

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. 12,697

APPLICATION OF TRILOGY OPERATING, INC.,)
FOR COMPULSORY POOLING, LEA COUNTY,)
NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID BROOKS, Hearing Examiner

August 9th, 2001

Santa Fe, New Mexico

OIL CONSERVATION DIV
01 AUG 23 AM 7:53

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID BROOKS, Hearing Examiner, on Thursday, August 9th, 2001, 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

August 9th, 2001
 Examiner Hearing
 CASE NO. 12,697

	PAGE
STATEMENT BY MR. KELLAHIN	3
REPORTER'S CERTIFICATE	10

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E X H I B I T S

Applicant's	Identified	Admitted
Exhibit 1:		7
Certificate of Mailing	4	7
"Application" (Affidavit)	4	7
Land	3, 5	7
Geology	6	7
Engineering	7	7

* * *

A P P E A R A N C E S

FOR THE APPLICANT:

KELLAHIN & KELLAHIN
 117 N. Guadalupe
 P.O. Box 2265
 Santa Fe, New Mexico 87504-2265
 By: W. THOMAS KELLAHIN

ALSO PRESENT:

DAVID R. CATANACH
 Hearing Examiner
 New Mexico Oil Conservation Division
 1220 South Saint Francis Drive
 Santa Fe, NM 87501

* * *

1 WHEREUPON, the following proceedings were had at
2 11:27 a.m.:

3 MR. BROOKS: We will call Case Number 12,697,
4 Application of Trilogy Operating, Inc, for compulsory
5 pooling, Lea County, New Mexico.

6 MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin of
7 the Santa Fe law firm of Kellahin and Kellahin, appearing
8 on behalf of the Applicant.

9 EXAMINER BROOKS: Since I don't see anyone else
10 here, I'm assuming you have no witnesses?

11 MR. KELLAHIN: That's correct, sir.

12 EXAMINER BROOKS: And do you wish to make a
13 statement?

14 MR. KELLAHIN: Yes, sir. With your permission
15 I'd like to submit to you the Trilogy affidavits and their
16 exhibits. You'll find they're in a blue binder. The
17 binder itself is marked Exhibit 1. When you open the
18 binder you'll find that it is subdivided by topic.

19 EXAMINER BROOKS: Okay.

20 MR. KELLAHIN: This is a 40-acre oil well. If
21 you turn to the land display, it's a green tab. And if you
22 turn to the first display behind the green tab, you'll see
23 the 40-acre spacing unit that is available for the Sapphire
24 Number 1 well. The primary objective of the well is
25 Drinkard, Abo, Tubb and I believe Blinebry. Yes, starting

1 from the bottom it would be the Abo, Drinkard, Tubb and
2 then the Blinebry.

3 We're processing this case pursuant to Division
4 Rule 1207, which allows us in certain circumstances to
5 submit this by affidavit.

6 If you'll turn first to the certificate of
7 mailing at the beginning of the exhibit book and turn to
8 the last page of the certificate of mailing -- I'm sorry,
9 it's the third page of the certificate of mailing, there's
10 a tabulation of interest owners.

11 EXAMINER BROOKS: Correct.

12 MR. KELLAHIN: Those are the parties to be
13 pooled. The total is something just over 20 percent.

14 We have sent certified mail, return receipt,
15 copies of the Application and notice of hearing to all the
16 parties for whom we had addresses, and those return receipt
17 cards are appended to the certificate, and we have
18 confirmation of delivery of receipt for all those parties
19 for whom you have addresses listed.

20 Next is what Trilogy has identified as the
21 Application. In fact, it is the sworn affidavit. The
22 affidavit is attested to by three experts. The first
23 expert is Mr. Jerry Weant; he's a petroleum landman. Mr.
24 George Ulmo is a petroleum geologist. And finally Michael
25 Mooney is a petroleum engineer.

1 Mr. Weant's affidavit is supported by the
2 documentation behind the green tab, and he gives you copies
3 of all the correspondence. The well was originally
4 proposed in May, various dates in the month of May of this
5 year.

6 In addition, on some of the letters as you go
7 through his correspondence, you will see handwritten notes.
8 Those are his follow-up conversations with those parties
9 with whom he was able to reach by telephone, indicating his
10 various efforts to achieve their participation.

11 As of the date of the hearing today, the only
12 party that was originally requested to be pooled, who has
13 subsequently reached a voluntary agreement with Trilogy is
14 Mid First Bank. So Mid First Bank may be deleted from the
15 parties to be pooled.

16 Mr. Weant requests that you use the COPAS
17 overhead rates. He's attached behind the blue tab a copy
18 of the overhead rates. He's requesting \$4500 a month as
19 the drilling well rate and \$450 a month as the producing
20 well rate.

