

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

6 APPLICATION OF NADEL AND
7 GUSSMAN HEYCO, LLC FOR APPROVAL
8 OF A NONSTANDARD SPACING AND
9 PRORATION UNIT AND COMPULSORY
10 POOLING, EDDY COUNTY, NEW MEXICO.

CASE NO. 14891

ORIGINAL

11 REPORTER'S TRANSCRIPT OF PROCEEDINGS
12 EXAMINER HEARING

13 BEFORE: DAVID K. BROOKS, Chief Examiner
14 RICHARD EZEANYIM, Technical Examiner

15 October 18, 2012
16 Santa Fe, New Mexico

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18 This matter came on for hearing before the
19 New Mexico Oil Conservation Division, David K. Brooks,
20 Chief Examiner, and Richard Ezeanyim, Technical
21 Examiner, on Thursday, October 18, 2012, at the New
22 Mexico Energy, Minerals and Natural Resources
23 Department, 1220 South St. Francis Drive, Porter Hall,
24 Room 102, Santa Fe, New Mexico.

25 REPORTED BY: Mary C. Hankins, CCR, RPR
New Mexico CCR #20
Paul Baca Professional Court Reporters
500 4th Street, Northwest, Suite 105
Albuquerque, New Mexico 87102

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APPEARANCES

FOR APPLICANT NADEL AND GUSSMAN HEYCO, LLC:

JAMES G. BRUCE, ESQ.
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1 (10:22 a.m.)

2 EXAMINER BROOKS: Is there anything else
3 here? I'm getting -- okay. Yeah, there are.

4 Next is 14891, Case Number 8.

5 You said you wanted to postpone 14900?

6 MR. BRUCE: Yeah. I don't have my docket,
7 but the Nadel and Gussman HEYCO and the Diamondback
8 Resources is one. And then after those are done, I can
9 do the two by affidavit, the two Cimarex cases.

10 EXAMINER BROOKS: At this time we'll call
11 Case Number 14891, application of Nadel and Gussman
12 HEYCO, LLC for approval of a nonstandard oil spacing and
13 proration unit and compulsory pooling, Eddy County, New
14 Mexico.

15 Call for appearances.

16 MR. BRUCE: Mr. Examiner, Jim Bruce of
17 Santa Fe representing the Applicant, and I have two
18 witnesses.

19 EXAMINER BROOKS: Any other appearances?
20 Okay. Will the witnesses please stand?
21 They're the same witnesses. You don't need
22 to be sworn again.

23 MR. BRUCE: No, no.

24 (Laughter.)

25 EXAMINER BROOKS: Not the same witnesses.

1 Please identify yourselves for the record.

2 MR. BOOTH: Colby Booth.

3 MR. YAHNEY: Gordon Yahney.

4 EXAMINER BROOKS: Please swear the
5 witnesses.

6 (Witnesses sworn.)

7 COLBY BOOTH,

8 after having been previously sworn under oath, was
9 questioned and testified as follows:

10 DIRECT EXAMINATION

11 BY MR. BRUCE:

12 Q. Mr. Booth, where do you reside?

13 A. Roswell, New Mexico.

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

15 A. I am a landman for Nadel and Gussman HEYCO,
16 LLC.

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

19 A. Yes, I have.

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

22 A. Yes, they were.

23 Q. Are you familiar with the land matters involved
24 in this case?

25 A. Yes, I am.

1 MR. BRUCE: Mr. Examiner, I tender
2 Mr. Booth as an expert petroleum landman.

3 EXAMINER BROOKS: He is so qualified.

4 Q. (BY MR. BRUCE) Mr. Booth, would you identify
5 Exhibit 1 and describe what Applicant seeks in this
6 case?

7 A. Exhibit 1 is a Midland map plat, which includes
8 a part of Township 18 South, Range 26 East, and NGH is
9 seeking an order approving a nonstandard well unit
10 comprised of the south half of the north half. We also
11 are seeking to pool the south half of the north half as
12 to the Glorieta-Yeso Formation.

