

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 PALADIN ENERGY)
CORPORATION FOR COMPULSORY POOLING,)
LEA COUNTY, NEW MEXICO)

CASE NO. 13,823

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: RICHARD EZEANYIM, Hearing Examiner

November 30th, 2006

Santa Fe, New Mexico

2006 DEC 13 PM 1:33

This matter came on for hearing before the New Mexico Oil Conservation Division, RICHARD EZEANYIM, Hearing Examiner, on Thursday, November 30th, 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

November 30th, 2006
 Examiner Hearing
 CASE NO. 13,823

	PAGE
APPEARANCES	3
APPLICANT'S WITNESS:	
<u>GAIL COTTON</u> (Landman) Direct Examination by Ms. Munds-Dry	4
REPORTER'S CERTIFICATE	16

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E X H I B I T S

Applicant's	Identified	Admitted
Exhibit 1	6	14
Exhibit 2	7	14
Exhibit 3	7	14
Exhibit 4	10	14
Exhibit 5	11	14
Exhibit 6	14	14

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A P P E A R A N C E S

FOR THE DIVISION:

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By: OCEAN MUNDS-DRY

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WHEREUPON, the following proceedings were had at
9:44 a.m.:

EXAMINER EZEANYIM: At this point let's go on the
record again. On page 2, I call Case Number 13,823. This
is the Application of Paladin Energy Corporation for
compulsory pooling, Lea County, New Mexico.

Call for appearances, please.

MS. MUNDS-DRY: Good morning, Mr. Hearing
Examiner. Ocean Munds-Dry with the law firm of Holland and
Hart, here representing Paladin this morning. I have one
witness.

EXAMINER EZEANYIM: Any other appearances?

May the witness stand to be sworn, please?

(Thereupon, the witness was sworn.)

EXAMINER EZEANYIM: You may proceed, Ms. Munds.

MS. MUNDS-DRY: Thank you, Mr. Examiner.

GAIL COTTON,

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

DIRECT EXAMINATION

BY MS. MUNDS-DRY:

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

A. Gail Cotton.

Q. And where do you reside, Ms. Cotton?

A. Dallas, Texas.

1 Q. And by whom are you employed?

2 A. I'm self-employed as an oil and gas consultant.

3 Q. Is that with Paladin?

4 A. The last two years I've been with Paladin,
5 consulting for them.

6 Q. Ms. Cotton, have you previously testified before
7 the Division?

8 A. No, I haven't.

9 Q. Would you please summarize your educational
10 background for the Examiner?

11 A. I began my career as a field landman for about a
12 year and then an analyst and landman in-house, and for 11
13 years I was an assistant vice president and vice president
14 for two major banks, managing their oil and gas division,
15 and for the last six years I've been on my own, self-
16 employed as an oil and gas landman.

17 Q. Are you familiar with the Application filed in
18 this case?

19 A. Yes.

20 Q. And are you familiar with the status of the lands
21 that are the subject of this Application?

22 A. Yes.

23 MS. MUNDS-DRY: Mr. Examiner, we would tender Ms.
24 Cotton as an expert in petroleum land matters.

25 EXAMINER EZEANYIM: Ms. Cotton is so qualified.

1 Q. (By Ms. Munds-Dry) Ms. Cotton, would you briefly
2 state what Paladin seeks with this Application?

3 A. Yes, we'd like an order pooling all the mineral
4 interests from the surface to the base of the Mississippian
5 in the northeast quarter, southeast quarter of Section 34,
6 16 South, 38 East, Lea County, New Mexico.

7 Q. And what is the name of the well that will be
8 dedicated to the spacing unit, and where will it be
9 located?

10 A. The W.W. Hamilton A Number 2 well, to be re-
11 entered and recompleted, which is located 1980 feet from
12 the south line, 660 feet from the east line of Section 34.

13 Q. Thank you, Ms. Cotton. Will you please turn to
14 what's been marked as Paladin Exhibit Number 1 and review
15 this set of maps for the Examiner?

16 A. Yes, the first one, you'll see in Section 34 the
17 W.W. Hamilton A 2, approximately where it's located. And
18 then on page 2 --

19 Q. Before -- Ms. Cotton, before you turn to page 2
20 -- sorry for interrupting you -- the parts that you have
21 marked in yellow, what does that represent?

22 A. That's Paladin's leasehold.

23 Q. And the part that's marked in blue?

24 A. That's owned with Apache.

25 Q. Okay, thank you. Please continue.

1 A. The next map is -- you'll just see where Hobbs
2 and Lovington is, and then on the map after that you can
3 see that this location is approximately 11 1/2 miles just
4 north of Hobbs.

5 Q. And that's where the well location is?

6 A. Yes.

7 Q. Thank you. Ms. Cotton, please turn to Exhibit
8 Number 2 and review this for the Examiner.

9 A. This is our application for permit to drill, re-
10 enter, deepen, plugback or add a zone, the C-101 that's
11 been filed, and the C-102 showing the location.

