

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 PRIDE ENERGY COMPANY) CASE NOS. 13,824
FOR COMPULSORY POOLING AND APPROVAL)
OF AN UNORTHODOX OIL WELL LOCATION,)
LEA COUNTY, NEW MEXICO)
)
APPLICATION OF PRIDE ENERGY COMPANY) and 13,825
FOR COMPULSORY POOLING, LEA COUNTY,)
NEW MEXICO)
) (Consolidated)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: RICHARD EZEANYIM, Hearing Examiner

November 30th, 2006

Santa Fe, New Mexico

2006 DEC 13 PM 3 11

This matter came on for hearing before the New Mexico Oil Conservation Division, RICHARD EZEANYIM, Hearing Examiner, on Thursday, November 30th, 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

November 30th, 2006
Examiner Hearing
CASE NOS. 13,824 and 13,825 (Consolidated)

PAGE

REPORTER'S CERTIFICATE

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1 WHEREUPON, the following proceedings were had at
2 10:17 a.m.:

3 EXAMINER EZEANYIM: Let's go back on the record.
4 At this time I call -- Mr. Bruce, if you don't mind I can
5 combine these two cases?

6 MR. BRUCE: Yes, sir.

7 EXAMINER EZEANYIM: I call them at the same time.
8 Case Number 13,824, Application of Pride Energy
9 Company for compulsory pooling and approval of an
10 unorthodox oil well location, Lea County, New Mexico.

11 And also Case Number 13,825, Application of Pride
12 Energy Company for compulsory pooling, Lea County, New
13 Mexico.

14 Call for appearances, please.

15 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe,
16 representing the Applicant. I'm submitting these cases by
17 affidavit.

18 EXAMINER EZEANYIM: Any other appearances?

19 Okay, you may proceed.

20 MR. BRUCE: Mr. Examiner, I've placed in front of
21 you three exhibits. The first one is an affidavit of the
22 landman for Case 13,824. The second Exhibit is the same
23 type of affidavit for Case 13,825.

24 Maybe if you would turn to Exhibit A, which is a
25 land plat on either exhibit. In Case -- looking -- I've

1 highlighted some acreage. These cases involve lands in
2 Section 9 of 11 South, 33 East. Case 13,824 involves the
3 compulsory pooling of the south half, northeast quarter of
4 Section 9. Case Number 13,825 involves the compulsory
5 pooling of the north half of the northeast quarter of
6 Section 9.

7 These wells are being drilled to test the North
8 Bagley-Permo Pennsylvanian Pool, which is spaced on 80
9 acres, and the wells under the pool rules are to be located
10 within 150 feet of the center of a quarter quarter section.

11 In Case 13,824, Exhibit 1, Applicant seeks to re-
12 enter -- or excuse me, 13,824 which involves the south
13 half, northeast quarter, I'm sorry, Applicant seeks to
14 drill its Bagley Well Number 2 at a location 1905 feet from
15 the north line and 2130 feet from the east line of this
16 section. This location is just slightly unorthodox by, oh,
17 10 or 20 feet, and this is due to surface-terrain issues
18 and the proximity of the well to surface improvements, and
19 they're trying to work with the surface owner on that
20 location. And I will get to the notice in a minute.

21 On page 2 of Exhibit 1 it lists the parties being
22 force pooled, their addresses and their interests. Two of
23 these parties were unlocatable, or at least they never
24 picked up their mail, and that's Judith Bench and Deborah
25 Bench. And they tried to track down these people through

1 the Lea County records and the telephone directories and
2 county records in Texas where these people reside. These
3 are their last known addresses. But their mail came back,
4 or at least was refused service.

5 Pride Energy -- Attached as Exhibit B is the
6 proposal letter sent out to the interest owners. You'll
7 notice that the proposal letter went out to a number of
8 additional interest owners, but just in the last couple of
9 days -- or additional interest owners, other than those
10 being pooled. But just in the last two or three days,
11 about half a dozen of them have executed leases. All of
12 these interest owners are unleased mineral interest owners.

13 Attached as Exhibit C is the AFE for the well,
14 and the well costs approximately \$2,857,000, which the
15 landman says is fair and reasonable. The overhead rates
16 proposed are \$7330 a month for a drilling well and \$767 a
17 month --

18 EXAMINER EZEANYIM: How much is that?

19 MR. BRUCE: \$7330 for a drilling well and \$767 a
20 month for a producing well.

21 And Applicant requests that the 200-percent risk
22 charge be assessed against the nonconsenting interest
23 owners and that these overhead rates be adjusted under the
24 COPAS accounting procedure.

25 Exhibit 2 is for the well in the north half,

1 northeast quarter, and this one is a little different. The
2 parties being pooled are the same and their interests are
3 the same. Applicant seeks to re-enter the Bagley Well
4 Number 1, which was drilled and abandoned quite some time
5 ago. That well is located at an orthodox location 560 feet
6 from the north line and 560 feet from the east line of
7 Section 9.

8 However, Applicant also requests in the same ✓
9 Application that if that re-entry is unsuccessful, that it
10 be allowed to drill a new well, and that would be the
11 Bagley Well Number 3, which would be drilled at an orthodox
12 location.

13 Attached again as Exhibit B is the correspondence
14 to these parties. A number of the parties who were
15 originally noticed of this hearing have signed leases. The
16 interest ownership is uniform throughout the northeast
17 quarter of Section 9.

18 Attached as Exhibit C-1 to Exhibit 2 is the AFE
19 for the proposed re-entry. If that was successful, the
20 estimated cost is about \$740,000. If that re-entry was
21 unsuccessful, then they would commence a new well, again at
22 approximately \$2.8 million.

