

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

6 APPLICATION OF CHI ENERGY,  
7 INCORPORATED FOR A NONSTANDARD  
8 OIL SPACING AND PRORATION UNIT  
9 AND COMPULSORY POOLING, EDDY  
10 COUNTY, NEW MEXICO.

CASE NO. 14947

ORIGINAL

11 REPORTER'S TRANSCRIPT OF PROCEEDINGS

12 EXAMINER HEARING

13 BEFORE: WILLIAM V. JONES, Chief Examiner  
14 DAVID K. BROOKS, Legal Examiner

15 January 24, 2013

16 Santa Fe, New Mexico

17  
18 This matter came on for hearing before the  
19 New Mexico Oil Conservation Division, William V. Jones,  
20 Chief Examiner, and David K. Brooks, Legal Examiner, on  
21 Thursday, January 24, 2013, at the New Mexico Energy,  
22 Minerals and Natural Resources Department, 1220 South  
23 St. Francis Drive, Porter Hall, Room 102,  
24 Santa Fe, New Mexico.

25 REPORTED BY: Mary C. Hankins, CCR, RPR  
New Mexico CCR #20  
Paul Baca Professional Court Reporters  
500 4th Street, Northwest, Suite 105  
Albuquerque, New Mexico 87102

RECEIVED OFFICE  
2013 FEB 11 A

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

APPEARANCES

FOR APPLICANT CHI ENERGY, INC.:

JAMES G. BRUCE, ESQ.  
Post Office Box 1056  
Santa Fe, New Mexico 87504  
(505) 982-2043  
jamesbruc@aol.com

INDEX

PAGE

WITNESSES:

JOHN W. QUALLS:

Direct Examination by Mr. Bruce	3
Cross-Examination by Examiner Jones	11
Proceedings Conclude	12
Certificate of Court Reporter	13

EXHIBITS OFFERED AND ADMITTED

Chi Energy Exhibits Numbers 1 through 8	11
---	----

1 (10:55 a.m.)

2 EXAMINER JONES: Call Case 14947. This is  
3 application of Chi Energy, Incorporated for a  
4 nonstandard oil spacing and proration unit and  
5 compulsory pooling, Eddy County, New Mexico.

6 Call for appearances.

7 MR. BRUCE: Mr. Examiner, Jim Bruce for the  
8 Applicant. I have one witness.

9 EXAMINER JONES: Any other appearances?

10 Will the witness stand?

11 And will the court reporter swear the  
12 witness?

13 JOHN W. QUALLS,

14 after having been first duly sworn under oath, was  
15 questioned and testified as follows:

16 DIRECT EXAMINATION

17 BY MR. BRUCE:

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

20 A. John Qualls.

21 Q. And where do you reside?

22 A. Midland, Texas.

23 Q. Who do you work for?

24 A. Chi Energy.

25 Q. And do you have kind of a dual role at Chi

1 Energy?

2 A. Yes, sir.

3 Q. What type of work do you do there?

4 A. Do mostly land work.

5 Q. Have you previously testified before the  
6 Division as a petroleum landman?

7 A. Yes.

8 Q. And were your credentials accepted as a matter  
9 of record?

10 A. Yes.

11 Q. By training, are you also a geologist?

12 A. Yes.

13 Q. Have you previously testified before the  
14 Division as a geologist?

15 A. Yes.

16 Q. And were your credentials accepted as a matter  
17 of record?

18 A. Yes.

19 Q. Are you familiar with the land and geology in  
20 this application?

21 A. Yes.

22 MR. BRUCE: Mr. Examiner, I tender  
23 Mr. Qualls as an expert petroleum landman and geologist.

24 EXAMINER JONES: He is so qualified.

25

1 Q. (BY MR. BRUCE) Mr. Qualls, what does Chi seek  
2 in this case?

3 A. We seek an order approving a nonstandard well  
4 unit comprised of the west half of the west half of  
5 Section 25, Township 19 South, Range 29 East, and  
6 pooling the Bone Spring Formation.

7 Q. And what is the name of the proposed well, and  
8 what are the surface and bottom-hole quarter-quarter  
9 sections?

