

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) CASE NOS. 13,963
CORPORATION FOR COMPULSORY POOLING,)
CHAVES COUNTY, NEW MEXICO)
)
APPLICATION OF PARALLEL PETROLEUM) and 13,964
CORPORATION FOR COMPULSORY POOLING,)
CHAVES COUNTY, NEW MEXICO)
)
) (Consolidated)

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

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

August 23rd, 2007

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID K. BROOKS, Jr., Hearing Examiner, on Thursday, August 23rd, 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.

* * *

STEVEN T. BRENNER, CCR
(505) 989-9317

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I N D E X

August 23rd, 2007
Examiner Hearing
CASE NOS. 13,963 and 13,964 (Consolidated)

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<u>MICHAEL M. GRAY</u> (Landman)	
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A P P E A R A N C E S

FOR THE APPLICANT:

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 9:07 a.m.:

3 EXAMINER BROOKS: At this time we'll call Case
4 Number 13,964, Application of Parallel Petroleum
5 Corporation for compulsory pooling, Chaves County, New
6 Mexico.

7 MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin of
8 the Santa Fe law firm of Kellahin and Kellahin, appearing
9 on behalf of the Applicant, and I have one witness to be
10 sworn.

11 EXAMINER BROOKS: Witness state your name,
12 please.

13 MR. GRAY: Michael Gray.

14 EXAMINER BROOKS: Please swear the witness.

15 (Thereupon, the witness was sworn.)

16 MR. KELLAHIN: Mr. Examiner, with your permission
17 we'd like to consolidate for purposes of hearing this case
18 with the following case so that you'll be looking
19 collectively at 13,963 and then 13,964.

20 EXAMINER BROOKS: You mean, -64 and -64, do you
21 not? We dismissed -63.

22 MR. KELLAHIN: Yes, it's the pooling cases,
23 sixty- --

24 EXAMINER BROOKS: Okay, very good.

25 THE WITNESS: -63 and -64.

1 MR. KELLAHIN: -63 and -64. The reason for the
2 consolidation is, they involve the same parties with the
3 same interests in each of these two wells, both of which
4 are located in the same section.

5 EXAMINER BROOKS: Okay, I had noted -63 for
6 dismissal. Hold on a minute, let's get this cleared up.

7 We do have a letter from you dated August the
8 20th, requesting that 13,963 be dismissed.

9 MR. KELLAHIN: That's my mistake. We are trying
10 to dismiss the one that asks for simultaneous dedication of
11 the two Swale wells, which is --

12 EXAMINER BROOKS: Okay, so 13,963 should not have
13 been dismissed?

14 MR. KELLAHIN: I don't have the docket in front
15 of me. That's the one for simultaneous dedication?

16 EXAMINER BROOKS: 13,965 should have been
17 dismissed.

18 MR. KELLAHIN: That's the one we're trying to
19 dismiss, Mr. Examiner.

20 EXAMINER BROOKS: Okay, very good.

21 MR. KELLAHIN: I apologize, I'm not so good with
22 numbers sometimes.

23 EXAMINER BROOKS: Okay, previous statement of the
24 Examiner dismissing Case Number 13,963 is vacated, and Case
25 Number 13,963 is reinstated. At this time we'll call Case

1 Number 13,963.

2 Call for appearances.

3 MR. KELLAHIN: Same appearances, Mr. Examiner.

4 EXAMINER BROOKS: Very good.

5 MR. KELLAHIN: Same witness.

6 EXAMINER BROOKS: You may proceed.

7 MR. KELLAHIN: Thank you.

8 EXAMINER BROOKS: I'm sorry, Case Number 13,693
9 and Case Number 13,694 are consolidated for purpose of
10 hearing.

11 MR. KELLAHIN: Well, let's see if I can do better
12 now with the consolidation.

13 EXAMINER BROOKS: Okay.

14 MR. KELLAHIN: When Mr. Gray and I first started
15 doing this a number of months ago, it was a paperwork
16 nightmare. There was a collective group of parties that
17 had interest in the spacing units that was the subject of a
18 quiet title suit taking place in Chaves County in Roswell.

19 Based upon the title work done for the quiet
20 title suit, we identified and served all of those parties.

21 Our docketed case for these two pooling cases was
22 to be on the last docket. I was advised by counsel
23 involved in the litigation that a stipulated final order
24 would be issued on the 13th of August, and therefore we
25 continued to today.

1 And to my relief, yesterday I have found out that
2 not only do we have leases from virtually everybody now, we
3 have a final judgment that we can rely on, and we're now
4 down to 5 percent interest that needs to be pooled from an
5 interest group that has their interest in dispute among
6 themselves.

