

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 SAMSON RESOURCES COMPANY)
FOR COMPULSORY POOLING AND APPROVAL OF)
AN UNORTHODOX GAS WELL LOCATION, LEA)
COUNTY, NEW MEXICO)

CASE NO. 13,207

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

RECEIVED

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

FEB 5 2004

January 22nd, 2004

Santa Fe, New Mexico

Oil Conservation Division
1220 S. St. Francis Drive
Santa Fe, NM 87505

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, January 22nd, 2004, 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

January 22nd, 2004
 Examiner Hearing
 CASE NO. 13,207

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APPLICANT'S WITNESS:

PEGGY KERR (Landman)
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* * *

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* * *

A P P E A R A N C E S

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 10:05 a.m.:

3
4
5 EXAMINER STOGNER: At this time I'll call Case
6 Number 13,207, which is the Application of Samson Resources
7 Company for compulsory pooling and approval of an
8 unorthodox gas well location, Lea County, New Mexico.

9 Call for appearances.

10 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe
11 representing the Applicant. I have one witness to be
12 sworn.

13 EXAMINER STOGNER: Any other appearances?
14 Witness standing to be sworn.

15 (Thereupon, the witness was sworn.)

16 EXAMINER STOGNER: Mr. Bruce, is this a
17 compulsory pooling case?

18 MR. BRUCE: Yes, sir.

19 EXAMINER STOGNER: Is it one that's gone awry?
20 Have we reopened it, or is this a --

21 MR. BRUCE: No --

22 EXAMINER STOGNER: -- new -- is this a novel one
23 that we have heard today?

24 MR. BRUCE: This is a novel one, yes.

25 EXAMINER STOGNER: Well, good, okay.

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PEGGY KERR,

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

DIRECT EXAMINATION

BY MR. BRUCE:

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

A. Peggy Kerr.

Q. And where do you reside?

A. Midland, Texas.

Q. Who do you work for and in what capacity?

A. I work for Samson Resources Company as a district landman.

Q. Have you previously testified before the Division?

A. I have not.

Q. Could you please summarize your educational and employment background for the Examiner?

A. I have a degree and I'm a 20-year certified professional landman, with the majority of my work being associated with a major company.

Q. How long have you been with Samson?

A. Two years.

Q. And does your area of responsibility at Samson include southeast New Mexico?

A. It does.

1 Q. And are you familiar with the land matters
2 involved in this Application?

3 A. Yes.

4 Q. Do you have any other awards you'd like to...

5 A. Not at this time, thank you.

6 MR. BRUCE: Mr. Examiner, I tender Ms. Kerr as an
7 expert petroleum landman.

8 EXAMINER STOGNER: Ms. Kerr, you said you have
9 a --

10 THE WITNESS: Oh, please.

11 EXAMINER STOGNER: -- degree. What degree is it
12 in?

13 THE WITNESS: I have a teaching degree.

14 EXAMINER STOGNER: Teaching degree, okay.

15 MR. BRUCE: I tender Ms. Kerr as an expert
16 landman.

17 EXAMINER STOGNER: So qualified.

18 Q. (By Mr. Bruce) Ms. Kerr, can you identify
19 Exhibit 1 and just briefly tell the Examiner what you seek
20 to pool today?

21 A. Exhibit 1 is a Midland map showing a 320-acre
22 spacing unit for our well, known as the Bandit Number 1,
23 located in Township 20, Range 33, that would be the north
24 half of Section 15.

25 Q. And this well will be drilled to a depth to test

1 the Morrow formation?

2 A. That's correct, 14,000 feet.

3 Q. Okay. What is the well's location?

4 A. ~~The well location is located 810 feet from the~~
5 ~~north line and 660 feet from the west line, Section 15.~~

6 Q. Are well locations restricted in this section?

7 A. Yes.

8 Q. And for what reason?

9 A. Potash restrictions.

10 Q. Okay. So was this the only location that -- Is
11 this federal land?

12 A. Yes.

13 Q. And is this the location that the BLM would give
14 you for a potash area?

15 A. Yes.

16 MR. BRUCE: Okay. Mr. Examiner, I made copies of
17 the pertinent pool rules I found. This location is --
18 would be orthodox under the statewide rules, but it's
19 within the undesignated -- it's a mile from the Quail
20 Ridge-Morrow Gas Pool, which the north half of Section 13
21 is in that pool. And then it's also -- the north half of
22 14 is the Teas-Penn Gas Pool. I've given you the pool
23 rules for both of those.

