

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:

APPLICATION OF LIME ROCK RESOURCES, LP, Case No. 14630
FOR COMPULSORY POOLING AND NONSTANDARD
SPACING AND PRORATION UNIT,
EDDY COUNTY, NEW MEXICO

TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

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BEFORE: TERRY WARNELL, Presiding Examiner
DAVID K. BROOKS, Legal Examiner

May 26, 2011

Santa Fe, New Mexico

This matter came on for hearing before the
New Mexico Oil Conservation Division, TERRY WARNELL,
Presiding Examiner, and DAVID K. BROOKS, Legal Examiner,
on Thursday, May 26, 2011, at the New Mexico Energy,
Minerals and Natural Resources Department, 1220 South St.
Francis Drive, Room 102, Santa Fe, New Mexico.

REPORTED BY: Jacqueline R. Lujan, CCR #91
Paul Baca Professional Court Reporters
500 Fourth Street, N.W., Suite 105

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A P P E A R A N C E S

FOR THE APPLICANT LIME ROCK RESOURCES, L.P.:

GARCIA & VARGAS, LLC
ERNEST L. PADILLA, ESQ.
303 Paseo de Peralta, Suite A
Santa Fe, New Mexico 87501
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1 EXAMINER WARNELL: The second case, Case
2 14630, application of Lime Rock Resources, LP, for
3 compulsory pooling and nonstandard spacing and proration
4 unit, Eddy County, New Mexico. Call for appearances.

5 MR. PADILLA: Mr. Examiner, Ernest L.
6 Padilla for the applicant, Lime Rock Resources. With me
7 is Larry Garcia, of Houston, and I have two witnesses to
8 be sworn.

9 EXAMINER WARNELL: Would the witnesses
10 please stand, state your name, and Jackie will swear you.

11 MR. BIESIADECKI: Gary Biesiadecki. I'll
12 give you a card.

13 MR. REAGAN: Chuck Reagan.

14 (Two witnesses were sworn.)

15 MR. PADILLA: We'll call Chuck Reagan.

16 CHUCK REAGAN

17 Having been first duly sworn, testified as follows:

18 DIRECT EXAMINATION

19 BY MR. PADILLA:

20 Q. Mr. Reagan, would you please state your name?

21 A. Chuck Reagan.

22 Q. Where do you live?

23 A. Houston, Texas.

24 Q. And what is your association with Lime Rock
25 Resources, the applicant in this case?

1 A. I'm senior landman with Lime Rock.

2 Q. Have you testified before the Oil Conservation
3 Division and had your credentials been accepted as a
4 matter of record?

5 A. Yes.

6 Q. When did do you that?

7 A. About six months ago.

8 Q. Would you briefly tell us your work experience
9 in the oil and gas industry as a petroleum landman?

10 A. I graduated from the University of Texas,
11 Austin, with a PEN degree. The first 10 years, I was a
12 field broker. And then I gradually got hired later on by
13 ARCO, which became Best R, which became BP. Then I went
14 to work for Sanchez Oil & Gas. And couple years --
15 almost three years ago I went to work for Lime Rock
16 Resources.

17 Q. Are you familiar with the lands in question
18 with the application for a nonstandard proration unit and
19 compulsory pooling?

20 A. Yes.

21 MR. PADILLA: We tender Mr. Reagan as an
22 expert petroleum landman.

23 EXAMINER WARNELL: So recognized.

24 MR. BROOKS: You might to want to add that
25 since he was educated at the University Texas in Austin,

1 there should not be any questions about his credentials.

2 MR. PADILLA: Would you have the same
3 attitude if it was Texas A&M?

4 MR. BROOKS: No. I'd want some more
5 evidence.

6 Q. (By Mr. Padilla) Please look at what we've
7 marked as Exhibit A for submission. I'll ask you, first
8 of all, did you prepare the documentation in that
9 exhibit?

