

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. 13,932

APPLICATION OF PARALLEL PETROLEUM )  
CORPORATION FOR COMPULSORY POOLING, )  
CHAVES COUNTY, NEW MEXICO )

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID K. BROOKS, Jr., Legal Examiner  
RICHARD EZEANYIM, Technical Examiner

June 21st, 2007

Santa Fe, New Mexico

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This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID K. BROOKS, Jr., Legal Examiner, and RICHARD EZEANYIM, Technical Examiner, on Thursday, June 21st, 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

June 21st, 2007  
 Examiner Hearing  
 CASE NO. 13,932

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APPLICANT'S WITNESS:	
<u>AARON L. MYERS</u> (Landman)	
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\* \* \*

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## A P P E A R A N C E S

## FOR THE DIVISION:

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Deputy General Counsel  
Energy, Minerals and Natural Resources Department  
1220 South St. Francis Drive  
Santa Fe, New Mexico 87505

## FOR THE APPLICANT:

KELLAHIN & KELLAHIN  
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P.O. Box 2265  
Santa Fe, New Mexico 87504-2265  
By: W. THOMAS KELLAHIN

## FOR EOG RESOURCES, INC.:

HOLLAND & HART, L.L.P., and CAMPBELL & CARR  
110 N. Guadalupe, Suite 1  
P.O. Box 2208  
Santa Fe, New Mexico 87504-2208  
By: OCEAN MUNDS-DRY

\* \* \*

1 WHEREUPON, the following proceedings were had at  
2 11:39 a.m.:

3 EXAMINER BROOKS: Okay, at this time we'll call  
4 Case Number 13,932, the Application of Parallel Petroleum  
5 Corporation for compulsory pooling, Chaves County, New  
6 Mexico.

7 Call for appearances.

8 MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin of  
9 the Santa Fe law firm of Kellahin and Kellahin.  
10 Unfortunately, I've let my witness go for lunch. I  
11 miscalculated the time.

12 EXAMINER BROOKS: Okay.

13 MR. KELLAHIN: So I don't have anything to  
14 present right now. It's a short case, but --

15 EXAMINER BROOKS: You were entering an appearance  
16 in this case, were you not, Ms. Munds-Dry?

17 MS. MUNDS-DRY: Yes, Mr. Examiner, Ocean Munds-  
18 Dry with the law firm Holland and Hart, representing EOG  
19 Resources, Inc.

20 EXAMINER BROOKS: Very good. In view of the  
21 absence of the witness, we will stand in recess until 1:30.

22 EXAMINER EZEANYIM: 1:30?

23 EXAMINER BROOKS: Yeah. Well, your witness is  
24 excused till 1:30, right?

25 MR. KELLAHIN: Yes, sir.

1 EXAMINER BROOKS: Okay. Well, we'll go ahead and  
2 recess till 1:30. Okay?

3 (Thereupon, noon recess was taken at 1:33 p.m.)

4 (The following proceedings had at 4:00 p.m.)

5 EXAMINER BROOKS: We have 13,932. Are you  
6 prepared to go on that, Mr. Kellahin?

7 MR. KELLAHIN: I don't remember what that case  
8 is.

9 EXAMINER BROOKS: It's the Application of  
10 Parallel Petroleum Corporation for compulsory pooling,  
11 Chaves County, New Mexico.

12 MR. KELLAHIN: Yes, sir, that's the one. We're  
13 ready.

14 EXAMINER BROOKS: Okay. We'll call -- I don't  
15 think Mr. Ezeanyim will be offended by us taking some time  
16 when he's not here for this case, because I don't believe  
17 that he'll need his technical expertise.

18 We'll call Case Number 13,932, the Application of  
19 Parallel Petroleum Corporation for compulsory pooling,  
20 Chaves County, New Mexico. Call for appearances.

21 MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin of  
22 the Santa Fe law firm of Kellahin and Kellahin, appearing  
23 on behalf of the Applicant, and I have one witness.

