

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 ASCENT ENERGY, LLC                      CASE NOS. 16481,  
FOR COMPULSORY POOLING, EDDY COUNTY,                      16482  
NEW MEXICO.

AMENDED APPLICATION OF APACHE                      CASE NO. 20171  
CORPORATION FOR COMPULSORY POOLING  
AND APPROVAL OF A HORIZONTAL SPACING  
UNIT AND POTASH AREA DEVELOPMENT AREA,  
EDDY COUNTY, NEW MEXICO.

APPLICATION OF APACHE CORPORATION FOR                      CASE NO. 20202  
COMPULSORY POOLING AND APPROVAL OF A  
HORIZONTAL SPACING UNIT AND POTASH AREA  
DEVELOPMENT AREA, EDDY COUNTY, NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

August 20, 2019

Santa Fe, New Mexico

BEFORE: WILLIAM V. JONES, CHIEF EXAMINER  
DYLAN ROSE-COSS, TECHNICAL EXAMINER  
BILL BRANCARD, LEGAL EXAMINER

This matter came on for hearing before the  
New Mexico Oil Conservation Division, William V. Jones,  
Chief Examiner; Dylan Rose-Coss, Technical Examiner; and  
Bill Brancard, Legal Examiner, on Tuesday, August 20,  
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.

REPORTED BY: Mary C. Hankins, CCR, RPR  
New Mexico CCR #20  
Paul Baca Professional Court Reporters  
Albuquerque, New Mexico 87102

1 APPEARANCES

2 FOR APPLICANT ASCENT ENERGY, LLC:

3 JAMES G. BRUCE, ESQ.  
Post Office Box 1056

4 Santa Fe, New Mexico 87504  
(505) 982-2043

5 jamesbruc@aol.com

6 FOR APPLICANT/PROTESTER APACHE CORPORATION:

7 EARL E. DeBRINE, JR., ESQ.  
MODRALL, SPERLING, ROEHL, HARRIS & SISK, P.A.

8 500 4th Street, Northwest, Suite 1000  
Albuquerque, New Mexico 87102

9 (505) 848-1800  
edebrine@modrall.com

10

11 FOR INTERESTED PARTY EOG RESOURCES:

12 ERNEST L. PADILLA, ESQ.  
PADILLA LAW FIRM, P.A.

13 1512 South St. Francis Drive  
Post Office Box 2523

14 Santa Fe, New Mexico 87504  
(505) 988-7577

15 padillalaw@qwestoffice.net

16 FOR INTERESTED PARTY MEWBOURNE OIL COMPANY:

17 GARY W. LARSON, ESQ.  
HINKLE SHANOR, LLP

18 218 Montezuma Avenue  
Santa Fe, New Mexico 87501

19 (505) 982-4554  
glarson@hinklelawfirm.com

20

21 FOR INTERESTED PARTY OCCIDENTAL PERMIAN LIMITED  
PARTNERSHIP:

22

23 DALVA L. MOELLENBERG, ESQ.  
GALLAGHER & KENNEDY, P.A.

24 1239 Paseo de Peralta  
Santa Fe, New Mexico 87501-2758

25 (505) 982-9523  
dlm@gknet.com

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1 (9:04 a.m.)

2 EXAMINER JONES: Let's get started this  
3 morning. I understand this is a special examiner  
4 hearing for Tuesday, August 20th, 2019. They've labeled  
5 it Docket Number 30-19.

6 As far as the examiners go, I'm William V.  
7 Jones. Bill Brancard has graciously offered to sit with  
8 us again today, and as long as we don't go too long,  
9 we'll be okay. And we've got Dylan Coss here. We're  
10 glad to have him. Hopefully, he'll ask some questions.

11 The matter this morning, as far as  
12 continued, is Ascent -- two cases for Ascent and two  
13 cases for Apache. I'll just call Case 16481,  
14 application of Ascent Energy, LLC for compulsory pooling  
15 in Eddy County, New Mexico, and Case Number 16482, which  
16 is application of Ascent Energy, LLC for compulsory  
17 pooling in Eddy County, New Mexico.

18 Then we also have Case Number 20171,  
19 amended application of Apache Corporation for compulsory  
20 pooling and approval of a horizontal spacing unit and  
21 potash area development area, Eddy County, New Mexico,  
22 and Case Number 20202, application of Apache Corporation  
23 for compulsory pooling and approval of a horizontal  
24 spacing unit and potash area development area in Eddy  
25 County, New Mexico.

1                   As far as the -- we've got two Applicants  
2     and four different cases. Have you made an agreement  
3     about who goes first or --

4                   MR. BRUCE: Well, we filed first, so  
5     under --

6                   MR. DeBRINE: Yeah. We haven't discussed  
7     it, and that's fine.

8                   MR. BRUCE: -- the long-standing rules, I  
9     would ask Ascent to go first.

10                  EXAMINER JONES: Okay. As far as the two  
11     cases for Ascent, which is Cases 16481 and 16482, call  
12     for appearances.

13                  MR. BRUCE: Mr. Examiner, Jim Bruce of  
14     Santa Fe representing Ascent Energy, LLC.

15                  I have two witnesses.

16                  EXAMINER JONES: Other appearances?

17                  MR. DeBRINE: Good morning, Mr. Examiner.  
18     Earl DeBrine, with the Modrall, Sperling firm in  
19     Albuquerque, New Mexico, representing Apache  
20     Corporation.

21                  And we'll be calling four witnesses today.

22                  EXAMINER JONES: Other witnesses?

23                  MR. LARSON: Good morning, Mr. Examiner.  
24     Gary Larson of the Santa Fe office of Hinkle Shanor for  
25     Mewbourne Oil Company.

1 I do not have any witnesses.

2 MR. PADILLA: Mr. Examiner, Ernest L.  
3 Padilla for EOG Resources.

4 We don't have any witnesses today.

5 MR. MOELLENBERG: Mr. Examiner, Dalva  
6 Moellenberg, Gallagher & Kennedy, appearing for  
7 Occidental Permian Limited Partnership.

8 And we do not have any witnesses.

9 EXAMINER JONES: Any others?

10 Okay. Jim --

11 EXAMINER BRANCARD: And you've all entered  
12 appearances in both cases.

13 MR. PADILLA: Yes.

14 MR. LARSON: Yes.

15 MR. MOELLENBERG: Yes.

16 EXAMINER JONES: Can you tell us what  
17 you're going to show this morning?

18 OPENING STATEMENT

19 MR. BRUCE: Well, Mr. Examiner, these --  
20 all four cases involve competing plans in the potash  
21 area. Ascent is seeking to drill stand-up wells, and  
22 Apache is seeking to drill lay-down wells.

23 Ascent got the ball rolling back in, I  
24 believe, March of 19-- 2018, and I believe that it has  
25 made a good-faith effort to obtain the voluntary pooling



1 of the interest owners in its proposed well units. I  
2 would note that to the best of Ascent's knowledge,  
3 Apache does not own any interest in Ascent's proposed  
4 well units.

5 We will show that Ascent has a better  
6 development plan, it will not leave any stranded acreage  
7 in the potash area, and that Ascent has substantially  
8 more working interest ownership role in its well units  
9 than does Apache in its well units.

10 And based on these factors, which have been  
11 used by the Division and the Commission for a number of  
12 years, we believe Ascent's application should be granted  
13 and Apache's denied.

14 EXAMINER JONES: Okay. Let's call also the  
15 Apache cases, Case Number 20171 and 20202, application  
16 of Apache Corporation for compulsory pooling and  
17 approval of a horizontal spacing unit and potash area  
18 development area in Eddy County, New Mexico.

19 Call for appearances in those two cases.

20 MR. DeBRINE: Earl DeBrine, for the  
21 Modrall, Sperling firm, for the Applicant, Apache  
22 Corporation.

23 MR. BRUCE: Jim Bruce representing Ascent  
24 in the Apache cases.

25 EXAMINER JONES: Other appearances?

1 MR. LARSON: Mr. Examiner, Gary Larson for  
2 Mewbourne Oil Company.

3 Again, I do not have any witnesses.

4 MR. PADILLA: Mr. Examiner, Ernest L.  
5 Padilla for EOG Resources.

6 We don't have any witnesses.

7 MR. MOELLENBERG: And, Mr. Examiner, Dalva  
8 Moellenberg for Occidental Petroleum -- Occidental  
9 Permian Limited Partnership.

10 Again, we don't have any witnesses.

11 EXAMINER JONES: That's Occidental Permian?

12 MR. MOELLENBERG: Permian, yes.

13 EXAMINER JONES: It's not OXY USA,  
14 Incorporated?

15 MR. MOELLENBERG: Right. Correct.

16 EXAMINER JONES: Okay. In the Apache  
17 cases, Mr. DeBrine, can you briefly state what you're  
18 going to show today.

19 OPENING STATEMENT

20 MR. DeBRINE: Yes, Mr. Examiner.

21 Mr. Bruce was right. These are competing  
22 cases with regard to development plans in the potash  
23 area, and there are special rules and procedures with  
24 regard to development of oil and gas in the potash  
25 resources established by orders of the Division and

1 orders by the Secretary of the Interior which basically  
2 call for a process in which operators propose a  
3 development area, notify affected parties within a  
4 two-mile radius so that everybody has an opportunity to  
5 weigh in on the proposed plan. And it's designed to  
6 reach a collaborative process in which everybody is on  
7 board with regard to establishment of drilling islands  
8 and how the resources are going to be developed.

9               There was a plan proposed initially by  
10 Ascent in March concerning its Anvil development area,  
11 and Apache participated in the collaborative process.  
12 They were unable to reach agreement.

13              Apache proposed its competing Taco 28-30  
14 development plan. And basically what the two plans call  
15 for is Apache is proposing to drill two-and-a-half-mile  
16 laterals east to west from the north half of Sections 28  
17 and 29 into the north quarter of Section 30. And Apache  
18 already has a directional Morrow well that was drilled  
19 from a drill pad in the northwest quarter, Section 28.  
20 That was completed in Section 29. That is the only  
21 hole -- only well holding its leases there in Section 29  
22 where it has a 98 percent working interest in those  
23 leases.

24              OXY, which supports OXY's [sic] development  
25 plan, owns, we believe, 100 percent working interest in

1 the lands of the northwest quarter of Section 30 and  
2 also a significant interest in the lands in the  
3 northeast quarter of Section 28 on both ends of the  
4 proposed development area.

5 Ascent's competing plan calls for drilling  
6 two-mile laterals in the west half of Section 33 north  
7 into Section 28, and so you've got this overlapping  
8 Section 28 that involves both plans.

9 And what we intend to show is that Apache's  
10 proposed plan is a superior plan that would result in  
11 the greatest EUR, will effectively develop the  
12 nonproductive formations and allow for future  
13 development and that it's the superior operator with the  
14 knowledge and ability to drill its proposed wells and  
15 minimize the catastrophic risk of well collision. It  
16 will show that it's made a substantial investment in  
17 preparing its development area and is ready, willing and  
18 able to implement it.

19 We'll be calling four witnesses today. The  
20 first is Laci Stretcher, who is Apache's land manager,  
21 who is overseeing this proposed development area,  
22 working with the BLM and other working interest owners  
23 to seek a plan that works for everyone and that the BLM  
24 would approve of under the terms of the Secretary's  
25 order.

1                   We also have Mike Muncy, who is Apache's  
2     geologist, who is going to talk about the geologic  
3     structure and the characteristics of the target  
4     formations.

5                   We will also be calling Mindy Goldsmith,  
6     who is Apache's engineer, who has analyzed the proposed  
7     drilling plans for each development area to determine  
8     the optimal well orientation and the waste that will  
9     result if Ascent's plan is adopted.

10                  And finally, we'll be calling Jordan Evans,  
11     who is Apache's manager of drilling engineers, who is  
12     overseeing the design of the proposed wells for Apache  
13     and looked at the Ascent wells to assess the potential  
14     for well collision if Ascent is allowed to drill wells  
15     into Section 28.

16                  EXAMINER JONES:   Okay.   Thank you.

17                  Mr. Larson, as far as Mewbourne goes, do  
18     they have a position in this, or have they not decided  
19     yet?

20                  MR. LARSON:   Mewbourne does not have a  
21     position.

22                  EXAMINER JONES:   Okay.   Mr. Padilla, as far  
23     as EOG goes?

24                  MR. PADILLA:   Mr. Examiner, as you well  
25     know, we filed a motion to dismiss in this case on the

1 basis that the BLM ultimately may overrule anything that  
2 the OCD does here today in terms of decision, whether or  
3 not Ascent prevails or whether or not Apache prevails.

4 We believe that the BLM ultimately is going  
5 to approve the APDs and presumably that the APDs could  
6 follow the recommendations made in any decision by the  
7 OCD, but still they could change that. And the potash  
8 complicates a lot of things here. We're not --  
9 certainly I'm not up to date as to where the BLM is with  
10 the drilling approval for the island where those -- and  
11 perhaps the witnesses of Apache and Ascent will give us  
12 more information on that. But we're certainly -- or,  
13 EOG is certainly concerned about stranding acreage that  
14 could otherwise be developed under any of the plans. So  
15 ultimately we're going to look to see which plan favors  
16 EOG in terms of stranded acreage.

17 But going back to the BLM, they could --  
18 they could certainly change things because they do have  
19 total primacy in this case.

20 EXAMINER JONES: Okay. Thank you.

21 Mr. Moellenberg, as far as OXY Permian?

22 MR. MOELLENBERG: Mr. Hearing Examiner, as  
23 Mr. DeBrine indicated, OXY is supporting Apache's  
24 applications, and we filed a prehearing statement that  
25 indicates the reasons, so I don't need to go into that

1     probably any further.

2                     Thank you.

3                     EXAMINER JONES:   Okay.   Thank you.

4                     Any other matters before we get started  
5     this morning?

6                     MR. DeBRINE:   If I could just clarify one  
7     thing, Mr. Examiner.   Apache's applications ask for an  
8     order of compulsory pooling from the Division as part of  
9     the relief requested.   We are not actually seeking  
10    pooling as part of this proceeding.   We've had  
11    discussions with the working interest owners.   Those  
12    discussions have been productive.   But the common theme  
13    that we heard is that the parties would rather wait to  
14    see what plan is approved before they sign on board to a  
15    JOA.   So we elected not to seek pooling of the working  
16    interest owners in the proposed wells that are the  
17    subject of Apache's applications.

18                    We're just asking the Division to approve  
19    its proposed 28-30 Taco development plan and approve  
20    Apache as the operator of the development area, and then  
21    we'll go forward to consolidate interests to put  
22    together spacing units for the wells that have been  
23    proposed.

24                    EXAMINER JONES:   That's interesting.

25                    Any other statements this morning?

1                   EXAMINER BRANCARD: It's helpful to clarify  
2    where everybody's at, the parties, competing  
3    applications and multiple working interest owners and  
4    potential operators here so we understand what  
5    everyone's position is.

6                   I would be curious, actually, for  
7    Mr. Moellenberg to say why they support Apache's  
8    position.

9                   MR. MOELLENBERG: Yes, Mr. Brancard.  
10   Essentially for the reasons Mr. DeBrine stated, and,  
11   again, that's laid out in the prehearing statement. But  
12   part of it is Apache's superior knowledge and financing  
13   and then just the plan in general.

14                  EXAMINER JONES: Okay. Will all the  
15   witnesses that intend to testify today please stand and  
16   the court reporter swear the witnesses?

17                  (Mr. Zink, Mr. Yancey, Ms. Stretcher,  
18                  Mr. Muncy, Ms. Goldsmith and Mr. Evans  
19                  sworn.)

20                  EXAMINER JONES: Thank you.

21                  Mr. Bruce, you've got two witnesses?

22                  MR. BRUCE: Yes.

23                               LEE ZINK,  
24           after having been first duly sworn under oath, was  
25           questioned and testified as follows:



1 DIRECT EXAMINATION

2 BY MR. BRUCE:

3 Q. Would you please state your name for the  
4 record?

5 A. Lee Zink.

6 Q. And where do you reside?

7 A. Denver, Colorado.

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

9 A. I work for Ascent Energy, LLC as the vice  
10 president of land.

11 Q. Have you previously testified before the  
12 Division?

13 A. Yes.

14 Q. And were your credentials as an expert  
15 petroleum landman accepted as a matter of record?

16 A. Yes.

17 Q. And are you familiar with the land matters  
18 involved in these applications?

19 A. I am.

20 MR. BRUCE: Mr. Examiner, I tender  
21 Mr. Zink as an expert petroleum landman.

22 EXAMINER JONES: Any objections?

23 MR. DeBRINE: No objection.

24 MR. LARSON: No objection.

25 MR. MOELLENBERG: No objection.

1 MR. PADILLA: No objection.

2 EXAMINER JONES: So qualified.

3 Q. (BY MR. BRUCE) Mr. Zink, I've got a few  
4 exhibits.

5 MR. BRUCE: And, Mr. Examiner, just to  
6 minimize the, quote, unquote, "number of exhibits," what  
7 I've done is stapled together a bunch of pages and  
8 numbers of pages for easier reference.

9 Q. (BY MR. BRUCE) Mr. Zink, let's turn to your  
10 Exhibit A, first of all. On the front page, what does  
11 that show?

12 A. Exhibit A is just a location map of -- in Eddy  
13 County, New Mexico. Highlighted there in red is our  
14 proposed Anvil development area, which is in 20 South,  
15 30 East, Sections 28 and 33, west half of both sections,  
16 covering 640 acres.

17 Q. And what is page 2?

18 A. Page 2 is just -- it's just another land map of  
19 our proposed Anvil development area with our two-mile  
20 notification boundary for our -- for our development  
21 area notification that was sent out to all the owners.

22 Q. And when did Ascent first propose its Anvil  
23 development area to the Bureau of Land Management?

24 A. We proposed this development area in March of  
25 2018. From that map, you can see actually those

1 green -- those green, I guess, squares are our approved  
2 drill islands with the BLM. We had on-sites with them.  
3 They were approved; they were staked prior to sending  
4 out the development area notification.

5 **Q. Okay. And so you plan on drilling your wells**  
6 **from the south to north?**

7 A. That's correct.

8 **Q. What does page 3 reflect?**

9 A. Page 3 is the current BLM development area map.  
10 As you can see, outlined in red there is our proposed  
11 Anvil development area. Just for, I guess -- just for  
12 your information, the green units are approved units  
13 according to the BLM, and the yellow-orange units are  
14 pending, I guess, pending status. So they've been sent  
15 out to owners, but they are not approved yet.

16 **Q. Moving on to page 4.**

17 A. Page 4 is just the -- it's the Ascent acreage  
18 map covering our Anvil development area and all of our  
19 interest there in Sections 28 and 32 and 33. And  
20 outlined in red is our proposed Anvil development area.  
21 Ascent owns interest outside of this -- this unit and  
22 has planned to drill more wells on this acreage that are  
23 outside of the Anvil development area.

24 **Q. And you are seeking to drill both Bone Spring**  
25 **wells and Wolfcamp wells?**

1           A.     We are.

2           **Q.     What is the interest ownership in the proposed**  
3 **well units? And I refer you to pages 5 and 6.**

4           A.     Yup. Pages 5 and 6 are just listing the  
5 current working interest owners at this time. Ascent is  
6 the largest single owner in this unit. We are working  
7 with the other owners there, and we have a pending deal  
8 to acquire an additional 50 percent in that unit right  
9 now. So that has not been closed, but in the near  
10 future, we plan to have closer to 84 percent in this  
11 unit.

12          **Q.     Is the reason that there are some curative**  
13 **title issues?**

14          A.     There are some curative issues that we're --  
15 we're sorting through right now to -- to -- to be able  
16 to close that deal.

17          **Q.     So that would bring your working interest up to**  
18 **close to 85 percent?**

19          A.     That's correct, 84 percent.

20          **Q.     And you mentioned that you've been working with**  
21 **the interest owners. Is that reflected in Exhibit 7 --**  
22 **or page 7?**

23          A.     Yes. Page 7 is the summary of communications  
24 with the working interest owners in our unit. Today we  
25 have closed on three acquisitions within this

1 development area, and we have an agreement in place to  
2 acquire an additional 50 percent working interest, thus  
3 bringing our interest up to 84 percent.

4 **Q. You've been working on this prospect now for**  
5 **over a couple of years?**

6 A. Yeah. For about over a year now, we've been  
7 working on this prospect.

8 **Q. What does page 8 reflect?**

9 A. Page 8 is just a leasehold map of the area,  
10 Ascent's acreage there in yellow and Apache's acreage in  
11 red. As you can see, Apache's interest is only in  
12 Section -- it's in Section 29, and that is not in our  
13 Anvil proposed -- in our proposed Anvil development  
14 area.

15 **Q. And move on to page 9.**

16 A. Page 9 is just kind of a -- just a well map of  
17 the area with Ascent's acreage there in yellow. All the  
18 orange dots with orange pads are approved drilling  
19 islands in the area. So there are obviously a number of  
20 approved drill islands in that area.

21 **Q. And there are both stand-up and lay-down well**  
22 **units in this area; are there not?**

23 A. Yes. As you see by the map, there are wells  
24 drilled in both directions.

25 **Q. And will Ascent's next witness address that**

1 further?

2 A. Yes.

3 Q. Let's move on to Exhibit A1 -- A-1. Does that  
4 contain the C-102s for the five proposed wells you're  
5 here for today?

6 A. It does.

7 Q. And could you identify -- just briefly identify  
8 each one and describe what zone will be tested by each  
9 well?

10 A. Yes. On page 1 there, A-1, it's our Anvil Fed  
11 Com 401H. That is our 1st Bone proposal. Again, we've  
12 got a drill island there in kind of the -- I guess it's  
13 Lot 1 of Section 4 in 21 South, 29 East, with a  
14 bottom-hole location there in the northwest-northwest of  
15 Section 28, 20 South, 30 East.

16 Page 2 is our Anvil Fed Com 501H, and that  
17 is our 2nd Bone well. And, again, that's with the  
18 surface location there in Section 4 all the way at the  
19 bottom hole -- a two-mile well drilling to the north and  
20 with a bottom-hole location there in the northwest-  
21 northwest of Section 28 of 20 South, 30 East.

22 Page 3 is our Anvil Fed Com 601H, which is  
23 our 3rd Bone target, again using the same drill island,  
24 same bottom-hole location.

25 The next page is our Anvil Fed Com 701H,

1 and that is our Wolfcamp XY target, again using the same  
2 drill islands and same bottom hole.

3 And then the last well is our Anvil Fed Com  
4 702H, which is our Wolfcamp A, and again it's using the  
5 same drill island drilling two miles north.

6 Q. Now, you're here today for the west half-west  
7 half wells; is that correct?

8 A. That's correct.

9 Q. Does Ascent intend to fully develop the west  
10 half of both of Sections 28 and 33?

11 A. Yes.

12 Q. Are there any depth severances in the Bone  
13 Spring Formation or the Wolfcamp Formation?

14 A. There are no depth severances in the Bone  
15 Spring or the Wolfcamp.

16 Q. If you could move on to Exhibit 2 and identify  
17 that for the Examiner.

18 A. A-2?

19 Q. Yes, A-2.

20 A. Exhibit A-2 is a copy of our well proposals  
21 that were sent out to the working interest owners in the  
22 Anvil development area, obviously one proposal for the  
23 401H, one for the 501H, 601H, 701H and 702. These are  
24 just examples. This particular package was the one sent  
25 out to EOG, but we sent a similar package out to all the

1 other working interest owners that are identified on --  
2 on -- on page 5 of Exhibit A.

3 Q. And did the well-proposal letters include AFEs?

4 A. They did.

5 Q. And if you'd go back to page 10 of Exhibit A,  
6 could you identify the remainder of that exhibit and  
7 just briefly itemize the proposed well costs for each  
8 particular well?

9 A. Yeah. We recently updated our AFE costs for  
10 these two-mile wells.

11 Page 10 there is our 1st Bone well, so the  
12 Anvil Fed Com 401H. I've got a well cost of about 9.3  
13 million.

14 Page 12 there is our updated AFE for the  
15 Anvil Fed Com 501H, and that's the 2nd Bone test, and  
16 we've got a well cost of approximately 9.3, similar.

17 The next one is page 14. We have the Anvil  
18 Fed Com 601. That's our 3rd Bone well. We have an AFE  
19 of about 9.4 million.

20 And then page 16 is our Anvil Fed Com 701H.  
21 That is our Wolfcamp XY, and total AFE of about 10  
22 million.

23 And then page 18 is our Anvil Fed Com 702H,  
24 and that's our Wolfcamp A. And that's about 10.1  
25 million.



1           Q.    And are these well costs fair and reasonable  
2   and in line with the cost of similar wells drilled in  
3   this part of New Mexico?

4           A.    That's correct.

5           Q.    Do you request that Ascent be appointed  
6   operator of the wells?

7           A.    Yes.

8           Q.    Now, you sent out the proposal letters. Have  
9   you had follow-up conversations with these interest  
10  owners?

11          A.    Yup. We did several follow-up conversations.  
12   We've actually closed on two additional acquisitions  
13   since we sent out the initial preliminary notification,  
14   and we're working on the last part -- on closing the  
15   last part, which is the additional 50 percent working  
16   interests in this unit.

17          Q.    And the proposal letters first went out over a  
18   year ago; is that correct?

19          A.    That's correct.

20          Q.    In your opinion, has Ascent made a good-faith  
21   effort to obtain the voluntary joinder of the working  
22   interest owners in the well?

23          A.    Yes.

24          Q.    And does Ascent have the right to communitize  
25   the overrides in the well?

1           A.     Yes.

2           Q.     Do you have a recommendation for the amounts  
3     which Ascent should be paid for supervision and  
4     administrative expenses?

5           A.     7,000 and 700.  7,000 for drilling, 700 for  
6     overhead.

7           Q.     Are these amounts equivalent to those normally  
8     charged by Ascent and other operators in this area for  
9     wells of this depth and length?

10          A.     Yes.

11          Q.     Do you request that the overhead rates be  
12     adjusted periodically as provided by the COPAS  
13     accounting procedure?

14          A.     Yes.

15          Q.     And do you request a maximum cost plus 200  
16     percent risk charge if any interest owner goes  
17     nonconsent in a well?

18          A.     Yes.

19          Q.     And were the parties being pooled notified of  
20     the original hearing in this case?

21          A.     Yes.

22          Q.     These cases, I should say.

23                     And is that reflected in my Affidavit of  
24     Notice submitted as Exhibit B?

25          A.     Yes.  That's correct.

1                   MR. BRUCE: Mr. Examiner, Exhibit C is  
2 simply a notice of -- Affidavit of Publication showing  
3 that all the interest owners did receive notice by  
4 publication, too.

5           **Q. (BY MR. BRUCE) Mr. Zink, what is Exhibit A-3?**

6           A. A-3 is just a timeline of kind of -- of the  
7 process of our DA notification. Again, the first --  
8 first full point is we sent out our notification on  
9 March 13th of 2018. We received -- and reflected behind  
10 page 2 is we received a response from Apache for a  
11 request for collaboration, and that's an example of  
12 their letter there on page 2.

13           **Q. Then things changed, didn't they?**

14           A. Then things changed. We had some discussions,  
15 and there was definitely some -- some -- some issues, I  
16 guess, with the way they wanted to drill, or they saw  
17 some technical difficulties with their proposals. So  
18 they officially protested our development area in May of  
19 2018. And then it wasn't until end of October in 2018  
20 where they sent out a full DA notification for their  
21 Taco unit, which included all of the north half of  
22 Section 28. And this was not known --

23           **Q. And their first proposal included no well -- no**  
24 **Apache wells in the north half of 28; is that correct?**

25           A. That's correct.

1           Q.    And the second proposal proposed wells that  
2 would have covered the northwest quarter of Section 28?

3           A.    That's correct.

4           Q.    And then the final proposal, why we're here  
5 today, is they would use the entire north half of  
6 Section 28?

7           A.    Correct.

8           Q.    Now, insofar as just pooling, you didn't  
9 really -- since Apache owned no interest in your  
10 proposed wells, you didn't discuss the pooling of them,  
11 did you?

12          A.    That's correct.

13          Q.    Did Apache [sic] originally intend to have two  
14 additional witnesses here today?

15          A.    Yes.

16                   EXAMINER JONES:   Ascent?

17                   THE WITNESS:    Ascent.

18          Q.    (BY MR. BRUCE) Ascent.   Excuse me.

19                   And who were they?

20          A.    William Metz, who is our geologist, our VP of  
21 engineering -- or I'm sorry -- VP of exploration, who is  
22 also our geologist, and then Matt Ward, who is our chief  
23 operating officer.

24          Q.    And why can't they be here in today?

25          A.    We are in the process of drilling a five-well

1 pad in Lea County right now, and they are currently  
2 on-site and handling directional drilling on that well.

3 Q. And that's the first of five; is that correct?

4 A. That is the first of five wells, correct.

5 Q. Now, besides the correspondence I just showed  
6 you either from Apache or whatever, have you had other  
7 contacts with Apache trying to work out some  
8 development -- an agreed development plan?

9 A. We've had numerous discussion, I'd say, over  
10 the last year, several in-person meetings. At the time  
11 there's been no resolution.

12 Q. And in my opening, I stated the potential of  
13 stranding acreage with Apache's plans. Will the next  
14 witness discuss that in further detail?

15 A. Yeah. Through kind of our work that we  
16 discussed or that we've -- throughout the area, our  
17 proposed north-south conforming development area using  
18 the existing drill islands prevents other leases from  
19 being stranded. And we'll show you in future  
20 exhibits that -- in other exhibits that the east-west  
21 orientation possibly strands acreage and other leases  
22 and prevents them from being developed. So we think our  
23 stand-up development plans prevent waste and maximizes  
24 recovery.

25 Q. And also does Apache have other options

1     **regarding development of its acreage?**

2           A.     There are numerous drill islands here in this  
3     area that Apache could develop their acreage from other  
4     drill islands.

5           Q.     And in looking at this, there are also --  
6     there's not a lot of nearby development at this stage;  
7     is that correct?

8           A.     That's correct.

9           Q.     So there is acreage that can be used to form  
10    other well units or development areas?

11          A.     That's correct.

12          Q.     Were Exhibits A, A-1, A-2 and A-3 prepared by  
13    you or under your supervision?

14          A.     Yes.

15                   MR. BRUCE:   Mr. Examiner, Exhibits B and C  
16    are simply my notice affidavits.

17                   I would move the admission of Exhibits A,  
18    A-1, A-2, A-3, B and C.

19                   MR. DeBRINE:   No objection.

20                   MR. LARSON:   No objection.

21                   MR. MOELLENBERG:   (Indicating.)

22                   MR. PADILLA:   None.

23                   (Ascent Energy, LLC Exhibit Numbers A and  
24    A-1 through A-3 and B and C were offered  
25    into evidence.)

1           Q.    (BY MR. BRUCE) And finally, Mr. Zink, in your  
2   opinion, is the granting of these applications in the  
3   interest of conservation and the prevention of waste?

4           A.    Yes.

5                       MR. BRUCE:  Mr. Examiner, I pass the  
6   witness.

7                       EXAMINER JONES:  Mr. DeBrine.

8                               CROSS-EXAMINATION

9   BY MR. DeBRINE:

10          Q.    Yes.  Mr. Zink, you said Ascent is currently  
11   drilling wells in Lea County; is that correct?

12          A.    That's correct.

13          Q.    How many wells has Ascent drilled in New Mexico  
14   since January of 2018?

15          A.    We are currently drilling our first five-well  
16   pad.

17          Q.    When did you first come into New Mexico as an  
18   operator?

19          A.    As an operator, our first acquisition was end  
20   of 2016.

21          Q.    Did you ask the Division if your witnesses who  
22   were on location could testify in today's hearing by  
23   telephone?

24          A.    I personally did not.

25          Q.    You indicated that there is a pending deal in

1    **which Ascent's going to acquire additional acreage. Who**  
2    **is that deal pending with?**

3           A.    We're working through it right now, but a  
4    number of owners in there. It's a multiparty deal.

5           **Q.    And who are they?**

6           A.    It's the Hudson family interest there. They're  
7    listed on there and all of their --

8           **Q.    And are there any contingencies on that deal?**

9           A.    Just working through title right now, title  
10   curative.

11          **Q.    But you've signed a purchase -- a binding**  
12   **purchase and sale agreement to acquire such interest?**

13          A.    We have not. Nope.

14          **Q.    You indicated that as a result of your**  
15   **negotiations, you did pick up a couple of packages of**  
16   **acreage. What were those?**

17          A.    There were several small pieces in the area in  
18   that unit.

19          **Q.    Could you identify who they are based on the**  
20   **exhibit?**

21          A.    We picked up a package from Marathon --  
22   sorry -- from Matador and a company called Jalapeno.

23          **Q.    And what was the interest acquired and what**  
24   **particular lands that are part of the proposed**  
25   **development unit?**



1           A.    It was interest in the west half of 28 and all  
2   of -- all of Section 28.

3           Q.    And what was the percentage working interest  
4   you acquired?

5           A.    I don't remember off the top of my head, but  
6   total to date, we're at 34 percent in that unit.

7           Q.    Could you give me an estimate of what -- what  
8   the percentage you acquired from those parties?

9           A.    In the -- in the section or in the lease?

10          Q.    In the lease.

11          A.    I think it was approximately -- one was 14  
12   percent, and the other one was in the -- in the section,  
13   and the other one was -- I don't know -- four or five,  
14   somewhere in there.

