

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. 12,980
)
 APPLICATION OF APPLICATION OF CHI)
 ENERGY, INC., FOR COMPULSORY POOLING,)
 EDDY COUNTY, NEW MEXICO)
)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGSEXAMINER HEARING

BEFORE: DAVID K. BROOKS, Hearing Examiner

December 19th, 2002

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID K. BROOKS, Hearing Examiner, on Thursday, December 19th, 2002, 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

I N D E X

December 19th, 2002
 Examiner Hearing
 CASE NO. 12,980

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APPLICANT'S WITNESS:	
<u>JOHN W. QUALLS</u> (Landman)	
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* * *

A P P E A R A N C E S

FOR THE DIVISION:

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FOR THE APPLICANT:

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* * *

ALSO PRESENT:

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MICHAEL E. STOGNER
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WILLIAM V. JONES, JR.
Petroleum Engineer
New Mexico Oil Conservation Division
1220 South Saint Francis Drive
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* * *

1 WHEREUPON, the following proceedings were had at
2 8:30 a.m.:

3 EXAMINER BROOKS: At this time we'll call Case
4 Number 12,980, the Application of Chi Energy, Inc., 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. I have one witness to be
9 sworn.

10 EXAMINER BROOKS: Okay, would the witness please
11 stand to be sworn?

12 (Thereupon, the witness was sworn.)

13 EXAMINER BROOKS: This is the one on which you
14 want an order before Christmas, correct?

15 MR. BRUCE: That's correct, Mr. Examiner. And
16 before we begin, I have taken the liberty to draft an
17 order --

18 EXAMINER BROOKS: Thank you.

19 MR. BRUCE: -- in this matter also.

20 EXAMINER STOGNER: I apologize. I also failed to
21 mention whenever we first called this case, there will be a
22 Commission matter called at nine o'clock, so we may have to
23 cut short --

24 MR. BRUCE: Oh, I don't think this will take this
25 long, Mr. Examiner.

1 EXAMINER STOGNER: But if we do, if for some
2 reason there is, I just wanted to -- and I failed to
3 mention that, I apologize. We may have to call a recess, a
4 short recess --

5 MR. BRUCE: Okay, no problem.

6 EXAMINER STOGNER: -- and then take this matter
7 after that recess for the Commission matter, which if
8 there's anybody here, but there isn't, the Commission case
9 will probably be heard at about one or two o'clock this
10 afternoon, because Ms. Wrotenbery is stuck in Dallas.

11 MR. BRUCE: In transit.

12 EXAMINER STOGNER: In transit. I'm sorry, Mr.
13 Brooks. Thank you.

14 EXAMINER BROOKS: Okay, are you ready to proceed,
15 Mr. Bruce?

16 MR. BRUCE: Yes, sir.

17 EXAMINER BROOKS: You may proceed.

18 JOHN W. QUALLS,
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 MR. BRUCE:

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

25 A. John Qualls, Midland, Texas.

1 Q. Who do you work for and in what capacity?

2 A. Chi Energy, Inc., landman.

3 Q. Have you previously testified before the Division
4 as a landman?

5 A. Yes.

6 Q. And were your credentials as an expert petroleum
7 landman accepted as a matter of record?

8 A. Yes.

9 Q. And are you familiar with the land matters
10 involved in this Application?

11 A. Yes.

12 MR. BRUCE: Mr. Examiner, I'd tender Mr. Qualls
13 as an expert petroleum landman.

14 EXAMINER BROOKS: So qualified.

15 Q. (By Mr. Bruce) Mr. Qualls, what does Chi Energy
16 seek in this case?

17 A. We seek to pool the south half of Section 32,
18 Township 18 South, Range 31 East, from the base of the
19 Wolfcamp formation to the base of the Morrow formation for
20 all formations spaced on 320 acres.

21 Q. What is Exhibit 1?

22 A. Exhibit 1 is a land plat outlining the well unit.
23 The well is located in the southeast quarter of the
24 southeast quarter of Section 32.