7 And our plan, then, will be to carry that
8 interest as part of the drilling process. Parallel will
9 have to up-front those costs, recover future production,
10 costs out of future production. And those pooled parties,
11 when they finally resolve their ownership dispute, which I
12 think is continuing in district court, then we'll figure
13 out how to account to them.

14 So that's where we're trying to go, Mr. Examiner.
15 One exhibit set for each of the files.

16 With your permission, Mr. Brooks, I will take Mr.
17 Gray through the pieces of the puzzle.

18 EXAMINER BROOKS: Okay.

19 MICHAEL M. GRAY,
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. KELLAHIN:

24 Q. Mr. Gray, for the record, sir, would you please
25 state your name and occupation?

1 A. Michael Gray, I'm a consulting landman for
2 Parallel Petroleum Corporation.

3 Q. On prior occasions have you testified before the
4 Division and been qualified as an expert petroleum landman?

5 A. I have.

6 Q. Has it been your assigned responsibilities for
7 Parallel to determine the ownership in these two spacing
8 units and then to propose wells and obtain -- to get
9 voluntary participation from all the parties?

10 A. Yes.

11 Q. To the best of your knowledge, have you reached
12 the point where you've done the best you can?

13 A. Yes, sir.

14 Q. And you're at a point, then, where you need a
15 pooling order to consolidate the rest of the interests?

16 A. That's correct.

17 MR. KELLAHIN: We tender Mr. Mike Gray as an
18 expert petroleum landman.

19 EXAMINER BROOKS: So qualified.

20 Q. (By Mr. Kellahin) Mr. Gray, let's start with
21 Exhibit Number 1. This is a locator map associated with
22 which well?

23 A. This is the locator map for the Giacomo 1525-8
24 Federal Com Number 1 well.

25 Q. The proposed spacing unit for the Giacomo is what

1 portion of Section 8?

2 A. The north half of Section 8.

3 Q. This is to be what type of wellbore?

4 A. This will be a horizontal test in the Wolfcamp
5 formation.

6 Q. Let's turn to Exhibit 2 of the exhibit set, and
7 when we look at the Giacomo interests as calculated for all
8 the parties within the north-half spacing unit, do you have
9 a breakdown of those interests?

10 A. Yes, sir, I do.

11 Q. And as we go through that tabulation, can you
12 identify for the Examiner the group that's associated with
13 the interest that's not yet committed to the project?

14 A. Under the -- in the lower left-hand corner of the
15 spreadsheet, under Unit Recapitulation, it's Vernon Hill,
16 deceased.

17 Q. So in this spacing unit, as well as the one for
18 the Funny Cide, there's a 5-percent interest that's not --
19 the title for which is still in dispute?

20 A. That's correct.

21 Q. Let's turn to Exhibit Number 3. What are we
22 seeing with Exhibit Number 3?

23 A. Exhibit Number 3 is a page from our drilling
24 application or drilling permit depicting the surface
25 location of the well, the horizontal leg and the terminus

1 of the well.

2 Q. To the best of your knowledge, this is a request
3 that was filed pursuant to Division Rule 111, and you have
4 your area of dedication and project area and producing area
5 properly identified?

6 A. Yes, sir.

7 Q. And has that permit been approved?

8 A. Yes, it has.

9 Q. Do you have an estimate of the costs associated
10 with this well?

11 A. Yes, Exhibit 4 is the authority for expenditure
12 estimating the drilling costs for the well.

13 Q. Is this the AFE that you circulated to all the
14 parties that you originally proposed this well to?

15 A. Yes, it is.

16 Q. To the best of your knowledge, is it accurate and
17 current?

18 A. Yes, it is.

19 Q. Let's turn now to Exhibit 5 concerning the north-
20 half spacing unit. You recall the filing of the quiet-
21 title suit?

22 A. Yes, sir.

23 Q. Is this breakdown associated with the interests
24 of the parties in that suit?

25 A. These were interest numbers that were given to us

1 by one of the attorneys -- actually, I think the attorney
2 that brought the quiet title suit.

3 Q. There are some entries towards the top. There's
4 a Kathryn Hill, followed by a Jerry Lee Hill, a Sharon
5 Deardorff, a Delia Hill-Moder. Those four individuals are
6 associated with what estate?

7 A. Kathryn Hill is the widow of the deceased party,
8 Vernon Hill. She's also the personal representative under
9 his will. I believe Jerry Lee Hill, Sharon Deardorff and
10 Delia Hill-Moder are his children.

