

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

6 APPLICATION OF RSC RESOURCES
7 LIMITED PARTNERSHIP FOR
8 COMPULSORY POOLING, EDDY COUNTY,
9 NEW MEXICO.

CASE NO. 15022

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

July 25, 2013

Santa Fe, New Mexico

14 BEFORE: PHILLIP GOETZE, CHIEF EXAMINER
15 RICHARD EZEANYIM, TECHNICAL EXAMINER

RECEIVED OCD
2013 AUG -9 P 2:44

18 This matter came on for hearing before the
19 New Mexico Oil Conservation Division, Phillip Goetze,
20 Chief Examiner, and Richard Ezeanyim, Technical
21 Examiner, on Thursday, July 25, 2013, at the New Mexico
22 Energy, Minerals and Natural Resources Department, 1220
23 South St. Francis Drive, Porter Hall, Room 102,
24 Santa Fe, New Mexico.

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

1 APPEARANCES

2 FOR APPLICANT RSC RESOURCES LIMITED PARTNERSHIP:

3 JAMES G. BRUCE, ESQ.
 4 Post Office Box 1056
 5 Santa Fe, New Mexico 87504
 (505) 982-2043
 jamesbruc@aol.com

6

7 INDEX

8 Case Number 15022 Called PAGE 3

9 RSC Resources Limited Partnership's Case-in-Chief:

10 Witnesses:

11 Randall Cate

12 Direct Examination by Mr. Bruce 3

Cross-Examination by Examiner Goetze 15

13 Cross-Examination by Examiner Ezeanyim 16

14 Proceedings Conclude 18

15 Certificate of Court Reporter 19

16

17

18 EXHIBITS OFFERED AND ADMITTED

19 RSC Resources Exhibit Numbers 1 through 14 15

20

21

22

23

24

25

1 (9:55 a.m.)

2 EXAMINER GOETZE: And next in line is Case
3 15022, correct?

4 MR. BRUCE: Correct.

5 EXAMINER GOETZE: Case 15022, application
6 of RSC Resources Limited Partnership for compulsory
7 pooling, Eddy County, New Mexico.

8 Call for appearances.

9 MR. BRUCE: Mr. Examiner, Jim Bruce of
10 Santa Fe representing the Applicant. I have one
11 witness.

12 EXAMINER GOETZE: And would that witness
13 identify yourself and be sworn in?

14 MR. CATE: I'm Randall Cate from Midland,
15 Texas.

16 RANDALL CATE,
17 after having been first duly sworn under oath, was
18 questioned and testified as follows:

19 EXAMINER GOETZE: Proceed.

20 MR. BRUCE: As introduction, Mr. Examiner,
21 I'd like to bring you -- I'm bringing you a horizontal
22 gas well to deal with, for a change.

23 EXAMINER GOETZE: Oh, a rarity.

24 MR. BRUCE: I mean, not a horizontal, a
25 vertical gas well.

1 EXAMINER GOETZE: Oh. Even more of a
2 rarity.

3 MR. BRUCE: Yeah (laughter).

4 DIRECT EXAMINATION

5 BY MR. BRUCE:

6 Q. Mr. Cate, are you a principal of RSC Resources?

7 A. Yes, I am.

8 Q. And by profession, what are you?

9 A. Engineer; petroleum engineer by profession and
10 mechanical engineer by degree.

11 Q. Have you previously testified before the
12 Divison?

13 A. Yes, I have.

14 Q. And were your credentials as an expert
15 petroleum engineer accepted as a matter of record?

16 A. Yes.

17 Q. And are you familiar with the engineering
18 matters related to this well?

19 A. Yes.

20 Q. And are you -- as a principal of RSC, are you
21 also somewhat familiar with the land matters of this
22 case?

23 A. Yes, I am. I'm personally involved in the land
24 issues on a day-to-day basis.

25 MR. BRUCE: Mr. Examiner, I'd tender

1 Mr. Cate as an expert petroleum engineer

2 EXAMINER GOETZE: So qualified.

3 Q. (BY MR. BRUCE) Mr. Cate, could you identify
4 Exhibit 1 and briefly describe what RSC seeks in this
5 case?

6 A. RSC seeks to pool the parties that we could not
7 find or get voluntary participation from for a 320-acre
8 standard unit in the Wolfcamp Formation for the reentry
9 of the Ann Com #1 well, which is in Section 15. It'll
10 be the north half unit in Section 15, Township 24 South,
11 Range 28 East, Eddy County.

