

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 PARALLEL PETROLEUM)
CORPORATION FOR COMPULSORY POOLING,)
CHAVES COUNTY, NEW MEXICO)

CASE NO. 13,960

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

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

July 26th, 2007

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, WILLIAM V. JONES, Jr., Hearing Examiner, on Thursday, July 26th, 2007, 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

July 26th, 2007
 Examiner Hearing
 CASE NO. 13,960

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<u>MICHAEL M. GRAY</u> (Landman)	
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* * *

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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

* * *

1 WHEREUPON, the following proceedings were had at
2 8:31 a.m.:

3 EXAMINER JONES: Okay, I guess we're ready to get
4 started. We will -- Actually, the first case is the
5 Parallel case; is that right? Okay, it's on page 4.

6 We'll call Case Number 13,960, Application of
7 Parallel Petroleum Corporation for compulsory pooling,
8 Chaves County, New Mexico.

9 Call for appearances.

10 MS. MUNDS-DRY: Good morning, Mr. Examiner.
11 Ocean Munds-Dry with the law firm of Holland and Hart, here
12 representing Parallel Petroleum Corporation, and I have one
13 witness.

14 EXAMINER JONES: Any other appearances?
15 Will the witness please stand to be sworn?
16 (Thereupon, the witness was sworn.)

17 EXAMINER JONES: Okay, I'm ready. Sorry.

18 MICHAEL M. GRAY,
19 the witness herein, after having been first duly sworn upon
20 his oath, was examined and testified as follows:

21 DIRECT EXAMINATION

22 BY MS. MUNDS-DRY:

23 Q. Good morning, would you please state your full
24 name for the record?

25 A. Michael M. Gray.

1 Q. Where do you reside?

2 A. Midland, Texas.

3 Q. By whom are you employed?

4 A. I'm a consulting landman for Parallel Petroleum
5 Corporation.

6 Q. Have you previously testified before the
7 Division?

8 A. Yes, I have.

9 Q. And were your credentials made a matter of record
10 and accepted at that time?

11 A. Yes, they were.

12 Q. Are you familiar with the Application filed in
13 this case?

14 A. Yes.

15 Q. And are you familiar with the status of the lands
16 that are the subject of the Application?

17 A. Yes.

18 MS. MUNDS-DRY: We'd tender Mr. Gray as an expert
19 in petroleum land matters.

20 EXAMINER JONES: Mr. Gray is qualified as an
21 expert petroleum landman.

22 Q. (By Ms. Munds-Dry) Mr. Gray, would you briefly
23 state what Parallel seeks with this Application?

24 A. Parallel seeks to pool some unleased interest in
25 the south half of Section 9 of 15 South, 25 East, Chaves

1 County, New Mexico.

2 Q. What is the name of the well that will be
3 dedicated to the spacing unit?

4 A. The name of the well is the War Emblem 1525-9
5 Federal Com Number 1 well.

6 Q. Do you know the surface and the bottomhole
7 location for this well?

8 A. The -- Excuse me, I have to get -- have to get my
9 printout.

10 The surface location for this well is 1880 feet
11 from the south line, 190 feet from the east line of Section
12 8, 15 South, 25 East. The bottomhole location is 1880 feet
13 from the south line and 660 feet from the east line of
14 Section 9, 15 South, 25 East.

15 Q. And do you know the penetration point as well for
16 going into the formation?

17 A. The penetration point is projected to be 660 feet
18 from the west line of Section 9, 15 South, 25 East, and
19 1880 feet from the south line of the section.

20 Q. Thank you, Mr. Gray. If you'd please turn to
21 Exhibit Number 1 and identify and review that for Mr.
22 Jones.

23 A. Exhibit Number 1 is a locator plat depicting the
24 unit for the well and the surface location and horizontal
25 wellbore in the unit.

1 Q. If you'll turn to Exhibit Number 2 and identify
2 that for the Examiner.

3 A. Exhibit Number 2 is an ownership schedule setting
4 forth the ownership of the interest within the unit.

5 Q. And Mr. Gray, there's an interest in here
6 identified Sue Owen.

7 A. Sue Owen -- We have a lease from Sue Owen, so Sue
8 Owen will be dismissed from the case.

9 Q. And we'll go through that in a little bit more
10 detail here in a bit.

11 What's the primary objective for this well?

12 A. The primary objective for this well is the
13 Wolfcamp formation, which will be tested horizontally.

14 Q. And if you would please also turn to Exhibit
15 Number 3 and summarize your efforts to obtain the voluntary
16 participation of Rebecca L. Tedischi, John M. Leverett, Bob
17 R. Leverett and Mary Leverett, individually and as trustees
18 of the Leverett Living Trust, Margie L. Mara, Joe B.
19 Leverett, Jr., and the New Mexico Department of
20 Transportation.

