

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 M & M ENERGY, LLC
FOR POOL CREATION, A DISCOVERY
ALLOWABLE, AND SPECIAL POOL RULES,
LEA COUNTY, NEW MEXICO.

CASE NO. 16278

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

July 12, 2018

Santa Fe, New Mexico

BEFORE: MICHAEL McMILLAN, CHIEF EXAMINER
DAVID K. BROOKS, LEGAL EXAMINER

This matter came on for hearing before the
New Mexico Oil Conservation Division, Michael McMillan,
Chief Examiner, and David K. Brooks, Legal Examiner, on
Thursday, July 12, 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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APPEARANCES

FOR APPLICANT M & M ENERGY, LLC:

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1 (1:41 p.m.)

2 EXAMINER McMILLAN: Case Number 16278,
3 application of M & M Energy, LLC for pool creation, a
4 discovery allowable, and special pool rules, Lea County,
5 New Mexico.

6 Call for appearances.

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

10 EXAMINER McMILLAN: Any other appearances?
11 Please proceed.

12 If the witness would please stand up and be
13 sworn in at this time.

14 (Mr. McGhee sworn.)

15 MR. BRUCE: Mr. Examiner, first off, I had
16 four sets of exhibits, which I immediately lost three of
17 them at home over lunch. I will provide the court
18 reporter a full set.

19 EXAMINER McMILLAN: Yeah. You have to
20 because I make notes of all the exhibits.

21 MR. BRUCE: Just preliminarily,
22 Mr. Examiner, in this case M & M seeks to create the
23 North Urssey tank, Yates-Seven Rivers Pool covering the
24 northeast quarter of Section 26, 21 South, 25 East,
25 granting a discovery allowable and establishing special

1 rules for the pools, including a depth bracket allowable
2 of 1,200 oils per day -- 1,200 barrels of oil per day.
3 And the well we're here for today is the State 26 #1.

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

7 DIRECT EXAMINATION

8 BY MR. BRUCE:

9 Q. First of all, would you state your name and
10 city of residence for the record.

11 A. My name is a Michael McGhee, and I'm from
12 Houston, Texas.

13 Q. What is your relationship to M & M?

14 A. It's mine 100 percent.

15 Q. And by trade, what are you?

16 A. I am a petroleum geologist.

17 Q. Have you previously testified before the
18 Division?

19 A. No, I have not.

20 Q. Would you please summarize your educational and
21 employment background?

22 A. I have a bachelor's degree in geology from
23 Texas A&M, 1979, and I have a master's degree in geology
24 from Texas A&M, 1990. And I've been doing this for 44
25 years.

1 Q. And has a lot of that career been in the
2 Permian Basin?

3 A. Yes.

4 Q. And are you familiar with the geologic matters
5 involved in this application?

6 A. Yes.

7 Q. And since M & M Energy is the operator of this
8 well and other wells in this state, are you familiar
9 with the operations of the wells you have in this area?

10 A. Intimately.

11 MR. BRUCE: Mr. Examiner, I tender
12 Mr. McGee as an expert petroleum geologist.

13 EXAMINER McMILLAN: So qualified.

14 Q. (BY MR. BRUCE) Mr. McGhee, could you refer to
15 Exhibit 1 and just give a short overview of where we are
16 in the state?

17 A. We are approximately 11 miles west of Eunice,
18 New Mexico, and we're coming off the lagoon and down
19 into the dump. When the Central Basin Platform
20 occurred, it was strike-slip faulting. That basically
21 eroded all the old section. You can go from Ellenburger
22 to Fusselman to Permian and all coming out of the basin.
23 Okay? When this strike slip occurred, it created some
24 very small what I would call positive flower structures,
25 and they're basically just little pop-ups. And they're

1 not very big. They may be, max, 70 acres. My biggest
2 fault [sic] is 12-1/2.

3 Q. In looking at Exhibit 2, does that represent a
4 big chunk of the Eumont Pool and where your proposed
5 pool is located?

6 A. Yes.

7 Q. And I notice you also have on there the Urssey
8 Tank --

9 A. Uh-huh.

10 Q. -- Wolfcamp. Was that pool formed about a
11 decade -- about a decade ago?

12 A. I drilled the well in 2009.

13 Q. 2009.

14 And the same -- and we'll get to that in a
15 minute. The same type of geologic structure?

16 A. Yes.

17 Q. And you drilled a pretty good producing well,
18 and a new pool was created by the OCD upon the
19 application of Kerns Oil, I believe?

