

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:

APPLICATION OF DGP ENERGY, LLC
FOR APPROVAL OF A UNIT AGREEMENT,
LEA COUNTY, NEW MEXICO.

CASE NO. 15860

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

October 26, 2017

Santa Fe, New Mexico

BEFORE: SCOTT DAWSON, CHIEF EXAMINER
DAVID K. BROOKS, LEGAL EXAMINER

This matter came on for hearing before the New Mexico Oil Conservation Division, Scott Dawson, Chief Examiner, and David K. Brooks, Legal Examiner, on Thursday, October 26, 2017, 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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1 APPEARANCES

2 FOR APPLICANT DGP ENERGY, LLC:

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7 INDEX

8 PAGE

9	Case Number 15860 Called	3
10	DGP Energy, LLC's Case-in-Chief:	
11	Witnesses:	
12	Kalen Boren:	
13	Direct Examination by Mr. Bruce	3
14	Cross-Examination by Examiner Dawson	8
15	Ryan O'Connell:	
16	Direct Examination by Mr. Bruce	10
17	Cross-Examination by Examiner Dawson	14
18	Proceedings Conclude	16
19	Certificate of Court Reporter	17

20

21 EXHIBITS OFFERED AND ADMITTED

22	DGP Energy, LLC Exhibit Numbers 1 through 3	8
23	DGP Energy, LLC Exhibit Numbers 4	14

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1 (9:58 a.m.)

2 EXAMINER DAWSON: At this time we're going
3 to call number five on the list, which is Case Number
4 15860.

5 Please call for appearances.

6 MR. BRUCE: Mr. Examiner, Jim Bruce of
7 Santa Fe representing the Applicant. I have two
8 witnesses.

9 EXAMINER DAWSON: Can your witnesses please
10 stand and be sworn in by the court reporter?

11 (Mr. Boren and Mr. O'Connell sworn.)

12 EXAMINER DAWSON: Continue, Mr. Bruce.
13 Thank you.

14 KALEN BOREN,
15 after having been first duly sworn under oath, was
16 questioned and testified as follows:

17 DIRECT EXAMINATION

18 BY MR. BRUCE:

19 Q. Would you please state your name and city of
20 residence for the record?

21 A. Kalen Boren, Forney, Texas.

22 Q. Could you spell your name for the Examiner?

23 A. K-A-L-E-N; last name, Boren, B-O-R-E-N.

24 Q. Who do you work for and in what capacity?

25 A. I work for DG Petro, Oil & Gas. We're the

1 managing member of DGP Energy, LLC, and I'm the vice
2 president of land.

3 Q. Have you previously testified before the
4 Division?

5 A. No.

6 Q. Would you summarize your educational and
7 employment background for the Examiner?

8 A. I attended Stephen F. Austin State University
9 where I studied biology and chemistry, and TCU where I
10 studied a little bit of business and achieved my
11 petroleum practices from there.

12 Q. That's --

13 A. Sorry. Go ahead.

14 Q. Go ahead.

15 A. Over the past 12 years, I've been in lease
16 acquisitions throughout North America in the Marcellus,
17 Eagle Ford and Delaware. That's just where they send me
18 pretty much.

19 Q. Does your area of responsibility at DGP include
20 this area of southeast New Mexico?

21 A. Yes, it does.

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

24 A. Yes, I am.

25 Q. What is Exhibit 1?

1 A. Exhibit 1 is the unit agreement proposed for
2 the Gold Wolf Unit, which covers the north half and the
3 southeast quarter of Section 24, 16 South, 34E, and
4 Section 19, 16 South, 35E.

5 **Q. What formations does the unit cover?**

6 A. It covers all depths, but the initial target is
7 the Wolfcamp.

8 **Q. What type of lands are in the unit area?**

9 A. It is all state lands.

10 **Q. And is this unit agreement the standard form**
11 **taken from the land office Web site?**

12 A. Yes.

13 **Q. Who is the operator under the unit agreement?**

14 A. DGP Energy, LLC.

15 **Q. And is DGP a duly qualified operator under**
16 **Division regulations?**

17 A. Yes.

18 **Q. Let's turn to the exhibits to the unit**
19 **agreement. Go first to Exhibit A, the land plat. Could**
20 **you briefly describe the leases involved in this**
21 **proposed unit?**

22 A. The leases involved in this are state leases
23 that we recently acquired from a PSA. We own the
24 majority them. The other lease is a state lease owned
25 by Cimarex Energy Company.

1 Q. Okay. So leases two and three are owned by
2 DGP?

3 A. Yes, sir.

4 Q. The southwest corner -- quarter of Section 24
5 is omitted from the proposed unit. Why is that?

6 A. Because it was currently and is part of the
7 northeast Kemitz Unit.

8 (The court reporter requested a repeat of
9 the unit name.)

10 THE WITNESS: Kemitz.

11 MR. BRUCE: K-E-M-I-T-Z.

12 Q. (BY MR. BRUCE) And does Exhibit B list all of
13 the tracts, the acreage and the interest owners in the
14 unit?

15 A. Yes, sir, it does.

16 Q. And this is a voluntary agreement, correct?

17 A. Yes, sir.

18 Q. And have you met with the land office -- or
19 have you submitted a proposal to the land office
20 regarding unitization?

