

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 15316

APPLICATION OF APACHE CORPORATION FOR  
APPROVAL OF A PROJECT AREA ENCOMPASSING  
COMMUNITIZED LANDS in T. 17S, R. 31E,  
N.M.P.M., Eddy County, New Mexico.

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

JUNE 25, 2015

Santa Fe, New Mexico

BEFORE: MICHAEL McMILLAN, CHIEF EXAMINER  
WILLIAM V. JONES, EXAMINER  
GABRIEL WADE, LEGAL EXAMINER

This matter came on for hearing before the  
New Mexico Oil Conservation Division, Michael McMillan,  
Chief Examiner, William V. Jones, Examiner, and Gabriel  
Wade, Legal Examiner, on June 25, 2015, at the New  
Mexico Energy, Minerals, and Natural Resources  
Department, Wendell Chino Building, 1220 South St.  
Francis Drive, Porter Hall, Room 102, Santa Fe, New  
Mexico.

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## CASE NUMBER 15316 CALLED

## APACHE CORPORATION CASE-IN-CHIEF:

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1 (Time noted 8:40 a.m.)

2 MR. DeBRINE: Good morning, Mr. Examiner,  
3 Earl DeBrine --

4 EXAMINER McMILLAN: Hold on a second,  
5 please.

6 MR. DeBRINE: Sure.

7 EXAMINER McMILLAN: Okay. The next case  
8 that I will be calling will be case 15316, Application  
9 of Apache Corporation for approval of a Project Area  
10 encompassing communitized lands in Township 17 South,  
11 Range 31 East, N.M.P.M., Eddy County, New Mexico.

12 Call for appearances.

13 MR. DeBRINE: Good morning, Mr. Examiner.  
14 Earl DeBrine with the Modrall Sperling firm in  
15 Albuquerque. I have Jennifer Bradfute with me for  
16 Apache Corporation.

17 EXAMINER McMILLAN: Any other appearances?

18 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa  
19 Fe representing Nestegg Energy Corporation. I have one  
20 witness.

21 EXAMINER McMILLAN: First thing I'd like to  
22 do is let's swear in all witnesses.

23 (Whereupon, the presenting witnesses were  
24 administered the oath.)

25 MR. DeBRINE: Mr. Examiner, we call Chris

1 Lanning.

2 EXAMINER McMILLAN: The first thing, I would  
3 like to state, are there any motions?

4 MR. BRUCE: Certainly not by me.

5 MR. DeBRINE: Mr. Examiner, we didn't file a  
6 motion but we filed a hearing brief with regard to  
7 whether the opponent in this case has legal standing,  
8 the appearance by an override royalty owner who we  
9 believe doesn't have standing to object to the  
10 application given its status.

11 He gave his consent to communitization or  
12 unitization or governmental approval of a spacing unit  
13 or a proration unit when the assignment was created, and  
14 we don't believe he has legal standing to object to  
15 Apache's application.

16 MR. BRUCE: Mr. Examiner, that hearing brief  
17 was filed about -- I got it about 4:30 yesterday and I  
18 haven't had time to respond. And I disagree with that.  
19 I think we need to hear the evidence. At the close, I  
20 will make a brief statement regarding the hearing brief.

21 EXAMINER WADE: Could you make at least a  
22 brief statement as to what the issues are. Your  
23 prehearing statement was a little general in that  
24 respect.

25 MR. BRUCE: Basically, Apache's hearing

1     brief, more or less, stated the objection of Nestegg  
2     Energy Corporation, but because especially of the  
3     retroactive date of the Com agreement, Nestegg believes  
4     its correlative rights are being impaired.

5             Now, Mr. DeBrine just said we have no right  
6     to object to a Com agreement. But what they're asking  
7     for today is an approval of a Super project area  
8     covering communitized lands. And that is certainly  
9     under the Division's authority.

10            And Mr. DeBbrine said that Nestegg's  
11     interest is subject to, in essence, a pooling provision.  
12     But what it says is shall be subject to a governmentally  
13     approved cooperative unit plan of development for a well  
14     spacing or proration unit.

15            Well, they're seeking a project area, not a  
16     well spacing or proration unit, No. 1. And No. 2, even  
17     if they were, that implies the Division's spacing power  
18     under the New Mexico Oil and Gas Act.

19            And normally well units or project areas are  
20     40s or 40s tacked together to form a single well unit.  
21     Here they are looking for multiple wells on a very large  
22     six section project area. That implies the Division's  
23     authority. And under the statutes, they have limited  
24     correlative rights of the interest owners.

25            EXAMINER WADE: Any response?

1           MR. DeBRINE: Yes. We are seeking a project  
2 area that is going to have multiple laterals within it,  
3 but that is well within the Division's authority. Under  
4 the Division's rules, a standard project area can  
5 encompass an entire unit, which are most often multiple  
6 sections. And this is going to be a project area that  
7 consists of a contiguous 40-acre spacing unit that  
8 happens to be composed of six sections, but it still  
9 fits within the Division's rules with regard to project  
10 areas.

11           There's been multiple cases heard over the  
12 last two years in which communitized project areas were  
13 approved both in the San Juan Basin for the Mancos and,  
14 more recently, in the Permian Basin. And there's been  
15 multiple orders issued by the Division authorizing the  
16 formation of large project areas similar to the one  
17 Apache is seeking today.

18           The Division rules with regard to formation  
19 of project areas do not confer status on overriding  
20 royalty owners to participate in those hearings.

21           We have an overriding royalty owner who  
22 consented to -- and the language is, the overriding  
23 royalty said that they're subject to any governmentally  
24 approved cooperative or unit plan of development or  
25 operation or communitization or other agreement forming



1 well spacing of proration unit under rule regulation of  
2 New Mexico Conservation Division.

3 And that is broad enough to encompass the  
4 Division's authority and practice with regard to project  
5 areas, which it has recognized are simply larger spacing  
6 of proration units for the drilling of horizontal wells  
7 under its horizontal well rule.

8 So we believe the application is clearly  
9 within the Division's rules. The Division rules don't  
10 allow for the participation of an overriding royalty  
11 owner who consented when its interest was created.

12 The working interest owner has consented to  
13 the formation of a project owner in the communitization  
14 agreement, and that's all the consent that's required.  
15 An overriding royalty owner cannot dictate developmental  
16 issues. He surrendered those when he acquired his  
17 interest. And we don't believe he has legal standing to  
18 appear and object.

19 EXAMINER WADE: So like Mr. Bruce, we did  
20 not receive the brief until about 4:30 or so last night.  
21 So maybe it would be worth hearing -- flushing out the  
22 evidence and getting everything on the record before we  
23 make a decision.

24 EXAMINER McMILLAN: Yes, that is the correct  
25 action to take in the case.

1 EXAMINER WADE: I guess what we did was  
2 something similar to opening statements. But would  
3 anybody want to make --

4 MR. BRUCE: I don't have anything else.

5 MR. DeBRINE: Nothing further, Mr. Examiner.

6 EXAMINER McMILLAN: Proceed with your case.

7 MR. DeBRINE: At this time we call Chris  
8 Lanning.

9 APACHE CORPORATION CASE-IN-CHIEF

10 CHRIS LANNING

11 having been first duly sworn, was examined and testified  
12 as follows:

13 DIRECT EXAMINATION

14 BY MR. DeBRINE:

15 Q. Would you please state your name.

16 A. Chris Lanning.

17 Q. Who do you work for, Mr. Lanning?

18 A. Apache Corporation.

19 Q. And how long have you worked for Apache and what  
20 do you do for them?

21 A. I've worked for Apache four-and-a-half years. I  
22 am the sub surface landman covering all of Eddy County  
23 and portions of Lea County, New Mexico.

24 Q. Prior to working for Apache, did you work for any  
25 other companies?

1       A. I worked for Mack Energy Corporation for  
2       four-and-a-half years. And I was an independent landman  
3       for about two-and-a-half years.

4       Q. Have your responsibilities and duties involved  
5       the negotiation of communitization agreements with  
6       working interest owners in the Federal Bureau of Land  
7       Management?

8       A. They have.

9       Q. Are you familiar with the application filed by  
10      Apache in this case?

11      A. I am.

12      Q. What is your educational background?

13      A. I have a bachelor's of arts degree.

14      Q. From what university?

15      A. University of Texas, Permian Basin.

16      Q. Are you also familiar with the status of the  
17      lands that are included in the communitized project area  
18      that's the subject of this application?

19      A. I am.

20               MR. DeBRINE: We would tender the witness as  
21      an expert in petroleum land matters.

22               MR. BRUCE: No objection.

23               EXAMINER McMILLAN: So accepted.

24      Q. If you can turn to what has been marked as Apache  
25      Exhibit 1. Could you explain what Apache is seeking in

1 this case by its application?

2 A. Apache is seeking a project area that basically  
3 encompasses our communitized area, which is comprised of  
4 sections three, four, five, six, seven, eight, nine and  
5 ten, in Township 17 south, 31 East.

6 We are asking that we be able to place our wells  
7 anywhere within the boundaries of the project area or  
8 communitized area following our -- the setback  
9 requirements of 330 on the outlying borders of the  
10 project area.

11 We are also asking for commingling within the  
12 project area and we are also asking to form a new pool  
13 and retract the Fren-Glorieta Pool in the east half of  
14 section nine.

15 Q. If you could turn to Exhibit 2, which is the  
16 communitization agreement; could you just explain what  
17 that agreement is and what it consists of?

18 A. The agreement communitizes the sections that I  
19 mentioned, sections three through ten, the Glorieta Yeso  
20 Formation, and pools all of those interests together  
21 within those eight sections.

22 Q. How many areas are included within the  
23 communitized project area?

24 A. 5,051.36.

25 Q. Are there any state or fee lands involved?

1 A. No. It is all federal lands.

2 Q. Has the Bureau of Land Management already  
3 approved the communitization agreement?

4 A. They have approved the Com agreement.

5 Q. I notice that the BLM's approval provides for an  
6 effective date for November 1st of 2013. Do you know  
7 the reason that the BLM determined that as the effective  
8 date for the Com agreement?

