

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. 14875

APPLICATION OF ARMSTRONG ENERGY CORPORATION
FOR COMPULSORY POOLING,
ROOSEVELT COUNTY, NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

DOCKET NO. 21-12

BEFORE: RICHARD EZEANYIM, Hearing Officer
DAVID K. BROOKS, Legal Examiner

JULY 12, 2012

Santa Fe, New Mexico

8:35 AM

This matter came on for hearing before the
New Mexico Oil Conservation Division, RICHARD EZEANYIM,
Hearing Examiner, and DAVID K. BROOKS, Legal Examiner,
on THURSDAY, JULY 12, 2012, at the New Mexico Energy,
Minerals and Natural Resources Department, 1220 South
Street Francis Drive, Room 102, Santa Fe, New Mexico.

REPORTED BY: Lisa Reinicke
PAUL BACA PROFESSIONAL COURT REPORTERS
500 Fourth Street, NW, Suite 105
Albuquerque, NM 87102

A P P E A R A N C E S

For Armstrong Energy:

HINKLE HENSLEY SHANOR & MARTIN, LLP
 PO Box 2068
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 (505) 982-4554
 By: Gary W. Larson

I N D E X

PAGE

DIRECT EXAMINATION OF ROBERT H. WATSON
 By Mr. Larson

3

CERTIFICATE OF COMPLETION OF HEARING

14

EXHIBITS

MARKED/IDENTIFIED

1. Well Location and Acreage Dedication Plat

10

2. Mineral Interests

10

3. Working Interests

10

4. April 17, 2012 Letter to Mr. Nygaard

10

5. Authorization for Expenditure

10

6. May 21, 2012 Letter to Mr. Nygaard

10

7. June 7, 2012 Letter to Mr. Nygaard

10

1 MR. EXAMINER: Now we go to case number
2 14875, and this is the application of Armstrong Energy
3 Corporation for compulsory pooling, Roosevelt County.

4 Call for appearances.

5 MR. LARSON: Gary Larson of Hinkle, Hensley,
6 Shanor & Martin for Armstrong Energy. I have one
7 witness.

8 MR. EXAMINER: Any other appearances? Okay.
9 Mr. Larson, you may continue.

10 [Whereupon the witness was duly sworn.]

11 ROBERT H. WATSON, CPL

12 after having been first duly sworn under oath,
13 was questioned and testified as follows:

14 DIRECT EXAMINATION

15 BY MR. LARSON:

16 Q. Mr. Watson, will you please state your full name
17 for the record?

18 A. Robert H. Watson.

19 Q. And where do you reside?

20 A. Roswell, New Mexico.

21 Q. And by whom are you employed and in what
22 capacity?

23 A. I'm land manager with Armstrong Energy
24 Corporation.

25 Q. In Roswell?

1 A. In Roswell.

2 Q. Could you briefly summarize your educational and
3 oil and gas employment background?

4 A. Yes. I'm a '72 graduate of Texas Tech
5 University, and I've had approximately 35 years
6 experience in land work, oil and gas land work.

7 Q. And are you familiar with the land matters
8 pertaining to Armstrong's application in this case?

9 A. Yes, I am.

10 Q. Are you a registered professional landman?

11 A. Yes, I am a CPL.

12 Q. Have you previously testified at division
13 hearings?

14 A. Yes, I have.

15 Q. And did the Examiner qualify you as an expert in
16 land matters in that hearing?

17 A. Yes.

18 MR. LARSON: Mr. Examiner, I move that
19 Mr. Watson be qualified as an expert in land matters for
20 purposes of this case.

21 MR. EXAMINER: He is so qualified.

22 Q. (By Mr. Larson) Mr. Watson, would you please
23 identify Armstrong Exhibit Number 1?

24 A. Yes. This is the C102 well location and acreage
25 dedication plat for our Ruby Tuesday Number 1 Well.

1 Q. And what type of well will this be?

2 A. This well is going to be drilled a depth the 8300
3 feet to -- it's a vertical well to test Fusselman
4 formation.

5 Q. And will it be on standard 40-acre spacing?

6 A. Yes.

7 Q. And is it on an orthodox location?

8 A. Yes, it is orthodox.

9 Q. Could you next identify Exhibit Number 2?

10 A. Number 2 is a list of the mineral interest owners
11 under our southwest, northwest quarter there of
12 section 31, 5 south, 34 east, Roosevelt County.

13 Q. And was it your responsibility to identify all
14 the mineral interest owners identified in Exhibit 2?

15 A. Yes, initially we did do that. And then it's
16 been confirmed with a drilling title opinion.

17 Q. And how many of the mineral interest owners
18 identified in Exhibit 2 have leased their interest to
19 Armstrong Energy?