21 A. We have, and we have received preliminary
22 approval.

23 Q. And the preliminary approval from the land
24 office is marked as Exhibit 2; is it not?

25 A. Yes, sir.

1 Q. Have you had discussions with the other
2 interest owners in the unit regarding ratifying the
3 unit?

4 A. Yes, sir, we have. We've been in contact with
5 Cimarex, and I've attached a timeline and emails,
6 correspondence. I believe it's --

7 Q. And will you continue to negotiate with
8 Cimarex?

9 A. Absolutely.

10 Q. And then there is one overriding royalty owner.
11 Are you contacting them regarding the unit?

12 A. They have been contacted by ratification. Yes,
13 sir.

14 Q. And by the time the unit would be finally
15 approved -- it will probably be the end of the year, I
16 believe is what the land office informed us; is that
17 correct?

18 A. Yes.

19 Q. Are there any pending lease expirations?

20 A. No. Two of the leases expire November 1st of
21 2018. The other one is HBP. We are unitizing for
22 operational reasons that our geologist will discuss.

23 Q. Were Exhibits 1 through 3 either prepared by
24 you or compiled from company business records?

25 A. Yes.

1 **Q. And in your opinion, is the granting of this**
2 **application in the interest of conservation and the**
3 **prevention of waste?**

4 A. Yes.

5 MR. BRUCE: Mr. Examiner, I move the
6 admission of Exhibits 1, 2 and 3.

7 EXAMINER DAWSON: Exhibits 1, 2 and 3 will
8 be admitted to the record at this time.

9 (DGP Energy, LLC Exhibit Numbers 1 through
10 3 are offered and admitted into evidence.)

11 MR. BRUCE: And I do not know if I
12 requested that Mr. Boren be recognized as an expert
13 petroleum landman, but I do request that, just in case I
14 forgot.

15 EXAMINER DAWSON: Mr. Boren will be
16 accepted as an expert petroleum landman at this time
17 also.

18 MR. BRUCE: And I have no further questions
19 of this witness.

20 EXAMINER DAWSON: Okay. David, do you have
21 questions?

22 EXAMINER BROOKS: No questions.

23 CROSS-EXAMINATION

24 BY EXAMINER DAWSON:

25 **Q. I have a few questions, Mr. Boren.**

1 A. Yes, sir.

2 Q. This unit agreement, this is a revised Web
3 version from the State Land Office?

4 A. Yes, sir.

5 Q. Are there any contraction clauses within this
6 unit agreement?

7 A. Not that I'm aware of.

8 Q. There is a drilling-to-discovery clause or a
9 drilling commitment within the unit language in the
10 unit?

11 A. I believe there is.

12 Q. Okay. And you will fully develop this acreage?

13 A. Yes. We will fully develop the acreage. That
14 is the intention.

15 Q. And you plan on drilling your wells --

16 A. Yes.

17 Q. -- back-to-back?

18 A. I'm not sure about back-to-back. It will be
19 several months before we do get to drill this well.

20 Q. That's all the questions I have. Thank you
21 very much.

22 MR. BRUCE: I do have a geologist.

23 EXAMINER DAWSON: Okay. Call the second
24 witness, the geologist.

25 RYAN O'CONNELL,

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

3 DIRECT EXAMINATION

4 BY MR. BRUCE:

5 **Q. State your name for the record.**

6 A. Ryan O'Connell.

7 **Q. Where do you reside?**

8 A. McKinney, Texas.

9 **Q. Who do you work and in what capacity?**

10 A. I work for DG Petro Oil & Gas, LLC, which is
11 the managing member of DPG Energy, LLC. I am the vice
12 president of geosciences.

13 **Q. Have you previously testified before the**
14 **Division?**

15 A. No.

16 **Q. Would you summarize your educational and**
17 **employment background for the Examiner?**

18 A. I received my bachelor's degree in geology from
19 the Indiana University of Pennsylvania. I received my
20 master's degree in geology as well from the University
21 of Texas at Dallas.

22 I began -- I have ten years of experience
23 as a geologist. I began my career as an intern with
24 Petroleum Development Corporation and Dominion
25 Exploration and Production, and then moved on to staff

1 geologist with Murray Energy Corporation, and then from
2 there, went to Urban Oil & Gas Group in Plano, Texas.
3 And then previously to DGP, I was a contracting
4 geologist with EnCap Investments.