24 MS. MUNDS-DRY: Mr. Examiner, Ocean Munds-Dry  
25 with the law firm of Holland and Hart, representing EOG

1 Resources, Inc.

2 EXAMINER BROOKS: And I understand that EOG does  
3 not oppose the Application; is that correct?

4 MS. MUNDS-DRY: We do not. In fact, we reached  
5 agreement. All that's left is the signing.

6 EXAMINER BROOKS: Very good, you may proceed.  
7 Oh, I'm sorry, you had a witness.

8 MR. KELLAHIN: Yes.

9 EXAMINER BROOKS: The witness needs to be sworn.  
10 Would you identify yourself for the record, please?

11 MR. MYERS: Aaron Myers.

12 EXAMINER BROOKS: Proceed to swear the witness,  
13 please.

14 (Thereupon, the witness was sworn.)

15 EXAMINER BROOKS: You may proceed, Mr. Kellahin.

16 MR. KELLAHIN: Thank you, Mr. Examiner.

17 AARON L. MYERS,

18 the witness herein, after having been first duly sworn upon  
19 his oath, was examined and testified as follows:

20 DIRECT EXAMINATION

21 BY MR. KELLAHIN:

22 Q. Mr. Myers, for the record, sir, would you please  
23 state your name and occupation?

24 A. My name is Aaron Myers, I'm a landman for  
25 Parallel Petroleum Corporation.

1 Q. On prior occasions have you testified before the  
2 Division Examiners and had your qualifications as an expert  
3 landman made a part of the record?

4 A. Yes, I have.

5 Q. What are your responsibilities concerning this  
6 Application before Examiner Brooks?

7 A. My responsibilities for this Application were to  
8 get the north half of Section 34 in Township 15 South,  
9 Range 25 East, set up and ready to go for a pooling  
10 hearing.

11 Q. As part of that effort, did you satisfy yourself  
12 about the interest owners involved in the spacing unit?

13 A. Yes, sir, I did.

14 Q. As part of that process, did you make a well  
15 proposal, including an AFE, to all the appropriate interest  
16 owners?

17 A. Yes, sir, I did.

18 Q. And at this point do you believe you've exhausted  
19 a good faith effort to obtain voluntary joinder?

20 A. Yes, we have.

21 MR. KELLAHIN: We tender Mr. Myers as an expert  
22 petroleum landman.

23 EXAMINER BROOKS: Okay, are you a CPL, Mr. Myers?

24 THE WITNESS: No, sir, I'm not.

25 EXAMINER BROOKS: He is so qualified. You may

1 proceed.

2 Q. (By Mr. Kellahin) Mr. Myers, let me have you  
3 turn your attention to what is marked as Exhibit Number 1.  
4 Identify for us the source of this document.

5 A. This is a copy of a Chaves County map prepared by  
6 Midland Map Company, in which we have outlined the north  
7 half of Section 34 showing our surface location and the  
8 bottomhole location for the proposed well.

9 Q. Does the north half of 34 correspond to the title  
10 opinion and your knowledge about the configuration of the  
11 tracts in that spacing unit?

12 A. Yes, it does.

13 Q. Let me turn your attention to Exhibit Number 2.  
14 Identify for the record what is Exhibit Number 2.

15 A. This is Parallel Petroleum Corporation's  
16 application for a permit to drill, which has been approved  
17 by the OCD.

18 Q. What type of well is planned by your company?

19 A. Parallel is planning to drill a horizontal well  
20 in the north half of the section.

21 Q. If we turn past the first page of Exhibit 2,  
22 there's a C-102. Do you see the form that has the plat  
23 associated with it?

24 A. Yes, there is.

25 Q. This is intended to be a well in what formation?



1 A. This will be a well in the Wolfcamp formation.

2 Q. To the best of your knowledge, is this Wolfcamp  
3 well associated with a pool designation by its particular  
4 name?