12 Q. Do you seek to force pool all interests from
13 the surface to the base of the Wolfcamp?

14 A. Yes, I do.

15 Q. And if there are uphole zones that are spaced
16 on 40 unit -- I mean, 60 acres, do you also seek to
17 force pool those tracts?

18 A. Yes, we do.

19 Q. And the well unit would be the
20 southwest-northeast 440-acre tract, correct?

21 A. That's correct. And if it's a 160, it would be
22 the northeast quarter.

23 Q. Mr. Cate, you said, for better or worse, you're
24 intimately familiar with the land matters involved in
25 this case. Could you identify Exhibit Number 2?

1 A. Exhibit 2 is -- you can't read it. In order to
2 read it, Mr. Examiner, we'd have to put it on the whole
3 wall here. But it is a land plat that shows the
4 town-site lots that were created back in, oddly, the
5 '40s, 1930s and '40s, for this area, the Malaga, which,
6 sadly, the town never did actually develop or anything.
7 But these lots are, on average, .2 acres. And so it
8 gives you just a visual education of the immensity of
9 the land work and the challenge that we've had to not
10 only just send out mail-outs to all the parties --
11 potential parties, but there are probably about 100
12 folks that we cannot find, heirs to owners. And we have
13 real good records, and we've spent many, many hours on
14 it. But this just gives you a visual of the
15 challenge -- the land challenge.

16 Q. And, basically, except for a few over to the
17 west and maybe a little bit to the northeast of the
18 highway or railroad shown there, the entire north half
19 is pretty much the Malaga town site; is it not?

20 A. Yes. Yes. Since you mentioned it, to the very
21 far northwest -- and you'll see my little HBP comment.
22 That is a Pardue lease that EOG Resources is the lease
23 owner on, has the leasehold on, and they are one of the
24 pooling interests.

25 Q. What is Exhibit 3?

1 A. Exhibit 3 is our ownership report that was
2 generated from Diane Magee. She's a landman that I've
3 been using for several years now, and her testimony and
4 affidavits have been accepted by the Commission prior to
5 this, also. And she has approximately 25 years'
6 experience in land. She generated this report from unit
7 agreements.

8 The Ann Com well that I re-entered is --
9 was a 1978 vintage well that was drilled and completed
10 in the Morrow-Atoka. They did not find economic
11 reserves there. They did plug back and attempt a Bone
12 Spring zone, and then plugged the well back in, I
13 believe, '82 or '83. And so we started with unit
14 agreements, any title opinions we could find from that
15 vintage well, and then brought all the ownership forward
16 using court records, title company, abstract records,
17 and, of course, phone calls, mail, the entire process.

18 Q. Does Exhibit 3 also, briefly, over in the
19 Comment section, describe what you did to contact these
20 people and try to lease them, et cetera?

21 A. Yes. Yeah. And subsequent exhibits will show
22 that, too. But, yes, each of those comments is a record
23 of what attempts we had made, whether it was a well
24 proposal, oil and gas lease. Of course, the notices
25 were sent to each of these parties, and then if we had

1 heard back any kind of positive reaction or -- some of
2 these we just can't find. And you'll notice under the
3 "Best Address," it says "unknown." We can't find them.

