

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

6 APPLICATION OF DIAMONDBACK
7 RESOURCES, LLC FOR APPROVAL
8 OF A NONSTANDARD OIL SPACING
9 AND PRORATION UNIT AND COMPULSORY
10 POOLING, LEA COUNTY, NEW MEXICO.

CASE NO. 14909

ORIGINAL

11 REPORTER'S TRANSCRIPT OF PROCEEDINGS

12 EXAMINER HEARING

13 BEFORE: DAVID K. BROOKS, Chief Examiner

14
15 October 18, 2012

16 Santa Fe, New Mexico

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19 This matter came on for hearing before the
20 New Mexico Oil Conservation Division, David K. Brooks,
21 Chief Examiner, on Thursday, October 18, 2012, at the
22 New Mexico Energy, Minerals and Natural Resources
23 Department, 1220 South St. Francis Drive, Porter Hall,
24 Room 102, Santa Fe, New Mexico.

25 REPORTED BY: Mary C. Hankins, CCR, RPR
New Mexico CCR #20
Paul Baca Professional Court Reporters
500 4th Street, Northwest, Suite 105
Albuquerque, New Mexico 87102

1 APPEARANCES

2 FOR APPLICANT DIAMONDBACK RESOURCES, LLC:

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1 (10:50 a.m.; Mr. Ezeanyim not present.)

2 EXAMINER BROOKS: Call Case Number 140 --

3 I'm sorry -- Case Number 14909, application of
4 Diamondback Resources, LLC for approval of a nonstandard
5 oil spacing and proration unit and compulsory pooling,
6 Lea County, New Mexico.

7 Call for appearances.

8 MR. BRUCE: Mr. Examiner, Jim Bruce of
9 Santa Fe representing the Applicant. I have two
10 witnesses.

11 EXAMINER BROOKS: Witnesses will please
12 stand and identify themselves.

13 MR. ERWIN: Jack Erwin.

14 MR. RAY: Charles Ray, R-A-Y.

15 EXAMINER BROOKS: Please swear the
16 witnesses.

17 (Witnesses sworn.)

18 MR. BRUCE: Mr. Examiner, the first thing
19 I've handed you is Exhibit 1, which is -- I've got
20 Mr. Ray, a landman, here.

21 I also have an affidavit from Randy Watts
22 who is a landman, who is with Mr. Ray, a field landman,
23 who did a lot of the work on the leasing and everything.
24 And I would -- two things -- a couple of things. First
25 of all, I put the wrong case number, so that should be

1 14909 on that.

2 EXAMINER BROOKS: Yeah. 14891 was the last
3 one.

4 MR. BRUCE: And this affidavit, as you can
5 see, has an attachment showing the well unit -- the land
6 plat showing the well unit, which is the north
7 half-south half of Section 1, 19 South, 34 East. And
8 Applicant is seeking the pooling of the Bone Spring
9 Formation underlying that area.

10 I would note, in the application, it notes
11 pooling of formations on 40 or 80 acres. This well is
12 in the Scarb Bone Spring pool, and that pool has 80-acre
13 spacing and wells to be within 150 feet of the center
14 of -- or within 200 feet of the center of the --

15 EXAMINER BROOKS: Well, it's going to be a
16 nonstandard --

17 MR. BRUCE: No. They have -- they have --
18 and this is reflected in the Division's well file. It
19 was originally going to be 330 off of each end, but they
20 have changed the well's location. So it will be, in
21 this case, 1980 from the south line, and then at least
22 460 feet from either end. So it will be standard.

23 EXAMINER BROOKS: And are you asking for
24 pooling -- are you going to be asking for pooling of
25 anything other than the Bone Spring?

1 MR. BRUCE: No, sir.

2 Also attached as Exhibit B to Exhibit 1 is
3 a listing -- it actually lists all interest owners, but
4 what's highlighted in green are the parties being
5 pooled, and you can see it's approximately 1.7 percent,
6 the interest being pooled.

