

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 SEGURO OIL AND GAS                      CASE NO. 20253  
FOR APPROVAL OF THE EXPANSION OF  
THE UNITIZED INTERVAL IN THE WEST  
SQUARE LAKE UNIT.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

June 27, 2019

Santa Fe, New Mexico

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

This matter came on for hearing before the  
New Mexico Oil Conservation Division, Leonard Lowe,  
Chief Examiner; Michael McMillan, Technical Examiner;  
and David K. Brooks, Legal Examiner, on Thursday,  
June 27, 2019, at the New Mexico Energy, Minerals and  
Natural Resources Department, Wendell Chino Building,  
1220 South St. Francis Drive, Porter Hall, Room 102,  
Santa Fe, New Mexico.

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1 (8:24 a.m.)

2 EXAMINER LOWE: And we will commence now.

3 Just going down the list, we will call Case Number  
4 20253, Seguro Oil and Gas for approval of the expansion  
5 of the unitized interval of the West Square Lake Unit.

6 Call for appearances.

7 MR. LARSON: Good morning, Mr. Examiner.  
8 Gary Larson, with the Santa Fe office of Hinkle Shanor,  
9 for the Applicant, Seguro Oil and Gas. I have three  
10 witnesses.

11 MS. ANTILLON: Andrea Antillon for the  
12 State Land Office. I'm entering an appearance orally at  
13 this time. I don't have any witnesses, and I don't even  
14 have a statement today. I'm just entering to preserve  
15 our interest because it deals with a state and Fed unit.

16 EXAMINER LOWE: Okay. Could I have the  
17 witnesses stand and be sworn in, please?

18 (Mr. Tettleton, Mr. Bradley and Mr. Pearson  
19 sworn.)

20 MR. LARSON: May I proceed?

21 EXAMINER LOWE: Yes, sir.

22 VAN T. TETTLETON,  
23 after having been first duly sworn under oath, was  
24 questioned and testified as follows:

25

1 DIRECT EXAMINATION

2 BY MR. LARSON:

3 Q. Good morning, Mr. Tettleton.

4 A. Hello.

5 Q. Would you state your full name for the record?

6 A. Van Thomas Tettleton.

7 Q. And where do you reside?

8 A. Midland, Texas.

9 Q. And what is your position with Seguro Oil and  
10 Gas?

11 A. Landman.

12 Q. And are you familiar with the land matters that  
13 pertain to the amendment of the West Square Lake Unit  
14 and unit operating agreement?

15 A. Yes.

16 Q. And are you also familiar with Seguro's  
17 application requesting the vertical expansion of the  
18 unitized interval in the unit?

19 A. Yes.

20 Q. Have you previously testified at a Division  
21 hearing?

22 A. No.

23 Q. And given that, would you summarize your  
24 educational background and professional experience in  
25 the oil and gas business?

1           A.     Yes, sir. I attended the University of Texas  
2     at Austin and began my career as a landman in 1997 doing  
3     field land work for shale companies, then went to work  
4     on for an oil company as a landman, and most recently, I  
5     handle all the land matters for Roden Oil Company,  
6     Shelmar E & P and Seguro Oil and Gas.

7                     MR. LARSON: Mr. Examiner, I tender  
8     Mr. Tettleton as an expert in petroleum land matters.

9                     MS. ANTILLON: No objection.

10                    EXAMINER LOWE: So qualified.

11                    MR. LARSON: Thank you.

12           **Q.     (BY MR. LARSON) Would you identify the document**  
13 **marked as Exhibit 1?**

14           A.     OCD Order Number R-7375, dated October 12th,  
15     1983.

16           **Q.     Does the order approve the West Square Lake**  
17 **Unit as a voluntary unit?**

18           A.     Yes, it does.

19           **Q.     And did Seguro's predecessor propose the**  
20 **unitization for the purpose of instituting a secondary**  
21 **recovery project in the Grayburg and San Andres-**  
22 **Lovington Sand Formations?**

23           A.     Yes, sir.

24           **Q.     And does the unit agreement have a depth**  
25 **severance in the San Andres?**

1           A.     Yes.

2           Q.     And does Seguro know why its predecessor put  
3     this depth severance in the unit agreement?

4           A.     No.

5           Q.     So what Seguro is now requesting is Division  
6     approval of a vertical expansion of the unitized  
7     interval that eliminates the depth severance in the San  
8     Andres?

9           A.     Yes.

10          Q.     And when was the unit agreement executed?

11          A.     November 15th, 1983.

12          Q.     And after the unit agreement was executed in  
13     late 1983, did the BLM and the State Land Office both  
14     approve the agreement?

15          A.     Yes.

16          Q.     And what is the total acreage in the West  
17     Square Lake Unit?

18          A.     It's 3,320.

19          Q.     20 [sic] acres?

20          A.     Yes.

21                     (The court reporter requested clarification  
22                     of the number.)

