

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

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

ORIGINAL

APPLICATION OF LEGEND NATURAL
GAS III, LP FOR A NONSTANDARD
OIL SPACING AND PRORATION UNIT
AND COMPULSORY POOLING, EDDY
COUNTY, NEW MEXICO.

CASE NO. 15228

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

October 30, 2014

Santa Fe, New Mexico

BEFORE: PHILLIP GOETZE, CHIEF EXAMINER
KEITH HERMANN, LEGAL EXAMINER
ALLISON MARKS, LEGAL EXAMINER

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This matter came on for hearing before the
New Mexico Oil Conservation Division, Phillip Goetze,
Chief Examiner, and Keith Hermann and Allison Marks,
Legal Examiners, on Thursday, October 30, 2014, at the
New Mexico Energy, Minerals and Natural Resources
Department, Wendell Chino Building, 1220 South St.
Francis Drive, Porter Hall, Room 102, Santa Fe, New
Mexico.

REPORTED BY: Mary C. Hankins, CCR, RPR
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APPEARANCES

FOR APPLICANT LEGEND NATURAL GAS III, LP:

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INDEX

PAGE

| | |
|---|----|
| Case Number 15228 Called | 3 |
| Legend Natural Gas III, LP's Case-in-Chief: | |
| Witnesses: | |
| John McCauley: | |
| Direct Examination by Mr. Bruce | 3 |
| Cross-Examination by Examiner Goetze | 9 |
| Jesus Gallegos: | |
| Direct Examination by Mr. Bruce | 10 |
| Proceedings Conclude | 15 |
| Certificate of Court Reporter | 16 |

EXHIBITS OFFERED AND ADMITTED

| | |
|--|----|
| Legend Natural Gas III, LP Exhibit Numbers 1 through 5 | 9 |
| Legend Natural Gas III, LP Exhibit Numbers 6 through 11 | 15 |

1 (9:11 a.m.)

2 EXAMINER GOETZE: Case 15228, application
3 of Legend Natural Gas, LP for a nonstandard oil spacing
4 and proration unit and compulsory pooling, Eddy County,
5 New Mexico.

6 Call for appearances.

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

10 EXAMINER GOETZE: And will the witnesses
11 please stand, identify yourself and be sworn in?

12 MR. GALLEGOS: Jesus Gallegos.

13 MR. McCAULEY: John McCauley,
14 M-C-C-A-U-L-E-Y.

15 (Mr. McCauley and Mr. Gallegos.)

16 EXAMINER GOETZE: Proceed.

17 JOHN McCAULEY,
18 after having been first duly sworn under oath, was
19 questioned and testified as follows:

20 DIRECT EXAMINATION

21 BY MR. BRUCE:

22 Q. Mr. McCauley, where do you reside?

23 A. Hockley, Texas.

24 Q. And who do you work for and in what capacity?

25 A. I work for Legend Natural Gas III, Limited

1 Partnership. I'm an in-house landman.

2 Q. Have you previously testified before the
3 Division?

4 A. No.

5 Q. Would you please outline your educational and
6 work experience for the Examiner?

7 A. Yes, sir.

8 I graduated from Sam Houston State
9 University in May of 2012 with a degree in agriculture
10 business. I started working for Legend shortly
11 thereafter, and I have roughly two-and-a-half years of
12 experience being an in-house landman, all of which was
13 gained through my employment with Legend working this
14 general area.

15 Q. So since you've worked this general area,
16 you're familiar with the land matters involved in this
17 case?

18 A. Yes. Yes.

19 Q. And lately Legend has been pretty busy drilling
20 that area, correct?

21 A. Yes, we have.

22 MR. BRUCE: Mr. Examiner, I tender
23 Mr. McCauley as an expert petroleum landman.

24 EXAMINER GOETZE: He is so qualified.

25 Q. (BY MR. BRUCE) Mr. McCauley, could you identify

1 Exhibit 1 and describe briefly what Legend seeks?

2 A. Yes.

3 Exhibit 1 is the C-102 plat for Legend's
4 Pardue 29 Fed Com #4H well. Legend seeks an order
5 pooling all mineral interests and working interests in
6 the Bone Spring Formation underlying the west half of
7 the west half of Section 29, Township 24 South, Range 28
8 East to form a nonstandard 160-acre oil spacing and
9 proration unit.