20 A. That's because it IP'd at over 500 barrels a
21 day.

22 Q. And we're here for the State 26 #1. When was
23 that well drilled?

24 A. 2014 -- February 2014.

25 Q. Was that initially placed in the Eumont Pool?

1 A. Yes.

2 **Q. And that well was productive?**

3 A. Yeah. It produced 60,000 barrels out of 41- --
4 no. 40 -- 41 to 49, but we never had more than an
5 11 percent cut. So there was no reason to do anything
6 with it because it only produced about 1,000 barrels --
7 I mean 100 barrels a day, and Eumont's allowable is 80.

8 **Q. Producing that allowable, basically?**

9 A. Yeah, basically.

10 **Q. And did you recently re-enter that well and**
11 **recomplete it or --**

12 A. Yes, I did.

13 **Q. -- add additional perfs?**

14 A. Well, I actually was at a bridge plug -- bridge
15 plug above the old perfs and came up and perforated the
16 top of the Seven Rivers from 3,936 to 3,962 and 3,975 to
17 4,006.

18 **Q. And what were the results there?**

19 A. Damn thing blew out on me, 100 barrels an hour.

20 **Q. Of oil?**

21 A. Huh?

22 **Q. Of oil?**

23 A. Pipeline oil. Filled up two 10 tanks in less
24 than four hours. I got a 500-barrel frac tank out
25 there, and then I had to get another 500-barrel frac

1 tank out. Then I took two loads off of it with a vacuum
2 truck, and the next morning, 8:00, those frac tanks are
3 104 inches tall and I have 103-1/2 inches on them. I
4 had to get another frac tank and equalize them.

5 **Q. Was there any water produced?**

6 A. None. Well, I take that back. Initially, yes,
7 but it was water I put into the system, because I had
8 acidized it. Plus, I had to use 10-pound brine to kill
9 the well. So I put about probably 300 barrels of fluid
10 in it.

11 **Q. Is it producing any water now?**

12 A. No, not a drop.

13 **Q. Well, let's look next at Exhibit 3. That's a**
14 **seismic plat, right?**

15 A. Yes.

16 **Q. Does it show the feature that the 26-1 well**
17 **drilled -- or hit?**

18 A. Yes. Yes.

19 **Q. And it's pretty distinctive, isn't it?**

20 A. I'd say it is. Plus, Ambassador, in 1957,
21 drilled their State 26-1, and they missed the bump.
22 They were turning it off too many days. I only offset
23 that well by 800 feet, and I'm 176 feet high.

24 **Q. And that well is, what, to the west of you, I**
25 **believe?**

1 A. Yeah, a little bit.

2 Q. A little bit to the west.

3 A. 800 feet.

4 Q. And let's move on to the next plat, Exhibit 4.

5 And that's kind of a nice cartoon of the seismic
6 results, correct?

7 A. Yes. This is a seismic structure map showing
8 the Urssey Tank in Section 36 and moving one mile, plus
9 or minus. Actually, it's 6,400 feet to the northwest,
10 and you see the State 26-1 feature.

11 Q. And are they basically the same types of
12 reservoirs?

13 A. Yes.

14 Q. And if you move on to the next plat, Exhibit 5,
15 does that show the similarity in the structural features
16 that you hit in both reservoirs?

17 A. Yes.

18 Q. Now, this is right next to the Eumont Gas
19 pool -- or Eumont Pool?

20 A. It's a little bit to the west.

21 Q. A little bit to the west.

22 A. Yeah. And it's way down off the shelf.
23 Eumont's up on the high, and once you come off the
24 lagoon, everything just drops like a rock.

25 MR. BRUCE: And if I recall correctly,

1 Mr. Examiner, I have the data. Section 25 is in the
2 Eumont Gas Pool, and we're in Section 26.

3 Q. (BY MR. BRUCE) Did the OCD originally -- did
4 the OCD originally put this well in the Eumont Pool?

5 A. The State 26-1?

6 Q. Yeah.

7 A. The answer is yes. And that was okay because I
8 wasn't producing 100 barrels a day.

9 Q. Uh-huh. But you believe this is a separate
10 feature from the large Eumont Gas Pool?

11 A. Guaranteed. I have 250 square miles of 3D data
12 that I bought from Western and reprocessed. It only
13 cost me \$3 million. I know this country like the back
14 of my hand, and this is just the start.

15 Q. You've got additional drilling plans in the
16 area?

17 A. Yes.

18 Q. And let's go to Exhibit 6, a very short
19 exhibit. Who is that from? Is that a letter to you?

20 A. I got some guys out there, because we were
21 producing so dadgum much, and had them put a separator
22 into the system. These are the guys who have been
23 manning that separator and my lease 24/7 for a long time
24 now.

