

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 EDGE PETROLEUM)
EXPLORATION COMPANY FOR COMPULSORY)
POOLING, LEA COUNTY, NEW MEXICO)
)

CASE NO. 13,924

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

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

May 24th, 2007

Santa Fe, New Mexico

2007 JUN 7 AM 9:03

This matter came on for hearing before the New Mexico Oil Conservation Division, WILLIAM V. JONES, Jr., Hearing Examiner, on Thursday, May 24th, 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.

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I N D E X

May 24th, 2007
 Examiner Hearing
 CASE NO. 13,924

	PAGE
APPEARANCES	3
APPLICANT'S WITNESS:	
<u>CASEY QUAST</u> (Landman)	
Direct Examination by Mr. Bruce	5
Examination by Mr. Brooks	15
Examination by Examiner Jones	15
Examination by Mr. Kellahin	16
Examination by Mr. Carr	18
Redirect Examination by Mr. Bruce	22
Further Examination by Examiner Jones	23
STATEMENT BY MR. CARR	22
REPORTER'S CERTIFICATE	25

* * *

E X H I B I T S

Applicant's	Identified	Admitted
Exhibit 1	6	13
Exhibit 2	6	13
Exhibit 2A	7	13
Exhibit 3	8	13
Exhibit 4	9	13
Exhibit 5	10	13
Exhibit 6	11	13

* * *

A P P E A R A N C E S

FOR THE DIVISION:

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By: W. THOMAS KELLAHIN

FOR YATES PETROLEUM CORPORATION:

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P.O. Box 2208
Santa Fe, New Mexico 87504-2208
By: WILLIAM F. CARR

* * *

1 WHEREUPON, the following proceedings were had at
2 10:39 a.m.:

3
4
5 EXAMINER JONES: And let's call Case 13,924.
6 It's the Application of Edge Petroleum Exploration Company
7 for compulsory pooling, Lea County, New Mexico.

8 Call for appearances.

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

11 I have one witness.

12 EXAMINER JONES: Other appearance?

13 MR. KELLAHIN: Examiner Jones, I'm Tom Kellahin
14 of the Santa Fe law firm of Kellahin and Kellahin,
15 appearing this morning on behalf of Chesapeake Exploration
16 Limited Partnership and Chesapeake Operating.

17 EXAMINER JONES: Other appearances?

18 MR. CARR: May it please the Examiner, my name is
19 William F. Carr with the Santa Fe office of Holland and
20 Hart, L.L.P.

21 I'm appearing on behalf of Yates Petroleum
22 Corporation, and I do not intend to call a witness.

23 EXAMINER JONES: Okay. Will the witness please
24 stand to be sworn?

25 (Thereupon, the witness was sworn.)

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CASEY QUAST,

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

DIRECT EXAMINATION

BY MR. BRUCE:

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

A. Casey Quast.

Q. Where do you reside?

A. Houston, Texas.

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

A. Edge Petroleum Corporation, I'm the landman.

Q. Have you previously testified before the Division?

A. No.

Q. Would you please summarize your educational and employment background for the Examiner?

A. I have a master's in electrical engineering from Virginia Tech. I have been working contract landman from February, 2005, up until November of 2006, where I was employed with Edge Petroleum.

Q. Does your area of responsibility at Edge include this part of southeast New Mexico?

A. Yes, it does.

Q. And are you familiar with the land matters involved in this Application?

1 A. Yes.

2 MR. BRUCE: Mr. Examiner, I'd tender Mr. Quast as
3 an expert petroleum landman.

4 MR. CARR: No objection.

5 MR. KELLAHIN: No objection.

6 EXAMINER JONES: Mr. Quast is qualified as an
7 expert petroleum landman.

8 Q. (By Mr. Bruce) Mr. Quast, could you identify
9 Exhibit 1 and briefly describe what Edge seeks in this
10 case?

11 A. Edge seeks to drill a well to the Devonian
12 formation, located in the southwest quarter of the
13 northwest quarter of Section 25, Township 16 South, Range
14 36 East. And this will be called the South Lovington 25
15 Well Number 1.

16 Q. And what is its footage location?

17 A. 1977 feet from the north line and 330 feet from
18 the west line.

19 Q. And that's reflected on the land plat submitted
20 as Exhibit 1?

21 A. Yes.

22 Q. What does Exhibit 2 reflect?

23 A. Exhibit 2 reflects the mineral interest and --
24 reflected from the title opinion that you prepared.

25 Q. Okay. And are the highlighted names the parties

1 that Edge seeks to force pool in this case?

