

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING CALLED
BY THE OIL CONSERVATION DIVISION FOR
THE PURPOSE OF CONSIDERING:

APPLICATION OF DAKOTA RESOURCES, INC. CASE NO. 15676
TO REINSTATE THE INJECTION AUTHORIZED
BY ORDER SWD-802, EDDY COUNTY,
NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

May 25, 2017

Santa Fe, New Mexico

BEFORE: SCOTT DAWSON, CHIEF EXAMINER
PHILLIP GOETZE, TECHNICAL EXAMINER
DAVID K. BROOKS, LEGAL EXAMINER

This matter came on for hearing before the
New Mexico Oil Conservation Division, Scott Dawson,
Chief Examiner, Phillip Goetze, Technical Examiner, and
David K. Brooks, Legal Examiner, on Thursday, May 25,
2017, 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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9

10

11 INDEX

12

PAGE

13 Case Number 15676 Called 3

14 Dakota Resources, Inc.'s Case-in-Chief:

15 Witnesses:

16 James D. Thompson:

17 Direct Examination by Mr. Rankin 4

18 Chris M. Morpew:

19 Direct Examination by Mr. Rankin 14

20 Cross-Examination by Examiner Goetze 43

21 Cross-Examination by Examiner Dawson 43

22 Proceedings Conclude 45

23 Certificate of Court Reporter 46

24

25

26 EXHIBITS OFFERED AND ADMITTED

27 Dakota Resources, Inc. Exhibit Numbers 1 through 6 13

28 Dakota Resources, Inc. Exhibit Numbers 7 through 14 42

29

1 (8:24 a.m.)

2 EXAMINER DAWSON: So what we'll do today is
3 we'll go to -- the first case that will be heard today
4 will be Case Number 15676. That's number 25 on the
5 list. And that case is application -- 15676 is the
6 application of Dakota Resources, Inc. to reinstate the
7 injection authorized by Order SWD-802, in Eddy County,
8 New Mexico.

9 Call for appearances, please.

10 MR. RANKIN: Mr. Examiner, Adam Rankin on
11 behalf of Dakota Resources. My witnesses are not here
12 yet, but I expect them. May I call them and make sure
13 they're here momentarily? Sorry for the delay. But I'm
14 not ready to put on our case without our witnesses.

15 EXAMINER DAWSON: Okay. So we'll just wait
16 and go to you after -- looks like somebody just walked
17 up. I don't know if that's them or not.

18 MR. RANKIN: Let me check real quick.

19 (Pause in proceedings.)

20 MR. RANKIN: Well, we can go.

21 EXAMINER DAWSON: Okay. So you have two
22 witnesses?

23 MR. RANKIN: Two witnesses, yeah.

24 Adam Rankin, from Holland & Hart, on behalf
25 of Dakota Resources. We've got two witnesses today.

1 EXAMINER DAWSON: If the witnesses would
2 please stand and state your name and be sworn by the
3 court reporter.

4 MR. THOMPSON: James Thompson.

5 MR. MORPHEW: Chris Morphey.

6 (Mr. Thompson and Mr. Morphey sworn.)

7 MR. RANKIN: Mr. Examiner, call my first
8 witness, Mr. James Thompson.

9 EXAMINER DAWSON: Okay. Mr. Rankin, you
10 can proceed when ready.

11 MR. RANKIN: Thank you. Just one moment.

12 JAMES D. THOMPSON,
13 after having been first duly sworn under oath, was
14 questioned and testified as follows:

15 DIRECT EXAMINATION

16 BY MR. RANKIN:

17 Q. Good morning, Mr. Thompson.

18 A. Good morning.

19 MR. RANKIN: Mr. Examiner, before we
20 proceed with the presentation of our case on this
21 application for the C-108, we have a procedural matter
22 that we'd like to address regarding the status of Dakota
23 Resources and their compliance with the inactive well
24 list. So I would like to proceed to make a short
25 presentment on the status of the compliance with that

1 rule.

2 EXAMINER DAWSON: Okay.

3 Q. (BY MR. RANKIN) Mr. Thompson, will you please
4 state your name for the record -- your full name?

5 A. James Darrell Thompson II.

6 Q. Will you please tell the Examiners by whom
7 you're employed and where you work?

8 A. I'm employed by Dakota Resources, Incorporated.

9 Q. And where is that located?

10 A. In Midland, Texas.

11 Q. And what is your current position with Dakota
12 Resources?

13 A. My current is vice president of land and
14 business development.

15 Q. And have you previously testified before the
16 Division?

17 A. I have.

18 Q. And in what capacity -- have you previously had
19 your credentials as an expert in environmental
20 engineering accepted by the Division?

21 A. I have.

22 Q. Will you please briefly just restate your
23 educational background and your work experience?

24 A. I have a Bachelor of Science in environmental
25 science from the University of Texas, Permian Basin.

1 I've worked in oil and gas for 15 years as an
2 environmental engineering consultant and in various
3 positions with consulting firms as an environmental
4 engineer and managing engineer, in those capacities.

5 I am qualified by degree and experience to
6 test for the Texas Board of Professional Engineering
7 certification.

8 MR. RANKIN: Mr. Examiner, with that, I'd
9 like to tender Mr. Thompson as an expert in
10 environmental engineering.

11 EXAMINER DAWSON: He is so admitted.

12 MR. RANKIN: Thank you, Mr. Examiner.

13 Q. (BY MR. RANKIN) Now, Mr. Thompson, are you
14 familiar with the application of the C-108 that was
15 filed before the Division?

16 A. I am.

17 Q. And is it your understanding that before the
18 Division can improve the C-108, that Dakota must first
19 demonstrate compliance with the inactive well rules?

