

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 PERCUSSION PETROLEUM CASE NOS. 16128,
OPERATING, LLC FOR A NONSTANDARD 16129
SPACING AND PRORATION UNIT AND
COMPULSORY POOLING, EDDY COUNTY,
NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

May 3, 2018

Santa Fe, New Mexico

BEFORE: MICHAEL McMILLAN, CHIEF EXAMINER
SCOTT DAWSON, TECHNICAL EXAMINER

This matter came on for hearing before the
New Mexico Oil Conservation Division, Michael McMillan,
Chief Examiner, Scott Dawson, Technical Examiner, and on
Thursday, May 3, 2018, 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.

REPORTED BY: Mary C. Hankins, CCR, RPR
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1 APPEARANCES

2 FOR APPLICANT PERCUSSION PETROLEUM OPERATING, LLC:

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1 (11:23 a.m.)

2 EXAMINER McMILLAN: The next case we're
3 going to hear is Case Numbers 1628 and 1629, which shall
4 be combined, application of Percussion Petroleum
5 Operating, LLC for a nonstandard spacing and proration
6 unit and compulsory pooling, Eddy County, New Mexico.

7 EXAMINER DAWSON: For clarification on the
8 record, those are Case Numbers 16128 and 16129. Sorry.

9 EXAMINER McMILLAN: Let's proceed. If the
10 witnesses would please stand up and be sworn in.

11 (Mr. Dalton and Mr. Lipinski sworn.)

12 MR. RANKIN: For the record, Adam Rankin
13 appearing for the Applicant in the case. We have two
14 witnesses.

15 EXAMINER McMILLAN: Call your --

16 MR. RANKIN: Call my first witness, Everett
17 Dalton.

18 EXAMINER McMILLAN: Any other appearances?
19 Please proceed.

20 EVERETT "RETT" M. DALTON,
21 after having been first duly sworn under oath, was
22 questioned and testified as follows:

23 DIRECT EXAMINATION

24 BY MR. RANKIN:

25 Q. Please state your name for the record.

1 A. Everett Dalton.

2 **Q. And where are you employed and in what capacity**
3 **employed?**

4 A. I'm a contract landman for Percussion
5 Petroleum.

6 **Q. And have you previously testified before the**
7 **Division?**

8 A. I have not.

9 **Q. Will you please recite for the Examiners**
10 **briefly first your educational background and degrees?**

11 A. In 1980, I graduated from the University of
12 Texas at Austin with a BBA in petroleum land management.

13 **Q. And do you have -- will you please also recite**
14 **for the Examiners your relevant work experience as a**
15 **petroleum landman?**

16 A. I have 25-and-a-half years with SEECO Oil & Gas
17 Company dealing with matters in Texas in various
18 capacities as a landman, and manager, vice president. I
19 then went to J.M. Huber Corporation for four-and-a-half
20 years as a staff landman and director of land, then
21 handling matters in New Mexico and Texas and Wyoming. I
22 then went to Legend Natural Gas handling -- as a senior
23 landman handling matters in Texas and New Mexico, and
24 then Sheridan Production Company as operations land
25 manager handling matters in Texas, Oklahoma and Wyoming.

1 Q. Do you have any certifications or affiliations
2 or memberships with professional organizations?

3 A. I'm a member of the Houston Association of
4 Professional Landmen and the America Professional.

5 Q. And per our discussion, as a contract landman,
6 do your responsibilities and oversight include the
7 acreage in southeast New Mexico, the subject of this
8 application -- with these applications?

9 A. Yes, they do. Yes.

10 Q. Are you familiar with the applications filed in
11 these consolidated cases?

12 A. Yes.

13 Q. Have you conducted a study of the lands and the
14 owner interests that are being affected by these two
15 applications?

16 A. Yes, I have.

17 Q. And are you prepared to testify about those?

18 A. Yes.

19 MR. RANKIN: Mr. Examiner, I would tender
20 Mr. Dalton as an expert in petroleum land matters.

21 EXAMINER McMILLAN: So qualified.

22 Q. (BY MR. RANKIN) Mr. Dalton, let's first review
23 for the Examiners by referencing Exhibits 1 and 2 in
24 your exhibit packet before you what it is that
25 Percussion is seeking with these two applications?

