

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 WJP EXPLORATION, LLC,)
FOR COMPULSORY POOLING, EDDY COUNTY,)
NEW MEXICO)

CASE NO. 13,726

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

June 22nd, 2006

Santa Fe, New Mexico

2006 JUL 6 AM 8 06

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, June 22nd, 2006, 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

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I N D E X

June 22nd, 2006
 Examiner Hearing
 CASE NO. 13,726

	PAGE
APPEARANCES	3
APPLICANT'S WITNESS:	
<u>JAMES R. STONE</u> (Landman)	
Direct Examination by Mr. Bruce	5
REPORTER'S CERTIFICATE	12

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E X H I B I T S

Applicant's	Identified	Admitted
Exhibit 1	6	10
Exhibit 2	7	10
Exhibit 3	8	10
Exhibit 4	10	10

* * *

A P P E A R A N C E S

FOR THE DIVISION:

GAIL MacQUESTEN
Deputy General Counsel
Energy, Minerals and Natural Resources Department
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

FOR THE APPLICANT:

JAMES G. BRUCE
Attorney at Law
P.O. Box 1056
Santa Fe, New Mexico 87504

FOR PITCH ENERGY CORPORATION:

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 8:31 a.m.:

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6 EXAMINER CATANACH: call Case 13,726, which is
7 the Application of WJP Exploration, LLC, for compulsory
8 pooling, Eddy County, New Mexico.

9 Again, call for appearances in this case.

10 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe,
11 representing the Applicant, and I have one witness.

12 EXAMINER CATANACH: Any additional appearances?

13 MR. BRUCE: Mr. Examiner, Mr. Carr did enter
14 appearances, and maybe -- he might be out with his witness,
15 first case.

16 He entered appearances on behalf of Pitch Energy
17 and some Yates Petroleum entities.

18 MR. CARR: May it please the Examiner, my name is
19 William F. Carr with the Santa Fe office of Holland and
20 Hart, L.L.P.

21 We represent Pitch Energy Corporation in this
22 matter, I do not have a witness.

23 EXAMINER CATANACH: Okay, and let the record show
24 that Mr. Stone, the first witness, has been sworn in and
25 qualified in the previous case.

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JAMES R. STONE,

the witness herein, having been previously duly sworn upon his oath, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. BRUCE:

Q. Mr. Stone, what does WJP Exploration seek in this case?

A. We're seeking an order pooling the east half of Section 25, 18 South, 26 East, from 3750 feet to the base of the Morrow formation, for pools spaced on 320 acres.

MR. BRUCE: Mr. Examiner, the Application and the proposed advertisement included extra spacing units, but we are dismissing those. We're only seeking to pool the 320-acre units.

EXAMINER CATANACH: And the advertisement stated from the surface to the base of the Morrow --

MR. BRUCE: That is correct.

EXAMINER CATANACH: -- you're contracting the vertical limit?

MR. BRUCE: That is correct.

EXAMINER CATANACH: Okay, so you're dismissing the 160 and the 40?

MR. BRUCE: Yes, sir.

EXAMINER CATANACH: And again, can you tell me the vertical interval? From a depth of what?

1 THE WITNESS: 3750 feet to the base of the
2 Morrow.

3 EXAMINER CATANACH: Thank you.

4 Q. (By Mr. Bruce) And what is the name of the
5 proposed well and its location, Mr. Stone?

6 A. This is the Orleans 25 well Number 1, and
7 location would be 660 feet from the north line and 1650
8 feet from the east line.

9 Q. Again, referring to Exhibit 1, could you just
10 briefly go over the working interest ownership in this well
11 unit?

12 A. Exhibit 1 has a working interest in the east half
13 of 25, and it's comprised of several tracts.

14 Q. And rather than listing them by name, which
15 parties on Exhibit 1 does WJP seek to pool at this time?

16 A. That would be the parties highlighted in yellow.

17 Q. And Mr. Carr entered an appearance on behalf of
18 Pitch Energy. Has Pitch Energy reached an agreement with
19 WJP regarding the drilling of this well?

