

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 OXY USA, INC., FOR)
COMPULSORY POOLING, HARDING COUNTY,)
NEW MEXICO)

CASE NO. 13,520

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: RICHARD EZEANYIM, Hearing Examiner

July 14th, 2005

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, RICHARD EZEANYIM, Hearing Examiner, on Thursday, July 14th, 2005, 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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July 14th, 2005
Examiner Hearing
CASE NO. 13,520

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* * *

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A P P E A R A N C E S

FOR THE DIVISION:

GAIL MacQUESTEN
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FOR THE APPLICANT:

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 P.O. Box 2208
 Santa Fe, New Mexico 87504-2208
 By: WILLIAM F. CARR

* * *

1 WHEREUPON, the following proceedings were had at
2 8:23 a.m.:

3 EXAMINER EZEANYIM: Okay, at this time I'll call
4 Case Number 13,520, and this is the Application of OXY USA,
5 Inc., for compulsory pooling, Harding County, New Mexico.
6 Call for appearances.

7 MR. CARR: May it please the Examiner, my name is
8 William F. Carr. I'm with the Santa Fe office of Holland
9 and Hart, L.L.P. We represent OXY USA, Inc., in this
10 matter, and I have one witness who needs to be sworn.

11 EXAMINER EZEANYIM: No other appearances? Will
12 the witness stand up to be sworn?

13 (Thereupon, the witness was sworn.)

14 EXAMINER EZEANYIM: You may proceed, Mr. Carr.

15 MR. CARR: Thank you, Mr. Ezeanyim.

16 MARK HODGE,
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. CARR:

21 Q. Would you state your full name for the record,
22 please?

23 A. Mark Hodge.

24 Q. Mr. Hodge, where do you reside?

25 A. Houston, Texas.

1 Q. And by whom are you employed?

2 A. Occidental Petroleum.

3 Q. And what is your current position with Occidental
4 Petroleum?

5 A. Senior landman advisor.

6 Q. What is the relationship between Occidental
7 Petroleum and OXY USA, Inc.?

8 A. Occidental Petroleum is the parent corporation;
9 OXY USA is a wholly owned subsidiary.

10 Q. Is OXY the operator of the Bravo -- OXY USA,
11 Inc., the operator of the Bravo Dome?

12 A. Yes.

13 Q. Have you previously testified before the New
14 Mexico Oil Conservation Division?

15 A. No.

16 Q. Could you summarize for Mr. Ezeanyim your
17 educational background?

18 A. I have a four-year degree in professional
19 accounting, I have post-graduate study in petroleum land
20 management, I've been a certified petroleum landman for 18
21 years.

22 Q. Would you review your work experience?

23 A. I have one year experience in petroleum
24 accounting, 20 years' experience as an independent landman,
25 as a consultant for various corporations, and five years of

1 employment with OXY at this time.

2 Q. Are you familiar with the Application filed in
3 this case?

4 A. Yes, I am.

5 Q. And are you familiar with the status of the lands
6 that are the subject of this Application?

7 A. Yes.

8 Q. At this time you're, in fact, the senior land
9 advisor for the Bravo Dome area; is that right?

10 A. Yes.

11 MR. CARR: We tender Mr. Hodge as an expert
12 witness in petroleum land matters.

13 EXAMINER EZEANYIM: Mr. Hodge is so qualified.

14 Q. (By Mr. Carr) Could you summarize for the
15 Examiner what it is that OXY seeks with this Application?

16 A. Yes, OXY seeks to force pool a minor amount of
17 mineral acres in the 640-acre-spaced area so that we can
18 produce this well with full commitment from all parties.

19 Q. Would you identify the well, please?

20 A. Yes, it's the Occidental -- it has a numerical
21 name, it is the Well 1933-191G.

22 Q. And this is in the Bravo Dome Unit?

23 A. Bravo Dome Unit.

24 Q. This is in the portion of the unit that is
25 developed on 640-acre spacing?

1 A. Yes.

2 Q. And what we're doing is trying to pool mineral
3 interests in one section of land that are not committed to
4 the unit?

