

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. 13,552

APPLICATION OF EDGE PETROLEUM)
EXPLORATION COMPANY FOR COMPULSORY)
POOLING, EDDY COUNTY, NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

September 8th, 2005

Santa Fe, New Mexico

2005 SEP 22 AM 10 05

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, September 8th, 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

September 8th, 2005
 Examiner Hearing
 CASE NO. 13,552

PAGE

APPEARANCES

3

APPLICANT'S WITNESS:

JEFF A. SIKORA (Landman)

Direct Examination by Mr. Bruce

4

Examination by Mr. Carr

18

Examination by Examiner Catanach

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REPORTER'S CERTIFICATE

23

* * *

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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Exhibit 5

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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

FOR OCCIDENTAL PERMIAN:

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 9:05 a.m.:

3 EXAMINER CATANACH: Call Case 13,552, the
4 Application of Edge Petroleum Exploration Company for
5 compulsory pooling, Eddy County, New Mexico.

6 Call for appearances in this case.

7 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe,
8 representing the Applicant. I have one witness.

9 MR. CARR: May it please the Examiner, my name is
10 William F. Carr with Holland and Hart, L.L.P. We represent
11 Occidental Permian, and I have no witnesses.

12 EXAMINER CATANACH: Will the witness please stand
13 to be sworn in?

14 (Thereupon, the witness was sworn.)

15 JEFF A. SIKORA,
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. BRUCE:

20 Q. Will you please state your name for the record?

21 A. It's Jeff Sikora, with Edge Petroleum Exploration
22 Company in Houston, Texas.

23 Q. What is your position with Edge Petroleum?

24 A. I am the senior staff landman.

25 Q. Have you previously testified before the

1 Division?

2 A. Yes, I have.

3 Q. And were your credentials as an expert landman
4 accepted as a matter of record?

5 A. Yes, they were.

6 Q. And are you familiar with the land matters
7 involved in this Application?

8 A. Yes.

9 MR. BRUCE: Mr. Examiner, I tender Mr. Sikora as
10 an expert petroleum landman.

11 EXAMINER CATANACH: He is so qualified.

12 Q. (By Mr. Bruce) Mr. Sikora, if you could identify
13 Exhibit 1 and briefly tell the Examiner what you seek in
14 this case.

15 A. Exhibit 1 is a Midland map. It outlines the
16 north half of Section 29 in Township 20 South, Range 30
17 East. We're seeking a north-half -- we're seeking to force
18 pool some interests in the north half of this -- in this
19 unit, the north half of Section 29.

20 Q. Mr. Sikora, you're not seeking -- you're seeking
21 to force pool only well units spaced on 320 acres; is
22 that --

23 A. That's correct, yes.

24 Q. What do the colors indicate on this plat?

25 A. The yellow is Edge's lease. It was acquired at a

1 state lease sale like last April a year, a year and a half
2 ago. So that's the Edge lease that we own a hundred
3 percent --

4 Q. No, on this plat it says Harvey Yates. That's an
5 old -- that's a prior lease, is it not?

6 A. That is an old lease that expired by its own
7 terms. I don't know when it expired, but it went back up
8 for sale at the state sale and Edge bought this lease.
9 It's in yellow

10 The green represents -- those are some leases
11 that are HBP. The west half of the northwest quarter is a
12 lease. The record title is owned by Occidental. The south
13 half is a federal lease that's owned by a number of people,
14 but the lease -- the acreage is the HBP from a well in the
15 south half of 29 called the Hudson Federal well.

16 Q. Okay. And although we'll get into it in a minute
17 in more detail, is all of the acreage colored in green
18 subject to an operating agreement?

19 A. All the acreage, yes, colored in green is subject
20 to an old JOA.

21 Q. Okay. And as a result, people who own interest,
22 for the most part, in the south half also own interest in
23 Occidental's acreage; is that correct?

24 A. That is correct.

25 Q. Okay. What well does Edge plan to drill?

1 A. It's the Golden Lane 29 State Com Number 1 well.
2 This well is -- it's actually -- the well is actually
3 drilling right now, and we'll get more into that, but the
4 location is, it's in the potash. And the surface location
5 is in the northwest quarter of Section 28, and it's a
6 deviated hole that's bottomholing in the north half of
7 Section 29.

