

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

APPLICATION OF NEWKUMET EXPLORATION, INCORPORATED,  
FOR A NONSTANDARD OIL SPACING AND PRORATION UNIT  
AND COMPULSORY POOLING, LEA COUNTY, NEW MEXICO

CASE NO. 14095

Docket No. 7-08  
March 6, 2008  
1220 South St. Francis  
Santa Fe, New Mexico 87505

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BEFORE: DAVID K. BROOKS, Hearing Examiner

A P P E A R A N C E S

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1 EXAMINER BROOKS: I will call Case Number  
2 14095, Application of Newkumet Exploration, Inc. for a  
3 nonstandard oil spacing and proration unit and compulsory  
4 pooling, Lea County, New Mexico. Call for appearances.

5 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe  
6 representing the applicant. I have two witnesses.

7 MS. MUNDS-DRY: Mr. Examiner, Ocean Munds-Dry  
8 with the law firm of Holland & Hart representing R & R  
9 Royalties, Limited, this morning. I have no witnesses.

10 EXAMINER BROOKS: Very good. Will the  
11 witnesses please stand and identify themselves?

12 MR. SMITH: I am Kirk E. Smith.

13 MR. CATE: I am Randall S. Cate.

14 EXAMINER BROOKS: Please swear in the  
15 witnesses.

16 (Note: The witnesses were duly sworn.)

17 KIRK E. SMITH

18 After having been previously duly sworn under oath,  
19 was questioned and testified as follows:

20 EXAMINATION

21 BY MR. BRUCE:

22 Q. Would you please state your name and city of  
23 residence?

24 A. My name is Kirk, initial E, Smith. I am from  
25 Midland, Texas.

1 Q. Who do you work for -- first of all, what is your  
2 profession?

3 A. I am a petroleum landman.

4 Q. And what is your relationship to the applicant in  
5 this case?

6 A. I am an independent contractor working on behalf of  
7 Newkumet Exploration.

8 Q. Have you previously testified before the division?

9 A. I have not.

10 Q. Would you please summarize your educational and  
11 employment background for the examiner.

12 A. Yes. I have a high school education. I have 30  
13 years of petroleum land experience, and I am a registered  
14 professional landman under the criteria of the APL, American  
15 Association of Petroleum Landmen.

16 Q. Have you testified before other state regulatory  
17 bodies?

18 A. No, I have not.

19 Q. And you were the landman responsible for putting  
20 together this prospect for the applicant?

21 A. Yes.

22 Q. Are you familiar with the land matters involved in  
23 this application?

24 A. Yes.

25 MR. BRUCE: Mr. Examiner, I tender Mr. Smith as

1 an expert petroleum landman.

2 EXAMINER BROOKS: He is so qualified.

3 Q. (By Mr. Bruce) Would you identify Exhibit 1 and  
4 describe briefly what Newkumet Exploration seeks in this case?

5 A. Exhibit 1 is a land plat which covers Section 3,  
6 Township 26 South, Range 33 East of the New Mexico Primary  
7 Meridian. Newkumet Exploration seeks to drill the Red Bull 3  
8 Fed. Com. Well No. 1H.

9 This well is a Bone Springs horizontal well from an  
10 orthodox surface location, 330 feet from the north line and  
11 330 feet from the east line to a terminus 990 feet from the  
12 north line and 330 feet from the west line.

13 Newkumet Exploration requests an order approving a  
14 nonstandard 160-acre unit in the Bone Spring formation  
15 comprised of the N/2 of the N/2 of Section 3, Township 26  
16 South, Range 33 East, and pooling all mineral interests in the  
17 nonstandard unit.

18 Q. And Mr. Smith, this plat is a few months out of  
19 date. There is a bunch of new leases on here, are there not,  
20 of new operators?

21 A. That is correct. There are new oil and gas leases  
22 that are not reflected by the land plat, as well as the -- a  
23 number of the offset working interest owners or operators have  
24 changed names.

25 Q. And why don't we run through some of these now.

1 MR. BRUCE: First of all, Mr. Examiner, I  
2 wouldn't know it, but this is a wildcat Bone Spring, and  
3 therefore, I don't have a pool name for you.

4 Q. (By Mr. Bruce) Let's start up to the north in  
5 Section 35. We've got Newkumet circled in a couple of  
6 tracts. Those are listed under Energen and Concho. Those are  
7 actually Newkumet Exploration leases, are they not?

