

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 ANSCHUTZ OIL
COMPANY, LLC FOR A NONSTANDARD
OIL SPACING AND PRORATION UNIT
AND COMPULSORY POOLING, RIO
ARRIBA COUNTY, NEW MEXICO.

CASE NO. 15268

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

March 5, 2015

Santa Fe, New Mexico

BEFORE: WILLIAM V. JONES, CHIEF EXAMINER
MICHAEL McMILLAN, TECHNICAL EXAMINER
GABRIEL WADE, LEGAL EXAMINER

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This matter came on for hearing before the
New Mexico Oil Conservation Division, William V. Jones,
Chief Examiner, Michael McMillan, Technical Examiner,
and Gabriel Wade, Legal Examiner, on Thursday, March 5,
2015, at the New Mexico Energy, Minerals and Natural
Resources Department, Wendell Chino Building, 1220 South
St. Francis Drive, Porter Hall, Room 102, Santa Fe,
New Mexico.

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APPEARANCES

FOR APPLICANT ANSCHUTZ OIL COMPANY, LLC:

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1	INDEX	
2		PAGE
3	Case Number 15268 Called	4
4	Anschutz Oil Company, LLC's Case-in-Chief:	
5	Witnesses:	
6	Deidre O'Callaghan:	
7	Direct Examination by Mr. Bruce	4
	Cross-Examination by Examiner McMillan	8
8	Cross-Examination by Examiner Jones	10
	Cross-Examination by Examiner Wade	18
9		
	John Michael Richardson:	
10	Direct Examination by Mr. Bruce	20
11	Cross-Examination by Examiner Jones	26
12	Galen R. Brenize, Jr.:	
13	Direct Examination by Mr. Bruce	29
	Cross-Examination by Examiner Jones	32
14	Cross-Examination by Examiner McMillan	38
	Recross Examination by Examiner Jones	39
15		
	Proceedings Conclude	41
16		
	Certificate of Court Reporter	42
17		
18		
	EXHIBITS OFFERED AND ADMITTED	
19		
	Anschutz Oil Company, LLC Exhibit Numbers 1 and 2	8
20		
	Anschutz Oil Company, LLC Exhibit Numbers 3, 5 and 6	26
21		
	REPORTER'S NOTE: Mr. Bruce did not produce these	
22	exhibits to the court reporter as of 3/11/15 because	
	of extenuating circumstances, and they are not	
23	attached to this record.	
24		
25		

1 EXAMINER JONES: Call Case 15268,
2 application of Anschutz Oil Company, LLC for a
3 nonstandard oil spacing and proration unit and
4 compulsory pooling in Rio Arriba County, New Mexico.

5 Call for appearances.

6 MR. BRUCE: Mr. Examiner, Jim Bruce of
7 Santa Fe representing the Applicant. I have three
8 witnesses.

9 EXAMINER JONES: Any other appearances?

10 Will the witnesses please stand, and will
11 the court reporter swear the witnesses?

12 (Ms. O'Callaghan, Mr. Richardson and
13 Mr. Brenize sworn.)

14 DEIDRE O'CALLAGHAN,
15 after having been first duly sworn under oath, was
16 questioned and testified as follows:

17 DIRECT EXAMINATION

18 BY MR. BRUCE:

19 Q. Will you please state your name for the record?

20 A. My name is Deidre O'Callaghan.

21 Q. And who do you work for and in what capacity?

22 A. I work for Anschutz Exploration Company and
23 Anschutz Oil Company as a senior landman.

24 Q. Have you previously testified before the
25 Division?

1 A. I have.

2 Q. And were your credentials as a petroleum
3 landman accepted as a matter of record?

4 A. Yes.

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

7 A. I am.

8 MR. BRUCE: Mr. Examiner, I'd tender
9 Ms. O'Callaghan as an expert petroleum landman.

10 EXAMINER JONES: She is so qualified.

11 Q. (BY MR. BRUCE) Ms. O'Callaghan, you have five
12 exhibits in front of you. They're stapled together.
13 But could you identify what Exhibit 1 is for the
14 Examiner and discuss the initial well unit proposed for
15 this particular well?

16 A. Sure. This is the initial unit, which was 960
17 acres, was what we permitted for, a lateral that was
18 supposed to be approximately 7,100 feet long. It was
19 the west half of Section 14 and all of Section 15 and 25
20 to Rio Arriba County.

21 Q. And what is Exhibit 2?

22 A. Exhibit 2 is a plat that depicts the well as it
23 was drilled. We drilled the lateral that was
24 approximately 4,114 feet long. We landed the well at
25 the planned landing point approximately -- it was

1 supposed to be 330 feet or further from the center line
2 of Section 14. We landed at 348.6 feet. We drilled a
3 4,114 foot lateral and had some operational issues and
4 chose to stop drilling. So we are looking now at a
5 640-acre spacing unit comprised of the west half of 14
6 and the east half of Section 15.

7 Q. And the unorthodox location for the landing
8 point was approved in Case 15234?

9 A. Correct, in November.

10 Q. And the terminus is orthodox?

11 A. It is.

12 Q. It is at least --

13 A. 819 feet from the centerline in Section 15.

14 Q. In this case, have all of the working interest
15 owners in the west half of 14 and the east half of 15
16 joined in the well?

