

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:)
) CASE NO. 13,666
APPLICATION OF UNIT PETROLEUM COMPANY)
FOR COMPULSORY POOLING, EDDY COUNTY,)
NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

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

March 16th, 2006

Santa Fe, New Mexico

2006 MAR 30 AM 9 32

9/23/5 JCM

This matter came on for hearing before the New Mexico Oil Conservation Division, WILLIAM V. JONES, JR., Hearing Examiner, on Thursday, March 16th, 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 16th, 2006
Examiner Hearing
CASE NO. 13,666

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<u>FRED SCHANTZ</u> (Landman)	
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A P P E A R A N C E S

FOR THE DIVISION:

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* * *

1 WHEREUPON, the following proceedings were had at
2 9:02 a.m.:

3 EXAMINER JONES: Okay, I think the next one is
4 Case 13,666. We'll call Case 13,666, the Application of
5 Unit Petroleum Company for compulsory pooling, Eddy County,
6 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?
12 Will the witness please stand to be sworn?
13 (Thereupon, the witness was sworn.)

14 MR. BRUCE: Mr. Examiner, since Mr. Carr
15 explained his case, last case, a little bit, I need to
16 explain this one.

17 On the top of your set of exhibits is an order
18 entered in Case 13,566. That order, which was entered in
19 -- I don't remember, November or December -- involves this
20 same property.

21 What happened was, you will see in looking
22 through the exhibits that ownership is pretty much cut up
23 -- there's a number of tracts involved -- and the ownership
24 is mainly owned by out-of-state people, many deaths over
25 the last 80 years. Unit Petroleum and its partners spent

1 about a year trying to get the data together. We went to
2 hearing, got the order issued. Unit was ready to commence
3 the well, and then -- they had kept their landman,
4 independent landman, working on it -- and all of a sudden a
5 couple of new addresses popped up and a couple of new
6 names.

7 And so we're here today to pool some additional
8 people who showed up after well more than a year of trying
9 to track down these people.

10 EXAMINER JONES: So it could be a revision -- or
11 an amendment?

12 MR. BRUCE: It would be the -- Everything is the
13 same, except we're just pooling about a half a dozen more
14 people, or maybe a few more than that.

15 EXAMINER JONES: Okay.

16 FRED SCHANTZ,

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. Would you please state your name for the record?

22 A. My name is Fred Schantz.

23 Q. And where do you reside?

24 A. Midland, Texas.

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

1 A. I work for Unit Petroleum Company. I'm a
2 district landman.

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

5 A. Yes, I have.

6 Q. And were your credentials as an expert petroleum
7 landman accepted as a matter of record?

8 A. Yes, they were.

9 Q. And are you familiar with the land matters
10 involved in this case?

11 A. Yes, I am.

12 Q. And in fact, did you testify at the original --
13 at the hearing in November in Case 13,566?

14 A. Yes, I did.

15 MR. BRUCE: Mr. Examiner, I'd tender Mr. Schantz
16 as an expert petroleum landman.

17 EXAMINER JONES: Mr. Schantz is qualified as an
18 expert petroleum landman.

19 Q. (By Mr. Bruce) Mr. Schantz, could you identify
20 what's been marked Exhibit 1 and just briefly describe what
21 Unit seeks in this case?

22 A. Exhibit 1 is a land plat that highlights the east
23 half of Section 1, Township 18 South, Range 26 East, NMPM,
24 in Eddy County, New Mexico. Unit seeks to pool the east
25 half of Section 1 from the base of the San Andres formation

1 to the base of the Morrow formation.

2 Q. And on this Exhibit 1, there's a directional
3 wellbore sketched on there. Is that the well in question?

4 A. Yes, it is.

5 Q. And what is the name of the well?

6 A. It's the Monte Carlo Federal Com Number 1.

7 MR. BRUCE: Mr. Examiner, for your information
8 this well is in the Atoka-Pennsylvanian Gas Pool, which has
9 special pool rules. It covers the entire Pennsylvanian
10 interval. Part of the pool rules are that well are to be,
11 I believe, 990 feet from the exterior boundary of the
12 quarter section. Also, the wells are supposed to be in the
13 southeast quarter or northwest quarter of a section.