20 A. Yes.

21 Q. And so you do not seek to force pool them?

22 A. That's correct.

23 Q. And there are several Yates entities, five Yates
24 entities, listed. WJP has come to terms with those parties
25 also?

1 A. That's correct.

2 Q. And then the ones listed at the top, from
3 Capstone through WJP, those are your own internal working
4 interest partners, are they not?

5 A. Yes.

6 Q. Let's discuss the efforts to obtain the voluntary
7 joinder of these parties. What is Exhibit 2?

8 A. Copies of correspondence with these working
9 interest owners.

10 Q. And this contains copies not only with the people
11 you're seeking to pool but also with Pitch Energy and the
12 Yates entities, does it not?

13 A. Yes.

14 Q. So you started -- or Capstone started this
15 process. Again, Capstone was in charge of the land work on
16 behalf of WJP for this prospect, was it not?

17 A. That's right.

18 Q. And it started in February of 2006?

19 A. Correct.

20 Q. And follow-up letters have been sent through May
21 of 2006?

22 A. That's right.

23 Q. Have you had -- Have you called any of these
24 parties or e-mailed them, besides this correspondence?

25 A. Yes, both myself and Mr. Dale Douglas have had

1 several contacts, telephone and e-mail.

2 Q. Okay. Of the parties on Exhibit 1 who are
3 highlighted in yellow, have any of those indicated they may
4 join in the well?

5 A. Yes, they have, Pitch Energy has indicated that
6 they --

7 Q. But I mean of the ones you're seeking to pool.

8 A. Oh, I'm sorry.

9 Q. Devon?

10 A. Devon is considering, they have a JOA that
11 they're looking at, and we have the same arrangement with
12 them that we'll dismiss them if we come to terms on the
13 JOA.

14 Q. Okay, okay. But the others are just -- just
15 haven't gotten around to telling you one way or the other
16 what they're going to do?

17 A. That's correct.

18 Q. If any of them join, will you notify the
19 Division?

20 A. Yes, we will.

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

24 A. Yes.

25 Q. Would you identify Exhibit 3 and discuss the cost

1 of this well?

2 A. Yes, this is the AFE for the well, and the
3 proposed TD is 9700 feet. Estimated dryhole cost is
4 \$1,416,000, and the completed cost at \$2,207,000.

5 Q. And is this cost in line with the cost of other
6 wells drilled in this area of New Mexico to this depth?

7 A. Yes.

8 Q. Who do you request be appointed operator of this
9 well?

10 A. Preston Exploration, LLC.

11 Q. And what are your recommendations for the amounts
12 which the operator should be paid for supervision and
13 administrative expenses?

14 A. \$5050 per month during the drilling of the well,
15 and \$505 per month for a producing well.

16 Q. And again, are these amounts equivalent or lower
17 to those normally charged by operators in this area?

18 A. Yes.

19 Q. Do you request that these rates be adjusted
20 periodically as provided by the COPAS accounting procedure?

21 A. Yes.

22 Q. And does WJP request a 200-percent risk charge be
23 assessed against any nonconsenting interest owners?

24 A. Yes.

25 Q. And finally, were the uncommitted interest owners

1 notified of this hearing?

2 A. Yes.

3 Q. And is that reflected in Exhibit 4, the affidavit
4 of notice?

5 A. Yes.

6 Q. And all of these interest owners were locatable
7 and did receive notice of this hearing, did they not, by
8 certified mail?

9 A. Yes, they did.

10 Q. Were Exhibits 1 through 4 prepared by you or
11 under your supervision, or compiled from company business
12 records?

13 A. Yes.

14 Q. And in your opinion is the granting of this
15 Application in the interests of conservation and the
16 prevention of waste?

17 A. Yes.

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

20 EXAMINER CATANACH: Exhibits 1 through 4 will be
21 admitted.

22 I have no questions of the witness. You may be
23 excused.

24 THE WITNESS: Thank you.

25 EXAMINER CATANACH: Anything further, Mr. Bruce?

1 MR. BRUCE: No, sir.

2 EXAMINER CATANACH: There being nothing further,
3 Case 13,726 will be taken under advisement.

4 (Thereupon, these proceedings were concluded at
5 8:39 a.m.)