23                     MR. LARSON:  I'll let him say it.

24                     THE WITNESS:  3,320 acres.

25          Q.     (BY MR. LARSON) And how many leases are there

1     **within the unit?**

2           A.     There are ten total.   Five are federal.   Five  
3     are state.

4           **Q.     And what are the percentages of mineral**  
5     **interests within the unit?**

6           A.     Approximately 83.14 percent federal and 16.86  
7     percent state.

8           **Q.     And how many West Square Lake Unit wells does**  
9     **Seguro currently operate?**

10          A.     Thirty-seven producers and one injector.

11          **Q.     And what is the unitized interval as identified**  
12     **in the unit agreement?**

13          A.     It's approximately 2,818 feet to 3,150 feet.

14          **Q.     And at this point, let's fast-forward to 2017.**  
15     **Would you identify the document marked as Exhibit 2?**

16          A.     September 30, 2017, amendment to the unit  
17     agreement.

18          **Q.     And is Exhibit 2 a true and correct copy of**  
19     **that amendment?**

20          A.     Yes, it is.

21          **Q.     And does the amendment name Seguro Oil and Gas**  
22     **as the successor operator of the West Square Lake Unit?**

23          A.     Yes.

24          **Q.     And would you next identify the document marked**  
25     **as Exhibit 3?**



1           A.    April 23rd, 2019, Amendment and Ratification of  
2   Unit Agreement and Unit Operating Agreement.

3           Q.    And is Exhibit 3 a true and correct copy of  
4   this amendment?

5           A.    Yes.

6           Q.    And what is the purpose of the 2019 amendment  
7   of the operating agreements?

8           A.    To include the entire San Andres Formation in  
9   the unitized interval.

10          Q.    And have 100 percent of the working interests  
11   executed the amendment?

12          A.    Yes.

13          Q.    And has Seguro requested BLM approval of the  
14   amendment?

15          A.    Yes.

16          Q.    And what is the status of that request for  
17   approval?

18          A.    I believe that they indicated by email that  
19   they intended to grant us preliminary approval, but they  
20   wanted to confer with the State Land Office first.

21          Q.    And has Seguro also requested State Land Office  
22   preliminary approval of the amendment?

23          A.    Yes.

24          Q.    And has a Seguro representative met with the  
25   State Land Office?

1           A.     Yes.

2           Q.     And at this point, is the State Land Office  
3     looking at the allocation formula for primary production  
4     from the requested expanded interval of the -- expanded  
5     area of the unitized interval?

6           A.     Yes.

7           Q.     And how is production currently allocated?

8           A.     It's by tract participation, and the formula is  
9     one-third based on surface acres as to each individual  
10    tract, one-third by production from each individual  
11    tract between July 1st, 1982 and December 31st, 1982,  
12    and one-third based on cumulative production with each  
13    individual tract prior to January 1st, 1960 [sic].

14          Q.     And is that the allocation set forth in the  
15    unit agreement?

16          A.     Yes.

17          Q.     And does Seguro intend to utilize that  
18    allocation when it commences primary production in the  
19    expanded area of the unitized interval?

20          A.     Yes, sir.

21          Q.     And is Seguro willing to revisit that  
22    allocation with the BLM and the State Land Office after  
23    primary production and expanded area has commenced?

24          A.     Yes.

25          Q.     And in your opinion, will the proposed

1     **expansion of the unitized interval benefit both the BLM**  
2     **and the State Land Office?**

3           A.     Yes.

4           **Q.     And in your opinion, will the proposed vertical**  
5     **expansion of the unitized interval serve the interest of**  
6     **conservation and prevention of waste and the protect**  
7     **correlative rights?**

8           A.     Yes.

9                   MR. LARSON:   Mr. Examiner, move the  
10   admission of Exhibits 1 through 3.

11                  MS. ANTILLON:   No objection.

12                   (Seguro Oil and Gas, LLC Exhibit Numbers 1,  
13                   2 and 3 are offered into evidence.)

14                  MR. LARSON:   And I'll pass the witness.

15                  EXAMINER LOWE:   Mr. Brooks, any questions?

16                  EXAMINER BROOKS:   No.   I don't have any  
17   questions.

18                                  CROSS-EXAMINATION

19   BY EXAMINER McMILLAN:

20           **Q.     Okay.   So -- okay.   So when this was approved,**  
21     **you said there was a depth severance?**

22           A.     Yes.

23           **Q.     And it's 2,815 to 3,150?**

24           A.     Approximately 2,818 to 31 --

25           **Q.     2,818.**

1           A.    Yes, sir.

2           Q.    And were there any terms of land?  Was there  
3 any justification for it?

4           A.    Not that I'm aware of.

5           Q.    So it's your opinion they just arbitrarily  
6 picked it?

7           A.    Probably based on the fact that the Lovington  
8 Sand was the lowest producing depth in the area, maybe,  
9 but I would have to defer that.

