

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. 13,131

APPLICATION OF CONCHO RESOURCES, INC.,)
FOR COMPULSORY POOLING, EDDY COUNTY,)
NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

RECEIVED

EXAMINER HEARING

SEP . 4 2003

BEFORE: DAVID R. CATANACH, Hearing Examiner

Oil Conservation Division

August 21st, 2003

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, August 21st, 2003, 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

August 21st, 2003
Examiner Hearing
CASE NO. 13,131

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APPLICANT'S WITNESSES:	
<u>MICHAEL M. GRAY</u> (Landman)	
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E X H I B I T S

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A P P E A R A N C E S

FOR THE DIVISION:

GAIL MacQUESTEN
Deputy 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 8:17 a.m.:

3 EXAMINER CATANACH: Call Case 13,131, which is
4 the Application of Concho Resources, Incorporated, for
5 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: Call for additional
10 appearances?

11 Okay, will the witness please stand to be sworn
12 in?

13 (Thereupon, the witness was sworn.)

14 MICHAEL M. GRAY,
15 the witness herein, after having been first duly sworn upon
16 his oath, was examined and testified as follows:

17 DIRECT EXAMINATION

18 BY MR. BRUCE:

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

20 A. Michael Gray.

21 Q. Where do you reside?

22 A. Midland, Texas.

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

24 A. Concho Resources, Inc., as a landman.

25 Q. Have you previously testified before the

1 Division?

2 A. Yes.

3 Q. And were your credentials as an expert petroleum
4 landman accepted as a matter of record?

5 A. Yes.

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

8 A. Yes.

9 MR. BRUCE: Mr. Examiner, I tender Mr. Gray as an
10 expert petroleum landman.

11 EXAMINER CATANACH: Mr. Gray is so qualified.

12 Q. (By Mr. Bruce) Mr. Gray, would you identify
13 Exhibit 1 and describe what Concho seeks in this case?

14 A. Exhibit 1 is a locator map showing the proposed
15 location and unit for our Ponderosa 20 State Number 1 well.
16 Concho seeks an order pooling the south half of Section 20,
17 18 South, 28 East, from the surface to the base of the
18 Morrow formation for all pools or formations spaced on 320
19 acres, and also in the southeast quarter of Section 20 for
20 formations which may be spaced on 160 acres.

21 Q. What is the ownership of the well unit?

22 A. In the unit, British Petroleum owns a 50-percent
23 interest in the west half of the southeast quarter --
24 excuse me, in the east half of the southeast quarter of
25 Section 20, Kaiser-Francis owns a 75-percent interest in

1 the southwest quarter of the section, Yates Petroleum owns
2 approximately a 15-percent interest in the east half of the
3 southeast quarter of the section, and Concho owns the
4 balance of the section.

5 Q. Okay. What is the well's location?

6 A. The location of the well is 1650 feet from the
7 south line and 1550 feet from the east line of the section.

8 Q. Okay, was it originally at a slightly different
9 location?

10 A. It was originally proposed at 1660 from the south
11 and -- I mean, excuse me, 1650 from the south and 1650 from
12 the east, and the location was moved due to topographic
13 problems.

14 Q. Okay. Now, which parties at this time do you
15 seek to pool?

16 A. At this time we seek to pool Kaiser-Francis Oil
17 Company and BP America Production Company.

18 Q. Okay. Let's discuss your efforts to obtain the
19 joinder of these parties. Could you identify Exhibit 2 for
20 the Examiner?

21 A. Exhibit 2 is a series of letters addressed to the
22 parties that we're proposing to pool, proposing the
23 drilling of the well, giving them notice of change of
24 location, and in the case of BP providing them with an
25 operating agreement for their review.

1 Q. Okay, so the first letter went out on June 12th,
2 and then you again sent another notice out in July?

3 A. June 12th, the original notice went out. Another
4 notice went out on July 22nd, giving notice of the required
5 location change. And then a third letter went to British
6 Petroleum just this week, providing them with an operating
7 agreement which they had requested.