10 A. The well's the Peacekeeper 25 State Com Number  
11 21, horizontal well with a surface location in the  
12 southwest quarter of the southwest quarter -- and a  
13 termination at the northwest quarter of the northwest  
14 quarter of 25.

15 MR. BRUCE: Mr. Examiner, this well has  
16 been placed in the Turkey Track Bone Spring pool by the  
17 Division, which I believe is on state well rules.

18 Q. (BY MR. BRUCE) And the producing interval of  
19 the wellbore will be orthodox; will it not?

20 A. Yes.

21 Q. Who do you seek to pool in this case?

22 A. We need to pool International Oil & Gas  
23 Corporation, which owns a 2.47 percent working interest  
24 in the well.

25 Q. Why are you pooling them?

1 A. They're unlocatable.

2 Q. Let's refer to Exhibits 1 and 2. And describe  
3 your well proposal and what you did to locate  
4 International Oil & Gas.

5 A. We actually found a couple of addresses on them  
6 that we sent letters to. Starting back in March, we  
7 sent them a letter, and it came back nondeliverable.  
8 And then we found another address and -- we found two  
9 addresses in Dallas and, I believe, two in Houston, and  
10 we sent one, again, in September, which is Exhibit 2, to  
11 the address in Houston, and it came back undeliverable.

12 Q. And as far as you can tell, has International  
13 more or less disappeared off the face of the planet?

14 A. Yes, sir.

15 Q. And you have been working on this for quite  
16 some time, to locate them; have you not?

17 A. Yes, sir.

18 Q. In your opinion, has Chi made a good-faith  
19 effort to locate International Oil & Gas Corporation?

20 A. Yes, sir.

21 Q. If you'll look at Exhibit 2, there is an AFE  
22 attached. Could you identify that and describe the cost  
23 of the proposed well?

24 A. It's an AFE for the Peacekeeper 25 State #3.  
25 The dry-hole cost is \$2,625,975, and the completed well

1 cost is \$5,223,169.

2 Q. And are these costs in line with the cost of  
3 other horizontal wells drilled to this depth in this  
4 area of New Mexico?

5 A. Yes.

6 Q. Who is to be the operator of the well?

7 A. Chi Operating, Inc.

8 Q. And that's the operating entity related to Chi  
9 Energy?

10 A. Yes, sir.

11 Q. Do you have a recommendation for the amounts  
12 which Chi should be paid for supervision and  
13 administrative expenses?

14 A. Yes. We request that \$6,500 a month be allowed  
15 for drilling the well, and \$650 a month be allowed for  
16 the producing well.

17 Q. And are these amounts what is normally charged  
18 by Chi and other operators in this area for wells of  
19 this depth?

20 A. Yes.

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

24 A. Yes.

25 Q. And do you request the maximum cost, plus

1 200-percent risk charge?

2 A. Yes.

3 Q. And was notice published as against the  
4 unlocatable owner?

5 A. Yes, and that is Exhibit 3.

6 Q. And what is Exhibit 4?

7 A. Exhibit 4 lists the offset owners to the  
8 nonstandard well unit.

9 Q. And were they given notice of this application?

10 A. Yes.

11 Q. And that's reflected in Exhibit 5?

12 A. Yes.

13 MR. BRUCE: Mr. Examiner, everybody did  
14 receive actual notice.

15 Q. (BY MR. BRUCE) Now, let's move on to the  
16 geologic portion, Mr. Qualls. What is Exhibit 6?

17 A. Exhibit 6 is a structure map on the top of the  
18 2nd Bone Spring Sand.

19 Q. And you have several potential wells located in  
20 Section 25; do you not?

21 A. Yes, we do.

22 Q. Is there a reason that they're all -- the  
23 surface locations are all in the south half?

24 A. Yes. If you look up at Sections 24 and 19,  
25 that's all on Chi. We couldn't put service locations up

1 there, so we moved everything down to the south  
2 half-south half of Section 25, to drill south to north.