8 A. That's correct. In Section 35, in the southwest  
9 quarter, the south half northwest, the west half southeast is  
10 a federal oil and gas lease issued to Newkumet Exploration at  
11 the October 2007 lease sale.

12 In Section 34, the east half of the southeast is also  
13 a part of that USA oil and gas lease. In Section 34 of the  
14 northeast quarter, the west half of the southeast contains  
15 numerous fee oil and gas leases wherein Newkumet Exploration  
16 is now the lessee. And there is no other changes in 34.

17 Q. Well, actually in the east half southwest corner,  
18 that is part of that federal --

19 A. Yes, correction. East half southwest is also part of  
20 the Newkumet USA oil and gas lease issued in October of '07.

21 Q. And then in the rest of the west half of Section 34,  
22 is the operator BTA?

23 A. That's correct.

24 Q. As to the Bone Spring depths at least?

25 A. Yes.

1 Q. And then over to the west and southwest, you have the  
2 Red Hills Unit. Who is the operator of that unit?

3 A. Currently, Cimarex Energy is the operator of the Red  
4 Hills Unit in Section 33 of 25, 33 and in Section 4 of 26  
5 South, 33 East.

6 Q. Now, when you go over -- moving east again in Section  
7 3, you've got the units surrounded. There is a federal lease  
8 that is owned by R & R Royalty in a good chunk of Section 3.  
9 What does that lease cover?

10 A. That lease covers the east half of the northeast, the  
11 northwest quarter, and the east half of the southwest quarter  
12 of 26 South, 33 East.

13 Q. And then the fee leases that you mentioned up in  
14 Section 34 in the northeast quarter and the west half  
15 southeast, that continues down into the west half northeast  
16 quarter of Section 3, does it not?

17 A. Yes.

18 Q. It is all a single tract?

19 A. That's correct. Common ownership.

20 Q. And then who is the lessee over to the east?

21 A. The lessee to the east in Section 2 of 26 South, 33  
22 East, the current lessee is EOG Resources of Midland, Texas.

23 Q. And I think there is a couple of state leases in that  
24 section, and EOG owns both of them, does it not?

25 A. Yes.

1 Q. What does Exhibit 2 reflect?

2 A. Exhibit 2 reflects the working interest owners in the  
3 N/2 of the N/2 of Section 3, 26 South, 33 East.

4 Q. And who do you seek to pool in this case?

5 A. R & R Royalty, Limited.

6 Q. Now, there is a Stephen Susman, executor of the  
7 estate of Helen Susman, listed as unleased minerals. You do  
8 not seek to force pool the executor, do you?

9 A. No.

10 Q. You understand that they will be executing a lease in  
11 Newkumet's favor?

12 A. Yes, we are -- that is pending.

13 Q. Were proposals letters sent to R & R Royalty  
14 regarding this proposed well?

15 A. Yes.

16 Q. Is that reflected in Exhibit 3?

17 A. Yes.

18 Q. And proposal letter -- two letters were sent with  
19 AFEs, were they not?

20 A. Yes.

21 Q. Have you or personnel employed by Newkumet  
22 Exploration or Mr. Cate, our other witness, have you had  
23 telephone discussions with Mr. Ahujah of R & R Royalty  
24 regarding this prospect?

25 A. Yes.



1 Q. Were you trying to obtain a farm out from him?

2 A. Yes, trying to sign a farm out.

3 Q. A term assignment of the lease, but you could not  
4 reach satisfactory terms?

5 A. Correct.

6 Q. And you have had a couple of telephone conversations,  
7 I understand?

8 A. Numerous conversations.

9 Q. Starting approximately when, Mr. Smith?

10 A. Approximately, January the 2nd or January the 3rd of  
11 2008.

12 Q. And, again, you just haven't been able to reach  
13 satisfactory terms?

14 A. That's correct.

15 Q. In your opinion, has Newkumet made a good faith  
16 effort to obtain the voluntary joinder of R & R in this well?

17 A. Yes.

18 Q. What is Exhibit 4?

19 A. Exhibit 4 is an authority for expenditure for the  
20 referenced well, the Red Bull 3 Fed Com No. 1H. This AFE  
21 reflects a 12,200 foot Bone Springs test with a dry haul cost  
22 of approximately \$2.4 million and a completed well cost of  
23 \$4.265 million.

