

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. 13,495

APPLICATION OF JTD RESOURCES, LLC, )  
 FOR COMPULSORY POOLING, LEA COUNTY, )  
 NEW MEXICO )

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: RICHARD EZEANYIM, Hearing Examiner

June 2nd, 2005

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, RICHARD EZEANYIM, Hearing Examiner, on Thursday, June 2nd, 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.

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## I N D E X

June 2nd, 2005  
 Examiner Hearing  
 CASE NO. 13,495

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\* \* \*

## A P P E A R A N C E S

## FOR THE DIVISION:

GAIL MacQUESTEN  
Deputy General Counsel  
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Santa Fe, New Mexico 87505

## 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 8:17 a.m.:

3 EXAMINER EZEANYIM: I will call Case Number  
4 13,495. This is the Application of JTD Resources, LLC, for  
5 compulsory pooling, Lea 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 EZEANYIM: Any other appearances?

10 Okay, may the witness stand to be sworn?

11 (Thereupon, the witness was sworn.)

12 DAN LEONARD,  
13 the witness herein, after having been first duly sworn upon  
14 his oath, was examined and testified as follows:

15 DIRECT EXAMINATION

16 BY MR. BRUCE:

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

19 A. Yes, my name is Dan Leonard, I live in Midland,  
20 Texas.

21 Q. And what is your relationship to JTD Resources?

22 A. I manage that small independent company.

23 Q. And are you a landman by trade?

24 A. I am.

25 Q. Have you previously testified before the Division

1 as a petroleum landman?

2 A. Yes, I have.

3 Q. And are you familiar with the land matters  
4 involved in this Application?

5 A. Yes, I am.

6 MR. BRUCE: Mr. Examiner, I'd tender Mr. Leonard  
7 as an expert petroleum landman.

8 EXAMINER EZEANYIM: He's so qualified.

9 Q. (By Mr. Bruce) Mr. Leonard, will you identify  
10 Exhibit 1 and briefly describe what JTD Resources seeks in  
11 this case?

12 A. Exhibit 1 is a land plat from the Midland --  
13 Midland County. It highlights the northeast northeast  
14 quarter of Section 3 of Township 20 South, Range 38 East,  
15 and we are seeking an order pooling the northeast northeast  
16 of 3 from the surface to the base of the Abo formation.  
17 This unit will be dedicated to the drilling of our Salem  
18 Number 1 well.

19 Q. And this is in Lea County, correct?

20 A. Yes.

21 Q. What is the well's footage location?

22 A. Well, it would be located 990 feet from the north  
23 line and 450 feet from the east line of Section 3.

24 Q. And that's an orthodox oil well location, is it  
25 not?

1 A. Yes.

2 Q. Referring to Exhibit 2, could you identify the  
3 working interest ownership in the well unit, please?

4 A. Yes, Exhibit 2, you will see, is -- There are  
5 multiple small tracts in this 40-acre unit, and this  
6 exhibit reflects the mineral ownership in each of those  
7 small tracts. There are 27 mineral owners in the 40 acres.  
8 We have acquired leases and a mineral deed from 20 of these  
9 27 owners.

10 The leases and the mineral deed that we own cover  
11 a total of 26.95 net acres, which represents 67.37 percent  
12 of the unit. We've got the remaining 13.05 net acres that  
13 seven people own, and that is what we're seeking to force  
14 pool.

15 Q. Looking at Exhibit 2, which interest owners do  
16 you seek to pool?

17 A. In the first tract at the top of the page, in the  
18 north half, northeast, northeast, we seek to pool Anderson  
19 Carter's interest.

20 In that little 5-acre tract, the east half, north  
21 half, north half, south half, northeast, northeast, the  
22 ones that are in bold there are unleased, Michael Chappell,  
23 Steve Chappell, Bruce Chappell, Ronald Chappell and Beverly  
24 Johnson.

25 And then in the last tract, which is a 10-acre

1 tract, the south half, south half, northeast, northeast, we  
2 seek to pool the interest that Devon Energy owns.

3 Q. Okay. Everybody else is tied up in the well?

4 A. Yes.

5 Q. Let's discuss your efforts to obtain the  
6 voluntary joinder of the locatable interest owners in the  
7 well unit, and I'm going to refer you to Exhibit 3.

