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APPEARANCES

FOR APPLICANT MANZANO, LLC:

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1 (1:31 p.m.)

2 EXAMINER DAWSON: Okay. We'll go back in
3 session -- in hearing, and the next case we're going to
4 hear is number two on the list, which is Case Number
5 16341, and it's an application of Manzano, LLC for
6 approval of the Morrison San Andres State Exploratory
7 Unit, Roosevelt County, New Mexico.

8 Please call for appearances.

9 MR. LARSON: Good afternoon, Mr. Examiner.
10 Gary Larson, with Hinkle Shanor, Santa Fe, for the
11 Applicant, Manzano, LLC. I have two witnesses.

12 EXAMINER DAWSON: All right. Anyone else?

13 Okay. Can your witnesses please stand and
14 be sworn in by the court reporter?

15 (Mr. McClelland and Mr. Worrall sworn.)

16 EXAMINER DAWSON: When you're ready,
17 Mr. Larson.

18 MR. LARSON: Thank you.

19 NICK C. McCLELLAND,
20 after having been first duly sworn under oath, was
21 questioned and testified as follows:

22 DIRECT EXAMINATION

23 BY MR. LARSON:

24 Q. Good afternoon, Mr. McClelland.

25 A. Good afternoon.

1 Q. State your full name for the record.

2 A. Nick Cavin McClelland.

3 Q. And where do you reside?

4 A. Roswell, New Mexico.

5 Q. And by whom are you employed and in what
6 capacity?

7 A. Manzano, LLC, and I'm the land manager.

8 Q. And what is the focus of your responsibilities
9 as the land manager at Manzano?

10 A. I manage Manzano's land assets in southeast New
11 Mexico.

12 Q. And are you familiar with the land matters that
13 pertain to Manzano's application?

14 A. Yes.

15 Q. Have you previously testified at a Division
16 hearing?

17 A. Yes.

18 Q. And were you qualified as an expert in
19 petroleum land matters?

20 A. Yes.

21 MR. LARSON: Mr. Examiner, I tender
22 Mr. McClelland as an expert in petroleum land matters.

23 EXAMINER DAWSON: No objection?

24 So Mr. McMillan will be admitted as an
25 expert --

1 MR. LARSON: It's McClelland.

2 EXAMINER DAWSON: Mr. McClelland will be
3 admitted as an expert in land matters.

4 Thank you for that correction.

5 Q. (BY MR. LARSON) Would you identify the document
6 marked as Exhibit 1?

7 A. Yes. This is an executed unit agreement for
8 the Morrison San Andres Unit.

9 Q. And is this a true and correct copy of the unit
10 agreement?

11 A. Yes.

12 Q. Has Manzano made a revision to the State Land
13 Office's form agreement?

14 A. Yes.

15 Q. And why is that?

16 A. Commissioner Dunn is requiring us to drill a
17 second well.

18 Q. It's a second obligation well?

19 A. Yes.

20 Q. And is there an existing producing well within
21 the unit area?

22 A. Yes.

23 Q. I'd direct your attention to paragraph eight on
24 page 4. The exhibits are marked in the lower,
25 right-hand corner with page numbers. Does the red-line

1 language address the requirement that Manzano commence
2 drilling a second obligation well?

3 A. Yes.

4 Q. And what percentage of the unit is state lands?

5 A. It is a little over 86 percent.

6 Q. And is Manzano the record title holder and
7 owner of 100 percent of the interest in the state lands?

8 A. Yes.

9 Q. And is the remaining acreage fee?

10 A. Yes.

11 Q. And what percentage of the working interest in
12 the fee acreage does Manzano hold?

13 A. Manzano has about 92.4 percent of fee acreage.

14 Q. And I'll direct your attention to Exhibit A to
15 the unit agreement, which appears on page 9.

16 A. Yes. This is a map of the unit area.

17 Q. And does the bold black line indicate the
18 boundaries of the unit?

19 A. Yes.

20 Q. Does the map identify the state leases that are
21 to be included in that?

22 A. Yes.

23 Q. How many of those state leases are there?

24 A. 13.

25 Q. I'd next direct your attention to Exhibit B to

1 the unit agreement, which starts on page 10 of Exhibit
2 1, and ask you to identify it.

3 A. This is the scheduled ownership of the Morrison
4 San Andres Unit.

5 Q. And does Exhibit B identify all of the lessees
6 of record and all of the working overriding royalty
7 interests in the area?

