

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 LANCE OIL AND GAS)
COMPANY, INC., FOR COMPULSORY POOLING,)
SAN JUAN COUNTY, NEW MEXICO)

CASE NO. 13,648

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: RICHARD EZEANYIM, Hearing Examiner

March 2nd, 2006

Santa Fe, New Mexico

2006 MAR 16 AM 11 27

This matter came on for hearing before the New Mexico Oil Conservation Division, RICHARD EZEANYIM, Hearing Examiner, on Thursday, March 2nd, 2006, 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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March 2nd, 2006
 Examiner Hearing
 CASE NO. 13,648

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<u>PAUL LEHRMAN</u> (Landman)	
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A P P E A R A N C E S

FOR THE DIVISION:

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By: W. THOMAS KELLAHIN

* * *

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

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4
5 EXAMINER EZEANYIM: I was just informed that the
6 phone just came.

7 As we've started, let me go with the Lance -- two
8 Lance cases in the front of this page until we get the
9 phone and then get it installed, take a little break and
10 then start for some other cases.

11 So at this I call Case -- Is that okay with you?

12 MR. BROOKS: Whatever.

13 EXAMINER EZEANYIM: At this time I call Case
14 Number 13,648, Application of Lance Oil and Gas Company,
15 Inc., for compulsory pooling, San Juan County, New Mexico.

16 Call for appearances at this time.

17 MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin of
18 the Santa Fe law firm of Kellahin and Kellahin, appearing
19 on behalf of the Applicant this morning, and I have one
20 witness to be sworn.

21 EXAMINER EZEANYIM: Any other appearances?

22 Will the witness stand to be sworn, please?

23 (Thereupon, the witness was sworn.)

24 EXAMINER EZEANYIM: You may proceed.

25 MR. KELLAHIN: Thank you, Mr. Examiner.

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PAUL LEHRMAN,

the witness herein, after having been first duly sworn upon his oath, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q. Mr. Lehrmer, for the record, sir, would you please state your name and occupation?

A. Paul Lehrman, I'm a landman with Lance Oil and Gas Company.

Q. Where do you reside, sir?

A. Farmington, New Mexico.

Q. What's your occupation?

A. I'm a landman.

Q. On prior occasions have you qualified as an expert petroleum landman in testimony before the Division?

A. Yes.

Q. With regards to the Application for compulsory pooling before the Examiner this morning, were you responsible for the permitting of this well?

A. Yes, I was.

Q. In association with you, is there another landman that consolidates the interests and deals with issuing letters of well proposals?

A. That's correct.

Q. Who is that individual?

1 A. Her name is Anne Jones.

2 Q. Have you and Ms. Jones compiled today, from
3 Lance's business records in Kirtland, the information
4 that's applicable to this pooling case concerning ownership
5 and well proposals?

6 A. Yes.

7 Q. And is that part of the documentation that you
8 have here today?

9 A. Yes.

10 MR. KELLAHIN: Mr. Examiner, we tender Mr.
11 Lehrman as an expert petroleum landman.

12 EXAMINER EZEANYIM: Mr. Lehrman is so qualified.

13 Q. (By Mr. Kellahin) Mr. Lehrman, have you been out
14 on the location of this well?

15 A. Yes.

16 Q. Let me refer you to what we've marked as Lance
17 Exhibit Number 1. Can you describe what this document is?

18 A. It's a plat that depicts the location of the
19 proposed 18-1 well, just southeast of Kirtland, New Mexico.

20 Q. What is the source of this document? Where did
21 it come from?

22 A. It's a USGS -- part of a USGS quad map, the
23 Kirtland, New Mexico, quad.

24 Q. For purposes of this well, what are the
25 formations or the pools that you're attempting to target?

1 A. Basin-Fruitland Coal and Twin Mounds-Pictured
2 Cliffs.

3 Q. For purposes of forming a spacing unit for those
4 particular producing formations, what are you proposing to
5 designate as a spacing unit for the 360-acre -- three
6 hundred-and- --

7 A. -- -twenty-acre --

8 Q. -- -twenty-acre gas spacing unit for the Coal?

9 A. Lance is proposing that the Fruitland Coal be a
10 proposed east-half 320-acre spacing unit, and it will be a
11 northeast quarter 160-acre Pictured Cliffs spacing unit.

12 Q. The approximate location of the Number 18-1 well
13 is located on Exhibit Number 1?

14 A. That's correct.

15 Q. And you put that on this map?

16 A. That's right.

17 Q. Let me direct your attention specifically to the
18 configuration of the spacing unit itself in terms of how
19 it's subdivided into tracts. Would you turn to what is
20 marked as Exhibit Number 2? Can you identify this for us?

21 A. Number 2 is a plat that we generated from the San
22 Juan County Assessor's maps, showing the subdivisions to
23 the north of the proposed well, the location of the San
24 Juan River, and the Navajo Reservation to the south of the
25 river.

