

STATE OF NEW MEXICO  
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT  
OIL CONSERVATION DIVISION

ORIGINAL

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

Case No.: 14788

APPLICATION OF CAZA PETROLEUM, INC., FOR APPROVAL OF THE  
LENNOX STATE EXPLORATORY UNIT, LEA COUNTY, NEW MEXICO

REPORTER'S TRANSCRIPT OF PROCEEDINGS  
EXAMINER HEARING

BEFORE: WILLIAM V. JONES, Technical Examiner  
DAVID K. BROOKS, Legal Examiner

January 19, 2012

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, WILLIAM V. JONES, Technical Examiner, and DAVID K. BROOKS, Legal Examiner, on January 19, 2012, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South St. Francis, Drive, Room 102, Santa Fe, New Mexico.

REPORTED BY: Irene Delgado, NM CCR 253  
Paul Baca Professional Court Reporters  
500 Fourth Street, NW, Suite 105  
Albuquerque, New Mexico 87102

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A P P E A R A N C E S

FOR THE APPLICANT:  
HOLLAND & HART  
MICHAEL FELDEWERT  
P.O. Box 2208  
Santa Fe, NM 87504-2208

I N D E X

WITNESSES

RONALD RICHARD ALBRO  
Direct by Mr. Feldewert 04

EXHIBITS

EXHIBITS 1 THROUGH 4 ADMITTED 12

1           EXAMINER JONES: Let's start this morning with the  
2 first remaining case on the docket, which is Case 14788,  
3 application of Caza Petroleum Incorporated for approval of  
4 the Lennox State Exploratory Unit in Lea County, New Mexico.  
5 Call for appearances.

6           MR. FELDEWERT: Mr. Examiner, Michael Feldewert with  
7 the Santa Fe Office of the Law Firm of Holland and Hart,  
8 appearing on behalf of the applicant, Caza Petroleum, and I  
9 have one witness here today.

10          EXAMINER JONES: Any other appearances?

11                   (No response.)

12          EXAMINER JONES: Will the court reporter please  
13 swear in the witness?

14                   (Witness duly sworn.)

15          MR. FELDEWERT: Mr. Examiner, we're applying for an  
16 exploratory unit here today, and Mr. Albro was in Santa Fe  
17 yesterday, so he is appearing here as a live witness to  
18 present the exploratory unit case --

19          MR. ALBRO: I prefer it that way.

20          MR. FELDEWERT: -- as opposed to presenting the case  
21 by affidavit, which is generally the course.

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1 RICHARD RONALD ALBRO

2 (Sworn, testified as follows:)

3 DIRECT EXAMINATION

4 BY MR. FELDEWERT:

5 Q. Mr. Albro, why don't you state your full name and  
6 identify by whom you are employed and in what capacity.

7 A. My name is Richard Ronald Albro. I'm employed by  
8 Caza Petroleum, Inc., in the capacity of vice president of  
9 land.

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

12 A. No, I have not.

13 Q. And you mentioned you are vice president of land,  
14 correct?

15 A. Yes.

16 Q. How long have you been a landman?

17 A. I began my career as a landman in 1993 in Midland,  
18 Texas, for Penwell Energy. I worked for Penwell until they  
19 sold in 1999, at which point two other gentlemen and I  
20 founded Falcon Bay Energy, a small exploration production  
21 company, primarily focused in the Permian and the Texas Gulf  
22 Coast.

23 In 2006 we actually merged the assets of Falcon Bay  
24 Energy into Caza Petroleum, Inc., and I have served -- we  
25 took it public -- we merged the assets with the intention of

1 taking the company public, which we did about 18 months  
2 later. The company is now a small public E & P Company, and  
3 I have served the company from 99 in the capacity of vice  
4 president of land.

5 Q. Has -- have you been involved in petroleum land  
6 matters throughout that work history since 1993?

7 A. Yes, I have.

8 Q. And have your duties and responsibilities in  
9 petroleum land matters included the Permian Basin?

10 A. They have.

11 Q. Are you a member of any professional organization?

12 A. AAPO.

13 Q. How long have you been a member of AAPO?

14 A. Since probably 94 or 95.

15 Q. Are you familiar with the application that's been  
16 filed by your company in this case?

17 A. Yes, I am.

18 Q. And are you familiar with the status of the lands  
19 and the proposed unit area for your Lennox State Exploratory  
20 Unit?

