

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 UNIT PETROLEUM COMPANY)
FOR COMPULSORY POOLING AND APPROVAL OF A)
NONSTANDARD GAS SPACING AND PRORATION)
UNIT, LEA COUNTY, NEW MEXICO)

CASE NO. 13,780

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: WILLIAM V. JONES, JR., Hearing Examiner

October 26th, 2006

Santa Fe, New Mexico

2006 NOV 9 AM 11 10

This matter came on for hearing before the New Mexico Oil Conservation Division, WILLIAM V. JONES, JR., Hearing Examiner, on Thursday, October 26th, 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

October 26th, 2006
 Examiner Hearing
 CASE NO. 13,780

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A P P E A R A N C E S

FOR THE APPLICANT:

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FOR H.O.G. PARTNERSHIP, L.P.:

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Santa Fe, New Mexico 87504-2208
By: OCEAN MUNDS-DRY

* * *

1 WHEREUPON, the following proceedings were had at
2 8:44 a.m.:

3
4 EXAMINER JONES: At this time let's call Case
5 13,780, Application of Unit Petroleum Company for
6 compulsory pooling and approval of a nonstandard gas
7 spacing and proration unit, Lea County, New Mexico.

8 Call for appearances.

9 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe,
10 representing the Applicant. I have one witness.

11 EXAMINER JONES: Any other appearances?

12 MS. MUNDS-DRY: Mr. Examiner, Ocean Munds-Dry
13 with Holland and Hart, representing H.O.G. Partnership,
14 L.P. I have no witnesses this morning.

15 EXAMINER JONES: Okay, Ms. Munds-Dry, are you
16 also representing Chesapeake Energy in this one? I saw
17 some old correspondence in the files, and --

18 MS. MUNDS-DRY: No, not in this matter. I had to
19 think about it.

20 EXAMINER JONES: Maybe it's a different -- it's a
21 different case from that.

22 MS. MUNDS-DRY: It's a different case, yes.

23 EXAMINER JONES: Okay, I'm sorry.

24 MS. MUNDS-DRY: And Mr. Examiner, I hope you
25 received -- we sent it yesterday or the day before -- that

STEVEN T. BRENNER, CCR
(505) 989-9317

24 EXAMINER JONES: So if we get the location -- the
25 pool rules changed before this case gets --

STEVEN T. BRENNER, CCR
(505) 989-9317

1 H.O.G. has withdrawn its objection to the Application.

2 EXAMINER JONES: Okay, I probably have it here
3 somewhere, but...

4 Okay, any other appearances in this case?

5 Will the witness please stand to be sworn?

6 (Thereupon, the witness was sworn.)

7 MR. BRUCE: Mr. Examiner, before I begin, six
8 weeks ago you heard some related cases --

9 EXAMINER JONES: Yes, I --

10 MR. BRUCE: -- the pooling and nonstandard unit
11 up to the northeast in Section 9, and then the pool rules
12 changed. So --

13 EXAMINER JONES: Okay, was that -- was those
14 other cases -- Where were they in relation to this?

15 MR. BRUCE: In Section 9 --

16 EXAMINER JONES: Okay.

17 MR. BRUCE: -- we had a south-half pooling --

18 EXAMINER JONES: Okay.

19 MR. BRUCE: -- and nonstandard unit case --

20 EXAMINER JONES: Okay.

21 MR. BRUCE: -- and then this area is in the North
22 Osudo-Morrow, and we ask to alter those rules slightly to
23 permit more wells per section and alter the location.

24 EXAMINER JONES: So if we get the location -- the
25 pool rules changed before this case gets --

1 MR. BRUCE: Well, this case is kind of -- Two
2 things, Mr. Examiner.

3 If the pool rules are changed, then for the south
4 half of 9 it would mean that a nonstandard unit is not
5 necessary.