5 A. That's correct.

6 Q. Is the well to be drilled at a standard location?

7 A. Yes.

8 Q. What is the current status of the well?

9 A. The well has been drilled and completed and is
10 waiting on hookup for production.

11 Q. Could you generally describe for Mr. Ezeanyim, or
12 explain what is the Bravo Dome Unit?

13 A. The Bravo Dome is a voluntary unit formed in
14 1980, encompassing approximately one million acres in three
15 counties. The purpose of this is to produce CO₂ gas on a
16 cooperative basis among many diverse operators and parcels
17 of land most economically, so this CO₂ gas can be taken to
18 use in CO₂ flooding.

19 Q. What is the primary objective in the well that is
20 the subject of today's hearing?

21 A. The Tubb formation.

22 Q. And is this in the Bravo Dome Carbon Dioxide Gas
23 Pool?

24 A. Yes.

25 Q. What rules govern the development of this pool?

1 A. They're in the statement here. Order Number
2 R-7556, Case 8190.

3 Q. And these provide for 640-acre spacing units for
4 this portion of the unit?

5 A. That's correct.

6 Q. Could you go to what's been marked for
7 identification as OXY Exhibit Number 1 and identify that
8 for Mr. Ezeanyim and then review the information on the
9 exhibit?

10 A. That's the map. This is a computer-generated map
11 showing the 640-acre Section 19 where the well will be
12 drilled. The map shows the location of the well, it shows
13 all of the Bravo Dome tracts in Section 19, including the
14 tract where we do not have 100-percent lease.

15 As you look at this you'll see there's two
16 colors. There's yellow and orange. The yellow indicates
17 the tracts where Occidental holds -- Occidental and its
18 unit partners, hold 100-percent lease ownership and 100-
19 percent commitments from all royalty owners.

20 The orange is the tract in question where
21 Occidental and its unit partners own 50 percent committed
22 interest from working interest and royalty mineral owners,
23 and one half is unleased at this time, the subject of this
24 case.

25 Q. Is this well the first well to be drilled on this

1 640-acre unit?

2 A. Yes.

3 Q. Review for Mr. Ezeanyim the interest owners -- or
4 identify the interest owners you're seeking to pool.

5 A. This is the Phillip and Anna Billau Estate, which
6 had reserved a 1/2 mineral interest in this 40-acre parcel
7 under a 1939 deed and have not appeared in the record title
8 to this property nor in any court jurisdiction in this
9 county since 1939.

10 Q. When the unit was formed, these interests were
11 unlocatable; is that right?

12 A. That's correct.

13 Q. And what we're doing today is seeking to pool
14 this 20 net mineral unleased acres?

15 A. That's correct.

16 Q. Once these interests are pooled, how are they
17 going to be treated?

18 A. They'll be treated in conformity with the
19 statutes here. They'll be -- assuming we've obtained the
20 penalty, they'll be credited for 1/8 royalty, which will be
21 placed in suspense and held in a local bank account. The
22 7/8 working interest will be subject to the penalty.

23 Once that has been met, the full interest will be
24 deposited into the local bank account and these parties
25 will be paid for their proportionate interest from the day

1 of first production according to that, under a two-tier
2 basis.

3 Prior to the penalty being achieved, there will
4 be -- 1/8 of the proceeds attributable to this tract will
5 be held in escrow for them. And prior to the penalty, all
6 revenue associated with this particular 20 acres will be
7 held in escrow for these parties.

8 Q. And this escrow will be held in Harding County,
9 New Mexico?

10 A. That's correct.

11 Q. And their interest will be paid not on a unit
12 basis but on a spacing unit or tract basis?

13 A. That's correct.

14 Q. Could you summarize the efforts made by OXY to
15 locate the interest owners that are the subject of today's
16 hearing?

17 A. Yes. Last year we wanted to drill this well and
18 sent people to seek these owners and were unable to find
19 them, and due to timing on the rig availability we chose
20 not to drill this well last year. So we made a preliminary
21 effort to find these people last year.

22 This year we started early. We hired an expert
23 lease broker consulting firm in Midland, Texas, and had
24 them send people up to the county where these owners held
25 their title, researched the records again, researched all

1 court records, made contact with notable persons in the
2 courthouse, in the library, trying to find, you know, some
3 connection to this family, and found nothing.

4 Then they undertook a telephone disc search under
5 this family's name in several states and an Internet search
6 in this family's name in several states, and we spent quite
7 a bit of time and money attempting to locate these people.

8 We did find one person finally, and do have a
9 lease from that person. He was a great-grandson of the
10 actual title holder from 1939. He advised the family had
11 broken up and gone its different directions and he, being a
12 family member, did not know of any other family members,
13 first or second cousins, that he might find.