7 EXAMINER BROOKS: You may go ahead and
8 question the witness.

9 CHARLES E. RAY,
10 after having been previously sworn under oath, was
11 questioned and testified as follows:

12 DIRECT EXAMINATION

13 BY MR. BRUCE:

14 Q. Mr. Ray, could you state your full name and
15 city of residence?

16 A. Charles E. Ray, Midland, Texas.

17 Q. And what is your relationship to Diamondback
18 Resources?

19 A. I'm a partner.

20 Q. And by profession, what are you?

21 A. A landman.

22 Q. Have you previously testified before the
23 Division?

24 A. I have.

25 Q. And have your credentials as an expert been

1 accepted as a matter of record?

2 A. Yes.

3 Q. And does your area of responsibility of
4 Diamondback include this portion of southeast
5 New Mexico?

6 A. Yes.

7 MR. BRUCE: Mr. Examiner, I tender Mr. Ray
8 as an expert petroleum landman.

9 EXAMINER BROOKS: He is so qualified.

10 Q. (BY MR. BRUCE) Mr. Ray, since we have the
11 basics, could you identify Exhibit 2 and describe the
12 contacts Diamondback made or tried to make with interest
13 owners?

14 A. Yeah. We -- first of all, we tried, with
15 Randy, to find them all, you know, telephone and what
16 have you.

17 Q. Randy Watts?

18 A. Randy Watts.

19 And then the ones where we got addresses
20 but didn't get replies from most, we sent them a letter
21 on July the 30th. We have boxes of -- we sent them
22 certified mail, so we'd get return receipts, so we could
23 make sure it got to them. And we got no replies, or
24 some that they weren't sure what they wanted to do, and
25 that's the way we started.

1 Q. So the first letter went out on July 30th,
2 correct?

3 A. Correct.

4 Q. And then a subsequent mailing, as to people who
5 hadn't responded, went out August 15th?

6 A. That's correct.

7 Q. And in this package, there are some form
8 letters that were sent to the working interest owners.
9 Were these form letters sent to all of the working
10 interest owners?

11 A. Yes, they were.

12 MR. BRUCE: Mr. Examiner, if you so desire,
13 I can supplement the record. I have two big boxes of
14 copies of all of the letters, but these were form
15 letters that were sent to, basically, all owners, as
16 Mr. Ray testified.

17 EXAMINER BROOKS: Right.

18 Q. (BY MR. BRUCE) And as you discussed, there were
19 unlocatable owners, and you had Mr. Watts search all the
20 records to locate those parties if they could be
21 located?

22 A. Yes.

23 MR. BRUCE: Mr. Examiner, in Mr. Watts'
24 affidavit, he does identify the records he searched, and
25 he could not locate a number of people.

1 Q. (BY MR. BRUCE) Approximately how long has
2 Diamondback been working on this prospect, Mr. Ray?

3 A. I think for sure a year and a half.

4 Q. So a lot of time and effort has been expended
5 trying to locate all the parties?

6 A. Yes.

7 Q. Do you believe that Diamondback has made a
8 good-faith effort to contact every -- or to locate
9 everyone?

10 A. Yes, definitely.

11 Q. Would you identify Exhibit 3 and discuss the
12 cost of the proposed well?

13 A. It is 8.1 million.

14 Q. The completed well costs?

15 A. I'm sorry. The completed well cost is 8.1
16 million. The dry hole cost is approximately 3.6
17 million. There it is right there. It's 3.624 for a dry
18 hole, and completed cost is 4.49, for a total cost of
19 8.119.

20 Q. And are these costs in line with the costs of
21 other horizontal wells built to this depth in this area
22 of the state?

23 A. Yes, almost identical.

24 Q. Do you request that Diamondback be appointed
25 operator of the well?

1 A. Yes, please.

2 Q. And what is your recommendation of the amount
3 that Diamondback be paid for its supervision and
4 administrative expenses?

5 A. 6,500, for the drilling, a day, and \$650 a
6 month after the completion.

7 Q. Are these amounts equivalent to those charged
8 by other operators in this area?

9 A. Yes, they are.

10 Q. Do you request that these rates be adjusted
11 pursuant to the COPAS accounting procedure?

12 A. Yes, I do.

13 Q. And does Diamondback request the maximum cost
14 plus 200-percent charge?

15 A. Yes.

16 MR. BRUCE: Mr. Examiner, Exhibit 4 is my
17 Affidavit of Notice sent out to a number of parties.
18 You'll notice that they all came back.

