

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 JLA RESOURCES
COMPANY FOR A NONSTANDARD OIL
SPACING AND PRORATION UNIT,
UNORTHODOX OIL WELL LOCATION,
AND COMPULSORY POOLING, LEA
COUNTY, NEW MEXICO.

CASE NO. 15225

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

October 30, 2014

Santa Fe, New Mexico

BEFORE: PHILLIP GOETZE, CHIEF EXAMINER
KEITH HERMANN, 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, Legal Examiner, 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
New Mexico CCR #20
Paul Baca Professional Court Reporters
500 4th Street, Northwest, Suite 105
Albuquerque, New Mexico 87102
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1 APPEARANCES
2 FOR APPLICANT JLA RESOURCES COMPANY:
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1 (8:51 a.m.)

2 EXAMINER GOETZE: Case 15225, application
3 of JLA Resources Company for a nonstandard oil spacing
4 and proration unit, unorthodox oil well location and
5 compulsory pooling, Lea County, 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: Any other appearances?

11 Will the witnesses please stand, state your
12 name for the court reporter and be sworn in?

13 MR. SCOTT: George Scott.

14 MR. RICE: Rusty Rice.

15 (Mr. Scott and Mr. Rice sworn.)

16 EXAMINER GOETZE: Proceed, Mr. Bruce.

17 RUSTY RICE,

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. Rice, where do you reside?

23 A. Dallas, Texas.

24 Q. And what profession are you in?

25 A. I'm a petroleum landman.

1 Q. What is your relationship to JLA Resources
2 Company?

3 A. I've known JLA for 20-plus years. He's a
4 partner of mine in other properties.

5 Q. So you're working essentially as a contractor
6 for JLA?

7 A. Correct.

8 Q. Have you previously testified before the
9 Division?

10 A. I have not.

11 Q. Would you please summarize your educational and
12 employment background for the Examiner?

13 A. Graduated from the University of Oklahoma in
14 1982 in petroleum land management. I've worked in the
15 industry ever since.

16 Q. Mainly as an independent?

17 A. Actually probably 50/50. I worked for Marathon
18 Oil Company in search exploration and then as an
19 independent.

20 Q. And in your association with JLA, do you do
21 work for them in this area of New Mexico?

22 A. Yes.

23 Q. And are you familiar with the land matters
24 involved in this application?

25 A. I am.

1 MR. BRUCE: Mr. Examiner, I tender Mr. Rice
2 as an expert petroleum landman.

3 EXAMINER GOETZE: He is so qualified.

4 Q. (BY MR. BRUCE) Mr. Rice, would you identify
5 Exhibit 1 for the Examiner? Tell us about the land
6 involved.

7 A. Exhibit 1 is a Tobin land map that designates
8 the area we have under lease currently, and it's two
9 160-acre quarter sections.

10 Q. And let's see. The legal is Section 2 of 13
11 South, 37 East?

12 A. Correct.

13 Q. Now, on this plat, I've highlighted two
14 adjacent 40-acre tracts. Is that the well unit you seek
15 for this?

16 A. Yes, that is correct.

17 Q. What is name of the well that you intend to
18 drill?

19 A. The Kinsolving 2-1.

20 Q. And this is a Devonian test?

21 A. Correct.

22 MR. BRUCE: Mr. Examiner, it is in the
23 Southwest Gladiola-Devonian pool, and that is -- yeah,
24 the Southwest Gladiola-Devonian pool, which includes
25 acreage in adjoining southeast quarter of Section 35 to

1 the north, and is on statewide rules.

2 Q. (BY MR. BRUCE) Now, the spacing is 40 acres.
3 Just briefly, why does JLA seek a nonstandard 80-acre
4 unit?

5 A. We want to drill the well on the peak of the
6 structure, and it's going to be one well to drain the
7 entire feature.

8 Q. And as a result, in order to drill at the top
9 of the structure, is the well at an unorthodox location?

10 A. Correct.

11 Q. And I believe --

12 EXAMINER GOETZE: May I interrupt for a
13 moment?

14 MR. BRUCE: Yes, sir.

15 EXAMINER GOETZE: Does this not have an
16 existing special pool rule? The Southwest
17 Gladiola-Denton pool has Order Number R-1724.