10 A. Yes.

11 Q. Briefly tell us what this is, Exhibit A.

12 A. Exhibit A consists of four exhibits, Exhibits
13 1 through 4. Exhibit 1 is a land plat. Exhibit 2 is an
14 ownership report. Exhibit 3 is hearing notification
15 letters. And Exhibit 4 is a summary of my contacts and
16 attempted contacts with Chesapeake.

17 Q. Is Chesapeake the only company that you're
18 trying to force pool --

19 A. Yes.

20 Q. -- as far as the compulsory pooling case is
21 concerned?

22 A. Yes.

23 Q. And do you have in here a list of the offset
24 operators for the nonstandard proration unit?

25 A. Yes.

1 Q. We'll get to that. Let's turn to what you
2 have marked as Exhibit Number 1, which is your land plat,
3 and have you identify the proration unit involved here.

4 A. Yes. The proposed proration unit is the south
5 half of the southwest quarter of Section 10 of 25 South,
6 28 East, Eddy County.

7 Q. And is that shown and highlighted --

8 A. Yes.

9 Q. -- in red?

10 A. Yes.

11 Q. And how is the well going to be oriented?

12 A. From east to west.

13 Q. And tell us about the yellow highlighted
14 tracts on this.

15 A. Well, the solid tracts indicate that we have
16 100 percent. The striped tracts indicate that we have a
17 partial interest. In this case, it's 50 percent.

18 Q. Who owns the other 50 percent?

19 A. Under the proration units, Chesapeake.

20 Q. This plat also shows the offset operators; is
21 that right?

22 A. Yes. I identified the offset operators, and
23 they're numbered 1 through 6.

24 Q. And those are in Exhibit 2?

25 A. Right.

1 Q. Let's go around the proration unit. I see
2 Chesapeake on three sides; right?

3 A. Yes.

4 Q. Have you received anything from Chesapeake at
5 all regarding the compulsory pooling^l aspect of this --

6 A. Nothing in writing. The only thing I heard back
7 was from one of their landmen that said they were still
8 reviewing it.

9 Q. And can you summarize -- that's it? They're
10 still reviewing it?

11 A. Yeah, pretty much. I've got summary sheet,
12 Exhibit 4, that talks about my contacts with Chesapeake,
13 attempted contacts. Like the only time I really talked
14 to the guy is once or twice. And he said they were still
15 reviewing it, and he'd get back with me when he knew
16 something.

17 Q. Did you send out the notices to the offset
18 operators?

19 A. Yes.

20 Q. And did you send out a separate notification
21 to Chesapeake regarding the unorthodox portion of the
22 application?

23 A. Yes, I did. Those are all in Exhibit 3.

24 Q. What did you send in terms of writing to
25 Chesapeake concerning drilling of the well?

1 A. I sent them -- it's Exhibit 4. I sent them a
2 well proposal letter to say, "Hey, we want to drill a
3 well here. We'd like to work with you guys. If you
4 don't want to participate, we'll do a farmout or a term
5 assignment with you guys."