10          Q.    Okay.  So it's a geologic question?

11          A.    Yes.  Yeah.

12          Q.    Okay.  And so there are ten tracts in there,  
13 right, five BLM, five State Land Office, and it's  
14 crudely 17 percent state and then 83 BLM?

15          A.    Yes, sir.  It's 25 tracts in the unit, though.  
16 But when I was -- what I was saying is there are five --  
17 there are five federal leases and five state leases.  
18 The way the unit was divided up was into 25 tracts.

19          Q.    And on your exhibits, do you show the BLM  
20 preliminary approval and the State preliminary approval  
21 letters?

22          A.    No, sir.

23                   MR. LARSON:  We don't have those yet.

24          Q.    (BY EXAMINER McMILLAN) Okay.  But wasn't your  
25 testimony saying that you had preliminary approval?

1           A.    Well, only -- it is my understanding that they  
2   were going to give us preliminary approval, and they  
3   said so by an email.  So it's kind of a preliminary to a  
4   preliminary but that they wanted to confer with the  
5   State Land Office first.  We have not received it from  
6   the State Land Office yet either.

7           **Q.    Okay.  But you're saying you do have an email**  
8   **that --**

9           A.    Well, they emailed Mr. Larson, and he showed me  
10  the email.

11          **Q.    Well --**

12                   MR. LARSON:  I can clarify that.  I'll give  
13  you the quick chronology.

14                   EXAMINER McMILLAN:  Yeah.  I think that's  
15  kind of important.

16                   MR. LARSON:  Yeah.  We met with Ms. Khalsa  
17  and other representatives of the State Land Office on  
18  Tuesday.  They had a concern, as he has testified, about  
19  the allocation of production from the expanded area.  
20  When I returned to the office, I had an email from James  
21  Glover at the BLM who -- I've been communicating with  
22  Mr. Glover for months, and he indicated that they were  
23  ready to give us preliminary approval.  About two  
24  minutes later, he sent me an email back and said he'd  
25  gotten a call from Ms. Khalsa and that the two agencies

1 want to confer about the allocation. So at this point,  
2 we do not have official preliminary approval from the  
3 BLM.

4 And what I propose, Mr. McMillan is that --  
5 I think this issue will be resolved fairly quickly, and  
6 once I do receive -- assuming I do receive those  
7 approvals, I'll supplement the record immediately.

8 EXAMINER McMILLAN: Okay.

9 MR. LARSON: I do have one follow-up.

10 REDIRECT EXAMINATION

11 BY MR. LARSON:

12 Q. When Seguro's predecessor requested the  
13 unitization, did it propose the unitization for the  
14 purpose of instituting a secondary recovery project?

15 A. Yes.

16 MR. LARSON: That's all I have for this  
17 witness.

18 EXAMINER LOWE: We accept the exhibits that  
19 were displayed this morning, 1, 2 and 3.

20 MR. LARSON: Yes.

21 MS. ANTILLON: State Land Office has no  
22 objections.

23 (Seguro Oil and Gas, LLC Exhibit Numbers 1  
24 2 and 3 are admitted into evidence.)

25

1 JACK C. BRADLEY,  
2 after having been previously sworn under oath, was  
3 questioned and testified as follows:

4 DIRECT EXAMINATION

5 BY MR. LARSON:

6 Q. Good morning, Mr. Bradley.

7 A. Good morning.

8 Q. Could you state your full name for the record?

9 A. Jack Clark Bradley.

10 Q. And where do you reside?

11 A. Midland, Texas.

12 Q. And have you been retained by Seguro as a  
13 consulting geologist?

14 A. Yes, I have.

15 Q. And are you familiar with the geological  
16 aspects of the Seguro's proposed vertical expansion of  
17 the unitized interval in the West Square Lake Unit?

18 A. Yes.

19 Q. Have you previously testified at a Division  
20 hearing?

21 A. No.

22 Q. Given that, would you summarize your  
23 educational background and professional experience in  
24 the oil and gas business?

25 A. As a senior in high school in 2004, I began

1 working as a geological technician for R K Ford in  
 2 Midland, Texas. Through that time, I began college and  
 3 graduated at Sul Ross State University in 2009 with a  
 4 Bachelor of Science in geology. Soon after, in 2010, I  
 5 took a position with Red Mountain Resources as a  
 6 geologist and director of its development. I've served  
 7 in that capacity since. And also in 2016, I created my  
 8 own company and began work as an independent petroleum  
 9 geologist.

10 MR. LARSON: Mr. Examiner, I tender  
 11 Mr. Bradley as an expert petroleum geologist.

12 EXAMINER LOWE: He is so qualified.

13 MS. ANTILLON: No objection from the State  
 14 Land Office.

15 EXAMINER McMILLAN: Thanks.

16 Q. (BY MR. LARSON) Mr. Bradley, would you identify  
 17 the document marked as Exhibit 4?

18 A. Yes, sir. This is a type log that I used to  
 19 display the existing West Square Lake unitized interval,  
 20 as well as our proposed expanded unitized interval.