2 A. Yes.

3 Q. Now when this opinion was prepared, there were
4 only a few leases on this tract. One of them is referred
5 to as Lease 1, the Jones Robinson, Ltd., interest. Is that
6 the lease that's owned by Yates Petroleum and its related
7 entities?

8 A. Yes, it is.

9 Q. And you do seek to force pool the Yates entities
10 at this point?

11 A. Yes.

12 Q. And then on page 2 of this exhibit there are
13 leases listed as Leases 2 and 3, and those leases are owned
14 by Chesapeake, are they not?

15 A. Yes.

16 Q. And Chesapeake has indicated they will join in,
17 correct?

18 A. Yes.

19 Q. But at this point there is no signed JOA, so
20 until they sign the JOA you seek to force pool Chesapeake?

21 A. Yes.

22 Q. What does Exhibit 2A reflect?

23 A. Exhibit 2A reflects the leases that we currently
24 have.

25 Q. Okay. And so you do not seek to force pool these

1 people?

2 A. No.

3 Q. And these people are also identified on Exhibit
4 2, correct?

5 A. Yes, they are.

6 Q. Now let's discuss your efforts to obtain the
7 voluntary joinder of the interest owners in this well.
8 What is contained in Exhibit 3?

9 A. Exhibit 3 contains the lease offer that was sent
10 to all the parties on Exhibit 2. We worked with
11 Continental Land Resources, and the landman working for us
12 was Zane Watson, and he tried to lease all these people.

13 Q. Now you just have the lease offer to Bank of
14 America as trustee. Were similar lease offers sent to all
15 of the unleased interest owners --

16 A. Yes.

17 Q. -- in this well unit?

18 A. Yes.

19 Q. Okay. Now Edge has been looking at this property
20 for a couple of years, though, has it not?

21 A. Right.

22 Q. After you couldn't obtain leases from all the
23 people, was a well proposal sent to the interest owners?

24 A. Yes, it was.

25 Q. And is that also contained in Exhibit 3?

1 A. Yes, it is.

2 Q. And if you go toward the back, besides -- if you
3 go toward the back, there are a couple of election letters
4 from parties. Who are those parties?

5 A. Let's see, Tom R. Cone elected to participate
6 with his interest, and then Chesapeake.

7 Q. Okay. Now Mr. Cone has also not signed a JOA,
8 correct?

9 A. No, he has not.

10 Q. And there is also correspondence in here from
11 Yates Petroleum. Have you been able to come to terms with
12 Yates as of yet?

13 A. No.

14 Q. They've made a farmout offer, but --

15 A. -- management has decided not to proceed with
16 that offer.

17 Q. Okay. What does Exhibit 4 reflect?

18 A. Exhibit 4 reflects the diligence of the field
19 landman and all his contacts with all the mineral owners,
20 as reflected on Exhibit 2.

21 Q. Okay, so he has had -- he had a number of
22 contacts dating back to 2006 with many of these interest
23 owners, correct?

24 A. Yes.

25 Q. All right. In your opinion, has Edge made a

1 good-faith effort to obtain the voluntary joinder of the
2 interest owners in the well?

3 A. Yes.

4 Q. Were any of the mineral owners unlocatable?

5 A. Yes, there were four.

6 Q. And who are they, for the record?

7 A. They are Mercantile Trading Corporation; John W.
8 Pilant and Jean H. Pilant, trustees of Pilant Family Trust;
9 Myrtle Lee Malone, executor of estate, Mr. Clarence L.
10 Rosh; and Annis Roberts, successor trustee, Vicki Jeanne
11 Saari Special Needs Trust.

12 Q. What did Edge do to attempt to locate the
13 interest owners in this well unit?

14 A. We tried the county records, phone searches,
15 Internet searches, and did not come up with any location.

16 Q. Okay. And there are quite a few mineral owners
17 in this tract, but only those four you named were
18 unlocatable, correct?

19 A. Correct.

20 Q. Would you please identify Exhibit 5 and discuss
21 the cost of the proposed well?

22 A. Okay, Exhibit 5 is the AFE that was sent out with
23 the well proposal. Drilling cost came to \$1,504,409, and a
24 completed well cost \$2,531,624.

25 Q. And are these costs in line with the cost of

1 other wells drilled to this depth in this area of New
2 Mexico?

3 A. Yes.

4 Q. Do you request that Edge Petroleum Exploration
5 Company be appointed operator?

6 A. Yes.

7 Q. Do you have a recommendation for the amounts
8 which Edge should be paid for supervision and
9 administrative expenses?