20 A. That's correct.

21 Q. And has Dakota been operating under an agreed
22 compliance order with the Division?

23 A. Yes.

24 Q. And when was that agreed compliance order
25 entered with the Division?

1 A. We entered into the agreed compliance order on
2 January 31st, 2017.

3 Q. And is that marked as Exhibit Number 1 in the
4 package that I provided in the Hearing Examiner book?

5 A. Yes. That's correct.

6 Q. And what are the conditions of that compliance
7 order?

8 A. We were required to bring two of our inactive
9 wells that were listed in the agreed compliance order
10 into compliance by March 31st of 2017.

11 Q. Okay. Has Dakota met those conditions?

12 A. We have now.

13 Q. And which two wells on that list, which is the
14 last page of the compliance order -- which of those two
15 have you brought into compliance?

16 A. We brought into compliance the New Mexico EX
17 State #2, and we have -- well, we brought it into
18 compliance by TA-ing that well on 4/19/2017.

19 Q. Which is the other one that you brought off
20 that inactive well?

21 A. The Federal #1, and we actually brought that
22 back into production on May 18th, 2017.

23 Q. Did the compliance order also required you to
24 file a report -- compliance report with the Division?

25 A. Yes. We have not.

1 Q. So that's not been done, but do you intend to
2 do that?

3 A. That's correct.

4 Q. Now, as to -- maybe just give us a brief
5 statement about what happened on the timing with that,
6 in terms of getting the deadlines met by the March 31st
7 deadline.

8 A. Yes. Prior to the agreed -- entering into the
9 agreed compliance order, we were supplied with the
10 inactive well list and, you know, notified by the OCD of
11 what we would need to do to be in compliance with the
12 OCD inactive well rules. We initially looked at the
13 inactive well list and decided that the Big Eddy Unit #1
14 and this pending SWD application would effectively do
15 that.

16 Dakota Resources submitted and was granted
17 an approval for a TA procedure on the Big Eddy 103 well.
18 Dakota performed the work before entering into the
19 agreed compliance order. It was later discussed -- the
20 BLM wanted us to do additional remedial work and was not
21 satisfied with the TA procedure, so that well was not
22 brought back into compliance yet. So that was one of
23 our wells that we were going to knock off the inactive
24 active list. And then we were -- we were relying on --
25 or hoping that this order would be administratively

1 approved, which would also bring -- which would also
2 bring another well off the list and bring us back into
3 compliance.

4 So at that point, we had to shift our focus
5 on to two other wells, which was the State EX and the
6 Federal #1, to bring those into compliance. We were
7 able to do so on the State EX in a reasonable amount of
8 time, but the lead time for frac services and
9 stimulation services, which was what we did to bring the
10 Federal #1 back on, there was a long lead time, six to
11 eight weeks is what we were told. We actually got it
12 done a little quicker than that, but we were waiting on
13 services for that.

14 Q. Okay. Mr. Thompson, look at what's been marked
15 as Exhibit 2 in the packet. That's just -- is that an
16 excerpt of the partial copy of the well status for the
17 EX #2 well?

18 A. That's correct.

19 Q. And what does it show?

20 A. It shows that the New Mexico EX State is
21 approved as temporarily abandoned.

22 Q. So the Division has approved it as a TA well?

23 A. That's correct.

24 Q. And as far as Exhibit Number 3, does that just
25 show what work was done? What does that show in terms

1 of what Dakota did to get this well into compliance and
2 off the inactive well list?

3 A. Yeah. Exhibit Number 3 shows the actual work
4 that was performed on the State EX in order to bring it
5 in -- the procedure was approved by a Maxey Brown at the
6 Hobbs level, and this details the work that was actually
7 done in order to bring that well into compliance.

8 Q. And it was witnessed by an OCD employee; is
9 that correct?

10 A. That's correct. OCD Representative Kerry
11 Fortner was on site.

12 Q. And that's where an MIT was done to confirm the
13 TA?

14 A. That was a Mechanical Integrity Test.

15 Q. And then as to the Federal #4 well, you stated
16 that Dakota brought that back into production. Does
17 Exhibit 4 relate to what was done to accomplish that?

18 A. That's correct. The Federal #1 well --
19 internally, we call that the Federal Sparger well. But
20 this details the work that was done and the stimulation
21 that was done and some of the production as we brought
22 the well back on line.

23 Q. And when was the well determined to be back on
24 production?

25 A. The well was producing on 5/18/2017.

1 Q. Now, does Dakota report status of production --
2 this is a federal well, correct?

3 A. It is.

4 Q. So did Dakota report the status of production
5 to the BLM?

6 A. We did. We filed a BLM sundry notice to notify
7 them the well was back on line.

8 Q. That was Exhibit 4 -- or 5, rather; is that
9 correct?

10 A. That is Exhibit 5.

11 Q. So Exhibit 5 is the sundry notice you filed
12 with the BLM. And you filed that with them on at what
13 date?

14 A. That was 5/19 of 2017.

15 Q. Okay. Now, the well is currently producing,
16 correct?

17 A. That is correct.

18 Q. So have you gotten approval yet to transport
19 and sell the oil?

20 A. That is pending. We have submitted the C-104
21 to the Hobbs District Office, and we're waiting for
22 approval to transport oil right now.

23 Q. Okay. And that's been marked as Exhibit Number
24 6; is that correct?

25 A. That is Exhibit Number 6.

1 Q. Okay. And so currently the wells are producing
2 through a tank, and it's holding in the tank, waiting
3 for approval with --

4 A. In a storage tank, yes.

5 Q. Now, with these two wells that you just
6 reviewed being now in compliance, would Dakota then be
7 in compliance with the inactive well rules under the
8 Division rules?

9 A. Yes.

10 Q. That would leave how many wells on the inactive
11 well list?

12 A. That would leave two wells on the inactive well
13 list. This well, pending the administrative approval
14 for the permit, and that well will be off the list as
15 well.

