

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 NOS. 13,159 |
| APPLICATIONS OF SUNLIGHT EXPLORATION, |) | 13,160 |
| INC., FOR COMPULSORY POOLING, LEA COUNTY, |) | 13,161 |
| NEW MEXICO |) | and 13,162 |
| |) | (Consolidated) |

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

October 9th, 2003

Santa Fe, New Mexico

ORIGINAL

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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.

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I N D E X

October 9th, 2003

Examiner Hearing

CASE NOS. 13,159, 13,160, 13,161 and 13, 162 (Consolidated)

PAGE

APPEARANCES

3

APPLICANT'S WITNESS:

TERRY BROOKS (Landman)

Direct Examination by Mr. Bruce

5

Examination by Examiner Catanach

12

REPORTER'S CERTIFICATE

16

* * *

E X H I B I T S

Applicant's

Identified

Admitted

Exhibit 1

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Exhibit 2

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Exhibit 3

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Exhibit 4

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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:

JAMES G. BRUCE
Attorney at Law
P.O. Box 1056
Santa Fe, New Mexico 87504

* * *

1 WHEREUPON, the following proceedings were had at
2 10:25 a.m.:

3 EXAMINER CATANACH: Okay, at this time I'll call
4 Case 13,159, the Application of Sunlight Exploration, Inc.,
5 for compulsory Pooling, Lea County, New Mexico.

6 Call for appearances in this case.

7 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe,
8 representing the Applicant. I have one witness, and I'd
9 ask that this case be consolidated with the next three
10 cases.

11 EXAMINER CATANACH: Are there any additional
12 appearances in this case?

13 Okay, at the request of the Applicant I will now
14 call Case 13,160, which is the Application of Sunlight
15 Exploration, Inc., for compulsory Pooling, Lea County, New
16 Mexico.

17 I will also call Case 13,161, which is the
18 Application of Sunlight Exploration, Inc., for compulsory
19 Pooling, Lea County, New Mexico.

20 And lastly I will call Case 13,162, which is also
21 the Application of Sunlight Exploration, Inc., for
22 compulsory Pooling, Lea County, New Mexico.

23 Any additional appearances in any of these four
24 cases?

25 There being none, can I get the witness to stand

1 and be sworn at this time?

2 (Thereupon, the witness was sworn.)

3 TERRY BROOKS,

4 the witness herein, after having been first duly sworn upon
5 his oath, was examined and testified as follows:

6 DIRECT EXAMINATION

7 BY MR. BRUCE:

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

9 A. Terry Brooks.

10 Q. Where do you reside?

11 A. Blanchard, Oklahoma.

12 Q. What's your occupation?

13 A. Petroleum landman.

14 Q. What is your relationship to Sunlight
15 Exploration, Inc., in this matter?

16 A. I am the landman who have -- I've secured the oil
17 and gas leases related to the prospect.

18 Q. Okay, so you're an independent contractor on
19 behalf of Sunlight?

20 A. That's correct.

21 Q. Have you previously testified before the
22 Division?

23 A. No.

24 Q. Would you please summarize your educational and
25 employment background?

1 A. I attended the University of Oklahoma from 1977
2 to 1981 as a petroleum landman. I've worked in the
3 industry from 1981 to present as a petroleum landman.

4 Q. Which company do you currently work for?

5 A. Land Services, Inc., which is my company.

6 Q. Okay. And on behalf of Sunlight did you examine
7 title, or have examined title, in the northwest quarter of
8 Section 14 and other acreage in this area?

9 A. Yes, I did.

10 Q. And are you familiar with the land matters
11 involved in this Application?

12 A. Yes, I am.

13 MR. BRUCE: Mr. Examiner, I'd tender the witness
14 as an expert petroleum landman.

15 EXAMINER CATANACH: Mr. Brooks is so qualified.

16 Q. (By Mr. Bruce) Mr. Brooks, could you identify
17 Exhibit 1 and describe what Sunlight seeks in these four
18 cases?

19 A. Exhibit 1 is a land plat of part of Township 13
20 South, Range 38 East. We're seeking an order pooling all
21 mineral interest owners from the surface to the base of the
22 Wolfcamp formation underlying each quarter quarter section
23 in the northwest quarter of Section 14. The unit is
24 comprised of the northwest-northwest, the northeast-
25 northwest, the southwest-northwest and southeast-northwest.

1 Q. Now in the northwest-northwest and the northeast-
2 northwest, those units are being pooled for the re-entries
3 of the Linam Number 1 and Number 2 wells, respectively?

