

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. 13,718  
APPLICATION OF OXY USA WTP LIMITED )  
PARTNERSHIP FOR COMPULSORY POOLING, )  
EDDY COUNTY, NEW MEXICO )

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

June 22nd, 2006

Santa Fe, New Mexico

2006 JUL 6 PM 8 07

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.

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## I N D E X

June 22nd, 2006  
 Examiner Hearing  
 CASE NO. 13,718

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APPLICANT'S WITNESS:	
<u>DAVID RAY EVANS</u> (Landman)	
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\* \* \*

## E X H I B I T S

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\* \* \*

## 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:

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

\* \* \*

1 WHEREUPON, the following proceedings were had at  
2 8:51 a.m.:

3 EXAMINER CATANACH: Okay, at this time I'll call  
4 Case 13,718, Application of OXY USA WTP Limited Partnership  
5 for compulsory pooling, Eddy County, New Mexico.

6 Call for appearances.

7 MR. CARR: May it please the Examiner, my name is  
8 William F. Carr with the Santa Fe office of Holland and  
9 Hart, L.L.P. We represent OXY USA WTP Limited Partnership  
10 in this matter, and I have one witness.

11 EXAMINER CATANACH: Any additional appearances?

12 There being none, swear in the witness.

13 (Thereupon, the witness was sworn.)

14 DAVID RAY EVANS,

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

17 DIRECT EXAMINATION

18 BY MR. CARR:

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

20 A. David Ray Evans.

21 Q. And Mr. Evans, where do you reside?

22 A. 1506 Douglas, Midland, Texas.

23 Q. By whom are you employed?

24 A. OXY USA WTP Limited Partnership.

25 Q. And what is your position with OXY?

1 A. Land negotiator.

2 Q. Have you previously testified before the New  
3 Mexico Oil Conservation Division?

4 A. Yes.

5 Q. At the time of that testimony, were your  
6 credentials as an expert witness in petroleum land matters  
7 accepted and made a matter of record?

8 A. Yes.

9 Q. Are you familiar with the Application filed on  
10 behalf of OXY in this case?

11 A. Yes.

12 Q. And are you familiar with the status of the lands  
13 in the subject area?

14 A. Yes.

15 MR. CARR: We tender Mr. Evans as an expert  
16 witness in petroleum land matters.

17 EXAMINER CATANACH: Mr. Evans is so qualified.

18 Q. (By Mr. Carr) Would you briefly state for the  
19 Examiner what it is that OXY seeks with this Application?

20 A. Order pooling all minerals, from the surface to  
21 the base of the Morrow formation, under the following  
22 standard spacing units located in the west half of Section  
23 4, 19 South, 35 East, Eddy County, New Mexico, for the  
24 Undesignated South Millman-Morrow Gas Pool on 320 acres and  
25 the Undesignated Millman-Strawn Gas Pool, the northwest

1 quarter for all formations or pools developed on 160 acres,  
2 and the southwest northwest for all formations and pools  
3 developed on 40-acre spacing, which includes but not  
4 necessarily limited to Travis-Upper Penn Pool and Travis-  
5 Wolfcamp Pool.

6 Q. And these are to be dedicated to what well?

7 A. The Senita State Well Number 1.

8 Q. And where is that well located?

9 A. 1540 feet from the north and 1070 feet from the  
10 west.

11 Q. Is that a standard well location in all horizons?

12 A. Yes.

13 Q. Let's go to what has been marked as OXY Exhibit  
14 Number 1. Would you identify that and review it for Mr.  
15 Catanach?

16 A. This is the west half of 4 and shows our location  
17 as it appears to the 320 Morrow, the 160 in the northwest  
18 and the 40 acres southwest northwest.

19 Q. We were unable to locate any 80-acre pools in  
20 this area; isn't that right?

21 A. That's correct.

22 Q. What is the primary objective of the proposed  
23 well?

24 A. Morrow formation.

25 Q. And that would be in the Undesignated South

1 Millman-Morrow Gas Pool?

2 A. Yes.

3 Q. What rules govern the development of this  
4 acreage?

5 A. Statewide rules, 320-acre spacing, 660 foot  
6 setbacks.

7 Q. Would you identify what's been marked OXY Exhibit  
8 Number 2?

9 A. This is the identity of the interests that we're  
10 trying to pool. Anne Johnson in the west half and  
11 Katherine Malone.

12 Q. And those are the only two at this point in time  
13 who we're seeking to pool?

14 A. That's correct.

15 Q. What percent of the working interest is  
16 voluntarily committed to this well in any of the described  
17 spacing units?

18 A. Over 99 1/2 percent.

19 Q. Could you summarize the efforts that you have  
20 made on behalf of OXY to identify and obtain the voluntary  
21 participation of the interest owners you're today seeking  
22 to pool?

23 A. Well, we made first contact back in November 29th  
24 of 2005, and we've continued that effort up until just  
25 recently on June 12th.

1 Q. Is OXY Exhibit Number 3 a compilation of letters  
2 both to the Charles Malone Trust and to the Johnson  
3 interests?

4 A. Yes.

5 Q. And in your opinion have you made a good faith  
6 effort to obtain their voluntary participation in the  
7 proposed well?

