

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 WJP EXPLORATION, LLC,)
FOR COMPULSORY POOLING, EDDY COUNTY,)
NEW MEXICO)

CASE NO. 13,725

ORIGINAL

2006 JUL 6 AM 8 06

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

June 22nd, 2006

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, June 22nd, 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.

* * *

I N D E X

June 22nd, 2006
 Examiner Hearing
 CASE NO. 13,725

| | PAGE |
|----------------------------------|------|
| APPEARANCES | 3 |
| APPLICANT'S WITNESS: | |
| <u>JAMES R. STONE</u> (Landman) | |
| Direct Examination by Mr. Bruce | 4 |
| Examination by Examiner Catanach | 11 |
| REPORTER'S CERTIFICATE | 13 |

* * *

E X H I B I T S

| Applicant's | Identified | Admitted |
|-------------|------------|----------|
| Exhibit 1 | 6 | 11 |
| Exhibit 2 | 7 | 11 |
| Exhibit 3 | 9 | 11 |
| Exhibit 4 | 10 | 11 |

* * *

A P P E A R A N C E S

FOR THE DIVISION:

GAIL MacQUESTEN
Deputy General Counsel
Energy, Minerals and Natural Resources Department
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

FOR THE APPLICANT:

JAMES G. BRUCE
Attorney at Law
P.O. Box 1056
Santa Fe, New Mexico 87504

FOR CHESAPEAKE PERMIAN, LP:

KELLAHIN & KELLAHIN
117 N. Guadalupe
P.O. Box 2265
Santa Fe, New Mexico 87504-2265
By: W. THOMAS KELLAHIN

* * *

1 WHEREUPON, the following proceedings were had at
2 8:20 a.m.:

3 EXAMINER CATANACH: And at this time I'll call
4 Case 13,725, the Application of WJP Exploration, LLC, for
5 compulsory pooling, Eddy County, New Mexico.

6 Call for appearances.

7 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe,
8 representing the Applicant. I have one witness to be
9 sworn.

10 EXAMINER CATANACH: Call for additional
11 appearances.

12 MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin of
13 the Santa Fe law firm of Kellahin and Kellahin, appearing
14 this morning on behalf of Chesapeake Permian, LP.

15 EXAMINER CATANACH: Any additional appearances?
16 Okay, will the witness please stand to be sworn
17 in?

18 (Thereupon, the witness was sworn.)

19 JAMES R. STONE,
20 the witness herein, after having been first duly sworn upon
21 his oath, was examined and testified as follows:

22 DIRECT EXAMINATION

23 BY MR. BRUCE:

24 Q. Would you please state your full name for the
25 record?

1 A. James Robert Stone.

2 Q. And where do you reside?

3 A. Sugarland, Texas.

4 Q. What is your occupation?

5 A. Oil and gas land and business development.

6 Q. What is your relationship to the Applicant in
7 this case?

8 A. I did some contract land work for them on this
9 project.

10 Q. Have you previously testified before the
11 Division?

12 A. No, I have not.

13 Q. Would you please summarize your educational and
14 employment background for the Examiner?

15 A. Yes, I have business and law as an educational
16 background, an MBA and a JD -- I'm licensed to practice in
17 Texas; I don't practice -- and 27, I think 28 years now, in
18 oil and gas E and P, land work, I've been an independent
19 operator, and I've done about 16 years of international
20 business development.

21 Q. Okay. And lately you have been primarily
22 domestic exploration?

23 A. That's correct.

24 Q. And land work in what state?

25 A. Recently Texas and New Mexico.

1 Q. Okay. And are you familiar with the land matters
2 involved in this Application?

3 A. Yes, I am.

4 MR. BRUCE: Mr. Examiner, I'd tender Mr. Stone as
5 an expert petroleum landman.

6 EXAMINER CATANACH: Mr. Stone is so qualified.

7 Q. (By Mr. Bruce) Just briefly, Mr. Stone, what
8 does WJP Exploration seek in this case?

9 A. An order pooling the east half of Section 16, 23
10 South, 24 East, from the surface to the base of the Morrow
11 formation for pools spaced on 320 acres.

12 Q. What is the well's location?

13 A. The Renata 16 State Number 1 is to be located 660
14 feet from the north line and from the east line.

15 Q. Referring to Exhibit 1, what is the working
16 interest ownership in the well unit?

17 A. Exhibit 1 lists the working interest on the east
18 half of 16. It's got two tracts. The southeast border is
19 owned 100 percent by WJP Exploration and its working
20 interest owners, and the northeast which is owned by OXY
21 USA WTP Limited Partnership and Chesapeake Permian and
22 Yates Petroleum Corporation.

23 Q. At this time, which interest owners do you seek
24 to pool?

25 A. OXY and Chesapeake.

1 Q. And you have reached agreement with Yates?

2 A. That's correct.

3 Q. Now let's discuss the efforts to obtain the
4 voluntary joinder of the interest owners in the well, and
5 without going into too much detail, could you go over what
6 is in Exhibit 2?

7 A. Yes, Exhibit 2 has copies of correspondence with
8 the working interest owners.

9 Capstone Oil and Gas, one of the WJP partners,
10 was in charge of the land work for this project and started
11 working on the project in 2004 and early 2005. It's a
12 letter dated February of 2005, Capstone proposed this well
13 to OXY.

