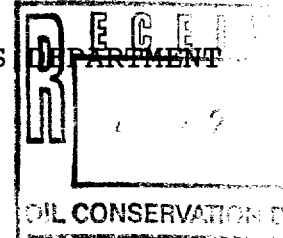


STATE OF NEW MEXICO  
ENERGY, MINERALS AND NATURAL RESOURCES  
OIL CONSERVATION DIVISION



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

CASE NO. 11,544

APPLICATION OF SDX RESOURCES, INC., )  
FOR COMPULSORY POOLING, LEA COUNTY, )  
NEW MEXICO )

**ORIGINAL**

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

August 8th, 1996

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, August 8th, 1996, at the New Mexico Energy, Minerals and Natural Resources Department, Porter Hall, 2040 South Pacheco, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

\* \* \*

## I N D E X

August 8th, 1996  
Examiner Hearing  
CASE NO. 11,544

## PAGE

REPORTER'S CERTIFICATE

9

\* \* \*

## E X H I B I T

Applicant's	Identified	Admitted
Exhibit 1	4	6

\* \* \*

## A P P E A R A N C E

FOR THE APPLICANT:

KELLAHIN & KELLAHIN  
117 N. Guadalupe  
P.O. Box 2265  
Santa Fe, New Mexico 87504-2265  
By: W. THOMAS KELLAHIN

\* \* \*

1           WHEREUPON, the following proceedings were had at  
2   9:09 a.m.:

3           EXAMINER STOGNER: At this time I'll call Case  
4   Number 11,544, which is the Application of SDX Resources,  
5   Inc., for compulsory pooling in Lea County, New Mexico.

6           At this time I'll call for appearances.

7           MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin of  
8   the Santa Fe law firm of Kellahin and Kellahin, appearing  
9   on behalf of the Applicant.

10          EXAMINER STOGNER: Any other appearances?  
11          Do you have any witnesses, Mr. Kellahin?

12          MR. KELLAHIN: No, sir.

13          EXAMINER STOGNER: No witnesses, okay.

14          Do you remember, Mr. Kellahin off the top of your  
15   head, the rule for compulsory pooling applications?

16          MR. KELLAHIN: It's in 1200, and I'm not sure I  
17   remember the number. It's what? 1211?

18          EXAMINER STOGNER: I don't -- No, not 1211.

19          MR. KELLAHIN: Is that it?

20          EXAMINER STOGNER: No.

21          MR. KELLAHIN: All right, I can find it here.

22          EXAMINER STOGNER: 120- -- Ah, 1207.

23          MR. KELLAHIN: 1207, all right.

24          EXAMINER STOGNER: Okay, Mr. Kellahin, what have  
25   you got?

1 MR. KELLAHIN: Mr. Examiner, SDX requires  
2 compulsory pooling because they are unable to find a  
3 mineral owner that within the proposed spacing unit has  
4 12.5 percent interest. The individual is Sadye Helen  
5 Johnston.

6 I have utilized as a format the Division Rule  
7 1207, and with your permission, in the absence of  
8 presenting expert witnesses before you today, I have had  
9 their testimony reduced to an affidavit with my expert  
10 witness attesting to the facts that I'm about to present to  
11 you, all of which are contained within SDX's Exhibit Number  
12 1.

13 In summary, Mr. Chuck Morgan is my attesting  
14 witness, and in his affidavit he describes to you the fact  
15 that he is an expert engineer and has testified before this  
16 Division on prior occasions and that based upon personal  
17 knowledge, he is attesting to the following:

18 He has provided you as Exhibit A to the affidavit  
19 a map of the spacing unit. The proposed well is to be the  
20 North Eunice-Blinebry-Tubb-Drinkard Pool well on 40-acre  
21 oil spacing.

22 Exhibit B is a portion of Mr. Calder Ezzell's  
23 title opinion of March 8th of 1995, showing the unleased  
24 mineral owner of an eighth interest to be Sadye Helen  
25 Johnston.

1           Exhibit C is a letter that Mr. Morgan obtained  
2           from his Midland attorney, Mr. MacDonald, who describes for  
3           you his efforts to locate Sadye Helen Johnston and the fact  
4           that he's been unable to do so.

5           Exhibit D is Mr. Morgan's AFE. A completed well,  
6           based upon his estimate, is \$397,712 as a completed well.  
7           He has concluded that those are fair and reasonable and  
8           current with regards to wells of this type in the area.

9           He's attached as Exhibit E a structure map on the  
10          top of the Blinebry.

11          Exhibit F is a type log of the principal  
12          formations where you can see the relationship principally  
13          of the Drinkard and the Tubb.

14          Exhibit G is an economic analysis prepared by Joe  
15          C. Neal and Associates, dated July 13th of 1995. Mr. Neal  
16          goes on for a number of pages and analyzes for SDX the  
17          economic and risk components of this well, not the least of  
18          which is Mr. Neal's concern that after 50 years of  
19          production in this particular area, that the SDX location  
20          may in fact be drained and depleted.

