

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

ORIGINAL

IN THE MATTER OF THE HEARING CALLED
BY THE OIL CONSERVATION DIVISION FOR
THE PURPOSE OF CONSIDERING:

CASE: 14735

APPLICATION OF APACHE CORPORATION FOR APPROVAL OF A UNIT
AGREEMENT, LEA COUNTY, NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS
EXAMINER HEARING
September 29, 2011
Santa Fe, New Mexico

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BEFORE: WILLIAM V. JONES, Technical Examiner
DAVID K. BROOKS, Legal Examiner

This matter came on for hearing before the New Mexico Oil Conservation Division, WILLIAM V. JONES, Technical Examiner, and DAVID K. BROOKS, Legal Examiner, on September 29, 2011, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South St. Francis, Drive, Room 102, Santa Fe, New Mexico.

REPORTED BY: Irene Delgado, NM CCR 253
Paul Baca Professional Court Reporters
500 Fourth Street, NW, Suite 105
Albuquerque, New Mexico 87102

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A P P E A R A N C E S

FOR THE APPLICANT:

JIM BRUCE
P.O. Box 1056
Santa Fe, NM 87504-1056

I N D E X

EXHIBITS	
EXHIBITS 1 THROUGH 4 ADMITTED	11
MICHELLE HANSON Direct by Mr. Bruce	03
KEITH MCKAMEY Direct by Mr. Bruce	08

1 EXAMINER JONES: Now, let's start out on Page 2 of
2 the docket. Let's call Case 14735, application of Apache
3 Corporation for approval of a unit agreement in Lea County,
4 New Mexico. Call for appearances.

5 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe
6 representing the applicant. I have two witnesses.

7 EXAMINER JONES: Any other appearances?

8 (No response.)

9 EXAMINER JONES: Will the witnesses please stand and
10 state your names.

11 MS. HANSON: Michelle Hanson.

12 MR. McKAMEY: Keith McKamey.

13 EXAMINER JONES: All right. Will the court reporter
14 please swear the witnesses.

15 (Oath administered.)

16 MICHELLE HANSON

17 (Having been sworn, testified as follows:)

18 DIRECT EXAMINATION

19 BY MR. BRUCE:

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

21 A. Michelle Hanson.

22 Q. And where do you reside?

23 A. Midland, Texas.

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

25 A. I'm a landman for Apache Corporation.

1 Q. Have you previously testified before the Division?

2 A. Yes.

3 Q. And were your credentials as an expert landman
4 accepted as a matter of record?

5 A. Yes.

6 Q. Are you familiar with the land matters involved in
7 this application?

8 A. Yes.

9 MR. BRUCE: Mr. Examiner, I would tender Ms. Hanson
10 as expert petroleum landman.

11 EXAMINER JONES: She is so qualified.

12 Q. Would you briefly summarize what Apache seeks in
13 this case?

14 A. Apache seeks approval of the Unit Agreement for the
15 West Tatum State Exploratory Unit, covering 4,440 acres of
16 state lands in Lea County.

17 Q. And what is Exhibit 1?

18 A. Exhibit 1 is the land plat showing the proposed unit
19 boundaries. If I may point out that for Exhibit 1 the tract
20 numbers have changed and the correct land plat is actually
21 attached as Exhibit A to the unit agreement.

22 Q. Okay. But this does correctly show the outlines?

23 A. Yes, sir.

24 Q. And then what is Exhibit 2?

25 A. Exhibit 2 is the unit agreement designating Apache

1 as the unit operator.

2 Q. And is this on the form approved by the Commissioner
3 of Public Lands?

4 A. Yes, it is.

5 Q. And in forms like this, all you do is fill in the
6 blanks, correct?

7 A. Yes.

8 Q. What is the unitized interval?

9 A. The unit agreement covers all depths.

10 Q. And what depth will the initial well test?

11 A. The initial well will test the Abo Formation.

12 Q. Now, looking at the unit agreement, Exhibit B to the
13 unit agreement, who are the working interest owners in the
14 unit?

15 A. Apache Corporation and Perdernalles Production LP,
16 both with a 50 percent working interest.

17 Q. And this agreement has been executed by Apache,
18 already?

19 A. Yes.

20 Q. Has Perdernalles executed it or will be?

21 A. They have already.

22 Q. There are also several overriding royalty interest
23 owners listed in the exhibit. What is the status of their
24 ratification of the unit?