25 Q. And what does that state insofar as production

1 over -- oh, for about a month-long period? Actually,
2 it's about two months.

3 A. Well, this is not accurate, to be honest with
4 you, because they say 14,445.89 barrels. I sold 12,956
5 barrels off of it the last two weeks of May. June
6 should be around 28- to 31,000 barrels.

7 Q. Okay. And, again, you first began production
8 in May of this year from this new perf?

9 A. May 18th.

10 Q. And you are seeking a discovery allowable,
11 which is, what, 5 barrels a day per foot of depth, I
12 believe, correct?

13 A. Yes.

14 Q. This well, at this point, would be considered
15 producing over allowable. Have you been in contact with
16 Paul Kautz of the Hobbs office?

17 A. Yes, went saw him the other day. He's not
18 feeling real well, though.

19 Q. You kept him informed of what this well is
20 producing and what the situation is?

21 A. Yes. Yes.

22 Q. And did he have any big issue with that?

23 A. Not to my knowledge. We got to talking about
24 volcanoes (laughter). I found him a volcano.

25 Q. Now, it's producing a lot of oil. Again, no

1 **water?**

2 A. Here's the data, guys, Exhibit 7.

3 **Q. Exhibit 7, what is that?**

4 A. Since those guys have been out there, I've
5 produced 22,000 barrels, and it's producing at a rate
6 of -- what is this? -- 45, 46 to 38 barrels of oil per
7 hour.

8 **Q. No water?**

9 A. No water (laughter). And it's all mine.

10 **Q. Yeah. Don't I get a part in that (laughter)?**

11 A. I'm sure your bill's not going to be cheap. I
12 know (laughter).

13 **Q. And this is, what, a waterdrive reservoir, you**
14 **believe?**

15 A. I believe so, yes. In fact, I'm pretty sure it
16 is.

17 **Q. But producing at these rates that you've**
18 **requested -- and you're already producing at over 1,000**
19 **barrels a day. You're requesting 1,200 barrels a day.**
20 **Do you expect with this waterdrive reservoir any damage**
21 **to the reservoir?**

22 A. No, because it's not flowing. It's on a
23 progressive cavity pump that we're spinning 350 rpm's,
24 and it basically moves about three barrels of fluid per
25 rpm. Then you have to back off to about 90 percent

1 because of the efficiency of the pump, and I keep this
2 thing running 24/7.

3 Q. Now, insofar as notice goes, you're supposed to
4 notify offset operators in the same -- within a mile.
5 You're not seeking spacing increase, but you're seeking
6 increase in the allowable. You have to notify offset
7 operators within -- within a mile of the proposed pool.
8 Are there other than maybe the -- well, you said the
9 Urssey Tank is a little over a mile?

10 A. Yeah. And then the State Sinclair #2 is 4,437
11 feet away.

12 MR. BRUCE: And, Mr. Examiner, we checked
13 all the records of the Division, and the only other
14 wells were in the Eumont Pool, and there's only a couple
15 of them producing.

16 Q. (BY MR. BRUCE) And didn't we notify the
17 operators of those wells?

18 A. Yes.

19 MR. BRUCE: And, Mr. Examiner, it's simply
20 Forty Acres Energy and Lanexco, and we did notify them.
21 And that's reflected in Exhibit 8, the Affidavit of
22 Notice.

23 Q. (BY MR. BRUCE) Since you're right off the edge
24 of the Eumont of production, there is not much
25 production out there?

1 A. They're pretty old wells.

2 And Lanexco, I don't know what they're
3 doing, to be honest.

4 And Huxley's too busy doing his stuff in
5 the waterflood to the north, which is why he leased me
6 Section 23. And that was before he knew how well my
7 well was doing, 200 bucks an acre.

8 MR. BRUCE: Mr. Examiner, there is a
9 recently formed unit that became effective June 1, the
10 West Eumont, that Forty Acres Energy -- that Forty Acres
11 Energy formed, and so they're one of the offsets even
12 though those are Eumont wells.

13 And then the other thing, Mr. Examiner,
14 that I note is you mention the Urssey Tank Pool. That
15 was approved by the Division by Order Number R-13042.

16 **Q. (BY MR. BRUCE) And, again, that reservoir is**
17 **kind of the same deal that you're dealing with here,**
18 **just that this reservoir is more productive?**

19 A. Well, that reservoir had a maximum of 23 feet
20 of pay in it. Right now I think it comes to 107 foot of
21 pay. So you can take whatever it produced, 240,000
22 barrels, times five.