21 Q. Did you prepare this exhibit?

22 A. Yes.

23 Q. Would you identify the document marked as  
 24 Exhibit 5?

25 A. Yes. This is simply a cross-section locator



1 map that I prepared for the next exhibit just simply to  
2 identify the location of the wells on the cross section  
3 in that map here.

4 **Q. That segues us into the next exhibit, Number 6.**  
5 **Would you identify this?**

6 A. This is the cross section that I prepared that  
7 shows the wells surrounding the -- the key wells  
8 surrounding the West Square Lake Unit that we key off of  
9 that either shows production that has positive core  
10 results, favorable log characteristics or mud log shows  
11 that lends itself to the middle San Andres, the  
12 upper-middle San Andres and lower San Andres being  
13 productive within the West Square Lake Unit.

14 **Q. Are those intervals continuous across the unit?**

15 A. Yes.

16 **Q. And have you looked at the recent horizontal**  
17 **development of the San Andres residual oil zone, which**  
18 **we'll call the ROZ, that has taken place on the**  
19 **Northwest Shelf and the Central Basin Platform?**

20 A. Yes.

21 **Q. And does the ROZ within the West Square Lake**  
22 **Unit exhibit similar characteristics?**

23 A. Yes, it does.

24 **Q. Would you next identify the document marked as**  
25 **Exhibit 7?**

1           A.    This is a structure contour map on the top of  
2   the San Andres Formation.

3           **Q.    And did you prepare this exhibit?**

4           A.    I did, along with another consulting geologist  
5   for Seguro.

6           **Q.    And what is this map intended to depict?**

7           A.    We think it depicts an advantageous structural  
8   node that extends across the bulk of the area of the  
9   West Square Lake Unit.

10          **Q.    Would you identify the document marked as**  
11 **Exhibit 8?**

12          A.    This is a net isopach map of the Middle San  
13 Andres interval.

14          **Q.    And did you also prepare this map?**

15          A.    I did, along with another consulting geologist  
16 for Seguro.

17          **Q.    And just so the examiner's clear, when you're**  
18 **referring to the middle and the lower-middle San Andres,**  
19 **those are intervals within the proposed expanded area?**

20          A.    Yes, they are.

21          **Q.    And what is Exhibit 8 intended to depict?**

22          A.    This is a net porosity map, and the porosity  
23 cutoff we used was 4 percent. And we feel it shows a  
24 large portion of what we consider to be net pay present  
25 over the West Square Lake Unit.

1           Q.    So in your opinion, the middle San Andres  
2 interval is productive across the entire unit?

3           A.    Yes.

4           Q.    Would you identify the document marked as  
5 Exhibit 9?

6           A.    This is a net isopach map on the lower-middle  
7 San Andres interval.

8           Q.    And did you also prepare this exhibit?

9           A.    Yes, along with another consulting geologist  
10 for Seguro.

11          Q.    And similar to Exhibit 8, does it indicate  
12 productive net pay across the unit?

13          A.    Yes.

14          Q.    And what is the first step Seguro will take to  
15 develop the expanded area of the unitized interval?

16          A.    We plan to drill three initial test wells to  
17 the base of the San Andres and collect data via ELOGs,  
18 mud logs, sidewall cores through the entire existing  
19 West Square Lake Unit and the expanded unitized interval  
20 with the idea of establishing production in the middle  
21 San Andres and the lower-middle San Andres.

22          Q.    And at this point, there's not a lot of current  
23 data, is there, in terms of vertical wells being drilled  
24 in the area?

25          A.    Not on the West Square Lake Unit.  Immediately

1 south, yes, but not immediately within the boundaries of  
2 the West Square Lake Unit.

3 Q. And these three initial wells, will they all be  
4 producers?

5 A. We fully intend and expect for them establish  
6 commercial production.

7 Q. Okay. And what interval is Seguro targeting  
8 for production?

9 A. We plan to collect data throughout the entire  
10 interval. Our primary objective will be the middle San  
11 Andres and lower-middle San Andres.

12 Q. And does Seguro also intend to collect data  
13 from the ROZ?

14 A. Yes. Absolutely.

15 Q. And in your opinion, will Seguro's development  
16 of the expanded area of the unitized interval result in  
17 the economic recovery of oil?

18 A. Yes.

19 Q. And in your opinion, will the expansion of the  
20 unitized interval allow Seguro to recover hydrocarbons  
21 that would not otherwise be recovered?