18 MR. BRUCE: Well, I looked on the
19 Division's Web site and I didn't see that, Mr. Examiner.

20 EXAMINER GOETZE: Well, we do our best to
21 try to confuse the people, so I'm afraid we've been
22 successful today.

23 (Laughter.)

24 MR. BRUCE: It would still be unorthodox.
25 It will still be a nonstandard unit.

1 EXAMINER GOETZE: Yes, because it would
2 stipulate 80 acres, be it the south half, north half,
3 east half or west half, of a one-quarter governmental
4 unit, so you're stretching it across two sections. You
5 are still doing 80 acres.

6 THE WITNESS: Yes, sir.

7 EXAMINER GOETZE: That's fine.

8 MR. BRUCE: And for the record, the
9 location is 1,750 feet from the north line and 30 feet
10 from the east line, and we have a geologist to testify
11 about the location.

12 Q. (BY MR. BRUCE) And the location is definitely
13 based on geology?

14 A. Correct.

15 EXAMINER GOETZE: I would also interrupt
16 you at this point. It will be nonstandard because
17 Rule 3 of the special rules is 150 feet from the center,
18 one of those old wonderful locations.

19 MR. BRUCE: Makes it even more unorthodox.

20 EXAMINER GOETZE: Yes, it will. So we have
21 fallen in the right way with this application.

22 Continue, Mr. Bruce.

23 Q. (BY MR. BRUCE) Now, these are both fee tracts;
24 are they not?

25 A. Correct.

1 Q. And have you spent extensive time researching
2 title and leasing the interest owners in the --

3 A. Almost a year, since the first day we ran title
4 to today.

5 Q. And are there still -- I'd refer you to Exhibit
6 2. Are these the only people you have been unable to
7 lease at this point?

8 A. Correct.

9 Q. And what is their combined approximate
10 interest?

11 A. About 3.2 percent.

12 Q. And would that be in the Section 2 land or the
13 Section 1 land?

14 A. Section 2.

15 Q. Okay. So you leased up everybody in the
16 northwest quarter of Section 1?

17 A. That is correct. I correct myself. It's about
18 2 percent, 3.2 net acres.

19 Q. Oh, okay.

20 And did you attempt to lease these people?

21 A. I did.

22 Q. And did they ever respond to you?

23 A. I had some responses via certified mail. I had
24 some responses from other heirs of the parties, but
25 never got an actual response verbally from the parties

1 listed on the exhibit.

2 Q. And did you then follow up and more recently
3 send the interest owners a well-proposal letter?

4 A. I did.

5 Q. And is that reflected in Exhibit 3?

6 A. It is.

7 Q. And in your search, could you describe briefly
8 what you did to try to track down these people. I
9 presume there are a lot of out-of-state people?

10 A. There were a lot of them. A few of them were
11 located in California. I had landmen go in and research
12 the county records, both direct and reverse. We used
13 different Web sites, plus the white pages for the
14 addresses required.

15 Q. And one of the interest owners noted on Exhibit
16 2 is Anna Marguerite Bachman Chaffin. Is she an heir of
17 two other interest owners -- deceased interest owners?

18 A. We assume she is. We could not find probate
19 from a landman that I hired in Los Angeles, California
20 to look into the records there.

21 Q. And were the two decedents Anna M. Chaffin and
22 Joseph Bachman?

23 A. We assume.

24 Q. And they were deceased? The landman determined
25 that they had been deceased for decades?

1 A. Yes, sir.

2 Q. In your opinion, has JLA made a good-faith
3 effort, number one, to locate the interest owners and,
4 number two, to lease to them or get them to join in the
5 well?

6 A. Yes, sir.

7 Q. Could you identify Exhibit 4 for the Examiner?

8 A. The AFE for the estimated costs for drilling
9 and completing the well.

10 Q. What is the estimated completed well cost?

11 A. I apologize. I didn't bring that with me.
12 It's in my briefcase.

13 The dry-hole cost is about \$2 million. The
14 completed well cost total is 3.1.

15 Q. And are these costs in line with the costs of
16 other wells drilled to this depth in this area of
17 New Mexico?

18 A. Yes, sir.

19 Q. And who should be appointed an operator of the
20 well?

21 A. JLA is going to appoint Sojourner Drilling
22 Corporation as the operator.

23 MR. BRUCE: Mr. Examiner, that was a name I
24 wasn't familiar with, but they are a licensed operator
25 under the OCD's -- in the OCD's list of operators.