11 Q. Is it that interest that still remains in dispute
12 among those heirs?

13 A. It's my understanding that the children of Vernon
14 Hill are contesting the will.

15 Q. What is Parallel's intention with regards to the
16 disputed interest?

17 A. We have not -- we expect to receive a lease, as
18 indicated by the attorney for Kathryn Hill, we expect to
19 receive a lease from Kathryn Hill as personal
20 representative of the estate and individually as the
21 inheritee of the estate.

22 We have received communications, which are
23 attached to some of the exhibits, from Jerry Lee Hill,
24 Sharon Deardorff, Delia Hill-Moder, indicating that they do
25 not intend to participate in the well that, should their

1 title be established, they intend to lease.

2 Q. Prior to filing the pooling Application, were all
3 four of these people afforded the opportunity to
4 participate?

5 A. Yes.

6 Q. With regards to this interest, if I remember the
7 earlier spreadsheet, it's 5 percent for this well?

8 A. The interest of Vernon Hill, of the deceased
9 party Vernon Hill, represents 5 percent of both units.

10 Q. And what is it your intention to do with that
11 component?

12 A. Well, the -- again, we expect to get a lease from
13 the personal representative under the will as personal
14 representative and individually. We would actually like to
15 lease the other interests, but they've indicated they won't
16 sign a lease until this dispute is resolved.

17 Q. If that happens, then, the practice will be for
18 you to suspend payment of that, and Parallel will have to
19 up-front those costs, right?

20 A. Yes --

21 Q. Somebody has to pay that share?

22 A. Well, I mean, what I intend to do is -- what I
23 would like to do under a pooling order is do the standard
24 procedure of sending them an AFE and inviting them to
25 participate in the well.

1 There obviously is a question as to the ownership
2 of this interest. That makes it very difficult and could
3 make -- this is not an uncommon -- the dispute is uncommon,
4 the establishment of title in the State of New Mexico
5 through ancillary probate proceedings -- the lack of
6 establishment of title is uncommon at all, it's very, very
7 common.

8 And the -- Mr. Hill died in 2003, and the parties
9 have had ample time to resolve this question. I think it
10 probably was brought to their attention when we started
11 trying to buy leases and the quiet title action started.

12 Q. Let me put this to you a different way. You're
13 not going to wait on drilling the well, are you?

14 A. No, sir, we're not going to wait on drilling the
15 well.

16 Q. So someone has to pay for their share of the
17 costs?

18 A. Yes, we will pay for that share of the costs.

19 Q. And your preference is that you will recover out
20 of future production the costs that you've been advanced?

21 A. Yes, sir, plus the risk penalty.

22 Q. And if that interest is ever resolved by a court
23 order, then you can determine by whom -- you can determine
24 who is entitled for payment of those proceeds?

25 A. That's correct.

1 Q. That's the plan?

2 A. Yes.

3 Q. Let's look now specifically only at those letters
4 of well proposal to the parties for which we do not have a
5 resolution of this disputed interest. If you'll turn to
6 page 6, does this contain copies of each of the four
7 letters associated with them, at least the cover letter
8 portion?

9 A. Yes, it does.

10 Q. As part of this letter-mailing, did you also
11 include an AFE for those people?

12 A. Yes, an AFE and the same plat that we presented
13 as Exhibit 3.

14 Q. And all were sent certified mail?

15 A. Yes, sir.

16 Q. And you got receipts from all of them?

17 A. We have receipts and responses from all but
18 Kathryn Hill, and we have conversations with he attorney.

19 Q. Let's shift gears and look at the Funny Cide
20 well. If you'll turn to Exhibit Number 7, identify for us
21 what we're seeing in Exhibit Number 7.

22 A. Exhibit Number 7 is a locator map depicting the
23 unit, being the south half of Section 8, 15 South, 25 East,
24 for the drilling of the Funny Cide 1525-8 Federal Com
25 Number 1 well.

1 EXAMINER BROOKS: This is Exhibit 8?

2 MR. KELLAHIN: Yes, sir.

3 Q. (By Mr. Kellahin) Is Exhibit 8 prepared largely
4 in the same form as Exhibit Number 1? The source document
5 was the same?

6 A. Yes, it is.

7 Q. You're satisfied that that's correct?

8 A. Yes.

9 Q. When you look at the spacing unit, you're looking
10 at the south half of 8. The interests are not all
11 associated with a common tract in the south half, correct?

12 A. The interests of the pooled parties?

13 Q. Right.

14 A. They -- no, sir -- the pooled parties own an
15 interest in the north half of the southwest of Section 8.

16 Q. When you look at the map, then, you can see that
17 there are four individual tracts in the south half, and
18 because the spacing unit is a laydown -- Are you looking at
19 Exhibit Number 7?

