

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 LANCE OIL AND GAS)
COMPANY, INC., FOR COMPULSORY POOLING)
INCLUDING OPTIONAL INFILL WELL)
PROVISIONS, SAN JUAN COUNTY, NEW MEXICO)

CASE NO. 13,574

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: RICHARD EZEANYIM, Hearing Examiner

October 6th, 2005

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, RICHARD EZEANYIM, Hearing Examiner, on Thursday, October 6th, 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

October 6th, 2005
 Examiner Hearing
 CASE NO. 13,574

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<u>PAUL LEHRMAN</u> (Landman)	
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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 DIVISION:

GAIL MacQUESTEN
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FOR THE APPLICANT:

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P.O. Box 2208
Santa Fe, New Mexico 87504-2208
By: WILLIAM F. CARR

* * *

1 WHEREUPON, the following proceedings were had at
2 9:44 a.m.:

3 EXAMINER EZEANYIM: At this point I call Case
4 Number 13,574, and this is the Application of Lance Oil and
5 Gas Company, Inc., for compulsory pooling including
6 optional infill well provisions, San Juan County, New
7 Mexico. Call for appearances.

8 MR. CARR: May it please the Examiner, my name is
9 William F. Carr with the Santa Fe office of Holland and
10 Hart. We represent Lance Oil and Gas Company in this case.

11 This case is a compulsory pooling case of a
12 spacing unit that lies in close proximity to the spacing
13 unit in the preceding case.

14 Our witness is Paul Lehrman, who has just
15 testified, and I would request that the record reflect that
16 Mr. Lehrman remains under oath and that his credentials as
17 an expert in petroleum land matters are accepted.

18 EXAMINER EZEANYIM: Okay. Any other appearances?
19 Okay, Mr. Lehrman is well qualified.

20 PAUL LEHRMAN,
21 the witness herein, having been previously duly sworn upon
22 his oath, was examined and testified as follows:

23 DIRECT EXAMINATION

24 BY MR. CARR:

25 Q. Mr. Lehrman, would you explain to Mr. Ezeanyim

1 what it is that Lance is seeking with this Application?

2 A. Lance is seeking to pool all uncommitted mineral
3 interests in the north half of Section 17, Township 29
4 North, Range 13 west, to form a 320-acre spacing and
5 proration unit for the Fruitland Coal formation, and the
6 northeast West Kutz-Pictured Cliffs Pool to be 160-acre
7 spacing for the FR- -- WFRPC 17 Number 1 well, which is
8 depicted on the plat, Exhibit Number 1.

9 Q. Both of these wells will be dedicated to the FRPC
10 17 Well Number 1?

11 A. That's correct.

12 Q. And that's the only well that we're talking about
13 in this case?

14 A. Yes.

15 Q. And Lance is also going to seek provisions for
16 subsequent operations for infill coalbed wells; is that
17 right?

18 A. That's correct.

19 Q. As are provided in the rules?

20 A. Yes.

21 Q. What rules govern this pool again with the Basin-
22 Fruitland Coal?

23 A. Basin-Fruitland Coal and West Kutz-Pictured
24 Cliffs.

25 Q. And this again is in the low-productivity area

1 where an infill well is authorized under existing rule?

2 A. That's correct.

3 Q. Let's go to Lance Exhibit Number 1. Would you
4 identify that and review it for Mr. Ezeanyim?

5 A. Exhibit Number 1 is a plat which depicts in
6 yellow the acreage currently under lease by Lance Oil and
7 Gas. The white depicts acreage seeking to be pooled and/or
8 actually leased by several other parties.

9 Q. And the proposed well is shown where?

10 A. The proposed WFRPC 17-1 well is shown in the
11 south -- I mean, it would be in the northeast quarter of
12 Section 17, as depicted by the gas symbol and the
13 representative WFRPC 17 Number 1.

14 Q. Would you identify Lance Exhibit Number 2,
15 please?

16 A. Yes, Exhibit Number 2 is the tabulation of
17 unleased mineral owners not committed to this drill block
18 in the north half of Section 17.