1 EXAMINER GOETZE: We really like surprises.
2 So Sojourner is who you're going to appoint
3 as operator of the unit?

4 THE WITNESS: Yes, sir.

5 MR. BRUCE: Yes.

6 EXAMINER GOETZE: Continue.

7 Q. (BY MR. BRUCE) Do you have a recommendation for
8 the amounts which the operator should be paid for
9 supervision and administrative expenses?

10 A. Yes, sir. 7,500 for supervision, 750 for
11 monthly overhead.

12 Q. And are these amounts fair and equivalent to
13 those charged by other operators in this area for wells
14 of this depth?

15 A. That's what I understand. Yes, sir.

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

18 A. Yes, I do.

19 Q. Do you request a maximum cost plus 200 percent
20 risk charge if any interest owner goes nonconsent in the
21 well?

22 A. Yes, sir.

23 Q. And were the parties being -- the locatable
24 parties being pooled notified of this application?

25 A. Yes.

1 Q. And is that reflected in the Affidavit of
2 Notice marked as Exhibit 5?

3 A. That is correct.

4 MR. BRUCE: Mr. Examiner, if you look at
5 the last page of Exhibit 5, you'll notice I have one
6 green card that wasn't returned. That was Sidney Roger
7 Davis, at a street address, but if you'll look at the
8 page in front of that, you'll see that he did receive
9 notice at his P.O. Box in Austin. So I don't think
10 there is any defect in the title -- or in the notice.

11 And, Mr. Examiner, Exhibit 6 is a copy of
12 the notice that I sent to the Lovington Newspaper twice
13 to be published, and I haven't gotten the Affidavit of
14 Publication back. I e-mailed them yesterday and never
15 heard back from them again. Because I don't have that,
16 I would request that at the conclusion of this case, the
17 case be continued to the November 20th hearing solely
18 for the purpose of obtaining proper notice as to the
19 deceased persons in the chain of title.

20 Q. (BY MR. BRUCE) Mr. Rice, were Exhibits 1
21 through 6 prepared by you or under your supervision or
22 compiled from company business records?

23 A. 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 1 through 6.

5 EXAMINER GOETZE: Exhibits 1 through 6 are
6 so entered.

7 (JLA Resources Company Exhibit Number 1
8 through 6 were offered and admitted into
9 evidence.)

10 MR. BRUCE: I have nothing further of the
11 witness.

12 EXAMINER GOETZE: I have no questions.

13 Bring your next witness.

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

17 DIRECT EXAMINATION

18 BY MR. BRUCE:

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

20 A. Cedar Crest, New Mexico.

21 Q. And what is your profession?

22 A. Petroleum geologist.

23 Q. What is your relationship to JLA in this case?

24 A. I'm working for them in a consulting capacity.

25 Q. Have you previously testified before the

1 Division as a geologist?

2 A. Yes, sir.

3 Q. And were your credentials as a petroleum
4 geologist accepted and made a matter of record?

5 A. Yes, sir.

6 Q. Are you familiar with the geology in this
7 prospect?

8 A. Yes, sir.

9 MR. BRUCE: Mr. Examiner, I tender
10 Mr. Scott as an expert petroleum geologist.

11 EXAMINER GOETZE: He is so qualified.

12 Q. (BY MR. BRUCE) Mr. Scott, could you identify
13 what Exhibit 7 is for the Examiner and tell him what JLA
14 is trying to do in this case?

15 A. Yes, sir.

16 Exhibit 7 is a structure map on top of the
17 Devonian, and it's principally put together from well
18 control, with the exception of the prospect area where
19 they used 2D seismic line to map a structural closure of
20 approximately 100 feet with respect to the dry hole that
21 is located and numbered on the map as number nine.

22 Number ten shows the well location, which
23 is right on the lease line, and that is at the best
24 structural position based on the interpretation of the
25 seismic data.

1 Q. And when drilling Devonian wells, it's
2 essential to drill at the highest structural position?

3 A. Absolutely.

4 Q. And if you don't, chances are you might get a
5 water well rather than an oil well?

6 A. Yes. Exactly.

7 Q. If you could move on to your cross section and
8 discuss that.

9 A. Yes, sir.

10 Okay. The cross section is composed of
11 wells going from the north to the south direction, and
12 it cuts through the Gladiola Field. As you move from
13 the wells and moving particularly from wells Number, oh,
14 5, 6 and then going through 7, 8, 9, from Number 6 to 7,
15 8 and 9, you're climbing down structurally. The Well
16 Number 11 is in a low -- in a structural low, and the
17 proposed well, which is well Number 10, is drilled on an
18 anticipated high, based on the interpretation of the
19 structural data. And that should provide enough
20 structural closure to give about 100 feet of the
21 reservoir pay.

