

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. 14,050

APPLICATION OF DAN A. HUGHES COMPANY,)
LP, FOR APPROVAL OF APPLICATION FOR)
PERMIT TO DRILL)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: RICHARD EZEANYIM, Hearing Examiner
DAVID K. BROOKS, Jr., Legal Examiner

December 13th, 2007

Santa Fe, New Mexico

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This matter came on for hearing before the New Mexico Oil Conservation Division, RICHARD EZEANYIM, Technical Examiner, DAVID K. BROOKS, Jr., Legal Examiner, on Thursday, December 13th, 2007, 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.

* * *

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

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December 13th, 2007
Examiner Hearing
CASE NO. 14,050

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A P P E A R A N C E S

FOR THE DIVISION:

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Energy, Minerals and Natural Resources Department
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Santa Fe, New Mexico 87505

FOR THE APPLICANT:

HOLLAND & HART, L.L.P., and CAMPBELL & CARR
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P.O. Box 2208
Santa Fe, New Mexico 87504-2208
By: WILLIAM F. CARR

* * *

1 WHEREUPON, the following proceedings were had at
2 8:20 a.m.:

3 EXAMINER EZEANYIM: Now, normally what we do is
4 to follow the order on the docket, but I presume that Tom
5 Kellahin is not in this morning, so I'm going to defer
6 those cases till later in the morning or afternoon,
7 depending. So I'm going to be calling these cases as I see
8 them, unless you have a circumstance where you want your
9 case to be heard initially.

10 So at this I will call Case Number 14,050, and
11 this is the Application of Dan A. Hughes Company, LP, for
12 approval of application for permit to drill.

13 Call for appearances.

14 MR. CARR: May it please the Examiner, my name is
15 William F. Carr with the Santa Fe office of Holland and
16 Hart, L.L.P. We represent Dan A. Hughes in this matter,
17 and I have one witness.

18 EXAMINER EZEANYIM: Any other appearances, or
19 objections?

20 EXAMINER BROOKS: Which case is this?

21 EXAMINER EZEANYIM: Case Number 14,050.

22 EXAMINER BROOKS: Thank you.

23 EXAMINER EZEANYIM: If there is no other
24 appearance, may the witness stand to be sworn, please?

25 (Thereupon, the witness was sworn.)

1 EXAMINER EZEANYIM: Mr. Carr?

2 (Off the record)

3 ROBERT HOLDER,

4 the witness herein, after having been first duly sworn upon
5 his oath, was examined and testified as follows:

6 DIRECT EXAMINATION

7 BY MR. CARR:

8 Q. Would you state your name for the record, please?

9 A. Robert Holder.

10 Q. Mr. Holder, you're going to have to speak up.

11 The microphone doesn't amplify your voice, so...

12 State your name please,

13 A. Robert Holder.

14 Q. Mr. Holder, where do you reside?

15 A. Beeville, Texas.

16 Q. And by whom are you employed?

17 A. Dan A. Hughes Company, LP.

18 Q. And what is your position with Dan A. Hughes
19 Company?

20 A. Petroleum landman.

21 Q. Have you previously testified before the New
22 Mexico Oil Conservation Division?

23 A. No, sir.

24 Q. Could you summarize for Mr. Ezeanyim your
25 educational background and work experience?

1 A. Okay. My formal education was in Clovis, New
2 Mexico, and I graduated from the University of Texas in San
3 Antonio, and I've been with Hughes for about three years.

4 Q. And have you been employed at all times as a
5 landman?

6 A. No, sir.

7 Q. And what have you been doing Dan A. Hughes?

8 A. Oh, for Hughes, yes, I have been a landman for
9 Hughes for the last three years.

10 Q. Are you familiar with the Application filed in
11 this case?

12 A. I am.

13 Q. Are you familiar with the APD that has been
14 filed?

15 A. Yes, sir.

16 Q. Are you prepared to answer the Division's
17 questions concerning this application for permit to drill?

18 A. Yes, sir.

19 MR. CARR: Mr. Ezeanyim, we tender Mr. Holder as
20 an expert in petroleum land matters.

21 EXAMINER EZEANYIM: Mr. Holder, do you happen to
22 have a registration, CPA? Are you a registered CPA?

23 THE WITNESS: No, sir.

24 EXAMINER EZEANYIM: Petroleum landman. Okay,
25 CPL, whatever. You are not? You're not registered, right?

1 THE WITNESS: No, sir.

2 EXAMINER EZEANYIM: Okay, but I think he will be
3 able to testify in this case, so he's qualified.

4 Q. (By Mr. Carr) Mr. Holder, would you identify for
5 Mr. Ezeanyim what has been marked as Dan Hughes Exhibit
6 Number 1?