1 Q. For the mineral interest ownership, including the
2 working interest, unleased mineral owners and all
3 categories, has Lance obtained title information from which
4 you can compile the uncommitted interest owners in the
5 well?

6 A. Yes, we hired a title attorney, and he rendered
7 title opinion based on information he gathered at local
8 title companies and also his research in the county from
9 inception to the date of his opinion.

10 Q. Based upon your past experience, has that
11 information proved to be reliable in other cases?

12 A. Yes.

13 Q. Let's set aside Exhibit Number 2 for a moment,
14 and there's a package of documents labeled Lance Exhibit 3.
15 This set of documents represents what, Mr. Lehrmer?

16 A. Exhibit 3 is the C-101 or the application for
17 permit to drill from the Oil Conservation Division for this
18 well. Also attached are appropriate C-102s showing the
19 designated spacing units. I do want to let you know that
20 we had changed the Fruitland allocation from a north-half
21 unit to an east-half unit, and that's further back in the
22 package. That was done by a sundry notice C-103 that was
23 approved by the OCD in Aztec.

24 EXAMINER EZEANYIM: Could you repeat that, what
25 you just said?

1 THE WITNESS: The original APD had a north-half
2 Fruitland Coal spacing unit, but we changed it to an east-
3 half standup --

4 EXAMINER EZEANYIM: Uh-huh.

5 THE WITNESS: -- to include more Indian acreage.

6 EXAMINER EZEANYIM: And it was approved by the
7 District Office?

8 THE WITNESS: That's correct. It's in the
9 back --

10 Q. (By Mr. Kellahin) Mr. Lehrmer, if you'll turn to
11 Exhibit Number 3 and turn past the first page, the first
12 C-102, do you see that? This is the original north-half
13 dedication?

14 A. That's correct.

15 Q. So if you turn past that one, you get to the PC
16 northeast dedication, correct?

17 A. Right, it would be the next-to-last page of that
18 package, would be that approved C-102 and C-103 for that
19 east-half spacing unit.

20 EXAMINER EZEANYIM: Is there any reason why you
21 changed the orientation?

22 THE WITNESS: We did because the Indian acreage,
23 when you go to get your communitization agreements approved
24 by the Navajo Tribe, they basically make you bring in as
25 much Indian acreage as possible under those wells, so we

1 changed that dedication to an east-half dedication.

2 Q. (By Mr. Kellahin) At this point, has your well
3 been approved by the appropriate regulators at the
4 Division's office in Aztec, New Mexico?

5 A. Yes.

6 Q. Is this at a standard location for both of these
7 pools?

8 A. Yes.

9 Q. Are you ready to proceed with the drilling of
10 this well?

11 A. Yes.

12 Q. Let's turn now to a different topic, Mr. Lehrmer.
13 If you'll direct your attention to Exhibit Number 4, what
14 does this represent at the time of the filing of the
15 pooling Application?

16 A. It's a spreadsheet showing the uncommitted
17 mineral interest in the proposed spacing units.

18 Q. Was this spreadsheet prepared from your title
19 information that was generated for purposes of compiling
20 the ownership that would be entitled to share in production
21 in the spacing units?

22 A. Yes.

23 Q. When you look at the last entry, this Bloomfield
24 Land Trust, what's the status of your efforts to obtain a
25 lease from that company?

1 A. They're currently leased. We've obtained an oil
2 and gas lease from the trust.

3 Q. So for purposes of this pooling Application, the
4 land trust could be deleted from the spreadsheet, and all
5 the rest of these identified entities or individuals are
6 those parties for which you seek to have pooling issued?

7 A. That's correct.

8 Q. Let's turn now to the correspondence from Lance's
9 file concerning the efforts to obtain leases in the spacing
10 unit. Was there a letter issued by Lance Company to all
11 the unleased mineral owners at the time this letter was
12 issued?

13 A. Yes, Exhibit 5 shows the letter that was sent out
14 by certified mail in late -- or mid-November of 2005, with
15 our first offer letter for leasing.

16 Q. While this letter, as an example, is captioned --
17 is addressed to Richard and Nina Hatch, is this not the
18 sample letter that was sent to all the unleased interest
19 owners?

20 A. Yes, it was.

21 Q. Attached to that letter appear to be copies of
22 return receipt cards. Is that what these are?

23 A. That's correct.

24 Q. After the initial leasing effort, did Lance issue
25 a letter specifically proposing this well and the east half

1 as the spacing unit?

2 A. Yes.

3 Q. And when did that occur?

4 A. Early 2006.

5 Q. Is there an exhibit in the exhibit package that
6 represents this correspondence?

7 A. Yes.

8 Q. And what's that number?

9 A. Exhibit Number 6.

10 Q. In association with the issuance of this letter
11 dated January 6th, was a true and accurate copy of a
12 proposed estimated well cost also furnished to these
13 individuals?