24 Q. And are these costs in line with the costs of other  
25 wells drilled to this depth -- of other horizontal wells

1 drilled to this depth in this area of New Mexico?

2 A. Yes.

3 Q. Who does Newkumet request be named the operator of  
4 the well?

5 A. RSC Resources, LP.

6 Q. And they are a registered operator with the Oil and  
7 Conservation Division, are they not?

8 A. Correct.

9 Q. Do you request the maximum costs plus 200 percent  
10 risk charge if R & R does not consent in this well?

11 A. Yes.

12 Q. What overhead rates do you propose?

13 A. We request a drilling rate of \$7,500 per month and a  
14 producing rate of \$750 per month.

15 Q. And are these rates equivalent to what is charged by  
16 operators in this area for wells of this depth?

17 A. Yes.

18 Q. And do you request that these rates be adjusted under  
19 the COPUS accounting procedure?

20 A. Yes.

21 Q. Was R & R notified of this application?

22 A. Yes.

23 Q. And is that reflected in the notice affidavit marked  
24 Exhibit 5?

25 A. Yes.

1 Q. And were the offset operators also notified of this  
2 application?

3 A. Yes.

4 Q. And is that reflected in Exhibit 6?

5 A. Yes.

6 Q. In your opinion, is the granting of this application  
7 in the interests of conservation and the prevention of waste?

8 A. Yes.

9 Q. And were Exhibits 1 through 6 prepared by you or  
10 under your supervision or compiled from Newkumet's business  
11 records?

12 A. They were, yes.

13 MR. BRUCE: Mr. Examiner, I move the admissions  
14 of Exhibits 1 through 6.

15 EXAMINER BROOKS: Any objections?

16 MS. MUNDS-DRY: No objection.

17 EXAMINER BROOKS: 1 through 6 are admitted.

18 (Applicant's Exhibits 1 through 6 admitted into evidence.)

19 EXAMINER BROOKS: Pass the witness?

20 MR. BRUCE: I have no further questions.

21 MS. MUNDS-DRY: I just have a few questions,  
22 Mr. Smith.

23 EXAMINATION

24 BY MS. MUNDS-DRY:

25 Q. What is the percentage interest, working interest

1 ownership of RSC or Newkumet?

2 A. With respect to Exhibit 2?

3 Q. Yes. And really, I'm just asking really within the  
4 nonstandard spacing unit that you're proposing today. What is  
5 the working interest ownership? Do you know?

6 A. Well, if you will refer to Exhibit 2, column 5, there  
7 is a heading there that reads, "Unit WI."

8 Q. And on a percentage, that is about below the 25  
9 percent?

10 A. .22134 percent currently is the unit working interest  
11 of Newkumet Exploration, which does not reflect the joinder of  
12 Stephen D. Susman, Executor.

13 Q. And total, what is the working interest ownership for  
14 R & R?

15 A. I'm sorry, counselor, it would be the reciprocal of  
16 one minus Newkumet minus Susman.

17 Q. You just have to help me with math. I'm --

18 A. Okay. Well, it's 75 plus .027289063.

19 Q. Okay. Thank you. And you said you had numerous  
20 conversations with the folks at R & R. Was it mainly with  
21 Mr. Ahujah?

22 A. The question from Mr. Bruce was did Newkumet and/or  
23 myself have conversations with R & R, and Mr. Newkumet had  
24 numerous conversations with R & R. We have a number of  
25 e-mails between R & R Royalties and Newkumet Exploration that

1 reflect the product of those conversations. Numerous e-mails.

2 Q. So the conversations were mostly by e-mail?

3 A. No, the conversations were verbal and were evidenced  
4 by e-mail correspondence trying to make a trade.

5 Q. Okay. I want to make sure I understand that. So  
6 most of the conversations were between Mr. Newkumet and  
7 Mr. Ahujah?

8 A. That's correct, as well as the additional  
9 representative of Newkumet Exploration, which is Randall S.  
10 Cate. There was conversations by Mr. Cate as well.

11 Q. Mr. Smith, did you have any conversations with --

12 A. I had a conversation with R. David Ahujah at the BLM  
13 in December, but it was very brief in nature. Just, we'll  
14 talk and we will make a deal, so there was no substance in  
15 that conversation.