16 Q. So if it were approved, then you would be down
17 to just one well?

18 A. That's correct.

19 Q. And that's the well that you did the work on,
20 but the BLM required subsequent remedial work?

21 A. That's correct.

22 Q. Mr. Thompson, were Exhibits 1 through 6 either
23 prepared by you, or are they business records of Dakota
24 Resources, Incorporated?

25 A. Yes.

1 MR. RANKIN: Mr. Examiner, I'd like to move
2 the admission of Exhibits 1 through 6.

3 EXAMINER DAWSON: Exhibits 1 through 6 will
4 be admitted to the record.

5 (Dakota Resources, Inc. Exhibit Numbers 1
6 through 6 are offered and admitted into
7 evidence.)

8 MR. RANKIN: Mr. Examiner, no further
9 questions of the witness. Pass the witness.

10 EXAMINER DAWSON: Any questions?

11 EXAMINER GOETZE: Evidently you supplied
12 enough information to satisfy the 5-9 question, so I
13 have no questions.

14 EXAMINER DAWSON: David?

15 EXAMINER BROOKS: No questions.

16 EXAMINER DAWSON: The 5-9 question is
17 satisfied by the testimony. We will review that at the
18 OCD and work with our compliance manager to get those
19 wells back off the inactive list as soon as possible.

20 MR. RANKIN: Thank you, Mr. Examiner.

21 So as part of this presentation, we
22 understand that approval of the C-108 would be
23 conditioned by confirmation that these wells have met
24 the -- or Dakota has met the inactive well list
25 requirement of the wells.

1 EXAMINER DAWSON: That's correct.

2 MR. RANKIN: Thank you.

3 With that, I'd like to call my next
4 witness.

5 CHRIS M. MORPHEW,
6 after having been previously sworn under oath, was
7 questioned and testified as follows:

8 DIRECT EXAMINATION

9 BY MR. RANKIN:

10 Q. Good morning, Mr. Morphey.

11 A. Good morning.

12 Q. Mr. Morphey, would you please state your full
13 name for the record?

14 A. Yes. Christopher Maurice Morphey.

15 Q. Will you please tell the Examiner by whom it is
16 that you are employed?

17 A. Dakota Resources.

18 Q. And in what capacity do you work with Dakota?

19 A. I'm the president, CEO.

20 Q. How long have you been with Dakota Resources,
21 or have you been the president, CEO from the inception?

22 A. Yeah, from the inception, which is 31 years.

23 Q. 31 years.

24 And have you previously had the opportunity
25 to testify before the Oil Conservation Division?

1 A. No. This is my first time.

2 Q. Have you been operating in New Mexico for most
3 of that time, that 31 years?

4 A. Yes. We started in New Mexico. We started our
5 first well in New Mexico, 31 years ago.

6 Q. And you've never had to come to this fine
7 office?

8 A. Never. Never. Been so fortunate.

9 (Laughter.)

10 Q. Would you please review for the Examiners your
11 background, your education first?

12 A. Yes. I've got a Bachelor of Science in
13 petroleum engineering from Texas Tech University.

14 Q. And what year was that that you graduated?

15 A. '79.

16 Q. And do you enough any subsequent education past
17 that point?

18 A. No, sir.

19 Q. And then tell us briefly -- review for the
20 Examiners your background -- your work background in the
21 oil industry.

22 A. I started roughnecking in 1972, and I
23 roughnecked my way through college and paid for my own
24 college by roughnecking in the summers and weekends and
25 breaks. And when I got out of school, I started a

1 consulting firm in 1979, and I was a consultant from
2 1979, working for various oil companies, until 1986,
3 which is when I started Dakota Resources.

4 Q. And since that time, would you review for the
5 Examiners in what capacity -- what kind of work you've
6 done for Dakota, what your experience has been?

7 A. Well, we're generally just drilling. We lease
8 the land, drill and complete our own wells and then
9 produce them. So, you know, generally, I do it all. I
10 mean, at times, especially in the very beginning, I was
11 just a one-man operation. And then eventually, my wife,
12 she quit her job, and she came to work, also, with me.
13 And, you know, we've had varying amounts of employees
14 over the years, depending on how many wells we were
15 operating at that present time. We're down now. We've
16 been up to 80-something wells before, but we're down; we
17 don't have that many wells operating now.

18 Q. How many wells are operating now?

19 A. 21.

20 Q. 21.

21 MR. RANKIN: And with that, Mr. Examiner,
22 I'd like to tender Mr. Morpew as an expert in petroleum
23 engineering, with his education and experience.

24 EXAMINER DAWSON: Mr. Morpew is so
25 admitted.

1 Q. (BY MR. RANKIN) Mr. Morpew, you're familiar
2 with the application, the C-108, that was filed in this
3 case?

4 A. Yes, I am.

5 Q. And did you actually prepare the C-108?

6 A. No. My wife, Pam Morpew, prepared it.

7 Q. And did you work with her to prepare it?

8 A. Yes, I did.

9 Q. And did the C-108 contain on the application
10 all the information that is required by the Division?

11 A. Yes, it does. But we have some additional
12 information that we want to supply.

13 Q. And that's what we'll be doing today; is that
14 correct?

15 A. Yes, sir.

16 Q. Now, will you please briefly summarize for the
17 Examiners what it is that you're seeking in terms of
18 this application?

19 A. Yes. We are seeking to get reauthorization to
20 inject water into our Trigg Federal Number 1 well into
21 the Bell Canyon Formation, which is a member of the
22 Delaware Mountain Group.

23 Q. And why is it that you're seeking
24 reauthorization? What caused the termination of the
25 authorization to inject into this well?

1 A. A couple of years ago, we had a spill. And we
2 called the BLM, called the OCD. We met their
3 representatives out there. And we had a consultant
4 working for us, and he recommended, you know, how to
5 clean it up, how much dirt to dig out, where to haul it
6 and everything. And, anyway, we decided to wait. But
7 whenever we went back to get ready to get it done, we
8 had waited over a year, so we had lost our permit.

