

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:

CC 17

APPLICATION OF ROCKCLIFF OPERATING CASE NO. 15558  
NEW MEXICO, LLC FOR A NONSTANDARD  
OIL SPACING AND PRORATION UNIT AND  
COMPULSORY POOLING, ROOSEVELT COUNTY,  
NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

October 27, 2016

Santa Fe, New Mexico

BEFORE: WILLIAM V. JONES, CHIEF EXAMINER  
DAVID K. BROOKS, LEGAL EXAMINER

This matter came on for hearing before the  
New Mexico Oil Conservation Division, William V. Jones,  
Chief Examiner, and David K. Brooks, Legal Examiner, on  
Thursday, October 27, 2016, 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 ROCKCLIFF OPERATING NEW MEXICO, LLC:

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and

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1 (8:47 a.m.)

2 EXAMINER JONES: If anyone has a preference  
3 on a way to go through this docket, let me know.  
4 Otherwise, we're just going to keep going here.

5 So we'll call Case Number 15558,  
6 application of Rockcliff Operating New Mexico, LLC for a  
7 nonstandard oil spacing and proration unit and  
8 compulsory pooling in Roosevelt County, New Mexico.

9 Call for appearances.

10 MR. LARSON: Good morning, Mr. Examiner.  
11 Gary Larson and Jared Hembree of Hinkle Shanor Firm for  
12 the Applicant, Rockcliff Operating New Mexico, LLC.

13 EXAMINER JONES: Any other appearances?

14 MR. LARSON: I have two witnesses.

15 EXAMINER JONES: Will the witnesses please  
16 stand?

17 And will the court reporter please swear  
18 the witnesses?

19 (Mr. Holt and Ms. Wallace sworn.)

20 MARK S. HOLT,  
21 after having been first duly sworn under oath, was  
22 questioned and testified as follows:

23 DIRECT EXAMINATION

24 BY MR. LARSON:

25 Q. Good morning, Mr. Holt.

1 A. Good morning.

2 Q. Would you please state your full name for the  
3 record?

4 A. Mark S. Holt, H-O-L-T.

5 Q. And where do you reside?

6 A. In Houston, Texas.

7 Q. And by whom are you employed and in what  
8 capacity?

9 A. Rockcliff Operating New Mexico, LLC as a land  
10 advisor.

11 Q. And what's the focus of your responsibilities  
12 as a land advisor at Rockcliff?

13 A. I manage the land responsibilities for our  
14 New Mexico San Andres project.

15 Q. And are you familiar with the land matters that  
16 pertain to Rockcliff's application?

17 A. Yes, sir.

18 Q. Have you previously testified in a Division  
19 hearing?

20 A. Yes, sir.

21 Q. Have you testified before another agency that  
22 regulates the oil and gas industry?

23 A. Yes, sir. I've been in front of the Texas  
24 Railroad Commission before.

25 Q. Would you briefly summarize your educational

1 background and professional experience in the oil and  
2 gas industry?

3 A. I graduated from the University of Oklahoma  
4 with a petroleum land management degree back in 1978 and  
5 have been employed as a petroleum landman for the last  
6 37 years.

7 MR. LARSON: Mr. Examiner, I move that  
8 Mr. Holt be qualified as an expert in petroleum land  
9 matters.

10 EXAMINER JONES: Mr. Holt is qualified as  
11 an expert in petroleum land matters.

12 Q. (BY MR. LARSON) Would you identify the document  
13 marked as Rockcliff Exhibit Number 1?

14 A. Yes. It's the Form C-102 for the Rockcliff  
15 Annapurna 20 1H.

16 Q. And is Exhibit 1 a true and correct copy of  
17 Rockcliff's C-102?

18 A. Yes, sir.

19 Q. Does the C-102 identify the API number?

20 A. Yes, sir.

21 Q. And does it also identify the pool code?

22 A. Yes, sir.

23 Q. What formation is Rockcliff seeking to pool?

24 A. San Andres.

25 Q. Are there any depth exceptions in the San

1     Andres?

2           A.    No, sir.

3           Q.    Would you next identify the document marked as  
4   Exhibit 2?

5           A.    Yes, sir.  It's a map identifying the project  
6   area with the offset -- 40-acre offsets and a list of  
7   all the interest owners, along with the offset owners.

8           Q.    And did you prepare this exhibit?

9           A.    Yes, sir.

10          Q.    Would you next identify the document marked as  
11   Exhibit Number 3?

12          A.    It is the letter that was sent out to the  
13   interest owners, along with the AFE, the sample letter  
14   of the proposed letter that was sent out.