25 A. They have approved.

1 Q. And has the unit agreement previously been submitted
2 to the land office?

3 A. Yes, it has.

4 Q. And is the land office the only royalty owner in
5 this area?

6 A. Yes.

7 Q. Has the land office preliminarily approved the unit
8 agreement?

9 A. They have, and it is marked Exhibit 3.

10 Q. Because of the voluntary joinder of the interest
11 owners, does Apache control sufficient interest to give it
12 effective control of the unit area?

13 A. Yes.

14 Q. And, in your opinion, will the granting of this
15 application be in the interest of conservation and the
16 prevention of waste?

17 A. Yes.

18 Q. Were Exhibits 1 through 3 prepared by you or under
19 your direction or compiled from company business records?

20 A. Yes.

21 Q. Does Apache request expedited approval of the unit
22 agreement?

23 A. We do.

24 Q. And why is that?

25 A. We have a location staked and permitted, and we are

1 ready -- ready to drill it.

2 EXAMINER JONES: Ready to go.

3 MR. BRUCE: Mr. Examiner, if I may, I will e-mail
4 this to you, I have proposed a form of order based on the
5 prior Division orders.

6 EXAMINER JONES: Okay.

7 MR. BRUCE: As I said, I will e-mail that to you
8 when I get back to the office. I have no further questions
9 of the witness.

10 EXAMINER JONES: This -- say again -- Exhibit A has
11 been transformed into a new Exhibit A?

12 THE WITNESS: Exhibit -- well, the only difference
13 is the tract numbers.

14 EXAMINER JONES: Tract, okay. So which one is
15 correct?

16 THE WITNESS: The one that is attached to the unit
17 agreement, which is Exhibit 2, the one attached as Exhibit B
18 to the unit agreement.

19 EXAMINER JONES: So Exhibit Number 1 is not correct?

20 THE WITNESS: The outline is correct, just not the
21 tract number designations.

22 EXAMINER JONES: Okay.

23 THE WITNESS: And the reason I -- we did that is
24 when we met with the State Land Office, they requested that I
25 list in the Exhibit B, in order of the leases that were

1 expiring first to last, and that's the only change.

2 EXAMINER JONES: Any questions?

3 EXAMINER BROOKS: No questions.

4 EXAMINER JONES: Thank you.

5 THE WITNESS: Uh-huh. Thank you.

6 KEITH MCKAMEY

7 (Having been sworn, testified as follows:)

8 DIRECT EXAMINATION

9 BY MR. BRUCE:

10 Q. Good morning. Would you please state your name and
11 city of residence for the record?

12 A. Keith McKamey, Midland, Texas.

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

14 A. Apache. I'm a senior new ventures geologist,
15 northwest shelf.

16 Q. Have you previously testified before the Division?

17 A. Yes, I have.

18 Q. Were your credentials as an expert petroleum
19 geologist accepted as a matter of record?

20 A. Yes, they were.

21 Q. And this unit area is in your area of responsibility
22 of Apache?

23 A. Yes, it is.

24 MR. BRUCE: Mr. Examiner, I tender Mr. McKamey as an
25 expert petroleum geologist.

1 EXAMINER JONES: So qualified.

2 Q. Mr. McKamey, I will basically ask you one question.
3 Could you identify Exhibit 4 and describe the geology and the
4 target zone in this area?

5 A. Sure. Exhibit 4 is composed of four pages, the
6 executive summary on the top. The second page is a double X
7 structure map. The third page is an Abo A Isoporosity Map,
8 and the fourth page is a cross section. It's a stratigraphic
9 cross section north to south.

10 In the executive summary, I outline what the target
11 objective is. It's a tight, discontinuous interbedded
12 dolomite limestone interval within the Abo. I have listed
13 three wells surrounding and within the exploration unit. The
14 first well in Section 11 is outside the unit. There is an
15 old Morrow dry hole. No tests were taken in that well.

16 The second well listed in the executive summary is a
17 well within the unit in Section 26. It was completed as a
18 dry hole in 1956. There were five tests run. None of them
19 were economic.

20 And the third well listed in the executive summary
21 is a well to the southwest of the unit. It was completed in
22 1985. Three tests were run on that well, but no commercial
23 value was found in that well.

24 If you will turn to the second page, which is the
25 structure map on the XX, it shows simple southeast dip to --

1 toward the basin. The XX marker is a common stratigraphical
2 marker we use to pick structure. It's about 150, 200 feet
3 below the zone of interest, but it's very near the zone of
4 interest.

