed on
22 320; northwest quarter for all formations and pools
23 developed on 160; east half, northwest, for all pools
24 developed on 80, for OXY's Bat Hawk State Com Number 1.

25 Q. And will this well be drilled at the standard

1 location in the north half of Section 29?

2 A. Yes, it will be.

3 Q. What is the footage location for the well?

4 A. 1650 from the north, 1980 from the west.

5 Q. Could you refer to what has been marked OXY

6 Exhibit Number 1, identify and review that for Mr.

7 Catanach?

8 A. That is OXY's plat for the OXY Bat Hawk State
9 Number 1, reflecting Latigo's acreage and OXY's acreage.

10 Q. And the well is actually proposed to be located
11 on --

12 A. -- Latigo --

13 Q. -- Latigo acreage?

14 A. Latigo leasehold.

15 Q. It's shown on this plat as being Pogo.

16 A. Right.

17 Q. Do you know the relationship between Pogo and
18 Latigo?

19 A. Pogo recently acquired Latigo.

20 Q. What is the primary objective in the well?

21 A. Morrow formation.

22 Q. And is the Morrow in this area governed by
23 statewide rules?

24 A. Yes, they are.

25 Q. I'd like you at this time to identify for the

1 Examiner the interest that's subject to pooling.

2 A. 37 1/2 percent of Latigo.

3 Q. Is that the only interest being pooled?

4 A. Yes.

5 Q. And they are a working interest owner?

6 A. Yes.

7 Q. What is the status as of this moment of your
8 negotiations with Latigo?

9 A. As of yesterday I talked to Latigo about a
10 farmout, and they're proposing to farm out, but we don't
11 know the terms yet.

12 Q. And if you are successful in concluding these
13 negotiations you, in fact, will advise the Division and
14 request that the case be dismissed --

15 A. Yes.

16 Q. -- is that right?

17 A. That's right.

18 Q. Could you summarize the efforts you've made to
19 date to obtain the voluntary participation of Latigo in
20 this well?

21 A. We have letters dated August 9th with an AFE
22 proposing the OXY Bat Hawk; two e-mails dated August the
23 22nd offering to meet and review 3-D and logs on the Night
24 Hawk, which was previously drilled in the area offsetting;
25 a letter dated August 29th requesting exclusive

1 communitization agreement for the OXY Bat Hawk; and a
2 letter dated September 5th providing geological information
3 on OXY's Night Hawk; a letter dated September 6 with
4 operating agreement and drilling opinion; e-mail dated
5 September 20th offering to review OXY's 3-D with
6 Latigo/Pogo; an e-mail with Bob Doty to Scott McDaniel
7 attempting to set up a 3-D seismic review for September
8 22nd; e-mail dated -- I marked it -- September 29th,
9 providing a PowerPoint with hourly rate and pressure data
10 on the OXY Night Hawk; e-mail from Pogo and Latigo's Bill
11 Hardie confirming they received the data and were unable to
12 use it; and I talked to Scott McDaniel yesterday.

13 Q. You've been having push this proposal fairly
14 quickly; isn't that right?

15 A. That's correct.

16 Q. When did you acquire the interest in this
17 acreage?

18 A. August 1st.

19 Q. And initially you proposed to develop the entire
20 section with two wells, this well and the Miss Kite, in the
21 south half; is that right?

22 A. That's right.

23 Q. And as part of your negotiations with Latigo/Pogo
24 you agreed to dismiss the Miss Kit application at this
25 time?

1 A. That's correct.

2 Q. And it was dismissed on today's docket?

3 A. That's correct.

4 Q. Could you refer to the AFE which is marked
5 Exhibit Number 3?

6 A. That is OXY's AFE dated August 9th, 2006.

7 Q. And what are the totals as set forth on this
8 exhibit?

9 A. Totals are for dryhole, \$1,738,760, completed
10 well is \$2,387,140.

11 Q. And these cost estimates are consistent with the
12 actual costs incurred by OXY for development of other wells
13 in the area?

14 A. Yes, they are.

15 Q. Is Exhibit Number 4 a copy of the operating
16 agreement for the proposed well?

17 A. Yes, it is.

18 Q. And does this agreement contain the standard
19 COPAS accounting procedures for joint operations?

20 A. Yes, they do.

21 Q. Does this COPAS form provide for the periodic
22 adjustment of overhead and administrative costs?

23 A. Yes, it does.

24 Q. And does OXY request that if a pooling order
25 needs to be entered in this case that it also contain

1 provisions to adjust those costs in accordance with these
2 provisions?

