

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:

APPLICATION OF RSC RESOURCES LIMITED
PARTNERSHIP FOR COMPULSORY POOLING,
EDDY COUNTY, NEW MEXICO

Case 14933

REPORTER'S TRANSCRIPT OF PROCEEDINGS
EXAMINER HEARING

BEFORE: RICHARD EZEANYIM, Presiding Examiner
DAVID K. BROOKS, Legal Examiner

November 29, 2012

Santa Fe, New Mexico

This matter came on for hearing before the
New Mexico Oil Conservation Division, RICHARD EZEANYIM,
Presiding Examiner, and DAVID K. BROOKS, Legal Examiner,
on Thursday, November 29, 2012, at the New Mexico Energy,
Minerals and Natural Resources Department, 1220 South St.
Francis Drive, Room 102, Santa Fe, New Mexico.

REPORTED BY: Jacqueline R. Lujan, CCR #91
Paul Baca Professional Court Reporters
500 Fourth Street, N.W., Suite 105
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A P P E A R A N C E S

FOR THE APPLICANT:

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FOR SPIRAL, INC.:

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1 EXAMINER EZEANYIM: We go to Case 14933,
2 application of RSC Resources Limited Partnership for
3 compulsory pooling, Eddy County, New Mexico.

4 Call for appearances.

5 MR. BRUCE: Mr. Examiner, Jim Bruce, of
6 Santa Fe, representing the applicant. I have one
7 witness.

8 EXAMINER EZEANYIM: Any other appearances?

9 MR. PADILLA: Mr. Examiner, Ernest L.
10 Padilla for Spiral, Inc. We're not presenting a case.
11 The parties are very close to finalizing a deal with my
12 client, so therefore I don't think that this is going to
13 apply, but they wanted me to enter an appearance.

14 EXAMINER EZEANYIM: You just want to make
15 an appearance for your client? Who is your client?

16 MR. PADILLA: Spiral, Inc.

17 EXAMINER EZEANYIM: You have no witnesses?

18 MR. PADILLA: No witnesses.

19 EXAMINER EZEANYIM: Okay.

20 Okay, you've been sworn in. You are still
21 under oath.

22 MR. BRUCE: Mr. Examiner, if the record
23 could reflect that Mr. Cate has been previously sworn and
24 qualified as an expert witness?

25 EXAMINER EZEANYIM: Thank you.

1 MR. BRUCE: Mr. Examiner, this case
2 involves a well unit just to the north of the first case,
3 the north half of Section 10. Again, it's re-entry
4 seeking a Wolfcamp completion. And they're seeking to
5 force pool the north half of Section 10, 24 South, 28
6 East; and as to shallower zones, the northeast quarter or
7 the northwest quarter/northeast quarter. And the well is
8 the Guitar 10 Well Number 1.

9 Exhibit 1 is an affidavit from the landman
10 stating what she did to locate and determine interest
11 ownership in the well unit.

12 RANDALL CATE

13 Having been first duly sworn, testified as follows:

14 DIRECT EXAMINATION

15 BY MR. BRUCE:

16 Q. Very briefly, Mr. Cate, what is Exhibit 2?

17 A. Exhibit 2 is a land plat from the Midland Map
18 Company. What's highlighted in yellow is the north half
19 of Section 10, which is approximately 320 acres. And
20 that would be the spacing unit required for the
21 Wolfcamp -- attempted completion in the Wolfcamp gas
22 formation.

23 Q. The two wells you're here for today are about
24 a mile apart?

25 A. Yes. Additionally, in the north half there

1 are two -- now, this is a plugged well. There are two
2 plugged wells. The one I put the triangle around is the
3 re-entry candidate.

4 Q. Just briefly, what is Exhibit 3?

5 A. Exhibit 3 is an ownership report specific to
6 the interests that we need to pool. There are a lot of
7 other additional interests, just like the Marra report
8 before. However, this one is much smaller and was much
9 easier.

10 So it only shows the interest that we had not
11 reached an agreement with as of basically this morning.
12 But I will say that Gulf Coast, the first one on the list
13 here, we did reach an agreement with them, and we will
14 drop them from the hearing.