12 Q. And on the first page of the APD, that shows the
13 targeted formation as what?

14 A. The Devonian.

15 Q. I believe actually, if you look up a little bit
16 more to the Proposed Pool 1, I believe this well was
17 previously Devonian; is that correct, Ms. Cotton?

18 A. Yes, uh-huh.

19 Q. And it's now being -- it looks like it's the
20 Wolfcamp, is the main target now?

21 A. Yes.

22 Q. And the C-102 on the second page, that just shows
23 you the footage well location?

24 A. Correct.

25 Q. Please turn to Exhibit Number 3 and review this

1 table for the Examiner.

2 A. This is a list of all the owners and the status
3 of each, their interest, the net acres, how many acres are
4 leased, and there are about 60 acres under this 40-acre
5 tract, owned by 60 different owners, and a lot of them are
6 small -- very small owners -- and three that we did not
7 lease.

8 Q. In this 40-acre spacing unit, is this all fee
9 acreage?

10 A. Yes.

11 Q. And you have reached a voluntary agreement with
12 virtually all of the owners on this list; is that correct?

13 A. Yes.

14 Q. And if you could show the Examiner the three that
15 we are seeking to pool today on the list, where they're
16 located?

17 A. Okay, they're in alphabetic order, the first one
18 is Margaret Eversden, she's on the second page about
19 halfway down.

20 EXAMINER EZEANYIM: Number -- You have numbers.
21 Which one is that?

22 THE WITNESS: 66 is by her name.

23 EXAMINER EZEANYIM: Okay.

24 THE WITNESS: They're not sequential, that
25 relates to something else.

1 EXAMINER EZEANYIM: Oh, okay.

2 THE WITNESS: But she's on the second page,
3 and --

4 Q. (By Ms. Munds-Dry) And what does it show her
5 interest as, Ms. Cotton?

6 A. .75 net mineral acres, owning .01875 interest.

7 Q. Thank you. And the second party?

8 A. The second one is the J. Hiram Moore -- Well,
9 actually on the third page, the first one, it's number 56,
10 it's the fourth one down, it's the Frederick Jones and
11 Winona Jones trust. They own .0009 interest to compute to
12 .03787 net mineral acres.

13 Q. And the final party?

14 A. On down below that on the same page, the -- It's
15 Number 51, J. Hiram Moore, Trustee of the Moore Trust, and
16 they own .00625-percent interest, and it equates to .25 net
17 mineral acre.

18 EXAMINER EZEANYIM: And they all got message -- I
19 mean got notice?

20 THE WITNESS: Yes, they did, and --

21 MS. MUNDS-DRY: And Mr. Examiner, I believe when
22 we turn to the next exhibit we'll show you our efforts to
23 reach them.

24 THE WITNESS: Yes, there's a table there showing
25 my correspondence and a package of information, where --

1 Q. (By Ms. Munds-Dry) And Ms. Cotton, is that
2 Exhibit Number 4?

3 A. I believe it is.

4 Q. And before you review the table, will you please
5 explain to the Examiner what the other three packets of
6 material that we've included in here for the Examiner are?

7 A. It's backup documentation of my letters to the
8 owners that I tried to contact either by -- well, I
9 actually tried -- talked to some of them, and I followed up
10 with documents in the mail, so I have copies of all of
11 those attached.

12 Q. Thank you, Ms. Cotton. If you would please
13 review for the Examiner the table, explain to the Examiner
14 what this table is and review your efforts to reach or
15 negotiate with these parties.

16 A. These are the three owners, and I have not been
17 able to lease them. Margaret Eversden, we tried to lease
18 her in 2000, and no one could locate her or any heirs.
19 I've also included some of that documentation. And then
20 when I picked this up a year ago, I sent envelopes out to
21 different addresses that I found in the file, but
22 everything was returned, and I can't locate anybody who
23 knows anything about her.

24 And on the other two, I talked to people, as
25 you'll see the dates, I talked to people and faxed the

1 lease terms. I sent -- I mailed leases to them. I left
2 voice mails and then called them and told them -- left a
3 message saying that we need to force pool the interest if I
4 don't hear back from them and -- so they knew what was
5 going on. They didn't respond.

6 Q. As a result of your efforts, what happened? Did
7 the simply stop communicating with you?

8 A. Yes, they didn't return the call, and I didn't
9 hear anything from them.

10 Q. In your opinion, Ms. Cotton, have you made a good
11 faith effort to try to reach voluntary agreement with these
12 parties?

13 A. Definitely.

14 Q. Would you please turn to Exhibit Number 5 and
15 review this for the Examiner?

16 A. This is the AFE and letter from Paladin Energy
17 that was prepared, and I sent this to the two owners that I
18 could locate. Once I told them that we were going to force
19 pool their interest, they got all of this.

