

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. 13,851

APPLICATION OF NADEL AND GUSSMAN)
PERMIAN, L.L.C., FOR COMPULSORY POOLING,)
EDDY COUNTY, NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

January 4th, 2007

Santa Fe, New Mexico

2007 JAN 18 AM 9 10

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, January 4th, 2007, 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

January 4th, 2007
Examiner Hearing
CASE NO. 13,851

	PAGE
EXHIBITS	3
APPEARANCES	3
APPLICANT'S WITNESS:	
<u>SAM H. JOLLIFFE, IV</u> (Landman)	
Direct Examination by Mr. Bruce	4
Examination by Examiner Catanach	10
Examination by Mr. Brooks	13
REPORTER'S CERTIFICATE	17

* * *

E X H I B I T S

Applicant's	Identified	Admitted
Exhibit 1	5	10
Exhibit 2	6	10
Exhibit 3	7	10
Exhibit 4	9	10
Exhibit 5	10	10

* * *

A P P E A R A N C E S

FOR THE DIVISION:

DAVID K. BROOKS, JR.
Assistant General Counsel
Energy, Minerals and Natural Resources Department
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

FOR THE APPLICANT:

JAMES G. BRUCE
Attorney at Law
P.O. Box 1056
Santa Fe, New Mexico 87504

* * *

1 WHEREUPON, the following proceedings were had at
2 8:45 a.m.:

3 EXAMINER CATANACH: At this time I'll call Case
4 13,851, the Application of Nadel and Gussman Permian,
5 L.L.C., for compulsory pooling, Eddy County, New Mexico.

6 Call for appearances.

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

9 EXAMINER CATANACH: Any additional appearances?
10 Okay, will the witness be sworn in please?

11 (Thereupon, the witness was sworn.)

12 SAM H. JOLLIFFE, IV,
13 the witness herein, after having been first duly sworn upon
14 his oath, was examined and testified as follows:

15 DIRECT EXAMINATION

16 BY MR. BRUCE:

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

18 A. Yes, Sam Jolliffe. I'm from Midland, Texas.

19 Q. Who do you work for and in what capacity?

20 A. Nadel and Gussman Permian, as land manager.

21 Q. Have you previously testified before the
22 Division?

23 A. Yes, I have.

24 Q. And were your credentials as an expert landman
25 accepted as a matter of record?

1 A. Yes, sir.

2 Q. Does your area of responsibility at Nadel and
3 Gussman include this portion of southeast New Mexico?

4 A. Yes.

5 Q. And are you familiar with the land matters
6 involved in this case?

7 A. Yes.

8 MR. BRUCE: Mr. Examiner, I'd tender Mr. Jolliffe
9 as an expert petroleum landman.

10 EXAMINER CATANACH: He is so qualified.

11 Q. (By Mr. Bruce) Mr. Jolliffe, could you identify
12 Exhibit 1 for the Examiner and describe what Nadel and
13 Gussman seeks in this case?

14 A. Yes, Exhibit 1 is a land plat highlighting the
15 south half of Section 12, Township 21 South, Range 21 East,
16 in Eddy County, and we seek to pool the south half of
17 Section 12, Morrow formation, for all 320-acre based
18 spacing units.

19 Q. Okay. And what is the well's location?

20 A. The well's location is at 2160 from the west line
21 and 660 from the south line, Section 12.

22 Q. And that is an unorthodox gas well location?

23 A. Yes, currently an unorthodox location.

24 Q. This is federal land that we're dealing with
25 here --

1 A. Yes, sir.

2 Q. -- is it not?

3 And is this the location that was decided upon by
4 Nadel and Gussman in concert with the BLM?

5 A. Yes.

6 Q. BLM had certain topographic reasons for siting
7 the well, did they not?

8 A. Yes, due to the road. They requested that we
9 move the road, and also there's an arch. site there.

10 Q. Okay. Nadel and Gussman wants the well in the
11 southwest quarter for geologic reasons, right?

12 A. Yes.

13 Q. But then there were additional topographic and
14 archaeological reasons for --

15 A. Yes, sir.

16 Q. -- siting the well there?

17 A. That's correct.

18 Q. And is Nadel and Gussman in the process of
19 seeking administrative approval for the unorthodox well
20 location?

21 A. Yes, we are.

22 Q. What is Exhibit 2?

23 A. Exhibit 2 lists the working interest owners in
24 the well.

25 Q. These would be the deep gas mineral -- or excuse

1 me lessees, correct?

2 A. That's correct.

3 Q. At this time, what parties does Nadel and Gussman
4 seek to pool?

5 A. We seek to pool everybody except the Yates
6 companies, which would be Yates Petroleum, Yates Drilling,
7 Sharbro, John A. Yates. Other than those parties that's
8 who we are seeking to pool.