22 A. Yes.

23 Q. And in your opinion, will the granting of  
24 Seguro's application serve the interest of conservation  
25 and the prevention of waste and protect correlative

1     **rights?**

2             A.     Yes.

3                     MR. LARSON:   Mr. Examiner, I move the  
4     admission of Exhibits 4 through 9.

5                     MS. ANTILLON:   No objection.

6                     EXAMINER LOWE:   Exhibits 4 through 9 are  
7     accepted.

8                     (Seguro Oil and Gas, LLC Exhibit Numbers 4  
9                     through 9 are offered and admitted into  
10                    evidence.)

11                    MR. LARSON:   And I will pass the witness.

12                    MS. ANTILLON:   No questions.

13                                   CROSS-EXAMINATION

14     BY EXAMINER LOWE:

15             Q.     Looking at your exhibits that you submitted --

16             A.     Yes, sir.

17             Q.     -- I don't know if it was just the printer  
18     quality on your end or -- basically the -- what  
19     you've -- what you've submitted, especially Exhibits 4  
20     and 6, are unclear. They don't give enough information  
21     for us -- for myself to review and to move forward on  
22     what is -- what is -- what we can conclude on our side.  
23     So if you could please resubmit at least -- for sure 4  
24     and 6.

25             A.     I have -- in my possession, I have large, clear

1 copies of those exhibits.

2 MR. LARSON: Yeah. I tried to reduce them  
3 to 8-1/2-by-11. I can produce larger copies.

4 EXAMINER LOWE: Either a larger copy or at  
5 least the -- the -- the informative information on your  
6 specific exhibit, too. At least pull that portion up.  
7 I know they can get pretty big. I know that. But, I  
8 mean, for the information you want to present, at least  
9 a clearer copy so that we can --

10 MR. LARSON: I'll submit to you a new  
11 Number 4 and a new Number 6.

12 EXAMINER LOWE: Yeah. And if you can -- if  
13 you do submit it electronically, you can just email it  
14 to all of us.

15 I'm not sure if you want it.

16 EXAMINER McMILLAN: Email it to "Hearings."

17 EXAMINER LOWE: Email it to the "OCD  
18 Hearings."

19 MR. LARSON: I'll cc both of you.

20 EXAMINER McMILLAN: Yeah. Don't -- don't  
21 do that.

22 EXAMINER LOWE: Just email it and just  
23 identify it with the case number -- just -- just the  
24 case number, and if you want to put the -- any more  
25 information pertaining to that, that would be great.

1 But from there on, we can maneuver it to what we have  
2 got to do with it on our side. But we've just got to  
3 verify and see clearer information to distinguish what  
4 we've got to do from our side.

5 MR. LARSON: Understood. I'll do that.

6 Q. (BY EXAMINER LOWE) Okay. You mentioned earlier  
7 you collect data from the ROZ. What specifically is the  
8 ROZ?

9 A. It's stands for residual oil zone. It's a  
10 transitional zone. It is typically found in the lower  
11 San Andres.

12 Q. Okay. I just wanted to clarify that on my  
13 side.

14 A. Yes, sir.

15 Q. That's all the questions I have.

16 EXAMINER LOWE: Michael?

17 CROSS-EXAMINATION

18 BY EXAMINER McMILLAN:

19 Q. You know, I always say this at hearings. Don't  
20 put too much information on exhibits. I always say  
21 that. Once again, the trend continues. This is what I  
22 want to see. I want to see an exhibit for (A) -- I want  
23 to see an exhibit that shows the current unitized  
24 interval and then I want to see an Exhibit 4A that shows  
25 the whole thing. I cannot stand when applicants put

1 more than one thing on an exhibit. It makes it harder  
2 for us to determine.

3 A. Yes, sir.

4 EXAMINER McMILLAN: I've told everybody  
5 that, and you guys don't listen. There is no excuse for  
6 that. I'm looking at everyone.

7 (Laughter.)

8 Q. (BY EXAMINER McMILLAN) And the next thing is  
9 can you clarify -- okay. You need to clarify exactly  
10 where the lower and the middle and the residual zone is  
11 on these wells.

12 Now, are you going to flood the lower and  
13 the middle?

14 A. Yes, we will.

15 Q. And then you would -- are you going to  
16 horizontally drill the residuals?

17 A. Yes, sir.

18 Q. That's the plan?

19 A. Yes, sir. That would also be -- we're planning  
20 for the high volumes of water that are typically  
21 associated with ROZ zone to be our makeup and fill-up  
22 water for the waterflooding of the shallower zones.

23 Q. Okay. Now, I asked the landman this question.  
24 The initial interval was 2,818 to 3,150?

25 A. Yes, sir.



1           Q.    And was that because you were trying to get the  
2 Lovington Sand? Was that their objection? Is that the  
3 reason there was a depth severance initially?

4           A.    That interval was chosen -- 2,818 marks the top  
5 of the Loco Hills, and 3,150 is 15 to 20 feet below the  
6 Lovington Sand. And that was the original unitized  
7 interval they were trying to get unitized.

