

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 AMEREDEV OPERATING, CASE NO. 15930
LLC FOR A NONSTANDARD SPACING
AND PRORATION UNIT AND COMPULSORY
POOLING, LEA COUNTY, NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

January 11, 2018

Santa Fe, New Mexico

BEFORE: MICHAEL McMILLAN, CHIEF EXAMINER
 WILLIAM V. JONES, TECHNICAL EXAMINER
 DAVID K. BROOKS, LEGAL EXAMINER

This matter came on for hearing before the
New Mexico Oil Conservation Division, Michael McMillan,
Chief Examiner, William V. Jones, Technical Examiner,
and David K. Brooks, Legal Examiner, on Thursday,
January 11, 2018, 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
 New Mexico CCR #20
 Paul Baca Professional Court Reporters
 500 4th Street, Northwest, Suite 105
 Albuquerque, New Mexico 87102
 (505) 843-9241

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APPEARANCES

FOR APPLICANT AMEREDEV OPERATING, LLC:

JORDAN L. KESSLER, ESQ.
HOLLAND & HART, LLP
110 North Guadalupe, Suite 1
Santa Fe, New Mexico 87501
(505) 988-4421
jlkessler@hollandhart.com

FOR INTERESTED PARTIES S.E.S. RESOURCES, LLC and
PETRAITIS OIL & GAS, LLC:

JAMES G. BRUCE, ESQ.
Post Office Box 1056
Santa Fe, New Mexico 87504
(505) 982-2043
jamesbruc@aol.com

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25	(10:55 a.m.)	

1 EXAMINER McMILLAN: The next case I have is
2 Case Number 15931, application of Matador Production
3 Company for a nonstandard spacing and proration unit,
4 Eddy County, New Mexico.

5 Call for appearances.

6 MS. KESSLER: Mr. Examiner, just a brief
7 clarification, I believe the Ameredev application is
8 next on the docket.

9 EXAMINER McMILLAN: Oh, I'm sorry. Okay.
10 It doesn't really matter.

11 We'll do application of Ameredev Operating,
12 LLC for a nonstandard spacing and proration unit and
13 compulsory pooling, Lea County, New Mexico.

14 Call for appearances.

15 MS. KESSLER: Mr. Examiner, Jordan Kessler,
16 from the Santa Fe office of Holland & Hart, on behalf of
17 the Applicant.

18 EXAMINER McMILLAN: Okay. Please proceed.

19 MR. BRUCE: Mr. Examiner, Jim Bruce
20 entering an appearance on behalf of S.E.S. Resources,
21 LLC and Petraitis Oil & Gas, LLC. That's spelled
22 P-E-T-R-A-I-T-I-S. I have no witnesses.

23 MS. KESSLER: Two witnesses today.

24 EXAMINER McMILLAN: Would the witnesses
25 please stand up and be sworn in at this time?

1 MS. KESSLER: May I proceed?

2 EXAMINER McMILLAN: Please proceed.

3 BRANDON FORTEZA,

4 after having been first duly sworn under oath, was
5 questioned and testified as follows:

6 DIRECT EXAMINATION

7 BY MS. KESSLER:

8 Q. Please state your name for the Examiners and
9 tell us by whom you're employed and in what capacity.

10 A. My name is Brandon Forteza. I'm a landman with
11 Ameredev II, LLC.

12 Q. And have you previously testified before the
13 Division?

14 A. I have not.

15 Q. Can you please outline your educational
16 background?

17 A. Sure. A bachelor's degree from Texas A & M
18 University, MBA from Baylor.

19 Q. And in what years?

20 A. 2005 from A & M and 2012 from Baylor.

21 Q. What has been your work history?

22 A. I started as a petroleum landman in 2005. I've
23 worked in various roles in onshore and offshore basins
24 for small companies and large independents.

25 Q. And does your experience in the Permian Basin

1 extend back to approximately 2015?

2 A. Yes.

3 Q. And are you a member of any professional
4 associations?

5 A. I'm a member of AAPL, Permian Basin Landmen's
6 Association, and I'm a registered professional landman.

7 Q. Are you familiar with the application filed in
8 this case?

9 A. I am.

10 Q. And are you familiar with the status of the
11 lands in the subject area?

12 A. Yes.

13 MS. KESSLER: Mr. Examiner, I tender
14 Mr. Forteza as an expert in petroleum land matters.

15 MR. BRUCE: No objection.

16 EXAMINER McMILLAN: So qualified.

17 Q. (BY MS. KESSLER) Can you please explain what
18 Ameredev seeks under this application?

19 A. We're seeking to pool a 320-acre nonstandard
20 spacing unit in the west half-west half of Sections 15
21 and 22 of 26-36 in Lea County, New Mexico.