7 A. Exhibit Number 1 is the Hueco South Unit in
8 Hidalgo County, New Mexico.

9 Q. The first page is a plat showing the unit
10 boundary and all tracts in the unit?

11 A. Yes, sir.

12 Q. And then the second page, what is the second page
13 of this exhibit?

14 A. The second page is the Hueco South 26-1 Well
15 location.

16 Q. And this is the APD for the well that's the
17 subject of this hearing?

18 A. Yes, sir.

19 Q. Whereabouts within the unit boundary do you find
20 this well?

21 A. It is in the northern -- actually the northwest
22 portion, Township 32 South, 17 West, Section 26, southwest
23 of the southwest, about 660 feet off of the south line and
24 the west line.

25 Q. And how deep does Dan A. Hughes propose to drill

1 the well?

2 A. Our target depth is 6600 feet.

3 Q. And how soon do you plan to spud the well?

4 A. We have a rig waiting.

5 Q. Is there a reason that you have to drill this
6 well in the immediate future?

7 A. We have approximately 26,000, plus or minus,
8 acres that are expiring December 31st of this year.

9 Q. And if you don't drill the unit, have it
10 commenced by that date, this acreage will expire; is that
11 right?

12 A. This acreage will expire, yes, sir.

13 Q. Could you refer to what has been marked --

14 EXAMINER EZEANYIM: What date is that? What date
15 is it going to expire?

16 THE WITNESS: December 31st -- January 1.

17 Q. (By Mr. Carr) Mr. Holder, could you identify
18 what has been marked OCD Exhibit Number 2?

19 A. Exhibit Number 2 is the order by the OCD on our
20 unit approval.

21 Q. And when was this entered?

22 A. This was stamped on December 13th -- I'm sorry --

23 Q. The second paragraph in the order, Mr. Holder?

24 A. 19th of November.

25 Q. Okay. Could you go to the last page of this

1 order, and could you read for the Examiner paragraph (6)?

2 A. Within this unit, exploratory wildcat drilling
3 applications as defined in New Mexico AC
4 19.15.3.104.A.(1).(b) shall be individually reviewed by the
5 Division Director to ensure prevention of waste, protection
6 of correlative rights and protection of human health and
7 the environment.

8 For these exploratory wells, the Division shall
9 have the option of requiring notice and public hearing
10 prior to approval of the drilling permits.

11 Q. And this case has been called by the Division
12 pursuant to this paragraph; is that right?

13 A. Yes, sir.

14 Q. All right. Would you identify what has been
15 marked Dan A. Hughes Company Exhibit Number 3?

16 A. This is the final approval from the Commissioner
17 of Public Lands for our unit.

18 Q. And would you just review for Mr. Ezeanyim
19 subparagraphs (a) and (d) of the certificate of approval?

20 A. Subparagraph (a) states, That such agreement will
21 tend to promote the conservation of oil and gas and the
22 better utilization of reservoir energy in the said area.

23 And, That such agreement is in other respects for
24 the best interests of the State with respect to state
25 lands.

1 Q. So what we have is, we have a unit that's been --
2 it's all state land, is it not?

3 A. Yes, sir, it is.

4 Q. And it has been approved by the OCD?

5 A. It has.

6 Q. It has been finally -- we have final approval
7 from the Land Office?

8 A. We do.

9 Q. And the entire thing will virtually collapse if
10 you don't have a well drilling by January the 1st?

11 A. That is correct.

12 Q. Let's go to what has been marked Dan A. Hughes
13 Company Exhibit Number 4. Would you identify that, please?

14 A. This is the Hueco South Unit agreement.

15 Q. And does this agreement provide that if you don't
16 have a well -- I guess it's the actual leases that provide
17 that if a well isn't drilling by the expiration date, that
18 the leases will fail?

19 A. Exactly.

20 Q. And if that happens, this unit will also have to
21 be terminated?

22 A. Yes, sir.

23 Q. Let's go to Exhibit Number 5. Would you identify
24 that for the Examiner?

25 A. This is our application for permit to drill the

1 Hueco 26-1.

2 Q. And is this application -- APD, complete?

3 A. To the best of my knowledge, it is, sir.

4 Q. And has this Application been reviewed with the
5 Artesia district office of the OCD?

6 A. It has.

7 Q. Did they have concerns about an H₂S plan?

8 A. They did, and we completed a hydrogen sulfide
9 contingency plan and provided them with this.

10 Q. And to your knowledge, is Mr. Arrant in the
11 Artesia office satisfied with the H₂S plan?

12 A. Yes, sir.

13 Q. Were they also concerned about the casing to
14 assure the protection of groundwater in the area?

15 A. They were, and we were able to come up with a
16 fairly extensive study showing groundwater in the area and
17 a casing program which would protect such.