10 A. Yes, we request that \$7750 per month be allowed
11 for a drilling well and \$775 per month be allowed for a
12 producing well.

13 Q. And are these costs equivalent to those normally
14 charged by operators in this area for wells of this depth?

15 A. Yes.

16 Q. Do you request that these rates be adjusted
17 periodically under the COPAS accounting procedure?

18 A. Yes.

19 Q. And were the locatable interest owners notified
20 of this hearing?

21 A. Yes, they were.

22 Q. And is that reflected in Exhibit 6?

23 A. Yes.

24 Q. Were Exhibits 1 through 6 prepared by you or
25 under your supervision or compiled from company business

1 records?

2 A. Yes.

3 Q. And in your opinion, is the granting of this
4 Application in the interests of conservation and the
5 prevention of waste?

6 A. Yes.

7 MR. BRUCE: Mr. Examiner, if you'd look at
8 Exhibit 6 and go back a few pages to the green cards,
9 starting with the first one, Kenneth Cone, I did do an
10 advertisement, which I have -- or a publication notice,
11 which I have not received back, but I did not include Mr.
12 Cone, because Mr. Cone is -- he exists and lives in
13 Midland. So because of him not signing for this, I will
14 have to, I think, re-publish notice. And so I would ask
15 that the case be continued for two weeks to publish notice
16 as against Mr. Cone, plus I have not yet received in the
17 mail the affidavit of publication as to the other owners
18 that Mr. Quast identified.

19 So I would ask that it be continued for two
20 weeks.

21 EXAMINER JONES: Okay.

22 MR. BROOKS: Okay, you filed a -- You did publish
23 a notice, but you haven't received a -- for everybody
24 except Mr. Cone, but you have not received --

25 MR. BRUCE: -- the affidavit of publication.

1 MR. BROOKS: -- the affidavit of publication. So
2 two weeks from now you'll have that affidavit of
3 publication --

4 MR. BRUCE: Correct.

5 MR. BROOKS: -- presumably.

6 And Mr. Cone -- you believe this to be a valid
7 address?

8 MR. BRUCE: I did re-send another one. He is in
9 the most recent Midland phone book, and I will submit that
10 at the next hearing.

11 MR. BROOKS: Okay.

12 MR. BRUCE: I re-sent it to his street address,
13 but just in case -- I've actually talked with him in his
14 office over the last year or two, so I know he's around.
15 But he obviously hasn't picked up his mail here.

16 MR. BROOKS: Yeah, okay.

17 MR. BRUCE: Mr. Examiner, with that, I'd move the
18 admission of Exhibits 1 through 6, and I will submit the
19 other data two weeks from now.

20 EXAMINER JONES: Any objections? No objections?
21 Exhibits 1 through 6 will be admitted into
22 evidence.

23 MR. BRUCE: And I have no further questions of
24 this witness.

25 MR. BROOKS: I just want to go through this

1 notice affidavit, to be sure everything is in here.

2 As far as I understand it, the names of the
3 people that are highlighted on Exhibit 2 are the ones that
4 have not joined?

5 MR. BRUCE: That's correct, Mr. Brooks.

6 MR. BROOKS: Okay. Now let's see. We have a
7 notice here to John W. -- John and Jean Pilant, trustee.
8 Well, you don't list -- were the same people trustees --
9 You don't list the trustees on this Exhibit 2. Were the
10 same people trustees of all these trusts?

11 MR. BRUCE: Now, which trust are you looking at,
12 Mr. Brooks?

13 MR. BROOKS: Well, I was trying to coordinate the
14 list on Exhibit 2 with the list on Exhibit 6, but I can't
15 do it because the names of the trustees are not listed,
16 just the name of the trust on Exhibit 2.

17 MR. BRUCE: Yeah, and Mr. Examiner, that's
18 because these trusts were formed about 20 years ago, and
19 the county records no longer reflect the current names of
20 the trustees. And I think Mr. Quast can tell you that the
21 -- this is all these -- the Coates Energy Trust and all
22 these others -- and Mr. Quast can confirm this -- are all
23 controlled by the same entity, and he has spoken with the
24 land manager there. It's a rather large south Texas
25 mineral trust.

EXAMINATION

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BY MR. BROOKS:

Q. Okay, who have you dealt with for these?

A. Sherry Green.

Q. And do you know who is the trustee of these trusts?

A. I do not know that off the top of my head, no, I do not.

MR. BROOKS: Well, when you're filing the additional follow-up, Mr. Bruce, could you file an affidavit that would explain -- that would correlate the people you sent notice to, to the people that are shown in the title?