22 Q. Do you also seek to pool the uncommitted
23 interest owners in the Wolfcamp Formation?

24 A. We do.

25 Q. Do you seek to dedicate the spacing unit to two

1 **initial wells?**

2 A. Yes. The wells are the Magnolia State Com
3 26-36-22, the 101H and the 111H.

4 **Q. And is the spacing unit comprised of state**
5 **acreage?**

6 A. It's all state acreage.

7 **Q. Let's turn to Exhibit 1. Is this the draft**
8 **C-102 for the Magnolia State Com 26-36-22 #101H well?**

9 A. It is.

10 **Q. Has an APD been approved for this well?**

11 A. An APD has not been submitted to date.

12 **Q. So this is a draft --**

13 A. A draft C-102.

14 **Q. Did the Division designate a pool for this**
15 **area?**

16 A. Yes, they did. It's the Wolfcamp wildcat, Pool
17 Code 98230.

18 **Q. Thank you.**

19 **Is that pool subject to Division statewide**
20 **rules?**

21 A. Yes.

22 **Q. And will the completed interval for the 101H**
23 **comply with the Division statewide 330-foot setback**
24 **requirements?**

25 A. It will.

1 Q. Is Exhibit 2 the draft C-102 for the Magnolia
2 State Com 26-36-22 #111H well?

3 A. It is.

4 Q. And, again, this is just a draft. It hasn't
5 been submitted, correct?

6 A. That's correct.

7 Q. Is this the same spacing unit as the 101H well?

8 A. It is the same spacing unit, the west half-west
9 half of Sections 15 and 22.

10 Q. And it's the same pool, correct?

11 A. Correct.

12 Q. Will the completed interval for the 111H well
13 comply with the Division statewide setback requirements?

14 A. Yes.

15 Q. Are there any depth severances in this pool?

16 A. No, there are not.

17 Q. And, in fact, are there any depth severances
18 between the Bone Spring and the Wolfcamp in the spacing
19 unit?

20 A. There are not.

21 Q. Why is Ameredev seeking to dedicate the spacing
22 unit to two initial wells?

23 A. We're planning to drill these wells back to
24 back and --

25 Q. It will be a pad drill?

1 A. Yes, from the same pad.

2 Q. And are there economic efficiencies associated
3 with pad drilling?

4 A. Yes.

5 Q. Were all of the interest owners provided notice
6 of Ameredev's plan to dedicate two initial wells to the
7 spacing unit?

8 A. They were.

9 Q. Did any of them object?

10 A. No.

11 Q. The well-proposal letters notified of the depth
12 of each of the wells; is that correct?

13 A. Yes, they did.

14 Q. And the application for hearing also identified
15 two initial wells?

16 A. Yeah.

17 Q. Does Exhibit 3 identify the interest owners in
18 the nonstandard spacing unit?

19 A. It does.

20 Q. That would be on page 2, correct?

21 A. That's correct.

22 Q. It also shows the parties that you seek to pool
23 today?

24 A. Yes. We are seeking to pool S.E.S. Resources,
25 Petraitis Oil & Gas and Blackbeard Resources.

1 Q. What types of interests are these?

2 A. They're all working interests.

3 Q. Are there overriding royalty interest owners in
4 this spacing unit?

5 A. There are.

6 Q. And are all of their interests committed by
7 virtue of the documents creating those overrides?

8 A. Yes.

9 Q. So they were not included in notice of this
10 hearing --

11 A. No.

12 Q. -- because you're not seeking to pool them?

13 A. Correct.

14 Q. Is Exhibit 4 a copy of the well-proposal letter
15 and AFE that you sent for the 101H well?

16 A. It is.

17 Q. On what date was this letter sent?

18 A. November 1st, 2017.

19 Q. You said it included an AFE?

20 A. It did. It included an AFE.

21 Q. Are the costs on this AFE consistent with what
22 other operators in the area charge for similar
23 horizontal wells?

24 A. They are.

25 Q. Is Exhibit 5 a copy of the well-proposal

1 letters for the 111H well?

2 A. It is.

3 Q. And on what date were the letters sent?

4 A. November 1st, 2017.

5 Q. And these are both samples of the letters sent,
6 but all of the letters were sent to all of the
7 uncommitted interest owners; is that correct?

8 A. That's correct.

9 Q. Looking at the AFE for the 111H well, are the
10 costs in the AFE also consistent with what other
11 operators charge for similar wells?

