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

ORIGINAL

IN THE MATTER OF THE HEARING CALLED
BY THE OIL CONSERVATION DIVISION FOR
THE PURPOSE OF CONSIDERING:

CASE NO. 14245

(REOPENED) APPLICATION OF RSC RESOURCES
LIMITED PARTNERSHIP FOR APPROVAL OF A
NON-STANDARD OIL SPACING AND PRORATION
UNIT AND COMPULSORY POOLING, EDDY
COUNTY, NEW MEXICO

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REPORTER'S TRANSCRIPT OF PROCEEDINGS
EXAMINER HEARING
April 16, 2009
Santa Fe, New Mexico

BEFORE: DAVID BROOKS: Hearing Examiner
TERRY WARNELL: Technical Advisor
RICHARD EZEANYIM: Technical Advisor

This matter came for hearing before the New Mexico
Oil Conservation Division, David Brooks Hearing Examiner,
on April 16, 2009 at the New Mexico Energy, Minerals and
Natural Resources Department, 1220 South St. Francis
Drive, Room 102, Santa Fe, New Mexico.

REPORTED BY: Peggy A. Sedillo, NM CCR NO. 88
Paul Baca Court Reporters
500 Fourth Street, NW, Suite 105
Albuquerque, NM 87102

I N D E X

1		
2		Page
3	APPLICANT'S WITNESS:	
4	KIRK SMITH	
5	Direct Examination by Mr. Bruce	3
6		
7	APPLICANT'S EXHIBITS:	
8	Exhibit 1	4
	Exhibit 1-A	5
9	Exhibit 1-B	5
	Exhibit 2	6
10	Exhibit 3	6
	Exhibit 4	7
11	Exhibit 5	10
	Exhibit 6	8
12	Exhibit 7	8
	Exhibit 8	8
13		
14	COURT REPORTER'S CERTIFICATE	12

A P P E A R A N C E S

19	FOR THE APPLICANT:	JAMES BRUCE, ESQ.
		Attorney at Law
20		P. O. Box 1056
		Santa Fe, NM 87504
21		
22		
23	FOR COG OPERATING, LLC:	J. SCOTT HALL, ESQ.
		Montgomery and Andrews, PA
24		P. O. Box 2307
		Santa Fe, NM 87504-2307
25		

1 HEARING EXAMINER: At this time we call Case
2 No. 14245, the application of RSC Resources Limited
3 Partnership for approval of a non-standard oil spacing and
4 proration unit and compulsory pooling, reopened, Eddy
5 County, New Mexico.

6 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe
7 representing the applicant. I have one witness.

8 MR. HALL: Mr. Examiner, Scott Hall of
9 Montgomery and Andrews Law Firm of Santa Fe appearing on
10 behalf of COG Operating LLC. No witnesses.

11 MR. BRUCE: Mr. Examiner, this case was heard --
12 I forgot to note on what docket it was heard, I think in
13 early to mid December. And at that point, RSC had
14 proposed a well with a surface location at 330 feet from
15 the south line and 330 feet from the east line of Section
16 30, 16 South, 28 East, with a bottom hole location or
17 terminus 330 feet from the south line and 330 feet from
18 the west line.

19 It was subsequently determined to change the
20 orientation of the well unit and the footage locations,
21 and so we reopened the case to pool a couple of parties
22 who still have not yet joined in. And that's the only
23 thing we're doing here today.

24 I would note that in your file, Mr. Randy Cate
25 did testify as to the engineering matters related to the

1 well bore. I don't propose to have him retestify about
2 it. I think the testimony would be the same as in the
3 prior hearing.

4 HEARING EXAMINER: Okay.

5 MR. BRUCE: So this would just refer to some
6 basic land matters.

7 HEARING EXAMINER: Okay. You may proceed.

8 MR. BRUCE: And if I could, our witness is Kirk
9 Smith, who has been previously -- if the record could
10 reflect that he's been previously sworn and qualified as
11 an expert landman.

