

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

CASE 15414

APPLICATION OF RKI EXPLORATION AND PRODUCTION
FOR A NONSTANDARD SPACING AND PRORATION UNIT
AND COMPULSORY POOLING, EDDY COUNTY, NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

December 3, 2015

Santa Fe, New Mexico

BEFORE: MICHAEL McMILLAN, CHIEF EXAMINER
GABRIEL WADE, LEGAL EXAMINER

This matter came on for hearing before the
New Mexico Oil Conservation Division, Michael McMILLAN,
Chief Examiner, and Gabriel Wade, Legal Examiner, on
December 3, 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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REPORTED BY: ELLEN H. ALLANIC
NEW MEXICO CCR 100
CALIFORNIA CSR 8670
PAUL BACA COURT REPORTERS
500 Fourth Street, NW
Suite 105
Albuquerque, New Mexico 87102

1 A P P E A R A N C E S

2 For the Applicant RKI
 3 Exploration and Production:

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 5 Holland & Hart
 6 110 North Guadalupe
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 9 (505)988-4421
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11 I N D E X

12 CASE NUMBER 15414 CALLED
 13 RKI EXPLORATION AND PRODUCTION
 14 CASE-IN-CHIEF:

15 WITNESS SAM McCURDY

	Direct	Redirect	Further
16 By Ms. Kessler	4		

	EXAMINATION
17 Examiner McMillan	11

18 WITNESS JEANNE ALLEN

	Direct	Redirect	Further
19 By Ms. Kessler	12		

	EXAMINATION
20 Examiner McMillan	16

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Exhibits Offered and Admitted

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4	RKI EXPLORATION AND PRODUCTION EXHIBIT 1 11
5	RKI EXPLORATION AND PRODUCTION EXHIBIT 2 11
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7	RKI EXPLORATION AND PRODUCTION EXHIBIT 4 11
8	RKI EXPLORATION AND PRODUCTION EXHIBIT 5 11
9	RKI EXPLORATION AND PRODUCTION EXHIBIT 6 11
10	RKI EXPLORATION AND PRODUCTION EXHIBIT 7 16
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1 (Time noted 9:57 a.m.)

2 EXAMINER McMILLAN: I would like to call the
3 hearing back to order. We are now calling
4 Case No. 15414, Application of RKI Exploration and
5 Production for a non-standard spacing and proration unit
6 and compulsory pooling, Eddy County, New Mexico.

7 Call for appearances.

8 MS. KESSLER: Mr. Examiner, Jordan Kessler
9 from Holland and Hart Law Firm on behalf of the
10 applicant.

11 EXAMINER McMILLAN: Any other appearances?

12 (No response.)

13 MS. KESSLER: Mr. Examiner, I have two
14 witnesses today.

15 EXAMINER McMILLAN: May the witnesses please
16 stand up and be sworn in.

17 (WHEREUPON, the presenting witnesses
18 were administered the oath.)

19 SAM McCURDY
20 having been first duly sworn, was examined and testified
21 as follows:

22 DIRECT EXAMINATION

23 BY MS. KESSLER:

24 Q. Can you please state your name for the record and
25 tell the Examiners by whom you're employed and in what

1 capacity.

2 A. Sam McCurdy. I'm employed by RKI Exploration and
3 Production as a landman.

4 Q. Have you previously testified before the
5 Division?

6 A. Yes, I have.

7 Q. And were your credentials as a petroleum landman
8 accepted and made a matter of record?

9 A. Yes, they were.

10 Q. Are you familiar with the application that has
11 been filed in this case?

12 A. Yes, I am.

13 Q. And are you familiar with the status of the lands
14 in the subject area?

15 A. Yes, I am.

16 MS. KESSLER: I would tender Mr. McCurdy as
17 an expert in petroleum land matters.

18 EXAMINER McMILLAN: So qualified.

19 Q. Please turn to your Exhibit 1 and identify this
20 exhibit and explain what RKI seeks under this
21 application.

22 A. We seek to pool noncommitted leasehold interest
23 owners within the spacing unit shown on the C-102 and
24 also file for a nonstandard spacing unit for this well.

25 Q. Is the nonstandard spacing unit which you seek to

1 form approximately 224.8 acres?

2 A. Yes, approximately.

3 Q. And what land is this comprised of?

4 A. This comprises the west half, west half of
5 section 28, the northwest, northwest quarter of section
6 33 and lot 4 of section 33 of 26 South, Range 30 East,
7 Eddy County, New Mexico.

8 Q. And do you seek to pool the uncommitted mineral
9 interests in the Wolfcamp Formation underlying the
10 proposed unit?