12 A. Yes.

13 Q. Has Ameredev estimated overhead and
14 administrative costs for drilling and producing?

15 A. Yes, we have. We estimate 7,000 a month while
16 drilling and 700 a month while producing.

17 Q. Okay. Is that similar to what other operators
18 in the area charge for two-mile Wolfcamp wells?

19 A. Yes.

20 Q. Do you ask that those costs be incorporated
21 into any order resulting from this hearing?

22 A. Yes.

23 Q. And that they be periodically adjusted in
24 accordance with the COPAS accounting procedure?

25 A. Yes, we do.

1 Q. For uncommitted interest owners, do you request
2 that the Division impose a 200 percent risk penalty?

3 A. Yes.

4 Q. In addition to sending the well-proposal
5 letters, can you please outline the efforts that you've
6 undertaken to reach the parties you're seeking to pool?

7 A. Sure. In addition to proposing the wells to
8 S.E.S., Petraitis and Blackbeard, we made attempts to
9 purchase their working interests on several occasions.
10 We're continuing to reach an agreement on that front.

11 Q. So you've specifically located and had
12 conversations with each of those parties?

13 A. Yes. We've had email and phone conversations.

14 Q. And you're continuing to negotiate with S.E.S.
15 and Petraitis; is that correct?

16 A. That's correct.

17 Q. And in the event you reach an agreement with
18 those interest owners, will you notify the Division?

19 A. We will.

20 Q. And in your opinion, did you make a good-faith
21 effort to reach agreement with those parties?

22 A. Yes.

23 Q. Were all of the parties locatable?

24 A. Yes, they were.

25 Q. And did Ameredev identify the offset operators

1 or lessees of record of the 40-acre tracts surrounding
2 those nonstandard units?

3 A. We did.

4 Q. Is Exhibit 6 an affidavit prepared by my office
5 with attached letters providing notice of this hearing
6 to the parties that you seek to pool, as well as
7 offsets?

8 A. It is.

9 Q. And it looks like one of the parties that you
10 seek to pool we did not receive a green card back. Is
11 Exhibit 7 an Affidavit of Publication directed to the
12 pooled parties, the parties that you seek to pool?

13 A. Yes. Yes, it is.

14 Q. Were Exhibits 1 through 5 prepared by you or
15 compiled under your direction and supervision?

16 A. They were.

17 MS. KESSLER: Mr. Examiner, I move
18 admission of Exhibits 1 through 7, which includes my two
19 affidavits.

20 EXAMINER McMILLAN: Excuse me. Jim?

21 MR. BRUCE: No.

22 EXAMINER McMILLAN: Exhibits 1 through 7
23 may now be accepted as part of the record.

24 (Ameredev Operating, LLC Exhibit Numbers 1
25 through 7 are offered and admitted into

1 evidence.)

2 CROSS-EXAMINATION

3 BY EXAMINER McMILLAN:

4 Q. You don't have any APIs yet?

5 A. We have not submitted APDs yet.

6 MR. McMILLAN: I don't have any other

7 questions.

8 EXAMINER McMILLAN: Go ahead.

9 CROSS-EXAMINATION

10 BY EXAMINER BROOKS:

11 Q. Let me see. Where is your schedule of
12 interests? Is that -- is it Exhibit 3, page 2? Is that
13 your schedule of interests?

14 A. Yes, sir.

15 Q. And you've put asterisks by the people that
16 you're force pooling or asking us to force pool?

17 A. Yes, sir.

18 Q. Ameredev New Mexico has a 69.64 percent
19 interest. That's the Applicant?

20 A. Yes, sir.

21 Q. Okay. And these remaining interests are
22 being -- are to be force pooled.

23 Now, what's the notice situation on this?

24 Do you have -- have you given actual notice to these
25 parties?

1 A. Yes, sir.

2 **Q. Okay. So you also have a publication. When**
3 **was that done?**

4 MS. KESSLER: Mr. Examiner, one of the
5 green cards has not yet been returned for Petraitis.

6 EXAMINER BROOKS: Yeah. That's -- Exhibit
7 7 is the Affidavit of Publication.

8 MS. KESSLER: But as the witness previously
9 stated, he's had conversations with each of those
10 parties. They're all locatable. They had good
11 addresses. We just haven't received green card back
12 yet.