15          Q.    Did the well proposals go out to the last known  
16   addresses of those interest owners?

17          A.    Yes, sir.

18          Q.    Did you prepare and sign this letter?

19          A.    Yes, sir.

20          Q.    Have you subsequently communicated with any of  
21   the interest owners regarding the well proposal?

22          A.    Yes, sir.

23          Q.    And what's the substance of those  
24   communications?

25          A.    Three of the owners -- interest owners are

1     unleased, and we've been negotiating -- continue to  
2     negotiating an oil and gas lease with them, so we've  
3     been in contact with them over that.

4           Q.     Would you identify the document marked as  
5     Exhibit Number 4?

6           A.     It's a sample letter that was sent out to the  
7     interest owners, a notice letter sent by your firm,  
8     Hinkle.

9           Q.     And that was a notice of today's hearing?

10          A.     Yes, a hearing notice of today's hearing.

11          Q.     And were these letters sent at your direction?

12          A.     Yes, sir.

13          Q.     And were these hearing notice letters also sent  
14     to the mineral interest owners at their last known  
15     address?

16          A.     Yes, sir.

17          Q.     Would you next identify the exhibit marked as  
18     Number 5?

19          A.     Yes, sir. It's the sample notice letter that  
20     was sent to the offset interest owners, along with the  
21     green cards.

22          Q.     And were these notice letters also sent at your  
23     direction?

24          A.     Yes, sir.

25          Q.     And did Rockcliff have good addresses for all



1 of the offset operators and interest owners?

2 A. I believe so, yes, sir.

3 Q. But green cards have not been received on all  
4 of them; is that correct?

5 A. No. Correct.

6 Q. Given that, did Rockcliff publish notice of  
7 today's hearing?

8 A. Yes, sir. We published an affidavit of legal  
9 publication in the Portales News-Tribune.

10 Q. And what was the date of the publication?

11 A. October 4th.

12 Q. Could you identify the document marked as  
13 Exhibit 6? You just turned it over.

14 A. Okay. The notice? I'm sorry. Yeah.

15 Q. Is it the copy of the Affidavit of Publication  
16 in the Portales newspaper?

17 A. Yes, sir. Yes, sir. I'm sorry.

18 Q. And is this a true and correct copy of that  
19 affidavit?

20 A. Yes, sir.

21 Q. Would you next identify the document marked as  
22 Exhibit 7?

23 A. Yes, sir. This is the AFE prepared by  
24 Rockcliff for the Annapurna 20 1H well.

25 Q. And is Exhibit 7 a true and correct copy of the

1 AFE?

2 A. Yes, sir.

3 Q. And what are the estimated well costs for the  
4 Annapurna well?

5 A. The total costs are \$2,921,211, which comprises  
6 of drilling, completion and facilities.

7 Q. And are those well costs similar to costs  
8 incurred for other San Andres wells?

9 A. Yes, sir.

10 Q. Do you have a recommendation for the amounts  
11 Rockcliff should be paid for supervision and  
12 administrative expenses?

13 A. Yes, sir. We have partners in this prospect,  
14 and under the JOA -- and in that JOA, it's 8,000 for  
15 drilling and 800 for producing rates.

16 Q. So those are agreed-upon numbers?

17 A. Yes, sir.

18 Q. And are those amounts consistent with and  
19 similar to those charged to other San Andres wells?

20 A. Yes, sir.

21 Q. Do you also recommend that the rates for  
22 supervision and administrative expenses be adjusted  
23 periodically pursuant to the COPAS accounting  
24 procedures?

25 A. Yes, sir. We have a COPAS attached.

1 Q. And is Rockcliff also requesting a 200 percent  
2 charge for the risk of drilling and completing this  
3 well?

4 A. Yes, sir.

5 Q. And in your opinion, will the granting of  
6 Rockcliff's application serve the interest of  
7 conservation and the prevention of waste?

8 A. Yes.

9 MR. LARSON: Mr. Examiner, I move the  
10 admission of Exhibits 1 through 7.

11 EXAMINER JONES: Exhibits 1 through 7 are  
12 admitted.

13 (Rockcliff Operating New Mexico, LLC  
14 Exhibit Numbers 1 through 7 are offered and  
15 admitted into evidence.)

