

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:

ORIGINAL

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

Case 14932

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

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

November 29, 2012

Santa Fe, New Mexico

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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
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A P P E A R A N C E S

FOR THE APPLICANT:

JAMES BRUCE, ATTORNEY AT LAW
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1 EXAMINER EZEANYIM: At this point, we
2 continue and we call Case Number 14932. This is the
3 application of RSC Resources Limited Partnership for
4 compulsory pooling, Eddy County, New Mexico.

5 Call for appearances.

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

9 EXAMINER EZEANYIM: Any other appearances?
10 Okay. The witness will stand and state your
11 name and be sworn in, please.

12 MR. CATE: Randall Cate. I'm the owner
13 and president of RSC Resources. I live in Midland,
14 Texas.

15 (One witness was sworn.)

16 EXAMINER EZEANYIM: You may proceed,
17 Mr. Bruce.

18 MR. BRUCE: Mr. Examiner, we're here to
19 force pool the north half of Section 14 of 24 South, 28
20 East. The applicant seeks to pool the north half from
21 the surface to the base of the Wolfcamp formation for
22 320-acre units and the northwest quarter for any 160-acre
23 gas units in the northeast/northwest, to form a 40-acre
24 well unit. And we'll go into a little more detail on
25 this.

1 Q. And were your credentials as an expert
2 petroleum engineer accepted as matter of record?

3 A. Yes.

4 MR. BRUCE: Mr. Ezeanyim, I tender Mr.
5 Cate as an expert petroleum engineer.

6 EXAMINER EZEANYIM: He's so qualified.

7 Q. (By Mr. Bruce) Since I've introduced the well
8 and the well unit, just very briefly, what is Exhibit 2?

9 A. Exhibit 2 is a land plat. It's off a Midland
10 map, but colored in is the north half of Section 14,
11 Township 24 South and Range 28 East. That comprises the
12 320-acre unit that will be required for an attempted
13 Wolfcamp completion. It is a Wolfcamp gas reservoir.
14 I'll show you production information from nearby wells a
15 little later on.

16 Q. Let's go to your next exhibit, Exhibit 3.
17 This lists the people that RSC seeks to force pool?

18 A. That's right. There were -- of this list,
19 believe it or not, it makes up probably about 10 acres,
20 is all, of ownership.

21 And this is not going to be an exhibit, but
22 let me just show you what we're dealing with. This is
23 the county tax assessor's map of the north half of 14.
24 And while the northeast quarter is relatively large-sized
25 blocks, these are all town lots over here. They average

1 .2066 acres per lot.

2 EXAMINER BROOKS: Subdivided without
3 mineral reservation?

4 THE WITNESS: Yes.

5 So right there we started this project about
6 three years ago. Diane Magee is an excellent landman,
7 and I've worked with her longer than that. But I know
8 she's got 20 or 30 years of experience. Her father was
9 an independent landman. And when she first got into
10 this, she kind of went, "Oh, boy."

11 The Marra well was drilled in 1981, I believe,
12 as an Atoka. And this Malaga area, 30 to 40 years ago,
13 in the '70s and '80s, it was an Atoka-Morrow play. And
14 lot of companies, Amoco, Coquina, those types, had come
15 in and drilled quite a few wells out here.

16 So what we did is we took the title opinions
17 from those wells and did the run sheets, of course, and
18 brought all the ownership forward the best we can.

19 The problem is that a lot of these people
20 moved or they died in other states. They're deceased.
21 We cannot find a lot of these heirs. Even when we find
22 some of them, they don't know if they own it or not,
23 between wills or a lack of probate. So there's a lot of
24 ownership problems.

25 But again, luckily we've got it down to about

1 10 acres out of -- I'm sorry. About 10 percent, I think,
2 is the correct number, out of 100 percent, that's all
3 going to be pooled. It seems like every day we're
4 getting calls from people who are willing to enter into
5 lease agreements or letting them join.

6 Q. Besides Diane Magee, you were also involved in
7 contacting people and trying to track them down?

8 A. Very heavily. Hundreds of letters went out.
9 My wife is also -- Lisa is her name. She acted as
10 secretary and sent out a lot of letters. On the back of
11 the ownership report, there's a couple of examples.