14 Because of these rules, last summer Unit filed
15 for and received an unorthodox location approval for this
16 well -- I think there had been a prior Pennsylvanian well
17 down in the southeast quarter -- and that order is
18 Administrative Order NSL-5282, and that order gives the
19 footages for this well.

20 Q. (By Mr. Bruce) Let's move on to Exhibit 1-A, Mr.
21 Schantz. What does that reflect?

22 A. Well, Exhibit 1-A is a demonstration of how the
23 -- how cut up the tracts are in there, and there are a lot
24 of fee tracts. They're known as the Fairchild Farms
25 tracts, and anyway, it's very cut up as you can tell.

1 Q. Now, these -- so the west -- basically the west
2 half of the east half is comprised of these Fairchild Farm
3 tracts?

4 A. Yes.

5 Q. And those were formed, what, in the 1920s?

6 A. Yes, sir.

7 Q. And they're fee tracts, and they were conveyed to
8 many interest owners, including many out-of-state interest
9 owners?

10 A. Yes, sir.

11 Q. Over that time has there been a number -- Let's
12 put it this way: Is title information in the county
13 relatively limited on a number of these tracts?

14 A. Yes, it is. Like I said, they lived out of
15 state, and so when people died there weren't always things
16 -- probates, filed in the county.

17 Q. Probates, or maybe even lack of probates, but
18 they were all -- mostly out of state?

19 A. Right, correct.

20 Q. Okay. And so in tracking down people, what
21 records did Unit and its landmen examine?

22 A. We've searched the county records, of course, and
23 we looked at the probate records and searched the Internet,
24 capabilities of locating people. And so we -- and when we
25 would find relatives, we would talk to relatives to try to

1 ascertain where Aunt So-and-So lives, or where her
2 descendants are. So we used every method we could to try
3 to locate these people.

4 Q. Okay. What does Exhibit 2 reflect?

5 A. Exhibit 2 shows the people that we want to pool.
6 It's color-coded, and the pink parties are those who were
7 newly identified parties from the last hearing, and they
8 have granted the oil and gas leases to us.

9 The yellow-highlighted parties are newly
10 identified parties who either we couldn't find or who have
11 not responded and have not granted oil and gas leases to
12 us.

13 The unhighlighted list of owners are those who
14 were previously pooled, in the last go-around.

15 Q. Okay. Now, some of these parties -- and so you
16 -- the people you seek to pool are the ones highlighted in
17 yellow; is that correct?

18 A. That is correct.

19 Q. Now some of these parties might have been named
20 in the prior pooling proceeding, but you have new addresses
21 for them?

22 A. Yes, that is correct.

23 Q. Okay. And finally, on page 4, there's a couple
24 of interest owners highlighted in green. What does that --

25 A. Right, those are unleased mineral owners who have

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13 them in hand yet, so we choose to go ahead and pool them at
14 this time.

15 Q. If they do sign a lease, will you --

16 A. Yes --

17 Q. -- notify the Division?

18 A. -- we certainly will.

19 Q. And of the unleased -- of the people listed on
20 the first three pages of this exhibit who were initially
21 pooled or are being pooled now, what is the approximate
22 interest of those people, combined?

23 A. Oh -- Of all these interests here? I think we're
24 looking at about 10 net acres.

25 Q. Ten net acres, so less than three percent of the

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1 agreed to participate in the drilling of the well.

2 Q. Okay, so they're participating as working
3 interest owners?

4 A. Yes, they are, yes.

5 Q. Okay. Now let's -- Oh, and on this Exhibit 2, if
6 you'd turn to page 3, Mr. Schantz, in the middle of the
7 page there are three people, Alma Buxman Gloor, Ronald
8 DeWayne Buxman and Vicki Lynn Matchinsky. Now, have they
9 preliminarily agreed to lease their interests?

10 A. Yes, we got some communication from them that
11 they preferred to lease as opposed to participate, and we
12 sent oil and gas leases to them. However, we do not have
13 them in hand yet, so we choose to go ahead and pool them at
14 this time.

