

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 MCELVAIN OIL AND GAS)
PROPERTIES, INC., FOR COMPULSORY)
POOLING, RIO ARRIBA COUNTY, NEW MEXICO)

CASE NO. 14,048

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: RICHARD EZEANYIM, Hearing Examiner
DAVID K. BROOKS, Jr., Legal Examiner

December 13th, 2007
Santa Fe, New Mexico

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This matter came on for hearing before the New Mexico Oil Conservation Division, RICHARD EZEANYIM, Technical Examiner, DAVID K. BROOKS, Jr., Legal Examiner, on Thursday, December 13th, 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

December 13th, 2007
 Examiner Hearing
 CASE NO. 14,048

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<u>SHERYL A. OLSON</u> (Landman)	
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A P P E A R A N C E S

FOR THE DIVISION:

DAVID K. BROOKS, JR.
Assistant General Counsel
Energy, Minerals and Natural Resources Department
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

FOR THE APPLICANT:

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 8:55 a.m.:

3 EXAMINER EZEANYIM: Now we call Case Number
4 14,048. This is the Application of McElvain Oil and Gas
5 Properties, Inc., for compulsory pooling, Rio Arriba
6 County, New Mexico.

7 Call for appearances.

8 MS. MUNDS-DRY: Good morning, Mr. Examiner.
9 Ocean Munds-Dry on behalf of -- with the law firm of
10 Holland and Hart, on behalf of McElvain Oil and Gas
11 Properties, Inc., this morning, and I have one witness.

12 EXAMINER EZEANYIM: Any other appearances?
13 Okay, may the witness stand to be sworn, please?
14 (Thereupon, the witness was sworn.)

15 SHERYL A. OLSON,
16 the witness herein, after having been first duly sworn upon
17 her oath, was examined and testified as follows:

18 DIRECT EXAMINATION

19 BY MS. MUNDS-DRY:

20 Q. Good morning. Would you please state your name
21 for the record?

22 A. My name is Sheryl A. Olson.

23 Q. Ms. Olson, where do you reside?

24 A. I reside in Denver, Colorado.

25 Q. And by whom are you employed and in what

1 position?

2 A. I am senior landman with McElvain Oil and Gas
3 Properties, Inc.

4 Q. And have you previously testified before the Oil
5 Conservation Division as an expert witness?

6 A. No, I have not.

7 Q. Would you please review your education and work
8 history for Mr. Ezeanyim?

9 A. Mr. Ezeanyim, I have a bachelor of arts degree
10 from Illinois Wesleyan University in Bloomington, Illinois.
11 I have been with McElvain approximately a year. Prior to
12 that, my work experience involves 10 years with Aspect
13 Energy, Aspect Resources just prior. Preceding that, I
14 have been employed by Apache Oil Corporation and also
15 Consolidated Oil and Gas for five years, working as their
16 northern division landman, primarily the San Juan Basin
17 area.

18 Q. And are you a certified petroleum landman?

19 A. Yes, I am, I've been certified since 1986, and
20 I'm a member of the American Association of Petroleum
21 Landmen.

22 Q. Ms. Olson, are you familiar with the pooling
23 application that has been filed for McElvain?

24 A. Yes, I am.

25 Q. And are you familiar with the status of the lands

1 that are the subject of this Application?

2 A. Yes.

3 MS. MUNDS-DRY: Mr. Ezeanyim, we would tender Ms.
4 Olson as an expert in petroleum land matters.

5 EXAMINER EZEANYIM: Ms. Olson is so qualified.

6 Q. (By Ms. Munds-Dry) Ms. Olson, would you explain
7 to the Examiner what McElvain seeks with this Application?

8 A. McElvain is seeking an order to pool the
9 Mesaverde formation in the east half of Section 14,
10 Township 25 North, Range 2 West of Rio Arriba County, for
11 the proposed two wells, the Badger Com 14 Number 2 and the
12 Badger Com 14 Number 2-A.