20 A. Yes, sir.

21 Q. Within the south half of 8, you see the small
22 subdivision of the south half?

23 A. Yes.

24 Q. Within the subdivision you have four tracts
25 within the spacing unit?

1 A. Four tracts and three leases.

2 Q. Right, that's what I'm asking you. Which are the
3 three leases?

4 A. The -- Tract Number 1, as described on Exhibit 8,
5 is a federal oil and gas lease covering the south half,
6 southwest quarter, and west half, southeast quarter. Tract
7 Number 2 is a fee lease covering the east half of the
8 southeast quarter. Tract Number 3 is fee acreage covering
9 the north half of the southwest quarter.

10 Q. To aid the Examiner, now, for each of these two
11 cases where is the tract associated with the quiet title
12 suit that was brought?

13 A. In the south half that we're discussing right
14 now, it's the north half of the southwest quarter. In the
15 north half under the Giacomo well, it's the south half of
16 the northwest quarter.

17 Q. Very good. And so when you examine the numbers,
18 that explains the difference in some of these calculations.
19 You've had to recalculate it to show the interest in the
20 spacing unit?

21 A. Yes, sir.

22 Q. Let's turn to one of those calculations. When I
23 look at Exhibit Number 8, what am I seeing here?

24 A. This is a schedule of ownership by tract and a
25 recapitulation of the unit ownership for all the parties.

1 Q. And again, the disputed interest that's not fully
2 litigated is the Vernon Hill, deceased?

3 A. That's correct.

4 Q. And that's the 5 percent of this well?

5 A. Yes, sir.

6 Q. Identify for us Exhibit Number 9, Mr. Gray.

7 A. Exhibit Number 9 is a page from the drilling
8 permit depicting the location of the well.

9 Q. Is this an approved APD at this point?

10 A. Yes, it is.

11 Q. And Exhibit Number 10?

12 A. Exhibit Number 10 is the authority for
13 expenditure estimating the cost of the Funny Cide well.

14 Q. Is this comparable to costs associated with your
15 company for drilling similar wells in the area?

16 A. Yes, it is.

17 Q. Has this AFE been circulated to all of the
18 parties associated with paying for the costs?

19 A. Yes, it has.

20 Q. Have you received any objection?

21 A. No.

22 Q. Again now, let's turn to the spreadsheet, Exhibit
23 11, and look at the portion of the south half of 10 that
24 was associated with the quiet title suit litigation. What
25 does this show?

1 A. This again represents the interest of the parties
2 involved in the quiet title action as proved by the
3 attorney that bought the quiet title action.

4 Q. And with the exception of the three children that
5 are now in a dispute with Kathryn Hill over Vernon Hill's
6 estate, everyone else has leased their interest to
7 Parallel?

8 A. No, sir, we don't have Kathryn Hill's lease yet,
9 although we have an indication that she will execute a
10 lease.

11 Q. So that's the one that's missing for that portion
12 of the dispute?

13 A. Kathryn Hill, Jerry Lee Hill, Sharon Deardorff
14 and Delia Moder.

15 Q. Okay. Let's look at the proposed letters of
16 participation for the parties for whom you have not
17 obtained leases. Are they associated with the document
18 that is marked Exhibit Number 12?

19 A. Yes, sir.

20 Q. And of the parties that you described, you have
21 sent letters to all of those?

22 A. Yes, sir.

23 Q. And the current results of this effort are as you
24 described earlier in your testimony?

25 A. Yes, sir.

1 Q. Let me turn and have you identify for the record
2 Exhibit Number 13.

3 A. Exhibit Number 13 is the agreed judgment of quiet
4 title from the quiet title action that we discussed
5 earlier.

6 Q. And this is a photocopy of the endorsed copy with
7 the clerk of the court in Chaves County?

8 A. Yes, sir.

9 Q. And when you turn to Exhibit A attached to
10 Exhibit Number 13, there's a tabulation of interest
11 associated with this quiet title suit. Do you see that?

12 A. Yes, sir.

13 Q. Have you and your broker applied these
14 percentages in deriving your spreadsheets that we've
15 examined?

16 A. Yes.

17 Q. So the Vernon Hill, deceased, interest, that 0.2-
18 percent [sic] interest, has been entirely credited to
19 Kathryn Hill, and the other parties in that dispute have
20 been zeroed out on the spreadsheet?

21 A. It's been -- well, credited to the Vernon Hill
22 estate, yeah. And it's a 20-percent interest, rather than
23 a .2-percent interest.