1 A. In both cases, Percussion is seeking
2 authorization for a nonstandard 160-acre spacing and
3 proration unit for each case.

4 In Case 16128, seeking to create a 160-acre
5 nonstandard spacing and proration unit in the east
6 half-east half of Section 27, Township 19 South, Range
7 25 East, Eddy County, New Mexico for the South Boyd
8 Federal Com 13H well.

9 And for Case Number 16129, seeking to form
10 a 160-acre nonstandard spacing and proration unit
11 consisting of the west half-east half of Section 27,
12 Township 19 South, Range 25 East, Eddy County, New
13 Mexico for the South Boyd Federal Com 18H well.

14 **Q. And Exhibit Number 1 is the C-102 for the 13H**
15 **well; is that correct?**

16 A. That is correct.

17 **Q. And Exhibit Number 2 is the C-102 for the 18H**
18 **well?**

19 A. Correct.

20 **Q. Now, these C-102s, have they been filed with**
21 **the Division at this point?**

22 A. Yes, they have.

23 **Q. And has the Division assigned a pool to the**
24 **spacing unit here for this formation?**

25 A. They have. It's Number 97565.

1 Q. And what is the, sort of, common name for that
2 pool?

3 A. North Seven Rivers-Glorieta-Yeso.

4 Q. Now, with respect to the wells that you propose
5 in each of these cases, as reflected in the C-102, will
6 they be compliant with the setback requirements in that
7 pool?

8 A. They will be.

9 Q. And is that true on the toe and the heel as
10 well?

11 A. It is not.

12 Q. Okay. Will you review for the Examiners the
13 unorthodox locations for each of these two well pads?

14 A. Yes. For the 13H, the location is going to be
15 in Section 34, Unit A. The bottom-hole location is
16 going to be in Unit A of Section 27. For the 18H well,
17 the surface location is in the Unit B of Section 34, and
18 the bottom hole is in Unit B of Section 27. And the
19 last take points are 100 feet from the north line, and
20 the first take points are 100 feet from the south line
21 on both wells.

22 Q. So for both wells, they're going to be 100 feet
23 from the --

24 A. South and north.

25 Q. South and north.

1 A. Right.

2 Q. Rather than the 330 feet required by the rules?

3 A. Right. And that application has been filed
4 separately.

5 Q. Okay. So Percussion has filed an application
6 for a nonstandard location for both wells for those
7 locations?

8 A. Right.

9 Q. And those applications are currently pending
10 before the Division?

11 A. Right. That's correct.

12 Q. Now, what is the nature of the land here for
13 both of these spacing units? Is it federal or fee or
14 state?

15 A. The southeast quarter is federal, and the
16 northeast quarter is fee.

17 Q. Are there any depth severances or differences
18 in the pools that you're seeking to --

19 A. No, there aren't.

20 Q. Have you identified the ownership interest in
21 each tract of the land you're seeking to pool?

22 A. Yes, I have.

23 Q. Is that reflected in Exhibit Number 3?

24 A. It is.

25 Q. Will you review for the Examiner Exhibit Number

1 **3, which shows the ownership interest you've identified?**

2 A. Yes. Tract Number 1 is the west half of the
3 northeast of Section 27, 80 acres, and Tract 2 is the
4 west half of the southeast of Section 27, also
5 containing 80 acres of land more or less. This would be
6 for the 18H well. Tract 3 is the east half of the
7 northeast of Section 27. Tract 4 is the east half of
8 the southeast of Section 27. That will be for the 13H
9 well.

10 **Q. And the next page of your exhibit, does it**
11 **reflect the percentage of ownership of those interests?**

12 A. It does.

13 **Q. By tract; is that correct?**

14 A. That is correct.

15 **Q. And how do you identify the parties that you're**
16 **seeking to pool?**

17 A. These are subject to a joint operating
18 agreement, so we have reached out to them. Some of them
19 have participated. Some of them have not responded.

