

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 CASE NO. 16177
A NONSTANDARD SPACING AND PRORATION
UNIT AND COMPULSORY POOLING, 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, LLC:

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EXHIBITS OFFERED AND ADMITTED

DGP Energy, LLC Exhibit Numbers 1 through 6	8
DGP Energy, LLC Exhibit Number 7	14

1 (10:00 a.m.)

2 EXAMINER JONES: Let's call Case Number
3 16177, application of DGP Energy, LLC for a nonstandard
4 spacing and proration unit and compulsory pooling, Lea
5 County, New Mexico.

6 Call for appearances.

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

10 EXAMINER JONES: Any other appearances?
11 Are the witnesses the same?

12 MR. BRUCE: They are the same, so if the
13 record could reflect that they are the same and they've
14 previously been sworn and qualified.

15 EXAMINER JONES: Let the record reflect the
16 witnesses have been previously admitted and sworn and
17 qualified.

18 EXAMINER BROOKS: What case is this?

19 EXAMINER JONES: 16177.

20 CHRISTINA SHERWOOD,
21 after having been previously 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 for the

1 record?

2 A. Sure. Christina Sherwood.

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

5 A. Yes, sir.

6 Q. There are several land exhibits all stapled
7 together, but let's start with the first page of
8 Exhibit 1. Is this the acreage dedication plat for the
9 well which is the subject of this hearing?

10 A. Correct. It's a portion of the township, 15
11 [sic], 35 East, the well unit for the Golden Wolf, which
12 is east half-east half of Section 19 and the east
13 half-southeast quarter of Section 18. And we're seeking
14 to pool the Wolfcamp Formation, and it is a nonstandard
15 unit.

16 Q. And what is the name of the well?

17 A. Golden Wolf, 918 [sic], well #6H.

18 Q. And what type of lands are included in the well
19 unit?

20 A. They're all state lands.

21 Q. And who do you seek to force pool -- oh, one
22 thing. Are there any depth severances in the Wolfcamp
23 Formation?

24 A. No, sir.

25 Q. Who do you seek to force pool in this matter?

1 A. Apache Corporation.

2 **Q. What is their approximate interest in the**
3 **proposed well unit?**

4 A. They own the lease covering the east
5 half-southeast quarter of Section 18, and DGP owns the
6 remaining working interest in the well.

7 **Q. And what is Exhibit 2?**

8 A. Exhibit 2 is the --

9 **Q. Is that the proposal letter that was sent to**
10 **Apache?**

11 A. Yes. It's the proposal letter that was sent
12 Apache on March 21st.

13 **Q. Has DGP had other contacts with Apache besides**
14 **this proposal letter?**

15 A. Yes, numerous.

16 **Q. And have they been called and emails been**
17 **exchanged?**

18 A. Yes.

19 **Q. What is their position? Do you know if they're**
20 **going to join in or not?**

21 A. They have declined to participate.

22 **Q. In your opinion, has DGP made a good-faith**
23 **effort to obtain the voluntary joinder of Apache in the**
24 **well unit?**

25 A. Yes, sir.

1 Q. And could you identify Exhibit 3, moving on a
2 couple of pages --

3 A. Certainly.

4 Q. -- and discuss the cost of the proposed well?

5 A. Sure. Exhibit 3 is the AFE that was also
6 provided to Apache. The estimates include the location
7 and facilities at 1,045,495; drilling, 4,629,228; and
8 completion, 5,364,116.

9 Q. And so a little over \$11 million total cost for
10 the well?

11 A. That is correct.

12 Q. And are these costs in line with the cost of
13 similar wells drilled in this area of New Mexico?

14 A. Yes, sir.

15 Q. Do you request that DGP be appointed operator
16 of the well?

17 A. Yes, sir.

18 Q. And do you have a recommendation for the
19 amounts which DGP should be paid for supervision and
20 administrative expenses?

21 A. We request 7,500 a month be allowed for
22 drilling the well and 750 a month be allowed for a
23 producing well.

24 Q. And are these amounts equivalent to those
25 normally charged by DGP and other operators in this area

1 for Wolfcamp wells?

2 A. Yes, sir.

3 Q. Do you request that the rates be adjusted
4 periodically as provided by the COPAS accounting
5 procedure?

6 A. Yes.

7 Q. And does DGP request the maximum cost plus 200
8 percent risk charge be assessed if Apache goes
9 nonconsent in the well?

10 A. Yes.

11 Q. Was Apache notified of this hearing?

12 A. Yes, sir.

13 Q. Is Exhibit 4 my notice letter to Apache with
14 the certified green card?

15 A. Yes, it is.

16 Q. And moving on a few pages to Exhibit 5, does
17 this identify all offset operators or working interest
18 owners to the proposed well unit?

19 A. Yes, it does.

20 Q. And are Exhibits -- and were they notified of
21 this application?

22 A. Yes, they were.

23 Q. And is that reflected in my notice letter
24 submitted as Exhibit 6?

25 A. Yes.

1 MR. BRUCE: And, Mr. Examiner, all of the
2 offsets did receive actual notice.

3 Q. (BY MR. BRUCE) In your opinion, is the granting
4 of this application in the interest of conservation and
5 the prevention of waste?

