

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 PARALLEL PETROLEUM)
CORPORATION FOR COMPULSORY POOLING,)
CHAVES COUNTY, NEW MEXICO)

CASE NO. 13,919

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

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

July 26th, 2007

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, WILLIAM V. JONES, Jr., Hearing Examiner, on Thursday, July 26th, 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

July 26th, 2007
 Examiner Hearing
 CASE NO. 13,919

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A P P E A R A N C E S

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By: W. THOMAS KELLAHIN

* * *

1 WHEREUPON, the following proceedings were had at
2 8:52 a.m.:

3 EXAMINER JONES: Okay, and I think we'll get
4 Parallel Petroleum again here. Let's call Case 13,919,
5 continued from May 24th, Application of Parallel Petroleum
6 Corporation for compulsory pooling, Chaves County, New
7 Mexico.

8 Call for appearances.

9 MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin of
10 the Santa Fe law firm of Kellahin and Kellahin, appearing
11 on behalf of the Applicant this morning, and I have one
12 witness to be sworn.

13 EXAMINER JONES: Any other appearances?
14 Will the witness please stand to be sworn?
15 (Thereupon, the witness was sworn.)

16 AARON L. MYERS,
17 the witness herein, after having been first duly sworn upon
18 his oath, was examined and testified as follows:

19 DIRECT EXAMINATION

20 BY MR. KELLAHIN:

21 Q. Mr. Myer, for the record, sir, would you please
22 state your name and occupation?

23 A. My name is Aaron L. Myers, I'm a consulting
24 landman for Parallel Petroleum Corporation.

25 Q. And where do you reside, sir?

1 A. Midland, Texas.

2 Q. On prior occasions have you testified before the
3 Division's Examiners and been qualified as an expert in
4 petroleum land matters?

5 A. Yes, I have.

6 Q. What has been your responsibility concerning this
7 Application?

8 A. Concerning the Application, it was my
9 responsibility to go through our title opinions and work
10 with the company that's contracted to do our leasing and
11 title work, to discern who the unleased mineral owners were
12 and get that filed and ready for the Application, and then
13 testify at the hearing.

14 Q. In addition to satisfying yourself that you had
15 an accurate and reliable list of parties, were you also in
16 charge of contacting any unleased mineral owners in
17 proposing the well to those parties?

18 A. Yes, I was.

19 Q. And have you done that?

20 A. Yes, I have.

21 MR. KELLAHIN: Mr. Examiner, we tender Mr. Myer
22 as an expert petroleum landman.

23 EXAMINER JONES: Mr. Myer is qualified as an
24 expert petroleum landman.

25 Q. (By Mr. Kellahin) Let's direct the Examiner's

1 attention to Exhibit Number 1. What are you showing him?

2 A. Exhibit Number 1 just outlines our proposed well
3 in the south half of Section 29, in Township 15 South,
4 Range 25 East.

5 Q. Did you prepare this exhibit?

6 A. Yes, sir, I did.

7 Q. What is the source of the data that you used?

8 A. This is a Midland Map Company map, and I used our
9 application for permit to drill to just outline and show,
10 and the Midland map actually includes our surface location
11 in the northeast quarter of the southeast quarter with a
12 bottomhole location in the northwest quarter of the
13 southwest quarter of Section 29.

14 Q. In your experience, have these maps proved to be
15 reliable and current for your purposes?

16 A. Yes, we have.

17 Q. When we focus on your spacing unit, the south
18 half of Section 29, is this fee, federal or state tracts?

19 A. This is all fee land.

20 Q. And how is the south half divided into tracts?

21 A. There are two tracts. There is a tract in the
22 north half of the southeast quarter that would comprise 25
23 percent of the unit, and then the second tract would be the
24 southwest quarter, and then the south half of the southeast
25 quarter comprising 75 percent of the unit.

1 Q. What is the primary objective of this well?

2 A. To drill a horizontal well in the Wolfcamp
3 formation.

4 Q. When we look at this map, Mr. Myers, if you'll
5 look over in the north half of 33 --

6 A. Uh-huh.

7 Q. -- there is a depiction of the Personally well.
8 Do you see that?

9 A. Uh-huh.

10 Q. What does that represent?

11 A. It also represents a horizontal well drilled into
12 the Wolfcamp formation just to the southwest of the south
13 half of Section 29.