13 Q. And what is the name of the proposed well?

14 A. That is the Cannonball Well #1H.

15 Q. In which quarter-quarter section is the surface
16 location, and in which quarter-quarter section is the --

17 A. The surface location is going to be in the
18 southeast of the northeast, and the bottom hole location
19 will be located in the southwest of the northwest.

20 Q. What is the working interest ownership in the
21 well unit? And I refer you to Exhibit 2.

22 A. Exhibit 2 is the working interest owners that
23 we have in the well.

24 Do they (indicating) have the color-coded
25 worksheet?

1 Q. Basically, you seek to force pool everyone who
2 is not in yellow; is that correct?

3 A. That is correct. The blue names -- and I
4 apologize for that color. When I printed it out it
5 looked different than it did on the screen. But the
6 blue names were no response, and then we have two
7 undeliverable parties that we could not get addresses
8 for.

9 Q. What would be an approximate working interest
10 percentage of the parties being pooled?

11 A. Basically, it would probably be about six
12 percent, is what I'm showing.

13 Q. What is Exhibit 3?

14 A. Exhibit 3 is our proposal letters to the
15 interest owners.

16 Q. And have you also had any follow-up
17 conversations with the interest owners and the locatable
18 parties?

19 A. Yes. All the interest owners in Exhibit 2, in
20 the yellow, have all signed a JOA or an operating
21 agreement with us. They have also agreed to
22 participation and signed an AFE.

23 Q. Have you also been in touch with the interest
24 owners highlighted in blue who were locatable but did
25 not respond?

1 A. I did speak with -- the Earlene Cass Tweedy is
2 actually an estate that is handled out of Roswell, New
3 Mexico with First National Bank, and I've been in
4 contact with them. I've been working with them. They
5 didn't believe they still had the interest, but they're
6 taking care of what needs to be done to get things
7 situated there.

8 The Norma Glover Smith Estate I have also
9 been working with her.

10 And then all of the Salinases, I have not
11 had too much contact with them, but Paula Jane, I
12 believe, is the one that is heading up that entire
13 estate, and we will be working with them as well.

14 Once we work a deal with these parties, we
15 will be forced to take them off -- ask them to be taken
16 off the order.

17 Q. But you have been working on this now for a
18 good half a year; have you not?

19 A. Yes, sir. We approved this -- not approved.
20 I'm sorry. Proposed this well in April, end of April.

21 Q. What steps did you take to try to find the
22 persons who turned out to be unlocatable?

23 A. First off, we had to take off down in the
24 county records to find who owned -- had ownership or
25 turned a lease, or also tried to -- after we weren't

1 able to find them via that -- on that address, we were
2 using the Internet locations, you know, search engines,
3 phone book addresses, anything of that -- anything we
4 could use, basically, to try to find them, and we
5 weren't able to.

6 Q. In your opinion, has Applicant made a
7 good-faith effort to obtain voluntary joinder to locate
8 all parties in the --

9 A. Yes, I believe so.

10 Q. Could you identify Exhibit 4 for the Examiner?

11 A. Exhibit 4 is our AFE, Authority for
12 Expenditure, for the Cannonball 1H well.

13 Q. And what is the cost of the well?

14 A. Our dry-hole costs are shown to be \$1,339,353.
15 Our total well costs are shown to be \$3,087,340.

16 Q. And are these costs in line with the costs of
17 the other horizontal wells drilled to this depth in this
18 area of Eddy County?

19 A. Yes, they are.

20 Q. Do you request that Nadel and Gussman be
21 appointed operator of the well?

22 A. Yes, I do.

23 Q. And what are your recommendations for the
24 overhead rates?

25 A. We're looking for \$5,500 a month for drilling

1 and \$550 a month for producing oil well rate.

2 Q. And are these amounts equivalent to those
3 charged by Nadel and Gussman HEYCO and other operators
4 in this area for wells of this depth?

5 A. Yes, they are.

6 Q. And do you request that these rates be adjusted
7 periodically under the COPAS accounting procedure?

8 A. Yes, I do.

9 Q. Does Nadel and Gussman HEYCO request a maximum
10 cost plus 200-percent risk charge for the nonconsenting
11 interest owner?

