

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, LLC CASE NO. 16111
FOR A NONSTANDARD SPACING AND PRORATION
UNIT AND COMPULSORY POOLING, LEA COUNTY,
NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

May 3, 2018

Santa Fe, New Mexico

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

This matter came on for hearing before the New Mexico Oil Conservation Division, Michael McMillan, Chief Examiner, Scott Dawson, Technical Examiner, and David K. Brooks, Legal Examiner, on Thursday, May 3, 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.

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APPEARANCES

FOR APPLICANT AMEREDEV OPERATING, LLC:

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1 (10:36 a.m.)

2 EXAMINER McMILLAN: I'd like to call this
3 hearing back to order.

4 Basically, the Holland & Hart attorneys are
5 up. Easiest way to do it.

6 All I'm saying is if the attorneys can do
7 their notice cases or however you want to do it.

8 MR. RANKIN: Mr. Examiner, just to save
9 people from have having to go through all my notices, if
10 I could do that at the end.

11 EXAMINER McMILLAN: That's fine, however
12 you want to do it.

13 Okay. I would like to call Case Number
14 16111, application of Ameredev Operating, LLC for a
15 nonstandard spacing and proration unit and compulsory
16 pooling, Lea County, New Mexico.

17 Call for appearances.

18 MS. BROGGI: My name is Julia Broggi, and
19 I'm with Holland & Hart, appearing on behalf of the
20 Applicant, Ameredev. We have two witnesses.

21 EXAMINER McMILLAN: Any other witnesses?

22 MR. BRUCE: Mr. Examiners, Jim Bruce for
23 S.E.S. Resources, LLC. I have no witnesses.

24 EXAMINER McMILLAN: Okay. If the witnesses
25 would please stand up and be sworn in at this time.

1 Thank you.

2 (Mr. Forteza and Mr. Foy sworn.)

3 MS. BROGGI: I'd like to call my first
4 witness.

5 EXAMINER McMILLAN: Please proceed.

6 BRANDON FORTEZA,
7 after having been first duly sworn under oath, was
8 questioned and testified as follows:

9 DIRECT EXAMINATION

10 BY MS. BROGGI:

11 Q. Would you please state your full name, by whom
12 you're employed and in what capacity?

13 A. I'm Brandon Forteza. I'm a landman at
14 Ameredev.

15 Q. And have you previously testified before the
16 Division as an expert witness in petroleum land matters?

17 A. Yes, I have.

18 Q. And have your credentials as a petroleum
19 landman been accepted by this Division?

20 A. Yes.

21 Q. Are you familiar with the application filed in
22 this case, Number 16111?

23 A. Yes.

24 Q. And are you familiar with the status of the
25 lands in that subject area?

1 A. Yes.

2 MS. BROGGI: At this time, Mr. Examiner, we
3 would tender Mr. Forteza as an expert witness in
4 petroleum land matters.

5 MR. BRUCE: No objection.

6 EXAMINER McMILLAN: So qualified.

7 **Q. (BY MS. BROGGI) Mr. Forteza, has Ameredev filed**
8 **C-102 well plats for each of the two proposed wells in**
9 **this case?**

10 A. Yes, we have.

11 **Q. And if you would look in your packet at what's**
12 **been marked as Ameredev Exhibits 1 and 2 in that**
13 **packet --**

14 A. Okay.

15 **Q. -- are those the files C-102s?**

16 A. Yes.

17 **Q. What is Ameredev seeking with its application?**

18 A. We're seeking to form a nonstandard proration
19 unit consisting of 320 acres in the east half of the
20 west half of Sections 15 and 27 of 26 South, 36 East,
21 Lea County, New Mexico for our Magnolia State Com
22 26-36-22 105H and 115H wells.

23 **Q. And are you seeking to pool all uncommitted**
24 **interest owners in the underlying Wolfcamp Formation?**

25 A. Yes, we are.

1 Q. And are you asking to have Ameredev designated
2 as the operator of the well in the spacing unit?

3 A. Yes.

4 Q. Did the Division designate a pool for this
5 area?

6 A. Yes. It's the Wolfcamp. The Pool Code is
7 98234.

8 Q. And is the pool subject to the Division
9 statewide setbacks for oil pools?

10 A. Yes.

11 Q. And will the completed interval for these wells
12 comply with that 330-foot setback required by the
13 Division regulations?

