

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 MANZANO, LLC FOR A CASE NO. 15804
NONSTANDARD SPACING AND PRORATION
UNIT, A NONSTANDARD PROJECT AREA,
AND COMPULSORY POOLING, LEA COUNTY,
NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

August 31, 2017

Santa Fe, New Mexico

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

This matter came on for hearing before the
New Mexico Oil Conservation Division, William V. Jones,
Chief Examiner, and Gabriel Wade, Legal Examiner, on
Thursday, August 31, 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.

REPORTED BY: Mary C. Hankins, CCR, RPR
New Mexico CCR #20
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1 APPEARANCES

2 FOR APPLICANT MANZANO, LLC:

3 ELIZABETH "BETH" A. RYAN, ESQ.
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1 (11:20 a.m.)

2 EXAMINER JONES: Let's go back on the
3 record and call case number three on the docket, Case
4 Number 15804, application of Manzano, LLC for a
5 nonstandard spacing and proration unit and nonstandard
6 project area, and compulsory pooling in Lea County, New
7 Mexico.

8 Call for appearances.

9 MS. RYAN: Elizabeth Ryan, with the law
10 firm of Carson Ryan, LLC in Roswell, on behalf of the
11 Applicant. I have two witnesses.

12 EXAMINER JONES: Any other appearances?

13 MS. RYAN: I have two witnesses.

14 EXAMINER JONES: Two witnesses.

15 Will the witnesses stand, and will the
16 court reporter please swear the witnesses?

17 (Mr. Barbe and Mr. Worrall sworn.)

18 CHAD BARBE,
19 after having been first duly sworn under oath, was
20 questioned and testified as follows:

21 DIRECT EXAMINATION

22 BY MS. RYAN:

23 **Q. Please state your name for the record and tell**
24 **the Examiners whom you're employed with and in what**
25 **capacity.**

1 A. Chad Barbe. I'm the land manager for Manzano
2 Energy Partners II, LLC, who is an affiliate for
3 Manzano, LLC.

4 **Q. And how long have you been employed in that**
5 **position?**

6 A. Since 2012 to now, five years.

7 **Q. Can you briefly describe your roles and**
8 **responsibilities in that position?**

9 A. I'm responsible for most of the land functions
10 for the company, including any acquisitions and
11 divestitures.

12 **Q. And does your area of responsibility include**
13 **this area in southeastern New Mexico?**

14 A. Yes.

15 **Q. How many total years of experience do you have**
16 **in the oil and gas business?**

17 A. 12.

18 **Q. Can you briefly describe your education and**
19 **experience during those 12 years?**

20 A. I've got a bachelor's degree from Eastern New
21 Mexico University. I've been a landman for Manzano,
22 LLC, Manzano Energy Partners I and II, and also Axis
23 Energy Corporation for the last 12 years. And I've
24 performed all aspects of the land work in various states
25 and plays.

1 **Q. Are you a member of any professional**
2 **organizations?**

3 A. Yes, the AAPL and the NMLA.

4 **Q. And have you previously testified before the**
5 **Division?**

6 A. No.

7 **Q. Are you familiar with the land matters involved**
8 **in this case?**

9 A. Yes.

10 MS. RYAN: Mr. Examiner, I'd ask that
11 Mr. Barbe be admitted as an expert on petroleum land
12 matters.

13 EXAMINER JONES: He is qualified as an
14 expert in petroleum land matters.

15 **Q. (BY MS. RYAN) Would you turn to Exhibit 1? Is**
16 **that a Midland Map of the proposed 240-acre spacing and**
17 **proration unit?**

18 A. Yes, it is.

19 **Q. Can you please describe what is the spacing**
20 **unit -- the proposed spacing unit?**

21 A. The proposed spacing unit is the east
22 half-southeast quarter of Section 19 and the east
23 half-east half of Section 30, Township 9 South, Range 35
24 East, Lea County.

25 **Q. And what well is this acreage going to be**

1 dedicated to?

2 A. The Rag Mama 30-19 Fee #1H.

3 Q. Are you seeking to pool the uncommitted working
4 interest owners --

5 A. Yes, we are.

6 Q. -- in the tract?

7 And what is your target interval for this
8 unit?

9 A. The San Andres Formation.

10 Q. I'd like to turn to Exhibit 2. Is that the
11 C-102 for this well?

12 A. Yes, it is.

13 Q. Are these lands subject to any special pool
14 orders?

15 A. No, but it has been assigned a pool code. It's
16 the Jenkins Pool, Number 33950, as shown on the C-102.
17 This code is subject to the standard statewide rules.

