

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

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OIL CONSERVATION DIVISION

JAN 8 2004

Oil Conservation Division
1220 S. St. Francis Drive
Santa Fe, NM 87505

IN THE MATTER OF THE HEARING CALLED BY
THE OIL CONSERVATION DIVISION FOR THE
PURPOSE OF CONSIDERING:

APPLICATION OF LEEDE OPERATING COMPANY,
L.L.C., FOR COMPULSORY POOLING,
LEA COUNTY, NEW MEXICO

CASE NO. 13,171

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

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

December 18th, 2003

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, WILLIAM V. JONES, JR., Hearing Examiner, on Thursday, December 18th, 2003, 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

December 18th, 2003
 Examiner Hearing
 CASE NO. 13,171

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* * *

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* * *

A P P E A R A N C E S

FOR THE DIVISION:

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

FOR THE APPLICANT:

JAMES G. BRUCE
Attorney at Law
P.O. Box 1056
Santa Fe, New Mexico 87504

* * *

1 WHEREUPON, the following proceedings were had at
2 8:29 a.m.:

3 EXAMINER JONES: Okay, with that we'll call Case
4 13,171, which was continued from November 20th, the
5 Application of Leede Operating Company, L.L.C., for
6 compulsory pooling, Lea County, New Mexico.

7 Call for appearances.

8 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe,
9 representing the Applicant. I have one witness.

10 EXAMINER JONES: Any other appearances?

11 There being none, will the witness please stand
12 to be sworn.

13 (Thereupon, the witness was sworn.)

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

17 DIRECT EXAMINATION

18 BY MR. BRUCE:

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

20 A. Rusty Brusenhan.

21 Q. Where do you reside?

22 A. Denver, Colorado.

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

24 A. I work for Leede Operating Company, L.L.C., and
25 I'm their land manager.

1 Q. Have you previously testified before the
2 Division?

3 A. No, I have not.

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

6 A. I received a bachelor of science degree from the
7 University of Wyoming in 1977. After college I worked
8 several years as an independent landman. 1984 I became the
9 regional land manager for eastern U.S. for Transco
10 Exploration Company, and for the last 14 years I've been
11 the land manager for Leede Operating Company.

12 Q. And does your area of responsibility at Leede
13 include southeast New Mexico?

14 A. Yes, it does.

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

17 A. Yes, I am.

18 MR. BRUCE: Mr. Examiner, I tender Mr. Brusenhan
19 as an expert petroleum landman.

20 EXAMINER JONES: Mr. Brusenhan is so qualified.
21 I've got your spelling on the Application, so is that
22 sufficient?

23 COURT REPORTER: I have it also.

24 EXAMINER JONES: Okay, Mr. Brusenhan is so
25 qualified as an expert landman.

1 Q. (By Mr. Bruce) Would you please refer to Exhibit
2 1 and describe for the Examiner what you seek in this
3 Application?

4 A. Yes, Exhibit 1 is a land plat highlighting the
5 northwest quarter -- or excuse me, the northwest of the
6 southeast quarter of Section 7 in Township 19 South, Range
7 39 East, and Leede seeks an order pooling all of the
8 mineral interests from the surface to the base of the Abo
9 formation.

10 The unit will be dedicated to a well to be called
11 our Schubert "7" Well Number 1. It will be located at a
12 legal location in said Section 7. We're presently working
13 with the surface owner out there. The land is in a
14 farming, circular irrigation, so we're trying to minimize
15 our impact on his livelihood. So we don't have an actual
16 footage location at this time.

17 Q. Who do you seek to pool?

18 A. We seek to pool the unleased mineral owners under
19 said Section 7.

20 Q. Okay. With respect to -- looking at your land
21 plat, you're seeking to pool the northwest of the
22 southeast, but is title common in the southeast quarter?

23 A. Yes, it is.

24 Q. Okay. How many mineral owners are in that
25 quarter section?

1 A. There are approximately 28 different owners.

2 Q. And how many have you leased at this time?

3 A. We have obtained leases from 20 of the mineral
4 owners covering approximately 75 -- or excuse me, 95
5 percent of the mineral interest.

6 Q. Okay, so you seek to pool the remaining unleased
7 owners?

8 A. Yes.

9 Q. Does Exhibit 2 -- Well, Exhibit 2 was the owners
10 unpooled -- unleased as of a couple of months ago. Have
11 you obtained leases from any of the people on Exhibit 2?

12 A. Yes, we have.

13 Q. And what --

14 A. We have received a lease from Spindletop
15 Exploration Company, Inc., and we have a verbal that
16 they're going to sign a lease from a Robert S. Dieken and a
17 Douglas H. Dieken. The balance of the parties we have been
18 unable to locate as of this time.

19 Q. Even though the two Mr. Diekens have given verbal
20 commitment, you haven't received their leases yet?

21 A. No, not as of today.

22 Q. Okay. If they do lease, will you notify the OCD
23 that they're --

24 A. Yes, we will.

25 Q. Now, certain of these interest owners were

1 locatable, were they not?

