

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:)

CASE NO. 13,752

APPLICATION OF LCX ENERGY, LLC,)
 FOR APPROVAL OF A UNIT AGREEMENT,)
 EDDY COUNTY, NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: RICHARD EZEANYIM, Hearing Examiner

July 20th, 2006

Santa Fe, New Mexico

2006 JUL 25 AM 11 23

This matter came on for hearing before the New Mexico Oil Conservation Division, RICHARD EZEANYIM, Hearing Examiner, on Thursday, July 20th, 2006, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

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A P P E A R A N C E S

FOR THE DIVISION:

CHERYL O'CONNOR
Assistant Counsel, NMOCD
Energy, Minerals and Natural Resources Department
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

FOR THE APPLICANT:

MILLER, STRATVERT P.A.
150 Washington
Suite 300
Santa Fe, New Mexico 87501
By: J. SCOTT HALL

* * *

1 WHEREUPON, the following proceedings were had at
2 10:28 a.m.:

3 EXAMINER EZEANYIM: Okay, at this point I call
4 Case Number 13,752. This is the Application of LCX Energy,
5 LLC, for approval of a unit agreement, Eddy County, New
6 Mexico.

7 Call for appearances.

8 MR. HALL: Mr. Examiner, Scott Hall, Miller
9 Stratvert, PA, firm, Santa Fe, on behalf of the Applicant,
10 LCX Energy, LLC. We'll be presenting this case today for
11 unit approval by way of affidavit. I have no witnesses.

12 EXAMINER EZEANYIM: Any other appearances?

13 Okay, you may proceed.

14 MR. HALL: Mr. Examiner, LCX Energy, LLC, is
15 seeking Division approval of the unit and unit agreement
16 for its proposed Collins Ranch State Exploratory Unit,
17 covering the following sections in Township 17 South, Range
18 24 East. They include the southeast quarter of Section 30,
19 the east half of Section 31, and all of Section 32.

20 I've provided you with what we've marked as
21 Exhibit 1. It is the affidavit of Dave Kvasnicka, who is
22 the geologist with LCX in charge of this project. And if
23 you would go through that affidavit, he explains the
24 purpose of the unit is to explore for the Wolfcamp
25 formation which they propose to access through horizontal

1 drills throughout the unit. I believe they will be
2 completed in four-stage fracture completions throughout the
3 unit.

4 Attached to Exhibit 1 is Attachment A, which is a
5 copy of the unit agreement, and it is signed by 100 percent
6 of the working interest owners in the unit. It is on the
7 State of New Mexico approved form.

8 Attachment B to the affidavit is a land plat
9 showing the boundaries of the unit area. It also shows the
10 location of the initial unit well, the Collins Ranch State
11 Unit Number 1, on there.

12 Attachment C to the affidavit is, in fact,
13 Schedule B from the unit agreement, which sets forth the
14 ownership, mineral working interest and overrides
15 throughout.

16 Attachment D to the affidavit is the preliminary
17 approval letter issued by the State Land Office on July
18 3rd, 2006.

19 Also included are Exhibits E and F. They are --
20 Exhibit E is the isopach map, and Exhibit F is the cross-
21 section, which are to accompany the geologic narrative
22 that's set forth in Mr. Kvasnicka's affidavit.

23 With that -- One more exhibit is our Exhibit 2.
24 Make sure I get that in the record. That is our notice
25 affidavit. We notified the State Land Office only, as 100

1 percent of the working interest owners have already
2 ratified and approved the unit agreement.

3 That concludes our presentation, Mr. Examiner.

4 We'd move the admission of Exhibits 1 and 2.

5 EXAMINER EZEANYIM: Exhibits 1 and 2 are admitted
6 into evidence.

7 You said everybody has agreed and signed up to
8 the unit, right?

9 MR. HALL: Yes, sir.

10 EXAMINER EZEANYIM: Then why you come in to have
11 a unit agreement, if everybody has signed for it?

12 MR. HALL: It is a requirement of the State Land
13 Office that we obtain OCD approval before they will issue
14 their final approval to the unit. But it's a good question
15 otherwise, I agree.

16 EXAMINER EZEANYIM: Yes. I mean, you know, I
17 asked myself that question. If 100 percent of the people
18 participating in the unit have signed for it, I don't see
19 the reason why that you come here, but you answered my
20 question. And I think I knew the answer before, but I
21 wanted to ask to see why -- maybe you will give me a
22 different answer. Maybe, I don't know, but --

23 MR. HALL: I will next time.

24 EXAMINER EZEANYIM: Okay, good.

25 I wanted to explore the -- Is this going to be a

1 directional well, do you know?

2 MR. HALL: They'll all be horizontal wells. Look
3 at that Attachment A. It shows the surface and bottomhole
4 locations for that first well.

5 EXAMINER EZEANYIM: What is Attachment A?

6 MR. HALL: It is the plat.

7 EXAMINER EZEANYIM: Attachment A, okay.

8 MR. HALL: I'm sorry, Attachment B.

9 EXAMINER EZEANYIM: Okay.

10 MR. HALL: The surface and bottomhole locations
11 are standard.

12 EXAMINER EZEANYIM: Are they all standard?

13 MR. HALL: Yes.

14 EXAMINER EZEANYIM: I don't see an Attachment B.
15 Okay, here it is, yeah.

16 MR. HALL: I would point out that one of the
17 requirements from the Land Office was, because 160 acres in
18 Section 30 were included on the north flank of the unit,
19 they ask that LCX, the unit operator, commit to drilling a
20 second well that would include that 160 acres in a unit, so
21 there will probably be a standup unit formed in the east
22 half of Section 30. And they have agreed to do that.

23 EXAMINER EZEANYIM: I'm asking for this location,
24 surface location and bottomhole location because of your
25 Application. Let me see if I can get it here. I know you

1 are going to the Wolfcamp, right?

2 MR. HALL: Yes, that actual location is reflected
3 on the affidavit, paragraph 3.

4 EXAMINER EZEANYIM: Oh, okay, yeah, so -- Okay.
5 That answers that question, okay.

6 But I believe this unit is being formed because
7 of economic reasons. You know, is that why --

8 MR. HALL: Primarily, yes. It's exploratory.
9 There is some risk involved, so it is considered an
10 exploratory unit.

11 EXAMINER EZEANYIM: Okay.

12 Any more questions?

13 MS. O'CONNOR: I have nothing.

14 EXAMINER EZEANYIM: Nothing further.

15 MR. HALL: That completes our case, thank you.

16 EXAMINER EZEANYIM: Okay, at this point Case
17 Number 13,752 will be taken under advisement.

18 Thank you, Mr. Hall.

19 MR. HALL: Thanks

20 (Thereupon, these proceedings were concluded at
21 10:37 a.m.)

22 * * *

23 I do hereby certify that the foregoing is
24 a complete record of the proceedings in
the Examiner hearing of Case No. 13752
heard by me on 7/27/80.
25 [Signature], Examiner

Oil Conservation Division
STEVEN T. BRENNER, CCR
(505) 989-9317

CERTIFICATE OF REPORTER

STATE OF NEW MEXICO)
) ss.
COUNTY OF SANTA FE)

I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.

WITNESS MY HAND AND SEAL July 23rd, 2006.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2006