

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

5 APPLICATION OF NADEL AND GUSSMAN  
6 HEYCO, LLC FOR APPROVAL OF A  
7 NONSTANDARD OIL SPACING AND  
8 PRORATION UNIT AND COMPULSORY  
9 POOLING, EDDY COUNTY, NEW MEXICO.

CASE NO. 15056

ORIGINAL

9 REPORTER'S TRANSCRIPT OF PROCEEDINGS

10 EXAMINER HEARING

11 November 14, 2013

12 Santa Fe, New Mexico

14 BEFORE: DAVID K. BROOKS, CHIEF EXAMINER

18 This matter came on for hearing before the  
19 New Mexico Oil Conservation Division, David K. Brooks  
20 Chief Examiner, on Thursday, November 14, 2013, at the  
21 New Mexico Energy, Minerals and Natural Resources  
22 Department, 1220 South St. Francis Drive, Porter Hall,  
23 Room 102, Santa Fe, New Mexico.

22 REPORTED BY: Mary C. Hankins, CCR, RPR  
23 New Mexico CCR #20  
24 Paul Baca Professional Court Reporters  
25 500 4th Street, Northwest, Suite 105  
Albuquerque, New Mexico 87102  
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APPEARANCES

FOR APPLICANT NADEL AND GUSSMAN HEYCO, LLC:

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Numbers 1 through 7 9

Nadel and Gussman Heyco, LLC Exhibit  
Numbers 8 through 13 15

1 (8:24 a.m.)

2 EXAMINER BROOKS: Then we should call Case  
3 15056, application of Nadel and Gussman Heyco, LLC for  
4 approval of a nonstandard oil spacing and proration unit  
5 and compulsory pooling, Eddy County, New Mexico.

6 Call for appearances.

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

10 EXAMINER BROOKS: Very good. Would the  
11 witnesses please identify themselves?

12 MR. YAHNEY: Gordon Yahney.

13 MR. BOOTH: Colby Booth.

14 (Mr. Yahney and Mr. Booth sworn.)

15 EXAMINER BROOKS: You may proceed,  
16 Mr. Bruce.

17 COLBY BOOTH,  
18 after having been first duly sworn under oath, was  
19 questioned and testified as follows:

20 DIRECT EXAMINATION

21 BY MR. BRUCE:

22 Q. Mr. Booth, where do you reside?

23 A. Roswell, New Mexico.

24 Q. Who do you work for and in what capacity?

25 A. I am a landman for Nadel and Gussman Heyco,

1 LLC.

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

4 A. Yes, I have.

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

7 A. Yes, they were.

8 Q. And are you familiar with the land matters in  
9 this case?

10 A. Yes, I am.

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

13 EXAMINER BROOKS: So qualified.

14 Q. (BY MR. BRUCE) Mr. Booth, could you identify  
15 Exhibit 1 and describe what Nadel and Gussman Heyco  
16 seeks in this case?

17 A. Exhibit 1 is a Midland Map Company plat, which  
18 was part of Township 18 [sic] South, Range 26 East,  
19 dealing with the north half-north half of Section 9. We  
20 also seek to pool the north half-north half as to the  
21 Glorieta-Yeso Formation.

22 Q. And what is the name of the proposed well, and  
23 what are the footages for the well?

24 A. The proposed well is the Iron Duke #2H. It is  
25 located in the northwest-northwest of Section 9. Our

1 surface location is 990 from the north and 200 from the  
2 west, with a bottom-hole location of 990 from the north  
3 and 330 from the east.

4 Q. Will the entire producing interval of the  
5 wellbore be orthodox?

6 A. Yes.

7 MR. BRUCE: Mr. Examiner, the API number  
8 for the well is 3001540044.

9 EXAMINER BROOKS: 40044?

10 MR. BRUCE: Yes.

11 Q. (BY MR. BRUCE) What does the working interest  
12 ownership in the well refer you to?

13 A. It lists the working interest owners in the  
14 well unit, together with the percentage of the mineral  
15 interests.

16 Q. And is this all fee lands?

17 A. Yes, that is correct.

18 Q. And who on this list do you seek to force pool?

19 A. At this time, we seek to force pool everybody  
20 excluding Nadel and Gussman Heyco and Yates Petroleum.  
21 Yates Petroleum has signed our AFE. And is currently  
22 negotiating a deal with us right now.

