

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. 13,382

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

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
 CASE NO. 13,382

PAGE

APPLICANT'S WITNESS:

JOHN W. QUALLS (Landman)

Direct Examination by Mr. Bruce

Examination by Examiner Catanach

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REPORTER'S CERTIFICATE

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E X H I B I T S

Applicant's

Identified

Admitted

Exhibit 1

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Exhibit 2

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Exhibit 3

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Exhibit 4

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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 8:48 a.m.:

3 EXAMINER CATANACH: Call Case 13,382, the
4 Application of Chi Energy, Inc., for compulsory pooling,
5 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 additional appearances?

10 There being none, let the record show that Mr.
11 Qualls has been previously sworn in and testified as an
12 expert landman.

13 JOHN W. QUALLS,
14 the witness herein, having been previously duly sworn upon
15 his oath, was examined and testified as follows:

16 DIRECT EXAMINATION

17 BY MR. BRUCE:

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

20 A. Exhibit 1 is a land map showing the east half of
21 Section 14, 19 South, 27 East, which would be the proration
22 unit for the Foot Joy Number 1.

23 Q. What is the name of the proposed well?

24 A. The Foot Joy State Com Number 1.

25 Q. And what quarter quarter section is this located

1 in?

2 A. It's 990 from the north, 660 from the east.

3 Q. Okay.

4 A. Northeast northeast.

5 Q. So do you also request, besides the force pooling
6 of 320 acre units, the force pooling of the northeast
7 quarter and of the northeast northeast?

8 A. Yes, sir.

9 Q. What is the primary zone of interest in this
10 well?

11 A. It will be a Morrow well.

12 Q. Could you identify Exhibit 2 for the Examiner and
13 identify the parties that Chi Energy seeks to force pool
14 into this well?

15 A. Exhibit 2 lists the letters that I sent to Monte
16 Mount, I&L Development, and Redfern Enterprises, Inc.

17 Q. Okay. Now these letters were sent out. Have you
18 also had telephone discussions with these people?

19 A. I have talked with Monte Mount and I have talked
20 with Shirley Choate of Redfern Enterprises, Inc. I have
21 not talked with Thomas Lett of I&L Development.

22 Q. Okay, have you received any written response to
23 these letters?

24 A. No.

25 Q. And have the parties indicated that they would

1 join in or do anything with this well?

2 A. Monte Mount called me on Monday, and he'd been on
3 vacation for a month. He's an 83-year-old man living in
4 Lubbock, Texas, and said that he would like to do
5 something. I said we were going to go ahead with the
6 hearing because I couldn't have got the paperwork to him
7 and got the stuff back, but we will get a deal from him.

8 Q. Okay, and if you do reach an agreement with Mr.
9 Mount, or any of the other interest owners, will you so
10 notify the Division?

11 A. Yes, sir.

12 Q. In your opinion, has Chi Energy made a good-faith
13 effort to obtain the voluntary joinder of the interest
14 owners in the well?

15 A. Yes.

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

17 A. Exhibit 3 is an AFE showing the drilling and cost
18 for the well, \$1,493,501.

19 Q. And is this cost fair and reasonable?

20 A. Yes, sir.

21 Q. What is the approximate depth of this well?

22 A. That will be approximately 11,000 feet.

23 Q. Okay, and is this cost in line with the cost of
24 other wells drilled to this depth in this portion of Eddy
25 County?

1 A. Yes, sir.

2 Q. Do you request that Chi Operating, Inc., be
3 appointed operator of the well?

4 A. Yes, sir.

5 Q. And what overhead rates do you request?

6 A. \$6000 and \$600. \$6000 drilling and \$600
7 producing.

8 Q. And do you request that these rates be adjusted
9 periodically as provided by the COPAS accounting procedure?

10 A. Yes, sir.

11 Q. Do you request that the maximum cost-plus-200-
12 percent risk charge be assessed against any nonconsenting
13 interest owner?

14 A. Yes.

15 Q. And were the interest owners notified of this
16 hearing?

17 A. Yes, sir.

18 Q. And that's reflected in Exhibit 4?

19 A. Yes, sir.

20 MR. BRUCE: Mr. Examiner, Exhibit 4 contains a
21 number of certified return receipts, but the other parties
22 reflected in that exhibit have voluntarily joined in the
23 well.

24 Q. (By Mr. Bruce) Just one other item. Roughly
25 what percentage do Mr. Mount and these other persons own in

1 the proposed well unit?

2 A. Mr. Mount would own .75 percent of the well, I&L
3 Development would own .80 percent of the well, and Redfern
4 Enterprises, Inc., would own 3.25 percent of the well.

5 Q. Were Exhibits 1 through 4 prepared by you or
6 under your supervision?

7 A. Yes.

8 Q. And in your opinion is the granting of this
9 Application in the interests of conservation and the
10 prevention of waste?

11 A. Yes.

12 MR. BRUCE: Mr. Examiner, I'd move the admission
13 of Exhibits 1 through 4.

14 EXAMINER CATANACH: Exhibits 1 through 4 will be
15 admitted.

16 EXAMINATION

17 BY EXAMINER CATANACH:

18 Q. Mr. Qualls, I&L, have you not been able to get
19 ahold of them?

20 A. I called and left a message for Thomas Lett, and
21 he never returned my phone call.

22 Q. But you're fairly sure that's the right address
23 for those --

24 A. Yes.

25 Q. And the other interest, Redfern, do you

1 anticipate them doing anything?

2 A. Shirley Choate said that they would do something,
3 but she has not gotten back in touch with me. It's been
4 probably three weeks since I talked to her.

5 Q. These well costs appear to be a little higher
6 than the previous case. Is there a reason for that?

7 A. Casing has gone up. When we AFE'd this one, the
8 price of casing had gone up, and that's one reason it's a
9 little bit higher.

10 EXAMINER CATANACH: Okay, I have nothing further.

11 MR. BRUCE: I did get one that didn't need to be
12 continued, Mr. Examiner.

13 EXAMINER CATANACH: Yes, you did.

14 Okay, there being nothing further, Case 13,382
15 will be taken under advisement.

16 (Thereupon, these proceedings were concluded at
17 8:54 a.m.)

18 * * *

19
20 I do hereby certify that the foregoing is
21 a complete record of the proceedings in
22 the Examiner hearing of Case No. 13382
23 heard by me on November 8, 1967
24 David R. Catnach, Examiner
25 Oil Conservation Division

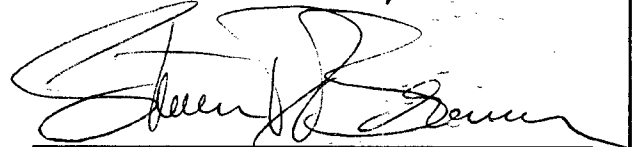
CERTIFICATE OF REPORTER

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 25th, 2004.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2006