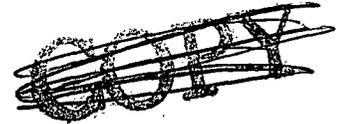


STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

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



APPLICATION OF RSC RESOURCES LIMITED
PARTNERSHIP FOR COMPULSORY POOLING,
NONSTANDARD SPACING AND PRORATION
UNIT, AND UNORTHODOX LOCATION,
EDDY COUNTY, NEW MEXICO

CASE NO. 14542

APPLICATION OF RSC RESOURCES LIMITED
PARTNERSHIP FOR COMPULSORY POOLING,
NONSTANDARD SPACING AND PRORATION
UNIT, AND UNORTHODOX LOCATION,
EDDY COUNTY, NEW MEXICO

CASE NO. 14543

REPORTER'S TRANSCRIPT OF PROCEEDINGS
EXAMINER HEARING

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BEFORE: WILLIAM V. JONES, Technical Examiner
DAVID K. BROOKS, Legal Examiner

September 16, 2010

Santa Fe, New Mexico

This matter came on for hearing before the
New Mexico Oil Conservation Division, WILLIAM V. JONES,
Technical Examiner, and DAVID K. BROOKS, Legal Examiner,
on Thursday, September 16, 2010, 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

A P P E A R A N C E S

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FOR THE APPLICANT:

ERNEST L. PADILLA, ESQ.
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Farmington, New Mexico 87504
(505)988-7577

FOR DEVON ENERGY PRODUCTION COMPANY, LP.:

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AFFIDAVIT OF KIRK E. SMITH
AND EXHIBITS 1 THROUGH 9, CASE 14542
WERE INTRODUCED

AFFIDAVIT OF KIRK E. SMITH
AND EXHIBITS 1 THROUGH 9, CASE 14543
WERE INTRODUCED

REPORTER'S CERTIFICATE 28

1 EXAMINER JONES: We'll go back on the
2 record, and let's call Cases 14542 and 14543. They're
3 both application of RSC Resources Limited Partnership for
4 compulsory pooling, nonstandard spacing and proration
5 unit, and unorthodox location, Eddy County, New Mexico.

6 Call for appearances in both cases.

7 MR. PADILLA: Mr. Examiner, Ernest L.
8 Padilla for the applicant in both of the cases.

9 MR. BRUCE: Mr. Examiner, Jim Bruce of
10 Santa Fe, representing Devon Energy Production Company,
11 LP. I have no witnesses. Devon does not oppose the
12 pooling. So with your permission, I'm going to vacate
13 the premises now that I've done my job.

14 EXAMINER JONES: Any other appearances?
15 Will the witness please stand and state your
16 name?

17 MR. CATE: Randall Cate.

18 (One witness sworn.)

19 MR. PADILLA: Mr. Examiners, as a
20 preliminary matter, the land materials on these unopposed
21 cases are being submitted by affidavit of Kirk E. Smith,
22 and attached to that are Exhibits 1, 2, and 3. The rest
23 of the testimony will be taken by Mr. Cate, and he also
24 is principal in RSC Limited Partnership. So if you have
25 any questions pertaining to any of the land matters, he's

1 also familiar with that.

2 So with that, let me start off with Mr. Cate
3 and go from there.

4 RANDALL CATE

5 Having been first duly sworn, testified as follows:

6 DIRECT EXAMINATION

7 BY MR. PADILLA:

8 Q. Mr. Cate, would you please state your full
9 name?

10 A. Randall Cate.

11 Q. Where do you hail from?

12 A. I reside in Midland, Texas.

13 Q. And what is your connection with the
14 applicant, RSC Limited Partnership?

15 A. I am the owner of RSC Resources Limited
16 Partnership.

17 Q. And you've appeared before the Oil
18 Conservation Commission and Division as a petroleum
19 engineer; is that correct?

20 A. Yes, it is.

21 Q. And have your credentials been accepted as a
22 petroleum engineer in the past in that capacity?

23 A. Yes, they have.

24 MR. PADILLA: We tender Mr. Cate as an
25 expert petroleum engineer.

1 EXAMINER JONES: He is so qualified.

2 Q. (By Mr. Padilla) Mr. Cate, would you briefly
3 go -- you're familiar with the affidavit of Mr. Smith in
4 this case?