14 A. Yes, it was.

15 Q. And how do we find that in the exhibit package?

16 A. That's Exhibit Number 7.

17 Q. To the best of your knowledge, is this still an
18 accurate and correct AFE?

19 A. Yes.

20 Q. After Exhibit 7, there is a photocopy of green
21 cards captioned or labeled Exhibit 8. Do these represent
22 the return receipt cards from the well proposal letter?

23 A. They do.

24 Q. So as of the morning of the hearing, Mr. Lehrman,
25 can we go back to the spreadsheet, Exhibit Number 4, and

1 will you confirm for the Examiner that, with the exclusion
2 of the last entry to the land trust, all the rest of these
3 individuals you desire to have subject to a compulsory
4 pooling order?

5 A. Yes.

6 Q. As an aid to the Examiner, Mr. Lehrmer, have you
7 attached as Exhibit 9 a sample of a recent Lance pooling
8 order that you participated in. that was issued by this
9 Examiner on February 17th of this year?

10 A. Yes, that's Exhibit Number 9.

11 Q. Does this Order R-12,510 represent a model or a
12 sample order that could be issued in the subject case that
13 we're now discussing?

14 A. Yes.

15 Q. Do you have a recommendation that's any different
16 from the overhead cost and the producing well cost set
17 forth on page 2, paragraph 9, of this order?

18 A. No.

19 Q. These are still consistent for wells at this
20 depth and at this location?

21 A. Yes.

22 Q. What are Lance's plans for the commencement of
23 this well, Mr. Lehrmer?

24 A. Probably commence the drilling of this well in
25 the next couple weeks.

1 Q. As Exhibit Number 9, have you reviewed this
2 certificate to satisfy yourself that based upon your
3 knowledge and information it appears to have been sent to
4 the addresses for all the known, unleased interest owners
5 for which we had known addresses?

6 A. That's correct.

7 Q. Following the certificate of notification,
8 there's a final Exhibit 11, is there not?

9 A. Yes.

10 Q. What does this represent?

11 A. That's the paper advertisement in the *Farmington*
12 *Daily Times* for the case.

13 Q. Is this Lance's attempt to provide newspaper
14 publication for those owners for which you have not had
15 service by certified mail and for which there are unknown
16 locations?

17 A. That's correct.

18 MR. KELLAHIN: Mr. Examiner, that concludes my
19 presentation of Mr. Lehrman and his exhibits.

20 We move the introduction of Lance's Exhibits 1
21 through 11.

22 EXAMINER EZEANYIM: If there are no objections,
23 Lance Exhibits 1 through 11 will be admitted into evidence.

24 Do you have any questions?

25 MS. O'CONNOR: No.

EXAMINATION

1
2 BY EXAMINER EZEANYIM:

3 Q. Mr. Lehrman, I know these overhead rates. Could
4 you tell me again why the allowance for production is still
5 \$481 instead of \$350? I can't recollect why we did it --

6 A. I believe that came from that Ernst and Young
7 survey based on wells of this depth for drilling and
8 producing well rates. I don't have that survey with me, I
9 wish I did. But that's commensurate with other amounts
10 that we've asked for in previous hearings.

11 Q. Yes, I know. What depth are we talking about?
12 1400, 1600? What depth? What depth?

13 A. For this well?

14 Q. Yeah.

15 A. I have to look at the APD, but I believe it's 600
16 or 700 feet. Seven hundred.

17 Q. And you want to -- all the way from the surface
18 to the Pictured Cliffs, or --

19 A. That's a possibility. We're leaving that option
20 open. We think there might be some PC in that well, but we
21 won't know until we drill through it in the Lewis shale and
22 log it and everything and decide whether we want to do a
23 completion in the PC. We know there's Fruitland Coal, but
24 we're not sure about the PC, but we'd like to leave that
25 option open.

1 Q. Could I get the physical location of the well?

2 It may be in your APD.

3 A. As far as just a footage?

4 Q. Yeah, if you can see it.

5 A. It's 1500 feet from the north line, 665 from the
6 east line, Section 18.

7 EXAMINER EZEANYIM: Nothing further, you may step
8 down.

9 THE WITNESS: Thank you.

10 MR. KELLAHIN: That concludes our presentation.

11 EXAMINER EZEANYIM: Okay, thank you, Mr.
12 Kellahin.

13 At this point, Case Number 13,648 will be taken
14 under advisement.

15 (Thereupon, these proceedings were concluded at
16 8:41 a.m.)

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I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 13648
heard by me on 3/28/88.
[Signature], Examiner
Oil Conservation Division

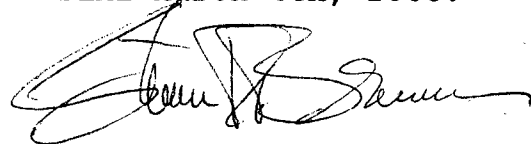
CERTIFICATE OF REPORTER

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 March 4th, 2006.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 16th, 2006