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APPEARANCES

FOR APPLICANT CATENA RESOURCES OPERATING, LLC:

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1 (1:44 p.m.)

2 EXAMINER LOWE: Call Case Number 20664,
3 application of Catena Resources Operating, LLC for
4 compulsory pooling, Lea County, New Mexico.

5 Call for appearances.

6 MS. SHAHEEN: Sharon Shaheen, Montgomery &
7 Andrews, for Catena Resources Operating, LLC.

8 EXAMINER LOWE: Do you have any witnesses?

9 MS. SHAHEEN: I'm presenting it by
10 affidavit today.

11 EXAMINER McMILLAN: Any other appearances?

12 EXAMINER LOWE: Any other appearances?

13 MS. SHAHEEN: Not that I'm aware of.

14 EXAMINER McMILLAN: Just for the record,
15 I've been told I have to be nice, or Lorraine is going
16 to be mean to me (laughter).

17 MS. SHAHEEN: I will thank Lorraine for
18 that.

19 EXAMINER McMILLAN: I see her four or five
20 times a week on the train.

21 MS. SHAHEEN: That's what I hear.

22 EXAMINER LOWE: You may proceed.

23 MS. SHAHEEN: Thank you.

24 Taking a quick overlook at the packet here,
25 if you look on the second page, there is a table of

1 contents. I've included the application for your
2 reference and then the affidavit of the landman, the
3 affidavit of the geologist. And then there is a tab
4 with all of the exhibits and finally my Affidavit of
5 Notice. So I'll walk through all of that, and you'll
6 let me know if you have any questions.

7 I'll start with the application and note
8 that on the docket, it's represented that this is a
9 Wolfcamp Formation, and in the application, it also
10 represents, in the first paragraph, that it's the
11 Wolfcamp Formation, but it actually is the Bone Spring
12 Formation. And that is evident in the application on
13 page 2 and our request under our "wherefore" paragraph
14 there, under paragraph C -- sorry -- paragraph B,
15 "pooling all uncommitted interests in the Bone Spring
16 Formation." So that is a typo that I wanted to clear up
17 for the record.

18 So Catena is requesting a 320-acre
19 horizontal spacing unit in the Bone Spring Formation,
20 the pool name and pool code being Scharb-Bone Spring,
21 55610. And I do not believe -- we did do a search for
22 special pool rules and did not find any special pool
23 rules for that particular pool. We're in the east half
24 of the west half of Sections 9 and 16, Township 19
25 South, Range 35 East, in Lea County. Catena is a

1 working interest owner in the proposed standard
2 horizontal spacing unit and has the right to drill
3 thereon, and I believe they've already drilled. Catena
4 proposes to dedicate this spacing unit to its proposed
5 Cable 19-35-9 State 2H well.

6 And with that, I'll move on to the
7 affidavit of the landman in support of this application.
8 Mr. Swann, Robert Swann, is employed as a landman with
9 Catena, and he's familiar with the subject application
10 and the involved lands. He has not previously testified
11 before the Oil Conservation Division. He seeks to be
12 qualified by the Oil Conservation Division as an expert
13 witness in petroleum land matters. He has a degree in
14 agriculture and applied economics from Texas Tech that
15 he received in May of 2008. He's been employed by
16 Catena as a landman since 2019. Prior to that, he
17 worked for STX Petro Properties in Laredo, Texas, and
18 there he had 11 years of experience working in south
19 Texas. He has been working on New Mexico land matters
20 for one year.

21 With that, I would ask that Mr. Swann be
22 qualified as an expert witness with respect to petroleum
23 land matters.

24 EXAMINER LOWE: With one year of
25 experience, huh?

1 MS. SHAHEEN: Actually, he's had 12 years
2 of experience and one year of experience with Catena in
3 New Mexico.

4 EXAMINER LOWE: Okay. He is so qualified
5 then.

6 MS. SHAHEEN: Thank you.

7 Moving on to the second page of Mr. Swann's
8 affidavit, the purpose of the application is to force
9 pool. And here I do have another correction. We're not
10 force pooling any working interest owners. We have now
11 reached voluntary agreements with all of the working
12 interest owners, and the only uncommitted interest
13 owners at this point are mineral interest owners --
14 unleased mineral interest owners.

15 A plat outlining the proposed unit is
16 attached hereto as Exhibit Number 1. You can see that
17 behind Exhibit -- the exhibit tab.