20 A. All except for the very last owner listed, which
21 is Thomas Max Nygaard.

22 Q. And he's a trustee of the trust?

23 A. Yes.

24 Q. Could you next identify Exhibit Number 3?

25 A. Number 3 is our list of working interest owners

1 that will be participating in this well.

2 Q. And how many of the working interest owners have
3 committed to the well?

4 A. All have committed to the well.

5 Q. Is that through a joint operating agreement?

6 A. Yes.

7 Q. And at least 30 days prior to Armstrong Energy
8 filing its application, did you attempt to obtain the
9 agreement of all the interest owners in participating
10 the Ruby Tuesday Number 1 Well?

11 A. Yes, we did.

12 Q. And as of today is Mr. Nygaard the only interest
13 owner that has not agreed to participate?

14 A. Yes, that's correct.

15 Q. And would you next identify Exhibit Number 4?

16 A. Number 4 is a letter dated April 17th that was
17 sent to Mr. Nygaard wherein we stated our intent to
18 drill a well on his mineral interest and we made an
19 offer to lease and also gave him the option to
20 participate in the well.

21 Q. And you prepared this letter?

22 A. Yes, I did.

23 Q. And did Mr. Nygaard receive it?

24 A. Yes. We have confirmation of his receipt.

25 Q. And did you enclose any documents with this

1 letter that's been marked as Exhibit 4?

2 A. Yes. An AFE was included with this well -- with
3 this letter.

4 Q. And could you next identify Exhibit Number 5?

5 A. Number 5 is our AFE for the Ruby Tuesday Number 1
6 Well for drilling and completion of that well.

7 Q. And who prepared the AFE?

8 A. This was prepared by our engineer Bruce Stubbs,
9 who is with Armstrong Energy Corporation.

10 Q. And after sending your letter on April 17th of
11 this year, did you or anyone else at Armstrong Energy
12 have additional communication with Mr. Nygaard?

13 A. Yes. I talked to him on several occasions in
14 following up on this letter, so we did have several
15 conversations.

16 Q. And could you next identify Exhibit Number 6?

17 A. Yes. Number 6 is another letter dated May 21st
18 that I prepared. And in this letter we furnished a copy
19 of an oil and gas lease form that he had requested. We
20 restated our offer to lease, and that's basically what
21 this letter covers.

22 Q. And did Mr. Nygaard receive this May 21st letter?

23 A. Yes. We have confirmation that he received it
24 via FedEx.

25 Q. And has Mr. Nygaard responded to you after

1 receiving this letter?

2 A. I followed up with another phone call, and I
3 think I talked to him within one time. But following
4 that I had no further communication with him or he did
5 not respond to messages that I had left.

6 Q. And he didn't respond in writing to you?

7 A. No response in writing at all.

8 Q. And did Mr. Nygaard receive personal notice of
9 the filing of the application in today's hearing?

10 A. Yes, he did. That was by letter dated June 7th.

11 Q. And did Mr. Nygaard receive that letter?

12 A. Yes. We have confirmation that he received that
13 via certified mail.

14 Q. And, in your opinion, has Armstrong Energy made a
15 good faith effort to obtain Mr. Nygaard's voluntary
16 joinder in the Ruby Tuesday Number 1 Well?

17 A. Yes, we have.

18 Q. And I'll refer you back now to Exhibit Number 5.
19 Does it identify the drilling and completion costs for
20 the Ruby Tuesday Number 1 Well?

21 A. Yes, it does.

22 Q. And in your experience are the well costs on the
23 AFE in line with the costs of other vertical wells that
24 Armstrong Energy has drilled to similar depths?

25 A. Yes, they are.

1 Q. And are the drilling costs the same as those set
2 out in the JOA?

3 A. Yes, they are.

4 Q. And will Armstrong Energy be the operator of the
5 Ruby Tuesday Number 1 Well?

6 A. Yes.

7 Q. And do you have a recommendation for the amounts
8 which Armstrong Energy should be paid for supervision
9 and administrative expenses?

10 A. Yes. Our drilling overhead rate is \$7,000 per
11 month and our producing overhead rate is \$700 per month.

12 Q. And are those rates consistent with other wells
13 that Armstrong Energy has drilled?

14 A. Yes, they are.

15 Q. And is Armstrong Energy requesting that the rates
16 for supervision and administration expenses be adjusted
17 periodically as provided by the COPAS accounting
18 procedure?

19 A. Yes.

20 Q. And does Armstrong Energy also seek a 200 percent
21 charge for risk of drilling and completing the Ruby
22 Tuesday Number 1 Well?