9 A. It's not uncommon for the BLM to retroactive the  
10 approval dates. But they settled on that date, that was  
11 the initial date of production from our horizontal wells  
12 that precipitated the forming of the communitized area.

13 Q. How long have you been planning on working with  
14 the BLM to put the agreement together?

15 A. We worked with the BLM for over three years on  
16 our plan of development in the communitized area.

17 Q. Would you be able to develop this acreage that's  
18 encompassed within the communitized area on a individual  
19 lease basis utilizing vertical wells on ten-acre  
20 spacing?

21 A. Absolutely not.

22 Q. And could you explain to the Examiner why that  
23 isn't possible?

24 A. It is dune, sagebrush, lizard habitat, very sandy  
25 dune areas. The BLM restricts well placement. We also

1 entered into a third-party agreement with Chem -- they  
2 are on site -- that dictates that we have to maintain  
3 certain distances from sand dunes for the lizard  
4 habitat.

5 So it's -- the topography, it's very difficult to  
6 get wells located.

7 Q. Have all the leasees and the working interest  
8 owners in the four federal leases agreed to the  
9 communitization of their interest?

10 A. Yes, they have.

11 Q. Let's take a look at the Com agreement. Could  
12 you identify the different tracts?

13 A. There are seven tracts.

14 Q. Are you looking at page eight of the Com  
15 agreement?

16 A. There are seven tracts, four federal leases.

17 Q. Who are the working interest owners?

18 A. We are one of two working interest owners. COG  
19 Operating LLC is the other.

20 Q. Is the ownership in all seven tracts identical?

21 A. It is not.

22 Q. What is the basic difference between them?

23 A. Overriding royalty interest ownership is  
24 different within the tracts. Working interest is the  
25 same with the exception of the 40-acre tract located on

1 section six, which is tract five.

2 Q. Did you notify all the overriding royalty owners  
3 that you were entering into a Com agreement?

4 A. We did.

5 Q. Did you receive any objections after you sent  
6 that notice to them?

7 A. We did not.

8 Q. There are approximately 58 overriding royalty  
9 owners in some of the tracts; is that correct?

10 A. Yes.

11 Q. Have any of them protested Apache's application  
12 in this case?

13 A. None but Nestegg.

14 Q. So Nestegg is the only one of the 58 that made  
15 any objection whatsoever to the communitization  
16 agreement?

17 A. That's correct.

18 Q. Did you determine if the instruments creating the  
19 overriding royalty for Nestegg were made subject to any  
20 governmentally approved cooperative or unit plan  
21 development?

22 A. I did. I had those assignments pulled from Eddy  
23 County records.

24 Q. If you could turn to what has been marked as  
25 Exhibit 3. Are those the assignments that created

1 Nestegg's interest in the leases? I'm sorry. I mean  
2 Exhibit 4.

3 A. Yes.

4 Q. If you could just read for the Examiner the  
5 pertinent language by which the overriding royalty owner  
6 consented to the communitization or unitization or any  
7 other government plan for development for its interest?

8 A. "The overriding royalty shall be computed and  
9 paid at the same time and in the same manner as  
10 royalties payable to the lessor under the terms of the  
11 lease, are computed and paid.

12 "And the assignee shall be responsible for  
13 assignee's proportionate part of all taxes and  
14 assessments levied upon or against or measured by  
15 production of oil or gas.

16 "The overriding royalty shall be subject to any  
17 governmentally approved cooperative or unit plan of  
18 development or operation or communitization or other  
19 agreement forming a well spacing or proration unit under  
20 the rules or regulations of the New Mexico Oil  
21 Conservation Division to which the lease is now  
22 committed or may hereafter be committed.

23 "And in such event the overriding royalties shall  
24 be computed and paid on the basis of the oil and gas  
25 allocated to the lands pursuant to the terms of the



1 planned agreement."

2 Q. And going back to the BLM's approval of the  
3 communitization agreement, if you could turn to Exhibit  
4 3, is that the approval letter from the BLM?

5 A. It is.

6 Q. And that is what provides for the effective date  
7 of November 1st, 2013?

8 A. That is correct.

9 Q. Did Apache have any control over that date?

10 A. We did not.

11 Q. So it was just dictated to Apache by the BLM?

12 A. That's correct.

13 Q. Let's take a look at Exhibit 5, which is a map of  
14 the area. And it shows the planned location of future  
15 wells and some of the existing wells that exist within  
16 the communitized area.

17 Could you, just looking at Exhibit 5, explain  
18 Apache's plan of development for the area?

19 A. Sure.

20 Our plan of development consists of multi well  
21 pads containing three or more horizontals. We want to  
22 have three horizontals targeting the Paddock, Upper  
23 Blinebry and Lower Blinebry, so that we end up having  
24 four wells per target per section until the eight  
25 sections are fully developed.

1           We have also allowed for increased density wells  
2   if spacing trials show that we can fit more in there.

3           Q.   And so the plan is for the entire eight sections  
4   to be fully developed by Apache's horizontal wells?

5           A.   Yes.

6           Q.   And what would be the problem with regard to  
7   drilling horizontal wells on a lease basis?

8           A.   You have -- well, with the surface topography,  
9   the sand dunes, we are only allowed to place our well  
10   pads within areas approved by the BLM.  So we have  
11   horizontal wells crossing lease lines, section lines,  
12   setback rules and whatnot, it would be a difficult  
13   proposition.

14          Q.   Could you also outline on Exhibit 5 where the  
15   common surface facilities are going to be located for  
16   the surface commingling?

17          A.   Sure.  We have the Crow federal batteries located  
18   in section nine and the Raven federal battery located in  
19   section seven.

20          Q.   And have lines already been put in place for some  
21   of the wells and the leases to deliver to those  
22   batteries?

23          A.   That is correct.  Because of the volumes from the  
24   wells we had to place buried steel lines going from the  
25   various well pads to what we call mega-batteries, large

1 centralized tank batteries.

2 Q. And what are the benefits to Apache and the  
3 working interest owners by the commingling and the use  
4 of common surface measurement and storage facilities?

5 A. It allows us to utilize our existing  
6 infrastructure without having to spend the capital to  
7 build more batteries. And with a surface topography,  
8 finding space -- we have a hard enough time finding  
9 space for well pads, building extra batteries, we have  
10 existing infrastructure there.

11 Q. Have you made an estimate of what the cost  
12 savings are that you might realize that you can invest  
13 in development of the actual resources?

14 A. It would depend on the size of the batteries.  
15 Initially it was \$5-to-10 million for another  
16 mega-battery and then small satellite batteries. Costs  
17 would vary.

18 Q. If you could turn to Exhibit 8. And could you  
19 just explain what that consists of?

20 A. That's a drawing of one of our centralized  
21 facilities that we have in place. We had those built  
22 and put in such a way that they could be expanded if  
23 need be for extra production. As our drilling program  
24 expands, we can put in extra tanks and separators and  
25 whatnot.

1 Q. Since there's solely federal lands involved, did  
2 the BLM impose any special requirements on Apache for  
3 the development of the communitized project area before  
4 approving the communitization agreement?

5 A. They did. They took the standard federal  
6 communitization form and added six paragraphs to it that  
7 primarily deal with continuous development provision.  
8 We have six months between completion of one well and  
9 spud of the next well.

10 They also require that we submit a plan of  
11 development for their approval yearly.

12 Q. And has the plan of development been approved by  
13 the BLM?

14 A. It has.

15 Q. Could you turn to Exhibit 6, which is the plan of  
16 development, and just kind of walk the Examiner through  
17 that.

18 A. The plan of development shows what our 2015 drill  
19 schedule is. We've also included what we show as  
20 inventory wells, those being wells that we can bump up  
21 in the list to drill. It also outlines what our plans  
22 are for 2016 as well as 2017.

23 Q. Will all of the leases in which Nestegg owns an  
24 overriding royalty interest be fully developed by the  
25 approved plan of development?

1 A. Yes.

2 Q. Let me show you what has been marked as  
3 Exhibit 7, which is a map that shows the Yeso pools in  
4 the area and the communitized project area. Could you  
5 just walk the Examiners through that.

6 A. We have the -- a little over 4,700 acres are  
7 located north of the Cedar Lake-Glorieta Yeso Pool and  
8 the Fren-Glorieta Yeso Pool with the exception of the  
9 east half of section nine which is located within the  
10 Fren-Glorieta Pool.

11 Q. And so that's the reason you are asking the  
12 Division to contract the boundaries of the Fren-Glorieta  
13 Yeso Pool --

14 A. Yes.

15 Q. -- to remove it from the communitized project  
16 area?

17 A. Yes.

18 Q. And a new pool will be established encompassing  
19 the eight sections that comprise the communitized  
20 project area?

21 A. Yes.

22 Q. Are there any other operators besides Apache in  
23 the Fren-Glorieta Yeso Pool?

24 A. No.

25 Q. What is the reason you are asking the Division to

1 form a new pool for the communitized project area?

2 A. We met with the OCD back in April discussing the  
3 Com. And after our discussions, it made sense to form a  
4 new pool for well reporting and whatnot. It would be  
5 simpler commingling as well.

6 Q. The Division last fall recently established  
7 permanent special rules for all the Glorieta Yeso Pools  
8 in this area in order R-13382-I.

9 And are you asking that those same rules apply to  
10 the new pool being created?

11 A. Yes.

12 Q. So it would provide for orthodox locations under  
13 statewide rules at normal 330 foot setback?

14 A. Yes.

15 Q. And an allowable of 600 barrels of oil per day  
16 per standard 40-acre spacing and proration unit?

17 A. Yes.

18 Q. And a gas/oil ratio of 3,000 standard cubic feet  
19 of gas per barrel of oil?

20 A. Yes.

21 Q. With regard to the wells that Apache has planned,  
22 will the completed intervals for all the wells in the  
23 plan of development be in compliance with those setback  
24 requirements?

