

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 HUNTINGTON ENERGY,)	CASE NOS. 13,417
L.L.C., FOR COMPULSORY POOLING,)	
RIO ARriba COUNTY, NEW MEXICO)	
APPLICATION OF HUNTINGTON ENERGY,)	and 13,418
L.L.C., FOR COMPULSORY POOLING,)	
RIO ARriba COUNTY, NEW MEXICO)	
<hr/>		(Consolidated)

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

ORIGINAL

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

April 7th, 2005

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, WILLIAM V. JONES, JR., Hearing Examiner, on Thursday, April 7th, 2005, 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

2005 APR 21 AM 10:09

I N D E X

April 7th, 2005
Examiner Hearing
CASE NOS. 13,417 and 13,418 (Consolidated)

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* * *

A P P E A R A N C E S

FOR THE APPLICANT:

HOLLAND & HART, L.L.P., and CAMPBELL & CARR
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 8:33 a.m.:

3 EXAMINER JONES: Now we go to page 2, and call
4 Case 13,417, Application of Huntington Energy, L.L.C., for
5 compulsory pooling, Rio Arriba County, New Mexico.

6 Call for appearances.

7 MR. CARR: May it please the Examiner, my name is
8 William F. Carr. I'm with the Santa Fe office of Holland
9 and Hart, L.L.P. We represent Huntington Energy, L.L.C.,
10 in this matter.

11 At this time, Mr. Examiner, I'd request that you
12 also call Case 13,418, which is also a compulsory pooling
13 case in which Huntington is seeking pooling of the other
14 half of the section involved in the first case. The
15 interests to be pooled are identical. We'd request that
16 separate orders be entered, but it would facilitate the
17 presentation of the case if they would be both called and
18 consolidated.

19 EXAMINER JONES: Okay, any other appearances in
20 Case 13,417?

21 With that, we'll call Case 13,418 concurrently
22 with Case 13,417. Case 13,418 is the Application of
23 Huntington Energy, L.L.C., for compulsory pooling, Rio
24 Arriba County, New Mexico.

25 Call for appearances in that case. And Mr. Carr

1 is Huntington's appearance. Any other appearances in that
2 case?

3 You have one witness?

4 MR. CARR: Mr. Examiner, we have one witness, Mr.
5 Carl Sherrill, who needs to be sworn.

6 EXAMINER JONES: Mr. Sherrill, please stand to be
7 sworn.

8 (Thereupon, the witness was sworn.)

9 MR. CARR: May it please the Examiner, before we
10 begin in Case 13,418 -- this is the case in which we seek
11 an order pooling the west half of Section 2, Township 25
12 North, Range 7 West -- the legal advertisement in the case
13 that we filed, and therefore the docket, has got an
14 incorrect well location in it. It is shown as 1350 from
15 the north and east line of Section 2, which would not even
16 put it on the spacing unit.

17 As you'll see as we present the case, we're
18 pooling interest owners we've been unable to locate, and we
19 would not anticipate that presenting the case today and
20 then requesting permission to continue it while we correct
21 this error in the ad would result in anyone showing up or
22 there being any additional testimony.

23 So with your permission, we will present the
24 case, identify the correct location, and at the end of the
25 evidence request that Case 13,418 be continued for four

1 weeks, so we can correct the legal ad.

2 EXAMINER JONES: So at that time will it be a
3 standard location?

4 MR. CARR: It is a standard location, yes --

5 EXAMINER JONES: Okay.

6 MR. CARR: -- and we'll present the case for that
7 well at that location. But we do have to correct the legal
8 ad.

9 EXAMINER JONES: Okay. Will you have an API
10 number at that time? Maybe not, I guess.

11 MR. CARR: I don't know if we'll have the API
12 number in or not. All right?

13 At this time, Mr. Examiner, we call Carl
14 Sherrill.

15 CARL E. SHERRILL,
16 the witness herein, after having been first duly sworn upon
17 his oath, was examined and testified as follows:

