

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. 13,379

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

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

November 18th, 2004

Santa Fe, New Mexico

2004 DEC 2 AM 11 42

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, November 18th, 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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I N D E X

November 18th, 2004
 Examiner Hearing
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APPLICANT'S WITNESS:

JOHN W. QUALLS (Landman)

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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 8:30 a.m.:

3 EXAMINER CATANACH: At this time I'll call Case
4 13,379, the Application of Chi Energy, Inc., for compulsory
5 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.

9 EXAMINER CATANACH: Any other appearances?
10 Okay.

11 MR. BRUCE: Mr. Examiner, if the record could
12 reflect, the witness is Mr. Qualls who was previously sworn
13 in and qualified.

14 EXAMINER CATANACH: Okay, Mr. Bruce, the record
15 shall reflect that.

16 JOHN W. QUALLS,
17 the witness herein, having been previously duly sworn upon
18 his oath, was examined and testified as follows:

19 DIRECT EXAMINATION

20 BY MR. BRUCE:

21 Q. Mr. Qualls, could you identify Exhibit 1 for the
22 Examiner and briefly describe what Chi seeks in this case?

23 A. Exhibit 1 is a land map --

24 EXAMINER CATANACH: Excuse me, excuse me, I don't
25 have any exhibits in this case.

1 MR. BRUCE: That's probably because I didn't give
2 them to you.

3 EXAMINER CATANACH: Could speed things up.

4 MR. BRUCE: They all look the same.

5 Q. (By Mr. Bruce) Mr. Qualls, can you identify
6 Exhibit 1?

7 A. Exhibit 1 is a land map showing the south half of
8 Section 29, 22 South, 27, which will be where the location
9 of the Rogers Number 1 will be.

10 Q. What is the footage location of the Rogers Number
11 1?

12 A. The Rogers Number 1 is going to be 990 from the
13 east line, 990 from the south line.

14 Q. Okay, this well will be drilled to a depth
15 sufficient to test the Morrow formation?

16 A. Yes, sir.

17 Q. And that's one of the primary zones in the well?

18 A. Yes, sir.

19 Q. In this case you're seeking to force pool 320-
20 acre units; is that correct?

21 A. Yes.

22 Q. Are you also seeking to force pool the southeast
23 quarter for 160-acre units, and the southeast quarter
24 southeast quarter -- or --

25 A. Yes.

1 Q. Southeast quarter for 160-acre units, excuse me.
2 Who is the only party you're seeking to pool at
3 this time?

4 A. The only person we can't find is Harry M. White,
5 who owns 40 net acres there in the southeast quarter, and
6 the last known address for him was in Fort Lauderdale,
7 Florida.

8 Q. Okay. Now, Exhibit 2 is a copy of a letter you
9 sent to Mr. White; is that correct?

10 A. Yes.

11 Q. And that was returned?

12 A. Yes.

13 Q. He owns what, 40 net acres in the southeast
14 quarter --

15 A. Yes.

16 Q. -- for a 1/8 working interest in the well?

17 A. Yes, sir.

18 Q. Now, what records were searched to locate Mr.
19 White?

20 A. We searched the records of Eddy County and
21 Carlsbad. We also searched the Internet and made numerous
22 attempts to find any record of anything that had been --
23 that Harry White would actually have an address on. This
24 is the last address I could find. I believe it was 1976,
25 is the last time he was located.

1 Q. Okay, so this address is almost 30 years old?

2 A. Yes.

3 Q. In your opinion, has Chi made a good-faith effort
4 to locate Mr. White?

5 A. Yes, sir.

6 Q. What is Exhibit 3, Mr. Qualls?

7 A. Exhibit 3 is an AFE showing the drilling and
8 completion costs of the well, which will be \$1,393,975,
9 total well cost.

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

12 A. Yes, sir.

13 Q. Does Chi Energy request again that this well be
14 operated by Chi Operating, Inc.?

15 A. Yes, sir.

16 Q. And what overhead rates do you request for Chi
17 Operating, Inc.?

18 A. \$6000 for drilling and \$600 for producing.

19 Q. And are these cost in line with the costs of the
20 overhead rates of other operators in this area?

21 A. Yes, sir.

22 Q. Do you request that the overhead rates be
23 adjusted periodically as provided by the COPAS accounting
24 procedure?