12 HEARING EXAMINER: Okay, the record will so
13 reflect.

14 KIRK SMITH,

15 the witness herein, after first being duly sworn
16 upon his oath, was examined and testified as follows:

17 DIRECT EXAMINATION

18 BY MR. BRUCE:

19 Q. Mr. Smith, could you just briefly identify
20 Exhibit 1 for the Examiner?

21 A. Mr. Examiner, Exhibit 1 is a plat of Section 30,
22 the south half south half, of Township 16 South, Range 28
23 East, Eddy County, New Mexico.

24 Q. And does RSC Resources propose drilling a
25 horizontal well on this unit on this project area?

1 A. Yes.

2 Q. The second exhibit is Exhibit 1-A, a C-102.
3 Does that plat accurately reflect the new well location
4 for the proposed well?

5 A. Yes, it does.

6 Q. And will that well be -- with respect to the
7 Wolf Camp formation, will that well be at orthodox
8 locations within the project area?

9 A. Yes, it will, within the project area.

10 Q. And the surface location is unorthodox, but the
11 entry point or penetration point will be orthodox; is that
12 correct?

13 A. That's correct.

14 Q. And what is Exhibit 1-B?

15 A. Exhibit 1-B is from the United States Department
16 of the Interior, and it is a complete acknowledgement of
17 an application for permit to drill the Lucky Wolf 30 Fed.
18 Com. No. 1-H.

19 Q. Okay. An approved APD hasn't been received,
20 but the package is complete?

21 A. That's correct.

22 Q. Okay. Now, originally, as testified in the
23 prior hearing, a proposal letter or letters were sent out
24 to the interest owners with respect to the original
25 location. What is Exhibit 2?

1 A. Exhibit 2 is a well proposal that was sent out
2 on 3/10/09, and it basically constituted an affirmation of
3 the new location.

4 Q. Okay. And who was this letter sent to?

5 A. This particular letter was sent to the only
6 remaining working interest owners who have not joined,
7 being Eagle Oil and Gas, Limited, occidental Oil and Gas
8 Corporation, and COG Operating, LLC.

9 Q. And who do you seek to pool at this point?

10 A. Only Eagle Oil and Gas, Limited, and COG
11 Operating, LLC.

12 Q. And are you continuing discussions with these
13 parties?

14 A. Yes. We are extremely close to finalizing our
15 operating agreement with both of these parties.

16 Q. And if you do reach an arrangement with these
17 remaining two parties, will you notify COG?

18 A. Yes, sir.

19 Q. Okay. And what is Exhibit 3?

20 A. Exhibit 3 is a letter -- well, it's a copy of
21 the return mailing receipts to Eagle oil and Gas, Limited,
22 and COG Operating, LLC.

23 Q. Just to show that they did receive notice?

24 A. Yes, sir.

25 Q. And AFEs are attached to the letters. What are

1 the dry hole and competition costs for this proposed well?

2 A. RSC Resources projects the dry hole cost to be
3 \$1,796,000. The completion cost to be \$1,249,000, and the
4 total well cost at \$3,045,000.

5 Q. And are these costs in line with the cost of
6 other horizontal wells drilled to this depth in this area
7 in New Mexico?

8 A. Yes, currently.

9 Q. Okay. And what is Exhibit 4?

10 A. Exhibit 4 reflects the ownership of the working
11 interest. It is a unit working interest summary for a
12 166.77 acre tract covering the south half of the south
13 half of Section 30, Township 16 South, 28 East, and
14 reflects the unit working interest and their respective
15 net acres and the current status.

16 And I would note that I made a mistake,
17 Kaiser-Francis Oil Company, they have signed RSC's JOA and
18 I failed to change that. My apologies. But Anderson Oil,
19 EOG, J. Cleo Thompson, Kaiser-Francis, and Pear Resources
20 have all executed the RSC JOA.

21 Q. Okay. And in your opinion, has RSC made a
22 good-faith effort to obtain the voluntary binder of the
23 working interest owners of their proposed well?

24 A. Yes, they have.

25 Q. What overhead rates do you propose?

1 A. Our overhead rates are \$7,000 for drilling, and
2 \$700 for well administration on monthly costs.

3 Q. And are these rates fair and reasonable?

4 A. Yes.

5 Q. Do you request that they be increased or
6 adjusted periodically as provided by the COPAS accounting
7 procedures?

8 A. Yes.

9 Q. Submitted as Exhibit 6 is another land plat with
10 some attachments, Mr. Smith. Does this land plat and the
11 attachments correctly show the offset working interest
12 owners or offset operators to the proposed non-standard
13 well unit?