14 Q. Is that an application that you processed?

15 A. Yes, it is, it's an application that I processed
16 and testified previously on.

17 Q. Let me turn your attention now to Exhibit Number
18 2. Would you identify this please?

19 A. This is Parallel Petroleum Corporation's
20 application for permit to drill. The first page is the
21 well location and acreage dedication plat, and then the
22 second page is actually the first page of the permit.

23 Q. To the best of your knowledge, does the proposed
24 horizontal wellbore comply with the Division Rules for
25 drilling such wells?

1 A. I believe it does. It's going to have a
2 penetration point and bottomhole location located within
3 the producing zone. If I'm not mistaken, the surface
4 location is a little unorthodox, but was otherwise approved
5 by the Division.

6 Q. So once the well is drilled to a subsurface
7 location in the top of the Wolfcamp at the point of
8 penetration it will be at a standard location, to the best
9 of your knowledge?

10 A. Yes, it will.

11 Q. Let me direct your attention now to a tabulation
12 of ownership in the north half of Section 29. Is that what
13 Exhibit Number 3 is?

14 A. Yes, it is, it's a calculation of all the mineral
15 owners and the working interest attributable to each
16 mineral owner.

17 Q. Did you prepare this exhibit?

18 A. Yes, I did.

19 Q. What is the source of the information you used to
20 prepare it?

21 A. The information was taken from a mineral takeoff
22 provided to us by our contractor, Tredek, Inc., and also
23 from a title opinion provided to us or prepared for
24 Parallel Petroleum Corporation by Randy Turner.

25 Q. In the past have you relied upon Mr. Turner's

1 title opinion?

2 A. Yes, I have.

3 Q. To the best of your knowledge, have those been
4 fair and accurate representations and proved to your
5 knowledge that they were accurate?

6 A. Yes, they have.

7 Q. So if the Examiner chooses to go through the
8 spreadsheet, he can see a hundred percent of the interest
9 and how it's divided in the spacing unit?

10 A. Yeah, it shows both tracts. And at the bottom of
11 the second page it shows a tabulation showing a hundred
12 percent of the working interest and then the percentage
13 attributable to Parallel at the present time and then the
14 outstanding total.

15 Q. Mr. Myers, do you have another exhibit that will
16 show the identity of the parties for which you're seeking a
17 compulsory pooling order?

18 A. Yes, I do, that's Exhibit Number 4.

19 Q. If you'll turn to that. Is this also a
20 spreadsheet that you prepared?

21 A. Yes, it is.

22 Q. Is the source of this information similar to the
23 source of information used for Exhibit Number 3?

24 A. Yes, it was the same information used for Exhibit
25 3.

1 Q. How many parties are now shown to be pooled?

2 A. To be pooled, I think at the present time it's
3 18, if I'm not mistaken. I can double-check that.

4 Q. Is there a significance to you of the fact that
5 on the spreadsheet there are entries that are shaded
6 darker?

7 A. Yes, the highlighted entries were people that
8 were -- we were never able to discern a last known address
9 for, people that were just lost in title 50, 60 years ago.
10 Probably sometime between 1930 and 1950 is the last time
11 you see those people in title.

12 Q. Summarize for the Examiner the efforts that you
13 on behalf of Parallel have made to try to identify how to
14 contact those people.

15 A. If we were able to find a last known address,
16 letters were sent to those people, either offers to lease
17 or well proposals prepared by me on behalf of Parallel.
18 And if we were able to find a phone number that would match
19 with that address, we attempted to leave messages or
20 contact the people via telephone.

21 Q. Did you utilize Internet searches?

22 A. Yes, we did.

23 Q. To the best of your knowledge, have you exhausted
24 all reasonable efforts to contact these people?

25 A. Yes, we have.

1 Q. With regards to all these parties to be pooled,
2 have you received any objection from any of these parties?

3 A. I have not received any objection, no.

4 Q. Have you been successful in obtaining the leases
5 from other unleased interest owners in the spacing unit?

6 A. Yes, we have, and that's denoted on Exhibit 3.
7 Under "Lessee" you'll see the abbreviation PLLL. That
8 shows who's actually leased to Parallel underneath that
9 unit.

