

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. 13,878

APPLICATION OF NADEL AND GUSSMAN)
 PERMIAN, L.L.C., FOR COMPULSORY)
 POOLING, EDDY COUNTY, NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: RICHARD EZEANYIM, Hearing Examiner

March 1st, 2007

Santa Fe, New Mexico

2007 MAR 15 AM 8 10

This matter came on for hearing before the New Mexico Oil Conservation Division, RICHARD EZEANYIM, Hearing Examiner, on Thursday, March 1st, 2007, 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

March 1st, 2007
 Examiner Hearing
 CASE NO. 13,878

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APPLICANT'S WITNESS:	
<u>SAM H. JOLLIFFE, IV</u> (Landman)	
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A P P E A R A N C E S

FOR THE DIVISION:

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Energy, Minerals and Natural Resources Department
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Santa Fe, New Mexico 87505

FOR THE APPLICANT:

JAMES G. BRUCE
Attorney at Law
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* * *

1 WHEREUPON, the following proceedings were had at
2 10:19 a.m.:

3 EXAMINER EZEANYIM: Page 3 of the docket, we call
4 Case Number 13,878. This is the Application of Nadel and
5 Gussman Permian, L.L.C., for compulsory pooling, Eddy
6 County, New Mexico.

7 Call for appearances.

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

10 EXAMINER EZEANYIM: Any other appearances?

11 May the witness stand to be sworn, please?

12 (Thereupon, the witness was sworn.)

13 SAM H. JOLLIFFE, I,
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. Would you please state your name for the record?

19 A. Sam Jolliffe.

20 Q. And where do you reside?

21 A. Midland, Texas.

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

23 A. Nadel and Gussman Permian, L.L.C., in capacity as
24 land manager.

25 Q. Have you previously testified before the

1 Division?

2 A. Yes.

3 Q. And were your credentials as an expert petroleum
4 landman accepted as a matter of record?

5 A. Yes.

6 Q. And are you familiar with the land matters
7 involved in this Application?

8 A. Yes.

9 MR. BRUCE: Mr. Examiner, I'd tender Mr. Jolliffe
10 as an expert petroleum landman.

11 EXAMINER EZEANYIM: Mr. Jolliffe is so qualified.

12 Q. (By Mr. Bruce) Mr. Jolliffe, could you identify
13 Exhibit 1 and briefly describe what Nadel and Gussman seeks
14 in this Application?

15 A. Yes, Exhibit 1 is a land plat highlighting the
16 north half of Section 22, Township 22 South, Range 28 East,
17 Eddy County. Nadel and Gussman seeks to pool the north
18 half of Section 22 from the surface to the base of the
19 Morrow for 320-acre units.

20 MR. BRUCE: Mr. Examiner, the Application had
21 requested pooling of 40- and 160-acre units, but that's no
22 longer necessary because of certain interest owners who
23 were dismissed -- previously dismissed from this pooling
24 Application. So at this point we only seek 320-acre
25 pooling.

1 EXAMINER EZEANYIM: No more 160 and 80 -- I mean,
2 160 and 40?

3 MR. BRUCE: Correct.

4 EXAMINER EZEANYIM: Okay.

5 Q. (By Mr. Bruce) Referring to Exhibit 2, what is
6 the well's location?

7 A. The well's location is 990 feet from the north
8 line, 990 feet from the west line of Section 22, and it is
9 currently drilling.

10 Q. Okay --

11 MR. BROOKS: Did you say west or east?

12 THE WITNESS: West. 990 north, 990 west.

13 EXAMINER EZEANYIM: Is that the well location?

14 THE WITNESS: Yes, sir.

15 EXAMINER EZEANYIM: Okay.

16 MR. BROOKS: I was looking at this Exhibit 2 and
17 it appears to say east.

18 MR. BRUCE: Yeah, it does indeed, Mr. Examiner.
19 I think the -- Mr. Jolliffe can confirm, but the C-102 is
20 the correct location; is that true, Mr. Jolliffe? Not from
21 the east line?

