

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. 14,048

APPLICATION OF MCELVAIN OIL AND GAS )  
PROPERTIES, INC., FOR COMPULSORY )  
POOLING, RIO ARriba COUNTY, NEW MEXICO )

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

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

December 13th, 2007

Santa Fe, New Mexico

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This matter came on for hearing before the New Mexico Oil Conservation Division, RICHARD EZEANYIM, Technical Examiner, DAVID K. BROOKS, Jr., Legal Examiner, on Thursday, December 13th, 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

December 13th, 2007  
 Examiner Hearing  
 CASE NO. 14,048

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APPLICANT'S WITNESS:	
<u>SHERYL A. OLSON</u> (Landman)	
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\* \* \*

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\* \* \*

## 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:

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 8:55 a.m.:

3 EXAMINER EZEANYIM: Now we call Case Number  
4 14,048. This is the Application of McElvain Oil and Gas  
5 Properties, Inc., for compulsory pooling, Rio Arriba  
6 County, New Mexico.

7 Call for appearances.

8 MS. MUNDS-DRY: Good morning, Mr. Examiner.  
9 Ocean Munds-Dry on behalf of -- with the law firm of  
10 Holland and Hart, on behalf of McElvain Oil and Gas  
11 Properties, Inc., this morning, and I have one witness.

12 EXAMINER EZEANYIM: Any other appearances?

13 Okay, may the witness stand to be sworn, please?

14 (Thereupon, the witness was sworn.)

15 SHERYL A. OLSON,

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

18 DIRECT EXAMINATION

19 BY MS. MUNDS-DRY:

20 Q. Good morning. Would you please state your name  
21 for the record?

22 A. My name is Sheryl A. Olson.

23 Q. Ms. Olson, where do you reside?

24 A. I reside in Denver, Colorado.

25 Q. And by whom are you employed and in what

1 position?

2 A. I am senior landman with McElvain Oil and Gas  
3 Properties, Inc.

4 Q. And have you previously testified before the Oil  
5 Conservation Division as an expert witness?

6 A. No, I have not.

7 Q. Would you please review your education and work  
8 history for Mr. Ezeanyim?

9 A. Mr. Ezeanyim, I have a bachelor of arts degree  
10 from Illinois Wesleyan University in Bloomington, Illinois.  
11 I have been with McElvain approximately a year. Prior to  
12 that, my work experience involves 10 years with Aspect  
13 Energy, Aspect Resources just prior. Preceding that, I  
14 have been employed by Apache Oil Corporation and also  
15 Consolidated Oil and Gas for five years, working as their  
16 northern division landman, primarily the San Juan Basin  
17 area.

18 Q. And are you a certified petroleum landman?

19 A. Yes, I am, I've been certified since 1986, and  
20 I'm a member of the American Association of Petroleum  
21 Landmen.

22 Q. Ms. Olson, are you familiar with the pooling  
23 application that has been filed for McElvain?

24 A. Yes, I am.

25 Q. And are you familiar with the status of the lands

1 that are the subject of this Application?

2 A. Yes.

3 MS. MUNDS-DRY: Mr. Ezeanyim, we would tender Ms.  
4 Olson as an expert in petroleum land matters.

5 EXAMINER EZEANYIM: Ms. Olson is so qualified.

6 Q. (By Ms. Munds-Dry) Ms. Olson, would you explain  
7 to the Examiner what McElvain seeks with this Application?

8 A. McElvain is seeking an order to pool the  
9 Mesaverde formation in the east half of Section 14,  
10 Township 25 North, Range 2 West of Rio Arriba County, for  
11 the proposed two wells, the Badger Com 14 Number 2 and the  
12 Badger Com 14 Number 2-A.

13 Q. Thank you. Would you please turn to what's been  
14 marked as McElvain Exhibit Number 1 and identify and review  
15 that for the Examiner?

16 A. Exhibit Number 1 is a plat which indicates the  
17 east half of Section 14 as the proposed spacing unit. The  
18 northern well location is the Badger Com 14-2. And the  
19 southeast of the southeast, the Badger Com 14 Number 2-A is  
20 indicated. And the interest owners as to the Mesaverde  
21 formation are indicated in each of the tracts.