10 Q. As part of your work, Mr. Myers, have you
11 utilized an estimated cost of expenditures for this well?

12 A. Yes, we have.

13 Q. Do you have a copy of that?

14 A. Yes, I do, it's Exhibit Number 5.

15 Q. How was this prepared?

16 A. This was prepared by Parallel's drilling
17 engineer, Dean Durham.

18 Q. To the best of your knowledge, is this AFE
19 similar to other AFEs used by Parallel for similar
20 horizontal wells in the area?

21 A. Yes, it is.

22 Q. Have you received any objection to these costs?

23 A. No, we have not.

24 Q. Is this the AFE that you sent to all the parties
25 to be pooled?

1 A. Yes, it was.

2 Q. Let me direct your attention now, Mr. Myers, to
3 the tabulation of documents that are marked as Exhibit
4 Number 6.

5 A. Uh-huh.

6 Q. Will you identify for the record what this is?

7 A. Exhibit Number 6 is just a compilation of all the
8 letters and certified return receipts that were sent out to
9 all the mineral owners as of that date. The actual numbers
10 have since been made smaller because a lot of these people
11 have actually leased to Parallel. But this is a letter
12 dated March 6th, sent out to each mineral owners proposing
13 the well and also delineating their share of the well based
14 on cost.

15 Q. When you look at Exhibit Number 6, the first
16 package of documents to Mr. Daniels, does that represent
17 the complete letter and the request for participation?

18 A. Yes, it does.

19 Q. And then after that you've simply attached the
20 first sheet of the letter that you've sent to all other
21 parties?

22 A. Uh-huh.

23 Q. And you're utilizing the same format?

24 A. Uh-huh.

25 Q. Is there any change between the letters?

1 A. Actually there was. The first set of letters
2 that went out approximately March 5th and 6th, the wrong
3 AFE amount was placed in there, so a second set of letters
4 marked Exhibit 7 was sent out about a week and a half later
5 readjusting and recalculating the AFEs based on an
6 increase.

7 Q. So when I look at Exhibit Number, that represents
8 the corrections?

9 A. Yes, it does.

10 Q. And each party was sent a letter indicating what
11 their proportionate share was estimated to be?

12 A. Yes, they were, and they were also sent an
13 additional AFE at that time.

14 Q. Let me turn to Exhibit Number 8, Mr. Myer. Does
15 this represent your work?

16 A. Yes, it does, this is just a summary of our
17 attempts to contact people whether or not they had an
18 address that we could use or a telephone number that we
19 could find of record.

20 Q. I'm not going to ask you to read through this,
21 but to the best of your knowledge have you exhausted all
22 reasonable efforts to obtain voluntary participation?

23 A. Yes, we have.

24 Q. And in your opinion, does your summary on Exhibit
25 Number 8 reflect that effort?

1 A. Yes, it does.

2 Q. Do you have a recommendation to the Examiner for
3 overhead rates to be associated with the pooling order in
4 this case?

5 A. Yes, we do. We would request that we use
6 overhead rates of \$5000 a month drilling, \$500 a month
7 producing, which are the same overhead rates that we used
8 for the Personally well located southwest of this proposed
9 well in the north half of Section 33.

10 MR. KELLAHIN: Mr. Examiner, the reference number
11 for that order is Order Number R-12,757. I have a copy of
12 that for you.

13 Q. (By Mr. Kellahin) When we look at the tabulation
14 of parties to be pooled, Mr. Myers, have you now been able
15 to obtain participation of parties that held lease such as
16 the Yates entities?

17 A. Yes, we have. Yates will be receiving a joint
18 operating agreement within the next week, and we do have in
19 hand a signed AFE for the four Yates entities. They're
20 listed on the last page of Exhibit 8, and they're also
21 listed on Exhibit 3.

22 Q. Were you able to reach a voluntary agreement with
23 EOG?

24 A. Yes, we were, we have a term assignment for the
25 interests that were covered by EOG.

1 Q. Do you request that the Examiner include a
2 provision in the pooling order to allow you to escalate the
3 overhead rates?