14 So we feel like we have done -- Well, first of
15 all, we would have preferred to have located these people
16 and had leases from them. It would have been the normal
17 course of business and much simpler, had we been able to
18 find these people, but we were unable to find them.

19 Q. And obviously Exhibit 2 is a summary of the
20 efforts made to find each of the owners subject to pooling;
21 is that correct?

22 A. That's correct.

23 Q. Exhibit Number 3 is a copy of the lease you have
24 obtained in May of 2005 from Phillip Billau?

25 A. That's correct.

1 Q. In your opinion, have you made a good-faith
2 effort to find and obtain the voluntary participation from
3 each of the interest owners who are subject to today's
4 pooling application?

5 A. Yes, I do.

6 Q. Would you identify OXY Exhibit 4, please?

7 A. This is an authority for expenditure, referred to
8 as an AFE or a comprehensive well estimate of costs. This
9 is the amount of money required to drill and complete this
10 well.

11 Q. Would you review the totals on the exhibit,
12 please?

13 A. Yes, the dryhole estimate was \$125,000 and the
14 producing well estimate was \$249,940.

15 Q. Are these costs in line with what is charged by
16 OXY and other operators in the area for a similar well?

17 A. Yes.

18 Q. Let's go to what is marked OXY Exhibit Number 5.
19 Would you identify that?

20 A. This is the COPAS accounting procedure for joint
21 operations.

22 Q. Now, this is actually a form that was used for
23 another property; is that correct?

24 A. Yes, there's a few places in here we've struck
25 particular information that does not pertain to this case.

1 Q. Page 1 says Bank of America, San Francisco;
2 that's for another well on another property?

3 A. That's correct.

4 Q. The purpose is to provide the Examiner with a
5 copy of the accounting procedure for joint operations, a
6 standard COPAS form?

7 A. That's correct.

8 Q. Does this form provide for periodic adjustment of
9 overhead and administrative charges?

10 A. Yes, it does.

11 Q. And does OXY request that the overhead and
12 administrative costs set by the order that results from
13 today's hearing also be adjusted in accordance with these
14 COPAS procedures?

15 A. Yes.

16 Q. Have you made an estimate of the overhead and
17 administrative cost to be incurred while drilling the well
18 and also while producing it, if it is successful?

19 A. Yes.

20 Q. And what are those figures?

21 A. \$3500 overhead for drilling and \$356 a month for
22 operations.

23 Q. Are these consistent with the mean figures from
24 the 2004-2005 Ernst and Young survey for wells of this
25 depth?

1 A. Yes, we believe these are industry standards.

2 Q. And these are also reflected -- the drilling
3 overhead costs are reflected in the AFE which is marked
4 Exhibit 4?

5 A. Yes, that's correct.

6 Q. Do you recommend these figures be incorporated
7 into the order that results from today's hearing?

8 A. Yes.

9 Q. Does OXY request that the 200-percent charge for
10 risk authorized by New Mexico statute be imposed on each
11 cost-bearing interest not voluntarily committed to the
12 well?

13 A. Yes.

14 Q. Does OXY seek to be designated operator of the
15 well?

16 A. Yes.

17 Q. Is Exhibit Number 6 an affidavit confirming that
18 notice of this Application was provided in accordance with
19 Division Rules?

20 A. Yes.

21 Q. Attached to this affidavit there is a notice
22 letter and proof that attempts were made to find these
23 people at the last known address?

24 A. Yes.

25 Q. There's also a copy of the legal ad that was run

1 in the paper pursuant to Division Rules?

2 A. Yes.

3 Q. Were Exhibits 1 through 6 either prepared by you
4 or compiled under your direction?

5 A. Yes.

6 Q. Can you testify as to their accuracy?

7 A. Yes, they're accurate.

8 MR. CARR: May it please the Examiner, at this
9 time we'd move the admission into evidence of OXY Exhibits
10 1 through 6.

11 EXAMINER EZEANYIM: Exhibits 1 through 6 will be
12 admitted into evidence.

13 MR. CARR: And that concludes my direct
14 examination of this witness.

15 EXAMINER EZEANYIM: Thank you, Mr. Carr.

16 Thank you for coming, Mr. Hodge. Initially we
17 were supposed to have heard this by affidavit, but I'm glad
18 you are here to answer most of my questions that I have.