16 Q. That was at the time they had just purchased their --

17 A. This was actually at a subsequent sale.

18 Q. Okay. And so what is your understanding of where the  
19 negotiations are at this point?

20 A. My understanding is that the parties have failed to  
21 reach an agreement.

22 MS. MUNDS-DRY: That's all the questions I  
23 have. Thank you.

24 EXAMINER BROOKS: You went over the adjoining  
25 ownership rather quickly, so I need to be sure I understand

1 it. First of all, Mr. Bruce indicated that this is a wildcat  
2 Bone Springs, so I assume there are no adjacent units that  
3 have wells completed in the Bone Spring at this time; is that  
4 correct?

5 A. I will defer that question to an additional expert  
6 witness, if I may.

7 EXAMINER BROOKS: Okay. Now, going around this  
8 proposed unit, I understand that Newkumet has under lease or  
9 has recently procured a federal lease that covers in Section  
10 35 the southwest quarter among other acreage?

11 A. That's correct.

12 EXAMINER BROOKS: And in Section 34, the west  
13 half of the southeast and the east half of the southwest; is  
14 that correct?

15 A. Specifically, the federal lease covers in Section 34,  
16 25, 33, the east half of the southeast, and the east half of  
17 the southwest. That is a common lease with the southwest  
18 quarter.

19 EXAMINER BROOKS: So it covers the east half of  
20 the southeast?

21 A. Correct.

22 EXAMINER BROOKS: That is marked Concho on this  
23 map?

24 A. Yes, sir.

25 EXAMINER BROOKS: That is Exhibit 1?

1 A. Yes.

2 EXAMINER BROOKS: So that is actually now --  
3 Newkumet owns that lease?

4 A. Yes.

5 EXAMINER BROOKS: Now, Mr. Bruce has written in  
6 Newkumet in regard to this area that includes the west half of  
7 the southeast. Is Newkumet also lessee on the west half of  
8 the southeast of 34?

9 A. Yes.

10 EXAMINER BROOKS: Now, is that a federal lease,  
11 or is that --

12 A. No, sir, it is a fee lease, and I would refer you to  
13 Exhibit 2. Mr. Newkumet owns currently an 88.53 percent  
14 leasehold estate in the west half of the southeast of 34 and  
15 the northeast of 34.

16 MR. BRUCE: Mr. Examiner, the other lessee in  
17 that entire tract is R & R Royalty, unleased mineral owner  
18 actually.

19 EXAMINER BROOKS: Newkumet and R & R  
20 collectively have the entire working interest in the west half  
21 of the southeast?

22 A. Correct.

23 EXAMINER BROOKS: Of 34?

24 A. Yes, sir.

25 EXAMINER BROOKS: Now, BTA operates this lease

1 that includes the west half of the south -- the west half of  
2 the southwest of 34?

3 A. Yes.

4 EXAMINER BROOKS: And do you have the ownership  
5 on that or just BTA is the operator?

6 A. No, sir, I did not prepare a working interest exhibit  
7 associated with Section 34.

8 MR. BRUCE: Mr. Examiner, I could provide you  
9 with a portion of the title opinion. BTA is the -- it's a  
10 federal lease. BTA is the 100 percent operating rights owner  
11 of record.

12 EXAMINER BROOKS: Very good. Thank you,  
13 Mr. Bruce. Then you move on over to the Red Hills Unit, and I  
14 take it the -- there appears to be a dividing line on this map  
15 between the west half and the east half of the east half of  
16 Section 33. And I take it that the east half, because it's  
17 written across there, I'm assuming then that the east half of  
18 the east half of Section 33 is also part of the Red Hills  
19 Unit?

20 A. It is.

21 EXAMINER BROOKS: And you said that Cimarex now  
22 is the operator of that unit?

23 A. Yes.

24 EXAMINER BROOKS: In what formation is that  
25 unit?



1 MR. BRUCE: It is not depth restricted.

2 EXAMINER BROOKS: It is a federal unit?

3 MR. BRUCE: It is a federal unit, correct.

4 EXAMINER BROOKS: Okay.

5 MR. BRUCE: It was an exploratory unit.

6 EXAMINER BROOKS: Yeah. Then you move down to  
7 Section 4, and I didn't get at all what you said about the  
8 ownership in Section 4.