15          Q.    Isn't it true that when Ascent proposed its  
16   Anvil development area in March of 2018 that it was  
17   actively marketing its acreage that was included in the  
18   Taco development acreage trying to sell it?

19          A.    No.

20          Q.    When did you put that acreage on the market?

21          A.    I don't think that was until June, I believe,  
22   2018.

23          Q.    And how long did you continue to market  
24   Ascent's interest in the Taco development area?

25          A.    I think it was about a month process.

1           Q.    So since July of 2018, you've not attempted to  
2   sell the interest owned by Ascent within the Anvil  
3   development area?

4           A.    We are always looking to maximum our acreage,  
5   maximum the value of our position, so I can't say that.  
6   I can't confirm that.

7           Q.    Do you currently have any negotiations --  
8   active negotiations to sell any of your interest in the  
9   --

10          A.    No.

11          Q.    -- Anvil development area?

12          A.    No.

13          Q.    When was the last time you had any discussion  
14   with somebody concerning the potential sale of your  
15   interest?

16          A.    I think when we were working out our -- we've  
17   talked with numerous companies who have interest in this  
18   area.

19          Q.    And my question was: When was the last time  
20   you had discussions about the potential sale of your  
21   interest in the Anvil development area?

22          A.    I don't know. Within the last year.

23          Q.    In 2019?

24          A.    In 2019.

25          Q.    Have you had any since June of 2019?

1           A.   Possibly, yeah.  Possibly.

2           Q.   How many horizontal wells has Ascent drilled in  
3   the Texas portion of the Permian Basin?

4           A.   Zero.

5           Q.   How many laterals over a mile has Ascent  
6   drilled in other producing areas of the country?

7           A.   Zero.

8           Q.   Have you undertaken any analysis of the  
9   drilling of the wells that have been proposed by Ascent  
10   to assess the potential well collision with Apache's  
11   wells that might be drilled in Section 28 from the  
12   Golden well pad?

13          A.   As the land manager?

14          Q.   Yes.

15          A.   I personally have not.

16          Q.   Has anybody from Ascent undertaken --

17          A.   Yes.

18          Q.   -- any collision risk assessment?

19          A.   Yes.

20          Q.   Who was that?

21          A.   We had a VP of drilling, who worked with Apache  
22   over the course of -- probably back in April -- April,  
23   May of 2018.

24          Q.   If you turn to Exhibit 9, which is the well map  
25   that shows the horizontal wells in the area surrounding

1     the proposed development areas --

2           A.     Yup.

3           Q.     -- you indicated that there were wells drilled  
4     both north-south and east-west; is that correct?

5           A.     That's correct.

6           Q.     Isn't it true that the vast majority of the  
7     wells shown on Exhibit 9 have been drilled east-west  
8     rather than north-south?

9           A.     Looks pretty similar. I don't know that you  
10    can say vast majority.

11          Q.     Have you attempted to calculate the number of  
12    wells that have been north-south versus east-west?

13          A.     Yeah. And we can show that in some future  
14    slides.

15          Q.     Have you broken it down by the -- by date as to  
16    when the particular well orientation of the wells were  
17    drilled?

18          A.     I'm sure someone in our company has. Yes.

19          Q.     When does Ascent plan to drill its Purple Frog  
20    State wells?

21          A.     So Ascent's Purple Frog State wells are  
22    one-mile wells drilling north-south in the east half of  
23    Section 32. We have active permits on that right now.  
24    I think we have close to 10 to 15 permits on there right  
25    now. We are currently drilling our, obviously, first

1 five-well pad in Lea County right now, with plans to  
2 keep that rig continuing, so plans within, you know, the  
3 next year or two.

4 Q. What is Ascent's drilling plan if it were  
5 granted the request to be the operator of its Anvil  
6 development area? When will the Anvil wells be  
7 developed in your schedule?

8 A. Once we get approved permits, and I'm not sure  
9 how long that will take.

10 Q. You've not contracted a rig to drill those  
11 wells?

12 A. To drill the Anvil wells?

13 Q. Yes.

14 A. We have a -- we have a contract with a rig  
15 company right now.

16 Q. But not for those particular wells?

17 A. No.

18 Q. Or they've not been included within the scope  
19 of that contract as of yet?

20 A. No.

21 Q. Is Ascent's federal lease NMNM0164757 in the  
22 northwest quarter of the northwest quarter of Section 28  
23 still held by production?

24 A. It's in a communitization agreement covering  
25 the west half.

1           Q.    Are you aware that OCD records reflect that the  
2   only communitized well in that lease has not produced  
3   since 2017?

4           A.    I believe that we've just turned that well back  
5   on production last month. Two months ago we have  
6   restored production on that well.

7           Q.    So for a two-year period, it didn't produce?

8           A.    When we acquired this lease, that well was not  
9   producing. Yes. So within the year we have owned that  
10   lease, we have gotten that well back in production.

11          Q.    Have you had any problems with a frozen  
12   wellhead that was leaking in your Upper Gas Fee Com #1  
13   well that went unrepaired for an extended period of time  
14   earlier this year?

15          A.    We are aware of some operations out there, and  
16   we did a workover on that well and brought it back into  
17   production.

18                   MR. DeBRINE: No further questions.

19                   EXAMINER JONES: Mr. Larson?

20                   MR. LARSON: No questions.

21                   EXAMINER JONES: Mr. Padilla?

22                   MR. PADILLA: None.

23                   EXAMINER JONES: Mr. Moellenberg?

24                   MR. MOELLENBERG: No questions.

25                   EXAMINER JONES: Cross? Any questions?

1 EXAMINER COSS: No questions.

2 CROSS-EXAMINATION

3 BY EXAMINER JONES:

4 Q. Is it marked, the parties that you intend to  
5 pool, on your Exhibit A?

6 A. Pages 5 and 6.

7 Q. Sometimes -- sometimes people come and they  
8 yellow-out the pooled interests. Are those all -- all  
9 those interests intended to be pooled?

10 A. Yes. Those are all the interests on pages 5  
11 and 6.

12 Q. And they're working interest?

13 A. Those are working interests. Correct.

14 Q. Okay. So the nature of the lands in your --  
15 your JOA -- proposed JOA, what does it -- does it  
16 include the west half of these two sections?

17 A. The JOA that we have sent out covered the whole  
18 west half of Sections 28 and 33.

19 Q. Okay. And inside that, is it all federal  
20 lands?

21 A. It's all federal lands.

22 Q. How many federal leases?

23 A. There are actually just two federal leases.

24 Q. Just one in each section?

25 A. It's actually -- it's one lease covering all

1 of -- except the northwest-northwest of 28. That 40  
2 acres is its own lease.

3 Q. The northwest-northwest?

4 A. Yeah. The northwest-northwest of 28 is its own  
5 lease or it's a separate lease number.

6 Q. Okay. So who has the title -- who has -- who  
7 is the lessee of record? I don't know what the  
8 federal -- if they say the lessee of record or what they  
9 say, but --

10 MR. BRUCE: Record title owner.

11 THE WITNESS: Record title, operating  
12 rights.

13 Q. (BY EXAMINER JONES) Record title owner.

14 Are you the record title owner?

15 A. We are the operating rights owner. We have  
16 some record title, but we're mostly majority operating  
17 rights owners for specific depths.

18 Q. So as far as both leases go, you're the record  
19 title?

20 A. Yes. Correct. Correct.

21 Q. You're not the record title, but you have the  
22 operating rights?

23 A. Correct. Yeah.

24 Q. And those were filed with the --

25 A. With the BLM, yup.



1           **Q.    -- with the BLM on their form?**

2           A.    Correct, and filed of record in Lea County as  
3   well -- I mean in Eddy County.  Sorry.

4           **Q.    But the big lease that covers most of this --**

5           A.    Uh-huh.

6           **Q.    -- is split up into assignments or --**

7           A.    Yeah.  There are some -- that lease has been  
8   heavily -- I shouldn't say -- it's been pretty severed.  
9   That lease covers about, I think, four different  
10   sections, and each section has kind of its own chain of  
11   title.

12          **Q.    Okay.  Okay.  So you're working with the**  
13 **Hudsons, you said?**

14          A.    The Hudson group, yeah, et al.

15          **Q.    They're not listed here?**

16          A.    Yeah.  Sorry.  The Hudson group, that's Delmar  
17   Lewis Living Trust.  That's Lindy's Living Trust, Moore  
18   & Shelton, Javelina Partners, Zorro Partners, Ard Energy  
19   Group and Josephine T. Hudson Testamentary Trust.

20          **Q.    So you're working with Ard Energy?**

21          A.    Yes.

22          **Q.    But you expect to obtain --**

23          A.    We're waiting on some curative -- some title  
24   curative matters to make -- to get marketable title.

25          **Q.    Without the Hudson acreage, how much would you**

1     **have?**

2           A.     Right now we have 34 percent in that unit.

3           Q.     Okay.  But -- but it would go up to 84 percent?

4           A.     Correct.

5           Q.     Okay.  So you're not -- you're not moving to  
6     pool the east half-west half?  This whole matter is west  
7     half-west half?

8                     MR. BRUCE:  Correct.

9                     THE WITNESS:  Yes.  The wells that we  
10    propose are just in the west half-west half.

11          Q.     (BY EXAMINER JONES) Okay.  And there are three  
12    Bone Spring and --

13          A.     We've got three Bone Spring and two Wolfcamp.  
14    Correct.

15          Q.     Two Wolfcamp.

16                     And the Wolfcamps are Wolfcamp A?

17          A.     A and XY.  They're two different landing  
18    targets.

19          Q.     Okay.  We'll talk about that later.

20          A.     Okay.

21          Q.     But the Bone Spring, do you know what zone?

22          A.     We have our 401H targeting the 1st Bone.  Our  
23    501H is targeting the 2nd Bone Spring, and our 601H is  
24    targeting the 3rd Bone.

25          Q.     Okay.  So you're going to cover all three?

1           A.     Correct.

2           Q.     Let's see here. And no wells will be  
3 nonstandard locations?

4           A.     No. No.

5           Q.     Okay. What about the -- just to throw a random  
6 question in here about the water disposal. Do you work  
7 on the water disposal agreements? Do you take care of  
8 how you're going to get rid of your water?

9           A.     Yeah. We have a contract with -- an  
10 infrastructure contract, a gathering contract, with a  
11 company, so they're going to be working on water  
12 disposal, plus freshwater delivery, take away both oil  
13 and gas. So we've got those infrastructure agreements  
14 in place already.

15          Q.     Okay. You don't see a problem with that?

16          A.     Not right now.

17          Q.     Okay. Now, potash and well siting, you listed  
18 on here a two-mile notification area; is that correct?

19          A.     Right. Yup.

20          Q.     But you didn't list it two miles north -- is it  
21 two miles from the well site?

22          A.     It's two miles from the well site. Correct.

23          Q.     And is that just in the Secretary's potash  
24 area?

25          A.     That is. Yup. That's part of the process of

1 creating a development area.

2 Q. Okay. And you mentioned well siting of your --  
3 you've already got the wells sited?

4 A. So we've got -- yeah. Before -- before you can  
5 propose a development area, you have to have drill  
6 islands -- specific drill islands. So we went out there  
7 prior -- prior to March 13th of '18, we went out there  
8 with the BLM, had an on-site and actually staked those  
9 well locations. So those -- those are fully approved.

10 Q. Would it be one big pad to drill all five  
11 wells?

12 A. Yes, it would. Yup. So we've got two sites  
13 for future development on the -- on the east half-west  
14 half. We've got another -- a second drill island to  
15 develop that at a future date.

16 Q. Okay. So you've done a lot of legwork?

17 A. Yes, we have.

18 Q. And the wells are into the BLM for approval,  
19 but they're not approved yet?

20 A. We have not filed the APDs yet. We're waiting  
21 for, obviously, the right to pool.

22 Q. Okay. Okay.

23 A. And before -- you know, we do have -- in our  
24 Purple Frog lease, which is the east half of Section 32,  
25 we have -- I think we have 15 permits there already, and

1     that's on state lands. And so we have no drill island  
2     issues there.

3           **Q.     Okay. Why west half-west half before east**  
4     **half-west half?**

5           A.     It was just kind of the first -- the first  
6     development plan for that area, obviously, you know,  
7     using our Section 22 -- Section 32 wells as well, so  
8     kind of codevelop them together, our leases, our lease  
9     position there.

10          **Q.     So Apache is really not in your wells at all;**  
11     **is that correct?**

12          A.     They're not in any of our -- yeah.

13          **Q.     Does it depend on how the Hudson ownership**  
14     **plays out? Would Apache end up with some ownership in**  
15     **your wells? Probably not, huh?**

16          A.     I don't think so.

17          **Q.     Because you're not aware of any.**

18          A.     Yeah. I'm unaware of them acquiring any  
19     interest, and through our recent title checks, they  
20     don't own anything in Section 28 at all or 33.

21          **Q.     Okay. So basically the whole issue of Apache**  
22     **here is Apache's proposed wells, but not yours, right?**

23          A.     Correct.

24          **Q.     Okay.**

25

1 CROSS-EXAMINATION

2 BY EXAMINER COSS:

3 Q. What is the reasoning behind going north to  
4 south instead of east to west? Is that a geologic or a  
5 land issue?

6 A. I think that's a -- that's just kind of what  
7 the company prefers. We can develop -- we think  
8 north-south orientation works great. We have existing  
9 drill islands to do that, and it's conforming with the  
10 existing wells and units already out there that the BLM  
11 has already established. So there are options to  
12 probably do either. We feel that north-south is the  
13 best orientation, and with proof of XTO out there in  
14 this area and -- what map is that?

15 MR. BRUCE: Page 9.

16 THE WITNESS: On page 9, you've got two  
17 huge XTO development pads out there that are drilling  
18 north-south. So being the largest operator in the basin  
19 I think justifies that north-south is -- to fully  
20 maximize recovery of reserves out here.

21 RECROSS EXAMINATION

22 BY EXAMINER JONES:

23 Q. Do you have your com agreement already done  
24 with BLM?

25 A. No, we don't. No.

1           Q.    Is it in to them?

2           A.    Yeah.  We have not applied for it yet.

3           Q.    Okay.  You mentioned earlier that east-west  
4 would strand more acreage.

5           A.    Yup.

6           Q.    Can you explain more about that?

7           A.    Yeah, absolutely.  Well, we have a map that  
8 Alex Yancey will be showing and going through the actual  
9 visual of it.  But, essentially, we think with an  
10 east-west development there, it possibly strands acreage  
11 in the area, so prevents wells from getting drilled or  
12 leases from getting developed.

13          Q.    Okay.  And as far as your two witnesses, I  
14 understand the geologist, but you said another person  
15 was an owner of the company?

16          A.    Our chief operating officer, yeah.

17          Q.    Chief -- CEO.

18          A.    CEO -- COO.

19          Q.    I guess -- okay.

20                   EXAMINER JONES:  I'll pass the witness.

21                   Mr. Brancard, any questions?

22                   CROSS-EXAMINATION

23   BY EXAMINER BRANCARD:

24          Q.    Looking at page 9, on Section 32, those are  
25 proposed wells?

1           A.    Those are -- they are approved permits that we  
2   have.

3           Q.    Okay.   But not drilled?

4           A.    They're not drilled.   Correct.

5           Q.    And so those are just -- those are stand-ups  
6   that are just going a mile?

7           A.    That's correct.

8           Q.    So if you were -- if Ascent was approved -- oh,  
9   sorry -- if Apache was approved, you'd be left with the  
10   potential of doing a mile-and-a-half instead of two  
11   miles; is that correct?

12          A.    Yeah.   Yeah.   Yes.

13                   EXAMINER JONES:   Unless you did an  
14   overlapping spacing unit, which nobody seems to want to  
15   do that.   But it's allowed in the rules.

16                   Any follow-up, since you only have two  
17   witnesses?

18                   MR. BRUCE:   Yeah.

19                   REDIRECT EXAMINATION

20   BY MR. BRUCE:

21          Q.    Mr. Zink, insofar as other interest owners, if  
22   you come to terms with them, will you notify the  
23   Division that they are no longer subject to a pooling  
24   order?

25          A.    Yes.



1 Q. And I forget the name of the well that  
2 Mr. DeBrine raised, said it hadn't been producing since  
3 2017. That's federal acreage, right?

4 A. That is federal acreage.

5 Q. So as such, a well on federal acreage, if it  
6 terminates production even for one year, two years, five  
7 years, ten years, it doesn't automatically terminate?

8 A. That's correct.

9 Q. The BLM has to send out a notice to bring back  
10 a well on production and --

11 MR. DeBRINE: I'll object. Calls for a  
12 legal conclusion.

13 Q. (BY MR. BRUCE) And you mentioned APDs. Until  
14 you get a development area, the BLM wouldn't approve an  
15 APD; is that correct?

16 A. That's correct.

17 Q. And finally on page 9 of Exhibit A, when you're  
18 look at that, just to clarify, the -- are the red wells  
19 drilled wells and the purple proposed?

20 A. Yes. For the most part, yes. The big -- the  
21 big two miles there in I think 19 -- or in Township 19  
22 South, 30 East, Sections -- what is it -- 15, 22, 27,  
23 34, I think most of those wells have been drilled by  
24 XTO.

25 Q. Okay.

1                                    **RECROSS EXAMINATION**

2        BY EXAMINER JONES:

3            Q.    Does that mean they're in one of the big XTO  
4        units?

5            A.    They are.

6            Q.    Which units are we talking about here?    The  
7        Poker Lake [phonetic] or --

8            A.    Mojo Unit.    I think that's the name.

9            Q.    Are those old BOPCO units?

10          A.    No.    This is outside the Big Eddy Unit.    At  
11        least that location is outside the Big Eddy Unit.

12          Q.    Okay.

13                                **CONTINUED CROSS-EXAMINATION**

14        BY EXAMINER BRANCARD:

15          Q.    I'm sorry.    So on page 9, the areas that are  
16        like polygons in orange, are those drilling islands?

17          A.    Those are approved drill islands, BLM drill  
18        islands, correct.

19          Q.    So you're shooting for the ones all the way at  
20        the edge of the bottom of 33?

21          A.    That's correct.

22                                **RECROSS EXAMINATION**

23        BY EXAMINER JONES:

24          Q.    So does Mr. Rutley publish those drilling  
25        islands so everybody can see them?

1           A.    Yup.  Yup.  That's -- yup.  Those are emailed  
2   and updated, I think, regularly, you know, every --  
3   twice a year, three times a year.

4           **Q.    Is there any other surface reason for not --**  
5   **for locating the wells where they're at?  In other**  
6   **words, is there restricted wildlife areas or anything**  
7   **like that?**

8           A.    I mean, just specifically to that area, it's  
9   right off the county road right there, so it's easy  
10  access to those -- to those units -- or to the well pads  
11  --

12          **Q.    Okay.**

13          A.    -- so not a lot of surface disturbance because  
14  it's right off the main road, so it's minimal surface  
15  disturbance using those well pads.

16                   EXAMINER JONES:  Okay.  If that's it --

17                   MR. BRUCE:  No other questions for this  
18  witness.

19                   EXAMINER JONES:  Thank you, Mr. Zink.

20                   THE WITNESS:  Thank you.

21                               ALEX YANCEY,

22           after having been previously sworn under oath, was  
23   questioned and testified as follows:

24

25

1 DIRECT EXAMINATION

2 BY MR. BRUCE:

3 Q. Would you please state your name and city of  
4 residence for the examiner?

5 A. Alex Yancey, Denver, Colorado.

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

7 A. I work for Ascent Energy, LLC as the VP of  
8 engineering.

9 Q. Have you previously testified before the  
10 Division?

11 A. I have not.

12 Q. Would you please summarize your educational and  
13 employment background?

14 A. Yes. I have a petroleum engineering degree  
15 from Colorado School of Mines, which I obtained in 2001.  
16 I started my career with BP working Alaskan North Slope  
17 operations for seven years. After that, I moved to  
18 Denver where I worked for Encana in various basins and  
19 different roles there all in engineering capacities. I  
20 then moved to Australia for two years, worked for a  
21 company called Santos and worked Australian onshore  
22 operations there. And the last four years, I've been  
23 back in Denver working engineering operations for the  
24 petroleum engineering company.

25 Q. And are you familiar with the engineering

1     **matters related to Ascent's applications?**

2           A.     Yes, I am.

3           **Q.     And have you prepared a couple of exhibits --**

4           A.     Yes, I have.

5           **Q.     -- for presentation?**

6                     MR. BRUCE:   Mr. Examiner, I tender

7     Mr. Yancey as an expert petroleum engineer.

8                     EXAMINER JONES:   How was Perth?

9                     THE WITNESS:   I actually lived in Adelaide.

10                    EXAMINER JONES:   Oh.

11                    THE WITNESS:   I didn't make out to Perth,  
12     but Adelaide is quite nice.

13                    EXAMINER JONES:   Any questions?

14                    MR. DeBRINE:   If I could voir dire the  
15     witness.

16                                VOIR DIRE EXAMINATION

17     BY MR. DeBRINE:

18           **Q.     Yes.   Mr. Yancey, do you have any experience**  
19     **drilling horizontal wells in the New Mexico Permian**  
20     **Basin?**

21           A.     We're actively drilling horizontal wells right  
22     now in the Permian Basin.

23           **Q.     And those are the ones that were mentioned by**  
24     **Mr. Zink that are the first wells being drilled by**  
25     **Ascent in New Mexico?**

1           A.     That's correct.

2           Q.     Prior to that, had you ever drilled a  
3     horizontal well in the Permian Basin or overseen its  
4     drilling?

5           A.     I have not.

6                     MR. DeBRINE: We would object to Mr. Yancey  
7     offering expert opinions with regard to horizontal  
8     drilling of wells in the -- preferred orientation of  
9     wells in the Permian Basin given his lack of experience  
10    in the basin.

11                    VOIR DIRE EXAMINATION

12    BY EXAMINER JONES:

13           Q.     Mr. Yancey, are you a reservoir engineer, or  
14     are you --

15           A.     Reservoir engineer, yes.

16           Q.     Okay. How about drilling experience? You got  
17     drilling experience, too?

18           A.     Only periphery through the work experience and  
19     being part of oil and gas companies, so being a part of  
20     development teams, but I'm not an expert drilling  
21     engineer.

22                    CONTINUED DIRECT EXAMINATION

23    BY MR. BRUCE:

24           Q.     Mr. Yancey, as part of your job wherever it has  
25     been, have you always reviewed data to determine

1     **wellbore capabilities and issues like that?**

2             A.     Yes.

3                     MR. BRUCE:   Mr. Examiner, he's got almost  
4     20 years' experience as a reservoir engineer.

5                     CONTINUED VOIR DIRE EXAMINATION

6     BY EXAMINER JONES:

7             **Q.     Mr. Yancey, do you know what a dipole sonic is**  
8     **and a formation microscanner and the reason for those**  
9     **logs?**

10            A.     Yes.

11                   EXAMINER JONES:   Okay.   He's so qualified.

12                   CONTINUED DIRECT EXAMINATION

13     BY MR. BRUCE:

14             **Q.     Let's start with your Exhibit D, Mr. Yancey.**  
15     **What does the first page show?**

16            A.     This is a review of the 2nd Bone wells drilled  
17     in the area, and the blue dots are the wells with  
18     east-west orientation.   The green dots are the wells  
19     with the north-south orientation.   There are 72 wells in  
20     this area, so I did an examination of the productivity  
21     of these wells.

22             **Q.     Are the 2nd Bone Spring wells most numerous in**  
23     **this immediate area?**

24            A.     Yes.   And so I thought it was a good data set  
25     to use.

1           Q.    Okay.  And you studied, and what did that show?

2   And move on to page 2.

3           A.    Yes.  If you'll follow over there, the blue bar  
4   is the east-west wells and their normalized six-month  
5   cum production, so there is no interpretation with that  
6   compared to the green bar, the north-south orientation.  
7   And you can see there is statistically almost no  
8   difference between the wells after first months of  
9   production.

10          Q.    So if people talk about fracture orientation,  
11   et cetera, doesn't actual production give a good  
12   indication of whether or not wellbore orientation is  
13   significant?

14          A.    I think it would give a great indication.

15          Q.    And what does page 3 show?

16          A.    Page 3 shows our Anvil DA and then the  
17   proximity to XTO's drilling and completion operations.  
18   As you can see, just north of us, they've drilled and  
19   are in the process of completing their eight Bubble  
20   wells and eight Buttercup wells.  And then they've  
21   proposed the Blossom DA, which is very close to us, and  
22   all of these wells, all 24 of them, have north-south  
23   orientation.

24          Q.    How many wells overall is XTO planning on  
25   drilling in a north-south orientation in this area?



1           A.     There are 24 wells that we know of.

2           **Q.     And XTO has quite a bit of acreage there?**

3           A.     They do.  They have about 50 rigs running in  
4     this area.

5           **Q.     What is Exhibit 4 -- I mean page 4 of Exhibit**  
6     **D?**

7           A.     Page 4 is a list of the 72 wells that I  
8     examined with their relevant data set and just showing  
9     their -- their production dates just for reference of  
10    the data.

11          **Q.     Now, in looking at that page 3 or any of the**  
12    **planned acreage, there are a lot of one-mile and a lot**  
13    **of two-mile wells; is that correct?**

14          A.     Yes.

15          **Q.     Are there any two-and-a-half-mile wells in this**  
16    **area?**

17          A.     Not that I'm aware of.

18          **Q.     And finally, let's move on to pages 5 and 6 of**  
19    **Exhibit D.  What do they show?**

20          A.     Page 5 shows the optimal development plan with  
21    the Anvil DA.  So you can see with the other operators  
22    and using existing drill islands that all the acreage in  
23    this nine-township area can be developed, and it leaves  
24    no stranded acreage.

25          **Q.     And that's drilling all the wells as**

1    **north-south wells or south-north wells, whatever; is**  
2    **that correct?**

3           A.    Yes.

4           **Q.    What is page 6?**

5           A.    Page 6 is -- if you use the Apache proposal,  
6    their wells slice through this area, and then it strands  
7    acreage through there. So the black boxes, you would  
8    not be able to develop those acres under the existing  
9    drill islands that are in place right now, so it would  
10   go undeveloped.

11          **Q.    And what would be the effect of that?**

12          A.    There would be, obviously, waste. And then I  
13   did some calculations for the U.S. Government for the  
14   federal land through here, so approximately \$182 million  
15   in lost royalty to the U.S. Government.

16          **Q.    Would -- could that negate any alleged cost**  
17   **benefits of two-and-a-half-mile laterals?**

18          A.    I would think 182 would dwarf any of that.  
19   Yes.

20          **Q.    And that's just, again, the royalty interest?**

21          A.    That's correct.

22          **Q.    In looking at pages 5 and 6, and especially**  
23   **page 5 here, does Apache have the ability to develop its**  
24   **acreage in another fashion than east-west wells without**  
25   **adversely affecting Ascent?**

1           A.    Yes.  They can concurrently develop their  
2   acreage fully with existing drill islands, and there  
3   would be no impact to us.

4           **Q.    Next is Exhibit D-1.  What does that show,**  
5   **Mr. Yancey?**

6           A.    We did just a comparison on the competing  
7   development plan factors, and this is just the criteria  
8   that we were looking at.  So geological evidence, we  
9   said that there was a push on there.  There would not be  
10  significant argument either way on that.

11                   Our development plan is in favor of us.  We  
12  maximize resource extraction through here and eliminate  
13  waste.  Comparison risk and negotiation we said was  
14  negligible on there.  Prudent operator and prevent  
15  waste, I think our plan soundly demonstrates that as far  
16  as it does not strand any acreage and it maximizes  
17  development through the current and existing drill  
18  islands.  And then cost estimates not -- are negligible  
19  here.  And for ownership interest, we have a high  
20  working interest within our area, and Apache does not  
21  own any interest in ours.  So --

22           **Q.    And were those factors taken from a fairly**  
23   **recent Division order concerning counterpooling**  
24   **applications?**

25           A.    Yes.

1           Q.    And that was in a battle, shall we say, between  
2   Ascent and Centennial?

3           A.    That's correct.

4                   MR. BRUCE:  Mr. Examiner, that's Order  
5   R-14847, where those factors came from.

6           Q.    (BY MR. BRUCE) Now, Mr. Yancy, when Ascent is  
7   developing a prospect, do you work in association with  
8   the geologist at Ascent?

9           A.    Very closely, yes.

10          Q.    And in looking at this prospect from an  
11   engineering standpoint, will each quarter-quarter  
12   section in the well units be productive, in your  
13   opinion?

14          A.    Yes.

15          Q.    And do you believe horizontal drilling is the  
16   maximum way to develop the reservoir?

17          A.    Yes.

18          Q.    And just for the record, were Exhibits E  
19   through H the exhibits prepared by Mr. Metz for this  
20   hearing?

21          A.    Yes.

22          Q.    Okay.  Were Exhibits D and D-1 prepared by you  
23   or under your supervision?

24          A.    Yes.

25          Q.    And in your opinion, is the granting of

1     **Ascent's applications in the interest of conservation**  
2     **and the prevention of waste?**

3             A.     Yes.

4                     MR. BRUCE:   Mr. Examiner, I move the  
5     admission of Exhibits D and D-1.

6                     I have submitted the geological exhibits.  
7     I don't have anyone to verify them, but I'm just giving  
8     them to the Division for what they're worth. I really  
9     doubt there is much geologic difference just in the  
10    basic isopach and structure, et cetera.

11                    EXAMINER JONES:   No objections to D and  
12    D-1?

13                    MR. DeBRINE:   No, Mr. Examiner.

14                    EXAMINER JONES:   Any objections?

15                    MR. LARSON:   (Indicating.)

16                    MR. PADILLA:   No.

17                    MR. MOELLENBERG:   No.

18                    MR. DeBRINE:   Just to clarify, we have no  
19    objection. The witnesses testify that there are no  
20    geologic differences with regard to the different areas,  
21    so we don't -- to accommodate the inability of the  
22    witness to testify, we don't have any objection to the  
23    Division considering those exhibits.

24                    EXAMINER JONES:   Exhibits D and D-1 are  
25    admitted.

1                   (Ascent Energy, LLC Exhibits D and D-1 are  
2                   offered and admitted into evidence.)

3                   EXAMINER JONES: As far as E through H, are  
4                   you submitting those?

5                   MR. BRUCE: I would submit them. If you  
6                   would like just a quick affidavit from the geologist  
7                   just verifying that he did prepare them, I could give  
8                   that.

9                   EXAMINER JONES: Are the other attorneys  
10                  opposing an affidavit subsequent to the hearing from the  
11                  geologist?

12                  MR. BRUCE: All he would confirm -- he  
13                  would say that "I prepared these."

14                  EXAMINER JONES: He would just say, "I  
15                  prepared the exhibits."

16                  MR. DeBRINE: Yeah. I think the witness  
17                  has already authenticated the exhibits as being prepared  
18                  by him, so I don't think that we need anything further.

19                  EXAMINER JONES: Okay. E, F, G, H. Okay.  
20                  We've got the 1st Bone Spring, the 2nd Bone Spring and  
21                  the 3rd Bone Spring and the Wolfcamp.

22                  Exhibits E, F, G, H are admitted.

23                  (Ascent Energy, LLC Exhibits E, F, G and H  
24                  are offered and admitted into evidence.)

25                  EXAMINER JONES: Pass the witness?

1 MR. BRUCE: Pass the witness.

2 MR. DeBRINE: Mr. Examiner, could we have a  
3 brief recess so I can consider the exhibits with our --

4 EXAMINER JONES: Yes.

5 (Recess, 10:16 a.m. to 10:30 a.m.)

6 EXAMINER JONES: Let's go back on the  
7 record, Mr. DeBrine.

8 CROSS-EXAMINATION

9 BY MR. DeBRINE:

10 Q. Yes. Mr. Yancy, you indicated in your  
11 testimony that you have not been involved in drilling  
12 any horizontal wells in the Permian Basin -- any part of  
13 the Permian Basin, whether in New Mexico or Texas, other  
14 than the wells that are currently being drilled by  
15 Ascent; is that right?

16 A. That's correct.

17 Q. And where are those wells located that are  
18 currently being drilled?

19 A. In Lea County.

20 Q. Where in Lea County?

21 A. The two pad and 21 -- I don't remember exactly.  
22 I'm sorry. The township and range is slipping my mind.

23 Q. Do you know the length of the laterals for  
24 these wells?

25 A. 7,500 feet.

1           Q.    And how are they oriented?  East-west or  
2 north-south?

3           A.    North-south.

4           Q.    And looking at your Exhibit D, I'm just trying  
5 to gain an understanding of what it's designed to  
6 represent.  You show wells in Section 32.  Are those  
7 wells that have actually been drilled, or are those  
8 proposed wells?

9           A.    Those are the wells that we have APDs for.

10          Q.    And so Ascent is proposing to drill north-south  
11 wells in the west -- or the east half of Section 32; is  
12 that correct?

13          A.    Yes, the Purple Frog.

14          Q.    And those are the Purple Frog wells?

15                   What are the wells in the west half of 32?

16          A.    Those are Matador's HEYCO wells.

17          Q.    Do you know what the production history of  
18 those wells looks like?

19          A.    Specific volume?

20          Q.    Yes.

21          A.    No.

22          Q.    You didn't look to see whether those wells were  
23 productive in determining whether you were going to  
24 drill offset wells?

