

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 CHI ENERGY, INC.,)
FOR COMPULSORY POOLING, EDDY COUNTY,)
NEW MEXICO)

CASE NO. 13,378

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

November 18th, 2004

Santa Fe, New Mexico

2004 DEC 2 AM 11 42

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, November 18th, 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.

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I N D E X

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 Examiner Hearing
 CASE NO. 13,378

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APPLICANT'S WITNESS:

<u>JOHN QUALLS</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 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 8:22 a.m.:

3 EXAMINER CATANACH: At this time we'll call Case
4 13,378, which is the Application of Chi Energy,
5 Incorporated, for compulsory pooling, Eddy County, New
6 Mexico.

7 Call for appearances at this time.

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

10 EXAMINER CATANACH: Any additional appearances?
11 Okay, will the witness please stand to be sworn
12 in?

13 (Thereupon, the witness was sworn.)

14 JOHN QUALLS,
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. John Qualls.

21 Q. Where do you reside?

22 A. Midland, Texas.

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

24 A. Chi Energy, Inc., as a landman.

25 Q. Have you previously testified before the

1 Division?

2 A. Yes.

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

5 A. Yes.

6 Q. And are you familiar with the land matters
7 involved in this case?

8 A. Yes.

9 MR. BRUCE: Mr. Examiner, I would tender Mr.
10 Qualls as an expert petroleum landman.

11 EXAMINER CATANACH: Mr. Qualls is so qualified.

12 Q. (By Mr. Bruce) Mr. Qualls, could you identify
13 Exhibit 1 for the Examiner and tell him generally what Chi
14 seeks in this case?

15 A. Exhibit 1 is a land plat outlining the proposed
16 well unit. It's in the south half of Section 28. We seek
17 to force pool the people that we cannot find and won't
18 respond to our AFEs and our written letters.

19 Q. Okay. Now, you are seeking to force pool the
20 south half for 320-acre units, correct?

21 A. Right.

22 Q. And with respect to other well units, are you
23 seeking to force -- First of all, where is the well
24 located, roughly?

25 A. The well is located -- it would be 660 from the

1 east line, 990 from the south line, I believe.

2 Q. Okay, and that's in the southeast quarter. Do
3 you also seek to force pool any interest they have in the
4 southeast quarter?

5 A. Yes.

6 Q. And also in the southeast quarter, southeast
7 quarter?

8 A. Yes, sir.

9 Q. Okay.

10 A. Excuse me, I had the location wrong. It's 821
11 from the east and 1786 from the south.

12 Q. 1786 from the south.

13 A. Yeah, we had to move it because of topographic
14 reasons out there.

15 Q. Okay, so that is in the southwest quarter of the
16 southeast quarter?

17 A. Yes, I believe that's right.

18 MR. BRUCE: Mr. Examiner, in that case, I believe
19 the advertisement is incorrect, so it will have to be
20 readvertised.

21 EXAMINER CATANACH: Okay.

22 Q. (By Mr. Bruce) Mr. Qualls, could you identify
23 Exhibit 2 and identify the companies you seek to force pool
24 in this place?

25 A. Exhibit 2 is a letter to Bird Creek Resources,

1 which has an interest in here, along with a letter to BK
2 Exploration Corporation.

3 Q. Okay. Now, you sent these letters in July. Have
4 you had any other contacts with them, or have they ever
5 contacted you?

6 A. No, I tried to call the land department there at
7 BK and Bird Creek, and I never could get a response from
8 anybody.

