

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 OGX RESOURCES, LLC, )  
FOR COMPULSORY POOLING, EDDY COUNTY, )  
NEW MEXICO )

CASE NO. 13,746

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: RICHARD EZEANYIM, Hearing Examiner

July 20th, 2006

Santa Fe, New Mexico

2006 JUL 25 AM 11 23

This matter came on for hearing before the New Mexico Oil Conservation Division, RICHARD EZEANYIM, Hearing Examiner, on Thursday, July 20th, 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.

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## I N D E X

July 20th, 2006  
Examiner Hearing  
CASE NO. 13,746

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APPLICANT'S WITNESS:	
<u>MIKE GADDY</u> (Landman)	
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Additional submission by OGX, not offered or admitted:

Identified

Letter dated 7-3-06 from Jo Ann McNeill to OCD	4
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\* \* \*

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

FOR THE DIVISION:

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FOR THE APPLICANT:

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By: W. THOMAS KELLAHIN

\* \* \*

1           WHEREUPON, the following proceedings were had at  
2 8:30 a.m.:

3           EXAMINER EZEANYIM: Okay, proceeding now at this  
4 point, I call Case Number 13,746, and this is the  
5 Application of OGX Resources, LLC, for compulsory pooling,  
6 Eddy County, New Mexico.

7           Call for appearances.

8           MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin of  
9 the Santa Fe law firm of Kellahin and Kellahin. I'm  
10 appearing this morning on behalf of the Applicant, and I  
11 have one witness to be sworn.

12           EXAMINER EZEANYIM: Are there any other  
13 appearances?

14           At this point I would like to introduce into the  
15 record -- I don't know when I got it -- we got a letter  
16 from, I want this to reflect in this record, we got a  
17 letter from one M.S. Joann McNeill -- she wrote the  
18 Division and made a copy to you -- objecting to the 200-  
19 percent penalty. She says she doesn't like the 200-percent  
20 penalty. Then I asked her to show up to show evidence, but  
21 she says she can't, and therefore I'm reading this letter  
22 into evidence that she's objected to 200 percent --

23           MR. KELLAHIN: The lady is now leased to us.

24           EXAMINER EZEANYIM: Yes.

25           MR. KELLAHIN: She's leased.

1 EXAMINER EZEANYIM: Did you get that letter?

2 MR. KELLAHIN: Yes, we have the letter, and Mr.  
3 Gaddy is here to testify that he's obtained the lease from  
4 the lady.

5 EXAMINER EZEANYIM: Oh, okay. Okay, that's good.  
6 But I needed to introduce this into the record.

7 Okay, now you may proceed, if there's no other  
8 objections.

9 July 3, 2006, the letter...

10 (Thereupon, the witness was sworn.)

11 EXAMINER EZEANYIM: You may proceed.

12 MR. KELLAHIN: Thank you, sir.

13 MIKE GADDY,

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

16 DIRECT EXAMINATION

17 BY MR. KELLAHIN:

18 Q. Mr. Gaddy, for the record, would you please state  
19 your name and occupation?

20 A. Mike Gaddy, and I'm a consulting landman.

21 Q. In what community do you reside?

22 A. Midland, Texas.

23 Q. On prior occasions have you testified before the  
24 Division as a petroleum landman?

25 A. I have not.

1 Q. Summarize for us your education that's applicable  
2 to your profession.

3 A. I have a bachelor's degree from Texas Tech  
4 University and 10-plus years of experience in oil and gas  
5 exploration and land management.

6 Q. As a consulting landman, have you been retained  
7 by OGX Resources to provide the land assistance for this  
8 compulsory pooling case?

9 A. Yes.

10 Q. And have you done that?

11 A. Yes.

12 Q. And are you familiar with the exhibits that we're  
13 about to introduce into the hearing today?

14 A. I am.

15 Q. And have you been responsible for negotiating  
16 with the parties listed on the pooling application?

17 A. Yes, I have.

18 MR. KELLAHIN: We tender Mr. Gaddy as an expert  
19 petroleum landman.

20 THE WITNESS: I'm sorry?

21 MR. KELLAHIN: I'm referring to the Examiner.

22 THE WITNESS: Oh, okay.

23 MR. KELLAHIN: We tender Mr. Gaddy as an expert.

24 EXAMINER EZEANYIM: Mr. Gaddy is so qualified.

25 Q. (By Mr. Kellahin) Let's start, Mr. Gaddy, with

1 what is marked as Exhibit Number 1. I think you have a  
2 copy before you.