13 Q. Thank you. Would you please turn to what's been
14 marked as McElvain Exhibit Number 1 and identify and review
15 that for the Examiner?

16 A. Exhibit Number 1 is a plat which indicates the
17 east half of Section 14 as the proposed spacing unit. The
18 northern well location is the Badger Com 14-2. And the
19 southeast of the southeast, the Badger Com 14 Number 2-A is
20 indicated. And the interest owners as to the Mesaverde
21 formation are indicated in each of the tracts.

22 Q. What gas pool is involved with this Application?

23 A. Blanco-Mesaverde.

24 EXAMINER EZEANYIM: Yeah, let me stop right on
25 this --

1 THE WITNESS: Uh-huh.

2 EXAMINER EZEANYIM: On the Blanco-Mesaverde, and
3 you have this, is there any pool -- pool rules that governs
4 the Blanco-Mesaverde here that you know of?

5 MS. MUNDS-DRY: Oh --

6 EXAMINER EZEANYIM: Because this is on 320. You
7 know, it's on 320, so there must be a pool rule that
8 governs this pool.

9 MS. MUNDS-DRY: There are pool rules for the
10 Blanco-Mesaverde Gas Pool, yes, sir.

11 EXAMINER EZEANYIM: Do you know which one affects
12 this Application?

13 MS. MUNDS-DRY: I don't, but --

14 THE WITNESS: Which number?

15 MS. MUNDS-DRY: And I'm trying to think if I can
16 remember for you. There are -- there are special pool
17 rules for this.

18 EXAMINER EZEANYIM: Yeah, and so I -- you know, I
19 was thinking that you may have it, but you can --

20 MS. MUNDS-DRY: I don't have it on the top of my
21 head, but I believe this is the pool that allows the four
22 infill wells on a spacing unit. But, Mr. Examiner, we can
23 always provide that for you --

24 EXAMINER EZEANYIM: Oh, yeah --

25 MS. MUNDS-DRY: -- we can always look that up.

1 EXAMINER EZEANYIM: Yeah, if you can make a note
2 and provide that, that would help me out.

3 MS. MUNDS-DRY: I certainly will.

4 THE WITNESS: Was that in our Application, that
5 number?

6 MS. MUNDS-DRY: I don't believe so, but we'll
7 certainly provide that to you, Mr. Ezeanyim.

8 EXAMINER EZEANYIM: Okay, yeah. Okay, very good.

9 Q. (By Ms. Munds-Dry) Ms. Olson, if you would
10 please turn to Exhibit Number 2 and review these documents
11 for the Examiner.

12 A. Exhibit Number 2 is comprised of the APDs that
13 have been approved.

14 The Badger Com 14 Number 2 well in the northeast
15 quarter is located 671 feet from the north line and 1530
16 feet from the east line.

17 The Badger Com Number 2-A in the southeast
18 quarter will be drilled 663 feet from the south line and
19 965 feet from the east line. And the plat follows for each
20 of those APDs.

21 Q. Ms. Olson, why does McElvain propose two wells in
22 this Application?

23 A. Given our results in the area, McElvain sees both
24 wells as having equal risk, so we intend to drill both
25 wells consecutively. The primary factors are timing and I

1 think economics -- not "I think" -- and economics.

2 We plan to use the same rig. We will start with
3 the southern well, the Badger Com 2-A, drill that, and then
4 move directly north to the Number 2 well.

5 Our plan will not be to complete the first well
6 until after the second well is drilled and we have logs on
7 both wells. McElvain's experience indicates they would not
8 like to drill, complete and then shut in a well waiting on
9 pipeline, so we'd like to drill -- move consecutively from
10 one to the other. That rig is available December 20th.