24 Q. Did you cause newspaper publication to be sent to
25 all these parties consistent with Division procedures?

1 A. Yes, sir.

2 Q. Is that we're seeing in Exhibit Number 14?

3 A. Yes, sir.

4 Q. As part of that notice, did you cause specific
5 notice to be sent to all the parties associated with the
6 quiet title suit?

7 A. All the parties associated with the quiet title
8 suit received our well proposal and also proposed oil and
9 gas leases.

10 Q. And then that is associated with Exhibit Number
11 15, which is the affidavit of mailing?

12 A. Yes, sir.

13 Q. You've satisfied yourself that all the parties
14 entitled to notice in fact have received notice?

15 A. Yes, sir.

16 Q. Let me come back to a couple of other questions.
17 In this general area and associated with these two wells,
18 what do you recommend to the Examiner for overhead rates
19 associated with the wellbore drilling and after production?

20 A. \$5000 for overhead costs during drilling and \$500
21 a month for overhead costs upon completion.

22 Q. Are those overhead rates typical for your company
23 in this area for wells like this?

24 A. Yes, sir.

25 Q. In addition to the overhead rates you're

1 requesting, do you also request the Examiner include in his
2 pooling order the language concerning the escalation of
3 those costs pursuant to the COPAS bulletin?

4 A. I do.

5 Q. Anything further, Mr. Gray?

6 A. No, sir.

7 MR. KELLAHIN: Mr. Brooks, we move the
8 introduction of Parallel's Exhibits 1 through 15.

9 EXAMINER BROOKS: 1 through 15 are admitted.

10 EXAMINATION

11 BY EXAMINER BROOKS:

12 Q. The interests that you're -- the only people that
13 you don't have committed, other than Kathryn Hill on the
14 second well, is Jerry Lee Hill, Sharon Deardorff and Delia
15 Hill-Moder?

16 A. Yes, sir.

17 Q. Okay. You have a lease from Ernie Hill?

18 A. We have a lease from all of the parties on that
19 list, other than the four that you just mentioned.

20 Q. Okay. And I'm looking at this -- did you -- in
21 the notice -- did you give mail notice to each of those
22 persons that are not committed?

23 A. Yes, sir.

24 Q. Okay, looking at the mailing -- that would be
25 Exhibit Number 15 -- let's see, we've got Jerry Lee Hill

1 here, and we have a signature, and Sharon Deardorff --

2 MR. KELLAHIN: The second page picks up Delia
3 Hill-Moder.

4 EXAMINER BROOKS: Okay, I've got Sharon Deardorff
5 here now, and we have a signature on that. And it's on the
6 second page --

7 MR. KELLAHIN: Yes, sir, there's a two-page
8 notice. It's on the second page of the notice -- I mean of
9 the certificate. But when you get down to the part that's
10 marked with the addresses --

11 EXAMINER BROOKS: Yeah, okay.

12 MR. KELLAHIN: -- the second page of that shows
13 her name listed, fifth up from the bottom.

14 EXAMINER BROOKS: Where are you looking now? Oh,
15 yeah. Okay, and then where is her certificate? That's
16 what I'm looking for. Here it is. Yeah, and that appears
17 to be signed also.

18 MR. KELLAHIN: Yes, sir.

19 Q. (By Examiner Brooks) Okay. Where did you come
20 up with the name Funny Cide, spelled C-i-d-e?

21 A. All the wells we drill in this area are named
22 after racehorses.

23 Q. Well, that is an original way to name them. I
24 know racehorses' names are always original.

25 MR. KELLAHIN: So you've stopped naming them

1 after your wives, right?

2 THE WITNESS: Well, I ran out after the first
3 well.

4 EXAMINER BROOKS: Well, you're in good shape if
5 you have more wells than you have ex-wives.

6 That's all I have.

7 MR. KELLAHIN: Thank you, sir.

8 EXAMINER BROOKS: Cases Number 13,963 and 13,964
9 will be taken under advisement.

10 Pursuant to Mr. Kellahin's oral motion, Case
11 Number 13,965 will be dismissed.

12 (Thereupon, these proceedings were concluded at
13 9:33 a.m.)

14 * * *

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I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 13963-4
heard by me on 8/23 2007

Donald K. Brooks Examiner
Oil Conservation Division

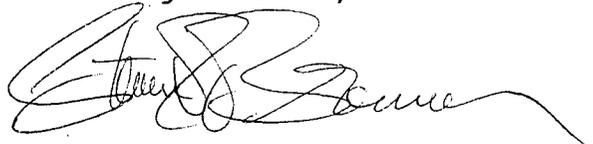
CERTIFICATE OF REPORTER

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 August 26th, 2007.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 16th, 2010