15 EXAMINER EZEANYIM: Gulf Coast?

16 MR. BRUCE: Yes. It's the first company
17 listed on Exhibit 3.

18 EXAMINER EZEANYIM: They signed off to
19 participate in the well?

20 THE WITNESS: We know each other and have
21 agreed in principle. That's good enough for me for now.

22 Q. (By Mr. Bruce) Again, this contains interest
23 ownership and your efforts to get a voluntary joinder?

24 A. Yes. In this case, I have almost been able to
25 discuss this with almost everyone that is on this list.

1 Many of -- the whole Stribling family, I am just going to
2 say they are in a contest among themselves over their
3 interests, and they just refuse to do anything. If they
4 do get their interests lined out, I will be happy to do
5 an oil and gas lease with them. They are having an
6 internal family dispute.

7 On the second page is Spiral, Inc. That
8 interest at one time was a Harvey Yates interest or one
9 of the companies thereof. And I have been in contact.
10 And I do believe that within a couple weeks, she will
11 have decided what they want to do, and we will consummate
12 an agreement there, also.

13 Q. If you do, will you notify the Division so
14 that they are not subject to a pooling order?

15 A. Yes. ConocoPhillips, Mr. Tom Scarbrough, in
16 conversations even up until yesterday, we believe we will
17 enter into an agreement before the pooling is enacted.

18 Also, the same with Devon Energy and the same
19 with James Dewey. It's just up to this point, there has
20 not been a voluntary joinder or agreement.

21 Q. What is Exhibit 4?

22 A. Exhibit 4 is the AFE. The last two pages of
23 Exhibit 3 were sample letters that we sent out to each of
24 the parties, inviting their participation and also
25 indicating an intent to lease from mineral interests.

1 And it was accompanied by this AFE, which is
2 approximately \$1.498 million.

3 We will have to drill out some plugs on this
4 one, very similar to the last one. It's very similar in
5 cost. Except for the Marra, we did not have the plugs to
6 drill.

7 Q. Are the costs represented by this AFE fair and
8 reasonable and comparable to costs of other re-entries of
9 this depth in Eddy County?

10 A. Yes.

11 Q. What overhead rates do you propose?

12 A. \$7,000 a month on the drilling rate, and \$700
13 a month on the monthly operating expense rate.

14 Q. Are those rates comparable for other wells of
15 this depth in Eddy County?

16 A. Yes.

17 Q. Do you request a 200 percent risk charge
18 against any interest owner who goes nonconsent?

19 A. Yes, I do.

20 Q. What is Exhibit 5?

21 A. Exhibit 5 is copies of all the Certified Mail
22 and Return Receipts Requested for the interest owners
23 that we needed that were on the pooling list, several of
24 which have already contacted us, and we have negotiated.
25 So there are more names that we sent out to than you are

1 seeing on the list that need to be pooled today.

2 MR. BRUCE: Mr. Examiner, Exhibit 6 is the
3 affidavit of publication from the Carlsbad newspaper
4 regarding entities that were or might have been -- did
5 not receive written notice.

6 Q. (By Mr. Bruce) And then very briefly, Exhibits
7 7, 8 and 9, what are they, Mr. Cate?

8 A. Exhibit 7, it's hand drawn, but it is a
9 wellbore schematic diagram of the Guitar 10 as it
10 appears. Again, we'll have to drill out several cement
11 plugs -- but there are no other hidden obstructions that
12 we can tell in here, it appears it's all cement -- in
13 order to get down to the Wolfcamp perforations.

14 And Exhibit 8 is, once again, a log section.

15 EXAMINER EZEANYIM: Is this well plugged
16 and abandoned currently?

17 THE WITNESS: It is plugged and abandoned
18 for approximately 20 years. It last produced in the
19 mid-'80s.

20 EXAMINER EZEANYIM: So you're doing a
21 re-entry?

22 THE WITNESS: Yeah.

23 They did attempt some Bone Spring
24 perforations, as you can see on the middle left there,
25 back in late '80s and early '90s, possibly. It was

1 not -- from what I can tell, it might have produced 600
2 barrels and something is all. It didn't show up on my
3 production search. I'm not sure why, but it's reflected
4 in the OCD records. We will have to squeeze that off, I
5 think.