9 Q. So you got notification from the Division that
10 as a consequence of one year passing, the authorization
11 to inject had terminated of its own accord?

12 A. Yes.

13 Q. Okay. Not long prior to that, how long had
14 this well been injecting?

15 A. It had been injecting for approximately 12
16 years prior to that spill.

17 Q. And what was the source of the water that it
18 was injecting?

19 A. It was the Delaware, Bell Canyon, the same
20 formation -- the production was coming out of the same
21 formation that we were re-injecting into.

22 Q. Were the wells that were the source of the
23 water Dakota Resources wells?

24 A. Yes.

25 Q. And they were -- how many wells were producing

1 water for that injection?

2 A. Just that one well.

3 Q. Just that one well.

4 Okay. Now, is that going to be the case
5 today as well? Going forward, is that going to be the
6 same well?

7 A. Yes. That's some of the supplement information
8 we want to provide.

9 Q. Okay. Now, is Dakota seeking to change any of
10 the conditions or any of the well configurations that
11 were previously approved by the Division under this
12 prior order?

13 A. Yes. When my wife applied for this, the C-108,
14 back in November, we had asked for about 1,500 barrels a
15 day or a maximum of 2,000 barrels of water a day
16 injection. But now the supplemental information is
17 going to say a maximum of 200 barrels of produced water
18 or the average injection rate of 150 barrels per day or
19 less.

20 Q. And what about the pressures, the maximum
21 operating surface-injection pressure? Will that be the
22 same as previously approved by the Division?

23 A. Yes. In our old approval, the maximum pressure
24 was 585. We want that same pressure. It only
25 averaged -- whenever we were injecting, it very seldom

1 ever got up to the maximum. It averaged about 500
2 pounds. So that's going to be the same pressure
3 requirement we're going to ask for.

4 Q. Okay. Now, just going back in time a little
5 here, you indicated that there was a spill and the
6 remediation work was done. When was that remediation
7 work completed?

8 A. November of 2016.

9 Q. Okay. Once that remediation work was
10 completed, was it approved by OCD?

11 A. Yes.

12 Q. And was it also approved by BLM?

13 A. Yes. We got a closure report, and they
14 approved our closure report.

15 Q. And once that approval was in place, is that
16 when you sought reauthorization to inject?

17 A. Right. At that time we re-applied to get our
18 injection permit reinstated.

19 Q. And shortly thereafter, you learned that the
20 Division wouldn't approve this well injection as an
21 administrative approval, correct?

22 A. Correct.

23 Q. So then you had to file for a hearing?

24 A. Correct.

25 Q. Okay. And here we are.

1 Now, let's talk about this application.
2 The ownership of the land at issue, this was a -- this
3 is federal land, correct?

4 A. Yes, federal, surface and minerals.

5 Q. Okay. And I'm going to ask you to flip to the
6 exhibit packet that I provided you with and turn to
7 Exhibit Number 7 on the tab there.

8 A. All right.

9 Q. Is this the C-108 that was originally applied
10 for?

11 A. Yes, it is.

12 Q. Okay. And for administrative approval,
13 correct?

14 A. Yes.

15 Q. And looking at the gray tab number one, is
16 that -- will you please review for the Examiners what
17 that exhibit shows, that tab?

18 A. Okay. This is just a land map. It's an
19 overview showing the one-half-mile radius for review.

20 Q. Okay. So that circle indicates the half-mile
21 mark surrounding the Trigg well?

22 A. Yes.

23 Q. And just to back up because I don't think we
24 touched on it, what is the name of the well you're
25 seeking authorization for?

1 A. It's called the Trigg Federal Number 1.

2 Q. And you've indicated it's at the center of that
3 map, and you've indicated, on this map, the wells that
4 are within the area of review?

5 A. Yes, we have.

6 Q. And those wells that are indicated -- it's a
7 little bit hard to read. But those are the wells that
8 actually penetrate the injection zone?

9 A. Yes.

10 Q. Now, a little bit easier map to read, is that
11 provided on tab eight, behind the exhibit we're looking
12 at now?

13 A. Yes.

14 Q. And this is the same -- same basic information,
15 just a little bit easier to read. Will you please
16 review for the Examiners what this shows?

17 A. Yes. It's the same one-half-mile radius. It's
18 just blown up on a bigger scale so you can read the
19 wells a little bit better, and it's got a colored-in
20 area on the half-mile radius.

21 Q. The wells that are in the area of review are
22 identified by API number?

23 A. Correct.

24 Q. Now, let's talk about the notice real quick.
25 Were these the individuals, within the area of review,

1 who were provided notice?

2 A. Okay. So you're talking about Featherstone,
3 Mewbourne, or what are --

4 Q. Yeah. Let's see. I think the first -- if we
5 can go to tab two.

6 A. Okay.

7 Q. If I'm not mistaken, that should -- are these
8 the individuals who were originally noticed when the
9 C-108 was filed administratively?

10 A. Okay. Let's see.

11 Q. It would be that gray tab number two. It
12 should be right on the tab, I think.

13 A. Okay. Yeah.

14 Q. Are those the individuals or entities who were
15 originally noticed?

16 A. Yes. Yes.

17 Q. Okay. And a copy of the letter that provided
18 that notice, is that tab number three?

19 A. Yes. That's the "Carlsbad Current-Argus," the
20 newspaper that we put the notice in.

21 Q. I'm sorry. I guess it would be the next --
22 that's tab four. Would it be number three? Do you see
23 that one?

24 A. Yeah. They're out of order.

25 Q. Yeah. They're out of order. That's correct.

1 They're out of order. But number three, is that a copy
2 of the notice that went to the individuals identified on
3 that previous tab?