17 A. They have either joined in the well, farmed out
18 or granted us a term assignment. Yes.

19 Q. Okay. So at this point you don't need to --

20 A. Force pool?

21 Q. -- force pool any working interest owner. And
22 we'll have another landman testify about royalty owners.

23 But in looking at the well unit, what type
24 of land is the west half of 14? Fee?

25 A. It's a combination of fee and federal.

1 Q. Okay. And the fee land is covered by a pretty
2 old oil and gas lease, I believe?

3 A. Yes.

4 Q. Very old.

5 A. From the '40s, I think.

6 Q. And I can't remember because we've been looking
7 at this so long. It either has no pooling clause or
8 allows pooling to 40 acres?

9 A. I have to let John Michael testify to that.

10 Q. And Mr. Richardson, when he gets up, will
11 testify briefly about -- about what he has done to
12 locate these people. But only those royalty owners --
13 those royalty owners are the only people you seek to
14 force pool into the well?

15 A. Correct.

16 Q. And since they're not cost-bearing interest
17 owners, you're not seeking overhead rates or --

18 A. Correct.

19 Q. And so you do not need to present an AFE or
20 discuss well costs?

21 A. Correct.

22 Q. Do you request that Anschutz Exploration
23 Corporation be named operator of the well?

24 A. Yes.

25 Q. And were Exhibits 1 and 2 compiled from company

1 business records?

2 A. Yes, they were.

3 Q. And in your opinion, is the granting of this
4 application in the interest of conservation -- interest
5 of conservation and the prevention of waste?

6 A. Yes, sir.

7 MR. BRUCE: Mr. Examiner, I'd move the
8 admission of Exhibits 1 and 2.

9 EXAMINER JONES: 1 and 2 will be admitted.
10 (Anschutz Oil Company, LLC Exhibit Numbers
11 1 and 2 were offered and admitted into
12 evidence.)

13 MR. BRUCE: I have no further questions of
14 this witness.

15 EXAMINER JONES: I'm going to let Mike
16 start out with the questions this morning.

17 CROSS-EXAMINATION

18 BY EXAMINER McMILLAN:

19 Q. Okay. The first question I have would be how
20 are you going to address the stranded acreage in the
21 west half of 15? If you look at the Gavilon-Mancos
22 itself, it is a 640-acre pool. So I'm trying to
23 understand why are you creating a new 640 when you
24 already have the 960 dedicated?

25 A. Well, because the well didn't penetrate the

1 west half of Section 15, we felt that it was more
2 appropriate to go back to the 640-acre unit.

3 Q. But then you're still not addressing the
4 question of stranded acreage.

5 A. I would suspect that what we'll have to do is
6 either request an exception to -- to either drill a
7 second well that would include all of Section 15.
8 Again, this was a well that we took on; it had already
9 been permitted and laid out by Hunt. And we had every
10 intention of drilling the 960 but then encountered
11 difficulties that made us cut it shorter. So we feel
12 that the appropriate spacing unit is the west half of 14
13 and the east half of 15.

14 Q. But your well has penetrated the east half of
15 15. Therefore, you're holding the whole section with
16 the well, correct?

17 A. No. The leases in the west half of 15 are
18 different than the leases that are in the east half of
19 15.

20 Q. But the spacing unit is 640. So by penetrating
21 the east half of 15, you are holding the whole section,
22 right?

23 A. I don't think so.

24 MR. BRUCE: I don't think so.

25 A. No. I think we would be -- we'll do a

1 declaration of pooling and a communitization agreement
2 that covers the west half of 14 and the east half of 15.

3 MR. BRUCE: I understand your concerns,
4 Mr. Examiner, but this -- this isn't the proposed end of
5 Anschutz' exploration out there.

6 THE WITNESS: Oh, no.

7 MR. BRUCE: So there is -- they have other
8 acreage they could -- they could add to the west half of
9 15, well unit.

10 And one other thing -- and this was
11 testified to in the prior two hearings -- you'll see
12 that this well is quite a bit to the north of the well
13 unit, whichever well unit you're looking at, and there
14 is the possibility of additional infill drilling on this
15 well unit or even a 960-acre well unit. And that was
16 testified to at the prior hearings.

17 CROSS-EXAMINATION

18 BY EXAMINER JONES:

19 Q. Speaking of that, if you did include the west
20 half of 15, you would have to do some compulsory pooling
21 of working interest owners there?

22 A. No. We had reached agreement with -- there are
23 only three parties who are in the west half of 15 who
24 are not somewhere else in the unit, and those three
25 parties -- we reached agreements with two of the

1 unleased owners who leased, and the third party, we
2 entered into a term assignment with them.

3 Q. Are those -- the lands in the west half of 15,
4 did you already -- I might have been sleeping. What
5 ownership is there? Is it fee? Is it federal?

6 A. The west half of 15 is all fee.

7 Q. It's all fee?

8 A. It is.

9 Q. So it's a whole bunch of fee owners?

10 A. Yeah. It's -- it's pretty busted out.

11 Q. Now, can you point out where they got notice
12 for the -- this is in the -- does that come in this --
13 or was that part of the application?

14 MR. BRUCE: Well, Mr. Examiner, Exhibit
15 5 -- and I just noticed it should be Number 4, but it's
16 Exhibit 5 -- did give notice to the offset operators or
17 working interest owners. And I -- I think that's all
18 that's required.

