

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, LLP FOR CASE NO. 16176
APPROVAL OF A UNIT AGREEMENT, LEA
COUNTY, NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

May 31, 2018

Santa Fe, New Mexico

BEFORE: WILLIAM V. JONES, CHIEF EXAMINER
 LEONARD LOWE, TECHNICAL EXAMINER
 DAVID K. BROOKS, LEGAL EXAMINER

This matter came on for hearing before the New Mexico Oil Conservation Division, William V. Jones, Chief Examiner, Leonard Lowe, Technical Examiner, and David K. Brooks, Legal Examiner, on Thursday, May 31, 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
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APPEARANCES

FOR APPLICANT DGP ENERGY, LLP:

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1 (9:46 a.m.)

2 EXAMINER JONES: Let's go back on the
3 record and call Case Number 16177 --

4 MR. BRUCE: 6.

5 EXAMINER JONES: -- 16176, application of
6 DGP Energy, LLC for approval of a unit agreement in Lea
7 County, New Mexico.

8 Call for appearances.

9 MR. BRUCE: Mr. Examiner, Jim Bruce of
10 Santa Fe representing the Applicant. I have two
11 witnesses.

12 EXAMINER JONES: Any other appearances?
13 We have the State Land Office lurking in
14 the background.

15 (Laughter.)

16 UNIDENTIFIED SPEAKER: Just lurking.

17 EXAMINER JONES: Okay. Will the witnesses
18 please stand and the court reporter swear the witnesses?

19 (Ms. Sherwood and Mr. O'Connell sworn.)

20 CHRISTINA SHERWOOD,
21 after having been first duly sworn under oath, was
22 questioned and testified as follows:

23 DIRECT EXAMINATION

24 BY MR. BRUCE:

25 Q. Would you please state your name and city of

1 **residence?**

2 A. Sure. Christina Sherwood, Burleson, Texas.

3 **Q. And who do you work for and in what capacity?**

4 A. For DG Petro Oil & Gas, LLC, and they are a
5 managing partner in DGP Energy, LLC, and I'm vice
6 president of land.

7 **Q. Have you previously testified before the**
8 **Division?**

9 A. No, sir.

10 **Q. Would you please summarize your educational and**
11 **employment background?**

12 A. Sure. I graduated with a Bachelor of Science
13 from Baylor College of Dentistry in 2001, and in 2009, I
14 graduated from Texas Wesleyan School of Law with a J.D.
15 I began as a landman in 2007 with a transactional oil
16 and gas attorney for several years, and immediately
17 preceding DGP, I was the associate director of client
18 acquisition leading due diligence for large
19 acquisitions.

20 EXAMINER JONES: Wow.

21 **Q. (BY MR. BRUCE) And how long have you been with**
22 **DGP at this point?**

23 A. April 1st.

24 **Q. And does your major area of responsibility at**
25 **DGP include this portion of southeast New Mexico?**

1 A. Yes, sir.

2 Q. And are you familiar with the land matters
3 involved in this application?

4 A. Yes, sir.

5 MR. BRUCE: Mr. Examiner, I tender
6 Ms. Sherwood as an expert petroleum landman.

7 EXAMINER JONES: She is so qualified as an
8 expert in petroleum land matters.

9 Q. (BY MR. BRUCE) Could you identify Exhibit 1 for
10 the Examiner?

11 A. Certainly. It is the unit agreement for the
12 proposed Gold Cougar Unit, which covers 15 South, 36
13 East of Section 11, all save the south half-southwest
14 quarter of 14 and the west half of the northwest quarter
15 of 13, in Lea County.

16 Q. And what formations does it cover?

17 A. All depths, but our target is the Wolfcamp.

18 Q. And what types are in the unit area? What
19 types of land are in the unit area?

20 A. Fee and state.

21 Q. Is the unit agreement a standard form that's
22 off the land office Web site?

23 A. Yes, sir.

24 Q. And this is an exploratory unit; is it not?

25 A. Correct.

1 Q. Who's the operator under the agreement?

2 A. DGP Energy, LLC.

3 Q. And is DGP a duly qualified operator under the
4 Division regulations?

5 A. Yes, sir.

6 Q. Just briefly going through -- going back to
7 Exhibit -- I think it's Exhibit A of the agreement, does
8 that reflect visually the lands involved in the unit?

9 A. Correct. It's the land plat of the unit area.

10 Q. And are Tracts 1, 2 and 3 the state land?

11 A. Correct.

12 Q. And the other tracts are fee land?

13 A. Correct.

14 Q. And does Exhibit B list all of the tracts in
15 the unit and describe the land and the interest owners
16 in those tracts.