18 Q. Is this proposed spacing unit project area
19 nonstandard?

20 A. Yes.

21 Q. Why is that?

22 A. Because the well will cross Section 30 and
23 Section 19 section lines, but will meet the 330-foot
24 standard offset from the outer boundaries.

25 Q. When does Manzano plan to spud this well?

1 A. Approximately September 30th.

2 **Q. And what is that location?**

3 A. 25 feet from the south line, 528 feet from the
4 east line of Section 30 will be the surface location,
5 and the bottom-hole location will be 2,310 from the
6 south line, 528 from the east line of Section 19.

7 **Q. What is the planned total vertical depth?**

8 A. 5,000 feet.

9 **Q. I'd like to bring to your attention Exhibit 3.**
10 **Is that the summary of the interest owners in the**
11 **proposed spacing unit for the Rag Mama well?**

12 A. Yes, it is.

13 **Q. And does it show the working interest owners**
14 **who are uncommitted?**

15 A. Yes, it does.

16 **Q. Can you identify those uncommitted interest**
17 **owners for the Examiner?**

18 A. In Tract 3, on the Midland Map, it is EOG Y
19 Resources, EOG M Resources and EOG A Resources and OXY
20 Y-1 Company.

21 **Q. Okay. I'd like to bring to your attention**
22 **Exhibit 4. Is that an affidavit?**

23 A. Yes, it is.

24 **Q. And is it signed by me regarding notice in this**
25 **matter?**

1 A. Yes, it is.

2 Q. Does it have attached the return receipts --
3 certified return receipts?

4 A. Yes.

5 Q. And does it include a summary reflecting the
6 owner of the --

7 A. Yes, it does.

8 Q. Were any notices returned undeliverable?

9 A. No. All of them were delivered.

10 Q. Did you provide notice to all the offset
11 working interest owners?

12 A. Yes, by certified mail, return receipt.
13 However, we received a phone call from Bob Whitworth
14 [phonetic] with Salient Zarvona Energy on August 14th,
15 didn't understand why he had received it. We explained
16 to him he was an offset working interest owner. He said
17 Zarvona would not be objecting.

18 Q. Did you have any other response from the other
19 offset owners?

20 A. Yes. All the EOG entities and OXY have
21 responded not to protest, and OXY has said that they
22 will probably try to participate or execute a term
23 assignment with us in the future.

24 Q. And if either of those entities decided in the
25 future to execute a form of agreement, will you notify

1 the Division?

2 A. Yes.

3 Q. Are all other working interest owners
4 participating in the well?

5 A. Yes.

6 Q. I'd like to turn your attention to Exhibit 5.
7 Is this a copy of the well proposal that you sent to the
8 working interest owners?

9 A. Yes, it is.

10 Q. And when was the well proposal sent to EOG and
11 OXY?

12 A. June 22nd, 2017.

13 Q. Turn to the page after the well proposals. And
14 do you see a summary of communication included in
15 Exhibit 5?

16 A. Yes.

17 Q. Can you briefly summarize your communication
18 with OXY and EOG?

19 A. Beginning back in January of 2017, we started
20 discussing the project with EOG to participate, term
21 assignment, sell, any other trade agreements that were
22 amenable to them. Multiple conversations have gone on
23 through January, mid-February and then resumed again
24 when we sent the AFEs, the proposals, in June and July.

25 The latest has been EOG executed a letter

1 agreement saying they would not protest in exchange for
2 well information. And OXY has said that they don't have
3 any objection to the pooling but would like to continue
4 discussions with term assignment and possible
5 participation. It's been a little difficult with the
6 Houston weather.

7 Q. I just want to go back. Was an AFE included
8 with the well proposal?

9 A. Yes, it was.

10 Q. And are the costs reflected on the AFE
11 consistent with operators in the area have incurred with
12 similar horizontal wells?

13 A. Yes.

14 Q. For the Rag Mama well, has Manzano estimated
15 overhead and estimated costs?

16 A. Yes, \$7,000 a month for drilling and completion
17 and \$700 for producing.

18 Q. And are these costs in line with what other
19 operators are charging for similar types of wells?

20 A. Yes, they are.

21 Q. And do you ask that they be adjusted in
22 accordance with the appropriate COPAS accounting
23 procedures?

24 A. Yes.

25 Q. For any of the uncommitted interests, do you

1 request the Division assess a 200 percent risk penalty?

