

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:

ORIGINAL

CASE NO. 14185

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

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID K. BROOKS, Legal Examiner
RICHARD EZEANYIM, Technical Examiner
TERRY G. WARNELL, Technical Examiner

September 18, 2008

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico
Oil Conservation Division, DAVID K. BROOKS, Legal Examiner,
RICHARD EZEANYIM, Technical Examiner, and TERRY G. WARNELL,
Technical Examiner, on Thursday, September 18, 2008, at the
New Mexico Energy, Minerals and Natural Resources Department,
1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico.

REPORTED BY: JOYCE D. CALVERT, P-03
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Albuquerque, New Mexico 87102

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FOR THE APPLICANT:

James G. Bruce, Esq.
ATTORNEY AT LAW
P.O. Box 1056
Santa Fe, New Mexico 87504

1 MR. EZEANYIM: At this point, I call Case No. 14185,
2 Application of Parallel Petroleum Corporation for Compulsory
3 Pooling, Chaves County, New Mexico.

4 Call for appearances.

5 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe,
6 representing the applicant. I have one witness.

7 MR. EZEANYIM: Any other appearances? May the
8 witness stand and state your name and be sworn?

9 MR. MYERS: My name is Aaron Myers. I'm a landman
10 for Parallel Petroleum Corporation.

11 MR. EZEANYIM: Go ahead, Mr. Bruce.

12 AARON MYERS

13 after having been first duly sworn under oath,
14 was questioned and testified as follows:

15 DIRECT EXAMINATION

16 BY MR. BRUCE:

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

18 A. My name is Aaron Myers.

19 Q. And where do you reside?

20 A. Midland, Texas.

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

22 A. I am a landman for Parallel Petroleum
23 Corporation.

24 Q. Have you previously testified before the
25 Division?

1 A. Yea, I have.

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

4 A. Yes, they were.

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

7 A. Yes, I am.

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

10 MR. EZEANYIM: Mr. Myers is so qualified.

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

14 A. Parallel is seeking to pool the S/2 of Section 3
15 in Township 15 South, Range 25 East, located in Chaves County,
16 New Mexico. Exhibit No. 1 is a locator map showing the surface
17 location in the SE/4 of the SE/4 of Section 3, and then the
18 bottom hole location in the SW/4 of the SW/4 in Section 3.

19 Q. And what is the target formation in this well?

20 A. The target formation is the Wolfcamp formation.

21 Q. And in this area, the Wolfcamp is a gas-bearing
22 formation, correct?

23 A. Yes, it is.

24 Q. What is the name of the proposed well? And I
25 refer you to Exhibit 2.

1 A. The name of the proposed well is the Go For Gin
2 1525-3 A.

3 MR. EZEANYIM: Do they drink a lot of gin?

4 THE WITNESS: Actually, I believe this is named after
5 a racehorse, if I'm not mistaken.

6 MR. EZEANYIM: It was funny when I read it. Okay.
7 Go ahead.

8 Q. (By Mr. Bruce): And what are the exact footages
9 of location, Mr. Myers?

10 A. The location for the surface location will be 760
11 feet from the south line and 168 feet from the east line, and
12 the bottom hole location will be 760 feet from the south line
13 and 660 feet from the west line.

14 Q. The penetration point in the Wolfcamp will,
15 however, be orthodox; will it not?

16 A. Yes, it will.

17 Q. And I refer you to Exhibit 3. And could you
18 discuss the working interest ownership in this well?

19 A. Yes. Exhibit 3 is a spreadsheet outlining the
20 working interest owners by tract within the unit, S/2 unit.

21 Q. And who do you seek to force-pool in this case?

22 A. At the present time, we're seeking to pool the
23 heirs and devisees of Eugene Moots, a deceased person and also
24 Chesapeake Operating.

25 Q. Now, what is Exhibit 4?

1 A. Exhibit 4 is a copy of the AFE and well proposal
2 letter that we sent to Mr. Kevin Pfister at Chesapeake Energy.

3 Q. Okay. And you have not heard back from them and
4 their plans on joining in or not joining in the well?

5 A. Actually, at the present time, we have in hand a
6 signed AFE from Chesapeake. We also have a JOA out to them.
7 We're waiting on the JOA to come back, and we decided to keep
8 the pooling going since we had another party -- and we also
9 have Chesapeake -- while we're waiting on the signed copy of
10 the operating agreement.

11 Q. And if Chesapeake joins in the well, will you
12 notify the Division?

13 A. Yes, we will.

14 Q. Okay. Parallel has had to force-pool Chesapeake
15 in a number of other wells in the area, too, has it not?

16 A. We have on one prior occasion that I handled, and
17 I think there might have been a few others that were handled by
18 somebody else.