25          A.    I did look at those.



1           Q.    And are those wells considered very poor  
2 producers?

3           A.    Yes.

4           Q.    So why are you planning on drilling offset  
5 wells off poor producers for your other wells?

6           A.    There's good wells and poor wells throughout  
7 this whole area. What we did was we looked at the  
8 larger area, and, on average, there are good wells north  
9 and south. And we're being consistent with what other  
10 operators, including Exxon, are doing in the area.

11          Q.    But it is true that in Section 32 there are no  
12 good producers in the HEYCO wells?

13          A.    There are two producers, and neither one of  
14 them were good.

15          Q.    In looking at your study of wells that are  
16 shown on Exhibit D, which indicates the production  
17 information from wells oriented in an east-west,  
18 north-south orientation, did you consider the size of  
19 completion associated with those wells in analyzing your  
20 data and trying to normalize it?

21          A.    No. We normalized on lateral length.

22          Q.    The completion side would be a considerable  
23 factor in determining the productivity of the well.  
24 Wouldn't you agree?

25          A.    It would contribute.

1           Q.    You wouldn't agree that it's a considerable  
2   factor in determining the productivity of a well, the  
3   size of the completion?

4           A.    There are many contribution factors in that  
5   that would be relevant.

6           Q.    And it would be a significant factor, the size  
7   of the completion?

8           A.    Not in isolation.

9           Q.    What are the other factors?

10          A.    The fluid type that you use. The holes as far  
11   as the perforations would probably also be contributing  
12   factors.

13          Q.    And you didn't analyze any of those factors.  
14   You just looked at gross production for the time period;  
15   is that correct?

16          A.    That's correct.

17          Q.    And you don't know what completion techniques  
18   or the size of the completion that XTO was using for the  
19   wells that are shown on your Exhibit 3 -- on page 3 of  
20   Exhibit D?

21          A.    They have not completed those wells. They have  
22   drilled those wells, and they are in the process of  
23   doing that and that information is not public yet.

24          Q.    And those wells are located approximately five  
25   miles north of the Anvil development area?

1           A.     The proposed Blossom DA is about a mile away.

2           Q.     I notice that you didn't indicate any other XTO  
3     wells on your map shown on page 3 of Exhibit D. Isn't  
4     it true that XTO has permitted and plans on drilling  
5     wells in a west-to-east orientation from the drill pads  
6     that are shown on the -- from the section line in  
7     Section 30 offsetting the Apache proposed drilling  
8     islands?

9           A.     I'm not aware of those proposals.

10          Q.     You haven't investigated it?

11          A.     No, I have not.

12          Q.     And in looking at page 5 of your optimal  
13     development plan, you have not considered any  
14     limitations on the surface or whether there are existing  
15     drill pads that could be located to develop the area  
16     shown in a different fashion; is that correct?

17          A.     We looked at using existing drill islands. We  
18     figured that eliminated waste the most by just using  
19     what the current plan was versus having to go back and  
20     create new drilling islands.

21          Q.     And that's a continuing process, isn't it,  
22     operators proposing new drilling islands and then  
23     getting them approved all the time?

24          A.     Yes.

25          Q.     And as you indicated in your earlier testimony,

1 the BLM publishes the updates with regard to the  
2 drilling islands at least three times a year?

3 A. Yes.

4 Q. And there are no limitations on drilling  
5 islands other than giving notice and everybody agrees  
6 that's a good place to access resources from the potash  
7 area?

8 A. Correct.

9 Q. In looking at your map showing the stranded  
10 acreage in black, again that is just using existing  
11 drill islands and not considering whether other drill  
12 lands might be approved in order to access the other  
13 resources shown in that area?

14 A. Yes. Under the current plan, this is how it  
15 looked, so we figured it would be a waste of government  
16 resources to go back in, create new islands when there  
17 is a backlog of work being done.

18 Q. But that's being done all the time. They'll  
19 look at new drill islands and proposals are made. And  
20 everybody agrees that that might be a better -- and  
21 that's the whole purpose of the process under the  
22 Secretary's order, to determine what's the best location  
23 you can access resources and develop the maximum amount  
24 of resources without adversely impacting the potash; is  
25 that correct?

1           A.    Well, this area has already been done, and so  
2   it felt like a rework to go back and redo it.

3           Q.    When you say it's been done, every single drill  
4   island for potential proposed wells in this area has  
5   already been approved?

6           A.    Our existing drill islands that we're  
7   indicating here are approved.

8           Q.    Okay. And the bracket [sic] islands that  
9   Apache is proposing for its Taco 28-30 development plan  
10   has also been approved; is that correct?

11          A.    I'm not sure if they are or not.

12          Q.    What order do you plan on drilling the wells  
13   that are the subject of your applications?

14          A.    We're working with that development plan. We  
15   would likely drill the deepest well first and collect  
16   geologic data and logs through that and then move up and  
17   drill the shallower locations.

18          Q.    Which is the deepest well?

19          A.    The Wolfcamp.

20          Q.    What's the well number?

21          A.    It's the 701.

22          Q.    And how many wells do you plan on drilling at a  
23   time?

24          A.    We'd only have one rig drilling one well at a  
25   time.

1           Q.    Do you have room on your pads to drill all the  
2   Wolfcamp and Bone Spring wells you've proposed?

3           A.    We haven't -- we haven't built the pad yet.

4           Q.    When you drill wells in the future into other  
5   formations or zone, will you have to temporarily abandon  
6   any producing wells in order to drill those wells?

7           A.    We'll look at seeing if there is -- if there  
8   are any offset producing wells or if we will develop --  
9   codevelop all the wells together. And if so, then you  
10   wouldn't have to temporarily abandon those, but we would  
11   notify if there were any in the radius of concern.

12          Q.    And I'm not talking about offset for completion  
13   purposes. I'm talking about if you already have your  
14   producing Wolfcamp well, are you going to have to  
15   temporarily abandon that during the time you're going to  
16   be drilling the subsequent Bone Spring wells?

17          A.    No.

18          Q.    And why not?

19          A.    The well will just be drilled and cased. There  
20   won't be a producing well yet.

21          Q.    Have you undertaken any study with regard to  
22   the potential for well collision in drilling your wells  
23   if Apache drills its wells into Section 29 from the  
24   existing Golden Lane drill pad in Section 28?

25          A.    Have I looked at the anticollision reports from

1     that?

2           **Q.     No. Did you analyze -- personally analyze the**  
3     **potential for collision between Apache's wells and**  
4     **Ascent's wells if the two are drilled in Section 28, as**  
5     **you are proposing they should be?**

6           A.     No. I have not personally done that work.

7           **Q.     What completion designs are you planning for**  
8     **the Wolfcamp and Bone Spring wells that are the subject**  
9     **of your applications?**

10          A.     We would have slick-water hydraulic fracturing  
11     with about 125 to 150 foot per cluster spacing through  
12     here and about 2,000 pounds per lateral foot. It's  
13     consistent with many other operators.

14          **Q.     What artificial lift are you planning for these**  
15     **wells?**

16          A.     We would likely start with gas lift and then  
17     move on after that.

18          **Q.     Tell me how many wells are you currently**  
19     **operating that use artificial lift techniques that**  
20     **you're proposing for these wells?**

21          A.     How many use gas lift? Is that what you're  
22     asking?

23          **Q.     Yes.**

24          A.     We don't have any that are operating under gas  
25     lift right now.

1           Q.    Does Ascent plan to obtain any 3D seismic over  
2   the area to better understand the structure for  
3   geosteering these wells while they're drilling?

4           A.    Yes.  And we have purchased 3D seismic for the  
5   pad that we're currently drilling.

6           Q.    But you haven't shared any of that data as part  
7   of your presentation here today?

8           A.    That's for the wells that we're drilling in Lea  
9   County and not for here.

10          Q.    Okay.  But you don't have any for your Anvil  
11   development area?

12          A.    Correct.

13          Q.    What's the impact of offset depletion when you  
14   drill the east half of the west half of Section 28?  
15   Have you analyzed that?

16          A.    I've not quantified that.

17          Q.    Has Ascent discussed or formed any partnership  
18   with any operators in the area to reduce waste or its  
19   surface fingerprint when drilling its Anvil wells?

20          A.    We share drill islands per the order.

21          Q.    And who are you sharing your drill islands  
22   with?

23          A.    Well, that's just in -- in general, that's the  
24   rule, that you have to share drill islands.

25          Q.    But you haven't had any discussions with



1 operators with regard to potential plans to share other  
2 facilities like frac ponds or anything else to minimize  
3 costs or to minimize the footprint associated with  
4 drilling your wells and their wells that might be  
5 drilled from the common drilling islands?

6 A. Not that I'm aware of.

7 Q. Has Ascent collaborated with the BLM or any  
8 surface owners to make improvements or modifications in  
9 the area to gain their support for its proposed Anvil  
10 plan?

11 A. We did on-sites with the BLM.

12 Q. But not -- you haven't any discussions with the  
13 BLM with regard to any surface improvements in the Anvil  
14 development area?

15 A. Can you elaborate on surface improvements?

16 Q. Well, whether to approve the surface -- the  
17 grazing leases, movement of fences, anything to  
18 accommodate any impact that the development might have  
19 on the use of the surface by any surface-grazing owner?

20 A. We would be using pipeline to haul away the  
21 produced oil, produced gas, produced water to minimize  
22 any surface disturbance. And we're currently doing that  
23 with our operations in Lea County and that minimizes any  
24 surface disturbance and the impact.

25 Q. But you haven't had any negotiations with

1     **surface owners with regard to the surface-use agreement,**  
2     **with regard to any facilities you might be locating on**  
3     **the surface?**

4           A.     Not that I'm aware of.

5                     MR. DeBRINE:   No further questions.

6                     EXAMINER JONES:   Does Mewbourne or EOG have  
7     questions?

8                     MR. PADILLA:   No.

9                     MR. LARSON:   No questions.

10                    MR. MOELLENBERG:   No questions.

11                    EXAMINER COSS:   No questions at this point.

12                    EXAMINER JONES:   Okay.   Thank you.

13                    You asked most of my questions.

14                                       CROSS-EXAMINATION

15     BY EXAMINER JONES:

16            **Q.     Do you intend to drill toe up or toe down, or**  
17     **do you -- have you made that determination yet?**

18            A.     We would be drilling from the south to the  
19     north.   And I'm not sure as far as which way the  
20     structure dips through here.   I think it's outside, you  
21     know, of my area of expertise, but I think it's pretty  
22     flat through here.

23            **Q.     Okay.   I see the exhibits from Mr. Metz has**  
24     **some of that information on it.**

25                                       But you didn't submit a drill -- a plan --

1 directional survey as part of your exhibits in this  
2 case? Mr. Bruce does that most usually.

3 MR. BRUCE: No.

4 Q. (BY EXAMINER JONES) Surface facilities, are you  
5 in on that discussion?

6 A. Yes.

7 Q. Okay. So you would build surface facilities  
8 capable of five wells?

9 A. And probably beyond. So we would have a  
10 central production facility to minimize the fingerprint  
11 through here. And like I mentioned, we would have  
12 pipeline capacity going back to -- for midstream on all  
13 of those, and it eliminates truck traffic significantly.

14 Q. Okay. Do you expect the Wolfcamp to -- I mean,  
15 can you talk about the oil-water-gas for the Wolfcamp  
16 versus the Bone Spring or -- in other words, do you  
17 expect a lot more water in the Wolfcamp or --

18 A. From what I've seen, there's a fair bit of  
19 variation out here, but two to three barrels of water  
20 for every barrel of oil produced, and that's for the  
21 2nds, 3rds and Wolfcamps.

22 Q. Okay. That's pretty low. Not that much water  
23 compared to down on the state line, it seems. It seems  
24 like it's a lot higher.

25 As far as well recovery goes -- you're a

1     **reservoir engineer, so what can you tell us**  
2     **approximately and how you come up with it?**

3           A.     The process that we use, we look at the offset  
4     wells, and we do look at other operators and find wells  
5     that are similar in the area as far as where they've  
6     been landed and their techniques used for drilling and  
7     completions. And we try to use a statistical approach  
8     on that and looking at averages and P50s from -- the  
9     IP30 for the wells are and then how they produce through  
10    time and then make extrapolations from that.

11          Q.     Okay. So you use kind of a geometric mean or a  
12    Swanson's mean or something?

13          A.     P50, normally, yes.

14          Q.     P50.

15          A.     Yes.

16          Q.     So basically analogy is I'm hearing you say.  
17    You use an analogy. So there is no volumetric  
18    calculations or pressure-depletion calculations that you  
19    do?

20          A.     Correct.

21          Q.     Internally, you don't gather any pressure data  
22    for your wells?

23          A.     We will. That data is not normally public  
24    record, so it's hard to define that data.

25          Q.     What about -- you're listing three zones in the

1     Bone Spring and one in the Wolfcamp, right, the Wolfcamp  
2     A?   So which of those four would you -- if you only had  
3     one to drill, which one would you drill?

4           A.    It would probably be a tie between the 2nd or  
5     3rd Bone Spring.

6           Q.    I noticed on your analogy that you listed on  
7     your exhibits showed the 2nd Bone Spring is the most  
8     commonly drilled area in this area?

9           A.    Yes.   Yeah.   And so I think we would just --  
10    being that we're a smaller company, you know, just look  
11    to see what other people have been drilling out here and  
12    go with the horizon that's been heavily drilled.

13          Q.    What do you think about well density as far as  
14    the -- some companies have the practice of drilling some  
15    wells close together and then fracking them almost  
16    simultaneously and producing them simultaneously and  
17    trying to optimize the stress -- the initial stress to  
18    get their fracs off.   What's your thoughts on all that?

19          A.    I think codevelopment for the 3rd Bone and the  
20    Wolf -- Wolfcamp is important as far as there is not  
21    significant frac barriers between those two.

22          Q.    Okay.

23          A.    I'd have to look specifically for this area but  
24    speaking from where our current development is.

25          Q.    Okay.   But as far as well density goes, you're

1     just one well per -- per 1,320 feet laterally, is what  
2     you're looking at, right?

3           A.     Yes.   Density would be like four --

4           Q.     Four per section?

5           A.     Yeah.

6           Q.     Four per section.

7                   Are you -- as far as the stress direction  
8     and optimal drilling direction out here, you showed  
9     analogy, but has there been any -- have you looked at  
10    any actual -- actual data on that, like any kind of  
11    logging or -- image logging or dipole sonics or anything  
12    like that for vertical wells to see --

13          A.     Our geologist, Mr. Metz, has looked at that,  
14    and yeah, he could speak to that.

15          Q.     But as an engineer, you would be the sonic guy,  
16    right?  You would be the one looking at the sonic data?

17          A.     I hadn't looked at sonic data through here.

18          Q.     Okay.  So you don't have any available.  So  
19    basically we're stuck with -- most of the wells are  
20    drilled certain directions, and your analysis shows  
21    either direction is okay?

22          A.     Yes.  From a production point of view that --  
23    and geologic data is always interpretive, and so I went  
24    with what's -- you know, let's look at inarguable facts,  
25    and so let's look at the actual production, and then the

1 fact that XTO's offsetting this and still drilling  
2 north-south, if they had preferred orientation for  
3 whatever they want and, as was pointed out, dynamic. So  
4 they could have changed if they wanted to do, but they  
5 preferred north-south.

6 CROSS-EXAMINATION

7 BY EXAMINER COSS:

8 Q. So I'm curious, as pointed out, that the  
9 western half of Section 32 there has wells running north  
10 to south that aren't great producers. Have your well  
11 designs addressed the reasons or have you kind of,  
12 within your company, speculated as to why those might be  
13 bad producers or done anything to improve your well  
14 design?

15 A. We -- we looked at the public data through  
16 there that was available and couldn't find any  
17 significant issue with that, but there is a lot that's  
18 not always included, as far as if they had drilling  
19 problems, if there were problems with the completion or,  
20 you know, any number of other problems. They could have  
21 had surface takeaway problems, midstream problems.  
22 There is a lot flaring that happens out here which  
23 chokes back production, so there are a lot of problems  
24 that are unidentifiable from outside perspective. But  
25 we have not found a reason, to answer your question.

1           Q.    Okay.  I was also curious.  This will be your  
2   first well -- horizontal well within the Permian Basin,  
3   but I assume that your company has experience drilling  
4   lateral wells in other basins.  What might those basins  
5   be or where?

6           A.    So just to be clear, these will not be the  
7   first wells drilled in the basin.  The other ones are in  
8   Lea County.

9           Q.    Oh.  Oh.

10          A.    Yes.  And Ascent's been together for three  
11   years, and we've -- and my experience, I've worked many  
12   basins across the world.  And then our current drilling  
13   engineer, she has been working in the Permian Basin for  
14   eight years for Ascent, and so she has significant  
15   experience drilling here.

16          Q.    Okay.  So like in Colorado, there are no wells,  
17   or Oklahoma, that Ascent has drilled?

18          A.    Not as Ascent, but as the individuals who put  
19   Ascent together, we've drilled wells all over the  
20   continental U.S.

21          Q.    I see.

22                       EXAMINER COSS:  Those were my questions.

23                       RECROSS EXAMINATION

24   BY EXAMINER JONES:

25          Q.    Yeah.  The 2,000 pounds per foot is higher than



1 I expected, because we had big testimony a year or so  
2 ago about, you know, 1. -- 1,300 versus 1,500. So does  
3 that mean that the sand density is going up as time goes  
4 on here?

5 A. It depends on who you talk to.

6 Q. Okay.

7 A. I think it would -- 2,000 -- it's more  
8 consistent with results, so you have the results with  
9 the higher proppant pounds per foot.

10 Q. Do you design the completion or who in your  
11 company or who -- who would you consult with to design  
12 the completion?

13 A. We have another gentleman, a VP of completions,  
14 and he does the actual design.

15 Q. Okay.

16 EXAMINER JONES: Mr. Brancard?

17 EXAMINER BRANCARD: I have nothing.

18 EXAMINER JONES: Any other questions for  
19 the witness?

20 MR. BRUCE: Just one.

21 REDIRECT EXAMINATION

22 BY MR. BRUCE:

23 Q. If you look at your Exhibit D, page 4,  
24 Mr. Yancy, would you say 72 wells is what you looked at  
25 out here in this immediate area?

1           A.     Yeah.

2           Q.     A lot of them are fairly relatively old, more  
3     than five years old -- five or more years old going back  
4     to eight or nine years old; is that correct?

5           A.     Yes.

6           Q.     And even the more -- the newest ones on here --  
7     Matador's HEYCO State well is right at the bottom of  
8     that list -- they're over two years old already?

9           A.     Correct.

10          Q.     During that time, the past two years, hasn't  
11     horizontal drilling and completion technology been  
12     improving all the time?

13          A.     Yes.

14          Q.     And, of course, you're not going to use what  
15     they used in 2013, are you?

16          A.     No. No. We would try to use the most modern  
17     analogous techniques.

18          Q.     Thank you.

19                   MR. DeBRINE: Just one follow-up question.

20                   CROSS-EXAMINATION

21     BY MR. DeBRINE:

22          Q.     Isn't it true that Ascent acquired acreage from  
23     Matador in Section 33?

24          A.     Yeah. I believe Mr. Zink testified to that.

25          Q.     And did you have any conversations with them as

1 part of that acquisition as to why their offsetting  
2 wells were poor?

3 A. I didn't have any conversations with them.

4 Q. But that is certainly something that Ascent  
5 would want to talk to Matador about to learn more about  
6 their wells and determine the cause of their lack of  
7 productivity?

8 A. Theoretically, yes.

9 MR. DeBRINE: No further questions.

10 EXAMINER JONES: Okay. I guess we hurried  
11 you up. You only have two witnesses, so --

12 EXAMINER BRANCARD: So, Mr. Bruce --

13 MR. BRUCE: I'm finished presenting my  
14 case.

15 EXAMINER BRANCARD: You had two other  
16 witnesses, but you're okay going forward with just two  
17 witnesses today?

18 MR. BRUCE: Yeah. I might call one of the  
19 witnesses back for a little rebuttal after seeing what  
20 Apache has to say.

21 EXAMINER JONES: Okay. Mr. DeBrine, are  
22 you ready to present?

23 MR. DeBRINE: Yes.

24 We'd like to call as our first witness Laci  
25 Stretcher.

1                   EXAMINER BRANCARD:   So, Mr. DeBrine, I  
2   guess I was confused by your opening statement.   What  
3   exactly are you asking the Division for in this hearing?

4                   MR. DeBRINE:   We are not asking for an  
5   order pooling the uncommitted interests that were  
6   identified -- for the wells that are identified in our  
7   application because we don't believe that the pooling  
8   issue is ripe for decision.

9                   Partly we agree with Mr. Padilla, that the  
10   issue concerning the approval of a development area  
11   within the potash area is a decision for the BLM.   The  
12   BLM has essentially punted and said, "Okay.   Go forward,  
13   present evidence to the Division, and then we'll make a  
14   decision ultimately on what the approved development  
15   area will be."   But based on the discussions that we had  
16   with working interest owners when we proposed the wells,  
17   you know, they were willing to commit either to a JOA or  
18   sell interest, and the testimony will bear this out.

19   But they felt that pooling was inappropriate until they  
20   knew that one plan or the other was going to be in place  
21   to whether they should commit to one plan or the other.

22                   And that's a problem that you have with  
23   competing development areas like this.   It's really not  
24   ripe.   You can't really make an intelligent decision if  
25   you're going to participate in one or the other until

1     you know which one is going to be in place, and then  
2     you'd want to participate and drill wells based on the  
3     results that you think one operator might get versus the  
4     other, whether it's economic to -- to pay your share of  
5     well costs or just go nonconsent.

6                     And so we didn't think the issue of  
7     compulsory pooling was ripe at this time, and so that's  
8     why what we're just asking the Division to do is  
9     consider the technical evidence to determine what is the  
10    best development plan based on the orientation of the  
11    wells, whether it's two-and-a-half-mile laterals that  
12    are proposed in the Taco 28 development plan or the  
13    north-south well orientation that's been proposed by  
14    Ascent.

15                    And we're prepared to present testimony  
16    with regard to the efficiencies and the ability of  
17    Apache to drill and whether it should be selected as the  
18    operator for its proposed Taco development plan, which  
19    we believe has a superior ability to actually implement  
20    the development plan and achieve the greatest EUR at the  
21    least cost. It's going to benefit both Ascent and  
22    Apache, as the evidence will show.

23                    EXAMINER BRANCARD: I'm confused,  
24    Mr. Hearing Examiner. Does the Division normally  
25    approve development plans in isolation? I mean, I'm

1 confused what the authority of the Division is here.

2 EXAMINER JONES: We -- I was waiting to see  
3 what they were going to say. But if -- Apache's wells  
4 would basically truncate the proposed -- is the way I  
5 look at it -- the proposed Ascent wells, so Ascent's  
6 wells can only be drilled one-and-a-half miles, but they  
7 could still be approved.

8 Or are you saying that -- I guess that's  
9 going to be coming out in the testimony here. But as to  
10 whether, you know, Apache's plan is approved, then that  
11 would actually affect Ascent.

12 MR. DeBRINE: Yes, it would.

13 EXAMINER JONES: So you are opposed to  
14 Ascent's --

15 MR. DeBRINE: We are opposed to Ascent's  
16 plan for those reasons. And the planned approach by  
17 Apache will essentially result in Ascent's wells being  
18 truncated to one-and-a-half miles because there is a  
19 risk of well collision, and we believe it will result in  
20 waste if Ascent's plan is adopted versus the plan that's  
21 been planned by Apache for east-west laterals.

22 EXAMINER JONES: We've had -- we've had  
23 proposals to bring development plans up here before, and  
24 I don't think it's ever really happened, but this is the  
25 first thing I've seen.

1                   MR. BRUCE: I think -- I agree with  
2 Mr. Padilla, that development areas are totally within  
3 the purview of the BLM, and this is all federal land.  
4 And I don't think -- I know the Division has never  
5 approved a development area, and I don't think it's  
6 anything the Division has any authority over. And  
7 since -- they've said they're not pooling anything. The  
8 only company here with a concrete application is Ascent,  
9 and I would ask that their objections be -- to Ascent's  
10 plan be overruled and that Ascent's applications be  
11 granted.

12                   EXAMINER BRANCARD: Mr. Padilla, what was  
13 the basis for your motion to dismiss? I'm sorry. I  
14 haven't read it.

15                   MR. PADILLA: The basis of the motion was  
16 jurisdictional. Ultimately -- well, here you're faced  
17 with two development plans, and EOG is faced with two  
18 development plans, the east-west proposal advanced by  
19 Apache, the north-south advanced by Ascent. And EOG has  
20 very limited acreage but still limited acreage. They're  
21 looking to see which development plan is going to strand  
22 less of their acreage that's not included in either of  
23 the north-south proposal or the east-west proposal. EOG  
24 believes that some of their acreage is going to get  
25 stranded.

1                   But the problem -- the main problem is that  
2   you can have all the discussion, you can go back and  
3   forth here, and come up with some decision, whether it's  
4   approval of the development plan proposed by Apache or  
5   the compulsory pooling application that specifies a  
6   spacing unit under Ascent. And compulsory pooling  
7   obviously is within the jurisdiction of the OCD.

8                   But the main thing is that because of the  
9   potash area, the BLM is ultimately going to decide,  
10   based on potash and based on the recommendation by the  
11   OCD probably -- I don't think they're going to ignore  
12   the OCD's decision. But their concern is that they  
13   can't jump to either side or support one or the other  
14   the way things are given that the BLM ultimately will  
15   make a decision and approve the APDs whether they're  
16   Apache's or Ascent's.

17                  My experience has been OCD decisions are  
18   basically followed by the BLM, but by the same token,  
19   they could say, "No, we don't agree." Based on the  
20   Secretary's order, they ultimately have jurisdiction  
21   over anything, and they could bypass the OCD on this  
22   issue. And I haven't seen anything that really says  
23   that the BLM wants the OCD to make the decision.  
24   There's nothing there that I've seen in these cases that  
25   say we're ultimately going to go by what the OCD



1 determines.

2 MR. DeBRINE: And if I could just speak to  
3 that quickly. The Division clearly has the approval  
4 [sic] to establish spacing units for the wells that have  
5 been proposed by Apache. They're two-and-a-half-mile  
6 wells. We've prepared C-102s. That's going to be part  
7 of our presentation and was part of our application and  
8 ask the Division to approve the spacing units for the  
9 wells. And so the orientation issue is presented and  
10 within the Division's jurisdiction just based on that  
11 alone.

12 The issue with regard to pooling -- I mean,  
13 ultimately, the BLM isn't bound by a compulsory order of  
14 the Division either. They can honor it or not. And  
15 there's -- there's recorded decisions out of the  
16 District of Wyoming that the BLM isn't bound by a  
17 pooling order either. They can disregard it and say,  
18 "No. We don't want to permit these federal wells that  
19 way. You've got -- you've got to do it a different  
20 way." It's ultimately their call with regard to federal  
21 lands.

22 The spacing units that have been proposed  
23 by Apache for its wells, it's not all federal acreage.  
24 It's also state acreage. And so the -- so the Division  
25 clearly has the authority to approve spacing units

1 encompassing the state acreage as part of Apache's  
2 proposals for its Taco 28-30 development area. So I  
3 don't think the question of jurisdiction is -- is a --  
4 is a real one.

5                   The testimony's going to be that the  
6 parties tried to work through the collaborative process  
7 provided in the Secretary's order. They were unable to  
8 reach agreement, and so the BLM told the parties to come  
9 to the Division and present at hearing technical  
10 evidence to determine what's the best development area.  
11 And they have indicated they're going to go along with  
12 that, and I don't think there is any question that they  
13 will. Is it within their authority to disregard it?  
14 Sure, just like it is a pooling order or other orders  
15 that the Division might enter with regard to federal  
16 acreage, but clearly this is something within the  
17 purview of the jurisdiction, to approve the spacing  
18 units that are encompassed within Apache's Taco 28-30  
19 development area. And we're prepared to present  
20 evidence that it's the superior plan and the Division  
21 ought to adopt it.

22                   And really the point in question is: Is it  
23 really ripe for decision? Until the different working  
24 interest owners really know which plan to -- what plans  
25 to jump into, should they participate in one well or the

1 other? Until we know what the -- what the plan is going  
2 to be, we really can't make an intelligent decision, if  
3 you're a working interest owner, as to which plan you  
4 want to participate in.

5 And the testimony is going to show that  
6 Apache -- even though Ascent says they have a deal  
7 working with the Hudson group, we're going to provide  
8 the Division with a letter of support from the Hudson  
9 group saying they support Apache's development plan.

10 EXAMINER JONES: We did have another case  
11 that involved east-west versus north-south, but the  
12 east-west was not proposed as a unit. In this case it  
13 is. They're actually asking for approval of a  
14 horizontal spacing unit. But we do have another one. I  
15 don't remember the number.

16 MR. BRUCE: Well, you know, the thing is  
17 under the pooling statute, if there are uncommitted  
18 interests, which there certainly are, in order to form a  
19 well unit, you have to force pool them, and they're not  
20 here force pooling anybody.

21 Obviously, Ascent doesn't agree with  
22 Apache's proposal. And if -- and it has -- it has  
23 preliminary agreements to acquire the Hudson family  
24 interest. Obviously, if Apache wants to move forward,  
25 they're going to have to force pool. And, of course,

1 one of the things is -- I won't say it's premature to  
2 force pool at this point because -- and my landman may  
3 well talk about this if the hearing goes on -- it's a  
4 long process when you're dealing with federal acreage.  
5 It's a longer process when you're dealing with the  
6 potash area. And then it can be a long process when  
7 there are opposed forced poolings.

8 And, you know, Apache's making a point  
9 about Ascent not having many wells drilled yet, and  
10 there's been prior testimony by Ascent that it is  
11 developing its prospects slowly, getting development  
12 areas going, getting forced poolings going, getting all  
13 the facilities contracted for, and that's a long  
14 process. And that's why it has filed these forced  
15 pooling applications because it needs to move forward.

16 Even if the Division reached a decision  
17 today, there will no doubt be an appeal to the  
18 Commission, and then you go on down the line. It's a  
19 long process. And Ascent needs to move on down the  
20 road. It started drilling. It wants to drill more.  
21 But without a concrete application in front of you, I  
22 don't know why we're hearing Apache's case.

23 EXAMINER BRANCARD: Apache, did you enter  
24 an appearance in the Ascent case?

25 MR. DeBRINE: We did in opposition to

1    theirs.  And we believe our case is ripe for decision,  
2    too, with respect to request to approve the -- at least  
3    the configuration of the spacing units that have been  
4    proposed for its Bone Spring and Wolfcamp wells as a  
5    part of the application, and we think the Division ought  
6    to approve the configuration of the spacing units  
7    because -- there are some important decisions that need  
8    to be made.

9                   The testimony is going to show that there  
10   is a substantial risk of well collision.  Ascent is an  
11   operator who has never done this before, and they're  
12   planning on drilling wells into Apache's laterals that  
13   will be drilled.

14                  MR. BRUCE:  That is incorrect.  Apache is  
15   drilling wells into Ascent's acreage.

16                  MR. DeBRINE:  Well, the testimony is going  
17   to bear it out one way or the other.  We don't know what  
18   the state is going to be with regard to the wells.  If  
19   the Anvil plan is approved, Apache's going to be forced  
20   to be drilled -- trying to access its resources from  
21   either the existing well pad or trying to get at it from  
22   another well.

23                  There's going to be testimony that there  
24   are substantial risks associated with the Anvil  
25   development plan that the Division ought to avoid, and

1     that is a substantial factor to be considered as part of  
2     the decision for the Division today. And those issues  
3     need to be considered in determining whether the Anvil  
4     application should be approved or whether the competing  
5     application of Apache should be approved.

6                 The BLM has indicated it's going to defer  
7     with regard to any future proceedings. That's always  
8     the case. Somebody can appeal to the Commission.  
9     Somebody can appeal to the district court. There is no  
10    hurry here.

11                What we heard in testimony is that Ascent  
12    was actively trying to shop this acreage and has even  
13    had recent discussions trying to sell it. We think the  
14    whole reason for its hurry-up to try and get this thing  
15    done is that they were trying to show they had  
16    established units to sell, to flip those to somebody  
17    else because they really don't have the experience to  
18    develop it.

19                MR. BRUCE: That's --

20                MR. DeBRINE: They're trying to develop  
21    other acreage, but we don't have any assurance at all  
22    that they have -- that they're actually going to develop  
23    this anytime soon. There is no reason to -- to rush.  
24    This ought to be a carefully considered issue,  
25    considering all the evidence, as to what is the best

1 plan, who should be the operator designated for the  
2 area, and that's something within the purview of the  
3 Division.

4 MR. BRUCE: Then why did Apache oppose a  
5 continuance if there is no rush?

6 We'll gladly continue the hearing right  
7 now, Ascent would. If there is no rush, why spend  
8 another five, six hours doing in this?

9 MR. DeBRINE: Well, the rush is that -- and  
10 the motion for continuance was already ruled upon. And  
11 it was very clear. Ascent had already obtained a  
12 continuance. This has been pending. The parties have  
13 been prepared -- and Apache is ready, and the evidence  
14 will show that it's ready to drill. It believes its  
15 permits would be granted very quickly, and it has the  
16 ability and wants to drill this acreage.