18 Attached as Exhibit 2 is the draft C-102.

19 And Exhibit 3 has identified the parties
20 who we seek to force pool in this proceeding, and as you
21 can see, each one is an uncommitted mineral interest
22 owner. There are eight of them. And when I get to my
23 Affidavit of Notice, if you like, I can explain which
24 ones received notice, which ones -- received personal
25 notice by certified mail and which ones received notice

1 by publication.

2 Going back to Mr. Swann's affidavit -- oh,
3 and I would also note that as part of Exhibit 3, there
4 is a second page. That indicates that it's in Section
5 9, the east half of the west half of Section 9 where
6 there is fee acreage, and it is -- the interest of the
7 uncommitted interest owners are within that, the east
8 half of the west half of Section 9.

9 No opposition is expected. The interest
10 owners have been contacted or provided with publication
11 notice, but they have failed or refused to voluntarily
12 commit their interests. There are no depth severances
13 in the Scharb-Bone Spring target formation.

14 Paragraph 11. The proposed surface-hole
15 location is 192 feet from the south line and 1,153 feet
16 from the west line of Section 4 to a bottom-hole
17 location of 100 feet from the south line and 1,600 feet
18 from the west line of Section 16. In the same
19 paragraph, the first take point is identified at
20 approximately 100 feet from the north line and 1,600
21 feet from the west line in Section 9, and the last take
22 point will be located at approximately 100 feet from the
23 south line, 1,600 feet from the west line of Section 16,
24 all of which is in Township -- it's not written --
25 Township 19 South, Range 35 East.

1 Mr. Swann conducted a diligent search of
2 the public records of Lea County where the well will be
3 located. He conducted phone directory and computer
4 searches to obtain contact information for all of the
5 parties.

6 He mailed all parties well proposals,
7 including an AFE, which is provided as Exhibit 4. The
8 estimated costs of the well set forth in the AFE is
9 fair, reasonable and comparable to the cost of other
10 wells of similar depth and length drilled in this area.
11 Catena has made a good-faith effort to obtain voluntary
12 joinder of the working interest owners.

13 Paragraph 15. Catena has an interest in
14 each tract in which the well will be drilled. And as I
15 mentioned earlier, I believe the well has already been
16 drilled. Its APD was approved on June 19th, 2019, and
17 that is attached as Exhibit Number 5.

18 In this affidavit, Catena requests overhead
19 and administrative rates of \$8,000 a month for drilling
20 and \$800 a month for a producing well. These rates are
21 fair and comparable to the rates charged by other
22 operators. Catena also requests that these rates be
23 adjusted periodically as provided in the COPAS
24 accounting procedure. I would note, however, that in
25 the application, the application itself requests actual

1 operating costs. And I spoke with the client. They
2 would prefer, if you could, if there wouldn't be a
3 notice problem, that the costs be \$8,000 a month for
4 drilling and 800 a month for operating. But if there is
5 an issue with notice with respect to the difference
6 between what the application requested and what the
7 affidavit asks for, we're happy to go with what the
8 application asks for, which is actual costs.

9 EXAMINER McMILLAN: Give them 8 and 8.

10 MS. SHAHEEN: You don't have to decide now.

11 EXAMINER McMILLAN: Well, we have to be
12 consistent about how we do it. We've always -- we're
13 not going to give you actual costs because I have paid
14 for quite -- I have paid for some race cars, and I have
15 paid for quite a few backhoes, so I like to make sure --
16 know exactly what the costs are (laughter).

17 MS. SHAHEEN: Interesting. Okay. Well,
18 and our client prefers the 8, 8, so we're good with
19 that.

20 EXAMINER LOWE: Okay.

21 MS. SHAHEEN: So I think that's close to
22 being completed with the affidavit of the landman.

23 I am on page 3. Catena requests the
24 maximum cost -- this is paragraph 17 -- plus 200 percent
25 risk charge be assessed against nonconsenting working

1 interest owners. Here, again, it says "working interest
2 owners," but this would be uncommitted working interest
3 owners. They're 78 [sic].

4 Paragraph 18. Catena requests that it be
5 designated operator of the well. And Mr. Swann further
6 states that the exhibits were prepared by him or
7 compiled from Catena's business records, and, in his
8 opinion, the granting of this application is in the
9 interest of conservation, the prevention of waste and
10 the protection of correlative rights.

11 And with that, I would ask that Exhibits 1
12 through 5 and the affidavit of Mr. Swann be admitted
13 into the record.

14 EXAMINER LOWE: Exhibits 1 through 5 shall
15 be admitted into the record.

16 (Catena Resources Operating, LLC Exhibit
17 Numbers 1 through 5 are offered and
18 admitted into evidence.)