19 Q. Now, let's discuss Mr. -- and maybe if you go
20 back to Exhibit 3 --

21 A. Sure.

22 Q. -- Mr. Myers, under the N/2, SW/4, you have the
23 heirs or devisees of Eugene Moots. What's the status of
24 Mr. Moots, and what did you do to try to locate him or his
25 heirs?

1 A. Using our field landman through a broker, we came
2 up with no address for Mr. Moots; however, there were some
3 leases of record that are reflected in the notation just
4 underneath the N/2, SW/4 that there were actually five leases
5 that were on our title opinion. Record title on the title
6 opinion stated is listed as heirs or devisees of Eugene Moots.
7 There's some cleanup issue that has to be done. Out of those
8 five leases, Parallel holds one of those leases; Chesapeake
9 holds the other four.

10 Q. Okay. But there has been no probate, that you
11 know of, in New Mexico regarding the Moots estate?

12 A. None that we've found.

13 Q. And, therefore, title is defective at this point?

14 A. Yes, it is.

15 Q. And as a result, did your title attorney make a
16 requirement that you force-pool any unknown owners related to
17 Mr. Moots?

18 A. It wasn't a requirement in the actual opinion,
19 but it was discussed with the land manager for New Mexico and
20 our title attorney and myself.

21 Q. In your opinion, has Parallel made a good-faith
22 effort to locate Mr. Moots and to obtain Chesapeake's voluntary
23 joinder in the well?

24 A. Yes, we have.

25 Q. Would you identify Exhibit 5 and discuss the cost

1 of the proposed well?

2 MR. EZEANYIM: Before you go, I have a question,
3 please. What do you mean by the title is defective? I didn't
4 understand that. What does that mean?

5 MR. BRUCE: Mr. Examiner, in New Mexico, a probate
6 should be conducted on someone's estate, and if not, it's
7 always uncertain who owns the interest until a probate is
8 conducted. Generally, as I understand it, and Mr. Aaron Myers
9 can confirm, there is an affidavit of heirship. But in
10 New Mexico, that is not sufficient to establish title, a
11 marketable title.

12 MR. BROOKS: Texas is much more rational in that
13 respect.

14 MR. BRUCE: So I understand. And as Mr. Brooks
15 indicated, in Texas, I think if you get two affidavits of
16 heirship, that is sufficient to establish title. And that is
17 the common practice. And, of course, most of the companies are
18 in Texas, and they do that.

19 But New Mexico attorneys -- there are certain parts
20 of the probate code that in New Mexico that can come back to
21 bite you if you do not do it in probate.

22 MR. EZEANYIM: Okay. Go ahead.

23 Q. (By Mr. Bruce): Mr. Myers, what is the cost of
24 the proposed well?

25 A. Total estimated cost of the proposed well is

1 \$2,124,300.

2 Q. And is this cost in line with the cost of other
3 wells drilled to this depth and in this area of Chaves County?

4 A. Yes, it is.

5 Q. Do you request that Parallel be appointed
6 operator of the well?

7 A. Yes, we do.

8 Q. And do you have a recommendation for the amounts
9 for which Parallel should be paid for supervision and
10 administrative expenses?

11 A. At the present time, we would ask for \$4500 a
12 month drilling, \$450 a month production, which is in line with
13 other wells in the area.

14 Q. Okay. And what is Exhibit 6?

15 A. Exhibit 6 is a fixed rate overhead survey
16 prepared by Ernst and Young, and it's kind of hard to read.
17 But the overhead rates that we're asking for are in line with
18 this. Actually, this is an older copy. It's a 2005-2006, but
19 it should be in line with present operating costs.

20 MR. EZEANYIM: What is the depth of this well?

21 THE WITNESS: Depth of the well -- the well will be
22 drilled to an approximate vertical depth of 4,750 feet, which
23 is reflected in the first paragraph of Exhibit 4.

24 MR. EZEANYIM: And then horizontally to unit M,
25 right?

1 THE WITNESS: Yeah. Horizontally to the target
2 objective. If memory serves me correctly, that's about -- it's
3 between 8- and 9,000 feet total depth.

4 MR. EZEANYIM: Okay.

5 Q. (By Mr. Bruce): Do you request that the overhead
6 rates be adjusted as provided by the COPUS accounting
7 procedure?

8 A. Yes, we do.

9 Q. And do you request the maximum cost plus
10 200 percent risk charge if any interest owner is non-consent in
11 the well?