17 EXAMINER BRANCARD: Mr. DeBrine, if you  
18 block Ascent today, you will still have to come back to  
19 hearing again to get a compulsory pooling order,  
20 correct?

21 MR. DeBRINE: Assuming that we can't get  
22 agreement by all the interest owners in the spacing  
23 units for Apache's well. We believe that Ascent would  
24 be collaterally estopped from today's proceedings to  
25 contest any -- any pooling by -- by Apache.

1 MR. BRUCE: Oh, I doubt that.

2 EXAMINER BRANCARD: Well, there are a lot  
3 of reasons to oppose a compulsory pooling order other  
4 than a competing application.

5 MR. BRUCE: I am sorry if you're not  
6 presenting a pooling application today. Then Ascent  
7 certainly has the right to come back and contest the  
8 forced pooling on just a ground of operatorship because  
9 they probably have a greater interest than Apache. So  
10 there are plenty of reasons to contest a forced pooling.  
11 We're wasting our time here today.

12 MR. DeBRINE: And we're not wasting your  
13 time. I mean, we're prepared. And that was the reason  
14 the motion for continuance was denied by the Division,  
15 is Apache was prepared. You know, we had -- we had  
16 commitments to be here. We brought a bunch of people  
17 here today to testify. We accommodated Ascent's request  
18 to admit the geological evidence without its geologist,  
19 and we don't think that there needs to be any further  
20 delay. We're here to present our case, and it ought to  
21 be heard by the Division. If Mr. Bruce wants to ask for  
22 additional time to come back and bring an additional  
23 witness at some further time, I'd have to confer with my  
24 client, but we probably wouldn't be opposed to a brief  
25 continuance for that effect.



1                   But a lot of work went into trying to find  
2     the special hearing date. Two weeks ago, Marlene  
3     contacted the parities and said, "Are you ready?"  
4     Everybody said they were ready. That's why we're here  
5     today, because everybody represented to the Division  
6     that they were ready to go, and that's why we're here.  
7     That's why we shouldn't continue.

8                   (Mr. Moellenberg exits the room, 11:15  
9                   a.m.)

10                  MR. BRUCE: Both parties have gotten  
11     various continuances. Ascent first filed its  
12     applications almost 11 months ago, and these cases have  
13     been continued and continued again by both sides.

14                  EXAMINER JONES: The C-102 just requires  
15     you to say how you're going to consolidate the acreage.  
16     It doesn't say that you've already -- I don't think it  
17     says you already have it done yet. So they're asking  
18     for a horizontal spacing unit.

19                  EXAMINER BRANCARD: Yeah, but this is a  
20     standard horizontal spacing unit.

21                  MR. BRUCE: Yeah. All it requires is the  
22     filing of an APD and a C-108. So why are we here?

23                  EXAMINER BRANCARD: You don't go to hearing  
24     for a standard horizontal spacing unit.

25                  I mean, I'm fine with going ahead and

1 hearing the witnesses, getting this done. And if there  
2 is additional time that Ascent needs -- I mean, clearly  
3 we have the Ascent application to go forward with today.

4 I'm concerned about the status of the  
5 Apache application in part because it was publicly  
6 noticed as the compulsory pooling application, and yet  
7 we're not doing a compulsory pooling application  
8 apparently. So -- but we can deal with that afterwards.

9 But, I mean, Ascent has an application  
10 before us and they're willing to go forward, and I think  
11 we can hear the opposition to it.

12 I mean, how this all plays out -- you know,  
13 our ability to look at competing development areas  
14 versus competing compulsory pooling, that's a difficult  
15 question, the factors that Mr. Bruce referred to in an  
16 order about our competing compulsory pooling, not  
17 competing development areas. So this is a different  
18 issue.

19 So, I mean, I'm fine, Mr. Hearing Examiner,  
20 if you want to go ahead to hear these witnesses today  
21 and go forward with these cases.

22 EXAMINER JONES: One of the questions is  
23 whether approval of the Apache's spacing unit would  
24 preclude -- would actually set the tone of how wells are  
25 drilled in this area, would they all be east-west. In

1 other words, would it prevent Ascent from drilling a  
2 mile-and-a-half well, or would it --

3 Obviously, you're opposed to approval of  
4 this? Your client is opposed to it?

5 MR. BRUCE: Yes.

6 EXAMINER JONES: Okay. But that would come  
7 out if we went ahead.

8 You know, we talked about this in the  
9 horizontal well rule, as to whether -- because once you  
10 set -- in one section, if you set spacing north-south,  
11 all of a sudden you've kind of set it for that section.  
12 And if it would be more prudent to drill east-west,  
13 well, then -- we didn't really establish legally who  
14 would determine that. But if it's the landowner or --  
15 you know, it would be OCD with some waste issues. So I  
16 don't know. It's a big question.

17 MR. DeBRINE: Yeah. And we're prepared to  
18 present the case that there would be substantial waste  
19 associated with the approval of Ascent's application,  
20 and that is a primary issue. There are well-collision  
21 issues, and there are issues as to whether they're a  
22 competent operator to follow through with its  
23 development plan.

24 EXAMINER JONES: It's a legal --

25 EXAMINER BRANCARD: Again, it's up to you.

1 My only question is whether Mr. Bruce really --

2 I mean, we asked you whether you wanted a  
3 continuance, but I guess you had requested one and it  
4 was denied. And so the only question --

5 EXAMINER JONES: It was denied because --

6 MR. BRUCE: It was -- it was timely filed  
7 as opposed to some of my continuance applications  
8 (laughter).

9 EXAMINER JONES: Are you being harmed by  
10 your witnesses -- Mr. Metz not being here?

11 MR. BRUCE: Well, I suppose that remains to  
12 be seen. You know, we think we have a good case, but if  
13 you guys are going to hear the Apache witnesses, then  
14 let's make the call at that time.

15 EXAMINER JONES: Do you want to go ahead?

16 EXAMINER BRANCARD: We can go ahead.

17 EXAMINER JONES: Let's go ahead.

18 You've (indicating) already been sworn in.

19 MR. DeBRINE: Thank you, Mr. Examiner.

20 LACI L. STRETCHER,  
21 after having been previously sworn under oath, was  
22 questioned and testified as follows:

23 DIRECT EXAMINATION

24 BY MR. DeBRINE:

25 Q. Could you please state your name?

1           A.    Laci Stretcher.

2           Q.    Who do you work for and in what capacity,  
3   **Ms. Stretcher?**

4           A.    I work for Apache Corporation, and I'm a senior  
5   landman.

6           Q.    What are your responsibilities as senior  
7   landman for Apache?

8           A.    I help Apache develop its minerals and  
9   leasehold in New Mexico and Texas.

10          Q.    Have you previously testified before the  
11   Division?

12          A.    Yes.

13          Q.    In those proceedings, were your credentials  
14   accepted by the examiner and made a matter of record in  
15   those proceedings?

16          A.    Yes.

17          Q.    Does your area of responsibility with Apache  
18   include the area of Eddy County in New Mexico and the  
19   potash area that's the subject of Apache's application?

20          A.    Yes.

21          Q.    Are you familiar with the applications filed by  
22   Apache in Case Numbers 20171 and 20202 and the  
23   applications filed by Ascent in Case Number 16481 and  
24   16482?

25          A.    Yes.

1           **Q.    Are you familiar with the status of the lands**  
2           **that are subject of these applications?**

3           A.    Yes.

4                       MR. DeBRINE:  We would tender the witness  
5           as an expert in petroleum land matters.

6                       EXAMINER JONES:  Any objections?

7                       MR. BRUCE:  No objection.

8                       EXAMINER JONES:  No objections?

9                       MR. PADILLA:  None.

10           **Q.    (BY MR. DeBRINE) We've had a very lengthy**  
11           **discussion about what Apache is seeking through its**  
12           **applications, but if you could -- Ms. Stretcher, could**  
13           **please briefly explain to the examiners what Apache is**  
14           **seeking through its applications and opposing Ascent's**  
15           **applications here today?**

16           A.    We are seeking to be designated as party of the  
17           Taco 28-30 development area.  These conversations  
18           started in March, April of 2018.  We've met with BLM.  
19           There's been numerous emails back and forth.  Jim Rutley  
20           specifically said -- and we'll introduce that into  
21           evidence later -- that this was the venue that would  
22           settle this type of conflict.  So that's why we're here  
23           today.  BLM has not given us a decision on who would be  
24           the operator.  They specifically said we needed to come  
25           before the Division to make that call.

1           Q.    You mentioned Jim Rutley.  Who is Mr. Rutley?

2           A.    He's the geologist at the Carlsbad field office  
3   for the BLM, and I think he's referred to as the potash  
4   guy.

5           Q.    And what is your understanding of his role with  
6   regard to approval of potash development areas?

7           A.    All things potash go through Jim.  He helps  
8   operators facilitate the drill islands within the potash  
9   area, makes sure that the notification process is as per  
10   the BLM rules, and then he's also part of the -- sort of  
11   mediation that happens between operators when there is a  
12   protest within a development area.  And he was part of  
13   this particular process, of both the Taco and Anvil  
14   development areas.

15          Q.    And in its application that was noticed by  
16   Apache, did it -- did the notice include a statement  
17   that Apache was asking the Division to approve its Taco  
18   28-30 development plan?

19          A.    Yes.

20          Q.    It also included notice that it was requesting  
21   an order pooling any uncommitted interests for the  
22   proposed horizontal spacing units for the Bone Spring  
23   and Wolfcamp wells that Apache had proposed to working  
24   interest owners in the north half of Sections 28 and 29  
25   and the northeast quarter of Section 30, but you're not

1     **yet asking for a compulsory pooling order?**

2           A.     That's correct.

3           **Q.     Could you explain why?**

4           A.     Originally we were seeking compulsory pooling.  
5     We received numerous phone calls from working interest  
6     owners that said, "What's going on here?  You've got  
7     Ascent's Anvil and Apache's Taco, and they intersect.  
8     How am I supposed to decide who to make a deal with, who  
9     to commit my interest to?"  And so several parties -- I  
10    think Jalapeno actually filed a brief in this case.  I  
11    know EOG -- I also spoke with their landman, and they  
12    had questions.  "Why are you compulsory pooling us?  We  
13    don't know what's going on yet."  And those were  
14    conversations that were had back in December of 2018.

15                       So each time I've spoken with those  
16    parties, I've said, "Don't worry.  We've got to figure  
17    out the DA part first, and then you'll have a chance to  
18    be -- you know, participate in the wells or not, and  
19    then we'll go through the compulsory pooling process."  
20    I said it didn't make sense for the Division to hear  
21    Ascent's compulsory pooling case and then us, you know,  
22    months later and those parties be compulsory pooled  
23    before someone has made a decision about the operator  
24    and the development area.

25                       So it seemed like it was fair.  You know,



1 we had -- I think several people filed letters to the  
2 Division regarding this case, so you can check those  
3 out. They were probably in the December, January time  
4 frame, but it was partners specifically saying, "We  
5 haven't had enough time to look this over. We don't  
6 know what's going on here." And so that's -- that's why  
7 we wanted to get this in front of the Division today.  
8 It seems -- just like Earl said. It seems like the  
9 compulsory pooling issue is not ripe yet. If you  
10 approve our development plan, how we have it, where  
11 Ascent's laterals are shortened and ours are  
12 two-and-a-half miles, then it would be a different  
13 approval process for all of the parties involved.

14 **Q. And that was the direction given to you by**  
15 **Mr. Rutley as to how to proceed?**

16 A. Regarding -- regarding coming to the Division?

17 **Q. Yes.**

18 A. Oh, yes. And that's been -- when we had our  
19 first meeting with the BLM in June, Ascent was there,  
20 too. This is the last resort. No one wants to be here  
21 because it means that we weren't able to work something  
22 out with the other party. And we'll go into the  
23 negotiations that have been back and forth. But there  
24 was never a question of if we continued having  
25 negotiations fail, that we would end up in front of the

1 Division because the BLM specifically said if we can't  
2 work something out with the parties, it goes to the  
3 Division.

4 **Q. Ms. Stretcher, could you turn to what's been**  
5 **marked as Exhibit L2 and explain to the examiners what**  
6 **that map is designed to show?**

7 A. So this is our initial plan for the Taco 29  
8 wells. What this shows -- and I have to admit that  
9 there is an error on this first slide, so I want to  
10 correct it before we continue. That square in Section  
11 28 is around the Emperor well. That is Ascent's well.  
12 It should be moved just slightly to the southwest, and  
13 that's going to be the Golden Lane well. That's the one  
14 that I'm going to talk about.

15 The particular leases that are involved in  
16 the Taco 29 plan, Section 29, the yellow that you see on  
17 the map, that's 100 percent Apache. There's actually a  
18 JOA that covers the north half of that section, and we  
19 have about 96 percent working interest.

20 OXY is the other working interest owner in  
21 Section 30. They're in the northeast quarter. There  
22 are multiple working interest owners that are part of  
23 that north half JOA, including the Hudson entities, and  
24 we'll get into that in a little bit. But we figured we  
25 would probably have to compulsory pooling just due to

1 the number of working interest owners that are in this  
2 particular development plan.

3 The leases are both state leases here. The  
4 yellow is a newer state lease that has a 1/6 royalty.  
5 The remaining parts that are in that green outline, it's  
6 another state lease. It's an older lease.

7 Our lease, the one in yellow, is only HBP'd  
8 by our Golden Lane well. That's a Morrow producer that  
9 was drilled 2005 by Edge. It was drilled directionally.  
10 That was prior to the Secretary's order. So we have a  
11 well pad that's right there, and it's drilled  
12 directionally into Section 29.

13 One of the reasons that OXY was excited  
14 about this particular plan when we first reached out is  
15 that their acreage hasn't been developed, and they were  
16 excited about a way that we could come in and access  
17 that.

18 MR. PADILLA: Mr. Examiner --  
19 Earl, do you have exhibits?

20 MR. DeBRINE: I think I do. Yeah.

21 MR. LARSON: Another set?

22 MR. DeBRINE: Oh, boy.

23 Q. (BY MR. DeBRINE) Actually, Ms. Stretcher, I  
24 skipped an exhibit. Could you turn to L-1, which is the  
25 proximity map?

1           A.     So this one -- unfortunately, it looks like the  
2     potash boundary did not print out very well. But if you  
3     sort of look closely, you can see there is a little bit  
4     of a grayer area in the middle, and that's the potash  
5     boundary. The acreage that is in red is Apache's  
6     proposed Taco 28-30 development area. The area in green  
7     is Ascent's Anvil development area. And just to give  
8     you an idea of where this is in relation to Eddy County,  
9     Carlsbad is off to the southwest and Loving is due  
10    south. It's just off the map here to the south.

11          Q.     With regard to the initial plan that's shown on  
12    Exhibit L2, since that plan was first proposed, has  
13    Apache conducted an engineering study to determine  
14    whether it's feasible to drill the wells that are shown  
15    on that plan using the Golden Lane well pad?

16          A.     Yes, we have.

17          Q.     How long has Apache been evaluating this  
18    prospect for development of other formations other than  
19    the Morrow?

20          A.     I started looking at it in March of 2018, and  
21    then the team took a look starting in April 2018.

22          Q.     Apache's proposed Taco 28-30 development area  
23    is within the potash area of Eddy County where there are  
24    special procedures established by the BLM for  
25    development. If you could turn to Exhibit L-3, which is

1    **an email from the BLM explaining the process, and just**  
2    **walk the examiners what that process consists of under**  
3    **the Secretary's order.**

4           A.    So as an operator, if you would like to drill  
5    within the potash area, you send out a letter.  It's  
6    called your Development Area Notification, and it goes  
7    out to all parties that are in those wells and all  
8    offset operators that are within a two-mile radius.  And  
9    it also goes to the potash operators that might be  
10   nearby.  After -- during that 30-day notification  
11   period, anyone that's been noticed can then send a  
12   letter to the BLM and say, "Hey, I want to collaborate,"  
13   or "I have a protest of this particular development  
14   area."

15                   And then you can read through Jim's email  
16   here, but basically what the BLM does is they bring  
17   everybody into their office, sit down, talk about the  
18   technical details, talk about the land situation to  
19   figure out if there is any way some sort of compromise  
20   can be made.  And then if you read -- it's the  
21   second-to-the-last sentence there -- it says, "If there  
22   is still no resolution, the protest goes before the  
23   NMOCD.  Until recently, we've not any meetings progress  
24   to that point, but in the last six months, I believe  
25   three, maybe four have gone to hearing."  So that's --

1     that's where this came from, why we're here in front of  
2     you today.

3           **Q.     Were Apache's development plans for its acreage**  
4     **in Section 29 already underway when you received notice**  
5     **of Ascent's proposed development area?**

6           A.     Yes.

7           **Q.     What were Apache's concerns when it received**  
8     **Ascent's proposed Anvil development area proposal?**

9           A.     Collision issues.  Immediately when you see  
10    perpendicular drill plans, you know there's -- in the  
11    same formation, that there might be an issue.

12          **Q.     If you could turn to Exhibit L-4, does that**  
13    **illustrate the concerns you talked about?**

14          A.     Yes.  So this again shows -- and this side is  
15    actually correct.  I mentioned a second ago the box  
16    around the Golden Lane well was actually on the Emperor  
17    well instead.  But on this one, it's correct.

18                    You can see our proposed wells.  We're  
19    leaving the Golden Lane pad drill to drill into Sections  
20    29 and 30, and you can see Ascent's wells coming from  
21    the south and then crossing ours in the northwest  
22    quarter of Section 28.  We looked up Ascent.  At that  
23    time they had not drilled any wells.  We were concerned  
24    about that.  I think as of the -- I think earlier this  
25    week when I looked on the NMOCD website, it said that

1 Ascent had drilled four wells. And I don't know. It  
2 just said the spud date and Ascent as operator. So  
3 that's what they have drilled in 2019.

4 So once we figured out there was a  
5 collision issue and we weren't sure about Ascent, we  
6 went ahead and requested collaboration with Ascent and  
7 the BLM on March 3rd -- I'm sorry -- April 3rd.

8 **Q. If you could turn to Exhibit L-5, is that the**  
9 **letter requesting corroboration through the BLM process?**

10 A. Yes. And this just explains what I showed on  
11 the map before. If you flip to the second page there, I  
12 just explained to Jim at the BLM that there are  
13 competing proposals here and that our well trajectory  
14 would be in direct conflict with Ascent's Anvil wells,  
15 and I had hoped that we could collaborate on this back  
16 in April of 2018 and find something that worked for both  
17 parties.

18 **Q. And what did Apache try and do to work with**  
19 **Ascent and the BLM to try to resolve the conflict?**

20 A. Lots of conversations. We met in June of 2018  
21 to walk through what potential options were. We talked  
22 about if there was a way to drill both at the same time,  
23 and ultimately our drilling engineer said no. And  
24 you'll hear why from someone who knows way more than I  
25 do about that. So then we talked about Ascent maybe

1     shortening their laterals in the west half of the west  
2     half -- I'm sorry -- the west half of the northwest  
3     quarter so that we wouldn't be competing anymore. We  
4     would still be drilling ours from that Golden Lane well  
5     pad. They would just have shorter ones in that  
6     particular part. That was our original idea.

7           **Q.     And what was Ascent's response to all of**  
8     **Apache's proposals?**

9           A.     They rejected those.

10          **Q.     If you could turn to Exhibit L-6, which is your**  
11     **formal protest letter, I believe, and tell the examiners**  
12     **what that represents.**

13          A.     This is a much longer letter. It explains the  
14     efforts that we have gone to with Ascent at that point.  
15     We thought that if we asked them to shorten their  
16     laterals in the west half of the northwest quarter,  
17     although that would leave their lateral shorter, they  
18     could still participate in our wells there. So we  
19     thought that they're not developing it, but we would  
20     still recover that acreage through our drilling from the  
21     Golden Lane well pad.

22                     So we talked about them participating. We  
23     talked about Apache just outright acquiring that 80  
24     acres, because that was a solution. And then there is  
25     references to a trade in this. We didn't really know



1     what that would look like yet, but we wanted to open up  
2     conversations for that.

3                     I also mention in here that -- we had  
4     received Ascent's marketing package at that point. So  
5     this was dated May 23rd. We had seen their marketing  
6     package that covered multiple lands across Eddy and Lea  
7     Counties. And it seemed like what they were doing is  
8     picking out places within the potash and preparing them  
9     for development and then to sell that package. And so  
10    my comments to Jim in this email are that I feel like  
11    we're not across the table from another operator. We're  
12    across the table from someone who wants to sell that  
13    acreage to someone else. And so I felt like we were  
14    going to have an uphill battle trying to do something  
15    with them due to that. Again, that was in May of 2018.

16           **Q. Did you have further meetings with Ascent and**  
17           **the BLM after you sent this letter to try and reach an**  
18           **agreement -- a solution that would work for everybody?**

19           A. Yes. That was the meeting in June at the  
20    Carlsbad field office.

21           **Q. And throughout this time, was Apache's**  
22           **technical team continuing to evaluate the prospect and**  
23           **determine the optimal development plan for Apache's**  
24           **acreage and other acreage in the area?**

25           A. Yes. We continued to do additional analysis in

1    this particular area, try to make sure that as we  
2    continue to move forward, that we're doing it in the  
3    most efficient way.

4           **Q.    As a result of that work, did Apache formulate**  
5    **what's referred to as the Taco 28-30 Development Plan**  
6    **that it's asking the Division to approve?**

7           A.    Yes.

8           **Q.    Is that shown on Exhibit L-7?**

9           A.    It is.

10          **Q.    If you could, just please walk the examiners**  
11    **through Exhibit L-7.**

12          A.    Okay.  So, again, we originally had talked  
13    about going off of that Golden Lane well pad and then  
14    drilling into Sections 29 and 30.  This plan starts us  
15    in Section 28.  And the idea didn't just come from our  
16    team.  It also came from Jim Rutley at the BLM.  Around  
17    the same time, he had gone out -- if you look at this  
18    particular graph, all the little blue squares are drill  
19    islands that had been approved by BLM.  And not all of  
20    them are ours.  I think Ascent presented another map  
21    that's from the BLM website that shows some of those  
22    drill islands.

23                   But if you look in the northeast quarter of  
24    Section 28, there are those blue squares, and those were  
25    actually originally staked by XTO.  And their plan is to

1 start just across the section line in 27 and drill -- I  
2 don't know how long -- laterals, but let's just say  
3 two-mile laterals, going east. And Jim said, "We could  
4 probably get you some drill islands just across the  
5 section line in Section 28 so you can capture that  
6 northeast quarter of Section 28."

7               So if you think back to our original plan,  
8 going off of Golden Lane, and Ascent's plan, the acreage  
9 in the northeast of 28 would have been stranded. And so  
10 Jim liked that idea. It's federal acreage, and we could  
11 drill across, capture Section 28, the entire north half,  
12 drill across all of Section 29 and then hit OXY's  
13 acreage in the northeast of Section 30.

14              Another reason for that move, besides it  
15 just being recommended and the drilling efficiencies --  
16 again, I'm not the drill person, so you can hear some  
17 technical info about that in a little bit -- but we were  
18 also limited on ever expanding the Golden Lane well pad.  
19 That's where we had that Morrow producer that was  
20 drilled back in 2005. The BLM allowed us to go out and  
21 stake those wells, but we could never expand it past  
22 that size because there is a playa right to the eastern  
23 border of it. And it's kind of hard to see on this map  
24 and I apologize for that, but if you look where the  
25 yellow dot is, you'll see some white. And that is the

1 well pad and also the -- I don't know if you can see the  
2 playa on this. It's probably not zoomed in enough. But  
3 there is an active playa, and there is a raptor's nest  
4 right in the playa area. And so BLM was like hard line,  
5 "You can't go past this."

6               There was also a transmission line that  
7 bordered the northeastern part. Ascent's well, the  
8 Emperor, it's in the same -- that's a Strawn producer --  
9 the transmission line ran right across that particular  
10 area. So we were hemmed in by, you know, environmental  
11 things and then you've got an electrical line that's in  
12 that same place.

13               So when we staked those wells, Aaron, the  
14 biologist for the BLM, said, "This is it. If you're  
15 going to develop from the Golden Lane pad, you can do it  
16 with this many wells, and that's it." And Mindy and  
17 Mike will get into the prospective formations that are  
18 here. So we've talked about -- we'll talk about 2nd,  
19 3rd Bone Spring, and we'll talk about Wolfcamp. So  
20 there are other things that we might want to go back in  
21 the future and capture that, but we wouldn't be able to  
22 off of the Golden Lane. We will be able to go in and  
23 add additional wells on well pads in Section 28.

24               So we're not just thinking about this plan.  
25 We're thinking about the future here and making sure

1     that we're maximizing development.

2                     And as part of that, after we -- I mention  
3     here on this particular slide that we had a second  
4     meeting planned with Ascent in October. And I  
5     personally met with Lee at the NMOGA annual meeting, and  
6     we just talked about, you know, is that really a good  
7     use of our time, because we'd kind of reached an impasse  
8     at that point. They wanted to drill their two miles.  
9     We wanted to drill our two-and-a-half miles. So we  
10    ended up canceling that meeting. I was under the  
11    impression that we all understood that we were coming  
12    before the Division at that time.

13                    And then I also talk about here the  
14    development area notifications that came out, and we'll  
15    cover that here in just a second.

16           **Q.    And so on Exhibit L-7, all of those squares**  
17   **that are shown on the section lines going down, 28 and**  
18   **33, those were approved drill islands by the BLM?**

19           A.    Right. This shapefile -- or KMZ is probably  
20    from the BLM.

21           **Q.    Those obviously don't contemplate drilling**  
22   **wells with a north-south orientation from those pads?**

23           A.    Not -- not the ones going down Section 28, no.

24           **Q.    If you could turn to Exhibit L-8, which is the**  
25   **notice sent to the working interest owners concerning**

1    the development plan and go into detail of that with the  
2    examiner.

3           A.    Yes.  This is just a standard development area  
4    notification.  It's pretty self-explanatory.  It talks  
5    about, you know, what formations we want to drill, where  
6    we want to drill them.  We have our notice list that's  
7    on the very last page -- well, it looks like there are  
8    two.  We may have to submit that subsequently.  There is  
9    a notice list that we attached to the back that shows  
10   everyone who we sent the DA notification to.

11                   Earl, does your exhibit have --

12           Q.    No.  I don't believe we included that as an  
13    exhibit, the list of --

14           A.    Okay.  But the BLM does specify that we had to  
15    have the notification list, and that was included when  
16    we mailed this out.  I think this is dated October 23rd.

17           Q.    Since sending out that notice, what has Apache  
18    done to prepare its prospect for development if the plan  
19    is approved, if you could turn to Exhibit L-9, which I  
20    believe talks about those issues?

21           A.    Well, we've staked the wells.  That happened in  
22    November of 2019.  We sent out well proposals and AFEs  
23    to partners on the 2nd Bone Spring, 3rd Bone Spring and  
24    the Wolfcamp.

25                   During that time, again, the technical team

1 is continuing their evaluation. We want to make sure  
2 that we're drilling the best wells possible. We talk  
3 about facilities here, where the flowlines were going to  
4 go, SWD. We already have gas and oil contracts out  
5 there because of our existing Golden Lane well, so that  
6 wasn't an issue.

7                   And then, of course, there were also  
8 negotiations -- it's not really negotiations quite yet,  
9 but people who were interested in doing deals with us,  
10 but because of competing development areas, I said,  
11 "Hold off. We probably do want to do something with you  
12 but not yet. We want to make sure that we have this  
13 interest -- or that we have operatorship of the Taco  
14 28-30." And we also -- there is a grazing lessee that's  
15 out there that has a fence that is sort of where our  
16 well pads are, and we discussed with him. His name is  
17 Garth Grizzly. We talked about how we were going to  
18 re-route his fence and make sure that -- it wasn't -- it  
19 didn't run directly across our well pads, but it was in  
20 such a way that everybody agreed it needed to be moved  
21 somewhere better for the cows.

22                   And then there is also a recreational trail  
23 that's out here. The BLM has a rec trail for like  
24 motorcycles and ATVs and horses. And that also -- the  
25 rec trail specialist wanted us to move it. She didn't

1 want the trail too close to our well pads. So that's  
2 another thing we worked with the BLM on, as far as  
3 making sure that we could accommodate the BLM and make  
4 sure that the rec trail wasn't impacted by our  
5 development.

6 We also had a contract -- or we haven't  
7 signed a contract, I don't think, yet with Solaris, our  
8 SWD person, but we're already out in the area, and so  
9 we've got something there.

10 We've also had a knowledge share with OXY.  
11 OXY is an operator in and around us. And we thought, as  
12 another big partner in these wells, that they would be a  
13 good operator to discuss, you know, what they're seeing  
14 and compare it with what we're seeing so we're drilling  
15 the best wells here.

16 **Q. If you could turn to Exhibit L-10, does that**  
17 **accurately summarize the investment by Apache in**  
18 **developing its Taco 28-30 development area?**

19 A. Yes.

20 **Q. Could you describe that for the examiners, the**  
21 **total investment by Apache?**

22 A. We've spent over \$120,000 on title money. This  
23 particular area was pretty hairy on the title front. We  
24 spent about 242 field hours on location review with the  
25 BLM, and those hours include the original attempt to use



1 the Golden Lane well pad, and then subsequently, you  
2 know, staking those wells in the northeast quarter of  
3 Section 28. So lots of time out there with the  
4 operations folks to make sure these wells work for us.

5 About 94 of my -- 94 hours of my time has  
6 been spent on preparing this for development. That  
7 includes reviewing the title, preparing the well  
8 proposals, and that also includes preparing for this  
9 particular hearing. 154 technical hours, so that comes  
10 from geological, reservoir, drilling, production,  
11 facility. Each of those groups -- to get to this point,  
12 where we're about to submit permits, there is a lot of  
13 work that goes into it, and we really want this prospect  
14 to be a slam dunk for us.

15 If you look, there are not a lot of  
16 surrounding wells, so we feel like if we drill these, it  
17 could be a really great opportunity for Apache. And so  
18 we've spent the time to justify our development plan to  
19 management, and they approve.

20 And then last I want to just mention that  
21 at least three parties reached out to us and said, "Hey,  
22 we're interested in selling our acreage to you or maybe  
23 doing a trade." And all three of those have said, "No.  
24 We're going to wait, see what happens with this hearing  
25 before we end up with any acreage." I mean, the last

1    thing we want to do is have non-op acreage in Section 28  
2    with Ascent drilling north-south. We would want to  
3    develop our acreage in Section 29.

4           **Q.    If you could turn to Exhibit L-11, which is a**  
5    **tract map, and explain what is shown there to the**  
6    **examiners.**

7           A.    So this is not a full list of all of the  
8    owners. I tried to include anyone who is part of the  
9    case, so Ascent, OXY, EOG, Jalapeno. There is also --  
10   any party that supports Apache, so people that actually  
11   submitted their letters or a brief or anything like  
12   that, I included all of those. If you look at Section  
13   28, the northeast quarter of that is 50 percent OXY, 14  
14   percent Ascent. The northwest quarter of Section 28 is  
15   actually two federal leases, but the reason you're  
16   seeing it all pooled is because there is a pre-existing  
17   JOA that brings all of that interest together. That's  
18   where Ascent has a large position of 68 percent. EOG is  
19   there with 7 percent. If you skip on over to the north  
20   half of Section 29, you're looking at Apache at 96  
21   percent, as the largest working owner, and a bunch of  
22   smaller ones there. And then over in the northeast  
23   quarter of Section 30 is OXY with 100 percent working  
24   interest.

25           **Q.    If you could turn to the next exhibit, L-12,**

1     **which is a further delineation of the ownership.**

2           A.     Right.  So this map shows the ownership,  
3     whether it's state or federal.  Again, all federal in  
4     Section 28, and then Sections 29 and 30 are both state  
5     leases.  If you look at the, like, darker black box  
6     there, it lists the ownership across our development  
7     area.  So Apache has 38 percent working interest; OXY  
8     with 30; Ascent, 16.4, and then there are subsequent  
9     parties.  I'll just mention, Jalapeno has 1.2 and EOG  
10    with 2.4, since both of those were parties in this case.

11           **Q.     Has Apache staked the wells and prepared C-102s**  
12    **and prepared its APDs for filing already?**

13           A.     We have prepared our C-102s and staked the  
14    wells.  We have not filed permits yet.  We want to wait  
15    and see what the Division -- like how they grant this  
16    particular case, what happens, who gets operatorship of  
17    each area, and then we will move forward with submitting  
18    those permits.  Federal permits are about \$10,000  
19    apiece.  You really want to know that you've got the  
20    acreage ready before you submit those.

21           **Q.     If you could turn to Exhibit L-13, is that the**  
22    **C-102s that Apache has prepared for its Bone Spring and**  
23    **Wolfcamp wells --**

24           A.     Yes.

25           **Q.     -- that were described in its applications?**

1           A.    Yes.  This is the full packet.  Really the only  
2   think of note is it just lists all of our wells there,  
3   so 1st and 2nd -- 2nd and 3rd Bone Spring, Wolfcamp  
4   wells.  And, again, this is just to show the examiners  
5   that we've done it.  We're ready to go.  This isn't just  
6   us showing up today.  We are ready to drill these wells.