25 The well unit is comprised of five different

1 state leases: V-5221, which is the northwest quarter of the
2 southwest quarter; E-6947, covering the west half of the
3 southeast quarter and the northeast quarter of the
4 southwest quarter; State Lease E-6947, covering the east
5 half of the southeast quarter; State Lease E-6947, covering
6 the southeast quarter of the southwest quarter; and State
7 Lease E-10001, covering the southwest quarter of the
8 southwest quarter.

9 Q. In this case are you only seeking to pool the
10 record title interests in these leases?

11 A. Yes.

12 Q. For what reason?

13 A. We are drilling the captioned well, but we need
14 to obtain approval of a com agreement, communitization
15 agreement, to prevent the termination of Lease V-5221,
16 covering the northwest quarter of the southwest quarter of
17 Section 32. That lease expires on December the 31st,
18 unless we get it communitized, because the well is not on
19 the lease.

20 Q. In a state communitization agreement, must the
21 record title owners sign or otherwise be committed to the
22 agreement?

23 A. Yes.

24 Q. What about the working interest owners? Is that
25 enough?

1 A. No, the signatures of the working interest owners
2 alone are not enough.

3 Q. Okay, so you need the record title owners, even
4 if they don't own a working interest in the well?

5 A. Yes, sir.

6 Q. Okay. Have all the working interest owners,
7 including Chi Energy, Inc., voluntarily joined in the well?

8 A. Yes.

9 Q. Now, referring to Exhibit 2, could you identify
10 that and then identify, referring back to the exhibits
11 attached to that agreement, who the record title owners
12 are?

13 A. Exhibit 2 is a copy of the communitization
14 agreement. Exhibit A of the agreement lists the leases and
15 their record title owners.

16 Q. Okay, and so this lists the five leases you've
17 previously verbally described, right?

18 A. Yes, sir.

19 Q. Okay. And just for the record, could you
20 identify the record title owners?

21 A. Yes, Lease V-5221, record title is Nearburg
22 Exploration Company, L.L.C.

23 Lease E-6947, record title is Burlington
24 Resources Oil and Gas Company, L.P.

25 The other E-6947, record title is Exxon Mobil

1 Corporation, 50 percent, and Fina Oil and Chemical Company,
2 50 percent.

3 Lease E-6947, record title is Chambers and
4 Kennedy.

5 And Lease E-10001, record title is Burlington
6 Resources Oil and Gas Company, L.P.

7 Q. Now, Mr. Qualls, I hadn't noticed this before,
8 but these various leases E-6947, there are different
9 assignment numbers to each of those leases --

10 A. Yes.

11 Q. -- are there not?

12 A. Yes, sir.

13 Q. Which of these record title owners have signed or
14 ratified the com agreement?

15 A. Nearburg Exploration and Chi Energy, Inc. --
16 Excuse me --

17 Q. Chi --

18 A. -- Chi Operating.

19 A. -- as operator of the well?

20 A. Yes, as operator of the well.

21 Q. So the other four companies have not done so at
22 this time?

23 A. No, sir.

24 Q. Now, is there a problem getting the signatures of
25 a couple of these companies?

1 A. There is. Chambers and Kennedy and Fina Oil and
2 Chemical Company no longer exist.

3 Chambers and Kennedy is a partnership whose
4 partners are deceased. I've talked with the son of Bill
5 Kennedy who was a partner in Chambers and Kennedy, and he
6 is attempting to find someone that can sign the com
7 agreement for Chambers and Kennedy.

8 Fina is now called TotalFinaELF E&P USA, Inc.,
9 although that is not reflected in the state or the county
10 records.

11 As to Exxon, they have stated they will sign,
12 however I have not gotten anything back from them.

13 Burlington has not responded.

14 Q. Now, so in order -- You're seeking force pooling
15 because in order to get -- if you had to get all of the
16 corporate documents and the probates and all the other
17 stuff, it may not be done before the end of the year?

18 A. Yes, sir.

19 Q. And again, one lease will expire if it's not
20 communitized?

21 A. Yes, sir.

22 Q. Okay. So as a result, you seek to force pool the
23 record title owners so that the State Land Office will
24 approve the communitization agreement?