16 MR. LARSON: I pass the witness.

17 CROSS-EXAMINATION

18 BY EXAMINER BROOKS:

19 Q. You said you had three unleased mineral owners?

20 A. Well, actually, we have a total of six.  
21 Three -- the Welshes listed on there, we cannot find  
22 them. They're unlocatable. And the three Detamores  
23 that are listed are ones we are currently continuing  
24 negotiations with. They've got a -- we had hoped to  
25 have the leases executed before today, but they're in

1 hand, and they have agreed. We just haven't gotten them  
2 back yet.

3 Q. So they're going to be coming out of the  
4 pooling when you have the leases?

5 A. Right. Yes, sir. That's right.

6 Q. So in effect, you're only -- you're here only  
7 to consolidate the unlocatable parties?

8 A. Yes, sir.

9 Like I say, we have submitted leases to the  
10 three Detamores that are shown on there. Our  
11 understanding is they are going to execute the lease,  
12 but they haven't as of today.

13 Q. Okay. Thank you.

14 CROSS-EXAMINATION

15 BY EXAMINER JONES:

16 Q. It's all fee?

17 A. Yes, sir. Yes, sir.

18 Q. How many tracts did you break it down into?

19 A. It's just one tract. Actually, the tract is  
20 the whole east half of Section 20 and, of course, the  
21 unit is east half-east half.

22 Q. What's the nearest -- what's the layman's  
23 location for this? 8 South --

24 A. 34 East. And we're probably eight miles west  
25 of Milnesand, New Mexico. We're between the Milnesand

1 Unit and the Chavaroo Unit. I don't know if you're  
2 familiar with those two fields, but they're in Roosevelt  
3 County.

4 Q. So you're in prairie chicken area?

5 A. We are not. This specific location is not, but  
6 there is -- the whole project area, some of it is in  
7 prairie chicken. Yes, sir.

8 Q. Ranch land?

9 A. Yes, sir. Yes.

10 Q. Do you plan on drilling more wells? Is this  
11 the first well that you've drilled down there?

12 A. We are planning to drill initially four wells  
13 in this project, and we've got a larger project area, of  
14 course. And we're planning on drilling the four wells,  
15 and if they are successful, we do plan to start a  
16 development plan after that point. Yeah.

17 Q. Okay. So you're tying up acreage all around?

18 A. Yes, sir. We've got about 40,000 acres tied  
19 up.

20 Q. Okay. Sounds good.

21 Thank you very much.

22 A. Thank you.

23 MR. LARSON: One follow-up question.

24

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REDIRECT EXAMINATION

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BY MR. LARSON:

Q. Does Rockcliff have a pending application for approval of a state exploratory unit --

A. Yes, sir.

Q. -- in this area?

A. Yes, sir.

RECROSS EXAMINATION

BY EXAMINER JONES:

Q. Will this well be the primary unit?

A. One of the four wells will be in that exploratory unit. Yes, sir.

Q. Hopefully, it will be one of the obligation wells?

A. Yes, sir. It will be the -- the obligation well. Yes, sir.

Q. Okay. Thanks.

MR. LARSON: That's all I have. Thank you.

ANA MARIA WALLACE,

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

DIRECT EXAMINATION

BY MR. LARSON:

Q. Good morning, Ms. Wallace.

A. Good morning.

1 Q. Would you please state your full name for the  
2 record?

3 A. Ana Maria Wallace.

4 Q. And where do you reside?

5 A. Houston, Texas.

6 Q. And by whom are you employed and in what  
7 capacity?

8 A. Rockcliff Operating New Mexico, LLC as a  
9 geologic advisor.

10 Q. And what is the focus of your responsibilities  
11 as the geologic advisor?

12 A. I'm responsible for the geologic evaluation of  
13 the San Andres in the Northwest Shelf in that part of  
14 New Mexico.

15 Q. And are you familiar with the geologic aspects  
16 of the proposed well in the matters addressed in the  
17 application?

18 A. Yes.

19 Q. Have you previously testified in a Division  
20 hearing?

21 A. No.

22 Q. Have you testified before an agency that  
23 regulates the oil and gas industry?

24 A. Yes, the Texas Railroad Commission.

25 Q. Would you briefly summarize your educational

1 background and professional experience in the oil and  
2 gas industry?

3 A. A bachelor of science in geology from  
4 Texas A & M University in 1983 and a master's of science  
5 in the geosciences from the University of Tulsa in 1986.