5 A. No, there is no association with a pool at this  
6 time.

7 Q. It would then be subject to the Division Rules  
8 for a wildcat 320-acre-spaced unit?

9 A. Yes, sir, it would.

10 Q. The location itself is to be within a standard  
11 drilling window?

12 A. Yes, it is. The surface location will be in the  
13 southeast quarter of the northeast quarter of Section 34.  
14 Our penetration point would be 660 feet from the east  
15 boundary line, and then our bottomhole location for the  
16 well would be 660 feet from the west line, within the  
17 producing zone.

18 Q. Attached to Exhibit 2 are the schematic and the  
19 printout of the numbers that correspond to the directional  
20 drilling?

21 A. Yes, there is.

22 Q. And the exhibit admits the rest of the  
23 information associated with an APD?

24 A. Yes, it does.

25 Q. Let me now direct your attention to what is

1 marked as Exhibit Number 3. What are we looking at here?

2 A. Exhibit Number 3 is a plat map just denoting the  
3 different tracts that appear in the north half of Section  
4 34.

5 Q. Take a moment and show us how the north half of  
6 34 is divided into tracts.

7 A. Okay, starting on the far west line in the  
8 northwest quarter of Section 34, there's a .88-acre tract  
9 under which the New Mexico State Highway Commission, or New  
10 Mexico Department of Transportation rather, owns the  
11 minerals. Also located in the northwest quarter of 34,  
12 there's a 20-acre tract.

13 And then when you move over to the northeast  
14 quarter you have the northeast, save and except a 59.65-  
15 acre tract that for the most part is located in the  
16 northeast quarter of the northeast quarter, and then there  
17 is a 4.622-acre tract which appears in the south half of  
18 the northeast quarter, along the southmost line there, of  
19 that quarter section.

20 Q. Keep Exhibit 3 available and turn to Exhibit  
21 Number 4. Did you prepare Exhibit Number 4?

22 A. Yes, I did, this is a --

23 Q. What is this?

24 A. This is a spreadsheet that outlines the parties  
25 to be pooled and their respective working interests. It

1 also delineates the costs of participation for each  
2 particular party.

3 Q. Can you associate these names with the various  
4 tracts shown on Exhibit Number 3?

5 A. Yes, Exhibit 3 underneath the designation for  
6 each tract lists the parties who actually own a working  
7 interest underneath those tracts.

8 Q. I see a tract that under the designation of the  
9 description shows PLLL?

10 A. Yes, that would be -- that denotes Parallel's  
11 working interest underneath that tract.

12 Q. What tract is associated with the Yates interest?

13 A. The Yates interest would be the 20-acre tract  
14 that's located in the northwest quarter, and then they also  
15 have interest in the northeast quarter, save and except the  
16 two tracts as noted on the plat map.

17 Q. So when the plat map, 3, indicates Myco, et al.,  
18 that is intending to mean what?

19 A. The leases actually under those tracts were taken  
20 by Myco Industries, and then there was an assignment from  
21 Myco to Abo Petroleum, Yates Drilling and Yates Petroleum,  
22 in which each of them would receive a 25-percent interest  
23 under that working interest.

24 Q. Let's turn now and concentrate on the portion  
25 that's associated with the State Department of

1 Transportation or the Highway Commission. If you'll turn  
2 to Exhibit Number 5, describe what we're seeing when we see  
3 the first page of this document.

4 A. The first page of Exhibit Number 5 is the cover  
5 page for our drilling title opinion prepared by Turner and  
6 Fuller, a law firm in Midland, Texas. If you move to the  
7 second page, it shows where the New Mexico State Highway  
8 Commission, or the New Mexico Department of Transportation,  
9 rather, does own the minerals under the .88-acre tract in  
10 the northwest quarter.

11 Q. In the middle of the second page, associated with  
12 Tract 4?

13 A. Yes, it's listed on the second page, which is  
14 page 9 of the title opinion, as Tract Number 4.

15 Q. Have you satisfied yourself to the best of your  
16 knowledge that Mr. Turner's title opinion prepared for you  
17 is accurate and correct?

18 A. Yes, sir, I have.

19 Q. Do you have any other information in association  
20 with Tract 4 that gives you a different ownership?

21 A. No, it does not -- or no, I do not, rather.

22 Q. Having determined the ownership, did Parallel  
23 propose this well to all the unleased interest owners and  
24 the working interest owners?