8 A. Yes.

9 Q. And finally, I'll direct your attention to
10 Exhibit C to the unit agreement, which appears on pages
11 18 and 19 of Exhibit 1.

12 A. This is the scheduled tract participation
13 within the Morrison San Andres Unit.

14 Q. What is the total acreage in the proposed unit?

15 A. It's 4,317.44 acres, more or less.

16 Q. And is Manzano prepared to execute the unit
17 agreement in the form of Exhibit 1?

18 A. Yes.

19 Q. What formation is Manzano seeking to unitize?

20 A. The San Andres.

21 Q. What are the upper and lower depths of the
22 unitized --

23 A. The upper depth is located at 2,181 feet, and
24 the lower depth is located at 4,523 feet.

25 Q. And are there any depth exceptions in that

1 interval?

2 A. No.

3 Q. Would you next identify the document marked as
4 Exhibit 2?

5 A. This is the July 6th letter from Commissioner
6 Aubrey Dunn.

7 Q. And is Exhibit 2 a true and correct copy of
8 Commissioner Dunn's letter?

9 A. Yes.

10 Q. Does the letter indicate Commissioner Dunn's
11 preliminary approval of the proposed exploratory unit?

12 A. Yes.

13 Q. And did Manzano notify the State Land Office of
14 today's hearing?

15 A. Yes.

16 Q. And did Manzano also notify all of the lessors,
17 lessees, mineral interest owners and royalty interests
18 identified in Exhibit B to the unit agreement?

19 A. Yes.

20 Q. Would you identify the document marked as
21 Exhibit 3?

22 A. This is a sample notice letter and a list of
23 the parties to whom the notice letters were sent.

24 Q. And did you prepare the list of the parties
25 entitled to notice?

1 A. Yes.

2 Q. And the sample letter in Exhibit 3 is
3 indicative of the same letter that was sent to everybody
4 on that list?

5 A. Yes.

6 Q. Did Manzano make a good-faith effort to obtain
7 good addresses for all the parties notified in Exhibit
8 3?

9 A. Yes.

10 Q. Did Manzano also publish notice of today's
11 hearing in the "Eastern New Mexico News"?

12 A. Yes.

13 Q. Would you identify the document marked as
14 Exhibit 4?

15 A. This is the Affidavit of Publication.

16 Q. Is Exhibit 4 a true and correct copy of that
17 affidavit?

18 A. Yes.

19 Q. And does the affidavit identify the publication
20 date as being July 19th?

21 A. Yes.

22 Q. In your opinion, does the proposed exploratory
23 unit cover an area that can reasonably be developed
24 under a unit plan?

25 A. Yes.

1 Q. And in your opinion, will the granting of
2 Manzano's application serve the interest of
3 conservation, the protection of correlative rights and
4 the prevention of waste?

5 A. Yes.

6 MR. LARSON: With that, Mr. Examiner, I
7 move the admission of Exhibits 1 through 4.

8 EXAMINER DAWSON: No objections?

9 Exhibits 1 through 4 will be admitted to
10 the record at this time.

11 (Manzano, LLC Exhibit Numbers 1 through 4
12 are offered and admitted into evidence.)

13 MR. LARSON: And I will pass the witness.

14 EXAMINER DAWSON: Any questions, Leonard?

15 EXAMINER LOWE: No questions at this time.

16 EXAMINER DAWSON: David?

17 EXAMINER BROOKS: No questions -- oh, I did
18 have one.

19 CROSS-EXAMINATION

20 BY EXAMINER BROOKS:

21 Q. This was just -- when we were looking at page
22 9, I believe it was, the plat -- yeah -- you said the
23 state leases were identified on there. How were they
24 identified? I can't see any identification.

25 A. We've just got them identified by their serial

1 number. It's in the -- in the body of the section.

2 Q. Okay. So the leases that have serial numbers
3 are all state leases?

4 A. Yes, sir.

5 Q. Okay. Thank you.

6 CROSS-EXAMINATION

7 BY EXAMINER DAWSON:

8 Q. And those leases are also further identified in
9 your Exhibit B, correct?

10 A. Yes.

11 Q. And you do have a -- of course, there's
12 participation after discovery, but there is also a
13 drilling contraction after five years in the unit
14 agreement?