12 Q. Before you get into that, identify what
13 Exhibit 3 is.

14 A. Exhibit 3 is the ownership report for the
15 parties that we are pooling.

16 Q. So this does not list the people that have
17 already committed their interests?

18 A. That's right. It would be five times larger,
19 so we tried to keep it simple here.

20 Q. Going through the lines, you have their names
21 in alphabetical arrangement?

22 A. That's right.

23 Q. You have addresses, if you had them; title
24 information; and then comments on your contacts with
25 them?

1 A. That's right. We initially, back in
2 September, started sending out oil and gas leases or
3 letters, trying to find people. And then we would follow
4 up on them if we got any leads on the heirs, their
5 addresses.

6 And in October we sent more letters again. A
7 lot of them were returned undeliverable. We don't know
8 how to find them. Some of the names are like John Smith.
9 You do a search, and you're going to find 10,000.

10 Q. So in many instances, there's no probate in
11 Eddy County; correct?

12 A. That's correct.

13 Q. There may not be a probate in the state and
14 county where you located these people?

15 A. That's right.

16 Q. There are also, in most cases, no affidavits
17 of heirship, either?

18 A. That's right. We went through tax records,
19 probates, obituaries, everything that you can reasonably
20 do to try to find these people.

21 Q. The final two columns give their net acres in
22 the 320-acre unit; correct?

23 A. Yes.

24 Q. And their percentage interest?

25 You said attached as the last two pages of

1 this ownership chart are sample letters that were sent
2 out, proposal letters and leasing letters that you sent
3 out to the various interest owners?

4 A. Yes.

5 Q. Are you continuing -- once people are found or
6 once they contact you, again, are you continuing to take
7 leases even -- will you continue to take leases from
8 people or let them join in the well after this hearing?

9 A. Yes.

10 Q. If you do come to terms with people on this
11 Exhibit 3 list, will you notify the Division so that they
12 are not subject to the force pooling?

13 A. Yes, we will.

14 Q. Specifically, as of this morning, one of the
15 parties that was being pooled was -- no. That's in a
16 different hearing.

17 Both you and I have been contacted in the last
18 couple of days by people who said they would send in
19 leases?

20 A. That's right. We will negotiate. A lot of
21 certified letters -- I mean the cards came back. We know
22 that they received them, but they will not respond.

23 A lot of it, I believe, is how small these
24 tracts are. You can go look. But I mean we're talking
25 hundreds and thousands of a percent, and it's just hardly

1 worth it. So I think that's what's going on, too.

2 Q. In your opinion, has RSC made a good-faith
3 effort first to locate these parties?

4 A. Yes.

5 Q. Has it made a good-faith effort to obtain
6 their voluntary joinders in the well?

7 A. Yes.

8 Q. Let's go to Exhibit 4. What is that?

9 A. It's the AFE that accompanied the well
10 proposal that we sent out. So those letters on the back
11 of Exhibit 3 were accompanied by Exhibit 4, the AFE.

12 Q. What is the estimated cost of the re-entry?

13 A. One and a half million dollars, in round
14 numbers. It's not really a re-entry of a plugged well.
15 This well is an existing, temporarily abandoned Atoka
16 producer. It was an Atoka producer. So we're going to
17 plug it back.

18 It had not produced for approximately six
19 years. And the leases expire by their own terms, of
20 course, if you don't produce. And so we acquired the
21 wellbore and had to put all the leasehold back together
22 again.

23 Q. In your opinion, is this cost fair and
24 reasonable?

25 A. Yes. It's definitely in the range of what it

1 will cost to plug that back and do either a three- or
2 four-stage frack job in the Wolfcamp.

3 Q. And what overhead rates do you propose for the
4 well?

5 A. \$7,000 per month for the drilling operation,
6 \$700 per month on the monthly lease cost.

7 Q. Are those rates equivalent to those charged by
8 RSC and other operators in this area for wells of this
9 depth?

10 A. Yes. And I also looked at the COPAS, the
11 Ernst & Young overhead comparison, and industry surveys.
12 And they're right within the acceptable range.