6 EXAMINER JONES: On that one, okay.

7 MR. BRUCE: In Section 17, it is within the
8 defined boundaries, so --

9 EXAMINER JONES: Okay.

10 MR. BRUCE: -- a nonstandard unit would still be
11 necessary.

12 But these wells are at what would otherwise be
13 unorthodox locations. We haven't asked for that location
14 approval yet, pending the outcome of that. You know, the
15 old rules for this pool, you had to be 1650 feet from
16 the --

17 EXAMINER JONES: And in the last case you asked
18 for the pool --

19 MR. BRUCE: Change it to be 660.

20 EXAMINER JONES: And so if that goes into effect
21 before this comes out, well, you won't need that -- this
22 portion of this case; is that --

23 MR. BRUCE: Right.

24 EXAMINER JONES: Okay, sorry for diverting you
25 there. Go ahead.

1 Exhibit 1 and describe what you seek in this Application?

2 A. Yes, Exhibit 1 is a land plat highlighting the
3 north half of Section 17, Township 20 South, Range 36 East.
4 This acreage is comprised of two fee tracts. Unit
5 Petroleum Company seeks to pool the north half of Section
6 17 from the surface to the base of the Morrow formation for
7 pools spaced on 320 acres. We also seek to pool the
8 northeast quarter for 160-acre pools, and the northeast
9 quarter, northeast quarter for 40-acre pools.

10 Q. What is the proposed well's location?

11 A. The well will be drilled at a location 1310 feet
12 from the north line and 1310 feet from east line.

13 Q. Okay. Now who do you seek to pool at this time?
14 And I refer you to Exhibit 2.

15 A. Yes, Exhibit 2 lists the uncommitted working
16 interest owners in the 320-acre well unit.

17 Exhibit 2A is a list of uncommitted working
18 interest owners who are contractual interest owners under
19 the Colls' 1/32 mineral interest which is listed on Exhibit
20 2. They are all unleased mineral owners.

21 Q. Okay, so everybody on Exhibit 2 is unleased?

22 A. Exactly.

23 MR. BRUCE: Yeah. And Mr. Examiner, what Mr.
24 Schantz is saying is, if you go look at Exhibit 2, you see
25 the name Charles Coll --

1 EXAMINER JONES: Uh-huh.

2 MR. BRUCE: -- if you go from Charles Coll down
3 to --

4 EXAMINER JONES: -- John Coll?

5 MR. BRUCE: -- down to, on page 3 [sic], Max
6 Coll, III, and then also two below that, Melanie Coll
7 DeTempe, they own of record a 1/32 mineral interest in the
8 northeast quarter, but their interest is subject to an old,
9 40-year-old -- 40-plus-year-old working interest unit, and
10 those interest owners are listed on Exhibit 2A.

11 So even though Exhibit 2A adds up to 100 percent,
12 it's 100 percent of a 1/32 interest in the northeast
13 quarter.

14 EXAMINER JONES: Okay, so...

15 MR. BRUCE: And a lot of these people -- and Mr.
16 Schantz can testify, Mr. Schantz has been in touch with a
17 lot of these people, and a lot of them don't even think
18 this working interest unit is effective, but it apparently
19 is. Even the Coll family says it is, so...

20 EXAMINER JONES: Okay.

21 Q. (By Mr. Bruce) Mr. Schantz, let's discuss your
22 efforts to obtain the voluntary joinder of the interest
23 owners in the well. What is Exhibit 3?

24 A. Yeah, Exhibit 3 -- the summer of 2005 we began
25 leasing mineral interest owners in the north half, Section

1 17, and we used Continental Land Resources to do our work.
2 When we couldn't obtain leases from everyone, Continental
3 Land Resources sent out a proposal letter in July of 2006.
4 Follow-up letters were also sent. Exhibit 3 contains
5 copies of correspondence sent to uncommitted interest
6 owners. We've also had numerous telephone conversations
7 with some of these owners.

8 Q. Have any of these parties indicated they will
9 farm out or simply join in the well?

10 A. Yeah, the Coll family, C-o-l-l, they have
11 indicated that they plan to join, and Geodyne and Petro
12 Tiger also indicated that they plan to participate in this
13 well.

14 Q. And these parties have been sent JOA's, have they
15 not?

16 A. Yes, they have.

17 Q. And at this time they have not yet signed the
18 JOAs; is that right?

19 A. They have not.

20 Q. Will you notify the Division is they subsequently
21 commit their interest to the well?

22 A. Yes.

23 Q. In your opinion, has Unit made a good faith
24 effort to obtain the voluntary joinder of the uncommitted
25 interest owners?

1 A. Yes, we have.

2 Q. One thing we didn't go into. There are certain
3 people that either the mail was returned, either they
4 didn't pick it up, or -- or apparently they were
5 unlocatable. What did Unit do to locate these interest
6 owners?