3 A. Yes.

4 Q. And what are those costs?

5 A. Those costs are \$6000 a month and \$600 a month
6 for operations.

7 Q. Are these, again, derived from the 2005-2006
8 Ernst and Young survey?

9 A. Yes, they are.

10 Q. And do you recommend that these figures be
11 incorporated into the order that results from today's
12 hearing?

13 A. Yes, we do.

14 Q. Does OXY request that a 200-percent charge for
15 risk be imposed against any interest owner who -- cost-
16 bearing interest owner, who does not voluntarily commit
17 their interest to the well?

18 A. Yes, we do.

19 Q. And does OXY USA WTP Limited Partnership seek to
20 be designated operator of the well?

21 A. Yes.

22 Q. The time-frame has been driven by the fact you
23 have a lease expiration, do you not?

24 A. That's correct.

25 Q. And when is that?

1 A. November 1st.

2 Q. And you will be -- you plan to spud the well
3 prior to that time?

4 A. October 30th.

5 Q. And you ask that this order be expedited --

6 A. Yes.

7 Q. -- to enable you to do that?

8 A. Please.

9 Q. Is OXY Exhibit Number 5 an affidavit confirming
10 that notice of today's hearing was provided in accordance
11 with the Rules of the OCD to Latigo/Pogo?

12 A. Yes.

13 Q. If, in fact, you reach an agreement and sign the
14 farmout, you will immediately notify Mr. Catanach, will you
15 not --

16 A. That's correct.

17 Q. -- that the order is no longer needed?

18 A. Yes.

19 Q. Were Exhibits 1 through 5 either prepared by you
20 or compiled under your direction?

21 A. Yes, they were.

22 MR. CARR: At this time, Mr. Catanach, I'd move
23 the admission of OXY Exhibits 1 through 5.

24 EXAMINER CATANACH: Any objections?

25 MR. BRUCE: No.

1 EXAMINER CATANACH: Exhibits 1 through 5 will be
2 admitted.

3 MR. CARR: And that concludes my direct
4 examination.

5 EXAMINER CATANACH: Any questions, Mr. Bruce?

6 MR. BRUCE: Just one or two, and I have -- and
7 just a couple of comments, Mr. Examiner.

8 EXAMINATION

9 BY MR. BRUCE:

10 Q. In this pooling, Mr. Evans, you're seeking to
11 pool the east half, northwest quarter for 80-acre spacing,
12 and maybe I'll direct this question -- and Mr. Carr too:
13 Is there any pool out there spaced on 80 acres?

14 MR. CARR: I would have to check. We do that
15 when we file the Application. If there is not, we'll
16 advise you of that, we'll give you the pool name on the 80-
17 acre spacing. We check those before we get them in.

18 MR. BRUCE: And if -- My simple request is that
19 if the parties don't come to terms, if there is no 80-acre
20 pool, I wouldn't want --

21 MR. CARR: That's right.

22 MR. BRUCE: -- an 80-acre.

23 MR. CARR: We'll confirm that to you.

24 MR. BRUCE: And Mr. Examiner, Mr. Evans did speak
25 correctly: Pogo did acquire Latigo, but Latigo Petroleum,

1 Inc., is still an independent corporation at this point. I
2 just want to make that clear.

3 And the other thing is that Latigo does not
4 object to an expedited order, they don't want OXY to lose
5 their interest.

6 EXAMINER CATANACH: I noticed also that 40 acres
7 is not being pooled. Is that -- That's intentional,
8 correct?

9 MR. CARR: Yes, because the well is on a
10 Latigo/Pogo site.

11 EXAMINER CATANACH: That's right.

12 EXAMINATION

13 BY EXAMINER CATANACH:

14 Q. Is that being drilled there for geologic reasons?

15 A. Yes, sir, we have 3-D that it will be successful,
16 offsetting the Night Hawk, which is a 4-million-a-day well,
17 40 barrels.

18 MR. CARR: And my notes show there was no 80-acre
19 pool, but I will correct -- I'll confirm that to you.

20 EXAMINER CATANACH: Okay. Anything further?

21 Nothing further, Case 13,774 will be taken under
22 advisement.

23 (Thereupon, these proceedings were concluded at
24 8:58 a.m.)

I do hereby certify that the foregoing is
a complete record of the proceedings in
* the Examiner hearing of Case No. 13774,
heard by me on September 28, 2006.

25 STEVEN T. BRENNER, CCR *Steven T. Brenner*, Examiner
(505) 896-9317 Conservation Division

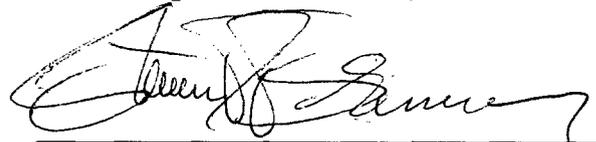
CERTIFICATE OF REPORTER

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 September 28th, 2006.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2006