5 A. Yes, I am.

6 Q. I won't repeat what he says in that affidavit,
7 except to ask you, RSC Limited Partnership wants to be
8 the operator in this case; is that right?

9 A. That's correct.

10 Q. And who -- in general terms, in terms of the
11 pooling in this case, who needs to be pooled in this
12 case?

13 A. We are consolidating -- is that right -- or
14 should I --

15 Q. We are consolidating for testimony in this
16 case. So let's talk about -- you have an application for
17 the west half of the west half of section --

18 A. 35.

19 Q. -- 35 and the east half of the west half of
20 Section 35; right?

21 A. That's correct. Yes.

22 Q. And tell us which well you want to drill on
23 the east half of the west half?

24 A. The east half of the west half unit,
25 north/south unit, would be the Lonesome Wolf 35 Federal

1 Com Number 1H.

2 Q. And does Mr. Smith outline in his exhibit what
3 the ownership is?

4 A. Yes.

5 Q. Who are you trying to pool in this case?

6 A. In that case, we need to pool ConocoPhillips,
7 Pure -- I think it's Pure Resources, from San Antonio,
8 Mariner Oil & Gas, which is the purchaser of Edge
9 Petroleum, who is, frankly, still of record, but Mariner
10 now is buying Edge Petroleum. I think those are the
11 parties.

12 I'm sorry. There is one more. It's -- CRA is
13 the company of record, but that is -- we have determined
14 is Devon, and that was why Jim Bruce made their
15 appearance. So those are the four parties.

16 Q. Okay. And with respect to the other portion
17 of the application, you're asking for a nonstandard
18 location and a nonstandard proration unit. Tell us about
19 that.

20 A. That's correct. Yes, I wish to have the
21 surface location at 150 feet from the north line of the
22 lease line. The purpose being that this will be a
23 horizontal test, and in order to encounter the Abo or
24 Wolfcamp pay as quickly into the legal or orthodox 330
25 feet, I wish to move back closer to the lease line, in

1 order that once the curve is built, we'll encounter the
2 pay as close to the orthodox 330-foot setback as we can.

3 Q. Now, you prepared certain exhibits here.
4 Would you look at your Exhibit Number 4 and tell us what
5 that shows?

6 A. Yes. Exhibit Number 4 is the production plat
7 of the area. You can see the two north/south units in
8 the center of the plat. The east half/west half of
9 Section 35 is the Lonesome Wolf 35 Number 1H, and then
10 the west half/west half 160-acre unit is the Lonesome
11 Wolf 35 Number 2H.

12 Q. They are identical, except for the
13 orientation. One is north/south, and the other is the
14 opposite direction?

15 A. That's correct. The Number 1 will be surface
16 location in the north and drilling toward the south. And
17 2 starting in the south and drilling towards the north.
18 That's the only difference.

19 Q. What else is shown on this Exhibit 4?

20 A. Well, the importance -- the targeted pay of
21 the Wolfcamp Abo dolomite -- and I'll show you a type log
22 of the well that's one mile north of our proposed
23 locations -- is a COG well out of the same pay. That's
24 the pay that we're targeting. And COG has two wells to
25 the north out of this Abo, is what it's designated, but

1 we are a mile away from the nearest production.

2 Those are the only two that I would call
3 decent. Although, you know, 58,000 barrels is not
4 commercial, really, for a \$4 million type of well. It's
5 still making 20 barrels of oil a day, but it is actually
6 making over a million a day of gas, 1,000 cubic feet of
7 gas still.

8 The well to the north of it up in Section 23
9 is doing a litter better. It's made 71,000 barrels and
10 still is around 30 barrels of oil a day, and, again,
11 higher gas.

12 They drilled in an east/west direction. And I
13 believe, based on the logs that are available, that their
14 pay was somewhat limited, and that's why I chose to go
15 with a north/south orientation. I believe that the
16 dolomite trends north/south in here, and that by drilling
17 horizontal, we will encounter more of the dolomite
18 porosity and, therefore, have a better chance of higher
19 reserves than we see up here.

20 Other than that, there's really not much more.
21 The whole south half, I guess, of the plat does show the
22 Grayburg-San Andres. That is one of the pays that we do
23 have potential in in the Number 1 Well. We do not have
24 the rights in the Number 2 in the west half/west half.
25 But in the Number 1, east half/west half, we do have

1 potential.