6 Q. And have you worked in the industry continually  
7 since then?

8 A. Yes, for about 30 years in the oil and gas  
9 industry as a petroleum geologist.

10 MR. LARSON: Mr. Examiner, I move for  
11 Ms. Wallace's qualifications as an expert petroleum  
12 geologist.

13 EXAMINER JONES: She is so qualified.

14 They call you an advisor instead of just an  
15 expert geologist, or the managers want to make sure  
16 they're in charge? Is that it (laughter)?

17 THE WITNESS: Yes, I think so (laughter).

18 EXAMINER JONES: Well, it's nice to know  
19 where you stand.

20 Q. (BY MR. LARSON) Ms. Wallace, would you identify  
21 the document marked as Rockcliff Exhibit Number 8?

22 A. It's the wellbore diagram showing the  
23 completion interval of the Annapurna 20 1H well.

24 Q. Did you prepare this exhibit?

25 A. Yes, I did.



1 Q. And will the completed interval of the well  
2 comply with the Division setback requirements?

3 A. Yes, it will.

4 Q. And were you involved in Rockcliff's evaluation  
5 of the prospect on the well?

6 A. Yes.

7 Q. And in your opinion, will the well be  
8 productive?

9 A. Yes.

10 Q. And does Rockcliff have any experience with San  
11 Andres wells in the area?

12 A. This will be our first well.

13 Q. Would you next identify the document marked as  
14 Exhibit 9?

15 A. It's a structure map on top of the pie marker  
16 in the area surrounding the Annapurna well.

17 Q. Did you also prepare this document?

18 A. Yes, I did.

19 Q. And what role did the structure map have in  
20 your geologic analysis of the prospects for the well?

21 A. It shows that the tracking mechanism for the  
22 play is stratigraphic in nature and not structural.

23 Q. And what other wells in the area did you look  
24 at?

25 A. I looked at most of the wells in the area

1 around Milnesand, Chavaroo and in between.

2 Q. And the wells in the Milnesand Unit and the  
3 Chavaroo -- is that how you call it?

4 A. Yes.

5 Q. -- Chavaroo Field, those are all San Andres  
6 vertical wells?

7 A. Yes, they are.

8 Q. And would you identify the final exhibit, which  
9 is Number 10?

10 A. It's an east-west structural cross section  
11 showing the stratigraphy of the San Andres interval and  
12 the pay zone in the Lower San Andres interval.

13 Q. And did you prepare this document?

14 A. Yes, I did.

15 Q. And what is your cross section intended to  
16 depict?

17 A. It shows that the pay zone is relatively  
18 uniform across the area of the Annapurna well.

19 Q. And to your knowledge, are there any geologic  
20 impediments in the target area?

21 A. No.

22 Q. And in your opinion, will the proposed well be  
23 productive along the entire length of the lateral?

24 A. Yes.

25 Q. In your opinion, will the production be

1 substantially similar in each of the 40-acre units in  
2 the project area?

3 A. Yes.

4 Q. And in your opinion, will the granting of the  
5 application serve the interest of conservation and the  
6 prevention of waste?

7 A. Yes.

8 MR. LARSON: Mr. Examiner, I move the  
9 admission of Exhibits 8 through 10.

10 EXAMINER JONES: Exhibits 8 through 10 are  
11 admitted.

12 (Rockcliff Operating NM, LLC Exhibit  
13 Numbers 8, 9 and 10 are offered and  
14 admitted into evidence.)

15 MR. LARSON: I'd pass the witness.

16 CROSS-EXAMINATION

17 BY EXAMINER BROOKS:

18 Q. This is the San Andres?

19 A. Yes.

20 Q. I haven't heard anything about Roosevelt County  
21 in a long time. I know there's a lot going on out  
22 there. Could you just give us some kind of idea --  
23 we've got a new prospect in the San Andres and a highly  
24 developed area? I'm just curious, really.

25 A. Well, they're drilling horizontal wells in

1 Yoakum County just across the state line, and this play  
2 continues all the way up through Lea County, up into  
3 Roosevelt County. And there are areas of the San Andres  
4 that are very porous and permeable. They occur in pods  
5 like you see in the Milnesand Field and the Chavaroo  
6 Field. But in between those fields, the area is tight,  
7 and the vertical wells are not commercial. So a  
8 horizontal well should have enough thickness to be  
9 commercial.