10 Q. What is the -- what are the footages of the
11 surface location and the bottom-hole location in the
12 well?

13 A. The Pardue 29 Fed Com #4H well will be drilled
14 from the surface-hole location 45 feet from the north
15 line, 1,277 feet from the west line to a bottom-hole
16 location of 330 feet from the south line and 380 feet
17 from the west line.

18 Q. And is the dotted line on the C-102 the actual
19 well path?

20 A. Yes, sir.

21 Q. And will the beginning of the productive
22 interval and the terminus be at orthodox locations?

23 A. Yes, sir. The producing interval of the
24 wellbore and well will be orthodox.

25 MR. BRUCE: Mr. Examiner, looking at

1 Exhibit 1, I saw another -- I saw another plat, and it
2 had the API number. The last five digits were 42422.
3 They're not set forth on this plat for some reason.

4 Q. (BY MR. BRUCE) And what well is the pool in?

5 A. This well is in the Willow Lake-Bone Spring
6 pool, which is based on statewide 40 acres and 330
7 setbacks. The pool code is 64450.

8 Q. And who do you seek to force pool?

9 A. EOG Resources, Inc.

10 Q. What is Exhibit 2?

11 A. Exhibit 2 is my proposal letter that was sent
12 to EOG Resources by certified mail.

13 Q. This was actually sent to a number of interest
14 owners, I believe, correct?

15 A. Yes, sir. That's correct.

16 Q. But EOG is the only one who hasn't agreed to
17 participate in the well?

18 A. That's correct.

19 Q. The letters dated March 13th, besides this
20 letter, have you had other contacts with EOG?

21 A. Yes, I have. I've had a few follow-up
22 telephone conversations with EOG just generally
23 discussing my proposal letter that I sent them in May.

24 Q. So they've just never really responded to you?

25 A. No, sir. They generally said that they were

1 not interested in participating in the well. And, you
2 know, we tried to discuss other means of getting the
3 well drilled by forming another agreement, but we could
4 not come to terms of the agreement that would allow
5 Legend to get this drilled.

6 Q. What is EOG's approximate working interest in
7 the well unit?

8 A. 50 percent.

9 Q. In your opinion, has Legend made a good-faith
10 effort to obtain the voluntary joinder in the well?

11 A. Yes.

12 Q. And what is Exhibit 3?

13 A. Exhibit 3 is the AFE for the well. It has
14 joint costs of a little over \$2 million, with a total
15 completed well cost of 4.764 million.

16 Q. And are these costs in line with the costs of
17 other wells, including Legend's wells drilled to this
18 depth in this area of the state?

19 A. Yes.

20 Q. Do you request that Legend be appointed
21 operator of the well?

22 A. Yes.

23 Q. And what are your requested overhead rates?

24 A. \$7,500 while drilling the well and \$750 --
25 \$7,500 per month for drilling the well and \$750 per

1 month for producing well.

2 Q. And are these amounts equivalent to those
3 charged by Legend and other operators for wells of this
4 type in this area of New Mexico?

5 A. Yes.

6 Q. Do you request that the rates be periodically
7 adjusted as provided by the COPAS accounting procedure?

8 A. Yes.

9 Q. And do you request the maximum cost plus 200
10 percent risk charge be assessed?

11 A. Yes.

12 Q. And was EOG notified of this hearing?

13 A. Yes, they were.

14 Q. And is that reflected in my Exhibit A?

15 A. In your -- yes. In Exhibit 4, yes, sir.

16 MR. BRUCE: I'm getting confused here.

17 EXAMINER GOETZE: They got you that time
18 (laughter).

19 Q. (BY MR. BRUCE) And what is Exhibit 5?

20 A. Exhibit 5 is a list of operating -- excuse
21 me -- offset operators, which is solely EOG Resources in
22 this case.