9 Q. Okay. The other parties you're seeking to pool
10 represent what? Six, seven percent of the --

11 A. Yes, sir.

12 Q. Let's discuss your efforts to obtain the
13 voluntary joinder of these parties in the well. What is
14 Exhibit 3?

15 A. Exhibit 3 is a correspondence of the letters and
16 the AFE -- letters sent to the working interest owners in
17 the spacing unit.

18 Q. Okay. Now after this letter was sent, did you
19 have discussions with representatives of these parties?

20 A. Yes, we have. I've had discussions with at least
21 two of the parties representing all those parties.

22 Q. Okay. So when you look at Roger Elliott, Rio
23 Pecos, the Wilsons, et cetera, they're all more or less a
24 group, correct?

25 A. Right, it's basically all one family.

1 Q. And so you had discussions with those people?

2 A. Yes, with at least two representatives of that
3 family.

4 Q. And again, there's a letter in this packet from
5 Yates saying they did not want to join in the well, but
6 they have reached agreement with you on --

7 A. Yes, we have reached agreement with Yates.

8 Q. And then subsequently you followed up your July
9 letter with the November letter, did you not?

10 A. That's correct.

11 Q. And have any of the Wilson group, I'll call them,
12 indicated they may join in the well?

13 A. Part of the family may join, part may farm out,
14 but they have not reached that decision yet.

15 Q. Okay, and will you continue to work with them
16 after the hearing?

17 A. You bet.

18 Q. And if any of these parties do come to terms with
19 Nadel and Gussman, would you notify the Division?

20 A. Yes, we will.

21 Q. In your opinion, has Nadel and Gussman made a
22 good-faith effort to obtain the voluntary joinder of the
23 uncommitted interest owners in this well?

24 A. Yes.

25 Q. What is Exhibit 4?

1 A. Exhibit 4 is our AFE of the well. It's an
2 approximate 8500-foot Morrow test with a dryhole cost of
3 \$1,471,854 and a completed well cost of \$431,475.

4 Q. So about \$1.9 million total?

5 A. Yes.

6 Q. And are these costs in line with the costs of
7 other wells drilled to this depth in this area of New
8 Mexico?

9 A. Yes.

10 Q. Do you request that Nadel and Gussman be
11 appointed operator of the well?

12 A. Yes, sir.

13 Q. And do you request the maximum cost-plus-200-
14 percent risk charge be imposed against any nonconsenting
15 interest owner?

16 A. Yes.

17 Q. What overhead rates do you propose?

18 A. We request drilling rates of \$7000 per month and
19 producing rates of \$700 per month.

20 Q. And are these rates equivalent to those charged
21 by Nadel and Gussman and other operators in this area?

22 A. Yes, sir.

23 Q. Do you request that these rates be adjusted under
24 the COPAS accounting procedure?

25 A. Yes.

1 Q. And finally, were the parties being pooled
2 notified of this Application?

3 A. Yes.

4 Q. And is Exhibit 5 the affidavit of notice?

5 A. Yes, sir.

6 Q. Were Exhibits 1 through 5 prepared by you or
7 under your supervision, or compiled from company business
8 records?

9 A. Yes, sir.

10 Q. And in your opinion is the granting of this
11 Application in the interests of conservation and the
12 prevention of waste?

13 A. Yes.

14 MR. BRUCE: Mr. Examiner, I'd move the admission
15 of Exhibits 1 through 5.

16 EXAMINER CATANACH: Exhibits 1 through 5 will be
17 admitted.

18 EXAMINATION

19 BY EXAMINER CATANACH:

20 Q. Mr. Jolliffe, who did you speak to actually?
21 Which parties did you actually confer with?

22 A. I have talked to -- on the parties being pooled,
23 I've talked to John Echols and Scott Wilson.

24 Q. Okay, they're not listed as pooled parties, but
25 they do -- did they convey to you that they do represent --

1 A. Yes, John Echols is married to Heather Wilson
2 Echols; they are also Tara-Jon.

3 Roger Elliott is Heather's uncle.

4 I've talked to Scott Wilson. Scott says he will
5 probably participate. Todd is his brother.

6 Pathfinder and Hollyhock are part of that Wilson
7 family.

8 Tara-Jon is a company with John Echols and his
9 wife.

10 And then as far as James Brown and Roy Crow, we
11 have not heard from them at all. We have sent them at
12 least two notices. They are not part of that family, but
13 we have not heard from them. But everybody else is part of
14 the Wilson family. Rio Pecos is also John Echols' father-
15 in-law, Mark Wilson.