19 And Exhibit 5 is the Affidavit of
20 Publication against all of those parties, published in
21 the Hobbs newspaper.

22 Q. (BY MR. BRUCE) Mr. Ray, does Exhibit 6 list all
23 offset operators to your proposed well?

24 A. Yes, it does.

25 Q. And was notice given to those parties?

1 A. Yes.

2 MR. BRUCE: And, Mr. Examiner, Exhibit 7 is
3 my Affidavit of Notice. All of the offsets did receive
4 actual notice.

5 Q. (BY MR. BRUCE) Are Exhibits 1 through 7
6 prepared by you or under your supervision or compiled
7 from company business records?

8 A. Yes, they were.

9 Q. And in your opinion, is the granting of this
10 application in the interest of conservation and the
11 prevention of waste?

12 A. They do [sic].

13 MR. BRUCE: Mr. Examiner, I move the
14 admission of Exhibits 1 through 7.

15 EXAMINER BROOKS: Okay. 1 through 7 are
16 admitted.

17 (Diamondback Resources Exhibit Numbers 1
18 though 7 were offered and admitted into
19 evidence.)

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

22 CROSS-EXAMINATION

23 BY EXAMINER BROOKS:

24 Q. Mr. Ray, in response to the last question, I
25 know what you were saying, but he asked you if this

1 would serve the interest of prevention of waste and
2 protection of correlative rights, words to that effect.

3 You said "I do." So I think the appropriate --

4 A. Yes.

5 Q. -- response would have been yes. You only say
6 I do when you're getting married (laughter).

7 A. Well, then, yes.

8 Q. I actually don't have any further questions. I
9 think everything is covered.

10 JACK ERWIN,

11 after having been previously sworn under oath, was
12 questioned and testified as follows:

13 DIRECT EXAMINATION

14 BY MR. BRUCE:

15 Q. Would you please state your full name and city
16 of residence?

17 A. Jack Erwin, Midland, Texas.

18 Q. And what is your relationship to Diamondback
19 Resources?

20 A. I work for them as a geologist.

21 Q. Have you previously testified before the
22 Division as a geologist?

23 A. Yes, I have.

24 Q. And were your credentials as an expert
25 petroleum geologist accepted as a matter of record?

1 A. Yes.

2 Q. And are you familiar with the geology involved
3 in this application?

4 A. I am.

5 MR. BRUCE: Mr. Examiner, I tender
6 Mr. Erwin as an expert petroleum geologist.

7 EXAMINER BROOKS: He is so qualified.

8 Q. (BY MR. BRUCE) Mr. Erwin, could you identify
9 Exhibit 8 for the Hearing Examiner?

10 A. Exhibit 8 is a structure map on top of the 3rd
11 Bone Spring Sand. It shows a general south dip into the
12 basin, and, of course, the yellow is our -- the area
13 colored yellow on the map is our acreage block.

14 Q. And this identifies other existing wells --
15 Bone Spring wells in the area; does it not?

16 A. Yes, it does.

17 Q. And even though Mr. Ezeanyim is not here, there
18 are some outstanding stand-up well units in other
19 sections. But has a lay-down well been drilled in the
20 south half-north half of Section 1?

21 A. Yes, it has, by Concho.

22 Q. So the only option for this well is a lay-down
23 unit?

24 A. That is correct.

25 Q. What is Exhibit 9?

1 A. Exhibit 9 is an ISOPACH map of the 3rd Bone
2 Spring Sand which shows, in general, anywhere from 300
3 feet to 350 feet of the sand thickness throughout the
4 immediate area.

5 Q. Based on that, would you anticipate each
6 quarter-quarter section to contribute to production?

7 A. Yes.

8 Q. And would you believe that production would be
9 substantially equal from each quarter-quarter section?

10 A. Yes.

11 Q. Oh, I should have specified. The Concho well
12 that you mentioned in the north half of Section 1, that
13 is Bone Spring?

14 A. Yes, it is, 3rd Bone Spring.

15 Q. And you are testing the 3rd Bone Spring?

16 A. That's correct.

17 Q. What is Exhibit 10?

18 A. Exhibit 10 is a cross section showing the
19 immediate wells in the area, more or less an east-west
20 cross section. And as you can see, the top line is what
21 I have called the top of the 3rd Bone Spring Sand, and
22 the top of the Wolf Camp being the lower of the two
23 lines. And that is my ISOPACH interval that's on the
24 ISOPACH map.

