

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

6 APPLICATION OF CAZA PETROLEUM, INC.
7 FOR A NONSTANDARD SPACING AND
8 PRORATION UNIT AND COMPULSORY
9 POOLING, LEA COUNTY, NEW MEXICO.

CASE NO. 15021

ORIGINAL

10 REPORTER'S TRANSCRIPT OF PROCEEDINGS

11 EXAMINER HEARING

12 July 11, 2013

13 Santa Fe, New Mexico

14 BEFORE: RICHARD EZEANYIM, CHIEF EXAMINER
15 DAVID K. BROOKS, LEGAL EXAMINER
16 PHILLIP GOETZE, TECHNICAL EXAMINER

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18 This matter came on for hearing before the
19 New Mexico Oil Conservation Division, Richard Ezeanyim,
20 Chief Examiner, David K. Brooks, Legal Examiner, and
21 Phillip Goetze, Technical Examiner, on Thursday, July
22 11, 2013, at the New Mexico Energy, Minerals and Natural
23 Resources Department, 1220 South St. Francis Drive,
24 Porter Hall, 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 CAZA PETROLEUM, INC.:

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1 (4:35 p.m.)

2 EXAMINER EZEANYIM: At this point, I call
3 Case 15021, application of Caza Petroleum, Inc. for a
4 nonstandard spacing and proration unit and compulsory
5 pooling, Lea County, New Mexico.

6 Call for appearances.

7 MR. BRUCE: Jim Bruce representing the
8 Applicant. I have one witness.

9 EXAMINER EZEANYIM: Any other witnesses?

10 Okay, Mr. Bruce. Make it jiffy.

11 Stand up and state your name.

12 MR. BROWN: John E. Brown.

13 JOHN E. "JAY" BROWN,

14 after having been first duly sworn under oath, was
15 questioned and testified as follows:

16 EXAMINER EZEANYIM: Okay, Mr. Bruce.

17 DIRECT EXAMINATION

18 BY MR. BRUCE:

19 Q. Mr. Brown, where do you reside?

20 A. In Houston, Texas.

21 Q. Who do you work for and in what capacity?

22 A. I'm the land manager for Caza Petroleum.

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

25 A. I have not.

1 Q. Would you summarize your educational and
2 employment background for the Examiner?

3 A. I have a bachelor of business administration in
4 petroleum land management from the University of Texas
5 at Austin. I've worked for various companies over the
6 years. I have been approved as an expert witness in
7 several different states. I've worked in many states,
8 and I have worked for Caza for three years. And I've
9 been working in southeastern New Mexico for a year and a
10 half.

11 EXAMINER EZEANYIM: Before you continue,
12 Ms. Ryan is not contesting this case?

13 MR. BRUCE: I will address that as soon as
14 we get him qualified.

15 Q. (BY MR. BRUCE) Mr. Brown, how many years total
16 experience in the oil and gas business?

17 A. About 38.

18 Q. And does your area of responsibility at Caza
19 include this area of southeast New Mexico?

20 A. It does.

21 Q. And are you familiar with the land matters
22 involved in this case?

23 A. I am.

24 MR. BRUCE: Mr. Examiner, I tender
25 Mr. Brown as an expert petroleum landman.

1 EXAMINER EZEANYIM: So qualified.

2 MR. BRUCE: Very Briefly, Mr. Examiner,
3 Elizabeth Ryan entered her appearance for Devon Energy
4 Production Company. She did ask for a continuance. She
5 later waived that request to me. Mr. Brown will explain
6 the status of the agreements between the parties,
7 although I think at this point we're still seeking to
8 force pool Devon. We fully anticipate that within a
9 couple of weeks Devon Energy will be signed up and will
10 voluntarily agree to participate. So Ms. Ryan indicated
11 to me yesterday she would not show up at the hearing.

12 EXAMINER EZEANYIM: Okay.

13 Q. (BY MR. BRUCE) Mr. Brown, could you identify
14 Exhibit 1 for the Examiner and describe what Caza seeks
15 in this case?

16 A. Exhibit 1 is a land plat, a copy of the Midland
17 Map Company plat, showing Section 29, Township 23 South,
18 34 -- 23 East, 34 South -- excuse me -- 23 South, 34
19 East in Lea County, New Mexico. And it shows the
20 proration unit that we seek.

21 Q. And that is the east half of the west half of
22 29?

23 A. That's correct.

24 Q. And you also seek to force pool the Bone Spring
25 Formation underlying the nonstandard unit?

1 A. That's correct.

2 Q. And what is the name of Caza's proposed well?

3 A. West Copper Line 29 Federal Com #1.

4 Q. And will the producing interval in the wellbore
5 be orthodox at all points?

6 A. Orthodox? Within the setbacks?

7 Q. Yes.

8 A. Yes, it will.

9 Q. At this point, who do you seek to pool in the
10 well unit?

11 A. Chevron U.S.A., Devon Energy and First Roswell
12 Company.

13 Q. What total percentage interest do they own in
14 the well unit?

15 A. Devon owns a leasehold comprising 12-and-a-half
16 percent; Chevron, 12-and-a-half percent; and First
17 Roswell Company, 25 percent.