4 A. That's correct.

5 Q. And for the southwest of the northwest and the
6 southeast of the northwest, those will be new wells?

7 A. Yes, sir, drilled at an orthodox location.

8 Q. Okay. And the Linam Number 1 and Number 2, those
9 are at orthodox locations also, aren't they?

10 A. That's correct.

11 Q. And again, what is the primary target zone of the
12 well?

13 A. The Wolfcamp formation, which is a part of the
14 Bronco-Wolfcamp Pool.

15 Q. Now, before we get to the next exhibit, Exhibit
16 2, we are force pooling a number of interest owners, but
17 what percentage interest have you been able to lease in
18 these well units?

19 A. 95 percent we have leased.

20 Q. Okay, and could you identify Exhibit 2 for the
21 Examiner?

22 A. Yes, Exhibit 2 is a list of the respondents to
23 the pooling.

24 Q. So these are the parties you have not been able
25 to locate or lease?

1 A. This is correct.

2 Q. Now, omitted from here -- and these parties
3 comprise 5 percent of each well unit?

4 A. As to the north half of the northwest quarter,
5 yes.

6 Q. Okay. Now, we omitted -- or I should say I
7 omitted one party from here, which is Betelgeuse Production
8 Company; is that correct?

9 A. That's correct.

10 Q. Now, Betelgeuse Production Company owns what, a
11 1-1/4-percent interest in these well units?

12 A. That is correct, in each unit.

13 Q. Okay. Now, they have leased to you in the north
14 half of the northwest?

15 A. Yes.

16 Q. But they have not leased to you in the south half
17 of the northwest at this point?

18 A. That's correct.

19 Q. Okay. Now, as to these unlocatable owners, what
20 have you done to locate their interests?

21 A. We have performed extensive searches at the Lea
22 County Courthouse records, we've checked phone listings and
23 Internet searches. We're still in the process of
24 attempting to locate them. Most of the parties -- Well,
25 excuse me, all of the parties or their predecessors

1 acquired title in the 1930s and have disappeared from
2 record.

3 Q. Okay, so it's over approximately 65 years since
4 they've acquired their interest?

5 A. That's correct.

6 Q. And as usual, probably when they were granted
7 their interest, didn't contain a precise address or maybe
8 even no address at all?

9 A. Actually, some of them had no address on the
10 instruments of acquisition.

11 Q. Okay. In your opinion, have you made a good-
12 faith effort to locate the parties listed on Exhibit 2?

13 A. Yes, we have.

14 Q. Now with respect to Betelgeuse production, you
15 have been in negotiations with them for quite some time?

16 A. That's correct.

17 Q. And you were able to secure a lease on the north
18 half of the northwest quarter, correct?

19 A. Yes.

20 Q. What was their reasoning behind not leasing the
21 south half of the northwest quarter?

22 A. He wanted to evaluate the prospect as we
23 proceeded with our activities and defer his election to the
24 south half at a later date.

25 Q. Okay, so you remain in contact with him?

1 A. Yes, we do.

2 Q. And you're hopeful of securing his interest?

3 A. That's correct.

4 Q. But at this point you would still need to pool
5 his interest in the south half, northwest, pending a
6 resolution of a lease with him?

7 A. That's correct.

8 Q. Okay. Could you identify Exhibit 3 for the
9 Examiner?

10 A. Exhibit 3, which is four AFES, of which two are
11 re-entries and two are new drills.

12 Q. Okay. And these are the AFES for the proposed
13 wells or for the re-entries?

14 A. That's correct.

15 Q. And the dryhole and completed well costs are
16 given on these?

17 A. Yes, they are.

18 Q. Approximately what are those costs?

19 A. The dryhole on the re-entry Number 1, Linam
20 Number 1, is \$42,000, total completed cost is \$217,000. As
21 to the Linam Number 2, the dryhole is \$150,900, total
22 completed well cost would be \$421,600. The new drills,
23 what we are calling the Linam Number 3 and the Linam Number
24 4 would mirror each other, and they are \$485,400 on dryhole
25 and \$819,500 on completed cost.

1 Q. And are these amounts equivalent -- equal to
2 those well costs for wells of this depth in this area of
3 New Mexico?

4 A. Yes, they are.

5 Q. Does Sunlight request that it be designated
6 operator of the wells?

7 A. Yes, they do.

8 Q. And do you have a recommendation for the amounts
9 which Sunlight should be paid for supervision and
10 administrative expenses?

11 A. Yes, we do.

12 Q. And what are those amounts?

13 A. That would be \$5000 a month on the drilling cost
14 and \$400 on operating.

15 Q. Are these amounts equal to those charged by other
16 operators in this area for wells of this depth?

17 A. Yes, they are.

18 Q. And do you request that these rates be
19 periodically adjusted as provided by the COPAS accounting
20 procedure?

21 A. Yes.

22 Q. Does Sunlight request the maximum cost-plus-200-
23 percent risk charge be assessed against any nonconsenting
24 interest owner?