20 Q. What is the total set forth on this exhibit for
21 both the dryhole and completed well costs?

22 A. The dryhole costs is \$393,624, the completed well
23 cost is \$218,306.

24 EXAMINER EZEANYIM: I'm still looking for that
25 AFE? Where is it?

1 MS. MUNDS-DRY: Mr. Examiner, on Exhibit Number 5
2 there's a letter on the first page.

3 THE WITNESS: It's behind the letter dated June
4 12th.

5 EXAMINER EZEANYIM: The exhibits are not
6 marked --

7 MR. BROOKS: Three unmarked exhibits in --

8 EXAMINER EZEANYIM: -- because I don't --

9 MS. MUNDS-DRY: Oh, I apologize for that. May I
10 approach, Mr. Examiner?

11 EXAMINER EZEANYIM: Sure, you may.

12 MR. BROOKS: Number 5 is --

13 EXAMINER EZEANYIM: These are not marked, so I
14 don't --

15 MR. BROOKS: -- unmarked documents.

16 MS. MUNDS-DRY: I apologize for that. It should
17 be -- Oh, I see, maybe -- Here it is, right here.

18 EXAMINER EZEANYIM: Okay, this is --

19 MS. MUNDS-DRY: That's the one.

20 EXAMINER EZEANYIM: -- Number 5, okay.

21 MS. MUNDS-DRY: Do you see that now, Mr.
22 Examiner?

23 EXAMINER EZEANYIM: Yes. Go ahead, please.

24 THE WITNESS: The dryhole cost is \$393,624.
25 You'll see that on the last page of that exhibit. And the

1 completed well cost is \$218,306.

2 Q. (By Ms. Munds-Dry) And Ms. Cotton, are these
3 costs in line with what Paladin and other operators in the
4 area are charging for similar wells?

5 A. Yes.

6 Q. Have you made an estimate of overhead and
7 administrative costs while drilling this well and also
8 while producing this well if it is a successful well?

9 A. Yes.

10 Q. And what are -- Has Paladin entered into an
11 operating agreement with other interest owners?

12 A. Yes.

13 Q. And what are the drilling rate and producing
14 rates set out in that operating agreement?

15 A. The drilling rate is \$5000 a month, and the
16 producing rate is \$400 a month.

17 Q. Do you recommend that the Examiner incorporate
18 these figures into any order that results from this
19 hearing?

20 A. Yes.

21 Q. And does Paladin also request that in accordance
22 with Division Rules, that the maximum charge for risk of
23 200 percent be imposed on each working interest that is not
24 voluntarily committed to this well?

25 A. Yes.

1 Q. And does Paladin seek to be designated operator
2 of the proposed well?

3 A. Yes.

4 Q. In your opinion, will granting of this
5 Application be in the best interest of conservation, the
6 prevention of waste and the protection of correlative
7 rights?

8 A. Yes.

9 Q. Ms. Cotton, will you please turn to Exhibit
10 Number 6? Is this an affidavit of letters and legal
11 publication?

12 A. Yes, it is.

13 MS. MUNDS-DRY: Mr. Examiner, included here is
14 not only my affidavit but also the copy of the letter that
15 was sent to the interest owners, the green cards and
16 finally the legal publication, affidavit of legal
17 publication.

18 Q. (By Ms. Munds-Dry) Ms. Cotton, were Exhibits 1
19 through 6 either prepared by you or compiled under your
20 supervision?

21 A. Yes, they were.

22 MS. MUNDS-DRY: Mr. Examiner, at this time we
23 would move the admission of Exhibits 1 through 6 into
24 evidence.

25 EXAMINER EZEANYIM: Exhibits 1 through 6 will be

1 admitted into evidence.

2 MS. MUNDS-DRY: And that concludes my direct
3 examination of Ms. Cotton.

4 EXAMINER EZEANYIM: Do you have anything?

5 MR. BROOKS: Well, only that I note that I have
6 been -- mentioned to Mr. Carr before about getting the
7 appropriate level of detail in the notices, and I see we've
8 got the place of the hearing here, but we still don't have
9 the time. I have never strained at a gnat and said that we
10 ought to re-notice them for that reason, but I note that so
11 that you all can continue correcting our forms --

12 MS. MUNDS-DRY: We will do that, Mr. Brooks,
13 thank you.

14 MR. BROOKS: -- to my meticulous satisfaction.

15 MS. MUNDS-DRY: Okay, I will make a note of that.

16 MR. BROOKS: Thank you.

17 EXAMINER EZEANYIM: All right, you may be
18 excused.

19 MS. MUNDS-DRY: Thank you, Mr. Examiner.

20 EXAMINER EZEANYIM: At this point Case Number
21 13,823 will be taken under advisement.

22 We might take a 10-minute break and continue
23 around -- What is it? Oh, that clock is no good.

24 MR. BROOKS: It's probably now 10 o'clock.

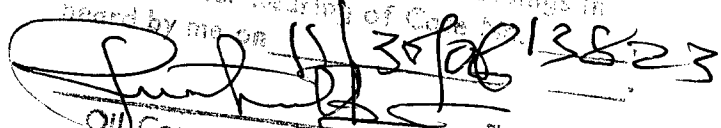
25 EXAMINER EZEANYIM: Ten minutes after 10:00 we'll

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be back.

(Thereupon, these proceedings were concluded at
9:52 a.m.)

* * *

I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 13823
heard by me on 11/30/86

Oil Conservation Division, Examiner


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 December 3rd, 2006.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 16th, 2010