25 A. Yes, within the outline of the communitized

1 areas.

2 Q. So all of the completed intervals will be within  
3 330 feet of the exterior boundaries of the project area?

4 A. That's correct.

5 Q. Could you also explain why you are seeking  
6 permission from the Division to allow commingling of all  
7 production produced from the communitized project area?

8 A. Even though a single pool would eliminate pool to  
9 pool commingling, again, going back to our horizontal  
10 wells and how they're -- we are having to locate those  
11 multi well pads, we will have multiple lease  
12 horizontals.

13 Q. Under the communitization agreement approved by  
14 the BLM will all production be allocated to the working  
15 interest owners in proportion to their acreage in the  
16 communitization agreement?

17 A. Yes.

18 Q. Did the BLM determine that that allocation was  
19 fair and equitable?

20 A. Yes.

21 Q. With regard to notice of your application, how  
22 did you determine -- since this isn't a standard  
23 situation -- how did you determine who you needed to  
24 provide notice of your application?

25 A. The OCD in our meetings back in April decided who

1 we needed to notice.

2 Q. Did you have any overriding royalty interests who  
3 you were unable to locate and the two noticed by  
4 publication?

5 A. We did.

6 Q. What efforts did you make to locate all the  
7 overriding royalties and give them written notice of the  
8 application filed by Apache?

9 A. A county records search, database search, name  
10 searches.

11 Q. Did you make a good faith effort, do you believe,  
12 to locate all the overriding royalty owners?

13 A. Yes.

14 Q. How many were there that you got a return receipt  
15 card back on those owners; do you have an estimate?

16 A. Owners that were unlocateable?

17 Q. Yes.

18 A. A handful.

19 Q. Okay.

20 MR. DeBRINE: Mr. Examiner, I move for  
21 admission of Exhibits 1 through 9.

22 MR. BRUCE: No objection.

23 EXAMINER McMILLAN: Exhibits 1, 2, 3, 4, 5,  
24 6, 7, 8 and 9 may now be accepted as part of the record.

25 (Whereupon, Apache Corporation Exhibits 1



1 through 9 were offered and admitted.)

2 MR. DeBRINE: And I pass the witness.

3 MR. BRUCE: Just a couple of questions.

4 CROSS-EXAMINATION

5 BY MR. BRUCE:

6 Q. Mr. Lanning, have any of the other overriding  
7 royalty owners contacted you?

8 A. With the exception of Nestegg?

9 Q. Yes.

10 A. I have talked to -- I did have one contact me,  
11 and I can't remember his name.

12 Q. And what issues were raised during the  
13 conversation?

14 A. His issue was the effective date being -- he was  
15 worried that the effective date of the Super Com was not  
16 going to be retroactive, in other words, that some  
17 parties would be able to receive flush production on  
18 interest he didn't have.

19 Q. So that he wasn't originally in the original well  
20 units, is what you are saying?

21 A. Not ones that we have drilled thus far.

22 Q. Okay. Looking at the very last page of your  
23 Exhibit 9, I was counting the returned green card -- the  
24 returned envelopes, and it looks like there are about a  
25 dozen and a half of them. You didn't identify by name

1 everybody in the legal publication, did you?

2 A. I don't know.

3 MR. BRUCE: That is all I have,  
4 Mr. Examiner.

5 EXAMINATION BY EXAMINER JONES

6 EXAMINER JONES: Okay, Mr. Lanning, so what  
7 do you consider a non-locatable party when you are  
8 providing notice?

9 THE WITNESS: Well, the leases are very old.  
10 The overrides -- actually, these leases started out as  
11 prospecting permits. And the overrides were created  
12 back in the twenties, thirties, most of them.

13 And so through time, as people have died,  
14 probates haven't been filed within the county, and you  
15 kind of get on the Internet and try to find relatives or  
16 a familiar name and see if you get lucky.

17 EXAMINER JONES: So as far as the return  
18 receipts, some of them didn't come in and you don't  
19 quite remember if you put the names in the publication.  
20 What we usually do in that situation, we make sure that  
21 that's done before we take the case under advisement.

22 So we'll have to deal with that later. We  
23 got an attorney here to ask that kind of question.

24 Why did you do a Com agreement with about  
25 nine modifications to it and not a unit?

1 THE WITNESS: Originally when we met with  
2 the BLM, we discussed a unit and worked on a unit plan.  
3 Ultimately, when we met with the BLM to finalize our  
4 plans, they said they would not approve a unit.

5 And that was when they suggested a modified  
6 communitization agreement. And the modified  
7 communitization agreement fit our development plans  
8 better than a unit.

9 EXAMINER JONES: Say that again.

10 THE WITNESS: The modified communitization  
11 agreement actually fit our development plans better than  
12 the unit.

13 EXAMINER JONES: Why is that?

14 THE WITNESS: Participating areas, mandatory  
15 well spacing, and whatnot, the communitization agreement  
16 for us seemed like a better fit.

17 EXAMINER JONES: But you are not attempting  
18 to change the spacing that he has, are you?

19 THE WITNESS: Meaning?

20 EXAMINER JONES: You are willing to -- you  
21 are not providing testimony today that the spacing in  
22 this -- in the new pool that you created should be 5,000  
23 acres, are you?

24 THE WITNESS: I don't know that I understand  
25 the question. No, we are not asking for a single well

1 spacing to be 5,000 acres.

2 EXAMINER JONES: That's good.

3 THE WITNESS: No, absolutely not.

4 EXAMINER JONES: This development plan and  
5 the plan of development that the BLM is -- wants you to  
6 adhere to, what if you violate that?

7 THE WITNESS: There is some language in  
8 there that allows for the AO or authorized officer to  
9 work with the operator. If something were to happen  
10 that didn't allow you to follow your plan, he has the  
11 authority to grant extensions on your drill time.

12 EXAMINER JONES: So it is just -- it is just  
13 one of the -- it is just the BLM can arbitrarily do this  
14 if they don't like your plan -- in other words, there is  
15 no -- you are entering into this without a concrete  
16 reasoning of why they would -- would they make you  
17 contract it if they don't like it, is that the deal?

18 THE WITNESS: Like I said earlier, we have  
19 been working with them for three-and-a-half years on our  
20 development plan. They were well aware of what our  
21 development plan is. We've met with them on numerous  
22 occasions, shown them maps, and whatnot. And there was  
23 never any risk, as far as they were concerned or a  
24 Apache for that matter, that the development plan  
25 wouldn't be followed.

1 EXAMINER JONES: Okay. These federal  
2 leases, are they all held by production?

3 THE WITNESS: They are.

4 EXAMINER JONES: What terms are they, the  
5 base lease, are they ten year leases at 1/8th royalty?

6 THE WITNESS: They all started out as  
7 prospecting permits back in the twenties. And they have  
8 been HBP since then.

9 All of the leases are 1/8th royalty with the  
10 exception of the south half of section seven, which is a  
11 sliding scale.

12 EXAMINER JONES: Okay.

13 THE WITNESS: That was also one of the  
14 benefits of the Com, was -- BLM doesn't allow you to  
15 commingle sliding scale royalty with 1/8th royalty. So  
16 under the communitization agreement, we are able to do  
17 that.

18 EXAMINER JONES: Okay. So you can't do a --  
19 you said "commingle," do you mean a surface commingle?

20 THE WITNESS: Correct.

21 EXAMINER JONES: So that is the one section  
22 that had the problem with the surface commingling?

23 THE WITNESS: Yes.

24 EXAMINER JONES: So if you carved that one  
25 out, you would have been okay?

1 THE WITNESS: Possibly with our well  
2 locations crossing multiple leases, crossing section  
3 lines, we felt like getting an approval to be able to  
4 allow us to put our wells where the BLM essentially is  
5 going to dictate was the better plan of action.

6 EXAMINER JONES: I understand. So you think  
7 five to ten million in savings?

8 THE WITNESS: Approximately. I'm not a  
9 facility engineer. I know that we would have to run  
10 extra lines, we would have unused capital that we spent  
11 for our buried lines to those wells pads, and whatnot,  
12 so...

13 EXAMINER JONES: Is this going to be speed  
14 up your applications within the Com --

15 THE WITNESS: Will it speed up our APDs?

16 EXAMINER JONES: Yes.

17 THE WITNESS: We hope so.

18 EXAMINER JONES: So how much is an AFE for a  
19 well out here?

20 THE WITNESS: Our prices have dropped  
21 significantly. We are down to about \$3.4 million.

22 EXAMINER JONES: So maybe two to three  
23 additional wells that you would be able to drill.

24 THE WITNESS: Yes, sir.

25 EXAMINER JONES: And as far as the pools go,

1 you want a pool to be created that has a 2,001 minimum  
2 GOR; is that correct?

3 THE WITNESS: Yes, sir.

4 EXAMINER JONES: Is that language similar to  
5 the Fren Pool that is being contracted, you want the  
6 special pool rules to be identical to the ones in the  
7 Fren Pool?

8 THE WITNESS: Yes, sir.

9 EXAMINER JONES: You can just say that.  
10 So you are asking here today for a  
11 non-standard location relief? You can put your wells  
12 anywhere you want?

13 THE WITNESS: Yes, sir.

14 EXAMINER JONES: Up to 20 or 30 feet of the  
15 boundary?

16 THE WITNESS: Within the exterior boundary,  
17 yes, sir.

18 EXAMINER JONES: And you are asking for a  
19 surface commingle relief from OCD?

20 THE WITNESS: Yes, sir.

21 EXAMINER JONES: Did you advertise that in  
22 your application, the surface commingle relief?

23 THE WITNESS: Yes. It is in our  
24 application.

25 EXAMINER JONES: Okay. So that was

1 advertised. As far as the notice for purposes of  
2 surface commingling, that went out to everybody that's  
3 going to get a check?