4 A. Okay. So that's -- I think that is tab two.
5 That's BOPCO, Chevron, the BLM and the newspaper.

6 Q. Right.

7 A. That's tab two, right?

8 Q. Yeah.

9 And tab three is this one here
10 (indicating). Is that a copy of the letter that went to
11 those folks?

12 A. Oh, yes, tab three. It is.

13 Q. Okay. Gotcha.

14 And speaking about the "Current-Argus" ad,
15 that would be on tab four; is that correct?

16 A. Yes, it is.

17 Q. Okay. And that's a copy of the Notice of
18 Publication indicating that Dakota did publish notice in
19 a newspaper of general circulation in the county; is
20 that correct?

21 A. Yes.

22 Q. Now, following administrative application, did
23 you also provide additional notice to the parties to be
24 identified within the area of review?

25 A. Yes, we did.

1 Q. And who were those additional parties that you
2 provided notice to? Would that be Featherstone and --

3 A. Yes, Featherstone, Mewbourne --

4 Q. Are those additional parties --

5 A. -- SRBI Oil & Gas, Devon Energy. Those are the
6 four additional ones we had to contact.

7 Q. Okay. And those green card receipts indicate
8 that you did provide notice to those parties and the
9 others as well. Is that Exhibit Number 9, on the big
10 tab, Number 9?

11 A. Yes, it is.

12 Q. Okay. So those are the green cards showing you
13 provided notice to all those additional parties.

14 Okay. Now, on Exhibit 10, is this a copy
15 of the affidavit that was prepared by your attorney
16 indicating that we had provided notice --

17 A. Yes.

18 Q. -- of this hearing today?

19 A. Yes, it is.

20 Q. And it includes a copy of the notice letter,
21 the application for hearing, as well as all the green
22 cards, at the end, showing that we actually did the
23 right notice to all these entities you identify within
24 the area of review?

25 A. Correct.

1 Q. Now, after having provided all this notice,
2 were you contacted by any of the parties?

3 A. Yes, Mewbourne. A guy name Tim Harrington
4 contacted me last week, with Mewbourne.

5 Q. Can you summarize for me the nature of the
6 discussions? What was the result of those discussions?

7 A. Well, of course, he knew we had approval to
8 inject before we were getting ready to the drill wells
9 out in the area, and he had reviewed the original
10 application that had the 1,500 barrel-a-day averaging
11 injection volume in the 2,000 barrel maximum
12 barrel-a-day volume. And he was -- he wanted to limit
13 our injection. And I told him that we decided we
14 weren't going to put any more water but our own. We
15 weren't applying for the commercial disposal. All we
16 were trying to do was get our producers -- instead of
17 having to haul the water, for the producers to be able
18 to use the line that we had used, the SWI polyline, and
19 put our own water back into the ground. And he said,
20 "If you're going to -- not going to try to put too much
21 water, just your own water," he said, "I'm not going to
22 oppose you; we won't show up."

23 Q. So you made an agreement with Mewbourne, at
24 that point, to limit your injection to no more than 200
25 barrels?

1 A. Correct.

2 Q. So that's what -- so you anticipate that the
3 average injection will be -- will be, on the average of,
4 about 150 barrels a day; is that correct?

5 A. Well, I think that's even a little high, but I
6 know that it won't ever exceed 150, I don't think.
7 Yeah. It'll be averaging less than that, just our own
8 water.

9 Q. Now, with respect to this well, Mr. Morpew,
10 can you please give the Examiners background of the
11 history of this well, when it was converted for
12 injection and the history of injection?

13 A. Yes. It was spudded in 1984 by Exxon, and they
14 drilled and completed into the Bell Canyon or this --
15 you know, the same zone they produced that well. And in
16 about 1995, they put it up for bid, to sell their Big
17 Eddy 98 and their Trigg, which both of them were
18 producing whenever we bought them. And we bought those
19 two wells and produced the 98 -- we produced the 98 --
20 Big Eddy Federal 98 constantly. And in 2001, we decided
21 to convert this Trigg Federal to an SWD, and we got
22 injection approval on June 6th of 2001, SWD Number 802.

23 Q. And so since that time, Dakota Resources used
24 this well to inject into the Bell Canyon reservoir -- or
25 formation?

1 A. Yes, since 2001.

2 Q. And the source of that water the whole time was
3 the Big Eddy Unit #98 well?

4 A. Yes.

5 Q. And is that on the same lease as this injection
6 well?

7 A. Yes. It's on the same lease.

8 Q. Okay. And, in fact, that Big Eddy Unit #98
9 well is within the half-mile review of this injection
10 well?

11 A. Correct.

12 Q. Now -- let's see. Looking at the C-108
13 application, which is still marked as Exhibit 7 -- it
14 hasn't changed -- let's look at tab number five. It's
15 that gray-green tab number five.

16 A. Okay.

17 Q. It's identified as the Injection Well Data
18 Sheet. Is this the current existing well configuration
19 construction of the injection well?

20 A. Yes, it is.

21 Q. And are these elements of -- the status of the
22 well the same as it was while it was injecting?

23 A. Correct.

24 Q. Nothing has changed?

25 A. No proposed changes.

1 Q. And, again, this is a -- this well is injecting
2 into Bell Canyon Formation or an interval of the
3 Delaware?

4 A. Correct.

5 Q. And what's the approximate injection interval?

6 A. From approximately -- I have to put my glasses
7 on. But it's 2,926 to 3,315.

8 Q. Okay. And that's the same as it was?

9 A. Yes.

10 Q. And that's within the Bell Canyon zone.

11 Now, is this -- this well construction, is
12 it cased and cemented through all the freshwater zones?

13 A. Yes. There's 8-5/8 casing set down at 2,506,
14 and Exxon cemented the 8-5/8 casing back to the surface.

15 Q. So that -- that -- that construction, with the
16 cement being in casing -- all the way to the freshwater
17 zone?

18 A. Yes.

19 Q. Now, have you also prepared an exhibit that
20 reviews the wells you identified in the area of review
21 that penetrate the injection zone?