4 Q. When did you start doing work on this section
5 of the land to attempt to locate the people and to lease
6 to them?

7 A. Well, actually, it started about a year and a
8 half ago, and Yanzana [phonetic] was the operator. And
9 they had plans to drill an Avalon or an Upper Bone
10 Spring horizontal. They started the process, but then
11 they decided not to go forward. So I took over at that
12 point. But back in April is when we really started
13 making the effort for all the town-lot parties.

14 Q. And what is Exhibit 4?

15 A. Exhibit 4 is one of the -- it's an example
16 letter. Instead of providing a copy of each one, it's
17 an example letter of what we had sent out to just one of
18 these mineral owners. There is probably 120, 130
19 letters that go out, whereby we proposed the well. We
20 also offer what we identify as costs. We also had
21 attached our AFE, which I'll show you in a minute, and
22 then we also offer to take an oil and gas lease under
23 terms that were very similar to others in the area
24 there. And hopefully we would get a response one way or
25 the other on it.

1 And then the second page was, we went back
2 out again in May for a second effort on people we could
3 not find. Now, those were certified. So the first
4 effort was not a certified letter. The second effort,
5 then, was certified letters to parties we could not find
6 or could not get to respond to us. And so the May 25th
7 was the certified well proposal to all parties.

8 Q. And what is Exhibit 5?

9 A. Exhibit 5 is the statement by Diane Magee, my
10 landman, who did the ownership report. It's an
11 affidavit that she had done the work. She has done the
12 study, that she is a qualified landman. And, once
13 again, her testimony and affidavits have been accepted
14 before.

15 Q. And in the final paragraph or two, it describes
16 what records she checked to locate all of the interest
17 owners, if they could be located, correct?

18 A. That's right. We used Internet searches, two
19 or three different sites that try to find these people,
20 and we go by old addresses. It has literally taken
21 hundreds of man-hours. It has.

22 Q. In your opinion, has RSC made a good-faith
23 effort either to obtain the voluntary joinder of all the
24 mineral interest owners of the well or to locate the
25 interest owners?

1 A. Yes.

2 Q. And if some of these parties decide to join in
3 the well, will you notify the Division?

4 A. Say that again.

5 Q. Yes. If the -- if some of the parties
6 subsequently lease to you, for instance, or EOG joins in
7 the well, will you notify the Division that they're not
8 subject to the pooling order?

9 A. Yes, that is correct. Any party that wishes to
10 participate or even now, subsequently, enter into an oil
11 and gas lease well, we will do so and notify the
12 Commission that they are no longer subject to the pool.

13 Q. What is Exhibit 6?

14 A. Exhibit 6 is the AFE, our estimated costs to do
15 the completion -- the reentry and the completion in the
16 Wolfcamp zone. The cost is \$1,451,000. And it's based
17 on a Morrow well that we have done almost an identical
18 operation on in Section 14, one mile away. And this AFE
19 was attached to all letters that have gone out to the
20 parties, well proposal and the --

21 Q. And because this is a reentry, there is no
22 dry-hole cost in this well, correct?

23 A. That's correct.

24 Q. And are these costs in line with the costs of
25 other wells drilled or re-entered to this depth in this

1 area of New Mexico?

2 A. Yes, it is.

3 Q. Who do you request be the operator of the well?

4 A. We'd request that Guardian Operating
5 Corporation is designated operator. It is actually a
6 wholly owned entity of RSC Resources.

