

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 POGO PRODUCING COMPANY)
FOR COMPULSORY POOLING, EDDY COUNTY,)
NEW MEXICO)

CASE NO. 13,216

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

February 19th, 2004

Santa Fe, New Mexico

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Oil Conservation Division
1220 S. St. Francis Drive
Santa Fe, NM 87505

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, February 19th, 2004, 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

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 Examiner Hearing
 CASE NO. 13,216

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APPLICANT'S WITNESS:	
<u>LESLYN WALLACE</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 APPLICANT:

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

* * *

1 WHEREUPON, the following proceedings were had at
2 8:16 a.m.:

3 EXAMINER CATANACH: And at this time I'll call
4 Case 13,216, the Application of Pogo Producing Company 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.

9 EXAMINER CATANACH: Call for additional
10 appearances:

11 Okay, will the witness please stand to be sworn
12 in?

13 (Thereupon, the witness was sworn.)

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

17 DIRECT EXAMINATION

18 BY MR. BRUCE:

19 Q. Would you please state your name and city of
20 residence for the record?

21 A. Leslyn Wallace, Midland, Texas.

22 Q. Who do you work for?

23 A. Pogo Producing Company.

24 Q. And what's your job with Pogo?

25 A. I'm district landman.

1 Q. Have you previously testified before the
2 Division?

3 A. Yes, sir, I have.

4 Q. And have your qualifications as an expert
5 petroleum landman been accepted as a matter of record?

6 A. Yes, sir, they have.

7 Q. And are you familiar with the land matters
8 involved in this Application?

9 A. Yes, sir.

10 Q. And with Pogo does your area of responsibility
11 include this particular portion of Eddy County?

12 A. Yes, sir, it does.

13 MR. BRUCE: Mr. Examiner, I'd tender Ms. Wallace
14 as an expert petroleum landman.

15 EXAMINER CATANACH: Ms. Wallace is so qualified.

16 Q. (By Mr. Bruce) Would you please identify your
17 Exhibit 1 and describe what Pogo seeks in this Application?

18 A. Exhibit 1 is a land plat showing Section 4,
19 particularly the north half of Section 4. It is comprised
20 of two separate leases. The lease depicted in yellow is
21 Federal Lease NM-92756, and it's owned 100 percent by Pogo
22 Producing Company. The lease depicted in green is Federal
23 Lease NM-02295, and it's owned by a number of parties,
24 Harvey E. Yates Company, et al., and we are seeking to pool
25 all parties in a north-half drilling and spacing unit for

1 the drilling of the McMillan "4" Fed Com Number 1.

2 Q. What is the well's location?

3 A. It is located 660 feet from the north line and
4 2550 feet from the west line.

5 Q. And has that unorthodox location already been
6 approved by the Division?

7 A. Yes, sir, it has.

8 Q. And what is the order number for that?

9 A. I don't think I have it up here with me.

10 MR. BRUCE: Mr. Examiner, I think it's Order -- I
11 think, 4944, NSL-4944.

12 EXAMINER CATANACH: Okay.

13 Q. (By Mr. Bruce) Could you move on to your Exhibit
14 2 and identify the ownership in the 320-acre unit?

15 A. Yes, sir, the communitized ownership is listed on
16 Exhibit Number 2, and we are seeking to pool those parties
17 that have not executed either the AFE or the joint
18 operating agreement which has been proposed to the parties.

19 Q. Okay, and those parties are identified with X's,
20 or people who don't have an X after the JOA are those
21 parties you seek to pool; is that correct?

22 A. Yes, sir, that is correct.

23 Q. Okay. Now, if those parties do join after this
24 hearing, will you notify the Division?

25 A. Yes, sir, we will.

1 Q. One party here in particular, EOG, what is the
2 status of that party?

3 A. EOG has verbally stated, and has also followed up
4 with a letter, that they would grant to Pogo a term
5 assignment. Therefore they are not listed as a working
6 interest owner on this list, but their interest is combined
7 into Pogo's interest.

8 Q. Okay. Do you seek to pool EOG at this time until
9 the term assignment is executed?

10 A. Yes, sir, I do.

11 Q. Okay. Let's discuss the efforts to obtain the
12 voluntary joinder of the interest owners. What is Exhibit
13 3?

14 A. Exhibit Number 3 is the original proposal letter
15 that was mailed to all the parties in the north half of
16 Section 4. It contained Pogo's AFE, and you can see that
17 it was sent certified, and there are copies of the
18 certified mailings with the return receipt cards that we
19 received.

20 Q. And what is Exhibit 4?

21 A. Exhibit 4 is a follow-up letter. After the
22 original proposal was made, there were a number of parties
23 that elected to participate. There were still some that
24 wanted to take a look at the operating agreement before
25 they elected to participate. And Exhibit Number 4 is a

1 letter basically stating who the parties were that joined
2 previously, and it contains a separate -- or another AFE
3 for the parties that had not joined previously, and it also
4 contained an operating agreement for all the parties to
5 review and execute.

6 Q. Okay. Have you also had telephone discussions
7 with many of these interests?

8 A. Yes, sir, I have. I've had numerous
9 conversations with most all of these parties.

10 Q. In your opinion, has Pogo made a good-faith
11 effort to obtain the voluntary joinder of the interest
12 owners in the well?

13 A. Yes, sir, we have.

14 Q. Could you identify Exhibit 5 and briefly describe
15 the proposed well's cost?

16 A. Yes, Exhibit Number 5 is Pogo Producing Company's
17 authority for expenditure for the drilling of the McMillan
18 "4" Fed Com Number 1. It will be an 11,000-foot Morrow
19 test with total drilling and completed costs of \$1.256
20 million.

