

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

ORIGINAL

IN THE MATTER OF THE HEARING CALLED
BY THE OIL CONSERVATION DIVISION FOR
THE PURPOSE OF CONSIDERING:

CASE NO. 14156

FIRST AMENDED APPLICATION OF SAN JUAN
RESOURCES, INC. FOR COMPULSORY POOLING,
SAN JUAN COUNTY, NEW MEXICO

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

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BEFORE: DAVID K. BROOKS, Legal Examiner
TERRY G. WARNELL, Technical Examiner

August 21, 2008

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico
Oil Conservation Division, DAVID K. BROOKS, Legal Examiner,
TERRY G. WARNELL, Technical Examiner, on Thursday, August 21,
2008, at the New Mexico Energy, Minerals and Natural Resources
Department, 1220 South Saint Francis Drive, Room 102, Santa Fe,
New Mexico.

REPORTED BY: JOYCE D. CALVERT, P-03
Paul Baca Court Reporters
500 Fourth Street, NW, Suite 105
Albuquerque, New Mexico 87102

A P P E A R A N C E S

FOR THE APPLICANT:

W. Thomas Kellahin, Esq.
KELLAHIN AND KELLAHIN
706 Gonzales Road
Santa Fe, New Mexico 87501

PAGE

EXHIBITS 1, 2 AND 3

6

REPORTER'S CERTIFICATE

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1 MR. BROOKS: Okay. We'll go back on the record. And
2 call Case No. 14156, First Amended Application of San Juan
3 Resources, Inc., for Compulsory Pooling, San Juan County, New
4 Mexico.

5 Call for appearances.

6 MR. KELLAHIN: I'm Tom Kellahin of the Santa Fe law
7 firm of Kellahin and Kellahin, appearing on behalf of the
8 applicant of the prediction this morning. We're presenting
9 this case by affidavit.

10 MR. BROOKS: Any other appearances? Very good. You
11 may proceed.

12 MR. KELLAHIN: Mr. Examiner, I have three exhibits to
13 present to you. The first is marked as Exhibit No. 1, and is
14 the affidavit of Mr. McHugh. Mr. McHugh is the president of
15 San Juan Resources.

16 After the first four pages of the affidavit, there
17 are some attachments incorporated into the affidavit. If
18 you'll turn back and find Exhibit A to Exhibit 1, there's a
19 tabulation there of names and addresses. These represent, as
20 of Monday, the remaining interest uncommitted to spacing units
21 in the E/2 of Section 24 for the Mesaverde and Dakota dual
22 completion well. These interest owners have been edited to
23 show that, for example, Maralex has agreed to participate.

24 If you'll read farther down, you'll see that the Cox
25 interest and the Trommald Family Trust have been purchased. At

1 the bottom, then, there's a total interest to be pooled showing
2 you slightly over 2.1 interest. The only party listed on this
3 page for whom we could not obtain a valid address is Gladys
4 Murphy, the second from the bottom.

5 Exhibit No. 3 to the hearing is the certification
6 from the newspaper of the affidavit of publication of notice to
7 all these various parties, including Gladys Murphy.

8 Following Exhibit A to Exhibit 1 is Exhibit B, which
9 is the spacing unit itself which is the outline of the E/2 of
10 Section 24. Followed by that is Attachment C which consists of
11 nine pages. The nine pages are the initial well proposal
12 letter that included an AFE to the nine parties for whom we had
13 valid addresses at that time.

14 If you turn past Attachment C, you'll find that there
15 is no Exhibit D; that's a blank. After D is E and E-1. E is
16 the original AFE that was proposed between the time of the
17 proposal and the hearing. There's been revisions in the costs
18 associated with increased prices in steel and tubular goods.
19 Mr. McHugh has verified in his affidavit that Exhibit E-1 to
20 his affidavit is his best estimate of the current costs
21 associated with the well.