7 Q. And it operates the wells that you propose?

8 A. It is the operator of RSC's wells, yes.

9 Q. And RSC does operate some other wells in the
10 township -- or adjoining sections, correct?

11 A. Yes, about a total of -- about a total of five
12 so far, yes.

13 Q. Do you request the maximum cost plus
14 200-percent risk charge be assessed against any
15 nonconsenting owners?

16 A. Yes.

17 Q. And what overhead rates do you propose?

18 A. 7,000 on the drilling overhead rate and 700 per
19 month on the operating expense rate.

20 Q. And are these rates equivalent to those charged
21 by operators in this area for wells of this depth?

22 A. Yes, they are, and they have also been accepted
23 by the Commission in previous hearings on similar wells.

24 Q. Do you request that these rates be adjusted
25 under the COPAS accounting procedure?

1 A. Yes.

2 Q. And were the parties being pooled notified of
3 this application, of this --

4 A. Yes.

5 Q. And is Exhibit 6 [sic] the notice letters you
6 sent out, together with the certified green cards?

7 A. Exhibit 7, yes.

8 MR. BRUCE: And, Mr. Examiner, Exhibit 8 is
9 an Affidavit of Publication against the unlocatable
10 parties.

11 Q. (BY MR. BRUCE) And let's briefly discuss
12 Exhibits 9 and 10.

13 A. Exhibits 9 and 10 are wellbore diagrams of the
14 existing condition prior to reentry. The copy didn't
15 come out really great, but the cement plugs. And we
16 have actually re-entered this well already and have it
17 cleaned out to the Wolfcamp zone of interest.

18 And then Exhibit 10 is our wellbore diagram
19 predicting where we will be once we establish
20 production, and the zone of interest in the Wolfcamp is
21 approximately 10,000 -- 10,200 feet to 10,800 feet.
22 That's the zone of interest, and we do intend to frack
23 these zones.

24 Q. You mentioned the Wolfcamp. What is Exhibit
25 11?

1 A. It's a log of the Ann Com, the entry that was
2 run back in the '80s. This log is '80s vintage. And it
3 just shows the Wolfcamp interval that we will be
4 perforating and the fracture stimulating.

5 And, again, the zone of interest in this --
6 the top of the Wolfcamp is approximately 9,500 or so,
7 and the bottom of the Wolfcamp is down almost 11,000
8 feet. So this is just a section of what we see as
9 productive pay within the Wolfcamp interval.

10 Q. And this portion of the cross section is
11 approximately the zone you will be completing in?

12 A. That's correct, yes.

13 Q. And finally, why don't you just run through
14 Exhibits 12, 13 and 14 and discuss them for the
15 Examiner?

16 A. Well, their production -- if you go back to the
17 land plat, which was Exhibit 1, you kind of get a feel
18 for it. But what I did was, I pulled production by zone
19 for Sections 1 through 24 in Township 24, 28, and this
20 is what has come up. And the main point is -- for
21 instance, this Wolfcamp production, there's one well
22 that's made a half a bcf, but the others would be
23 considered, you know, noncommercial. So there is quite
24 a bit of risk to what we're doing. We believe the frack
25 technology may be what, you know, gives us a chance of

1 being a commercial producer.

2 And then the same on Exhibit 13. That's
3 for the Bone Spring production. If we have to go up to
4 the 160 -- or -- I'm sorry -- 40, and the Delaware would
5 also be a 40. Primarily, it just shows that all these
6 zones make quite a bit of water, and there is a lot of
7 risk in the reserves that could be expected.

8 Q. And in this well and others, there is also a
9 prospect for, in future drilling, potentially,
10 horizontal Wolfcamp-Bone Spring wells; is that correct?

11 A. That is correct.

12 Q. In your opinion, does the data justify the
13 200-percent risk charge?

14 A. Yes, it does.

15 Q. And were Exhibits 1 through 14 prepared by you
16 or under your supervision or compiled from company
17 business records?

18 A. Yes, they were.

19 Q. In your opinion, is the granting of this
20 application in the interest of conservation and the
21 prevention of waste?

22 A. Yes.

23 Q. One final matter: What Wolfcamp pool is this
24 well?

25 A. Culebra Bluff South-Wolfcamp, gas.

1 MR. BRUCE: Mr. Examiner, I'd move the
2 admission of Exhibits 1 through 14.

3 EXAMINER GOETZE: Exhibits 1 through 14 are
4 admitted.

5 (RSC Resources Exhibit Numbers 1 through 14
6 were offered and admitted into evidence.)