9 A. Section 4 is a part of that same exploratory unit  
10 with Cimarex as the operator.

11 EXAMINER BROOKS: So all of Section 4 is in the  
12 Red Hills Unit?

13 A. Correct.

14 EXAMINER BROOKS: And then you move into  
15 Section 3, the south half of the northwest, R & R is the lease  
16 owner?

17 A. The south half of the northwest, R & R is the lease  
18 owner of the federal oil and gas lease.

19 EXAMINER BROOKS: Now, is that 100 percent  
20 ownership?

21 A. Yes.

22 EXAMINER BROOKS: And similarly R & R is the  
23 lease owner in the southwest of the northeast of Section 3?

24 A. Southwest of the northeast?

25 EXAMINER BROOKS: Yeah.

1       A.    No.  That is, again, a fee mineral tract, and  
2   currently --

3               EXAMINER BROOKS:  Oh, okay.  I'm sorry.  I  
4   misspoke.  I was speaking of the southeast of the northeast.

5       A.    In the southeast of the northeast, R & R is the 100  
6   percent leasehold owner of the federal oil and gas lease.

7               EXAMINER BROOKS:  Now, go back to the southwest  
8   of the northeast of Section 3.

9       A.    The southwest, northeast of Section 3 is common  
10   ownership to the fee lands in 34, and in the southwest of the  
11   northeast, Newkumet Exploration currently owns 88.539 percent  
12   of the leasehold estate.

13              EXAMINER BROOKS:  So the southwest of the  
14   northeast is common ownership with the northwest of the  
15   northeast?

16       A.    Correct.

17              EXAMINER BROOKS:  And does R & R own the rest  
18   of that that Newkumet doesn't own or --

19       A.    Yes.  R & R owns 34.933 or 10.915 percent of the  
20   minerals in the west half of the northeast.

21              EXAMINER BROOKS:  But they actually own a  
22   smaller interest than that, than they do in the unit?  Than  
23   they do in the proposed unit?

24              MR. BRUCE:  That's correct, Mr. Examiner,  
25   because they own the other federal acreage within the well

1 unit. That is correct.

2 EXAMINER BROOKS: Okay. Then we move over to  
3 Section 2, and what is the ownership of the north half of  
4 Section 2?

5 A. That is EOG Resources, Incorporated. It's a state  
6 owned gas lease.

7 EXAMINER BROOKS: Are they the sole owner of  
8 the operating rights in that lease?

9 A. Yes.

10 MR. BRUCE: Mr. Examiner, that lease number is  
11 V-6842-1. That was cut off when the --

12 EXAMINER BROOKS: Okay. Very good. So then,  
13 Mr. Bruce, you have given notice to BTA, Cimarex, and EOG?

14 MR. BRUCE: That is correct. And I think I  
15 also put on there Magnum Hunter, which is a lessee over in the  
16 -- I think, the lessee over in the Red Hills Unit. It's a  
17 sister company of Cimarex.

18 EXAMINER BROOKS: Right.

19 MR. BRUCE: And so I notified -- gave notice to  
20 them also.

21 EXAMINER BROOKS: Yeah, I knew there was some  
22 relationship between them, but I didn't know what that  
23 relationship was. And then the owners within the unit are  
24 only Newkumet, R & R, and Steve Susman?

25 A. Yes.

1 EXAMINER BROOKS: And is that Steve Susman, the  
2 products liability lawyer?

3 MR. BRUCE: I believe it is.

4 EXAMINER BROOKS: Too bad he couldn't make it  
5 down here.

6 MR. BRUCE: I think he had more profitable  
7 things to do.

8 EXAMINER BROOKS: I suspect he probably does.

9 A. He has been very slow to finalize our trade.

10 EXAMINER BROOKS: Well, he is a very busy man,  
11 I'm sure.

12 A. He transferred the responsibilities to his brother,  
13 so.

14 MR. BRUCE: I figured that out when I saw the  
15 Houston address when I was looking at the records.

16 EXAMINER BROOKS: Well, there have been times  
17 in the past when he appeared before me, so I remember him  
18 well. You're seeking this unitization only, or compulsory  
19 pooling only in the Bone Spring?