8 But preliminarily, how long have you been  
9 interested in this tract and have been out there attempting  
10 to lease the interest owners?

11 A. Well, oh, probably four or five years. We  
12 drilled an offset to the east and had a force-pooling  
13 action on that, and we began that process four or five  
14 years ago, and we've been working this little area, trying  
15 to tie these mineral owners up for quite some time, really.

16 Q. Okay.

17 A. It's a -- A lot of the lands in here are -- the  
18 minerals are very cut up, and they haven't been leased for  
19 a while, so finding people, finding the correct probates  
20 and finding people is somewhat of a trick.

21 Q. In this area, just as more background, 20 South,  
22 38 East, and just to the north, how many wells has JTD  
23 Resources been involved in drilling over the last, say,  
24 eight or ten years?

25 A. Oh, approximately 30.

1 Q. Okay. And most of this is fee land down in this  
2 area?

3 A. Almost exclusively.

4 Q. And almost all of the tracks are cut up and have  
5 dozens of interest owners, is it fair to say?

6 A. I think the most fun we had was a 160-acre gas  
7 unit that we put together for a shallow gas well, and we  
8 had over 100 people that owned the minerals in that quarter  
9 section.

10 Q. Okay.

11 A. Pretty split up.

12 Q. So it does take some time to get a well drilled  
13 in this area?

14 A. Yes, it does. I've run out of landmen to help  
15 me. I think this is Leonard's Folly area.

16 Q. Now, you did spend quite a bit of time trying to  
17 lease these unleased -- or these mineral interest owners;  
18 is that correct?

19 A. We have, we've -- this go-around, we've been at  
20 it since, oh, January or February of last year, of '04.

21 Q. Okay. After you had leased a number of people,  
22 there were still some unleased people. What was the basic  
23 problem? They just didn't respond?

24 A. No response. We had -- the five -- Five of the  
25 seven we can locate, we know where they are. And we've



1 made numerous efforts to contact them by telephone, we've  
2 left messages on home phones, office phones, cell phones,  
3 and gotten no response from that.

4 We've got address for them, and we've sent them  
5 offering letters. We have gone so far as to send oil and  
6 gas leases and drafts, continuing in this effort. And  
7 finally, when we got down to the point of knowing for sure  
8 when we're going to drill this well, we sent out AFEs and  
9 well proposals. I think the date of those were April  
10 8th --

11 Q. Okay.

12 A. -- of this year, and we've just gotten no  
13 response. It's not been a -- "You're not paying me enough  
14 money or enough royalty to have anything to do with that."  
15 There's just no response.

16 And you know, one of the difficulties we have in  
17 here is, if you look at that Exhibit 2 and you look at the  
18 size of those interests, like the interest of the  
19 Chappells. They're just tiny, tiny interests, and they --  
20 you have a very difficult time getting their attention to  
21 do anything with it.

22 Q. And so eventually you sent out a proposal letter,  
23 and is that marked Exhibit 3?

24 A. Yes.

25 Q. And that well proposal went out with an AFE; is

1 that correct?

2 A. Yes, it did.

3 Q. And again, even after they received the well  
4 proposal, you have gotten no response from these people?

5 A. No, and we -- you know, we sent them out by  
6 certified mail, so we know that they received them.

7 Q. Now, one of the interest owners you're seeking to  
8 pool is Devon Louisiana Corporation, which was previously  
9 Ocean Energy, Inc. Have you had numerous contacts with  
10 Ocean or Devon over the years?

11 A. Yes, we started -- we started with Ocean -- Well,  
12 it was before the merger with Devon, so it had to be over  
13 two years ago. And they indicated to us early on that they  
14 were not interested in leasing, but when we got ready to  
15 drill a well that -- send them an AFE and they would  
16 probably join in the well.

17 So you know, this spring when we got serious  
18 about drilling it, we knew when we were going to drill it  
19 and had an AFE ready, we -- well, we sent them an offering  
20 letter first, to lease, and got no response to that. And  
21 then we contacted their -- Devon's Lea County -- the  
22 landman in Oklahoma City that handles Lea County and left  
23 several messages on his answering machine and got no  
24 response from him. And then we sent on April 8th a well  
25 proposal and the AFE, and we've had no response to that.