22 A. Yes. We've got all those exhibits attached.

23 Q. Okay. And you've prepared an updated table of
24 all the wells in that zone; is that correct?

25 A. Yes, sir.

1 Q. Okay. And that's been marked as Exhibit 11; is
2 that correct?

3 A. Yes, sir.

4 Q. Will you review for the Examiners, briefly, the
5 information for each of these wells that you've
6 identified?

7 A. Okay. So the first well on that list, Exhibit
8 Number 11, I believe, is the Dakota, Big Eddy Federal
9 98, which is our producing well. It makes about ten
10 barrels a day. It's producing from 2,942 to 3,160.
11 Those are the perms we have open.

12 There is a BOPCO well. And I think BOPCO
13 has since sold to XTO, I believe. But it's called the
14 Fenton Federal 7 well. It's producing. And the perms
15 on it are 3,116 to 3,140, but I think they might have
16 actually opened up some more perms. I'm not sure. I
17 haven't seen an update on it.

18 There is another BOPCO well that was
19 drilled -- drilled as a dry hole and P&A'd.

20 There is a Chevron well that shows to still
21 be producing. It's called the Government D 6.

22 There is a J.M. Huber well that was
23 producing at one time. It's called the Federal 12 #1,
24 but it's set to get P&A'd. It was plugged in 1987.

25 There's a Chesapeake well. It's called the

1 Government D. It was producing for a period of time
2 from that same Bell Canyon interval, but it's been PA'd
3 now.

4 And there's a Devon well, which is
5 producing from a deeper horizon. It's called the Lone
6 Tree Draw State. I think that's a horizontal well.

7 Q. So out of the wells in the area of review,
8 there are four that are producing, correct?

9 A. Correct.

10 Q. And one of them is Dakota Resources' own well,
11 which is the source of the produced water for injection?

12 A. Correct.

13 Q. And now with respect to the three P&A'd wells,
14 have you also prepared exhibits to review the wellbore
15 schematics and their construction?

16 A. Yes.

17 Q. Let's go through those, looking at the first
18 one. We'll have to flip back to Exhibit 7.

19 A. Okay.

20 Q. I believe the first one that we have on the
21 C-108 would be at tab number six; is that correct? Is
22 that the Bass - Fenton 7 Federal 3? Is that the right
23 one?

24 A. Yes. Yes.

25 Q. Would you review with the Examiners what this

1 wellbore schematic shows?

2 A. Yes. They set -- they drilled a well to test
3 the Delaware Formation. Bass did. And they set the
4 8-5/8 at 2,793, and then they drilled the total depth to
5 3,400. And they got a dry hole, so they put 220 sacks
6 of cement in the bottom, to bring cement all the way up
7 from the bottom of the hole, from TD, up into inside the
8 casing -- the 8-5/8 casing. So they've got a solid
9 cement plug with 220 sacks, from 3,400 to 2,500
10 estimated top. And then they put a second plug, which
11 was 55 sacks. And Bass estimated the top of that to be
12 at 629, and the base of that second plug to be at 839.
13 And then they also put another 55-sack plug at the
14 surface, which would be from 200 foot back to the
15 surface. So they plugged it with over 300 sacks of
16 cement.

17 Q. So across the injection interval, is it your
18 opinion this well is adequately protected against the
19 injection -- from the proposed injection well?

20 A. Yes, it is.

21 Q. And the next wellbore schematic here on the
22 next page, tab seven, will you review that for the
23 Examiners?

24 A. Yes. That was a well drilled by J.M. Huber,
25 and they plugged it in 1987. They didn't do quite as

1 good of a job plugging as Bass did, but they did a very
2 adequate job. They put a 45-sack plug across the bottom
3 set of perms, which was -- the perm's at 2,950 to 2,992.
4 And that plug went from 3,170 above that, to 2,930. And
5 then they put another ten-sack plug above that, which
6 would have come up to 2,842. So what that tells me
7 is -- without having the actual plugging record, what
8 this tells me is that they were required to tag that
9 plug. And because it wasn't quite as high as it was,
10 the second plug, the ten-sack plug was probably
11 authorized by an OCD representative or a BLM
12 representative, you know, to get it up a little higher.

13 So then they set a third plug from 2,565 to
14 2,410, which was 20 sacks. And then they put a 50-sack
15 plug in an 8-5/8 casing from 1,565 to 1,730, and then
16 another 50-sack plug from 510 to 345, and then a 20-sack
17 plug from 50 foot to the surface.

18 Q. So with respect to the injection interval at
19 the bottom here, is this well plugged and abandoned in a
20 manner that would be protective of freshwater sources
21 and other zones?

22 A. Yes. It was plugged correctly.

23 Q. Okay. Now, I believe there was a third well on
24 the list of wells within the area of review that
25 actually penetrate the injection interval. That would

1 be the Chesapeake Government D 10 well; is that correct?

2 A. Yes. And it was converted to an SWD in
3 December of 2003, under SWD-911.

4 Q. And is the wellbore schematic for that wellbore
5 identified at Exhibit 12; is that right?

6 A. Yes. It shows how Chesapeake proposed to P&A
7 the well and the sundry notice that shows how they did
8 actually P&A the well.

9 Q. So looking at that sundry notice, what can you
10 tell the Examiners about how that well was P&A'd with
11 respect to the injection interval?

12 A. Well, they set a cast-iron bridge plug at
13 5,557, and then they put 35 feet of cement on top of
14 that. And then they set another cast-iron bridge plug
15 at 2,806, and they put 40 sacks of cement on top of that
16 cast-iron bridge plug. So that brought the cement up to
17 2,658.

18 And then they went in there and tagged it,
19 and they found out that cement actually came out to
20 2,445. So they had plenty of coverage on top of that
21 cast-iron bridge plug.