19 Q. And again, these are the owners of the acreage
20 that is shown in white on Exhibit Number 1?

21 A. Yes, that's correct.

22 Q. All other interests are voluntarily committed to
23 the well?

24 A. That's correct.

25 Q. All right, what percentage of the interest is

1 committed to this well in the Fruitland Coal?

2 A. In the Fruitland Coal we have 86 percent
3 committed.

4 Q. And then in the northeast quarter in the Pictured
5 Cliffs, what percent of the interest is voluntarily
6 committed?

7 A. Approximately 90 percent.

8 Q. Let's go to what has been marked Exhibit Number
9 3, and would you review for Mr. Ezeanyim Lance's efforts to
10 reach voluntary agreement with the interest owners in this
11 acreage?

12 A. Exhibit Number 3 is a letter sent out by Lance on
13 July 15th of this year to mineral owners which were
14 delineated by the title opinion by our attorney, offering
15 them certain provisions to lease to Lance.

16 Q. And then we have a second letter, August the
17 15th, 2005?

18 A. That's correct. The second letter, which was
19 sent out August 15th, again gives certain options, the
20 first being to enter into an oil and gas lease, a second
21 option to participate as a working interest owner, and then
22 the additional option of selling the mineral interests to
23 Lance, with the notation of the pooling statutes and, you
24 know, the options as set forth.

25 Q. And again, you contacted the individuals by

1 telephone and additionally communicated by mail?

2 A. Yes, we tried to contact as many people as we
3 could by phone or in person to explain, you know, what we
4 were doing and try to get them to commit to the drill
5 block.

6 Q. And by certified mail on September the 13th, all
7 of the interest owners who had not voluntarily committed
8 were provided notice of today's hearing?

9 A. That's correct.

10 Q. In your opinion, have you made a good faith
11 effort to identify and obtain the voluntary participation
12 of all interest owners in this proposed spacing unit?

13 A. Yes.

14 Q. Would you identify and review Lance Exhibit
15 Number 4, the AFE?

16 A. Exhibit Number 4 is Lance's internal
17 authorization for expenditure which sets forth the costs
18 for the proposed FRPC 17 Number 1 well. On page 2 about a
19 third of the way down it has the total of the intangible
20 and tangible drilling costs, dryhole cost being
21 approximately \$160,000, completion of \$438,000, with a
22 total of approximately \$599,000 for the total cost of this
23 well.

24 Q. And these lines are consistent with costs
25 actually incurred by Lance drilling similar wells; is that

1 correct?

2 A. That's correct.

3 Q. Will there be a joint operating agreement for
4 this well?

5 A. Yes.

6 Q. And it will also, like the preceding well,
7 contain the COPAS accounting provisions for joint
8 operations?

9 A. Yes.

10 Q. Does Lance request that the administrative and
11 overhead costs set by this order be adjusted in accordance
12 with the COPAS procedures?

13 A. Yes.

14 Q. And what are the overhead and administrative
15 costs?

16 A. Approximately \$3500 for a monthly drilling well
17 rate and \$350 for a monthly producing well rate.

18 Q. And these are again consistent with the 2004-2005
19 Ernst and Young survey for wells in this area?

20 A. Yes.

21 Q. Do you recommend that these figures be
22 incorporated into the order that results from today's
23 hearing?

24 A. Yes.

25 Q. Does Lance request that the 200-percent charge

1 for risk that's authorized by statute be assessed against
2 any interest owner who does not voluntarily participate in
3 the well?

4 A. Yes.

5 Q. Does Lance Oil and Gas Company, Inc., seek to be
6 designated operator of the well?

7 A. Yes.

8 Q. And is Exhibit Number 5 an affidavit confirming
9 that notice of this Application has been provided in
10 accordance with the Rules of the Oil Conservation Division?

11 A. Yes.

12 Q. Again, you are juggling a rig schedule and hope
13 to have the order expedited?

14 A. Yes. Again, we would ask for, you know, some
15 kind of an early order. Just to let you know, it's
16 probably obvious but distancewise these wells are probably,
17 you know, less than a mile apart. So it would be very
18 cost-effective to have orders at the same time where we
19 could just drill one well and move, you know, basically
20 three quarters of a mile, rig up and drill the next well,
21 and then hopefully go on to some other one. So that would
22 be very -- very effective.