11 EXAMINER EZEANYIM: What did you say?

12 THE WITNESS: The rig is available December 20th.

13 EXAMINER EZEANYIM: Next week?

14 THE WITNESS: Yes.

15 Also our intentions, from an economic standpoint,
16 there's one pipeline that's feasible for the area
17 enterprise. In terms of economies of scale, moving in your
18 construction crew, et cetera, it is more economic to go
19 ahead and connect both wells at the same time, once we have
20 logs from both and can indicate what those -- hopefully,
21 those deliveries would be.

22 I think that's primarily it.

23 Bottom line, conducting operations in this
24 manner, we feel payout will occur sooner for all parties
25 because costs will be a little bit less.

1 Q. What are McElvain's plans, then, for drilling
2 both of these wells? Do you know the timing for drilling
3 both these wells?

4 A. We'd like to commence on or about December 20th.
5 It should take the AFEs about 13 days to drill the first
6 well, and then move the rig directly north to the second
7 well, same rig again.

8 MS. MUNDS-DRY: Mr. Ezeanyim, you can guess what
9 we're going to ask for at the end of this hearing with that
10 timing, but I'll prolong that a little bit.

11 Q. (By Ms. Munds-Dry) Ms. Olson, what is the status
12 of the acreage, then, in this area?

13 A. We have -- the entire east half is a fee lease,
14 the Koon oil and gas lease, with the exception of 40 acres
15 as indicated on the plat. There's a federal lease in the
16 northwest of the southeast quarter.

17 Q. Ms. Olson, if you'll turn to what's been marked
18 as Exhibit Number 3 and review that for Mr. Ezeanyim.

19 A. Exhibit 3 indicates the working interest owners
20 within the unit. McElvain will have approximately 16
21 percent of the interest in the unit at this point. And
22 there are two remaining parties, Williams and PXP, who have
23 not made a commitment to the proposals.

24 Q. What are Williams and PXP's percentage interests
25 in the subject spacing unit?

1 A. Williams has 50 percent working interest, and PXP
2 just over 33 percent.

3 Q. Would you please explain to the Examiner
4 McElvain's efforts to attempt to reach agreement with --
5 let's focus on PXP first, and I'll ask you to refer to
6 what's been marked as Exhibit Number 4.

7 A. Contact with PXP began in April of this year,
8 2007. By May 10th we had reached an agreement to purchase
9 their acreage, their leasehold, and that was indicated by
10 the May 10th letter agreement.

11 Q. Is that this first letter here?

12 A. Yes, that's Exhibit Number 4. And what that
13 would involve would be execution of two assignments, one
14 from their predecessor-in-title -- record title was not at
15 that point into PXP -- and then another assignment into
16 McElvain.

17 McElvain on May 24th provided to PXP both forms
18 of assignments -- this was really done at their request
19 because of their workload. October 19th, we were advised
20 by PXP that they had received the assignment into them from
21 their predecessor. That was executed dated September 26th,
22 2007.

23 For the following three weeks I made contact via
24 e-mail and phone with PXP, really with difficulty having a
25 response. It was just about November 8th that I was able

1 to speak with someone that indicated that they were not
2 going to be able to move forward with the assignment to
3 McElvain at that time, due to their acquisition of Pogo.

4 Next day, I did go ahead and send a well proposal
5 dated November 9th to PXP. That was followed with a cover
6 e-mail to the party who would be receiving that proposal,
7 the division land manager.

8 Q. And is a copy of that letter also included in
9 Exhibit Number 4?

10 A. Yes. Yes, that is. It was sent via Federal
11 Express.

12 Then on November 15th I was able to have a direct
13 conversation via phone with the land manager. He indicated
14 that the well proposal was under consideration, and I think
15 his hope was to have an answer to us before this hearing
16 date.

17 I have sent three follow-up e-mails and three
18 phone calls and have not had any response from PXP.

19 Q. Let's then turn to what's been marked as Exhibit
20 Number 5, and if you would review what efforts you have
21 undertaken to reach an agreement with Williams.