23 A. Yes, we do.

24 Q. And has Armstrong Energy scheduled a rig to
25 commence the drilling of the well?

1 A. Yes. We tentatively have a rig scheduled for
2 August 10th of this year.

3 Q. And would it benefit Armstrong Energy to receive
4 a division order in advance of the scheduled rig date?

5 A. Yes, it would.

6 MR. LARSON: At this point, Mr. Examiner, I
7 move the admission of Exhibits 1 through 7.

8 MR. EXAMINER: Exhibits 1 through 7 will be
9 admitted.

10 [Exhibits 1 through 7 admitted.]

11 MR. LARSON: That's all I have for
12 Mr. Watson.

13 MR. EXAMINER: Any questions?

14 EXAMINER BROOKS: Well, you have permission
15 from the restaurant franchise in order to use his name?

16 MR. LARSON: Or the Rolling Stones.

17 EXAMINER BROOKS: I don't have any
18 jurisdiction over trademark infringement cases anymore.
19 No other questions.

20 MR. EXAMINER: Okay. Then let's start with
21 the overhead costs. What is the depth of this well?

22 MR. WATSON: 8300 feet.

23 MR. EXAMINER: 8300 feet. Is it not somehow
24 too much if you go to that COPAS accounting. I don't
25 know, I mean, 7,000 and 700, is that normally what you

1 do?

2 MR. WATSON: Yes.

3 MR. EXAMINER: It's a vertical well.

4 MR. WATSON: That's in line with the
5 Earnston Young surveys that we try to go by. And, in
6 fact, those rates have been used on about five or six
7 previous wells that we have drilled in the same area.

8 MR. EXAMINER: At the same depth?

9 MR. WATSON: Yes, to the same depth.

10 MR. EXAMINER: What is the name of the pool
11 the well will be producing from?

12 MR. WATSON: The pool name, it looks like
13 it's the Tanny Hill Fusselman East.

14 MR. EXAMINER: Is it bound by any special
15 pool orders or --

16 MR. WATSON: I'm not aware of them, but I
17 don't know for sure.

18 MR. EXAMINER: Tanny Hill Fusselman East,
19 right?

20 MR. WATSON: Excuse me?

21 MR. EXAMINER: Tanny Hill Fusselman East.

22 MR. WATSON: Yes, Tanny Hill Fusselman East.

23 MR. EXAMINER: Okay. Do you have any idea
24 where that is?

25 MR. LARSON: I can't answer that question.

1 MR. EXAMINER: The well location is
2 standard. Do you have a physical location of the well?

3 MR. WATSON: Physical location?

4 MR. EXAMINER: Yeah. Do you have a physical
5 location of the well?

6 MR. WATSON: Yes, I have the footage, is
7 that what you need?

8 MR. EXAMINER: Yeah.

9 MR. WATSON: Okay. Yes, it's 2,256 feet
10 from the north line and 623 feet from the west line of
11 section 31, township 5 south, range 34 east.

12 MR. EXAMINER: Okay. 2256 and 623?

13 MR. WATSON: Uh-huh.

14 MR. EXAMINER: Do you have an API number?

15 MR. WATSON: API number is 30-041-20951.

16 MR. EXAMINER: Since you look at everybody
17 there will be no need for escrow requirement?

18 MR. WATSON: Excuse me?

19 MR. EXAMINER: There is no need for escrow
20 requirement because you looked at everybody?

21 MR. WATSON: Right.

22 MR. EXAMINER: Did you look at everybody?

23 MR. WATSON: Yes.

24 MR. EXAMINER: Okay. There will be no need
25 for escrow requirement; is that correct.

1 MR. LARSON: As far as I know that's
2 correct.

3 MR. EXAMINER: Okay. You may step down.

4 Case number 14875 will be taken under advisement.

5 [Case 14875 taken under 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. 14875
heard by me on [Signature]
Oil Conservation Division Examiner

REPORTER'S CERTIFICATE

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2
3 I, Lisa Reinicke, New Mexico Provisional
4 Reporter, License #P-405, working under the direction
5 and direct supervision of Paul Baca, New Mexico CCR
6 License #112, Official Court Reporter for the US
7 District Court, District of New Mexico, do hereby
8 certify 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 and
11 was reduced to printed form under my direct supervision.

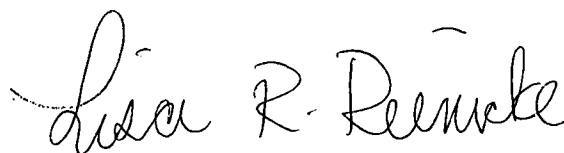
12 I FURTHER CERTIFY that I am neither employed by
13 nor related to any of the parties or attorneys in this
14 case and that I have no interest whatsoever in the final
15 disposition of this case in any court.

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