20 MR. BRUCE: Yes.

21 EXAMINER BROOKS: I think that is all the  
22 questions I have.

23 MR. BRUCE: Then I would call Mr. Cate to the  
24 stand.

25 RANDALL CATE

1 After having been previously duly sworn under oath,  
2 was questioned and testified as follows:

3 EXAMINATION

4 BY MR. BRUCE:

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

6 A. My name is Randall Cate.

7 Q. And where do you reside?

8 A. I reside in Midland, Texas.

9 Q. By trade, what are you?

10 A. I am a petroleum engineer.

11 Q. Are you the owner of RSC Resources, LP, the operator  
12 of the proposed well?

13 A. Yes, I am.

14 Q. Have you previously testified before the division as  
15 a petroleum engineer?

16 A. Yes, I have.

17 Q. And were your credentials as an expert accepted as a  
18 matter of record?

19 A. Yes.

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

22 A. Yes.

23 MR. BRUCE: Mr. Examiner, I tender Mr. Cate as  
24 an expert petroleum engineer.

25 EXAMINER BROOKS: So qualified.

1 Q. (By Mr. Bruce) Mr. Cate, could you identify Exhibit  
2 7 for the examiner and describe the permit zone in your  
3 proposed well a little bit?

4 A. The Exhibit 7 is a production data map of the area  
5 around our Red Bull 3 Fed Com Number 1 proposed horizontal  
6 well. The key field up to the north and the east -- well, you  
7 see the yellow acreage dedication here in the center of the  
8 exhibit, and that is the acreage that we're talking about.  
9 And then the red outline of the north half of the north half  
10 of Section 3, this is our location.

11 And to answer your question, Mr. Examiner, about --  
12 yes, this is undedicated. There is no established production  
13 except in the Bone Spring. The nearest is three miles to the  
14 north and east up in the Red Hills Bone Spring Unit, which I  
15 think is called North Red Hills actually, RHNU, is a Bone  
16 Spring field. I was the engineer on that field with EOG  
17 Resources for -- well, since its inception in 1992. I left  
18 EOG Resources four years ago, and I started my own company.

19 Q. So this is a wildcat Bone Springs?

20 A. It is a wildcat. The nearest Bone Spring production  
21 from this is four miles away, yes. No tests within four  
22 miles. The green numbers are the Bone Spring cumulative  
23 production on the top and MBO and MMCF. And then on the  
24 bottom is the current daily rate.

25 To the west, our acreage, the red numbers there are

1 the Wolfcamp. And that is gas zoned, and that is mostly in  
2 that Red Hills Unit operated by Cimarex. They haven't --  
3 there is no Bone Spring tests in there either. There is far  
4 to the -- about six miles to the east, due east, there is some  
5 marginal Bone Spring production. That well in Section 3 of 20  
6 -- let's see, that would be 26, 34 over there. That's a  
7 Yates well. It is operated by Yates. So that is the nearest  
8 production.

9 Again, I was the engineer in charge on this Red  
10 Hills, the full development of that field for EOG and was  
11 instrumental in getting the horizontal program drawing up  
12 there, and that is pretty much the basis of this prospect  
13 here.

14 Q. So the -- up in the northeast Red Hills Unit, those  
15 laterals, they are not reflecting wells directionally  
16 drilled? They are actually horizontal wells up in that unit?

17 A. That's right. When the field was initially developed  
18 in the early '90s, it was all vertical. And then around 1999  
19 to 2000, we began an in-field horizontal program, and those  
20 laterals are reflected on that map.

21 Q. Would you then move on to your Exhibit 8 and discuss  
22 the Bone Spring zone in a little more detail.

23 A. This Exhibit 8 is a two well cross-section B to B  
24 prime, and it is designated on Exhibit 7. There is a -- the  
25 well to the left is a Pioneer -- was drilled by Pioneer

1 Natural Resources. It is called the Chambers 35, and it is  
2 approximately three-quarters of a mile -- well, half a mile to  
3 three-quarters due northeast. That is the nearest Bone Spring  
4 penetration to our Red Bull 3 horizontal proposed well.

5 Q. Did that well produce from the Bone Spring?

6 A. No, it did not produce. They abandoned it as DNA,  
7 and that was back in 1997, I believe, when they drilled that.  
8 And then the well to the right on B prime, I chose an edge  
9 well up in the Red Hills North Unit that has kind of similar  
10 characteristics of pay and water saturation calculations. And  
11 what it shows if you notice -- and that well, let me identify  
12 it first, is the EOG Resources 901, that unit number is 901.