21 A. With respect to Rebecca L. Tedischi, John
22 Leverett, Bob R. Leverett and Mary Leverett, trustees,
23 Margie Mara and Joe B. Leverett, you'll find letters dated
24 May 30th, 2007, whereby Parallel proposed the drilling of
25 this well and also asked these open mineral owners to

1 contact our brokers that represent us in this area, Tredek,
2 Inc.

3 Q. Was that the first contact that Parallel or its
4 broker had with these interest owners?

5 A. No, the first contact that I'm aware of was on
6 May 28th, '07. Our lease brokers contacted Steven
7 Leverett, who is not a party to this case but was -- they
8 were given information that he represented the family. An
9 offer was made to lease from the Leveretts for \$250 an
10 acre, one-fifth in one year, and they declined to accept
11 the offer.

12 Q. What was the next contact, if any, with the
13 Leverett family?

14 A. There have been a number of contacts with the
15 Leverett family, the dates of which I'm not familiar with,
16 but there have been -- in addition to the letters set forth
17 as Exhibit 3, letters have been mailed to the Leveretts
18 offering to lease under the terms I just described, and
19 multiple phone conversations have been had with each one.

20 Q. And the result of those contacts?

21 A. And the result of those contacts -- also contacts
22 with their attorney, Calder Ezzell in Roswell with the
23 Hinkle Law Firm, have not resulted in a negotiated lease.

24 MS. MUNDS-DRY: And just to be clear, Mr.
25 Examiner, Mr. Gray had mentioned that we had included Sue

1 E. Owen originally in the list of pooled owners, and she
2 does in fact have a lease. So we are obviously not seeking
3 to pool her.

4 EXAMINER JONES: Okay.

5 MS. MUNDS-DRY: She should be dismissed.

6 Q. (By Ms. Munds-Dry) In your opinion, have you
7 made a good faith effort to seek the voluntary
8 participation of these interest owners?

9 A. Yes, we have.

10 Q. And let's just back up, just for a second. We
11 also listed the New Mexico Department of Transportation,
12 and it is listed in Exhibit 3 here that you sent them a
13 letter. Have you had any further -- or your broker had any
14 further contacts --

15 A. No, we --

16 Q. -- with the Department of Transportation?

17 A. -- we have -- the letter that we sent to the
18 Department, to the Secretary of the Department, invited
19 them to participate in the well and also invited them to
20 instruct us as to how we might be able to purchase a lease
21 from the Highway Department, and we've received no
22 response.

23 Q. All right. If you'd please turn to Exhibit
24 Number 4 and identify that for the Examiner. It's the AFE
25 for the well.

1 A. Exhibit Number 4 is the AFE, estimating the cost
2 of the War Emblem well.

3 Q. What are the dryhole and completed well costs
4 projected for this well?

5 A. Dryhole costs are \$1,154,900.

6 Q. And completed well costs?

7 A. \$2,317,500.

8 Q. Are these costs in line with what other operators
9 have been charging in the area?

10 A. Yes.

11 Q. And have you also made an estimate of overhead
12 and administrative costs while drilling this well and while
13 producing this well if it is a successful well?

14 A. Yes, we have.

15 Q. What are those? What are the drilling and
16 producing rates that you would suggest?

17 A. \$4500 for the drilling rate and \$450 for the
18 monthly overhead rate.

19 Q. Do you recommend that these figures be
20 incorporated into any order that results from this hearing?

21 A. Yes.

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

1 A. Yes, we do.

2 Q. And does Parallel seek to be designated operator
3 of this well?

4 A. Yes.

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

9 A. Yes.

10 Q. And finally, is Exhibit Number 5 a notice
11 affidavit with attached letters giving notice of the
12 hearing and the green card and the legal advertisement for
13 this case?