21 A. I am.

22 MR. FELDEWERT: Tender Mr. Albro as an expert  
23 witness in petroleum land matters.

24 EXAMINER JONES: He is so qualified.

25 Q. Why don't you briefly state what Caza seeks with

1 this application.

2 A. We are actually seeking the approval of the Lennox  
3 State Exploratory Unit agreement. The Lennox Unit is  
4 comprised of approximately 1920 acres, both state and fee  
5 lands, and it's located in Lea County.

6 Q. And does Caza Petroleum intend to be the unit  
7 operator?

8 A. We do.

9 Q. And if you turn to what's been marked as Caza  
10 Exhibit 1, is this a copy of the Unit Agreement for the  
11 Lennox State Unit area?

12 A. Yes, it appears to be.

13 Q. Has it been executed?

14 A. Yes, it has.

15 Q. Does it conform with the State Land Office forms?

16 A. It does.

17 Q. And if I turn to Exhibit A to the Unit Agreement,  
18 does it identify the unit area boundary in red?

19 A. Yes, it does.

20 Q. And would you just go through the colors for us real  
21 quick.

22 A. Sure. The red outline is actually the unit  
23 boundary. The yellow represents Caza oil and gas leases.  
24 The -- what is actually gray there, they both look white, but  
25 the two tracts, Number 6 and 7, are uncommitted tracts to the

1 unit. And the blue numbers just represent the tracts.

2 Q. Now, if you then flip over to the next page to  
3 Exhibit B to the Unit Agreement, it breaks out the ownership  
4 then by the seven tracts there shown on Exhibit A, correct?

5 A. Yes, it does.

6 Q. What percentage does -- of the unit area does Caza  
7 hold?

8 A. Approximately 96 percent.

9 Q. And are these all state leases?

10 A. They are.

11 Q. And what comprises the remaining roughly 4 percent  
12 of the proposed unit land?

13 A. There is a 40-acre fee tract, and a 40-acre tract  
14 that's HBP -- it's Chevron HBP lands. It's held by a 1930s  
15 era well.

16 Q. Is that -- is that remaining 4 percent, is that --  
17 that's not yet been committed to the Unit Agreement,  
18 correct?

19 A. That's correct.

20 Q. If -- what contacts have you had with the owners of  
21 the uncommitted acreage?

22 A. Well, I actually hired a broker once we received our  
23 preliminary approval last week, and I had them check the two  
24 40-acre tracts. Chevron does, in fact, hold the one HBP.  
25 The other tract is held by several fee owners, and we have

1 sent letters to all of those owners and actually followed up  
2 with phone calls. Some have indicated that they would join  
3 the unit, and others are -- we offered them the ability to  
4 either join or lease, and some of them said they want to  
5 join, some said they may lease, but we haven't worked out  
6 those details yet.

7 Q. So you are in the process of providing them an  
8 opportunity to participate in the unit?

9 A. Yes.

10 Q. But your level of current commitment provides Caza  
11 Petroleum effective control of the unit operations?

12 A. Yes, it does.

13 Q. Has the State Land Office given preliminary approval  
14 of your proposed unit?

15 A. They have.

16 Q. Has that letter been marked as Caza Exhibit  
17 Number 2?

18 A. Yes, it has.

19 Q. Now, under this Unit Agreement -- or have all of the  
20 horizons -- are all the horizons being unitized?

21 A. Yes, all horizons are being unitized.

22 Q. What -- what are your initial development plans for  
23 this unit?

24 A. We intend to test and develop the Bone Spring  
25 Formation, which includes the Avalon Shale, and First,

1 Second, and Third Bone Spring Sands.

2 Q. And have you set a location of your initial pilot  
3 hole?

4 A. We have. Section 32 is the western-most section of  
5 the unit, and that's where the pilot hole will be.

6 Q. Did you initially consider a different location for  
7 that well?

8 A. We did. We considered Section 33 primarily because  
9 of its proximity to some older production to the north of the  
10 unit.