3 Q. And you are seeking to force pool the entire  
4 Bone Spring Formation; are you not?

5 A. Yes.

6 Q. But what zone will be tested, at least  
7 initially, by this well?

8 A. 2nd Sand Bone Spring.

9 Q. And what is Exhibit 7?

10 A. Exhibit 7 is a 2nd Bone Spring ISOPACH map.

11 Q. Now, is this based on well control in this  
12 area?

13 A. Yes, sir.

14 Q. The solid blue lines, are those existing  
15 horizontal Bone Spring wells?

16 A. Yes.

17 Q. So you have a fairly good handle on the Bone  
18 Spring geology in this zone?

19 A. Yes, sir.

20 Q. Is the thickness of the Bone Spring -- 2nd Bone  
21 Spring more or less uniform across the proposed well  
22 unit?

23 A. It's approximately 250 feet upward.

24 Q. And finally, what is Exhibit 8?

25 A. Exhibit 8 is a cross section going across the

1 2nd Bone Spring Sand.

2 Q. And could you describe a little bit the  
3 interval that you are --

4 A. The interval we're looking at is approximately  
5 8,050 feet, down to about 8,290, roughly, feet,  
6 throughout the wells on a cross section.

7 Q. Approximately where would you put the  
8 horizontal leg of the well?

9 A. Approximately -- we're thinking about going  
10 8750 and then going out from there.

11 Q. Based on your study of the area, in your  
12 opinion, will each quarter-quarter section in the well  
13 unit contribute more or less equally to the production?

14 A. Yes.

15 Q. Were Exhibits 1 through 8 prepared by you or  
16 under your supervision?

17 A. Yes.

18 Q. And, in your opinion, is the granting of this  
19 application in the interest of conservation and the  
20 prevention of waste?

21 A. Yes.

22 MR. BRUCE: Mr. Examiner, I'd move the  
23 admission of Exhibits 1 through 8.

24 EXAMINER JONES: Exhibits 1 through 8 will  
25 be admitted.

1 (Chi Energy Exhibits Numbers 1 through 8  
2 were offered and admitted into evidence.)

3 MR. BRUCE: I have no further questions of  
4 the witness.

5 CROSS-EXAMINATION

6 BY EXAMINER JONES:

7 Q. Standard location through the whole thing?

8 A. Yes, sir.

9 Q. Completed interval?

10 A. (Indicating.)

11 Q. Are there any other wells in the project area  
12 producing from this -- from the Bone Spring?

13 A. There are some wells in the section next to us,  
14 in Section 26, that are producing in this interval, and  
15 in Section 36, to the south, they're producing.

16 Q. But not in the 160 acres you've talked about --

17 A. No.

18 Q. -- the vertical well?

19 A. No.

20 Q. I don't have any more questions.

21 EXAMINER BROOKS: No, I don't believe I do.

22 EXAMINER JONES: Thank you.

23 MR. BRUCE: Nothing further in this matter,  
24 Mr. Examiner.

25 EXAMINER JONES: Thank you.

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

With that, we'll take Case 14947 under  
advisement.

(Case 14947 concludes, 11:05 a.m.)

I do hereby certify that the foregoing is  
a complete record of the proceedings in  
the Examiner hearing of Case No. 14947  
heard by me on 1-24-13  
David K. Barlow, Examiner  
Oil Conservation Division

1 STATE OF NEW MEXICO  
2 COUNTY OF BERNALILLO

3

4 CERTIFICATE OF COURT REPORTER

5 I, MARY C. HANKINS, New Mexico Certified  
6 Court Reporter No. 20, and Registered Professional  
7 Reporter, do hereby certify that I reported the  
8 foregoing proceedings in stenographic shorthand and that  
9 the foregoing pages are a true and correct transcript of  
10 those proceedings that were reduced to printed form by  
11 me to the best of my ability.

12 I FURTHER CERTIFY that the Reporter's  
13 Record of the proceedings truly and accurately reflects  
14 the exhibits, if any, offered by the respective parties.

15 I FURTHER CERTIFY that I am neither  
16 employed by nor related to any of the parties or  
17 attorneys in this case and that I have no interest in  
18 the final disposition of this case.

19 *Mary C. Hankins*

20 MARY C. HANKINS, CCR, RPR  
21 Paul Baca Court Reporters  
New Mexico CCR No. 20  
Date of CCR Expiration: 12/31/2013

22

23

24

25