25 The perforations are in red on the cross

1 section. On the LCD forms, there are -- in the well
2 folics [sic], there is one page of that that has the
3 true vertical depth of the top and bottom of the lateral
4 hole. You'll see those perforations on the two wells in
5 the area that -- the COG or Concho wells that are also
6 horizontal wells.

7 Q. And the 3rd Bone Spring is continuous across
8 the proposed well unit?

9 A. Yes.

10 Q. In your opinion, will this horizontal well
11 efficiently and economically drain into this portion of
12 the Bone Spring reservoir?

13 A. Yes, it will.

14 Q. And finally, what is Exhibit 11, Mr. Erwin?

15 A. Exhibit 11 is the proposed horizontal diagram
16 of our well.

17 Q. And as I stated, the well will be -- the entire
18 producing interval -- the entire producing interval of
19 the well will be at orthodox locations within the Scarb
20 Bone Spring production; is that correct?

21 A. Yes.

22 Q. How many completion stages will there be in the
23 well?

24 A. As I understand it -- and, of course, that
25 depends upon drilling, but we are anticipating ten

1 stages.

2 Q. Were Exhibits 8, 9 and 10 prepared by you?

3 A. Yes, they were.

4 Q. And was Exhibit 11 compiled from company
5 business records?

6 A. Yes.

7 MR. BRUCE: Mr. Examiner, I move the
8 admission of Exhibits 8 through 11.

9 EXAMINER BROOKS: 8 through 11 are
10 admitted.

11 (Diamondback Resources Exhibit Numbers 8
12 through 11 were offered and admitted into
13 evidence.)

14 Q. (BY MR. BRUCE) And in your opinion, would the
15 granting of this application be in the best interest of
16 conservation and the prevention of waste?

17 A. Yes.

18 MR. BRUCE: That's all I have of this
19 witness, Mr. Examiner.

20 EXAMINER BROOKS: Okay.

21 CROSS-EXAMINATION

22 BY EXAMINER BROOKS:

23 Q. Are the footage locations of the surface of the
24 bottom hole shown on this -- one of these exhibits
25 similar?

1 A. I believe it's --

2 MR. BRUCE: Mr. Examiner, no, but let me
3 give you what I pulled up on the OCD Web site. And I
4 might have --

5 EXAMINER BROOKS: Well, if you've already
6 gotten your API number, I can look it up, and I'll be
7 able to --

8 MR. BRUCE: Yeah. But the surface location
9 is 1980 from the south, and 460 from the west. And,
10 yeah, there is an API number.

11 EXAMINER BROOKS: What is that?

12 MR. BRUCE: The last five digits are 40727.

13 REDIRECT EXAMINATION

14 BY MR. BRUCE:

15 Q. And the initial C102, was that unorthodox
16 locations?

17 A. Yes.

18 MR. BRUCE: But that amended to reflect
19 orthodox locations.

20 EXAMINER BROOKS: Okay. Very good. Case
21 Number 14909 is taken under advisement.

22 (The hearing concluded, 11:07 a.m.)

23

24

25

I certify that the foregoing is
a true and correct record of the proceedings in
the hearing of Case No. 14909
heard by me on 10-18-12
David K. Barry, Examiner
Oil Conservation Division

1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO
3

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4 CERTIFICATE OF COURT REPORTER

5 I, MARY C. HANKINS, New Mexico Certified
6 Court Reporter No. 20, and Registered Professional
7 Reporter, do hereby certify that I reported the
8 foregoing proceedings in stenographic shorthand and that
9 the foregoing pages are a true and correct transcript of
10 those proceedings that were reduced to printed form by
11 me to the best of my ability.

12 I FURTHER CERTIFY that the Reporter's
13 Record of the proceedings truly and accurately reflects
14 the exhibits, if any, offered by the respective parties.

15 I FURTHER CERTIFY that I am neither
16 employed by nor related to any of the parties or
17 attorneys in this case and that I have no interest in
18 the final disposition of this case.

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22

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25

Mary C. Hankins
MARY C. HANKINS, CCR, RPR
Paul Baca Professional Court Reporters
New Mexico CCR No. 20
Date of CCR Expiration: 12/31/2012