22 So then they spot another 25 sacks at 1,200
23 feet, and then they tagged, and it came up to 969. They
24 tagged it at 969.

25 They then had to perforate inside the

1 casing, and they were trying to spot some -- you know,
2 after they perforated the casing, they were trying to
3 spot some cement on the outside of the casing. They
4 couldn't pump into it, so they just pumped that -- since
5 they couldn't pump into it, they just brought a 25-sack
6 plug at 750, and they tagged it at 491. And then they
7 perforated again at 471. They couldn't pump into it.
8 So they spotted 25 sacks at 491, and they tagged it 205.
9 And then they perforate at 60 foot and cemented to the
10 surface.

11 Q. And, again, with respect to the zone here --
12 the injection zone, does this sundry notice indicate to
13 you that the bridge plug and the cement job that they
14 did here isolated, effectively, the injection zone
15 against any potential contamination?

16 A. Yes.

17 Q. Now, I think you've already indicated, to some
18 extent, the purpose of the injection into the Trigg
19 here. But to restate it, the purpose is just to inject
20 water -- produced water from the offsetting Big Eddy #98
21 well?

22 A. Yes. And that would have a maximum of 200
23 barrels a day. It probably wouldn't even average 150,
24 but that's what we put on our application, is 150,
25 average.

1 Q. Based on the injection volumes, rates and
2 pressures, do you anticipate there would be any
3 response, either positive or negative, in any of the
4 offsetting production wells, yours or any of the others?

5 A. No. When we had that well injecting those 12
6 years, it was -- when we were using it, we didn't see
7 any positive or negative response on any of the
8 offsetting producers.

9 Q. It's just not enough volumes to really make a
10 difference based on those -- out of the reservoir?

11 A. We didn't -- I don't think we ever put more
12 than 80 or 90 barrels a day, average, in that well when
13 we reinjected. So yeah. We didn't have enough volume
14 to make a waterflood or to do anything positive or
15 negative.

16 Q. Now, with the additional information provided
17 today, along with the C-108 that was submitted, is it
18 your opinion that Dakota has provided all the
19 information required by the Division to review and
20 analyze all the wells, within the area of review?

21 A. Yes, sir.

22 Q. Okay. And in your opinion, is any remedial
23 work required to address any of the wells that are
24 identified within the area of review?

25 A. No, sir, not in my opinion. I think we've done

1 everything we need to do.

2 Q. And is it your view that the wells are
3 adequately protected against the injection in this zone
4 and any contamination that might occur within that zone
5 or transporting contamination to any other zones?

6 A. I think there is adequate protection.

7 Q. Given that the injection fluid is from the same
8 zone, do you anticipate there to be any compatibility
9 issue between the injected water and the reservoir --

10 A. No. There shouldn't be any compatibility
11 issues.

12 Q. In the 12 years that you were injecting, did
13 you identify any issues of scaling or any problems with
14 the injected water?

15 A. No. And we had a sample ran by our chemical
16 company, and it's here (indicating), too.

17 Q. Okay. So looking an Exhibit 13, is that the
18 sample run you mentioned?

19 A. Yes. ProKem ran this water analysis report,
20 and it shows to be compatible.

21 Q. And this is the -- the water that you tested
22 was from the Big Eddy 98 well?

23 A. Yes. The produced water off the Big Eddy 98,
24 that's the water we want to reinject into this well.

25 Q. Now, have there been any other injection wells

1 permitted within the area of review? You mentioned, I
2 think, the Chesapeake.

3 A. Yeah. They injected water into that well for a
4 period of years. I forget exactly how many years. But
5 that well has since been plugged and abandoned, I
6 believe.

7 Q. And that was the Chesapeake D 10 well?

8 A. Right. The Government D, wasn't it?

9 Q. Government 10 D.

10 And that was in the same zone that you are
11 reinjecting into here?

12 A. Yes, Bell Canyon Formation.

13 Q. Now, with respect to your injection here, is it
14 proposed to be a closed loop -- a closed-loop system?

15 A. Yes.

16 Q. And, again, the maximum pressure you're seeking
17 to inject here?

18 A. 585.

19 Q. And with an average injection pressure of?

20 A. 500.

21 Q. And that's the same as it was before?

22 A. Yes.

23 Q. And with respect to monitoring those injection
24 pressures, what is the system that you're faced [sic] to
25 monitor those pressures?

1 A. Well, of course, we have, right now, a gauge on
2 top of the tubing so that we can get a constant tubing
3 pressure, whether it's injecting or the pump's not
4 running. Now, also, we've got a gauge on the back side
5 so we can monitor the annular pressure constantly.

6 Q. So if there are any issues in terms of the
7 integrity of the well, you'll know that and not exceed
8 any of the pressures?

9 A. Yes. We run tests, and we monitor. Our pumper
10 checks it every day, anyway.

11 Q. Now, with respect to protection of fresh water
12 in the area, what are the freshwater zones that you've
13 identified in your review of the geology in the area?

14 A. Well, there is a Quaternary -- I believe it's
15 called -- and that's down from about -- to the alluvium.
16 It's down from close to the surface to a depth of about
17 600 foot, and then there is a Capitan Reef, which comes
18 in -- I think the top of it, in that general area, is
19 around 950, and it goes down close to 2,000 foot.

20 Q. And within that depth, from the surface to your
21 injection zone, is your proposed well cemented and cased
22 across that entire zone?

23 A. Yes. When Exxon drilled that well, like I
24 said, they -- they cemented the 8-5/8 at 2,506 all the
25 way back to the surface.

1 Q. Now, in your opinion, will the proposed
2 injection well be -- pose any kind of threat or risk to
3 any of the freshwater sources that you've identified?

4 A. I don't think there is any risk to the
5 freshwater source.

6 Q. In the 12 years that this well has been
7 injecting, has there been any indications of
8 contamination or leaks or problems?