19 EXAMINER LOWE: I don't have any questions.

20 EXAMINER McMILLAN: Okay. I do.

21 The first thing you said, you said this is
22 a subject well. So you're saying this well has been
23 drilled?

24 MS. SHAHEEN: I believe it has been
25 drilled.

1 EXAMINER McMILLAN: So what we want to know
2 is whether or not the well has been drilled and the
3 status of it, because that affects -- that affects the
4 OCD, how the order is written.

5 MS. SHAHEEN: Okay.

6 EXAMINER McMILLAN: Because, for instance,
7 you're not going to have to have the one year to drill
8 and complete. You're not going to have that, as an
9 example.

10 MS. SHAHEEN: Uh-huh.

11 EXAMINER McMILLAN: But we would still have
12 one year after it's been -- and if it's been drilled and
13 completed, you wouldn't have to say after one year --
14 you don't have the one year to complete the well, but if
15 it's only drilled and not completed, you still have to
16 have -- that portion has to be in the order.

17 The next question I've got is did you send
18 a letter to the mineral interest owners?

19 MS. SHAHEEN: Yes. And maybe I attached
20 that to the wrong place.

21 EXAMINER McMILLAN: Let's take a look at
22 that. I have a question.

23 MS. SHAHEEN: The sample well-proposal
24 letter is attached, I believe, as Exhibit 4. It's in
25 the tab that says "Exhibits." They're in numerical

1 order there, so before the Affidavit of Notice tab. And
2 I'll note that Lorraine put together my packages.

3 (Laughter.)

4 EXAMINER McMILLAN: I want to make sure
5 that this has "Bone Spring" in it. I just want to make
6 sure that it's not the Wolfcamp but the Bone Spring.

7 MS. SHAHEEN: And if you look at the top of
8 the AFE, which is --

9 EXAMINER McMILLAN: I'm talking about this
10 letter. Talk about one thing at a time.

11 MS. SHAHEEN: Okay.

12 EXAMINER McMILLAN: Well, it's a huge
13 issue. I mean, this is a huge issue.

14 MS. SHAHEEN: I would just point out that
15 even though the letter itself doesn't reference -- it
16 doesn't reference either the Bone Spring or the
17 Wolfcamp, as I read it.

18 EXAMINER McMILLAN: But it says "10,82
19 feet." And when I -- okay. Well, then what's going to
20 happen --

21 MS. SHAHEEN: Can I add one other thing?

22 EXAMINER McMILLAN: Go ahead.

23 MS. SHAHEEN: So the AFE was attached to
24 the letter, and it's referenced in the letter. And on
25 the AFE, if you'll look kind of top -- middle of the

1 page, there is -- one, two, three, four -- five,

2 "Objective: Bone Springs."

3 EXAMINER LOWE: So it don't say it in the
4 letter, but it says that this AFE accompanies the letter
5 to 1F.

6 MS. SHAHEEN: Right. And the AFE is
7 referenced in the letter. So they're referring them to
8 look at the enclosed AFE. And when you do look at the
9 enclosed AFE, it states up at the top "Objective: Bone
10 Spring."

11 EXAMINER McMILLAN: Let's look at --

12 EXAMINER LOWE: We're concerned about the
13 letter. Even though it indicates as it is, it doesn't
14 state "Scharb-Bone," but we'll wait for what the
15 geologist says on how they're going to reference it, the
16 pool.

17 MS. SHAHEEN: Okay. I would also note that
18 they did receive a copy of the application, and I've
19 attached the notice letter with the application, which
20 requests that all interests in the Bone Spring Formation
21 be force pooled.

22 EXAMINER McMILLAN: Well, but then you said
23 there was a typo.

24 EXAMINER LOWE: That was in the
25 application.

1 EXAMINER McMILLAN: Yeah, in the
2 application. But I don't want there to be any questions
3 coming back.

4 So can I tell her what I would recommend?

5 EXAMINER LOWE: Go ahead.

6 EXAMINER McMILLAN: What I would recommend
7 to you is to supplement the record. Get the geologist
8 to sign that this true vertical depth -- you're saying
9 10,882 feet; that will be in the Bone Spring Formation.
10 That way everything is clear.

11 MS. SHAHEEN: Okay. I can do that. So
12 I'll provide a supplemental affidavit. Let me make sure
13 I'm understanding. So we're talking about the 2H and
14 we're looking at Exhibit 4 --

15 EXAMINER McMILLAN: Yeah.

16 MS. SHAHEEN: -- "to the proposed
17 bottom-hole location that is an approximate total
18 measured depth of 20,726 feet." So that's -- you want
19 the geologist to say that that total measured depth of
20 20,000 is within the Bone Spring Formation?