15 A. Uh-huh.

16 Q. Okay. And --

17 MR. LARSON: You need to say yes or no.

18 THE WITNESS: Yes. Sorry.

19 Q. (BY EXAMINER DAWSON) And you do plan on fully
20 developing this unitized area, correct?

21 A. Yes.

22 Q. That's the all questions I have. Thank you
23 very much.

24 MR. LARSON: I have nothing further for
25 this witness.

1 EXAMINER DAWSON: You can call your next
2 witness.

3 Oh, I have one more question or a couple
4 other questions, actually.

5 Q. (BY EXAMINER DAWSON) So there has already been
6 a well drilled within the unit --

7 A. Yes.

8 Q. -- in the proposed unitized formation?

9 A. Yes.

10 Q. And so how will that well be treated, like the
11 royalty string? Is that just going to be included in
12 the unit? Is that how the State Land Office wanted it,
13 or do you know?

14 A. We didn't -- we didn't address that.

15 Q. But they were okay with that unit already
16 having a producing well on it, right?

17 A. Yes, as long as we drill the second obligation
18 well.

19 Q. Okay. And there will be no -- no new pool
20 created for the unit? I mean, you're going to use the
21 existing pools that are within the unitized area?

22 A. Yes.

23 Q. Okay. That's all the questions I have. Thank
24 you.

25 A. Thank you.

1 JOHN WORRALL,
2 after having been previously sworn under oath, was
3 questioned and testified as follows:

4 DIRECT EXAMINATION

5 BY MR. LARSON:

6 Q. Good afternoon, Mr. Worrall.

7 A. Good afternoon.

8 Q. Would you state your full name for the record?

9 A. John Worrall.

10 Q. And where do you reside?

11 A. Roswell, New Mexico.

12 Q. And what is your position at Manzano?

13 A. I'm a partner and a geologist.

14 Q. And are you familiar with the geologic aspects
15 of Manzano's applications?

16 A. Yes, I am.

17 Q. Have you previously testified at a Division
18 hearing?

19 A. Yes.

20 Q. Were you qualified as an expert petroleum
21 geologist?

22 A. Yes.

23 MR. LARSON: Mr. Examiner, I tender
24 Mr. Worrall as an expert in petroleum geology.

25 EXAMINER DAWSON: Mr. Worrall will be

1 admitted as an expert in petroleum geology at this time.

2 Q. (BY MR. LARSON) Is the San Andres Formation,
3 the proposed unit, part of the Northwest Shelf?

4 A. Yes, it is.

5 Q. And what's the primary objective of the
6 unitized area?

7 A. In this area, the horizon we're going after is
8 called the P3. It's a little deeper than most of
9 the San Andres production area. It's a dolomite that's
10 stratigraphically tapped -- trapped, and it covers a
11 wide area.

12 Q. So is there anything you'd like to add in terms
13 of a general description of the geology of the interval?

14 A. It's underlain by an anhydrite, capped by an
15 anhydrite, underlain by the P4, which is wet. So we're
16 really just targeting the P3 zone. It's about 120 feet
17 thick.

18 Q. Would you identify the document marked as
19 Exhibit 5?

20 A. Exhibit 5 is a structure map on top of this San
21 Andres P3 zone.

22 Q. And did you prepare this exhibit?

23 A. I did.

24 Q. Is there any horizontal drilling in the San
25 Andres in the vicinity of the proposed well?

1 A. There's been four horizontal wells drilled on
2 this map, one of which, in Section 21 and 16, is inside
3 of the unit boundary, which is shown in black. It's
4 called the Domino.

5 **Q. And what does this structure map tell you about**
6 **the prospects from Manzano San Andres horizontal wells**
7 **within the unitized area?**

8 A. Below sea level, we've seen several wells that
9 are wet in the P3. Above that, it's hydrocarbon-
10 bearing, so we're mainly trying to stay above zero feet
11 sea level. And this unit will be anywhere from 380 or
12 200 -- about 180 feet above sea level. So it should all
13 be --

14 **Q. And have you analyzed the issue of any faulting**
15 **or any other geologic impediments within the --**

16 A. At the San Andres interval, there is no
17 faulting. It's just draping over the deeper structure.

18 **Q. Would you next identify the document marked as**
19 **Exhibit 6?**

20 A. Exhibit 6 is a PhiH isopach map of the P3 zone.

21 **Q. And did you also prepare this map?**

22 A. Yes, I did.

23 **Q. And what offset wells are identified on your**
24 **isopach map?**

25 A. So on the map, the Domino is shown with the

1 green circle, the Tupelo Honey and the Brown Eyed Girl.
2 Those are three wells. We had about 20,000 acres leased
3 here, and we've got three wells to date. And with those
4 wells, we've learned where we want to focus our efforts
5 in the future, where this map identifies the thickest
6 pay zone.