12 A. Yes, we would.

13 Q. And was Mr. Moots or his heirs notified of this
14 hearing by publication?

15 A. Yes, they were.

16 Q. And is that reflected in Exhibit 7?

17 A. Yes, it is.

18 Q. And was Chesapeake notified in writing as
19 reflected in Exhibit 8?

20 A. Yes, they were.

21 Q. Were Exhibits 1 through 8 prepared by you or
22 under your supervision or compiled from company business
23 records?

24 A. Yes, they were.

25 Q. And in your opinion, is the granting of this

1 application in the interests of conservation and the prevention
2 of waste?

3 A. Yes, it is.

4 MR. BRUCE: Mr. Examiner, I move the admission of
5 Exhibits 1 through 8.

6 MR. EZEANYIM: Exhibits 1 through 8 will be admitted.

7 [Applicant's Exhibits 1 through 8 admitted into
8 evidence.]

9 MR. BRUCE: And I have no further questions for the
10 witness.

11 MR. EZEANYIM: Thank you, Mr. Bruce. Mr. Brooks?

12 EXAMINATION

13 BY MR. BROOKS:

14 Q. You know who you think are the heirs of
15 Mr. Moots, correct?

16 A. Yes. As I was saying, the title opinion credits
17 five leases, but the record title hasn't been set forth into
18 those actual people due to some title issues that need
19 clearing.

20 Q. And so is your client in a position now where, if
21 they get production, they will approve payment to people they
22 now think are the heirs of the Moots? Or is that going to be
23 suspended?

24 A. It's typically done on a case-by-case basis. In
25 this particular instance, I'm inclined to say that it will be

1 suspended until we can kind of get title completely cleared and
2 make sure we're not missing anybody and make sure we're paying
3 the right people.

4 Q. So we should put a provision in the order for the
5 establishment of an escrow.

6 A. Yes. That would be fine.

7 Q. Okay. Of course, we're not going to need escrow
8 for Chesapeake. We know who they are.

9 A. Exactly.

10 Q. Okay. Very good. That's all I had.

11 MR. EZEANYIM: So there must be an escrow account.

12 THE WITNESS: Yes.

13 MR. BROOKS: Well, I guess one other question. Just
14 sarcastically, if they're going to gin, they'll be disappointed
15 if they only get natural gas. I'm sorry.

16 MR. EZEANYIM: Anything, Mr. Warnell?

17 MR. WARNELL: No questions.

18 EXAMINATION

19 BY MR. EZEANYIM:

20 Q. Okay. This is a new well, right?

21 A. Yes, it is.

22 Q. Is everything sorted out? Have you applied for
23 an APD and AFE number?

24 A. Yes, we have. API number is actually handwritten
25 and is reflected on the APD, which is Exhibit No. 2.

1 Q. You have the APD here?

2 A. Yes. Exhibit No. 2 is form C-101 and form C-102.

3 Q. Okay. Go For Gin. Your overhead rating is for
4 4500, producing 450?

5 A. Yes, that's correct.

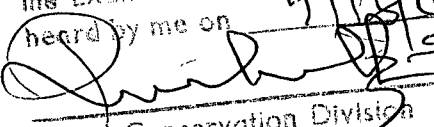
6 Q. No further questions.

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

9 MR. EZEANYIM: Okay. At this point, Case No. 14185
10 will be taken under advisement.

11 At this point, we're taking about a five-minute short
12 break.

13 * * *

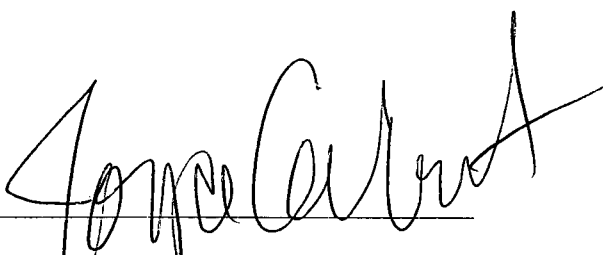
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Oil Conservation Division
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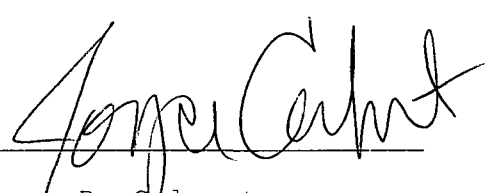
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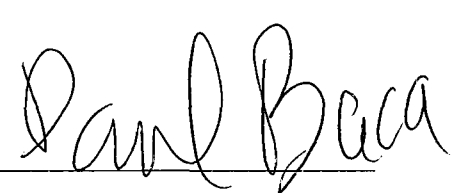
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