6 A. Yes.

7 Q. And were Exhibits 1 through 6 either prepared
8 by you or under your supervision or compiled from
9 company business records?

10 A. Yes, sir.

11 MR. BRUCE: Mr. Examiner, I move the
12 admission of Exhibits 1 through 6.

13 EXAMINER JONES: Exhibits 1 through 6 are
14 admitted.

15 (DGP Energy, LLC Exhibit Numbers 1 through
16 6 are offered and admitted into evidence.)

17 EXAMINER JONES: Mr. Lowe?

18 CROSS-EXAMINATION

19 BY EXAMINER LOWE:

20 Q. You said there was no depth severance, right?

21 A. Correct.

22 Q. That's all I've got. Thank you.

23 CROSS-EXAMINATION

24 BY EXAMINER BROOKS:

25 Q. Okay. It seems a little strange that it's

1 **named Golden Wolf and it's not a Wolfcamp well.**

2 EXAMINER JONES: Well, part of it -- the
3 top part of it is Wolfcamp.

4 EXAMINER BROOKS: Oh, is it? I thought it
5 was Permo Penn.

6 THE WITNESS: Yes, sir.

7 **Q. (BY EXAMINER BROOKS) What pool is it in? The**
8 **Townsend; Permo Upper Penn; is that correct?**

9 A. Wolfcamp/Penn Shale.

10 MR. O'CONNELL: Townsend, correct.

11 **Q. (BY EXAMINER BROOKS) Okay. Well, I was -- is**
12 **this in the same area as that last -- that unit case,**
13 **the last one you testified in?**

14 A. Close.

15 **Q. Okay. In central -- in Lea County, right?**

16 A. Yes, sir.

17 **Q. Okay. Apache's the only party interested in**
18 **this unit?**

19 A. Yes. That's who we're seeking to pool.

20 **Q. Only working interest owner?**

21 A. There is also Cimarex, and I believe they have
22 a .337 interest.

23 **Q. And they're committed to the well?**

24 A. We're still talking with them.

25 MR. BRUCE: We're not seeking to force

1 pool.

2 THE WITNESS: But we're not seeking to pool
3 them.

4 Q. (BY EXAMINER BROOKS) And is this -- what's the
5 land type here? What's the land? Federal, state, fee?

6 A. It's all state.

7 Q. Okay. And are there any overrides?

8 A. No, sir.

9 Q. Okay. Thank you.

10 A. Yes, sir.

11 CROSS-EXAMINATION

12 BY EXAMINER JONES:

13 Q. How many separate tracts, would you say? It's
14 all state, but is there more than one state lease
15 involved?

16 A. I believe -- I don't know if I have it in front
17 of me. I think it's three.

18 Q. Three tracts but all state?

19 A. Yes, sir.

20 Q. And why would you put the surface location over
21 in N and drilling all the way over to P and then up
22 to I? That's kind of -- it must be a reason, surface,
23 land issues there.

24 MR. O'CONNELL: Pad drilling to minimize
25 the surface footprint.

1 EXAMINER JONES: Okay. It must be a
2 sensitive area or something. The State Land Office
3 wants to --

4 MR. O'CONNELL: (Indicating.)

5 EXAMINER JONES: -- required it.

6 MR. BRUCE: I think the next witness, his
7 first exhibit, will explain a little better.

8 EXAMINER JONES: Okay.

9 Q. (BY EXAMINER JONES) But Apache definitely is
10 not going to -- at this time they said no?

11 A. They have declined to participate. Yes, sir.

12 Q. Okay. Unless they come up with more money,
13 huh?

14 A. Or something (laughter).

15 Q. Thanks very much.

16 A. Thank you.

17 RYAN O'CONNELL,

18 after having been previously sworn under oath, was
19 questioned and testified as follows:

20 DIRECT EXAMINATION

21 BY MR. BRUCE:

22 Q. Would you please state your name for the
23 record?

24 A. Ryan O'Connell.

25 Q. And are you familiar with the geology involved

1 in this application?

2 A. Yes.

3 Q. Mr. O'Connell, I've marked as Exhibit 7 a four
4 page -- it's a four-page exhibit. Does this contain
5 geology relevant to this application?

6 A. Yes.

7 Q. Looking at Exhibit 7, before we begin to really
8 get into the geology, does the darkest line reflect the
9 line for the proposed well?

10 A. Yes, that's correct.

11 Q. And then there is some acreage that is outlined
12 in a dashed line. Is that DGP's approved Gold Wolf
13 Unit?

14 A. That is correct.

15 Q. And that is comprised all of state land; is it
16 not?

17 A. Correct.

18 Q. And so you just mentioned the pad drilling.
19 You're planning on minimizing surface facilities for
20 additional drilling in the area?

21 A. That is correct.

22 Q. Rather than me get in your way, could you just
23 start with the first page and run through what these
24 exhibits show with respect to the formations --

25 A. The first page is the top of the Strawn

1 structure map. This is based off of subsea depths.