15 Q. If they do sign a lease, will you --

16 A. Yes --

17 Q. -- notify the Division?

18 A. -- we certainly will.

19 Q. And of the unleased -- of the people listed on
20 the first three pages of this exhibit who were initially
21 pooled or are being pooled now, what is the approximate
22 interest of those people, combined?

23 A. Oh -- Of all these interests here? I think we're
24 looking at about 10 net acres.

25 Q. Ten net acres, so less than three percent of the

1 well?

2 A. Right.

3 Q. Okay. Now let's move on to the proposal letter
4 you sent out. What is Exhibit 3?

5 A. Exhibit 3 contains copies of correspondence that
6 were sent to the uncommitted interest owners by Shaw
7 Interests, Inc., on our behalf and on our partner's behalf.
8 These are unleased mineral owners, and we of course have
9 been really trying to locate these people and lease from
10 them for over a year. But when we found in January after
11 we had gone through the first force pooling that these
12 people had not leased or been listed in the compulsory
13 pooling hearing at that time, that we needed to redouble
14 our efforts and really try to locate them again and then
15 force pool them if we couldn't -- if we could not get a
16 commitment from them.

17 So that's what we did. We did locate, or at
18 least find addresses for some of these that we had not
19 found before, and these letters are dated, I think, January
20 the 11th. And so it was a combination, please lease or
21 agree to participate in the drilling of the well. So it
22 was kind of a combo, lease or participate.

23 Q. Okay. Now, of these interest owners -- and I'm
24 referring you back to Exhibit 2, Mr. Schantz -- there were
25 a few people who were either unlocatable or did not claim

1 their mailings.

2 A. That is correct.

3 Q. And looking at Exhibit 2 down at the bottom and
4 at the top of page 2, there's some people who all have the
5 same address in St. Paul, Minnesota. Were those -- There
6 are five of them. Could you identify them for the record?

7 A. Okay, Mary Harris -- Mary E. Harris, actually --
8 George E. Richardson, Margaret L. Mehl, M-e-h-l, Dale M.
9 Richardson, Harry Richardson, I think are all those from
10 St. Paul, Minnesota.

11 Q. And they were unlocatable?

12 A. Yes, sir.

13 Q. And together they own what, about .7 of an acre?

14 A. That's right.

15 Q. And then on page 3, I believe Irma Neece and
16 Monica -- and down at the bottom, Monica H. Dempsey did not
17 claim their mailings, which we'll see in a few minutes.

18 A. That is correct.

19 Q. And they also had a -- I think they were notified
20 of the last pooling hearing, but you got a new address and
21 tried to notify them?

22 A. That is correct, yes, sir.

23 Q. And again, you did search not only the telephone
24 directories but Internet records trying to track down these
25 people?

1 A. Yes, yes, we went through an extensive effort to
2 try to find them.

3 Q. And at this point Unit and its partners have been
4 looking for these people for what, about a year and a
5 quarter?

6 A. Yes.

7 Q. In your opinion, has Unit made a good-faith
8 effort to obtain the voluntary joinder of the parties who
9 were locatable or, in the alternative, to locate the -- all
10 interest owners and their current addresses?

11 A. Yes, I believe that we have.

12 Q. What is Exhibit 4?

13 A. Exhibit 4 is our AFE for the well. It is a 9300-
14 foot Morrow test with a dryhole cost of \$1.162 -- or
15 \$1,162,200 and a completed well cost of \$1,823,800.

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

18 A. Yes, they are.

19 Q. Do you request that Unit Petroleum be named
20 operator of the well?

21 A. Yes, I do.

22 Q. And what overhead rates do you propose?

23 A. We are requesting drilling rates of \$7000 per
24 month and producing rates of \$700 per month.

25 Q. And are these rates equivalent to those charged

1 by Unit and other operators in this area for wells of this
2 depth?

3 A. Yes, they are.

4 Q. And were the parties who were locatable notified
5 of this hearing by certified mail?

6 A. Yes, they were.

7 Q. And is that reflected in Exhibit 5?

8 A. Yes, sir.

9 Q. And was notice also published against the
10 interest owners who were not locatable?

11 A. Yes, notice was.

12 Q. And is that reflected in the affidavit of notice
13 submitted as Exhibit 6?

14 A. Yes, sir.

15 Q. Were Exhibits 1 through 6 prepared by you or
16 under your supervision or compiled from company business
17 records?