1 Q. And the letter to Devon is also in Exhibit 3, is  
2 it not?

3 A. Yes.

4 Q. The last letter of Exhibit 3?

5 A. Right.

6 Q. Now, if any of these parties do eventually join  
7 in the well, perhaps Devon, will you notify the Division  
8 that they are not subject to the pooling order?

9 A. Absolutely.

10 Q. And I think you already mentioned, besides the  
11 letters as to the locatable owners, you also did contact  
12 them by telephone, or attempted to --

13 A. We made an effort to.

14 Q. You made an effort to. And again, they wouldn't  
15 even respond to the phone calls, as well as the letter?

16 A. No.

17 Q. Okay. Which interest owners, looking at Exhibit  
18 2, did you have trouble locating?

19 A. In the Chappell family we were unable to locate  
20 Michael and Bruce.

21 Q. Michael and Bruce Chappell?

22 A. Yes.

23 Q. And what efforts did you make -- I mean, they --  
24 there's a family group there -- This is the same family,  
25 isn't it --

1           A.    It is the same family.

2           Q.    -- those four or five people?

3           A.    Of course, the first thing we tried to do was get  
4 the -- talk to the family about addresses and phone  
5 numbers. And I'm not sure exactly what the family  
6 situation is here, but nobody seems to know where they are.  
7 We had addresses from them. One was up -- Bruce was up in  
8 Billings, Montana. And Michael's -- we found an address  
9 for him, an old address; it was in Oregon. So we had  
10 addresses. We could never find a telephone number for  
11 either one of them, and none of the family seems to have  
12 any information on either one of them; they don't even know  
13 where they are.

14                So we -- you know, we went through the Internet  
15 searches and the phone directories and the probates, we --  
16 we're unable to find anything on either one of them. And  
17 this envelope that we got back from both of them is that  
18 they were undeliverable, the certified mail items that we  
19 sent out when we sent out the well proposal and the AFE.

20           Q.    In your opinion, have you made a good-faith  
21 effort to obtain the voluntary joinder of the interest  
22 owners in the well?

23           A.    I think we have.

24           Q.    Could you identify Exhibit 4 and discuss the cost  
25 of the proposed well?

1           A.   Exhibit 4 is an AFE that Capataz Operating, Inc.,  
2   who is a -- is -- operator that we've used in this area for  
3   years -- he built this AFE, and it reflects a dryhole cost  
4   or cost to casingpoint of \$390,000 and a completed well  
5   cost of \$905,385.

6           Q.   What is the depth of the well?

7           A.   7800 feet.

8           Q.   Are there several objectives in this well?

9           A.   Multiple objectives. Of course, you start with  
10   the San Andres, which is always -- is always something you  
11   look at. But the primary objectives in this well are the  
12   Blinebry, Tubb, Drinkard and Abo formations.

13          Q.   Is this proposed well cost in line with the cost  
14   of other wells drilled to this depth in this area of Lea  
15   County?

16          A.   Yes, sir, it is.

17          Q.   Who do you request be designated operator of the  
18   well?

19          A.   Capataz Operating, Inc.

20          Q.   And again, they have been your operator for your  
21   -- all of your recent wells in this area?

22          A.   Yeah, for about 10 years.

23          Q.   Do you have --

24          A.   Very familiar with the area.

25          Q.   And a good handle on well costs?

1 A. Yes, sir.

2 Q. Do you have a recommendation for the amounts  
3 which the operator should be paid for supervision and  
4 administrative expenses?

5 A. Yes, we request \$4500 per month for drilling and  
6 \$450 a month for a producing well.

7 Q. And are these amounts equivalent to those  
8 normally charged by operators in this area for wells of  
9 this depth?

10 A. In our experience they are. We've participated  
11 with several other operators, and it's very comparable.

12 Q. Do you request that the overhead rate be adjusted  
13 periodically as provided by the COPAS accounting procedure?

14 A. We do.

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

17 A. Yes, they were.

18 Q. Is that the notice submitted as Exhibit 5?

19 A. Yes.

20 MR. BRUCE: Mr. Examiner, submitted as Exhibit 5,  
21 Exhibit A is the mailed notice to everyone, and Exhibit B  
22 to Exhibit 5 is the publication notice.

23 Q. (By Mr. Bruce) Were Exhibits 1 through 5  
24 prepared by you or under your supervision or compiled from  
25 company business records?