25 A. Yes, sir.

1 Q. Does Chi request the maximum cost-plus-200-
2 percent risk penalty be assessed against any nonconsenting
3 interest owner?

4 A. Yes.

5 MR. BRUCE: Mr. Examiner Exhibit 4 is simply the
6 affidavit of notice, mailing notice, to Mr. White. I
7 published an ad in the paper, and that has not been
8 returned to me yet, against Mr. White's interest. I would
9 ask perhaps just continue the case for two weeks so that
10 the ad can be placed in the record of this matter.

11 EXAMINER CATANACH: That would be fine, Mr.
12 Bruce, except I think we have another mistake in the
13 quarter quarter section in this case. If I understand
14 correctly, the well is going to be drilled in the southeast
15 southeast; is that correct? It looks like the ad says
16 northeast southeast.

17 THE WITNESS: I can check on the exact location
18 of that. I may have that wrong again.

19 MR. BRUCE: Yeah. Mr. Examiner, if that's
20 correct then it would have to be continued for four weeks.

21 EXAMINER CATANACH: All right, well, you get back
22 to me on the location, but for now we'll just continue it
23 for four weeks.

24 MR. BRUCE: Okay.

25 Q. (By Mr. Bruce) Were Exhibits 1 through 4

1 prepared by you or compiled from company business records,
2 Mr. Qualls?

3 A. Yes, sir.

4 Q. And in your opinion is the granting of Chi's
5 Application in the interests of conservation and the
6 prevention of waste?

7 A. Yes.

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

10 EXAMINER CATANACH: Chi's Exhibits 1 through 4
11 will be admitted.

12 EXAMINATION

13 BY EXAMINER CATANACH:

14 Q. Mr. Qualls, what is the percentage of interest
15 owned by Mr. White?

16 A. He owns 12 1/2 percent of the well.

17 Q. 12 1/2 percent.

18 A. 40 net mineral acre.

19 Q. And the last known address that you've got for
20 him was from where?

21 A. I found a deed into him, I believe it was 1976,
22 in the Eddy County records. It listed his address in Fort
23 Lauderdale, Florida. And we searched the Internet and I've
24 had a landman try to find him, and we just cannot locate
25 him, or any of his heirs.

1 EXAMINER CATANACH: I'm not sure what you put in
2 your ad, but you may need to redo the newspaper
3 advertisement as well.

4 MR. BRUCE: Yeah, it should have been -- I got a
5 call from the newspaper, they had mailed my -- the
6 affidavits to P.O. Box 2043, which is my phone number
7 extension, so... They haven't been coming promptly, so...

8 EXAMINER CATANACH: All right. Okay, anything
9 further in this case?

10 MR. BRUCE: No, sir.

11 EXAMINER CATANACH: Okay, this case will be then
12 continued to the December 16th hearing.

13 (Off the record at 8:39 a.m.)

14 (The following proceedings had at 9:55 a.m.):

15 EXAMINER CATANACH: Okay, at this time I'll call
16 the hearing back to order. And before we proceed with the
17 next case, I believe we have an additional statement in
18 Case Number 13,379.

19 MR. BRUCE: Yes, Mr. Examiner, the Application of
20 Chi Energy. The correct well location is given in the
21 advertisement. It's in the northeast quarter of the
22 southeast quarter of the section. The approximate footage
23 is 1830 from the south line and 660 from the east line.

24 As a result, the case only needs to be continued
25 for two weeks, rather than four.

1 EXAMINER CATANACH: Okay, Mr. Bruce, given that
2 clarification we will continue Case 13,379 to the December
3 2nd hearing instead of the December 16th hearing.

4 Thank you, Mr. Bruce.

5 (Thereupon, these proceedings were concluded at
6 9:56 a.m.)

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20 I do hereby certify that the foregoing is
21 a complete record of the proceedings in
22 the Examiner hearing of Case No. 13379
23 heard by me on November 18, 2004.
24 David R. Catnach, Examiner
25 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 November 26th, 2004.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2006