2 The second page is the Penn Shale/Wolfcamp
3 D isopach map.

4 The third page is a map of the cross
5 section from A to A prime, which goes west to east
6 across the unit, and that is the fourth page, which is a
7 cross section itself, which again demonstrates the
8 Wolfcamp and relevant formations within the nomenclature
9 misunderstandings.

10 Q. And looking at the isopach, what is the
11 approximate gross thickness across the proposed well
12 unit?

13 A. About 690 feet.

14 Q. Okay. So it's fairly uniform across the
15 proposed well unit?

16 A. That is correct.

17 Q. And looking at the cross section, is the target
18 formation continuous across the proposed well unit?

19 A. That is correct.

20 Q. And in your opinion, will each quarter-quarter
21 section in the well unit contribute more or less equally
22 to production?

23 A. Yes.

24 Q. Is there any faulting or other factor which
25 would prevent you from successfully drilling a

1 horizontal well?

2 A. No.

3 Q. And was Exhibit 7 prepared by you or under your
4 supervision?

5 A. Yes, it was.

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

8 A. Yes.

9 MR. BRUCE: Mr. Examiner, I'd move the
10 admission of Exhibit 7.

11 EXAMINER JONES: Exhibit 7, with all of its
12 pages, will be admitted.

13 (DGP Energy, LLC Exhibit Number 7 is
14 offered and admitted into evidence.)

15 EXAMINER JONES: Mr. Lowe?

16 CROSS-EXAMINATION

17 BY EXAMINER LOWE:

18 Q. Just to clarify, you indicated on your page 1
19 that the dotted line is state lands?

20 A. That's our state -- the unit that was granted
21 by the State Land Office. That's the Gold Wolf Unit
22 itself, and then the darker line is our well
23 allocation acreage dedicated for the well itself.

24 Q. Okay. Okay. That's all I've got. Thank you.

25 A. Yeah.

1 CROSS-EXAMINATION

2 BY EXAMINER BROOKS:

3 Q. The State Land Office, again, is going to
4 communitize between this unit and the lease up in
5 Section 18?

6 A. Yes.

7 Q. What is the relationship between the Wolfcamp
8 and the Permo Penn in this area?

9 A. The Permo Penn is a subdivision of the Wolfcamp
10 itself. Permo Penn because it covers two different time
11 periods, the Pennsylvanian and the Permian. So there is
12 some overlapping with the time period in the topography
13 number. So a subdivision of the Wolfcamp is considered
14 Pennsylvanian in age but can overlap with the Permian.

15 Q. I don't know anything about this area. It's
16 not one I've ever looked at.

17 Thank you. I think that's all I have.

18 EXAMINER JONES: You will remember the
19 Gandy [phonetic] and Watson fights we've had up here.

20 EXAMINER BROOKS: I remember the names, and
21 that's probably because of the fights, because people
22 who fight, their names are remembered.

23 CROSS-EXAMINATION

24 BY EXAMINER JONES:

25 Q. Okay. But you said 690 feet gross?

1 A. Yes.

2 Q. So the gross interval -- basically the -- can
3 you point it out on this cross section, where that would
4 be?

5 A. Sure. On here, the Strawn is your bottom top
6 here --

7 Q. Okay.

8 A. -- and the Wolfcamp D, Pennsylvanian depth
9 second --

10 Q. Is D?

11 A. Yeah.

12 Q. Okay. So that's 690. And you would be
13 drilling somewhere inside there?

14 A. That is correct.

15 Q. And your completion -- how would you do the
16 completion and how much vertical section would you
17 complete by that?

18 A. We consider slickwater frac, and we believe
19 that the frac will reach about 250 foot height within
20 the formation.

21 Q. And it will prop that much maybe?

22 A. Yes, sir.

23 Q. Okay. And that's above and below your well?

24 A. 250 above, 50 below --

25 Q. Okay.

1 A. -- the wellbore itself.

2 Q. Okay. And I think we've seen some high
3 permeable sections inside this, or maybe I'm thinking of
4 Permo Penn areas where those were depleted from years of
5 production so that disposal was really lucrative inside
6 of it.

7 A. In this area, there is more of an uphole
8 opportunity as they were coming out of the well. So
9 there's not a lot of disposal in the area.

10 Q. Okay. So there was -- there are Strawn targets
11 down here, right?

12 A. Yes.

13 Q. So those are algal mounds?

14 A. Yes, that's correct.

15 Q. Kind of hit-or-miss type?

16 A. Yes. There's a field just south of here that
17 was all Strawn.

18 Q. Yeah. I remember sitting on one right next to
19 a really good well, and it turned out nothing
20 (laughter). So it looks like there's a reason for that,
21 I guess, but I don't know why.

22 Okay. Thanks very much.

23 A. No problem. Thank you.

24 MR. BRUCE: I have nothing further,
25 Mr. Examiner, and ask that the matter be taken under

1 advisement.

2 EXAMINER JONES: Okay. Case Number 16177
3 is taken under advisement.

4 (Case Number 16177 concludes, 10:16 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 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
Paul Baca Professional Court Reporters

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