18 DIRECT EXAMINATION

19 BY MR. CARR:

20 Q. Would you state your full name for the record,
21 please?

22 A. Carl Edward Sherrill.

23 Q. Mr. Sherrill, where do you reside?

24 A. 6508 Northwest 110th Street in Oklahoma City.

25 Q. By whom are you employed?

1 A. Huntington Energy.

2 Q. And what is your position with Huntington Energy?

3 A. I'm a senior land advisor.

4 Q. Have you previously testified before the New
5 Mexico Oil Conservation Division?

6 A. No, sir.

7 Q. Could you review for Mr. Jones your educational
8 background?

9 A. I graduated in 1966 from Putnam City High School
10 in Oklahoma City. I graduated in 1970 from the University
11 of Central Oklahoma with a BBA degree.

12 I've probably gone to 40, 50 different seminars
13 and schools over the course of the last 25 years, dealing
14 with petroleum land management and related management.

15 Q. Could you review your work experience for the
16 Examiner?

17 A. 19 -- I've got it written down here. About 1975
18 to 1979, I was a lease broker for J.D. Simmons, Inc., in
19 Oklahoma City. In 1979 to 2003 I worked for Conoco, Inc.,
20 and ConocoPhillips. I took early retirement and went to
21 work for Huntington Energy after that, to the present.

22 Q. At all times have you been employed as a
23 petroleum landman?

24 A. Yes, sir.

25 Q. Are you familiar with the Applications filed in

1 these cases on behalf of Huntington Energy?

2 A. Yes, sir.

3 Q. And are you familiar with the status of the lands
4 in each of the spacing units that are the subject of this
5 case?

6 A. Yes, sir.

7 MR. CARR: May it please the Examiner, we tender
8 Mr. Sherrill as an expert witness in petroleum land
9 matters.

10 EXAMINER JONES: Mr. Sherrill is qualified as an
11 expert witness in land matters.

12 Q. (By Mr. Carr) Mr. Sherrill, let's first ask you
13 to summarize briefly what it is that Huntington seeks in
14 each of these cases, and we ought to at first look at Case
15 13,417 in which we seek an order pooling the east half of
16 the section.

17 A. Yes, sir, Huntington would like to pool a couple
18 of respondents that we've been unable to contact that own a
19 leasehold working interest for the drilling of -- well, two
20 7500-foot Dakota wells. The Canyon Largo Unit 458 is in
21 the east half of Section 2, and the Canyon Largo Unit 473
22 in the west half of 72 -- excuse me, west half of 2, 25
23 North, 7 West, I'm sorry.

24 Q. As to the east half of the section, we only need
25 to pool the east-half spacing unit; is that correct?

1 A. That is correct.

2 Q. Because all the northeast quarter is under lease
3 or is controlled by Huntington?

4 A. Yes, sir.

5 Q. You're proposing to pool only a portion of the
6 intervals from the base of the Mississippi formation down
7 through the base of the Dakota; is that correct?

8 A. That is correct.

9 Q. The well on the east half of the section is
10 correctly shown in the ad, and what is the location, the
11 footage location, for that well?

12 A. It's 2338 feet from the north line and 1282 feet
13 from the east line.

14 Q. And is that a standard location under the rules
15 for the Basin-Dakota?

16 A. Yes, sir.

17 Q. And that's the primary objective in the well?

18 A. That is correct.

19 Q. Let's look at the well we're proposing to drill
20 in the west half of the section in Case 13,418. What
21 spacing units are you seeking to pool under that half-
22 section?

23 A. The east -- excuse me, the west half of Section 2
24 for the -- I guess it would be the Basin-Mesaverde, to the
25 base of the Dakota, for the drilling of a 7500-foot Dakota

1 well.