23 Q. Mr. Lehrman, were Exhibits 1 through 5 prepared
24 by you or have you reviewed them and can you testify as to
25 their accuracy?

1 A. Yes.

2 MR. CARR: At this time, Mr. Ezeanyim, we'd move
3 the admission into evidence of Lance Exhibits 1 through 5.

4 EXAMINER EZEANYIM: Exhibits 1 through 5 will be
5 admitted into evidence.

6 MR. CARR: And that concludes my direct
7 examination of Mr. Lehrman in this case.

8 EXAMINER EZEANYIM: Thanks, Mr. Carr.

9 Do you have anything?

10 MS. MacQUESTEN: No questions, thank you.

11 EXAMINER EZEANYIM: Maybe a couple here, Mr.
12 Lehrman. I try to do it -- consolidate the hearing, but
13 that's okay. You've answered most of the questions I have.

14 EXAMINATION

15 BY EXAMINER EZEANYIM:

16 Q. You have the same overhead rate for the two
17 cases, right?

18 A. Yes.

19 Q. And the depth is --

20 A. They're very similar. My recollection on the one
21 in Section 16 was 1200 feet or so, and this one is pretty
22 similar. There's about a 75-foot dip in there, but we
23 always try to add a little bit extra just in case. But
24 they're very similar depthwise.

25 Q. And since these are standard locations, have you

1 tried to get an APD since you are hurrying to get this well
2 drilled? Have you got an APD?

3 A. Yes, the APD for this well has been --

4 Q. Do you have an API number?

5 A. No, but we can get that to you today.

6 Q. Okay, that's okay.

7 Now, you -- here you're asking for a few infill
8 wells, and can you tell me more why you want that, a few
9 infill wells?

10 A. We will ask for one infill well for this order,
11 which would be the well in the northwest quarter of Section
12 17, and it would probably be a Fruitland Coal only.

13 Q. That you might propose in the future, you know,
14 not right now. You anticipate that you might drill an
15 infill well there, right?

16 A. Yes. Yes, we've obtained some leasehold and are
17 working on a location, but don't have one delineated at
18 this time.

19 Q. Okay. And you also want other procedures for
20 infill -- I mean, subsequent operations?

21 A. Yes.

22 EXAMINER EZEANYIM: Okay, good.

23 I have nothing further. Do you --

24 MR. CARR: Mr. Examiner, the provisions for
25 subsequent operations, they're provisions set out in the

1 Basin-Fruitland Coal rules.

2 EXAMINER EZEANYIM: Yeah.

3 MR. CARR: And Rule 104 with that also authorizes
4 the -- you know, the drilling of the infill well.

5 And in an earlier case that was presented by Mr.
6 Kellahin, he did present what he had as just recommended
7 infill provisions, and I'd like to just mark those as Lance
8 Exhibit 6 and just offer them only -- just for your
9 consideration when you think about this. I mean, they are
10 -- appear to me to be extremely close to the pending new
11 compulsory pooling rules that haven't been adopted, but I
12 would like to just offer these. I've marked them as
13 Exhibit 6, and they're only just as a suggestion for your
14 consideration when you look at this case.

15 EXAMINER EZEANYIM: Yeah, we'll take
16 administrative notice of that. I remember that case, I
17 heard those cases that Mr. Kellahin -- Are you saying they
18 are something different from what Mr. Kellahin --

19 MR. CARR: No, these are the same, these are the
20 same. And I just thought it might be easy to leave a copy
21 with you so that -- I believe exactly --

22 EXAMINER EZEANYIM: Yeah.

23 MR. CARR: -- what was in the prior --

24 EXAMINER EZEANYIM: Okay, good. Okay, good.

25 Thanks, Mr. Carr.

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MR. CARR: And that concludes our presentation in this case.

EXAMINER EZEANYIM: At this point Case Number 13,574 will be taken under advisement.

You may be excused. Thanks.

MR. CARR: Thank you.

(Thereupon, these proceedings were concluded at 9:56 a.m.)

* * *

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 13574 heard by me on 12/13/88, 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 October 8th, 2005.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 16th, 2006