4 THE WITNESS: Correct.

5 EXAMINER JONES: So it sounds like  
6 efficiency in operation is one of the main reasons here?

7 THE WITNESS: Yes, sir.

8 EXAMINER JONES: As far as -- you got  
9 another witness that's going to talk about consistency  
10 of the reservoir and --

11 THE WITNESS: Yes, sir.

12 EXAMINER JONES: But do you know how many  
13 wells have been drilled out here so far horizontally?

14 THE WITNESS: Twenty-five?

15 EXAMINER JONES: Twenty-five?

16 THE WITNESS: I don't know right off the top  
17 of my head, twenty --

18 EXAMINER JONES: You mean in the Glorieta,  
19 Yeso.

20 THE WITNESS: Correct.

21 EXAMINER JONES: That is just total wells,  
22 vertical or horizontal?

23 THE WITNESS: Horizontal.

24 EXAMINER JONES: This Com agreement just  
25 says Glorieta, Yeso --



1 THE WITNESS: Yes.

2 EXAMINER JONES: It doesn't say just  
3 horizontal wells?

4 THE WITNESS: Correct.

5 EXAMINER JONES: So all of the existing  
6 production is going to be allocated to everybody in this  
7 acreage as of 1/1/2013 --

8 THE WITNESS: 11/1/2013, yes, sir.

9 EXAMINER JONES: 11/1/2013. How are you  
10 going to go back and do that?

11 THE WITNESS: We are going to have to go  
12 back and rebook. It's a pain, but it is doable.

13 EXAMINER JONES: How do you ask, let's say,  
14 a party that is in a really good well to share the  
15 production with the whole unit after the district is  
16 formed?

17 THE WITNESS: We think that all of our wells  
18 are going to be pretty good wells. They are going to  
19 have an opportunity to participate in wells. Everyone  
20 is going to have an opportunity to participate in some  
21 wells that they would not have been able to.

22 EXAMINER JONES: So you are spreading the  
23 risk of everybody in there?

24 THE WITNESS: And it's a risk for us, too.  
25 We took a hit on our interest as well. But we feel like

1 the development plan economically made sense to us.

2 And if it makes economic sense to us, I  
3 don't know how anyone could argue that it doesn't make  
4 economic sense to them.

5 EXAMINER JONES: Okay. The horizontal wells  
6 that have been drilled so far, what does their C-102  
7 look like as far as the acreage dedication?

8 THE WITNESS: Primarily 160s. There are  
9 some that are a little more, and maybe even -- it  
10 depends on whether that well pad -- if you look at the  
11 exhibits, you can see some of our well pads had to be  
12 placed well within the interior of the section, so some  
13 are going to be a little bit shorter going one way and  
14 some are going to be longer going the opposite  
15 direction.

16 EXAMINER JONES: Okay. Thank you. I pass  
17 the witness.

18 EXAMINER WADE: Well, regarding the  
19 publication, we do require that the published notice in  
20 the newspaper specifically address the individual  
21 parties that you are unable to locate. So I guess we  
22 can continue this ultimately in the end until we get  
23 that publication. Other than that, I have no  
24 questions.

25 EXAMINATION BY EXAMINER McMILLAN

1 EXAMINER McMILLAN: Okay. The question I  
2 have is you are requesting the contraction of the  
3 Fren-Glorieta-Yeso?

4 THE WITNESS: Yes sir.

5 EXAMINER McMILLAN: Then why do your C-102s  
6 also have Cedar Lake in there within the communitized  
7 area?

8 THE WITNESS: Because we are reporting --  
9 the Fren is the only one within the communitization  
10 area. But our wells are north of the  
11 Cedar Lake-Glorieta-Yeso --

12 EXAMINER McMILLAN: I've looked at C-102s  
13 and I've seen the C-102s that are dedicated to the Cedar  
14 Lake Pool.

15 THE WITNESS: And we do have some that are  
16 dedicated to the Fren as well.

17 EXAMINER McMILLAN: So wouldn't it be  
18 essentially a contraction of that pool, too?

19 THE WITNESS: The Cedar Lake-Glorieta-Yeso  
20 Pool is not actually within the boundaries of the  
21 communitization area.

22 EXAMINER McMILLAN: When I look at the  
23 C-102s, they say the opposite; they're dedicated to the  
24 Cedar Lake --

25 THE WITNESS: That's what they're reporting

1 to. But if you look at the pool map, it is not located  
2 there.

3 MR. DeBRINE: Mr. Examiner, I think the pool  
4 rules apply to the wildcat wells within a one-mile  
5 boundary of the pool, and that's why they bear the Cedar  
6 Lake designation.

7 EXAMINER McMILLAN: Did you speak to anybody  
8 in the Artesia district office?

9 THE WITNESS: About?

10 EXAMINER McMILLAN: About the project.

11 THE WITNESS: I have not, no.

12 EXAMINER McMILLAN: Did anybody from Apache?

13 THE WITNESS: Not that I am aware of, not to  
14 date.

15 EXAMINER McMILLAN: During the whole  
16 development process, did you speak to them?

17 THE WITNESS: No.

18 EXAMINER McMILLAN: Did you speak to Paul  
19 Kautz in Hobbs who is essentially handling this? And  
20 he's the district geologist.

21 THE WITNESS: I have not, no.

22 EXAMINER McMILLAN: Did anybody with Apache?

23 THE WITNESS: Not that I'm aware of.

24 EXAMINER McMILLAN: And can you tell me why  
25 you didn't? Why did Apache choose not to work with the

1     Artesia district office?

2                   THE WITNESS:   Work with them in regards to  
3     what?

4                   EXAMINER McMILLAN:   Just the overall  
5     process.

6                   THE WITNESS:   We came up here and met with  
7     the OCD here to go over the process.   We came directly  
8     here.   We didn't meet with Hobbs, no.

9                   EXAMINER McMILLAN:   Or Artesia?

10                  THE WITNESS:   Or Artesia.

11                  EXAMINER McMILLAN:   Next time you need to  
12     meet with the district office because they are going to  
13     know more of the intricacies of the pools and all the  
14     other processes --

15                  THE WITNESS:   Yes, sir.

16                  EXAMINER McMILLAN:   And you should have done  
17     it.

18                  (Discussion among the Examiners.)

19                  EXAMINER McMILLAN:   I have no further  
20     questions.   Cross-examination.

21                  MR. BRUCE:   I have no further questions of  
22     the witness.

23                  EXAMINER McMILLAN:   I'll tell you what,  
24     let's do it this way.   Let's come back in five minutes.  
25     Let's take a little break.

1 THE WITNESS: Am I excused?

2 EXAMINER McMILLAN: Yes, you are excused.

3 (Brief recess.)

4 EXAMINER McMILLAN: Let's continue the  
5 hearing, case 15316. You may proceed.

6 MS. BRADFUTE: Thank you, Mr. Examiner.

7 MIKE MUNCY

8 having first been duly sworn, was examined and testified  
9 as follows:

10 DIRECT EXAMINATION

11 BY MS. BRADFUTE:

12 Q. Could you please state your name for the record.

13 A. Mike Muncy.

14 Q. And who do you work for, Mr. Muncy?

15 A. Apache Corporation.

16 Q. And could you please give the Hearing Examiner a  
17 brief summary of your educational background and work  
18 experience?

19 A. Yes. I have a bachelor of science degree in  
20 geosciences from Texas Tech University.

21 After school I went and worked for Southwestern  
22 Energy for two years prior to joining Apache. And I  
23 have been with Apache for three years now.

24 Q. And do you have any memberships in any  
25 professional associations?

1       A.   Yes.  I am a member of AEPG and West Texas  
2   Geological Society.

3       Q.   And have you previously testified before the  
4   Division or the New Mexico Oil Conservation Commission?

5       A.   No, I have not.

6       Q.   Are you familiar with the application that has  
7   been filed by Apache and the lands that are subject to  
8   the application?

9       A.   Yes, I am.

10      Q.   And have you conducted a geologic study of the  
11   Glorieta-Yeso foundations underlying the proposed  
12   communitized project area that is the subject of the  
13   application?

14      A.   Yes, I have.

15               MS. BRADFUTE:  Mr. Examiner, I would like to  
16   tender Mr. Muncy as an expert in petroleum geology.

17               EXAMINER McMILLAN:  Objections.

18               MR. BRUCE:  No objection.

19               EXAMINER McMILLAN:  Yes, he may be accepted  
20   as an expert witness.

21      Q.   Mr. Muncy, have you prepared some exhibits as  
22   part of your study?

23      A.   Yes, I have.

24      Q.   If you could please turn to what has been marked  
25   as Exhibit 10 in the exhibit notebook.  Could you please

1 explain what that exhibit is?

2 A. Sure. This is a structure map of the top of the  
3 Glorieta Formation with a contour interval of 20 feet.  
4 This is in subC TDV, so structures are getting deeper as  
5 we go to the east.

6 These are sections three through ten of Township  
7 17 South, Range 31 East.

8 Q. And are there any geological impediments listed  
9 in the structure map or shown in the structure map?

10 A. No, there's not.

11 Q. If you look back to Exhibit 2 in the exhibit  
12 notebook, which is a copy of the communitization  
13 agreement. And if you could please look at paragraph  
14 No. 1 in the agreement.

15 Does that paragraph state that the  
16 communitization covers the Glorieta and Yeso formations  
17 underlying the communitized project area?

18 A. Paragraph 1 --

19 Q. It's numbered 1, and directly under it, it is  
20 going to list the township and the range.

21 A. Okay. I understand. Could you repeat the  
22 question?

23 Q. Does that paragraph state that the  
24 communitization covers the Glorieta and Yeso formations  
25 underlying the communitized project area?



1 A. Yes, it does.

2 Q. And are those separate formations or separate  
3 members within what some call the Glorieta or Yeso  
4 Formation?

5 A. Those are separate formations. For the Yeso, we  
6 have several different subtargets in the Paddock and  
7 Blinebry Formation and, also, the Glorieta Formation.