2 And these wells are completed from
3 approximately 1,800 feet to maybe 2,500 feet. It's
4 listed as Grayburg-San Andres, and they average around
5 40,000 barrels per well. There's a waterflood going on
6 here. So that is potential pay for us, and we would
7 include that in this Number 1 application.

8 Q. The Grayburg?

9 A. Yes.

10 Q. Are there any other producing horizons that
11 you may encounter on the way down to the Abo Wolfcamp?

12 A. There's a Tubb Yeso potential. It would be
13 undesignated Wildcat at this point. There's nothing else
14 that has been proven in the area, but there are some
15 other potential pays that we may encounter.

16 Q. To the extent that you have the rights, you
17 want to be able to pool anything to the base of the
18 Wolfcamp?

19 A. That's correct.

20 Q. What's Exhibit Number 5?

21 A. Exhibit Number 5 is the type log that is of
22 the well, the COG High Lonesome 26 Federal Com Number 1.
23 It's approximately one mile to the north of our proposed
24 locations, and it does show the porosity in the dolomite
25 that develops.

1 And we will drill a pilot hole much like the
2 log that is shown right here, and we will -- I believe,
3 and based on conversations with the OCD geologists in the
4 districts, that the limey portion at about 7,400 feet on
5 this log is where the Wolfcamp would be considered. You
6 come from the Abo dolomite into the Wolfcamp.

7 So we are drilling approximately 200 feet into
8 the Wolfcamp, but the primary target will be the Abo
9 porosity that is shown on this log from 7,300 to 7,400
10 feet.

11 Q. Now, Mr. Smith's affidavit asks for a 200
12 percent risk penalty, well cost plus 200 percent, what is
13 allowed by statute; is that correct?

14 A. Yes, that's correct.

15 Q. In terms of drilling rates, overhead rates, he
16 asks for 7,000, and 700 for producing rates?

17 A. That's correct.

18 Q. Is that consistent with what is experienced in
19 the area, as far as you know?

20 A. Yes, it is. My company, RSC Resources, has
21 interests -- nonoperated interests in this township, and
22 the township 1628, and approximately at least 10 wells,
23 maybe a dozen, and that rate is very similar to what's
24 charged in the area.

25 Q. Let's go to Exhibit Number 7. What is that?

1 A. Exhibit Number 7 is a directional drilling
2 plan for the 35 Number 1H. It simply shows that
3 approximately 6,900 feet is where we plan to kick off.
4 We will drill a pilot hole, and at that point, we will
5 then develop our final plan for the drilling. But right
6 now, this is a preliminary plan.

7 It does show we will drill from a north
8 direction going south approximately 12 degrees, dogleg
9 severity, to build our curve. And by 7,600 feet measured
10 depth and 7,363 true vertical depth, we will have landed
11 our lateral, and we will just try to maintain it at a 90
12 degree or flat from that point out to 12,010 feet, where
13 the terminus is.

14 Q. Now, if you look at the other case, you have
15 an Exhibit Number 7 that is identical, except that it
16 comes from the other direction?

17 A. It comes from the south and goes to the north,
18 and it's identical, except the Azm, which is the third
19 column from the left. It remains zero because that is
20 the direction for north, and that is the only difference.

21 Q. Okay. What is Exhibit Number 8?

22 A. Exhibit Number 8 is the AFE for the 35 Number
23 1 Well that we made the proposal to the parties that we
24 wish to force pool. And we have not had any voluntary
25 joinders at this point.

1 But this AFE is approximately \$3.6 million,
2 and, again, it's very similar to the costs that I'm
3 seeing due to the other wells that RSC has an interest in
4 in the area.

5 Q. Did you prepare Exhibit 8?

6 A. Yes, I did.

7 Q. Is the AFE for the Number 2 well the same
8 thing?

9 A. It is identical, except for the header just
10 has the different locations.

11 Q. Mr. Examiner -- well let me ask this. Would
12 the application and -- approval of both applications be
13 in the best interest of conservation of oil and gas and
14 the prevention of waste?