20 **Q. And are the parties you're seeking to pool**
21 **identified by asterisks on Exhibit Number 3?**

22 A. That is correct. Yes, sir.

23 **Q. Along with their percentage interest?**

24 A. In the combined unit, yes, sir.

25 **Q. Now, what type of interest is Percussion**

1 seeking to pool for each of these two cases?

2 A. All uncommitted interests.

3 Q. So have you identified, in addition to the
4 working -- any working interest owners, are there
5 overrides in these two spacing units?

6 A. There are, yes, sir.

7 Q. And you've identified those overrides?

8 A. Yes, sir.

9 Q. And were there any unlocatable overrides?
10 You've identified all the overrides to your --

11 A. All the overrides, yes.

12 Q. With respect to the nature of the interests
13 you're seeking to pool and identified Exhibit 3, will
14 you just recount for the Examiners -- are these folks
15 with unmarketable title largely?

16 A. Some of these are. Some of them are subject to
17 the operating agreement. Some of them have probate
18 issues. They're all out of state, and some of them have
19 not filed probate issues. Some of them are deceased.
20 And so there is unmarketable title issues on some of
21 them.

22 Q. With respect to the folks in the unmarketable
23 title, have you identified any who are potentially
24 unlocatable? Any potentially unlocatable within those
25 folks?

1 A. There are a few. I've talked to -- on one,
2 there is the executor that I've talked to, so I'm not
3 sure who the heirs would be, if there is a will, which
4 there is. And on the others, I've talked to heirs that
5 I've located using online services and searching
6 obituaries to find, identify children of the deceased.
7 And I've reached out and talked to them, but they've not
8 been responsive if there are any other heirs.

9 Q. So in your opinion, you've undertaken a
10 good-faith effort using resources available, public
11 records, online databases --

12 A. Yes.

13 Q. -- to try and identify all potential parties
14 with an interest there, correct?

15 A. Yes.

16 Q. Now, with respect to those that you were able
17 to identify and locate, did you provide them with the
18 well proposal or an offer to reach an agreement with
19 respect to the proposed wells in each of those cases?

20 A. Yes, we did.

21 Q. And are those reflected in Exhibits 4 and 5 for
22 the 13H well?

23 A. Yes.

24 Q. And with respect to the 18H well, are those
25 proposals and offers to reach agreement reflected in

1 **Exhibits 6 and 7?**

2 A. Yes, they are.

3 Q. Along with those well proposals and offer of --
4 to each agreement, do you include estimates of well
5 costs?

6 A. Yes.

7 Q. Okay. And those well costs are reflected in
8 Exhibits --

9 A. Yes, they are.

10 Q. -- 4, 5, 6 and 7; is that right?

11 A. Yes.

12 Q. Because I think the Examiner may want to know,
13 would you recount for the Examiner what the estimated
14 well costs are for each of those two wells?

15 A. Drilling costs for each well is 3,237,500, and
16 completion cost is 403,000, for a total cost of
17 3,640,500.

18 Q. And that's the cost for both wells?

19 A. Each well.

20 Q. Each well. That's a better way of saying it.

21 Now, in addition to these well-proposal
22 letters, what other efforts have you taken to reach
23 voluntary agreement with the parties you're seeking to
24 pool?

25 A. In visiting with them, offering to purchase

1 their interest or if they want to do a farm-out with
2 their interest.

3 Q. Okay. And so you've had some continuing
4 discussions with folks?

5 A. Yes. And we continue to do so. Yes.

6 Q. And should you reach a voluntary agreement with
7 any of the parties that you're seeking to pool, will you
8 give the Division notice that you've reached agreement
9 and that you're no longer seeking to pool them?

10 A. Yes, we will.

11 Q. The costs that you've just identified in the
12 exhibit and the estimates for each of these wells, are
13 they consistent with what costs Percussion has incurred
14 to drill similar wells in this area?

15 A. Yes, they are.

16 Q. And have you also identified or determined what
17 your overhead and administrative costs will be while
18 drilling and while producing the well if successful?

19 A. 7,500 for drilling, 750 for producing.

20 Q. And to the best of your knowledge, are those
21 costs commensurate with what other parties have incurred
22 or charged for drilling similar wells in the area?

