

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: )  
APPLICATION OF EDGE PETROLEUM )  
EXPLORATION COMPANY FOR COMPULSORY )  
POOLING, LEA COUNTY, LEA COUNTY, )  
NEW MEXICO )

CASE NO. 13,240

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

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

April 29th, 2004

Santa Fe, New Mexico

RECEIVED

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

This matter came on for hearing before the New

Mexico Oil Conservation Division, WILLIAM V. JONES, JR.,  
Hearing Examiner, on Thursday, April 29th, 2004, 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

April 29th, 2004  
 Examiner Hearing  
 CASE NO. 13,240

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APPLICANT'S WITNESSES:	
<u>JEFF A. SIKORA</u> (Landman)	
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\* \* \*

## E X H I B I T S

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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:

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

\* \* \*

1           WHEREUPON, the following proceedings were had at  
2   9:43 a.m.:

3           EXAMINER JONES: At this time let's go to page 3  
4   on the docket and call Case 13,240, Application of Edge  
5   Petroleum Exploration Company for compulsory pooling, Lea  
6   County, 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 to be  
10  sworn.

11          EXAMINER JONES: Any other appearances in this  
12  case?

13          There being none, will the witness please stand  
14  to be sworn?

15          (Thereupon, the witness was sworn.)

16                         JEFF A. SIKORA,  
17  the witness herein, after having been first duly sworn upon  
18  his oath, was examined and testified as follows:

19                                 DIRECT EXAMINATION

20  BY MR. BRUCE:

21           Q. Will you please state your name and city of  
22  residence for the record?

23           A. My name is Jeff Sikora, and I live in Houston,  
24  Texas.

25           Q. Have you previously testified -- Who do you work

1 for and in what capacity?

2 A. I am the senior staff landman for Edge Petroleum  
3 Exploration Company.

4 Q. Have you previously testified before the  
5 Division?

6 A. No, sir, I have not.

7 Q. Would you please summarize your educational and  
8 employment background?

9 A. I have a petroleum land management degree from  
10 the University of Texas in 1983. I was a senior landman  
11 for Shell from 1984 through 1989, I was an independent from  
12 1990 till around 1997, and I've been with Edge since 1998.

13 Q. Does your area of responsibility at Edge include  
14 southeast New Mexico?

15 A. Yes, it does.

16 Q. And are you familiar with the land matters  
17 involved in this case?

18 A. Yes, I am.

19 MR. BRUCE: Mr. Examiner, I'd tender Mr. Sikora  
20 as an expert petroleum landman.

21 EXAMINER JONES: Mr. Sikora is qualified as an  
22 expert petroleum landman.

23 Q. (By Mr. Bruce) Mr. Sikora, could you identify  
24 Exhibit 1 and describe what Edge seeks in this case?

25 A. Exhibit 1 is a plat of part of Township 16 South,

1 Range 34 East. The highlighted portion is the north half  
2 of Section 28, and we seek an order pooling the north half  
3 of Section 28 for all formations that are spaced -- to be  
4 spaced on 320 acres, down to the base of the Morrow  
5 formation.

6 MR. BRUCE: Mr. Examiner, the Application also  
7 asks for pooling of 40-acre spacing -- 40-acre well units  
8 -- for the southwest of the northeast quarter, but that is  
9 no longer needed, so that can be dismissed.

10 EXAMINER JONES: Okay.

11 Q. (By Mr. Bruce) What is the well's footage  
12 location, Mr. Sikora?

13 A. The well is located in the southwest quarter of  
14 the northeast quarter at 1980 feet from the north line of  
15 Section 28 and 2130 feet from the east line of Section 28.

16 Q. What is the ownership of the north-half well  
17 unit?

18 A. The ownership of the well is shown on Exhibit 2,  
19 which you have in your possession. Do you want me to read  
20 these off or --

21 Q. No, you don't need to read them all. But perhaps  
22 you could state which parties at this point have signed a  
23 JOA and are committed to the well?