22 Q. In looking at the request for the 80-acre unit,
23 the nonstandard unit, will both quarter-quarter sections
24 contribute to production?

25 A. Yes.

1 Q. And from a geologic standpoint, looking at the
2 well location, would you, as a geologist, recommend the
3 operator drilling two wells on this 80 acres?

4 A. I would drill one well because of the fact that
5 these are water drive reservoirs. You get relatively
6 high efficiency recovery. One well should drain the
7 perspective acreage.

8 Q. And, therefore, with the unorthodox location
9 and the nonstandard unit, you'll be preventing waste by
10 minimizing well costs?

11 A. Yes.

12 Q. Not to mention drilling at the most
13 structurally advantageous position?

14 A. That's correct.

15 Q. That would be your best chance for drilling an
16 economic well?

17 A. Yes.

18 Q. As for the preparation of the exhibits, did you
19 work in association with another geologist?

20 A. Yes. Jerry -- Jerry Stokes was the geologist
21 that compiled this data.

22 Q. Have you reviewed that data?

23 A. Yes, extensively.

24 Q. And do you agree with the interpretation as set
25 forth in these exhibits?

1 A. Yes. I concur with the information as it's
2 been presented.

3 Q. In your opinion, will the granting of this
4 application be in the interest of conservation and the
5 prevention of waste?

6 A. Yes.

7 MR. BRUCE: Mr. Examiner, I'd move the
8 admission of Exhibits 7 and 8.

9 EXAMINER GOETZE: Exhibits 7 and 8 are so
10 entered.

11 (JLA Resources Company Exhibit Numbers 7
12 and 8 were offered and admitted into
13 evidence.)

14 MR. BRUCE: I have no further questions of
15 the witness.

16 CROSS-EXAMINATION

17 BY EXAMINER GOETZE:

18 Q. One clarification here. We do have a series of
19 faulting to the west. In your proposed spacing unit,
20 the 80 acres, you do not anticipate any faulting?

21 A. No, sir. We have no evidence of faulting.
22 You've got some major north-south faults along the west
23 side of these field areas, but where we are located --
24 with this well location, we're up on a structural
25 platform, and we don't anticipate any faulting or

1 certainly not any significant faulting.

2 Q. And you pulled this off the 2D seismic line all
3 the way off to the anticipated location?

4 A. Yes, sir.

5 Q. Okay.

6 EXAMINER GOETZE: I have no further
7 questions for this witness.

8 MR. BRUCE: Mr. Examiner, the only thing I
9 have is an order from a similar case I did last year, a
10 Devonian nonstandard location, and I would submit that.

11 EXAMINER GOETZE: We'll go ahead and make
12 note that as an example Case Number 15008, Order Number
13 R-13736 provides a similar template regarding this type
14 of activity.

15 MR. BRUCE: That is all I have,
16 Mr. Examiner.

17 EXAMINER GOETZE: Very good. Considering
18 we still have an affidavit outstanding, we will go with
19 the extension and continuance of Case 15225 until
20 November 20th.

21 (Case Number 15225 concludes, 9:10 a.m.)

22

23

24

25

I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 15225
heard by me on October 20, 2014.

[Signature], Examiner
Oil Conservation Division

1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO

3

4 CERTIFICATE OF COURT REPORTER

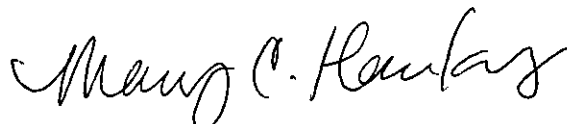
5 I, MARY C. HANKINS, New Mexico Certified
6 Court Reporter No. 20, and Registered Professional
7 Reporter, do hereby certify that I reported the
8 foregoing proceedings in stenographic shorthand and that
9 the foregoing pages are a true and correct transcript of
10 those proceedings that were reduced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

MARY C. HANKINS, CCR, RPR
Paul Baca Court Reporters, Inc.
New Mexico CCR No. 20
Date of CCR Expiration: 12/31/2014

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