8 Q. And can you explain the characteristics of this  
9 reservoir?

10 A. Sure. The reservoir itself is primarily  
11 dolomite. It is very -- the porosity usually averages  
12 about three to four percent. The permeability ranges,  
13 depending on where you are. Usually it's pretty tight,  
14 less than .01 millidarcy in areas.

15 Q. And is there a high degree of 'heterogenesity'?

16 A. Yes. There is a high degree of heterogeneity as  
17 you go across.

18 Q. And what is the thickness of the reservoir?

19 A. Usually from the top of the Glorieta to the top  
20 of the Tubb formation, it's approximately 1,300 feet in  
21 this area.

22 Q. And is it highly compartmentalized; do they have  
23 highly compartmentalized areas within?

24 A. It's pretty continuous across the whole area. So  
25 some areas have higher porosities, some depths don't.

1 Q. Did you prepare a cross section of logs to  
2 determine the relative thickness and porosity of the  
3 target formation?

4 A. Yes.

5 Q. Can you please turn to what has been marked as  
6 Exhibit 11 in the notebook. What is this exhibit?

7 A. This is a stratigraphic cross section hung on top  
8 of the Glorieta Formation, going from west to east.  
9 Location map on the bottom showing the locations for  
10 these wells.

11 Tract 1 is gamma ray, from a scale of 0 to 150  
12 API. The middle tract is depth and TVD. And then the  
13 third tract is neutron porosity, from 30 percent to  
14 negative ten percent, so increasing to the left.

15 And what's shaded in green is a porosity greater  
16 than six percent.

17 Q. Do you consider the wells listed in the cross  
18 section to be representative of the Glorieta-Yeso  
19 Formation in the communitized project area?

20 A. Yes, I do.

21 Q. What conclusions have you drawn from your  
22 geologic study of the area?

23 A. One, there isn't any faulting, folding, anything  
24 that would affect drilling in the area. The reservoir  
25 is present across the entire area.

1           We plan to develop the whole area and we expect  
2   it to be productive in all intervals throughout the  
3   eight sections. And, finally, with our horizontal  
4   development with the heterogeneity of the reservoir, we  
5   believe we will achieve our greatest EURs.

6           Q. And will each project area within the  
7   communitized project area contribute to production in a  
8   relatively equal manner?

9           A. Yes.

10          Q. Will the completed intervals for all the wells be  
11   orthodox and meet the 330 foot setback foot  
12   requirements from the exterior boundaries of the  
13   communitized area?

14          A. Yes, they will.

15          Q. And has the BLM approved Apache's proposed plan  
16   of development for the communitized project area?

17          A. Yes.

18          Q. Did the BLM express any concerns or impose any  
19   special drilling requirements on Apache?

20          A. Yes. They wanted six months of continuous  
21   drilling and every year to submit a plan of development.

22          Q. And do you have an opinion as to whether the  
23   entry of an order approving the communitized project  
24   area will prevent waste?

25          A. Yes.

1 Q. It will prevent waste or --

2 A. It will not prevent -- excuse me -- yes, it will  
3 prevent waste. I'm getting my words mixed up. Due to  
4 the location of where we can put our horizontal pads,  
5 with this agreement, will allow us in preventing any  
6 acreage from being stranded.

7 Q. And do you have an opinion whether correlative  
8 rights would be impaired if the Division grants Apache's  
9 application?

10 A. No.

11 Q. And were exhibits -- actually, I want to turn  
12 Exhibit No. 12. Could you please explain what this  
13 exhibit is?

14 A. This is what we submitted to the BLM for a pool  
15 hearing. Should I just describe --

16 Q. Absolutely.

17 A. So for findings order No. R-13382-E, the vertical  
18 limit on these pools is established as from the top of  
19 the Glorieta Formation, is found at a depth drilled of  
20 4,519 in the EOG Resources Inc. Oak Lake, 11 Fed No. 1,  
21 located 1,070 feet from the south line and 860 feet from  
22 the east line, unit P of section 11, Township 17 South,  
23 Range 30 East, Eddy County, New Mexico, as shown on the  
24 Baker-Hughes induction electric log of this well;  
25 through the top of the Abo Formation or base of the Yeso

1 Formation as found at the depth drilled at 6,674 feet as  
2 shown on the same electric log.

3 And No. 71, the Yeso Formation in this area  
4 includes the Paddock, Blinebry, Tubb, and Drinkard  
5 members. The Yeso formation consists of several pools  
6 covering at least three townships and six ranges in Eddy  
7 County and Lea County, New Mexico.

8 Oil production occurs mostly in the Paddock and  
9 the Blinebry members of these pools. The Yeso reservoir  
10 is characterized by very low porosity and low  
11 permeability with a high degree of heterogeneity.

12 It is thick, stratigraphic, lenticular and highly  
13 compartmentalized. The lower permeability in this  
14 reservoir decelerates recovery and protracts depletion.

15 Q. And, in your opinion, is this an accurate  
16 description of the Glorieta and Yeso formations in the  
17 communitized project area?

18 A. Yes, I think it is accurate.

19 Q. Were Exhibits 10 through 12 prepared by you or  
20 compiled under your direction and supervision?

21 A. Yes, they were.

22 MS. BRADFUTE: Mr. Examiner, I would like to  
23 move the entry of Exhibit 10 through 12.

24 EXAMINER McMILLAN: Any objections?

25 MR. BRUCE: No objections.

1 EXAMINER McMILLAN: Exhibits 10, 11, and 12  
2 may now be accepted as part of the record.

3 (Whereupon, Apache Corporation Exhibits 10,  
4 11, and 12 were offered and admitted.)

5 MR. DeBRINE: I have no further questions.

6 MR. BRUCE: I have no cross-examination,  
7 Mr. Examiner.

8 EXAMINER McMILLAN: Let's do it the same  
9 way.

10 EXAMINATION BY EXAMINER JONES

11 EXAMINER JONES: The Paddock, Blinebry, Tubb  
12 and Drinkard, can you show us where that is at on this  
13 cross section?

14 THE WITNESS: The first marker at the top,  
15 that is the Glorieta marker. The second marker is the  
16 Paddock. And down towards the middle of that is the  
17 Blinebry marker. And, then, towards the bottom of that  
18 is the Tubb marker.

19 I did not include the Drinkard and  
20 Abo Formation on this cross section, because we only  
21 look from the Glorieta down to the Tubb.

22 EXAMINER JONES: So the Tubb is not  
23 prospective?

24 THE WITNESS: We believe it to be more water  
25 wet, not as prospective as the overlying carbonates.

1                   EXAMINER JONES: And the Drinkard is not --  
2 is it present in this area? Do you have any logs that  
3 go through the Drinkcard?

4                   THE WITNESS: We don't have a whole lot of  
5 logs that go through the area, where people have called  
6 it in the past, there is a lot of question and debate,  
7 so I am not comfortable calling the Drinkard in this  
8 area.

9                   EXAMINER JONES: Is the Glorieta  
10 prospective?

11                  THE WITNESS: Certain porosities in it, do  
12 show -- we do calculate net pay in it.

13                  EXAMINER JONES: But where do you intend to  
14 target your wells at this time?

15                  THE WITNESS: Usually we try to keep target  
16 intervals at about 400 feet TDV, so with this large  
17 porosity package in the Paddock, we tend to target  
18 towards the bottom to include the frac up into the  
19 Glorieta, too.

20                  EXAMINER JONES: Say that again as far as --  
21 where would you put your well in this Raven Federal No.  
22 1, the first well in your cross section, where would you  
23 put a horizontal well?

24                  THE WITNESS: Probably around -- around  
25 4,800 -- excuse me -- around 4,850.

1 EXAMINER JONES: Where the green --

2 THE WITNESS: Yes.

3 EXAMINER JONES: So is it safe to say the  
4 Paddock is the most productive prospective member?

5 THE WITNESS: I would say, yes, as far as  
6 log quality, net pay, calculating reserves, that is the  
7 most prospective. But we have been very successful with  
8 our upper Blinebry targets, too.

9 EXAMINER JONES: Are you aware of any depth  
10 segregation of ownership between the Paddock and the  
11 Blinebry or any --

12 THE WITNESS: I am not aware of any.

13 EXAMINER JONES: You work as a team, though,  
14 with your landman, right?

15 THE WITNESS: Yes.

16 EXAMINER JONES: The wells that have been  
17 drilled so far, are they Paddock wells?

18 THE WITNESS: Paddock and upper Blinebry and  
19 some lower Blinebry wells.

20 EXAMINER JONES: You've got some lower  
21 Blinebry?

22 THE WITNESS: Uh-huh.

23 EXAMINER JONES: Tell us about the water  
24 production around this unit area that you are proposing  
25 here. Is it higher in some places and lower in others?



1           THE WITNESS: We find that it kind of varies  
2 per well. We've generated maps showing average water  
3 saturation, net pay. And we often find that as far as  
4 water production per well, it varies. So we have not --  
5 it is hard to predict that. But usually about 70  
6 percent water cut or so.

7           EXAMINER JONES: How many barrels per day is  
8 that -- how many barrels of oil?

9           THE WITNESS: A type well is usually about  
10 400 barrels of oil per day. And water production, I  
11 can't think of the last results that we came up with.

12          EXAMINER JONES: But it is a multiple of the  
13 oil production?

14          THE WITNESS: Correct.

15          EXAMINER JONES: So you are having to deal  
16 with the water production?

17          THE WITNESS: Yes, we are.

18          EXAMINER JONES: And that is going to  
19 influence where you drill in this area?

20          THE WITNESS: Yes. I believe we have the  
21 facilities to deal with the water production.

22          EXAMINER JONES: Okay. So you can't tell --  
23 you can't say where water production is highest in  
24 this --

25          THE WITNESS: At this moment, with the young

1 life of our wells, they're just coming in, I can't  
2 definitively point on a map where our highest producing  
3 water wells are; with the exception of toward the  
4 southern part of section ten, that well experienced more  
5 water than the other.

