

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. 13,515

APPLICATION OF CHENEY ENERGY PARTNERS)
LLC FOR APPROVAL OF A UNIT AGREEMENT,)
CHAVES COUNTY, NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

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

June 30th, 2005

Santa Fe, New Mexico

2005 JUL 11 PM 1 05

5/11/05

This matter came on for hearing before the New Mexico Oil Conservation Division, WILLIAM V. JONES, JR., Hearing Examiner, on Thursday June 30th, 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 30th, 2005
 Examiner Hearing
 CASE NO. 13,515

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REPORTER'S CERTIFICATE

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E X H I B I T S

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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: OCEAN MUNDS-DRY

* * *

STEVEN T. BRENNER, CCR
 (505) 989-9317

1 WHEREUPON, the following proceedings were had at
2 8:36 a.m.:

3 EXAMINER JONES: At this time let's call Case
4 13,515, which is the Application of Cheney Energy Partners
5 LLC for approval of a unit agreement, Chaves County, New
6 Mexico.

7 Call for appearances.

8 MS. MUNDS-DRY: Mr. Hearing Examiner. My name is
9 Ocean Munds-Dry with Holland and Hart. I'm here on behalf
10 of Cheney Energy Partners this morning.

11 Mr. Hearing Examiner, Cheney Energy Partners
12 seeks approval of the Mescalero Springs State Exploratory
13 Unit this morning. This unit is comprised of 1280 acres of
14 State of New Mexico lands. It's located approximately four
15 miles southwest of Caprock.

16 Cheney seeks approval of this proposed unit by
17 affidavit, pursuant to Division Policy.

18 Mr. Hearing Examiner, if you'll turn to Cheney
19 Exhibit Number 1 you'll see the affidavit of Mitchel Cheney
20 who's the petroleum geologist and president of Cheney
21 Energy Partners. He identifies the project in his
22 affidavit.

23 If you turn to Attachment A to the affidavit,
24 you'll see it's a copy of the unit agreement, and it
25 conforms to the State Land Office form.

1 If you turn to Attachment B to the affidavit,
2 you'll see it's a copy of the plat which identifies the
3 unit boundary in red, and you'll see there's an arrow
4 indicating where the proposed Mescalero Springs Unit is
5 located.

6 Attachment C to the affidavit is a schedule of
7 ownership. You'll note that Cheney has approximately 78
8 percent of the working interest committed to the unit.
9 You'll also note at the bottom, there's some open acreage
10 which was nominated at the June 21st sale. Cheney Energy
11 Partners was not successful in obtaining that tract of
12 land; however, they have made an offer to the -- I believe
13 it was Yates Petroleum Corporation, to participate in the
14 unit. And since that happened rather late, obviously, in
15 this process, they're in those negotiations right now.
16 They do have 78 percent, as I noted, committed to the unit.

17 Cheney proposes to test all formations from the
18 surface to the base of the Morrow formation. The initial
19 test well is to be located at a standard location 1980 feet
20 from the south line and 660 feet from the west line of
21 Section 23, Township 11 South, Range 34 East, and they plan
22 to test all formations from the surface to an approximate
23 total depth of 12,000 feet.

24 If you turn to Attachment D to the affidavit,
25 it's a letter from the Commissioner of Public Lands giving

1 preliminary approval to the formation of this unit.

2 And Attachment E is a montage of a middle Morrow
3 stratigraphic cross-section, cross interval [sic] and sand
4 isopachs and a top-of-Chester structure map. This shows
5 the outlines of the incised valleys which they are
6 attempting to explore. And you can note on each of the
7 maps that they've shown you here on the montage that they
8 do indicate where the exploratory unit is, with the red
9 arrows on each of the maps.

10 With the proposed location, Cheney hopes to
11 intersect the sands in the valley access, and they hope to
12 have indicated that to you in each of these maps.

13 Cheney Exhibit Number 2 is an affidavit of
14 publication showing you that proper notice was given to
15 this proceeding.

16 And finally, Cheney Exhibit Number 3 is -- are
17 copies of the notice letters that were sent to all the
18 working interest owners. Yes, that's correct.

19 Finally, Mr. Cheney testifies that the
20 development of this unit area is pursuant to a unit plan,
21 is in the best interests of conservation, will prevent
22 waste and protect correlative rights.

23 Mr. Hearing Examiner, if you have no questions
24 we'd ask that Cheney Exhibits Number 1 through 3 and their
25 attachments be admitted into evidence.

1 EXAMINER JONES: Exhibits 1 through 3 and their
2 attachments will be admitted into evidence.

3 These letters went out June the 6th, it looks
4 like.

5 MS. MUNDS-DRY: Yes.

6 EXAMINER JONES: I don't know why they're not
7 going for the Devonian out here. This is a big Devonian
8 area. I guess they've got a Morrow geologist at work here.

9 Okay, I have no more questions, so let's take
10 Case 13,515 under advisement.

11 MS. MUNDS-DRY: Thank you, Mr. Hearing Examiner.

12 EXAMINER JONES: Thank you.

13 (Thereupon, these proceedings were concluded at
14 8:42 a.m.)

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I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. _____,
heard by me on _____.

_____, Examiner
Oil Conservation Division

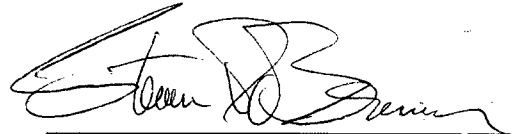
CERTIFICATE OF REPORTER

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 June 30th, 2005.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2006