22 EXAMINER EZEANYIM: Is that 990 --

23 THE WITNESS: It's 990 west.

24 MR. BROOKS: Okay, yeah, the discrepancy is
25 between the C-101 and the C-102.

1 THE WITNESS: Correct, yes.

2 EXAMINER EZEANYIM: So what is the actual
3 location of the well?

4 THE WITNESS: 990 from the west.

5 EXAMINER EZEANYIM: And 990 from the east -- from
6 the --

7 THE WITNESS: -- north.

8 EXAMINER EZEANYIM: -- from the north.

9 THE WITNESS: North and the west, yes, sir.

10 Q. (By Mr. Bruce) What does Exhibit 3 reflect?

11 A. Exhibit 3 is a -- lists the working interest
12 owners in the 320-acre well unit.

13 Q. And who do you seek to pool?

14 A. We seek to pool the La Plant Johnson Trust,
15 Collie Limited Partnership, and the Mackey group, who are
16 all unleased mineral owners, combine them in approximately
17 1.37 percent of the working interest in the spacing unit in
18 the well.

19 Q. And these are all unleased mineral owners; is
20 that correct?

21 A. Correct.

22 Q. Now with respect to -- and I think that's
23 misspelled on Exhibit 3, Mr. Examiner. I think that's
24 Coille, C-o-i-l-l-e. Rather than C-o-l-l-i-e, I think it's
25 C-o-i-l-l-e.

1 EXAMINER EZEANYIM: Oh, C-o-i- -- Okay.

2 Q. (By Mr. Bruce) Now with respect to contacting
3 these people, no address could be found for Coille Limited
4 Partnership?

5 A. That's correct.

6 Q. And addresses were found for the other two
7 people?

8 A. That's correct.

9 Q. Or entities, I should say.

10 A. Right.

11 Q. Now what records were searched to locate these
12 people?

13 A. We had a landman in -- a landman in Midland, a
14 broker, and he searched county records, tax rolls,
15 Internet, that type of thing.

16 Q. Phone directories?

17 A. Phone directories, right.

18 Q. Okay, not just the Eddy County records, you went
19 above and beyond that?

20 A. Yes, yes.

21 Q. Now with respect to these addresses, as far as
22 the landman could determine, the La Plant Johnson Family
23 Trust address is correct, as far as he could determine?

24 A. As far as he can determine.

25 Q. But he never received any response --

1 A. One way or --

2 Q. -- to his contacts?

3 A. That's correct, one way or the other.

4 Q. Okay. Now -- and were proposal letters sent to
5 the last known addresses of the Mackeys and the La Plant
6 Johnson Family Trust?

7 A. Yes, yes.

8 Q. And that's marked as Exhibit 4; is that correct?

9 A. Yes, sir.

10 Q. Now again, the La Plant Johnson Family Trust
11 letter, it was mailed certified mail, and it has never come
12 back?

13 A. It has never come back. We have not gotten a
14 green card either way.

15 Q. And the Mackeys -- or the Mackey Trust interest,
16 that green card did come back?

17 A. It came back as undeliverable.

18 Q. Okay. So basically what we're dealing with, as
19 far as we know, are three unlocatable people?

20 A. Right, that's correct.

21 Q. Now, are there a number of interest owners in
22 this well unit?

23 A. Yes, approximately 35 to 40 working interest
24 owners.

25 Q. And you and your partners spent months trying to

1 track down all these interests?

2 A. Right, several months, that's correct.

3 Q. And as a matter of fact, three leases were
4 received just in the last week?

5 A. That's right. Last couple weeks, I believe.

6 Q. In your opinion has Nadel and Gussman and its
7 working interest partners made a good faith effort to
8 locate all mineral interest owners in the well?

9 A. Yes, sir.

10 Q. What is Exhibit 5?

11 A. Exhibit 5 is our AFE for the well. It's an
12 approximate 12,800-foot Morrow test. Dryhole cost of
13 \$1,856,000, completed -- total completed well cost of
14 \$2,791,000.

15 Q. And are these costs in line with the costs of
16 other wells drilled to this depth in this area of Eddy
17 County?

18 A. Yes.

19 Q. In fact, Nadel and Gussman has drilled a number
20 of wells in this general area?

21 A. Yes, we have, that's correct.

22 Q. And you have a pretty good handle on well costs?

23 A. Yes, sir.

24 Q. Do you request that Nadel and Gussman be named
25 operator of the well?

1 A. Yes.

2 Q. And do you request the maximum cost-plus-200-
3 percent risk charge against any nonconsenting interest
4 owner?

5 A. Yes.

6 Q. What overhead rates do you propose?

7 A. We'd request drilling rates of \$6500 a month,
8 producing well rates of \$650 a month.

9 Q. And are these rates equivalent to those charged
10 by Nadel and Gussman and other operators in this area for
11 wells of this depth?