23 A. To the best of our knowledge.

24 Q. Now, in addition to the overrides and the
25 parties that you're seeking to pool in the spacing units

1 at issue, did you also identify the operators and
2 mineral lessees in the surrounding spacing units.

3 A. Yes.

4 Q. And did you give those individuals notice?

5 A. Yes, we did.

6 Q. In your opinion, did you undertake a good-faith
7 and diligent effort to find valid addresses for each of
8 the parties you gave notice to?

9 A. Yes, we did.

10 Q. With respect to notice, flipping over to
11 Exhibit Number 8 in your exhibit packet, is that a copy
12 of an affidavit prepared by myself and my office
13 reflecting that we have given notice to those parties,
14 offsets, the overrides and the pool parties, as required
15 by Division rules?

16 A. Yes, it is.

17 Q. And on the subsequent pages, are there letters
18 reflecting that notice was given for each of the two
19 wells for these two cases?

20 A. Yes.

21 Q. And behind each letter, is there a United
22 States Postal Service tracking sheet indicating that for
23 each party, for the pooled parties, that you identified
24 and that were locatable that they received actual
25 notice?

1 A. Yes, sir.

2 Q. For the 13H -- and as well as the offsets for
3 the 13H; is that correct?

4 A. Yes.

5 Q. And Exhibit Number 9 is the same affidavit
6 prepared by my office reflecting that we have given
7 notice as required by Division rules to the overrides
8 within the spacing unit and the pool parties within the
9 spacing units and all offsets?

10 A. Yes.

11 Q. As well as the tracking information for each of
12 the parties?

13 A. Yes.

14 Q. And because there were, in addition, some
15 unlocatable interests or potentially unlocatable
16 interests, is Exhibit Number 10 a copy of the Affidavit
17 of Publication in the "Carlsbad Current-Argus"
18 reflecting that we've identified each of the estates and
19 their heirs and devisees, as well as all identifiable
20 parties by name?

21 A. Yes.

22 Q. And that list includes both offsets, overrides
23 and all pooled parties; is that correct?

24 A. Yes, sir.

25 Q. And is that true as well for Exhibit Number 11

1 with respect to the 18H well?

2 A. Yes, sir.

3 MR. RANKIN: Mr. Examiner, I would at this
4 time move the admission of Exhibits 1 through 12 into
5 the record.

6 EXAMINER McMILLAN: Exhibits 1 through 12
7 may now be accepted as part of the record.

8 (Percussion Petroleum Operating, LLC
9 Exhibit Numbers 1 through 12 are offered
10 and admitted into evidence.)

11 CROSS-EXAMINATION

12 BY EXAMINER McMILLAN:

13 Q. Okay. My first question is: Why did you come
14 to hearing and create a 320-acre spacing unit? Because,
15 number one, we just got done with nine administrative
16 NSL applications. We're shorthanded, and that would
17 have been a lot of help to us.

18 The second question I've got is: Why
19 didn't you include all of those wells in your
20 application? It would have been a lot clearer for all
21 the affected parties because those NSLs pertain to this
22 proposed unit. So if you come back to hearing, I want
23 to see every well in the spacing unit.

24 MR. RANKIN: Mr. Examiner, I can take -- I
25 can address at least the NSL question. And I think when

1 we first discussed how to proceed, it was my
2 recommendation that -- my understanding and belief that
3 we'd probably get the NSLs approved more quickly through
4 administrative. I think in the future, we would put
5 them together with the pooling application.

6 EXAMINER McMILLAN: It's more transparent
7 for the affected parties.

8 MR. RANKIN: I understand. I would just
9 point out, you know, there are other companies that tend
10 to -- their practice is to do the NSLs separately
11 through the administrative process and --

12 EXAMINER McMILLAN: I want to know why you
13 didn't include all the wells in the application?

14 MR. RANKIN: The pooling application?

15 EXAMINER McMILLAN: Yeah, because there
16 is -- I believe in Case 16128, we have NSL 7696, and
17 then you have 7697, 7698, 99 and 7700, and I think most
18 of those actually have been signed. And I just want to
19 know why you didn't include all those wells in the
20 application for the spacing unit.