6 Q. Where is that located?

7 A. Exhibit 4.

8 Q. That's dated January 31st, 2011?

9 A. Yes.

10 Q. Did you attach an AFE to that?

11 A. Yes.

12 Q. Is that also attached to this letter --

13 A. Yes.

14 Q. -- as part of this exhibit?

15 A. Yes.

16 Q. What are the well costs?

17 A. Total complete well cost was 2.4 million.

18 Q. Is that pretty standard for that area?

19 A. Yes.

20 Q. For a horizontal well to the Cherry Canyon?

21 A. Yes.

22 Q. And the Cherry Canyon is your objective?

23 A. Yes.

24 Q. How many wells are you operating in the Cherry
25 Canyon at this point, vicinity?

1 A. That might be a geological question. I'd
2 guess around 10.

3 Q. There's tracking information attached to this
4 thing on the AFE in this exhibit. What is that?

5 A. It's a delivery confirmation that we got from
6 FedEx.

7 Q. You also filed an affidavit -- you sent the
8 notices to the offset operators; is that right?

9 A. Right.

10 Q. And you have an affidavit as part of Exhibit
11 3?

12 A. Right.

13 Q. That's the first thing on Exhibit 3? That's
14 your affidavit?

15 A. Yes.

16 Q. Attached to that affidavit is a letter you
17 sent; correct?

18 A. Yes.

19 Q. Is that letter essentially the same format
20 that the letter that Mr. Garcia sent to Chesapeake
21 originally --

22 A. Yes.

23 Q. -- concerning notification of this hearing?

24 A. Yes.

25 Q. That's the last item attached on Exhibit A; is

1 that right?

2 A. Right.

3 Q. Are you familiar with well costs in terms of
4 overhead charges for producing and drilling rates?

5 A. Somewhat. That's more of an engineering-type
6 question. But yeah, I'm somewhat familiar.

7 Q. What are those rates, if you know? What are
8 they?

9 A. I think it's around 10,000. The drilling rate
10 is like 10,000 a day. The monthly overhead rate is
11 around 500.

12 Q. Do you have anything further to add to your
13 testimony?

14 A. No.

15 MR. PADILLA: We pass the witness.

16 EXAMINER WARNELL: Any questions?

17 EXAMINATION

18 BY MR. BROOKS:

19 Q. This is an 80-acre unit?

20 A. Yes, sir.

21 Q. And is Chesapeake -- Chesapeake owns an
22 interest in the 80 acres?

23 A. 50 percent.

24 Q. Are they the only party that you're compulsory
25 pooling?

1 A. Right. We have 50 percent, they have 50.

2 Q. There are no other interests?

3 A. No.

4 Q. If two people have 50 percent, there couldn't
5 be. Okay.

6 MR. BROOKS: I'm trying to think if there
7 are any other questions. I think I'll pass the witness

8 EXAMINATION

9 BY EXAMINER WARNELL:

10 Q. Mr. Reagan, is this state or federal land?

11 A. State.

12 Q. And have you applied for an APD? Do we have
13 an API number?

14 A. I think the engineers have applied for an API
15 number.

16 Q. And the overhead rates, did I hear the
17 overhead rates?

18 A. 500 a month. The drilling rate I think is
19 around 10,000 a day.

20 MR. PADILLA: A month.

21 Q. The overhead?

22 A. The monthly overhead I think is around 500 a
23 month. That's after the well is drilled, kind of
24 oriented fees for the well. I could check on that.

25 Q. We're going to need that number, if you could

1 provide that.

2 A. Okay.

3 EXAMINER WARNELL: I have no further
4 questions.

5 MR. PADILLA: We'll call our geological
6 witness at this point, Gary Biesiadecki.

7 GARY BIESIADECKI

8 Having been first duly sworn, testified as follows:

9 DIRECT EXAMINATION

10 BY MR. PADILLA:

11 Q. Mr. Biesiadecki, would you please spell your
12 last name?

13 A. Sure.

14 Q. Tell us your first name, and then spell your
15 last name.

16 A. First name, Gary, G-a-r-y. The last name is
17 Biesiadecki, B-i-e-s-i-a-d-e-c-k-i.

18 Q. Mr. Biesiadecki, have you testified before the
19 Oil Conservation Division before this hearing?

20 A. No, I have not.

21 Q. Tell us about where you were educated as a
22 geologist.

23 A. I got my BS degree in Geology from the State
24 University of New York at Oneonta, and then I attended
25 West Virginia Graduate School for two years.

1 Q. Do you have -- I take it you have work
2 experience in the oil and gas industry?

3 A. Yes. Since approximately 1977, to the present
4 day, I worked with -- I'll state some of the major
5 companies. Chevron, Petro-Lewis, Peoples Energy, El
6 Paso, Golden Engineering, and then Lime Rock for the last
7 three years.

8 Q. What have been the range of your duties as a
9 geologist?

10 A. Anywhere from well site geology, development
11 geology, exploration geology. That's probably the
12 general range.

