

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. 14158

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

**ORIGINAL**

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID K. BROOKS, Legal Examiner  
WILLIAM V. JONES, Technical Examiner  
TERRY WARNELL, Technical Examiner

August 7, 2008

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID K. BROOKS, Legal Examiner, WILLIAM V. JONES, Technical Examiner, and TERRY WARNELL, Technical Examiner, on Thursday, August 7, 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  
Paul Baca Court Reporters  
500 Fourth Street, NW, Suite 105  
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. JONES: Okay. Let's go back on the record, and  
2 let's call Case No. 14158, Application of Parallel Petroleum  
3 Corporation for Compulsory 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. JONES: Any other appearances? Will the witness  
8 please stand to be sworn?

9 AARON MYERS

10 after having been first duly sworn under oath,

11 was questioned and testified as follows:

12 DIRECT EXAMINATION

13 BY MR. BRUCE:

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

15 A. My name is Aaron Myers.

16 Q. Who do you work for and where do you reside?

17 A. I reside in Midland, Texas.

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

19 A. I'm a landman for Parallel Petroleum Corporation  
20 in Midland, Texas.

21 Q. Have you previously testified before the  
22 Division?

23 A. Yes, I have.

24 Q. And were you credentials as an expert landman  
25 accepted as a matter of record?

1 A. Yes, they were.

2 Q. And does your area of responsibility at Parallel  
3 include this part of southeast New Mexico?

4 A. Yes, it does.

5 MR. BRUCE: Mr. Examiner, I tender Mr. Myers as an  
6 expert petroleum landman.

7 MR. JONES: Mr. Myers is a common face here in  
8 Santa Fe. Mr. Myers is qualified as an expert in petroleum  
9 land matters.

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

13 A. Yes, I can. This is a locator map showing our  
14 drilling location based in the N/2 of Section 5 in Township 15  
15 South, Range 25 East, Chaves County, New Mexico. It shows our  
16 drilling location located in the NE/4 of the NE/4 and  
17 continuing over westward to a bottom hole location located in  
18 the NW/4 of the NW/4.

19 Q. And what is Exhibit 2?

20 A. Exhibit 2 is Parallel Petroleum's form C-101 on  
21 the first page, Application for Permit to Drill. And on the  
22 second page is Parallel Petroleum Corporation's form C-102,  
23 their well location and acreage dedication plat.

24 Q. And that gives the service location, the  
25 penetration point, and the bottom hole location, doesn't it?

1 A. Yes, sir, it does.

2 Q. What is the working interest ownership in the  
3 well unit?

4 A. In the well unit, looking at Exhibit No. 3,  
5 Parallel Petroleum has a little over 92 percent of the working  
6 interest acquired through leasing various mineral owners. And  
7 we've got a little -- almost 8 percent -- outstanding, which is  
8 what we're seeking to pool.

9 Q. And what is the name of the person you seek to  
10 pool?

11 A. The persons we are seeking to pool are the  
12 Heirs/Devisees of Frank M. Johnson. We've taken leases from  
13 several people that we have deemed to be heirs, and we're just  
14 basically here to cover anybody that we might have missed or  
15 were unable to locate.

16 Q. And what is Exhibit 4?

17 A. Exhibit 4 is a copy of the well proposal that  
18 was sent to the last known address we had for Frank M. Johnson,  
19 deceased.

20 Q. And it was returned?

21 A. Yes, it was. If you look at the last page of  
22 Exhibit 4, that is a copy of the envelope that the letter was  
23 returned in and a copy of the return receipt off the back of  
24 the envelope.

25 Q. What did you -- what steps did Parallel take to

1 locate Mr. Johnson or his heirs or devisees?

2 A. We had our brokers extensively research the  
3 mineral ownership records for Chaves County, and that's where  
4 we came up with this last known address. And we also had them  
5 do an internet search for Frank M. Johnson, and this is all we  
6 came up with was the last known address located in the records  
7 in the oil and gas records for Chaves County.