12 A. Yes.

13 Q. And were the parties who were locatable
14 notified of this hearing?

15 A. Yes, they were. And that is in Exhibit 5.

16 MR. BRUCE: And Exhibit 6, Mr. Examiner, is
17 an Affidavit of Publication against all unlocatable or
18 potentially unlocatable interest owners.

19 Q. (BY MR. BRUCE) Does Exhibit 7 identify all
20 offset interest operators to your proposed well?

21 A. Yes, it does.

22 Q. And is Exhibit 8 a Notice of Affidavit to them?

23 A. Yes, it is.

24 Q. And all of the offsets did receive notice of
25 the application; did they not?

1 A. Yes, they did.

2 Q. And were Exhibits 1 through 8 prepared by you
3 or under your supervision or compiled from company
4 business records?

5 A. Yes, they were.

6 MR. BRUCE: Mr. Examiner, I'd move for the
7 admission of Exhibits 1 through 8.

8 EXAMINER BROOKS: 1 through 8 are admitted.
9 (Nadel and Gussman HEYCO Exhibit Numbers 1
10 through 8 were offered and admitted into
11 evidence.)

12 MR. BRUCE: No further questions of the
13 witness.

14 EXAMINER BROOKS: Has this been assigned to
15 a particular owner in the Yeso pool?

16 MR. BRUCE: Mr. Examiner, I do not know. I
17 don't have a copy of the APD with me. It has been
18 assigned an API number.

19 EXAMINER BROOKS: Yeah. I'm sure Paul has
20 put it in the pool whether it's -- this is -- yeah.
21 This is in Eddy County, so it would be TC [sic]. I'm
22 pretty sure they put it in the pool.

23 THE WITNESS: The Atoka-Glorieta-Yeso pool.

24 EXAMINER BROOKS: I'm sorry?

25 THE WITNESS: Atoka.

1 EXAMINER BROOKS: Atoka?

2 THE WITNESS: Yes, sir.

3 EXAMINER BROOKS: Very good. I believe
4 that's all I have.

5 Mr. Ezeanyim?

6 EXAMINER EZEANYIM: No questions.

7 EXAMINER BROOKS: You may call your next
8 witness.

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

12 DIRECT EXAMINATION

13 BY MR. BRUCE:

14 Q. Will you please state your name and city of
15 residence for the record?

16 A. My name is Gordon Yahney, and I live in
17 Roswell, New Mexico.

18 Q. Who do you work for?

19 A. I work for Nadel and Gussman HEYCO.

20 Q. What is your job?

21 A. I am a geologist.

22 Q. Have you previously testified before the
23 Division?

24 A. Yes, I have.

25 Q. And were your credentials as an expert

1 geologist accepted as a matter of record?

2 A. Yes, they were.

3 Q. And are you familiar with the geology involved
4 in this case?

5 A. Yes, I am.

6 MR. BRUCE: Mr. Examiner, I'd tender
7 Mr. Yahney as an expert petroleum geologist.

8 EXAMINER BROOKS: He is so qualified.

9 Q. (BY MR. BRUCE) Mr. Yahney, what does Exhibit 9
10 show?

11 A. Exhibit 9 is a base map for the immediate area
12 around the Cannonball proposed well. That well is in
13 the horizontal well that's proposed for the south half
14 of the north half of Section 20 of 18 South, 26 there.
15 The base map shows some of the well control there and
16 some of the historical oil production.

17 The color-coded bubbles that you see on the
18 map there are -- the light, kind of red color are San
19 Andres production, and the darker, to the southeast
20 corner of the map there, are a combination of San
21 Andres-Yeso production.

22 Q. And this will be a Yeso test; will it not?

23 A. This is a Yeso test. That's correct.

24 Q. What is Exhibit 10?

25 A. Exhibit 10 is a -- kind of a type log that I

1 put together for the Yeso. It is a piece of the
2 Cannonball, a well that offsets the Cannonball. It's
3 called the Big Johnson. And the Big Johnson shows up
4 there to be in what would be the east half of the
5 northeast of Section 20. The type log shows the
6 Glorieta at the top and the Yeso section, in it's
7 entirety, from the base of the Glorieta down to the top
8 of the Abo.