8           Q.    For clarity purposes, they were trying to flood  
9 the Lovington Sand?

10          A.    Loco Hills, Metex and Premier and Lovington  
11 Sand. That interval covers those.

12          Q.    Okay. So they were trying to -- that interval?

13          A.    Yes, sir.

14          Q.    Okay. And I'm going back to Exhibit 5.  
15 Looking at Section 9, those horizontal wells, are those  
16 Yeso or San Andres wells?

17          A.    All of the horizontal wells in this area are  
18 Yeso.

19          Q.    Oh, so there haven't been any horizontal San  
20 Andres wells in there?

21          A.    Not in this immediate area.

22          Q.    Okay. All right.

23                   EXAMINER McMILLAN: Anything else?

24                   EXAMINER LOWE: No.

25                   Mr. Brooks, any questions?

1 EXAMINER BROOKS: No questions.

2 EXAMINER LOWE: Okay.

3 MR. LARSON: Mr. McMillan, just so I'm  
4 clear, you would want a new Exhibit 4 that is the  
5 current unitized interval and a 4A which is the  
6 proposed?

7 EXAMINER McMILLAN: Yes. It makes us  
8 easier for us to determine. Like I said, I don't like  
9 people putting too much information on exhibits. It's  
10 too hard for me to figure out.

11 MR. LARSON: we will do that.

12 EXAMINER McMILLAN: And you're certainly  
13 going to have to include State Land Office, since they  
14 made appearance, in any exhibits. Make sure they get a  
15 copy of them.

16 MR. LARSON: of course.

17 EXAMINER McMILLAN: Thank you.

18 MR. LARSON: That's all, Mr. Bradley.

19 ROSS E. PEARSON,  
20 after having been previously sworn under oath, was  
21 questioned and testified as follows:

22 DIRECT EXAMINATION

23 BY MR. LARSON:

24 Q. Good morning, Mr. Pearson.

25 A. Good morning.

1           Q.    Please state your full name for the record.

2           A.    Ross Eric Pearson.

3           Q.    And where do you reside?

4           A.    Dallas, Texas.

5           Q.    Now, you've been retained by Seguro as a  
6 consultant petroleum engineer?

7           A.    That is correct.

8           Q.    And are you familiar with the matters addressed  
9 in Seguro's application?

10          A.    Yes.

11          Q.    And are you a registered professional engineer?

12          A.    Yes, in the state of Texas.

13          Q.    And do you have prior experience with San  
14 Andres wells in New Mexico?

15          A.    I've got about 25 years of experience in the  
16 San Andres in the Permian Basin. In the last four  
17 years, I've been handling the production of reservoir  
18 engineering in the Tomtom and the Tomahawk Field, San  
19 Andres, for Cross Border Resources/Red Mountain  
20 Resources.

21          Q.    And have you previously testified at a Division  
22 hearing?

23          A.    Yes, I have.

24          Q.    And at those herrings, were you qualified as an  
25 expert in petroleum engineering?

1           A.     Yes, I was.

2                   MR. LARSON:   Mr. Examiner, I request that  
3   Mr. Pearson be qualified today as an expert in petroleum  
4   engineering.

5                   MS. ANTILLON:   No objection.

6                   EXAMINER LOWE:   No objection?

7                   He is so qualified.

8                   MR. LARSON:   Thank you.

9           **Q.     (BY MR. LARSON) With regard to the three**  
10   **initial development wells that Mr. Bradley addressed,**  
11   **what data will Seguro collect for purposes of its**  
12   **potential development of the West Square Lake Unit?**

13           A.     It's actually -- it's really good that Apache  
14   actually drilled a brand-new well through the unit to  
15   complete in the Yeso.   So they participated with getting  
16   the logs and the mud logs, and there were very favorable  
17   shows through the middle and lower-middle San Andres,  
18   and that triggered off the mapping and everything else.  
19   And this is a real opportunity to just complete -- I  
20   mean, most -- most fields are flooded in the Grayburg  
21   and the San Andres, and I think the issue is that the  
22   old wells that were drilled in the 1940s, they just made  
23   commercial wells at that point, and they never went  
24   through the whole section.   So we've got an opportunity  
25   with the middle and the lower-middle to bolt on the San

1   Andres and continue with reestablishing the waterflood  
2   in the unit. So these three wells will be excellent  
3   candidates for that, in my opinion.

4           **Q.   And in conjunction with your analysis, the**  
5   **development prospects for the expanded area of the**  
6   **unitized interval, have you looked at production data**  
7   **from offset San Andres wells?**

8           A.   Yes. To the south is the Burch Keeley Field,  
9   and there is also -- there is a well -- the Siete Oil  
10   and Gas Falcon Federal is mentioned in the cross  
11   section. They did get, you know, pretty commercial oil  
12   considering it wasn't fractured stimulated out of the  
13   middle San Andres.