14 A. Yes.

15 Q. Were Exhibits 1 through 5 either prepared by you
16 or under your direct supervision?

17 A. The AFE was not prepared under my direct
18 supervision, it was prepared by our drilling engineer.

19 MS. MUNDS-DRY: Okay. We would move the
20 admission of Exhibits 1 through 5 into evidence, Mr.
21 Examiner.

22 EXAMINER JONES: Exhibits 1 through 5 will be
23 admitted into evidence.

24 MS. MUNDS-DRY: And that concludes my direct
25 examination.

EXAMINATION

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BY EXAMINER JONES:

Q. Okay. Mr. Gray, the surface location over in the other section --

A. Yes, sir.

Q. -- is there any kind of --

A. We are --

Q. -- worked out?

A. -- we -- Parallel is attempting where possible in this horizontal play to put two pads on the same location. It makes a -- it saves a considerable amount of money by using one pad for two locations. It makes a smaller footprint. The BLM really likes it, and this is a BLM location, although that's not why we did it that way. We did it because it's a practical way to drill these wells.

Q. Okay, that's -- So the BLM, they own the surface in Section 8 and in Section 9?

A. No, George Denton owns the surface in Section 8, and we have a surface agreement with Mr. Denton to use this location for drilling this well.

Q. So the well would be there forever. And is that a farmland?

A. This is either desert or fallow farmland. Much of this country was farmed before New Mexico cut their water off --

1 Q. Yeah.

2 A. -- and there was a lot of farming out here 50
3 years ago.

4 Q. So it might be CRP land or something?

5 A. No, it's just dirt.

6 Q. Just dirt, okay. Okay. Well, you've got \$17,000
7 a day to drill here on this -- this incredible -- And did
8 you say \$4500 for drilling, day rate?

9 A. Yes, sir.

10 Q. And \$450 for the producing?

11 A. (Nods)

12 Q. Okay. And the -- the State Land -- or the State
13 Department of Transportation, did you offer them one-fifth
14 royalty also in one year?

15 A. I didn't offer -- To my knowledge, the Highway
16 Department has no statutory provisions for selling an oil
17 and gas lease, and I believe that in the instances where
18 the Highway Department does on minerals, it was probably an
19 error on their part. When they acquired the surface to
20 build their highway, the minerals went with them.

21 And -- But as far as I know, there is no
22 provision by statute in New Mexico where they have the
23 authority to grant an oil and gas lease That's why in my
24 -- if you read my letter I ask, Please tell us how we may
25 buy a lease from you --

1 Q. Yeah.

2 A. -- under the presumption that if there was a
3 method to do that, it would be done by auction similar to
4 the State Land Office.

5 Q. And so you don't -- no reply from them at all?

6 A. No reply. And this is not the first time that
7 we've approached them with regard to minerals in this
8 county.

9 Q. Is this the first -- I notice you've got another
10 one on the docket here today. Is this the first attempts
11 -- These are wildcats. Is there going to be a wildcat --

12 A. Well, we're -- actually, I think a new field was
13 just created in Section 16 offsetting us to the south. And
14 I apologize, I can't recall the name of the field.

15 Q. I should have found it.

16 A. We have two wells in Section 16 that were both
17 drilled as wildcats, and the District Office just
18 established a field for those two wells, and I'm sorry, I
19 can't recall the name of it.

20 Q. Okay. So you feel comfortable drilling a
21 horizontal well, and it's not really classified in this
22 case as a wildcat?

23 A. It would be --

24 Q. It would be undesignated?

25 A. -- undesignated, yes.

1 Q. Okay, I -- One-fifth royalty, I don't see how you
2 make a living doing that, but I guess -- You said you
3 offered these people one-fifth. Twenty percent?

4 A. Twenty percent royalty and \$250 an acres an acre.

5 Q. And they didn't sign?

6 A. No, sir.

7 EXAMINER JONES: Okay.

8 (Off the record)

9 EXAMINER JONES: Okay, Mr. Gray, thanks very
10 much.

11 THE WITNESS: Thank you.

12 EXAMINER JONES: And that's it?

13 MS. MUNDS-DRY: Nothing further.

14 EXAMINER JONES: Okay.

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

16 EXAMINER JONES: Thank you. And with that, we'll
17 take Case 13,960 under advisement.

18 (Thereupon, these proceedings were concluded at
19 8:45 a.m.)

20 * * *

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. _____,
25 heard by me on _____.

_____, Examiner
Oil Conservation Division