25 A. Yes, well proposal letters and AFEs were sent to

1 each respective party that's listed on Exhibit Number 4.

2 Q. Let's turn now to Exhibit Number 6. We'll use  
3 this to talk about, and then we'll talk about how it is  
4 similar to subsequent exhibits. Starting with Exhibit 6,  
5 to whom was this sent?

6 A. This a well proposal letter, an AFE letter, dated  
7 May 2nd, 2007, that was sent to the Secretary of the New  
8 Mexico Department of Transportation, proposing the well to  
9 be drilled in the north half of Section 34.

10 Q. Have you and others associated with Parallel  
11 contacted the Department of Transportation to see if they  
12 acknowledge the ownership of the minerals?

13 A. Several contacts were made by the independent  
14 contractor, Trek Petroleum, who handles the leasing efforts  
15 for Parallel Petroleum Corporation. They made numerous  
16 phone calls, and each time they were told that the New  
17 Mexico Department of Transportation does not claim  
18 ownership of any minerals.

19 Q. Do you have a general understanding of how this  
20 might have occurred, where the Highway Department believes  
21 it has the surface but no association with the minerals?

22 A. Yes, we've seen it several times. Most of the  
23 time it doesn't work out where the New Mexico Department of  
24 Transportation keeps any minerals. This basically happens  
25 when the Department of Transportation, formerly the State

1 Highway Commission, got easements or right of way for  
2 highways, and when the deeds were executed mineral  
3 reservations weren't put into some of those deeds.

4 Q. In addition to the letter -- This is a letter  
5 dated May 2nd. Associated with the letter, did you provide  
6 the Highway Department or the Department of Transportation  
7 with an estimate of well costs?

8 A. Yes, sir, I did. On the front page of the letter  
9 in the second paragraph it states that an examination of  
10 the mineral ownership records located for Chaves County  
11 shows that the State Highway Commission would own 100  
12 percent of the minerals under the .88-acre tract.

13 The third paragraph on the page estimates their  
14 cost to join in the well at \$7145.60.

15 Q. To the best of your knowledge, is this AFE still  
16 current and accurate?

17 A. Yes, it is.

18 Q. Is this the AFE that you intend to drill upon?

19 A. Yes, it is.

20 Q. Is this AFE the same AFE that's associated with  
21 the rest of the proposed letters to the other interest  
22 owners?

23 A. Yes, sir, it is.

24 Q. Let's go through those, starting with Exhibit 7.  
25 What do we find?

1           A.     Exhibit 7 is a well proposal and AFE letter sent  
2     to Myco Industries, dated May 3rd, 2007. It follows the  
3     same form as Exhibit 6 and estimates their cost at  
4     \$117,463.92 for participation in the well.

5           Q.     And Exhibit 8?

6           A.     Exhibit 8 is a letter dated May 3rd, 2007, sent  
7     to Abo Petroleum, in which their total estimated cost for  
8     participation in the well is also \$117,463.92.

9           Q.     Exhibit 9?

10          A.     Exhibit 9 is a letter dated May 3rd, 2007,  
11     containing a well proposal and AFE to Yates Drilling  
12     Company, and it estimates their participation in the well  
13     at \$117,463.92.

14          Q.     Exhibit 10?

15          A.     Exhibit 10 is an AFE well proposal letter dated  
16     May 3rd, 2007, sent to Yates Petroleum, in which their  
17     proposed -- or estimated share of cost for participation in  
18     the well is \$117,463.92.

19          Q.     Let me ask you to turn to Exhibit 12 now. What  
20     does Exhibit 12 represent?

21          A.     Exhibit 12 is just a narrative delineating the  
22     contacts made with the various working interest owners that  
23     are underneath this well. It starts out with our efforts  
24     to lease from the New Mexico Department of Transportation.  
25     Next on the list would be EOG Resources, and last on the

1 list would be Myco Industries, et al., meaning show our  
2 contacts with Myco, Yates Drilling, Yates Petroleum and Abo  
3 Petroleum.