18 Q. And Caza owns the remaining interest?

19 A. That's correct.

20 Q. What is Exhibit 2?

21 A. Exhibit 2 is copies of the well-proposal letter
22 that I wrote in late March and early April to each of
23 those three parties in conformance with the regulation
24 to force pool.

25 Q. And these are not the only contacts you have

1 had with the interest owners?

2 A. No, sir.

3 Q. Have there been numerous telephone calls and
4 e-mails with the parties that you seek to pool?

5 A. Numerous contacts with all three of the
6 parties. With Devon Energy, we have negotiated terms on
7 a farm-out, and I'm simply waiting at this point to get
8 Devon's written contract. We anticipate concluding that
9 in very short order.

10 Chevron has written a letter agreeing to
11 participate in the well. They also signed this letter
12 acknowledging their election to participate. We are
13 currently negotiating the JOA. We are a long way
14 towards completion and anticipate that being completed
15 in short order.

16 Q. And if those parties voluntarily join in the
17 proposed well, will you notify the Division, so they're
18 not subject to the pooling order?

19 A. Yes, sir.

20 Q. How long overall has Caza and its other working
21 interest partners been negotiating with First Roswell
22 Company?

23 A. Since December of 2012.

24 Q. So at this point, that's seven, eight months
25 that you've been negotiating with them?

1 A. Yes, sir.

2 Q. At this point, despite your conversations, do
3 you have a firm agreement with them?

4 A. Absolutely not.

5 Q. At this point, do you anticipate they will need
6 to be force pooled?

7 A. Yes, sir.

8 Q. All of the interest or working interest owners
9 in the proposed units are locatable? There are no
10 unlocatable parties?

11 A. That's correct.

12 Q. In your opinion, has Caza made a good-faith
13 effort to obtain the voluntary joinder of the interest
14 owners of the well?

15 A. Yes, it has.

16 Q. Would you identify Exhibit 3 for the Examiner
17 and discuss the cost of the proposed well?

18 A. Exhibit 3 is our AFE, which was sent out with
19 those election letters. It identifies the dry-hole cost
20 as 3,334,000; completed well costs, 7,329,000.

21 Q. And are these costs in line with the cost of
22 other wells drilled to this depth in this area of
23 New Mexico?

24 A. Yes, sir.

25 Q. Do you request that Caza be appointed operator

1 of the well?

2 A. Yes, sir.

3 Q. Do you have a recommendation for the Examiners
4 what Caza should be paid for supervision and
5 administrative expenses?

6 A. We recommend 9,400 per month for drilling and
7 1,000 per month for producing well rates.

8 Q. How did Caza arrive at those overhead rates?

9 A. I took the COPAS rate -- COPAS ceased issuing
10 rates in 2005 and went to an escalator percentage, and I
11 took that last issued rate and simply escalated it by
12 the COPAS escalation rates. And those rates actually
13 are higher than these, so I backed off a little bit on
14 that.

15 Q. Well, when you said the rates, you said the
16 COPAS rates, but you were talking about the Ernst &
17 Young rates, I believe?

18 A. Well, I looked on the Internet, and the Ernst &
19 Young rates and the COPAS rates are the same, except
20 that Ernst & Young stopped publishing in 2009, and COPAS
21 is through 2013.

22 Q. Ah. Okay.

23 And in your opinion, are these amounts
24 equivalent to those that would be charged by Caza and
25 other operators in this area for wells of this depth?

1 A. They are similar.

2 Q. And do you request that these rates be adjusted
3 by the COPAS accounting procedure?

4 A. I do.

5 Q. Does Caza request a maximum cost plus
6 200-percent risk charge in the event one of the parties
7 does not consent to the well?

8 A. Yes, it does.

9 Q. And were the parties being pooled notified of
10 this hearing?

11 A. Yes, sir.

12 Q. And is that reflected in my affidavit marked as
13 Exhibit 4?

14 A. Yes.

15 Q. What is Exhibit 5, Mr. Brown?

16 A. Exhibit 5 would be a list of the offset
17 operators.

18 Q. And did you employ an independent landman to
19 check the pertinent state, federal and county records to
20 determine offset ownership?

21 A. I did.

22 Q. And were those parties given notice of this
23 application?

24 A. Yes, they were.

25 Q. And is that reflected in Exhibit 6?

1 A. Yes.

2 Q. Were Exhibits 1 through 6 either prepared by
3 you or under your supervision or compiled from company
4 business records?