4 A. Yes, we would. I'm not sure that the overhead
5 rates would exceed what we're requesting for the order.

6 Q. And in addition, you ask for the Division to
7 issue a 200-percent risk-factor penalty?

8 A. Yes, we would.

9 Q. In addition, have you caused notice of this
10 hearing to be published in a newspaper of general
11 circulation in the county where the well is located?

12 A. Yes, we have.

13 MR. KELLAHIN: Mr. Examiner, Exhibit Number 9 is
14 the newspaper publication, and I think I've given the court
15 reporter the original of that document. If not, we'll make
16 sure he has that. It was published for the original
17 hearing back on May 17th, and we subsequently continued.

18 And the last exhibit, Mr. Examiner, is Exhibit
19 Number 10 which is my certificate of notification for
20 hearing.

21 EXAMINER JONES: Okay.

22 Q. (By Mr. Kellahin) In your opinion, Mr. Myers, is
23 it now appropriate to have the Division issue a pooling
24 order in this case?

25 A. Yes, it is.

1 MR. KELLAHIN: That concludes our presentation,
2 and we request the admission of Exhibits 1 through 10.

3 EXAMINER JONES: Exhibits 1 through 10 will be
4 admitted.

5 EXAMINATION

6 BY EXAMINER JONES:

7 Q. Mr. Myers, is this -- This overhead rate seems to
8 be consistent with this other order, but aren't they a
9 little bit different than what the other Parallel case was
10 asking?

11 A. I think there was a variance. I think on some
12 other wells, I think based on recommendations of engineers,
13 I would think, we've used \$4500 a month producing or -- I
14 mean \$450 -- \$4500 a month drilling and \$450 a month
15 producing.

16 Q. Okay. And so you stand by your rate here, you --

17 A. Yes, I do.

18 Q. -- fair rate.

19 The letters that -- Okay, I'll ask you this. How
20 would you determine if this is a dryhole or not?

21 A. At this point, I mean, they would have to go in
22 and drill. I mean, I'm not sure if there's any -- I don't
23 have any data with me right now that would determine
24 whether or not it would be or not.

25 Q. I guess we could look at the AFE on it. But

1 you've basically drilled a well to -- all the way to the
2 total depth --

3 A. Uh-huh.

4 Q. -- of the measured depth before you make a
5 decision there about --

6 A. Yes, we would, and -- Well, the AFE does show an
7 estimated dryhole cost of \$1.14 million, roughly.

8 Q. Okay, and that includes the 20 days of drilling
9 at \$17,000.

10 So basically I guess what I was thinking of is,
11 these owners that are getting these letters and -- they
12 would be liable for the whole thing if you run pipe and
13 complete the well.

14 But if you just complete it as a -- I mean, if
15 you stop at a dryhole and they have elected to participate,
16 that they would be limited to that. Do you think they
17 understood that?

18 A. Yes, sir, I do.

19 EXAMINER JONES: Okay, I don't have any more
20 questions. Thanks a lot, Mr. Myers.

21 THE WITNESS: Thank you.

22 EXAMINER JONES: Thank you, Mr. Kellahin.

23 MR. KELLAHIN: That concludes our presentation,
24 Mr. Examiner.

25 EXAMINER JONES: Okay, Case 13,919 will be taken

1 under advisement.

2 And we need to take a little -- about a 15-minute
3 break here, so we'll come back about -- oh, about 9:25.

4 (Thereupon, these proceedings were concluded at
5 9:10 a.m.)

6 * * *

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12
13 I do hereby certify that the foregoing is
14 a complete record of the proceedings in
15 the Examiner hearing of Case No. _____
16 heard by me on _____
17 _____, Examiner
18 Oil Conservation Division
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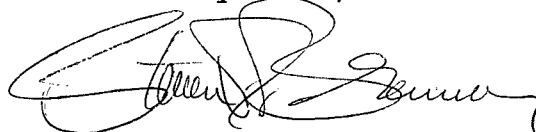
CERTIFICATE OF REPORTER

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 July 28th, 2007.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2010