15 A. Yes.

16 Q. Do you have anything further to add to your
17 testimony?

18 A. No.

19 MR. PADILLA: Mr. Examiner, that leaves --
20 the only thing that's left is Exhibit 9, which is my
21 Affidavit of Mailing. And the only -- we have a couple
22 of return receipts that are missing at this point. One
23 is -- they all affect the offset operators for the
24 unorthodox location and the -- but they don't affect any
25 of the interest owners in either of the wells.

1 As late as last night, we got two more return
2 receipts, and I think they're still coming back. For
3 some reason, mail service is not as good. So we would
4 like to supplement the record either with a waiver from
5 Rubicon, and I believe there's Tandem Energy that also
6 got notice and its offset operator.

7 And, apparently, Tandem may have been bought
8 out by a company by the name of Platinum, or a name
9 change, so we would like to be able to supplement the
10 record with waivers.

11 Now, as far as I understand -- and I can
12 elicit that through testimony -- is that both of these
13 companies have been in contact with Mr. Cate or Mr.
14 Smith, and there's no problem with the applications. But
15 to the extent that we don't have return receipts, we
16 would like to supplement the record. I don't think we
17 have to re-advertise or do anything at this point.

18 EXAMINER JONES: I'll let Mr. Brooks
19 answer that.

20 EXAMINER BROOKS: You are confident that
21 you have good addresses for all of the people that you've
22 noticed?

23 MR. PADILLA: Yes.

24 EXAMINER BROOKS: It's not necessary to
25 advertise if you have good addresses, so I would say

1 that's a correct assumption, as long as you do not have
2 unlocateable parties.

3 MR. PADILLA: I think -- no, we don't have
4 unlocateable parties. That's why I did not publish,
5 simply because we knew who everyone was.

6 Now, there's some -- you know, the problem
7 with Tandem Energy, there's a name change or something,
8 but the personnel are apparently the same. So
9 communications have gone back and forth, so there's been
10 no problem with the unorthodox location or the
11 nonstandard proration unit.

12 EXAMINER BROOKS: Based on your
13 representation that these are good addresses, I think we
14 can handle it that way. You can supplement the record
15 and it won't be necessary to continue the case. If we
16 receive any objections, we can reopen it.

17 MR. PADILLA: Good.

18 EXAMINER JONES: Okay. So this notice in
19 Exhibit A of Exhibit 9 is just for the nonstandard
20 location?

21 MR. PADILLA: That includes everyone in
22 there. But if you go back to Exhibits 2 and 3, Exhibits
23 2 and 3 identify who are offsets and who are interest
24 owners.

25 EXAMINER JONES: Okay. Thank you.

1

EXAMINATION

2 BY EXAMINER JONES:

3 Q. Mr. Cate, the bailout on the Grayburg-San
4 Andres is just viable for Well Number 1; is that correct?

5 A. That's correct.

6 Q. Okay. Because the Forest pool unit comes up
7 close to the boundary there of your spacing unit?

8 A. Yes, it does. I believe that it is -- there's
9 actually two units out here. One is the Forest pool, but
10 I think to the east, it's Square Lake Unit, possibly.
11 But there is -- as far as that 40 acres, the northeast of
12 the northwest of Section 35, that 40 acres is not in
13 either of those units. Now, the Number 2 surface
14 location is, and we do not have the rights anyway for
15 that.

16 Q. Okay. So this is Wildcat Wolfcamp oil? Is it
17 considered Wolfcamp or Abo?

18 A. Again, on the type log, we have the potential
19 to complete in either. If we do find porosity down in
20 this limey area, that is what we believe will be
21 designated Wolfcamp, and I've seen that occur in some of
22 the other logs. But primarily it will be the Abo, which
23 is the porosity interval.

24 And as a matter of fact, Mr. Examiner, on this
25 log, I think you can see that the very bottom porosities

1 appear wet. The resistivity is approximately 10 to 15
2 ohms, and our plan is to stay relatively high in that
3 porosity interval. But of course, once we get the pilot
4 hole drilled, then we'll log it, and then we'll develop a
5 plan from there. Right now we have to have both the
6 Wolfcamp and the Abo committed to us.

7 Q. So your pilot hole will go on through the
8 Wolfcamp down to almost the top of the pin?

9 A. No, just 200 -- the Wolfcamp is probably -- I
10 mean, the Wolfcamp, itself, I believe is over a thousand
11 foot thick in this area.