23 The reason they are asking that -- for the
24 pooling order to include both the re-entry and a possible
25 new well is that if the re-entry is unsuccessful they don't

1 want to have to come back and re-pool everybody at the same
2 -- again.

3 Attached as Exhibit -- or submitted as Exhibit 3
4 is a notice affidavit by me. The notice letter that went
5 out included both pooling applications, and that notice
6 letter of the pooling is marked as Exhibit A to Exhibit 3.
7 The last two pages are Exhibit B to Exhibit 3, and that is
8 notice given to the offset operator of the unorthodox
9 location in the south half, northeast quarter.

10 There are producing North Bagley-Permo Penn wells
11 in the northwest quarter of this section, that's the only
12 party being encroached upon, and that party has also been
13 notified. And these notice letters do include the
14 Division's address as well as the date and time of the
15 hearing.

16 And I would move the admission of Exhibits 1, 2
17 and 3 in these consolidated cases and ask that these
18 matters be taken under advisement.

19 EXAMINER EZEANYIM: At this point, Exhibits 1, 2
20 and 3 will be taken into the evidence.

21 Do you have any questions?

22 MR. BROOKS: Well, you said the date and time of
23 the hearing -- and I'm being picky again, but I don't see
24 the time on the letter.

25 MR. BRUCE: 8:15 a.m.

1 MR. BROOKS: Where -- I'm looking at Exhibit A.

2 MR. BRUCE: Second full paragraph, 8:15 a.m.

3 MR. BROOKS: Oh, okay, you've got it first.

4 Okay, I apologize. Trying to be as picky as I can, but I
5 just can't find anything wrong with your documents.

6 EXAMINER EZEANYIM: What is the special pool rule
7 for this? I tried to find it, I couldn't find it.

8 MR. BRUCE: Oh, Mr. Examiner, let's see if I have
9 the order number. Mr. Examiner, I will get that to you. I
10 believe it was kind of -- it was kind of confusing if you
11 look in the records, because the North Bagley-Permo Penn
12 Pool, I think, resulted from the combination of two other
13 Permo Penn pools.

14 EXAMINER EZEANYIM: Yeah, I looked for it, but --

15 MR. BRUCE: Yeah, and I will get you that order.
16 And before it was combined, there was an order establishing
17 the 80-acre spacing. I will get that for -- I will e-mail
18 that information to you --

19 EXAMINER EZEANYIM: Okay.

20 MR. BRUCE: -- because it does -- in one of the
21 orders, even though in the Division's records the order
22 isn't denominated North Bagley-Permo Penn, in the body of
23 one of the orders it does refer to that pool as assuming
24 the spacing rules that were previously instituted for one
25 of these other two pools.

1 EXAMINER EZEANYIM: Okay, and this is -- this
2 question is in relation to 13,824. The unorthodox location
3 is as to that special pool rule, right?

4 MR. BRUCE: Correct.

5 EXAMINER EZEANYIM: It says 150 from the center
6 of the quarter quarter section; is that --

7 MR. BRUCE: That is correct.

8 EXAMINER EZEANYIM: Okay, I will gladly get
9 that -- Did you have to do a newspaper advertisement?

10 MR. BRUCE: Oh, Mr. Examiner, that -- thank you
11 for reminding me. I did submit -- Notice was published in
12 the Hobbs newspaper. I have not received that affidavit of
13 notice back, and I would ask that this matter be continued
14 for two weeks, simply so I can submit my affidavit of
15 notice as to those two unlocatable parties.

16 EXAMINER EZEANYIM: Okay, is that for the two
17 cases?

18 MR. BRUCE: Correct, yes, both cases, because the
19 interest owners are the same.

20 EXAMINER EZEANYIM: Okay. So what we are going
21 to do is to complete it and then just get your -- Okay.

22 If you want to drill -- Let's go to 13,825. If
23 you drill the Well Number 3, where is it going to be
24 located in the unit?

25 MR. BRUCE: I would just ask that the order

1 provide that it be located at an orthodox location in --

2 EXAMINER EZEANYIM: Unorthodox, orthodox?

3 MR. BRUCE: Orthodox.

4 EXAMINER EZEANYIM: Orthodox.

5 MR. BRUCE: Yeah. Hopefully the re-entry will be
6 successful. If not, then we would have to choose a second
7 location, so the footage would be uncertain at this point.

8 EXAMINER EZEANYIM: Okay. Okay, what are the
9 overhead rates?

10 MR. BRUCE: \$7330 per month for a drilling well
11 and \$767 per month for --

12 EXAMINER EZEANYIM: \$767 --

13 MR. BRUCE: -- a producing well.

14 EXAMINER EZEANYIM: Okay. At this point Case
15 Number 13,824 and 13,825 will be continued to the next
16 Examiner Hearing, to enable that they can provide some
17 advertisement in these cases.

18 And this concludes these two cases.

19 (Thereupon, these proceedings were concluded at
20 10:30 a.m.)

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I do hereby certify that the foregoing is
a correct record of the proceedings in
the Examiner hearing of Case No. 13824
and by me on 1/31/82
13825
Oil Conservation Division, Examiner

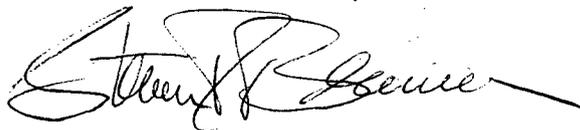
CERTIFICATE OF REPORTER

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 December 3rd, 2006.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 16th, 2010