23 Q. Are all of these other interest owners unleased  
24 mineral interest owners?

25 A. That is correct.

1 Q. Could you identify Exhibit 3 and just briefly  
2 discuss your contacts with the Examiner?

3 A. Exhibit 3 is our proposal letter to each of  
4 the -- either the participants in the well or the  
5 unleased mineral owners. If we were unable to get them  
6 on the first try, we turned around and tried many  
7 different addresses, as well as looking at the online  
8 directories and whatnot to try to find these owners.

9 Q. And page 3, are those your notes regarding the  
10 addresses and your attempts to discern the correct  
11 addresses for all of the parties?

12 A. That is correct. Those are our notes.

13 Q. Are there any unlocatable owners?

14 A. Eddy County Board of Education acquired an  
15 interest in 1918, which the Eddy County Board of  
16 Education no longer exists. We have contacted Eddy  
17 County, as well as New Mexico Public Education  
18 Department as to who could be the possible successors.  
19 However, they do not claim the interest.

20 We have recently learned that the Artesia  
21 Public School District claims or may claim this  
22 interest, and we have been in contact with them. If  
23 Artesia Public Schools doesn't own it, then title cure  
24 will have to be done to, of course, take care of the  
25 situation. But we have been in contact with Artesia

1 Public Schools and those other two entities as well.

2 Q. And you did have a title opinion prepared on  
3 this, correct?

4 A. Yes.

5 Q. And did the title attorney spend extensive time  
6 trying to identify the successor to Eddy County Board of  
7 Education?

8 A. That is correct.

9 MR. BRUCE: Mr. Examiner, at the end of the  
10 hearing, I'd like this matter to be continued to the  
11 next Division hearing, because at this point, we have  
12 been in touch with Artesia Public Schools, but we did  
13 not yet notify them of the history. We were trying to  
14 work out a deal with them.

15 Q. (BY MR. BRUCE) In your opinion, has Nadel and  
16 Gussman Heyco made a good-faith effort to obtain the  
17 voluntary joinder of the interest in the well?

18 A. Yes, we have.

19 Q. Could you identify Exhibit 4 for the Examiner  
20 and discuss the cost of the well?

21 A. Exhibit 4 is our AFE for the Iron Duke 4H. We  
22 have an estimated dry-hole cost of \$2,360,840, with a  
23 total well cost completed at \$3,824,080.

24 Q. And is each cost in line with the cost of other  
25 wells drilled to this depth in this area of Eddy County?

1 A. Yes, they are.

2 Q. And is your request that Nadel and Gussman  
3 Heyco be appointed operator of the well?

4 A. Yes, I do.

5 Q. And what overhead are you asking?

6 A. We're requesting 6,000 a month be allowed for  
7 monthly drilling and 600 a month for a producing well.

8 Q. And are these the rates which will be in your  
9 JOA with Yates Petroleum?

10 A. Yes, they are.

11 Q. And are these equivalent to those normally  
12 charged by Nadel and Gussman Heyco wells drilled to this  
13 depth in this area?

14 A. That is correct, yes.

15 Q. And do you request that the rates be adjusted  
16 periodically as provided by the COPAS accounting  
17 procedure?

18 A. Yes.

19 Q. And does Nadel and Gussman Heyco request the  
20 maximum cost plus 200-percent risk charge for an  
21 interest owner that goes nonconsent in the well?

22 A. That is correct, yes.

23 Q. And were the locatable parties notified of this  
24 hearing?

25 A. Yes. And that is shown on our Exhibit 5.

1 Q. What is Exhibit 6?

2 A. Exhibit 6 lists all the offset operators to the  
3 nonstandard unit of the well.

4 Q. And were they notified of this hearing?

5 A. Yes.

6 Q. And is that reflected in Exhibit 7?

7 A. Exhibit 7.

8 Q. Were Exhibits 1 through 7 prepared by you or  
9 under your supervision or compiled from company business  
10 records?

11 A. Yes, they were.

12 Q. And in your opinion, is the granting of this  
13 application in the interest of conservation and the  
14 prevention of waste?

15 A. Yes, it is.

16 MR. BRUCE: Mr. Examiner, I'd tender the  
17 admission of Exhibits 1 through 7.

18 EXAMINER BROOKS: Very good. 1 through 7  
19 are admitted.

20 (Nadel and Gussman Heyco, LLC Exhibit  
21 Numbers 1 through 7 were offered and  
22 admitted into evidence.)