12 Q. You're only interested in looking at the top
13 of the --

14 A. Right. We're probably going to go in just 200
15 feet, mostly what you consider a rat hole. But sometimes
16 pay does show up in this limey interval, and if we're
17 going to drill it, we'd sure like to see it.

18 Q. So at that point, you have to make the choice
19 whether to do your horizontal well in the lower part.
20 But you couldn't do part of it in the Abo and dip down
21 into the Wolfcamp for part of it, or vice versa?

22 A. We would probably not do that.

23 Q. Okay.

24 A. I think we will -- I mean, I believe what will
25 happen is that it will be Abo, and we'll just have to

1 see. There are -- you know, there is potential to
2 complete in the vertical in the Wolfcamp, do the
3 horizontal in the Abo, and commingle, you know.

4 Q. Okay. So you want 40-acre capability in all
5 the zones from zero to the total depth of the well, plus
6 the horizontal in either the Wolfcamp or the Abo?

7 A. Yes. Exactly.

8 Q. That Wolfcamp, is that -- that lime Wolfcamp,
9 top of the Wolfcamp, is that potentially one of those
10 algal mound things that people talk about sometimes?

11 A. I don't know if it's an algal mound. It seems
12 to be a lime bank, and then this Abo porosity, and it
13 comes and goes. I mean, you can -- two logs. That's why
14 I tend to believe it trends north/south. But even when
15 you drill right in a porosity zone, the porosity can go
16 from 4 percent up to 10 and back down to 4 as you're just
17 drilling through it, which is another reason that the
18 horizontal wells are the best technology to use.
19 Vertical well completions don't do very well.

20 Q. Okay. So that lime might be -- if you
21 encounter it, it might be more extensive than your
22 fluvial stuff up in the Wolfcamp?

23 A. That's right, if it develops some porosity.
24 That's right.

25 Q. So you're going to run -- you're going to

1 drill pilot hole, run logs and set casing and possibly
2 plug back the vertical portion of your hole before you
3 kick off, or possibly leave it open; is that correct?

4 A. If we were to come back to it, we would set
5 the casing all the way through the Wolfcamp and --

6 Q. Mill a window or section mill?

7 A. Mill a window. And then you can use a
8 retrievable whipstock. Basically, I'm told all the
9 whipstocks are retrievable now, the way they're set.
10 They come out, and then you can run back down and pump in
11 the vertical, which -- you know, that's actually the most
12 efficient way to pump these.

13 Because right now, most of the time you have
14 to pump above where you start your curve, and you're
15 maybe 4- or 500 feet above the pay, and that adds some
16 back pressure, of course, to the reservoir. It's not the
17 most efficient way to drain the reservoir.

18 Q. So if you can pull your whipstock out, you
19 can put your pump in the vertical hole?

20 A. That's right.

21 Q. And you only have 300 feet of head there?

22 A. That's right.

23 Q. So it's considered a medium radius-type well,
24 I guess, in the old terminology?

25 A. Medium radius, around 400 feet.

1 Q. Twelve degrees per hundred feet?

2 A. Um-hum.

3 Q. So you can run casing in the horizontal?

4 A. We can. And we haven't really decided, until
5 we get the log, what we'll do with the casing. Now, to
6 the west, the design we had was run the seven-inch
7 through the Abo shale to maybe 100 feet above, and then
8 kick off right below that.

9 In a couple of wells I am in with Mack, they
10 actually run a tapered string of four-and-a-half inch
11 with five-and-a-half inch, and a cement port. And once
12 you get into the curve, they cement all the way back up.
13 But there's been some mechanical problems with that
14 approach. I think they're getting away from that.

15 Right now, the design, as proposed, is to set
16 the seven-inch above the kickoff point, and then kick off
17 into the Abo porosity.

18 Q. Okay. And your depth of -- you said the Tubb
19 Yeso might come in. Is that the paddock portion of the
20 Yeso?

21 A. I would call it that, yes. COG, Cimarex,
22 there's quite a few companies that are producing that,
23 and it's roughly 4,000 feet.

24 Q. Okay. So it's way above your kickoff point?

25 A. Yes. It's around 4,000 feet or so.

1 Q. And the completion of the open hole would --
2 or the vertical -- or the horizontal portion -- I'm
3 sorry -- of the hole --

4 A. They're referred to as strata packers or port
5 and packer system. Peak completion is the one I would
6 use, and they have a series of like 10 packers and then a
7 port in between each one.