14 A. Yes.

15 Q. Will you turn now to Ameredev Exhibit Number 3?
16 Does this exhibit identify the tracts of land comprising
17 the proposed nonstandard spacing unit?

18 A. Yes.

19 Q. And what is the nature of this land?

20 A. These are all state leases.

21 Q. And if you will turn the page, still on Exhibit
22 3, does this show the percentage to the different
23 interest owners and the percentage of their interest in
24 the nonstandard spacing unit?

25 A. Yes, it does.

1 Q. And does it show the parties that Ameredev is
2 seeking to pool?

3 A. Yes, it does. These are all working interest
4 owners.

5 Q. Does this include overriding royalty interest
6 owners?

7 A. No. All of the overrides in here, we have the
8 authority to pool the lease.

9 Q. And how about unleased mineral interests?

10 A. There are no unleased mineral interests.

11 Q. Thank you.

12 Will you turn to Ameredev Exhibit Number 4?
13 Are these copies of the well-proposal letters that were
14 sent to the three working interest owners?

15 A. Yes, they are.

16 Q. And do these well-proposal letters include an
17 AFE?

18 A. They do.

19 Q. Are the costs reflected consistent with what
20 operators have incurred for drilling similar horizontal
21 wells in this area?

22 A. Yes.

23 Q. And has Ameredev made an estimate of overhead
24 and administrative costs while drilling and producing
25 each well?

1 A. Yes, we have.

2 Q. And what are those costs?

3 A. 7,000 while drilling and 700 while producing.

4 Q. And are these costs consistent with what other
5 operators are charging in this area?

6 A. Yes, they are.

7 Q. Do ask that these overhead and administrative
8 costs be incorporated into any order resulting from this
9 hearing?

10 A. Yes.

11 Q. What efforts did you undertake to reach
12 agreement with the parties you're seeking to pool today?

13 A. We've made well proposals, offered to purchase
14 their interest. We're working on trades with EOG, and
15 we're continuing to pursue options to obtain that
16 acreage or have them participate in the well.

17 Q. And after this hearing you're able to reach
18 agreement with any of these working interest owners such
19 that you're no longer to pool them, will you let the
20 Division know?

21 A. Yes, we will.

22 Q. In your opinion, did you make a good-faith
23 effort to reach an agreement with the uncommitted
24 owners?

25 A. Yes, we did.

1 Q. Also, did Ameredev identify the offset
2 operators or lessees of record in the 40-acre tracts
3 surrounding the nonstandard spacing unit?

4 A. We did.

5 Q. And did Ameredev include these offset owners in
6 the notice of this hearing?

7 A. Yes.

8 Q. Will you turn to Ameredev Exhibit 5? Is this
9 an affidavit from my office with the attached letters
10 providing notice of this hearing both to the parties to
11 be pooled, as well as the offsets?

12 A. Yes, it is.

13 Q. And will you also take a look at Ameredev
14 Exhibit Number 6? Is this a copy of the notice
15 published in the "Hobbs News-Sun" regarding this hearing
16 and notifying all parties by name?

17 A. Yes.

18 Q. Were Exhibits 1 through 6 either prepared by
19 you or compiled under your direction and supervision?

20 A. Yes, they were.

21 MS. BROGGI: At this time we'd like to move
22 for the admission of Exhibits 1 through 6.

23 MR. BRUCE: No objection.

24 EXAMINER McMILLAN: Exhibits 1 through 6
25 may now be accepted as part of the record.

1 MR. BRUCE: I have no questions.

2 EXAMINER McMILLAN: Okay.

3 (Ameredev Operating, LLC Exhibit Numbers 1
4 through 6 are offered and admitted into
5 evidence.)

6 CROSS-EXAMINATION

7 BY EXAMINER McMILLAN:

8 Q. What's the status of the wells?

9 A. They've been permitted.

10 Q. So they're proposed?

11 A. They're permitted and proposed.

12 Q. I'm not clear on your -- so were there
13 unlocatable interests or not?

14 A. No, there wasn't, just the three working
15 interest parties that we're seeking to pool.

16 Q. All right. So --

17 A. Ameredev owns the rest of the interest.

18 Q. Okay. So then what was your reason for the
19 newspaper ad?

20 A. I think it's just standard protocol to
21 overnotice.

22 MS. BROGGI: Being overly cautious, I
23 suppose.

24 Q. (BY EXAMINER McMILLAN) Any depth severances?

25 A. No, sir.

1 **Q. And the spacing unit is the west half of the**
2 **east half of --**

3 A. 15 and 22. The well location -- it's an
4 off-lease well location, so the surface location is in
5 Section 27.

6 **Q. Okay.**

7 MS. BROGGI: Actually, I think that your
8 testimony -- it's the west of half of the east half,
9 right? I think you may have said the opposite.