3 A. Yes.

4 Q. Did you provide this display?

5 A. I did.

6 Q. What is it?

7 A. It's a Midland map showing the acreage which  
8 we're discussing today, the west half of Section 11,  
9 Township 24, Range 28.

10 Q. And that acreage is outlined, I think, in a red  
11 outline?

12 A. Yes.

13 Q. Is there a symbol on this display that shows you  
14 the location of the gas well?

15 A. Yes.

16 Q. And where is that?

17 A. It would be in the northwest quarter of the  
18 southwest quarter.

19 Q. Is that an existing gas well?

20 A. It is.

21 Q. Is the operation of that well now under the  
22 control of your client, OGX Resources?

23 A. Yes, it is.

24 Q. What is OGX Resources seeking to do with this  
25 wellbore?

1           A.    OGX is going to recomplete this well in the  
2   Morrow formation.

3           Q.    Set aside Exhibit Number 1 for a moment, Mr.  
4   Gaddy, and let's look at the tabulation of pages that is  
5   marked as Exhibit Number 2.  Do you have that before you?

6           A.    Yes, I do.

7           Q.    Are these pages a portion of the OCD well file  
8   for this well that's obtainable on the Internet?

9           A.    Yes, it is.

10          Q.    Let's go through some of the pages and have you  
11   generally summarize for us the history of the wellbore.  
12   Approximately when was this well drilled and by whom?

13          A.    It was originally drilled in -- Excuse me, let me  
14   refer to my notes here.  This well was originally drilled  
15   by Burmah, who merged into Aminoil in 1975 and -- after  
16   which Aminoil sold this well to Kaiser-Francis.  It was  
17   recompleted as a -- plugged back and recompleted as an  
18   Atoka well after that point.

19          Q.    Approximately when did OGX Resources obtain the  
20   wellbore from Kaiser-Francis?

21          A.    Four months ago.

22          Q.    As part of that process to re-enter this wellbore  
23   and recomplete additional perforations in the Morrow, have  
24   you attempted to consolidate any leases that may have  
25   expired?

1 A. Yes, I have.

2 Q. What did you determine when you looked at the  
3 title?

4 A. Thirty uncommitted mineral owners exist --  
5 existed at that point in time. Since that time we have  
6 acquired oil and gas leases or participation, AFE,  
7 signatures from approximately 80 percent of that 30 acres.  
8 Three mineral owners exist at this point -- actually four  
9 mineral owners exist at this point that are uncommitted,  
10 two of which we're in contact with, negotiating. We have  
11 an offer out to both these parties. The other two we  
12 cannot find.

13 Q. Let me direct your attention now, Mr. Gaddy, to  
14 Exhibit Number 3A. Can you identify this Division form?

15 A. Yes, change-of-operator form.

16 Q. Has OGX Resources filed this form with the  
17 Division and had it electronically approved so that OGX  
18 Resources is the designated Division operator for the well?

19 A. Yes, we have.

20 Q. Let's turn past that display and look at Exhibit  
21 3B. Do you have that before you?

22 A. Yes, I do.

23 Q. And what is this, sir?

24 A. It's a wellbore schematic.

25 Q. Who prepared the wellbore schematic?

1 A. Brian Ramey, an engineer with OGX.

2 Q. From your understanding as a landman, what does  
3 Mr. Ramey propose to do with this wellbore?

4 A. We are going to perforate an interval from 12,396  
5 feet to 12,572 feet.

6 Q. Has Mr. Ramey prepared for your presentation this  
7 morning an AFE that's associated with the cost necessary to  
8 re-enter and re-perforate this well and complete it for  
9 production?

10 A. Yes, he has.

11 Q. We'll come to that in a moment, sir. If you'll  
12 now turn to Exhibit 4, which is a tabulation of names, do  
13 you see that?

14 A. Yes.

15 Q. How was this prepared?

16 A. It was prepared by me, based on the Kaiser-  
17 Francis pay deck, along with Independent Title Research.

18 Q. When the pooling application was filed before the  
19 Division on June 16th, was this an Exhibit A attached to  
20 that application?

21 A. Yes, it was.

22 Q. And to the best of your knowledge, is this  
23 information current and correct as of that date?

24 A. Yes, it is.

25 Q. Did you use Internet sources and other research

1 tools to try to locate the current address of all the  
2 interest owners?

3 A. Yes, I did.

4 Q. Can you take Exhibit Number 4 for us at this  
5 point, and let's use it as our checklist, and have you show  
6 the Examiner which parties you have been successful, since  
7 you filed the pooling Application, in obtaining voluntary  
8 agreements with, and let's simply go down the list and  
9 let's put a check by those parties that you feel confident  
10 that you have voluntary agreements with at this point.