23 MR. BRUCE: And those are the only  
24 questions I have of this witness.

25

## CROSS-EXAMINATION

1

2 BY EXAMINER BROOKS:

3 Q. Okay. Let's see. It's in the north half-north  
4 half of Section 9, 18 South, 26 East, correct?

5 A. Yes, sir, that is correct.

6 Q. And surface location is where?

7 A. Northwest-northwest.

8 Q. And do you have footages?

9 A. Yes. It is 990 from the north and 200 from the  
10 west for the surface hole.

11 Q. 990 from north, 200 from west.

12 What's the bottom hole?

13 A. Bottom hole is 990 from the north and 330 from  
14 the east.

15 Q. 990 north, 330 from the east.

16 Now, will the completed interval be  
17 orthodox?

18 A. Yes, sir.

19 Q. Because it's going to be -- at the surface,  
20 it's within -- it's outside the setback to the west?

21 A. Yes, that is correct.

22 Q. I think that's all I need to know, except I  
23 continue to be curious as to who is the Iron Duke? I  
24 ran [sic] into the Iron Duke a long time ago. Since  
25 it's the 19th Century, I tend to think it's the Duke of

1 Wellington, but I've never been able to confirm that.

2 Thank you.

3 GORDON YAHNEY,

4 after having been previously sworn under oath, was  
5 questioned and testified as follows:

6 DIRECT EXAMINATION

7 BY MR. BRUCE:

8 Q. Mr. Yahney, who do you work for and in what  
9 capacity?

10 A. I work for Nadel and Gussman Heyco. I'm a  
11 geologist.

12 Q. Have you previously testified before the  
13 Division as a petroleum geologist?

14 A. Yes, I have.

15 Q. And were your credentials as an expert  
16 geologist accepted as a matter of record?

17 A. They were indeed.

18 Q. And does your area of responsibility at Nadel  
19 and Gussman Heyco include this portion of southeast  
20 New Mexico?

21 A. It does.

22 Q. And are you familiar with the geology involved  
23 in this application?

24 A. Yes, I am.

25 MR. BRUCE: Mr. Examiner, I'd tender

1 Mr. Yahney as an expert petroleum geologist.

2 EXAMINER BROOKS: So qualified.

3 Q. (BY MR. BRUCE) Mr. Yahney, would you identify  
4 Exhibit 8 for the Examiner?

5 A. Exhibit 8 is a base map that I've prepared for  
6 this area, 18 South, 26 East. It's about six or seven  
7 miles south of Artesia, New Mexico. The surface  
8 location is marked there up in the upper, left-hand part  
9 of the map, and the bottom-hole location, as well, is  
10 present on the map there. It's kind of in the center of  
11 the north part of the map.

12 I will be referring to a cross section  
13 labeled on here, B prime, a little later.

14 Q. And what is Exhibit 9?

15 A. Exhibit 9 is a cumulative map for the area,  
16 same base map area, showing the production from the  
17 San Andres and the Yeso Formations, from the recent  
18 horizontal wells that have been drilled in the area.

19 Q. Are those San Andres wells primarily much older  
20 wells?

21 A. Yes, they are much older wells. You have a  
22 unit there, the Atoka-San Andres unit, that's been  
23 active for a number of decades.

24 Q. What is Exhibit 10?

25 A. Exhibit 10 is a structure map drawn on the top

1 of the interval that we've been mapping, and it's our  
2 target interval that's identified on the cross section.  
3 We'll get to that in just a little bit. The dip is from  
4 the west to the east and southeast. You're along the  
5 shelf edge for the Upper Leonard-Yeso Formation, Paddock  
6 equivalent.

7 Q. What does Exhibit 11 reflect?

8 A. Exhibit 11 is an isopach -- porosity isopach  
9 taken from all the control wells in the mapped area. It  
10 was based on a five-percent porosity cutoff, and totals  
11 of footage exceeding that are marked on the map. The  
12 north half of the north half of Section 9 there is  
13 shown, again, with the cross section. We've got fairly  
14 variable porosity development across the area.

15 Q. Would you anticipate each quarter-quarter  
16 section being productive in this well?

17 A. Yes, I would.

18 Q. And please move on to your cross section.

19 A. The next exhibit is a cross section that folds  
20 out a little bit showing the target interval that we're  
21 placing our horizontal wellbores.