4 Q. As a result of these subsequent contacts, do you  
5 now have an opinion as to whether or not you will  
6 ultimately have written agreements with any of these  
7 parties?

8 A. Yes, under the listing for EOG on Exhibit 12 you  
9 see that we have reached an agreement in which EOG is going  
10 to give Parallel a term assignment. At this point the only  
11 thing that we're waiting on is an actual copy of the term  
12 assignment from them that's signed, and we just need to get  
13 a check prepared and pay them for the term assignment.

14 Q. And as to the Myco interest, how have you pursued  
15 that interest?

16 A. I've spoken with Chuck Moran, a representative of  
17 Myco, Yates Drilling, Yates Petroleum, and Abo Petroleum,  
18 and at the present time they have indicated that they are  
19 going to participate. We do have signed AFEs, however  
20 we're just waiting to get a joint operating agreement  
21 prepared for Myco, et al., to review and sign and send back  
22 to Parallel.

23 Q. Is it our plan that once a pooling order is  
24 issued and you take the next action, if you've obtained a  
25 voluntary agreement and have actually received the signed



1 contracts, then you'll notify the Division and that party  
2 that they're deleted and released from the pooling order?

3 A. Yes, it's our intention, once we have the term  
4 assignment from EOG and a signed copy of the operating  
5 agreement from Myco Industries, Inc., et al., that we will  
6 have them removed, and the only party that will have to be  
7 listed on the order will be the New Mexico Department of  
8 Transportation.

9 Q. Is this well on a rig schedule such that you're  
10 about to commence the drilling?

11 A. We are looking to be probably 60 to 90 days out.  
12 We're just going to wait on the order. And as soon as we  
13 have a completed order or a signed order, we will go ahead  
14 and commence operations.

15 Q. And during that period of time, you'll continue  
16 to pursue getting the final signed contracts from these  
17 various parties, which you now believe you'll be able to  
18 reach a voluntary agreement?

19 A. Yes, we will. On the -- I think at this point  
20 that we should be ready to go and have everything sent out  
21 or completed by the end of next week at this point.

22 Q. The designated operator for the well will be  
23 Parallel Petroleum Corporation?

24 A. Yes, sir, it will.

25 Q. And do you have a recommendation to the Examiner

1 for overhead rates to apply for a well being drilled in  
2 Chaves County?

3 A. Yes, sir, we do. Exhibit Number 13 is a fixed  
4 overhead rate survey, prepared by Ernst and Young. And on  
5 the page following the cover page we have gone ahead and  
6 used the maximum for drilling fixed overhead rates on a  
7 monthly basis and the maximum monthly producing well fixed  
8 overhead rates, which would be at \$5000 a month for  
9 drilling and \$500 a month for a producing well.

10 Q. Has the Division approved in other orders rates  
11 at these levels for other wells you're drilling in the  
12 Wolfcamp?

13 A. Yes, it has. On the well that we had a hearing  
14 for back in February, the \$5000 a month drilling and the  
15 \$500 a month producing were approved by the Division.

16 Q. Have any of the parties to whom you've proposed  
17 the well objected to your well costs?

18 A. Not at this time, no.

19 Q. Has anyone entered an objection as to the well  
20 location itself?

21 A. Not at this time, no.

22 Q. Anybody objected to the orientation of the  
23 spacing unit?

24 A. Not at this time, no.

25 Q. Have you examined Exhibit Number 14 and satisfied

1 yourself that I have sent notice to all the appropriate  
2 parties for which you're seeking pooling, and in fact they  
3 have received that notice?

4 A. Yes, sir, I have.

5 Q. Do you ask the Division Examiner to issue a  
6 standard pooling order that contains an escalator clause by  
7 which you can escalate the overhead cost drilling and  
8 producing well?

9 A. At the present time, yes, we would.

10 Q. And pursuant to Division Rule, would you ask that  
11 he also order a 200-percent risk-factor penalty?

12 A. Yes, we would.

13 MR. KELLAHIN: That concludes my examination of  
14 Mr. Myers. We move the introduction of his Exhibits 1  
15 through 14.