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13 I do hereby certify that the foregoing is
14 a complete record of the proceedings in
15 the Examiner hearing of Case No. 13726,
16 heard by me on June 22, 2006.
17 David R. Catanach, Examiner
18 Oil Conservation Division
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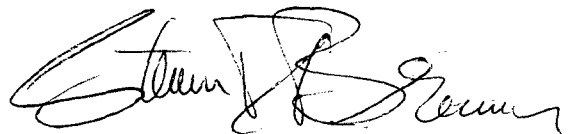
CERTIFICATE OF REPORTER

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 June 22nd, 2006.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2006

ORLEANS INITIAL WELL PRORATION UNIT OWNERS (updated 1-25-06)
E/2 SEC. 25, T18S, R26E, NMPM, EDDY COUNTY, NEW MEXICO

OWNER	ACR. DESCR.	NET ACRES BPO	WI % IN WELL BEFORE TANKS	WI % IN WELL AFTER TANKS BUT BEFORE PAYOUT	WI % IN WELL APO
CAPSTONE	SE/4 (23.32)	5.830000	1.821875%	2.004063%	2.1862500%
CORKRAN	SE/4 (23.32)	2.087210	0.652253%	0.717478%	0.7827037%
DOUGLAS O&G	SE/4 (23.32)	0.727840	0.227450%	0.250195%	0.2729400%
JKTS CORP.	SE/4 (23.32)	1.507475	0.471086%	0.518195%	0.5653030%
SPARCO PRODUCING	SE/4 (23.32)	1.507475	0.471086%	0.518195%	0.5653030%
PRESTON /WJP	SE/4 (23.32)	11.660000	3.643750%	3.279375%	2.9150000%
DEVON	NE/4	66.666667	20.833333%	20.833333%	20.8333330%
RIO PECOS	E/2	20.167333	6.302292%	6.302292%	6.302292%
PATHFINDER EXPL.	E/2	20.167333	6.302292%	6.302292%	6.302292%
CANNON EXPL.	E/2	20.167333	6.302292%	6.302292%	6.302292%
ELLIOTT FAM. LTD. PTNSHP.	E/2	20.167333	6.302292%	6.302292%	6.302292%
TARA-JON	E/2	20.167333	6.302292%	6.302292%	6.302292%
TEX-ZIA PROPERTIES	NE/4	13.333333	4.166667%	4.166667%	4.166667%
PITCH ENERGY	NE/4	13.333333	4.166667%	4.166667%	4.166667%
MARK D. WILSON	SE/4 (136.68)	34.170000	10.678125%	10.678125%	10.678125%
CONOCOPHILLIPS	SE/4 (136.68)	27.336000	8.542500%	8.542500%	8.542500%
BASIC ENERGY 1983-A	SE/4 (136.68)	21.672726	6.772727%	6.772727%	6.772727%
JOHN A. YATES, INDIV.	SE/4 (136.68)	2.633185	0.822870%	0.822870%	0.822870%
JOHN A. YATES, TRUST Q	SE/4 (136.68)	2.633185	0.822870%	0.822870%	0.822870%
SHARBRO	SE/4 (136.68)	5.266368	1.645740%	1.645740%	1.645740%
SACRAMENTO PARTNERS	SE/4 (136.68)	5.266368	1.645740%	1.645740%	1.645740%
YATES PETROLEUM CORP.	SE/4 (136.68)	1.984122	0.620038%	0.620038%	0.620038%
ROY L. CROW	SE/4 (136.68)	0.774024	0.241883%	0.241883%	0.241883%
JAMES D. BROWN	SE/4 (136.68)	0.774024	0.241883%	0.241883%	0.241883%
TOTALS:		320.000000	100.000000%	100.000000%	100.000000%

OIL CONSERVATION DIVISION
CASE NUMBER
EXHIBIT NUMBER 1