21 EXAMINER McMILLAN: The true vertical depth
22 for both of these wells is expected --

23 MS. SHAHEEN: Well, we're not seeking to
24 force pool the 1H anymore because we've received
25 voluntary agreement.

1 EXAMINER McMILLAN: Okay. Well, then for
2 the 2H, then that's what I want to see clearly stated,
3 because if it ever comes back, another party contests
4 the compulsory pooling and they see -- well, you said
5 here it's Wolfcamp, and I'm not real clear on it.
6 Everyone can definitively say this is going to be a Bone
7 Spring well.

8 MS. SHAHEEN: Okay. I can do that, if he
9 doesn't say that already. He doesn't actually, I don't
10 think, in his --

11 EXAMINER McMILLAN: I want it clear as day.

12 MS. SHAHEEN: Okay. Okay. I've got it.

13 EXAMINER McMILLAN: And what's the API
14 number?

15 MS. SHAHEEN: The API number is -- did I
16 skip that? It's in paragraph 15 of the landman's
17 affidavit on page 3.

18 EXAMINER McMILLAN: Great. Okay.

19 MS. SHAHEEN: Okay. If you're ready, I'll
20 go to the geologist's affidavit.

21 EXAMINER LOWE: Yeah.

22 MS. SHAHEEN: This is the affidavit of
23 Mr. Vince Smith, geologist. He is employed as a
24 petroleum geologist for Catena, and he's familiar with
25 the subject application and geology involved. Here

1 again, Mr. Smith has not previously testified before the
2 Oil Conservation Division. He seeks to be qualified as
3 an expert witness in petroleum -- this is a typo. It
4 says "petroleum land matters," but he seeks to be
5 qualified as an expert witness in petroleum -- in
6 geology matters.

7 He has a degree in bachelor -- he has a
8 Bachelor of Science from Baylor University that he
9 received in May of 2000. He's been employed by Catena
10 as a petroleum geologist since 2018. Prior to that, he
11 worked 18 years with Forge Energy in San Antonio, Texas,
12 which was sold to Oasis Petroleum. He's been working on
13 New Mexico land matters for the last four years.

14 With that, I would ask that Mr. Smith's
15 testimony be admitted into the record as an expert
16 witness.

17 EXAMINER LOWE: Mr. Vince Smith will be
18 admitted as an expert witness.

19 MS. SHAHEEN: Thank you.

20 Moving on to page 2, paragraph five of
21 Mr. Smith's affidavit, he is discussing Exhibit Number
22 6, and I'll give you a minute to get to that. It's the
23 one that is just behind the APD, red, blue and green.
24 Exhibit Number 6 is the Scharb-Bone Spring Formation SS
25 TVD structure map. The proposed unit is depicted by a

1 black rectangular box. The contour intervals are 25
2 feet. The structure map shows there is a regional
3 downdip to the west-southwest. He does not observe any
4 faulting, pinch-outs or other geologic impediments to
5 developing this targeted interval with a horizontal
6 well.

7 Turning to Exhibit Number 7, this is a
8 Scharb-Bone Spring Formation stratigraphic cross
9 section. Each well has a triple combo suite. Track one
10 is a gamma-ray log with a specific color for the
11 lithology, scale from zero to 150 API units.

12 Track two is deep resistivity in black and
13 shown on a logarithmic scale from 2 ohms to 2,000 ohms.
14 Light blue shading depicts resistivity less than 50
15 ohms.

16 Track three is the porosity track with
17 neutron porosity identified by the blue-curved scale
18 from 30 percent to a negative 10 percent. The
19 density-porosity curve is the red curve from 30 percent
20 to negative 10 percent. Red shading depicts density
21 porosity greater than 8 percent on a limestone matrix.

22 The two wells on the right have the
23 petrophysics and derived mineralogy in track four and
24 the water saturation in track five. Interpretive color
25 fill for mineralogy volume has green for

1 sand-siltstone-quartz, blue for calcium carbonate,
2 orange for clay and black for TLC.

3 The water saturation in track five shades
4 less than 50 percent as red and greater than 50 percent
5 as blue. The cross section identifies the key tops used
6 to evaluate reservoirs and landing targets for the 2H
7 well. The landing target interval is shown on the cross
8 section by a green-shaded box. The reservoir in the
9 Scharb-Bone Spring has a constant thickness and
10 reservoir facies throughout the proposed unit.