16 EXAMINER BROOKS: 1 through 14 are admitted.

17 MR. KELLAHIN: That concludes our presentation.

18 EXAMINER BROOKS: And I have no questions.

19 EXAMINER EZEANYIM: No questions.

20 THE WITNESS: Okay.

21 EXAMINER BROOKS: Very good, Case Number 13,932  
22 will be taken under advisement.

23 (Thereupon, these proceedings were concluded at  
24 4:19 p.m.)

25 I do hereby certify that the foregoing is  
a complete record of the proceedings in  
the Examiner hearing of Case No. 13932,  
\* heard by me on June 21 2007.

*David K. Brooks*, Examiner  
STEVEN T. BRENNER, CCR  
Off. Conservation Division  
(505) 989-9317

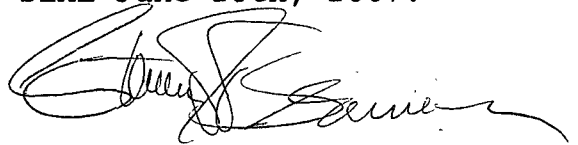
## CERTIFICATE OF REPORTER

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.

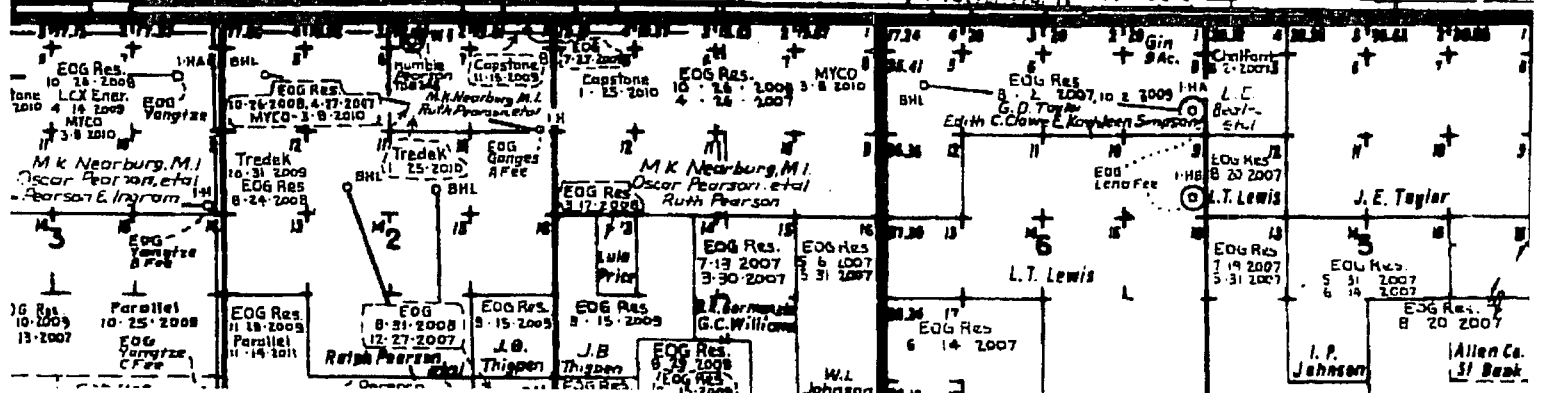
I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.

WITNESS MY HAND AND SEAL June 28th, 2007.



STEVEN T. BRENNER  
CCR No. 7

My commission expires: October 16th, 2010



**Parallel Petroleum Corporation**  
**Codex 1525-34 #1 Well**  
**T-15-S, R-25-E**  
**Section 34: N/2**  
**Chaves County, New Mexico**

land Fellows, et al  
Bryan  
Shumake  
2 14 72  
7 14 72  
Lario DEB  
23 2008  
Lario DEB  
6-23 2008  
BHI  
Before the Oil Conservation Division  
Exhibit No. 2  
Parallel Petroleum Corp  
OCD CASE 13932  
Hearing: June 21, 2007  
Warburg, NJ