

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. 13,365

APPLICATION OF NADEL AND GUSSMAN)
PERMIAN, L.L.C., FOR COMPULSORY)
POOLING, EDDY COUNTY, NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

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

November 4th, 2004

Santa Fe, New Mexico

2004 NOV 18 AM 10 49

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This matter came on for hearing before the New Mexico Oil Conservation Division, WILLIAM V. JONES, JR., Hearing Examiner, on Thursday, November 4th, 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.

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 Examiner Hearing
 CASE NO. 13,365

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A P P E A R A N C E S

FOR THE DIVISION:

GAIL MacQUESTEN
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Energy, Minerals and Natural Resources Department
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Santa Fe, New Mexico 87505

FOR THE APPLICANT:

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Attorney at Law
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FOR UNIT PETROLEUM COMPANY:

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110 N. Guadalupe, Suite 1
P.O. Box 2208
Santa Fe, New Mexico 87504-2208
By: WILLIAM F. CARR

* * *

1 WHEREUPON, the following proceedings were had at
2 10:02 a.m.:

3 EXAMINER JONES: And call Case 13,365,
4 Application of Nadel and Gussman Permian, L.L.C., 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 two witnesses.

9 EXAMINER JONES: Any other appearances?

10 MR. CARR: May it please the Examiner, my name is
11 William F. Carr with the Santa Fe office of Holland and
12 Hart, L.L.P. I represent Unit Petroleum Company, and I
13 have no witness.

14 EXAMINER JONES: Will the witnesses please stand
15 to be sworn?

16 (Thereupon, the witnesses were sworn.)

17 SAM H. JOLLIFFE, IV,
18 the witness herein, after having been first duly sworn upon
19 his oath, was examined and testified as follows:

20 DIRECT EXAMINATION

21 BY MR. BRUCE:

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

23 A. Sam Jolliffe.

24 Q. Would you spell your last name for the court
25 reporter?

1 A. Yes, J-o-l-l-i-f-f-e.

2 Q. Where do you reside?

3 A. Midland, Texas.

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

5 A. Nadel and Gussman Permian and as -- capacity as a
6 land manager.

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

9 A. Yes, I have.

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

12 A. Yes, they were.

13 Q. And are you familiar with the land matters
14 involved in this case?

15 A. Yes, sir.

16 MR. BRUCE: Mr. Examiner, I'd tender Mr. Jolliffe
17 as an expert petroleum landman.

18 EXAMINER JONES: Mr. Jolliffe is qualified as an
19 expert petroleum land manager.

20 Q. (By Mr. Bruce) Mr. Jolliffe, could you identify
21 Exhibit 1 for the Examiner and tell him what you seek to
22 pool in this hearing?

23 A. Yes, Exhibit 1 is a land plat highlighting the
24 south half of Section 33, Township 22 South, Range 28 East.
25 We seek an order pooling all mineral interests from 4000

1 feet to the base of the Morrow formation in the south half
2 of 33, and it will be dedicated to the Artemis Fed Com
3 Number 1, which will be a legal location in the southwest
4 quarter of 33.

5 Q. Now, we're just projecting the location as being
6 in the southwest quarter. Will our next witness discuss
7 the reason for that?

8 A. Yes, that's correct.

9 MR. BRUCE: Okay. Now, Mr. Examiner, the
10 Application requested pooling from the surface to the base
11 of the Morrow, and we only need to pool from 4000 feet
12 down.

13 EXAMINER JONES: Okay.

14 Q. (By Mr. Bruce) Besides the 320-acre unit, do you
15 also seek to pool the southwest quarter of Section 33 for
16 any potential 160-acre units?

17 A. Yes, we do.

18 Q. Let's discuss the ownership in the well unit.
19 Could you identify Exhibit 2 for the Examiner and tell him
20 who you seek to pool at this time?

21 A. Yes, Exhibit 2 is an ownership for the south
22 half, from depths from 4000 feet to 12,780, which would be
23 to the base of the Morrow, and we seek to force pool unit,
24 John McIsaac, Alan Tuck, Larry Turner, Sandy Wische,
25 Eastland Exploration, Eastland Resources, Spinnaker Oil &

1 Gas, Richard Donnelly, George Donnelly, the George Donnelly
2 Trust, Robert Donnelly Children's Trust, Jan O'Neill
3 Children's Trust, and Martha Schalk individually as Trustee
4 of the Schalk Family Trust.