9 Q. Would you identify Exhibit 11?

10 A. Exhibit 11 is a structure map on the top of the
11 Glorieta. So it's made at the top -- a little bit above
12 the top of the Yeso. It shows east and slightly
13 northeast dip at the -- somewhere in the neighborhood of
14 one degree. So there would be, at the top of the
15 Glorieta, you know, 60 to 80 foot of relief from the
16 proposed surface location to the -- to the toe or to the
17 well.

18 Q. Does this plat also reflect a cross section?

19 A. Yes. The cross section that will be shown next
20 is identified there as A to A prime, running from west
21 to east.

22 Q. Why don't you move on to that cross section,
23 Exhibit 12?

24 A. Exhibit 12 is a detailed cross section of the
25 top part of the Yeso. Again, the Yeso is shown here.

1 This is a stratigraphic section at the top of the Yeso,
2 or the base of the Glorieta. The Glorieta is in yellow.
3 You've got two different wells here, the Read and
4 Stevens, Brainard, and the Rubicon, Big Johnson, which
5 was the type log that I showed you just a little bit
6 ago.

7 The section is detailed there. The target
8 package for the horizontal placement is there in red,
9 with -- schematically drawn in with a toe up,
10 horizontal, you know, running from east to west.

11 Q. Is the Yeso target continuous across the
12 proposed well unit?

13 A. Yes, it is.

14 Q. What is Exhibit 13?

15 A. Exhibit 13 is a detailed structure map at the
16 top of the target, at the top of the red interval that
17 was shown on the cross section; again, showing the dip
18 in this case for that particular member running pretty
19 much west to east across the north hatch of the section
20 here.

21 Q. And finally, insofar as the geology goes, what
22 is Exhibit 14?

23 A. Exhibit 14 is across the ISOPACH map based on
24 cutoff of about five percent for the target package that
25 was shown in red on the cross section. You're dealing.

1 with some rather old wells in here. It's rather a
2 difficult map to construct, and it's probably got quite
3 a bit of accuracy problems. But it's pretty much the
4 best you can do for the information that you have to
5 work with.

6 Shown here is a section -- a gross section.
7 It's roughly about 200 feet thick, and within that,
8 across the ISOPACH here, it's showing that you've got 70
9 to 90 foot of porosity greater than five percent across
10 the length of the horizontal.

11 Q. In your opinion, will each quarter-quarter
12 section in the well unit contribute more or less equally
13 to production?

14 A. Yes, it should.

15 Q. And will this well efficiently and economically
16 be drained -- or at least this section of the Yeso be
17 efficiently and economically drained by one horizontal
18 well?

19 A. Yes. That's correct.

20 Q. Finally, could you identify Exhibit 15 and
21 discuss a little bit how the well will be drilled and --

22 A. Exhibit 15 is a worksheet that's internal to
23 Nadel and Gussman HEYCO. It's a planning sheet that I
24 put together for the target interval that was identified
25 on the cross section.

1 Over on the right is a couple of views of
2 that. The top one is a cross-section view, west to
3 east, showing that the toe of the well will be slightly
4 updip to the heel. The middle diagram there is the map
5 view, top -- looking down on top. And the bottom plat
6 [sic], there is just a little bit of an exaggerated
7 cross-sectional view, showing, again, that the toe would
8 be up.

9 The horizontal here is -- you know, the TVD
10 of the horizontal will be roughly at about 2600 feet at
11 the heel and will climb anywhere from 50 to 75 feet
12 going to the west to try to maintain what we've
13 identified and shown on the cross section as the
14 porosity involved in the wells that were identified
15 there.

16 Q. How many completion stages will there be?

17 A. Based on what we did in the offsetting Wabash
18 well to the north, we will come in again and have a
19 hydraulic packing system with about 20 stages in it that
20 we will fracture stimulate.

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

24 A. Yes, it is.

25 Q. And were Exhibits 9 through 15 prepared by you

1 or compiled from company business records?

2 A. Yes, it was.

3 MR. BRUCE: Mr. Examiner, I move the
4 admission of Exhibits 9 through 15.

5 EXAMINER BROOKS: 9 through 15 are
6 admitted.

7 (Nadel/Gussman HEYCO Exhibit Numbers 9
8 through 15 were offered and admitted into
9 evidence.)