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

9 CROSS-EXAMINATION

10 BY EXAMINER GOETZE:

11 Q. I notice in your letter that we have -- you
12 just describe the Wolfcamp interval that we're pooling
13 from surface down to the base of Wolfcamp. Will we
14 address that if we get interest in this response as far
15 as there are going to be other potential intervals that
16 may be involved?

17 MR. BRUCE: Mr. Examiner, I think -- first
18 of all, the Wolfcamp is the primary zone. And I think
19 Mr. Cate can tell you that he is involved in some Sabasa
20 [phonetic] Wolfcamp completion. So certainly the
21 initial 1.45 million can be borne by the 320-acre -- the
22 interest owners in the 320-acre unit.

23 Q. (BY EXAMINER GOETZE) So are we looking at doing
24 shallower testing?

25 MR. BRUCE: Only if the -- go ahead.

1 A. Yes. Not under this application. It's for the
2 Wolfcamp.

3 Q. Okay. Very good.

4 And roughly, out of all these parties that
5 you sent notifications out to, how many responded?

6 A. Well, we actually -- if you'll look back at the
7 ownership report, I would say that in the efforts, we
8 probably managed to lease half the interest. Out of 200
9 parties, maybe half of them. The ownership -- I did
10 show the number of acres, but it did not tally up. But
11 if you take -- EOG has ten acres or so. Yates and
12 Monaco [phonetic], they've got about five or six. And
13 so the total was under about 25 to 30 acres out of that
14 320 that actually can't be found. It's actually a
15 pretty good amount considering the challenge.

16 EXAMINER GOETZE: No more questions.

17 Mr. Ezeanyim?

18 CROSS-EXAMINATION

19 BY EXAMINER EZEANYIM:

20 Q. I want to ask more questions, but I'm happy. I
21 just said I don't want to ask questions, but there is
22 something I need to hear anyway, because this is a
23 hearing.

24 What is the relationship between Guardian
25 Operating and RSC?

1 A. Guardian is an operating entity.

2 Q. Of RSC?

3 A. And it is wholly owned by RSC.

4 Q. Okay.

5 A. It's no different than Mack and Chase. Mack
6 Energy is the operating entity, and Chase is where the
7 assets are kept. And there are reasons for keeping the
8 two separate, I believe.

9 Q. Yeah. Because when you asked for Guardian to
10 be the operator, I wanted to know what the relationship
11 is.

12 A. Yes. But it is my operating company.

13 Q. Because there is a benefit for an operator to
14 operate the well, as you know.

15 Okay. Now, one other question is: What is
16 the status of this well you are going to re-enter? Is
17 it plugged and abandoned or temporary -- what is it
18 doing now?

19 A. It was plugged and abandoned.

20 Q. It's plugged and abandoned.

21 A. Post-wellbore diagrams show the cement plugs;
22 it's plugged and abandoned. We have gone ahead and
23 started the reentry process and have actually got it
24 cleaned out through the Wolfcamp, and it is ready to
25 complete.

1 Q. Okay.

2 EXAMINER GOETZE: Ambitious.

3 THE WITNESS: Yeah. Well, I had lease
4 considerations, but we decided to go ahead.

5 EXAMINER EZEANYIM: I'm sorry I have to ask
6 those questions. But that's okay; that's all I have.

7 EXAMINER GOETZE: No further questions.

8 And we'll take this -- Case 15022 is taken
9 under advisement.

10 (Case Number 15022 concludes, 10:16 a.m.)

11

12

13

14

15

16

17

18

19

20

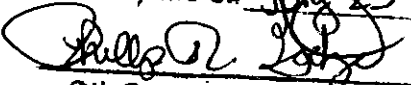
21

22

23

24

25

I hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 15022
heard by me on July 25 2013
 Examiner
Oil Conservation Division

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.

19

20

21

22

23

24

25

Mary C. Hankins
MARY C. HANKINS, CCR, RPR
Paul Baca Court Reporters, Inc.
New Mexico CCR No. 20
Date of CCR Expiration: 12/31/2013