21          Mr. Neal goes ahead and runs an economic  
22          calculation, shows that there is a substantial period of  
23          time before payout is achieved and that there is a rate of  
24          return that is below what is often considered to be the  
25          basis for that risk.

1           Upon that information, then, Mr. Morgan has  
2 reached the conclusion that a 200-percent risk factor  
3 penalty is appropriate, and he requests the utilization of  
4 that percentage in the pooling order.

5           And then finally, Exhibit H is a copy of the  
6 *Ernst & Young* average well costs for 1995, showing wells at  
7 this depth have an overhead rate at a drilling basis of  
8 \$4000 a month and a producing basis of \$450 a month. Mr.  
9 Morgan attests to those numbers and requests that they be  
10 utilized in the pooling order, if you desire to enter one  
11 for him.

12           He then goes on and summarizes and then concludes  
13 as an expert that it's necessary to have the force-pooling  
14 in order to consolidate the interests.

15           And that completes, then, SDX Exhibit Number 1.

16           We would request that you utilize the affidavit  
17 in this case, particularly because it is uncontested,  
18 because we are unable to locate this party, and by doing  
19 so, we'll save my client the expense of bringing experts to  
20 testify verbally to what they have authenticated in writing  
21 to you today.

22           And with those statements, Mr. Examiner, we would  
23 move the introduction of Exhibit Number 1.

24           EXAMINER STOGNER: Pursuant to Rule 1207 (A),  
25 subparagraph (2), Exhibit Number 1 will be admitted.

1           Just as a follow-up, and the only reason that I'm  
2 asking this question is so that you can direct me to the  
3 affidavit, Mr. Kellahin, that was just handed to me --

4           MR. KELLAHIN: Yes, sir.

5           EXAMINER STOGNER: -- about Mr. Morgan's attempts  
6 in finding Ms. Johnston at the last known address. It  
7 doesn't jump out and see me.

8           MR. KELLAHIN: Yes, sir, that was done under  
9 Exhibit C by Mr. MacDonald. Mr. MacDonald is an attorney  
10 in Midland, Texas, and in his letter of August 7th to SDX  
11 he provides this summary.

12           He has researched the various records in Lea  
13 County in an attempt to locate information on the  
14 whereabouts of Ms. Johnston. He indicates that the  
15 information shown of record is that Farmiss Petroleum  
16 Corporation assigned an interest to Sadye Helen Johnston in  
17 December of 1963, and since that date when she acquired her  
18 interest, there are no subsequent documents of public  
19 record that will give him any clue as to her whereabouts.

20           He's also examined all local listings in the  
21 phone book and talked to several other parties and the Lea  
22 County Clerk in an effort to locate Sadye Helen Johnston,  
23 and that he says he is not able to do so.

24           To supplement that, the case has been on the  
25 Division's public docket at least four hearings now. The

1 docket is published in Lea County, New Mexico, and as a  
2 result of the publication, no one has come forward, to the  
3 best of my knowledge, to help us identify Ms. Johnston, nor  
4 has she contacted us.

5 EXAMINER STOGNER: Okay, thank you for helping  
6 clarify, Mr. Kellahin, and I appreciate you coming in and  
7 essentially not presenting the affidavit but essentially --  
8 well, yeah, presenting it.

9 MR. KELLAHIN: Yes, sir, I've summarized what  
10 it --

11 EXAMINER STOGNER: Summarized what it is.

12 MR. KELLAHIN: It's executed --

13 EXAMINER STOGNER: We haven't utilized this  
14 format in quite some time, and I think this exhibit is the  
15 way and the nature and the intent of this particular rule.  
16 I believe sometime in the past, something occurred, and we  
17 haven't taken advantage of this, and I think this is a good  
18 way to do it, and hopefully it helps the operators and also  
19 yourself. I appreciate that.

20 And at this time I'll take Case Number 11,544  
21 under advisement, review the matter and proceed  
22 accordingly.

23 (Thereupon, these proceedings were concluded at  
24 9:20 a.m.)

25 \* \* \*



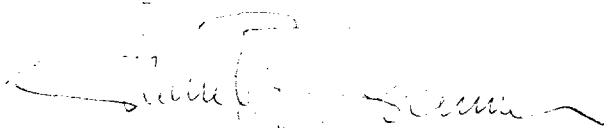
# CERTIFICATE OF REPORTER

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 August 9th, 1996.

  
 STEVEN T. BRENNER  
 CCR No. 7

My commission expires: October 14, 1998

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 11544 heard by me on 8 August 1996  
  
 Michael J. Kelly, Examiner  
 Oil Conservation Division

STEVEN T. BRENNER, CCR  
 (505) 989-9317