6 And then the type log of the Wolfcamp, the
7 Wolfcamp is our primary objective, just like in the last
8 one.

9 And let me just say here, the reason we're
10 doing these two is I've got lease expirations. This
11 project will take three years to get put together. And
12 starting in February, we have lease expirations coming
13 up. I just need to be able to get in the well and get
14 these leases HBP. So that is part of the reason we've
15 got two going on at once here.

16 EXAMINER EZEANYIM: Does that apply to the
17 last case?

18 THE WITNESS: The same, yes, yes. Many of
19 these interest owners have interests in both. But our
20 first expirations do start in February.

21 Q. (By Mr. Bruce) Is Exhibit 9 the same as the
22 production graph that you submitted to for the last
23 hearing?

24 A. Yes. It's identical as to what we presented
25 on the Marra.

1 Q. Just a couple of final questions. Did you
2 make, in your opinion, a good-faith effort to either
3 find the parties who own interests in this well unit
4 and/or get them to join voluntarily in the well?

5 A. Yes, we made every effort.

6 Q. Were Exhibits 1 through 9 prepared by you or
7 under your supervision?

8 A. Yes.

9 Q. Is the granting of this case in the interest
10 of conservation and the prevention of waste?

11 A. Yes.

12 MR. BRUCE: Mr. Examiner, I move admission
13 of Exhibits 1 through 9.

14 EXAMINER EZEANYIM: Exhibits 1 through 9
15 will be admitted.

16 (Exhibits 1 through 9 were admitted.)

17 MR. BRUCE: I have no further questions.

18 EXAMINER EZEANYIM: Mr. Padilla, do you
19 have any questions?

20 MR. PADILLA: No questions.

21 EXAMINER EZEANYIM: Do you have any
22 questions?

23 EXAMINER BROOKS: No questions.

24 EXAMINER EZEANYIM: What is the name of
25 the pool? Is this Wolfcamp? I know it's the same pool

1 you were targeting in the last case. What is the name of
2 the pool; do you know?

3 THE WITNESS: I believe it's producing in
4 this well in Section 9. In this case, I believe it's
5 Culebra Bluff South is what I believe this one is. I
6 haven't done the permit yet on this one.

7 EXAMINER EZEANYIM: Counsel, is this in
8 your application?

9 MR. BRUCE: I will give you pool names.

10 THE WITNESS: I believe the Marra would
11 likely be a different pool because there was production
12 in Section 13, and it was a different pool than the Woods
13 well here.

14 EXAMINER EZEANYIM: But you're not going
15 into the Morrow?

16 THE WITNESS: No. The Marra well that we
17 did in the last hearing.

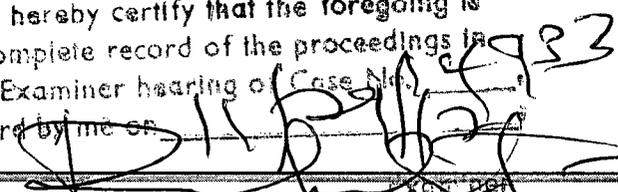
18 EXAMINER EZEANYIM: Oh, okay.

19 I have nothing further.

20 Okay. At this point, Case 14933 will be taken
21 under advisement.

22 Let's take about a 10-minute break.

23 * * *

24 I do hereby certify that the foregoing is
25 a complete record of the proceedings in
the Examiner hearing of Case No. 14933
heard by me on _____


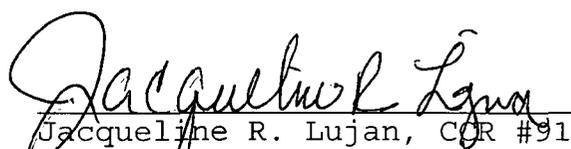
REPORTER'S CERTIFICATE

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I, JACQUELINE R. LUJAN, New Mexico CCR #91, DO
HEREBY CERTIFY that on November 29, 2012, 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 11th day of December,
2012.


Jacqueline R. Lujan, CCR #91
Expires 12/31/2012