21 MR. RANKIN: It may be -- and I'll defer to
22 Mr. Dalton, but it may be that the purpose of the
23 pooling, it was easier to identify the initial wells for
24 purpose of pooling -- designating for the pooling unit.
25 Does that answer your question?

1 EXAMINER McMILLAN: Yeah. But I was just
2 wondering why, because in the previous case, they did
3 all three wells in the proposed nonstandard spacing
4 unit, and I just wondered -- I'm trying to understand
5 your logic for not including all the wells.

6 MR. RANKIN: I understand.

7 REDIRECT EXAMINATION

8 BY MR. RANKIN:

9 Q. Are all the wells going to be drilled
10 simultaneously in these spacing units? Are there
11 additional wells that would be -- that are targeted for
12 these two spacing units for these cases?

13 A. I would defer that to the next witness on that.

14 MR. RANKIN: Okay. So, Mr. Examiner, I
15 think maybe Mr. Lipinski, who is our next witness, may
16 be able to address those questions for you.

17 THE WITNESS: As far as the timing.

18 EXAMINER McMILLAN: Okay. The penetration
19 point, you're saying it's 100 feet, but I believe the
20 NSL -- okay. You show your penetration point as 330
21 from the south, 380 from the east, but I believe the NSL
22 says 330 from the south, 380 from the east.

23 MR. RANKIN: We'd have to double-check
24 that.

25 EXAMINER McMILLAN: Yeah. You'll check on

1 that.

2 MR. RANKIN: Yeah.

3 CONTINUED CROSS-EXAMINATION

4 BY EXAMINER McMILLAN:

5 Q. And then bottom-hole location, it is -- it will
6 be 381? It'll be 20 from the north and 381 from the
7 east?

8 A. 381 from the east, yes, sir, the bottom-hole
9 location on the 13H. Is that what you're talking about?

10 Q. Yeah. We're talking about 13H.

11 A. Yes, sir. The bottom hole is 20 feet from the
12 north and 381 from the east.

13 Q. Okay. So my question is about your overhead
14 charges. Have you looked at what COG is charging?

15 A. Since these parties are subject to -- this is a
16 1985 JOA, and this is the COPAS escalated effect to
17 that.

18 Q. Okay. But have you looked at the offsetting
19 compulsory pooling?

20 MR. RANKIN: On the Glorieta-Yeso.

21 EXAMINER McMILLAN: Yeah. This seems a
22 little -- I mean, I don't think COG's charging that high
23 a cost, and they're the first ones who come to mind
24 because they're here compulsory pooling all the time.

25 MR. RANKIN: I think that -- based on the

1 cost of the wells and the rates, I think Mr. Dalton has
2 testified that to best of his knowledge, that is in the
3 range of the -- of the --

4 EXAMINER McMILLAN: So you're saying you
5 haven't looked at the recent compulsory poolings?

6 THE WITNESS: I did not look at that.

7 MR. RANKIN: Okay. Would you like us to
8 provide you additional information on that?

9 EXAMINER McMILLAN: Yeah, I would. Yes.

10 MR. RANKIN: For COG costs --

11 EXAMINER McMILLAN: Yeah, because they're
12 the first one that comes to mind for compulsory pooling.
13 You know, they come in here practically -- at least once
14 a month for Glorieta-Yeso wells.

15 And then it needs to be saved for the
16 record that you see the same -- it's the same questions
17 in Case 16129, about additional wells. There are
18 additional wells that have been at least permitted
19 through the OCD.

20 MR. RANKIN: So your question is?

21 EXAMINER McMILLAN: I just want that for
22 the record. It's the same thing for both of them.

23 Okay. And so for 16128, the API Number is
24 44880, and 16129 is 44688; is that correct?

25 MR. RANKIN: I don't have those API

1 numbers.

2 Mr. Dalton, do you have them?

3 THE WITNESS: I don't either.

4 MR. RANKIN: We can confirm the API
5 numbers.

6 EXAMINER McMILLAN: That would be good.

7 Do you agree that for the -- for other
8 wells in these proposed spacing units that you'll
9 follow -- your minimum setbacks will be in the
10 administrative applications?