19 EXAMINER JONES: And that would include the
20 west half of 15?

21 MR. BRUCE: The west half of 15.

22 EXAMINER JONES: Okay. Were they all
23 locatable?

24 MR. BRUCE: Yes. And that's Exhibit 5.
25 There aren't many. And like, for instance --

1 Ms. O'Callaghan can address this -- Williams Production
2 Company, they're actually in this well -- or Williams
3 is.

4 THE WITNESS: Correct. They own -- they
5 own the northeast of 14. Okay? But in Section 15, all
6 the working interest owners are either under other
7 acreage in the unit, or -- there are three parties, two
8 unleased and one working interest owner, who we entered
9 into separate agreements with, and we have the option to
10 drill additional wells under those agreements.

11 EXAMINER JONES: Okay. Okay. Let's see
12 here. You haven't talked about the newspaper yet,
13 because we just admitted two exhibits.

14 MR. BRUCE: Yeah. I'll get to that with
15 the next witness.

16 EXAMINER JONES: Okay. That sounds good.
17 Are you requesting that R-13945 be totally
18 vacated or annulled or whatever the legal people call
19 it?

20 MR. BRUCE: Well, we do need it for the --
21 for the most part, but the unorthodox location was
22 approved, is still --

23 EXAMINER JONES: So that's the only thing
24 in there you want saved?

25 MR. BRUCE: That's about it, yeah.

1 THE WITNESS: And the force pooling of the
2 royalty owners.

3 MR. BRUCE: Yeah. We're taking care of
4 this.

5 THE WITNESS: In that -- okay. Gotcha.

6 EXAMINER JONES: And are you asking the
7 NSP-1974 be totally vacated or --

8 MR. BRUCE: Well, it is unorthodox. You
9 know, looking at Exhibit 2, the landing point is
10 unorthodox, and so I think the order -- I don't have it
11 right in front of me. They were seeking 330 feet from
12 the outside of the well unit. It's actually a little
13 bit more than that, 340- --

14 THE WITNESS: 48.

15 EXAMINER JONES: Yeah, that's fine. I was
16 asking about the NSP. But you're creating a new NSP to
17 this one, so the old NSP has to be completely done away
18 with.

19 MR. BRUCE: Yeah.

20 EXAMINER JONES: Those royalty owners that
21 are being pooled, are they lessees of record or --
22 they're all lessees of record?

23 MR. BRUCE: They're all lessors.

24 THE WITNESS: Lessors.

25 EXAMINER JONES: They're all lessors. So

1 they're mineral owners?

2 MR. BRUCE: Yes.

3 THE WITNESS: The working interest owners
4 are all lessees of record or assignees.

5 EXAMINER JONES: Right. I got it.

6 THE WITNESS: And the royalty owners are
7 all subsequent owners of the royalty under these older
8 leases, including the federal government.

9 Q. (BY EXAMINER JONES) Okay. So if you go to the
10 county records or BLM records -- there are no state
11 lands involved here, right?

12 A. (Indicating.)

13 Q. If you went to those two sources, these royalty
14 owners that are being pooled, either have the leases --
15 they're mineral interest owners?

16 A. Correct. Correct. And they are all subject to
17 leases. So there are no unleased owners in this -- in
18 this remaining 640-acre unit.

19 Q. Okay. Okay. And they're listed -- you're
20 going to list those later?

21 MR. BRUCE: I will, yeah.

22 EXAMINER JONES: Okay. That's good.

23 So there's no -- there's no costs, there's
24 no COPAS, and there's no risk? Is that correct?

25 MR. BRUCE: Correct.

1 THE WITNESS: For anybody except for us and
2 the working interest owners who participated. We have
3 nine owners who participated in the well.

4 Q. (BY EXAMINER JONES) Okay. And there won't be a
5 situation where they'll back out on you now, I guess,
6 right? Once they've signed, they've signed?

7 A. They all signed. And actually we've already
8 given notice to them and gave them the option to pick up
9 additional interests because there were some shifts by a
10 percent or something, and we have responses from all
11 those parties, an election to increase or stay the same.

12 EXAMINER JONES: Okay. Are you going to
13 have somebody talk about the well?

14 MR. BRUCE: Yes.

15 THE WITNESS: Yes.

16 EXAMINER JONES: Okay. And --

17 MR. BRUCE: What happened.

18 EXAMINER JONES: Whether you can drill
19 north-south or east-west?

20 MR. BRUCE: We've got an engineer here.

21 EXAMINER JONES: Okay. You've got an
22 engineer.

23 Q. (BY EXAMINER JONES) And as far as the notice
24 for NSP, the only people you're leaving out are the --
25 well, actually, you're leaving out the people in the

1 east half of 14 and the west half of 15; is that
2 correct?

3 A. The east half of 14 was never involved.

4 Q. It was never involved, but --

5 A. We drilled the well in the east half of 14 and
6 landed in the west half of 14, and that was done. And
7 then the west half of 15 was included in the spacing
8 unit, the 960-acre spacing unit, and that's been
9 excluded. And as I said, there are three parties there
10 who are not involved in the rest of the spacing unit.

11 Q. Right. But in these days of overlapping
12 project areas, you know, you could possibly have an
13 overlapping project area in the east half of 14. But
14 you say there is already a well drilled there?

15 A. Not a Mancos well, I don't think.

16 Q. Oh. So there is no well in the east half of 14
17 in the Mancos?

18 A. (Indicating.)

19 Q. So that pool is spaced 640, and you didn't --
20 you don't want your spacing unit to cover the east half
21 of 14.

22 A. Correct.

23 Q. So they're being left out.

24 A. So the original spacing unit was 960 acres,
25 which was approved, which was developed by --

1 Q. But that's thrown out.

2 A. Gotcha. It was developed by Hunt. And so that
3 led to the drilling of the well in the west half of 14,
4 and it was intended to be all of 15. So the east half
5 of 14 was always going to be excluded.