13 It was originally a reentry of an old abandoned well  
14 also, and the significance of this, the reason I chose this  
15 well, Mr. Examiner, is it was completed as a vertical well  
16 first. And on the curve, the production curve below the type,  
17 below the log, you can see for about, oh, approximately 15  
18 years, the well has produced as a vertical well around ten to  
19 15 barrels of oil a day. And then the well was subsequently  
20 kicked out of that casing and completed as a horizontal well,  
21 and the production increased about threefold.

22 And so that is the basis. What we found in doing the  
23 drawing of the horizontal laterals in this field was it was a  
24 much more efficient way to produce this reservoir. The  
25 porosities were around 12 percent. The permeabilities were



1 around half a millidarcy, so it is a very tight reservoir. So  
2 we found that the horizontal technology is the best way to  
3 drill this reservoir, and that is why we have proposed the  
4 wells we have.

5 Q. Why don't you move on to your Exhibit 9. What does  
6 that show?

7 A. Exhibit 9 is a structure map. On top of the Red  
8 Hills Bone -- 3rd Bone Spring Sand, it's designated on that  
9 cross-section that we were just looking at, but there is no  
10 faulting or anything that shows. It is basically a -- what I  
11 would call a reentrant area. We're basically on structural  
12 trend with the Red Hills North Unit, but there is nothing else  
13 that is really that significant.

14 Q. Okay. How about Exhibit 10, what is that?

15 A. Exhibit 10 is an isopach that I generated of net  
16 porosity greater than 12 percent. It's a cross-plot porosity  
17 off the logs, and I chose 12 percent as a pay quality  
18 indicator. Wells up in the field that have less than 12  
19 percent porosity are typically marginal. Almost every well --  
20 I think virtually every Bone test out here will produce some  
21 oil, but the wells with better than 12 percent porosity are  
22 the ones that are considered commercial.

23 We have very little well control other than the  
24 Chambers 35 Well that was on the B to B prime, and therefore,  
25 my contour that is shown down in this -- around our prospect

1 and around our Red Bull 3, that is a ten-foot contour. And  
2 within this area, if you go to the west of our -- of that  
3 Chambers Well, there are wells up in the Red Hills Unit that  
4 have -- ranging between 11 sand, 28 feet at the most. And  
5 what I have chosen to show here is that I do believe that the  
6 sands will be present out there in the direction that we are  
7 drilling from east to west.

8 The sands basically are ubiquitous in this area. I  
9 believe we will encounter sands. The true risk is do they  
10 develop the porosity that we need, and do they develop any  
11 thickness, and that is of course what we're hoping for.

12 Q. And that Chambers Well in Section 35, which is  
13 starting out about half a mile from your well, at least it  
14 does have some thickness comparable to some of the wells  
15 drilled in the North Red Hills Unit, correct?

16 A. That's correct. That's correct. And the red -- the  
17 water saturations calculate 50 percent and above, so there is  
18 a concern for water production, but -- and that is one of the  
19 reasons the Red Bull 3 location will be up structure or at  
20 least it is mapped to be up structure from the Chambers, and  
21 hopefully will result in a better oil cut.

22 Q. And finally what does Exhibit 11 reflect?

23 A. That is our -- Exhibit 11 is our drilling plan,  
24 C-102. It is filed -- it's not actually filed yet. I am  
25 waiting on the surveyor to get the C-102 in actually.

1 Q. And the location will be orthodox within the project  
2 area/nonstandard unit?

3 A. That's correct. We anticipate all of the wellbore  
4 will be within the producing -- it will be orthodox within the  
5 producing area.

6 Q. And you believe that based on what you see now, the  
7 Bone Spring interval will be productive in each of those 40  
8 acres within the 160-acre nonstandard unit?

9 A. Yes, I do.

10 Q. Were Exhibits 7 through 11 prepared by you or under  
11 your supervision or compiled from company business records?

12 A. Yes, they are or were.

13 Q. And in your opinion, will the granting of this  
14 application be in the interests of conservation and the  
15 prevention of waste?