7                   The thing of note in this exhibit would be  
8   the last five pages, and those are the layout of our  
9   facility and flowlines that would give us access to the  
10   development area.  So it's, again, just showing that  
11   we're ready to go here.

12           **Q.    Did you send out well proposals to the working**  
13   **interest owners in the proposed Taco development --**  
14   **28-30 development area --**

15           A.    Yes.

16           **Q.    -- for the wells described in the C-102s in**  
17   **Exhibit L-13?**

18           A.    Yes.

19           **Q.    If you could turn to L-14, is that the**  
20   **well-proposal --**

21           A.    Yes.

22           **Q.    -- letter that was sent out to the working**  
23   **interest owners?**

24           A.    Yes.  So this -- this well proposal, this is  
25   actually Ascent's -- I think this is their older

1 address, though, 1125 17th.

2 That's the older address?

3 MR. YANCEY: That's the current one.

4 THE WITNESS: Oh, it's the current one.

5 Excellent.

6 Sorry. I just wanted to make sure I didn't  
7 give you the wrong address in my exhibit.

8 So this particular well proposal shows two  
9 2nd Bone Spring wells, three 3rd Bone Spring wells and  
10 three Wolfcamp wells. The AFEs that are listed in this  
11 well proposal are for all eight of those wells. We also  
12 include a map. If you look at the Exhibit A in that  
13 well proposal -- these are the actual -- this is the  
14 layout from our surveyors. So if you want a really nice  
15 view of what we're looking at, the wells that are in  
16 this proposal, this is it. It also shows our facility  
17 pad. So that's just -- if you're wanting a full view --  
18 some of these maps are landman drawings. This is not.  
19 This is a pretty good product from our surveyors.

20 And then Exhibit B to that well proposal is  
21 all of the working interest owners that were -- that are  
22 in the wells.

23 **Q. (BY MR. DeBRINE) Are the costs that are in the**  
24 **AFE consistent with those charged by other operators for**  
25 **drilling, completing and equipping wells drilled to**

1     **similar lengths and depths?**

2           A.     Yes.   We had 100 percent, 300 percent  
3     nonconsent penalty and then a drilling and producing  
4     rate of 7,000 and 700.

5           **Q.     And what has been the response of the interest**  
6     **owners after you sent out the well-proposal letters?**

7           A.     A positive response.   A lot of these partners,  
8     especially those in 29 and 30 -- this is acreage that  
9     hasn't been drilled in years, and so they're excited  
10    about finally getting something out of that acreage.

11                   As far as the Section 28 owners -- you  
12    know, the northeast quarter is not Ascent, so that's  
13    another group of people that are -- including OXY with  
14    50 percent, that are excited about the ability to  
15    develop their acreage.   We got phone calls about the  
16    northwest quarter, and that's where the conflict -- the  
17    operator conflict comes into play.   But, you know,  
18    people wanting to know:   I've got two proposals.   What  
19    am I supposed to be doing here?   But well received.  
20    Again, I think ultimately we'll probably have to do  
21    compulsory pooling just due to the number of parties  
22    that are here.

23           **Q.     Did any of the interest owners express in**  
24     **writing their support for Apache's proposal, if you**  
25     **could turn to Exhibit L-15?**

1           A.    Yes.  So we'll just go through them.  We have  
2   support from Ard Energy.  And most of these owners have  
3   working interests in multiple tracts so not just one  
4   piece.  So Ard Energy; Centennial, LLC; Worrall  
5   Investment -- let's see here -- the Josephine T. Hudson  
6   Testamentary Trust; Javelina Partners; Lindy's Living  
7   Trust; Moran Shelton, Zorro Partners.  The last one here  
8   is OXY's prehearing statement that provides their  
9   support.  So if you add up all this interest and  
10  Apache's, that's almost 80 percent of the working  
11  interests in the Taco development area providing support  
12  here of Apache's plan.

13           **Q.    Did your investigation of title determine if**  
14 **Mewbourne owned an interest in Section 28?**

15           A.    I have not seen an assignment from any of these  
16  entities into Mewbourne.

17           **Q.    Do you know who Ascent acquired some of its**  
18 **acreage from in Sections 28 and 33?**

19           A.    I knew for sure of Matador.

20           **Q.    Did you have any discussions with Matador as to**  
21 **whether they agreed with Apache that the area should be**  
22 **developed with east-west laterals as opposed to Ascent's**  
23 **plan of north-south laterals?**

24           A.    Yes, I did.

25           **Q.    If you could turn to Exhibit L-16, is that the**

1     **discussion you had with Matador?**

2           A.     It is, yes.

3           **Q.     And if you could just read that into the**  
4     **record, the statement by Matador.**

5           A.     So it's dated June 20th.  It says, "Laci, thank  
6     you for reaching out regarding the proposed and  
7     protested Anvil development area.  Matador wishes to see  
8     east-west development in this area as opposed to  
9     Ascent's proposed north-south development."

10                   And, again, Matador is the operator of the  
11     HEYCO wells that are just to the southwest of these two  
12     competing DAS, and so they were originally in Ascent's  
13     acreage and now they would have been in Apache's Taco  
14     acreage.  I believe they actually have an override in  
15     the northwest quarter of Section 28 that they carved out  
16     from their transaction with Ascent.  But this was  
17     another operator that supported east-west development.  
18     OXY was an operator that supported east-west development  
19     as well.

20           **Q.     And you talked about the HEYCO wells that are**  
21     **adjacent to Ascent's acreage.  What does production with**  
22     **those wells look like?**

23           A.     My understanding, from a landman perspective,  
24     was not good, but I'll let some of the other technical  
25     folks give some more information on that.  I don't want



1 to answer it.

2 Q. If you could turn to Exhibit L-17 and does that  
3 accurately summarize the attempts by Apache to try and  
4 reach agreement with Ascent to resolve the conflict?  
5 And if you could just walk the examiners through those  
6 efforts.

7 A. So we had the meeting with the BLM in June of  
8 2018. You know, I mentioned we had a second meeting  
9 scheduled in October that we ended up canceling because  
10 we didn't think it was going to be fruitful. There was  
11 a teleconference with Ascent in May of 2018, three  
12 in-person meetings. They've come to Midland twice. I  
13 met with them in their Denver office once.

14 We offered to buy -- I'm sorry. Ascent  
15 offered to buy our acreage in this particular -- in the  
16 north half of Section 29. We thought that their offer  
17 was too low. Subsequently, later on down the road, we  
18 kind of pitched the idea: What if -- what if we offered  
19 for your acreage? What would that look like? And what  
20 they kind of had, ballpark only, was about  
21 two-and-a-half times their original offer to us. So  
22 that obviously did not work for Apache.

23 We really have tried, numerous emails back  
24 and forth with trade ideas. We've had some non-op  
25 interests that we pitched to them, some minerals for

1   leasing purposes, but then they would participate in  
2   someone else's wells. We've done -- we actually didn't  
3   do a shapefile swap, but we did like a map exchange. We  
4   really exhausted our efforts here to try to find some  
5   sort of solution.

6           **Q.    If you could turn to Exhibit L-18 and explain**  
7           **to the examiners why you believe that Ascent's**  
8           **application should be denied and that Apache's**  
9           **application and request for approval of its proposed**  
10          **Taco 28-30 development area should be approved.**

11          A.    So Apache has a proven track record in  
12   New Mexico. Over the past ten years, we've drilled 873  
13   wells. We do have experience in the Delaware Basin and  
14   the potash area. In the last two years, we've drilled  
15   35 horizontal Delaware Basin wells. We've drilled two  
16   development areas within the potash, so we're familiar  
17   with some of the things that you need to do there.

18                  We feel like this solution is a compromise  
19   between the two parties. We feel like this is in the  
20   spirit of the Secretary's order. Again, this is a plan  
21   that the BLM liked, because it doesn't say, "Ascent, you  
22   can't go drill your wells." It just says, "Please drill  
23   them only a mile and a half and then participate with  
24   your other acreage in our wells that are going to be  
25   coming from the northeast quarter of Section 28." So

1 from our perspective, we feel like it's a compromise  
2 between the two operators.

3 OXY and Apache also have the risk of being  
4 stranded here, and we'll talk about well orientation.  
5 The other witnesses will talk about that. Again, I'm  
6 not the person to discuss the technical aspects of well  
7 orientation. But both OXY and Apache feel like we would  
8 we would have our acreage stranded if Ascent drills  
9 their wells and we're not able to develop from the east  
10 to the west.

11 And just to explain something that's on  
12 these maps here. I know there are a lot of squiggles  
13 here, but the red line that you're seeing on the map is  
14 the quarter-mile buffer from the potash area, and then  
15 the blue is the half-mile buffer. And what that means  
16 is your surface location, as far as your drilling down,  
17 the deeper you go, the further outside of potash you  
18 have to be. So here we're talking about Wolfcamp wells.  
19 We have to be outside of that half-mile buffer. So when  
20 we talk about developing our wells east-west, there is  
21 really not a way to pick up our acreage in 29 or, in  
22 OXY's case, in the northeast quarter of Section 30 but  
23 for outside of that buffer, which those are the drill  
24 islands that we have staked there in Section 28.

25 We would develop these wells as soon as

1 possible. We really have checked all the boxes besides  
2 obviously being granted operator and also submitting our  
3 permits. Like I've mentioned, we've done SWD. One  
4 other thing that we've done is -- I mentioned XTO has  
5 wells that are going to go off of the same area right  
6 here going east. We'll be sharing a frac pit with XTO.  
7 That's the plan. So we won't have two different  
8 operators with two different frac pits out there. We're  
9 only going to use one. So we're looking for those kind  
10 of synergies with other operators because if we can  
11 reduce our footprint, then that's the plan.

12 And then the last point is, again, that if  
13 you combine all of the letters of support, plus Apache's  
14 interest, that's over 79 percent of the working interest  
15 owners that are going to be in the Taco 28-30, and  
16 almost all of those are also ones that are going to be  
17 in Ascent's Anvil wells. So it's not just parties that  
18 are -- you know, I mentioned OXY is in Section 30, but  
19 you'll see, if you look at the ownership map, that there  
20 are a lot of things that are repeated ownershipwise.

21 **Q. If you could turn to Exhibit 19, is that my**  
22 **Affidavit of Notice indicating that notice was provided**  
23 **of Apache's application?**

24 A. Yes.

25 **Q. Were all the parties that own an interest in**

1     Apache's proposed spacing units for its wells within the  
2     Taco development area notified of this hearing?

3             A.     Yes.

4             Q.     Were Exhibits L-1 through L-18 prepared by you  
5     or under your supervision or compiled from Apache's  
6     business records --

7             A.     Yes.

8             Q.     -- or kept as part of a regularly conducted  
9     business activity?

10            A.     Yes.

11            Q.     Based on your study of the lands involved in  
12     these applications, your knowledge, training and  
13     experience in petroleum land matters, is the granting of  
14     Apache's application and the denial of Ascent's  
15     application in the interest of conservation, the  
16     prevention of waste?

17            A.     Yes.

18                   MR. DeBRINE:  We would ask that Exhibits  
19     L-1 through L-18 be admitted.

20                   MR. BRUCE:  No objection.

21                   MR. LARSON:  No objection.

22                   MR. PADILLA:  None.

23                   EXAMINER JONES:  L-1 through L-18?

24                   MR. DeBRINE:  L-1 through L-18.

25                   EXAMINER JONES:  Are admitted.

1 MR. DeBRINE: And we'd also ask that  
2 Exhibit L-19, which is my affidavit, be admitted.

3 EXAMINER JONES: Any objection to the  
4 notice affidavit?

5 MR. LARSON: (Indicating.)

6 MR. PADILLA: (Indicating.)  
7 (Apache Corporation Exhibits L-1 through  
8 L-19 are offered and admitted into  
9 evidence.)

10 EXAMINER JONES: Okay. Mr. Bruce, are you  
11 prepared right now to cross-examine, or would you rather  
12 wait?

13 MR. BRUCE: Well, I'm prepared, but I have  
14 a couple of dogs floating around my office that need to  
15 be watered, and I would prefer to let them out.

16 EXAMINER JONES: It's 12:00 noon. How long  
17 for lunch? Anybody got a preference?

18 MR. BRUCE: I'd like at least an hour and a  
19 quarter because I've got to file a couple of things with  
20 the Division, too.

21 MR. DeBRINE: We've got a big group so it  
22 might take long. An hour and a half, I think, would be  
23 good.

24 EXAMINER JONES: 1:30.

25 MR. DeBRINE: I think we're going to get

1     done today, so that's not an issue. It was scheduled  
2     two days.

3                   EXAMINER BRANCARD: I will be back later,  
4     maybe with potash people.

5                   EXAMINER JONES: If you see Mr. Rutley --  
6     (laughter).

7                   (Recess, 12:04 p.m. to 1:59 p.m.)

8                   EXAMINER JONES: Let's go back on the  
9     record, and this is cross-examination by Mr. Bruce.

10                   CROSS-EXAMINATION

11     BY MR. BRUCE:

12           **Q. I noted some stuff here, but Apache's acreage**  
13     **is mainly in Section 29, the northeast quarter and the**  
14     **east half-northwest quarter; is that correct?**

15           A. It's actually the entire north half of Section  
16     29.

17           **Q. Okay.**

18           A. Yeah. We have contractual interests in the  
19     west half of the northwest quarter.

20           **Q. Okay. So it's a lease plus a contractual**  
21     **interest?**

22           A. Uh-huh. Yes.

23           **Q. How long has Apache owned those interests?**

24           A. We acquired Edge in 2010.

25           **Q. And why did it wait until December 2018 before**

1     **it proposed the well?**

2           A.     I don't really have a good answer for that. We  
3     went through a project where we looked at any acreage  
4     that we considered orphaned acreage, so it's acreage  
5     that is just some kind of out there. And this was  
6     identified. And as we took a closer look and realized  
7     that we had, you know, depths that are traditionally  
8     drilled in the Delaware Basin like the Bone Spring and  
9     Wolfcamp rights, it quickly came to management's  
10    attention, and then a lot of money started funneling  
11    towards the project for development purposes.

12          **Q.     But the proposal for development only happened**  
13    **after Ascent gave Apache notice of its Anvil development**  
14    **plan; is that correct?**

15          A.     We had the on-site scheduled with the BLM  
16    before we received notice from Ascent of its development  
17    area.

18          **Q.     Now, you said that Apache has not applied for**  
19    **APDs yet?**

20          A.     That's correct.

21          **Q.     Now, does Apache own any working interest in**  
22    **every quarter-quarter section in these well units?**

23          A.     We own in the north half of Section 29.

24          **Q.     Are you aware of the OCD rule that they don't**  
25    **want you applying for an APD unless and until you secure**



1     **an interest in every quarter-quarter section whether by**  
 2     **JOA or by force pooling?**

3           A.     I'm aware that this is the potash area and that  
 4     in order to access your acreage, you normally have to do  
 5     a drill island. It may not be directly adjacent to your  
 6     acreage, but that's where the collaboration process  
 7     comes into play.

8           Q.     Well, I'm not asking about the potash area  
 9     because that's more of a BLM deal. I'm asking about Oil  
 10    Conservation Division rules.

11          A.     I'm not aware of what you're talking about.  
 12    No.

13          Q.     In looking at your -- I don't have the exhibit  
 14    numbers, but the AFEs, there's really not much  
 15    difference between the Ascent AFEs and the Apache AFEs,  
 16    is there?

17          A.     I'm not sure -- I know during Ascent's  
 18    testimony, Lee mentioned that they had sent updated  
 19    numbers. One of the partners -- so we never received  
 20    the AFEs from Ascent because we're not in Ascent's -- or  
 21    in the Anvil development area. One of the partners that  
 22    did receive them emailed them to us. I don't recall if  
 23    those were the new numbers that Lee testified to today  
 24    or if they were the old ones, so I don't want to  
 25    confuse --

1           Q.    Well, if you want, I could show you Ascent's  
2   Exhibit A, pages 10 through 19, which are AFEs dated  
3   August 16, 2019.  And could you compare those well  
4   costs --

5           A.    Sure.

6           Q.    -- with Apache's and see if there is any  
7   significant difference?  And I mean -- by significant, I  
8   mean 10 or 20 percent difference.

9           A.    So I'm going to look at the 2nd Bone Spring  
10   AFE.  You see it's the first one here.

11          Q.    Sure.  Yeah, whatever.  Yeah, that's fine.

12          A.    I want to do apples to apples.

13          Q.    That's fine.

14                   MR. DeBRINE:  And, Mr. Examiner, I have a  
15   motion to make.  I didn't realize, in the testimony of  
16   the land manager, that they had just submitted new AFEs  
17   last week on August 16th.  I believe under New Mexico  
18   law that if you submit an AFE to your partners, that the  
19   prior election is -- that you may have elected is not --  
20   so I don't think this case, Ascent's case, is ripe to  
21   consider compulsory pooling if the working interest  
22   owners would have an opportunity to consider whether to  
23   participate in the proposed spacing units under the  
24   terms of a new AFE.

25                   MR. BRUCE:  Mr. Examiner, I think that's a

1   misrepresentation. They simply updated the APD -- the  
2   AFEs so that there was a current well cost. Obviously,  
3   they sent out, -- by the landman's own testimony, they  
4   sent out proposal letters and AFEs in July of 2018, and  
5   they are simply updating them so people have a current  
6   statement. And under a pooling order, whoever is named  
7   operator has to send AFEs out to an interest owner, and  
8   you would obviously use the most current AFE. An AFE is  
9   an estimate. It's not something written in stone. And  
10   all I'm asking: Are the well costs similar? That's a  
11   pretty easy question to answer.

12                   EXAMINER BRANCARD: I'll go with  
13   Mr. Bruce's comments.

14                   EXAMINER JONES: Yeah. Go ahead and try to  
15   answer as best you can.

16                   THE WITNESS: Okay. Okay.

17                   So I'm just looking at the 2nd Bone Spring  
18   AFE from Ascent, and it looks like the grand total  
19   9,354,100. And then Apache's AFE -- this is for the  
20   202, specifically, also a 2nd Bone well -- is  
21   \$10,637,009. Just a note, Ascent's wells are two miles  
22   and ours are two miles.

23           **Q. (BY MR. BRUCE) Okay. And it's hard to gauge**  
24   **that, but they're not significantly different, would you**  
25   **say?**

1           A.    No, numbers are not.  If you want to go deeper  
2   into the AFE costs, maybe the others --

3           Q.    **Sure.  Somebody else.**

4           A.    Yeah, because I don't really understand what a  
5   lot of the categories mean.

6           Q.    **Thank you.**

7           A.    Uh-huh.

8           Q.    **And this is something that another witness**  
9   **could probably answer more, but you have stated that**  
10 **Apache believes that longer horizontal wellbores are**  
11 **better; is that correct?  That's Apache's -- whether**  
12 **it's your opinion or the engineer or the geologist, is**  
13 **that a fair statement?**

14          A.    From an economics perspective, that's the  
15 general thought.

16          Q.    **Okay.  But your compromise position is to**  
17 **maximize Apache's wellbore length and minimize Ascent's**  
18 **wellbore length, isn't it?**

19          A.    Ascent's working interest would still be  
20 developed in the north half of Section --

21          Q.    **I'm not saying that.  I'm not saying that.**

22                   **You're asking Ascent to minimize its well**  
23 **length for its proposed wells?**

24          A.    Yes.  That's the compromise we've suggested.

25          Q.    **And you testified -- and I believe it because**

1 I've been in this business a long time -- how much time  
2 and effort goes into drilling a well, preparing to drill  
3 it, and I'm impressed by the title costs. I've seen  
4 much higher costs, but I'm impressed by that.

5 But virtually every company that is going  
6 to drill and develop wells in this area has spent  
7 similar time, hasn't it, similar amounts of money and  
8 time?

9 A. I would say from the title perspective, no.  
10 This one was much hairier than what we've seen before.

11 Q. Well -- and probably not for your 240 acres,  
12 correct, because you already own that interest?

13 A. So I mentioned we have interest in the west  
14 half of the northwest quarter, contractual interest, so  
15 it was a very interesting title situation there.

16 Q. And that's just -- I probably shouldn't use  
17 this word -- a virtue of being an oil and gas operator,  
18 isn't it? You have to find out who owns what?

19 A. Oh, I agree.

20 Q. But insofar as Section 28, the north half of  
21 28, there are about ten owners. So that is not a  
22 difficult title opinion to reach?

23 A. Anytime you deal with the Hudson entities --

24 Q. Well, touche. I'll agree with you there.

25 A. It's -- you know. It's all over the place.

1 They've put it in different trusts, cross-conveyed.

2 Q. I've represented them. I understand.

3 Now -- and I do want to verify. From what  
4 I understood from your exhibits, Apache does not at this  
5 point own a working interest in the north half of  
6 Section 28?

7 A. That's correct. Yes.

8 Q. So you could say, just from that standpoint --  
9 forget the drilling of wells -- you're not affected by  
10 Ascent's application?

11 A. I can't say that at this point. I mean, we've  
12 been dealing with this for a year and a half. We've had  
13 working interest owners in 28 that wanted to do deals  
14 with us, and we didn't do them because we weren't sure  
15 if we were going to be operator.

16 Q. And getting back to the Hudsons, that's a  
17 family that has a long --

18 A. Yes.

19 Q. -- complicated and not always friendly history?  
20 Shall we put it that way?

21 A. I don't know the whole story like you do, I  
22 bet, but --

23 Q. I do (laughter).

24 This is something that Mr. DeBrine and I  
25 argued about, but insofar as drilling, Apache states

1     that it really wants to get this prospect going. But,  
2     first of all, assuming you win your case, then you have  
3     to apply for APDs.

4           A.     Yes.

5           Q.     What is the current timing on getting approval  
6     of an APD from the BLM down in Carlsbad?

7           A.     We've seen it as quick as four months, and  
8     we've seen it as long as eight months.

9           Q.     Okay. So nothing is going to happen fast. I  
10    mean, it's not like filing on state or fee land,  
11    correct --

12          A.     Correct. Yes.

13          Q.     -- where you can get an APD in two days?

14          A.     That's correct. It's a different processing  
15    time.

16                   And can I just follow up on that real quick  
17    just to clear it up, because I know it came out in Lee's  
18    testimony, too. But whenever you file a permit in the  
19    potash area, you file it within the AFMSS system, if  
20    it's in potash, it immediately gets red-flagged. So  
21    right now even if both parties had already submitted  
22    permits, it would sit in their system until the  
23    development area has been approved. So I just want to  
24    clean that up. Neither party has filed for their  
25    permits yet, but until the development area situation is

1 resolved, no permits will be approved.

2 Q. Does Apache at this point have a final title  
3 opinion -- drilling title opinion on these lands?

4 A. Can you repeat the question?

5 Q. Do you have a drilling title opinion from an  
6 attorney on all of the lands in your proposed  
7 development area?

8 A. Yes, we do.

9 Q. Just out of curiosity, who did it? I'm not  
10 going to ask what's in it.

11 A. We use Masurek & Holliday out of San Antonio.

12 Q. Now, what about -- for your proposal, what type  
13 of surface disturbance -- new surface disturbance does  
14 Apache see having to occur drilling on the east edge of  
15 Section 28?

16 A. Sorry. I'm trying to find the slide that has  
17 an aerial view for you. All right. If you look at  
18 Exhibit L-7, this map, which is on several of the  
19 slides --

20 Q. Hold on just a second.

21 Okay.

22 A. -- I believe that will be a new well pad  
23 drilled on the east -- the northeast quarter of Section  
24 28. Both of those drill islands would be new. XTO,  
25 again, is right across the section line there in 27.



1           Q.    And will you have to build access roads there  
2   from Section 31?  I mean -- excuse me -- Highway 31 or  
3   whatever it is.  I can't tell if that's a highway number  
4   or what.  If you go down into the southeast corner,  
5   there's a state highway there, or is it a federal  
6   highway?

7           A.    You know, I think it might be better to ask one  
8   of the technical folks this particular question.  I  
9   don't want to give you bad information about road  
10   access.

11                   I can tell you that on the back five pages  
12   of our C-102 exhibit -- that's Exhibit L-13 -- that's  
13   where you can see the layout and where the rights-of-way  
14   would be, but I prefer not answering where the road's  
15   coming from just in case I give bad information.

16          Q.    Okay.  So looking at that -- okay.  So it's  
17   Highway 62.  You're going to have to drill about a  
18   mile -- or build a mile-and-three-quarters of additional  
19   road?  Does that appear reasonable?  If you don't know,  
20   that's fine.

21          A.    Yeah.  I'm not the surface landman.  I don't  
22   think I'm the best person to answer that question.  
23   Whatever we've got on our C-102s and in our exhibits, I  
24   mean, that's what the team has agreed to do.

25          Q.    What other fac- -- and if you don't know --

1    **what other facilities are you going to have to build**  
2    **there?**

3           A.    We'll for sure have a facility pad that's off  
4    of the very southern well pad.  And Mindy Goldsmith is  
5    our reservoir engineer, and she actually has a better --  
6    I think she probably has a better map of our frac pond  
7    that is located further south, and that's the one where  
8    we're going to collaborate with XTO.

9           Q.    In looking at your Exhibit L-7, there are  
10   additional drill islands along the south lines of  
11   Sections 29 and 30, correct.

12          A.    Yes.

13          Q.    And those could be used to drill two-mile and,  
14   looking at the basic well location in that area, even  
15   three-mile laterals to the north; isn't that correct?

16          A.    If the well orientation was north-south, then  
17   yes.  That was something that immediately -- when we  
18   contacted Ascent, that was their first suggestion, why  
19   don't we go off of the south pads, and that's something  
20   that we researched and will have further testimony on,  
21   the southern pads and well orientation.

22          Q.    I think I'm done, but I have to ask one  
23   question.  Was it comfortable flying up here on the  
24   company plane?

25                                (Laughter.)

1           A.    I just put it out of my mind after we do it  
2   because the next Southwest flight is so different.

3           **Q.    You're in the cattle-car section at Southwest?**

4           A.    I don't think there is anything but a cattle  
5   car on Southwest.

6                   (Laughter.)

7           MR. BRUCE:  I'm finished, Mr. Examiner.

8           EXAMINER JONES:  Any other questions?

9           MR. LARSON:  No questions.

10          MR. MOELLENBERG:  (Indicating.)

11          MR. PADILLA:  I don't have any.

12          EXAMINER JONES:  Mr. Coss?

13          EXAMINER COSS:  I might have some questions  
14   after you shoot off yours.  I'll pass at this point.

15          EXAMINER JONES:  I was hoping it would be  
16   the opposite (laughter).

17                   CROSS-EXAMINATION

18   BY EXAMINER JONES:

19          **Q.    You know, one of the big issues here is -- is**  
20   **Ascent has an exhibit that shows that all lands are able**  
21   **to be developed if wells are drilled north-south. Did**  
22   **you look at that?  It's Exhibit D Number 5.**

23          A.    I don't have a copy of that exhibit.  No.

24          **Q.    And they also have an exhibit that shows what**  
25   **happens if you drill east-west, the next one -- that**

1     **next one.**

2           A.     Uh-huh.

3           **Q.     So can you talk about that and say whether you**  
4     **agree with those or not?**

5           A.     Well, I think the idea here is that these are  
6     not -- what you're seeing on the map, not all of them  
7     are wells that have actually been drilled or wells that  
8     have been permitted. So it's just -- Apache could do  
9     the same thing, right? We could look at all the drill  
10    islands and say: It should all be east-west, and if I  
11    put all these sticks on a map, look, now there's  
12    stranded acreage over here or -- but we don't live in a  
13    vacuum. So there are drill islands that weren't  
14    approved a year ago that are now on this map. In fact,  
15    while we're sitting in here talking, the BLM may have  
16    additional drill islands in this particular area. You  
17    may have parties come that are just preparing prospects  
18    to drill, that don't actually plan to drill. So you  
19    could go out and stake a drill island and never drill on  
20    it.

21                   And so the idea is you really need to look  
22    at what's out there right now and who is ready to drill  
23    what's out there, what's approved. We're ready to drill  
24    these east wells -- east-west wells. We think, again,  
25    that it's the correct orientation, and we'll get into

1 the technical information of that. But I would just  
2 say -- I mean, I agree. When you look at this map,  
3 well, why are we even sitting in here. Obviously, we're  
4 wasting time. But if you just put sticks on a map, you  
5 can tell whatever story you want. And it's really about  
6 operators that are ready to go, ready to drill this  
7 acreage.

8                   And I would also just go back to the  
9 conversations that we've had with the BLM and them also  
10 being pleased with our plan. They feel like this is a  
11 compromise, where all of it gets developed. As of right  
12 now, with Ascent's current plan, the northeast quarter  
13 of Section 28, which EOG has an interest in that  
14 particular tract, that would not be drilled at this  
15 point in time. So, again, I'm just saying take this map  
16 with a grain of salt given that there is not -- all of  
17 these wells are not actually drilled at this point in  
18 time.

19           **Q. Okay. Your applications -- your company's**  
20 **applications say that you're going to do compulsory**  
21 **pooling, approval of a spacing unit and a potash area**  
22 **development area, and then there was notice provided to**  
23 **everyone. I noticed the potash companies lost theirs.**  
24 **But they were listed on the newspaper notice anyway.**  
25 **But there was notice provided, so everybody is -- all of**

1    these people are assuming that they either sign on or  
2    they're going to get compulsory pooled, is that correct,  
3    or have you talked to them and told them that you're  
4    withdrawing the compulsory pooling portion of this  
5    application?

6           A.    So when we originally filed that application, I  
7    got some very hot phone calls from partners that said,  
8    "Hey, we don't want to be compulsory pooled whenever --  
9    you know, we've got a well proposal from Ascent.  Now  
10   we've got something from Apache.  You know, we'd like to  
11   do a deal with you."  So to me, if you put yourself in  
12   the shoes of the small non-ops, they want to know what's  
13   going on here.  They want to know who the operator will  
14   be, if the lands that they are going to submit to either  
15   Ascent or to Apache.  And they can't know that until the  
16   development area is established.  The cost of drilling  
17   one and a half is different than two or two, two and a  
18   half.

19                   And so, I mean, OXY is here.  They're  
20   represented.  You've got all the letters that are in  
21   here.  And I feel like if we showed up today and said,  
22   "We're also going to compulsory pool," then I would have  
23   lied to a lot of our partners, which is a really bad  
24   plan because we want -- we want them to participate with  
25   us.  And I -- I do feel like there was some excitement

1 about the two-and-a-half-mile idea, capturing that  
2 acreage, especially OXY's in the northwest quarter of  
3 30. And, again, not a lot of developments out here so  
4 you're finally -- you know, especially the overriding  
5 royalty owners are excited to hear from us, too.

6 Q. And they are -- they're in on your well no  
7 matter what, right, because that's what Mr. Zink said,  
8 that they --

9 A. Ascent would be part of -- yes. There are --

10 Q. No. I meant the overrides. The overrides are  
11 poolable according to the instruments that created the  
12 overrides?

13 A. Yes. That's correct. Yes.

14 Q. And the Hudson group -- Ascent's interest  
15 apparently would change from 34 to 84 percent if the  
16 Hudson Group comes in. Are you negotiating with the  
17 Hudson group also, or do you agree with the same Hudson  
18 group of people or --

19 A. I think the Hudson group letters that are in  
20 our exhibits are a pretty strong indication of where  
21 they would like to dedicate their acreage, which is with  
22 Apache's Taco development area. I don't know -- I don't  
23 know. I don't want to speak to Lee's negotiations with  
24 that group, how far down the road they are or what they  
25 look like. But I would just redirect you to if you

1 combine all of the parties' interest that said they were  
2 interested in supporting Apache, plus ours, it's about  
3 80 percent.

4 Q. 80 percent and a two-and-a-half-mile well?

5 A. That's correct. And most of those parties are  
6 also in -- in the Anvil development area.

7 Q. Okay. Okay.

8 EXAMINER JONES: I'll pass questions on to  
9 the rest of these folks here.

10 Mr. Coss?

11 CROSS-EXAMINATION

12 BY EXAMINER COSS:

13 Q. I guess I'm still -- can you explain for me  
14 again Apache's interest in the north half of Section 28?

15 A. Sure.

16 Q. You currently aren't listed -- how that section  
17 of the deal will be worked out.

18 A. Can you tell me which exhibit that is you're  
19 looking at?

20 Q. That's L-11.

21 A. And can you repeat the question?

22 Q. Oh. In the north half of Section 28 there, it  
23 doesn't appear that Apache has much a working interest  
24 than where you would acquire -- or how the top part of  
25 Section 28 works out for Apache.



1           A.     So we have 96 percent in the north half of  
2     Section 29. That's where our working interest is right  
3     now. The parties that I mentioned -- we've had three  
4     different ones that have reached out and said, "Hey,  
5     we're interested in doing some kind of deal" -- those  
6     are across the north half of Section 28. But I said no  
7     to doing a deal because we didn't want to end up in a  
8     scenario where we come to hearing and then we have, you  
9     know, very tiny, nine knee non-op interest in Ascent's  
10    wells. And the reason for that is the well orientation,  
11    and that will come in the later testimony. But yes,  
12    you're correct. The only current interest Apache has is  
13    that 96 percent in the north half of 29.