8 So you drill open hole. You don't cement the
9 casing or the liner in place, and -- but these packers
10 are inflatable, hydraulically inflatable packers, and
11 they sit in the open hole, and they do isolate. And then
12 you do a 10-stage frac.

13 Q. All in one operation?

14 A. Yes. It takes about 10 hours to pump the job
15 from beginning to end, about an hour per stage. And they
16 drop a ball of increasing sizes to open the next, next,
17 next port.

18 Q. Is it a huge amount of water, then, you need
19 for your frac fluid?

20 A. Yeah. It's about 40,000 barrels total and --
21 so how many gallons is that?

22 Q. A lot.

23 A. Yeah. I think some of the most recent jobs
24 are getting up to a million and a half gallons, about a
25 million pounds of sand, total.

1 Q. Well --

2 A. That's why they're very expensive. On the
3 AFE, it's \$900,000. They're very expensive.

4 Q. But it's all included in your AFE that was
5 advertised and everything?

6 A. Yes.

7 EXAMINER JONES: I don't have any more
8 questions.

9 EXAMINATION

10 BY EXAMINER BROOKS:

11 Q. I have not read the application, so I'm asking
12 some questions here that -- you discussed in your
13 testimony several different formations that were
14 possibilities. What you're planning, actually, is a
15 horizontal well in the Abo Wolfcamp; is that correct?

16 A. That's correct.

17 Q. And what were the other formations you
18 mentioned that you might be considering?

19 A. I call it Yeso. And then, of course, the
20 Grayburg-San Andres does produce nearby. The Yeso is
21 approximately 4,000 feet or so. There's some development
22 in the township to the south, but nothing that I could
23 find close.

24 Q. The Grayburg-San Andres, what depth is that?

25 A. Approximately 1,800 to 2,500 feet.

1 Q. Now, if you were to complete in those, would
2 you be looking at doing another lateral, or would you
3 just simply be completing the pilot hole?

4 A. Yes. That would just be in the vertical hole.

5 Q. Are all those formations spaced on 40?

6 A. Yes.

7 Q. What you're looking for, then, is for --
8 first, compulsory pooling is for a 40-acre unit from the
9 surface to the base of the Wolfcamp? Is that what you're
10 asking for?

11 A. Well, to the -- I want the 40 acres to the
12 top.

13 Q. To the top of the Abo?

14 A. Yes.

15 Q. And then 160-acre nonstandard unit to be
16 created only in the Abo Wolfcamp?

17 EXAMINER JONES: Excuse me. I think he
18 testified earlier that he wanted the potential to
19 complete a 40-acre vertical well in possibly either the
20 Abo or the Wolfcamp; is that correct? And maybe do
21 your -- pick your horizontal target from either the Abo
22 or the Wolfcamp.

23 THE WITNESS: Yes, I did. Now, if we do
24 get 160 acres, does that not -- in both those formations,
25 does that not still allow us --

1 EXAMINER JONES: But you can only drill
2 horizontally in one; is that correct?

3 THE WITNESS: That is probably right. I
4 mean, practically, that is right.

5 Q. (By Examiner Brooks) Excuse me. Is there a
6 clear distinction between the Abo and Wolfcamp here? I
7 know in someplaces I've heard there's not.

8 A. This is one of those places that I think it is
9 not, but it depends where the porosity develops. But I
10 have talked with Paul Kautz. He's the district geologist
11 for, I think, Lea County, the Hobbs area, because Jackie
12 had gotten in a wreck or something.

13 And that is why this determination of where
14 the Wolfcamp is, is where -- he says is where this
15 difference -- you go from the dolomite into this lime
16 bank. That would be called the Wolfcamp. But in all --
17 what I expect to happen is that we will drill
18 horizontally in the Abo, okay? That is what I expect to
19 happen. But we want the flexibility -- if we do find
20 porosity in the Wolfcamp, you know, we don't want to have
21 to come back in and say that we've changed our plans and
22 we've got a rig -- I mean, you know.

23 Q. Yeah, I understand that. If you decide to
24 complete only in the 40 acres, though, we would -- the
25 way we've been doing things recently -- and we've had

1 some discussions about this, and we may have to again on
2 this case -- but what we generally think is if you decide
3 to complete only in the 40 acres, you should come in and
4 get the order amended so you're tying up only the 40
5 acres.