13 Q. What is your position with Lime Rock?

14 A. Geologist. Senior geologist.

15 Q. Are you familiar with the area under
16 consideration in terms of geology and in terms of well
17 configurations and that sort of thing?

18 A. Yes.

19 Q. How many wells have you been involved with
20 that Lime Rock has drilled in this immediate area in
21 Southeast New Mexico?

22 A. We drilled one horizontal well that we
23 completed in the last two weeks. But I've worked on
24 approximately 30 or so that we have an interest in or
25 operate.

1 Q. And in terms of the well that you've already
2 drilled, what did you have to do with that well?

3 A. I was monitoring the day-to-day activities and
4 steering. That is telling the directional driller where
5 to go in the zone.

6 Q. That involves you with the site of the well
7 and that sort of thing; is that right?

8 A. Yes.

9 MR. PADILLA: We offer Mr. Biesiadecki as
10 a petroleum geologist, as an expert.

11 EXAMINER WARNELL: So recognized.

12 Q. (By Mr. Padilla) Mr. Biesiadecki, have you
13 prepared certain exhibits for introduction?

14 A. Yes.

15 Q. Can you tell us briefly what they are?

16 A. Exhibit B is the actual stake location of the
17 proposed well, the Shrike 2-H. Exhibit C is a type log
18 we constructed to show the various Cherry Canyon members
19 and our target formations, which would be CC-6 and CC-7.
20 Exhibit D is a subsurface structural map, mapped on top
21 of the Cherry Canyon 6, and shows our location and our
22 various acreage positions in the area. And then Exhibit
23 E is the proposed wellbore schematic and completion of
24 the subject well we're talking about today.

25 Q. Let's look at the C-102, which is Exhibit B.

1 Where is the well going to be located in the section?

2 A. It will be in the south half of the southwest
3 quarter.

4 Q. I've asked Mr. Reagan how the well is going to
5 be oriented, and he indicated east to west.

6 A. Correct, from the east towards the west.

7 Q. Does that show the surface location of the
8 well?

9 A. Yes.

10 Q. Is that a standard location?

11 A. If it was a vertical well, the answer would be
12 no. We want to drill 150 feet, rather than a standard
13 330, from that east line. So that when we hit the --
14 when we get to 330, we'll be right at the top of the
15 CC-6. So therefore, we can maximize the amount of
16 lateral we have in our zone.

17 Q. Is the bottomhole location a standard
18 location?

19 A. I believe it is. Yes.

20 Q. What's going to be the horizontal extent of
21 that?

22 A. It will be approximately 2,000 feet. 2,640
23 minus the 660, so it would be 1,980.

24 Q. Let's move on to Exhibit C. What is that?

25 A. Again, that's -- I used the Marbob Energy

1 Scared Hawk Number 1 well, which is in Section 4.

2 Q. Why don't you refer to the land plat and the
3 tell the Examiner where that is?

4 A. It is the section that's diagonally adjoining
5 Section 10 to the northwest. We just drilled an offset
6 well up there, and this was a very good representative
7 log of the formations in the area.

8 And what you can see is that in the Cherry
9 Canyon, starting at about 4,400 feet, you hit the first
10 sand, and the last Cherry Canyon sand, the CC-7, extends
11 to a depth of about 4,950. We're specifically targeting
12 the Cherry Canyon 6 and Cherry Canyon 7. And on this
13 log, that occurs from 4,790 to 4,750.

14 Q. You've highlighted those zones in yellow and
15 pink; is that right?

16 A. Yes.

17 Q. Where are you going to locate the horizontal
18 hole?

19 A. The lateral will probably be, on this log, at
20 about 4,830 to 40, near the base of the CC-6 sand.

21 Q. The yellow sand?

22 A. That's correct.

23 Q. Are you the guy at the wheel in terms of how
24 you're going to --

25 A. Yes. I'll be getting daily drilling reports

1 and a gamma ray log that we get while we're drilling.