6 Q. It was excluded --

7 A. If you looked at 640 based on a section-by-
8 section basis.

9 Q. Well, if you look at 640 spacing in the
10 Gavilon-Mancos pool, it includes -- you would include 14
11 and 15, so whatever you leave out -- you're carving out
12 the east side of 14, I mean, and just throwing out
13 everything that's been done so far and starting over
14 here, right?

15 MR. BRUCE: Well, true, Mr. Examiner. But,
16 you know, the inconvenient fact is that the well was
17 drilled with the anticipation of complying with the
18 960-acre unit. And the east half of 14, the working
19 interest owners were notified, Williams, WPX and Reba
20 [phonetic] Company.

21 EXAMINER JONES: Okay. For this
22 proceeding, they were notified?

23 MR. BRUCE: They were notified, and
24 obviously nobody's squawked.

25 EXAMINER JONES: Okay. And when were they

1 notified, or is that going to come later?

2 MR. BRUCE: Yeah. I'll bring that up in a
3 minute.

4 EXAMINER JONES: Okay. I don't have any
5 more questions. Let me pass this on to these guys
6 again.

7 EXAMINER WADE: I don't have any questions.

8 THE WITNESS: That notification is marked
9 as Attachment A to Exhibit 5.

10 EXAMINER JONES: Say that again.

11 THE WITNESS: It's Attachment A to Exhibit
12 5.

13 EXAMINER JONES: What is Exhibit A to
14 Exhibit 5?

15 EXAMINER WADE: That would be the notice to
16 the working interest owners --

17 THE WITNESS: Correct.

18 EXAMINER WADE: -- in the east half of 14?

19 THE WITNESS: It was -- actually, no. It's
20 the west half of 15.

21 Q. (BY EXAMINER JONES) But that included the
22 people in the east half of 14?

23 A. Williams, yes.

24 Q. So Williams owns the east half of 14?

25 A. They own the northeast quarter. I have to look

1 at a map and figure out if they own the southeast
2 quarter.

3 Q. But you're saying -- you're testifying that
4 they had notice, right?

5 A. The parties were notified, yes.

6 The owners of the southeast quarter are us.
7 Sorry. I knew it was covered in some fashion. I
8 couldn't remember how.

9 Q. So it's under Anschutz Oil Company, LLC?

10 A. It's actually -- it's actually of record of
11 Hunt. We have an unrecorded exploration agreement that
12 I testified to in the last hearing that provides that we
13 will earn the acreage under the terms of our agreement
14 by drilling the well.

15 EXAMINER JONES: Are you asking for the
16 last hearing's record to be incorporated?

17 MR. BRUCE: I was going to ask that -- ask
18 for the records in Cases 15234 and 15246 to be
19 incorporated into the record.

20 EXAMINER JONES: Okay.

21 MR. BRUCE: First time I've ever done a
22 three pooling hearing for one well.

23 EXAMINER JONES: And the well moved
24 (laughter). It moved one time.

25 THE WITNESS: Especially with one well that

1 was -- 140-acre spacing unit, which is the standard
2 size. So again, it's --

3 MR. BRUCE: It is a nonstandard unit
4 because of the two half sections.

5 THE WITNESS: Right.

6 MR. BRUCE: We understand that. And our
7 next witness can address a couple of things about the
8 offsets, too.

9 EXAMINER JONES: Okay. I'm ready for the
10 next witness.

11 Thank you for coming down from Denver.

12 THE WITNESS: Of course. Galen did the
13 hard work. He drove.

14 JOHN MICHAEL RICHARDSON,
15 after having been previously sworn under oath, was
16 questioned and testified as follows:

17 DIRECT EXAMINATION

18 BY MR. BRUCE:

19 Q. Would you state your name for the record?

20 A. John Michael Richardson.

21 Q. What is your occupation?

22 A. I am a certified petroleum landman.

23 Q. And what is your relationship to Anschutz in
24 this matter?

25 A. We are independent contractors that represent

1 them in their land endeavors.

2 Q. Have you previously testified before the
3 Division?

4 A. I have.

5 Q. And were your credentials as an expert
6 petroleum landman accepted as a matter of record?

7 A. They were.

8 Q. And are you familiar -- excruciatingly familiar
9 with the land owner in this well unit?

10 A. Yes.

11 MR. BRUCE: Mr. Examiner, I tender
12 Mr. Richardson as an expert petroleum landman.

13 EXAMINER JONES: He is so qualified.

14 Q. (BY MR. BRUCE) Mr. Richardson, you did check
15 title to the original -- did a title search on the
16 original 960-acre unit; did you not?

17 A. That is correct.

18 Q. Now, to get to the question -- and you were
19 part of the process of getting the application filed for
20 that administrative nonstandard unit?

21 A. Yes.

22 Q. What about 14 and the east half of 13?

23 A. Well, we notified the people initially. Hunt
24 was the operator. Hunt Oil Company was the operator.
25 And the notice went out to cover one well covering the

1 west half of 14 and all of 15 and the east half of 14
2 and all of 13. And that notice went out to all of those
3 mineral owners apprising them of the fact that we had
4 applied for a nonstandard location and proration units,
5 spacing units.

