

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. 13,155

APPLICATION OF MACK ENERGY CORPORATION)
FOR COMPULSORY POOLING, EDDY COUNTY,)
NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

RECEIVED

October 9th, 2003

OCT 25 2003

Santa Fe, New Mexico

Oil Conservation Division

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, October 9th, 2003, 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.

* * *

I N D E X

October 9th, 2003
Examiner Hearing
CASE NO. 13,155

PAGE

APPEARANCES

3

APPLICANT'S WITNESS:

RONALD W. LANNING (Landman)

Direct Examination by Mr. Carr

4

Examination by Examiner Catanach

11

REPORTER'S CERTIFICATE

14

* * *

E X H I B I T S

Applicant's

Identified

Admitted

Exhibit 1

7

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Exhibit 2

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Exhibit 3

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Exhibit 4

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Exhibit 5

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* * *

A P P E A R A N C E S

FOR THE DIVISION:

GAIL MacQUESTEN
Deputy 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: WILLIAM F. CARR

* * *

1 WHEREUPON, the following proceedings were had at
2 9:53 a.m.:

3 EXAMINER CATANACH: Okay, at this time I'll call
4 Case 13,155, the Application of Mack Energy Corporation for
5 compulsory pooling in Eddy County, New Mexico.

6 Call for appearances.

7 MR. CARR: May it please the Examiner, my name is
8 William F. Carr with the Santa Fe office of Holland and
9 Hart, L.L.P. We represent Mack Energy Corporation in this
10 matter, and I have one witness.

11 EXAMINER CATANACH: Will the witness please stand
12 to be sworn in?

13 (Thereupon, the witness was sworn.)

14 RONALD W. LANNING,
15 the witness herein, after having been first duly sworn upon
16 his oath, was examined and testified as follows:

17 DIRECT EXAMINATION

18 BY MR. CARR:

19 Q. Would you state your name for the record, please?

20 A. Ronald W. Lanning.

21 Q. Mr. Lanning, where do you reside?

22 A. Artesia, New Mexico.

23 Q. By whom are you employed?

24 A. Mack Energy Corporation.

25 Q. What is your position with Mack Energy

1 Corporation?

2 A. Land manager.

3 Q. Have you previously testified before this
4 Division?

5 A. Yes, I have.

6 Q. At the time of that testimony, were your
7 credentials as an expert in petroleum land matters accepted
8 and made a matter of record?

9 A. Yes.

10 Q. Are you familiar with the Application filed in
11 this case?

12 A. Yes, sir.

13 Q. And are you familiar with the status of the lands
14 in the area that is the subject of this Application?

15 A. Yes.

16 MR. CARR: Are Mr. Lanning's qualifications
17 acceptable?

18 EXAMINER CATANACH: They are.

19 Q. (By Mr. Carr) Would you briefly state for Mr.
20 Catanach what it is that Mack Energy Corporation seeks with
21 this Application?

22 A. An order pooling all mineral interests from a
23 depth of 5000 feet to the base of the Morrow formation in
24 the following described lands: In Section 28, 17 South, 29
25 East, the north half for all formations or pools developed

1 on 320-acre spacing, which includes but is not limited to
2 the Grayburg-Morrow Gas Pool and the Undesignated Grayburg-
3 Atoka Gas Pool; the northeast quarter for all formations
4 and/or pools developed on 160-acre spacing; the west half,
5 northeast quarter for all formations and/or pools developed
6 on 80-acre spacing, which includes but is not necessarily
7 limited to the Undesignated South Empire-Wolfcamp Pool; and
8 the southwest quarter of the northeast quarter for all
9 formations and/or pools developed on 40-acre spacing, which
10 includes but is not necessarily limited to the Undesignated
11 Empire-Abo Pool and the Undesignated Grayburg-Upper
12 Pennsylvanian Pool.