2 A. Yes.

3 Q. Did Manzano publish notice of this hearing?

4 A. Yes.

5 Q. Is that Affidavit of Publication included as
6 Exhibit 6?

7 A. Yes, it is.

8 Q. Were there any parties that were unlocatable?

9 A. No. But since we didn't have all the certified
10 mail receipts back by the deadline to publish notice, to
11 be safe, we published against all the possible owners.

12 Q. Were Exhibits 1 through 6 prepared by you or
13 compiled under your direction and supervision?

14 A. Yes.

15 Q. In your opinion, is the granting of this
16 application in the best interest of conservation and the
17 prevention of waste?

18 A. Yes.

19 MS. RYAN: Mr. Examiner, I would enter
20 Exhibits 1 through 6, and that concludes my examination
21 of Mr. Barbe.

22 EXAMINER JONES: Exhibits 1 through 6 are
23 admitted.

24 (Manzano, LLC Exhibit Numbers 1 through 6
25 are offered and admitted into evidence.)

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

2 CROSS-EXAMINATION

3 BY EXAMINER JONES:

4 Q. So all fee owners -- who owns the leases in --
5 who holds the leases --

6 A. In title?

7 Q. Yeah, title.

8 A. Manzano Energy Partners. Manzano, LLC is the
9 contract operator.

10 Q. Okay. And the leases have -- well, I guess
11 there are no issues with -- no pooling clauses in
12 the leases?

13 A. No. We have pooling clauses in all of our
14 leases, and we file a designation of the pool unit.

15 Q. Everybody's leased?

16 A. Yes.

17 Q. Okay. And this one was going to be -- not
18 going to be nonstandard, was it, or was it?

19 A. Just because it's crossing into section lines.

20 Q. Oh. Oh, yeah. We -- let's see. That was part
21 of your application, too, right, nonstandard -- yeah.
22 We -- oh, it's because it's a nonstandard --

23 A. Mile-and-a-half.

24 Q. -- mile-and-a-half spacing unit and -- a
25 nonstandard project area.

1 MS. RYAN: Uh-huh. Right. It's not an
2 nonstandard location. It's a nonstandard project area.

3 Q. (BY EXAMINER JONES) Yeah. And even that,
4 we -- it falls under the -- under the same general
5 grouping that -- you know, if it had gone three
6 quarter-quarters and not did the fourth, well, we'd call
7 it a nonstandard. But no big deal. We have to do the
8 NSP to compulsory pool EOG, I guess, right, because OXY
9 might sign up?

10 A. Maybe, yes.

11 MS. RYAN: But they haven't yet.

12 EXAMINER JONES: They haven't yet so you
13 want them listed.

14 MS. RYAN: Yes.

15 EXAMINER JONES: It's in your exhibits,
16 anyway. We don't ever put them in our orders.

17 Q. (BY EXAMINER JONES) Okay. And the well name,
18 did you name this well?

19 A. No, I did not.

20 UNIDENTIFIED SPEAKER: You did, too.

21 THE WITNESS: That guy sitting back there
22 (indicating).

23 UNIDENTIFIED SPEAKER: Oh, I did do this
24 one, didn't I?

25 MS. RYAN: He's thinking of what his answer

1 on that one is.

2 (Laughter.)

3 Q. (BY EXAMINER JONES) Okay. I don't think there
4 are any issues here at all.

5 EOG is just -- for some reason, they're not
6 playing ball.

7 A. It's not in their interest area. They just
8 don't want to take the time to review it or --

9 Q. Okay. Thanks very much.

10 A. Thank you.

11 MS. RYAN: Call my next witness.

12 JOHN WORRALL,

13 after having been previously sworn under oath, was
14 questioned and testified as follows:

15 DIRECT EXAMINATION

16 BY MS. RYAN:

17 Q. Would you please state your name for the record
18 and tell the Examiners by whom you're employed and in
19 what capacity?

20 A. My name is John Worrall, and I'm a partner and
21 geologist for Manzano, LLC.

22 Q. And how long have you been employed in that
23 particular position?

24 A. Nine years.

25 Q. Can you briefly describe your roles and

1 **responsibilities in that position?**

2 A. Primarily, I'm a prospect generator, trying to
3 find new places to go drill wells and then do a project.
4 I oversee the geology of that in terms of helping to
5 plan things, oversee the drilling of the geologic side
6 of it.