2 Q. Are you also seeking the pooling of the northwest
3 quarter if you should encounter production in that
4 interval?

5 A. Yes, sir.

6 Q. 160-acre spaced pool?

7 A. Yes, sir.

8 Q. And if you got an oil well, you would seek an
9 order pooling the southeast of the northwest?

10 A. That is correct.

11 Q. This is to be dedicated to which well, the Canyon
12 Largo well?

13 A. That would be the Canyon Largo 458.

14 Q. And that well will be drilled 1625 feet --

15 A. I'm sorry, I said 458. 473, I'm sorry. The
16 first one was 458.

17 Q. And what is the location for that well?

18 A. It's 1625 feet from the north line and 1285 feet
19 from the west line.

20 Q. What rules will govern this well if you're
21 successful in the Dakota formation?

22 A. The base of the Dakota on 320-acre standup
23 spacing.

24 Q. And what are the setbacks, 660 from the --

25 A. Yes, sir, 660.

1 Q. Both well locations will be -- both wells will be
2 drilled at standard locations?

3 A. Yes, sir.

4 Q. Let's go to what has been marked as Huntington
5 Exhibit Number 1. Would you identify what these are?

6 A. Yes, these are land plats that I had produced or
7 put together from mineral ownership reports and leasehold
8 ownership reports I had prepared, showing the various
9 leasehold owners in the nine -- or eight sections
10 surrounding Section 2.

11 Q. The first page shows the east-half spacing unit,
12 the second page the west half?

13 A. Yes, sir.

14 Q. In both cases are you seeking orders pooling the
15 same interest owners?

16 A. Yes, sir.

17 Q. Let's go to Exhibit Number 2. Would you identify
18 that?

19 A. Exhibit 2 is -- well, computations I made from
20 the leasehold ownership covering the different tracts
21 making up the east half of Section 2, depicting Leland
22 Petroleum Production, Inc., and William G. Mennen's
23 interest and Huntington's interest in the east half.

24 Q. In the east half what percentage of the working
25 interest does Huntington represent or control?

1 A. 50.01-percent working interest.

2 Q. And you have recently acquired these interests?

3 A. Yes, sir.

4 Q. From whom did you acquire the interests that --
5 the 50 percent?

6 A. From Burlington Resources, ConocoPhillips and
7 Dugan Petroleum.

8 Q. And the interest owners to be pooled in the east
9 half of the section are Leland Petroleum and William G.
10 Mennen?

11 A. Yes, sir.

12 Q. What about the west half of the section, the next
13 page of Exhibit 2?

14 A. Well, the same thing basically, they -- showing
15 the various owners in the tracts, covering the west half,
16 showing what Huntington owns that we had acquired from
17 Burlington and Dugan and ConocoPhillips, showing William G.
18 Mennen and Leland Petroleum's interests in the tracts.

19 Q. Would you refer to what has been marked as
20 Huntington Exhibit Number 3 and just generally summarize
21 for Mr. Jones your efforts to locate and obtain
22 participation in this well of all interest owners in the
23 spacing unit?

24 A. Well, we made a very thorough search of the
25 county records, as well as the State Land Office records,

1 made an Internet search throughout the U.S.

2 We've really -- I've gone through so many
3 different -- you know, found an agent and -- I've talked to
4 a lot of people that had dealings with Leland and William
5 G. Mennen, but it was to no avail basically. I couldn't
6 find anybody to admit they owned it, or locate them,
7 actually.

8 Q. If we look at pages -- well, actually, Leland,
9 your efforts are summarized on pages 1 and 2 of Exhibit 3,
10 and the efforts to locate William G. Mennen are set forth
11 on pages 3 and 4 of this exhibit; is that correct?

12 A. Yes, sir.

13 Q. Attached to this are -- the summary, are various
14 letters that you sent to various addresses, trying to get a
15 response from both Leland and Mennen; is that correct?

16 A. Yes, sir.

17 Q. Have you been able to locate either one of them?

18 A. No, sir.

19 Q. In your opinion, have you made a good-faith
20 effort to identify and locate each of these individuals, so
21 they could be given an opportunity to voluntarily
22 participate in this well?

23 A. Yes, sir.

24 Q. If these Applications are granted, Mr. Sherrill,
25 and the interests are pooled, will any proceeds

1 attributable to Mennen or to Leland Production be escrowed
2 in a bank in the county where the property is located?