11 MR. RANKIN: I'm not sure -- I'm not sure
12 exactly what you're asking. You're asking for
13 subsequent wells?

14 EXAMINER McMILLAN: Yeah. For these other
15 NSL applications, that the new minimum setbacks will be
16 bound by NSL applications? I mean the minimum distance.

17 MR. RANKIN: I'm not quite sure what you're
18 asking.

19 EXAMINER McMILLAN: I just want to make
20 sure you're going to follow your NSL applications.

21 MR. RANKIN: So, for instance, if there is
22 a conflict between the two? Is that what you're saying,
23 that there is a conflict between what we've said today
24 versus the NSL applications?

25 EXAMINER McMILLAN: Well, these are for

1 subsequent wells which were not discussed today, so just
2 follow those setback requirements.

3 MR. RANKIN: Yes. I think if Percussion
4 identifies the need for different setbacks, that we
5 would file for an amended NSL in each case for each
6 well.

7 EXAMINER McMILLAN: And go through the
8 administrative process?

9 MR. RANKIN: Yes, if we identify the need
10 to change those setbacks, correct.

11 EXAMINER McMILLAN: Okay. And remember, by
12 not creating one big spacing unit, you create unwanted
13 administrative work when you have to commingle
14 production.

15 MR. RANKIN: So, Mr. Examiner, I think I
16 understand what you're talking about now. You're asking
17 why we do not just create a full unit on the east side?

18 EXAMINER McMILLAN: Yeah, on the east side.
19 You drill one up the middle, like the first case --

20 MR. RANKIN: Okay. So that's been a
21 relatively new development in the Division, I
22 believe for -- for --

23 EXAMINER McMILLAN: Yeah. They've done it
24 for the last eight months in the San Andres.

25 MR. RANKIN: Okay. Well, I think I

1 understand what you're saying. And I think you would do
2 one spacing unit --

3 EXAMINER McMILLAN: Yeah. Drill the first
4 well up the middle, and then what they've done is
5 they -- like they did today. They got an engineer who
6 will say all the different spacing units will be
7 developed.

8 MR. RANKIN: Right. I understand. Yeah.
9 I think we may be able to address that with our next
10 witness.

11 EXAMINER McMILLAN: I'm just saying in
12 subsequent cases. You're stuck now.

13 THE WITNESS: Okay.

14 EXAMINER McMILLAN: Do you have any
15 questions?

16 CROSS-EXAMINATION

17 BY EXAMINER DAWSON:

18 Q. You said there were no depth severances, right?

19 A. Correct.

20 Q. That's all I have.

21 EXAMINER McMILLAN: Thank you.

22 MR. RANKIN: I'd like to call our next
23 witness, Mr. Lipinski.

24 EXAMINER McMILLAN: Please proceed.

25

1 C.J. LIPINSKI,

2 after having been previously sworn under oath, was
3 questioned and testified as follows:

4 DIRECT EXAMINATION

5 BY MR. RANKIN:

6 Q. Mr. Lipinski, will you state your full name for
7 the record?

8 A. C.J. Lipinski.

9 Q. By whom are you employed?

10 A. Percussion Petroleum.

11 Q. In what capacity?

12 A. Vice president of geology.

13 Q. And have you previously testified before the
14 Division?

15 A. I have not.

16 Q. Will you please recite for the Examiners, in
17 summary, your educational background as a petroleum
18 geologist?

19 A. So in 2006, I graduated from the University of
20 Wisconsin, Oshkosh, with a Bachelor of Science in
21 Geology. And in 2009, I graduated from the University
22 of Kansas at Lawrence with a Master of Science in
23 Geology.

24 Q. And have you been employed since that time as a
25 petroleum geologist in the industry?

1 A. I have. Immediately I went to work the San
2 Joaquin Valley for Chevron for three-and-a-half years,
3 in multiple fields there, and then transferred to
4 Houston to work with an energy technology company
5 providing technical services worldwide in carbonates.
6 So I've been in the Permian Basin, Appalachian Basin and
7 the Neuquen Basin in Argentina and multiple fields in
8 the Middle East.