11 A. Yes, we do.

12 Q. What well do you seek to dedicate this spacing
13 unit to?

14 A. The RDX Federal Com 28, 9H Well.

15 Q. And is there an API number for this well?

16 A. Yes.

17 Q. Is that identified on the C-102?

18 A. Yes. It is 30-015-43294.

19 Q. What is the character of this land?

20 A. It is federal.

21 Q. And will the first and last perf points for this
22 well comply with the Division statewide 330-foot setback
23 requirements?

24 A. Yes.

25 Q. Has the Division designated a pool for this area?

1 A. Yes, they have.

2 Q. Was it initially dedicated to the Ross Draw,
3 Wolfcamp, as reflected on this C-102?

4 A. Yes.

5 Q. Did you subsequently indicate to Paul Kautz that
6 you expected this well to produce oil?

7 A. Yes, we did.

8 Q. And did the Division subsequently amend the pool
9 designation?

10 A. They did by way of Sundry.

11 Q. And is that Sundry marked as Exhibit 2?

12 A. Yes, it is.

13 Q. So what pool did they designate this area as?

14 A. They designated it as a Brushy Draw Wolfcamp oil
15 pool.

16 Q. If you could turn to Exhibit 3 and identify this
17 exhibit for the Examiners.

18 A. This an ownership plat of the lands that are
19 included in the spacing unit for this well.

20 Q. And this identifies ownership by tract, correct?

21 A. Yes, it does. And the ownership is common
22 between tracts 1 and 2. And then there's different
23 ownership within tract 3.

24 But RKI owns the leasehold in all three tracts,
25 an undivided percentage of the leasehold in all three

1 tracts, through its subsidiary called Khody Land and
2 Minerals Company.

3 Q. What interest do you seek to pool?

4 A. We seek to pool all noncommitted interests not
5 currently owned by RKI.

6 Q. Could you please identify those interests on
7 Exhibit 3.

8 A. Yes. That would be the interest of Trainer
9 Partner, Ltd., in tracts 1 and 2. And then in tract 3,
10 it will be the interest of Pioneer Natural Resources,
11 U.S.A., Inc., James W. Brock, and Elwade Corporation.

12 Q. Is Exhibit 4 a copy of the well proposal letter
13 that you sent to the working interest owners for the
14 proposed well?

15 A. Yes, it is.

16 Q. What date did you send this letter?

17 A. This letter was sent on October 16th of 2015.

18 Q. Did it contain an AFE?

19 A. Yes, it did.

20 Q. Are the costs reflected on this AFE consistent
21 with what RPI has incurred for drilling similar
22 horizontal wells in this area?

23 A. Yes, they are.

24 Q. And what additional efforts did you undertake to
25 reach agreement with uncommitted interest owners?

1 A. We sent an operating agreement to all parties and
2 then we had had correspondence discussing purchase
3 offers for their interests. And we have been unable to
4 reach a voluntary agreement with any of the parties.

5 Q. But you've had communications with each of those
6 parties?

7 A. Yes, we have.

8 Q. Have you estimated the overhead and
9 administrative costs while drilling this well and while
10 producing it if you are successful?

11 A. Yes.

12 Q. What are those costs?

13 A. They are 7,500 while drilling and 750 while
14 producing.

15 Q. Are these costs in line with what RPI and other
16 operators in the area charge for similar wells?

17 A. Yes, they are.

18 Q. And do you ask that those costs be incorporated
19 into any order resulting from this hearing?

20 A: Yes, we do.

21 Q. And do you also ask that they be adjusted in
22 accordance with the Copas accounting procedures?

23 A. Yes.

24 Q. With respect to uncommitted interest owners, do
25 you request that the Division impose a 200 percent risk

1 penalty?

2 A. Yes, we do.

3 Q. Did you also identify the offset operators or
4 lessees of record?

5 A. Yes, we did.

6 Q. And was it necessary to publish notice or were
7 all the parties to be pooled locatable?

8 A. All parties were locatable.

9 Q. Is Exhibit 5 an affidavit prepared by my office
10 with attached letters to parties to be pooled and offset
11 operators, providing them notice of this hearing?

12 A. Yes.

13 Q. Did you subsequently become aware that you were
14 using an outdated address for Pioneer Resources?

15 A. Yes, we did.

16 Q. And did you speak with them and make them aware
17 of this hearing?

18 A. Yes, we did.

19 Q. And did you also provide them with a copy of the
20 notice letter of this hearing as reflected in Exhibit 6?

21 A. Yes, we did.

22 Q. Do you seek a two-week continuance in order for
23 the proper notice to be completed?

24 A. Yes.

25 Q. Were Exhibits 1 through 5 prepared by you or

1 complied under your direction and supervision?