5 **Q. And are you familiar with the geology involved**
6 **in this application?**

7 A. Yes.

8 MR. BRUCE: Mr. Examiner, I tender
9 Mr. O'Connell as an expert petroleum geologist.

10 EXAMINER DAWSON: At this time
11 Mr. O'Connell will be accepted as an expert petroleum
12 geologist.

13 **Q. (BY MR. BRUCE) Mr. O'Connell, what -- the unit**
14 **does include all depths. What are the initial target**
15 **zones or --**

16 A. We'll initially be testing the Pennsylvania
17 Shale member of the Wolfcamp Formation.

18 **Q. And is Exhibit 4 the geologic write-up that was**
19 **submitted to the State Land Office to obtain preliminary**
20 **approval?**

21 A. Yes. That's correct.

22 **Q. Could you run through Exhibit 4 and describe**
23 **the geology in the initial target zone?**

24 A. Sure. Briefly, the Pennsylvania Shale is a
25 very consistent stratigraphic unit, approximately 690

1 feet of gross thickness. It's lithologically comprised
2 of calcareous mud siltstone. It's horizontal and
3 vertical, variations of dolomite limestone with varying
4 clay minerals, usually smectite and illite. This
5 formation was deposited during the Late Pennsylvanian-
6 Permian from turbidite and associated facies --

7 Q. Does DGP have plans for drilling other Wolfcamp
8 wells outside of the unit area?

9 A. Yes.

10 Q. And what -- is the -- going through the
11 exhibit, you have a -- the isopach and the structure and
12 cross section. Is the Wolfcamp or the Pennsylvanian
13 that you're talking about continuous across the area?

14 A. Yes, it is.

15 Q. And will your initial well be a stand-up well,
16 north-south?

17 A. Yes.

18 Q. Okay. And I believe the drilling-to-discovery,
19 that's required by the unit agreement. You're going to
20 drill one well and see how that performs before you
21 commence other wells?

22 A. Yes.

23 Q. What are the basic reasons DGP desires to
24 unitize this area to develop this acreage?

25 A. Well, the Pennsylvanian Shale is under the

1 early stages of exploration development, which makes it
2 kind of risky to drill. DGP's goal is to determine the
3 most economic exploitation practices for horizontal
4 development in the Pennsylvania Shale. Unitization will
5 allow interest owners to kind of spread risk, sharing
6 the benefits of participating in the wells and minimize
7 our operational surface footprint. DGP will have the
8 opportunity to infill wells at unorthodox locations
9 without impairing correlative rights, use less surface
10 and combine production facilities, which will ultimately
11 lead to additional revenues for the parties.

12 **Q. Is it -- per section, do you anticipate**
13 **drilling more than four wells per section?**

14 A. Per section, we anticipate six to eight.

15 **Q. And although this unit agreement covers all**
16 **depths, are there any other prospective zones at this**
17 **time?**

18 A. No, not at this time.

19 **Q. Was Exhibit 4 prepared by you or under your**
20 **supervision?**

21 A. Yes.

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

25 A. Yes.

1 MR. BRUCE: Mr. Examiner, I tender the
2 admission of Exhibit 4.

3 EXAMINER DAWSON: Exhibit 4 will be
4 admitted to the record at this time.

5 (DGP Energy, LLC Exhibit Number 4 is
6 offered and admitted into evidence.)

7 MR. BRUCE: No further questions of this
8 witness.

9 EXAMINER DAWSON: Okay. Do you have
10 questions, David?

11 EXAMINER BROOKS: No questions.

12 CROSS-EXAMINATION

13 BY EXAMINER DAWSON:

14 Q. I have a few questions, Mr. O'Connell.

15 When you met with the Land Office for
16 preliminary approval on this, did you -- do you have an
17 idea of where your initial well will be drilled?

18 A. We haven't penciled in a location yet. It will
19 not be the portion that will overlap with the Kemitz
20 Unit. I know that much. Probably the eastern half will
21 be held 100 percent interest right now.

22 MR. BRUCE: East half of Section 24?

23 THE WITNESS: Yes, sir.

24 Q. (BY EXAMINER DAWSON) And you do have some
25 leases that are coming up with -- was it 11/2018, the

1 **expiration date; is that correct?**

2 A. These two, yes.

3 **Q. And you plan on spudding this well prior to the**
4 **expiration --**

5 A. Yes, sir.

6 **Q. -- of those leases?**

7 **Okay.**

8 MR. BRUCE: Mr. Examiner, to be clear, a
9 request for preliminary approval was submitted together
10 with this Exhibit 4. Because the unit was small,
11 Ms. Grubel at the Land Office did not deem an in-person
12 meeting necessary.

13 **Q. (BY EXAMINER DAWSON) This unit agreement, it's**
14 **a newer version of the unit agreement and -- so were you**
15 **involved with the unit agreement, or was that --**

16 A. Not drafting it, no, sir, just the geologic
17 evaluation.

18 **Q. Okay.**

19 MR. BRUCE: Other than the exhibits
20 attached to the unit agreement, Mr. Examiner, it's
21 virtually hot off the presses of the land office Web
22 site with no changes.

23 EXAMINER DAWSON: Okay. That's all the
24 questions I have. Thank you very much.

25 THE WITNESS: Thank you, sir.

1 EXAMINER DAWSON: So at this time, Case
2 Number 15860 will be taken under advisement.

3 (Case Number 15860 concludes, 10:11 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

21

22 MARY C. HANKINS, CCR, RPR
23 Certified Court Reporter
24 New Mexico CCR No. 20
25 Date of CCR Expiration: 12/31/2017
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