7 **Q. Do you advise at all on drilling locations,**
8 **completion methodologies and producing well**
9 **interventions?**

10 A. Yes. We look at all those things.

11 **Q. Does your area of responsibility include**
12 **southeastern New Mexico?**

13 A. Yes, it does.

14 **Q. How many total years of experience do you have**
15 **in the oil and gas business?**

16 A. 30 years total, 29 in Roswell, primarily in
17 southeast New Mexico.

18 **Q. Can you briefly describe your education and**
19 **experience?**

20 A. I've got a bachelor's in geology, a master's in
21 geology, and then I've been involved in multiple
22 companies since 1988 in Roswell.

23 **Q. Are you a member of any professional**
24 **organizations?**

25 A. I'm a member of the Roswell Geologic Society

1 and the American Association of Petroleum Geologists.

2 Q. I understand that you have previously testified
3 before the Division. How long ago has it been?

4 A. It's probably been about five years.

5 Q. And you were qualified as an expert in geologic
6 matters?

7 A. Yes.

8 Q. Are you familiar with the geologic matters
9 involved in this case?

10 A. Yes, I am.

11 Q. Are you familiar with the application filed in
12 this case?

13 A. Yes.

14 Q. Have you conducted a geologic and technical
15 study in the San Andres Formation in this area?

16 A. Yes.

17 MS. RYAN: Mr. Examiner, I'd ask that
18 Mr. Worrall be admitted as an expert geologist.

19 EXAMINER JONES: Do you know Phelps White?

20 THE WITNESS: Yes.

21 EXAMINER JONES: Well, he is so qualified.

22 Q. (BY MS. RYAN) All right. I'd like to bring
23 your attention to Exhibit 7. Is that a location map?

24 A. Yes, it is.

25 Q. Can you briefly describe and go through that

1 **map for the Examiner?**

2 A. Yeah. That's just showing our acreage is
3 located in 9 South, 35 East in the Jenkins Field, and
4 then it shows you we're on the Northwest Shelf of the
5 Basin. All the wells in red are old vertical San Andres
6 producers.

7 **Q. Okay. Let's move to Exhibit 8. What is**
8 **Exhibit 8?**

9 A. Exhibit 8 is a production map that shows oil,
10 gas and water from 12 different San Andres producers in
11 the area. Average production is uneconomic, vertical
12 wells. Average wells have made 6,500 barrels for
13 vertical wells, so we're drilling horizontal wells to
14 improve the economics on the project -- on the wells.

15 **Q. Are there any active wells by your location?**

16 A. Yeah. The well in green is the first
17 horizontal well we drilled. It's called the Sodbuster,
18 in Section 21. Our location is in Section 30, showing
19 the green big box. And there is one vertical producer
20 that is still active called the Vince. It's making
21 8 barrels a day.

22 **Q. Okay. I'd like to bring your attention to**
23 **Exhibit 9. Is that your structure map?**

24 A. Structure here -- yes, that is a structure map.

25 **Q. And what is the top of the target?**

1 A. So our -- the structure map just primarily is
2 to show it's a very gentle dip. There are no hazards in
3 this area. The dip here is about 40 feet per mile and
4 half a degree. It's very gentle, very easy to drill
5 laterals in. And our depth is about minus 600 feet
6 subsea.

7 **Q. Did you say whether you observed any geologic**
8 **hazards?**

9 A. No. There is no expected geologic hazards,
10 faults, pinch-outs or any other hazards.

11 **Q. Okay. Let's move to Exhibit 10. Can you**
12 **identify that map and describe it?**

13 A. Exhibit 10 is a porosity isopach map showing
14 the total feet of porosity greater than 6 percent. So
15 the numbers in blue show the amount of feet. There are
16 25 data points on the map. The average is 78-and-a-half
17 feet. And the purpose of this map was to show that it's
18 pretty consistent across the entire area and across this
19 lateral.

20 I'll show you in a second, that blue line
21 is the cross section. The six wells along the cross
22 section all are real close to the lateral. We'll be
23 drilling -- and they average 87-and-a-half feet, so a
24 real consistent formation. That's the point of the
25 exhibit.

1 Q. That's a perfect segue into Exhibit 11. Can
2 you identify that and discuss your cross section?

3 A. So this is a south-to-north cross section on
4 the top of the San Andres pi marker. It's a
5 stratigraphic cross section. And in yellow -- I know
6 this is pretty small, but in yellow, it shows the
7 porosity greater than 6 percent for each of the logs on
8 these five wells. It's just showing it's very
9 consistent.

10 Q. And you believe that the wells used for your
11 cross section are representative of the wells in the San
12 Andres in this area?