11 A. Okay. Hayes Land and Production, Anastacia  
12 Blanco, Boys Club of America, Tammy and Thomas Kearns, T.L.  
13 Fees, James Klipstine, Klipstine and Hanratty, Thomas and  
14 Bonnie Gregory, Clarence and Mary Ervin, Louis Ratliff,  
15 Nevill Manning, Nolan Greak, Virginia Lee Davis, Bertha  
16 Lorene Osborn -- I'm sorry, Dewie B. Leach, Bertha Lorene  
17 Osborn, James Samuel Osborn, John W. Osborn, Pamela Rae  
18 Cummings and Patricia Gae Stamps, and Nadel and Gussman.

19 Q. Let's turn to Exhibit Number 5, Mr. Gaddy. Have  
20 parties in employment, OGX Resources, caused well-proposal  
21 letters, including a current AFE, to be circulated to all  
22 the parties on your original list?

23 A. That's correct.

24 Q. And what does this represent when we look at  
25 Exhibit 5?

1           A.    It's the letters that were sent to the  
2 uncommitted mineral interest owners.

3           Q.    This letter is addressed to the Boys Club of  
4 America?

5           A.    Correct.

6           Q.    Is this the same letter that was sent to  
7 everybody else?

8           A.    That is correct.

9           Q.    Associated with the letter was there an AFE  
10 provided?

11          A.    Yes, sir.

12          Q.    Let's turn now, then, to the AFE we mentioned  
13 earlier. What is Exhibit Number 6?

14          A.    It's the AFE.

15          Q.    And who prepared the AFE?

16          A.    Brian Ramey.

17          Q.    To the best of your knowledge, is this AFE  
18 current and accurate?

19          A.    Yes, it is.

20          Q.    What are the total costs associated to re-enter  
21 and perforate and complete for production the subject  
22 wellbore?

23          A.    \$738,000.

24          Q.    Is it your intent to obtain a compulsory pooling  
25 order against those parties for which you do not have

1 voluntary agreement and invoice them their percentage share  
2 of these total completed well costs?

3 A. That's correct, yes, sir.

4 Q. Subsequent to the letter that Mr. Coats sent in  
5 May, were you responsible for following up the contacts  
6 with other people -- with all the people on this list?

7 A. I was responsible for that, yes.

8 Q. And you did that?

9 A. I did.

10 Q. And as a result of that effort, then, you have  
11 obtained leases from the parties that you mentioned a while  
12 ago?

13 A. Yes, sir.

14 Q. When we turn to Exhibit 7, does this represent an  
15 affidavit that includes the return receipt cards and proof  
16 of notification of the parties that you intend to force  
17 pool?

18 A. Yes, it does.

19 Q. If you turn now to Exhibit Number 8, does this  
20 represent a newspaper publication in a newspaper in Eddy  
21 County associated with the hearing in this case?

22 A. Yes, it does.

23 MR. KELLAHIN: Mr. Examiner, for your records I  
24 have the original of that publication that I wish to submit  
25 to you.

1 EXAMINER EZEANYIM: Thank you, Mr. Kellahin.

2 Q. (By Mr. Kellahin) Mr. Gaddy, do you have a  
3 recommendation to the Examiner for some overhead rates to  
4 be assessed within the conditions of the pooling order?

5 A. I do.

6 Q. And what are those rates?

7 A. \$6000 and \$600.

8 Q. How did you obtain your belief that those are  
9 appropriate rates to charge?

10 A. We believe they're appropriate because we've  
11 drilled several wells in Township 24, Range 28, with  
12 Occidental Petroleum and Marbob, and along with that we've  
13 entered into wells as non-operated interests with Marbob  
14 and OXY, and that rate has been \$6000 and \$600.

15 Q. When you compare that proposed rate to the  
16 tabulation of wellbore charges compiled by Ernst and Young,  
17 where does that rate fall?

18 A. For that depth, it is below the market rate, for  
19 12,000 -- below 12,000 feet.

20 MR. KELLAHIN: Mr. Examiner, that concludes our  
21 presentation and Mr. Gaddy's testimony.

22 We move the introduction of his Exhibits 1  
23 through 8.

24 EXAMINER EZEANYIM: If there is no objection,  
25 Exhibits 1 through 8 will be admitted into evidence.

1 Do you have anything?

2 MS. O'CONNOR: (Shakes head)

3 EXAMINATION

4 BY EXAMINER EZEANYIM:

5 Q. Let's go back to those -- Let's go back to the  
6 list you have.

7 A. Okay.

8 Q. The list about -- I mean those that -- those that  
9 -- the ones we checked off agreed to participate in the  
10 well, right?