13 EXAMINER BROOKS: Okay. Very good. Thank
14 you. That's all I have.

15 CROSS-EXAMINATION

16 BY EXAMINER JONES:

17 **Q. Are these standard locations, both of these?**

18 A. Yes. Yeah.

19 **Q. I don't have any more questions. Thanks.**

20 MS. KESSLER: I'll call my next witness.

21 EXAMINER McMILLAN: You don't have a
22 rebuttal or anything?

23 MR. BRUCE: No. I don't have any questions
24 of the witness.

25 EXAMINER McMILLAN: Please proceed.

1 Thank you.

2 THE WITNESS: Thank you.

3 ERIC RHODEN,

4 after having been previously sworn under oath, was
5 questioned and testified as follows:

6 DIRECT EXAMINATION

7 BY MS. KESSLER:

8 Q. Will you please state your name for the record
9 and tell the Examiners by whom you're employed and in
10 what capacity?

11 A. My name is Eric Rhoden. I'm vice president of
12 geology for Ameredev Operating.

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

15 A. Yes.

16 Q. Were your credentials as an expert in petroleum
17 geology accepted and made a matter of record?

18 A. Yes, they were.

19 Q. Are you familiar with the application filed by
20 Ameredev in front of the Division today?

21 A. Yes.

22 Q. Have you conducted a geologic study of the
23 Wolfcamp in the subject area?

24 A. Yes, I have.

25 MS. KESSLER: Mr. Examiners, I would tender

1 Mr. Rhoden as an expert in petroleum geology.

2 EXAMINER McMILLAN: Excuse me. Jim?

3 MR. BRUCE: No objection.

4 EXAMINER McMILLAN: So qualified.

5 Q. (BY MS. KESSLER) Can you please turn to what's
6 been marked as Exhibit 8 and identify it for the
7 Examiners?

8 A. So this is a locator map showing our proposed
9 well locations of Ameredev acreage and nearby Wolfcamp
10 wells.

11 Q. The Ameredev acreage is in yellow here?

12 A. Yes.

13 Q. And the one -- let's see. A handful of wildcat
14 wells in the area, or is there only one producing
15 wildcat?

16 A. There is only one producing horizontal Wolfcamp
17 well within this map area.

18 Q. Is Exhibit 9 a structure map of the Wolfcamp in
19 this area?

20 A. Yes, it is. This is a structure map on the top
21 of the Wolfcamp, reference to sea level, with a 50-foot
22 contour interval.

23 Q. What do you see with respect to the structure
24 in the proposed spacing unit?

25 A. Its structure indicates a fairly simple west to

1 southwest dip. There are no known faults or hazards.

2 Q. So nothing in the structure in this area that
3 would be an impediment to horizontal drilling?

4 A. No.

5 Q. Is Exhibit 9 the locator map with a line of
6 section drawn on it? I'm sorry. It's Exhibit 10.

7 A. Exhibit 10. Yes, it is.

8 Q. Are there three wells on your cross section?

9 A. Yes, it is. These are showing the three wells
10 that we used that are representative of the Wolfcamp
11 Formation in our proposed well area.

12 Q. All right. Exhibit 11 is the corresponding
13 cross-section exhibit; is that correct?

14 A. Correct. Yes.

15 Q. Can you please review this exhibit?

16 A. So this is -- this is essentially a north-south
17 cross section showing the three wells that are
18 representative of the Wolfcamp area of our proposed
19 area. As you can see, it's showing -- this is flattened
20 on top of the Wolfcamp Formation, and it's showing the
21 continuity of the Wolfcamp across this area, with no
22 major variation and thicknesses, the logs curves
23 indicating, you know, similar reservoir quality across
24 the area. And then this is also highlighting our
25 landing zones -- proposed landing zones for the 101H and

1 the 111H.

2 Q. Okay. You mentioned your landing zones. For
3 the 101H well, approximately how far from the top of the
4 Wolfcamp do you expect to be?

5 A. Well, the plan is to drill a pilot well and log
6 it and do our science and evaluate it. But based on the
7 data that we have in existing wells, we're expecting 75
8 to 100 feet below the top of the Wolfcamp most likely.

9 Q. Did you hear the land -- the landman's
10 testimony earlier that ownership is identical between
11 the Bone Spring and the Wolfcamp Formations?

12 A. Yes, I did.

13 Q. Based on your geologic study of this area, have
14 you identified any geologic hazards to drilling two-mile
15 horizontal wells?

16 A. No, I have not.

17 Q. And do you believe that each quarter-quarter
18 section in the Wolfcamp will contribute, more or less,
19 equally to production from each of the wells?

20 A. Yes, I do.

21 Q. Do you believe that horizontal drilling is the
22 most economic and efficient way to develop this acreage?

23 A. Yes, I do.

24 Q. In your opinion, will granting this application
25 be in the best interest of conservation, for the

1 prevention of waste and the protection of correlative
2 rights?