5 Q. Okay, so you're seeking to force pool everyone
6 except Nadel and Gussman?

7 A. Yes, yes.

8 Q. Okay. Now, have you -- with respect from
9 Eastland Exploration on down to the end, have you been in
10 extensive discussions with those people?

11 A. Yes, several phone conversations. We actually
12 have a verbal deal with Eastland Resources, Spinnaker,
13 George Donnelly, the three children --

14 Q. The three trusts?

15 A. -- family trust, right.

16 Q. But nothing has been signed as of yet?

17 A. No, no, we anticipate signing it soon. We have
18 not seen their agreement, but we anticipate we should be
19 able to do that.

20 Q. And if they do voluntarily join in the well, will
21 Nadel and Gussman notify the Division so that they are not
22 subject to any pooling orders?

23 A. Yes, that's correct.

24 Q. Okay, let's discuss the efforts to obtain the
25 voluntary joinder of these parties. What is Exhibit 3?

1 A. Okay, Exhibit 3 is the correspondence with the
2 working interest owners, letter enclosed, September 23rd,
3 was submitted along with an AFE to the owners.

4 Q. Okay.

5 A. And as I mentioned, we've had -- folks we can
6 find, except for the Schalk Trust, we've had several phone
7 conversations with Unit as well as the Donnellys and the
8 Eastland companies.

9 Q. Okay. There are several unlocatable people, are
10 there not?

11 A. Yes, there are approximately three unlocatable
12 people, John McIsaac, Alan Tuck and Larry Turner.

13 Q. Okay, and were various records, including the
14 county and Internet records checked to try to locate these
15 people?

16 A. Yes, as a matter of fact, those same unlocatable
17 people are also in an offsetting well that we have where we
18 could not find those individuals in that well that are
19 currently being carried.

20 Q. And I believe they -- they acquired their small
21 interest as part of a limited partnership program about 30
22 years ago?

23 A. I believe that's correct. I'm not positive, I
24 believe that's correct.

25 Q. Okay. In your opinion has Nadel and Gussman made

1 a good faith effort to obtain the voluntary joinder of the
2 interest owners in the well?

3 A. Yes.

4 Q. And you'll continue to work with these people,
5 will you not?

6 A. Yes, absolutely.

7 Q. Would you identify Exhibit 4 for -- or no, excuse
8 me, as part of Exhibit 3 there's an AFE attached. Could
9 you just discuss that briefly for the Examiner?

10 A. Yes, the well's proposed depth is approximately
11 12,850 feet. It has an estimated dryhole cost of
12 \$1,443,570 and a completed well cost of \$796,098.

13 Q. Is this cost in line with the cost of other wells
14 drilled in this area of southern Eddy County?

15 A. Yes.

16 Q. Does Nadel and Gussman request that it be
17 designated operator of the well?

18 A. Yes.

19 Q. And do you have a recommendation for the amounts
20 which should be charged -- which should be paid to Nadel
21 and Gussman for supervision and administrative expenses?

22 A. Yes, we would request \$7000 a month drilling well
23 rate and \$700 a month for a producing well rate.

24 Q. And are these amounts equivalent to those
25 normally charged by Nadel and Gussman and other operators

1 in this area for these types of wells?

2 A. Yes.

3 Q. Do you request that the rates be adjusted
4 periodically as provided by the COPAS accounting procedure?

5 A. Yes, we do.

6 Q. And do you request that the maximum cost-plus-
7 200-percent risk charge be assessed against any
8 nonconsenting interest owners?

9 A. Yes, we do.

10 Q. Were the locatable parties notified of this
11 hearing?

12 A. Yes, affidavit of notice, Exhibit 5 [sic] --

13 Q. And --

14 A. -- and I believe we do have a few individuals
15 that we need to -- of those small interest owners that we
16 need to follow that up.

17 Q. Okay, and I'll get to that in a minute.

18 A. Okay.

19 Q. Were Exhibits 1 through 5 prepared by you or
20 under your supervision or compiled from company business
21 records?

22 A. Yes.

23 Q. And in your opinion, is the granting of Nadel and
24 Gussman's Application in the interest of conservation and
25 the prevention of waste?