10 EXAMINER McMILLAN: Yeah, he did.

11 THE WITNESS: Sorry. I apologize.

12 EXAMINER McMILLAN: Go ahead, Scott.

13 CROSS-EXAMINATION

14 BY EXAMINER DAWSON:

15 **Q. On Exhibit 3, page 2 --**

16 A. Yes.

17 **Q. -- on your unit recapitulation --**

18 A. Yes.

19 **Q. -- on the bottom, can you get that -- can you**
20 **give us a -- those don't add up to 100 percent. It's**
21 **99.99; is that correct?**

22 A. It would have to be rounding, I'm sure.
23 Typically, we carry these out to eight decimal places,
24 and I'm sure in Excel, it probably -- is my guess.

25 **Q. Can you give us a clean copy of that that will**

1 **add to 100 percent?**

2 A. Sure.

3 **Q. That's all the questions I have. Thank you.**

4 EXAMINER McMILLAN: Go ahead, David.

5 EXAMINER BROOKS: No questions.

6 EXAMINER McMILLAN: Thank you.

7 MS. BROGGI: We'll call our second witness.

8 EXAMINER McMILLAN: Proceed.

9 PARKER FOY,

10 after having been previously sworn under oath, was
11 questioned and testified as follows:

12 DIRECT EXAMINATION

13 BY MS. BROGGI:

14 **Q. Will you please state your name, by whom you're**
15 **employed and in what capacity?**

16 A. Parker Foy, Ameredev, and I'm a geologist.

17 **Q. Have you previously testified before the**
18 **Division as an expert in petroleum geology?**

19 A. I have.

20 **Q. And have your credentials as an expert in**
21 **petroleum geology been accepted by the Division and made**
22 **a matter of record?**

23 A. They have.

24 **Q. Are you familiar with the application that was**
25 **filed by Ameredev in this case, Case Number 16111?**

1 A. I am.

2 **Q. And have you conducted a geologic study of the**
3 **land in the subject area?**

4 A. I have.

5 MS. BROGGI: At this time we would like to
6 tender Mr. Foy as an expert witness in petroleum
7 geology.

8 EXAMINER McMILLAN: Any objections?

9 MR. BRUCE: No objections.

10 EXAMINER McMILLAN: So qualified.

11 **Q. (BY MS. BROGGI) Mr. Foy, what is the target**
12 **formation for the wells in this case?**

13 A. It is the Wolfcamp A, the Upper A and the Lower
14 A.

15 **Q. And if you will turn to Ameredev Exhibit 7 in**
16 **the packet, will you please identify what we're looking**
17 **at?**

18 A. Yes. This is a map identifying the acreage in
19 yellow, along with the Ameredev Wolfcamp horizontal
20 locations in the orange square and then offset producing
21 Wolfcamp wells with the green circles.

22 **Q. Now, did you also prepare a map depicting the**
23 **geologic structure of the Wolfcamp Formation in this**
24 **area?**

25 A. I did.

1 **Q. And if you turn to Ameredev Exhibit 8, is that**
2 **what we're looking at?**

3 A. It is. So this is a structure map of the top
4 of the Wolfcamp superimposed on the previous map. It's
5 showing a consistent westward dip across the acreage,
6 very uniform structure, and then highlighting the same
7 aspects as far as the Ameredev acreage wells and
8 producing wells.

9 **Q. Are there any geologic hazards?**

10 A. There are not.

11 **Q. And is the thickness consistent?**

12 A. Yes.

13 **Q. Is that how you say that?**

14 A. Yes.

15 **Q. And log character --**

16 A. That would be on the subsequent exhibits.

17 **Q. Okay. The next exhibit?**

18 A. Yeah.

19 **Q. So let's turn to Ameredev Exhibit 9 in the**
20 **packet. Can you describe what we're looking at here?**

21 A. So this is a map view of the cross section that
22 we're looking at in the next exhibit, going from A in
23 the north and A prime to the south, next to the Ameredev
24 wells of interest.