22 A. Our well proposal was sent to Williams on October
23 24th, I believe they received it October 25th.

24 Approximately mid-November, just before
25 Thanksgiving, I received indication from their landman that

1 they did not wish to participate, they would like to farm
2 out, and so we have been discussing farmout terms since the
3 end of November, after the Thanksgiving break.

4 December 3rd, I did send a draft farmout proposed
5 agreement to them, and we have been in the process of
6 negotiating those terms. We just haven't reached final
7 closure yet on those farmout terms.

8 EXAMINER EZEANYIM: Is it in process?

9 THE WITNESS: Yes.

10 Q. (By Ms. Munds-Dry) In your opinion, has McElvain
11 made a good-faith effort to reach voluntary agreement with
12 both these parties?

13 A. Yes, we definitely have.

14 Q. Would you please turn to what's been marked
15 Exhibit Number 6 and review these documents?

16 A. Exhibit Number 6 is the AFE for each of the
17 wells.

18 The Badger Com 14 Number 2 will have dryhole
19 costs of \$713,200, total completed well costs will be one
20 thousand three hundred sixty-six two hundred ninety
21 dollars.

22 Q. Do you mean one million?

23 A. Yes, I'm sorry.

24 Q. Didn't want to cut you short there.

25 A. Bargain prices.

1 And then the Badger Com 14 2-A, dryhole costs are
2 \$659,700, completed well costs \$1,312,790.

3 Q. Thank you. Is this AFE based on costs that
4 McElvain has incurred for drilling similar wells in the
5 area?

6 A. Yes, they are.

7 Q. And have you made an estimate of overhead and
8 administrative costs while drilling this well and while
9 producing this well, if it is successful?

10 A. Yes, the monthly drilling rate is \$5500, the
11 monthly producing rate will be \$550.

12 Q. And what is Exhibit Number 7?

13 A. Exhibit Number 7 is the COPAS Exhibit C which has
14 been attached to the joint operating agreement.

15 Q. And are the drilling and producing rates
16 reflected in the COPAS?

17 A. Yes, they are on page 4.

18 Q. And have you submitted a JOA for this area?

19 A. This JOA has been submitted to all parties and
20 been executed by all with the exception of Williams and
21 PXP.

22 Q. And will the drilling and producing rates -- were
23 they incorporated in this JOA?

24 A. Yes.

25 Q. And do you ask that these figures be incorporated

1 into any order that results from this hearing?

2 A. Yes, please.

3 Q. And does McElvain request that the overhead
4 figures approved by the Division be subject to adjustment
5 in accordance with the COPAS form?

6 A. Yes, we do.

7 Q. What entity will be the designated operator for
8 this well?

9 A. McElvain Oil and Gas Properties, Inc.

10 Q. And does McElvain request that the Division
11 impose a 200-percent risk penalty in accordance with
12 applicable statutes and Division rules?

13 A. Yes, we do.

14 Q. And is McElvain Exhibit Number 8 a copy of a
15 notice affidavit with the attached notice letters, green
16 cards and the affidavit of publication in the newspaper?

17 A. Yes, it is.

18 Q. And were Exhibits Number 1 through 8 either
19 prepared by you or compiled under your direct supervision?

20 A. Yes, they were prepared by me or compiled under
21 supervision.

22 MS. MUNDS-DRY: Mr. Examiner, we would move the
23 admission of Exhibits Number 1 through 8 into evidence.

24 EXAMINER EZEANYIM: Exhibits 1 through 8 will be
25 admitted.

1 MS. MUNDS-DRY: And Mr. Examiner, the part you've
2 been dreading, we'd like to ask because of the timing for
3 an expedited order, since as Ms. Olson indicated they plan
4 to have a drilling rig available December 20th. They
5 understand that they can proceed with drilling, but just to
6 have their house in order, we would like to have an order
7 as soon as possible.