22 Q. What gas pool is involved with this Application?

23 A. Blanco-Mesaverde.

24 EXAMINER EZEANYIM: Yeah, let me stop right on  
25 this --

1 THE WITNESS: Uh-huh.

2 EXAMINER EZEANYIM: On the Blanco-Mesaverde, and  
3 you have this, is there any pool -- pool rules that governs  
4 the Blanco-Mesaverde here that you know of?

5 MS. MUNDS-DRY: Oh --

6 EXAMINER EZEANYIM: Because this is on 320. You  
7 know, it's on 320, so there must be a pool rule that  
8 governs this pool.

9 MS. MUNDS-DRY: There are pool rules for the  
10 Blanco-Mesaverde Gas Pool, yes, sir.

11 EXAMINER EZEANYIM: Do you know which one affects  
12 this Application?

13 MS. MUNDS-DRY: I don't, but --

14 THE WITNESS: Which number?

15 MS. MUNDS-DRY: And I'm trying to think if I can  
16 remember for you. There are -- there are special pool  
17 rules for this.

18 EXAMINER EZEANYIM: Yeah, and so I -- you know, I  
19 was thinking that you may have it, but you can --

20 MS. MUNDS-DRY: I don't have it on the top of my  
21 head, but I believe this is the pool that allows the four  
22 infill wells on a spacing unit. But, Mr. Examiner, we can  
23 always provide that for you --

24 EXAMINER EZEANYIM: Oh, yeah --

25 MS. MUNDS-DRY: -- we can always look that up.

1 EXAMINER EZEANYIM: Yeah, if you can make a note  
2 and provide that, that would help me out.

3 MS. MUNDS-DRY: I certainly will.

4 THE WITNESS: Was that in our Application, that  
5 number?

6 MS. MUNDS-DRY: I don't believe so, but we'll  
7 certainly provide that to you, Mr. Ezeanyim.

8 EXAMINER EZEANYIM: Okay, yeah. Okay, very good.

9 Q. (By Ms. Munds-Dry) Ms. Olson, if you would  
10 please turn to Exhibit Number 2 and review these documents  
11 for the Examiner.

12 A. Exhibit Number 2 is comprised of the APDs that  
13 have been approved.

14 The Badger Com 14 Number 2 well in the northeast  
15 quarter is located 671 feet from the north line and 1530  
16 feet from the east line.

17 The Badger Com Number 2-A in the southeast  
18 quarter will be drilled 663 feet from the south line and  
19 965 feet from the east line. And the plat follows for each  
20 of those APDs.

21 Q. Ms. Olson, why does McElvain propose two wells in  
22 this Application?

23 A. Given our results in the area, McElvain sees both  
24 wells as having equal risk, so we intend to drill both  
25 wells consecutively. The primary factors are timing and I



1 think economics -- not "I think" -- and economics.

2 We plan to use the same rig. We will start with  
3 the southern well, the Badger Com 2-A, drill that, and then  
4 move directly north to the Number 2 well.

5 Our plan will not be to complete the first well  
6 until after the second well is drilled and we have logs on  
7 both wells. McElvain's experience indicates they would not  
8 like to drill, complete and then shut in a well waiting on  
9 pipeline, so we'd like to drill -- move consecutively from  
10 one to the other. That rig is available December 20th.

11 EXAMINER EZEANYIM: What did you say?

12 THE WITNESS: The rig is available December 20th.

13 EXAMINER EZEANYIM: Next week?

14 THE WITNESS: Yes.

15 Also our intentions, from an economic standpoint,  
16 there's one pipeline that's feasible for the area  
17 enterprise. In terms of economies of scale, moving in your  
18 construction crew, et cetera, it is more economic to go  
19 ahead and connect both wells at the same time, once we have  
20 logs from both and can indicate what those -- hopefully,  
21 those deliveries would be.