13 A. Yes.

14 Q. Okay. Moving to Exhibit 12, is that your
15 wellbore diagram for the Rag Mama 30-19?

16 A. Yes, it is.

17 Q. And I'd like to refer you back to Exhibit 2,
18 which is the C-102 plat which reflects your bottom-hole
19 location. Will it be within the 330-foot setback
20 requirement for horizontal wells?

21 A. Yes, it is. And our first take point will be
22 330-feet setback as well.

23 Q. Will the wellbore penetrate every
24 quarter-quarter section within the proposed spacing
25 unit?

1 A. Yes.

2 Q. And do you expect each quarter-quarter to
3 contribute equally to production?

4 A. Yes, we do.

5 Q. In your opinion, will granting of Manzano's
6 application be in the best interest of conservation, the
7 prevention of waste and the protection of correlative
8 rights?

9 A. Yes.

10 Q. Were Exhibit 7 through 12 prepared by you or
11 compiled at your direction and supervision?

12 A. Year they were.

13 MS. RYAN: Mr. Examiner, I'd like to move
14 to admit Exhibits 7 through 12 into evidence.

15 EXAMINER JONES: Exhibits 7 through 12 are
16 admitted.

17 (Manzano, LLC Exhibit Numbers 7 through 12
18 are offered and admitted into evidence.)

19 CROSS-EXAMINATION

20 BY EXAMINER JONES:

21 Q. You're setting your surface pipe at 3,500 feet;
22 is that right? 8-5/8 at 3,500, so --

23 A. You know, we have been setting into the
24 Rustler. We had problems, so we're going to take it all
25 the way down to the Queen and get rid of some of the

1 salt beds that were sluffing on us.

2 Q. Okay. Are there salts between the Rustler and
3 Yates?

4 A. Yeah. There are some interbedded salts.

5 Q. So you're just going to -- but anyway, you got
6 the well permitted through the district office; is that
7 right? Not yet?

8 A. We have not filed for our permit yet.

9 Q. Okay.

10 MS. RYAN: We're waiting until we have a
11 pooling order because we have uncommitted working
12 interest owners.

13 EXAMINER JONES: Right.

14 Q. (BY EXAMINER JONES) So if they do require you
15 to add another -- are there water sands out here? I
16 guess I should say that.

17 A. The water out here -- we have been setting the
18 surface down to protect that in the Santa Rosa and the
19 Ogallala at the very top, I believe. And it goes down
20 to about 1,900 feet, top of the Rustler.

21 Q. If they do require you to add another string of
22 pipe, will it significantly change your costs?

23 A. No, not terribly.

24 Q. And the San Andres, is it the P1 you're calling
25 it?

1 A. Yes, sir.

2 Q. All I know about San Andres is in the Vacuum
3 Field, we have the above the Lovington sands and below
4 the Lovington sands. I mean, so -- and I don't remember
5 the P1 and P2s.

6 A. Yeah. That's terminology that's used more
7 north of there, pinch-outs. P1 is the main pay zone,
8 but there is also a P2, P3 and P4.

9 Q. Okay. So it's going to be a mile-and-a-half
10 well instead of a mile well? Is that your preference
11 also or --

12 A. For the -- yes.

13 Q. Not just a land --

14 A. Better economics than trying to drill
15 one-and-a-half miles.

16 Q. And you can get -- at this depth, you can --
17 what is it -- 4,700 feet --

18 A. 4,800 feet.

19 Q. -- 4,800 feet TVD?

20 So you've got enough weight on your bit to
21 get it out that far?

22 A. Yes. We've already drilled quite a few.

23 Q. Oh, okay.

24 As far as -- anyway, that's all I've got.

25 EXAMINER WADE: I have no questions.

1 EXAMINER JONES: Thanks very much.

2 MS. RYAN: Thank you.

3 EXAMINER JONES: Is that all in this case?

4 MS. RYAN: Yes. We'd ask this case be
5 taken under advisement.

6 EXAMINER JONES: Okay. Case Number 15804
7 is taken under advisement.

8 (Case Number 15804 concludes, 11:43 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
9 stenographic shorthand and that the foregoing pages are
10 a true and correct transcript of those proceedings that
11 were reduced to printed form by me to the best of my
12 ability.

13 I FURTHER CERTIFY that the Reporter's
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
17 employed by nor related to any of the parties or
18 attorneys in this case and that I have no interest in
19 the final disposition of this case.
20

21
22 MARY C. HANKINS, CCR, RPR
23 Certified Court Reporter
24 New Mexico CCR No. 20
25 Date of CCR Expiration: 12/31/2017
Paul Baca Professional Court Reporters