8 Q. What is the proposed approximate bottomhole
9 location?

10 A. The bottomhole location is 710 feet from the
11 south line of Section 20.

12 Q. From the --

13 A. Or from the north line of 29, and 1700 feet from
14 the east line.

15 Q. And again, what depths does Edge seek to pool?

16 A. From the Bone Springs to the base of the Morrow.

17 Q. And besides the Morrow, is there another zone
18 that is of some interest in this area?

19 A. The Strawn zone is also of interest.

20 MR. BRUCE: Okay. Mr. Examiner, for your
21 information, if you will recall, this well was involved in
22 a hearing on the Dos Hermanos-Morrow Gas Pool rules, which
23 I believe you heard a year ago. And it is orthodox in the
24 Morrow. It's more than 1650 feet from the east line of the
25 section, which is what is required by Division regulations

1 at this point. The Strawn is on statewide rules.

2 Q. (By Mr. Bruce) And Mr. Sikora, will the Strawn
3 well be at least 660 feet from the north and east lines of
4 Section 29?

5 A. Yes.

6 Q. Let's move on to Exhibit 2, and could you
7 describe the working interest ownership in the well?

8 A. Exhibit 2 is the working interest ownership in
9 the north half of Section 29, taking into account Edge's
10 lease and also taking into account the contractual working
11 interest owners in the west half of the northwest of
12 Section 29.

13 Q. Now, is Edge subject to this JOA?

14 A. Edge is not subject to the old JOA.

15 Q. Okay. Of the parties listed on Exhibit 2, other
16 than Edge, who do you seek to force pool at this time?

17 A. At this time we're seeking to force pool all
18 these parties, but I do need to point out that we're in the
19 process of securing voluntary agreements from the majority
20 of these people. There's verbal commitments from virtually
21 all of these. There's -- I think there's one percent out
22 of this group that I haven't been able to get in touch
23 with, so we're in various states of getting everyone
24 committed, either through participation or to farm in to
25 us.

1 Q. Okay. Now, when you say you haven't been able to
2 get in touch with them, you have provided them with well
3 data or --

4 A. Well, yeah, let me back up on that. On the one
5 percent that I have, I haven't talked to recently. I have
6 talked to everyone on this list, and I have provided AFEs,
7 well proposals, alternative participation proposals, copies
8 of title opinions and joint operating agreements to all of
9 them.

10 Q. Have you provided Edge's geologic data to them
11 also?

12 A. Some limited geologic data.

13 Q. Now, under Occidental Permian, Yates Petroleum is
14 listed in parentheses. What is the reason for that?

15 A. Well, Yates may claim an interest to this 3.125
16 percent, that interest being derived through an old
17 assignment in 1988 from Amoco, who was Occidental's
18 predecessor in title, to Yates. It was part of a big
19 package of properties, and it described the south half of
20 Section 28. It didn't describe the lease in the north half
21 of 28 --

22 Q. Twenty-nine.

23 A. I mean 29, excuse me, I mean Section 29. And it
24 mentions the old 1973 JOA that was governing the well in
25 the south half of 29 at the time. So I've talked to Yates

1 and the landman several times on this now, and they're not
2 sure if they're going to make a claim on this or not, but
3 they are doing some research. And because there is
4 contractual working interests that are still in effect by
5 virtue of this old joint operating agreement, it's possible
6 that Yates can make a claim to this interest. And because
7 of that, we want to have them on this list.

8 Q. So in addition to pooling Occidental, you also
9 need to force pool Yates at this point?

10 A. We would request that.

11 Q. Let's discuss your efforts to obtain the
12 voluntary joinder of the interest owners in the wells.
13 First, did Edge believe that Occidental was the only
14 working interest owner in the west half, northwest quarter
15 of the section?

16 A. Yes, going back all the way to last November,
17 we've been trying to get this well drilled since at least
18 then, and of course we were proposing to drill this on the
19 north half of Section 29 spacing unit with -- under the
20 belief that Occidental owned the entire interest in the
21 west half of the northwest. At the time we were not aware
22 that an old joint operating agreement was in effect.