14          **Q.   And based on your analysis of those offset**  
15   **wells and your experience in the San Andres, do you**  
16   **anticipate that the three initial wells in the expanded**  
17   **area of the unitized area will be productive in the**  
18   **middle and lower-middle San Andres intervals?**

19          A.   Yes. I -- you know, with the amount of net pay  
20   we're working with here, you know, typical, we could  
21   probably expect somewhere between 40,000 and 80,000 MBO  
22   on a primary, and, of course, we can probably bolt on  
23   the 40- and 80,000 barrels of secondary reserves in  
24   these wells through the middle and lower-middle San  
25   Andres.

1           Q.    And does Seguro have approved BLM APDs for the  
2   three initial wells?

3           A.    Yes.  All three of them have been approved.

4           Q.    And what are the estimated drilling and  
5   completion costs for those wells?

6           A.    Basically the AFE estimate's around \$850,000.  
7   I would consider, once we get the logs, we may want  
8   to -- it may be an additional 100,000 depending on the  
9   size of the fracture stimulation.

10          Q.    And in your opinion, are those well costs  
11   reasonable?

12          A.    Yes.

13          Q.    And have you come up with a figure for total  
14   historical oil production from the West Square Lake  
15   Unit?

16          A.    Yes.  Basically about 4.8 million barrels from  
17   the lower Grayburg and just the Lovington Sand and the  
18   San Andres section.

19          Q.    And that's from primary production and partial  
20   waterflood?

21          A.    Exactly.  The issue at hand is that, you know,  
22   that amount of volume of oil, our records -- it's very  
23   difficult because, you know, it goes all the way back  
24   into the 1960s.  We're estimating maybe 1 million  
25   barrels of water was reinjected, so we're not anywhere

1 near fill-up on the reservoir. And looking at some  
2 vintage maps, it looks like there were maybe three, four  
3 or five spot patterns and that was it and maybe a little  
4 half of a peripheral flood. So there just wasn't even  
5 enough injectors in place in the '60s. And currently  
6 right now, there is only one injector. So --

7 **Q. And is Seguro's long-term intention more to**  
8 **extensively waterflood both the existing and expanded**  
9 **unitized intervals?**

10 A. Yes. I mean, we should -- you know, if we  
11 complete and get the patterns put in with the new  
12 wellbores that will bolt on with the San Andres wells,  
13 there is the potential for recovering, you know,  
14 3 million barrels out of, you know, the existing  
15 interval by properly getting it flooded. And then, of  
16 course, you know, we'll also have the additional middle  
17 and lower-middle San Andres, you know, something on the  
18 order of say -- if you count 40 locations on 40-acre  
19 spacing, you're looking at somewhere of 1.6 million in  
20 primary and 3.2 million on secondary. So there's a lot  
21 of plus side to this project.

22 **Q. And do you agree with Mr. Bradley that the ROZ**  
23 **is a potential source of water for the expanded**  
24 **waterflood operations?**

25 A. Yes. The one drill-stem test that was

1 mentioned that was in the ROZ, they picked up two  
2 barrels of oil and 250 feet of sulfur water, which, you  
3 know -- I don't know what that would be in feet, but  
4 that's a fairly good drill-stem test in that interval.  
5 And typically your ROZ wells are -- you know, they're  
6 typical 2,000 barrels of water a day. And considering  
7 we're going to need 3-1/2 million barrels of water, this  
8 could be an excellent opportunity to repressurize the  
9 original Grayburg section.

10 Q. And in your opinion, will Seguro's development  
11 of the expanded area of the unitized area be profitable?

12 A. I think so, very much so.

13 Q. And in your opinion, will the proposed vertical  
14 expansion of the unitized interval serve the interest of  
15 conservation and the prevention of waste and protect  
16 correlative rights?

17 A. Absolutely.

18 MR. LARSON: I will pass the witness.

19 MS. ANTILLON: No questions.

20 EXAMINER BROOKS: No questions.

21 CROSS-EXAMINATION

22 BY EXAMINER LOWE:

23 Q. You referenced 40 -- is that 40,000 barrels and  
24 80,000 barrels?

25 A. That's a range, 40,000 to 80,000 barrels. I



1 mean, the -- the wells down to the south that I  
2 mentioned that we looked at, the Burch Keely, some of  
3 those are 150- to 200,000 barrels. And, you know, the  
4 hard part -- we all know the San Andres. The logs don't  
5 tell us permeability, so -- but I think that's a  
6 conservative fair number to use.

