

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 McQUADRANGLE, LC, )  
FOR STATUTORY UNITIZATION OF THE )  
SOUTH RED LAKE II UNIT AREA, EDDY )  
COUNTY, NEW MEXICO )

CASE NO. 13,489

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID K. BROOKS, Jr., Hearing Examiner

April 13th, 2006

Santa Fe, New Mexico

2006 APR 27 AM 9 28

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID K. BROOKS, Jr., Hearing Examiner, on Thursday, April 13th, 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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I N D E X

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Examiner Hearing  
CASE NO. 13,489

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E X H I B I T S

Applicant's	Identified	Admitted
Affidavit	4	-
Exhibit A	5	-
Exhibit B	5	-
Exhibit C	5	-
Exhibit D	6	-
Exhibit E	6	-
Exhibit F	6	-
Exhibit G	7	-

\* \* \*

## A P P E A R A N C E S

## FOR THE APPLICANT:

HOLLAND & HART, L.L.P., and CAMPBELL & CARR  
110 N. Guadalupe, Suite 1  
P.O. Box 2208  
Santa Fe, New Mexico 87504-2208  
By: WILLIAM F. CARR

\* \* \*

## ALSO PRESENT:

WILLIAM V. JONES, JR.  
Hearing Examiner  
New Mexico Oil Conservation Division  
1220 South Saint Francis Drive  
Santa Fe, NM 87505

\* \* \*

1           WHEREUPON, the following proceedings were had at  
2 8:47 a.m.:

3           EXAMINER BROOKS: Case Number 13,489, the  
4 reopened Application of McQuadrangle, LC, for Statutory  
5 unitization. It's reopened to permit the operator of the  
6 South Red Lake II Unit to appear and show that the plan for  
7 unit operations has been approved.

8           Call for appearances.

9           MR. CARR: May it please the Examiner, my name is  
10 William F. Carr with the Santa Fe office of Holland and  
11 Hart. We represent McQuadrangle in this matter, and I'm  
12 going to present the case by affidavit.

13           EXAMINER BROOKS: Very good.

14           MR. CARR: It's somewhat unusual since it's my  
15 own affidavit --

16           EXAMINER BROOKS: Well, that should work.

17           MR. CARR: -- but it appeared that -- early that  
18 I might not be here, and so we prepared the affidavit. But  
19 I am the person who was responsible for going through and  
20 in charge of the second round of ratifications, and I am  
21 the appropriate person to explain to you where we are  
22 today.

23           On July 19th of 2005, the Division entered Order  
24 Number R-12,386 that statutorily -- approved statutory  
25 unitization of the South Red Lake II Unit area. At the

1 time of the hearing it was discovered that the unit  
2 agreement that had been sent out for ratification included  
3 in the unitized interval some additional acreage, some --  
4 an additional interval. And the order that was entered in  
5 that case required that the unitized interval be corrected  
6 and that the order be submitted for re-ratification.

7 We sent the unit agreement to all parties, and  
8 because of delays in getting ratifications back on January  
9 the 6th requested an extension of the order through April  
10 the 19th, and we did resubmit the entire ratification  
11 package, unit agreement, unit operating agreement and the  
12 order to all interest owners.

13 And we received the necessary 75 percent of both  
14 cost-bearing and non-cost-bearing interests and in February  
15 requested the entry of a supplemental order.

16 It was in early March that we were advised by the  
17 Division that the Division felt it would be appropriate for  
18 us to appear today and to present the ratifications so that  
19 the supplemental order, in fact, would have a record behind  
20 it.

21 What I have presented today is attachments to  
22 this affidavit: our copies of the original pooling order,  
23 our December 22nd letter requesting the extension through  
24 April the 19th. After that are various other documents.  
25 You have copies of ratifications signed by McQuadrangle LC

1 and Cullers Family Investments, Limited. Those are the  
2 only two working interest owners in the unit area, so 100  
3 percent of the working interest is ratified.

4 As to the base royalty, we've included approval  
5 letters from the Commissioner of Public Lands and his  
6 certificate of approval.

7 And then the last page in that exhibit -- it's  
8 marked Exhibit E -- is a December 19th letter from the BLM  
9 also approving the unitization. So we have 100 percent of  
10 the base royalty now also ratified.

11 Exhibit F is the complicated exhibit. It is a  
12 breakdown by unit tract of the interest owners in the unit,  
13 and we have highlighted on that exhibit the interest owners  
14 who, in fact, have ratified.

15 As the statute is drafted, you have to have 100  
16 -- or 75 percent of the non-cost-bearing interest owners.  
17 And so what that means is, you have to combine the royalty  
18 interests and the overrides and then determine how much is  
19 non-cost-bearing and then get to 75 percent of that, and  
20 it's not the easiest thing to do. But right behind the  
21 listing by tract that's highlighted basically by tract, we  
22 have shown you that -- we have a breakdown. It shows, for  
23 example, Tract 1 consists of 80 acres, a 12-1/2-percent  
24 royalty interest is committed, and 2.65 percent of the 5-  
25 percent overriding royalty is committed. That's just a

1 breakdown, it shows each of the tracts.

2 And then on the second page what we have done,  
3 because the tracts are varying interests -- are varying  
4 size, we have taken a percentage of committed interests,  
5 multiplied it by the number of acres, and come up with --  
6 it's just a -- it's just a factor, it's a number, 14,762.

7 And then what we also did is, we took all the  
8 noncommitted interests in the unit -- or all the non-cost-  
9 bearing interests in the unit, multiplied that by the  
10 number of acres, and there was a factor of 19,548. You  
11 divide one into the other, and we are at 75.52-percent  
12 ratification of all non-cost-bearing interest owners. And  
13 Mr. Kellahin asked me a year ago to write a memo explaining  
14 how this was done, and I've never been able to make it make  
15 any sense, but I'm positive that we do have the necessary  
16 non-cost-bearing interests --

17 EXAMINER BROOKS: Very much the same as preparing  
18 a Division order title opinion.

19 MR. CARR: Or drafting compulsory pooling rules.

20 (Laughter)

21 MR. CARR: The last exhibit in this packet is the  
22 notice of publication, to show that today's hearing was  
23 published.

24 We now have obtained the necessary ratifications,  
25 and we would request that a supplemental order be entered

1 confirming that the original Division order has been  
2 ratified, and we would like, therefore, to put the unit  
3 into effect at 7:00 a.m. on May the 1st.

4 EXAMINER BROOKS: Very good. There's nobody else  
5 appearing in this case?

6 MR. CARR: No, sir.

7 EXAMINER BROOKS: Do you have any questions of  
8 Mr. Carr, Mr. Jones?

9 MR. JONES: (Shakes head)

10 EXAMINER BROOKS: Well, neither do I. Case  
11 Number 13,498, reopened, will be taken under advisement.

12 (Thereupon, these proceedings were concluded at  
13 8:54 a.m.)

14 \* \* \*

15  
16  
17 I do hereby certify that the foregoing is  
18 a complete record of the proceedings in  
19 the Examiner hearing of Case No. 13489  
heard by me on Apr 13 2006.

20 David K. Brooks, Examiner  
21 Oil Conservation Division  
22  
23  
24  
25

## 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 April 13th, 2006.



STEVEN T. BRENNER  
 CCR No. 7

My commission expires: October 16th, 2006