23 And we became aware of that through our drilling
24 title opinion and some curative measures that were done
25 pursuant to that. There's some old documents in the chain

1 of title covering the north half of 29 that referenced an
2 old JOA. So I started doing the research and calling the
3 owners of the well in the south half of 29 and asking them
4 if anybody had a copy of this.

5 Well, it took me a while, but I finally ended up
6 getting a copy of the JOA, and that's when we started
7 having to link together the fact that there were some other
8 interest owners besides OXY in this acreage.

9 Q. Now, again you've mentioned that the well has
10 already been commenced; is that correct?

11 A. Yes, it has.

12 Q. Besides the title problems that slowed things
13 down, are there other issues that required Edge to commence
14 this well?

15 A. Well, basically we had committed to a rig prior
16 to finding out about this old JOA, and we really didn't
17 have anywhere else to take the rig. I tried to move it to
18 another location, but that location wasn't ready either.
19 We were waiting on an order from the OCD in that particular
20 instance as well, and if we were to let this rig go we
21 weren't going to be able to get it back for quite some
22 time. So we just made the decision to proceed ahead and
23 try to either secure voluntary agreements from these folks
24 or get this pooling order that we're seeking.

25 Q. Now, if you had not commenced this well and kept

1 the rig, would that have affected farmouts and term
2 assignments on other acreage that you --

3 A. Well, yeah, I --

4 Q. -- that you need to drill subsequent to this
5 well?

6 A. It could have affected other agreements we have
7 in place that would terminate if we didn't drill this well,
8 and there was a lot of moving parts involved with making
9 the decision.

10 Q. Okay. Now, because the well is drilled -- you
11 have been keeping the parties informed of the status of the
12 well, have you not?

13 A. Yes, I have, almost on a daily basis.

14 Q. And so they are aware that the well has spudded
15 and they're all aware of the force pooling hearing?

16 A. Yes. Yes, everyone's aware of it.

17 Q. Well, let's then move on to your correspondence,
18 Exhibit 3. Without going into detail on this, can you just
19 kind of, again, outline when you first contacted OXY and
20 then when you sent proposals out to the JOA parties once
21 you got that data?

22 A. These exhibits date back to November when we
23 first proposed this well to OXY, at that time believing OXY
24 owned the entire interest. So this is just my effort to --
25 you go through and -- We proposed it to OXY in November,

1 proposed it to them again in May, at which time we still
2 weren't aware of the old JOA. And then in July, just this
3 last July, that's when we had the title opinion rendered
4 and became aware of the old operating agreement and
5 immediately sent out well proposals and AFEs and other
6 information to the other owners on the working interest
7 ownership list.

8 Q. Okay. And actually, I believe the title opinion
9 was done in June, and that's when the first issue first
10 arose?

11 A. Well, yes, I guess I should back up. The title
12 opinion was done in June. It took me probably three weeks
13 to find a copy of this old operating agreement, just to
14 verify whether or not it was even in effect.

15 The operator of the well in the south half of
16 Section 28 you would presume would have a copy of it. He's
17 the operator. Well, he apparently just doesn't even
18 operate under -- didn't believe -- he didn't believe that
19 the operating agreement covered the entire Section 29,
20 believing that it only covered the south half of 29. So I
21 kind of took his word for that, and as it turned out when
22 we eventually got a copy of the operating agreement, it
23 covered the entire Section 29.

24 The reason for that is that when the well drilled
25 and the south half of 29 was drilled in the 1970s, it was a

1 Morrow well. At that time the Morrow was pooled on 640
2 acres from the Dos Hermanos Pool. When the man that
3 operates that well now -- it's M. Brad Bennett -- when he
4 bought that well from the first operator, it was
5 recompleted into the Strawn, which is spaced on 320 acres.
6 So at that point in time all he had was a 320-acre spacing
7 unit comprised of the south half of 29. But that didn't
8 change the effect of the contract, which covered all of 29.
9 Mr. Bennett was not aware of that.

10 MR. BRUCE: And Mr. Examiner, just for a point of
11 clarification, the oil and gas lease that Edge owns --
12 there was a prior oil and gas lease subject to that JOA and
13 that expired. Actually, there's probably been two or three
14 leases since then that have expired, but because -- the
15 newer leases were not subject to that JOA.