16 Q. As far as you know, though, you have good
17 addresses and everything else for all of these interest
18 owners?

19 A. Yes, we do.

20 Q. And has the -- the Yates parties have actually --
21 have they signed a JOA or --

22 A. No, we have a verbal agreement with them, which
23 we've just made recently.

24 Q. And you anticipate them joining?

25 A. No, they're going to farm out to us.

1 Q. Okay. And let's see, the unorthodox location --
2 this is federal land; is that right?

3 A. Yes.

4 Q. Has the BLM agreed to that location?

5 A. Yes.

6 EXAMINER CATANACH: Okay.

7 MR. BROOKS: I'm having a little trouble here,
8 because there's several of them, tracking to be sure that
9 we have return receipts from everybody. Do you have return
10 receipts from each of the --

11 MR. BRUCE: Mr. Brooks --

12 MR. BROOKS: -- parties to be pooled?

13 MR. BRUCE: -- I notice that my -- I just noticed
14 that my address list is a little different from Exhibit 2.

15 MR. BROOKS: Yeah, I was also having trouble
16 coordinating the address list, so --

17 MR. BRUCE: Yeah, and my suggestion is we
18 continue the case.

19 I do have green cards from everyone except one,
20 and I would ask Mr. Jolliffe -- Rio Pecos and Mark Wilson,
21 I do not have a green card on them, although Mr. Jolliffe
22 could confirm that the address is there --

23 THE WITNESS: Yes, that is Mark Wilson's address
24 on Greentree Boulevard in Midland.

25 MR. BRUCE: -- on Greentree Boulevard in Midland.

1 And I simply haven't gotten a green card back from the --

2 THE WITNESS: Right.

3 EXAMINATION

4 BY MR. BROOKS:

5 Q. Okay, have you sent correspondence to him at that
6 address in the past --

7 A. Yes, sir.

8 Q. -- that you know has been received?

9 A. Yes, yes, we have gotten a card back from the
10 original AFE we sent in July. And there again, John Echols
11 is Mark's son-in-law, and John is speaking for Mr. Wilson
12 and Rio Pecos.

13 MR. BRUCE: And Mr. Brooks, I think a couple of
14 them, particularly Pathfinder and Hollyhock and maybe one
15 other, they are family corporations, and I think they all
16 went to the right people, but I think --

17 THE WITNESS: That's correct.

18 MR. BRUCE: -- re-send a letter specifically to
19 them.

20 MR. BROOKS: Okay, then you're suggesting that we
21 continue the case so as to document the notice --

22 MR. BRUCE: Yes.

23 MR. BROOKS: Okay.

24 EXAMINER CATANACH: So you're just going to
25 attempt to send that again?

1 MR. BRUCE: Yeah.

2 EXAMINER CATANACH: To those two parties?

3 MR. BRUCE: To the three -- There's about three
4 parties that are family members, but specifically the
5 address wasn't -- the notice wasn't addressed to them.

6 Q. (By Mr. Brooks) Now which ones on this last are
7 in Yates' group? I know, of course, Yates Petroleum, Yates
8 Drilling, Sharbro and John Yates. Are any of the others
9 Yates?

10 A. I believe Los Chicos is --

11 Q. Okay.

12 A. -- I think .9 of a percent.

13 Q. Now what about Crown Oil? Is that a Yates --

14 A. No, it is not, and we have not heard anything
15 back from Crown.

16 Q. Okay, and they -- Yeah, I see they were on your
17 address list.

18 A. Right.

19 Q. Do you have a green card from them?

20 A. Yes, I do.

21 Q. Now they're separate from the Wilson group?

22 A. That's correct, separate entity.

23 Q. And all the rest of these people, beginning with
24 Mark D. Wilson on down to the end of the list are part of
25 the Wilson group?

1 A. That's correct.

2 MR. BROOKS: Okay, thank you.

3 EXAMINER CATANACH: Continue to February 1st --

4 MR. BRUCE: Yes, sir.

5 EXAMINER CATANACH: -- four weeks?

6 Q. (By Mr. Brooks) Oh, I had one question about the
7 AFE, just out of curiosity.

8 A. Oh, okay.

9 Q. I think you may have misspoke, and I want to be
10 sure.

11 A. Sure.

12 Q. I heard you to say four hundred and something is
13 the completion costs, and it looks to me like that's for
14 total tangible and the completion costs are actually
15 \$692,000; is that correct, or am I misreading? In the
16 right-hand column at the bottom --

17 A. Right.

18 Q. -- it says "Total Completion, 692,557".

19 A. Right.

20 Q. And then the total well cost is \$1,903,000?

21 A. Right. Our engineers prepared this. I'm not
22 sure how they exactly broke that out between the
23 intangibles and tangible, but it is the \$1,903,300 total
24 cost.

25 MR. BROOKS: Yeah, okay. Well, I was just --

1 just wanted to make sure I was reading it correctly. It's
2 a little confusing. Okay, thank you.

3 THE WITNESS: Thank you.

4 EXAMINER CATANACH: Okay, there being nothing
5 further in this case, 13,851 will be continued for four
6 weeks to the February 1st hearing.

7 (Thereupon, these proceedings were concluded at
8 8:59 a.m.)

9 * * *

10
11
12
13
14
15 I do hereby certify that the foregoing is
16 a complete record of the proceedings in
the Examiner hearing of Case No. 13851,
17 heard by me on January 4, 2007.
David R. Catanach, Examiner
18 Oil Conservation Division
19
20
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 January 8th, 2007.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2010