17 A. Correct. It lists the tracts, leases, interest
18 owners, and it gives the percentage interest of each
19 owner.

20 Q. And because this is an exploratory unit, this
21 is a totally voluntary agreement; is it not?

22 A. Yes.

23 Q. Have you met with the land office regarding
24 preliminary approval of the unit?

25 A. Yes. DGP was granted preliminary approval for

1 this unit.

2 Q. And is that submitted as Exhibit 2?

3 A. Correct. Yes.

4 Q. And there are some uncommitted interests, and
5 DGP is seeking ratifications from the various interest
6 owners, other than DGP?

7 A. Yes, sir.

8 Q. When is the first test well anticipated to be
9 commenced in the unit area?

10 A. December 15th of 2018.

11 Q. At this point are there any impending lease
12 expirations?

13 A. The earliest expiration is April 2019.

14 Q. Were Exhibits 1 and 2 prepared by you or
15 compiled from company business records?

16 A. Yes, sir.

17 Q. And is the granting of this application in the
18 interest of conservation and the prevention of waste?

19 A. Yes, sir.

20 Q. And do we have a technical witness to discuss
21 the geology and the potential drilling in this area?

22 A. Yes, we do.

23 MR. BRUCE: Mr. Examiner, I'd move the
24 admission of Exhibits 1 and 2.

25 EXAMINER JONES: Exhibits 1 and 2 are

1 admitted.

2 (DGP Energy, LLC Exhibit Numbers 1 and 2
3 are offered and admitted into evidence.)

4 EXAMINER JONES: Mr. Lowe?

5 EXAMINER LOWE: No questions at this time.

6 EXAMINER BROOKS: No questions.

7 CROSS-EXAMINATION

8 BY EXAMINER JONES:

9 Q. So it's fee and -- it's got -- it's about half
10 fee and half state just about?

11 A. Yes, sir. 56.25 percent is State of New Mexico
12 lands and 43.75 is fee lands.

13 Q. Okay. And you're leaving out the south
14 half-southwest quarter of 14, which is federal?

15 A. Correct.

16 Q. Just because it doesn't really have a lot of
17 holes in this unit anyway, I guess.

18 A. No.

19 Q. But those fee owners in the west half of the
20 southwest of 13, you've left them out. Is that for a
21 reason or -- or you just didn't want to include those?

22 A. I think that's just how they laid out the unit,
23 so I'm not exactly sure.

24 Q. Okay. I was just thinking of horizontal
25 drilling being a certain -- you know, like a mile long

1 usually. I guess you can drill into the unit a
2 horizontal well anyway.

3 A. Correct.

4 Q. Okay. Thanks very much.

5 RYAN O'CONNELL,

6 after having been previously sworn under oath, was
7 questioned and testified as follows:

8 DIRECT EXAMINATION

9 BY MR. BRUCE:

10 Q. Would you state your name for the record?

11 A. Ryan O'Connell.

12 Q. And where do you reside?

13 A. McKinney, Texas.

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

15 A. I work for DG Petro Oil & Gas, LLC, which is
16 the managing member of DGP Energy, LLC. I'm the vice
17 president of geosciences.

18 Q. Have you previously testified before the
19 Division?

20 A. Yes.

21 Q. And were your credentials as an expert in
22 petroleum geology accepted as a matter of record?

23 A. Yes.

24 Q. And are you familiar with the geology involved
25 in this application and in the proposed unit area?

1 A. Yes.

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

4 EXAMINER JONES: He is so qualified.

5 Q. **(BY MR. BRUCE) Mr. O'Connell, there are two**
6 **exhibits, Exhibits 3 and 4. Is Exhibit 3 your write-up**
7 **that you submitted to the State Land Office regarding**
8 **the Gold Cougar Unit?**

9 A. Yes, that is correct.

10 Q. **And does Exhibit 4 contain a structure map,**
11 **cross section and isopach regarding your target zone --**
12 **your initial target zone area?**

13 A. Yes, it does.

14 Q. **Could you briefly describe the target zone and**
15 **the geology in this area, referring to whichever exhibit**
16 **that is?**

17 A. Sure. I'll start with the geologic write-up,
18 with Exhibit 3. The Pennsylvania Shale is a very
19 consistent stratigraphic unit, approximately 650 feet in
20 thickness across the unit. It is lithologically
21 comprised of calcareous muds and siltstones, horizontal
22 vertical variations of dolomite and limestone, with some
23 clay minerals associated. This formation was deposited
24 during the late Pennsylvanian to early Permian from
25 turbidites and associated basin plane facies, to kind of

1 summarize the geologic background.

2 The maps are provided in Exhibit 14. One
3 is a structure map of the Strawn based on subsea. It
4 underlies the Pennsylvanian Unit of the Wolfcamp
5 Formation. The cross section, A to A prime, goes north
6 to south across the unit. It shows some of the bounding
7 formations of the Wolfcamp, the Cisco, the Penn Shale
8 and the Strawn. They provide how it lays down the
9 region. The thickness is pretty consistent across the
10 unit.