5 You will see the cross section illustrated on both
6 this XX structure map, as well as the next map that I would
7 like for you to turn to. It's the Abo A Isoporosity Map.
8 There are only three wells, so there is not a whole lot of
9 control. The only thing I would like to point out is to the
10 east and off the map there is a limestone barrier, so we
11 anticipate that the dolomite zone is just updip from that
12 limestone barrier, and based on the control we have, we have
13 identified a potentially thick Abo interval that we want to
14 target with our first exploration well.

15 The last page is a cross section of those three
16 wells. The well on the far left is the well on the north end
17 of the project. It's outside the unit in Section 11. The
18 well was pretty tight and non -- probably non-productive.
19 The well in the middle is the one within the unit. The three
20 yellow stringers at the very top is the Abo A we are
21 targeting. And the well on the far right is the well to the
22 south and west off the exploratory unit area, and that well
23 has dolomite porosity as well, so we think that that may
24 extend that far off the edge of the feature, but it basically
25 shows it's very discontinuous, and it's very tight carbonate

1 interval.

2 Q. Looking back at the -- at the isoporosity map, does
3 that identify the initial well for the unit?

4 A. It does. The well is in the west half west half of
5 26-12-35.

6 Q. And was it located there to keep it near the nearest
7 well control unit?

8 A. Absolutely.

9 Q. Is that right? In your opinion, will the granting
10 of this application be in the interest of conservation and
11 the prevention of waste?

12 A. Yes, it will.

13 Q. And will the unit area and the drilling in the unit
14 area allow orderly development of this reservoir develops as
15 commercial --

16 A. Yes, it will.

17 Q. Was Exhibit 4 prepared by you or under your
18 supervision?

19 A. It was.

20 MR. BRUCE: Mr. Examiner, I have no further
21 questions. And if I already didn't, I move the admission of
22 Exhibits 1 through 4.

23 EXAMINER JONES: Exhibits 1 through 4 will be
24 admitted.

25 (Exhibits 1 through 4 admitted.)

1 EXAMINER JONES: Where is the top of the Wolfcamp?

2 THE WITNESS: The top of the Wolfcamp is typically
3 at this top of the limestone interval, and it's marked in
4 blue. It's a blue dashed line. And the well in the middle,
5 it's right below those three yellow stringers, if you will
6 notice.

7 EXAMINER JONES: The blue dashed line on the --

8 THE WITNESS: On the cross section.

9 EXAMINER JONES: On the cross section.

10 THE WITNESS: And it is identified on the side of
11 the log as the limestone -- Wolfcamp Limestone marker.

12 EXAMINER JONES: Okay. So is this Abo, or is it
13 Wolfcamp?

14 THE WITNESS: It's Abo.

15 EXAMINER JONES: It's definitely in the lower Abo?

16 THE WITNESS: Yeah. We intend to complete in that
17 upper zone above that Wolfcamp Limestone.

18 EXAMINER JONES: Okay.

19 THE WITNESS: Now, the Wolfcamp Limestone marker, I
20 might point out, is an industry term. It's not really tied
21 to paleo, so it's just a term that we use. In fact, the
22 Wolfcamp may be several hundred feet below that.

23 EXAMINER JONES: Okay. So all caps would agree with
24 this pretty much?

25 THE WITNESS: Certainly the Abo markers that I had

1 picked are all local to Apache. The others are all industry
2 accepted.

3 EXAMINER JONES: So -- okay. Okay. I don't have
4 any more questions.

5 EXAMINER BROOKS: No questions.

6 EXAMINER JONES: Thank you very much.

7 MR. BRUCE: That's all I have, Mr. Examiner.

8 EXAMINER JONES: Thank you, Mr. Bruce. With that,
9 we will take case 14735 under advisement.

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I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. _____
heard by me on _____
_____, Examiner
Oil Conservation Division

REPORTER'S CERTIFICATE

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I, IRENE DELGADO, New Mexico CCR 253, DO HEREBY CERTIFY THAT ON September 29, 2011, proceedings in the above-captioned case were taken before me and that I did report in stenographic shorthand the proceedings set forth herein, and the foregoing pages are a true and correct transcription to the best of my ability.

I FURTHER CERTIFY that I am neither employed by nor related to nor contracted with any of the parties or attorneys in this case and that I have no interest whatsoever in the final disposition of this case in any court.

WITNESS MY HAND this _____ day of October 2011.


Irene Delgado, CCR 253
Expires: 12-31-2011