25 **Q. And were three wells used -- were these three**

1 wells -- representative wells, do we have a cross
2 section for those three wells?

3 A. We do.

4 Q. And is that Ameredev's Exhibit Number 10?

5 A. It is.

6 Q. Can you explain this one?

7 A. So this is a cross section. It is hung on the
8 top of the Wolfcamp of representative well logs of the
9 Wolfcamp A section. We're indicating our target
10 intervals on the left. And the well logs shown are the
11 gamma ray in blue, the resistivity in red and the
12 density porosity in green. As you can see, it is a
13 uniform thickness and very similar in character across
14 the representative wells.

15 Q. And have you reached any conclusions from your
16 geologic study of the lands in this case?

17 A. I have.

18 Q. Have you concluded that there are no geologic
19 hazards to drilling a horizontal well in this area?

20 A. Yes.

21 Q. Have you concluded that each quarter-quarter
22 section will be productive and contribute more or less
23 equally to each 40-acre unit comprising this nonstandard
24 spacing unit?

25 A. Yes.

1 Q. And have you concluded that horizontal drilling
2 will be the most efficient method to develop this
3 acreage or prevent the drilling of unnecessary wells and
4 result in the greatest ultimate recovery?

5 A. Yes.

6 Q. And in your opinion, will the granting of
7 Ameredev's application in this case be in the interest
8 of conservation, the prevention of waste and the
9 protection of correlative rights?

10 A. Yes.

11 Q. Were these exhibits, Ameredev's Exhibit Numbers
12 7 through 10 either prepared by you or compiled under
13 your direction and supervision?

14 A. They were.

15 MS. BROGGI: At this time I would like to
16 move for the admission of Ameredev's Exhibits 7 through
17 10.

18 MR. BRUCE: No objection.

19 EXAMINER McMILLAN: Exhibits 7 through 10
20 may now be accepted as part of the record.

21 (Ameredev Operating, LLC Exhibit Numbers 7
22 through 10 are offered and admitted into
23 evidence.)

24 MS. BROGGI: Do you have questions for
25 Mr. Foy?

1 MR. BRUCE: No questions.

2 CROSS-EXAMINATION

3 BY EXAMINER McMILLAN:

4 Q. The final penetration point will be orthodox?

5 A. Yes.

6 Q. Is there potential in the lower portions of the
7 Wolfcamp?

8 A. Like Wolfcamp B --

9 Q. Yeah.

10 A. -- and lower?

11 Yes.

12 Q. So looking at Exhibit 10, why did you select
13 two wells instead of just doing one?

14 A. To drain the full interval to, yeah, optimize
15 the production.

16 Q. So you couldn't drill the whole thing with one
17 well? It would take two wells?

18 A. Uh-huh.

19 Q. Just looking, they're awfully close vertically.

20 A. Uh-huh.

21 EXAMINER McMILLAN: Go ahead, Scott.

22 CROSS-EXAMINATION

23 BY EXAMINER DAWSON:

24 Q. On your Exhibit 9, those wells to the
25 southwest, those are Ameredev. Are those Wolfcamp

1 wells, too?

2 A. They are.

3 Q. Have you completed those wells?

4 A. We are currently completing them right now,
5 kind of in the final stages.

6 Q. And those Impetro wells to the west, are those
7 pretty good wells?

8 A. Those are good wells.

9 Q. They're economic?

10 A. Uh-huh.

11 Q. Are you planning on developing the east half --
12 east part of this development area?

13 A. Yes.

14 Q. Okay. With Wolfcamp and Bone Spring?

15 A. Yes.

16 Q. Okay. That's all the questions I have. Thank
17 you.

18 MS. BROGGI: If there are no more
19 questions, Mr. Examiner, we'd request that Case Number
20 16111 be taken under advisement.

21 MR. BRUCE: No objection.

22 EXAMINER McMILLAN: Okay. Case Number
23 16111 shall be taken under advisement.

24 MS. BROGGI: Thank you.

25 (Case Number 16111 concludes, 10:54 a.m.)

1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO

3

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 DATED THIS 9th day of June, 2018.

21

22

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

25