25 A. Yes, sir.

1 Q. Okay. Now, let's discuss just briefly -- You've
2 already talked about the interest owners. What is Exhibit
3 3?

4 A. Exhibit 3 is a copy of the letters that I sent to
5 Burlington Resources, Inc.; Exxon Mobil Corporation;
6 TotalFinaELF E&P USA, Inc.; and Duncan Kennedy, who is the
7 son of one of the partners of Chambers and Kennedy.

8 Q. Okay. Now, let's go through these. Burlington
9 Resources, have they finally responded to you?

10 A. No, Burlington has not responded.

11 Q. Okay, what about Exxon Mobil?

12 A. Exxon Mobil has said that they will sign it. I
13 talked to Paul Keffer, but I have got nothing in the mail
14 from them.

15 Q. And Exxon Mobil is notorious for being pretty
16 slow in signing documents?

17 A. Pretty slow as far as I'm concerned.

18 Q. And has TotalFina responded to you?

19 A. They hadn't -- Yesterday morning before I left
20 the office I had a message, while I was on another phone
21 call, from a guy in Houston from TotalFina. I tried to
22 call him back and I got his answering machine, and I'm not
23 sure if it concerns this matter, but it probably does,
24 because this is the only thing I'm talking to them about.

25 Q. Okay.

1 A. But no, I hadn't responded.

2 Q. And then with respect to Mr. Kennedy, you've
3 already discussed your conversations with him?

4 A. Yes.

5 Q. In your opinion, has Chi Energy made a good faith
6 effort to obtain the voluntary joinder of the record title
7 owners?

8 A. Yes.

9 Q. Does Chi Energy request that Chi Operating, Inc.,
10 be designated operator of the well?

11 A. Yes.

12 Q. Now, since these are record title interests --
13 Chi Energy doesn't seek well costs for a risk penalty, does
14 it?

15 A. No.

16 Q. Okay, it's just a bare signature, is all they
17 want?

18 A. Right.

19 Q. And is Exhibit 4 simply my affidavit of notice?

20 A. Yes.

21 Q. Were Exhibits 1 through 4 prepared by you or
22 under your supervision or compiled from company business
23 records?

24 A. Yes.

25 Q. And in your opinion is the granting of Chi

1 Energy's Application in the interests of conservation and
2 the prevention of waste?

3 A. Yes.

4 Q. And again, do you request that an order be
5 entered as soon as possible so that the Commissioner can
6 execute the communitization agreement?

7 A. Yes.

8 MR. BRUCE: Mr. Examiner, I'd move the admission
9 of Chi Energy Exhibits 1 through 4.

10 EXAMINER BROOKS: Exhibits 1 through 4 are
11 admitted.

12 MR. BRUCE: And I have nothing further of the
13 witness, Mr. Examiner.

14 EXAMINATION

15 BY EXAMINER BROOKS:

16 Q. Okay. Just to verify, none of the people being
17 pooled owns any working interest; is that right?

18 A. No, sir. Well -- No, no. Nearburg owns a
19 working interest. They have already signed an AFE and a
20 JOA.

21 Q. And did they sign the com agreement?

22 A. They've signed the com agreement.

23 Q. Okay, I thought you said they had.

24 A. Yes, sir.

25 Q. Do you have the location of the well? I didn't

1 see that anywhere on here.

2 A. It's the southeast quarter of the southeast
3 quarter, 660 from the south, 660 from the east.

4 Q. 660 from the south --

5 A. Yes, sir.

6 EXAMINER BROOKS: -- 660 from the east.

7 Okay, I think that's all the questions I have.

8 EXAMINER STOGNER: I have a couple of quick
9 questions.

10 EXAMINATION

11 BY EXAMINER STOGNER:

12 Q. Has the APD been filed and approved at the
13 District Office?

14 A. Yes, sir.

15 EXAMINER STOGNER: Okay. I can supply you an
16 administrative -- for administrative notice, the record of
17 the well --

18 EXAMINER BROOKS: Okay.

19 EXAMINER STOGNER: -- Mr. Brooks.

20 Q. (By Examiner Stogner) And let's see, you want
21 this done by Christmas. That's right, Mr. Claus? I'm
22 sorry, Mr. Qualls?

23 A. Yes, sir.

24 (Laughter)

25 EXAMINER STOGNER: Okay. No other questions, Mr.

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 19th, 2002.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 16th, 2006

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