6 Q. Now, with respect to -- I believe in the
7 current well -- proposed well unit, what type of land is
8 the east half of 15?

9 A. The east half of 15 is fee.

10 Q. (Indicating.)

11 A. East half?

12 Q. Is it federal land? I believe.

13 A. The east half of 14 would be federal and fee,
14 and the east half of 15 would be fee.

15 Q. With respect to the east half of 14 -- again,
16 it's a very old fee lease covering the fee land in the
17 west half of 14 -- in the west half of 14?

18 A. Yes. That is correct.

19 Q. And just to confirm -- I don't have a copy of
20 the lease, but it either contained a pooling clause or
21 allowed pooling of 40 acres for oil wells?

22 A. That is correct.

23 Q. What did Hunt and then Anschutz do to attempt
24 to cure that problem?

25 A. We sent out amendments to the old leases

1 allowing us to amend the pooling to the current spacing
2 that the OCD would approve.

3 Q. Even if it was in excess of 640 acres?

4 A. That's correct.

5 Q. Looking at Exhibit 6, what does that reflect?

6 A. This reflects a list of the mineral and
7 royalties owners that we contacted or attempted to
8 contact. This is a 1940 lease, and a lot of them
9 were -- we were not able to contact. But we did an
10 extensive title search in the county records and the BLM
11 records. We did an Internet search, as well as a
12 LexisNexis search to try to find these folks. The
13 majority of them we were able to contact, and they have
14 assigned -- have executed amendments. And we have those
15 in our -- in our possession.

16 Q. And that's what the third column was? Where it
17 says "Received to be recorded," those are people who
18 signed amendments -- pooling amendments to their leases?

19 A. That's correct.

20 Q. And I noticed there are a lot of unknown -- or
21 "address unknown" people. Do you believe you made a
22 good-faith effort to locate all of the fee mineral
23 owners in the west half of Section 14?

24 A. We do. We also contacted operators of wells in
25 the area that had some of the same ownership to help us

1 try to ascertain the locations -- the current location
2 of these people, and they have those in suspense because
3 they can't locate them either.

4 MR. BRUCE: And, Mr. Examiner, Exhibit 3 is
5 the Affidavit of Publication as against these fee
6 mineral owners who could not be located. All the other
7 ones have signed amendments to the oil and gas leases so
8 they don't need to be notified. They can be pooled
9 into --

10 EXAMINER JONES: By their leases.

11 MR. BRUCE: By the -- yes. Correct.

12 And then, Mr. Examiner, Exhibit 5 --
13 somewhere along the way Exhibit 4 got away from me --
14 notified the working interest owners or operators in the
15 east half of 14 and the west half of 15, and that is
16 what is reflected here.

17 EXAMINER JONES: Okay. In 5?

18 MR. BRUCE: In Exhibit 5.

19 EXAMINER JONES: So the rule -- the rule
20 is, for NSPs, the parties that are being left out is to
21 notify -- if it's all leased, just notify the lessees;
22 is that correct?

23 MR. BRUCE: I believe that is correct. I
24 think it's up to the lessee to look after the interest
25 of their royalty owners.

1 Now, if Mr. Wade requires it, we can
2 certainly give notice to the fee owners in the west half
3 of 15. I haven't presented that. That is in one of
4 those other lease files. There is not near as many fee
5 owners in the west half of 15 as there were in the west
6 half of 14. I'll leave it there. It wouldn't take -- I
7 just -- I have just been in the practice of simply
8 notifying the working interest owners, the offset.

9 EXAMINER JONES: Because they should be
10 looking after the lessors?

11 MR. BRUCE: Correct.

12 Q. (BY MR. BRUCE) Mr. Richardson, was Exhibit 6
13 prepared by you or under your supervision?

14 A. Yes, it was.

15 MR. BRUCE: And, Mr. Examiner, I move the
16 admission of Exhibits 3, 5 and 6.

17 EXAMINER JONES: Okay. 3 has got a date on
18 it that I might talk to you about, maybe amending that
19 at the next hearing, because the date --

20 MR. BRUCE: That's fine.

21 EXAMINER JONES: And 5 -- 5 was sent out --
22 wait a minute. Here we are. This is -- this is
23 February 6th, so here we are, March the 5th. How many
24 days ago -- February 19th is -- nine days plus five is
25 14 days ago.

1 MR. BRUCE: I think the requirement is ten
2 days for location notice.

3 CROSS-EXAMINATION

4 BY EXAMINER JONES:

5 Q. Okay. That's interesting. You could get a
6 reply from those lessors about amending their lease to
7 allow the lessee to pool their acreage. So is that
8 usually pretty successful?

9 A. It was not the easiest thing to explain.

10 Q. I'll bet it wasn't (laughter).

11 A. And sometimes we had to send it out two or
12 three times, and finally on the fourth time, they said,
13 I'm not going to sign this because.... And then we were
14 able to explain it to them, and the third or fourth time
15 they finally could grasp what we were trying to do.

16 EXAMINER WADE: So publication does only
17 need ten days' notice, so we're okay there.

18 And to make clear for the record, there is
19 no Exhibit 4?

20 MR. BRUCE: Correct. There is no Exhibit
21 4. I meant to type up a list of the offsets, but these
22 are the offsets.

23 EXAMINER JONES: So Exhibits 3, 5 and 6
24 will be admitted.

25 (Anschutz Oil Company, LLC Exhibit Numbers

1 3, 5 and 6 were offered and admitted into
2 evidence.)