7 Q. Okay. Okay. You mentioned -- was it \$85,000  
8 for the cost pertaining to --

9 A. 850,000.

10 Q. \$850,000.

11 A. Yes, with the potential of maybe an additional  
12 \$100,000 if we need a larger fracture stimulation.

13 Q. Okay.

14 EXAMINER LOWE: Michael?

15 CROSS-EXAMINATION

16 BY EXAMINER McMILLAN:

17 Q. Where are you getting your figures from? I  
18 don't see any -- I don't see any supporting evidence for  
19 what you've just said. Where's the AFE? Where's --

20 A. We can provide the AFE.

21 Q. Yeah. I mean, I think the OCD needs exhibits  
22 that you can -- that backs up your statements. I don't  
23 see any exhibits for your 40- to 80,000 barrels of oil.

24 A. We've got it. We can provide it.

25 Q. You should have provided it.

1           A.    I'm sorry.  I mean, I just --

2           Q.    There is really no excuse for not providing  
3   that at hearing.  We really have no way of telling  
4   whether or not -- based on your testimony, whether or  
5   not it's correct.

6           A.    Okay.  I apologize.  I mean, that's something  
7   we can easily provide to you.  I mean, 40- to 80,000  
8   barrels is very typical for San Andres.

9           Q.    We don't see that.  We have no way of knowing  
10   that.

11          A.    Okay.

12          Q.    Yeah.

13                   Did you use decline curves?

14          A.    We used offset wells in the area.

15          Q.    Okay.  We'd like to see that.

16          A.    Okay.

17          Q.    And you said that they flooded with a million  
18   barrels of water.  Where is that information?

19          A.    It's very spotty.  We'll provide -- I mean --

20          Q.    Okay.  And I realize we're dealing with some  
21   1940s wells.

22          A.    Onion skins --

23          Q.    And some of the operators that you've named  
24   were dishonest.

25          A.    Correct.

1           Q.    So we need -- we really need more  
2   information --

3           A.    Okay.

4           Q.    -- than what you came up here and presented.

5           A.    That's not a problem.

6           Q.    And you'll certainly supply the State Land  
7   Office with that information, too.

8           A.    Absolutely.

9                   EXAMINER McMILLAN:  Do you have any  
10   objections to that?

11                  MS. ANTILLON:  No.

12                  EXAMINER McMILLAN:  Okay.

13                  EXAMINER LOWE:  At this time we'll take a  
14   five-minute break to discuss what --

15                  EXAMINER McMILLAN:  Our future actions.

16                  EXAMINER LOWE:  Yeah, our future actions.

17                  (Recess, 9:11 a.m. to 9:15 a.m.)

18                  EXAMINER LOWE:  We'll go back on the  
19   record.

20                  From what Michael indicated and what we've  
21   all noticed on our end, this case will probably be taken  
22   under advisement.  What we'll probably do is request  
23   these exhibits to be submitted to our office by July  
24   8th, 2019 so that we can fully solidify the conclusion  
25   of this case once it's taken under advisement.

1 MS. ANTILLON: The State Land Office also  
2 is concerned that they don't have preliminary approval  
3 from either BLM or the State Land Office, so we would  
4 want to make it subject to that as well.

5 EXAMINER LOWE: Okay.

6 EXAMINER BROOKS: All exhibits that are  
7 sent to the OCD will be shared with the State Land  
8 Office's attorney.

9 MR. LARSON: of course. And it's my  
10 understanding I'll submit it on the OCD Hearings email  
11 address.

12 EXAMINER LOWE: Yes.

13 MR. LARSON: And at the point in time we  
14 hopefully do get preliminary approval from the BLM and  
15 State Land Office, I'll immediately submit that as well.

16 EXAMINER McMILLAN: Okay. I do have one --  
17 if you guys are going to drill a new well, the OCD wants  
18 to make sure that we get a copy of all the logs,  
19 including the mud logs. And certainly the State Land  
20 Office will get a copy of that, too.

21 Is that okay?

22 EXAMINER LOWE: That's fine.

23 And we appreciate if it's earlier than that  
24 time date, but that's the maximum time table.

25 MR. LARSON: I anticipate we will get it to

1     you well before.

2                   EXAMINER LOWE:   Because a lot of stuff that  
3     we come across, things tend to get lost when we're  
4     waiting around for certain things, and you'll be calling  
5     in a couple of months to find out where things are at,  
6     so the earlier the better --

7                   MR. LARSON:   understood.

8                   EXAMINER LOWE:   -- as we proceed.

9                   So that concludes your --

10                  MR. LARSON:   Yes, it does.

11                  EXAMINER LOWE:   So Case Number 20253 will  
12     be taken under advisement once additional exhibits are  
13     submitted to the OCD.

14                  MR. LARSON:   Thank you, Mr. Examiner.

15                  EXAMINER LOWE:   Thanks.

16                  (Case Number 20253 concludes, 9:18 a.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 15th day of July 2019.

21

22

23 MARY C. HANKINS, CCR, RPR  
24 Certified Court Reporter  
New Mexico CCR No. 20  
Date of CCR Expiration: 12/31/2019  
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