16 Q. (By Mr. Bruce) Now, in addition to the Exhibit 3
17 letters, have you also called or e-mailed the various
18 interest owners?

19 A. Yes, yes.

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

23 A. We have and we're continuing to do so.

24 Q. And as you make agreements with -- written
25 agreements with various parties, will you notify the

1 Division of who signed a JOA or farmed out their interest?

2 A. Yes, yes, we will.

3 Q. Would you identify Exhibit 4 and discuss the cost
4 of the proposed well?

5 A. Exhibit 4 is an AFE for this well, current AFE.
6 It's dated September 6th, and the dryhole cost for this
7 well is at present \$2.9 million, a little north of \$2.9
8 million. Completed well cost is about \$3.9 million.

9 Q. Now, with respect to the costs, were there some
10 additional costs incurred because of some initial problems
11 with the well?

12 A. When we first spud the well on August 14th while
13 drilling out of the surface hole, the well deviated for
14 some reason. It deviated 12 1/2 percent at 450 feet, which
15 was unacceptable. So we had to pull out of the hole and
16 skid the rig 20 feet to the north and basically restart,
17 and that's what we did, and the well is currently drilling
18 on its -- on the designated path.

19 Q. Considering these issues, is this cost in line
20 with the cost of other wells drilled to this depth in this
21 area of the state?

22 A. Considering the issue, I think it would be.

23 Q. Do you request that -- Who do you request be
24 appointed operator of the well?

25 A. Edge Petroleum Operating Company.

1 Q. And that's a sister corporation to Edge Petroleum
2 Exploration?

3 A. Yes.

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

7 A. We request \$8000 per month for drilling and \$800
8 per month for producing.

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

12 A. I believe so.

13 Q. Do you request that the overhead rates be
14 adjusted periodically as provided by the COPAS accounting
15 procedure?

16 A. Yes.

17 Q. And were all of the interest owners notified of
18 this hearing?

19 A. Yes.

20 Q. And is the affidavit of notice marked Exhibit 5?

21 A. Yes.

22 Q. In your opinion is the granting of this
23 Application in the interests of conservation and the
24 prevention of waste?

25 A. Yes.

1 Q. And because the well is drilling, do you request
2 an expedited order in this matter?

3 A. Yes, sir, we do.

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

6 EXAMINER CATANACH: Exhibits 1 through 5 will be
7 admitted.

8 MR. BRUCE: And Mr. Examiner, before -- if Mr.
9 Carr has any questions, before that, one thing I want to
10 point out -- and I would -- is that the original
11 application stated that the surface location was 2520 feet
12 from the north line and 1130 feet from the west line of
13 adjoining Section 28. As Mr. Sikora just testified, they
14 had to move that slightly so that the actual surface
15 location is 2499 feet from the north line. They moved it
16 21 feet. Everything else remains the same, the bottomhole
17 location, et cetera.

18 I don't think the surface location was all that
19 material to this Application, and I'd ask that the matter
20 not be readvertised. As Mr. Sikora testified, the people
21 have been notified of the change in location and an amended
22 Application was sent out to these parties.

23 EXAMINER CATANACH: Okay, I would have to agree
24 that the surface location doesn't mean a heck of a lot
25 here.

1 Mr. Carr, do you have any questions?

2 MR. CARR: Just a couple.

3 EXAMINATION

4 BY MR. CARR:

5 Q. Mr. Sikora, what is the current status of your
6 negotiations with OXY?

7 A. We have a verbal agreement supported by e-mails
8 with OXY. I feel like we have an agreement that needs to
9 be reduced to contract at this point.

10 Q. If Yates has a claim, it only springs from that
11 old operating agreement that you discovered; isn't that
12 correct?