22 You'll find in the affidavit that Mr. McHugh also is
23 requesting overhead rates while drilling as \$5,000 a month and
24 a producing well rate of \$500 a month. That's consistent with
25 his understanding of the COPUS schedule that is published by

1 Ernst and Young and with the COPUS adjustments associated with
2 that schedule.

3 MR. BROOKS: And what were the amounts?

4 MR. KELLAHIN: 5,000 a month drilling and 550 a month
5 producing well. Those are consistent with Ernst and Young.

6 MR. BROOKS: Okay.

7 MR. KELLAHIN: They are also consistent with a prior
8 order that Mr. McHugh has obtained from the Division. That's
9 Order No. R-12642 issued by Mr. Catanach back in October
10 of '06.

11 Setting aside the affidavit, then, the certificate of
12 mailing, which is Exhibit No. 2, is the notice of hearing for
13 which we have return receipts for various people. Again, the
14 only known -- Gladys Murphy is the only party for which we do
15 not have a known address. One of the -- two of the letters
16 have come back. They were from the parties, a William Drosten
17 and Ellen Berend. Both those people were included in the
18 certificate of notification in the newspaper, so we believe
19 we've complied with the Division's notice requirements in terms
20 of satisfying the requirements for notice of this hearing.

21 And with your permission, then, we would ask you to
22 admit Exhibits 1, 2 and 3.

23 MR. BROOKS: Okay. Going through this package, I
24 wasn't following you in a certain sense. I was never able to
25 find the AFE. Well, you know, here it is, right here.

1 [Applicant's Exhibits 1, 2 and 3 admitted into
2 evidence.]

3 MR. KELLAHIN: It's at the very end, sir.

4 MR. BROOKS: Well, my package is all put together.

5 MR. KELLAHIN: You can take the staple and --

6 MR. BROOKS: Take the paper clip off?

7 MR. KELLAHIN: Yeah.

8 MR. BROOKS: I found it. Just as I was saying I
9 couldn't find it was exactly when I found it -- not that the
10 AFE is really critical, I don't believe.

11 I have no questions. Do you have questions?

12 MR. WARNELL: No questions.

13 MR. BROOKS: Very good. If there's nothing further,
14 then Case No. 14156 will be taken under advisement.

15 MR. KELLAHIN: Thank you, Mr. Brooks.

16 * * *

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20 I do hereby certify that the foregoing is
21 a complete record of the proceedings in
22 the Examiner hearing of Case No. 14156
23 heard by me on 8-21-08
24 David K. Brooks Examiner
25 Oil Conservation Division

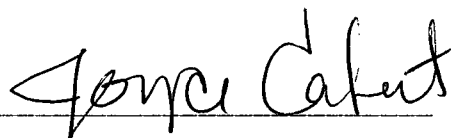
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REPORTER'S CERTIFICATE

I, JOYCE D. CALVERT, Provisional Court Reporter for the State of New Mexico, do hereby certify that I reported the foregoing proceedings in stenographic shorthand and that the foregoing pages are a true and correct transcript of those proceedings and was reduced to printed form under my direct supervision.

I FURTHER CERTIFY that I am neither employed by nor related to any of the parties or attorneys in this case and that I have no interest in the final disposition of this proceeding.

DATED this 21st of August, 2008.



JOYCE D. CALVERT
New Mexico P-03
License Expires: 7/31/09

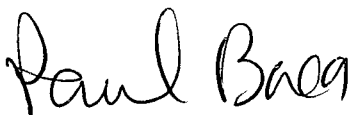
1 STATE OF NEW MEXICO)
2 COUNTY OF BERNALILLO)

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4 I, JOYCE D. CALVERT, a New Mexico Provisional
5 Reporter, working under the direction and direct supervision of
6 Paul Baca, New Mexico CCR License Number 112, hereby certify
7 that I reported the attached proceedings; that pages numbered
8 1-6 inclusive, are a true and correct transcript of my
9 stenographic notes. On the date I reported these proceedings,
10 I was the holder of Provisional License Number P-03.

11 Dated at Albuquerque, New Mexico, 21st day of
12 August, 2008.

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16 Joyce D. Calvert
17 Provisional License #P-03
18 License Expires: 7/31/08

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22 Paul Baca, RPR
23 Certified Court Reporter #112
24 License Expires: 12/31/08
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