7 A. Well, we intensified our research in the
8 courthouse, we used Internet services, and we looked in the
9 probate sections, everywhere we could look at, and we just
10 -- we came up empty-handed, basically.

11 Q. And these are fee tracts that were patented what,
12 80 or 90 -- probably 90-plus years ago?

13 A. Yes, sir.

14 Q. And a lot of these interest owners have owned
15 their interest for a number of decades without anything
16 further in the county records; is that right?

17 A. Right.

18 Q. And as to these unlocatable owners, have you made
19 a good faith attempt to locate any heirs or their current
20 addresses?

21 A. Yes, yes, we have. Again, we've intensified our
22 search and used the Internet and the yellow-page databases
23 and so forth, and just could not locate them.

24 Q. What is Exhibit 4?

25 A. Exhibit 4 is our AFE for the well. We intend to

1 drill an 11,600-foot Morrow test, and the dryhole cost is
2 \$1,585,800, and a completed well cost of \$2,448,900.

3 Q. And are these costs in line with the cost of
4 other wells drilled to this depth in this area of Lea
5 County?

6 A. Yes.

7 Q. Do you request that Unit be named operator of the
8 well?

9 A. Yes.

10 Q. And what overhead rates do you propose?

11 A. We request drilling rates of \$7000 per month and
12 producing rates of \$700 per month.

13 Q. And are these rates equivalent to those charged
14 by Unit and other operators in this area?

15 A. Yes.

16 Q. And -- Let's wait for the notice materials, Mr.
17 Schantz, at this time.

18 A. Okay.

19 Q. Let's talk about the nonstandard unit. Now,
20 under the current rules the north-half well unit is
21 nonstandard in the Morrow formation under the rules for the
22 North Osudo-Morrow Gas Pool. And again, what do those
23 rules require at the present time?

24 A. They require 640-acre spacing, one well per
25 section, and wells to be at least 1650 feet from a section

1 line and 330 feet from a quarter-quarter section line.

2 Q. Now, this is only the Morrow; the other deep gas
3 zones are spaced on statewide 320s, are they not?

4 A. That's correct.

5 Q. Okay. And again, Unit has requested a change in
6 these pool rules, correct?

7 A. Yes, in Case Number 13,779, which was heard six
8 weeks ago, Unit requested that the pool rules be changed to
9 allow one well per quarter section, and wells to be located
10 660 feet from a quarter-section line and 10 feet from a
11 quarter-quarter-section line. Spacing would remain 640
12 acres with the right to seek a nonstandard unit.

13 Q. And you left spacing on 640 acres because there
14 are still a few producing wells in the North Osudo-Morrow?

15 A. That is correct, yes.

16 Q. Why does Unit seek a nonstandard unit?

17 A. Well, in the pool rules case our geologist
18 testified that there have been two Morrow wells in the
19 south half of this section and one in each quarter section,
20 southwest quarter and the southeast quarter. Both wells
21 have produced to depletion and are P-and-A'd. They
22 produced a combined 7.5 BCF of gas.

23 There has been no well drilled in the northeast
24 quarter, which is why we plan to place our well there.

25 Although there was a Morrow well in the northwest quarter,

1 for some reason it did not produce to depletion; therefore
2 we think the north half still has some Morrow reserves,
3 unlike the south half.

4 Q. Were the -- Now let's discuss the notice.
5 Certainly with respect to the pooling all interest owners
6 were notified of the pooling; is that correct?

7 A. Yes, yes, they were.

8 Q. And with respect to the pooling -- and turning
9 back to Exhibit A -- Exhibit 2A, Mr. Schantz --

10 A. Uh-huh.

11 Q. -- the people who own interest under this old
12 working interest unit, by virtue of the working interest
13 unit, they own an interest in the north half, correct?