7 **Q. And generally speaking, what is your isopach**
8 **map intended to depict?**

9 A. So a PhiH map is simply the thickness of the
10 P zone -- P3 zone averaged every 2 feet times the
11 porosity. So you come up with a reservoir thickness in
12 terms of PhiH. The Brown Eyed Girl was around 5-1/2
13 PhiH along the length of the lateral. The Tupelo Honey
14 was around 6. The well we just drilled was about 8-1/2
15 average PhiH, and it made a big difference. It was the
16 best well by far.

17 **Q. Would you identify the document marked as**
18 **Exhibit 7?**

19 A. Exhibit 7 is a zoom-in of just the unit area
20 showing the PhiH map. It also shows the location of the
21 cross section.

22 **Q. And did you also prepare this exhibit?**

23 A. Yes, I did.

24 **Q. And what is this exhibit intended to depict?**

25 A. It shows that the reservoir up here in the unit

1 area ranges from 7 to 15 PhiH. Whereas, our Brown Eyed
2 Girl was around 5 PhiH along the length of the lateral.
3 So this is the area that we think can be developed at
4 current economics. We just finished -- we've had six
5 months' production of the Domino well, which averaged
6 around 8-1/2 PhiH. It went right past the well that has
7 8.73, and that is a commercial well.

8 **Q. And does Exhibit 7 show the existing producing**
9 **well within the unit area?**

10 A. Yes. That's the one I was just referring to in
11 Section 21, along the west half-west half of 16.

12 **Q. That's called the Domino?**

13 A. That's called the Domino.

14 **Q. And is the well shown as a dotted line the**
15 **second obligation well?**

16 A. In Section 9, east half-west half, going on up
17 into that little portion of Section 4, that's our next
18 location. It's an obligation well.

19 **Q. Would you identify the final exhibit, which is**
20 **Number 8?**

21 A. Exhibit 8, there is a cross section that goes
22 through wells 1 through 4. It's a structural cross
23 section hung on the top of the P3 zone -- I'm sorry -
24 stratigraphic cross section.

25 **Q. And it also includes the P3 map?**

1 A. Yeah, location.

2 **Q. And did you prepare the cross section?**

3 A. Yes, I did.

4 **Q. And what is the orientation of the Domino well**
5 **within the unit area?**

6 A. The Domino well is on the north -- going
7 north-south from Section 21 up into Section 16.

8 **Q. And do you anticipate that the second**
9 **obligation well will have the same orientation?**

10 A. Yes. What we're trying to do is drill through
11 that PhiH thick where it's around 15 PhiH. It will be
12 north-south, so we can cross as many fractures as
13 possible.

14 **Q. And do you anticipate that the north-south**
15 **orientation will be the preferred orientation throughout**
16 **the unitized interval?**

17 A. Yes. Our induced-fracture direction generally
18 runs east-west in this area.

19 **Q. And how thick is the pay in the unitized**
20 **interval?**

21 A. As you can see from various vertical old wells,
22 it ranges from around 7 on up to 15.28. We're going to
23 start on the west side and continue to develop from west
24 to east, from thickest to thinnest. Our first well,
25 like I said, averaged 8-1/2. It came in at 300 barrels

1 a day, and it's currently making about 100 barrels a day
2 after seven months. And so our next well, we're going
3 to even be thicker, about 40 percent thicker on the next
4 well.

5 **Q. And at this point in time, does Manzano have an**
6 **initial development plan for the unit?**

7 A. Yes. We've got this next well. It's called
8 the Mystic, designed for about three months from now.

9 Going forward, we would develop this
10 primarily with one- to one-and-a-half-mile laterals.
11 Five per section is the plan, using a common central
12 tank battery, which we've already built.