1 A. Yes.

2 MR. BRUCE: Mr. Examiner, a couple of things I
3 noticed on my -- I actually did -- there are two different
4 notice letters, and I've only attached the one to Unit
5 Petroleum, the Schalk Family Trust and the Eastland
6 entities, and there will be another one for a couple of
7 more people, plus on the unlocatable people an affidavit of
8 publication needs to be submitted. Since that's not
9 available, I request that the matter be continued for two
10 weeks, to allow that to be submitted at the next hearing.

11 EXAMINER JONES: Okay.

12 MR. BRUCE: And with that I would move the
13 admission of Exhibits 1 through 4, I believe.

14 EXAMINER JONES: Mr. Carr?

15 MR. CARR: No questions.

16 EXAMINER JONES: Exhibits 1 through 4 will be
17 admitted to evidence.

18 MR. BRUCE: In looking at Exhibit 4, did I number
19 the affidavit of notice on your --

20 EXAMINER JONES: Yes.

21 MR. BRUCE: Okay. And I have nothing further of
22 this witness, Mr. Examiner.

23 EXAMINER JONES: Okay. Any special pool rules in
24 this case?

25 MR. BRUCE: None that I could find.

1 EXAMINER JONES: Gail?

2 MS. MacQUESTEN: No questions, thank you.

3 EXAMINER JONES: Thanks, Mr. Jolliffe.

4 THE WITNESS: Thank you, Mr. Jones.

5 MR. BRUCE: Call Mr. Logan to the stand.

6 KEITH LOGAN,

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

9 DIRECT EXAMINATION

10 BY MR. BRUCE:

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

12 A. Keith Logan.

13 Q. Where do you reside?

14 A. Midland, Texas.

15 Q. Who do you work for?

16 A. Nadel and Gussman Permian.

17 Q. And what's your job with Nadel and Gussman?

18 A. Exploration geologist.

19 Q. Have you previously testified before the Division
20 as a geologist?

21 A. Yes, I have.

22 Q. And were your credentials as an expert petroleum
23 geologist accepted as a matter of record?

24 A. Yes, they were.

25 MR. BRUCE: Mr. Examiner, I'd tender Mr. Logan as

1 an expert petroleum geologist.

2 EXAMINER JONES: Any objections, Mr. Carr?

3 MR. CARR: No objection.

4 EXAMINER JONES: Mr. Logan is qualified as an
5 expert petroleum geologist.

6 MR. BRUCE: Mr. Examiner, although risk testimony
7 is not necessary because no one is objecting, in this
8 location, or for this well, as we alluded to with the first
9 witness, there is no actual specific footage location at
10 this point, and so we're having Mr. Logan up here to
11 testify as to the objectives and as to the reason for no
12 specific location at this time.

13 And I would request that the location be -- that
14 no footage location be given in any order, although it will
15 be at an orthodox gas well location.

16 EXAMINER JONES: Even after two weeks, still --

17 MR. BRUCE: Probably, unless the BLM suddenly
18 sees the light.

19 Q. (By Mr. Bruce) But Mr. Logan, could you refer to
20 your Exhibit 5, which is the production plat, and discuss
21 the zones of interest, the main zones of interest in this
22 particular area?

23 A. Okay, what we're looking for -- and we've drilled
24 -- Nadel and Gussman has drilled several wells in this area
25 over the last two years, and what we're looking, our main

1 objectives here in the south half of Section 33 are the
2 Morrow and Atoka. The Atoka is a pretty strong objective
3 in here. There's always, of course, depletion risk in here
4 too, but the Morrow and Atoka are really the main
5 objectives here.

6 Q. And on this plat the Atoka is colored yellow?

7 A. Yeah, the Atoka is yellow, the Morrow is red, and
8 I've put below there the cumulative production for the
9 Morrow is in red, the cumulative production for the Atoka
10 is in orange.

11 Q. Okay, so it seems like to the north the Morrow is
12 the main zone, to the south the Atoka seems to be the main
13 zone?