24 A. The parties committed to the well at this point  
25 are Edge and Tom Brown, which represent almost 99 percent

1 of the well. The remaining parties listed, 3 through 15 on  
2 the list, are all small contractual working interest  
3 owners, some of which I think will participate in the well,  
4 but we -- We've mailed letters to them, and some have  
5 signed AFEs, in fact, but have not signed the operating  
6 agreement.

7 Q. Okay, so you seek to force pool the people listed  
8 as items 3 through 15?

9 A. Yes, sir, that's correct.

10 Q. Okay. Now let's discuss your efforts to obtain  
11 the joinder of these interest owners. What are Exhibits 3A  
12 and 3B?

13 A. 3A and 3B are copies of letters that I have sent  
14 to parties 3 through 15 on Exhibit 2. The February 2nd --  
15 Let's see.

16 The February 2nd and January 28th letters were  
17 the first letters that went out asking these parties to  
18 either participate in the well or grant Edge a one-year  
19 term assignment.

20 The follow-up letter came later in March,  
21 advising them that the location had changed somewhat and  
22 asking them again what their decision might be to  
23 participate in the well or not.

24 Q. The well was moved from what, the southeast  
25 quarter of the northeast quarter to the southwest quarter

1 of the northeast quarter?

2 A. Correct.

3 Q. That did not affect the AFE or the unit dedicated  
4 to the well?

5 A. No, it did not, not in any way whatsoever.

6 Q. Were there also phone calls with a number of  
7 these parties?

8 A. I have made phone calls to the majority of these  
9 people. There are a few -- or a couple, I should say, that  
10 I couldn't locate a phone number for, so I haven't called  
11 them.

12 But most of the folks I have called one to two  
13 times, and -- but today they just -- they hadn't -- they  
14 either hadn't responded or not committed one way or the  
15 other to a term assignment or to participate in the well.

16 Q. In your opinion, has Edge made a good-faith  
17 effort to obtain a voluntary joinder of the interest owners  
18 in the well?

19 A. Yes.

20 Q. Would you identify Exhibit 4 and discuss the cost  
21 of the proposed well?

22 A. Exhibit 4 is the authority for expenditure for  
23 this well. This AFE has a dryhole cost of \$1,039,710 and a  
24 completed well cost of \$1,588,073.

25 Q. And is this cost in line with the cost of other

1 wells drilled to this depth in this area of New Mexico?

2 A. Yes, it is.

3 Q. Who does Edge request be named operator of the  
4 well?

5 A. The operator of the well during the drilling  
6 phase will be Tom Brown, Inc. After the completion of the  
7 well, Edge will take over operations and will be the  
8 operator for all subsequent operations on the contract  
9 area.

10 Q. Will the Edge operating entity be Edge Petroleum  
11 Operating Company?

12 A. Yes, it will.

13 Q. Do you have a recommendation for the amounts  
14 which the operators should be paid for supervision and  
15 administrative expenses?

16 A. We believe common for this area would be \$6500 a  
17 month during the drilling and \$650 a month during the  
18 production.

19 Q. And these amounts are equivalent to those  
20 normally charged by other operators in this area for wells  
21 of this depth?

22 A. Yes.

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

25 A. Yes.

1 Q. And do you request that the maximum cost-plus-  
2 200-percent risk charge be assessed against nonconsenting  
3 interest owners?

4 A. Yes.

5 Q. And finally, were all the parties notified of  
6 this case?

7 A. Yes, they were. Exhibit 5 is an affidavit of the  
8 notice.

9 Q. Were Exhibits 1 through 5 prepared by you or  
10 under your supervision, or compiled from company business  
11 records?

12 A. Yes.

13 Q. And in your opinion, is the granting of this  
14 Application in the interests of conservation and the  
15 prevention of waste?