10 MR. BRUCE: No further questions of the
11 witness.

12 CROSS-EXAMINATION

13 BY EXAMINER BROOKS:

14 Q. Okay. Based on your geologic examination, do
15 you believe that production will be substantially
16 similar from all of the 40-acre units included in this
17 160 acres from each?

18 A. I would think so. That's awful hard to detail,
19 but based on the mapping that I've done and what little
20 tracer type -- the work we've done with some of our
21 prior completions, I think that's probably accurate.

22 Q. Okay. No further questions.

23 EXAMINER BROOKS: Mr. Ezeanyim?

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CROSS-EXAMINATION

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BY EXAMINER EZEANYIM:

Q. What's the typical porosity?

A. Porosity here is running from practically nothing to some of the best stuff, at about ten percent. Permeability is very low. Your porosity, for the most part, is a lot -- a lot of it is jugular [sic], not connected very well.

Q. When you say it's low, how low is it, the permeability?

A. I don't have those numbers, but it's going to be something that does not produce very well in a vertical sense.

Q. You say you're going to have a 20-stage completion?

A. 20-stage hydraulic packer system.

Q. Hydraulic. Okay.

I would love to see the construction diagram to see where you are within the completed interval. Are you going to be within the completed interval that is defined by horizontal wells? Do you know what I'm talking about? I don't have that diagram here. We need that diagram to see -- you know, whenever we do -- whenever we do this horizontal well, we want to look at it to see whether it conforms with the newly

1 adopted oil well rule. Is this within the completed
2 interval or not?

3 REDIRECT EXAMINATION

4 BY MR. BRUCE:

5 Q. Mr. Yahney, will the producing be orthodox
6 under OCD rules?

7 A. Yes, it will.

8 EXAMINER EZEANYIM: Well, we need to see
9 the diagram.

10 MR. BRUCE: We can get that after the
11 hearing.

12 THE WITNESS: If you would look at this
13 diagram, the last exhibit there --

14 EXAMINER EZEANYIM: I'm looking at this
15 now, but I really need the diagram to show me where the
16 completed --

17 THE WITNESS: This diagram does not show
18 the stages that will be used in the completion, but it
19 does show that at our proposed TD, that we are 4620 feet
20 out in terms of the vertical section, which is the
21 distance between 330 from the east line and 330 from the
22 west line. So we would be at a standard location for
23 the pay section.

24 EXAMINER EZEANYIM: I'd like to have that
25 diagram, so we can produce --

1 MR. BRUCE: We will provide you with one.

2 THE WITNESS: Yes, sir.

3 EXAMINER EZEANYIM: Nothing further.

4 THE WITNESS: Thank you.

5 EXAMINER BROOKS: Very good. Does that
6 conclude your presentation, Mr. Bruce?

7 MR. BRUCE: Yes, it does.

8 EXAMINER BROOKS: Okay. Case Number 14891
9 will be taken under advisement.

10 (The hearing concluded, 10:43 a.m.)

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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. 14891
heard by me on 10-18-17
David K. Brooks Examiner
Oil Conservation Division

1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO

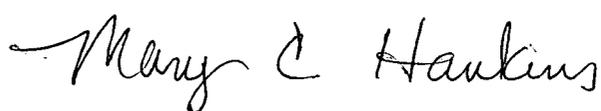
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CERTIFICATE OF COURT REPORTER

I, MARY C. HANKINS, New Mexico Certified Court Reporter No. 20, and Registered Professional Reporter, do hereby certify that I reported the foregoing proceedings in stenographic shorthand and that the foregoing pages are a true and correct transcript of those proceedings that were reduced to printed form by me to the best of my ability.

I FURTHER CERTIFY that the Reporter's Record of the proceedings truly and accurately reflects the exhibits, if any, offered by the respective parties.

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



MARY C. HANKINS, CCR, RPR
Paul Baca Professional Court Reporters
New Mexico CCR No. 20
Date of CCR Expiration: 12/31/2012