13 **Q. And in your opinion, is the San Andres**
14 **prospective for recovery of oil and gas throughout the**
15 **area?**

16 A. Yes, I believe it is.

17 **Q. In your opinion, is the pay relatively**
18 **equivalent throughout the unitized interval?**

19 A. Yes.

20 **Q. In your opinion, will the unit development**
21 **result in the efficient recovery of oil and gas?**

22 A. Absolutely.

23 **Q. And in your opinion, will the granting of**
24 **Manzano's application serve the interest of**
25 **conservation, the protection of correlative rights and**

1 **the prevention of waste?**

2 A. Yes.

3 MR. LARSON: Mr. Examiner, I move admission
4 of Exhibits 5 through 8.

5 EXAMINER DAWSON: Exhibits 5 through 8 will
6 be admitted into the record at this time.

7 (Manzano, LLC Exhibit Numbers 5 through 8
8 are offered and admitted into evidence.)

9 MR. LARSON: And I will pass the witness.

10 EXAMINER DAWSON: Mr. Lowe?

11 EXAMINER LOWE: No questions.

12 EXAMINER DAWSON: David?

13 EXAMINER BROOKS: No questions.

14 CROSS-EXAMINATION

15 BY EXAMINER DAWSON:

16 Q. I just have a few questions.

17 So the #4 will be drilled from Unit N in
18 Section 16 of 6 South, 34?

19 A. That's actually -- number four is referring to
20 a location on the cross section.

21 Q. Oh, that's the location.

22 But your wells are going from Unit N north,
23 right, to --

24 A. Yeah. But it would be Unit N and 9 going to
25 Unit N and 4.

1 Q. Oh, okay.

2 A. That dashed line.

3 Q. Oh, okay. I see it there.

4 And then the Mystic is going to be --

5 A. That is the Mystic.

6 Q. Oh, that is the Mystic.

7 A. Right.

8 Q. Okay. But there is a well before that one,
9 right?

10 A. We've already drilled the well in 21 along the
11 west half-west half of 21 and 16.

12 Q. Oh, okay. That's the Tupelo Honey.

13 A. It's actually the Domino.

14 Q. Oh, the Domino.

15 A. It's labeled on the map before that.

16 Q. Yeah. There we go.

17 And that's produced 100,000, you said?

18 A. It's produced 30,000 barrels in six months.

19 Q. Oh, 30,000 in six months.

20 So you would expect, since you're drilling
21 that Mystic well, that it would probably be a better
22 performing well than the Domino?

23 A. Thicknesswise, it's got 40 percent more
24 reservoir, so yes, sir.

25 Q. Okay. How many other wells are within this

1 **unitized area? Do you know? Do you have an idea?**

2 A. I'm sorry. Could you repeat?

3 **Q. How many other wells are within the unitized**
4 **area, producing wells?**

5 A. The well in Section 11, we just fracked that
6 well. It's called the Rockin Robin. I believe it was
7 fracked last week. There are some vertical wells that
8 have produced in the past on the larger map, the
9 structure map, and we're showing the green circles.
10 There are a lot of deep gas wells in this area, and
11 that's where a lot of well control comes from.

12 **Q. So most of those vertical wells are deep gas**
13 **wells?**

14 A. Mostly deep gas wells.

15 **Q. So the only well that's really produced within**
16 **the proposed unitized interval -- within that unitized**
17 **area is the Domino?**

18 A. And then the Rockin Robin in Section 11,
19 southwest --

20 **Q. Those three, right?**

21 A. Right. There's a vertical well in Section 24
22 that's made about 30,000 barrels, and there's a vertical
23 well in Section 5 that's made about 30,000 barrels.
24 These are much older wells.

25 **Q. Those aren't in the unitized area?**

1 A. No, they're not. Same pay zone.

2 **Q. Are those still producing?**

3 A. They are.

4 **Q. All right. That's all the questions I have.**

5 **Thank you very much.**

6 A. Thank you.

7 MR. LARSON: I have nothing further,
8 Mr. Examiner. I ask the case be taken under advisement.

9 EXAMINER DAWSON: Okay. At this point Case
10 Number 16341 will be taken under advisement.

11 Thank you very much.

12 MR. LARSON: Thank you.

13 (Case Number 16341 concludes, 1:52 p.m.)

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1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO

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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 DATED THIS 16th day of August 2018.

21

22

23 MARY C. HANKINS, CCR, RPR
24 Certified Court Reporter
New Mexico CCR No. 20
Date of CCR Expiration: 12/31/2018
Paul Baca Professional Court Reporters

25