6 EXAMINER JONES: The geologic reason for  
7 that?

8 THE WITNESS: Maybe it is further a  
9 down-dip. But when you look at logs, we do not have a  
10 clearcut well water contact on our resistivity readings  
11 so...

12 But also, just going a little further north,  
13 referencing back to our structure map, something along  
14 the -- you'll see a little bit higher in sections, is  
15 one of our best producing wells.

16 EXAMINER JONES: Okay. So if you own  
17 section six, would you share your production with  
18 section ten?

19 THE WITNESS: I --

20 EXAMINER JONES: As a geologist, you know  
21 the most about this area, correct?

22 THE WITNESS: Yeah, I mean it's all going to  
23 be producing from the same interval. We expect with our  
24 type curve to get the same amount from section ten as  
25 from section six.

1 EXAMINER JONES: Is this a resource play,  
2 what you would consider a resource play?

3 THE WITNESS: Well, depending on your  
4 definition of resource play. I consider this a tight  
5 carbonate, horizontal play in this area. Obviously,  
6 it's sourced from something outside the Yeso, but  
7 trapped stratigraphically.

8 EXAMINER JONES: Is it sourced from the Bone  
9 Spring?

10 THE WITNESS: It is debatable. But we  
11 believe it is sourced from the basin.

12 EXAMINER JONES: Why is Apache the operator  
13 here?

14 THE WITNESS: I believe that we have a  
15 60 percent working interest in this area.

16 EXAMINER JONES: So it is just based on  
17 acreage contribution, Apache voted themselves the --

18 THE WITNESS: As far as the --

19 EXAMINER JONES: -- operator?

20 THE WITNESS: As far as the agreement, that  
21 was before my time that that comes in, so I am still  
22 trying to learn the intricacies of the agreement that we  
23 have.

24 EXAMINER JONES: Do you pick the wells, pick  
25 the locations of these wells?

1 THE WITNESS: The locations were picked  
2 prior to my arrival. But some wells have not been  
3 staked yet, so I approve the locations and then I pick  
4 the target intervals for the wells.

5 EXAMINER JONES: Okay. After five years  
6 from the effective date of this agreement, how many  
7 wells do you expect -- are you expecting to have this  
8 whole area drilled up?

9 THE WITNESS: Yes.

10 EXAMINER JONES: So if this was a unit and  
11 you had a five-year contraction clause, you wouldn't  
12 have to worry about it; is that correct?

13 THE WITNESS: In five years, I believe we'll  
14 be --

15 EXAMINER JONES: What is the oil price going  
16 to be five years from now?

17 THE WITNESS: Yeah, yeah. That is the  
18 question we all ask. I don't think -- I think we will  
19 be drilled up within five years and have this area fully  
20 developed.

21 EXAMINER JONES: Okay. How much money has  
22 Apache -- have the operators spent so far in this --

23 THE WITNESS: That I don't know off the top  
24 of my head.

25 EXAMINER JONES: But you said -- the other

1 witness said three to four million --

2 THE WITNESS: With current prices -- you  
3 know, with the oil price declining, frac costs have come  
4 down dramatically. So, you know, from last year we were  
5 at about 4.6 million and now we are at 3.something.

6 I haven't seen with the recent invoices that have  
7 come in what our actual costs were.

8 EXAMINER JONES: As a geologist on this  
9 project, what kind of testing or pilot holes are you  
10 urging or logs or tracers? What recommendations --

11 THE WITNESS: There are several vertical  
12 wells in the area that cover the section. So we have  
13 drilled only one pilot well where we have taken whole  
14 core from -- we have done a bunch of hole core analysis  
15 on and we've tied that into our interpretation.

16 We also have a three seismic covering the  
17 area, which we have -- we do incorporate where we plan  
18 to drill our wells.

19 And as far as tracers, we have -- in one of  
20 our most recent collations, we have put tracers in the  
21 well to see which stages are producing from, to see if  
22 we're getting any interference from our upper and  
23 Paddock targets.

24 EXAMINER JONES: So what kind of testing  
25 would you recommend going forward?

1 THE WITNESS: Going forward, I believe we  
2 have a pretty good understanding in the area. I don't  
3 think we need to require any further science testing for  
4 this well -- excuse me -- for this area.

5 EXAMINER JONES: Okay. Your control for  
6 your cross section kind of left out sections five, six,  
7 nine and ten. And did you have pretty good control  
8 there too or --

9 THE WITNESS: As far as section six, we have  
10 one well in the northwest corner and it ties in just  
11 with these wells. For the purpose of keeping the cross  
12 section smaller and trying to encompass -- I believe I  
13 encompassed most of this area, but section six is very  
14 similar to what you see in the cross section.

15 EXAMINER JONES: And this is hung on the top  
16 of the --

17 THE WITNESS: On the top of the Glorieta.

18 EXAMINER JONES: Okay. I don't have  
19 anything further.

20 EXAMINER WADE: I don't have any questions.

21 EXAMINER McMILLAN: Okay.

22 EXAMINATION BY EXAMINER McMILLAN

23 EXAMINER McMILLAN: My question is is  
24 there -- do you know the gravity of the oil in the  
25 Paddock and the Blinebry?

1 THE WITNESS: 38 to 41 degrees.

2 EXAMINER McMILLAN: Consistently?

3 THE WITNESS: Usually within that range.

4 EXAMINER McMILLAN: And how about the BTUs?

5 THE WITNESS: That I am not familiar with.

6 EXAMINER JONES: Do you a have a propane  
7 plant<sup>t</sup> out there or do you just sell wet gas to your --

8 THE WITNESS: I believe we sell all the gas  
9 that we make. But at this time, I am unfamiliar with  
10 it.

11 EXAMINER McMILLAN: Since we've discussed  
12 that this case is going to have to be continued, I want  
13 an engineer to tell me the API gravity of the different  
14 formations, and I also expect the same thing, the BTUs  
15 for the gas.

16 THE WITNESS: Okay.

17 MS. BRADFUTE: Mr. Examiner, could we  
18 provide that information in an affidavit?

19 EXAMINER McMILLAN: Yes. But it has to be  
20 signed by an engineer.

21 MS. BRADFUTE: Yes.

22 EXAMINER McMILLAN: I will accept that.

23 MS. BRADFUTE: Okay.

24 MR. BRUCE: I have no objection to that,  
25 Mr. Examiner.

1 EXAMINER McMILLAN: Okay. I have no further  
2 questions. Cross-examination.

3 MR. BRUCE: No, I don't have any questions  
4 of the witness.

5 EXAMINER McMILLAN: Okay.

6 MR. DeBRINE: That concludes our  
7 presentation, Mr. Examiner.

8 EXAMINER McMILLAN: Okay.

9 MR. BRUCE: Are you ready, Mr. Examiner?

10 EXAMINER McMILLAN: Yes. You may proceed,  
11 Mr. Bruce.

12 NESTEGG CORPORATION CASE-IN-CHIEF

13 RAYE MILLER

14 having been first duly sworn, was examined and testified  
15 as follows:

16 DIRECT EXAMINATION

17 BY MR. BRUCE:

18 Q. Please state your name for the record.

19 A. Raye Miller.

20 Q. Where do you reside?

21 A. Artesia, New Mexico.

22 Q. And I am here today representing Nestegg Energy  
23 Corporation. What is your relationship to Nestegg?

24 A. I am a shareholder and president of the  
25 corporation.



1 Q. Have you previously testified before the  
2 Division?

3 A. I previously was qualified as a practical oilman  
4 and have testified before the Division.

5 Q. And have you familiarized yourself with Apache's  
6 application and Nestegg's interest in this area?

7 A. Probably more so than I would like.

8 MR. BRUCE: Mr. Examiner, I tender  
9 Mr. Miller as a practical oilman.

10 EXAMINER McMILLAN: Any objections?

11 MR. DeBRINE: No objection.

12 EXAMINER McMILLAN: So accepted.

13 Q. Did you prepare an exhibit for presentation  
14 today?

15 A. To try to make it brief, because I tend to get  
16 longwinded, I actually wrote my thoughts down to try to  
17 make them more concise. And if it's all right, I'll  
18 just read those to you to enter them into the record.

19 Q. And is that submitted as Exhibit 1?

20 A. Yes.

21 Q. Go ahead.

22 A. First, I would like to commend Apache's  
23 engineering team for their success at developing  
24 horizontal wells in the Yeso Formation in this area.

25 The experience that Marbob had and other

1 operators in this area led me to believe that Apache's  
2 approach versus vertical wells would not be as economic,  
3 that they have achieved results far greater than I  
4 thought they ever would.

5           Unfortunately, I believe that what they've come  
6 to in agreement with the BLM on this so-called Mega Com  
7 would bad precedent if approved by the OCD.

8           Attached to my handout, Exhibit A -- which you  
9 can see I obviously plagiarized from Apache -- is a map  
10 of the leases and wells which have been drilled and are  
11 proposed at this time to be drilled.

12           As you can see, the orientation fits well within  
13 existing lease boundaries, except in section four where  
14 the wells would need to be communitized on a  
15 well-by-well basis or project area be developed for  
16 approval by the appropriate regulatory authorities which  
17 would cover that section. I know from visiting with the  
18 BLM and Apache, that one of the reasons stated for the  
19 Mega Com was to reduce the amount of facilities  
20 required.

21           As president of an operating company, I certainly  
22 can understand it both from a cost perspective as well  
23 as from a service consideration that -- that I believe  
24 the OCD rules in place would allow, after review, notice  
25 and approval, the surface commingling of wells that

1 accomplish the same results, which is currently being  
2 used by operators such as Devon to achieve that result.

3 I'm also aware of the BLM's concern over surface  
4 disturbance given the fact that this area is home to the  
5 Sand Dune Lizard.

6 While personally I believe the BLM by removing  
7 thousands of acres from leasing and development north of  
8 here has created a chicken and lizard ranch which should  
9 allow for both species survival, but if the protection  
10 of that species is critical in this area, than the BLM  
11 and Apache should have followed already tried and  
12 approved methods of handling unique problems with  
13 unitization.