14 A. Correct.

15 Q. And you're kind of in the middle?

16 A. Right, and then I've included current rates from
17 the producing zone.

18 Q. Okay. So the well over in the southeast quarter
19 of Section 33 is depleted?

20 A. Yes, it was P-and-A'd some time ago --

21 Q. Okay.

22 A. -- after making 6.5 BCF.

23 Q. Could you move on to your Exhibit 6 and maybe
24 just discuss a little bit the Atoka geology?

25 A. Well, I didn't know if at this point I ought to

1 put in the cross-section --

2 Q. Oh, do you want to --

3 A. -- just to give a --

4 Q. -- go to Exhibit 8, the cross-section?

5 A. Just to --

6 Q. Go ahead with that.

7 A. This is just an Atoka cross-section going from
8 Section 5 up through the well in 32, just to give you a
9 point of reference. But you're going from the north half
10 of Section 5, which is the Kelly -- the old HNG Kelly well,
11 made 2 BCF out of the Atoka and just a minor amount out of
12 the Morrow -- up to the Faulk well in the southeast quarter
13 of Section 32 -- it made about 100 million out of the
14 Morrow and about 20 million out of the Atoka -- over to our
15 proposed location, and then I picked up a well in Section
16 4, in the northwest quarter of Section 4 that was another
17 good Atoka producer, and then come up and picked the old
18 Schalk well which made 6.5 BCF out of the Atoka.

19 But what our main objective in the Atoka is,
20 would be what I've colored in brown. I've put two lines
21 across here, the bottom line being the base of the Atoka
22 clastics, the top line being the top of the Atoka clastics,
23 and when we look for Atoka in here, the sands develop
24 between these two blue markers. And in this area, what we
25 call this Brown, is really the main objective. There are

1 some others, but this is the one that is pretty prevalent
2 in this area.

3 Q. So it is correlatable across the area shown on
4 the cross-section?

5 A. Yes, it is.

6 Q. And would that also then be reflected on your
7 isopach, Exhibit 6?

8 A. Yes, in fact, that's why I wanted to do the
9 cross-section first, to show you, yes, you can see from the
10 next map, the Atoka Brown isopach, the solid circles are
11 ones that have actually produced from it. There are others
12 here that may have had bits of it that aren't currently
13 producing or -- the one off to the east looked like it was
14 on the edge of something, but it was a dry hole. It was
15 just pretty tight, it just had a little bit of sand
16 development.

17 Q. Okay. So is there any minimum thickness you'd
18 like to see in the Atoka to make a commercial well?

19 A. Well, you can go the case of, you know, the Kelly
20 well in the north half of Section 5. I know the number is
21 hard to read, but it's three to four feet, and it made 2
22 BCF, so --

23 Q. Okay, so it's not only thickness, there might be
24 some other factors?

25 A. No, I mean, it's -- it can deliver a decent

1 amount, so --

2 Q. Okay.

3 A. -- obviously you can store more in a thicker
4 interval.

5 Q. Okay. Now, looking at your proposed well it
6 looks like there's a fairly good-sized area in the
7 southwest quarter of Section 33 where you could locate a
8 well and have a good prospect of hitting the Atoka; is that
9 correct?

10 A. Well, what we're really doing right now is
11 getting it -- we know that the well in the southeast of 33
12 made a lot of gas, so you don't want to get right up next
13 to it.

14 And then the well to the west, in the southeast
15 quarter of Section 32, you know, looked like it had some
16 sand, but it was not a very good well. So we're kind of
17 splitting the difference. And then there are some surface
18 reasons for the location we're talking about.

19 Q. Well, let's go on to that. First of all, this is
20 federal land, is it not --

21 A. Yes, it is.

22 Q. -- Mr. Logan?

23 Why don't you move on to your Exhibit 7 and
24 describe that for the Examiner and why it is difficult
25 getting a location in this particular quarter section?

1 A. Okay, the next exhibit is an aerial photograph.
2 You can see outlined in blue Section 33, so from there you
3 can see the southwest quarter has the Pecos River running
4 through quite a bit of it. It's also got on the west part
5 of that, has some -- what appears to be irrigated land.
6 And being federal, we're going to have to do some work to
7 see what is an acceptable location.

8 Q. And you have been working with the BLM --

9 A. Yes.

10 Q. -- to obtain a location --

11 A. Yes.

12 Q. -- but they have not yet approved a location for
13 you?

14 A. Right.

15 Q. You anticipate they will, you just are not
16 certain what that footage location --

17 A. Right, we just know that we're going to have to
18 not be real close to the river.

19 Q. Yeah, okay. Were Exhibits 6 through 8 prepared
20 by you or under your supervision or compiled from company
21 business records?

22 A. Yes, they were.

23 Q. And in your opinion is the granting of
24 Mewbourne's Application -- Mewbourne -- Nadel and Gussman's
25 Application in the interests of conservation and the

1 prevention of waste?