MR. BRUCE: Sure.

MR. BROOKS: Okay, I think that would take care of it. I won't have to spend time going through this.

EXAMINATION

BY EXAMINER JONES:

Q. Mr. Quast, there's a bunch of shallower oil zones in this area, and you say the surface to the base of the Devonian. You're only targeting the Devonian, but you're targeting anything you find, right, in the 40-acre tract? Is that correct?

A. Just -- they're going down to -- yes, to 12,800.

Q. Start with Devonian and work your way up.

1 A. Yes.

2 EXAMINER JONES: Okay, that's --

3 MR. KELLAHIN: Mr. Examiner?

4 EXAMINATION

5 BY MR. KELLAHIN:

6 Q. Mr. Quast, I was looking at your Exhibit Number
7 3. It's the package of documents. Do you have that
8 available?

9 A. Yes.

10 Q. The first page is the attempt to obtain offers of
11 leases. The second attachment to that exhibit is the well
12 proposal letter itself.

13 A. Yes.

14 Q. In response to that letter you received back from
15 Chesapeake a letter in response, including a signed AFE?

16 A. Yes.

17 Q. Is that the letter that's attached, about the
18 seventh from the back of the package? If you'll turn to
19 what is shown on Chesapeake letterhead, and it's about the
20 seventh from the end, it's a letter of April 19th. Do you
21 see that letter?

22 A. Yes, sir.

23 Q. This letter was received by Edge when?

24 A. April 23rd, 2007.

25 Q. Is the date stamp on it?

1 A. Yes, sir.

2 Q. Has Edge provided the operating agreement that
3 Chesapeake has requested that you send?

4 A. Yes, sir.

5 Q. And when was that sent to them?

6 A. Tuesday.

7 Q. Of this week?

8 A. Of this week, yes.

9 Q. When I look at the signature page beyond
10 Chesapeake's letter, they've signed an AFE and they've
11 returned a signature page that shows it's page 3 of 13.
12 Would you look at the top of that for me? Do you see the
13 page of your Exhibit 3 that's got the Chesapeake signature
14 on it?

15 A. Yes, sir.

16 Q. At the top of that it says, Page 3 of 13?

17 A. Yes, sir.

18 Q. Put that in context for me. What is this page 3
19 of?

20 A. Page 3 was the list of -- This is only the third
21 page of the list of working interest owners and unleased
22 mineral owners that this letter was sent to, and they did
23 not include the remaining list.

24 Q. So this would be the only page in which
25 Chesapeake would have to sign?

1 A. Yes, yes.

2 Q. And the letter explaining what this is attached
3 to, first page of that is the well proposal letter?

4 A. Yes, sir.

5 Q. So that completes that presentation then. If I
6 go back to page 1, that is going to be the March 22nd
7 proposal letter? Did I understand that?

8 A. Yes.

9 Q. And so everything attached to that, then, would
10 be the various pages associated with this exhibit?

11 A. Yes, sir.

12 Q. So at this point Chesapeake has done everything
13 they can to elect to participate voluntarily, and you now
14 have sent them this week the joint operating agreement?

15 A. Yes, sir.

16 MR. KELLAHIN: Thank you.

17 EXAMINATION

18 BY MR. CARR:

19 Q. Mr. Quast, in this proceeding you're seeking to
20 pool the interest of Yates; is that correct?

21 A. Yes, sir.

22 Q. Are you the person with Edge who's responsible
23 for negotiating with the interest owners in this spacing
24 unit?

25 A. I speak for that, yes.

1 Q. If we look at your Exhibit Number 2, are the
2 parties who are shaded parties who have joined? What does
3 this exhibit show?

4 A. No, the parties that are highlighted are the
5 parties that were given notification of a well proposal.

6 Q. And then if we go to your Exhibit 2A, are those
7 the parties who have joined?

8 A. These are the parties that have leased to Edge
9 Petroleum.

10 Q. Have these individuals joined in the well, or
11 have you entered various agreements?

12 A. These are leases. Edge owns the leases to these.

13 Q. Have you entered a farmout agreement with anyone
14 concerning the development of this acreage?

15 A. No, we have not.

16 Q. Have you entered any sort of a term assignment
17 with anyone?

18 A. No.

19 Q. You proposed the well to Yates back in March of
20 this year; is that correct?

21 A. Yes, sir.

22 Q. And then on May the 8th Yates offered to Edge a
23 farmout --

24 A. Yes, sir.

25 Q. -- correct?

1 Are the last two pages of Exhibit 3 the farmout
2 that you received?

3 A. Yes, sir.

4 Q. And you -- What did you do with this?

5 A. I took it to management. We -- Our office works
6 in teams, and I let them know the terms of the proposal,
7 and they declined.