3 A. Yes.

4 Q. Were Exhibits 8 through 11 prepared by you or
5 compiled under your direction and supervision?

6 A. Yes, they were.

7 MS. KESSLER: Mr. Examiner, I'd move
8 admission of Exhibits 8 through 11.

9 MR. BRUCE: No objection.

10 EXAMINER McMILLAN: Exhibits 8 through 11
11 may now be accepted as part of the record.

12 (Ameredev Operating, LLC Exhibit Numbers 8
13 through 11 are offered and admitted into
14 evidence.)

15 EXAMINER McMILLAN: I don't have any
16 questions.

17 EXAMINER BROOKS: No questions.

18 CROSS-EXAMINATION

19 BY EXAMINER JONES:

20 Q. Eric, on your cross section, on, say, the first
21 well there, the Southwest Fed #1, on the bottom like at
22 11,900 feet, what is that? Is that an anhydrite or
23 something?

24 A. It's a carbonate.

25 Q. It's a really sharp change.

1 A. There's some -- debris flows that --

2 Q. Oh, okay.

3 A. -- you know, you can -- they're massive -- in
4 some cases, massive carbonate debris flows that are
5 tight. And then you're also sitting, you know, right on
6 top of -- Strawn, which is also a clean carbonate. So
7 sometimes it's difficult to distinguish exactly what the
8 Strawn is versus just a debris flow in the Wolfcamp.

9 Q. Okay. So there is no Cisco Canyon in this
10 area?

11 A. Not in this area.

12 Q. Goes straight into the Strawn?

13 A. It does.

14 Q. So that's the same thing over on the Pawnee
15 Deep Unit #1 that really --

16 A. That's a debris flow. That 11,650 to 7,
17 roughly?

18 Q. Yeah.

19 A. Yeah. That's also a debris flow. Generally,
20 you know, you'll oftentimes see it in one well and then,
21 you know, next closest well a mile away, whatever it is,
22 it's not present. So they kind of aren't 100 percent
23 predictable. But in this area, they tend to be kind of
24 in that lower portion of the A, and then as you move
25 east, closer to the platform, it kind of becomes or -- I

1 guess it becomes more prevalent, maybe. But moving
2 west, they're less common.

3 Q. As you drill -- as you drill these wells, what
4 will you -- what information will you have that makes
5 you confident that the well is going to be a decent
6 well? I mean, what are you seeing? You're seeing the
7 mud log and --

8 A. Well, when we log it with porosity, we're
9 obviously running, you know, a modern suite of porosity.
10 Most of these wells out here are older wells, and we
11 don't have, you know, a full suite of logs. So we're
12 running a full suite of logs, and we're running FMIs and
13 NMR, CMR tools to help quantify hydrocarbon removal
14 [sic] and hydrocarbon removal [sic] fluids, and using
15 that data to help us refine our landing zone exactly
16 where we place our well.

17 Q. Okay. Thanks very much.

18 A. You're welcome.

19 EXAMINER McMILLAN: Thank you very much.

20 MS. KESSLER: I'd ask this case be taken
21 under advisement.

22 MR. BRUCE: No questions.

23 EXAMINER McMILLAN: Jim, will you email me
24 to make sure I have the name of whoever you're
25 representing correctly because their names are confusing

1 to me.

2 Thank you very much.

3 Case Number 15930 will be taken under
4 advisement.

5 Thank you.

6 (Case Number 15930 concludes, 11:16 a.m.)

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25 STATE OF NEW MEXICO

1 COUNTY OF BERNALILLO

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3 CERTIFICATE OF COURT REPORTER

4 I, MARY C. HANKINS, Certified Court
5 Reporter, New Mexico Certified Court Reporter No. 20,
6 and Registered Professional Reporter, do hereby certify
7 that I reported the foregoing proceedings in
8 stenographic shorthand and that the foregoing pages are
9 a true and correct transcript of those proceedings that
10 were reduced to printed form by me to the best of my
11 ability.

12 I FURTHER CERTIFY that the Reporter's
13 Record of the proceedings truly and accurately reflects
14 the exhibits, if any, offered by the respective parties.

15 I FURTHER CERTIFY that I am neither
16 employed by nor related to any of the parties or
17 attorneys in this case and that I have no interest in
18 the final disposition of this case.

19 DATED THIS 26th day of January 2018.

20

21 MARY C. HANKINS, CCR, RPR
22 Certified Court Reporter
23 New Mexico CCR No. 20
24 Date of CCR Expiration: 12/31/2018
25 Paul Baca Professional Court Reporters

24

25