9 Q. In your capacity with Percussion, do your
10 responsibilities include oversight of the geology and
11 other technical issues with drilling and development in
12 the southeast part of New Mexico?

13 A. Yes.

14 Q. And do those include the area at issue in these
15 two applications?

16 A. Yes.

17 Q. And have you conducted a study of the geology
18 and the lands underlying the area under these two
19 applications?

20 A. I have.

21 Q. Are you familiar with the application filed in
22 these two cases?

23 A. Yes.

24 MR. RANKIN: Mr. Examiner, I would tender
25 Mr. Lipinski as an expert in petroleum geology.

1 EXAMINER McMILLAN: So qualified.

2 Q. (BY MR. RANKIN) Mr. Lipinski, have you prepared
3 an analysis and study of the geology here?

4 A. I have.

5 Q. And will you please identify for the Examiners
6 what the target formation is for these two wells?

7 A. Target formation is the Glorieta-Yeso.

8 Q. And have you prepared some exhibits reflecting
9 your analysis of the area?

10 A. I did.

11 Q. And will you please refer to Exhibit Number 12
12 and relate to the Examiners what that first exhibit
13 shows?

14 A. Yes. This is a base map showing Township 19
15 South, 25 East, and our acreage is highlighted in the
16 yellow. Our two proposed wells which are provided for
17 this pooling are the 13 -- the 13H and the south part
18 18H in black of Section 27, and then the offset
19 horizontals in green highlights the offset Glorieta-Yeso
20 producers.

21 Q. And what does your next exhibit show? Is that
22 a structure map?

23 A. That is correct. The next map is the structure
24 on the top of the Glorieta with a contour interval of
25 100 feet, and it shows a dip to the east about

1 1-and-a-half to 2-and-a-half degrees throughout the
2 area. And in the area where we are force pooling, it is
3 relatively flat.

4 Q. And in your analysis of the structure here in
5 this area, have you identified any faulting or
6 pinch-outs across the acreage that you're proposing to
7 drill?

8 A. I have not.

9 Q. And have you identified some wells that are
10 representative in the area for purposes of constructing
11 a cross section?

12 A. I did. So Exhibit 14 is that same base map
13 from Exhibit 12, but now it has the vertical wells in
14 the area also shown. And the blue dots are the wells
15 for the cross section with the blue line connecting them
16 going from A in the north to A prime in the south over
17 the area of interest.

18 Q. And in your opinion, these five wells that
19 you've identified here, are they representative of the
20 geology in the area?

21 A. They are.

22 Q. And do they provide adequate logs to identify
23 the structure?

24 A. Yes.

25 Q. And are those reflected in your next exhibit?

1 A. Yes. So Exhibit 15 is the cross section from A
2 to A prime going north to south, five wells with first
3 track gamma ray; second track, neutron density; and the
4 third track is the deep resistivity. The red line at
5 the top is the top of the Glorieta, and I also showed
6 the Yeso top as well. And the base of the Glorieta-Yeso
7 Formation occurs with the Bone Spring in the bottom
8 shown in the light blue.

9 **Q. How deep is the target interval that you're**
10 **targeting across the area?**

11 A. It's about 900 feet subsea and then 2,300 to
12 2,500 true vertical depth.

13 **Q. What is the thickness across the spacing unit**
14 **that you're proposing?**

15 A. That we are targeting with these wells is about
16 200 feet thick.

17 **Q. And in your opinion, is the zone that you're**
18 **proposing to develop across these two spacing units**
19 **consistent throughout?**

20 A. Yes.

21 **Q. In your estimation, will it be productive?**

22 A. Yes.

23 **Q. With respect to your analysis and study, in**
24 **your opinion, are there any impediments to geologic or**
25 **faulting or other impediments to developing horizontal**

1 wells in both these spacing units across the distance
2 here?

3 A. No.

4 Q. In your opinion, will the area be efficiently
5 and effectively developed by horizontal wells?

6 A. Yes.

7 Q. In your opinion, will each of the 40-acre
8 tracts that comprise each of the spacing units
9 contribute more or less equally to production from each
10 of those wells?