22 I think that's primarily it.

23 Bottom line, conducting operations in this  
24 manner, we feel payout will occur sooner for all parties  
25 because costs will be a little bit less.

1 Q. What are McElvain's plans, then, for drilling  
2 both of these wells? Do you know the timing for drilling  
3 both these wells?

4 A. We'd like to commence on or about December 20th.  
5 It should take the AFEs about 13 days to drill the first  
6 well, and then move the rig directly north to the second  
7 well, same rig again.

8 MS. MUNDS-DRY: Mr. Ezeanyim, you can guess what  
9 we're going to ask for at the end of this hearing with that  
10 timing, but I'll prolong that a little bit.

11 Q. (By Ms. Munds-Dry) Ms. Olson, what is the status  
12 of the acreage, then, in this area?

13 A. We have -- the entire east half is a fee lease,  
14 the Koon oil and gas lease, with the exception of 40 acres  
15 as indicated on the plat. There's a federal lease in the  
16 northwest of the southeast quarter.

17 Q. Ms. Olson, if you'll turn to what's been marked  
18 as Exhibit Number 3 and review that for Mr. Ezeanyim.

19 A. Exhibit 3 indicates the working interest owners  
20 within the unit. McElvain will have approximately 16  
21 percent of the interest in the unit at this point. And  
22 there are two remaining parties, Williams and PXP, who have  
23 not made a commitment to the proposals.

24 Q. What are Williams and PXP's percentage interests  
25 in the subject spacing unit?

1           A.   Williams has 50 percent working interest, and PXP  
2 just over 33 percent.

3           Q.   Would you please explain to the Examiner  
4 McElvain's efforts to attempt to reach agreement with --  
5 let's focus on PXP first, and I'll ask you to refer to  
6 what's been marked as Exhibit Number 4.

7           A.   Contact with PXP began in April of this year,  
8 2007. By May 10th we had reached an agreement to purchase  
9 their acreage, their leasehold, and that was indicated by  
10 the May 10th letter agreement.

11          Q.   Is that this first letter here?

12          A.   Yes, that's Exhibit Number 4. And what that  
13 would involve would be execution of two assignments, one  
14 from their predecessor-in-title -- record title was not at  
15 that point into PXP -- and then another assignment into  
16 McElvain.

17               McElvain on May 24th provided to PXP both forms  
18 of assignments -- this was really done at their request  
19 because of their workload. October 19th, we were advised  
20 by PXP that they had received the assignment into them from  
21 their predecessor. That was executed dated September 26th,  
22 2007.

23               For the following three weeks I made contact via  
24 e-mail and phone with PXP, really with difficulty having a  
25 response. It was just about November 8th that I was able

1 to speak with someone that indicated that they were not  
2 going to be able to move forward with the assignment to  
3 McElvain at that time, due to their acquisition of Pogo.

4 Next day, I did go ahead and send a well proposal  
5 dated November 9th to PXP. That was followed with a cover  
6 e-mail to the party who would be receiving that proposal,  
7 the division land manager.

8 Q. And is a copy of that letter also included in  
9 Exhibit Number 4?

10 A. Yes. Yes, that is. It was sent via Federal  
11 Express.

12 Then on November 15th I was able to have a direct  
13 conversation via phone with the land manager. He indicated  
14 that the well proposal was under consideration, and I think  
15 his hope was to have an answer to us before this hearing  
16 date.

17 I have sent three follow-up e-mails and three  
18 phone calls and have not had any response from PXP.

19 Q. Let's then turn to what's been marked as Exhibit  
20 Number 5, and if you would review what efforts you have  
21 undertaken to reach an agreement with Williams.

22 A. Our well proposal was sent to Williams on October  
23 24th, I believe they received it October 25th.

24 Approximately mid-November, just before  
25 Thanksgiving, I received indication from their landman that

1 they did not wish to participate, they would like to farm  
2 out, and so we have been discussing farmout terms since the  
3 end of November, after the Thanksgiving break.