14           **Q.     And the other -- it's sort of curiosity. Maybe**  
15    **you can enlighten me. Is it always one to one kind of,**  
16    **the return that you get from going longer and longer in**  
17    **one of these wells? If you go a quarter -- you know, 25**  
18    **percent further, your take is 25 percent better?**

19           A.     The best person to ask that is Mindy, our  
20    reservoir engineer. She'll be up here in just a bit.  
21    She can give you a really good answer for that.

22           **Q.     Okay. I'll wait to hear what she has to say.**

23           A.     Uh-huh.

24

25

1 CROSS-EXAMINATION

2 BY EXAMINER BRANCARD:

3 Q. Just quickly then, I'm looking at your Exhibit  
4 L-18.

5 A. Yes.

6 Q. Okay. So you said this, and let's just get it  
7 clear for the record. There is a squiggly red line and  
8 a squiggly light blue -- thinner blue line?

9 A. Yes.

10 Q. These are potash -- these are BLM potash area  
11 lines?

12 A. Yes. It's the buffer zone. So the red is  
13 quarter mile, and blue is half mile.

14 Q. Okay. And is drilling allowed within those  
15 areas?

16 A. So the deeper wells, so the Wolfcamp wells and  
17 I think starting with 3rd Bone Spring -- and it kind  
18 of -- I want to say it depends on where you are, but  
19 that might be a geology question here in a little bit.  
20 But the deeper you are, the further away you need to be.  
21 So if we were just drilling 1st Bone Spring, we could  
22 probably be within that -- between the red and the blue.  
23 I don't think we can go at all within the red.

24 Q. The drilling, as in getting a drilling island?

25 A. Drill island, that's correct.

1           Q.    As proposed to a lateral.  Let's just leave the  
2   lateral out for a second.  Assume you can do the  
3   laterals anywhere as long as you're below the potash,  
4   but it's the drilling, right?

5           A.    That's correct.

6           Q.    When you're drilling through the potash, that's  
7   the issue.  And so what I can see here, the drilling  
8   islands are all outside the blue line.  So I would  
9   assume your argument then is if 29 and 30 are isolated,  
10  there is no ability to put a drilling island there now?

11          A.    That's correct.

12          Q.    Okay.  But the exhibit that you have in front  
13  of you from Ascent shows drilling south to north from  
14  below drilling islands, correct, for 29 and 30, that you  
15  have drilling islands to the south?

16          A.    Oh, yes.

17          Q.    So theoretically it is possible to drill south  
18  to north into 30 and 29 from a drilling island?

19          A.    Yes.  That is correct.

20          Q.    Okay.  So they would not be stranded that way  
21  if somebody came up with a proposal to drill south to  
22  north theoretically?

23          A.    If that was the right way to drill them, then  
24  yes.

25          Q.    Okay.  So the other question I have is:  Has

1     **Apache applied to the BLM for approval of a development**  
2     **area?**

3           A.     Yes.   That is in our exhibit -- let me find  
4     that one for you.

5                     Earl, can you help me find it faster?

6                     EXAMINER JONES:   That was Rutley's letter?

7                     MR. DeBRINE:   Well, I don't believe it's an  
8     exhibit, that correspondence to the BLM.   It was just  
9     put in as evidence as notice to the working interest  
10    owners concerning the proposed development area.

11                    THE WITNESS:   Oh.   L-8 is the development  
12    area notice.

13            Q.     **(BY EXAMINER BRANCARD) Okay.   So this is a**  
14    **notice to everybody that Apache has applied to the BLM**  
15    **for approval of a development area?**

16            A.     That's correct.   This also goes to the BLM.

17            Q.     **Right.**

18                    **So -- and you're saying that BLM's response**  
19    **to this application is?**

20            A.     We're on hold until the development area  
21    conflict between Apache and Ascent is resolved.

22                    EXAMINER JONES:   And which exhibit was that  
23    because that was Rutley's letter?

24                    THE WITNESS:   So that was -- so that's L-3.  
25    And this is the email from Jim Rutley to me that

1 explains the 30-day notice period, and within that 30  
2 days, that's where you protest. So Ascent did theirs.  
3 We protested. We filed ours. They protested us. So  
4 nothing happens with those permits until this is  
5 resolved.

6 Q. (BY EXAMINER BRANCARD) I'm sorry. "This"  
7 being?

8 A. The conflict of the development areas.

9 Q. Right.  
10 Which is before the BLM. This is a  
11 conflict before the BLM. How did it end up here?  
12 That's what I want to know.

13 A. So if you read further in your email, in the  
14 email that's in front of you, this where he walks  
15 through the process. So he talks about 30-day notice.  
16 He talks about the parties coming together to try to  
17 collaborate. And then in the second-to-the-last  
18 sentence of that middle paragraph, he says, "If still no  
19 resolution, the protest goes before OCD. Until  
20 recently, we have not had any of the meetings progress  
21 to that point, but in the last six months, I believe at  
22 least three, maybe four have gone to hearing." And if  
23 you needed --

24 EXAMINER BRANCARD: So essentially what we  
25 have here is a BLM official refusing to make a decision

1 on an application that is before the BLM and suddenly  
2 somehow morphing that application into an application  
3 before a state agency. That's what it looks like to me.

4 MR. BRUCE: I would agree with you,  
5 Mr. Examiner.

6 EXAMINER BRANCARD: Okay. We'll try to  
7 resolve this here.

8 MR. DeBRINE: Mr. Examiner, just so I can  
9 speak to the issue. We had a prehearing conference with  
10 Mr. Brooks, who was the Division's counsel, back in  
11 January. These issues were argued and fleshed out  
12 there, and it was agreed and the ruling was that the  
13 issue was ripe for decision because the BLM had told the  
14 parties to go to the Division to get a decision with  
15 regard to the competing development areas. And so we  
16 proceeded in accordance with the ruling by the hearing  
17 examiner at the hearing conference. And, you know, we  
18 could have amended applications to do things  
19 differently, but we were on a path that the Division had  
20 blessed at that point.

21 And I know you're coming to this hearing  
22 fresh, without having the benefit of participating in  
23 that hearing, but we think it was very clear that the  
24 BLM told the parties to come to the Division because it  
25 has a process, an adversary process, in which witnesses

1 can testify, evidence can be presented, and you can get  
2 a decision from the Division that they will recognize  
3 and apply as part of the process under the Secretary's  
4 order. And that's why we're here. And that's what  
5 we've been told to do, and we think it's -- we think  
6 it's appropriate. We think the Division, back in  
7 January, told us that we ought to be doing this. That's  
8 why we're here.

9 EXAMINER BRANCARD: And I appreciate that,  
10 Mr. DeBrine, because I've looked through some of the  
11 transcripts for this case, and I've seen how many  
12 different hearing examiners you've had to appear before.  
13 I think there were five in one meeting, none of whom are  
14 here today.

15 Was EOG's motion to dismiss denied at that  
16 meeting, Mr. Padilla?

17 MR. BRUCE: Yes.

18 MR. PADILLA: I don't think it was denied,  
19 but the decision was made to have a hearing, to go ahead  
20 with the hearing. I -- I never got anything in writing  
21 or any verbal declaration that the motion was denied.  
22 The decision was made to go forward with hearing.

23 MR. BRUCE: Mr. Examiner, I would simply  
24 say that was at a point where Apache was still pressing  
25 forced pooling, and they're not doing that now.

1 EXAMINER BRANCARD: Well, let's continue.

2 EXAMINER JONES: Okay. I have one more  
3 question.

4 MR. DeBRINE: If I could just add, the  
5 motion was definitely denied. I mean, we can talk to  
6 Mike and get confirmation. I don't know if there was an  
7 email confirmation sent out, but it was argued.  
8 Everybody was here, counsel for OXY and counsel for  
9 Mewbourne. Everybody was there. And the motion was  
10 deliberated on by the legal examiner and the technical  
11 examiner, and the motion was denied. And Ascent also  
12 had a motion to dismiss with respect to the notice of  
13 Apache's application, and it withdrew that motion in  
14 advance of the hearing.

15 MR. BRUCE: Mr. Examiner, that was based on  
16 the fact that I believe at least one of Apache's pooling  
17 applications was filed either immediately before or at  
18 the same time as they sent out well-proposal letters.  
19 And that was a violation of Division Order R-13165, and  
20 that's why I moved to dismiss. I later withdrew that  
21 because, of course, another five or six months had  
22 passed, and I just said, "Well, let bygones be bygones."  
23 But now they're not seeking to force pool.

24

25



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1 pond.

2 Q. Yeah, yeah, frac pond.

3 But that drill island is going to be  
4 used -- dually used. I assume a lot of these drill  
5 islands are dually used, but --

6 A. Yes.

7 Q. -- XTO, are they supporting you in this venture  
8 at all?

9 A. So they didn't send a letter of support, but  
10 they were out on the on-site for the staking of that  
11 island, and they had no issues with it because it is  
12 across into Section 28, which, as I said, we're not  
13 trying to get into their Section 27.

14 Q. So their surface people are okay?

15 A. Yes. There are no issues on that front.

16 CROSS-EXAMINATION

17 BY EXAMINER COSS:

18 Q. And how is the produced water going to be  
19 removed?

20 A. So we have an agreement with Solaris on other  
21 wells, and so the idea would be that we would use them  
22 here. We've been in conversations with them. I think  
23 maybe one of the other witnesses can actually confirm if  
24 we've dedicated this acreage. I'm not super clear on  
25 how an SWD contract works since I'm the mineral person,

1 but --

2 RECROSS EXAMINATION

3 BY EXAMINER JONES:

4 Q. So basically you're not comfortable right now  
5 saying this is a compulsory pooling application because  
6 you don't know exactly who you would be pooling; is that  
7 correct?

8 A. We know who the parties are, but we've told  
9 them that we are not compulsory pooling today.

10 Q. Oh, okay. So basically they have -- you kind  
11 of retracted the proposal letter sort of?

12 A. Right.

13 We sent it out. You know, it would have  
14 been great for you to have the competing development  
15 areas, Ascent, Apache, and both compulsory pooling cases  
16 at the same time. I think that would have been ideal.  
17 But like I said, several of the non-op partners that are  
18 in these wells called and said, you know, "We don't want  
19 you to compulsory pool us until you know what's going  
20 on."

21 Q. Yeah. But once you expanded the well to  
22 two-and-a-half miles, that would require new proposals  
23 to the people anyway; is that correct?

24 A. No. The well proposals that we sent out are  
25 for the two-and-a-half-mile laterals.

1           **Q.    Okay.**

2           A.    So the parties that have a vested interest in  
3   this hearing have been noticed.

4           **Q.    Okay.**

5                       MR. BRUCE:  I have a follow-up question.

6                               RE CROSS EXAMINATION

7   BY MR. BRUCE:

8           **Q.    You say it's going to be too early to tell**  
9   **about force pooling, but of course you realize it's**  
10 **going to take a while for a force pooling order to come**  
11 **out?**

12          A.    I think about three months is what we've seen  
13   recently.

14                       Oh, the smiles.

15                       MR. BRUCE:  Don't laugh.  Don't laugh,  
16   guys.  Okay?

17                               (Laughter.)

18          **Q.    (BY MR. BRUCE) And even after a forced**  
19 **pooling -- well, even during that time period, you can**  
20 **still negotiate with people; can you not?**

21          A.    During the time period between pooling and the  
22   order?

23          **Q.    Between the hearing and an order coming out or**  
24 **even thereafter.**

25          A.    Yes.  You can continue to negotiate.

1           Q.    And even after an order comes out, you have to  
2   send out an AFE and an election letter to the people  
3   that are being pooled, and they would always have the  
4   offer to join in the well anyway; isn't that correct?

5           A.    The 30-day balloting period?   Yes.

6           Q.    So you could have moved ahead with the force  
7   pooling because that doesn't -- they would only -- when  
8   the Division rules on it, they would know which proposal  
9   was favored; isn't that correct?

10          A.    I feel like you-all are giving me a really hard  
11   time about this, and I'm advocating for the small  
12   working interest owner who, you know, is not -- normally  
13   has a say.

14          Q.    I understand that.   But nothing is decided on  
15   this date today, so there is no pressure on this date on  
16   those small working interest owners.

17          A.    We could have compulsory pooled given the  
18   length of time that this whole situation has taken.   But  
19   like I said, I spoke with partners, and they requested  
20   that we not do it, and so that's where it stands.

21                   EXAMINER JONES:   Don't feel bad.   We're  
22   just trying to build a record here.

23                   THE WITNESS:   I know it would have been  
24   easier.   Trust me.

25                   MR. BRUCE:   Thank you.

1 EXAMINER JONES: Follow-up?

2 MR. DeBRINE: Just a little bit.

3 REDIRECT EXAMINATION

4 BY MR. DeBRINE:

5 Q. If you could turn to your Exhibit L-7 and  
6 compare that to Ascent's Exhibit D, page 6, where they  
7 show the stranded acreage.

8 A. Right.

9 Q. And you talked earlier about that you could  
10 just draw sticks on the map anywhere to make the same  
11 representation concerning whether all of the area can be  
12 developed east-west or north-south, correct?

13 A. That's right.

14 Q. And, in fact, if you look at Ascent's exhibit,  
15 there's already a drill island in the southeast quarter  
16 of the section above, Section 33, and you could drill  
17 from east to west to access what they're showing,  
18 stranded acreage, in the south half -- drill  
19 two-and-a-half-mile laterals to access the resources in  
20 the south half of those sections, is that correct, from  
21 an existing drill island that's already there?

22 A. Yes.

23 Q. And how long did it take for Apache's drill  
24 islands to get approved by the BLM?

25 A. I think we proposed them and went out on

1 location with the BLM, and that period takes about a  
2 month. I mean, they get approved by the BLM while  
3 you're out there because they're looking at the surface,  
4 making sure that there are no issues out there like the  
5 playa or the raptor's nest or anything like that.

6 **Q. And just to confirm, I think I heard you**  
7 **testify earlier it was actually the BLM that proposed**  
8 **the orientation for the top of 28-30; is that correct?**

9 A. They proposed the solution of twinning the  
10 drill islands from XTO that are on the other side in  
11 Section 27, because XTO had already staked those drill  
12 islands. So Rutley had been out on location and could  
13 see what was just across the section line. So whenever  
14 we were continuing conversations with the BLM, he said,  
15 "If you wanted to drill across that section line, you  
16 can probably get some islands out there, because he knew  
17 the topography. So that's how that went.

18 **Q. And it would be your expectation that if XTO**  
19 **needs to build an access road to access the same**  
20 **location, drilling islands located in the same place,**  
21 **Apache would be able to utilize that same road?**

22 A. Yes.

23 The surface guy is back there (indicating)  
24 nodding vigorously.

25 Yes. That is correct.

1 EXAMINER JONES: Okay.

2 MR. DeBRINE: No further questions.

3 EXAMINER JONES: Okay. Thank you. Thank  
4 you very much.

5 You have five more witnesses; is that  
6 correct?

7 (Laughter.)

8 MR. DeBRINE: Just three.

9 EXAMINER JONES: Okay. Three.

10 MR. DeBRINE: Next I'd like to call Mike  
11 Muncy.

12 MIKE MUNCY,  
13 after having been previously sworn under oath, was  
14 questioned and testified as follows:

15 DIRECT EXAMINATION

16 BY MR. DeBRINE:

17 Q. Please state your name.

18 A. Mike Muncy.

19 Q. Who do you work for, Mr. Muncy?

20 A. Apache Corporation.

21 Q. What are your responsibilities for Apache?

22 A. I evaluate subsurface data to generate drilling  
23 prospects.

24 Q. And how long have you worked for them?

25 A. For seven years now.



1           Q.    Have you previously testified before the  
2 New Mexico Oil Conservation Division?

3           A.    Yes, I have.

4           Q.    Were your credentials as an expert in petroleum  
5 geology accepted by the examiner in those proceedings  
6 and made a matter of record?

7           A.    Yes, they were.

8           Q.    Are you familiar with the applications filed by  
9 Apache and Ascent in these two competing cases -- these  
10 four competing cases?

11          A.    Yes.

12          Q.    Are you familiar with the geology of the area  
13 embracing the two proposed development areas?

14          A.    Yes, I am.

15          Q.    Have you conducted a geologic study of the area  
16 as part of your work in this case?

17          A.    Yes, I have.

18               MR. DeBRINE:  I'd tender the witness as an  
19 expert in petroleum geology.

20               MR. BRUCE:  No objection.

21               EXAMINER JONES:  Any objections?

22               He is so qualified.

23          Q.    (BY MR. DeBRINE) Let's take a look at your  
24 first exhibit, which is G-1, which has a map and a log  
25 for the Golden Lane State 1Y well and tell us what is

1     **represented there.**

2           A.     Sure. This is just a zoom-in of the Apache  
3     Taco 28-30 development. On the right is a type log from  
4     the Golden Land State 1Y directional well as indicated  
5     by a star on the map. What I'm showing here is 5,500  
6     feet of section with all of the potential landing zones  
7     we see out there. Highlighted in green are the 1st Bone  
8     Spring Sand, 2nd Bone Spring Sand, 3rd Bone Spring Sand,  
9     Wolfcamp A, and those are the primary targets that we  
10    intend to develop first.

11                The yellow targets are other formations  
12    that have been drilled in the area and we're continuing  
13    to evaluate for future potential.

14           **Q.     So the principal targets that you identified**  
15    **being most likely productive are -- again, are which**  
16    **formations?**

17           A.     The primary reservoir out here is the 2nd Bone  
18    Spring Sand. That's the interval that's been drilled  
19    the most. And we do see -- on the next slide, I'll show  
20    you one well in the Wolfcamp, and a few are starting to  
21    spring up in the 3rd Bone Spring Sand.

22           **Q.     Let's turn to that exhibit, which is G-2. Can**  
23    **you tell us what you're intending to represent here?**

24           A.     So here is a -- a township zoom-out of the Taco  
25    development area showing all horizontal wells that have

1 production, as pulled from his, in the Delaware, Bone  
2 Spring and the Wolfcamp. From this list, I counted 135  
3 horizontal wells. Forty of them have been in the  
4 north-south orientation; 95, or 70 percent, in the  
5 east-west orientation. Three have been drilled in the  
6 Delaware, 130 in the Bone Spring Formation, one in the  
7 Wolfcamp and one in the Penn.

8           The orange box is the Taco development  
9 area. The green hash line is the potash boundary. The  
10 black sticks are horizontal wells. And then on the map  
11 itself, I label some of the surrounding offsets that are  
12 used in the engineering analysis coming up. And when  
13 the column boxes are rotated 90 degrees, that indicates  
14 north-south.

15           **Q. Let's turn to the next exhibit, G-3, and what**  
16 **are you representing there?**

17           A. So since we joined this team several years ago,  
18 the way we conduct analysis internally is we break out  
19 wells that were drilled before January 1st, 2015. We do  
20 that because in 2014, oil price dropped, rig count  
21 dropped, more emphasis on science and engineering,  
22 geosteering into the target horizontal wells and longer  
23 laterals and larger completions have seen an uptick in  
24 production.

25           So on the left map, I show wells that were

1 drilled before January 2015. Of it, 35 of the 111 wells  
2 shown were drilled north-south or about 31 percent. And  
3 since January 1st, 2015, wells with horizontal  
4 production. Twenty-four have been drilled, and only  
5 five in the north-south orientation, or 25 percent. So  
6 we see an overall more leaning toward east-west  
7 orientation in this area.

8 **Q. If you look at Exhibit G-4, which is a Bone**  
9 **Spring structure map, could you explain to the examiners**  
10 **what is represented on this map?**

11 A. Uh-huh. On the right is the Golden Lane State  
12 1Y type log as shown from a previous exhibit.  
13 Highlighted in purple, that is the base of the 2nd Bone  
14 Spring Sand or top of the 3rd Bone Spring Carb. It's a  
15 good sand to carbonate marker that's correlative in the  
16 area.

17 The next one is what the map on the left  
18 indicates. The wells with a valve, that's the subsea  
19 TVD value, and A to A prime is the location of a cross  
20 section that I'll show you in an upcoming exhibit. The  
21 contour interval is 100 feet. And what we see is, over  
22 the Taco area and the Ascent, it's about 5,400, 5,300  
23 to, you know, just slightly shallower than that. I  
24 don't see any obvious structural trends that would --  
25 that would hinder offset analysis for use in the

1     engineering analysis, if I can speak correctly  
2     (laughter).

3           **Q.     So you didn't identify any structural faults,**  
4     **pinch-outs or other geological impediments that would**  
5     **impair or impede the drilling of horizontal wells in the**  
6     **Taco development area proposed by Apache?**

7           A.     Not for the 2nd Bone Spring Sand.

8           **Q.     And the same is true of the Anvil wells?**

9           A.     That's correct.

10          **Q.     If you could turn to Exhibit G-5 and explain to**  
11     **the examiners what your purpose in preparing this is and**  
12     **what it represents.**

13          A.     This is a stratigraphic cross section, A to A  
14     prime, going from the west to the east. It's hung on  
15     the top of the 3rd Bone Spring Carb. What I wanted to  
16     show was the similarity in the 2nd Bone Spring Sand over  
17     all the horizontal wells in the area. So we generally  
18     see as a thickness between 300 to 400 feet thick. The  
19     main target interval that we target with the wells  
20     nearby and that we would target in this area is  
21     highlighted in the orange horizontal arrow. I show 500  
22     feet above and 800 feet below. And I chose this to  
23     really focus more in on the 2nd Bone Spring, as we just  
24     don't have the slides to show the other landing targets.

25                         On the cross section itself, I show a

1 triple combo of log package of gamma ray and resistivity  
2 and neutron density.

3 Q. If you could turn to your next exhibit, G-7,  
4 labeled "2nd Bone Spring Sand Gross Isochore," could you  
5 tell us what you're showing here on this map and the  
6 purpose of preparing it?

7 A. On the right is the type log from the Golden  
8 Lane State 1Y well zoomed in to just the 2nd Bone Spring  
9 Sand. On the left is the isochore map. So what I did  
10 is I mapped the TVT value. Since there are a lot of  
11 directional wells, I corrected it to be a vertical well  
12 in thickness. And what we see across the Taco  
13 development area is about -- on average, about 350-foot  
14 section, and then a lot of the offsets are 360,  
15 350-feet-thick sections.

16 Q. And when you say TVT value, what is that? What  
17 does that stand for?

18 A. True vertical thickness.

19 Q. Okay. Your last exhibit, G-7, if you could  
20 turn to it and again explain for the examiners your  
21 purpose of preparing this and what it represents.

22 A. This is a hydrocarbon pore volume map of the  
23 2nd Bone Spring Sand. So hydrocarbon pore volume is  
24 just the sum of porosity times oil saturation times the  
25 thickness. So the thickness is -- from the well logs is

1 every half foot, so that sums it up for the 2nd Bone  
2 Spring Sand. We display the value in feet, so that's  
3 trying to get what the oil storage is out there. And  
4 what we generally see in the surrounding offsets and in  
5 the Taco and Anvil development, we're about 18 to 22  
6 feet of hydrocarbon pore volume.

7 Q. Based on your experience and education and the  
8 geological study that you prepared for these cases, do  
9 you have an opinion as to whether the drilling of  
10 two-and-a-half-mile horizontal wells in the east-west  
11 orientation from Section 28 to 30 will be the optimal  
12 method for developing the Bone Spring and Wolfcamp  
13 Formations in Section 28?

14 A. Yes, I do.

15 Q. What is that opinion?

16 A. My opinion is drilling east-west is optimal  
17 based on offset production data.

18 Q. Will the drilling of wells as proposed by  
19 Apache for its Taco development plan result in the  
20 greatest EUR?

21 A. Yes.

22 Q. In your opinion, is the granting of Apache's  
23 request to approve its Taco development area in the  
24 interest of conservation, the protection of correlative  
25 rights and the prevention of waste?

1           A.     Yes.

2           Q.     In your opinion, will Ascent's Anvil  
3     development plan for the Wolfcamp and the Bone Spring  
4     result in the waste of resources in Section 28?

5           A.     Yes.

6           Q.     In your opinion, should Ascent's application  
7     for Case Numbers 16481 and 16482 be denied and Apache's  
8     request for approval of its Taco development plan in  
9     Case Numbers 20171 and 20202 be granted?

10          A.     Yes.

11          Q.     Were Exhibits G-1 through G-7 prepared by you  
12     or compiled under your direction and supervision from  
13     Apache's business records?

14          A.     They were prepared by me.

15                   MR. DeBRINE:  We would move the exhibits of  
16     Exhibits G-1 through G-7.

17                   EXAMINER JONES:  Any objection?

18                   MR. BRUCE:  No objection.

19                   MR. PADILLA:  No objection.

20                   MR. DeBRINE:  Pass the witness.

21                   EXAMINER JONES:  Exhibits G-1 through G-7  
22     are admitted.

23                   (Apache Corporation Exhibits G-1 through  
24     G-7 are offered and admitted into  
25     evidence.)



1 MR. BRUCE: Just a couple of questions.

2 CROSS-EXAMINATION

3 BY MR. BRUCE:

4 Q. Just like Mr. Yancey, you look mainly -- let me  
5 take a step back. Apparently, the 2nd Bone Spring Sand  
6 out here is the main target that has been developed to  
7 date?

8 A. That's correct.

9 Q. Okay. And so that's a good -- a good -- if  
10 you're just picking out one specific zone to look at,  
11 that would be a good one to look at?

12 A. Yes.

13 Q. And from your studies and your cross sections  
14 especially, it looks -- whether you're looking at  
15 Ascent's development area or Apache's development area  
16 or even adjoining acreage, it looks like the various  
17 sands out here are uniform thickness?

18 A. They are analogous, yes.

19 Q. And they're continuous across this area?

20 A. From my observation and interpretation, yes.

21 Q. And really the only way to develop this area is  
22 by horizontal drilling?

23 A. That's correct. Based on their porosity and  
24 permeability and production data, it proves that  
25 results.

1           **Q.    And production data.**

2                       MR. BRUCE:   That's all I have,  
3   Mr. Examiner.

4                       EXAMINER JONES:   Mr. Coss?

5                               CROSS-EXAMINATION

6   BY EXAMINER COSS:

7           **Q.    I guess I'm seeking clarification on what you**  
8   **meant when you said -- what's the geologic reason that**  
9   **east to west is better than north to south?**

10          A.    You know, we don't have an FMI interpretation  
11   of the area.   We have one 13 miles away in our Palmillo  
12   development.   The interpretation of that is north-south.  
13   We've drilled wells there.   We've drilled in the South  
14   Fork development ten miles to the east-northeast  
15   east-west, had really good well results.   So without a  
16   dipole sonic or FMI on there, I can't make an  
17   interpretation on SHmax, and nobody else can.  
18   Basically, all the results we have are production  
19   results that we can go off of.

20          **Q.    But there is no reason going -- it wouldn't be**  
21   **harder to keep the well in the formation going south --**

22          A.    No.   We'd be -- drilling east-west would be  
23   more updip.   Drilling north-south would be a little more  
24   flat.   Some production engineers believe that having  
25   toe-up wellbores and the fluids drain to the heel

1     produce better.   That's not my -- I don't have the  
2     expertise to testify to that.

3           Q.     Okay.  So it's nothing geologic in the  
4     depositional setting or structural what causes the  
5     differences in production?  It's just that the wells  
6     that are east to west tend to produce better --

7           A.     Yes.

8           Q.     -- from your data?

9           A.     Uh-huh.

10          Q.     Okay.  Just clarifying that for myself.

11                               CROSS-EXAMINATION

12     BY EXAMINER JONES:

13          Q.     Do you ever request they run chemical tracers  
14     to try to see where your best areas of your well is?

15          A.     In all of our developments, we have ran  
16     tracers.

17          Q.     Oh, you do that?

18          A.     Uh-huh.

19          Q.     Okay.

20          A.     Yeah.  And our engineer can testify to that  
21     more because she's more knowledgeable.

22          Q.     Okay.  As far as the logs, what are the logs  
23     that -- I know you're showing us these, but let's take a  
24     2nd Bone Spring Sand.  What would be your criteria for  
25     locating a well in the 2nd Bone Spring Sand I mean as

1     **far as porosity -- like density porosity, gamma ray?**

2           A.     Yeah. We like to calculate Bt. I didn't  
3     include Bt on there because that's an in-house  
4     interpretation. We look at Bt in the B clay. We don't  
5     see a whole lot of clay in the 2nd Bone Spring Sand. We  
6     try to target the higher porous intervals. And over all  
7     the areas we drill, we like the seismic and do a lot of  
8     geophysical attribute analysis and try to target the  
9     best interval from that.

10          **Q.     Okay. So -- so --**

11          A.     So we try to look for high porosity, and since  
12     we're dealing with Bone Spring Sand, we're actually  
13     dealing with low-resistivity pay. So we actually look  
14     at cutoffs of less than 20-ohm-meter resistivity --

15          **Q.     Okay.**

16          A.     -- and high porosity. And that's how we do a  
17     quick glance in that reservoir. And as we go in to  
18     further evaluate an area, we like to do geocellular  
19     models with geophysical attributes.

20          **Q.     Okay. What about the clays? What -- what**  
21     **clays are in these sands, and which ones would kill**  
22     **you -- would kill you on this prospect?**

23          A.     I believe from other areas we have worked, the  
24     main target interval is about less than 5 percent clay.  
25     They do have illites in there, but we haven't really

1     seen an impact to any of our producing horizontal wells  
2     in the 2nd Bone Spring. So we generally try to avoid  
3     bad areas.

4           **Q.     Would you be the one watching the well?**

5           A.     We have an operations geology team that  
6     geosteers the well, but the acid areas that I work, I  
7     work with them, design the horizontal well plans, work  
8     with the drilling engineer, work with the geophysicist  
9     to try to stay in that target interval for the entire  
10    well.

11          **Q.     When would you put your mudloggers on?**

12          A.     We usually -- believe it or not, our drilling  
13    engineer likes to have mudloggers on after intermediate  
14    so they can monitor. And that would be -- Jordan Evans  
15    can testify to this later, but usually it's right when  
16    we hit immediate intermediate, and that's right when we  
17    get to the top of the Delaware Sand.

18                   EXAMINER JONES: Any other questions?

19                   RE CROSS EXAMINATION

20    BY MR. BRUCE:

21          **Q.     You mentioned, in response to a question, about**  
22    **EURs. That's not your job description, is it, to come**  
23    **up with the EURs?**

24          A.     No. That's the upcoming witness.

25          **Q.     And the other thing was, you know, insofar as**

1     XTO wells go, do you know or have any opinion as to why  
2     XTO would drill both stand-up wells and lay-down wells  
3     in the same area?

4           A.    The wells to the north may be the only way --  
5     possible mechanical way to access that area, but down  
6     here, I bet if we were to ask their opinion, they would  
7     prefer to drill east-west in this area.

8           Q.    But you don't know?

9           A.    I don't know.

10          Q.    Thank you.

11          A.    All I know is on our offset drill islands,  
12     they're drilling east.

13          Q.    Okay.

14                   EXAMINER JONES:   Okay.   Thank you very  
15     much.

16                   MR. DeBRINE:   For our next witness, I'd  
17     like to call Mindy Goldsmith.

18                   MS. GOLDSMITH:   May I have a five-minute  
19     bathroom break first?

20                   EXAMINER JONES:   Yes.

21                           (Recess, 3:06 p.m. to 3:19 p.m.)

22                           MINDY GOLDSMITH,  
23     after having been previously sworn under oath, was  
24     questioned and testified as follows:

25

1 DIRECT EXAMINATION

2 BY MR. DeBRINE:

3 Q. Could you please state your name?

4 A. Mindy Goldsmith.

5 Q. Who do you work for, Ms. Goldsmith?

6 A. I work for Apache Corporation.

7 Q. What is your position and responsibilities for  
8 Apache?

9 A. I'm their reservoir engineer and team lead for  
10 the New Mexico Delaware Basin.

11 Q. How long have you worked for Apache?

12 A. I've worked for Apache since 2013.

13 Q. Could you provide the examiners with a brief  
14 description of your educational background and  
15 experience?

16 A. Sure. I graduated from Texas A&M University in  
17 2008 with a bachelor's of science degree in engineering.

18 Right out of school, I went to work at  
19 Encana first five years in their Plano office, and then  
20 I moved out to Midland in 2013 to go work for Apache in  
21 the Permian Basin. And I've worked Texas Delaware Basin  
22 and New Mexico Delaware Basin.

23 Q. And what kind of work did you do at Encana?

24 A. I worked the first few years in their  
25 rotational program doing different engineering roles,

1 and then the last two years, I worked as a reservoir  
2 engineer.

3 Q. And did part of your work for Encana involve  
4 development plans for horizontal wells?

5 A. Yes.

6 Q. And that's also true of your work for Apache?

7 A. Yes, sir.

8 Q. Has Apache used your engineering analysis for  
9 drilling other wells in the Delaware Basin in  
10 New Mexico?

11 A. Yes.

12 Q. Are you familiar with the applications filed by  
13 Apache in these cases and the applications filed by  
14 Ascent?

15 A. Yes.

16 Q. Have you conducted an engineering study to  
17 determine the optimal method for drilling wells to  
18 develop the resources underlying the lands in Apache's  
19 Taco 28-30 development area and Ascent's Anvil  
20 development area?