11 A. Yes.

12 Q. In your opinion, will the granting of
13 Percussion's two applications in the cases be in the
14 interest of conservation, the prevention of waste and
15 the protection of correlative rights?

16 A. Yes.

17 MR. RANKIN: With that, Mr. Examiner, I
18 would move the admission of Exhibits 12, 13, 14 and 15
19 into the record.

20 EXAMINER McMILLAN: Exhibits 12 through 15
21 may now be accepted as part of the record.

22 (Percussion Petroleum Operating, LLC
23 Exhibit Numbers 12 through 15 are offered
24 and admitted into evidence.)

25 MR. RANKIN: With that, I'd pass the

1 witness.

2 CROSS-EXAMINATION

3 BY EXAMINER McMILLAN:

4 Q. I guess my first question relates back to
5 Exhibits 14 and 15. Are those wells, which is the
6 middle -- literally the middle wells in the cross
7 section, are those old Dagger Draw wells?

8 A. Yes. That's the Dagger Draw north field.

9 Q. Oh, okay. All right. Because I was wondering
10 why -- I didn't know -- before I looked at -- so really
11 they're just a shallower interval?

12 A. Yes. These were targeting Morrow or Cisco
13 Canyon previously, and then the previous operator would
14 come in and perforate the shallow interval of the
15 Glorieta-Yeso. And now we're coming through and
16 drilling horizontally in between those wells.

17 Q. Do they get very good recovery out of the
18 vertical wells?

19 A. The vertical wells?

20 Q. Yeah.

21 A. With the more modern completion, they do pretty
22 well.

23 Q. Oh, okay.

24 Going back to Exhibit 14, which is --
25 looking at Sections 22 and 23 on a per-section basis --

1 on an equally spaced basis, has north-south or east-west
2 performed better?

3 A. There is no discernible difference between
4 north-south or east-west in this area productionwise.

5 Q. Okay.

6 EXAMINER McMILLAN: Go ahead, Scott.

7 CROSS-EXAMINATION

8 BY EXAMINER DAWSON:

9 Q. Okay. To the east in Section 26 --

10 A. Yes.

11 Q. -- the west half of 26, are those all Yeso
12 wells in there?

13 A. Yes. Those are wells that we just finished
14 drilling earlier this week.

15 Q. So you drilled six wells in the west half of
16 26? Is that six wells?

17 A. I think five are in the west half and one is in
18 the east half.

19 Q. Okay. So you will fully develop the east half
20 of Section 27 eventually?

21 A. Yes. We plan to.

22 Q. And how many wells will you eventually have in
23 the east half of 27, you suspect?

24 A. Currently, we're planning on three at the
25 moment, and then we're waiting on some vertical test

1 results before going in horizontally.

2 Q. Okay. All right. That's all the questions I
3 have. Thank you.

4 EXAMINER McMILLAN: I have no further
5 questions.

6 And you'll provide the information?

7 MR. RANKIN: Yeah. I think it was four
8 items we'll follow up with supplementation.

9 EXAMINER McMILLAN: Case Numbers 16128 and
10 16129 will be taken under advisement.

11 (Case Numbers 16128 and 16129 conclude,
12 11:57 a.m.)

13 (Recess, 11:57 a.m. to 1:31 p.m.)
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1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO

3

4 CERTIFICATE OF COURT REPORTER

5 I, MARY C. HANKINS, Certified Court
6 Reporter, New Mexico Certified Court Reporter No. 20,
7 and Registered Professional Reporter, do hereby certify
8 that I reported the foregoing proceedings in
9 stenographic shorthand and that the foregoing pages are
10 a true and correct transcript of those proceedings that
11 were reduced to printed form by me to the best of my
12 ability.

13 I FURTHER CERTIFY that the Reporter's
14 Record of the proceedings truly and accurately reflects
15 the exhibits, if any, offered by the respective parties.

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

20 DATED THIS 9th day of June 2018.

21

22

23 MARY C. HANKINS, CCR, RPR
24 Certified Court Reporter
New Mexico CCR No. 20
Date of CCR Expiration: 12/31/2018
Paul Baca Professional Court Reporters

25