3 A. Yes, sir.

4 Q. Let's go to what has been marked Exhibit Number 4
5 in this consolidated case.

6 A. Those are drilling and completion AFEs for both
7 wells.

8 Q. Could you summarize the dryhole and completed-
9 well costs?

10 A. Yes, so they're -- since they are both 7500-foot
11 Dakota tests, both dryhole costs are \$294,300, and for
12 completed well cost a total of \$726,700.

13 Q. Are these costs in line with what is incurred for
14 similar wells in this area?

15 A. Yes, sir.

16 Q. Is Exhibit Number 5 a copy of the COPAS
17 accounting procedures?

18 A. Yes, sir.

19 Q. And do these procedures provide for periodic
20 adjustment in the overhead and administrative costs to be
21 incurred while drilling the well and also while producing
22 it?

23 A. Yes, sir.

24 Q. Do you request that any order entered in this
25 case also provide for the same adjustment in the overhead

1 and administrative charges?

2 A. Yes, sir.

3 Q. What are the proposed overhead and administrative
4 costs for each of these Dakota wells?

5 A. It would be \$5345.09 for the drilling well rate,
6 \$623.65 for the producing well rate.

7 Q. How do these overhead costs compare with the
8 charges charged by other operators in the area?

9 A. They're the same, actually, as Burlington's,
10 who's operator of Canyon Largo Unit.

11 Q. Do you recommend that these figures be
12 incorporated into the orders that result from today's
13 hearing?

14 A. Yes, sir.

15 Q. Does Huntington Energy, L.L.C., request that in
16 accordance with Division Rules a 200-percent charge for
17 risk be imposed on each of the interests not voluntarily
18 committed to the well?

19 A. Yes, sir.

20 Q. Does Huntington Energy, L.L.C., request to be
21 designated operator of each of the proposed wells?

22 A. Yes, sir.

23 Q. In your opinion, will approval of this
24 Application and the drilling of each of these wells be in
25 the best interest of conservation, the prevention of waste

1 and the protection of correlative rights?

2 A. Yes, sir.

3 Q. How soon does Huntington hope to commence the
4 drilling of these wells?

5 A. Within the next 60, 90 days, fairly soon, as soon
6 as we can.

7 Q. Is Huntington Exhibit Number 6 an affidavit with
8 attached letters and affidavits of publication confirming
9 that notice of the hearing has been provided in accordance
10 with Division Rules?

11 A. Yes, sir.

12 Q. Were Exhibits 1 through 6 either prepared by you
13 or compiled at your direction?

14 A. Correct.

15 MR. CARR: Mr. Examiner, at this time we would
16 move the admission into evidence of Huntington Energy,
17 L.L.C., Exhibits 1 through 6.

18 EXAMINER JONES: Exhibits 1 through 6 will be
19 admitted into evidence for both cases.

20 MR. CARR: And that includes -- concludes my
21 direct examination of this witness.

22 We will readvertise as well as, you know, cover
23 all the notice bases again to correct the location for the
24 well on the west half.

25 EXAMINER JONES: Okay. Thank you, Mr. Carr.

EXAMINATION

BY EXAMINER JONES:

Q. Mr. Sherrill, you said 1625 from the north line and how much from the west line, 12-something?

A. I'm sorry, 1285 feet from the west line.

Q. Are you sure -- Do you want to be tied down to that location, or do you just -- you know that's a good location?

A. I know that -- Actually, I think we moved them a little bit before, trying to -- we've already staked them, so...

Q. Okay, okay.

A. I would request maybe a 10-percent tolerance, although we have that, do we not?

MR. CARR: Or if you wanted a standard location in --

EXAMINER JONES: I can just say --

MR. CARR: -- in the northwest quarter --

EXAMINER JONES: -- at a standard location.

THE WITNESS: Yeah. But I believe they are...

EXAMINER JONES: But I need the location to check -- double-check on that, I guess, too.

Q. (By Examiner Jones) The Gallup would be a wildcat Gallup, it looks like in this area. That would be standard for both wells?