19 EXAMINATION

20 BY MR. EZEANYIM:

21 Q. Let's go back to that effort you made to locate
22 those -- You found one person, and the person didn't know
23 the other relatives at all. I mean, since you found one
24 person, I was thinking that maybe he would tell you what
25 happened to the rest of the family members.

1 A. We would have hoped that ourselves. He was going
2 to check around a little further, and if he finds any --
3 He's 82 years old, I believe, something of that nature. He
4 was completely unaware of this property. We're not
5 completely sure that he has adequate title. It's through
6 death and distribution, he would have any claim to this
7 title.

8 He did not know any cousins that he could provide
9 the names for. He said he would call around and see if he
10 could come up with anything, and if he would, he would
11 provide it to us.

12 And of course if he provides it to us, or if we
13 find these people independently, we'll pursue them and
14 offer them a chance to voluntarily be a part of this.

15 EXAMINER EZEANYIM: Okay, at this time let me
16 allow my attorney to ask some questions if she has some.

17 MS. MacQUESTEN: I have no questions, thank you.

18 THE WITNESS: Thank you.

19 Q. (By Examiner Ezeanyim) Okay, your primary target
20 is the Tubb, Tubb formation; is that right?

21 A. Yes, sir.

22 Q. Okay, and I'm looking at your AFE here. Of
23 course, this is the first well drilled in that section.

24 A. That's correct.

25 Q. It's shallow, 2600 feet. And this \$250,000 is,

1 you know, what is going on in that area; the total drilling
2 and completed well there is about \$250,000?

3 A. Yes, we drilled 14 wells this year, including
4 this well, and these are the estimated costs. We haven't
5 gotten the final costs in hand yet, but they'll be very
6 similar to this, and this does include a 5-percent
7 contingency.

8 Q. Okay.

9 A. And these were relatively easy wells to drill,
10 drilled by people who had drilled many wells of this type,
11 and relatively routine.

12 Q. Yeah, okay. Of course I think I looked at your
13 -- this Order 7556. As you know, some of those areas are
14 160 acres. I don't know, how far is this 40-acre unit,
15 approximately, from a 160-acre in the Bravo Dome?

16 A. I can't answer that off the top of my head. I do
17 know that we are in compliance with this particular
18 section, and all wells that we drilled this year were in
19 640-acre areas, so I believe that the great majority of the
20 unit is 640 acres.

21 Q. Okay. Do you have the APD number for this well?

22 A. I may have it in my briefcase.

23 Q. I would like to have it, because I wanted to look
24 at that well.

25 A. API well number?

1 Q. Yeah, APD -- I mean the API number, I'm sorry.

2 A. Let me look in here. We've got the C-102 and
3 associated drilling permits in here. It may be on that.
4 If it's not, I have it on some internal documents in my
5 briefcase. It's just a matter of getting it and giving it
6 to you.

7 Q. Yeah, sure. When was this well drilled? Do you
8 remember when it was drilled?

9 A. We waited till we had got this Application
10 published before we spudded the well. It's been maybe
11 about two weeks since the well was completed. It's
12 relatively recent.

13 MR. CARR: Mr. Examiner, with your permission,
14 I'll provide that API number to you after the hearing.

15 EXAMINER EZEANYIM: Okay.

16 THE WITNESS: I have it here, I believe.

17 Q. (By Examiner Ezeanyim) Oh, okay, great.

18 A. Okay, 30-021-20335.

19 Q. Thank you very much.

20 A. You're welcome.

21 EXAMINER EZEANYIM: I have no more questions.

22 MR. CARR: That concludes our presentation in
23 this case.

24 THE WITNESS: Thank you.

25 EXAMINER EZEANYIM: Well then, at this time Case

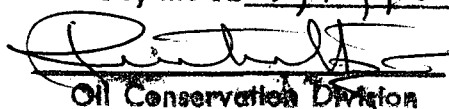
1 Number 13,520 will be taken under advisement. Thank you
2 for coming.

3 THE WITNESS: Thank you, sir.

4 (Thereupon, these proceedings were concluded at
5 8:40 a.m.)

6 * * *

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11
12
13 I do hereby certify that the foregoing is
14 a complete record of the proceedings in
the Examiner hearing of Case No. 13520
heard by me on 7/14/05.

15
16  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 July 15th, 2005.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2006