21 A. Yes.

22 MR. DeBRINE: We would tender the witness  
23 as an expert in petroleum engineering.

24 EXAMINER JONES: Any objections?

25 MR. BRUCE: No.



1 MR. PADILLA: No.

2 MR. LARSON: No objection.

3 EXAMINER JONES: The witness is qualified  
4 as proposed.

5 Q. (BY MR. DeBRINE) If you could turn to your  
6 first exhibit marked as Exhibit 1. This is a map  
7 showing the area of interest. Could you just walk the  
8 examiners through the -- each of the features on the map  
9 and what you're intending to represent here?

10 A. Sure.

11 It looks like this one (indicating).

12 EXAMINER JONES: Okay.

13 MR. DeBRINE: E-1.

14 THE WITNESS: All right. So this is an  
15 aerial --

16 MR. DeBRINE: And just before we get  
17 started -- before we get started, I distributed  
18 substitute Exhibits E-4 and E-8, which are just the  
19 8-and-a-half-by-11 sheets. And so that will be the  
20 official exhibit that's going to be referred to in the  
21 testimony and that we would seek to have admitted. So  
22 the one in the package, which is the bigger map, you can  
23 just discard that.

24 EXAMINER JONES: Okay.

25 THE WITNESS: So on Exhibit 1, this is an

1   aerial depiction of the Taco acreage (indicating). It  
2   goes into what Laci was talking about earlier, where the  
3   red squiggly line is the quarter-mile buffer for the  
4   potash, and the blue is the half-mile buffer. And the  
5   red polygon is Apache's Golden Lane well site and how we  
6   would have tried to expand that to accommodate the  
7   horizontal drilling there.

8           **Q.    (BY MR. DeBRINE) And just to clarify, by**  
9   **Apache's acreage, you mean the area shown in yellow in**  
10 **the rectangle?**

11          A.    That's correct. Yes.

12                   As you move to the east, there are three  
13 purple squares. Those are the approved drill islands  
14 that we've discussed. And then the blue, the southern  
15 one, is where we plan to have our central tank battery.  
16 Further south of that, the large blue box, is the shared  
17 frac ponds that we plan to do with XTO.

18          **Q.    Is there anything else of interest that you**  
19 **want to point out to the examiners on this exhibit?**

20          A.    The main thing is that to access our yellow  
21 acreage there -- it is inside of the potash, so we have  
22 to be outside of our actual acreage to surface position  
23 to be able to drain that acreage.

24          **Q.    Can you just briefly explain for the examiner**  
25 **why Apache is proposing to drill its wells with an**

1    **east-to-west orientation from the bracket drill island**  
2    **shown on this map?**

3           A.    Yes.    So we'll show you in a second, but  
4    east-west orientation is proven to develop the best well  
5    results in this area.    These locations allow us to  
6    access that acreage from it.    And really there are some  
7    issues with not drilling from our existing Golden Lane  
8    pad because Ascent has proposals that would cross that,  
9    and we would be crossing well paths.    So even though we  
10   would be trying to drain just what's in our acreage  
11   right here initially with that, we would be crossing  
12   wellbores, and that's very dangerous for in-tank [sic]  
13   collision.

14                    Another aspect of why we want the Golden  
15   Lane right -- the Golden Lane thing wasn't working for  
16   us is the expansion capabilities, we were very limited,  
17   as Laci mentioned, to that spot.

18                   And as Mike showed in his testimony, we  
19   feel very confident in four landing zones, but there are  
20   other potential landing zones out there, and we would  
21   not be able to access those in the future from those  
22   sites.    Also, the BLM told us that if other areas want  
23   to be developed and they cannot find other drilling  
24   islands, where our battery would be at on that pad, they  
25   would actually force us to move that battery elsewhere

1 later on if that could be the only opportunity to have a  
2 drilling site. So that was a financial risk for Apache  
3 to build a battery that could potentially be moved one  
4 day.

5 Q. Let's turn to your next exhibit, which is  
6 Exhibit E-2, which is a summary of Apache's development  
7 plans. If you could just walk the examiners through  
8 that and explain what Apache has proposed for its Taco  
9 28-30 development area.

10 A. Okay. On the right-hand side is a plat showing  
11 our development. It shows the three well pads that we  
12 plan to drill ten wells from. We plan to develop the  
13 2nd Bone Spring Sand first. That is what we feel the  
14 most confident in. We also staked the 1st Bone Spring  
15 Sand, the 3rd Bone Spring Sand and the Wolfcamp A.  
16 Right below those well pads is the -- the rectangle  
17 showing where we would put our central tank battery.

18 Part of how we planned our development out  
19 here is we wanted to do sime ops [sic], which is  
20 simultaneous operations. That's where you can continue  
21 to produce a well while you go in and drill another  
22 landing zone. We care a lot about when you go in and  
23 drill a single landing zone like the 2nd Bone Spring  
24 Sand, you want to drill that together. Because if you  
25 drill one well and then you come back later and you

1 offset that, your frac will grow towards the depletion,  
2 and you will not have as good of a well the second time  
3 you come in. You will not be able to drain the same  
4 amount of reserves as if you had drilled them together  
5 and fracked them together. So we want to stake all the  
6 wells up front for a landing zone and drill all those  
7 wells for the landing zone up front. That is what we  
8 plan to do for the 2nd Bone Spring.

9                   Now, when we come back and drill another  
10 landing zone, the 1st Bone Spring Sand or the 3rd Bone  
11 Spring and -- and like Ascent was mentioning, we believe  
12 the 3rd Bone Spring and Wolfcamp also needs to be  
13 codeveloped together. But when we come in and drill  
14 those, we actually will not have to shut in those 2nd  
15 Bone Spring wells. We did a different row along the pad  
16 so that the rig can still fit on that pad and be  
17 drilling these other landing zones while we're producing  
18 this well. So that's an economic benefit, that we don't  
19 have to shut in that well while we have the drilling rig  
20 back there a year or two later.

21                   We also designed the central tank battery  
22 to be expandable so that we're not having to build a  
23 huge battery up front to accommodate all ten wells. We  
24 can do it in phases, and that allows for simultaneous  
25 operations. And if we need to expand it, we put room

1    there, but by doing the phrases, we don't need to build  
2    it for all ten peak production. We can stagger our  
3    development.

4           **Q.    If you could turn to your next exhibit, E-3,**  
5    **which has a further description of Apache's development**  
6    **plans and explain what you're intending to represent**  
7    **here on this exhibit.**

8           A.    Okay. The two pictures that are shown on this  
9    exhibit, the first one in the top right is -- our  
10   drilling department does a lot of work just with  
11   directional planning. And Jordan, our other witness,  
12   can get into this in a second. But they really look at  
13   the longer you drill in terms of these laterals, the  
14   more of the ellipse of uncertainty you have in terms of  
15   where it's at, because you're drilling, you know, a mile  
16   and a half down and then you're drilling a mile, two,  
17   two-and-a-half miles out. And so knowing exactly where  
18   you're at, there is an ellipse of uncertainty.

19                   And so we do a lot of work planning on hey,  
20   where do we need to make sure where we are so we cannot,  
21   you know, ever worry about colliding with ourselves or  
22   colliding with our existing Golden Lane well. So that's  
23   shown in the picture here as well. The top one is the  
24   bird's eye view looking down at all the well pads, and  
25   then the one on the bottom shows our Golden Lane well.

1 We actually modeled that three-dimension to kind of see  
2 where do we need to make sure we jog around that so our  
3 ellipse of uncertainty or our cone does not risk  
4 intersecting that well which is holding our lease right  
5 now.

6 Part also in this slide that I really want  
7 to address is that Apache is running two rigs in  
8 New Mexico right now, and we have plans to run two to  
9 three rigs for the next three years. We make our  
10 corporate plans five years out, and so we have stability  
11 that we know that we're going to keep a rig out here --  
12 two rigs out here and continue to develop our leases in  
13 New Mexico.

14 We've also drilled over 2,700 horizontal  
15 wells in the Permian Basin. We've drilled 11  
16 extended-reach laterals in the past two years. None of  
17 those had a sidetrack, and they were all in zone. We  
18 have proven operatorship out here.

19 **Q. Has Apache done everything needed to submit its**  
20 **APDs to the BLM?**

21 **A.** We've done what we need to prepare. We have  
22 not actually submitted them. So as Laci stated earlier,  
23 we've staked the wells. We've reviewed the plats. Our  
24 drilling department has looked at directionals for all  
25 ten wells, not just the first landing zone or the first

1 quarter of the section, but really looking at all the  
2 area we're going to do. We've done that process for all  
3 of them.

4 **Q. Have you also done the environmental analysis**  
5 **that would need to be done to pass the BLM's EA**  
6 **assessment for the APDs?**

7 A. Yes, we have. We have an environmental  
8 department, and we follow all the compliance rules, and  
9 we strive to be a good operator. We also try and work  
10 with other operators in the area to minimize our  
11 fingerprint.

12 Just some comments. With XTO offsetting us  
13 directly to the east, we plan on sharing the road with  
14 them, sharing the frac pond, you know, splitting the  
15 cost to move the rancher's fence, you know, looking at  
16 moving the rec trail to help the locals out there, just  
17 being a good operator for the area where, you know,  
18 companies, people, government entities that have  
19 operations there want us to be an operator there, not a  
20 burden.

21 **Q. If you can turn to your next exhibit, E-4,**  
22 **entitled "2nd Bone Spring Sand Effects of Azimuth," and**  
23 **this is the replacement exhibit that we just circulated.**  
24 **If you could explain your purpose in preparing this**  
25 **exhibit and what it's intended to represent.**



1           A.     Sure.  And just to give you-all a background on  
2     why it was replaced, there were three additional wells  
3     added.  So that's all the difference is, if you're  
4     wondering.

5                     But the purposes of this exhibit, like Mike  
6     talked about in his previous testimony, is we really  
7     consider newer wells to have more weight and impacting  
8     what we think will be production in the area.  And the  
9     reason for that being is completions have changed  
10    drastically over the past five to ten years, where  
11    people are really learning and improving in their  
12    completion designs to exploit more reserves out of the  
13    ground.  So this analysis is done on wells that are 2015  
14    to present.  So they take out some of the ones that were  
15    done in 2012, 2013, 2014 that have very old designs that  
16    we do not feel are representative of what we expect  
17    today.

18                    So the plots you see here today -- first,  
19    the map on the left, this is -- the yellow in the middle  
20    is Apache's Taco acreage.  The squiggly tan line, that  
21    is the potash boundary.  And then these are the wells in  
22    the -- 2015 to present in the 2nd Bone Spring Sand.  I  
23    did the 2nd Bone Spring Sand because that is the  
24    most-drilled zone in the area.  There are very few well  
25    results in the other landing zones to draw conclusions

1 from. And I highlight a few of the wells because I'm  
2 going to talk about those further in detail. But those  
3 are the horizontal wells in the area. You can see there  
4 is a handful of north-south and east-west.

5 The plot of the top right side, it is cum  
6 oil on the y-axis and normalized production on the  
7 x-axis. So we're looking at cum oil versus time. These  
8 are all normalized through a one-mile lateral, so  
9 4,500-foot-lateral length. And what that means is, you  
10 know, I don't want to compare production from a two-mile  
11 well with a one-mile well. I want to make sure they're  
12 apples to apples.

13 When you asked the question earlier: Is it  
14 a one for one when we're looking at drilling longer,  
15 usually an EUR, we can assume that, that the estimated  
16 ultimate recovery, as long as you're able to complete  
17 the well, the stages at the toe similar to the heel,  
18 that you can get equal recovery if the reservoir is  
19 same. So that is how Apache looks at it. And so we  
20 simply actually look at analysis on an EUR per 1,000  
21 feet when we're evaluating wells. So we always make  
22 sure they're an apples-to-apples comparison.

23 But this plot on the top right, the red  
24 wells are east-west, and the green wells are  
25 north-south. And just general looking at it from your

1 eyes, you can see that the majority of the east-west  
2 wells outperform the north-south wells.

3               As I mentioned before, completions is a big  
4 component so I wanted to make sure that was integrated  
5 into this study. I have colored on the bottom two plots  
6 pounds per foot and gallons per foot. So it's cum oil  
7 versus time again on both axes, and they're colored by  
8 the size of their completion. So the yellow is 800  
9 pounds per foot. Green is 1,400 pounds per foot. Blue  
10 is 2,000 pounds per foot, and purple is 2,500 pounds per  
11 foot. And I point to a few of the wells because I  
12 wanted to show that there are some very obvious cases  
13 where east-west and north to south, those results are  
14 drastically different.

15               First, to call out Matador's HEYCO wells,  
16 those are the -- the purple line on the cum oil plot,  
17 they're the lowest wells. They're the worst wells in  
18 the area. They are drilled north-south right next to  
19 Ascent's Anvil development right next to where our Taco  
20 acreage is.

21               Then you have Matador's Stebbins wells,  
22 which are the best performing in the area. So that is  
23 one well that is blue on the cum oil plot, the highest  
24 one, and then the other one that's purple, so largest  
25 completions. And they did the largest completions on

1 the HEYCO wells, and they did that same large completion  
2 on the Stebbins wells. And you can see the north-south  
3 ones on the map are far outperforming the -- sorry. The  
4 east-west wells, the Stebbins ones, on the map are far  
5 outperforming the north-south wells.

6 I also want to point out this Marathon  
7 Bootlegger. That is a well that is right near those  
8 Matador Stebbins wells, so in case there is any local  
9 geologic effect, that well is much closer in proximity.  
10 And that is also -- that is the blue well. It was  
11 pumped with 2,000 pounds per foot, and that is also on  
12 the low end of the production profile.

13 **Q. If you could turn to your next Exhibit, E-5,**  
14 **which has the same title, "2nd Bone Spring Sand Effects**  
15 **of Azimuth," and tell us what your exhibit shows here on**  
16 **this exhibit.**

17 A. Okay. So from the previous plot where I had  
18 had the east-west wells colored red and the north-south  
19 wells colored green, what I can do is actually bin those  
20 together or average those together. So I can say all of  
21 the wells that were north-south in orientation, I'm  
22 going to average that production rate with time, and  
23 that's what's shown in green. And then the same thing  
24 for the east-west. I can average them all together, and  
25 that is what is shown in red. And the reason you see

1 the big dip up or down is because the number of wells  
2 change with time.

3 But this is just -- you know, take a step  
4 back and look at it on average. What seems to be the  
5 performance of those wells in the area with modern  
6 completions? And what you can see is these wells -- and  
7 this is for a one-mile lateral -- you know, in that  
8 first year, you're over two-and-a-half times difference  
9 in your cum oil between your east-west wells and  
10 north-south wells. And then when you get out to a year,  
11 you're at a two-time EUR.

12 And a general rule of thumb in the industry  
13 is your EUR, you can estimate it to be around three  
14 times your first-year cum. It ranges from two and a  
15 half to three and a half, but if we're just using kind  
16 of rule-of-thumbs, rather than debating B factors and  
17 all these other things in decline, you can just use it  
18 as a rule of thumb. And, you know, that means at least  
19 two times the amount of reserves will be exploited when  
20 we drill these wells east-west versus north-south.

21 **Q. Let's take a look at your next exhibit, which**  
22 **is E-6, titled "Potential Economic Influence," and what**  
23 **conclusions are represented here in this exhibit?**

24 A. Okay. So what I did here is show the two  
25 competing developments plans in the picture on the

1 bottom right. You have Apache drilling two-and-a-half  
2 milers in the east-west direction, and then you have  
3 Ascent wanting to drill two-milers in north-south  
4 direction.

5 The plot on the top, this is production  
6 rates normalized to a two-and-a-half-mile lateral versus  
7 time. The black is all of the wells averaged together  
8 in the study area. The red is the rate of all of the  
9 east-west wells averaged together in the area, again  
10 normalized to two-and-a-half-mile lateral. And then the  
11 green is normalized to a two-and-a-half mile  
12 north-south.

13 So what Apache wants to do is the red line  
14 on the top box. That's drilling east-west  
15 two-and-a-half milers. What Ascent wants to do is the  
16 bottom plot. These are normalized to two-mile laterals,  
17 what you would expect the production to be for all the  
18 east-west wells averaged together and then the  
19 production for all the north-south wells averaged  
20 together. Those are the two expected rates that you  
21 could expect using those well results from 2015 to  
22 present with modern completions, what you'd expect.

23 So what that means is when Apache would  
24 drill two-and-a-half milers east-west -- this is just  
25 using the well results in the area -- your initial

1 production rate is 1,400 barrels a day. Your EUR would  
2 be, if I used that three times first-year cum from the  
3 previous plot, just over 900,000 barrels of oil.

4 Ascent, if they were to drill two-mile  
5 north-south wells, their IP would be around 550 barrels  
6 of oil a day, and their EUR would be around 267,000  
7 barrels.

8 If you look at the difference of just that  
9 160 acres that we're disputing right now, Apache would  
10 drain 183,000 barrels. That would be a fifth of our  
11 unit. Ascent would drain 67,000 a barrels, a fourth of  
12 their two-mile laterals. That means 116,000 barrels  
13 would be left behind for a single well within that unit  
14 in the 2nd Bone Spring Sand. If you use \$50 oil and say  
15 there is a 12-1/2 percent royalty, that's \$870,000 per  
16 well left behind by drilling at the wrong azimuth.

17 **Q. As part of your study, did you consider the**  
18 **benefits to both Apache and the Ascent if Apache's Taco**  
19 **28-30 plan is approved?**

20 A. We did.

21 You know, as Laci mentioned, you know, we  
22 feel like we can compromise where we could drill the  
23 two-and-a-half-mile laterals, and they could participate  
24 as non-op partners in our wellbore. And when you  
25 actually look at that, you know, because we would be

1 drilling at the optimum azimuth, they would be able to  
2 recover more with that and actually add more value to  
3 their company by getting higher recovery in that section  
4 as going non-op than if they tried to drill it  
5 themselves north-south.

6 **Q. And are those results shown on Exhibit E-7?**

7 A. Yes, they are.

8 So this table right here shows -- and these  
9 were just assumed numbers for simplicity. I know  
10 working interest NRI -- you know, I think Ascent said  
11 they were 34 percent working interest right now. But  
12 assume they own 50 percent of what they want to drill  
13 two-milers at. Their gross EUR would be 267,000  
14 barrels. Their net reserves from that, 75 percent  
15 assumed NRI, would be around \$5 million for a single  
16 well.

17 If they did a one-and-a-half-mile well  
18 instead, they would get 200,000 barrels gross estimated  
19 recovery, net of 75, and that value is 3.75. But then  
20 they would get 10 percent of Apache's wells. Apache's  
21 wells would be over 900,000 barrels. They would get  
22 around 69,000 barrels of that, which is \$3.4 million.

23 So overall, if they tried to develop them  
24 themselves with two-mile laterals, that would be  
25 \$5 million versus if they participate with Apache as a



1 non-op and then drilled mile-and-a-halfers themselves,  
2 it would be 7.2 million. So they would actually gain  
3 more benefit by participating with Apache in drilling it  
4 the correct way than if they tried to do it themselves.

5 **Q. If you could turn to your next exhibit, which**  
6 **is E-8, which is another substitute exhibit from the**  
7 **package that was distributed earlier, and explain for**  
8 **the examiners what this exhibit represents.**

9 A. Yes. And, again, the only difference is that  
10 I, you know, added in three of the newest wells to make  
11 sure it was the most up-to-date.

12 But the purpose of this exhibit is to give  
13 the details of the wells which I'm using in my analysis.  
14 So in the east-west, there were nine wells used. They  
15 had an average completion of 1,730 pounds per foot and  
16 1,409 gallons per foot. The north-south wells -- there  
17 are six -- the average was almost 2,100 pounds per foot  
18 and 1,448 gallons per foot. And these were all  
19 normalized to 4,500-foot-lateral length. So that's just  
20 to show the wells I'm using from 2015 onward, the wells  
21 that are east-west are not significantly better  
22 completion than the wells that were north-south. These  
23 are apples-to-apples comparisons, and you're seeing  
24 definite difference in results.

25 **Q. If you could turn to your next exhibit, E-9,**

1    **which is labeled "Azimuth Example 1," and what is your**  
2    **study here and what are you trying to show on this**  
3    **exhibit?**

4           A.    So I wanted to get into just a few more  
5    examples of, you know, very localized areas, you know,  
6    within the study area to say, you know, was it -- could  
7    geology have possibly been an impact on why some of  
8    these wells performed, so I'm doing kind of more  
9    specific areas.

10                       So the first one, it's a map from the far  
11    right. I know that they mentioned XTO is now drilling  
12    north-south in the area, and XTO can do whatever they  
13    want. They're welcome to as a public operator. There  
14    are no production results from those wells yet, so I  
15    don't know how they're going to perform. But I will  
16    show you what this data shows for that area that they  
17    just drilled those north-south wells in.

18                       So the plot on the left is again cum oil  
19    versus time normalized to a one-mile lateral. In these  
20    areas, I've shown -- I've highlighted the sections  
21    where, in green, the wells were drilled to the  
22    north-south. In red, they were drilled east-west.  
23    East-west had six wells. Of those, only one was a  
24    larger completion. For the north-south wells, there are  
25    eight wells, and three were larger completions. And

1     then the table shows kind of the data around, you know,  
2     what those completions entailed. And you can see on the  
3     plot in general more red wells are better than green  
4     wells.

5           **Q.     The Table 2 correlates with the red and green**  
6     **which -- you're talking about?**

7           A.     That's correct. Yes.

8           **Q.     What is the next example in your study shown on**  
9     **Exhibit E-10?**

10          A.     So the next example is the same slide. All I'm  
11     doing is changing that plot now to instead being all the  
12     well results, I'm binning them again. So I'm averaging  
13     the average well drilled east-west with the average well  
14     that is drilled north-south. And you can see that the  
15     average east-west well outperforms the average  
16     north-south well.

17          **Q.     And, again, that was true even though the**  
18     **north-south wells had larger completions?**

19          A.     That's correct. And I'll address that further  
20     on the next exhibit.

21          **Q.     Okay. Let's look at your next exhibit, E-11,**  
22     **which is the next example in your study.**

23          A.     So I'm going to -- within this unit, I'm going  
24     to break out and compare just the smaller completions  
25     against each other and just the larger completions

1     against each other. So this first -- the slide right  
2     here that you're looking at in Exhibit 11 is the smaller  
3     completions only. So the plot right here shows the red  
4     wells are east-west. They're outperforming the  
5     north-south in cum oil versus time. And these were the  
6     average completions sizes for those five wells. There  
7     are five that were east-west and five that were  
8     north-south. They were similar in completion size, 720  
9     pounds per foot, 537 gallons per foot. The north-south  
10    were 779 and 643. And you can see from the table, I  
11    crossed out the ones that were larger completions, so  
12    I'm only showing you the wells that were smaller  
13    completions here.

14           **Q.     And the next exhibit, E-12, what is shown in**  
15    **this exhibit?**

16           A.     Exhibit E-12 is very similar to the last slide  
17    except I'm now comparing the larger completions, not  
18    just the smaller ones. So east-west, there is only one  
19    well that had a larger completion, and that was 1,581  
20    pounds per foot, 1,000 gallons per foot. North-south,  
21    there were three wells with larger completions, 1,490  
22    pounds per foot, 1,242 gallons per foot average. And  
23    then the plot on the left shows those wells against each  
24    other where the east-west well with the larger  
25    completion outperforms the north-south well with the

1 larger completion. And I show on the plot again the  
2 ones I marked out that were considered smaller  
3 completions because I'm only comparing the larger  
4 completions on these slides.

5 **Q. And your final exhibit for Azimuth Example 1 is**  
6 **E-13, and could you explain what that exhibit depicts?**

7 A. Yes. So this exhibit that uses again all those  
8 same wells, I'm now just averaging the performance of  
9 the wells with smaller completions on the left with the  
10 wells with larger completions in the plot on the right.  
11 And what I want you to see here is that as the  
12 completions improve and became larger, the delta and  
13 performance increased. So drilling east-west mattered  
14 so much more as we're able to exploit more from these  
15 reservoirs with more modern completions.

16 **Q. And the graph obviously graphically shows the**  
17 **difference between the two, but what are the actual**  
18 **differences in production between the two in Texas, the**  
19 **actual numbers shown on the graph?**

20 A. The actual -- in terms of the cum or the EUR?

21 **Q. Yes.**

22 A. It's more the -- the delta. So they appear to  
23 be -- you know, the wells with smaller completions,  
24 they're about 30 percent better, it looks like. And the  
25 wells with larger completions, I mean, it's closer to --

1     you know, almost double.

2           **Q.     You also prepared exhibits for Azimuth Example**  
3     **2, which is Exhibit E-14 and Exhibit E-15.**

4           A.     Yes.

5           **Q.     Could you walk the examiner through these two**  
6     **exhibits?**

7           A.     Sure.  So I wanted to address the wells that  
8     were the very closest to Apache's Taco.  I don't have  
9     the HEYCO wells in here.  Those are actually under all  
10    of these lines on the plot.  They're even worse than  
11    that.  But these were -- most of these were kind of  
12    older wells.  You can see the majority of the on-stream  
13    dates from the table are 2014 or earlier.  There are two  
14    that were 2015, but most of these are older.  But I just  
15    wanted to show you kind of direct area how they compare.

16                   So the wells that were east-west, there  
17    were two larger completions, and then the wells that  
18    were north-south, there were four larger completions.  
19    And you can see it's kind of a mixed batch on that.  I  
20    want to share all the data, not just try and manipulate  
21    it to show the ones I like.  This is the ones that are  
22    closest.

23                   But what I want to do is on the next  
24    exhibit -- and this is my final one -- when I remove  
25    those two oldest completions, what happens is you see

1     that those are the poorer-performing wells, and then you  
2     again see where the east-west, the red wells, outperform  
3     the north-south wells. And we definitely see that. And  
4     those are with older completions. Those wells have five  
5     years of production. As mentioned in the previous  
6     example, as completions get more modern and get better,  
7     that delta becomes larger with time. But Apache -- we  
8     firmly believe that east-west is the way to go here.

9           **Q.    I'd like you to now summarize your conclusions**  
10          **from your study. Do you have an opinion as to whether**  
11          **the drilling horizontal two-and-a-half miles with**  
12          **east-to-west orientations proposed by Apache in its Taco**  
13          **28-30 development plan is the most efficient method to**  
14          **develop the lands in Section 28 and will result in the**  
15          **greatest EUR?**

16          A.    I have a very strong opinion that drilling  
17          east-south -- east to west is the most optimal way to  
18          develop this reservoir and maximize the recovery.

19          **Q.    Will the wells proposed by Apache effectively**  
20          **drain the lands comprising the Taco development area?**

21          A.    Yes.

22          **Q.    In your opinion, is Apache's Taco development**  
23          **plan in the interest of conservation and the protection**  
24          **of correlative rights?**

25          A.    Yes.

1           Q.    In your opinion, will Apache's Taco development  
2   plan prevent waste of resources that would be left in  
3   the ground if Ascent's development plan were approved?

4           A.    Yes.

5           Q.    Do you also have concerns about potential well  
6   collision if Apache were to -- were to drill its wells  
7   from the Golden Lane well pad?

8           A.    Absolutely.

9           Q.    And what are those?

10          A.    As -- as you are drilling, your ellipse of  
11   concern -- and Jordan will get into this more, as the  
12   next witness. But your ellipse of uncertainty where  
13   you're at gets further as you're at the toe of your  
14   wells. And they would be drilling at the toe of our  
15   wells where we're trying to drill our wells from our  
16   Golden Lane, and we would be crossing one another.  
17   There's a lot of danger in that.

18          Q.    Is Apache prepared to drill the Bone  
19   Spring-Wolfcamp wells that are the subject of these  
20   applications if the Division were to approve its Taco  
21   development plan?

22          A.    Yes.

23          Q.    Were Exhibits E-1 through E-15 prepared by you  
24   or compiled under your direction and supervision from  
25   Apache's business records?



1           A.     They were prepared by me.

2                       MR. DeBRINE:  We would ask that Exhibits  
3   E-1 through E-15 be admitted into the record.

4                       EXAMINER JONES:  Any objection?

5                       MR. BRUCE:  No objection.

6                       EXAMINER JONES:  E-1 through E-15 are  
7   admitted.

8                       MR. DeBRINE:  Pass the witness.

9                       (Apache Corporation Exhibits E-1 through  
10   E-15 are offered and admitted into  
11   evidence.)

12                      CROSS-EXAMINATION

13   BY MR. BRUCE:

14           Q.     Just a point of clarification on your Exhibit  
15   E-4.  And if you look at the upper left-hand portion of  
16   that plat there --

17           A.     Uh-huh.

18           Q.     -- you've got -- the yellow line is the potash  
19   area, correct?

20           A.     That's correct.

21           Q.     And I assume the potash area is the area that  
22   is -- take the Marathon Bootlegger well.  It's that  
23   acreage within the yellow line to the east of there?

24           A.     That's correct.

25           Q.     Okay.  And then looking at the wells, obviously

1     when you're drilling the -- portraying the wells, the  
2     bottom-hole locations are -- are the surface locations  
3     denoted by a circle, or is that the bottom-hole  
4     location?

5           A.     That is -- so the -- the surface hole is what  
6     is the circle.

7           Q.     Okay.

8           A.     So if you notice, just -- like in the top  
9     right, notice how that well is drilled outside the  
10    potash?

11          Q.     Okay. That's -- that's what I was asking.  
12    Thank you.

13                         And then go to your Exhibit E-8, the newer  
14    one. Now, if I can count correctly -- and believe it or  
15    not, I used to be an engineer -- we've got 15 wells  
16    here, six of which are north-south; is that correct?

17          A.     That's correct.

18          Q.     And you were listening to the testimony this  
19    morning; were you not?

20          A.     I was, sir.

21          Q.     And Ascent's engineer looked at, I believe, 72  
22    total wells. Would 72 total wells, insofar as  
23    production goes, be more statistically relevant than 15  
24    wells?

25          A.     If you're doing your analysis purely on

1 statistics, a larger number would be helpful. My guess  
2 is that our assumed areas of where we drew our number of  
3 wells from is probably different, and our vintage from  
4 completion is different.

5 Q. And Mr. Yancey included in his analysis of  
6 actual production data Matador's HEYCO State wells; did  
7 he not?

8 A. I assume they were part of his.

9 Q. And so he included that even though they were  
10 poorer wells, and that was like two out of 24 of his  
11 wells, wasn't it, or roughly -- what would one out of 12  
12 would be? Eight percent -- eight-and-a-third percent?  
13 And you're including those wells, two out of six, so  
14 you're contributing -- when you're stacking the order  
15 numbers together, you're saying that Matador's wells are  
16 one-third of your database for north-south wells,  
17 correct?

18 A. That's correct.

19 Q. And do you have any actual knowledge of why  
20 those wells performed poorly?

21 A. Our belief is those wells performed poorly  
22 because of the azimuth because they have very strong  
23 completions signs [sic].

24 Q. And that's your assumption?

25 A. That is my opinion.

1           Q.    And Matador has drilled plenty of wells out in  
2   this section of Eddy County; has it not?

3           A.    They have drilled a descent number of wells out  
4   here.

5           Q.    They're one of the earlier Bone Spring and  
6   Wolfcamp developers in this general area of southeast  
7   New Mexico? They have drilled a lot of wells, haven't  
8   they?

9           A.    Yes. And it was helpful to hear Laci's  
10   testimony where Matador stated that they believe the  
11   optimal direction is east-west out here.

12          Q.    They've drilled a lot of north-south wells,  
13   haven't they?

14          A.    And then sold that acreage.

15          Q.    And they continue to drill north-south wells,  
16   don't they?

17          A.    I haven't seen any permitted Matador wells in  
18   this area that are north-south. I've seen them farther  
19   south. They are, you know, ten miles and further south  
20   but not in this direct area.

21          Q.    And why would XTO, on behalf of ExxonMobil,  
22   drill both north-south wells and east-west wells  
23   basically in the same area?

24                   MR. DeBRINE: Objection. Calls for  
25   speculation.

1                   MR. BRUCE: They've been speculating all  
2 day long about east-south, north-west -- I mean  
3 east-west, north-south. I think that's a fair question.  
4 Why would they do it if they think that east-west is  
5 better? Why is XTO drilling on these same plats in two  
6 different directions?

7                   MR. DeBRINE: And, again, I don't think the  
8 witness can speak to XTO's intent. I mean, she can  
9 speak -- I mean, there's evidence that immediately  
10 adjacent to the Taco, they're drilling east-west. The  
11 other wells are five miles north. It's pure speculation  
12 as to why they decided to the use different orientations  
13 five miles north.

14           Q.    **(BY MR. BRUCE) It's funny that you should**  
15 **mention the speculation because if you go to your**  
16 **Exhibit E-6, your numbers insofar as EUR and initial**  
17 **potential are pure speculation, aren't they?**

18           A.    They're the average of the data.

19           Q.    **And, again, you're not -- you're using only**  
20 **one-fifth of the actual production data that Ascent is**  
21 **using?**

22           A.    That's correct. I pulled my data set to  
23 include modern completions, which we see as way more  
24 indicative of what we actually expect.

25           Q.    **And if you look at Exhibit E-8, how many -- the**

1 plat on E-8, northeast -- northeast quarter -- sorry.

2 I'm always thinking of land matters.

3 On the upper east -- upper-right side, how  
4 many two-and-a-half-mile laterals have been drilled in  
5 that area?

6 A. I don't know the number.

7 Q. Have any wells been drilled?

8 A. I know XTO is drilling a lot of longer  
9 laterals, as are some other companies. There are some  
10 right now, but I don't have that information.