11 And then the final map is an isopach across
12 the unit itself.

13 **Q. Looking at the cross section and the isopach,**
14 **is the Wolfcamp consistent pretty much across the**
15 **proposed unit area?**

16 A. Yes.

17 **Q. Are there -- are there any secondary zones of**
18 **interest out here?**

19 A. There are, but we're not going to be exploring
20 those at this time.

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

24 A. Yes.

25 **Q. And were Exhibits 3 and 4 prepared by you or**

1 **under your supervision?**

2 A. Yes.

3 MR. BRUCE: Mr. Examiner, I move the
4 admission of Exhibits 3 and 4.

5 EXAMINER JONES: Exhibits 3 and 4 are
6 admitted.

7 (DGP Energy, LLC Exhibit Numbers 3 and 4
8 are offered and admitted into evidence.)

9 EXAMINER JONES: Mr. Lowe?

10 EXAMINER LOWE: No questions.

11 EXAMINER BROOKS: No questions.

12 CROSS-EXAMINATION

13 BY EXAMINER JONES:

14 Q. Okay. But your cross section, you -- you --
15 you kind of made pains to go ahead and show all the way
16 through the Upper Penn.

17 A. Uh-huh.

18 Q. But you don't really have a target in the Upper
19 Penn?

20 A. Not at this time. There are some nomenclature
21 differences between different companies. So that's the
22 reason I laid out everything in the Wolfcamp, just to
23 kind of be able to frame it correctly.

24 Q. Okay. We're certainly so -- this is -- this is
25 Lea County, so Mr. Kautz in Hobbs, you probably talk to

1 him sometimes?

2 A. Yes.

3 Q. Yeah. He's best talked to in person, but --

4 A. Yes.

5 Q. -- you can try to email him if you want.

6 So I guess before I forget to ask: The
7 wells that you would drill, are they east-west or
8 north-south?

9 A. They'll be north-south.

10 Q. Okay. So what -- what would you do over in
11 Section 13? How would you develop the -- those fee --
12 those fee people that are in the unit are going to be
13 sharing in the unit --

14 A. Correct.

15 Q. -- no matter where you drill.

16 But how would you develop the east
17 half-east half of 13?

18 A. With Section 13, we originally explored with
19 the SLO about including those sections, but there are
20 unleased mineral interests, and we were advised we would
21 not get the unit if we included those units in there.
22 For that, we looked at maybe a mile-and-a-half,
23 two-mile-long lateral because we do have the leases in
24 Section 24 as well.

25 Q. Okay. 24 is to the south of 14; is that right?

1 A. South, 13. Immediately south, yes, sir.

2 Q. So you could possibly develop that?

3 A. Yes, sir.

4 Q. Right.

5 So you could drill one-mile or
6 one-and-a-half-mile wells?

7 A. Correct. Yeah. We were conscious of that when
8 we made our outline. Yes.

9 Q. Okay. Has the Upper Penn got gas in it?

10 A. Yes.

11 Q. So it's primary gas producing?

12 A. Oil. And it's about 90, 80 percent oil.

13 Q. Okay. And the Wolfcamp will be oil?

14 A. Yes.

15 Q. Okay. What about up above that?

16 A. There's the Abo Formation. The Tubb shows some
17 promise, the Glorieta as well. There are formations
18 uphole that keep --

19 Q. So this is on the Central Basin Platform?

20 A. No. It's more Northwest Shelf, just north of
21 where you got a lot of Bone Spring activity going on.

22 Q. Okay. So it's the Buckeye area or --

23 A. I'm not familiar with that.

24 Q. Okay. Lovington --

25 A. Yes. Yes, sir, all around Lovington and Hobbs.

1 Q. Oh, yeah. There's a lot of disposal zones in
2 the -- in the Upper Permo Penn, they call it, you know,
3 producing and sometimes disposal --

4 A. Yes, sir.

5 Q. -- sometimes very high-rate disposal.

6 Okay. Thanks very much.

7 A. Thank you.

8 MR. BRUCE: And, Mr. Examiner, some of
9 those -- you mentioned unleased tracts. There are
10 several unleased federal tracts out there, so they can't
11 be included.

12 THE WITNESS: Yes, sir.

13 MR. BRUCE: They cannot be included.

14 EXAMINER JONES: Can't be included. It
15 wouldn't be a voluntary unit.

16 THE WITNESS: Right.

17 EXAMINER JONES: Thanks very much.

18 THE WITNESS: Thank you.

19 MR. BRUCE: And I'd ask the matter be taken
20 under advisement.

21 EXAMINER JONES: Case Number 16176 is taken
22 under advisement.

23 (Case Number 16176 concludes, 10:00 a.m.)

24

25

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 DATED THIS 23rd 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
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25