3 MR. BRUCE: I have no further questions.

4 Q. (BY EXAMINER JONES) So you concentrated on the
5 unit itself, is that correct --

6 A. Correct.

7 Q. -- the land work on the unit itself?

8 So you didn't -- you weren't -- you're not
9 the person testifying about the east half of 14 or the
10 west half of 15, the land situation in there?

11 Ms. O'Callaghan already testified to that?

12 A. Correct.

13 These leases -- these old leases were very
14 large leases, and a lot of these leases covered the same
15 ownership. Back in the '40s, there were some mineral
16 buyers that went through there, and they bought very
17 many tracts. And when they leased these tracts, they
18 leased from the same people. So if we had people in the
19 west half of 14, it could be the exact same people in
20 the west half of 15. And in a lot of cases, they were.

21 Q. As far as division of interest between surface,
22 is there a lot of split estate out here?

23 A. There is a lot of split estate. Very few of
24 the surface owners own all of the minerals. I would say
25 none of them own 100 percent of them.

1 Q. When did that happen and why?

2 A. Back in the '40s, when they were selling these
3 minerals, they -- it didn't affect the surface. They
4 just had the mineral interest, and the surface was a
5 separate estate that ultimately ended up with one person
6 or one -- one person or one family owning 100 percent of
7 the surface, but the mineral owners were -- they were
8 very split up and segregated from the surface.

9 Q. Was there Navajo allottees out here?

10 A. There is no tribal or Navajo allottees or
11 allotted lands at all. This is all fee and federal.

12 Q. I seem to remember at the last hearing where
13 there were some -- I thought there were some Navajo
14 folks here, but maybe it wasn't for this Anschutz case.

15 A. I think.

16 MR. BRUCE: I think it was for one of those
17 WPX cases.

18 EXAMINER JONES: Oh, yeah.

19 THE WITNESS: But this is very close to the
20 Jicarilla Reservation.

21 Q. (BY EXAMINER JONES) So not that far from
22 teepees?

23 A. No, sir.

24 EXAMINER JONES: You guys have any more
25 questions?

1 EXAMINER McMILLAN: I don't have any more
2 questions.

3 EXAMINER JONES: Thank you, Mr. Richardson.

4 THE WITNESS: Thank you.

5 GALEN R. BRENIZE, JR.,
6 after having been previously sworn under oath, was
7 questioned and testified as follows:

8 DIRECT EXAMINATION

9 BY MR. BRUCE:

10 Q. Would you state your name for the record?

11 A. Galen Robert Brenize, Jr.

12 Q. How do you spell your last name?

13 A. B, as in boy, R-E-N, as in Nancy, I-Z, as in
14 zebra, E.

15 Q. And who do you work for and in what capacity?

16 A. I work for Anschutz Exploration Corporation,
17 Anschutz Oil Company and AnSweet, LLC. I am the vice
18 president of Engineering and Operations for all three.

19 Q. Have you previously testified before the
20 Division?

21 A. No, I have not.

22 Q. Would you please summarize your education and
23 employment background for the Examiners?

24 A. I have a Bachelor of Science in Mechanical
25 Engineering and a minor in engineering science and

1 mechanics from the Pennsylvania State University, August
2 of 1993. I've been in the industry for 21 years.
3 Eleven or so of those years have been service companies
4 in various areas, various capacities, well construction,
5 well stimulation, well intervention. I've been on the
6 operator side with various companies, on the completion
7 teams, management roles, exploration teams. The main
8 focuses are well stimulation and well construction.

9 Q. And are you familiar with the drilling of this
10 well?

11 A. Yes, I am.

12 MR. BRUCE: Mr. Examiner, I tender
13 Mr. Brenize as an expert in either drilling or petroleum
14 engineering.

15 EXAMINER JONES: Say your name one more
16 time.

17 THE WITNESS: Galen Brenize.

18 EXAMINER JONES: Brenie.

19 THE WITNESS: Brenize. Like brown eyes
20 only bren-eyes.

21 (Laughter.)

22 EXAMINER JONES: Okay. Mr. Brenize is
23 qualified as an expert petroleum engineer.

24 MR. BRUCE: And he brought along some
25 exhibits, which I didn't see until this morning, and

1 we're certainly happy to give you some exhibits. But
2 rather than occupy too much time, if I can turn it over
3 to him so he can explain what happened in the drilling
4 of the well and why it was cut short.

5 THE WITNESS: When we drilled the lateral
6 section, we encountered two lost circulations zones in
7 the lateral, the second of which was very close to what
8 now is the toe of the lateral. We had growing concerns,
9 the further we went in the lateral, that we would have a
10 very low likelihood of success to properly cement the
11 liner in the lateral because of the lost zones that we
12 encountered as we drilled the lateral. So the decision
13 was made to cut it short in order to give us the best
14 chance, essentially, to construct the well in a
15 responsible manner.

16 (Mr. Wade exits the room.)

17 Q. (BY MR. BRUCE) Has the well been completed at
18 this point?

19 A. The well has not been completed.

20 Q. And just in case the Examiners want to see it,
21 what type of plots did you bring?

22 A. I have notes here from our well chron. These
23 are my personal well chron [sic; phonetic]. It's
24 verbiage taken verbatim from our drilling reports. I
25 brought these to demonstrate that -- we had a concern

1 that we would have difficulty cementing the liner in the
2 lateral, and we were indeed very fortunate to cement the
3 lateral -- or the liner in the lateral. So I brought
4 this information to validate, if you will, our prior
5 concern that we could indeed have difficulty.