21 This case was originally filed on July 3rd,
22 scheduled for hearing at the end of July. We continued it
23 to today's case. Because of rig availability, Trilogy
24 advises me that they have commenced the well. It is not at
25 total depth, but it is a drilling well.

1 The geologic report, the narrative portion, is
2 supported by exhibits. The primary objective for this well
3 is to preserve the leasehold in the northeast quarter of
4 Section 24, and if you'll bear with me, if you'll turn
5 through the written narrative of the geologic summary in
6 which Mr. Ulmo supports a 200-percent risk factor, I can
7 show you the principal reason for his conclusion.

8 There's a structure map that says top of the
9 Wichita Albany Shale. That's the marker in this area for
10 these shallow oil zones. And you see in Section 24 he's
11 identified for you with the highlighter the Sapphire Number
12 1 well.

13 The line of cross-section links four of the
14 wells. Those are all operated by Trilogy. The key well
15 that he's working off of is the one just to the southeast.
16 There's a small number 3 associated with that, and that's
17 the Emerald Number 3.

18 These four wells total 140 barrels a day, so for
19 more than \$800,000 they're getting wells that average about
20 35 barrels a day. I'm not sure why they do it, but it's
21 not my money. But there's a substantial risk associated
22 with it.

23 What they're looking for is to protect the
24 leasehold in the northeast of 24. But to do that he's got
25 to go downstructure from the Emerald Number 3 well. And

1 when you read the narrative, you realize that there's a
2 substantial risk associated with being lower than the
3 Emerald 3. But that's their plan, and that's what they're
4 drilling.

5 The engineering tab has attached to it the AFE,
6 and the costs are identified and associated for a well to
7 be drilled to a total depth of approximately 7800 feet.

8 And with that introduction and summary, Mr.
9 Examiner, we would ask that you admit Exhibit 1 and take
10 the case under advisement.

11 EXAMINER BROOKS: Okay, well Exhibit 1 will be
12 admitted.

13 Just to clarify for my understanding of it, the
14 well is to be located in the southwest of the northeast of
15 Section 24, 40-acre spacing. Do you have the exact
16 location in here somewhere?

17 MR. KELLAHIN: I believe I do, but let me double-
18 check. It's in the caption for the geologic report. It's
19 1650 feet from the east line, 2310 feet from the north
20 line.

21 EXAMINER BROOKS: 1650 from the east and 2310
22 from the north?

23 MR. KELLAHIN: Yes, sir.

24 EXAMINER BROOKS: And what is the pool
25 designation?

1 MR. KELLAHIN: The names associated with the
2 pools are in the affidavit. Mr. Weant's listed those for
3 you.

4 EXAMINER BROOKS: Where is that in the --

5 MR. KELLAHIN: It's on page 3 of the affidavit.
6 You'll find it in numbered paragraph 7.

7 EXAMINER BROOKS: Behind which tab?

8 MR. KELLAHIN: I'm sorry, it says "Application".

9 EXAMINER BROOKS: Okay.

10 MR. KELLAHIN: From behind the Application tab.

11 EXAMINER BROOKS: Okay, page 3?

12 MR. KELLAHIN: Page 3 of the affidavit, and it's
13 the Roman numeral (iv) in parentheses, and he's listed the
14 names of the pools.

15 EXAMINER BROOKS: Okay. And all of these are on
16 40-acre spacing?

17 MR. KELLAHIN: Yes, sir.

18 EXAMINER BROOKS: And the pooling is being
19 requested from the surface to where?

20 MR. KELLAHIN: To the base of the Abo formation.

21 EXAMINER BROOKS: I don't believe I have anything
22 else.

23 Mr. Catanach?

24 EXAMINER CATANACH: I do not.

25 EXAMINER BROOKS: Very good.

1 MR. KELLAHIN: Thank you.

2 EXAMINER BROOKS: Case Number 12,697 will be
3 taken under advisement.

4 There being no further proceedings, we'll stand
5 adjourned.

6 (Thereupon, these proceedings were concluded at
7 11:35 a.m.)

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I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 12697,
heard by me on Aug 9, 2001.
David K. Brooks, Examiner
Oil Conservation Division

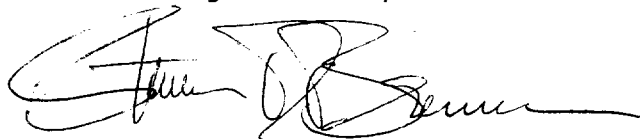
CERTIFICATE OF REPORTER

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 August 12th, 2001.

A handwritten signature in dark ink, appearing to read 'Steven T. Brenner', is written over a horizontal line.

STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 2002