14 A. Yes, it does.

15 MR. BRUCE: Mr. Examiner, I skipped Exhibit 5.
16 We'll get back to that in a minute.

17 HEARING EXAMINER: Okay.

18 MR. BRUCE: Mr. Examiner, Exhibit 7 is my
19 affidavit of notice of the pooling application showing
20 that all parties did receive notice of the hearing date.

21 And Exhibit 8 is my affidavit of notice to the
22 offset operators showing that all of the offset operators
23 received or should have received actual notice of the
24 non-standard unit portion of this application.

25 I would draw you attention to the very last page

1 which was the certified mailing to Three Span Oil and Gas,
2 Inc. The postal service website shows it was refused by
3 the addressee.

4 Q. And Mr. Smith, could you comment on -- have you
5 mailed certified mail to Three Span Oil and Gas before?

6 A. Yes, Mr. Bruce. Unfortunately, there have been
7 a number of cases where Three Span has refused to execute
8 the green sheet and has obligated me, since I live in
9 Midland, to actually go over and hand deliver those
10 documents.

11 Q. The address on the notice letter to Three Span,
12 P. O. Box 51538, Midland, Texas, 79710, to the best of
13 your knowledge and information, is that a correct mailing
14 address for Three Span?

15 A. That is their current address.

16 Q. Now, let's go back to Exhibit 5, Mr. Smith.
17 Although it doesn't show on the land plats, is there
18 another well permitted in the south half -- another Wolf
19 Camp well permitted in the south half south half?

20 A. Yes, there is. The COG Operating, LLC, Donnor
21 No. 1 well bore that covers the south half south half of
22 Section 30, 16 and 28.

23 Q. And as a result, did you contacted COG about
24 allowing a second operator or second well on that well
25 unit?

1 A. Yes, I did.

2 Q. And what does Exhibit 5 reflect?

3 A. Exhibit 5 is a waiver executed by COG Operating,
4 LLC, Mr. David Copeland, the vice president, and Randall
5 S. Cate of RSC Resources, wherein COG Operating, LLC
6 hereby waives any objection to a second operator in the
7 Wolf Camp formation in the south half south half of
8 Section 30, Township 16 South, Range 28 of the New Mexico
9 principal meridian.

10 Q. Okay. And again, at this point, you are working
11 with COG with respect to drilled of probably just one well
12 on this well unit?

13 A. At this time, COG is reviewing our joint
14 operating agreement which covers all of the south half of
15 Section 30 of 16 and 28. Now, whether they will
16 participate in both wells, we don't know that answer.
17 They have budget constraints that will -- They'll give us
18 those decisions.

19 Q. Were Exhibits 1 through 6 either prepared by you
20 or under your supervision or compiled from company
21 business records?

22 A. Yes, they were.

23 Q. In your opinion, is the granting of this
24 application in the interest of conservation and the
25 prevention of waste?

1 A. Yes, it is.

2 MR. BRUCE: Mr. Examiner, I move the admission
3 of Exhibits 1 through 8.

4 HEARING EXAMINER: Exhibits 1 through 8 are
5 admitted.

6 MR. BRUCE: I have no further questions of the
7 witness.

8 HEARING EXAMINER: Mr. Hall?

9 MR. HALL: I have no questions.

10 HEARING EXAMINER: Okay. I don't believe I have
11 any questions either. So, there being nothing further,
12 Case No. 14245 will be taken under advisement.

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I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 14245
heard by me on 4-16-2009.

David K. Brady Examiner
Oil Conservation Division

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1 STATE OF NEW MEXICO)
) ss.
2 COUNTY OF BERNALILLO)

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REPORTER'S CERTIFICATE

I, PEGGY A. SEDILLO, Certified Court Reporter of the firm Paul Baca Professional Court Reporters do hereby certify that the foregoing transcript is a complete and accurate record of said proceedings as the same were recorded by me or under my supervision.

Dated at Albuquerque, New Mexico this 25th day of April, 2009.



PEGGY A. SEDILLO, CCR NO. 88
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