16 A. Yes.

17 MR. BRUCE: Mr. Examiner, I move the admission  
18 of Exhibits 7 through 11.

19 MS. MUNDS-DRY: No objection.

20 EXAMINER BROOKS: 7 through 11 are admitted.

21 (Applicant's Exhibits 7 through 11 admitted into evidence.)

22 MR. BRUCE: Pass the witness.

23 EXAMINATION

24 BY MS. MUNDS-DRY:

25 Q. Mr. Cate, I realize you're only pooling from the Bone

1 Spring here, but do you see any secondary targets for this  
2 well?

3 A. No, not really. There has been some Delaware tests  
4 right in the immediate vicinity that were dry, and this is  
5 basically going to be a one-shot deal in the Bone Spring.

6 Q. And Mr. Smith mentioned that you had some contacts  
7 with R & R. Would you elaborate on what your contacts were  
8 with -- was it Mr. Ahujah?

9 A. Both, yes, Mr. Ahujah and his son, Rajian David, or  
10 R. David. Initially, after the well proposal with the AFE in  
11 early January, I think the date on the AFE was, what, January  
12 6, but in that vicinity, and after a week or so, I called and  
13 left messages with both Mr. Ahujah and R. David, but I did not  
14 receive any return call at that time.

15 In the federal sale of January -- I think it was the  
16 16th or 17th, I can't remember --

17 Q. Somewhere in there?

18 A. -- a federal sale, I actually made it a point to go  
19 find them, and they were in the break room at the federal  
20 sale, and I initiated a conversation to encourage them to  
21 contact either myself or Mr. Newkumet, and they assured me  
22 that -- well, Mr. Ahujah assured me that they would -- they  
23 wanted to farm out. They did not want to, in his words, they  
24 did not want to join. As far as negotiations, I have not had  
25 negotiations. Mr. Newkumet, that is his responsibility.

1 I have been involved in running some economics based  
2 on the proposals between the two, and frankly, it is very far  
3 apart for a wildcat, so that's all I have to say.

4 MS. MUNDS-DRY: Okay. Thank you very much.  
5 That's all the questions I have.

6 EXAMINER BROOKS: You must be rather sanguine  
7 about this prospect, wanting to drill it for \$4 million with  
8 only 22 percent interest?

9 A. Say that again.

10 EXAMINER BROOKS: You must be fairly sanguine  
11 about this prospect, to want to drill it for \$4 million with  
12 only 22 percent interest even with the 200 percent penalty?

13 A. Well, we would prefer to have their joinder. They  
14 have acreage to the south and we have acreage to the north,  
15 and I think it benefits both of us, so we have pursued their  
16 joinder. Frankly, on a -- if you look at risk economics, of  
17 course, and this is a wildcat, it can't stand huge promotes.  
18 But, yes, it seems to be the best approach that we have is to  
19 -- even at that 3 to 1 risk or the 200 percent penalty, to go  
20 with this well.

21 EXAMINER BROOKS: That is really the only  
22 question that I have.

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

24 EXAMINER BROOKS: Ms. Munds-Dry, is your client  
25 taking a position on this unit?

1 MS. MUNDS-DRY: No. I think they are still  
2 interested in trying to reach an agreement, and they  
3 understand that they have some time after the order as well.

4 EXAMINER BROOKS: So they don't oppose the  
5 creation of the NSP?

6 MS. MUNDS-DRY: No, they do not.

7 EXAMINER BROOKS: Okay. Very good. If there  
8 is nothing further, then Case Number 14095 will be taken under  
9 advisement.


10  
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13  
14 I do hereby certify that the foregoing is  
15 a complete record of the proceedings in  
16 the Examiner hearing of Case No. \_\_\_\_\_  
17 heard by me on \_\_\_\_\_, Examiner  
18 Oil Conservation Division  
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## REPORTER'S CERTIFICATE

I, CONNIE JURADO, do hereby certify that I reported the foregoing case in stenographic shorthand and transcribed, or had the same transcribed under my supervision and direction, the foregoing matter and that the same is a true and correct record of the proceedings had at the time and place.

I FURTHER CERTIFY that I am neither employed by nor related to any of the parties or attorneys in this case, and that I have no interest whatsoever in the final disposition of this case in any court.

WITNESS MY HAND this 6th day of March, 2008.

  
Connie Jurado, CCR, RPR  
New Mexico CCR No. 254  
Expires: December 31, 2008