21 Q. And is this cost in line with the cost of other
22 wells drilled to this depth in this area of Eddy County?

23 A. Yes, sir, it is.

24 Q. And Pogo has drilled other wells pretty close to
25 this well, or participated in other wells, have they not?

1 A. Yes, sir, we have.

2 Q. Okay. Does Pogo request that it be designated
3 operator of the well?

4 A. Yes, sir.

5 Q. And do you have a recommendation for the amounts
6 which Pogo should be paid for supervision and
7 administrative expenses?

8 A. Yes, sir, our recommendation is \$5500 for a
9 drilling well rate and \$550 per well month for a producing
10 well rate.

11 Q. And are these amounts equivalent to those
12 normally charged by Pogo and other operators in this area?

13 A. Yes, sir, they are. In fact, they're a slight
14 bit lower.

15 Q. Okay. And those are the rates that are also
16 provided for in the JOA for this well, are they not?

17 A. Yes, sir, they are.

18 Q. And although it's not marked in this exhibit,
19 included in the exhibit package is a copy of the executed
20 JOA -- or the parties who have executed it to date?

21 A. Yes, sir, it is.

22 Q. Okay. And in accordance with the operating
23 agreement, do you request that the overhead rates be
24 adjusted periodically as provided by the COPAS accounting
25 procedure?

1 A. Yes, sir.

2 Q. Does Pogo also request that the maximum cost-
3 plus-200-percent risk charge be assessed against any
4 nonconsenting interest owners?

5 A. Yes, we do.

6 Q. Were all of the parties notified of this hearing?

7 A. Yes, sir, they were.

8 Q. And is Exhibit 6 the affidavit of notice with the
9 letter and the certified receipts?

10 A. Yes, it is.

11 Q. Were Exhibits 1 through 6 prepared by you or
12 under your supervision or compiled from company business
13 records?

14 A. Yes, sir, they were.

15 Q. And in your opinion is the granting of Pogo's
16 Application in the interests of conservation and the
17 prevention of waste?

18 A. Yes, it is.

19 Q. One final question. Looking back at Exhibit 1,
20 is Pogo's lease about to expire?

21 A. Oh, yes, sir, it is. It has an expiration date
22 of February 29th.

23 Q. And as a result -- And the well will be on Pogo's
24 acreage, so do you plan on commencing it fairly shortly?

25 A. Yes, sir. In fact, we have a rig that's

1 available to be moved in this week.

2 Q. Okay. But because of the expiring lease, would
3 you like to get the pooling order issued as quickly as
4 possible?

5 A. Yes, sir, we would.

6 MR. BRUCE: Mr. Examiner, I'd move the admission
7 of Pogo Exhibits 1 through 6.

8 EXAMINER CATANACH: Exhibits 1 through 6 will be
9 admitted.

10 EXAMINATION

11 BY EXAMINER CATANACH:

12 Q. Ms. Wallace, do you anticipate anybody else
13 joining in the well?

14 A. Yes, sir, I anticipate that -- Yates Energy
15 Corporation you see there has not executed our AFE or JOA,
16 but I've had correspondence verbally with them, and I think
17 they just wanted more time to review the operating
18 agreement before they elected to join.

19 And also Grant Smith is a party there that has
20 not executed either the AFE nor the JOA, and we are
21 currently negotiating with Mr. Smith at this time to
22 purchase his interest.

23 Q. Okay. And the Bank of America Trust, that
24 probably won't be a --

25 A. They have executed the AFE, and they have said

1 that they will executed the operating agreement, they've
2 just not gotten it back to me yet.

3 Q. Okay. And this was approved for an unorthodox
4 location for this Morrow formation?

5 A. Yes, sir. I have that in my briefcase if I need
6 to get that order.

7 Q. I can probably look that up here. We probably
8 have that, so...

9 MR. BRUCE: Mr. Examiner, and our geologist is
10 here if you would like to question him about it. There
11 were two objectives in the well, the Cisco and the Morrow.
12 The unorthodox location was based more on the Cisco, and
13 that is in the application filed with the Division last
14 August.

15 EXAMINER CATANACH: Well, was approval granted
16 for the Morrow?

17 MR. BRUCE: Yes, it was granted for the Morrow.

18 EXAMINER CATANACH: Okay, I don't think I have
19 anything else, Mr. Bruce.

20 MR. BRUCE: That's all I have, Mr. Examiner.

21 EXAMINER CATANACH: Okay, there being nothing
22 further, Case 13,216 will be taken under advisement.

23 (Thereupon, these proceedings were concluded at
24 8:28 a.m.)

25 I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 13216,
* * heard by me on February 19, 2004.

David R. Catanach, Examiner
STEVEN T. BRENNER, CCR
Conservation Division
(505) 989-9317

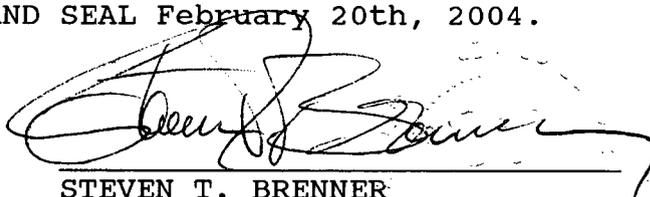
CERTIFICATE OF REPORTER

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 February 20th, 2004.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2006