1 A. Yes, sir.

2 Q. Do you look that that might happen?

3 A. Absolutely, that is very -- Huntington operates
4 the Gallup -- Canyon Largo-Gallup PA, and so absolutely,
5 it's a very possibility -- very much a possibility that --

6 Q. So the only possibilities would be Gallup and the
7 Basin-Dakota?

8 A. Yeah, basically, yes, sir.

9 Q. And I have an API number for the first well, and
10 I can get the other one, I can get it.

11 No Indian lands here?

12 A. No, sir.

13 Q. It's all State --

14 A. Yes, sir.

15 Q. -- surface and bottom --

16 A. Yes, sir.

17 Q. -- minerals?

18 A. Yes, sir.

19 Q. And it's a standard-size section, just slightly
20 oversized?

21 A. Just slightly, yes, sir.

22 Q. The other wells surrounding you -- I notice
23 you've got a well up in Unit D of Section 1. This looks
24 like a decent area for Basin-Dakota, but I don't see any
25 Gallup wells around here yet, obviously --

1 A. Right.

2 Q. -- wildcat Gallup.

3 A. Yes, sir.

4 Q. But you've got a couple of PC wells.

5 A. Right.

6 Q. This doesn't cover the PC?

7 A. No, sir, we don't own Pictured Cliff rights.

8 Q. Okay, I think that's all I have for Mr. Sherrill.

9 I was going to ask him an off-the-wall question.

10 A. Okay.

11 Q. You've been in the oil patch a long time doing
12 land work, right?

13 A. Yes, sir.

14 Q. Have you ever seen a situation on exploratory
15 units or exploratory -- even compulsory pooling, where you
16 use something other than the acreage for the percentage?
17 In other words, you --

18 A. I've done both.

19 Q. -- used that pay and --

20 A. Yeah, acreage and percentages, normally.

21 Q. But I mean, where you used instead of -- for the
22 percentages, instead of just acreage you use a factor,
23 except only in statutory units. Is that your only
24 experience of using more than just --

25 A. I guess I'm not understanding what you're saying,

1 "factor".

2 Q. Well, this Mennen guy you're trying to find --

3 A. Right.

4 Q. -- he's only got 18 percent --

5 A. Right.

6 Q. -- by acreage.

7 A. Right.

8 Q. So what if he were sitting on a spot with real
9 thick net pay and he wanted to argue about the -- and he
10 had a -- should have bigger than 18 percent? Never seen
11 that?

12 A. No, only in unitizations, mostly.

13 Q. Only in statutory --

14 A. Right --

15 Q. -- unitizations?

16 A. -- exactly.

17 Q. And have you ever seen statutory unitizations
18 where it's not done for secondary-recovery purposes?

19 A. No.

20 Q. Okay, I hadn't either, so --

21 A. No, I haven't.

22 MR. CARR: Mr. Examiner, at this time we'd
23 request that Case 13,417 be taken under advisement and that
24 Case 13,418 be continued for four weeks so that we can
25 correct the legal ad.

1 EXAMINER JONES: Okay, thank you. We'll take
2 Case 13,417 under advisement and continue Case 13,418 to
3 May the 5th.

4 THE WITNESS: Thank you, sir.

5 EXAMINER JONES: Thanks, Mr. Sherrill.

6 (Thereupon, these proceedings were concluded at
7 9:52 a.m.)

8 * * *

9
10
11
12
13 I do hereby certify that the foregoing is
14 a complete record of the proceedings in
15 the Examiner hearing of Case No. _____
16 heard by me on _____

17 _____, Examiner
18 Oil Conservation Division
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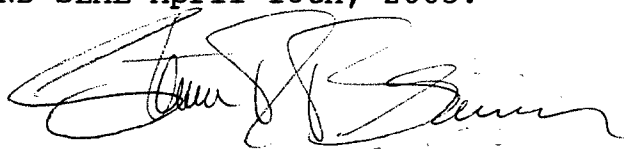
CERTIFICATE OF REPORTER

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 April 10th, 2005.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2006