13 Q. Would you identify the well to which these units
14 will be dedicated?

15 A. The Diamondbacks State Number 1, its location is
16 1980 from the north and east lines of the section.

17 Q. Mr. Lanning, when the Application was filed, we
18 sought an order pooling from a depth of 5000 feet to the
19 base of the Ellenburger?

20 A. That's correct.

21 Q. Is it not true that Mack Energy Corporation owns
22 a hundred percent of the interest below the base of the
23 Morrow?

24 A. That's correct.

25 Q. And so the Application and the request should be

1 amended to pool from a depth of 5000 feet to the base of
2 the Morrow?

3 A. That's correct.

4 Q. Let's go to what has been marked as Mack Energy
5 Corporation Exhibit Number 1. Would you identify that for
6 the Examiner?

7 A. That's a land plat with the north half of Section
8 28 highlighted in yellow, and a red dot for the location.

9 Q. And what is the status of this land, state,
10 federal or fee?

11 A. It's a state lease.

12 Q. And the primary objectives in the well are what?

13 A. The Morrow is our primary objective, but we
14 intend to take it to the Ellenburger.

15 Q. Let's go to Exhibit 2. Would you identify and
16 explain what this is?

17 A. That's a list of all the parties. Chase Oil
18 Corporation, et al., is the Mack Energy-affiliated
19 companies which, of course, are all voluntarily committed
20 to the well. The remaining 10 interests are contractual
21 interests from 5000 feet to the base of the Morrow
22 formation.

23 Q. And at this point in time we have the Chase Oil
24 Corporation interest committed, 91.8 percent?

25 A. Yes.

1 Q. Are there owners in this area that you have been
2 unable to locate?

3 A. Yes, the remaining ten parties. We were not able
4 to locate any of those people.

5 Q. Can you explain to Mr. Catanach or review the
6 efforts that you've made to identify these entities or
7 individuals and contact them?

8 A. We began in the summer of 2001, Internet
9 searches, county records, et cetera. And certified mail
10 proposing the well and an AFE was sent out to all the
11 parties on November 13th of 2001.

12 Q. The addresses that are shown on this exhibit are
13 the best addresses you have been able to obtain; isn't that
14 correct?

15 A. Yes, sir.

16 Q. And you have been unable to get any of these
17 entities or individuals to respond; is that right?

18 A. That's correct.

19 Q. Would you identify Mack Exhibit Number 3 and
20 explain what that is?

21 A. It's copies of the November 13th, 2001, letter
22 and also another certified letter that went out on August
23 29th of this year.

24 Q. Would you identify Exhibit 4?

25 A. Exhibit Number 4 is our AFE for the well.

1 Q. And review the costs that are set forth on this
2 exhibit.

3 A. Dryhole costs are \$653,500, completed well cost
4 \$1,236,500.

5 Q. And these costs reflect the cost of going to the
6 Morrow formation; is that correct?

7 A. Yes, sir.

8 Q. They don't include additional --

9 A. No.

10 Q. -- costs related to the Ellenburger?

11 A. No, they do not.

12 Q. Are these costs in line with what has been
13 charged by Mack and other operators in the area for similar
14 wells?

15 A. They are.

16 Q. Have you made an estimate of the overhead and
17 administrative costs to be incurred while drilling the well
18 and also while producing it if, in fact, it is successful?

19 A. Yes, sir.

20 Q. And what are those?

21 A. We propose \$6000 a month for drilling and \$600 a
22 month for producing.

23 Q. And these are in line with costs for similar
24 wells in the area?

25 A. Yes, sir, well within the parameters of our other

1 operating agreements where we operate, and also operating
2 agreements where we do not operate for Morrow wells.

3 Q. Do you recommend these figures be incorporated
4 into the order that results from today's hearing?

5 A. Yes.

6 Q. Are you familiar with the COPAS accounting
7 procedures for joint operations?

8 A. Yes, sir, I am.

9 Q. And you're aware that these permit the adjustment
10 of overhead and administrative costs on a periodic basis?

11 A. Yes, sir.

12 Q. Do you request that the order that results from
13 this hearing also authorize the adjustment of the overhead
14 and administrative costs in accordance with the COPAS
15 Accounting Procedures for Joint Operations, 1984 Onshore
16 Form?