4 December 3rd, I did send a draft farmout proposed  
5 agreement to them, and we have been in the process of  
6 negotiating those terms. We just haven't reached final  
7 closure yet on those farmout terms.

8 EXAMINER EZEANYIM: Is it in process?

9 THE WITNESS: Yes.

10 Q. (By Ms. Munds-Dry) In your opinion, has McElvain  
11 made a good-faith effort to reach voluntary agreement with  
12 both these parties?

13 A. Yes, we definitely have.

14 Q. Would you please turn to what's been marked  
15 Exhibit Number 6 and review these documents?

16 A. Exhibit Number 6 is the AFE for each of the  
17 wells.

18 The Badger Com 14 Number 2 will have dryhole  
19 costs of \$713,200, total completed well costs will be one  
20 thousand three hundred sixty-six two hundred ninety  
21 dollars.

22 Q. Do you mean one million?

23 A. Yes, I'm sorry.

24 Q. Didn't want to cut you short there.

25 A. Bargain prices.

1           And then the Badger Com 14 2-A, dryhole costs are  
2     \$659,700, completed well costs \$1,312,790.

3           Q.    Thank you. Is this AFE based on costs that  
4     McElvain has incurred for drilling similar wells in the  
5     area?

6           A.    Yes, they are.

7           Q.    And have you made an estimate of overhead and  
8     administrative costs while drilling this well and while  
9     producing this well, if it is successful?

10          A.    Yes, the monthly drilling rate is \$5500, the  
11     monthly producing rate will be \$550.

12          Q.    And what is Exhibit Number 7?

13          A.    Exhibit Number 7 is the COPAS Exhibit C which has  
14     been attached to the joint operating agreement.

15          Q.    And are the drilling and producing rates  
16     reflected in the COPAS?

17          A.    Yes, they are on page 4.

18          Q.    And have you submitted a JOA for this area?

19          A.    This JOA has been submitted to all parties and  
20     been executed by all with the exception of Williams and  
21     PXP.

22          Q.    And will the drilling and producing rates -- were  
23     they incorporated in this JOA?

24          A.    Yes.

25          Q.    And do you ask that these figures be incorporated

1 into any order that results from this hearing?

2 A. Yes, please.

3 Q. And does McElvain request that the overhead  
4 figures approved by the Division be subject to adjustment  
5 in accordance with the COPAS form?

6 A. Yes, we do.

7 Q. What entity will be the designated operator for  
8 this well?

9 A. McElvain Oil and Gas Properties, Inc.

10 Q. And does McElvain request that the Division  
11 impose a 200-percent risk penalty in accordance with  
12 applicable statutes and Division rules?

13 A. Yes, we do.

14 Q. And is McElvain Exhibit Number 8 a copy of a  
15 notice affidavit with the attached notice letters, green  
16 cards and the affidavit of publication in the newspaper?

17 A. Yes, it is.

18 Q. And were Exhibits Number 1 through 8 either  
19 prepared by you or compiled under your direct supervision?

20 A. Yes, they were prepared by me or compiled under  
21 supervision.

22 MS. MUNDS-DRY: Mr. Examiner, we would move the  
23 admission of Exhibits Number 1 through 8 into evidence.

24 EXAMINER EZEANYIM: Exhibits 1 through 8 will be  
25 admitted.

1 MS. MUNDS-DRY: And Mr. Examiner, the part you've  
2 been dreading, we'd like to ask because of the timing for  
3 an expedited order, since as Ms. Olson indicated they plan  
4 to have a drilling rig available December 20th. They  
5 understand that they can proceed with drilling, but just to  
6 have their house in order, we would like to have an order  
7 as soon as possible.

8 EXAMINER EZEANYIM: Well, that's -- you are  
9 drilling at your own risk, you know, if you don't know what  
10 the outcome would be, but --

11 MS. MUNDS-DRY: And that's why they prefer to  
12 have the order ahead of time, before they start drilling.

13 EXAMINER EZEANYIM: Yeah. I mean, there's a  
14 bunch of things we're doing now, but -- I can't promise  
15 anything. You're talking about -- in a week's time?