8 EXAMINER EZEANYIM: Well, that's -- you are
9 drilling at your own risk, you know, if you don't know what
10 the outcome would be, but --

11 MS. MUNDS-DRY: And that's why they prefer to
12 have the order ahead of time, before they start drilling.

13 EXAMINER EZEANYIM: Yeah. I mean, there's a
14 bunch of things we're doing now, but -- I can't promise
15 anything. You're talking about -- in a week's time?

16 MS. MUNDS-DRY: Coming up. We appreciate that
17 you're busy, and whatever you may do to speed an order
18 along, we'll appreciate it.

19 EXAMINER EZEANYIM: Okay, we'll see what we can
20 do. And you know, the first case, that's exactly what they
21 said, they're on the -- too.

22 MS. MUNDS-DRY: Sure.

23 EXAMINER EZEANYIM: If everybody's asking for
24 that, I mean, we'll --

25 MS. MUNDS-DRY: We understand completely. And I

1 have nothing further for Ms. Olson.

2 EXAMINER EZEANYIM: Okay, do you have anything?

3 EXAMINER BROOKS: No, it seems like you must be
4 very sanguine about this prospect to be willing to come up
5 front with the money when you only have a 16-percent
6 interest, but I guess that's just a comment rather than a
7 question.

8 THE WITNESS: Sometimes that happens in the San
9 Juan Basin. It's a favorite area for our engineers.

10 EXAMINER BROOKS: It would be a big loss if it
11 turned out to be bad well.

12 THE WITNESS: Don't say that.

13 MS. MUNDS-DRY: We'll keep our fingers crossed.

14 EXAMINER EZEANYIM: Well, we don't hope it to be
15 a bad well, you know, we want it to be a good well.

16 MS. MUNDS-DRY: Yes.

17 EXAMINER BROOKS: Exactly.

18 EXAMINATION

19 BY EXAMINER EZEANYIM:

20 Q. Are you sure you're going to have a farmout
21 agreement with Williams Production Company or something?

22 A. I'm sorry, say --

23 Q. Are you going to get -- are you sure you might
24 get a farmout from Williams? I mean, you are -- right now,
25 but I don't know what the outcome -- what you think will

1 happen in that case. Fifty percent interest --

2 A. Yes, they will either farm out -- we will either
3 reach conclusion under our discussions, or they'll be in a
4 pool position, which they're aware of.

5 I guess one other thing I might add is, I've
6 discussed the consecutive drilling with Williams, and they
7 understand that completely. It's similar to what they have
8 done in La Plata County, and our company has cooperated
9 with them in executing, actually in that case, a JOA to
10 participate in two wells where they'll be going back to
11 back, drilling operations.

12 Q. Okay. So it's my understanding that every
13 interest owner is locatable, you locate everybody --

14 A. (Nods)

15 Q. Okay. Only they don't wish to join?

16 A. Yes.

17 EXAMINER EZEANYIM: Would you please give me the
18 order that -- the Blanco-Mesaverde, so that we could --

19 MS. MUNDS-DRY: We'll be glad to provide that to
20 you, Mr. Ezeanyim.

21 EXAMINER EZEANYIM: Okay, I have nothing further.

22 MS. MUNDS-DRY: Thank you.

23 EXAMINER EZEANYIM: At this point Case Number
24 14,048 will be taken under advisement.

25 All right, let's take about a 10-minute break

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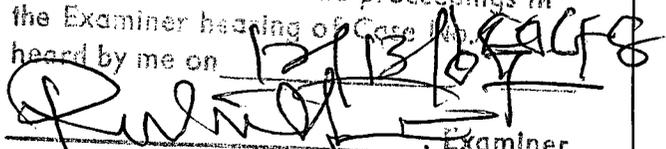
before we go into the other cases we have. Is that okay with you, Mr. Bruce? Take about a 10-minute break and come back?

MR. BRUCE: That's fine.

EXAMINER EZEANYIM: Okay.

(Thereupon, these proceedings were concluded at 9:16 a.m.)

* * *

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 12-13-07-08 heard by me on 12/13/07

_____, 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 February 28th, 2008.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 16th, 2010