2 And with that log, I'll correlate back to a log like this

3 and make sure we're in the zone that we want to be in.

4 Q. Do you have anything further on Exhibit C?

5 A. That covers it pretty well.

6 Q. Let's go on to the structure map on Exhibit D.

7 A. Again, that map was generated by using all the

8 available subsurface data on this mapped area, and it's

9 on top of the CC-6 sand.

10 Q. Mr. Biesiadecki, does this map show the

11 horizontal wells drilled in the area?

12 A. Yes.

13 Q. Most of those are on yellow highlighted land;

14 is that right?

15 A. Yes.

16 Q. They're operated by Lime Rock Resources?

17 A. That's correct.

18 Q. This just shows the general slope? Is that --

19 A. Dip.

20 Q. Dip?

21 A. Yeah, inclination of the rock. It's about one

22 to one and a half degrees. What we'll do when we go

23 laterally, we'll drill through 90 degrees and incline it

24 at about 91.2 or so to stay within our target.

25 Q. Let's look at the final Exhibit E. What is

1 that?

2 A. That's the proposed schematic of what our well
3 will look like. You'll note that we drilled vertical
4 down to about 4,350, and then what we call a kick-off
5 point, where we start angling the well. So by the time
6 we get 330 from the lease line, we'll be, hopefully,
7 right at the top of our Cherry Canyon 6 zone.

8 Q. You're not drilling the vertical well here,
9 are you, to determine what the zone --

10 A. No, we're not. We have no intention of
11 completing the vertical component of the well. We're not
12 drilling a pilot hole. Sometimes you drill a pilot hole
13 first vertically through the formation to find out
14 exactly where it is and then drill a lateral. We feel
15 there's enough control that we can hit it on the fly, so
16 to speak, without having to drill a pilot hole.

17 Q. Would Lime Rock Resources drill a vertical
18 well here just by itself?

19 A. No. In our opinion, vertical wells for this
20 formation are not economic. You need to have a lateral
21 to access more reservoir.

22 Q. Tell us about the horizontal component of this
23 well. How will you complete it?

24 A. Okay. Again, it's basically 2,000 feet of
25 lateral. What we propose to do is fracture treat that

1 lateral in a series of stages, approximately 10, stage
2 200 feet of lateral extent, and do them sequentially.
3 We'll frack a treated stage, plug it off, frack and treat
4 another one, until you do all 10. And then when those
5 are finished, you drill all the plugs out for each stage
6 and then flow them all back.

7 Q. You go from --

8 A. It will be from west to east.

9 Q. Okay. So you go all the way in and then all
10 the way back?

11 A. That's correct.

12 Q. How are you going to stimulate the horizontal
13 component?

14 A. Stimulate?

15 Q. Stimulate. Are you going to frack it?

16 A. Yes, fracture treat, approximately 60,000
17 pounds of sand per stage.

18 Q. What's contained on the second page of this?

19 A. Just essentially our drilling procedure on how
20 we're going to maintain our inclination and our control
21 so that we don't violate any of the leaseholders.

22 Q. Mr. Biesiadecki, would approval of this
23 application be in the best interest of the conservation
24 of oil and gas?

25 A. Yes. We feel this would be the most economic

1 and conservative way to extract the maximum amount of
2 resources. That's why we're doing it this way.

3 Q. Do you have anything further to add to your
4 testimony?

5 A. No, sir.

6 MR. PADILLA: Pass the witness. And we
7 offer Exhibits A through E.

8 EXAMINER WARNELL: Exhibits A through E
9 are accepted. Questions, Mr. Brooks?

10 (Exhibits A through E admitted.)

11 EXAMINATION

12 BY MR. BROOKS:

13 Q. Well you've got quite a few wells, it looks
14 like?

15 A. Yes.

16 Q. All these red lines, are those existing wells?

17 A. Yes. Those are the laterals that have been
18 drilled in the area. Like I mentioned, we have only
19 drilled one of them. The other ones we acquired from
20 Southwestern Production, and now we operate them.