1 A. They were.

2 Q. And in your opinion is the granting of this  
3 Application in the interests of conservation and the  
4 prevention of waste?

5 A. Yes.

6 MR. BRUCE: Mr. Examiner, I'd move the admission  
7 of Exhibits 1 through 5.

8 EXAMINER EZEANYIM: Any objections? Well then,  
9 Exhibits 1 through 5 will be admitted.

10 MR. BRUCE: That's all I have of the witness.

11 EXAMINER EZEANYIM: Thank you, Mr. Bruce.

12 Gail?

13 MS. MacQUESTEN: No questions, thank you.

14 THE WITNESS: No questions.

15 EXAMINER EZEANYIM: Okay, I have a couple.

16 EXAMINATION

17 BY EXAMINER EZEANYIM:

18 Q. First of all, let's go back to that -- One  
19 question I have here is, I wanted the footage location, and  
20 you say it's 990 from the north?

21 A. Yes, sir.

22 Q. Can you go back to that?

23 A. To the land plat?

24 Q. Yeah. And 660?

25 A. 450, 450 from the east.

1 Q. Okay, 450. Okay, because, you know, that is at  
2 the edge of that unit, and I'm -- you know, make sure I  
3 understand that. Otherwise, it will do something else,  
4 so --

5 A. Yes, sir.

6 Q. -- that's why. And I appreciate you giving me  
7 that, because that was one of the questions I wanted to  
8 have you ask, because of the location of that well.

9 And you did all of your advertisements?

10 A. Sir?

11 Q. -- advertisements, you know, was done in a -- You  
12 did all your advertisements?

13 A. Oh, yes, sir --

14 Q. Public notice --

15 A. -- we did.

16 Q. -- and everything? And if you go back to --

17 A. You mean for the -- I'm sorry, for the location?

18 Q. Yeah, for the hearing.

19 A. Yes.

20 Q. Yeah, so everybody knows that.

21 Then go back to Exhibit 2, and I'm looking at  
22 your effort to get voluntary joinder of -- It looks like  
23 everybody in both has not -- you know, either you were  
24 unable to contact them or something. What happened with --  
25 Is it Larry Maddux, on that Section 3?



1           A.    Larry Maddux, we -- that lease expires in  
2   September, and we're going to -- you know, we're going to  
3   drill this well about the first of July, so --

4           Q.    Oh, okay.

5           A.    -- we hope -- hope to, anyway, with your help.  
6   We're -- probably the middle of July, but we're -- we've  
7   talked to him about renewing that lease if we need to, but  
8   we're probably not going to need to.

9           Q.    Okay, following on that line, you were talking  
10   about lease expiration. And when did you say that will  
11   happen?

12          A.    This date that's on the right here, on that  
13   list --

14          Q.    Oh.

15          A.    -- it shows September 15th.

16          Q.    Oh, okay.

17          A.    That's the expiration date of it.

18          Q.    Okay.

19          A.    Right now we've got a rig lined up for July for  
20   two wells that we're going to drill back to back, and one  
21   we just got the order from you yesterday for that one --

22          Q.    Okay.

23          A.    -- and then we're going to drill this one next.

24          Q.    Okay, that's good.

25                So most of these that you called or you sent

1 letters, the letters came back to you on -- you know,  
2 nobody received them and you tried to call again?

3 A. Yes, sir, the ones that we got back for sure are  
4 these two certified mailings that we sent to Michael  
5 Chappell and Bruce Chappell, the two guys we haven't been  
6 able to find.

7 Q. Okay.

8 A. The rest of them got it. I got the green cards  
9 back.

10 Q. But they didn't respond, they didn't say  
11 anything?

12 A. No.

13 Q. Okay.

14 A. It's just -- The Chappells, I think -- I think  
15 their interests are so small --

16 Q. Yeah.

17 A. -- and they know so little about it -- You know,  
18 they inherited these minerals and I just don't think they  
19 care anything about it, although, you know, the other  
20 members in the family have.

21 Q. Okay.

22 A. The more curious ones are guys like Anderson  
23 Carter, who -- we know him, we've dealt with him a number  
24 of times, and we've gotten leases from him, and he just has  
25 not responded to this. I don't know why. He certainly --

1 we've left numerous messages on his telephones and sent him  
2 stuff, and we know he receives it, we know where he is.  
3 Just no response.