18 A. Yes, they were.

19 Q. And in your opinion is the granting of this
20 Application in the interests of conservation and the
21 prevention of waste?

22 A. Yes.

23 Q. And just one final question. At this point, what
24 is your approximate schedule for drilling this well?

25 A. We have a target spud date of May the 1st, and

1 the rig is -- we're at the mercy of the -- what the rig is
2 on right now. But it looks good that we might be able to
3 spud by that time.

4 MR. BRUCE: Mr. Examiner, I'd move the admission
5 of Exhibits 1 through 6.

6 EXAMINER JONES: Exhibits 1 through 6 will be
7 admitted to evidence.

8 EXAMINATION

9 BY EXAMINER JONES:

10 Q. Mr. Schantz, could you enlighten me a little bit
11 more on how you locate people, especially if you're trying
12 to locate heirs? In other words, is there -- can you use
13 probate records to locate people?

14 A. Well, of course, when we check records,
15 especially, we know that we're moving forward to drill a
16 well and that sort of thing. You know, you look at
17 everything, you check the indexes to make sure that there
18 wasn't something that the abstractor missed when you look
19 in her records or his records, and you go direct --
20 indirect, just to try to do a name search. And sometimes
21 you just look for last names or connected names or
22 whatever. That's one thing that we do. You look in the
23 probate indexes to see if the names pop up or anything
24 close to it.

25 And then there's some pretty extensive Internet

1 applications out there that even a lot of times the county
2 or government agencies use, and we -- Mr. Shaw, use those,
3 and they're somewhat expensive to use, actually. You have
4 to become a member of their deal, some of them, and then
5 there's a charge for each one. But a lot of times it'll
6 show last address or heirs or whatever. Sometimes things
7 will pop up there that will give you some indication of
8 where they might be.

9 And then we -- you know, there are some -- you
10 can tell, similar names in there. So if we do find
11 somebody, a lot of times we'll go ahead and call them and
12 ask them where their long-lost cousin or aunt or whatever.
13 Sometimes even families fall out of touch with one another,
14 so...

15 Sometimes, if available, we'll even look at tax
16 records or whatever, just to -- you know, any which way we
17 can to try to locate those people.

18 Q. Okay, thanks. I -- Not being a landman, I have
19 -- it's always been a mystery to me how you guys find
20 people.

21 A. Well, sometimes it's a mystery to us, when we try
22 everything.

23 MR. BRUCE: Sometimes, Mr. Examiner, like -- I
24 don't think there's been production out here for some time,
25 which is why all the prior -- even though there was, I

1 think, some substantial production in the southeast
2 quarter, all those leases expired on the fee tracts way
3 back when.

4 And sometimes even if there's not an in-state
5 probate, you might find a lease granted by somebody, and
6 you don't know who it is, but it's obviously an heir of
7 someone, and you can get an address in Illinois or
8 Minnesota. But sometimes it's 20 years old, so that's why
9 the Internet indexes and telephone directories are helpful,
10 because, you know, you're able to go and track down -- some
11 of these names in here are kind of different, like Gloor,
12 G-l-o-o-r, and so -- You know, you think you'd be able to
13 track them down, but in a city like Chicago or something it
14 could become pretty difficult.

15 THE WITNESS: In the old days when, you know,
16 normally people put their Social Security numbers on the
17 oil and gas leases, that gives you a different kind of
18 connection to, you know, search them by, Social Security
19 number. And sometimes you just come up empty-handed, so...

20 Q. (By Examiner Jones) As far as -- You've seen our
21 compulsory pooling orders that we issue.

22 A. Uh-huh.

23 Q. Okay, we don't normally list the people that --
24 in the different categories, like the non-signed working
25 interest owners that you didn't locate or that you unsigned

1 or something like that. In other words, we don't list
2 that.

3 And I noticed in this case, somebody -- all of a
4 sudden, your own investigation turned up additional people
5 that should have been included in this original --

6 A. How did that happen?

7 Q. Well, how did that happen? And it sounds like
8 it's something that could fall through the cracks, because
9 maybe our procedure needs to be improved here, as far as
10 our listing, maybe?