5 A. Yes, they were.

6 Q. And in your opinion, is the granting of this
7 application in the interest of conservation and the
8 prevention of waste?

9 A. Yes, it is.

10 MR. BRUCE: Mr. Examiner, I move the
11 admission of Exhibits 1 through 6.

12 EXAMINER EZEANYIM: Exhibits 1 through 6
13 are admitted.

14 (Caza Petroleum Exhibit Numbers 1 through 6
15 were offered and admitted into evidence.)

16 MR. BRUCE: I have no further questions of
17 this witness.

18 EXAMINER EZEANYIM: Mr. Brooks, any
19 questions?

20 EXAMINER BROOKS: No questions.

21 EXAMINER EZEANYIM: Mr. Goetze?

22 EXAMINER GOETZE: No questions.

23 EXAMINER EZEANYIM: What is the pool name
24 here?

25 MR. BRUCE: It's a Wildcat Bone Spring.

1 EXAMINER EZEANYIM: Wildcat Bone Spring?

2 MR. BRUCE: Yes.

3 CROSS-EXAMINATION

4 BY EXAMINER EZEANYIM:

5 Q. What is the depth of this well?

6 A. I don't know where my AFE went.

7 The total vertical depth?

8 Q. Yeah, measured depth.

9 MR. BRUCE: It is on Exhibit 3, the AFE,
10 Mr. Examiner.

11 THE WITNESS: The horizontal is 11,480;
12 measured depth is 14,2 [sic]. I don't see the TVD. Oh,
13 it's 11,480.

14 MR. BRUCE: Total vertical depth?

15 THE WITNESS: Total vertical depth, yes.

16 Q. (BY EXAMINER EZEANYIM) So you told me you
17 approximated your overhead rates because you can't find
18 them in COPAS?

19 A. Well, COPAS no longer -- Ernst & Young no
20 longer publishes a specific rate. They ceased
21 publishing the specific rate in 2005. So I took the
22 Ernst & Young 2005 overhead rate and escalated it by the
23 Ernst & Young escalators. That's common practice.

24 Q. Is that what most people do today, because I've
25 got all this overhead?

1 A. I would say no. I think they're just
2 continuing to carry a previous rate that they've used as
3 a go-by on subsequent JOAs. They're entitled to
4 escalate that by the escalator. I mean, it's provided
5 for in the Exhibit C COPAS of the JOA.

6 EXAMINER EZEANYIM: Any further questions?

7 MR. BRUCE: No further questions of the
8 witness, Mr. Examiner.

9 I do have one more exhibit, and I'll ask
10 Mr. Brown to stay there just for a second.

11 In the pre-hearing statement I filed, I
12 explained that Carroll Hird, Caza's geologist, had some
13 health issues that prevent him from traveling. So what
14 I had him do -- I asked permission to present his
15 evidence by affidavit. We were also going to have him
16 available by telephone, but -- without going through the
17 affidavit, it does discuss all the issues that the
18 Hearing Examiners are used to seeing with respect to
19 geology testimony on a Bone Spring test.

20 Because of the late hour, if you would like
21 the chance to at least talk to Mr. Hird by telephone, I
22 have no objection to continuing the case for two weeks
23 so that after you review the affidavit, if that is
24 necessary, so that you could ask questions of Mr. Hird.
25 But from what Mr. Brown told me, it does not appear that

1 Mr. Hird will be in traveling condition for another
2 several weeks. So whatever your pleasure is,
3 Mr. Examiner.

4 EXAMINER EZEANYIM: Okay. I don't think I
5 will need that. I think this is sufficient.

6 MR. BRUCE: I would move the admission of
7 Exhibit 7.

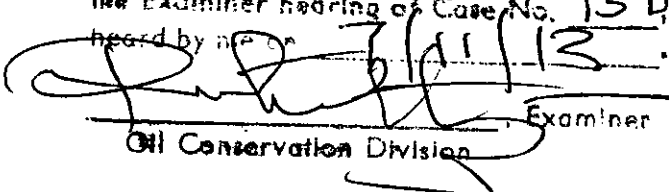
8 EXAMINER EZEANYIM: Exhibit 7 will be
9 admitted.

10 (Caza Petroleum Exhibit Number 7 was
11 offered and admitted into evidence.)

12 EXAMINER EZEANYIM: Case Number 15021 will
13 be taken under advisement.

14 (Mr. Brooks exits the room.)

15 (Case Number 15021 concludes, 4:48 p.m.)
16
17

18 I do hereby certify that the foregoing is
19 a complete record of the proceedings in
the Examiner hearing of Case No. 15021
20 heard by me on 7/11/13.
21  Examiner
Oil Conservation Division
22
23
24
25

1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO

3

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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23

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MARY C. HANKINS, CCR, RPR
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