

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 KAISER-FRANCIS OIL)
COMPANY FOR POOL CREATION, PROMULGATION)
OF SPECIAL POOL RULES, FOR AN EXCEPTION)
TO THE GAS-OIL RATIO LIMITATION,)
ASSIGNMENT OF A SPECIAL DEPTH BRACKET)
ALLOWABLE AND TEMPORARY SUSPENSION OF)
DRILLING PERMITS WITHIN THE UNDESIGNATED)
PORTIONS OF THE PROPOSED POOL, EDDY)
COUNTY, NEW MEXICO)

CASE NOS. 13,771

APPLICATION OF KAISER-FRANCIS OIL)
COMPANY TO AMEND ADMINISTRATIVE ORDER)
NSL-5133 TO ESTABLISH A NONSTANDARD)
SPACING AND PRORATION UNIT, AND FOR AN)
EXCEPTION TO RULE 104(B)(1), EDDY)
COUNTY, NEW MEXICO)

2006 NOV 9 11 10
13771 94

APPLICATION OF HAYES LAND AND)
PRODUCTION, LP, TO APPROVE A NONSTANDARD)
80-ACRE OIL SPACING AND PRORATION UNIT)
OR AN 80-ACRE PROJECT AREA, OR IN THE)
ALTERNATIVE TO RESCIND DIVISION ORDER)
NO. R-12,459, EDDY COUNTY, NEW MEXICO)

and 13,778

(Consolidated)

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: WILLIAM V. JONES, JR., Hearing Examiner
October 26th, 2006
Santa Fe, New Mexico

ORIGINAL

These matters came on for hearing before the New Mexico Oil Conservation Division, WILLIAM V. JONES, JR., Hearing Examiner, on Thursday, October 26th, 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

October 26th, 2006
Examiner Hearing
Case Nos. 13,771, 13,594 and 13,778 (Consolidated)

PAGE

REPORTER'S CERTIFICATE

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* * *

E X H I B I T S

Kaiser-Francis

Identified

Admitted

Case 13,771:

Exhibit 19

4

6

Case 13,778:

Exhibit 3

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* * *

A P P E A R A N C E S

FOR THE DIVISION:

CHERYL O'CONNOR
Assistant Counsel, NMOC
Energy, Minerals and Natural Resources Department
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

FOR KAISER-FRANCIS:

MILLER STRATVERT, P.A.
150 Washington
Suite 300
Santa Fe, New Mexico 87501
By: J. SCOTT HALL

FOR J. CLEO THOMPSON & JAMES CLEO THOMPSON, JR., L.P.;
and HAYES LAND & PRODUCTION, L.P.:

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

FOR MARBOB 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: OCEAN MUNDS-DRY

* * *

1 WHEREUPON, the following proceedings were had at
2 9:08 a.m.:

3 EXAMINER JONES: Let's recall those three cases,
4 Case 13,771, Case 13,594 and Case 13,778.

5 Call for appearances.

6 MR. HALL: Mr. Examiner, Scott Hall, Miller
7 Stratvert, PA, Santa Fe, on behalf of Kaiser-Francis Oil
8 Company.

9 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe.
10 I'm representing Hayes Land and Production, L.P., and also
11 J. Cleo Thompson and James Cleo Thompson, Jr., L.P.

12 EXAMINER JONES: Any other appearances? Marbob?

13 MS. MUNDS-DRY: Yeah, I guess that's me. Ocean
14 Munds-Dry with Holland and Hart on behalf of Marbob Energy
15 Corp.

16 MR. HALL: Mr. Examiner, the reason we're here
17 today is to ask you to admit into evidence additional
18 notice affidavits for the readvertised and amended case in
19 13,771. If my notes are correct, I believe that would take
20 us to Exhibit 19 in that case.

21 We've also published the amended Application in
22 the Carlsbad newspaper. We're still waiting to get our
23 affidavit from the newspaper. As soon as we get that,
24 we'll get that to you and ask that the record be
25 supplemented with that as well.

1 In addition I've spoken briefly with Mr. Bruce,
2 and we believe that Case Number 13,594, which was reopened,
3 may be dismissed. The reason it was reopened to begin with
4 is that we thought that Mr. Bruce's client was unleased and
5 had not been provided with notice of that nonstandard
6 location application. It turns out, in fact, that he was
7 leased, and there was no need to provide him with notice,
8 and nonstandard location is not an issue any longer in
9 these proceedings, so I think you can simply dismiss that
10 reopened proceeding.

11 And with that, we'd move the admission of Exhibit
12 19.

13 EXAMINER JONES: Mr. Bruce, didn't you argue that
14 Case 13,594 should be kept open?

15 MR. BRUCE: Well, at the time, and I think it's
16 irrelevant because of the change in the request for relief
17 by Kaiser-Francis. You know, they had asked for a non- --
18 It is an unorthodox location, and I think my client was
19 entitled to notice, but the fact of the matter is, Kaiser-
20 Francis is now asking for a well unit of the west half,
21 west half of that section, and Hayes Land and Production,
22 L.P., does not object to that request.