8 A. Yes.

9 Q. Would you identify what is marked OXY Exhibit  
10 Number 4?

11 A. Number 4. Is that the AFE?

12 Q. Yes, sir.

13 A. Okay, it's OXY's AFE proposed to drill the well,  
14 dated January 13th.

15 Q. And could you review for the Examiner the totals  
16 that are set forth on this exhibit?

17 A. The dryhole cost is \$1,535,606 and the completed  
18 well will be \$2,135,750.

19 Q. Are these costs in line with the costs that are  
20 charged by other operators in the area for similar wells?

21 A. Yes.

22 Q. And these, in fact, are OXY's costs as of January  
23 of this year?

24 A. Yes.

25 Q. If anything, they've gone up since then?

1 A. They've gone up since then.

2 Q. What is OXY Exhibit Number 5?

3 A. Okay, the accounting, COPAS.

4 Q. Is this joint -- Are these accounting procedures  
5 part of the joint operating agreement for this proposed  
6 well?

7 A. Yes.

8 Q. Do these procedures provide for the periodic  
9 adjustment of overhead and administrative charges?

10 A. Yes.

11 Q. And do you seek that the overhead and  
12 administrative costs set by the order entered in this case  
13 also be adjusted in accordance with these COPAS procedures?

14 A. Yes.

15 Q. Have you made an estimate of the overhead and  
16 administrative costs to be incurred while drilling the well  
17 and also while producing it, if it is successful?

18 A. Yes, \$6000 drilling, \$600 a month producing.

19 Q. And how do these compare to the Ernst and Young  
20 figures?

21 A. On target.

22 Q. Were these figures also accepted by the other  
23 interest owners who are voluntarily participating in the  
24 well?

25 A. Yes, they were.

1 Q. And you recommend that these be incorporated in  
2 the order?

3 A. Yes, I do.

4 Q. Does OXY request that the 200-percent charge for  
5 risk authorized by statute on each cost-bearing interest  
6 not committed to the well be assessed by this pooling  
7 order?

8 A. Yes.

9 Q. And you're asking that -- is it OXY USA WTP,  
10 Limited Partnership, is that who you would like to have  
11 designated operator of the well?

12 A. Yes.

13 Q. Is Exhibit Number 6 an affidavit confirming that  
14 notice of this hearing has been provided in accordance with  
15 the Rules of the OCD?

16 A. Yes.

17 Q. You have return receipts in the exhibit --

18 A. Yes.

19 Q. -- the notice letter of the hearing, and also a  
20 copy of the advertisement that was run in the newspaper as  
21 required by Division Rules?

22 A. Right.

23 Q. How soon do you plan to commence operations on  
24 this well?

25 A. Within the next 60 days.

1 Q. Were OXY Exhibits 1 through 6 either prepared by  
2 you or compiled at your direction?

3 A. Yes, they were.

4 MR. CARR: May it please the Examiner, at this  
5 time we'd move the admission into evidence of OXY Exhibits  
6 1 through 6.

7 EXAMINER CATANACH: OXY's Exhibits 1 through 6  
8 will be admitted.

9 MR. CARR: That concludes my direct examination  
10 of Mr. Evans.

11 EXAMINATION

12 BY EXAMINER CATANACH:

13 Q. Mr. Evans, BP did the initial land work on this?

14 A. Yes, sir, it's a joint development agreement with  
15 BP and OXY, a 3-D seismic.

16 Q. But OXY is going to drill the well?

17 A. Yes, sir.

18 Q. BP initially sent these two interest owners  
19 notice on November 29th, 2005, and actually gave them two  
20 weeks to make a decision, and this letter says this offer  
21 shall remain open until December 15th, 2005. I was a  
22 little concerned about that, but then the well was proposed  
23 to them in March; is that --

24 A. Yes, sir.

25 Q. -- my understanding?

1           A.    Yes, sir, and we've made continuous contact with  
2 them.  In fact, we think we will have term assignments from  
3 them, it's just -- They're slow to respond.  We've talked  
4 to them every month, and they keep saying they're going to  
5 send us the term assignment, they just haven't.

6           Q.    But at this point in time, the offer to either  
7 farm out or get a term assignment or participate in the  
8 well is still open --

9           A.    Still open, yes, sir.

10          Q.    Okay.  And the operator is going to be the same  
11 as the Applicant, right?  OXY USA WTP Limited Partnership?

12          A.    Yes, sir.

13          Q.    Okay.  Now is OXY actually going to drill and be  
14 the operator?

15          A.    Yes, sir.

16                   EXAMINER CATANACH:  Okay, I have nothing further.

17                   MR. CARR:  That concludes our presentation in  
18 this case.

19                   EXAMINER CATANACH:  Case Number 13,718 will be  
20 taken under advisement.

21                           (Thereupon, these proceedings were concluded at  
22 9:01 a.m.)

23   I do hereby certify that the foregoing is  
24   \* \* \* a complete record of the proceedings in  
25   the Examiner hearing of Case No. 13718,  
   heard by me on June 22, 2006.

David R. Catanach, 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 June 24th, 2006.




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STEVEN T. BRENNER  
 CCR No. 7

My commission expires: October 16th, 2006