18 Q. To your knowledge, is the district office now
19 satisfied that the APD is complete?

20 A. It's my understanding that they are, sir.

21 Q. This well is at a standard location, correct?

22 A. It is.

23 Q. You're proposing to drill on a standard spacing
24 unit?

25 A. Yes, sir.

1 Q. And Dan A. Hughes has all the bonds and
2 everything necessary to qualify to go forward and drill the
3 well?

4 A. We do.

5 Q. Would you refer to what has been marked as Dan A.
6 Hughes Exhibit Number 6?

7 A. This would be a fax from Bryan Arrant in the
8 Artesia office to our contracted agent Hobbs, Gaye Heard,
9 stating that our -- that our -- I believe this is incorrect
10 here.

11 Q. Is this the e-mail that stated that your
12 application for permit to drill would need to go to
13 hearing?

14 A. This particular fax is not.

15 Q. This is it.

16 A. Okay.

17 Q. Now do you have Exhibit 6 before you?

18 A. Yes.

19 Q. Okay, what does this --

20 A. It states that our permit to drill needed to go
21 before hearing.

22 Q. Did this notice also provide that the Division
23 wanted us to provide notice of the APD to the director of
24 the New Mexico Game and Fish Department, director of State
25 Forestry, and the New Mexico State Land Office?

1 A. It did.

2 Q. Has notice been provided to each of those
3 parties?

4 A. It has.

5 Q. Are you -- You're aware, are you not, that there
6 has been a letter filed by the Forestry Department?

7 A. I am aware.

8 Q. And that they have stated while they don't oppose
9 this APD, when you get to full development you want them --
10 they want you to work with them concerning protection of
11 endangered species, things of that nature?

12 A. Yes, sir.

13 Q. Is Dan A. Hughes prepared to work with that
14 department to assure that your activities do not cause a
15 problem with them and for the endangered species in this
16 state?

17 A. We are willing to do so.

18 Q. And say, Exhibit Number 7 is a notice affidavit
19 confirming that these parties have been notified --

20 A. Yes, sir.

21 Q. -- is that correct?

22 In your opinion, will approval of this
23 application for permit to drill and the drilling of this
24 well -- will it be in the best interest of conservation,
25 the prevention of waste and the protection of correlative

1 rights?

2 A. It will.

3 Q. Were Exhibits 1 through 7 either prepared by you
4 or compiled at your direction?

5 A. Yes, sir.

6 Q. And are they accurate?

7 A. They are.

8 MR. CARR: Mr. Ezeanyim, at this time we would
9 move the admission into evidence of Dan A. Hughes Company
10 Exhibits 1 through 7.

11 EXAMINER EZEANYIM: Exhibits 1 through 7 will be
12 admitted.

13 MR. CARR: That concludes my examination of this
14 witness.

15 EXAMINER BROOKS: No questions.

16 EXAMINATION

17 BY EXAMINER EZEANYIM:

18 Q. Mr. Holder, is this the first well that Dan A.
19 Hughes is drilling in New Mexico? Is that the first well
20 you are drilling here?

21 A. No, sir.

22 Q. Oh, you've drilled wells before?

23 A. Yes, sir.

24 Q. Okay. And what part of the state did you drill?

25 A. It would have been in the southeastern portion.

1 Q. Okay, southeast. I was wondering. It appeared
2 to me that that is the first time.

3 Let me go back to the casing program that brought
4 this thing up, you know. You revised your casing program.
5 Are you familiar with that? The casing --

6 A. Somewhat.

7 Q. Okay, did you provide the Artesia district office
8 with the adequate casing program?

9 A. Yes, sir.

10 Q. And I think I can see your diagram here. You are
11 going to have an intermediate casing now, instead of the
12 surface and production. Initially my understanding was,
13 you're going to have just the surface and your production
14 casing, no intermediate. Are you going to have an
15 intermediate casing program now?

16 A. I'm not -- I'm not sure about that, sir. Our
17 engineer is present and could answer that question for you.

18 Q. Is he present today?

19 A. He is.

20 EXAMINER EZEANYIM: Yeah, could you stand up,
21 identify yourself and answer that question?

22 MR. CARR: Would you state your name, please?

23 MR. ILSENG: Jeff Ilseng.

24 MR. CARR: Would you like him sworn, Mr.

25 Examiner?

1 EXAMINER EZEANYIM: Yes, please.

2 (Thereupon, the witness was sworn.)