8 Q. You said -- and there was no probate of this  
9 estate?

10 A. No. None that we found.

11 Q. Okay. So you can't really tell who his heirs or  
12 devisees are at this point?

13 A. Not with any certainty, really, no.

14 Q. In your opinion, did Parallel make a good faith  
15 effort to locate Mr. Johnson or his heirs?

16 A. Yes, sir. We did.

17 Q. Could you identify Exhibit 5 for the Examiner?

18 A. Exhibit 5 is a copy of Parallel Petroleum's  
19 authority for expenditure. It's referenced in the letter found  
20 in Exhibit 4, and it was enclosed with the letter as well. It  
21 outlines for well costs to be \$2,316,200, total well cost.  
22 It's an estimate for the cost of drilling this well.

23 Q. And is this cost in line with the costs of other  
24 wells drilled to this depth in this area of New Mexico?

25 A. Yes, it is.

1 Q. Parallel has drilled a number of horizontal  
2 Wolfcamp wells in this area, has it not?

3 A. In the surrounding area, yes.

4 Q. And it has a good handle on well costs?

5 A. Yes, we do.

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

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

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

12 A. At the present time, we would ask for \$4500 a  
13 month drilling and \$450 a month producing as overhead rates.

14 Q. And are these amounts equivalent to those  
15 normally charged by Parallel and other operators in this area  
16 for wells of this type?

17 A. Yes, they were.

18 Q. Do you request that the overhead rates be  
19 adjusted periodically as provided by the COPAS accounting  
20 procedure?

21 A. Yes, we would.

22 Q. And do you request the maximum cost plus 200  
23 percent risk charged to be assessed against any non-consenting  
24 interest owner?

25 A. Yes, we would.



1 Q. And since Mr. Johnson was unlocatable, was he  
2 notified by publication?

3 A. Yes, he was. That's found in Exhibit No. 6,  
4 which I believe was published in the Roswell newspaper.

5 MR. BRUCE: Mr. Examiner, this is a copy of the  
6 notice I sent to the Roswell newspaper. I called them Tuesday,  
7 and they told me an Affidavit of Publication would be  
8 forthcoming. I sent it to them over a month ago, and they  
9 hadn't send me the Affidavit of Publication. I'd like to be  
10 able to submit as, say, Exhibit 6-A of the original Affidavit  
11 of Publication after this hearing.

12 MR. BROOKS: Okay. I believe it would not be  
13 necessary to continue the hearing for that purpose. We can  
14 take it under advisement and then let you supplement the record  
15 with that information once you have it available.

16 MR. BRUCE: Thank you.

17 Q. (By Mr. Bruce): Mr. Myers, were Exhibits 1  
18 through 6 prepared by you under your supervision or compiled  
19 from company business records?

20 A. Yes, they were.

21 Q. And in your opinion, is the granting of this  
22 application in the interest of conservation and the prevention  
23 of waste?

24 A. Yes, it is.

25 MR. BRUCE: Mr. Examiner, I move the admission of

1 Exhibits 1 through 6.

2 MR. JONES: Exhibits 1 through 6 will be admitted.

3 [Applicant's Exhibits 1 through 6 admitted into  
4 evidence.]

5 MR. JONES: Are you ready for us?

6 MR. BRUCE: Yes.

7 MR. JONES: Okay. Mr. Myers, the question of  
8 good-faith effort -- and I don't want to drag this out. If you  
9 were being compulsory pooled, what would you say is a  
10 good-faith effort from some other company to come in and  
11 compulsory pool you?

12 A. I would consider a good-faith effort using the  
13 utmost diligence of, you know, as much diligence as possible to  
14 locate a last known address or heirs or devisees of someone who  
15 may or may not be deceased. We basically do that.

16 We look through our mineral take-offs that are  
17 prepared by our brokers. That's where we'll first look. And  
18 then, you know, we've also got our title opinion which still  
19 credits Frank M. Johnson, deceased, as the mineral owner. And  
20 using that, we'll try to work with people that we can locate to  
21 go back and kind of clear title to the issue and get it settled  
22 and make sure everything gets disbursed and paid out to the  
23 correct people. It's something we do pretty much every day.

24 Q. What if you were in the midst of negotiating with  
25 another company, and they were in a compulsory pooling

1 proceedings that would eventually compulsory pool you if you  
2 didn't lease to them or farm out to them, how much time would  
3 you take to do all your negotiations?

4 A. Since I'm the one that typically would have to do  
5 that as the land manager, we would try to sit down and talk and  
6 talk to the people and work out something that was agreeable to  
7 everybody involved.