21 Q. Okay. Based on the considerable number of
22 wells you've got in that area, you would, I presume, be
23 in a good position to know whether this formation is
24 fairly uniform throughout this area?

25 A. Yes.

1 Q. Do you believe that it is within the area of
2 Section 10?

3 A. Yeah. It definitely pinches out to the west.
4 We know that. But we believe it will certainly extend
5 further west than our location here.

6 Q. As far as within this 80 acres, you would
7 expect it all to be productive --

8 A. Yes.

9 Q. -- reservoir quality formation?

10 A. Correct.

11 MR. BROOKS: Okay. Thank you.

12 EXAMINER WARNELL: I have a question.

13 EXAMINATION

14 BY EXAMINER WARNELL:

15 Q. On the Cherry Canyon 6, you said that's near
16 the bottom, where your lateral will extend out?

17 A. Yes. Our plan would be to frack into the
18 CC-7, right beneath it, trying to get both of them with
19 one lateral.

20 Q. Is that -- it looks like there's a little
21 shale break between the 6 and 7?

22 A. Yes.

23 Q. So that you're anticipating that your bit will
24 ride on top of that?

25 A. Pretty much. We'll probably stay a little

1 above that because the lower part of the reservoir gets
2 kind of tight. So it will probably be 5 to 10 feet above
3 that shale break.

4 Q. What kind of porosity do you see out there?

5 A. Between 10 and 12 percent typically would be
6 an average. Permeability is like a millidarcy or so.
7 It's pretty tight rock.

8 Q. It seems like most of our laterals are 160,
9 rather than 80 acres.

10 A. Yeah.

11 Q. We don't see these stubbies too often.

12 A. If you look at the land map, we have that.

13 Q. I see that there. What is that?

14 A. That's 40 acres that's not ours, and we
15 couldn't make a deal. So we decided we can drill an
16 80-acre lateral.

17 Q. Any comments on why Chesapeake is not really
18 responding to this?

19 A. I have no idea at all. I have had no contact
20 with them.

21 Q. Sometimes Chesapeake will do that, I guess.
22 The depth or the point of penetration, do we have a
23 location for that, or is that on your -- I don't think
24 it's on Exhibit B, is it?

25 A. I'm looking at Exhibit B. No. It would be

1 about 330 from the line. That's the plan.

2 Q. So the surface location is 150, and the point
3 of penetration is going to be about --

4 A. 330, probably 350. We're not going to cut it
5 that close, but --

6 Q. That's four-and-a-half-inch pipe there that
7 you're going to be --

8 A. Right. That would be pre-slotted, so we just
9 go in and open each sleeve and frack it.

10 Q. There will be no logging on this, other than
11 the gamma ray while drilling?

12 A. That's probably true. We're not certain on
13 that. It depends on the hole condition to some degree.

14 On the last well we did, the Eagle, we just
15 used the gamma ray. We thought the hole was too tortuous
16 to try to get a log all the way down there. And you can
17 see the benefit after having the gamma ray and the mud
18 log.

19 EXAMINER WARNELL: I have no more
20 questions. Thank you.

21 With that, ~~Case 14630 will be taken under~~
22 advisement.

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

_____, Examiner
Oil Conservation Division

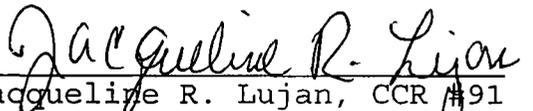
REPORTER'S CERTIFICATE

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I, JACQUELINE R. LUJAN, New Mexico CCR #91, DO
HEREBY CERTIFY that on May 26, 2011, proceedings in the
above captioned case were taken before me and that I did
report in stenographic shorthand the proceedings set
forth herein, and the foregoing pages are a true and
correct transcription to the best of my ability.

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

WITNESS MY HAND this 8th day of June, 2011.


Jacqueline R. Lujan, CCR #91
Expires: 12/31/2011