

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. 13,078

APPLICATION OF CHI ENERGY, INC., FOR)
 COMPULSORY POOLING, EDDY COUNTY,)
 NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID K. BROOKS, JR., Hearing Examiner

May 22nd, 2003

Santa Fe, New Mexico

RECEIVED
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 Oil Conservation Division

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID K. BROOKS, JR., Hearing Examiner, on Thursday, May 22nd, 2003, 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

May 22nd, 2003
Examiner Hearing
CASE NO. 13,078

PAGE

APPEARANCES

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APPLICANT'S WITNESS:

JOHN W. QUALLS (Landman)

Direct Examination by Mr. Bruce

4

REPORTER'S CERTIFICATE

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* * *

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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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

* * *

ALSO PRESENT:

DAVID R. CATANACH
Hearing Examiner
New Mexico Oil Conservation Division
1220 South Saint Francis Drive
Santa Fe, NM 87505

* * *

1 WHEREUPON, the following proceedings were had at
2 10:46 a.m.:

3 EXAMINER BROOKS: At this time we will call Case
4 Number 13,078, the Application of Chi Energy, Inc., for
5 compulsory pooling, Eddy County, New Mexico.

6 Call for appearances.

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

10 EXAMINER BROOKS: No other appearances? The
11 witness may be sworn.

12 (Thereupon, the witness was sworn.)

13 JOHN W. QUALLS,
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. BRUCE:

18 Q. Will you please state your name and city of
19 residence for the record?

20 A. John W. Qualls, Midland, Texas.

21 Q. Who do you work for and in what capacity?

22 A. Chi Energy, Inc., landman.

23 Q. Have you previously testified before the
24 Division?

25 A. Yes.

1 Q. And were your credentials as an expert accepted
2 as a matter of record?

3 A. Yes.

4 Q. And are you familiar with the land matters
5 involved in this case?

6 A. Yes.

7 Q. What does Chi seek in this case?

8 A. We seek to communitize the north half of Section
9 32, 18 South, 31 East, and we just need to get the record
10 title owners to sign the agreement.

11 Q. Okay. And although I think in the Application we
12 did seek to pool various well units, at this point what
13 you're interested in is the north half -- the 320-acre
14 spacing; is that correct?

15 A. Yes.

16 MR. BRUCE: So Mr. Examiner, the Application
17 would be amended to delete any need to pool the northeast
18 northeast or the northeast quarter of Section 32.

19 EXAMINER BROOKS: Thank you.

20 Q. (By Mr. Bruce) What is Exhibit 1, Mr. Qualls?

21 A. Exhibit 1 is a land plat outlining the well unit.
22 The well is located in the northeast quarter of the
23 northeast quarter of Section 32. The well unit is
24 comprised of three different state leases, E-6947 which
25 covers the northwest quarter, B-2023 which covers the

1 northwest quarter of the northeast quarter, and E-10001,
2 which covers the northeast quarter of the northeast quarter
3 and the south half of the northeast quarter.

4 Q. And again, you're only seeking to pool a record
5 title owner; is that right?

6 A. Yes.

7 Q. And that company owns no operating rights?

8 A. No.

9 Q. Is the pooling required so that the State Land
10 Office will approve the communitization agreement?

11 A. Yes.

12 Q. Okay. What is Exhibit 2?

13 A. Exhibit 2 is a copy of the communitization
14 agreement.

15 Q. And in that communitization agreement you've
16 obtained the signatures of everyone except one party; is
17 that correct?

18 A. Yes.

19 Q. And Mr. Examiner, the second page from the end of
20 Exhibit 2 highlights the one company.

21 And Mr. Qualls, that is Fina Oil and Chemical
22 Company, is it not?

23 A. Yes.

24 Q. Fina as such no longer exists, correct?

25 A. Right.

1 Q. But that does not appear in the county records or
2 even in the State Land Office records?

3 A. No, sir.

4 Q. Who is Fina now?

5 A. Fina is now TotalFinaELF E&P USA, Inc.

6 Q. And did you write to them and request that they
7 sign the com agreement?

8 A. Yes, sir.

9 Q. And is that marked Exhibit 3?

10 A. Yes.

11 Q. Have they responded to you?

12 A. No.

13 Q. So that is the only party you seek to pool?

14 A. Yes.

15 Q. And they own 50 percent of record title in Lease
16 E-6947?

17 A. Yes.

18 Q. Okay. Since this a record title interest, Chi
19 does not seek any penalty or well costs against Fina; is
20 that correct?

21 A. No.

22 Q. Does Chi Energy request that under the pooling
23 order Chi Operating, Inc., be designated operator of the
24 well?

25 A. Yes.

1 Q. Do you believe Chi Energy has made a good-faith
2 effort to obtain the voluntary joinder of Fina in this
3 communitization agreement?

4 A. Yes.

5 Q. And was notice of this hearing given to Fina or
6 its successor?

7 A. Yes.

8 Q. And is Exhibit 4 my affidavit of notice?

9 A. Yes.

10 Q. Attached to Exhibit 4, Mr. Qualls, is also a
11 letter sent to Magnum Hunter Production, Incorporated. You
12 have come to terms with Magnum Hunter, have you not?

13 A. Yes.

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

15 A. Right.

16 Q. Were Exhibits 1 through 4 prepared by you or
17 under your supervision or compiled from company business
18 records?

19 A. Yes.

20 Q. And is the granting of Chi Energy's Application
21 in the interests of conservation and the prevention of
22 waste?

23 A. Yes.

24 Q. Just one final question, this is the north half
25 of Section 32. Did you also have to pool Fina in the south

1 half of Section 32?

2 A. Yes.

3 Q. That was done what, four or five months ago, I
4 believe?

5 A. Back in December.

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

8 EXAMINER BROOKS: One through 4 are admitted.

9 MR. BRUCE: And I pass the witness.

10 EXAMINER BROOKS: I have no questions. Case
11 Number 13,078 is taken under advisement.

12 (Thereupon, these proceedings were concluded at
13 10:50 a.m.)

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18 I do hereby certify that the foregoing is
19 a complete record of the proceedings in
the Examiner hearing of Case No. 13078,
20 heard by me on May 22, 2003
David K. Brooks Examiner
21 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 May 25th, 2003.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2006