11 A. You know, just to be perfectly honest with you,
12 after we did the first force pooling, the title attorney
13 and Jim Shaw Interests landman, Jim Daniels, and I were
14 having a conference on the status of the title
15 requirements, and as we flipped through the title opinion
16 there were names listed on there. It was one of those
17 volcanic moments that there are names here that were not on
18 -- And so, you know, it was just human error, would be the
19 best -- I mean, we thought we did the best we could in
20 coming up with a list of names, and upon further
21 investigation we just found that they were not identified
22 in the first pool, so...

23 Q. Okay, well you --

24 A. If that makes sense.

25 Q. It does make sense. Unit Petroleum is to be

1 commended for actually finding this internally, because
2 otherwise no one would ever know.

3 MR. BRUCE: Yeah, Mr. Examiner, and I don't know
4 if listing the names in the order helps any. I mean, I
5 think it would help if Mr. Carr or Mr. Kellahin or I had
6 that in the order to look at it, to determine it.

7 But the other problem -- and it's happened to me
8 a couple of times -- is where -- there was one case -- and
9 Mr. Kellahin will laugh; it involved the West Lovington-
10 Strawn stuff -- where an interest -- where a landman was
11 searching for someone, lived in New York State, outside of
12 New York City somewhere, and had tracked down almost
13 everyone, and -- the landman working for my client, and
14 didn't make one final phone call, or made a phone call to
15 what is called the Surrogates Court in New York -- it's
16 probate court -- and didn't get an answer and so hung up.
17 And a couple of days later an independent landman in
18 Midland made that same call and was able to track down a
19 few people more.

20 I mean, you know, even though they had spent
21 months doing it, it was this serendipity, and that landman
22 was able to lease up some interests and come into -- and he
23 came back and said, No, this interest isn't force pooled
24 because you should have made that one extra phone call.

25 And yeah, things do slip through the cracks. If

1 somebody is locatable, they could come in here and come
2 into the well essentially penalty-free, and that's
3 happened. The well I'm talking about was a 500-barrel-a-
4 day well and, you know, it hurt my client more than
5 anything. But I mean, some things do fall through the
6 cracks.

7 EXAMINER JONES: Okay, so it would be to their
8 advantage to fall through the cracks if they came back
9 later --

10 MR. BRUCE: Yeah --

11 (Laughter)

12 EXAMINER JONES: It looks like there's a brand-
13 new pool real close here that was only discovered recently,
14 the Undesignated Red Lake-Glorieta-Yeso, and that would be
15 an oil pool, so --

16 MR. BRUCE: Yeah.

17 EXAMINER JONES: -- you're pooling it with -- And
18 it looks like you're in the Red Lake-Queen-Grayburg-San
19 Andres Pool also.

20 MR. BRUCE: Yeah, but we're seeking to pool below
21 the base of the San Andres.

22 EXAMINER JONES: Oh, there you go, okay.

23 THE WITNESS: Yeah, we're below the base of the
24 Bone Springs.

25 MR. BRUCE: I think --

1 THE WITNESS: Below the base of the --

2 MR. BRUCE: -- the southeast quarter, northeast
3 quarter is being pooled, and it's below the base of the San
4 Andres.

5 EXAMINER JONES: Okay. And hopefully you would
6 hit that Glorieta-Yeso within this 40-acre tract. If you
7 didn't -- well, because your well deviates, then it would
8 be a problem, I guess.

9 MR. BRUCE: All of these people we're seeking to
10 pool would only be in the 320-acre unit, I believe, at this
11 point.

12 EXAMINER JONES: Uh-huh, okay. So you need a
13 quick order on this, I take it?

14 THE WITNESS: Yes, sir.

15 EXAMINER JONES: Okay, thanks very much, Mr.
16 Schantz.

17 With that, we'll take Case 13,666 under
18 advisement.

19 (Thereupon, these proceedings were concluded at
20 9:29 a.m.)

21 * * *

22 I do hereby certify that the foregoing is
23 a complete record of the proceedings in
24 the Examiner hearing of Case No. _____,
heard by me on _____.

25 _____, 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 19th, 2006.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 16th, 2006