16 MS. MUNDS-DRY: Coming up. We appreciate that  
17 you're busy, and whatever you may do to speed an order  
18 along, we'll appreciate it.

19 EXAMINER EZEANYIM: Okay, we'll see what we can  
20 do. And you know, the first case, that's exactly what they  
21 said, they're on the -- too.

22 MS. MUNDS-DRY: Sure.

23 EXAMINER EZEANYIM: If everybody's asking for  
24 that, I mean, we'll --

25 MS. MUNDS-DRY: We understand completely. And I



1 have nothing further for Ms. Olson.

2 EXAMINER EZEANYIM: Okay, do you have anything?

3 EXAMINER BROOKS: No, it seems like you must be  
4 very sanguine about this prospect to be willing to come up  
5 front with the money when you only have a 16-percent  
6 interest, but I guess that's just a comment rather than a  
7 question.

8 THE WITNESS: Sometimes that happens in the San  
9 Juan Basin. It's a favorite area for our engineers.

10 EXAMINER BROOKS: It would be a big loss if it  
11 turned out to be bad well.

12 THE WITNESS: Don't say that.

13 MS. MUNDS-DRY: We'll keep our fingers crossed.

14 EXAMINER EZEANYIM: Well, we don't hope it to be  
15 a bad well, you know, we want it to be a good well.

16 MS. MUNDS-DRY: Yes.

17 EXAMINER BROOKS: Exactly.

18 EXAMINATION

19 BY EXAMINER EZEANYIM:

20 Q. Are you sure you're going to have a farmout  
21 agreement with Williams Production Company or something?

22 A. I'm sorry, say --

23 Q. Are you going to get -- are you sure you might  
24 get a farmout from Williams? I mean, you are -- right now,  
25 but I don't know what the outcome -- what you think will

1 happen in that case. Fifty percent interest --

2 A. Yes, they will either farm out -- we will either  
3 reach conclusion under our discussions, or they'll be in a  
4 pool position, which they're aware of.

5 I guess one other thing I might add is, I've  
6 discussed the consecutive drilling with Williams, and they  
7 understand that completely. It's similar to what they have  
8 done in La Plata County, and our company has cooperated  
9 with them in executing, actually in that case, a JOA to  
10 participate in two wells where they'll be going back to  
11 back, drilling operations.

12 Q. Okay. So it's my understanding that every  
13 interest owner is locatable, you locate everybody --

14 A. (Nods)

15 Q. Okay. Only they don't wish to join?

16 A. Yes.

17 EXAMINER EZEANYIM: Would you please give me the  
18 order that -- the Blanco-Mesaverde, so that we could --

19 MS. MUNDS-DRY: We'll be glad to provide that to  
20 you, Mr. Ezeanyim.

21 EXAMINER EZEANYIM: Okay, I have nothing further.

22 MS. MUNDS-DRY: Thank you.

23 EXAMINER EZEANYIM: At this point Case Number  
24 14,048 will be taken under advisement.

25 All right, let's take about a 10-minute break

1 before we go into the other cases we have. Is that okay  
2 with you, Mr. Bruce? Take about a 10-minute break and come  
3 back?

4 MR. BRUCE: That's fine.

5 EXAMINER EZEANYIM: Okay.

6 (Thereupon, these proceedings were concluded at  
7 9:16 a.m.)

8 \* \* \*

13 I do hereby certify that the foregoing is  
14 a complete record of the proceedings in  
15 the Examiner hearing of Case No. 12-13107-8  
16 heard by me on 12/13/07  
17 [Signature], Examiner  
18 Oil Conservation Division  
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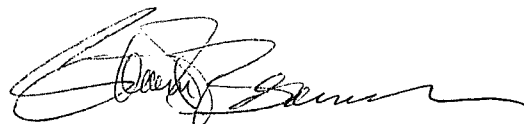
## CERTIFICATE OF REPORTER

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 February 28th, 2008.



STEVEN T. BRENNER  
CCR No. 7

My commission expires: October 16th, 2010