24 And the Quail Ridge-Morrow Pool rules are the old
25 1980 feet from the end boundary and 660 feet from the side

1 boundary. And the Teas-Penn Pool rules, I think there's
2 something kind of odd here, but they are 990 feet from the
3 outer boundary of a quarter-quarter section and no nearer
4 than 330 feet to a quarter-quarter section line, which
5 seems kind of odd, because it restricts -- severely
6 restricts the well locations.

7 But nonetheless, that is why the location is
8 unorthodox, due to these two pool rules.

9 Q. (By Mr. Bruce) What is Exhibit 2, Ms. Kerr?

10 A. Exhibit 2 is notification for the working
11 interest owners for an unorthodox location.

12 Q. And were all working interest owners in -- Well,
13 take a step back. There aren't any existing offset
14 Pennsylvania producers, are there, to this well?

15 A. Not currently, yes.

16 Q. Okay, so Samson had to notify the offset working
17 interest owners in all proposed -- possible offsetting
18 units?

19 A. Correct.

20 Q. Okay, so that would be the northeast quarter and
21 the south half of Section 10, the northwest quarter and
22 south half of 11, and then the north half and southwest
23 quarter -- excuse me, the northwest quarter and south half
24 of Section 11 and the north half and southwest quarter of
25 Section 14?

1 A. Correct.

2 Q. And this Exhibit 2 lists all of those interest
3 owners?

4 A. That is correct.

5 Q. In the Morrow -- or -- yes, in the Pennsylvanian
6 formation.

7 What is Exhibit 3?

8 A. Exhibit 3 is a letter we received from Nearburg
9 Exploration Company stating that they had no objections to
10 the unorthodox location.

11 Q. Okay. Have you received any objection from any
12 of the other offsets?

13 A. No.

14 Q. Now, referring to your Exhibit 4, who do you seek
15 to pool?

16 A. I seek to pool two interest owners: a Mr. Todd
17 Upson out of Garland, Texas, who would have a working
18 interest in my unit of 2.08 percent; and a Pure Energy
19 Group out of San Antonio, who would have 6.25; and I have
20 made a deal with the third party that's listed on there,
21 which is Chisos, Limited, so I need to delete that name.

22 Q. Okay, so you're not seeking to pool Chisos,
23 Limited?

24 A. Correct.

25 Q. Okay. Could you identify your Exhibit 5 and just

1 briefly discuss your contacts with the interest owners in
2 your attempt to get them to voluntarily join in the well?

3 A. Exhibit 5 is a letter that was dated November
4 24th, 2003, to a Mr. Larry Cochran at Pure Energy Group out
5 of San Antonio, asking for their contribution to either
6 participate in a well or their election to farm out their
7 interest.

8 Q. And was similar correspondence sent to Mr. Upson?

9 A. Similar correspondence was sent to Mr. Upson.

10 Q. Have you also had telephone conferences with
11 these people?

12 A. I have.

13 Q. And at this point, they have not yet decided
14 whether or not to join in the well?

15 A. That's correct.

16 Q. You have not received --

17 A. They have been told of the deadline.

18 Q. Okay. In your opinion, has Samson made a good-
19 faith effort to obtain the voluntary joinder of these two
20 interest owners in the proposed well?

21 A. Yes.

22 Q. Now, let's take a step back. There's these three
23 interest owners in Samson. Are there other interest owners
24 in the well?

25 A. Yes.

1 Q. Okay, and you have come to terms with those other
2 interest owners?

3 A. Yes.

4 Q. Okay. Would you move on to your Exhibit 6 and
5 discuss the cost of this well?

6 A. This is an authority for expenditure prepared by
7 Samson, which indicates that the dryhole cost for this well
8 would be approximately \$1.3 million, with a completed well
9 cost of \$2.1 million.

10 Q. What is the approximate depth of this well?

11 A. 14,000 feet.

12 Q. And is this cost in line with the cost of other
13 wells drilled to this depth in this area of Lea County?

14 A. Yes, it is.

15 Q. Does Samson request that it be designated
16 operator of the well?

17 A. Yes.

18 Q. Do you have a recommendation for the amounts
19 which Samson should be paid for supervision and
20 administrative expenses?

21 A. Yes.

22 Q. And what are those, drilling and producing?

23 A. Drilling would be \$6000 and producing would be
24 \$650 a month.

25 Q. And are these amounts equivalent to those

1 normally charged by Samson and other operators in this area
2 for wells at this depth?