13 A. It actually will spring from the assignment that
14 I mentioned.

15 MR. CARR: That's all I have, thank you.

16 EXAMINATION

17 BY EXAMINER CATANACH:

18 Q. Mr. Sikora, at this point who is actually signed
19 up?

20 A. As we sit here right now, I don't have any -- I
21 don't have -- you know, in my hands, copies of any of
22 these. I've talked to -- if you go through the list
23 there's --

24 MR. BRUCE: Start with Occidental at the bottom
25 and just say whether they're going to farm out or --

1 THE WITNESS: Okay, well, Occidental and Edge
2 have come to an agreement for Occidental to farm out to
3 Edge.

4 Providence Oil and Gas Corporation has agreed to
5 farm out to Edge.

6 M. Brad Bennett, Inc., has agreed to farm out to
7 Edge.

8 Ard Energy and Ard Oil, I have no agreement with.
9 William Hudson, II, is going to participate in
10 the well.

11 Edward R. Hudson, Jr., is going to participate in
12 the well.

13 The Trustees of the Edward R. Hudson Trusts 1
14 through 3 are going to participate in the well.

15 The Delmar Lewis Living Trust will farm out to
16 Edge.

17 Lindy's Living Trust will farm out to Edge.

18 Moore and Shelton Company, I have no agreement
19 with.

20 So that's really only about one percent that we
21 don't have something with.

22 Q. (By Examiner Catanach) But you've been able to
23 contact these parties, the Moore and Shelton Company
24 Limited Trust?

25 A. I've talked to them a couple times, and they've

1 said they would get an answer back to us, but they just
2 haven't. I think these are people that travel a lot and
3 maybe don't pick up their messages all the time.

4 Q. How deep is the well at this point?

5 A. It's about 1700 feet. We expect to TD the well
6 in 30 days, assuming there's no problems, mechanical
7 problems.

8 Q. And that's down to 16,000, 16,250?

9 A. The depth of the well? It's a measured depth of
10 thirteen thousand --

11 Q. 13,350.

12 A. 13,350, right.

13 EXAMINER CATANACH: Those are about the highest
14 overhead rates I've seen. Are those supported -- is that
15 -- Do you have any idea -- do you have any data on --

16 MR. BRUCE: Mr. Examiner, all I can say is that
17 apparently under the new Ernst and Young survey, those are
18 apparently the rates for wells, I think, below 10,000 feet.
19 I know at the -- you weren't involved, but the Chesapeake-
20 Samson, et al., hearing a couple of weeks ago, those are
21 the rates that Chesapeake requested, roughly equivalent to
22 the rates -- I believe there was testimony in the record
23 that those were the current overhead rates.

24 EXAMINER CATANACH: Do you by any chance have a
25 copy of that newest -- I don't think I do.

1 MR. BRUCE: I may. Let me see if I can get that.

2 EXAMINER CATANACH: Okay.

3 MR. BRUCE: I thought I -- I may have it on my
4 computer.

5 EXAMINER CATANACH: Okay. If you find it, if you
6 could provide that to me, I'd appreciate it, Jim.

7 Q. (By Examiner Catanach) Oh, the pooling interval,
8 you want to include the Bone Springs in the pool?

9 A. Below it.

10 Q. Base of the Bone Springs?

11 A. Right.

12 MR. BRUCE: And Mr. Examiner, from -- I don't
13 know exactly, but the Strawn on down will be orthodox.
14 There's a chance, I suppose, that the Wolfcamp could be
15 unorthodox. We're not requesting approval for that. If
16 that was unorthodox, we'd have to come in and get
17 subsequent approval to produce.

18 EXAMINER CATANACH: Okay. I don't remember what
19 we did in the Dos Hermanos --

20 MR. BRUCE: It was, well -- (points at Mr. Carr).
21 Outside of the four sections, outside of the four sections.
22 It's 320-acre spacing, but you -- for wells immediately
23 adjacent to those four sections, you have to be 1650 feet
24 off those four section lines.

25 EXAMINER CATANACH: Ah, it's coming back to me.

1 It was a slight battle, as I recall. Okay.

2 All right, anything further, Mr. Bruce?

3 MR. BRUCE: No, sir.

4 EXAMINER CATANACH: There being nothing further,
5 this case, Case 13,552, will be taken under advisement.

6 (Thereupon, these proceedings were concluded at
7 9:30 a.m.)

8 * * *

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11
12 I hereby certify that the foregoing is
13 a complete record of the proceedings in
14 the Examiner hearing of Case No. 13552,
15 heard by me on September 2, 2005.
16 David R. Catnach, Examiner
17 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 September 9th, 2005.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2006