

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. 13,784

APPLICATION OF SAN JUAN RESOURCES, INC.,)
FOR COMPULSORY POOLING, SAN JUAN COUNTY,)
NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

September 28th, 2006

Santa Fe, New Mexico

2006 OCT 12 AM 10 15

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, September 28th, 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

September 28th, 2006
Examiner Hearing
CASE NO. 13,784

PAGE

REPORTER'S CERTIFICATE

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E X H I B I T S

Applicant's	Identified	Admitted
Exhibit 1	3	6
Exhibit 2	5	6

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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:

KELLAHIN & KELLAHIN
117 N. Guadalupe
P.O. Box 2265
Santa Fe, New Mexico 87504-2265
By: W. THOMAS KELLAHIN

* * *

1 WHEREUPON, the following proceedings were had at
2 8:16 a.m.:

3 EXAMINER CATANACH: And at this time I'll call
4 first case, 13,784, which is the Application of San Juan
5 Resources, Inc., for compulsory pooling, San Juan County,
6 New Mexico. I will call for appearances at this time.

7 MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin of
8 the Santa Fe law firm of Kellahin and Kellahin, appearing
9 this morning on behalf of the Applicant.

10 EXAMINER CATANACH: Are there any additional
11 appearances in this case?

12 Okay, Mr. Kellahin, you may proceed.

13 MR. KELLAHIN: Mr. Catanach, with your permission
14 we would like to proceed pursuant to the Division Rules and
15 submit this case for your consideration by affidavit, and I
16 have that available.

17 With your permission, Mr. Catanach.

18 EXAMINER CATANACH: Please.

19 MR. KELLAHIN: This affidavit is marked as
20 Exhibit Number 1 in this case. It has been prepared and
21 executed by Jerry McHugh. Mr. McHugh is the owner and the
22 principal involved in San Juan Resources. His company is
23 the operator of the proposed well. His company also has
24 the working interest.

25 We're seeking to pool three companies that have

1 chosen not to execute a joint operating agreement and to
2 participate voluntarily, and if you turn past the first
3 pages of the affidavit, there are four pages of the
4 affidavit, and you come to what I have marked as Exhibit A
5 to the affidavit. It lists their three companies as
6 Samson, Chateau and Chevron. Those are the three entities
7 having a total combined working interest of slightly over
8 18 percent, and those are the companies for which we're
9 seeking to accomplish pooling.

10 Mr. McHugh intends, if you'll look at Exhibit B-1
11 on the next page, he intends to drill a downhole commingled
12 Dakota-Mesaverde well. His dedication will be the south
13 half of Section 34. The section size is such that this is
14 a nonstandard proration unit. It's slightly over the
15 limits for size for standard, and the docket reflects
16 correctly that the size is 325.21 acres. Mr. McHugh will
17 process that administratively with the district.

18 The next page attached to B-2 is a breakdown of
19 the entire working interest ownership for the spacing unit,
20 and you see among those entities all except the three
21 companies I've mentioned have executed a joint operating
22 agreement with Mr. McHugh for the drilling of the well.
23 It's intended to be downhole commingled. Mr. McHugh is
24 aware of the commingling rules and will file that
25 administratively.

1 After that is a series of exhibits all marked
2 with the letter C, and then there is a page number that
3 identify those. They start with C-1 and go through C-18.
4 That entire package of documentation reflects the
5 correspondence, contacts and communications with Chateau,
6 Chevron and Samson. The end result of all that effort is,
7 all three companies have declined to participate.

8 When you get past the documentation on the
9 negotiations, you'll find and Exhibit D which is the
10 current AFE for this well. The completed well costs for
11 the wellbore are slightly more than a million dollars.
12 This is the proposal that was made to all the parties.

13 The correspondence will reflect when you examine
14 it that the well proposal letters were sent at various
15 times. Mr. McHugh sent one out in May, on May 25th of this
16 year, he sent another one on June 28th, and finally again
17 on July 31st, so he's made three consecutive proposals to
18 all these people involving the wells, and each time he's
19 able to capture some more voluntary participation, the end
20 result being that we have three companies that are not
21 interested in participating.

22 Exhibit Number 2 is my affidavit of notification.
23 It shows that we have delivered to and they have signed
24 green cards indicating that those three companies have
25 received notice of this hearing. In addition, we've

1 provided them with a copy of the Application that's on file
2 in this case.

3 Finally, then, Mr. Examiner, Mr. McHugh has
4 proposed in his joint operating agreement that's been
5 executed by these other, voluntary parties, overhead rates
6 of \$5000 a month drilling and \$550 a month producing well
7 rate. He would like to have you use the escalating
8 provisions you use in your sample orders to escalate the
9 costs pursuant to the COPAS guidelines.

10 With that information, then, Mr. Catanach, we
11 move the introduction of Applicant's Exhibits 1 and 2.

12 EXAMINER CATANACH: Exhibits 1 and 2 will be
13 admitted.

14 Mr. Kellahin, can you find out for me -- This is
15 going to be a Mesaverde and Dakota downhole commingled
16 well?

17 MR. KELLAHIN: Yes, sir.

18 EXAMINER CATANACH: Can you find out if there's
19 any other existing Mesaverde or Dakota wells in that south-
20 half unit?

21 MR. KELLAHIN: I wish I could tell you right now,
22 but I will find that out.

23 EXAMINER CATANACH: Okay, could you let me know?

24 MR. KELLAHIN: Yeah.

25 EXAMINER CATANACH: Okay. I'm just wondering if

1 this is the first well or second well or --

2 MR. KELLAHIN: I believe this is the first well,
3 but I want to reconfirm that so I'm not wrong.

4 EXAMINER CATANACH: Okay. Anything else?

5 MR. KELLAHIN: No, sir.

6 EXAMINER CATANACH: Okay, there being nothing
7 else, Case 13,784 will be taken under advisement.

8 Thank you.

9 (Thereupon, these proceedings were concluded at
10 8:23 a.m.)

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I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 13784,
heard by me on September 28, 2006.

David R. Catnach, Examiner
Oil Conservation Division

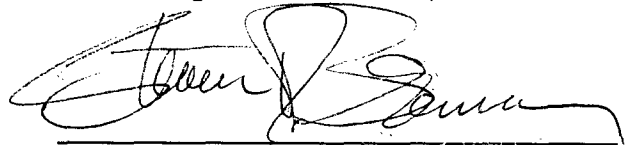
CERTIFICATE OF REPORTER

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 September 28th, 2006.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2006