8 Q. Okay. Let's look at Kaiser-Francis. Besides
9 these letters, have you called them or attempted to call
10 them?

11 A. Yes, I've spoken with Kaiser-Francis twice, to
12 Wayne Fields who is the landman with Kaiser-Francis in
13 Tulsa that handles this area. Their response is that they
14 had not made a decision as to how they wanted to proceed
15 with this proposed well.

16 Q. Okay.

17 A. And so our geologist has also talked to some of
18 their technical people.

19 Q. Okay, so you still need to pool Kaiser-Francis at
20 this time?

21 A. We need to pool Kaiser-Francis, and we need to
22 pool British Petroleum because British Petroleum has not
23 yet executed an authority for expenditure.

24 Q. Okay. If they do, will you notify the Division
25 that BP no longer needs to be pooled?

1 A. We will.

2 Q. Okay. And Yates Petroleum has joined in the
3 well?

4 A. Yates Petroleum has joined in the well.

5 Q. In your opinion, has Concho made a good-faith
6 effort to obtain the voluntary joinder of the interest
7 owners in this well?

8 A. Yes.

9 Q. Looking at Exhibit 2, Mr. Gray, there's an AFE
10 attached. What is the proposed depth and the cost of this
11 well?

12 A. This is a 10,700-foot Morrow test with an
13 estimated completed cost of \$983,900.

14 Q. Okay. Is this cost in line with the cost of
15 other wells drilled to this depth in this area of Eddy
16 County?

17 A. Yes.

18 Q. And does Concho request that it be designated
19 operator of the well?

20 A. Yes, it does.

21 Q. Do you have a recommendation for the amounts
22 which Concho should be paid for supervision and
23 administrative expenses?

24 A. We recommend \$6000 per month for drilling
25 operations, expenses or overhead, and \$600 a month for

1 operating overhead.

2 Q. And are these amounts equivalent to those
3 normally charged by Concho and other operators in this
4 area?

5 A. Yes, they are.

6 Q. Do you request that the overhead rates be
7 adjusted periodically after the COPAS accounting procedure?

8 A. Yes.

9 Q. And finally, were the parties notified of this
10 hearing?

11 A. Yes.

12 Q. And is Exhibit 3 my affidavit of notice?

13 A. Yes, it is.

14 Q. Were Exhibits 1 through 3 prepared by you or
15 under your supervision, or compiled from company business
16 records?

17 A. Yes.

18 Q. And in your opinion is the granting of Concho's
19 Application in the interest of conservation and the
20 prevention of waste?

21 A. Yes.

22 MR. BRUCE: Mr. Examiner, I'd move the admission
23 of Concho Exhibits 1 through 3.

24 EXAMINER CATANACH: Exhibits 1 through 3 are
25 admitted.

1 MR. BRUCE: And the only other thing I'd request
2 is the 200-percent penalty under the recently effective
3 Commission Order.

4 EXAMINATION

5 BY EXAMINER CATANACH:

6 Q. Mr. Gray, you said that you haven't as of yet got
7 joinder from BP. Do you anticipate that happening?

8 A. Yes, BP has indicated that they will join in the
9 well, however we don't have anything officially in writing
10 in that regard.

11 Q. What would Concho's interest in this well be?
12 What percentage?

13 A. Right now, without the Kaiser interest, it's 45
14 percent.

15 Q. And the primary objective in this well, I assume,
16 is the Morrow; is that correct?

17 A. Yes.

18 Q. Has Concho drilled similar Morrow wells recently
19 in this area?

20 A. Yes.

21 Q. So your costs are pretty much in line with what
22 the costs are --

23 A. Yes.

24 Q. -- currently?

25 EXAMINER CATANACH: Okay, I believe that's all I

1 have, Mr. Bruce.

2 MR. BRUCE: That's all I have in this matter, Mr.
3 Examiner.

4 EXAMINER CATANACH: All right, there being
5 nothing further in this case, Case 13,131 will be taken
6 under advisement.

7 (Thereupon, these proceedings were concluded at
8 9:28 a.m.)

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I hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 13131,
heard by me on August 21, 19 2003.
David R. Catanach, Examiner
Oil 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 August 21st, 2003.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2006