2 A. Yes, they were.

3 MS. KESSLER: Mr. Examiner, I move into
4 evidence Exhibits 1 through 6 which includes my two
5 affidavits.

6 EXAMINER McMILLAN: Exhibits 1 through 6 may
7 now be accepted as part of the record.

8 (RKI EXPLORATION AND PRODUCTION EXHIBITS 1
9 THROUGH 6 WERE OFFERED AND ADMITTED.)

10 MS. KESSLER: And that concludes my
11 examination.

12 VEXAMINATION BY EXAMINER McMILLAN

13 EXAMINER McMILLAN: Okay. The first
14 question I got is what is the status of the well?

15 THE WITNESS: The well is currently
16 drilling.

17 EXAMINER McMILLAN: I don't see a -- and
18 then, I guess you said, you said Exhibit 2 had the
19 sundry notice. I don't see it in here. I see the BLM
20 notice. You said you changed the pool, right?

21 THE WITNESS: Yes. And then I believe this
22 was forwarded to the NMOCD for approval as well.

23 EXAMINER McMILLAN. Do you know the pool
24 code?

25 THE WITNESS: It is 97136. And this was

1 submitted in accordance with communication with Paul
2 Kautz.

3 EXAMINER McMILLAN: Okay. That's fine then.
4 I see it. Okay. So are there any depth severances?
5 Are you asking for the entire Wolfcamp?

6 THE WITNESS: We are asking for the entire
7 Wolfcamp. And there are no depth severances within the
8 Wolfcamp Formation.

9 EXAMINER McMILLAN: Okay. I don't have any
10 questions. Do you?

11 MR. WADE: I don't have any questions.

12 THE WITNESS: Thank you very much.

13 EXAMINER McMILLAN: Thank you very much.

14 MS. KESSLER: I will call my next witness.

15 EXAMINER McMILLAN: Okay.

16 JEANNE ALLEN
17 having been first duly sworn, was examined and testified
18 as follows:

19 DIRECT EXAMINATION

20 BY MS. KESSLER:

21 Q. Would you please state your name for the record
22 and tell the Examiners by whom you're employed and in
23 what capacity.

24 A. Okay. My name is Jeanne Allen. I'm a geologist
25 for RKI.

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

3 A. I have.

4 Q. Were your credentials as a petroleum geologist
5 accepted and made a matter of record?

6 A. Yes.

7 Q. Are you familiar with the application that has
8 been filed in this case?

9 A. I am.

10 Q. And have you conducted a geologic study of the
11 lands that are the subject of this application?

12 A. I have.

13 MS. KESSLER: Mr. Examiner, I would tender
14 Ms. Allen as an expert in petroleum geology.

15 EXAMINER McMILLAN: So qualified.

16 Q. Please turn to Exhibit 7 and identify this
17 exhibit and explain what it shows us.

18 A. Exhibit 7 is a base map that also includes the
19 structure of the top of the Wolfcamp. I draw your
20 attention to section 28. A drilling rig is located on
21 the surface location of the subject well for this
22 hearing.

23 The Wolfcamp structure, it says 100 foot
24 contours. It dips to the east generally. Typically,
25 one degree every mile.

1 Q. Does this also identify the line of section that
2 will be used in the next exhibit?

3 A. Yes. This includes a three-well cross section
4 that delineates the Wolfcamp.

5 Q. Are the wells depicted on this exhibit and the
6 next based on public data?

7 A. Yes. But my tops were not public. They're my
8 tops. There weren't any Wolfcamp tops in the public
9 data because these vertical wells were drilled in the
10 '80s and they targeted a deeper Wolfcamp. That's all.

11 Q. If we could turn to Exhibit 8.

12 A. I have included a larger cross section, so you
13 can actually see the logs. The Wolfcamp we have found
14 to be uniform and continuous.

15 The cross section includes a well drilled to the
16 west of section 28. There's a deeper well. And then
17 the second well is the Ross Draw Federal Com 1. This is
18 a deeper well that was completed in the Wolfcamp D as
19 well as the Strawn and the Morrow. And the subject well
20 will be between the Federal BF-1 and the Ross Draw
21 Federal Com 1.

22 And then going to the east in section 27, the
23 Ross Draw 10 is also a deep Wolfcamp well and also a
24 Morrow well. So this cross section shows the continuous
25 and uniform nature of the Wolfcamp across all three

1 sections. You can see the Wolfcamp top marker and the
2 Wolfcamp marker A as well as the Wolfcamp marker B.

3 Q. You haven't identified the landing zone on this
4 exhibit. Could you please give us that depth?

5 A. That depth is approximately going to be ten,
6 seven, seventeen. It is about 300 feet from the top of
7 the Wolfcamp. And this would be considered a Wolfcamp A
8 well.