2 A. Yes, it is.

3 MR. BRUCE: Mr. Logan used to work for Mewbourne,
4 so -- I'm having flashbacks, Mr. Examiner.

5 I would move the admission of Exhibits 5 through
6 8.

7 EXAMINER JONES: Mr. Carr?

8 MR. CARR: No questions.

9 EXAMINER JONES: Exhibits 5 through 8 will be
10 admitted to evidence.

11 EXAMINATION

12 BY EXAMINER JONES:

13 Q. Mr. Logan, the Well Number 8 is plugged? It's
14 totally plugged and abandoned now?

15 A. Which one?

16 Q. The Number -- the big well in the southeast
17 quarter.

18 A. Of 33? Yes, yes.

19 Q. Okay.

20 A. I mean, on the -- Let's see. It should reflect
21 that on the -- yeah, it was -- I can't tell you exactly
22 what year it was plugged, but some time ago.

23 Q. Okay. And this whole section is federal land?

24 A. Yes, it is.

25 Q. I guess -- I'm sorry, I should have asked Mr.

1 Jolliffe that.

2 So is there any kind of -- anything from the feds
3 that say that they will eventually approve this or --

4 A. Well, until we define -- you know, you get into a
5 process of getting those approved. You've got to get an
6 archaeological study done and all that, so really you have
7 to define -- we try to define a location with them before
8 we do the permitting process, so until that's actually
9 defined, that process won't actually start with getting an
10 archaeologic study done. So it has not been defined yet.

11 But you know, you've got a big well to the east
12 of you, you definitely don't want to get up close to there,
13 and you also have the river running through there. So
14 there are really some surface problems that we have to get
15 past.

16 I don't see there not being a location, an
17 acceptable location there.

18 Q. Okay, it won't be a deviated well? You didn't
19 look at that?

20 A. We don't foresee that being a problem. We have
21 drilled some deviated wells out in this area, but they were
22 minor distances that we --

23 Q. Okay. So you guys are just out ahead of the
24 curve here on this Application?

25 MR. BRUCE: For a change, we are not asking for

1 an expedited order.

2 EXAMINER JONES: That's good. Okay, let's --

3 MR. BRUCE: Drilling rigs being what they are,
4 Mr. Examiner, we aren't -- and that goes for the last case
5 with Mewbourne -- we're trying to get everything lined up
6 so that the drilling rigs can keep moving, because the
7 companies don't want to let a rig drop.

8 EXAMINER JONES: That one also --

9 MR. BRUCE: Yeah, I mean, there's no immediate
10 requirement for Mewbourne, we're just trying to stay ahead
11 of the curve.

12 EXAMINER JONES: These drilling costs are a lot
13 higher than I think I've seen even on all these cases
14 today, \$9000 a day for a rig, and almost --

15 MR. JOLLIFFE: That's right, and about \$2.2
16 million on these AFES, a lot of it's pipe.

17 MR. HADEN: Pipe costs.

18 EXAMINER JONES: Oh, the pipe costs.

19 THE WITNESS: Yeah, and here, you know, we're
20 going to -- you may as well just round it up to 13,000
21 feet. I mean, you're almost going to that depth, so... I
22 mean, it's 12,800, somewhere in there, so...

23 EXAMINER JONES: Okay, that's all -- Gail, do you
24 have questions?

25 MS. MacQUESTEN: No questions, thank you.

1 EXAMINER JONES: Thank you both very much. Thank
2 you, Mr. Carr.

3 With that, we'll take Case 13,365 -- it will be
4 continued till November the 18th.

5 MR. BRUCE: November 18th hearing.

6 EXAMINER JONES: Okay, let's take about a ten-
7 minute break.

8 (Thereupon, these proceedings were concluded at
9 10:27 a.m.)

10 * * *

11
12
13
14
15 I do hereby certify that the foregoing is
16 a complete record of the proceedings in
17 the Examiner hearing of Case No. _____,
18 heard by me on _____.

19 _____, Examiner
20 Oil Conservation Division
21
22
23
24
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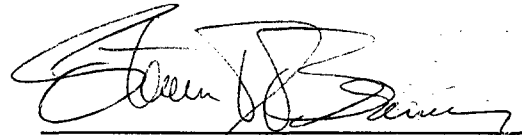
CERTIFICATE OF REPORTER

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 November 7th, 2004.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2006