6 I have our mechanical wellbore diagram. I
7 simply brought this to be prepared to answer whatever
8 questions would be asked. This is a living record of
9 the as drilled, as constructed.

10 I have a copy of the geologist' strat plot,
11 which represents the lateral as it was drilled relative
12 to the different stratigraphy. It also includes gas
13 shows. It includes different methane or carbon
14 isotopes, gamma ray, indications of where we saw
15 fractures, indications of where we saw losses. So it's
16 mainly for preparation and support in the event that --
17 simply wanted to be prepared for whatever questions you
18 had.

19 CROSS-EXAMINATION

20 BY EXAMINER JONES:

21 Q. Okay. The two zones of well circulation, do
22 you have a depth -- measured depth of those?

23 A. Yes, Mr. Examiner.

24 The most shallow loss zone, my recollection
25 says it was at 9,337 feet. Here it is indicated between

1 9,350 and 9,400. That's measured depth.

2 The deepest loss zone, my recollection is
3 10,511 feet, and that is accurately represented here at
4 something just a little deeper than -- well, about
5 10,600 feet.

6 Q. Were you in the sand, or were you in the
7 shale -- or the shaley, whatever the geologists call it?

8 A. So the first loss zone is at the interface of
9 the second -- and I'm an engineer, not a geologist, so
10 at the interface between the first -- the Gallup -- the
11 second Gallup sequence and the first Gallup sandstone
12 sequence. So it was at the interface between the sand
13 and the more shallow interval below.

14 The second loss zone was also at a similar
15 interface of shale to sand, perhaps indicating a poor
16 degree of elastic coupling at the bed boundaries.

17 Q. So you were trying to stay in the -- above the
18 sands a little bit?

19 A. Well, our intent was to cut various layers or
20 levels of the stratigraphy, it being an exploration
21 well. In order to determine the most productive layers,
22 if you will, it is our intent to test all of the layers,
23 run oil tracers in our completion fluid in order to
24 determine which layers are the most productive, single
25 layer, multiple layers, whatever. So we cut the

1 entirety of the section in order to do that.

2 Q. Okay. What's your casing size before you set
3 your liner, the intermediate casing size?

4 A. The intermediate casing size was 7-inch, 23
5 pound.

6 Q. Did you make the curve and then you set that,
7 or did you set that before you did your curve?

8 A. We actually set the shoe of the 7-inch
9 intermediate at 50 degrees, so we landed it midway in
10 the curve.

11 Q. Oh, boy.

12 A. By design.

13 Q. By design.

14 A. Excuse me. I may have -- that's where the top
15 of the liner is. The 7-inch is actually landed at 90
16 degrees. I misspoke. I apologize. It is landed
17 horizontally at 90 degrees.

18 Q. And the size of the liner was four and a half?

19 A. The liner is 4-and-a-half inch, 13 5-pound
20 P110.

21 Q. Oh, wow. Strong stuff.

22 A. Yes.

23 Q. Did you have trouble getting your liner down?

24 A. The liner entered the wellbore and the lateral
25 fine. Our issue was lack of returns.

1 Q. Oh.

2 A. We lost returns -- the whole stop displaced
3 incorrectly with pipe at 894 feet from surface. We lost
4 fluid level, and the annulus started dropping with the
5 pipe shoe at 2,770. And bear in mind, we were running
6 in exceptionally slowly essentially out of fear, concern
7 that we would have issues with returns.

8 At some point in the lateral -- and I have
9 to search for the actual depth -- we lost returns, and
10 it took what we termed as an eight-stage LCM, loss
11 circulation material, soak in order to regain
12 circulation prior to cementing the lateral in the hole.
13 And that took two days, just the soaks. So it
14 demonstrated to me, specifically, that our concern was
15 valid.

16 Q. Okay. But your cement job went okay?

17 A. The cement job went very well.

18 Q. And when you complete it, are you going to do
19 the chemical tracers, where you do the hydrophobic
20 and -- the hydro --

21 A. We are going to use -- we are still debating
22 whether or not we are going to use water-soluble
23 tracers. We do have plans to use the oil tracers. We
24 do have plans to tag our profit to determine where --
25 where it goes, at least in the near wellbore. So yes to

1 your questions. However, we're still debating the
2 water-soluble aspect.

3 Q. As far as whether you -- this fracture -- these
4 two fractures or lost circulation zones, you guys are
5 drilling updip from a show [sic], right? The Hunt well
6 is a mile away or two miles away, was a kind of a
7 disappointment --

8 A. It was.

9 Q. -- and this well was updip a little bit. So
10 you decided to drill a lay-down well. Could you drill a
11 stand-up well here and do just as good?

12 A. Mechanically we can do it. The question is
13 would it be just as good. At this time I don't have
14 enough information to say with confidence that it would
15 be a responsible decision from a drainage perspective or
16 a responsible decision from an economic perspective.
17 That's not to say that we couldn't. I'm simply saying
18 I, right now, don't have enough information to say that
19 that would be the best decision from a drainage
20 standpoint or an economic standpoint. I would be happy
21 to expound on that, should you require it.

22 Q. Well, what I'm trying to get at here is if you
23 could drill a stand-up well in the west half of 15, if
24 you -- if you show on your tracers that the end of your
25 wellbore was the best part, you know.