9 A. No. We've never had any indication of leaks or
10 anything.

11 Q. Have you identified any additional freshwater
12 sources within a one-mile area of your proposed
13 injection?

14 A. Those are the only two zones that I've been
15 able to find.

16 Q. Okay. How about any wells that are producing
17 fresh water?

18 A. There's no -- I don't think there are any
19 freshwater wells out there, no windmills or anything.

20 Q. Now, with respect to the geology in the area,
21 has that information been prepared and presented as part
22 of the C-108?

23 A. Yes. There is a corrected typographical
24 misspelling of that word, "Quaternary."

25 Q. Yeah. And that's updated. The sheet is on tab

1 14 -- Exhibit 14 in the package; is that correct?

2 A. Yes.

3 Q. And that updated sheet, Exhibit -- which
4 addresses items 7 through 13 on the C-108?

5 A. Correct.

6 Q. Does it have any other updates of corrections
7 or typographical --

8 A. Well, the only update is the volume of 200
9 barrels-a-day maximum rate has been reduced.

10 Q. And with respect to the geology, again, the
11 injection zone is the Bell Canyon interval of the
12 Delaware, correct?

13 A. Correct.

14 Q. And that lithology is what? What is the status
15 of the rock?

16 A. Oh. It's a sandstone.

17 Q. And what's the general thickness in the area?

18 A. Close to 400 foot, a little over 300 foot,
19 close to 400.

20 Q. And are you proposing any stimulation program
21 to prepare this well for injection?

22 A. No. We don't think we'll need to stimulate it.
23 We might have to do a little acid-gas [sic] injection,
24 since it's been shut in for over a year, but that's all.

25 Q. Have you found any evidence in your review of

1 the geology in the area, any evidence of open faulting
2 or hydraulic connection between the injection zone and
3 any underlying freshwater sources?

4 A. No. I don't see any faulting in the area.

5 Q. And in your opinion, will the injected fluids
6 stay within the injection zone, as you anticipated?

7 A. Yes. We think it'll just go right into the
8 Bell Canyon Formation and stay there.

9 Q. In your opinion, will the granting of this
10 application be in the best interest of conservation,
11 protecting against waste and in the protection of
12 correlative rights?

13 A. Yes.

14 Q. Mr. Morpew, have Exhibits 7 through 14 been
15 prepared by you or overseen by you?

16 A. Yes, they have.

17 MR. RANKIN: Mr. Examiner, I'd like to
18 tender admission of Exhibit 7 through 14.

19 EXAMINER DAWSON: Exhibits 7 through 14
20 will be admitted to the record.

21 (Dakota Resources, Inc. Exhibit Numbers 7
22 through 14 are offered and admitted into
23 evidence.)

24 MR. RANKIN: I don't believe I have any
25 further questions at this time. Pass the witness.

1 EXAMINER DAWSON: All right. Thank you.
2 Phil?

3 CROSS-EXAMINATION

4 BY EXAMINER GOETZE:

5 Q. For the record, I was the reviewer of your
6 administrative application. And going through the email
7 list that I sent you, I think you have adequately
8 addressed all the concerns I had -- I appreciate that --
9 as well as the additional notification.

10 So just to be on the safe side, your last
11 answer as far as -- you can live with 200 barrels a day?

12 A. Yes. We can live with 200.

13 Q. Okay. And you are aware that an MIT will be
14 required if and when this well is put back on line --

15 A. Yes, sir.

16 Q. -- prior to its injection?

17 At that point you've set aside all my
18 queries from initial review.

19 A. Thank you.

20 Q. I have no further questions. Thank you.

21 EXAMINER DAWSON: David?

22 EXAMINER BROOKS: No questions.

23 CROSS-EXAMINATION

24 BY EXAMINER DAWSON:

25 Q. The only question I have is: Do you -- does

1 Dakota anticipate -- do you think you'll drill some more
2 wells in the Dakota [sic] in that immediate area?

3 A. No, sir. We don't have any more land out
4 there. That's the only two 40s we bought from Exxon.
5 We didn't get any more land besides those two 40s. I
6 think Mewbourne's got the rest of the land out there.

7 Q. And the only people that you had notified, on
8 your notification list, that replied to you was Devon?

9 A. No. Mewbourne.

10 Q. Mewbourne. Oh.

11 A. Mewbourne.

12 Q. Okay. Mewbourne.

13 A. I don't know. They may have bought that Devon
14 stuff. I don't know. I didn't ask that question. But
15 I do know they have some land, and they have some
16 drilling plans. And that gentleman, Tim Harrington, who
17 I talked to this week, you know, I told him what we were
18 going to do, and he signed off on it. He had his boss
19 send a letter, that we have a copy of, that says he's
20 okay with it.

21 Q. Okay. That's all the questions I have. Thank
22 you very much, Mr. Morpew.

23 A. Thank you. Appreciate it.

24 EXAMINER DAWSON: Thank you, Adam.

25 So at this time, Case Number 15676 will be

1 taken under advisement.

2 Thank you.

3 EXAMINER BROOKS: Take a break?

4 EXAMINER DAWSON: Yeah. Let's take about a
5 seven-minute break. We'll be back at about 9:2, 7-1/2
6 minutes.

7 (Case Number 15676 concludes, 9:13 a.m.)

8 (Recess, 9:13 a.m. to 9:26 a.m.)

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1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO

3

4 CERTIFICATE OF COURT REPORTER

5 I, MARY C. HANKINS, Certified Court
6 Reporter, New Mexico Certified Court Reporter No. 20,
7 and Registered Professional Reporter, do hereby certify
8 that I reported the foregoing proceedings in
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11 were reduced to printed form by me to the best of my
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14 Record of the proceedings truly and accurately reflects
15 the exhibits, if any, offered by the respective parties.

16 I FURTHER CERTIFY that I am neither
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19 the final disposition of this case.

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