3 A. Yes.

4 Q. Do you request that this rate be adjusted
5 periodically under the COPAS accounting procedure?

6 A. Yes.

7 Q. And does Samson request that the maximum cost
8 plus 200 percent risk charge be assessed against any
9 nonconsenting interest owners?

10 A. Yes.

11 Q. Were the pooled parties and the offset working
12 interest owners notified of this hearing?

13 A. Yes.

14 Q. And is Exhibit 7 my affidavit of notice?

15 A. Yes.

16 Q. Were Exhibits 1 through 7 prepared by you or
17 under your supervision or compiled from company business
18 records?

19 A. Yes.

20 Q. And in your opinion is the granting of Samson's
21 Application in the interest of conservation and the
22 prevention of waste?

23 A. Yes.

24 MR. BRUCE: Mr. Examiner, at this time I would
25 move the admission of Samson Exhibits 1 through 7.

1 EXAMINER STOGNER: Exhibits 1 through 7 will be
2 admitted into evidence at this time.

3 EXAMINATION

4 BY EXAMINER STOGNER:

5 Q. Ms. Kerr, when I look at Exhibit Number 1, I
6 notice that up in the northeast quarter, northeast quarter
7 of Section 15 is the Teas-Yates Unit. Is that a unit
8 that's factored in, or does that have any bearing on your
9 spacing unit today or the compulsory --

10 A. My spacing unit is below that depth of the Teas
11 Unit. I believe that well is a shallow well between
12 surface and 4000 feet.

13 Q. So that wouldn't be -- That's formation-specific,
14 then?

15 A. Yes.

16 Q. And this is a hundred percent federal minerals;
17 is that correct?

18 A. Yes.

19 Q. Has the well already been applied for with the
20 BLM?

21 A. Yes.

22 Q. And what is the status of that application? Has
23 it been approved, or is it still pending?

24 A. It's pending.

25 EXAMINER STOGNER: Just as a note, Mr. Bruce --

1 MR. BRUCE: Uh-huh.

2 EXAMINER STOGNER: -- if this well is successful,
3 these two special pool rules may limit the number of wells
4 towards the infill, so if it is successful I'd suggest
5 maybe the operator look at maybe eliminating these special
6 rules and regulations which look like they were formulated
7 long ago at a time when certain restrictions or different
8 things were looked at. Now that we do have infill
9 drilling, these may limit that, but --

10 MR. BRUCE: Mr. Examiner --

11 EXAMINER STOGNER: -- I'm just throwing that out.

12 MR. BRUCE: Mr. Examiner, as a matter of fact we
13 did discuss that yesterday, because of the -- and if I can
14 ask a question, the way these well-location rules read,
15 they are extremely restrictive and in essence limit
16 locations to four points in a quarter section, no leeway
17 whatsoever.

18 EXAMINER STOGNER: And of course I wasn't around
19 in 1963. I have no earthly idea why that was, and I don't
20 remember Mr. Nutter ever telling me why.

21 MR. BRUCE: When I looked at it, I thought my
22 dyslexia was getting to me, but --

23 EXAMINER STOGNER: However, in looking -- in the
24 way the present situation is these days, if it's not
25 conducive to change the rules and regulations perhaps if

1 you want to drill an infill well, whatever rules are
2 applied, we still have the simultaneous dedication
3 situation out there that we can look at and maybe adjust
4 that application accordingly to their needs.

5 MR. BRUCE: We will be looking at that.

6 EXAMINER STOGNER: Okay. With that, Ms. Kerr, I
7 have no other questions of you.

8 THE WITNESS: Thank you.

9 EXAMINER STOGNER: And I have no idea why other
10 people in the room were laughing at you with the award
11 stuff, so it's a mystery to me. But whatever it was,
12 congratulations. And with that you may be excused.

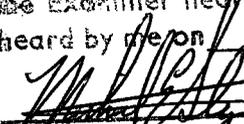
13 THE WITNESS: Thank you very much.

14 EXAMINER STOGNER: Mr. Bruce, do you have
15 anything further?

16 MR. BRUCE: Not if I want to keep a client, Mr.
17 Examiner.

18 EXAMINER STOGNER: Case Number 13,207 will be
19 taken under advisement at this time.

20 (Thereupon, these proceedings were concluded at
21 10:20 a.m.)

22 * * * I do hereby certify that the foregoing is
23 a complete record of the proceedings in
24 the Examiner hearing of Case No. 13207,
25 heard by me on 22 January 2004.

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 January 23rd, 2004.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 16th, 2006