4 MR. BRUCE: He's one of my ex- law partners --

5 EXAMINER EZEANYIM: Okay --

6 MR. BRUCE: -- so he's findable.

7 Q. (By Examiner Ezeanyim) These are fee lands.  
8 Have you -- and it's standard-looking. Have you obtained  
9 your APD for this well? An APD yet from Hobbs office?

10 A. You know, we just staked this well about a week  
11 ago, so I doubt if the permit has been approved yet.

12 Q. Oh, okay, yeah.

13 A. I know it's been applied -- it's been submitted,  
14 but -- or at least I feel confident it has. Capataz does  
15 that, I don't do it. But I suspect that he's either done  
16 it or he's going to do it very shortly, because he's got 30  
17 says before his rig is going to be there. We're  
18 negotiating the surface damages with the surface owners  
19 already, so the well's been staked.

20 Q. Yeah, Capataz always drills your wells?

21 A. Yes, sir.

22 Q. And they are also responsible for obtaining your  
23 APDs?

24 A. Yes. Well, in this area they are. We do  
25 business with other operators in other areas in

1     southeastern New Mexico and west Texas. But in this area,  
2     yes, Capataz handles all that for us.

3             Q.     Okay. Now we talk about the objectives. You  
4     know, you say you have multiple objectives. Which one is  
5     your primary and which one is your secondary? Because  
6     that's --

7             A.     Well, you know, the primary -- I listed four, the  
8     Blinebry, Tubb, Drinkard and Abo. They're -- I would say  
9     probably the Blinebry, Tubb and Drinkard are the main  
10    objectives. The Abo we always drill to and test it.  
11    They're all very, very similar reservoirs, they're very  
12    tight dolomites, and we usually get surprised about which  
13    one of them works the best.

14            Q.     These rates, these drilling rates, overhead  
15    rates, this is what is supplied to you by Capataz as the  
16    operator --

17            A.     Yes.

18            Q.     -- of the wells?

19                   And you -- this is what they -- they use in  
20    drilling oil wells. Is there any other difference between  
21    these rates from other wells that you've drilled in the  
22    area?

23            A.     With other operators?

24            Q.     Yeah.

25            A.     Yeah, I think we're on the light end --

1 Q. Okay.

2 A. -- from our experience. We've participated with  
3 a company called Collins and Ware, we've participated with  
4 Apache, we're just going to participate with a well that  
5 Apache is going to drill, and I think these are -- these  
6 are definitely on the low end of what we've seen there.

7 EXAMINER EZEANYIM: Okay, thank you very much.  
8 No other questions.

9 THE WITNESS: Thank you.

10 MR. BRUCE: I have nothing further in this case,  
11 Mr. Examiner.

12 EXAMINER EZEANYIM: Well, nothing further, Case  
13 Number 13,495 will be taken under advisement at this point.

14 THE WITNESS: We appreciate that, and we hope  
15 that -- You know, this rig business today is very, very  
16 difficult. And as I said, we have this rig lined up for  
17 July, so we're hoping that we can get your consideration  
18 for that so we can move from one of these to the other and  
19 hang onto this rig, because we've been advised that if we  
20 let this rig go, we're not likely to get it back until very  
21 late this year or next year, so we're --

22 EXAMINER EZEANYIM: Okay --

23 THE WITNESS: I know you hear that from a lot of  
24 people.

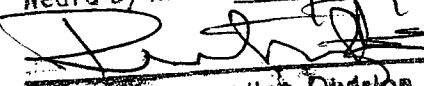
25 EXAMINER EZEANYIM: Well, you know, of course I

1 know, everybody has told me. Thank you for reminding me  
2 about that.

3 THE WITNESS: Thank you.

4 (Thereupon, these proceedings were concluded at  
5 8:41 a.m.)

6 \* \* \*

7  
8  
9  
10  
11 I do hereby certify that the foregoing is  
12 a complete record of the proceedings in  
13 the Examiner hearing of Case No. 34-95  
14 heard by me on 6/21/66  
15  Examiner  
16 Oil Conservation Division  
17  
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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 June 2nd, 2005.



STEVEN T. BRENNER  
CCR No. 7

My commission expires: October 16th, 2006