22 This particular proposal, the Iron Duke #4,  
23 is pretty much a direct duplicate of the Iron Duke #2H,  
24 which is a half mile to the south. That well has been  
25 on production for some time, and it's currently making

1 somewhere around 70 barrels of oil a day.

2 Q. Now, you said that porosity development is  
3 somewhat variable, but the cross section shows that the  
4 target zone is productive across this area?

5 A. Yes, it does.

6 Q. And would you anticipate, based on your  
7 exhibits, that each quarter-quarter section would  
8 contribute more or less equally to production?

9 A. I would. The Upper Yeso is kind of a  
10 mid-ramp -- Leonard-ramp-facing [sic] that is a  
11 Greenstone. It seems to have a pretty good -- once you  
12 stimulate it, it seems to have a pretty good vertical  
13 drainage for the wellbore.

14 Q. Finally, what is Exhibit 18?

15 A. Exhibit 18 is the Well Planning Report for the  
16 wellbore path and design for the well. This well will  
17 be drilled west to east. It has -- at about 2,450, on  
18 page 3 of that planning report, we will be crossing that  
19 hard line and be into a normal orthodox situation  
20 location. And at about 2,800 feet, well within the  
21 boundaries of the proration unit, we will be setting  
22 casing -- a seven-inch casing string.

23 After that, we'll drill out and drill our  
24 horizontal, which will be -- we'll run a four-and-a-half  
25 inch liner in it and have an open-hole section that we

1 will stimulate with hydraulic packers and hydraulic  
2 ports.

3 Q. Approximately how many completion stages has  
4 Nadel and Gussman Heyco put in this?

5 A. This well will have a 20-stage completion.

6 Q. In your opinion, is the granting of this  
7 application in the interest of conservation and the  
8 prevention of waste?

9 A. Yes.

10 Q. And were Exhibits 8 through 13 prepared by you  
11 or compiled from company business records?

12 A. They were indeed.

13 MR. BRUCE: Mr. Examiner, I'd move the  
14 admission of Exhibit 8 through 13.

15 EXAMINER BROOKS: 8 through 13 are  
16 admitted.

17 (Nadel and Gussman Heyco, LLC Exhibit  
18 Numbers 8 through 13 were offered and  
19 admitted into evidence.)

20 MR. BRUCE: Pass the witness.

21 EXAMINER BROOKS: I have no questions.

22 You said to continue it to the next docket,  
23 which would be two weeks, December 5th. Of course, if  
24 you need to give notice --

25 MR. BRUCE: Mr. Examiner, it's three weeks.

1 EXAMINER BROOKS: That's right, three  
2 weeks, because we don't have a docket on Thanksgiving.

3 MR. BRUCE: Yeah, thankfully.

4 EXAMINER BROOKS: None of us would want to  
5 be here.

6 Okay. Three weeks would not be enough time  
7 to give notice, unless you -- well, for publication, you  
8 only have to publish ten days ahead.

9 MR. BRUCE: Correct. And that notice has  
10 already been sent. This takes care of the rest.

11 EXAMINER BROOKS: Very good. Case Number  
12 15056 will be continued until December the 5th.

13 (Case Number 15056 concludes, 8:41 a.m.)

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I do hereby certify that the foregoing is  
a complete record of the proceedings in  
the above hearing of Case No. 15056  
held by me on November 14 2013

  
Phillip R. DeJoy, Examiner  
Oil Conservation Division  
for David Brooks

1 STATE OF NEW MEXICO  
2 COUNTY OF BERNALILLO

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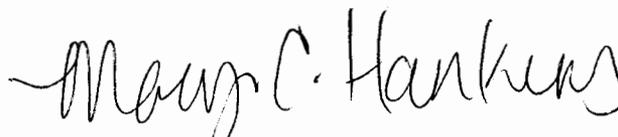
4 CERTIFICATE OF COURT REPORTER

5 I, MARY C. HANKINS, New Mexico Certified  
6 Court Reporter No. 20, and Registered Professional  
7 Reporter, do hereby certify that I reported the  
8 foregoing proceedings in stenographic shorthand and that  
9 the foregoing pages are a true and correct transcript of  
10 those proceedings that were reduced to printed form by  
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  
14 the exhibits, if any, offered by the respective parties.

15 I FURTHER CERTIFY that I am neither  
16 employed by nor related to any of the parties or  
17 attorneys in this case and that I have no interest in  
18 the final disposition of this case.

19



20

MARY C. HANKINS, CCR, RPR  
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