13 Q. Do you request a 200 percent risk charge
14 against interest owners who do not join in the re-entry
15 of the well?

16 A. Yes.

17 Q. One thing, who will be the operator of this
18 well?

19 A. The operator will be Guardian Operating Corp.,
20 which is wholly owned by RSC Resources. It is my
21 operating company.

22 Q. Is Exhibit 5 the notice letter that you sent
23 out regarding the hearing?

24 A. Yes.

25 MR. BRUCE: And Mr. Examiner, submitted as

1 Exhibit 6 is a rather lengthy affidavit of publication of
2 the names of interest owners who were either known or
3 thought to be unlocatable.

4 Q. (By Mr. Bruce) Just to discuss very briefly,
5 could you identify Exhibit 7 -- maybe Exhibits 7 and 8
6 together, and just briefly discuss your plans for the
7 well?

8 A. Sure. If you'll pull the -- Exhibit 8 is the
9 log of the Wolfcamp zone in this area. I can show you
10 what's going on. And Exhibit 7, I'll identify. It is
11 the wellbore diagram of the Marra Number 1 as it exists
12 right now.

13 We'll have to -- we think, in order to frack
14 this, we might have to run a string of five-and-a-half
15 inch. I've been involved recently in a well that
16 Mewbourne operates that's several miles from here. It's
17 a Wolfcamp horizontal. They had a very hard time
18 fracking it. They couldn't get the pressure and the
19 rates.

20 So I believe we're going back to the drawing
21 board to -- because the existing casing probably will not
22 withstand the pressure required for the stimulation. But
23 all that is just to show you it's an old, deep existing
24 Atoka producer, and it's a good use of an old wellbore to
25 try to get some more production out of it.

1 The log, Exhibit 8, the Wolfcamp is almost
2 1,000-foot thick in this area. But really, just to show
3 you where the operators in the area have been
4 concentrating, I've got these little arrows up and down.

5 As you can see, Mr. Ezeanyim, it corresponds
6 to an increase in the resistivity. And that is telling
7 us these areas that have the increased resistivities is
8 where the production is being established in these
9 Wolfcamps. It's a relatively new play, but that is where
10 they're establishing production. That is the
11 significance of that log.

12 As you can see, they do have wet shales in
13 between. I'm not sure exactly how that works. But most
14 of these do produce substantial amounts of water, also.

15 Q. Briefly, Exhibit 9 -- of course, this is a
16 Wolfcamp well. But there are other prospective zones in
17 this area, are there not?

18 A. That's right. There's been Delaware
19 production, it's kind of random, and also Bone Spring.

20 So what I did, since we're only interested in
21 the Wolfcamp, I used drilling info as my production
22 search engine. I did a search of the entire Sections 1
23 through 24 in Townships 24 and 28 and pulled it up on the
24 Wolfcamp, and this is what comes up.

25 There is a Devon well to the west of us in

1 Section 13. The report generates, of course, the API.
2 But the operator -- but more importantly is the legal
3 description about five columns over.

4 So our well is in Section 14. There was a
5 test in Section 13 that -- you can see the first
6 production, the cumulative oil and gas. It was not
7 economic. Clearly, cumulative gas after seven years
8 is -- well, after 14 years, 70 million. I do not believe
9 they used the frack technology, though, and that's what I
10 am counting on to enhance the reserves here.

11 Over in Section 9 there was a well called
12 Woods. It's the only other one that actually has a
13 decent amount of production, and that's almost half a
14 bcf. It's still producing 30 mcf a day or so. Again,
15 acid. But they did not do the fracture treatments, the
16 best I can tell.

17 Q. These wells are primarily gas? There is very
18 little oil produced in --

19 A. Very little oil. It's definitely a gas
20 reservoir.

21 The next page would be the Bone Spring
22 Formation, if we have to come up to the 40 acres, even
23 160, if it happened to be a Bone Spring gas. But again,
24 you can tell by this sampling of the production out there
25 that it's not very high production. The best oil well

1 out there is probably 20,000 barrels after 20 years, so
2 it's just not real economic.