11 Q. And I believe your advertisement referenced an  
12 intent at that time to drill a pilot hole in Section 33; is  
13 that correct?

14 A. That's correct.

15 Q. You have since decided to move the location of your  
16 initial pilot hole to Section 32?

17 A. Yes.

18 Q. When do you plan to spud this particular well?

19 A. The first lease expires on March 1, so, you know, on  
20 or before March 1.

21 Q. So we are at the end of January here, so it would be  
22 helpful if you could get an order as quickly as possible?

23 A. That would be a big help.

24 Q. All right. Do you have a lease expiring on  
25 March 1?

1 A. Yes.

2 Q. Is Caza Exhibit Number 3 an AFE for your initial  
3 pilot hole?

4 A. Yes, it is.

5 Q. Actually, I should -- let me rephrase it. Is this  
6 an AFE for the initial well that you intend to drill?

7 A. Yes.

8 Q. And that, actually, your intent is to drill a pilot  
9 hole and then to go horizontal. Is that correct?

10 A. That's correct.

11 Q. Would you then go through the completed and dry hole  
12 costs for your initial proposed horizontal well?

13 A. Yeah. The dry hole cost of the well, which includes  
14 the horizontal leg, is approximately \$3.36 million, and the  
15 total cost to drill and complete the well is about \$6.224  
16 million.

17 Q. Now, do you -- do you have knowledge of the  
18 approximate cost associated with the pilot hole that you  
19 would drill before going horizontal?

20 A. Yes. That cost would be approximately \$2.3 million.

21 Q. Are these costs consistent with the cost that Caza  
22 has incurred for drilling similar wells at this depth?

23 A. Yes.

24 Q. Is then Caza Exhibit Number 4 an affidavit from  
25 Mr. John Thoma?

1 A. Yes, it is.

2 Q. And who is Mr. Thoma?

3 A. John Thoma is somebody we have worked with for over  
4 20 years. He is a consultant to Caza, a geological  
5 consultant to Caza, but he has been working this area for his  
6 entire career.

7 Q. And does his affidavit discuss in further detail the  
8 primary target zone for this exploratory unit and risks that  
9 are involved?

10 A. Yes, it does.

11 Q. Okay. And does his affidavit then also have  
12 attached to it and discuss a structure map of the primary  
13 target area?

14 A. Yes, it does.

15 Q. And also has attached to it and discusses two  
16 structural cross-sections, correct?

17 A. It does.

18 Q. Does Mr. Thoma conclude then that this proposed  
19 exploratory unit covers an area that can be reasonably  
20 developed under your unit plan?

21 A. Yes.

22 Q. And does he then likewise conclude that the  
23 formation of this exploratory unit will result in efficient  
24 recovery in hydrocarbons.

25 A. He does.

1 Q. Were Caza Exhibits 1 through 4 compiled by you or  
2 obtained under your direction or supervision?

3 A. Yes, they were.

4 MR. FELDEWERT: Mr. Examiner, I move the admission  
5 of Caza Exhibits 1 through 4.

6 EXAMINER JONES: Exhibits 1 through 4 will be  
7 admitted.

8 (Exhibits 1 through 4 admitted.)

9 MR. FELDEWERT: That concludes our presentation.

10 EXAMINER JONES: Okay. One quick question -- or a  
11 couple of quick questions. The HBP Tract is Number 6 or  
12 Number 7?

13 THE WITNESS: Number 7.

14 EXAMINER JONES: Okay. So Number 6, you said, is  
15 owned by various owners?

16 THE WITNESS: Yes.

17 EXAMINER JONES: And why did you decide to leave out  
18 the south half of 3 and the south half of 5 -- I mean --  
19 south half of 33 and south half of 35?

20 THE WITNESS: Several reasons. Let me look at my  
21 exhibit here. The first one in 33 is actually contained in a  
22 larger federal unit that Devon owns. The further east you go  
23 here, you know, as you are climbing up on the Central Basin  
24 Platform, it gets less prospective. So in talking to the  
25 State, they asked that we just conform the unit to as near

1 our leasehold as we possibly could.

