

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. 13,781

APPLICATION OF UNIT PETROLEUM COMPANY)
FOR COMPULSORY POOLING AND APPROVAL OF)
A NONSTANDARD GAS SPACING AND PRORATION)
UNIT, LEA COUNTY, NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: WILLIAM V. JONES, JR., Hearing Examiner

September 14th, 2006

Santa Fe, New Mexico

2006 SEP 28 AM 8 51

This matter came on for hearing before the New Mexico Oil Conservation Division, WILLIAM V. JONES, JR., Hearing Examiner, on Thursday, September 14th, 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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Examiner Hearing
CASE NO. 13,781

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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:

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

* * *

1 WHEREUPON, the following proceedings were had at
2 10:55 a.m.:

3 EXAMINER JONES: And call Case -- at this time
4 we'll call Case 13,781, Application of Unit Petroleum
5 Company for compulsory pooling and approval of a
6 nonstandard gas spacing and proration unit, Lea County, New
7 Mexico.

8 Call for appearances

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

11 EXAMINER JONES: Has the witness already been
12 sworn?

13 MR. BRUCE: Yes, it's Mr. Schantz, who has been
14 previously sworn.

15 (Off the record)

16 MR. BRUCE: Mr. Examiner, as I said, if the
17 record could reflect that the witness is Fred Schantz who
18 was previously sworn and qualified.

19 FRED SCHANTZ,
20 the witness herein, having been previously duly sworn upon
21 his oath, was examined and testified as follows:

22 DIRECT EXAMINATION

23 BY MR. BRUCE:

24 Q. Mr. Schantz, could you identify Exhibit 1 and
25 describe what Unit seeks in this Application?

1 A. Yes, sir. Exhibit 1 is a land plat highlighting
2 the south half of Section 9, Township 20 South, Range 36
3 East, NMPM, Lea County, New Mexico.

4 Unit Petroleum Company seeks to pool the south
5 half of Section 9 from the surface to the base of the
6 Morrow formation for a pool based on 320 acres.

7 Q. And what is the proposed well's name and
8 location?

9 A. The well name is the Monument 9 Federal Number 1,
10 and the well will be drilled at a location 1310 feet from
11 south line and 1310 feet from west line.

12 Q. What does Exhibit 2 reflect?

13 A. Exhibit 2 lists the working interest owners in
14 the 320-acre well unit.

15 Q. And on this list, who do you seek to pool at this
16 time?

17 A. ConocoPhillips Company; BP America Production
18 Company; Chevron U.S.A., Inc.; and Apache Corporation.

19 Q. Okay. You have made an agreement with EOG
20 Resources, have you not?

21 A. Yes, we have. We received a term assignment from
22 them.

23 Q. Let's discuss your efforts to obtain the
24 voluntary joinder of the interest owners in the well. What
25 is Exhibit 3?

1 A. Exhibit 3 is -- Exhibit 3 contains copies of
2 correspondence sent to the uncommitted interest owners. In
3 August of 2005 we sent a working interest proposal to the
4 working interest owners, and we followed up in, I believe,
5 January of 2006 and also in March of 2006. We didn't
6 receive any response from them, and so in July of 2006 we
7 mailed a proposal letter, then, to the owners.

8 Q. Have any of the parties indicated -- other than
9 EOG, indicated that they will join or execute a term
10 assignment?

11 A. Yes, in Exhibit 4, there's some correspondence
12 there. Of course, the letter from EOG shows that they
13 submitted a term assignment. Apache and Chevron have also
14 indicated in writing that they will give us term
15 assignments. ConocoPhillips has indicated that they will
16 participate in the well.

17 And we have had conversations, of course, with
18 all of them, several telephone conversations, and BP is
19 evaluating what they're going to do, but they've indicated
20 that they will cooperate in some form or fashion.

21 Q. If any of these parties join -- you do seek to
22 pool these four parties still at this time, do you not?

23 A. Exactly, we don't have term assignments or
24 farmouts or joint operating agreement signed up yet.

25 Q. And will you notify the Division if any of these

1 parties subsequently commit their interest?

2 A. Yes, we certainly will.

3 Q. In your opinion, has Unit made a good faith
4 effort to obtain the voluntary joinder of the uncommitted
5 interest owners in the proposed well?

6 A. Yes, sir.

7 Q. What is Exhibit 5?

8 A. Exhibit 5 is our AFE for the well. It is an
9 11,600-foot Morrow test with a dryhole cost of \$1,585,800
10 and a completed well cost of \$2,448,900.

11 Q. And are these costs in line with the cost of
12 other wells drilled to this depth in this area of New
13 Mexico?

14 A. Yes, they are.

15 Q. And do you request that Unit be named operator of
16 the well?

17 A. Yes, I do.

18 Q. What overhead rates do you propose?

19 A. We request the drilling well rate at \$7000 per
20 month and producing well rate at \$700 per month.

21 Q. And are these rates equivalent to those charged
22 by Unit and other operators in this area for wells of this
23 depth?

24 A. Yes, they are.

25 Q. And were the parties being pooled notified of the

1 hearing?

2 A. Yes, they were.

3 MR. BRUCE: Mr. Examiner, I prepared Exhibit 6,
4 an affidavit of notice, and I have misplaced that, if you
5 would give me a day or two to send that to the Division.
6 And all of the parties, obviously they're major companies,
7 and they did receive notice, they did receive actual
8 notice.

9 Q. (By Mr. Bruce) Mr. Schantz, as was just
10 testified in the prior case, this proposed well unit is
11 within a mile of the North Osudo-Morrow Gas Pool, correct?