14 A. That is correct.

15 Q. And they are also the interest owners in the
16 south half?

17 A. Yes, sir.

18 Q. And all of the interest owners in the south half
19 were notified of this pooling application; is that correct?

20 A. That is correct.

21 Q. And they're also notified in writing of the
22 request for a nonstandard unit?

23 A. Yes, they were.

24 Q. And no one has objected to the nonstandard unit?

25 A. No one has objected.

1 Q. And is the notice exhibit marked as Exhibit 5?

2 A. Yes, sir.

3 Q. And with respect to the unlocatable people, was
4 notice published in the Hobbs newspaper?

5 A. Yes, it was.

6 Q. And that is submitted as Exhibit 6?

7 A. Yes, sir.

8 MR. BRUCE: Mr. Examiner, I think when you -- if
9 you compare Exhibit 5 to Exhibit 6, I think I put more
10 names in Exhibit 6, in the newspaper notice, than were
11 necessary --

12 EXAMINER JONES: Okay.

13 MR. BRUCE: -- because most of these did receive
14 written notice, but at the time I was unsure just because
15 of old addresses and stuff --

16 EXAMINER JONES: Okay.

17 MR. BRUCE: -- so...

18 Q. (By Mr. Bruce) Were Exhibits 1 through 6
19 prepared by you or under your supervision or compiled from
20 company business records?

21 A. Yes.

22 Q. And in your opinion is the granting of this
23 Application in the interests of conservation and the
24 prevention of waste?

25 A. Yes, it is.

1 Q. What is your time-frame for drilling this well,
2 Mr. Schantz?

3 A. We have a drilling rig under contract and plan to
4 hopefully spud that well in the next few weeks, and so we
5 would --

6 EXAMINER JONES: You're asking for an expedited
7 order here?

8 THE WITNESS: Yes, sir.

9 (Laughter)

10 EXAMINER JONES: Okay.

11 MR. BRUCE: Something you've never heard --

12 EXAMINER JONES: I heard that.

13 MR. BRUCE: -- before.

14 (Laughter)

15 EXAMINER JONES: No, I've never heard that
16 before.

17 MR. BRUCE: And Mr. Examiner, I'd move the
18 admission of Exhibits 1 through 6.

19 EXAMINER JONES: Okay, Exhibits 1 through 6 will
20 be admitted into evidence.

21 Sorry --

22 MS. MUNDS-DRY: No.

23 EXAMINER JONES: -- no objection?

24 Any questions for --

25 MS. MUNDS-DRY: No, thank you, Mr. Hearing

1 Examiner.

2 EXAMINATION

3 BY EXAMINER JONES:

4 Q. Okay, Mr. Schantz, the interests are different
5 below the Morrow; is that the deal here on some of these,
6 looks like?

7 A. Are you talking about Exhibit 2 versus --

8 Q. Yeah.

9 A. -- Exhibit 2A?

10 Q. Yeah.

11 A. Okay, the Colls have a mineral interest in the
12 northeast quarter of Section 17. Their mineral interest is
13 subject to a 1966 or -7 model joint operating agreement.
14 So by virtue of that, these other parties are contractual
15 interest owners under the joint operating agreement, which
16 is subject to the mineral interest that the Colls have.

17 So I guess you might say the Colls' interest is
18 diluted by virtue of having other contractual interest
19 owners, because their mineral interest is subject to this
20 old joint operating agreement.

21 MR. BRUCE: And Mr. Examiner, also if you look at
22 Exhibit 2A, there are two differences, as you noticed in
23 the depth cutoff, just two, that SAP Acquisition Corp. and
24 the Ella M. Tietz.

25 EXAMINER JONES: So those entities own an

1 interest in that 40-acre tract in the Colls, and they got
2 affected by this?

3 MR. BRUCE: 160-acre tract.

4 EXAMINER JONES: 160-acre tract.

5 THE WITNESS: 160-acre, right.

6 Q. (By Examiner Jones) And they formed a 160-acre
7 unit for what reason?

8 A. Well, this covered many sections, actually --

9 Q. Oh.

10 A. -- it was a rather large joint operating
11 agreement. I mean, it was kind of hard to determine if it
12 was still in effect or not, because obviously there wasn't
13 any production in the north half that would have
14 perpetuated this joint operating agreement, but there is
15 obviously production elsewhere, which has perpetuated it.

16 MR. BRUCE: Mr. Examiner, I think that working
17 interest unit -- and if you'd like a copy I can get it for
18 you, but it covers not whole sections but combined parts of
19 different sections, probably close to four sections of
20 land, 20 --

21 EXAMINER JONES: I don't need a copy.

22 (Laughter)

23 MR. BRUCE: -- 25-, 2600 acres, and all of the
24 working interest owners under this old JOA -- the reason --
25 here's the -- what caused the main problem. All the

1 working interest owners under that old JOA were people like
2 Amerada and Amoco or, at the time, Pan American --

3 EXAMINER JONES: Yeah.

4 MR. BRUCE: -- companies like that, except for
5 Max Coll, the senior Max Coll, the father of the ex-
6 representative Max Coll.