23 And so I concur with Mr. Hall that at this point
24 I think that case could be dismissed, because the relief
25 that my client would like is covered by its amended

1 Application, I think.

2 MR. HALL: There wouldn't seem to be any need to
3 address the nonstandard location issue in any order that
4 results from the amended Application in 13,771.

5 EXAMINER JONES: Oh, okay.

6 MR. BRUCE: Mr. Examiner, and I was also to give
7 notice -- prepare notice exhibits on mine. I did, and I
8 was actually stunned, I did get a published notice in the
9 newspaper and the affidavit did come back in a timely
10 fashion, first time from the Carlsbad paper, you know,
11 about six months, and that's marked Exhibit 3. And I left
12 the office without my written notice affidavit; I will
13 submit that to you. I'll mail that to you or hand-deliver
14 it to you, and that will be marked Exhibit 4, although if
15 Kaiser's Application is granted Hayes Land and Production
16 does not object to that relief sought by Kaiser-Francis.

17 EXAMINER JONES: Okay. No objection to admitting
18 that Number -- 28? Is that right?

19 MR. HALL: Nineteen.

20 EXAMINER JONES: Nineteen. -- Exhibit Number 19
21 by anyone?

22 MR. HALL: No.

23 EXAMINER JONES: Okay, we'll -- in Case Number
24 13,771 we'll admit Exhibit Number 19.

25 Did -- That's all you -- we have to --

1 MR. BRUCE: Yeah, I think the other issues were
2 submitted. J. Cleo Thompson had an issue with Kaiser-
3 Francis, but I submitted a letter on that and -- about a
4 week after that last hearing, and I would just refer you to
5 that letter --

6 EXAMINER JONES: Okay.

7 MR. BRUCE: -- if there's any need to argue the
8 point.

9 EXAMINER JONES: Okay, and Marbob still has no --

10 MS. MUNDS-DRY: No, Mr. Examiner, we submitted
11 our special comments on the special pool rules, and we have
12 no other comment --

13 EXAMINER JONES: Okay. Okay, I was -- the only
14 thing that I'm a little bit -- just trying to familiarize
15 myself with the case again here, is the situation where you
16 have someone drilling right next door and whether it would
17 abide by these pool rules, and what situation -- in other
18 words, what gas quantity -- would cause it to switch over?
19 And I think I might be able to review the record and --

20 MR. BRUCE: I think you can review the record,
21 and if you have any questions among the three of us, if
22 you'd e-mail us, we can probably respond to your --

23 EXAMINER JONES: Okay, just as long as all of you
24 are e-mailed together.

25 MS. O'CONNOR: Yes, you need to -- whomever

1 you're addressing it to, make sure that you copy it to the
2 other two parties. And any response that they give to you,
3 they need to, of course, copy the other parties as well.

4 EXAMINER JONES: That was kind of one of the
5 cruxes of the case.

6 MR. HALL: That's correct. The relief we were
7 asking for was the implementation of special pool rules,
8 limited only to the west half of the section, rather than
9 have them apply to the undesignated portions within a mile.
10 And then there is that issue of -- if a well is not capable
11 of making, I think, 568 MCF a day, that operator can seek
12 administrative relief to have it classified as a gas well
13 if he chose.

14 EXAMINER JONES: Have to come to hearing for --

15 MR. HALL: Well, the way we set it up was, he can
16 apply for administrative approval for that.

17 (Off the record)

18 EXAMINER JONES: Okay, so you guys submitted your
19 final closing arguments and everything last time; is that
20 correct?

21 MR. BRUCE: Yeah, we -- I think we argued a
22 little bit at the hearing, and then I submitted a short
23 letter, and Ocean submitted a --

24 EXAMINER JONES: Okay.

25 MR. BRUCE: -- pleading, and Scott submitted his

1 amended Application.

2 EXAMINER JONES: Okay, so we got from Marbob --
3 We did have something from Marbob?

4 MR. HALL: Yeah, I think it's ready to be taken
5 under advisement.

6 EXAMINER JONES: Okay, sounds good to me. Thank
7 you all, and we'll take Case 13,771 under advisement, and
8 Case 13,594 will be dismissed, and Case 13,778 will be
9 taken under advisement.

10 (Thereupon, these proceedings were concluded at
11 9:17 a.m.)

12 * * *

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16 I do hereby certify that the foregoing is
17 a complete record of the proceedings in
18 the Examiner hearing of Case No. _____,
heard by me on _____.

19 _____, Examiner
20 Oil Conservation Division
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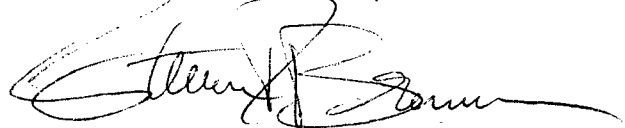
CERTIFICATE OF REPORTER

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 October 27th, 2006.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2010