25 A. Yes, we do.

1 Q. And finally, was notice of this matter given to
2 Betelgeuse Production?

3 A. Yes, it was.

4 Q. And that is reflected in Exhibit 4?

5 A. Yes.

6 Q. Were Exhibits 1 through 4 prepared by you or
7 under your supervision or compiled from Sunlight's business
8 records?

9 A. Yes, they were.

10 Q. And in your opinion, are the granting of these
11 Applications in the interests of conservation and the
12 prevention of waste?

13 A. Yes.

14 MR. BRUCE: Mr. Examiner, I'd move the admission
15 of Sunlight Exhibits 1 through 4.

16 EXAMINER CATANACH: Exhibits 1 through 4 are
17 admitted.

18 EXAMINATION

19 BY EXAMINER CATANACH:

20 Q. Mr. Brooks, on Exhibit Number 2, these are the
21 interest owners within that 160 acres?

22 A. Actually, it was a 320-acre undivided interest
23 that they owned in.

24 Q. Okay, so that includes the northwest quarter?

25 A. That's correct.

1 Q. So I believe -- Something you said confused me.
2 You said something about this being only the north half of
3 the northwest quarter. But this does represent that whole
4 southwest quarter, the interest ownership?

5 A. No, the interest ownership is comprised of the
6 west half of Section 14. It's common ownership within the
7 west half of 14. We're only seeking pooling for the
8 northwest quarter.

9 Q. Okay. The parties that you were -- These
10 represent all the parties that you were unable to locate?

11 A. That's correct.

12 Q. Okay.

13 A. There were over 30 interest owners, we secured
14 leases for the other 90 percent, 95 percent. And these
15 parties, as I said, acquired title in the 1930s, and we're
16 presently trying to locate them. I know three of the
17 parties are deceased.

18 The parties reflected under Homer Duncan, that is
19 taken from a 1945 proof of death and heirship filed of
20 record, which most of the parties resided in Pennsylvania,
21 and we're in the process of trying to locate them.

22 Q. Okay. So you've got 95 percent or so interest
23 voluntarily committed to the wells?

24 A. That is correct, yes.

25 Q. And those have all signed up -- You've either

1 purchased their interest or leased from them?

2 A. We've secured oil and gas leases from them, yes,
3 sir.

4 Q. Okay. So these parties represent the remaining 5
5 or so percent?

6 A. Yes.

7 Q. And Betelgeuse has leased to you in the north
8 half of the northwest quarter?

9 A. That's correct.

10 Q. And they're holding out for the south half?

11 A. Well, it's a favorable situation. It's not a
12 hostile situation, he just -- he wanted to evaluate our
13 activity in the north half and then make his decision from
14 there.

15 Q. Okay. With regards to the well cost, I notice a
16 significant difference between the Linam Number 1 and Linam
17 Number 2. Can you explain that?

18 A. I actually can't explain it in depth. The
19 individual that prepared the AFE is taking into account
20 information that he's able to ascertain off of the old well
21 files, and I think he's encountering -- or I believe
22 anticipating encountering some additional problems. Any
23 re-entry of existing wellbores, you don't have any idea
24 what you're going to get into. We may ultimately end up
25 having to abandon our activities as re-entries and drilling

1 new wells.

2 Q. Okay. I was actually just looking at the Linam
3 Number 2, and it looks like there's a category for
4 sidetracking the well, so that may be a big part of it.

5 A. It is a candidate for a sidetrack, yes, whereas
6 the Linam Number 1 we're not considering doing that.

7 Q. Did I hear you correctly, your overhead rates are
8 \$5000 drilling and \$400 producing?

9 A. \$400 monthly on the operating cost.

10 Q. Okay. Do you know -- The Linam Number 1 and
11 Number 2, do you know what they produced from previously?

12 A. No. I believe they were lower Wolfcamp or
13 Devonian, the deeper formations.

14 EXAMINER CATANACH: Okay, I have nothing further
15 of this witness.

16 MR. BRUCE: I have nothing further, Mr. Examiner.

17 EXAMINER CATANACH: Okay, there being nothing
18 further in this case, Cases 13,159, 13,160, 13,161 and
19 13,162 will be taken under advisement.

20 THE WITNESS: Thank you.

21 (Thereupon, these proceedings were concluded at
22 10:41 a.m.)

23 I do hereby certify that the foregoing is
24 a complete record of the proceedings in
the Examiner hearing of Case No. 13159-13162
heard by me on October 9 2008.

25 David M. Catnach, Examiner
Oil Conservation Division

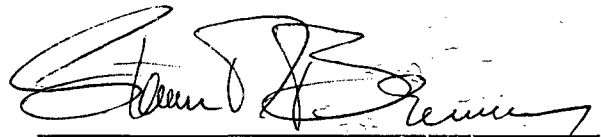
CERTIFICATE OF REPORTER

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 October 11th, 2003.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2006