6 A. That sounds fair. Yes, we can agree to do
7 that.

8 EXAMINER JONES: With a new AFE?

9 EXAMINER BROOKS: Yeah.

10 Q. (By Examiner Brooks) Do you have any
11 differences in ownership?

12 A. No.

13 Q. Is the ownership common all through this 160
14 acres?

15 A. In each of the units, it is.

16 Q. So you don't have any depth severances?

17 A. I'm sorry. That's not -- in the Number 2H,
18 there is a depth severance. We do not have the rights
19 for the Grayburg-San Andres in any of that unit in the
20 2H.

21 Q. But in the --

22 A. For the 160-acre units?

23 Q. Let me clarify exactly, because this is all
24 going to be very unclear when somebody goes back and
25 reads it. We've got two wells here, 1H and 2H?

1 A. That's right.

2 Q. The 1H is the east half of the west half or
3 the west half of the west half?

4 A. East half of the west half.

5 Q. The 2H is the west half of the west half?

6 A. That's right.

7 Q. Let's talk about the 1H first. For the
8 40-acre unit, same ownership to all depths in the 1H?

9 A. Yes.

10 Q. Now, in the 160-acre unit, do you have
11 differences in ownership between the various quarter
12 quarters?

13 A. Yes.

14 Q. But you don't have any ownership -- any depth
15 severances in the 1H?

16 A. That's correct.

17 Q. When you go to the 2H, you've got depth
18 severance?

19 A. Yes.

20 Q. Is it in the drill-site tract, or is it one of
21 the other units?

22 A. In the drill-site.

23 Q. In the drill-site tract in the 2H?

24 A. That's correct. It excludes the Grayburg-San
25 Andres.

1 Q. Since your principal target is not the
2 Grayburg-San Andres, I don't assume you're going to be
3 allocating any portion of your drilling costs to that
4 formation?

5 A. That's correct.

6 Q. Okay. So your drilling costs will be all
7 allocated to the Wolfcamp Abo --

8 A. That's right.

9 Q. -- in the 2H. Let's see if I've covered
10 everything.

11 You don't have any unlocated interests in
12 either unit; is that right?

13 A. That's right.

14 Q. You know where everybody is?

15 A. That's right, within the units exactly. Now,
16 outside of the unit is where the offsets -- was where
17 Tandem, which had sold to Platinum, and we did locate
18 them, and we've talked to them twice now. And Rubicon
19 actually is an offset operator, also, and they sent --
20 Gary Green, their landman, just sent me an email saying
21 they had no problem. I don't know where the green card
22 is, so --

23 Q. Based on the geological evidence, do you
24 believe that in each of these units, that the entire 160
25 acres is prospective for the Wolfcamp?

1 A. Yes.

2 EXAMINER BROOKS: That's all I have.

3 EXAMINER JONES: The last question he
4 asked was what we have to ask to make sure the horizontal
5 well -- the applicant thinks each of the 40-acre tracts
6 will contribute to the unit, to the production.

7 THE WITNESS: Yes.

8 EXAMINER JONES: Nothing more? Thanks a
9 lot, Mr. Cate.

10 We're going to supplement the record for each
11 of these cases?

12 MR. PADILLA: Yes, because we've got the
13 offsets on both cases.

14 EXAMINER BROOKS: I think we can do that.
15 They seem to be very confident that they will get these
16 additional receipts.

17 MR. PADILLA: I was flabbergasted that we
18 had two in the mail last night, a little panicked over
19 that coming to hearing today. But I was talking to Jim
20 Bruce about that, and he has the same problems with the
21 mail.

22 EXAMINER BROOKS: They tend to be very
23 slow about returning return receipts.

24 EXAMINER JONES: I do hereby certify that I will take
25 a complete record of the proceedings in
Case 14542 and Case 14543 under advisement of Case No.
heard by me on *[Signature]*

REPORTER'S CERTIFICATE

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I, JACQUELINE R. LUJAN, New Mexico CCR #91, DO
HEREBY CERTIFY that on September 16, 2010, 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 29th day of September,
2010.

Jacqueline R. Lujan
Jacqueline R. Lujan, CCR #91