8 Q. You could do it in a hurry, then?

9 A. Yeah. I think we could.

10 Q. Okay.

11 MR. JONES: Okay. Mr. Brooks?

12 MR. BROOKS: Okay.

13 EXAMINATION

14 BY MR. BROOKS:

15 Q. First off, what percentage did you say the  
16 working interest that Parallel has?

17 A. Looking at Exhibit 3, this is representative of a  
18 decimal form, but it would be 92.187 percent -- at the bottom  
19 of exhibit?

20 Q. Okay. So you have -- Parallel has all of the  
21 working interest except for this outstanding unleased interest  
22 that you're pooling?

23 A. That would be correct. And then if you look up  
24 towards the top of the page, there is an interest that was cut  
25 in half by somebody that we leased, that we let them

1 participate for half of their interest, and then we lease the  
2 other half of the interest. That's listed as Richard E. Maloy  
3 and Kaye Maloy, Trustees of the Richard E. Maloy 1999 Trust.

4 Q. Okay. So they have part of the working interest  
5 as well as a royalty?

6 A. Yes, sir, they do.

7 Q. Okay. And them and Parallel are the only working  
8 interest owners?

9 A. That would be correct, yes.

10 Q. Okay. Now, the Johnson heirs own only in the  
11 distinct tract set out, lots 3 and 4, in the S/2 of the NW/4?

12 A. That would be correct. It's an aggregate for 1/8  
13 mineral interest in what basically amounts to the NW/4 of that  
14 section.

15 Q. Yeah. That's the NW/4 equivalent, I assume.

16 A. A little over 160 acres.

17 Q. Okay. You don't know who the heirs of Frank  
18 Johnson are or where they are, right?

19 A. If my memory serves me correctly, we do have some  
20 leases and this is just a cautionary measure in case we've  
21 missed anybody. We'd like to make sure that they're covered,  
22 you know, under approval.

23 Q. I'm sorry, I didn't catch the bottom line of what  
24 you said. Do you have a clue as to who these people are?

25 A. We do have a clue as to some of them, yes, we do,

1 and we went ahead and -- the leases from them, but based on our  
2 title opinion and our title attorney's -- basically, his  
3 requirement for us was to go ahead and pool it until we can get  
4 the issues completely resolved and start removing them from the  
5 title requirement section of our opinion.

6 Q. Okay. Since you don't necessarily know who they  
7 are, is there a possibility, then, that some interest will be  
8 escrowed?

9 A. I think there is a possibility that there might  
10 be, and we're working to resolve that currently.

11 Q. Okay. Now, that's really all the pertinent  
12 questions I have. But I just wanted to -- it's something I  
13 thought about, so I'll just be like Will here and ask you a  
14 general question like he did.

15 But as a Texas Title Examiner, which is what I used  
16 to be -- in Texas, of course, we do everything on Affidavits of  
17 Heirship. And I know Affidavits of Heirship are not kosher in  
18 New Mexico. Title attorneys won't accept them because of the  
19 requirements for probate. But what I'm wondering is, as a  
20 practical matter, do oil companies pay on those things or do  
21 they require probate for everything for lease interests?

22 A. Parallel, what we've done in the past, is work  
23 with those people.

24 Q. Yeah.

25 A. If we can get a lease from them and we can do it

1 with some certainty, sometimes we will just go ahead and waive  
2 the requirement because we're almost positive, or as positive  
3 as we can be. And we'll waive it, and we usually don't  
4 entertain the 200 percent surcharge that you would have on a  
5 pooled interest. We can go ahead and acquire a lease, and our  
6 title attorney and we are both comfortable with that.

7 MR. BROOKS: Okay. Thank you. That's all I have.

8 MR. JONES: Mr. Warnell?

9 MR. WARNELL: No questions.

10 MR. JONES: Thank you. With that, let's take  
11 Case No. 14158 under advisement.

12 [Hearing concluded.]

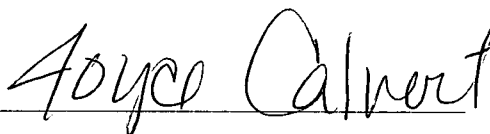
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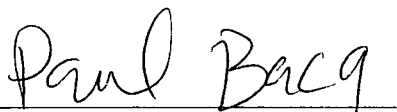
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