10 Q. Are they a different kind of rock from other  
11 parts of the San Andres?

12 A. It's a little tighter in between these major  
13 fields. Yes.

14 Q. Yes. Okay.

15 I guess that's all.

16 CROSS-EXAMINATION

17 BY EXAMINER JONES:

18 Q. I do have just curiosity, also. Your target IS  
19 the Lower San Andres?

20 A. Yes.

21 Q. On your Exhibit 8 -- no. Sorry. Exhibit 10,  
22 the pay zone, you didn't color in the lithology. Is  
23 that -- is that -- what is the lithology?

24 A. There is no reason I didn't color it. The pink  
25 is anhydrite, and the blue is limestone, and the pay

1 zone is dolomite. I just didn't color it.

2 Q. Okay. Pay zone, okay, is a dolomite.

3 A. Yes.

4 Q. So it's been dolomitized years ago?

5 A. Yes. Yes.

6 Q. And then you go back into anhydrite before you  
7 get to the Glorieta?

8 A. Yes.

9 Q. What's wrong with the Glorieta? Is it -- does  
10 it have a -- what's the problem with it?

11 A. It's thin and kind of Morrowly [phonetic],  
12 shaley.

13 Q. Okay. Hasn't been a focus?

14 A. Not in this area, no.

15 Q. But being lower in the -- so basically you're  
16 at the -- even though you're lower in the San Andres,  
17 you're in the upper part of the dolomite; is that  
18 correct?

19 A. Yes.

20 Q. So you're trying to stay away from water as  
21 much as possible?

22 A. Yeah. Sometimes the whole section will be  
23 productive, and sometimes there will be a little water  
24 zone at the bottom, at the base of the pay zone.

25 Q. Okay. So is that your major risk play --

1 A. Yes. Yes.

2 Q. -- is the water?

3 A. We expect to produce a lot of water. We're  
4 aware of that.

5 Q. What oil cut do you expect?

6 A. We hope to -- well, about 80 percent water cut.

7 Q. Okay. So where are you going to put the water?

8 A. Into the Devonian. We're drilling a saltwater  
9 disposal well right next to the Annapurna.

10 Q. You're drilling it?

11 A. We're drilling it, yes.

12 Q. So basically the difference between this and  
13 the Chavaroo is just -- it's not -- it's higher in water  
14 saturation, but it's also lower in porosity?

15 A. It's lower in porosity and permeability.

16 Q. And permeability?

17 A. Uh-huh.

18 Q. Is there -- along with this lower permeability,  
19 are there fractures?

20 A. Yes. We have indications of fractures.

21 Q. In what direction do those fractures go?

22 A. They run slightly north -- or east-west a  
23 little bit north of that. So we're drilling our wells  
24 north-south.

25 Q. Okay. And who was -- who was Brandon Detamore?

1 Oh, he's a partner; is that correct?

2 MR. HOLT: He's a mineral owner.

3 Q. (BY EXAMINER JONES) The preparation of the AFE,  
4 was that done in-house, or was that --

5 A. Yes, by our drilling engineers.

6 Q. Okay. And have you drilled wells in Yoakum  
7 County --

8 A. No.

9 Q. -- or other San Andres wells?

10 A. No.

11 Q. So is this your first well in New Mexico?

12 A. Yes.

13 Q. You've already got all the bonds and --

14 A. Yes.

15 Q. -- met with Daniel --

16 A. Yes.

17 Q. -- and everything's all clear?

18 Okay. Thanks very much.

19 MR. LARSON: That's all I have,  
20 Mr. Examiner. Ask that the case be taken under  
21 advisement.

22 EXAMINER JONES: Okay. We'll take Case  
23 15558 under advisement.

24 (Case Number 15558 concludes, 9:08 a.m.)

25 EXAMINER JONES: We'll take a ten-minute

1 break.

2 (Recess 9:08 a.m. to 9:25 a.m.)

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1 STATE OF NEW MEXICO  
2 COUNTY OF BERNALILLO  
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4 CERTIFICATE OF COURT REPORTER

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

13 I FURTHER CERTIFY that the Reporter's  
14 Record of the proceedings truly and accurately reflects  
15 the exhibits, if any, offered by the respective parties.

16 I FURTHER CERTIFY that I am neither  
17 employed by nor related to any of the parties or  
18 attorneys in this case and that I have no interest in  
19 the final disposition of this case.

20 *Mary C. Hankins*  
21

22 MARY C. HANKINS, CCR, RPR  
23 Certified Court Reporter  
24 New Mexico CCR No. 20  
25 Date of CCR Expiration: 12/31/2016  
Paul Baca Professional Court Reporters