14 The Big Eddy unit was created to deal with the  
15 specific issue of -- special issue of potash conflicts.  
16 And if this species is so important in this area, then  
17 the BLM and Apache should have followed the already  
18 recognized steps to receive approval.

19 The Mega Com in its current form, if approved by  
20 OCD, feels like the opening of Pandora's Box. Even the  
21 agreement as it now stands brings concern as to how it  
22 would be applied. A copy is attached as Exhibit B.

23 In visiting with Apache, they believe the  
24 effective date is November 1st, 2013. And when they  
25 receive your blessing, they will go in and reverse their

1 current lease payments and reallocate them back to that  
2 date.

3 But if you notice on page three of that  
4 agreement, I have highlighted a section dealing with the  
5 effective date that states, it is effective the date of  
6 first production from these leases or that date,  
7 whichever is earlier.

8 Production from these leases in the Yeso  
9 Formation began in 2009 --

10 EXAMINER WADE: I'm sorry. May I interrupt  
11 you for a minute?

12 THE WITNESS: Sure.

13 EXAMINER WADE: You refer to paragraph three  
14 of the communitization --

15 THE WITNESS: Page three. It is highlighted  
16 up there.

17 EXAMINER WADE: Thank you.

18 THE WITNESS: Sorry about that.

19 A. As I said, production from these leases in the  
20 Yeso Formation began in 2009. Apache realizes that but  
21 has not gone back to the BLM requesting an amendment to  
22 the agreement clarifying the effective date.

23 Likewise if oil prices decline more and Apache's  
24 capital budget is cut, the BLM could remove land such as  
25 the north half of section three from the agreement, and

1 Apache would be required to reverse out and rebook all  
2 the entries from the effective date, whatever that date  
3 truly is to present.

4 I am surprised that Apache would be willing to  
5 take that risk since it is very difficult to get money  
6 back from overriding royalty owners that you are no  
7 longer paying.

8 To come to the point, I should say that I believe  
9 OCD has worked diligently to provide frameworks for an  
10 unorthodox location, surface commingling, horizontal  
11 rules, and unitization that would have allowed BLM and  
12 Apache to achieve all of the objectives of both  
13 organizations without creating a new concept for  
14 southeast New Mexico, which, while if modified, might  
15 work in this area.

16 However, the next variation of this concept and  
17 the following variation after that take the OCD into  
18 waters that probably would have just preferred to avoid  
19 given the fact of the viability and the reasonable  
20 already-approved rules that are available to the  
21 applicant.

22 Thank you for letting me appear before you today.  
23 And I do thank Apache for trying to educate me and  
24 resolve the issue before the hearing.

25 I do thank the fact that they have included all

1 the names and addresses in the information they  
2 provided. I requested that from them and they wouldn't  
3 provide it previously, but at least I have it now.

4 Q. Mr. Miller, during your career in the oil and gas  
5 business, have you become familiar with the meaning of  
6 correlative rights, the protection of correlative  
7 rights?

8 A. Yes, sir.

9 Q. And in your opinion, are Nestegg's correlative  
10 rights protected by applicant's proposal?

11 A. In conflict with what the witness previously  
12 stated, I don't believe they are protected by this  
13 agreement.

14 Q. Mr. Miller, Exhibit 1 was prepared by you with  
15 the attachments from Apache?

16 A. Yes.

17 MR. BRUCE: Mr. Examiner, I move the  
18 admission of Exhibit 1.

19 EXAMINER McMILLAN: Objections?

20 MR. DeBRINE: Yes. We believe it is hearsay  
21 and the witness has just given that as his testimony, so  
22 I don't think the underlying written statement would be  
23 admissible.

24 MR. BRUCE: Mr. Examiner, the strict rules  
25 of evidence don't apply in New Mexico. And I think it

1 is important to have this in front of you when you are  
2 considering the decision; and also looking at page three  
3 of the Com agreement, the highlighted portion, I think  
4 is important.

5 MR. DeBRINE: And we would also object that  
6 the witness hasn't established the personal knowledge  
7 with regard to dealings between Apache and the BLM and  
8 what the BLM thinks and what Apache may think, that  
9 that's in the nature of speculation and is inadmissible.

10 MR. BRUCE: If I could ask Mr. Miller one  
11 question.

12 Q. (By Mr. Bruce) How many contacts have you had  
13 with Apache to discuss this matter?

14 A. I've had several contacts with Apache. And I  
15 have also had contacts with the BLM. And in my last  
16 contact with the BLM, we spent an extensive length of  
17 time talking about issues with the Super Com.

18 And at that point, Mr. Fernandez asked if I  
19 thought that he should just void the Super Com, reverse  
20 their decision. And I told him at that time that I  
21 didn't think that that was appropriate, that I needed to  
22 visit with Apache in that regard, and that one of us  
23 would get back with him.

24 And I have hesitated to get back to the BLM  
25 because I see them as a wildcard.

1 MR. DeBRINE: And we would object and ask  
2 that that testimony be stricken as hearsay with regard  
3 to conversations he had with the BLM.

4 EXAMINER WADE: I think we will accept  
5 Exhibit 1. We will note your objection and give the  
6 evidence the weight we feel it deserves. And you have  
7 the right to cross.

8 (Whereupon, Nestegg Energy Corporation  
9 Exhibit 1 was offered and admitted.)

10 CROSS-EXAMINATION

11 BY MR. DeBRINE:

12 Q. Over your years as an oil and gas operator in New  
13 Mexico, you've had numerous dealings with the BLM,  
14 Mr. Miller?

15 A. Yes, sir.

16 Q. And has it been your experience you cannot  
17 dictate to them what the effective date of a Com  
18 agreement is going to be?

19 A. I believe that at this point this is probably  
20 only the second such Super Com that may have been  
21 approved in New Mexico. I am not that familiar because,  
22 as far as I know, there are none of these Super Coms in  
23 the southeast part of the state. This is probably the  
24 first.

25 Q. Mr. Miller, do you follow the cases on the



1 Division's docket?

2 A. No, I do not on a regular basis.

3 Q. So you are not aware that on the last docket last  
4 month there were two Super Coms that were considered by  
5 the Division in the Permian Basin?

6 A. No, I am not.

7 Q. Are you aware there's approximately six or seven  
8 Super Coms that have been approved by the Division in  
9 the San Juan Basin of the Mancos?

10 A. I knew there was something in the northwest that  
11 had occurred, yes.

12 Q. You received notice from Apache that they were  
13 going to be entering into the communitization agreement  
14 before the BLM approved it, didn't you?

15 A. I appreciate your bringing that up, because I  
16 didn't have it in my testimony. But, yes, I received an  
17 informational letter from Apache talking about the  
18 possibility of a Super Com agreement, the agreement that  
19 was attached was just described as a possible agreement.  
20 And if I had any questions regarding that I was supposed  
21 to contact Apache.

22 It made no reference in that notice that I should  
23 talk to the BLM if I had any concerns or objections to  
24 the Super Com.

25 Q. But you certainly knew, based on your experience,

1 that the BLM is approachable and willing to listen to  
2 you if you have any concerns about something they're  
3 doing?

4 A. Since the letter referenced Mr. Lanning as the  
5 contact, I contacted Chris and started asking questions  
6 of him at that time.

7 Q. You don't have any operating rights within the  
8 communitized area; is that correct?

9 A. No. I have some offsetting in section 17.

10 Q. And you relinquish any rights to make decisions  
11 with regard to operating of the leases when you obtained  
12 your interest and reserved the overriding royalty?

13 A. I did not have an interest in the properties. I  
14 was assigned an override by -- Nestegg was assigned an  
15 override by Marbob Energy Corporation. Nestegg did not  
16 have operating rights in those sections.

17 Q. So Nestegg has never had operating rights in any  
18 of the leases that are the communitized area?

19 A. Not those eight sections, no, sir.

20 Q. And an overriding royalty owner doesn't have a  
21 right to make decisions with regard to the operations of  
22 the lease; is that correct?

23 A. No, sir, they do not.

24 MR. DeBRINE: No further questions.

25 EXAMINER McMILLAN: Redirect.

1 MR. BRUCE: No.

2 EXAMINER JONES: I do --

3 EXAMINER McMILLAN: Go ahead.

4 EXAMINATION BY EXAMINER JONES

5 EXAMINER JONES: Mr. Miller, aren't you  
6 familiar with land matters also?

7 THE WITNESS: I have done a few deals, yes.

8 EXAMINER JONES: Are you also familiar with  
9 the running of an oil company and how oil field  
10 accounting is handled?

11 THE WITNESS: Yes, sir.

12 EXAMINER JONES: Would you explain how they  
13 are going to go back to 2009 and take monies that were  
14 already paid out to people and take them back and  
15 allocate them to everybody else in this land section.

16 MR. DeBRINE: With all due respect, Mr.  
17 Examiner, I think it's beyond the scope of direct exam  
18 and beyond the personal knowledge of the witness as to  
19 how Apache might have handled accounting matters and  
20 revenue associated with the property.

21 EXAMINER JONES: I understand that, but as  
22 an Examiner, I have a right to ask any question that I  
23 want.

24 Mr. Miller, would you please answer.

25 THE WITNESS: First I believe that Apache at

1 this point believes that they will only go back to that  
2 effective date of 2013. And what they will be required  
3 to do is they will have to refile all of their federal  
4 reports as well as their revenue. They will rebook all  
5 the revenue from those leases, both gas and oil, and  
6 reverse out the payments they've made and rebook them  
7 under the revised Division order.

8 I suspect Apache will send out division  
9 orders for the Super Com with the effective date of  
10 2013. One of the reasons that they do not want to go  
11 back to 2009 -- which I clearly understand -- is Apache  
12 only became operator of this project October 1st of  
13 2010. And so production from wells in the Yeso  
14 Formation in these eight sections prior to that were out  
15 of vertical wells operated by Marbob Energy, which was  
16 selling their oil to Navajo Refining and was selling the  
17 gas to Frontier Field Services, Maljamar Plant.