2 EXAMINER JONES: Okay. It says in the Unit  
3 Agreement that you are going to drill to the Wolf -- to the  
4 top of the Wolfcamp, but not in excess of 11,400 feet, but  
5 you said that you are unitizing all depths. Is that -- are  
6 you truly unitizing all depths, or is it limited to 11,400  
7 feet?

8 THE WITNESS: We would like to unitize all depths.  
9 I mean, there is all kinds of potential, as you know, in  
10 southeast New Mexico, and in Lea County in particular, but we  
11 would prefer to unitize all depths, yes.

12 EXAMINER JONES: If you go below that, below the  
13 Wolfcamp, you get into Morrow which has already been tested  
14 out there.

15 THE WITNESS: Yeah.

16 EXAMINER JONES: Does it say in the Unit Agreement,  
17 "all depths," someplace? I tried to find it, and I couldn't.  
18 All I found is the Wolfcamp and --

19 THE WITNESS: That is a good question.

20 MR. FELDEWERT: Usually it's under Paragraph 2,  
21 Mr. Examiner.

22 EXAMINER JONES: It says, "Any and all formations."

23 MR. FELDEWERT: Yes.

24 THE WITNESS: Yeah.

25 EXAMINER JONES: And also for some reason it says --

1 it says, "Oil, gas, natural gasoline and associated fluid  
2 hydrocarbons," that must be the new term for the Unit  
3 Agreements?

4 MR. FELDEWERT: It's in the form.

5 THE WITNESS: Yeah, this -- we just went straight  
6 off the State form, so there has been no changes to their  
7 form.

8 EXAMINER JONES: Which doesn't include helium or  
9 something like that?

10 THE WITNESS: Right.

11 EXAMINER JONES: And it looks like the upper Second  
12 Bone Spring is the -- just talking to you about geology, I  
13 guess, and that's all in the affidavit, so -- but that looks  
14 like what you, the primary --

15 THE WITNESS: Yeah. The intention is to drill into  
16 the Wolfcamp and log. Obviously, I mean the play-out here is  
17 all in the stack of pays. We decided that we would like to  
18 try the Second Bone first. Again, the logs may determine  
19 that we go horizontal in the Avalon, but we think the Second  
20 Bone Spring has the best potential.

21 EXAMINER JONES: Okay. I've got an order drafted  
22 already. I just modified it a little bit.

23 MR. FELDEWERT: Thank you very much.

24 EXAMINER JONES: Saves me and my attorney time, too.  
25 Sounds good. Thank you very much.

1 THE WITNESS: Thank you.

2 EXAMINER JONES: If that's all, we'll take this case  
3 under advisement.

4 MR. FELDEWERT: Thank you, Mr. Examiner.

5 EXAMINER JONES: Case 14788, we will take it under  
6 advisement.

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I do hereby certify that the foregoing is  
a complete record of the proceedings in  
the Examiner hearing of Case No. \_\_\_\_\_  
heard by me on \_\_\_\_\_.

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\_\_\_\_\_, Examiner  
Oil Conservation Division

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APPLICATION OF CAZA PETROLEUM, INC., FOR APPROVAL OF THE  
LENNOX STATE EXPLORATORY UNIT, LEA COUNTY, NEW MEXICO

REPORTER'S CERTIFICATE

I, IRENE DELGADO, New Mexico CCR 253, DO HEREBY  
CERTIFY THAT ON January 19, 2012, proceedings in the  
above-captioned case were taken before me and that I did  
report in stenographic shorthand the proceedings set forth  
herein, and the foregoing pages are a true and correct  
transcription to the best of my ability.

I FURTHER CERTIFY that I am neither employed by nor  
related to nor contracted with any of the parties or  
attorneys in this case and that I have no interest whatsoever  
in the final disposition of this case in any court.

WITNESS MY HAND this \_\_\_\_\_ day of January 2012.

  
Irene Delgado, CCR 253  
Expires: 12-31-2012