12 A. Yes.

13 Q. Do you request that these rates be adjusted under
14 the COPAS accounting procedure?

15 A. Yes.

16 Q. And were the parties being pooled notified of
17 this hearing?

18 A. Yes.

19 MR. BRUCE: Mr. Examiner, submitted as Exhibit 6
20 is my affidavit of mailing. If you look at the people I
21 mailed it to, there's some additional people, a Sarah
22 Staeden, Sharon Ryzner and Robert Hayes. They have leased
23 their interests and they're not being pooled, and I sent a
24 letter to the Division to that effect. I did send written
25 notice to the La Plant Johnson trust and to the Mackeys.

1 And as with the landman, the La Plant Johnson letter has
2 never come back. And the one to the Mackeys was stated to
3 be undeliverable as addressed.

4 Submitted as Exhibit 7, Mr. Examiner, is a notice
5 published in the Carlsbad newspaper to Coille Limited
6 Partnership regarding this case.

7 I had thought the addresses of the Mackeys and La
8 Plant Johnson were correct, so as a result, after not
9 getting their letters back, I have published an additional
10 notice in the newspaper as to all three of the parties,
11 Coille Limited Partnership, the La Plant Johnson Trust and
12 the Mackeys, and I would ask that this matter be continued
13 for two weeks so that I could submit the affidavit of
14 publication.

15 I think the publication was made about 10 days
16 ago, but I haven't received the publication notice, and I
17 would ask that the matter -- and I did notice it for the
18 March 15th hearing. And so I would ask that this matter be
19 continued for two weeks so that that additional affidavit
20 of notice -- affidavit of publication, can be submitted.

21 MR. BROOKS: Okay, that request takes care of the
22 one question I would have asked, so I have nothing else.

23 Q. (By Mr. Bruce) Mr. Jolliffe, were Exhibits 1
24 through 7 prepared by you or under your supervision or
25 compiled from company business records?

1 A. Yes.

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.

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

8 EXAMINER EZEANYIM: Exhibits 1 through 7 will be
9 admitted into evidence.

10 I know you have a request to get more information
11 on March 15th, and I'm going to grant that, but now I have
12 some questions I'm going to ask.

13 MR. BROOKS: Okay.

14 EXAMINATION

15 BY EXAMINER EZEANYIM:

16 Q. First of all, you are dismissing the 160- and the
17 40-acre --

18 A. That is correct.

19 Q. And the reason being -- ?

20 MR. BRUCE: And the remaining interest owners
21 only own interest in the northeast quarter, and the well is
22 in the northwest quarter, so I do not need to pool them
23 into it --

24 EXAMINER EZEANYIM: Okay.

25 MR. BRUCE: -- into the shallower well unit.

1 Q. (By Examiner Ezeanyim) Okay. Mr. Jolliffe,
2 could you explain to me again what efforts you made to get
3 those unlocatable interest owners?

4 A. This is coming from my landman, Wendell Iverson
5 in Midland, who's a long-time Midland landman, but Wendell
6 has advised us that he's -- county records, I believe the
7 Eddy County tax rolls, Internet searches, phone directory
8 searches, that kind of thing. I'm sure he -- They've been
9 working, trying to find these folks for several months, so
10 I'm sure he exhausted every resource he could.

11 Q. So the mere fact that we didn't get them, does
12 that mean they don't exist anymore? The mere fact we
13 didn't get those addresses for those three interest owners,
14 does that imply they don't -- I mean --

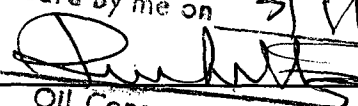
15 A. Yeah, I don't know.

16 EXAMINER EZEANYIM: Okay, with nothing further,
17 Case Number 13,878 will be continued -- to March 15th?

18 MR. BRUCE: Yes.

19 EXAMINER EZEANYIM: -- so you can submit the
20 additional information requested.

21 (Thereupon, these proceedings were concluded at
22 10:32 a.m.)

23 I do hereby certify that the foregoing is
24 a complete record of the proceedings in
25 the Examiner hearing of Case No. 13,878
heard by me on 7/10/07

Oil Conservation Division, Examiner

STEVEN T. BRENNER, CCR
(505) 989-9317

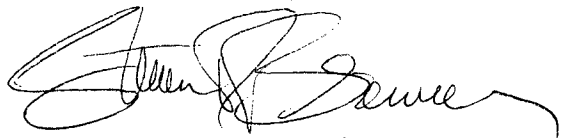
CERTIFICATE OF REPORTER

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 March 2nd, 2007.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2010