7 EXAMINER JONES: Yeah.

8 MR. BRUCE: He owned that undivided mineral
9 interest, and he joined that JOA as an unleased mineral
10 owner.

11 EXAMINER JONES: Oh.

12 MR. BRUCE: So when all of the old leases
13 disappeared when production ceased in the north -- in
14 Section 17 -- The south half is a federal lease, and when
15 all of the -- and that's still in effect, but when all of
16 the production ceased in Section 17 all these fee leases
17 disappeared, and so everybody thought that old operating
18 agreement was dead. But since Mr. Coll joined as an
19 unleased mineral owner, his successor's unleased mineral
20 interests are subject to that old working interest unit.
21 And so --

22 EXAMINER JONES: I'll leave it up to the landman.

23 MR. BRUCE: It's a mess.

24 EXAMINER JONES: Yeah, it sounds like it.

25 Q. (By Examiner Jones) Now the south half of the --

1 has no producing wells remaining, and yet it produced a lot
2 of gas; is that --

3 A. I believe there is a Eumont --

4 Q. Oh, but no 640-acre Osudo-Morrow well?

5 A. No. No, both of those wells produced to
6 depletion and then were plugged.

7 Q. Okay. So if you form this unit and your well
8 succeeds, that's going to be great except for those people
9 in the south half who have been notified of this and they
10 didn't object?

11 A. That's correct.

12 EXAMINER JONES: And if your well don't succeed,
13 then the unit disappears and the -- if someone wants to
14 drill another well in the south half, well, it goes back to
15 640 acres then, right?

16 MR. BRUCE: Yeah, if Unit's well was
17 unsuccessful, it would go back to 640 acres. If it was
18 successful the south-half people could, I suppose, attempt
19 to drill another well on 320-acre leases.

20 EXAMINER JONES: Okay. And who was in the south
21 half, now?

22 MR. BRUCE: Those people in Exhibit 2A.

23 EXAMINER JONES: Okay, Exhibit 2A.

24 THE WITNESS: Richard Barr, Scott Wilson,
25 Occidental Permian, Lea County New Mexico Exploration,

1 Perry Bass, et cetera.

2 Q. (By Examiner Jones) And you got no objections
3 from them with this?

4 A. About half of them, still scratching their heads
5 about -- it seems like if the -- that joint operating
6 agreement is in force and effect, but the Colls definitely
7 tell us that it is, so...

8 Q. So -- Okay.

9 MR. BRUCE: There's some production to the south
10 and southwest from acreage covered by this old working
11 interest unit that the Coll family is still receiving, even
12 though they don't own an interest in that acreage, they're
13 still receiving revenues from, so...

14 EXAMINER JONES: Max Coll is from Lea County now?

15 (Ms. O'Connor present at this time)

16 MR. BRUCE: He is from Roswell originally.

17 EXAMINER JONES: Roswell? And he's -- I told you
18 she would appear. My magic attorney here.

19 Q. (By Examiner Jones) Okay. Well, the -- I guess
20 my people in the south half didn't want to take the chance
21 of spending money on this.

22 A. I guess not. You know, I mean, like I said, the
23 two wells combine for 7.5 B's of production, and I think
24 one of them made like 70,000 barrels of liquids as well so,
25 you know, it's -- I would imagine they -- they know the

1 south half is probably not going to produce any more, and
2 they had no objection to our wanting to form a north half,
3 so...

4 EXAMINER JONES: Okay. Okay, I guess I will
5 speed on this one, how's that?

6 THE WITNESS: Appreciate it.

7 EXAMINER JONES: Try to get those others out at
8 the same time.

9 Thanks very much, Mr. Schantz and Mr. Bruce.

10 So let's take Case 13,780 under advisement.

11 (Thereupon, these proceedings were concluded at
12 9:07 a.m.)

13 * * *

14
15
16 I do hereby certify that the foregoing is
17 a complete record of the proceedings in
18 the Examiner hearing of Case No. _____,
heard by me on _____.

19 _____, Examiner
20 Oil Conservation Division

21
22
23
24
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 October 27th, 2006.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2010