14 And then in January of 2006, we re-proposed the
15 well to OXY, Chesapeake and Yates.

16 Q. Now these early letters went out under the name
17 of Mark Wheeler who's a landman at Capstone. What happened
18 where that changed, or -- Did he leave the company, or what
19 was --

20 A. Yes, he did, he was doing the land work for
21 Capstone and had to leave the company, and so I was asked
22 to carry this on for him.

23 Q. Okay. Now you have letters in here, and have you
24 also had telephone conferences or calls or e-mails between
25 you and any of the interest owners?

1 A. Yes, I have, as well as Dale Douglas, who's also
2 the land manager at Capstone.

3 Q. Okay. So you have spoken with both
4 representatives of OXY and Chesapeake regarding this
5 matter?

6 A. That's correct.

7 Q. Have either OXY or Chesapeake indicated they
8 would join in the well?

9 A. Chesapeake does want to joint the well, and they
10 have a JOA that they're reviewing, and --

11 Q. And will you continue to work with Chesapeake on
12 the JOA?

13 A. Yes, indeed, we've agreed that we'll continue to
14 work, and we'll notify the Division if we sign other
15 parties to the JOA.

16 Q. Okay, and you've had phone calls with a Mr. David
17 Evans at OXY, have you not?

18 A. That's correct.

19 Q. And they're uncertain at this point what they
20 desire to do?

21 A. That's right.

22 Q. They have been given title information, so they
23 know what they own; is that correct?

24 A. Correct, correct.

25 Q. And again, if one or both of those parties sign a

1 JOA will you still notify the Division? Mr. Stone.

2 A. Yes.

3 Q. Okay. In your opinion, has WJP Exploration made
4 a good-faith effort to obtain the voluntary joinder of the
5 interest owners in the well?

6 A. Yes.

7 Q. Could you identify Exhibit 3 and discuss the cost
8 of the proposed well?

9 A. Exhibit 3 is the AFE, and the well -- the
10 proposed depth is 10,800 feet, the estimated dry hole was
11 \$1,479,000, and a completed well cost of \$2,308,000.

12 Q. Is this cost in line with the cost of other wells
13 drilled to this depth in this area of New Mexico?

14 A. Yes, it is.

15 Q. Who do you request be appointed operator of the
16 well?

17 A. We're requesting that Preston Exploration, LLC,
18 be named the operator.

19 Q. Do you have a recommendation for the amounts
20 which the operator should be paid for supervision and
21 administrative expense?

22 A. Yes, we're requesting \$5050 per month for the
23 drilling of the well and \$505 per month for the producing
24 well.

25 Q. Are these amounts equivalent or lower to those

1 normally charged by operators in this area for wells of
2 this depth?

3 A. Yes, they are.

4 Q. And do you request that these rates be adjusted
5 periodically as provided by the COPAS accounting procedure?

6 A. Yes.

7 Q. Does WJP request a 200-percent risk charge be
8 assessed against any nonconsenting interest?

9 A. Yes.

10 Q. And finally, were the interest owners notified of
11 this hearing?

12 A. Yes.

13 Q. And Exhibit 4 is simply the affidavit of notice,
14 is it not?

15 A. Correct.

16 Q. Were Exhibits 1 through 4 prepared by you or
17 under your supervision or compiled from company business
18 records?

19 A. Yes.

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

23 A. Yes.

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

1 EXAMINER CATANACH: Exhibits 1 through 4 will be
2 admitted.

3 Mr. Kellahin, do you have any questions of this
4 witness?

5 MR. KELLAHIN: No questions, Mr. Examiner.

6 EXAMINATION

7 BY EXAMINER CATANACH:

8 Q. Mr. Stone, what is the association of WJP and
9 Preston Exploration?

10 A. Preston has an interest in WJP.

11 MR. BRUCE: And Mr. Examiner, I also believe that
12 there are a couple of Preston entities, and Preston
13 Exploration, L.L.C., in the Division's records is the
14 operator of record of those various interests.

15 Q. (By Examiner Catanach) Okay, who's actually
16 going to drill the well?

17 A. Preston.

18 Q. Preston is.

19 A. Uh-huh.

20 Q. Okay, is it Preston Exploration, L.L.C.? Is that
21 the correct name?

22 MR. BRUCE: Yes, it's on the top of the Exhibit
23 3, the AFE.

24 EXAMINER CATANACH: Preston Exploration, L.L.C.
25 And you say they are authorized to be operator in New

1 Mexico?

2 MR. BRUCE: Yes, sir.

3 EXAMINER CATANACH: Okay. Okay, I think that's
4 all I have.

5 Anything further?

6 There being nothing further, Case 13,725 will be
7 taken under advisement.

8 (Thereupon, these proceedings were concluded at
9 8:30 a.m.)

10 * * *

11
12
13
14
15 I do hereby certify that the foregoing is
16 a complete record of the proceedings in
17 the Examiner hearing of Case No. B725
18 heard by me on June 22, 2006
David R. Catanach, Examiner
19 Oil Conservation Division
20
21
22
23
24
25

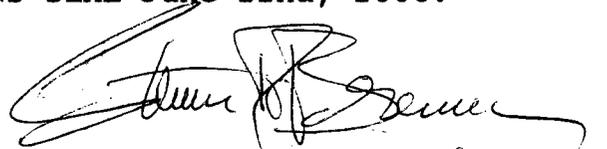
CERTIFICATE OF REPORTER

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 June 22nd, 2006.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 16th, 2006