1 A. Sure.

2 Q. Or would you communitize that with some acreage
3 off to the west?

4 A. I am certainly not qualified to answer the
5 communitization question.

6 Q. What I mean is join acreage and drill another
7 lay-down well.

8 A. So to answer your question, could we, is it
9 physically possible for us to build the stand-up,
10 absolutely.

11 Q. Okay. So right now you can't -- you would
12 probably prefer to drill a lay-down well?

13 A. I would prefer to see how this well treated or
14 how it fracked.

15 Q. Before you frack?

16 A. Specifically what we need to determine is the
17 preferred fracture plane for our completion. What we
18 would like is an orthogonal set of fractures so
19 orthogonal to the wellbore, if that's the preferred
20 fracture plane that Mother Nature governs.

21 Q. What logs did you run?

22 A. We ran sonic logs in order to give us an
23 approximation of downhole stresses and stress
24 anisotropy.

25 Q. Did you do the dipole sonic?

1 A. We did. We did a new Schlumberger log that
2 incorporated Stoneley-waves as well.

3 Q. Okay. Well, you've got some information then.

4 A. Yes.

5 Q. I've got the information, so I'll pass this on
6 to the other guys. We've got a geologist here, so --

7 CROSS-EXAMINATION

8 BY EXAMINER McMILLAN:

9 Q. So how are you going to handle your exploration
10 plans if you drill a well in the south half of 14?
11 Would you -- are you going to -- would you think about
12 drilling through the west half of 15?

13 A. We would think about that, yes.

14 Q. And that would be -- then how would you handle
15 the land situation?

16 A. Again, I'm -- I am not the person to handle the
17 land question.

18 MR. BRUCE: Mr. Examiner, from my -- I
19 mean, this is -- go to the more common situation where
20 they're drilling the Yeso down in Eddy County or Lea
21 County. There are a lot of areas out there -- Mewbourne
22 Oil Company has done it, where they have a 160-acre
23 horizontal well unit, and then there are two, maybe even
24 three vertical wells. So they're all independent of
25 each other insofar as spacing goes. And it's an odd

1 situation, but, you know, it's better to terminate the
2 well at this point. And it can be communitized. It can
3 be pooled in any fashion.

4 I don't think -- as Mr. Richardson
5 testified, they now have authority from most of their
6 lessors to form oversized units, and the BLM has been
7 approving oversized units, comm agreements for some
8 time. Certainly it affects more of the revenue of the
9 working interest owner, and that might be allocated in a
10 different fashion. But like I said, in the prior
11 hearings, there was testimony of additional wells being
12 drilled on this 960-acre unit. As a matter of fact, the
13 initial -- the initial proposed well was in the south
14 half-south half, I believe, of the well unit.

15 RE CROSS-EXAMINATION

16 BY EXAMINER JONES:

17 Q. If you were going to drill another well in the
18 south half and you needed to offset circulation zones,
19 what would you do differently?

20 A. Right now we're looking at different mud
21 systems to answer that very question. I've asked my
22 team to prepare different options and make sure we
23 understand what other fluid systems could be used.
24 Please bear in mind that we used a synthetic oil-based
25 mud here so we could get our density lower and provide

1 us with a good, clean hole in a responsible manner. And
2 even with that lower mud weight with the synthetic, we
3 had losses. So that's one of the challenges for the
4 area. So I've tasked my team with that very question.

5 Q. The bottom line is you couldn't get the well
6 drilled any further than you did, or you made the
7 decision based on risk?

8 A. So to answer your very specific question, could
9 we have drilled the well deeper? Physically, I believe
10 that we could have. It was a question of should we from
11 the standpoint of could we successfully cement our liner
12 in place. So there is a difference -- I'm simply trying
13 to answer your question. There is a difference between
14 could and should, and we went off of should. Okay?

15 Q. I understand.

16 EXAMINER WADE: I don't have any questions.

17 EXAMINER JONES: Okay. We're fine. I'm
18 sorry to delay you so long this morning.

19 It's fun to hear these guys.

20 MR. BRUCE: It's interesting stuff. And I
21 told Ms. O'Callaghan this Gavilon-Mancos won't go away.
22 This is my third round with Gavilon-Mancos stuff in 30
23 years. It's the bad penny that always shows up
24 (laughter).

25 EXAMINER JONES: Well, with that -- that's

1 all, a penny?

2 Could you please do a proposed order?

3 EXAMINER WADE: That way we can make sure
4 the past order is what you think needs to be
5 incorporated, you know, we have an idea of --

6 EXAMINER JONES: Could you send that
7 directly to Gabe right here?

8 MR. BRUCE: Yes. But if that's it, I need
9 to go.

10 EXAMINER JONES: Take Case 15268 under
11 advisement. Thank you very much.

12 (Case Number 15268 concludes, 9:11 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. _____
heard by me on _____

_____, Examiner
Oil Conservation Division

1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO

3

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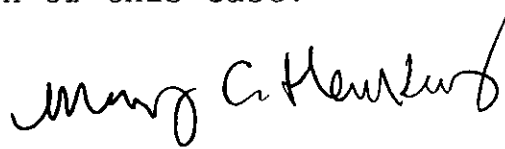
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11 me to the best of my ability.

12 I FURTHER CERTIFY that the Reporter's
13 Record of the proceedings truly and accurately reflects
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15 I FURTHER CERTIFY that I am neither
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