18 And as a result it would be difficult for  
19 Apache. They would have to go back either to Frontier,  
20 to Marbob, or to Navajo and obtain the information of  
21 the payment history that was actually made from those  
22 entities on those leases to actually be able to then go  
23 forward, rebook, reverse out those entries.

24 Did I help with that?

25 EXAMINER JONES: Yes. And I understand that

1 you are just making a supposition here as to the  
2 question that I asked.

3 But can you explain to us why Com agreements  
4 came into existence and what they are for?

5 THE WITNESS: That probably predates my  
6 knowledge. But I see Com agreements -- and,  
7 particularly, we dealt with gas wells and the fact that  
8 you were dealing with a single well bore that would  
9 actually drain a larger area.

10 Those areas sometimes extended over multiple  
11 leases and so it was necessary to put the acreage into a  
12 unit that was believed to be the area that would be  
13 drained and the communitization was the effect of  
14 joining those leases together commonly for the  
15 production of those wells.

16 EXAMINER JONES: So it was confined to a  
17 spacing unit?

18 THE WITNESS: Basically, it was confined to  
19 a spacing unit, yes, sir.

20 EXAMINER JONES: Can you explain the  
21 difference between a unit and a Com agreement?

22 THE WITNESS: Well, there are -- we are  
23 going to be here quite a while. There are a lot of  
24 different units. Because the state has state  
25 exploratory units, the OCD also deals with water flood

1 secondary recovery type units. The feds have federal  
2 exploratory units. And also you can have water floods  
3 on federal lands, and they can cross between lands.

4 The state exploratory, which you reference  
5 some in your earlier questions, has a group of state  
6 leases, usually, primarily, that are in some geological  
7 similar area that has been 'approached' to the state  
8 land office to put together in an exploratory unit for  
9 five years.

10 They're required usually to drill a well or  
11 more on the front end of that term, and then during that  
12 five years, they can evaluate the results of those  
13 wells, drill additional wells. But at the end of the  
14 five years, unless they are in a process of continuous  
15 development, the lands outside fall back to lease  
16 spaces, and if no wells have been drilled, then expire.

17 The lands that are held under a state  
18 exploratory unit through the five-year period actually  
19 wind up being in a position where it is only the  
20 proration units that are actually held. Of course, they  
21 can continuously develop. But if they stop continuous  
22 development, then lands outside of the existing  
23 proration units also expire.

24 Now, what typically happens under a state  
25 exploratory unit -- and Concho has a great example of

1 one in south Eddy County called the SRO unit. It was a  
2 large block of land. It was put together, many wells  
3 were drilled. And before the end of the five years,  
4 Concho approached the state land office, disbanded the  
5 exploratory unit. Everything went back to a lease  
6 basis. And Concho has developed wells on all of the  
7 leases where each lease stayed in force.

8 Had the exploratory unit not been an option,  
9 they would have probably -- them and the prior operator  
10 would have never been able to achieve or felt that they  
11 could economically develop that many wells, because all  
12 the leases basically expired at the same time and it was  
13 a short time frame when development first occurred.

14 Obviously, a water flood unit, a secondary  
15 recovery unit is more situated to evaluating the actual  
16 engineering reservoir dynamics of the previous  
17 production out of the reservoir and the anticipated  
18 production from the commencement of injection of water  
19 or other fluids into the reservoir. And as a result,  
20 those units are usually put together with a specific  
21 basis by tract that is based on engineering data.

22 The federal exploratory unit is one that is  
23 put together basically just on an acreage contribution  
24 basis, which the Super Com was put together basically on  
25 an acreage contribution basis.

1           And as the operator develops tracts under a  
2   federal exploratory unit, then a participating area is  
3   established. And as additional wells are developed on  
4   other leases, then the participating area is expanded  
5   and there is a recalculation of the allocation of the  
6   production from those wells to that participating area.  
7   And once all of the tracts are done in the participating  
8   area for that federal unit, covers the entire eight  
9   blocks.

10           It is a thing where Apache at this point has  
11   developed wells on I believe all the tracts except the  
12   north half of section three, where if they were actually  
13   under a federal exploratory unit by the drilling of a  
14   single well in the north half of three, they would have  
15   a participating area that would largely account for all  
16   of the leases and be on an allocation fairly similar to  
17   what is actually proposed under the Super Com.

18           Does that give you enough?

19           EXAMINER JONES: Yes, it does. Thank you  
20   very much.

21           So in this case if this was a unit, would it  
22   even qualify as an exploratory unit, because you've  
23   already got your wells already drilled?

24           THE WITNESS: It is a thing where it would  
25   have been probably better to have set it up that way



1 first. You know, truly I believe that everything that  
2 Apache wants to do in the way of minimizing batteries,  
3 facilities, and locations could actually be done on a  
4 lease basis.

5           It winds up being a thing where Mr. Lanning  
6 in his testimony referenced the fact that the south half  
7 of seven is on a sliding scale royalty. I believe that  
8 there are regulations available to where if the BLM  
9 realized their own rules that application by Apache to  
10 fix that royalty could be done and because of the time  
11 frames required under their rules and as a result that  
12 royalty could be set at twelve-and-a-half, such there  
13 would be no sliding scale. And as a result surface  
14 commingling could actually then allow for the production  
15 on a lease basis into each one of these facilities.

16           It winds up being a thing where -- you know,  
17 obviously, they have already developed all of the wells,  
18 as Mr. Lanning stated, roughly 25, and they have been  
19 done on a lease basis since this Super Com wasn't done  
20 in 2013. But I do believe that in the future, you know,  
21 they would have issues regarding unorthodox locations  
22 and stuff that might require reapplication; whereas if  
23 they get this, it is, as I would describe it, it's  
24 simple for them, simple for the BLM.

25           But anyway...

1 EXAMINER JONES: So it does increase the  
2 operational efficiency?

3 THE WITNESS: I don't believe so. I believe  
4 that outside of the paperwork involved to do the proper  
5 filings, that they could have achieved the same goal  
6 through filing of surface commingling and notices and  
7 stuff.

8 I mean Devon sends me a notice about a  
9 surface commingling that they're doing -- it seems like  
10 I get one every month from them -- of different wells  
11 that they are wanting to commingle into common batteries  
12 so they can reduce the amount of facilities costs that  
13 they are incurring -- which I understand.

14 EXAMINER JONES: The people that sign the  
15 Com agreement, on a federal Com agreement, are overrides  
16 required to sign that?

17 THE WITNESS: No, sir. The BLM believes  
18 that we were given proper notice because they received a  
19 card from the post office. But I don't know that they  
20 even realize that there were multiple parties that they  
21 couldn't even notify. But, anyway, the BLM is an  
22 interesting animal.

23 EXAMINER JONES: Thank you.

24 EXAMINER McMILLAN: Do you have any  
25 questions?

1 EXAMINER WADE: I don't have any questions  
2 of the witness, so if you're done --

3 MR. BRUCE: I am through.

4 EXAMINER WADE: We are going to have to  
5 continue the case for publication to take place. Do you  
6 have even a rough idea of how long that might take?

7 MS. BRADFUTE: We will get the notice  
8 published, sent to the newspaper for publication  
9 tomorrow. And I think publication will run early next  
10 week.

11 EXAMINER WADE: You think it will be that  
12 soon?

13 MS. BRADFUTE: Yes. They just usually need  
14 two-days notice for publication.

15 EXAMINER WADE: Do you want additional  
16 testimony from Apache --

17 EXAMINER JONES: Give me some idea of how  
18 this is going to be handled as far as moving back to the  
19 effective date as defined in this agreement, as far as  
20 how the accounting is going to be handled, and how  
21 that's going to impact our district office in Artesia,  
22 also.

23 MR. BRUCE: Mr. Examiner, Mr. Wade, since  
24 the case has to be continued and since I only got  
25 Apache's brief yesterday, rather than make a closing

1 argument, I would rather respond in writing. And I  
2 think from the publication date she just said, it's  
3 going to have to be continued for four weeks.

4 EXAMINER WADE: I would say four weeks is  
5 probably appropriate. We do want more information so I  
6 think it would also be appropriate to hold off any kind  
7 of closing until our next hearing.

8 EXAMINER JONES: Regulatory and accounting  
9 information.

10 MS. BRADFUTE: Regulatory and accounting,  
11 okay.

12 EXAMINER WADE: So we will continue it to  
13 four weeks.

14 EXAMINER McMILLAN: So case number 15316  
15 will be continued until July 23rd.

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(Time noted 10:32 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. \_\_\_\_\_  
heard by me on \_\_\_\_\_

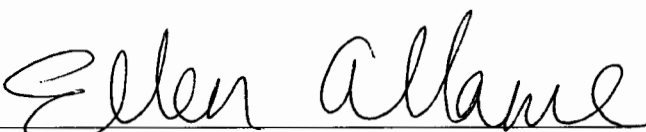
\_\_\_\_\_, Examiner  
Oil Conservation Division

1 STATE OF NEW MEXICO )  
2 ) ss.  
3 COUNTY OF BERNALILLO )  
4  
5  
6

7 REPORTER'S CERTIFICATE

8  
9 I, ELLEN H. ALLANIC, New Mexico Reporter CCR  
10 No. 100, DO HEREBY CERTIFY that on Thursday, June 25,  
11 2015, the proceedings in the above-captioned matter were  
12 taken before me, that I did report in stenographic  
13 shorthand the proceedings set forth herein, and the  
14 foregoing pages are a true and correct transcription to  
15 the best of my ability and control.

16  
17 I FURTHER CERTIFY that I am neither employed by  
18 nor related to nor contracted with (unless excepted by  
19 the rules) any of the parties or attorneys in this case,  
20 and that I have no interest whatsoever in the final  
21 disposition of this case in any court.

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