12 A. Yes.

13 Q. And so under those pool rules spacing would be
14 640 acres normally?

15 A. Yes.

16 Q. Now looking at Section 9, was anybody in the
17 north half of Section 9 notified of the nonstandard unit,
18 320-acre unit?

19 A. No.

20 Q. And essentially why is that?

21 A. Well, the Morrow ownership in the north half of
22 Section 9 is exactly the same as the south half, so notice
23 was not required, no owner is having his interest decreased
24 by a nonstandard unit.

25 MR. BRUCE: Mr. Examiner, if you look at this

1 land plat, the ownership is -- the west half of 9 is all
2 one federal lease. And then the southeast northeast and
3 the northeast southeast is a fee tract with common
4 ownership. And then that C-shaped tract around that fee
5 tract is another federal lease with common ownership, so
6 when you look at it, if you do it, north-half and south-
7 half unit interests are exactly the same --

8 EXAMINER JONES: Okay.

9 MR. BRUCE: -- in the north as in the south half.

10 Q. (By Mr. Bruce) Now if the pool rules are changed
11 as requested in the prior case, will the Morrow unit be a
12 standard 320-acre unit?

13 A. Yes.

14 Q. And the well location, if the pool rules are
15 changed, would this be a standard statewide location in the
16 Morrow and deep gas zone?

17 A. Yes, because the wells are required to be located
18 at least 1650 feet from the section line and 330 feet from
19 the quarter quarter section line. However, if the pool
20 rules are changed the well location will be orthodox.

21 In addition, as shown in Case Number 13,779, we
22 believe the proposed location is the best Morrow location
23 in Section 9.

24 Q. And were Exhibits 1 through 5 prepared by you or
25 under your supervision?

1 A. Yes, they were.

2 Q. And in your opinion, is the granting of this
3 Application in the interests of conservation and the
4 prevention of waste?

5 A. Yes, sir.

6 MR. BRUCE: Mr. Examiner, I'd move the admission
7 of Exhibits 1 through 5, with, as I said, permission to
8 submit Exhibit 6 when I find it in my office.

9 EXAMINER JONES: Okay, Exhibits 1 through 5 will
10 be admitted, and Exhibit 6 will be provisionally admitted
11 until it shows up.

12 MR. BRUCE: And I have nothing further of this
13 witness.

14 EXAMINATION

15 BY EXAMINER JONES:

16 Q. Okay Mr. Schantz, the pool rules on the North
17 Osudo-Morrow is the -- are the applicable pool rules right
18 here, now, at this time, right? For this --

19 A. That is correct, yes.

20 Q. Okay. And those pool rule don't specifically --
21 Let's see here. Do they specifically say that acreage
22 outside of the pool rules but within a mile --

23 MR. BRUCE: It doesn't say, so in other words --

24 EXAMINER JONES: In other words, it is.

25 MR. BRUCE: -- yeah, under the statewide rules

1 anything within a mile would be subject to those pool
2 rules --

3 EXAMINER JONES: Okay.

4 MR. BRUCE: -- if not in another Morrow pool, and
5 this is not in another Morrow pool.

6 EXAMINER JONES: And you already explained why
7 the north half -- so the only -- Let me try to paraphrase
8 it so I can hopefully understand it better here. On
9 Section 9 the owners in the north half are the same owners
10 in the south half?

11 MR. BRUCE: And in the same percentages.

12 EXAMINER JONES: And in the same percentages. So
13 if you drill a well, a good well, and you get a good well,
14 they will get the same amount as they would if they were --
15 if it was a 640-acre unit?

16 MR. BRUCE: That is correct.

17 Q. (By Examiner Jones) So why don't you just keep
18 it a 640-acre unit?

19 Q. Well, at this point we just -- I'm not sure how
20 to answer that other than --

21 MR. BRUCE: Well, if the -- Two things, Mr.
22 Examiner. If the pool rules are changed, obviously it
23 would be a 320-acre unit. And these 640-acre Morrow pools
24 have become quite a headache. I've had five or six cases
25 in the last two years trying to limit the effects of the

1 640-acre pools, and we just think it would be better to
2 develop it on statewide spacing.

3 EXAMINER JONES: Okay, I can see that. Can you
4 see that, Gail?

5 MS. MacQUESTEN: No, but I'm sure you'll explain
6 it to me.

7 (Laughter)

8 EXAMINER JONES: The owners are exactly the same
9 and in exactly the same percentages, so --

10 MR. BRUCE: In the deep gas, yeah.

11 EXAMINER JONES: In the deep gas. And they have
12 -- and we're pooling everything from the surface to the
13 base of the Morrow?

14 MR. BRUCE: For 320.

15 EXAMINER JONES: For 320s.

16 MR. BRUCE: Yeah.

17 EXAMINER JONES: So that could include Wolfcamp
18 gas on down; is that right?

19 MR. BRUCE: That is correct.

20 EXAMINER JONES: Is the owners in the Wolfcamp
21 gas -- so owners in the deep gas are all the same?

22 MR. BRUCE: Yeah, the top of the Wolfcamp on
23 down, 320-acre spacing, owners are the same and in the same
24 percentages.

25 EXAMINER JONES: Okay, that sounds good to me,

1 and that's all I have. Thanks a lot, Mr. Schantz.

2 THE WITNESS: Okay, you bet.

3 EXAMINER JONES: Is there anything further?

4 MR. BRUCE: Nothing further.

5 EXAMINER JONES: Okay, we'll take Case 13,781
6 under advisement.

7 (Thereupon, these proceedings were concluded at
8 11:10 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. _____
heard by me on _____,
_____, 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 17th, 2006.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2006