3 JEFF ILSENG,

4 the witness herein, after having been first duly sworn upon
5 his oath, was examined and testified as follows:

6 EXAMINATION

7 BY MR. EZEANYIM:

8 Q. State your name again, please?

9 A. Jeff Ilseng, I-l-s-e-n-g.

10 Q. Okay, very good. The question is, the casing --
11 I know you designed the casing.

12 A. Yes, sir.

13 Q. Okay, good. You are now going to provide some
14 intermediate casing for that well?

15 A. Based on the current design, we'll run a 9-5/8
16 surface casing --

17 Q. Uh-huh.

18 A. -- and then run production casing.

19 If there is a problem we incur, we will have
20 enough room to run some 7-inch intermediate casing, if
21 needed.

22 Q. Have you provided that program to Artesia
23 District Office?

24 A. No, sir, because we're very confident with the
25 surface casing we're going to set. And based on the mud

1 programs and the depth we're going, we do not think we're
2 going to need an intermediate casing.

3 Q. What are you cement tops, where you case --

4 A. Okay, the surface casing, the 9-5/8 at 500 feet
5 we will bring cement back to surface.

6 Q. Uh-huh.

7 A. And the 5-1/2-inch casing will be set at 6600
8 feet, our total depth we plan to drill the well. We plan
9 to bring cement all the way back to surface.

10 Q. Did you make -- conduct a review of freshwater
11 around the area?

12 A. Yes, sir, we did.

13 Q. So what are you findings?

14 A. Sir, what we did, we did -- we talked to the
15 State of Engineers [sic] in New Mexico in Deming Office.
16 They said there has not been any formal studies where the
17 water levels are in the area.

18 But we did find a report -- I can't remember
19 which exhibit it was -- it was a study done in 1916 in this
20 basin, and we found -- Let's see, I think we submitted it.
21 One, two, three, four -- we found five wells in the area of
22 water -- different water depths.

23 I'll just state, one of them was at 118 feet, 62
24 feet, 194, 140 feet, 172. So we know that somewhere around
25 200 -- 194 was the deepest.

1 We applied for a -- to drill a water well for the
2 State of Engineers in Deming, we got approval. We licensed
3 a water well driller who drilled a well 193 feet from our
4 staked location.

5 We found water at 200 feet. And we went ahead
6 and completed it at 240 feet, the water well, and it's
7 producing about 120 gallons per minute, based on the meter
8 readings we had.

9 Q. Okay, and your surface casing, you set at 500
10 feet?

11 A. Five hundred feet, yes, sir.

12 Q. Okay. Talk to me about the H₂S contingency plan.
13 Why is it needed, and did you provide it?

14 A. Yes, sir, Bryan Arrant in the Artesia Office
15 recommended that since this is a wildcat well at the middle
16 of the basin where there's no studies been done, we
17 contracted a company out of Midland-Odessa to do an H₂S
18 contingency plan for us, and they completed that plan and
19 submitted it to the Artesia Office and to ourselves.

20 And did we submit one to them as an exhibit?

21 Q. I don't have --

22 MR. CARR: Would you like a copy of that, Mr.
23 Ezeanyim?

24 THE WITNESS: If you need a copy, we do have one.

25 EXAMINER EZEANYIM: Okay, you have one now?

1 THE WITNESS: Yes, sir.

2 EXAMINER EZEANYIM: Okay, I would like to have a
3 copy. Thank you.

4 MR. CARR: Mr. Ezeanyim, I've marked as Dan A.
5 Hughes Exhibit 8 a copy of the H₂S contingency plan.

6 EXAMINER EZEANYIM: Let the record reflect that
7 Exhibit 8 is admitted as Dan A. Hughes...

8 Anything further?

9 THE WITNESS: Thank you, sir.

10 MR. CARR: Mr. Examiner, we have sent to you by
11 e-mail and have to file a draft of a proposed order that we
12 hope will be of assistance to you. We are obviously in a
13 short time-frame trying to get this well going before the
14 end of the year.

15 And also I would just like you to know that I did
16 visit, with this Application, with Bryan Arrant day before
17 yesterday, and he indicated that he was satisfied with the
18 casing program and our H₂S contingency plan.

19 And with that, we would request that the order be
20 expedited.

21 And that concludes our presentation.

22 EXAMINER EZEANYIM: Thank you, Mr. Carr.

23 You may be excused.

24 THE WITNESS: Thank you, sir.

25 EXAMINER EZEANYIM: At this point, Case Number

1 14,050 will be taken under advisement.

2 (Thereupon, these proceedings were concluded at
3 8:40 a.m.)

4 * * *

13 I do hereby certify that the foregoing is
14 a complete record of the proceedings in
15 the Examiner's hearing of Case No. 14050
16 heard by me on 6/13/07
17 [Signature], Examiner
18 Oil Conservation Division

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 January 3rd, 2008.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2010