16 A. Yes, sir.

17 MR. BRUCE: Mr. Examiner, I'd move the admission  
18 of Exhibits 1 through 5.

19 EXAMINER JONES: Exhibits 1 through 5 will be  
20 admitted to evidence.

21 EXAMINATION

22 BY EXAMINER JONES:

23 Q. So Tom Brown -- Didn't they just get bought by  
24 somebody?

25 A. Incana.

1 Q. Incana.

2 A. Yeah.

3 Q. Incana bought Tom Brown?

4 A. Right, that was just announced.

5 Q. Effective --

6 MR. BRUCE: I'm not sure -- Mr. Examiner, I've  
7 talked with them, and I don't know when the effective date  
8 will be. Tom Brown, Inc., still does exist as an entity.

9 Q. (By Examiner Jones) Okay, and all of our  
10 correspondence, especially after March, has the correct  
11 location for the well?

12 Actually, you're not specifying a footage anyway,  
13 are you?

14 A. At the time I sent that well out, we didn't have  
15 the -- the permit was not granted at that time, and we  
16 didn't have the exact location of the well.

17 Q. What about API number? Do you have that?

18 MR. BRUCE: Mr. Examiner --

19 EXAMINER JONES: All of our records are zeroed in  
20 on --

21 MR. BRUCE: Here's the approved drilling permit.

22 EXAMINER JONES: Okay, I think that might have  
23 been in our correspondence too.

24 So it's 3002536678, API Number.

25 Q. (By Examiner Jones) And nobody signed except Tom

1 Brown and Edge?

2 A. At this point Tom Brown and Edge, we have not  
3 even finalized the operating agreement, so we're in the  
4 final phases of doing that right now.

5 Q. Okay, the State Land Office, did they -- they've  
6 all -- they've leased their minerals, so you don't even  
7 send -- you send --

8 A. Right, they all leased. It's old HBP, these  
9 leases that are held by production from surrounding wells  
10 at shallower depths.

11 Q. Okay, so these are all working interest owners?

12 A. Correct.

13 Q. And we do have the letters that were sent to  
14 them, or at least a copy of the letter -- yeah, we've got  
15 the certified receipts on all of those, so I could check  
16 all of those and match up.

17 A. Yes, sir.

18 Q. Okay. And you guys don't have an engineering  
19 witness or anything today?

20 MR. BRUCE: No, we don't.

21 Q. (By Examiner Jones) The AFE went out to all  
22 those working interest owners --

23 A. -- with the first letter.

24 Q. Okay, with the first letter. And it still  
25 remains 13,400 feet deep --

1 A. Yes.

2 Q. -- even after the location?

3 A. Yes.

4 Q. Okay. But you no longer are interested in any of  
5 the shallower -- anything shallower than the Atoka? Well,  
6 actually you're still interested in the Atoka-Morrow but  
7 not the Wolfcamp, Cisco and Strawn, like you were going  
8 for.

9 MR. BRUCE: Mr. Examiner, Mr. Sikora can confirm  
10 that, but the only two interest owners as to those rights  
11 are Edge and Tom Brown. The other parties listed on  
12 Exhibit 2 only are involved in the deeper rights.

13 Q. (By Examiner Jones) Oh, okay. Okay. So you  
14 don't have to -- for the shallower stuff?

15 A. Right.

16 Q. And the pool names, South Kemnitz-Atoka Morrow  
17 Gas.

18 A. (Nods)

19 EXAMINER JONES: Okay, Mr. Brooks, do you have  
20 anything?

21 EXAMINATION

22 BY MR. BROOKS:

23 Q. Yeah, you characterized these small interests as  
24 contractual working interest owners, none of these are  
25 unleased?

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A. No, sir, they're not.

MR. BROOKS: That's all.

EXAMINER JONES: Okay. Okay, thanks, Mr. Sikora.

With that, let's take Case 13,240 under  
advisement.

(Thereupon, these proceedings were concluded at  
9:54 a.m.)

\* \* \*

I do hereby certify that the foregoing is  
a complete record of the proceedings in  
the Examiner hearing of Case No. 3/3/04  
heard by me on W J J, 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 May 3rd, 2004.



STEVEN T. BRENNER  
 CCR No. 7

My commission expires: October 16th, 2006