9 Q. Based on your analysis, do you believe that there
10 are any faults or pinch-outs or other geologic
11 impediments that will prevent the subject acreage from
12 being efficiently developed using horizontal wells?

13 A. No, I haven't seen any.

14 Q. And, in your opinion, will the subject acreage
15 contribute more or less equally to the production from
16 the wellbore?

17 A. Yes.

18 Q. And, in your opinion, will the approval of this
19 application be in the best interests of conservation for
20 the prevention of waste and the protection of
21 correlative rights?

22 A. Yes.

23 Q. And the completed interval will comply with the
24 statewide 330-foot setback requirements; is that
25 correct?

1 A. Yes.

2 Q. Did you prepare Exhibits 7 and 8?

3 A. I did.

4 MS. KESSLER: Mr. Examiner, I move into
5 evidence Exhibits 7 and 8.

6 EXAMINER McMILLAN: Exhibits 7 and 8 may now
7 be accepted as part of the record.

8 (RKI EXPLORATION AND PRODUCTION EXHIBITS 7
9 and 8 WERE OFFERED AND ADMITTED.)

10 MS. KESSLER: And that concludes my
11 examination.

12 EXAMINATION BY EXAMINER McMILLAN

13 EXAMINER McMILLAN: Okay. Do you know why
14 it was initially put in as a gas pool?

15 THE WITNESS: I do not.

16 MS. KESSLER: That may be a question for the
17 landman. I believe he had communications with Paul
18 Kautz.

19 EXAMINER McMILLAN: Do you have any PVT
20 data, any PVT analysis in here?

21 THE WITNESS: This is our first well in this
22 section and we haven't completed this well yet, so not
23 for this section.

24 EXAMINER McMILLAN: And what's going to
25 happen if they determine this is a gas well? There is

1 question as to whether or not the Wolfcamp is actually
2 an oil well or a gas well. You have to come back to the
3 unit, correct?

4 MS. KESSLER: That would be correct again
5 based on other instances in the Wolfcamp. I believe
6 that there have been similar issues and they have ended
7 up being oil wells ultimately.

8 THE WITNESS: At this depth in the Wolfcamp
9 A, from our production, it has shown to be an oil well.
10 Now, as you go deeper into the Wolfcamp, it will
11 probably be designated as a gas well. But at this depth
12 of the Wolfcamp A, it is an oil well.

13 EXAMINER McMILLAN: Do you have any idea of
14 what the GOR would be -- what you expect it to be -- and
15 the API gravity?

16 THE WITNESS: Our gravity has been in the
17 40s.

18 EXAMINER McMILLAN: Oh, it has. Oh, okay.

19 THE WITNESS: 43 degrees.

20 EXAMINER McMILLAN: Okay. So it is going to
21 be considerably less than 100,000, right?

22 THE WITNESS: Uh-huh.

23 EXAMINER McMILLAN: Okay. So, like I said,
24 that's the real question now and what is the Wolfcamp.

25 THE WITNESS: Right. And it is so thick;

1 the Wolfcamp A, we drilled over 40 wells in the A. And
2 it has always been oil.

3 EXAMINER McMILLAN: Okay.

4 MR. WADE: But Paul Kautz did designate this
5 as an oil well via the Sundry?

6 MS. KESSLER: Correct.

7 EXAMINER McMILLAN: Thank you very much.

8 THE WITNESS: Thank you.

9 EXAMINER McMILLAN: In that case, 15414 will
10 be continued for two weeks until the December 17th.

11

12 (Time noted 10:14 a.m.)

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16

I hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. _____,
heard by me on December 3, 2015.

17

18

Michael A. Miller, Examiner
Oil Conservation Division

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1 STATE OF NEW MEXICO)
2) ss.
3 COUNTY OF BERNALILLO)
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5
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7 REPORTER'S CERTIFICATE

8
9 I, ELLEN H. ALLANIC, New Mexico Reporter CCR
10 No. 100, DO HEREBY CERTIFY that on Thursday, December 3,
11 2015, the proceedings in the above-captioned matter were
12 taken before me, that I did report in stenographic
13 shorthand the proceedings set forth herein, and the
14 foregoing pages are a true and correct transcription to
15 the best of my ability and control.

16
17 I FURTHER CERTIFY that I am neither employed by
18 nor related to nor contracted with (unless excepted by
19 the rules) any of the parties or attorneys in this case,
20 and that I have no interest whatsoever in the final
21 disposition of this case in any court.

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23
24
25


ELLEN H. ALLANIC, CSR
NM Certified Court Reporter No. 100
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