2 A. Yes, that's correct.

3 Q. And did you contact them in writing to get them
4 to join in the well?

5 A. Yes, we did. We offered to lease their mineral
6 interests, and when they did not respond, we then sent them
7 a copy of the AFE and proposed our well and outlined what
8 we were trying to accomplish.

9 Q. And is your correspondence with them marked as
10 Exhibit 3?

11 A. Yes, it is.

12 Q. Did you have any phone calls with any of these
13 people?

14 A. The only individuals that I have spoke with
15 directly are Robert S. Dieken and Douglas H. Dieken.

16 Q. Okay. Now, regarding the people you could not
17 locate, what records were searched in trying to locate the
18 interest owners?

19 A. Well, we searched the county records, the county
20 records of Lea County at the Clerk's office, the Tax
21 Assessor's office in Lea County. We've searched on the
22 Internet, we've met with people who were neighbors of the
23 individuals that we were unable to locate, in hopes of
24 finding where they may have ended up going. And that's
25 pretty much it.

1 Q. Did these individuals who you could not locate
2 acquire their interest some time ago?

3 A. From our review of the records, it appears that
4 these mineral interests were segregated from the land,
5 probably in the 1930s, and that was their last known
6 address, was in the late 1930s and early 1940s.

7 Q. Okay. So their trail is pretty cold?

8 A. Yes.

9 Q. In your opinion, has Leede made a good faith
10 effort to obtain the voluntary joinder of the interest
11 owners in the well or to locate the -- all interest owners?

12 A. Yes, very comprehensive.

13 Q. Would you please identify Exhibit 4 and discuss
14 the cost of the proposed well?

15 A. Exhibit 4 is our AFE or authority for expenditure
16 for the Schubert well. The well's proposed depth is to
17 8000 feet, to test through the Abo formation. An estimated
18 dryhole cost of \$352,694 and a completed well cost of
19 \$541,218.

20 Q. Is this cost in line with the cost of other wells
21 drilled to this depth in this area of the state?

22 A. Yes, it is.

23 Q. Does Leede request that it be designated
24 operator?

25 A. No, we request that our joint venture partner,

1 Sahara Operating Company, be designated operator.

2 Q. Do they operate most of your wells --

3 A. Yes, they operate all of our wells in southeast
4 New Mexico.

5 Q. Do you have a recommendation for the amounts
6 which Leede should be paid for supervision and
7 administrative expenses?

8 A. Yes, we do. We request that \$3000 a month be
9 allowed for a drilling well and \$200 a month be allowed for
10 a producing well.

11 Q. Are these amounts equivalent or lower than those
12 normally charged by other operators in this area for wells
13 of this depth?

14 A. Yes, we believe them to be lower.

15 Q. Do you request that these rates be adjusted
16 periodically as provided by the COPAS accounting procedure?

17 A. Yes, we do.

18 Q. Do you request the maximum cost-plus-200-percent
19 risk charge be assessed against any nonconsenting owners?

20 A. Yes, we would.

21 Q. And as to the locatable persons, were they
22 notified of this hearing?

23 A. Yes, they were. And there's an Exhibit 5, an
24 affidavit of notice.

25 Q. Were Exhibits 1 through 5 prepared by you or

1 under your supervision or compiled from company business
2 records?

3 A. Yes, they were.

4 Q. And in your opinion is the granting of Leede's
5 Application in the interests of conservation and the
6 prevention of waste?

7 A. Yes, it is.

8 MR. BRUCE: Mr. Examiner, I'd move the admission
9 of Leede's Exhibits 1 through 5.

10 EXAMINER JONES: Exhibits 1 through 5 are
11 admitted into evidence.

12 MR. BRUCE: One thing, Mr. Examiner, there was --
13 When title was examined, there was one interest owner whose
14 name came up after the official notice period, or the
15 notice deadline, and that's a Clara Stotler. And I will
16 need to ask also that this case be continued to January 8th
17 so that proper notice can be given to her. I just noticed
18 that in looking at the affidavit.

19 EXAMINER JONES: Okay, thank you for noticing
20 that. That's good. We'll try to get it out immediately
21 after January the 8th.

22 THE WITNESS: Okay.

23 EXAMINER JONES: And I have no questions. You've
24 done a very good job, I think.

25 Gail, do you have any questions?

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MS. MacQUESTEN: No, thank you.

EXAMINER JONES: With that, thanks very much.

THE WITNESS: Great, thank you.

EXAMINER JONES: And with that, we'll continue
Case 13,171 to January the 8th.

(Thereupon, these proceedings were concluded at
8:38 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

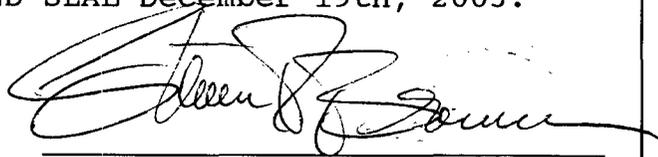
CERTIFICATE OF REPORTER

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 December 19th, 2003.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2006