

**MINUTES OF THE MEETING
HELD BY THE OIL CONSERVATION COMMISSION
ON SEPTEMBER 13, 2012**

The Oil Conservation Commission met at 9 o'clock a.m. on September 13, 2012, in Porter Hall, Wendell Chino Building, 1220 S. St. Francis Drive, Santa Fe, New Mexico.

**PRESENT: ROBERT BALCH, Commissioner
 SCOTT DAWSON, Commissioner**

Jami Bailey, the Chair of the Commission, was unable to attend the meeting, but a quorum of the Commission was present. Commissioner Balch acted as Chair for this meeting.

Bill Brancard served as the Commission counsel.

The meeting was called to order by Acting Chair Balch. After a motion by Commissioner Dawson and a second by Acting Chair Balch, the Commission unanimously approved and adopted the minutes of the August 28-29, 2012 Commission meeting.

Case 14720, Agave Energy Company's amended second motion to amend Order No. R-13507, was called and continued to the Commission meeting scheduled for October 25, 2012.

De Novo Case 14763, the application of Mack Energy Corporation for compulsory pooling, Lea County, New Mexico, being heard De Novo upon the application of Siana Oil and Gas LLP and Tom Ragsdale, was called. Appearances were made by James Bruce in association with Joel Carson for Mack Energy Corporation (Mack) and Scott Hall for Siana Oil and Gas LLP and Tom Ragsdale (Siana).

Mr. Bruce made an opening statement explaining the purpose of the compulsory pooling case. Mr. Hall made an opening statement explaining the purpose of the De Novo application.

Mr. Bruce's first witness was Staci Sanders, Landman with Mack in Artesia, New Mexico. She presented production data on the subject well. She described how Siana acquired the subject well from OXY USA WTP Limited Partnership, subsequently assigned all of its interest to a Mack-affiliated company, and then obtained a working interest in the well. She said that Mack had not been able to locate a Joint Operating Agreement (JOA) covering the well. She discussed communication with Mr. Ragsdale regarding attempts to obtain an operating agreement before a fracturing procedure was begun on the well. She explained drilling and producing costs. She said that Mr. Ragsdale had not paid his share of the costs since October of 2010 except for one month, and his revenues were placed in suspense in 2011. Mr. Hall, Commissioner Dawson, and Acting Chair Balch cross-examined the witness, and she was excused.

The next witness was Michael McCoy, Petroleum Engineer with Ely & Associates in The Woodlands, Texas. He discussed frac design and a fracture simulation model used for the subject well. He said that the model predicted that production will be increased by fracturing. He discussed the risks that could be involved in fracturing a well, including mechanical problems, increased water production from the well, and problems with the

surface frac equipment during the procedure. Mr. Hall, Commissioner Dawson, and Acting Chair Balch cross-examined the witness, and he was excused.

The next witness was Lee Livingston, Operations Manager with Mack in Artesia. He described his contacts with an employee of Mr. Ragsdale after the fracking proposal was submitted. He discussed the estimated costs of the fracturing procedure as presented in the current AFE. He discussed the lithology of the zones above and below the fracture zone. He listed the benefits of accelerated recovery to the working interest owners. Mr. Hall, Commissioner Dawson, and Acting Chair Balch cross-examined the witness, and he was excused.

Mr. Hall's witness was Tom Ragsdale, President of Siana Oil and Gas LLP in Midland, Texas. He explained that he assigned 100 percent of his ownership in the subject well to Casa Energy, LLC, and they assigned a portion of the interest back to Siana. He said he retained an overriding interest in the well when it was sold to Mack and received credit, not cash. He explained why he has not paid any of the costs after his credit was depleted. He talked of the AFE showing the frac job being proposed for the subject well. He said that Mack proposed a JOA, which he did not execute. He said he does not believe the risk penalty is justified because the well is already producing. He described the geologic risks in fracturing. He said the well is currently producing at an economic and effective rate, and he does not believe fracturing is necessary. Mr. Bruce, Commissioner Dawson, and Acting Chair Balch cross-examined the witness, and he was excused.

Mr. Hall and Mr. Bruce made closing statements.

After a motion by Commissioner Dawson and a second by Acting Chair Balch, the Commission, on a roll call vote, voted unanimously to close the session pursuant to NMSA 1978, Section 10-15-1 H, to deliberate on De Novo Case 14763. After a motion by Commissioner Dawson and a second by Acting Chair Balch, the Commission voted unanimously to return the meeting back into open session. Acting Chair Balch announced that De Novo Case 14763 was the only matter discussed during the closed session. The Commission unanimously decided to grant the application for compulsory pooling and deny the motion to dismiss the application and adopt the conditions in the Division's order. Counsel Brancard asked for findings and conclusions to be presented in two weeks after which a new order will be drafted. He said if an agreement is reached before the order is signed, then the order will no longer be in place.

After a motion by Commissioner Dawson and a second by Acting Chair Balch, the Commission voted unanimously to adjourn the meeting at 2:15 p.m.

**STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION**



ROBERT BALCH, Acting Chair