23 MR. BRUCE: And, Mr. Examiner, since EOG
24 received notice of the pooling hearing, I didn't send a
25 separate notice of the nonstandard unit to EOG as an

1 offset.

2 Q. (BY MR. BRUCE) Were Exhibits 1 through 5 either
3 prepared by you or under your supervision or compiled
4 from company 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.

10 MR. BRUCE: Mr. Examiner, I'd move the
11 admission of Exhibits 1 through 5.

12 EXAMINER GOETZE: Exhibits 1 through 5 are
13 so entered.

14 (Legend Natural Gas III, LP Exhibit Numbers
15 1 through 5 were offered and admitted into
16 evidence.)

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

19 CROSS-EXAMINATION

20 BY EXAMINER GOETZE:

21 Q. So based upon what you've presented here, the
22 only outstanding nonparticipating interest is EOG. You
23 have agreements with all the other individuals?

24 A. Yes. We have executed AFEs from all the other
25 parties, but we are currently in negotiations on the JOA

1 with OXY. All the other individuals, being the Barton
2 family there, they have all executed AFEs.

3 Q. How close are we [sic] to an agreement with
4 OXY?

5 A. Final stages, sir.

6 Q. Very good. I have no more questions.

7 EXAMINER GOETZE: Do you have any
8 questions?

9 MR. HERMANN: No.

10 EXAMINER GOETZE: No questions. That's all
11 for this witness.

12 MR. BRUCE: Call Mr. Gallegos to the stand.

13 JESUS GALLEGOS,

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

16 DIRECT EXAMINATION

17 BY MR. BRUCE:

18 Q. Mr. Gallegos, where do you reside?

19 A. I reside in Dallas, Texas.

20 Q. And who do you work for and in what capacity?

21 A. I work for Legend Natural Gas. I'm a
22 geologist.

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

25 A. No.

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

3 A. I have a degree in science and technology from
4 Mountain View College in Dallas, Texas. I received that
5 in 1996. I also hold a bachelor of science degree in
6 engineering and geoscience from the University of Texas
7 at Arlington. I received that in 2004.

8 My past experience has been -- the past
9 eight years I've worked as a geologist for several
10 privately held and publicly held oil and gas companies
11 as a geologist.

12 Q. And how long have you been employed by the
13 Legend?

14 A. I've been full time employed with Legend for
15 two years.

16 Q. Are you familiar -- does your area of
17 responsibility at Legend include this portion of
18 southeast New Mexico?

19 A. Yes, sir.

20 Q. And are you familiar with the geologic matters
21 involved in this case?

22 A. Yes, sir.

23 MR. BRUCE: Mr. Examiner, other than
24 defecting from engineering to geology, I would request
25 that he be recognized as an expert petroleum geologist.

1 EXAMINER GOETZE: Well, I agree. And
2 you're the engineer and I'm the geologist, so who knows
3 who did the smarter thing. So continue.

4 (Mr. Hermann exits the room.)

5 Q. (BY MR. BRUCE) Mr. Gallegos, could you identify
6 Exhibit 6 and describe its contents for the Examiner.

7 A. It's a basic structure map of the 2nd Bone
8 Spring sand interpreted by well control in this area.

9 Q. And it has line of cross section on there.
10 Could you move on to Exhibit 7 and identify that and
11 discuss it?

12 A. The line of cross section shows, in the next
13 exhibit, that would be a north-south cross section
14 showing the top of the interpreted 2nd Bone Spring sand
15 and also the interpreted 2nd Bone Spring sand.