17 A. Yes, sir.

18 Q. Does Mack Energy request that a 200-percent
19 charge for the risk assumed by Mack in drilling and
20 completing this well be imposed on each interest not
21 voluntarily committed to the well?

22 A. Yes.

23 Q. Is Exhibit Number 5 an affidavit with attached
24 letters confirming that notice of this hearing has been
25 provided in accordance with the Rules of the Division?

1 A. Yes, sir.

2 Q. To whom was notice provided?

3 A. The ten parties listed on Exhibit 2.

4 Q. Does Mack Energy Corporation seek to be
5 designated operator of the proposed well?

6 A. Yes.

7 Q. And how soon do you plan to actually commence
8 operations on that well?

9 A. As soon as possible.

10 Q. Were Exhibits 1 through 5 prepared by you or
11 compiled under your direction?

12 A. Yes, sir.

13 MR. CARR: May it please the Examiner, at this
14 time we'd move the admission into evidence of Mack Energy
15 Corporation Exhibits 1 through 5.

16 EXAMINER CATANACH: Exhibits 1 through 5 will be
17 admitted.

18 MR. CARR: And that concludes my examination of
19 Mr. Lanning

20 EXAMINATION

21 BY EXAMINER CATANACH:

22 Q. Mr. Lanning, where do these interest owners
23 derive their interest from, within this unit?

24 A. There was a contractual interest -- I'd have to
25 get my briefcase, David, but there was an individual who

1 had a contractual interest of approximately 15 percent, and
2 he doled it out to probably about 30 different people
3 across the country, including Bing Crosby and some other
4 well-known individuals. And we were able to clean up about
5 20 of the individuals, and these 10 we just simply weren't
6 able to locate. But they were scattered all over the
7 country.

8 Q. By "cleaning up", you were able to purchase --

9 A. We acquired -- Yes, we acquired the interest.

10 Q. But you've just not been able to locate these
11 parties?

12 A. That's correct.

13 Q. And these are the last known addresses that you
14 can find on these people?

15 A. Yes.

16 Q. And you've conducted searches for these people?

17 A. Yes, sir, on the Internet under Yahoo
18 PeopleSearch, and we've done extensive record-checking in
19 Eddy and Lea Counties trying to find them.

20 Q. Okay. And they only own rights from 5000 feet to
21 the base of the Morrow; is that correct?

22 A. Correct.

23 Q. You own everything above and below that?

24 A. Yes, sir.

25 Q. So if it's Morrow -- I mean, if it's -- Do you

1 expect any Ellenburger?

2 A. Not really, but Mack wants to take it to the
3 Ellenburger, so that's what we're going to do, but our
4 primary objective is Morrow.

5 EXAMINER CATANACH: Okay. I don't have anything
6 else.

7 MR. CARR: That concludes our presentation in
8 this case.

9 EXAMINER CATANACH: Did you have anything? I'm
10 sorry, do you have anything?

11 MS. MacQUESTEN: (Shakes head)

12 EXAMINER CATANACH: Okay, the witness may be
13 excused.

14 And there being nothing further, Case 13,155 will
15 be taken under advisement.

16 (Thereupon, these proceedings were concluded at
17 9:01 a.m.)

18 * * *

19
20 I do hereby certify that the foregoing is
21 a complete record of the proceedings in
22 the Examiner hearing of Case No. 13/55,
23 heard by me on October 8, 2005.
24 David Catnach, Examiner
25 Oil Conservation Division

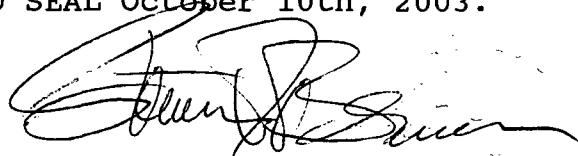
CERTIFICATE OF REPORTER

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 October 10th, 2003.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2006