3 And then the final last two pages are the
4 Delaware production. It's more widespread. But as you
5 can see, when you go down to cumulative oil, it varies
6 dramatically. The Delaware is notorious for being very
7 hard to determine what the EUR will be, I'll say that.

8 So I mean that kind of speaks to the risk of
9 what we're doing. I believe we'll make a well, and then
10 the ultimate reserves are what will be at risk here.

11 Q. Do you believe that the 200 percent risk
12 charge is justified?

13 A. It's definitely appropriate, yes.

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

17 A. Yes.

18 Q. Were Exhibits 1 through 9 prepared by you or
19 compiled from company business records?

20 A. Yes.

21 MR. BRUCE: Mr. Examiner, I move the
22 admission of Exhibits 1 through 9.

23 EXAMINER EZEANYIM: Exhibits 1 through 9
24 will be admitted.

25 (Exhibits 1 through 9 were admitted.)

1 MR. BRUCE: I have no further questions.

2 EXAMINER BROOKS: No questions.

3 I just can relate to your situation, because I
4 did a title opinion on a 320-acre unit in the City of
5 Farmington, where they had not -- where they had
6 subdivided it into town lots without reservation of
7 mineral rights.

8 THE WITNESS: Some people would think
9 we're crazy.

10 MR. BRUCE: An opinion from a dozen years
11 ago on this is 190 pages long.

12 EXAMINATION

13 BY EXAMINER EZEANYIM:

14 Q. My first question is that you're going to pool
15 from the surface maybe to the base of the Wolfcamp
16 because you have abandoned the Morrow?

17 A. Yes.

18 Q. You're going to plug back to the Morrow?

19 A. That's correct.

20 Q. Are you pooling from the surface to the base
21 of the Wolfcamp? Because you are including the Atoka and
22 the Bone Spring and all that, what is your primary
23 target?

24 A. The Wolfcamp.

25 Q. But for the production data you gave me, it

1 appears you're going to plug back to those shallower
2 production areas?

3 A. That's right, if we must. If we're not
4 successful in the Wolfcamp, then we would come to the
5 Bone Spring. There's two or three intervals that I would
6 like to try.

7 Q. That's fine. I don't care if you're pooling
8 from the surface to the base of the Wolfcamp, which is
9 your target.

10 A. That's correct.

11 We do know that the Atoka pressure is very
12 low. It's only a few hundred pounds now. We will
13 abandon it. I've turned in the C-101 to plug back to the
14 State, to the Artesia District. We'll set a bridge plug
15 and 35 feet of cement over the Atoka.

16 Q. I just wish you are going to get more oil than
17 gas. For once, I think you're going to get more gas.

18 A. It is a liquid-rich gas, and it will have to
19 be processed. It's sweet, and it does have 4 to 5
20 gallons per thousand on the liquids.

21 EXAMINER BROOKS: If you get enough
22 condensate, it's almost as good as oil.

23 THE WITNESS: Almost.

24 Q. (By Mr. Ezeanyim) Who's going to be the
25 operator of this well?

1 A. RSC Resources owns the interest. But my
2 operating company, which is not unlike Chase and Mack --
3 Mack operates for Chase -- Guardian Operating Corporation
4 is my operating company.

5 Q. So you want Guardian to be the operator? Who
6 do you want to be the operator?

7 A. Guardian Operating Corp. will be designated
8 the operator.

9 Q. How do you spell that operator?

10 MR. BRUCE: It is in the application.

11 EXAMINER EZEANYIM: If it's in the
12 application, I can find it.

13 THE WITNESS: Yeah. Guardian, like
14 guardian angel.

15 EXAMINER EZEANYIM: Anything further?

16 MR. BRUCE: Nothing in this case

17 EXAMINER EZEANYIM: Very good. At this
18 time Case Number 14932 will be taken under advisement.

19 * * *

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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. 14932
heard by me on 11/29/12
[Signature]
Of Conservation Division, Examiner

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