16 Q. And that is the primary target?

17 A. That is our primary target, yes.

18 Q. From north to south, is the 2nd Bone Spring
19 sand continuous across Section 29?

20 A. By my interpretation, sir, yes, it is.

21 Q. And could you then move on to Exhibits 8 and 9
22 together, perhaps, so I don't interrupt you, and
23 describe what you have there?

24 A. Exhibits 8 and 9 are also showing the basic
25 structure of the top of the 2nd Bone Spring sand

1 followed by a cross section east and west, also by my
2 interpretation, showing the top of the 2nd Bone Spring
3 sand along with the base of the 2nd Bone Spring sand.

4 Q. It is from an east-west direction. Is the 2nd
5 Bone Spring sand continuous across this area?

6 A. By my interpretations, sir, yes, it is.

7 Q. And then let's move on to your Exhibit 10.
8 What is that?

9 A. That would be an isopach also of the top of the
10 2nd Bone Spring Sand showing the basic interpretation of
11 the thickness of the same sand in that section.

12 Q. In looking at this, it looks like, at least
13 across -- if I can locate Section 29, it's similar
14 thickness, say, 250 to 300 feet?

15 A. Yes, sir.

16 Q. And based on your cross sections and the
17 isopach, in your opinion, will each quarter-quarter
18 section in the well contribute more or less equally to
19 production?

20 A. Yes. It will contribute equally.

21 Q. And are there any faults in the area which
22 would preclude you from drilling a successful horizontal
23 well?

24 A. No, sir.

25 Q. In looking at your Exhibit 10, the horizontal

1 wells on there, are those all Bone Spring wells?

2 A. Yes, 2nd Bone Spring.

3 Q. And except for further to the southwest, it
4 appears that almost all the wells in the immediately
5 adjoining proposed well are stand-up well units?

6 A. Yes. That is correct.

7 Q. And Legend has drilled other stand-up wells in
8 this area, correct?

9 A. Yes. Correct.

10 Q. Have they been successful wells?

11 A. Yes, in my opinion.

12 Q. And finally, is Exhibit 11 simply the
13 directional plan for the well?

14 A. Yes. That is correct.

15 Q. And will the entire producing interval be at
16 orthodox locations?

17 A. Yes.

18 Q. Were Exhibits, first of all, 6 through 10
19 prepared by you or under your supervision?

20 A. Yes, sir. They were prepared by me.

21 Q. And was Exhibit 11 simply compiled from company
22 business records?

23 A. That is correct.

24 Q. In your opinion, is the granting of this
25 application in the interest of conservation and the

1 prevention of waste?

2 A. Yes.

3 MR. BRUCE: Mr. Examiner, I'd move the
4 admission of Exhibits 6 through 11.

5 EXAMINER GOETZE: Exhibits 6 through 11 are
6 so entered into the record.

7 (Legend Natural Gas III, LP Exhibit Numbers
8 6 through 11 were offered and admitted into
9 evidence.)

10 MR. BRUCE: And I have no further questions
11 for this witness.

12 EXAMINER GOETZE: Well, sir, your
13 presentation is very thorough. I don't have any
14 questions to add.

15 I do note that you do have a strong
16 north-south target, which is much favorable.

17 I have no further questions of you, sir.
18 Thank you.

19 THE WITNESS: Thank you.

20 EXAMINER GOETZE: Mr. Bruce?

21 MR. BRUCE: Nothing further, Mr. Examiner.

22 EXAMINER GOETZE: On that, Case 15228 is
23 taken under advisement.

24 (Case Number 15228 concludes, 9:25 a.m.)

25

I certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 15228 heard by me on Oct 30 2014

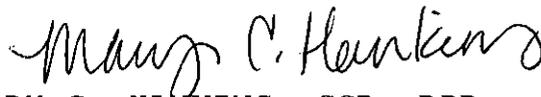
1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO

3
4 CERTIFICATE OF COURT REPORTER

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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
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