8 Q. And if we look at the next to the last page,
9 there's handwriting on it. It says, Called 11:30 a.m. and
10 left message with Rob Bullock that we would pass on their
11 request. Is that your handwriting?

12 A. That is my handwriting, yes.

13 Q. If I look at this, it appears to me that the
14 farmout letter was received to you based on the fax at the
15 time that you talked, not until 1:03 p.m. Did -- Is that
16 correct?

17 A. It was probably not until the next day. We don't
18 directly get our faxes, our secretary delivers them
19 whenever she gets to our area.

20 Q. You're not saying that you called at 11:30 a.m.,
21 then, on May the 8th --

22 A. No, sir. No.

23 Q. Following that, did you receive an offer for a
24 term assignment from Yates?

25 A. I did.

1 Q. And have you responded to that?

2 A. I have not yet.

3 Q. And when was that? May 11th?

4 A. I am not certain. There was a phone call, I
5 spoke to, and I did let my management team and my team know
6 about the offer, and I'm still waiting to hear back from
7 them as to if they wish to accept that offer.

8 Q. And you were able to respond to the farmout
9 quickly, but you have not been able yet to respond to the
10 term assignment?

11 A. Correct.

12 Q. Are you intending on doing that, or are you just
13 trying to pool their interest?

14 A. No, we are intending to do it, I just -- I have
15 not heard back from my team yet.

16 Q. And do you have easy access to this team?

17 A. I do.

18 Q. During the next two weeks, will you -- are you
19 willing to negotiate with Yates --

20 A. Absolutely.

21 Q. -- concerning their interest in this well?

22 A. Yes, sir.

23 MR. CARR: That's all I have.

24 MR. BRUCE: Could I ask one more question of the
25 witness?

1 EXAMINER JONES: Sure.

2 REDIRECT EXAMINATION

3 BY MR. BRUCE:

4 Q. Mr. Quast, one thing that -- when you look at
5 Exhibits 2 and 3, up toward the top there's Chisos Limited
6 and Pure Energy Group, Inc., and they aren't -- they're
7 unleased, but they're not listed on Exhibit 2A.

8 What is the arrangement between Edge and those
9 two entities?

10 A. We have an exploration agreement with them where
11 they have to farm out their interest if they wish to not
12 participate.

13 Q. So you're not seeking to force pool them, they
14 would go under the exploration agreement?

15 A. They would go under the exploration agreement,
16 yes.

17 MR. BRUCE: Thank you.

18 EXAMINER JONES: Okay. Do you guys have any more
19 concerns?

20 MR. CARR: (Shakes head)

21 MR. BROOKS: Nothing.

22 MR. CARR: I just had one -- about three-sentence
23 statement.

24 Yates's only concern here is that we really
25 object to having our interest pooled before we think

1 there's been true good faith negotiations. We're
2 interested in working something out with Edge, but we have
3 not heard from them in response to our most recent offers,
4 and if the case is going to be continued for notice
5 purposes for two weeks, we would like an opportunity to
6 discuss with them how our interests can be committed and if
7 it's possible to do it other than just simply by leasing to
8 them.

9 EXAMINER JONES: Mr. Kellahin?

10 MR. KELLAHIN: No, sir, nothing else.

11 FURTHER EXAMINATION

12 BY EXAMINER JONES:

13 Q. Mr. Quast, one more question. The -- From the
14 Devonian all the way up within this 40, is it the same --
15 it's the same owners that you're trying to -- there's no
16 difference in the --

17 A. Yes, I don't believe there was any depth
18 severance.

19 Q. That includes Yates and Chesapeake?

20 MR. BRUCE: Yeah, there is no -- I examined
21 title, Mr. Examiner, and there is no depth severance at
22 all.

23 Q. (By Examiner Jones) Okay. Okay, and this was
24 \$775 you're asking for, for monthly, and \$7750; is that
25 right?

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A. It's \$7750 and then \$775, yes.

EXAMINER JONES: Okay, with that we'll continue Case 13,924 until June the 7th.

(Thereupon, these proceedings were concluded at 11:00 a.m.)

* * *

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. _____ heard by me on _____, 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 May 28th, 2007.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 16th, 2010