11 A. Either participate or we have executed leases.

12 Q. Or executed -- Okay. There are two there, Mary  
13 Joe and John E. III Account. What effort have you made to  
14 contact them? Are they unlocatable?

15 A. Johnny Hall and Mary Joe Dickerson are currently  
16 unlocatable, and through every means that I know of to try  
17 to find these people I have not been able to find them.

18 Q. How did you get their names?

19 A. How did I get their names?

20 Q. Yeah.

21 A. From the Kaiser-Francis revenue deck, and they  
22 were suspended under their revenue deck, their payment  
23 schedule.

24 Q. But you couldn't find the addresses, any --

25 A. Well, we had -- the John E. Hall account is

1 listed as an unclaimed account in the State of Texas, and  
2 has been for 20 years.

3 Mary Joe Dickerson goes by several different  
4 names. She was -- She is the ex-wife of Joe Beamon, and I  
5 have tried -- our last address for her was Tulsa, Oklahoma,  
6 and we had no luck there. We -- You know, we utilize  
7 ancestry.com, switchboard.com, the pay services that are  
8 utilized in order to try to find people with social  
9 security numbers, and we had no luck.

10 Q. Okay. Your primary target is the Atoka, right?  
11 You plugged back to the Atoka?

12 A. We're going to recomplete in the Morrow  
13 formation.

14 Q. I thought you plugged back to the Atoka.

15 A. Well, Kaiser-Francis plugged back to the Atoka  
16 and produced this well in the Atoka, which is above the  
17 Morrow, and so we're going to re-enter and recomplete in  
18 the Morrow formation. I should say complete in the Morrow  
19 formation, it wasn't completed in the Morrow formation.

20 Q. Okay, and all shown in this AFE?

21 A. Yes, sir.

22 Q. And what is the depth of that Morrow? 12,000?

23 A. 12,500, approximately. The zone that we're going  
24 to complete from is -- Let me find the well schematic.  
25 From 12,396 feet to 12,572 feet.

1 Q. Okay. I was looking at the Application and then  
2 the docket and everything. Is this -- you mentioned -- you  
3 said Township 17, Range 28 East, and some other place it  
4 says 28 West. I know it's a typo, but -- Is that a typo?  
5 If you look at the docket? So which one is it?

6 A. Well, it's 24 South, 28 East.

7 Q. 28 East, okay. In the Application I think it was  
8 a typo, it says here 28 West --

9 A. Okay.

10 Q. -- looking through the Application. Thank you.  
11 So it's 28 East?

12 A. Correct.

13 MR. KELLAHIN: Mr. Examiner, my copy of the  
14 Application shows 28 East.

15 EXAMINER EZEANYIM: My copy says it is west. It  
16 says, west half of Section 11, Township 24 South, Range 28  
17 West, Eddy County. Well, I think it's a typo, but I wanted  
18 to --

19 MR. KELLAHIN: I think so.

20 EXAMINER EZEANYIM: Yeah.

21 MR. KELLAHIN: I don't know why yours is  
22 different. The notice of hearing to all the parties that  
23 was sent shows east.

24 EXAMINER EZEANYIM: East.

25 MR. KELLAHIN: And my stamped copy of the

1 Application shows east, so --

2 EXAMINER EZEANYIM: Yeah, I just wanted to make  
3 sure.

4 MR. KELLAHIN: I don't know where it came from.

5 EXAMINER EZEANYIM: Okay. Anything further?

6 MR. KELLAHIN: No, sir.

7 EXAMINER EZEANYIM: At this point Case Number  
8 13,746 will be taken under advisement.

9 MR. KELLAHIN: Thank you.

10 EXAMINER EZEANYIM: Thank you, Mr. Kellahin.

11 (Thereupon, these proceedings were concluded at  
12 8:48 a.m.)

13 \* \* \*

14  
15  
16  
17 I do hereby certify that the foregoing is  
18 a complete record of the proceedings in  
19 the Examiner hearing of Case No. 13746  
20 heard by me on 7/12/86  
21 *[Signature]* Examiner  
22 Oil Conservation Division  
23  
24  
25

## 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 July 21st, 2006.



STEVEN T. BRENNER  
 CCR No. 7

My commission expires: October 16th, 2006