9 Q. Okay, so they just did not respond?

10 A. No, sir.

11 Q. In your opinion, has Chi made a good-faith effort
12 to obtain their voluntary joinder in the well unit?

13 A. Yes, sir.

14 Q. What percentage does Bird Creek -- or do Bird
15 Creek and BK Exploration Corp. own?

16 A. Approximately three percent, total.

17 Q. And these are working interest owners, are they,
18 or are they unleased mineral owners?

19 A. Yes, they're working interest owners.

20 Q. Okay. Could you identify Exhibit 3 and discuss
21 the cost of the proposed well?

22 A. Exhibit 3 is an AFE for the drilling and
23 completion. Total well cost will be \$1,393,975.

24 Q. And is this cost in line with the cost of other
25 wells drilled to this depth in this area of Eddy County?

1 A. Yes, sir.

2 Q. And Chi has drilled a number of wells in the
3 Carlsbad area; is that correct?

4 A. Yes, sir.

5 Q. Does Chi request that Chi Operating, Inc., be
6 named operator of the well?

7 A. Yes, sir.

8 Q. What overhead rates does Chi Energy seek for this
9 well?

10 A. \$6000 drilling and \$600 producing.

11 Q. And are these amounts equivalent to those
12 normally charged by Chi and other operators for wells in
13 this area of this depth?

14 A. Yes, sir.

15 Q. And do you request that the rate be adjusted
16 periodically as provided by the COPAS accounting procedure?

17 A. Yes.

18 Q. And does Chi request the maximum cost-plus-200-
19 percent risk charge on any nonconsenting interest owner?

20 A. Yes.

21 Q. And finally, was notice of this hearing sent to
22 Bird Creek Resources and BK Exploration?

23 A. Yes, sir.

24 Q. And that's reflected in Exhibit 4?

25 A. Yes, sir.

1 Q. Were Exhibits 1 through 4 prepared by you or
2 under your supervision or compiled from company business
3 records?

4 A. Yes, sir.

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

8 A. Yes.

9 MR. BRUCE: Mr. Examiner, I'd move the admission
10 of Chi Exhibits 1 through 4.

11 EXAMINER CATANACH: Chi Exhibits 1 through 4 will
12 be admitted.

13 EXAMINATION

14 BY EXAMINER CATANACH:

15 Q. Mr. Qualls, you sent this letter back in July,
16 and did you say you did try and contact them by phone?

17 A. Yes, sir, I called a couple times. I actually
18 talked to a lady in the land department of BK. I never got
19 ahold of anybody at Bird Creek.

20 Q. Do you know that this -- is this their correct
21 address?

22 A. Yes, to the best of my knowledge, it is.

23 Q. But they did get all of your letters, as far as
24 you know?

25 A. (Nods)

1 Q. And BK, they didn't express any interest in
2 joining in the --

3 A. They said that they would back in touch with me
4 once they discussed it, and I never heard another word from
5 them. I called again and left a message, and nobody ever
6 returned my call.

7 Q. Do you know to what depth this well is going to
8 be drilled to?

9 A. It will be approximately 12,000 feet.

10 Q. It's a Morrow test?

11 A. Yes, sir.

12 Q. And you want to designate -- is it Chi Operating,
13 Inc. as the operator?

14 A. Yes, sir.

15 EXAMINER CATANACH: Okay, that's all I have.
16 Anything further?

17 MR. BRUCE: I have nothing further in this case,
18 Mr. Examiner.

19 EXAMINER CATANACH: Let's see, we probably need
20 to continue it for four weeks.

21 Okay, there being nothing further, this case will
22 be continued to the December 16th docket.

23 (Thereupon, these proceedings were concluded at
24 8:30 a.m.)

25

* * *

I do hereby certify that the foregoing
is a complete record of the proceedings in
the Examiner hearing of Case No. 1387P
heard by me on November 18, 2004

STEVEN T. BRENNER, CCR Daniel Martin, Examiner
(505) 989-9317 Oil Conservation Division

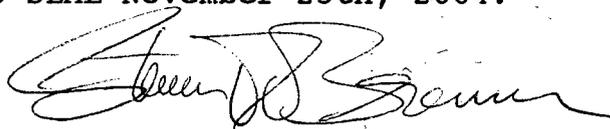
CERTIFICATE OF REPORTER

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 November 25th, 2004.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 16th, 2006