11 Turning now to Exhibit Number 8, Exhibit
12 Number 8 is a gross isopach map of the Scharb-Bone
13 Spring interval. This map shows the location of the 2H
14 spacing unit outlined by the black rectangular box. The
15 map also shows the surface- and bottom-hole locations
16 for the well. The anticipated gross thickness of the
17 target interval is 85 feet throughout the unit. The
18 relative thickness varies across the area as shown on
19 this map to range from 625 feet to 775 feet. The
20 location of the previous cross section from A to A prime
21 is also shown on this map with a maroon-dashed line.

22 Based on Mr. Vince's [sic] geologic study
23 of the area, he concluded that the horizontal spacing
24 and proration unit is justified from a geologic
25 standpoint. There are no structural impediments or

1 faulting that will interfere with horizontal
2 development. Each quarter-quarter section in the unit
3 will contribute more or less equally to production. The
4 preferred well orientation in this area is north to
5 south because the inferred orientation of the maximum
6 horizontal stress is roughly west to east.

7 Mr. Smith states that the exhibits were
8 prepared by him or compiled from Catena's business
9 records and that the granting of this application is in
10 the interest of conservation and the prevention of
11 waste.

12 With that, I would ask that Exhibits 6
13 through 8 be admitted into the record.

14 EXAMINER LOWE: Exhibits 6 through 8 will
15 be admitted to the record.

16 (Catena Resources Operating, LLC Exhibit
17 Numbers 6 through 8 are offered and
18 admitted into evidence.)

19 MS. SHAHEEN: Questions?

20 EXAMINER LOWE: Any questions, sir?

21 EXAMINER DAVID: I do not.

22 EXAMINER McMILLAN: No questions.

23 MS. SHAHEEN: Last but not least is my
24 Affidavit of Notice. It's behind the last tab. I
25 caused notice of the application to be sent by certified

1 mail through the postal service on June 27th to all of
2 the uncommitted interest owners except for one, Alston
3 Elkan Trust. Notice of application was sent by
4 certified mail to the Alston Elkan Trust on July 16th,
5 2019.

6 And the evidence of mailing to all of the
7 parties as proof of receipt to the majority of the
8 parties is attached as Exhibit A. So Exhibit A, I
9 attached the notice letter, and there's a list of the
10 interest owners. And if you'd like, I can once again
11 identify those with whom we do not have a voluntary
12 agreement. I believe of those eight -- one, two -- two
13 of them -- three of them did not receive personal
14 notice, but those three, along with everyone else,
15 received notice by publication, which is attached as
16 Exhibit B to the Affidavit of Notice.

17 Catena conducted a diligent effort to find
18 the correct addresses for the interest owners entitled
19 to receive notice of the application.

20 And I would ask the Affidavit of Notice be
21 accepted into the record.

22 EXAMINER LOWE: The Affidavit of Notice
23 will be accepted for the record.

24 (Catena Resources Operating, LLC's

25 Affidavit of Notice is offered and admitted

1 into evidence.)

2 MS. SHAHEEN: Thank you. Any questions?

3 EXAMINER LOWE: The initial application was
4 submitted to compulsory pool both wells?

5 MS. SHAHEEN: Yes.

6 EXAMINER LOWE: But later on, the #1 well
7 was excluded from this?

8 MS. SHAHEEN: The #1 well was dismissed --
9 that was Case Number 20663 -- because they had voluntary
10 agreements with all of the interest owners in that well.
11 That was the west half of the west half of Section 9 and
12 Section 16.

13 EXAMINER LOWE: Okay. I have no more
14 questions.

15 EXAMINER McMILLAN: No questions.

16 MS. SHAHEEN: With that, I will prepare the
17 supplemental affidavit and ask that when you receive
18 that supplemental affidavit -- which will state two
19 things. It will confirm that the well has been drilled
20 and provide the status, whether it's been drilled or
21 drilled and completed.

22 EXAMINER McMILLAN: Yes.

23 MS. SHAHEEN: And it will also have the
24 geologist state that the true vertical depth is within
25 the Bone Spring Formation.

1 EXAMINER McMILLAN: Yes.

2 MS. SHAHEEN: With that, I would ask that
3 you take this case under advisement.

4 EXAMINER LOWE: Case Number 20664 will be
5 taken under advisement.

6 MS. SHAHEEN: Thank you.

7 And I will tell Lorraine that you were nice
8 to me.

9 EXAMINER McMILLAN: Good (laughter).

10 (Case Number 20664 concludes, 2:13 p.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 19th day of August 2019.

21

22

23 MARY C. HANKINS, CCR, RPR
24 Certified Court Reporter
New Mexico CCR No. 20
Date of CCR Expiration: 12/31/2019
Paul Baca Professional Court Reporters

25