11 Q. And, of course, this is coming from attorneys  
12 like Mr. -- not to denigrate Mr. DeBrine, but during our  
13 arguments, the argument came up about the potential  
14 of -- I'm using -- I'm not using the same term, but well  
15 interference, worried about well collisions, about  
16 how -- when -- if Ascent gets approval to drill its  
17 two-mile wells into the northwest quarter of Section 28,  
18 there's a bigger danger because of loss of well control,  
19 if I may summarize it that way. Does that indicate that  
20 the longer the wellbore, there's additional risks  
21 involved in drilling those wells?

22 A. Are you referring to the mechanical risks or  
23 reserves risk? What are you --

24 Q. Any type, mechanical, operational.

25 A. I think that's a more fair question for our

1 drilling manager to answer that, from the operations  
2 perspective.

3 As far as from a reservoir perspective, we  
4 see normally scalable production with longer laterals,  
5 so it's actually more economic to be able to drill  
6 longer laterals.

7 Q. But that's absent operational -- potential  
8 operational difficulties?

9 A. That's correct.

10 Q. Thank you.

11 MR. BRUCE: I have no further questions.

12 EXAMINER JONES: Mr. Coss?

13 CROSS-EXAMINATION

14 BY EXAMINER COSS:

15 Q. Keeping on the topic of the dangers of well  
16 collisions, what exactly does the results -- has that  
17 occurred? What happens if the wellbores collide -- if  
18 the drilling collide with the --

19 A. I think Jordan would probably be a better one  
20 to answer that, but if -- I mean, I know from a  
21 perspective that if you hit another operator's wellbore,  
22 you just hit a \$10 million investment that's very  
23 difficult to repair if you just drilled a hole in it.

24 Q. And it's never been worked out where you decide  
25 to try and share the formation with the wellbore? The

1    **risk of hitting the wellbore is too great so people**  
2    **don't try it?**

3           A.    I think he (indicating) would be a better  
4    person to address some of those, but it is a -- I mean,  
5    you're talking about going a mile and a half down and  
6    knowing exactly where you are, to say, "I don't want to  
7    hit something that just had an ellipse of uncertainty of  
8    200 feet right here," you know.  So while you have --  
9    you know, I think when we're talking about risk for  
10   getting a well down, you'll get a well down.  But do you  
11   know exactly where it's at?  You know, down a  
12   mile-and-a-half, down two miles away, do you know  
13   exactly where you're at?  You have 200 feet up, down,  
14   left, right where you could be at that you could pretty  
15   easily hit each other and knock out the other person's  
16   \$10 million investment.

17           Q.    And then so I heard a lot about the production  
18   data for drilling east-west, as you suggest.  Is there  
19   any physical principle that would be the cause of that?

20           A.    So typically what will cause certain azimuths  
21   to perform better than others is the direction of your  
22   SHmax.  And Mike talked about that we don't have an  
23   image log in the area to understand exactly what the  
24   SHmax is to say, "Hey, this is what the image log shows.  
25   This is our direction of the SHmax, and this is why we



1     should drill this way."

2                     We do have image logs in other areas we  
3     operate, and we see very clearly this is the direction  
4     of -- you know, you mentioned our Palmillo area, where  
5     we see an image log that says SHmax is to the  
6     north-south, which means we would need to be drilling  
7     east-west perpendicular to that. And the well results  
8     are very clear there. There are a couple of operators  
9     who tried north-south. Their wells are just dogs  
10    compared to ours.

11                    You know, as you move over in the basin,  
12    it's different. It rotates. So then another area in  
13    Lea County, the SHmax shows it's to be more east-west,  
14    so we drill our wells north-south there. So we drill  
15    perpendicular to SHmax where we do have data that shows  
16    the stress is that way. Unfortunately, we do not have  
17    an image log here to you hand that to you and say, "This  
18    is what we see."

19            **Q.     Okay. Thanks. Those are all my questions for**  
20    **now.**

21                               **CROSS-EXAMINATION**

22    BY EXAMINER JONES:

23            **Q.     There was some testimony this morning about 30**  
24    **degrees off of east-west, I thought it was, about the**  
25    **SHmax. Do you remember that? They were talking about**

1    **it this morning. In other words, not -- not**  
2    **northwest-south -- I mean northeast-southwest but a**  
3    **little bit --**

4           A.    And that tends to happen. You know, you don't  
5    have where in the basin it changes from going, you know,  
6    directly north-south to oop, now you're east-west.  
7    Like, it's a gradational change. And so understanding  
8    that for the area -- you know, when looking at what  
9    XTO's drilling, you know, a little bit further to the  
10   east, maybe theirs is just a little bit better when you  
11   get to that area. When we look at the well results  
12   right here and really to -- to look at the HEYCO wells  
13   right there, you know, that are right next to their  
14   acreage position and they're dogs despite really strong  
15   completions, landing in zone. And you go -- like, that  
16   would scare me because I cannot go into my VP and  
17   justify economics to say, "I want to drill these wells,"  
18   because all that it shows is that we're going to lose  
19   money if we get anything near those results.

20                   So it is -- generally, it changes, you  
21   know, slowly. It's not just immediate. But, you know,  
22   most of the time, our sections -- our land sections are  
23   not oriented like that so we have to pick kind of  
24   east-west to north-south. And I would say that the data  
25   in the area shows that east-west is right here. Is that

1 SHmax directly north-south? Probably it's, you know, a  
2 slight variation of that, but east-west seems to  
3 performs better.

4 Q. I wonder where -- your plots are pretty  
5 convincing on the face of them, especially the  
6 normalized plotting. Like, for instance, like, if you  
7 do all wells that after so many months and then take  
8 those numbers -- because you've got, like Mr. Bruce  
9 pointed out, a limited number of wells, and if you use  
10 the geometric mean instead of averaging your normalized  
11 plot, it's a little bit more work, but, you know, you  
12 think it would still bolster your -- the east-west  
13 argument?

14 A. To me it wasn't a 5 or 10 percent difference.  
15 It was pretty significant. So changing just that, you  
16 know, to -- using a P50 versus a geometric mean versus  
17 arithmetic mean -- when they're that far apart, I don't  
18 see them coming that much closer together, in my  
19 opinion.

20 Q. And the location of your battery that -- your  
21 well pads have to be on that drilling island, correct?  
22 I mean, they have -- in other words, you're pretty much  
23 fixed on where you're going to be putting those well  
24 pads, and so -- and you know where that is and you know  
25 where your bottom-hole location you might want it, so

1     pretty much you've got to drill as straight a hole as  
2     you can to keep the friction down and keep the highest  
3     success of getting your well drilled.

4           A.    Uh-huh.  And we try to, generally, drill  
5     straight, unless there is -- you know, like we have our  
6     existing Golden Lane well, which is one of the wells we  
7     are going to have to jog 100 feet and then come back  
8     around it to make sure that, you know, our ellipse of  
9     uncertainty, drilling that, that we don't intersect our  
10    own wellbore.  But in general, yes, we do just try and  
11    drill straight with structure.

12          Q.    So for Ascent to fracture the end of their  
13    well, even if they were a little ways off from your  
14    wellbore, it still might affect your well; is that  
15    correct?

16          A.    There will definitely be concern of, you know,  
17    any sort of depletion you'd be drilling through.  You  
18    know, there's a lot of concerns when you're --

19          Q.    Depends on who gets their well in first,  
20    obviously.

21          A.    Yeah.

22          Q.    Okay.  So -- but you've drilled a lot of wells  
23    out here.  So you haven't done any microseismic or  
24    anything to look at your frac jobs to see where there  
25    may be -- is it just showing a cluster, or can you

1     **actually see an orientation to your frac?**

2           A.     Specifically in New Mexico, we haven't done  
3     microseismic. We've done it in other areas in the  
4     Permian Basin. We've done it in Texas, Delaware Basin,  
5     and we do see a pretty clear path of generally the fracs  
6     growing in the direction of the SHmax, so the fracture  
7     opening up versus your SHmin. We generally see that.

8           **Q.     What do you see for your economic limit on your**  
9     **wells, for your ultimate recovery? You're just plotting**  
10    **cumulative versus time so --**

11          A.     Yeah. I was plotting cum versus time, and I  
12     wasn't throwing discounted economics in with time. It  
13     was just more when I showed the value loss in terms of  
14     reserve, I just assumed this is overall the total  
15     volume.

16          **Q.     I'm sure everybody has wanted to ask this.**  
17     **That first plot you showed of cumulative versus time,**  
18     **there was one well that was just an extremely good well.**  
19     **So --**

20          A.     That is the Stebbins well, Matador's Stebbins  
21     well.

22          **Q.     Okay. So what's up with that well? Why was it**  
23     **so good?**

24          A.     It is a very strong completion drilled the  
25     right way.

1           Q.    Okay.  You're going to stick with that, right  
2    (laughter)?

3           A.    So that's the well in the middle of the plot,  
4    if you're looking at E-8.

5           Q.    I'm looking at, actually, E-4.

6           A.    Sorry.  E-8 had all the details of the  
7    completion on that.

8           Q.    Oh, I see.  Okay.

9           A.    Yeah.  But you can see it.  It's a strong well.  
10   It was completed with 2,000 pounds per foot.  That's  
11   also the completion size Apache's planning on our wells.

12          Q.    2,000 pounds per foot.

13                   So how much rate -- what's your -- your --  
14   your pump rate at that, to carry that much --

15          A.    We'll typically pump over 80 barrels a minute.

16          Q.    80 barrels a minute.

17          A.    Yeah.

18          Q.    So you're pumping it down-casing.  And what  
19   pressure do you allow yourself to go up to?

20          A.    Oh.  I'm a reservoir engineer, so our  
21   completion engineers typically deal with that.

22          Q.    But you're able to get that much, 2,000 pounds  
23   per foot?

24          A.    We are, yes.

25          Q.    And is that an average pounds per foot over the

1    length of the lateral, or is that just the length of the  
2    perforated section?

3           A.    So this is -- all this comes from public data.  
4    And so what operators typically disclose is a total  
5    volume that they pumped on that well, and I will say,  
6    "Okay. And this is their perforated lateral length."  
7    So I will divide that out.

8           Q.    Okay. There was a controversy a minute ago  
9    about whether you know XTO's -- did you talk to XTO any  
10   about --

11          A.    I haven't, no.

12          Q.    Okay.

13          A.    We have talked with other operators, though,  
14   with Matador, with OXY. You know, like Laci mentioned  
15   earlier, we had a knowledge-share with them where we  
16   talked with their engineers, and, you know, they're  
17   fully on board. As you see, they're represented here  
18   today, that they believe east-west is the optimal  
19   direction. And so we're -- it's not just us. People  
20   who tend to operate out here plan east-west. I don't  
21   know why XTO is -- their methodology.

22                                   CROSS-EXAMINATION

23   BY EXAMINER BRANCARD:

24          Q.    I'm sure I missed this, but on E-8, you talk  
25   about 15 wells as your data set. But then on E-4

1 through E-7, where you have all this cumulative data, is  
2 that the same 15 wells?

3 A. That's correct, sir. Yeah.

4 Q. So all this is based -- all this stuff is  
5 based on just these 15 wells?

6 A. The most modern wells in the area, yes, sir.

7 Q. Okay.

8 EXAMINER JONES: Okay. Any other  
9 questions?

10 MR. DeBRINE: No further questions.

11 RECROSS EXAMINATION

12 BY MR. BRUCE:

13 Q. What is the newest well in the area that you  
14 use?

15 A. So the newest wells are actually Mewbourne's  
16 wells that are -- if you look at E-4, the thing that's  
17 labeled -- the well that's labeled Marathon's  
18 Bootlegger, there are three wells above that. Those are  
19 the Glock wells. So Marathon's Bootlegger is new and so  
20 is the Glock wells by Mewbourne, and those are drilled  
21 east-west. And they're hard to see on the plot, but  
22 they are the ones with only about five months of  
23 production.

24 And E-8 has all the well list, and they  
25 also have the on-stream date, so you can see where those



1     newest wells are.

2                     So the Stebbins, the Glock and the  
3     Bootlegger, those are all kind of on the western side of  
4     the data set.

5                     MR. DeBRINE:   No further questions.

6                     EXAMINER JONES:   Okay.   Do you have any  
7     more witnesses?

8                     MR. DeBRINE:   Just one more witness.

9                     JORDAN EVANS,  
10            after having been previously sworn under oath, was  
11            questioned and testified as follows:

12                    DIRECT EXAMINATION

13   BY MR. DeBRINE:

14            **Q.    Would you please state your name?**

15            A.    Jordan Evans.

16            **Q.    Who do you work for, Mr. Evans?**

17            A.    Apache Corporation.

18            **Q.    And how long have you worked for Apache, and**  
19   **what are your responsibilities currently?**

20            A.    I'm the drilling engineer manager, and I've  
21    been there nine years.

22            **Q.    And could you provide the examiners with a**  
23   **brief description of your educational background and**  
24   **experience in the oil and gas industry?**

25            A.    I have a bachelor's in mechanical engineering

1 from Texas Tech.

2 In 2007, I went to work for Fasken out of  
3 college as the only drilling engineer they had. I  
4 followed that up with -- I was a drilling engineer at  
5 BOPCO, drilling here in New Mexico, and then I've been  
6 at Apache for the last nine years and various other  
7 service companies during college.

8 Q. Based on that experience, did you supervise the  
9 drilling of wells in the Delaware Basin?

10 A. Yes, sir.

11 Q. And how many drilling engineers do you  
12 supervise as Apache's --

13 A. Five at the moment, four drilling engineers and  
14 a tech at the moment. Yes.

15 Q. And has Apache used your engineering analysis  
16 in drilling some other wells in the Delaware and Permian  
17 Basins in New Mexico?

18 A. Yes, sir.

19 Q. How many horizontal wells have you either been  
20 the lead drilling engineer or the supervising engineer?

21 A. Roughly 3- to 400.

22 Q. Are you familiar with the applications filed by  
23 Apache and the Ascent in these competing cases?

24 A. Yes, sir.

25 Q. Are you familiar with the drilling plans for

1     **Apache's proposed wells?**

2             A.     Yes, sir.

3             **Q.     Have you conducted a study to assess the**  
4     **feasibility of Apache drilling its proposed Bone Spring**  
5     **and Wolfcamp wells from the Golden Lane drilling plan**  
6     **and the risk about collision if Ascent's allowed to**  
7     **drill horizontal wells in Section 33 and Section 28 with**  
8     **its Anvil plan?**

9             A.     Yes, sir.

10                     MR. DeBRINE:   I would tender the witness as  
11     an expert in drilling engineering.

12                     EXAMINER JONES:   Objections?

13                     MR. BRUCE:   No objection.

14                     MR. LARSON:   No objection.

15                     MR. PADILLA:   No.

16                     MR. MOELLENBERG:   (Indicating.)

17                     EXAMINER JONES:   He is so qualified.

18             **Q.     (BY MR. DeBRINE) You heard the testimony from**  
19     **Ms. Goldsmith as to why Apache determined it cannot**  
20     **effectively utilize its Golden Lane drilling island --**

21             A.     Yes.

22             **Q.     -- in development of its reserves in Section**  
23     **29.    Could you just explain the reasons why?**

24             A.     Well, there's a -- there's a couple of reasons.  
25     Well, first would be the surface area of the location,

1 future development. I wouldn't be able to get a rig  
2 back in on that pad, and we're not allowed to expand it.  
3 Also, a risk of, you know, collision with Ascent, you  
4 know, drilling back to the north, which is a risk we  
5 wouldn't be willing to take, for certain. If we drilled  
6 from this pad, we would be in the same landing zones  
7 with Ascent, and the cone of uncertainty would overlap,  
8 wouldn't allow greater than a one for anticollisions.

9 **Q. If you could turn to your first exhibit, which**  
10 **is marked D-1, titled "Overall Drilling Plan," could you**  
11 **explain to the examiner what this map represents?**

12 A. This is an overlay of our directional plans as  
13 we currently have planned. It also shows the Golden  
14 Lane well, directional well, as it goes from Section 28  
15 to 29. The red highlighted area is Ascent's acreage,  
16 the gold being Apache's. These are drilled from the  
17 right to the left on the page and just demonstrates our  
18 plan from the posted BLM drilling islands in Section 28  
19 across to Section 30.

20 **Q. And you talked a little bit about it. Could**  
21 **you just explain in more detail what you view as the**  
22 **risk of well collision between the development plans if**  
23 **Ascent's allowed to drill its wells from Section 33 into**  
24 **Section 28?**

25 A. Yes, sir. In the next actually two slides, it

1 shows a visual, but --

2 Q. Let's start with that and look at those, break  
3 it down. Let's take a look at Exhibit D-2 titled  
4 "Directional Plan Option A - Full Kick Out."

5 A. Yes, sir. You know, we have engineers in-house  
6 due to our initial directional planning that we can use  
7 for submittal to the BLM. We've planned these wells out  
8 and we've done our due diligence to get to the northern  
9 part of Section 29 from the Golden Lane pad. It's  
10 standard for, you know, offset wells like this with a  
11 kick-out and intermediate. Our max level is 10 degrees.  
12 As you see from our directional plan here, it wouldn't  
13 be achievable at 22 degrees. So this is not really a  
14 feasible directional plan to stay out of their zone or  
15 any of the Bone Spring zones and get to the north to  
16 reach our acreage. That's what that demonstrates on that  
17 slide.

18 If you go to the next, this is the only  
19 truly achievable way to get to our wells on the north  
20 side of Section 29. And by doing this, we do a  
21 10-degree kick-out in the intermediate zone, drop back  
22 toward the kickoff point, drill a curve to the northwest  
23 and then still have to do a 3-degree turn in the lateral  
24 to reach our azimuth. This poses a problem because  
25 we've got substantial lateral footage in the same zone

1 as Ascent's wells. And if you look at the red lines  
2 going from south to north, that's a simulation of  
3 Ascent's laterals in the same zone. So this also  
4 doesn't seem feasible with Ascent drilling, you know, to  
5 the north.

6 **Q. Let's take a look at your last exhibit, which**  
7 **is entitled "Ellipse of Uncertainty."**

8 A. Yes, sir.

9 **Q. And what is that?**

10 A. This is a standard calculation used by all  
11 directional companies to calculate your ellipse of  
12 uncertainty at any point during a wellbore. If you look  
13 on there, the horizontal, that's a diameter measurement  
14 on a two-mile lateral with a tie-in gyro at surface. It  
15 would be 300 horizontal foot, 160 vertical. These are  
16 around within a couple of feet. And so basically it's  
17 150-foot radius in any direction azimuthwise and 80  
18 foot, you know, up and down in any direction when they  
19 TD those two-mile laterals. But just at our kickoff  
20 point, with an MWD and tie-in gyro at that point, we  
21 would be at 90-foot diameter. So you can't feasibly put  
22 a 300-foot and a 90-foot overlapping, you know, cone of  
23 uncertainty there without risk.

24 **Q. In your opinion, is the risk of well collision**  
25 **significant and should be avoided by denying Ascent's**

1     development plan?

2           A.     Yes, sir.

3           Q.     If Ascent's application were granted, do you  
4     believe the risk of well collision is high enough so  
5     that Apache would not drill all of its proposed Bone  
6     Spring and Wolfcamp wells?

7           A.     Yes, sir. I would recommend we did not.

8           Q.     Do you have an opinion as to whether Apache's  
9     plan of development is the most prudent way to proceed  
10    with development of the lands of Sections 28 and 29 to  
11    minimize the risk of well collision?

12          A.     Yes, sir.

13          Q.     Is the granting of Apache's request to approve  
14    its Taco 28-30 development plan and deny Ascent's  
15    applications in the interest of conservation, the  
16    prevention of waste and the protection of correlative  
17    rights?

18          A.     Yes, sir.

19          Q.     Were Exhibits D-1 through D-4 prepared by you  
20    or compiled under your supervision and direction --

21          A.     Yes.

22          Q.     -- from Apache's business records?

23          A.     Yes, sir, they were.

24                   MR. DeBRINE: We would pass the witness.

25                   EXAMINER JONES: Do you want to admit

1 the --

2 MR. DeBRINE: Oh, yeah. We would also ask  
3 that Exhibits D-1 through D-4 be admitted into the  
4 record.

5 EXAMINER JONES: DE-1 through DE-4, any  
6 objections?

7 MR. BRUCE: No objection.

8 MR. PADILLA: No objection.

9 MR. LARSON: No objection.

10 EXAMINER JONES: Okay. DE-1 through DE-4  
11 are admitted.

12 (Apache Corporation Exhibits DE-1 through  
13 DE-4 are offered and admitted into  
14 evidence.)

15 CROSS-EXAMINATION

16 BY MR. BRUCE:

17 Q. Mr. Evans, did Apache drill the Golden Lane 29  
18 State 1Y well?

19 A. No, sir. I believe we acquired it. It was  
20 drilled before us.

21 Q. Is that a Morrow test?

22 A. Yes, sir.

23 Q. Still producing?

24 A. Yes, sir. It's holding acreage, from my  
25 understanding.



1           Q.    And the 1Y designation indicates that there was  
2   trouble drilling that initially so it had to be moved;  
3   is that correct?

4           A.    I cannot say that.  No, sir.  I didn't drill  
5   it, so -- you're not going to get an argument from me  
6   there.

7           Q.    Thank you.

8                   EXAMINER COSS:  No questions.

9                   CROSS-EXAMINATION

10          BY EXAMINER JONES:

11          Q.    That Exhibit DE-4, did Texas Tech make you do  
12   that kind of math?

13          A.    (Laughter.)

14                   (Laughter.)

15                  MR. BRUCE:  Or understand it.

16                  THE WITNESS:  I can give it back to the  
17   fast-talking reservoir engineer if you want me to.

18                   No, sir (laughter).

19          Q.    (BY EXAMINER JONES) Okay.  So what I hear you  
20   saying is that -- is that you can't -- you don't have  
21   confidence you can get your well drilled if you have to  
22   do that many changes in direction?

23          A.    No, sir.  I can -- like I said, drilling from  
24   the Golden Lane, if I was to do a 10-degree tangent in  
25   the intermediate, build the curve still in Section 28,

1 land the curve in 28, point it to the northwest on a  
2 northwest azimuth and then do a 3-degree turn into our  
3 Section 29, I could achieve it, but that poses a problem  
4 that we've got tons of lateral footage in Section 28  
5 when they're drilling right at me in the same zone. And  
6 with these cone of uncertainties, that's a major overlap  
7 and a collision risk that we can't take. Even our  
8 directional companies wouldn't allow that unless we  
9 signed off a waiver. So it's not realistic.

10 Q. Okay. Do you ever deal with subsurface  
11 rights-of-way with landowners that you drill through to  
12 get to your target?

13 A. To some extent, yes, sir.

14 Q. Sometimes?

15 A. Yes, sir.

16 Q. I'm not sure that the BLM does those kind of  
17 things, but the State Land Office I know was talking  
18 about it. I don't know if they ever got it done or not.

19 So basically you're telling me that --  
20 you're telling us that these are mutually exclusive  
21 proposals?

22 A. What do you mean?

23 Q. In other words, you can't -- you can't do one  
24 if you do the other?

25 A. Yes.

1           **Q.    You can't do the Ascent plan if you do the**  
2           **Apache plan?**

3           A.    That's correct.  There is no way to know where  
4           they're at exactly.  I couldn't -- there is no way I  
5           could personally drill the Ascent wells and tell you I'm  
6           not going to hit one of these wells -- you know, one of  
7           our wells off the Golden Lane.  I couldn't do that.  
8           With corrected surveys, you can't do that.

9           **Q.    Okay.  Are you also a completions engineer?**

10          A.    No, sir.  I just put holes in the ground.  No,  
11          sir.

12          **Q.    But you will admit that once you get out that**  
13          **far -- that far down, that far out and you're trying to**  
14          **pump your frac job, there's a lot of friction involved**  
15          **and --**

16          A.    There is.

17          **Q.    -- so the longer you go, the more risk there is**  
18          **in not getting your frac off?**

19          A.    The two-and-a-half and three-mile laterals have  
20          been fairly well established in Texas, and they haven't  
21          had issues doing that.  We -- we run premium pipe,  
22          20-pound CY P110 with internal flush connections to  
23          eliminate those risks.

24          **Q.    Okay.  So they can go up to higher pressures?**

25          A.    Yes, sir.  I believe the first one at 20 pound

1 is 12640, which puts us a touch over 10,008 percent.

2 CROSS-EXAMINATION

3 BY EXAMINER COSS:

4 Q. If Ascent were going from the same drill pad as  
5 you were, they could drill their wells north to south  
6 the other direction?

7 A. If they were going -- well, that's -- we can't  
8 expand that pad. But let's say theoretically you could,  
9 and they wanted to set their rig right next to mine and  
10 drill south, they could. The issue would be they're  
11 still stranding that acreage, because if they wanted the  
12 acreage north of that pad, they'd have to back-build to  
13 get it, which is still a collision risk with myself.  
14 We'd have opposing, you know, curves, which is not a  
15 good thing either.

16 EXAMINER JONES: Mr. Brancard?

17 CROSS-EXAMINATION

18 BY EXAMINER BRANCARD:

19 Q. So this assumes that the only way anybody would  
20 develop in Section 29 is on an east-west well?

21 A. Firmly established. Yes, sir.

22 Q. So if you did a south-to-north well, you would  
23 avoid that problem?

24 A. I'm assuming so. Yes, sir.

25 Q. So on Exhibit D-1, are those white lines all of

1     **Apache's proposed wells?**

2           A.    Yes, sir.  Those are an overlay of our current  
3   directional plans to develop the Taco acreage.

4           **Q.    So how are all those wells going to miss that**  
5   **Morrow well?**

6           A.    You see the slight deviation?  Which we have a  
7   separation factor greater than one at that point.  You  
8   see that slight deviation one lateral wellbore where we  
9   go back to the bottom of the page?

10          **Q.    Yeah.**

11          A.    That's to avoid that well.  So we have the  
12   surveys on the Golden Lane well.  We can put  
13   anticollision software together, same as all your  
14   directional companies do, and we can plan our  
15   directional away from it.  So knowing your cone of  
16   uncertainty, at that point in our lateral, I know how  
17   far I have to stay away because I can just keep the  
18   cones from touching.  It has to be in this cone.  We  
19   know the cone is so big, you know, for the Golden Lane  
20   well.  Same thing for the Morrow [sic] well.  Keep the  
21   cones from touching.  It's a greater separation factor  
22   than one, and you avoid collision.

23          **Q.    So then if you drilled your Golden Lane well**  
24   **first and went east and went west --**

25          A.    Okay.

1           Q.    -- and then Ascent came from the south, with  
2   that same technology you're talking about, they could  
3   figure out how to avoid your Golden Lane well just like  
4   you're avoiding this Morrow well?

5           A.   Well, yes. Well, to an extent, yes. If you  
6   wanted to calculate and stay 300- -- 390 foot off me  
7   just at kickoff point and with the separation factor  
8   added of one, yes, if you want to stay that far away.  
9   But -- but the other issue is, like I said, we're in the  
10  same landing zone as well. So not only do you have the  
11  300-horizontal-foot cone of uncertainty at two miles,  
12  you also have the 160-foot elevation uncertainty.

13          Q.    But you're landing in that zone in the next  
14  section.

15          A.   No, sir. Well, they're developing the 2nd  
16  Bone, same as us, 1st Bone, 3rd Bone.

17          Q.    Yeah. But you're not -- you're not developing  
18  in Section 29. You're developing the adjacent section.

19          A.   No, sir. The only way for me to get to that 29  
20  acreage is to land in 28 from the Golden Lane pad.

21          Q.    At the edge of 29?

22          A.   That's over a 2,000-foot kick-out to the north.  
23  You can't get there any other way. And you have to be  
24  there prior to landing that Bone Spring at 7,800 foot.  
25  So yes, sir. There is no way for me to effectively

1     drill these wells from the Golden Lane without being  
2     horizontal in Section 28. I cannot do that.

3           **Q.     Okay.**

4                   EXAMINER JONES: (Indicating.)

5                   RE CROSS EXAMINATION

6     BY MR. BRUCE:

7           **Q.     The Golden Lane well, when you're looking at**  
8     **the section line between Sections 28 and 29, what is the**  
9     **vertical depth of the Golden Lane?**

10          A.     The Golden Lane well is roughly 7,400 foot on  
11     the section line, so it's not a collision risk with  
12     regard to Ascent. They are horizontals.

13          **Q.     Okay. Thank you.**

14                   REDIRECT EXAMINATION

15     BY MR. DeBRINE:

16          **Q.     Mr. Evans, you heard the testimony from**  
17     **Ascent's drilling engineer. Do you have any confidence**  
18     **at all that they could safely drill their two-mile**  
19     **laterals into Section 28 without colliding with Apache's**  
20     **well?**

21          A.     No, sir.

22                   MR. DeBRINE: No further questions.

23                   EXAMINER JONES: Okay.

24                   MR. BRUCE: Could I have five minutes to  
25     talk with my witnesses?

1 EXAMINER JONES: Okay.

2 (Recess, 4:26 p.m. to 4:32 p.m.)

3 EXAMINER JONES: Back on the record.

4 Both parties rest?

5 MR. BRUCE: I will not present any more  
6 testimony.

7 EXAMINER JONES: Okay.

8 MR. DeBRINE: If I could just re-call  
9 Ms. Goldsmith on something that Mr. Brancard brought out  
10 in the cross-examination concerning developing the  
11 north-south drill pad getting into Section 28.

12 EXAMINER JONES: Sure.

13 (Laughter.)

14 MR. BRUCE: A little more enthusiasm.

15 EXAMINER JONES: Okay (laughter).

16 (Laughter.)

17 MINDY GOLDSMITH,  
18 after having been previously sworn under oath, was  
19 re-called, questioned and testified as follows:

20 DIRECT EXAMINATION

21 BY MR. DeBRINE:

22 Q. Ms. Goldsmith, when Mr. Evans was testifying,  
23 you heard some questions as to whether Apache could  
24 develop its acreage in Section 29 by drilling  
25 north-south laterals from the south with drilling



1     **islands that are already established down below there.**

2     **Did Apache evaluate the potential for doing that as part**  
3     **of -- in planning for this case?**

4           A.     We definitely did. That was one of the first  
5     things we evaluated, could we do that, and we looked at  
6     it. But as part of the area study to understand the key  
7     production drivers, you know, we looked at azimuth. We  
8     looked at, you know, reservoirs and geologic properties.  
9     We look at completion size, all that. And when we  
10    looked at the economics of what a well would look like  
11    that we would drill north-south, we would not develop  
12    it, and that would strand our acreage, because it would  
13    not make Apache money to drill north-south and get poor  
14    results north-south.

15           **Q.     That's all I have.**

16                   EXAMINER JONES:   Okay. I don't think we  
17    have any more questions.

18                   Thank you very much.

19                   MR. BRUCE:   And, Mr. Examiner, I'd request  
20    permission to submit a proposed order -- or written  
21    closing rather than drone on for another 30 minutes.

22                   EXAMINER JONES:   Yeah.

23                   MR. DeBRINE:   And I talked to Mr. Bruce and  
24    we agreed. That's acceptable to us.

25                   EXAMINER JONES:   Proposed orders sound

1 good.

2 I don't know if the other three attorneys  
3 wanted to write any conclusions --

4 MR. PADILLA: I'm not sure we would.

5 EXAMINER JONES: -- stating your company's  
6 position, and if you don't, that's fine.

7 MR. PADILLA: I'll ask if they want to,  
8 unless you require it. If you want one, we'll obviously  
9 submit something.

10 MR. MOELLENBERG: Yeah. Mr. Examiner, OXY  
11 will submit one.

12 EXAMINER JONES: Okay.

13 MR. LARSON: Mr. Examiner, I'll check with  
14 my client.

15 EXAMINER JONES: Okay. And we'd require  
16 one from XTO also, but they're not here.

17 (Laughter.)

18 EXAMINER JONES: Okay. I guess we're  
19 concluded.

20 EXAMINER BRANCARD: But just in --  
21 Mr. DeBrine, in your proposed order, if you could  
22 address the issue that's been raised about the authority  
23 and specifically what you're asking the Commission to  
24 do, whether it's simply to reject this proposal or if  
25 it's to approve your proposal, and then what authority

1 do we have to approve the development plan, whatever you  
2 call it.

3 MR. DeBRINE: We're happy to do that.

4 EXAMINER JONES: And please send the  
5 digital exhibits.

6 EXAMINER BRANCARD: Do you want to give  
7 them a deadline? Offer a deadline.

8 EXAMINER JONES: Yeah. How about -- can  
9 you guys do it by the end of -- actually somewhere like  
10 before the end of September. I've got a personal reason  
11 for that.

12 MR. BRUCE: Yeah. Okay. How about -- what  
13 is the -- how about -- the 19th is the second hearing.  
14 Maybe the Monday before the 19th. The 16th? Would that  
15 be okay?

16 MR. DeBRINE: To submit the proposed order?

17 MR. BRUCE: Yeah.

18 MR. DeBRINE: Yeah. That works with my  
19 schedule.

20 EXAMINER BRANCARD: September 16th. Okay.

21 EXAMINER JONES: September 16th. Sounds  
22 good.

23 We're taking all four cases under  
24 advisement.

25 (Case Numbers 16481, 16482, 20171 and 20202

1 conclude, 4:46 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 3rd day of September 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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25