23 **Q. So you think this might be an okay well?**

24 A. Yup.

25 **Q. Other than Exhibit 8, Mr. McGhee, were Exhibits**

1 1 through 7 prepared by you or under your supervision?

2 A. Yes.

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

6 A. Yes.

7 MR. BRUCE: Mr. Examiner, I move the
8 admission of Exhibits 1 through 7, plus my Affidavit of
9 Notice, Exhibit 8.

10 EXAMINER McMILLAN: Exhibits 1 through 8
11 may now be accepted as part of the record.

12 (M & M Energy, LLC Exhibit Numbers 1
13 through 8 are offered and admitted into
14 evidence.)

15 MR. BRUCE: I have no further questions of
16 the witness.

17 CROSS-EXAMINATION

18 BY EXAMINER McMILLAN:

19 Q. Can you clarify your conversation with Paul
20 Kautz? I mean, he had no problems -- he was completely
21 on board with creating the pool?

22 A. Yes. I took all this in to show him.

23 Q. But that's a fair statement?

24 A. Yes, that's a fair statement.

25 Q. Okay. And then you're not worried about the

1 **high allowables and water cut?**

2 A. No.

3 **Q. Why?**

4 A. Because I've got a fluid level that's only six
5 joints down. I've got over 1,800 pounds of pressure on
6 that reservoir, and that fluid's never going below 200
7 feet from the surface. Back in the day when I was
8 perforating deeper -- and I'm almost positive now that I
9 was right at the oil-water contact and that everything
10 above 4,041 is nothing but pure oil, 107 feet of it.

11 **Q. And I guess the only thing that looked odd was**
12 **the pool nomenclature didn't fit the Paul Kautz' method**
13 **of --**

14 MR. BRUCE: And I didn't even ask my
15 client. It's just that to the southeast, there is the
16 Urssey Tank.

17 EXAMINER McMILLAN: Normally you have the
18 location, the formation and then direction.

19 MR. BRUCE: That's why he just took the
20 "north." But if he wants another name, that's perfectly
21 fine.

22 EXAMINER McMILLAN: Whatever name Paul has
23 is fine with us, because --

24 MR. BRUCE: Correct.

25 THE WITNESS: Ask him to name it Aleanna,

1 A-L-E-A-N-N-A.

2 EXAMINER McMILLAN: He's got a racetrack
3 [sic] nomenclature. It's a secret nomenclature.

4 THE WITNESS: Stands for Alessandranana.

5 EXAMINER BROOKS: I suspect there is no
6 answer to this question, but I'm not sure, since the
7 Eumont is a fairly large pool. I would guess that no
8 one has drilled a horizontal well in the Eumont.

9 MR. BRUCE: I have never seen one.

10 EXAMINER BROOKS: I haven't ever heard of
11 one either, but my not having heard of it --

12 THE WITNESS: The Eumont's really old.
13 Okay? 1936 or something.

14 EXAMINER BROOKS: Yes, I know. I used to
15 work on the Eumont during the first few months I was
16 working for the OCD in 2001, and it was already very old
17 at that time.

18 No. The reason I asked is because the new
19 horizontal well rule eliminates -- or provides for
20 capacity allowables for all horizontal wells and also
21 for any wells capable of producing more than their
22 allowable in any pool where there is a horizontal well.

23 MR. BRUCE: Right.

24 EXAMINER BROOKS: So I thought that might
25 be an issue if there were any, but I would have assumed

1 there probably were none in the Eumont.

2 MR. BRUCE: No.

3 THE WITNESS: Not to my knowledge. That's
4 all Queen -- well, actually it's Tansil, Yates, Seven
5 Rivers, Queen production.

6 EXAMINER BROOKS: I really haven't heard of
7 any horizontal wells that shallow.

8 THE WITNESS: Or in that section. Now, if
9 you move off to Chaves County, I think they've been
10 drilling some horizontal wells in the Queen over there.
11 But all this has been HBP'd since '36 -- 1936.

12 EXAMINER BROOKS: That's fine. I just
13 wanted to make sure of what was going on.

14 EXAMINER McMILLAN: I don't have any
15 further questions.

16 MR. BRUCE: I'd ask that the matter be
17 taken under advisement.

18 EXAMINER McMILLAN: Case Number 16278 shall
19 be taken under advisement.

20 (Case Number 16278 concludes, 2:00 p.m.)

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1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO

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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 11th day of August 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
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25