

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:

ORIGINAL

APPLICATION OF NADEL AND GUSSMAN HEYCO,  
LLC, FOR APPROVAL OF A NON-STANDARD OIL  
SPACING AND PRORATION UNIT AND COMPULSORY  
POOLING, EDDY COUNTY, NEW MEXICO

Case 14841

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

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

June 7, 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 Thursday, June 7, 2012, at the New Mexico Energy,  
Minerals and Natural Resources Department, 1220 South St.  
Francis Drive, Room 102, Santa Fe, New Mexico.

REPORTED BY: Jacqueline R. Lujan, CCR #91  
Paul Baca Professional Court Reporters  
500 Fourth Street, N.W., Suite 105  
Albuquerque, NM 87103 505-843-9241

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A P P E A R A N C E S

FOR THE APPLICANT:

JAMES BRUCE, ATTORNEY AT LAW  
P.O. Box 1056  
Santa Fe, New Mexico 87504  
(505)982-2043

WITNESSES:

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1 EXAMINER JONES: Let's go back on the  
2 record and call Case 14841, application of Nadel and  
3 Gussman Heyco, LLC, for approval of a non-standard oil  
4 spacing and proration unit and compulsory pooling in Eddy  
5 County, New Mexico. Call for appearances.

6 MR. BRUCE: Jim Bruce of Santa Fe  
7 representing the applicant. I have two witnesses.

8 EXAMINER JONES: Any other appearances?  
9 Will the witnesses please stand and state your  
10 names?

11 MR. BOOTH: Colby Booth.

12 MR. YAHNEY: Gordon Yahney.

13 (Two witnesses were sworn.)

14 COLBY BOOTH

15 Having been first duly sworn, testified as follows:

16 DIRECT EXAMINATION

17 BY MR. BRUCE:

18 Q. Would you please state your name and city of  
19 residence?

20 A. Colby Booth, Roswell, New Mexico.

21 Q. Who do work for and in what capacity?

22 A. I work for Nadel and Gussman Heyco, LLC. I am  
23 a landman.

24 Q. Have you previously testified before the  
25 Division?

1           A.     Yes, I have.

2           Q.     Were your credentials as an expert petroleum  
3 landman accepted as a matter of record?

4           A.     Yes, they were.

5           Q.     Does your area of responsibility include this  
6 area of Southeast New Mexico?

7           A.     Yes.

8           Q.     Are you familiar with the land matters  
9 involved in this case?

10          A.     Yes, I am.

11                   MR. BRUCE: Mr. Examiner, I tender  
12 Mr. Booth as an expert petroleum landman.

13                   EXAMINER JONES: He is so qualified.

14          Q.     (By Mr. Bruce) Mr. Booth, could you identify  
15 Exhibit 1 for the Examiner and discuss what Nadel and  
16 Gussman Heyco seeks in this case?

17          A.     Exhibit 1 is a Midland map plat that includes  
18 part of Township 18 South, Range 26 East. NGH -- I'll  
19 say NGH to shorten it from Nadel and Gussman Heyco. We  
20 go by NGH a lot.

21                   NGH seeks an order approving a nonstandard  
22 well unit comprised of the north half of the south half  
23 of Section 9, which is the yellow area there. We also  
24 seek to pool the northeast of the southeast from the  
25 surface to the base of the Glorieta-Yeso formation and

1 north half of the south half as to the Glorieta-Yeso  
2 formation.

3 Q. What is the name of the proposed well and what  
4 are the surface and bottomhole locations?

5 A. The well we're discussing today is the Iron  
6 Duke Well Number 2. It is a horizontal well with a  
7 surface location in the northeast to the southeast to the  
8 terminus in northeast of the southwest of Section 9.

9 Q. And the well will be at orthodox locations;  
10 correct?

11 A. That is correct, yes.

12 Q. What is the working interest ownership of the  
13 well unit? And I refer you to Exhibit 2.

14 A. Exhibit 2 lists the working interest owners in  
15 the well unit together with the percentage in mineral  
16 interests. I have the working interests in the left  
17 column, and what we'll usually do is go ahead and put  
18 their estimated costs in the right column with the  
19 completed well costs.

20 Q. Of these owners, who do you seek to force  
21 pool?

22 A. I've listed those on the second page of  
23 Exhibit 2, each name, company or individual. And I've  
24 also given a status-type situation with what's going on  
25 there.

1 Q. Some of these interest owners, for instance,  
2 Yates, you're currently waiting on a farmout. Once the  
3 people sign up, will you notify the Division that the  
4 people are no longer subject to pooling?

5 A. Yes, we will.

6 Q. What is Exhibit 3?

7 A. Exhibit 3 is a copy of the proposal letters  
8 that we sent out to our working interest owners.  
9 Generally, we'll do a cover letter like you see here,  
10 then I'll have a mailing list, as well, on that second  
11 page. Then also, we'll go ahead and do a working  
12 interest based on what we believe and their well costs  
13 based on that interest.

14 As can you see, the mailing list and the  
15 spreadsheet there are quite a bit smaller than the  
16 working interest sheet that you just saw on Exhibit 2,  
17 and we have tied up or leased a numerous amount of  
18 mineral owners in that area.

19 Q. Is title in this area difficult?

20 A. Extremely. This is all fee acreage in this  
21 160. It is -- I talked to my title attorney last week,  
22 and for the south half of this section, we had 15  
23 abstracts for that half, and it's just time consuming.  
24 And we are pretty happy with the amount that we have  
25 leased up to this point. We've done a considerable

1 amount of leasing here just based on records and talking  
2 from one family member to the next getting the  
3 information as to where so and so may be or if they're  
4 still alive. We've done pretty good in that aspect.

5 Q. How long have you been working at leasing or  
6 getting people to join in the well?

7 A. Probably say -- there was leasing done prior  
8 to this, of course. That was probably a year and a half  
9 to two years ago, I believe.

10 Q. So you've been working on the prospect for  
11 quite some time?

12 A. Yes, that's correct.

13 Q. Are there unlocatable owners?

14 A. We've got three of those. One is Lita  
15 Gravatt. The other would be Sophia Navarette. And with  
16 Sophia, I actually have, through family contact with  
17 other owners in this well, have found out that she is  
18 deceased. And we are working with her heirs to tie them  
19 up and should have them tied up, I would say, within the  
20 next week or two.

21 And then there is the Josephine Garcia  
22 Revocable Trust, and we have not been able to locate  
23 them.

24 Q. What efforts did NGH take to locate the  
25 interest owners, not only these unlocatable parties but

1 all the interest owners?

2 A. We had a contract land person go out and check  
3 the county records and all those records dealing in that  
4 area. And they did a take-off, gave us addresses of  
5 record. And we, at that point -- two years ago, I  
6 believe, they sent out lease offers. And at that point,  
7 back when we mailed this out in March, for those that we  
8 had not leased up, sent out proposal letters to see if  
9 they would participate or lease to us at that point.

10 Q. You already mentioned that you talked to  
11 family members to locate people within certain families?

12 A. Yes. In the southeast quarter of this  
13 section, there was quite a bit of family members in that  
14 area, and we were able to -- I would say probably five or  
15 six of those we tied up real quickly because of people  
16 knowing people or a family member situation.

17 Q. Did you also call people trying to track down  
18 the interest owners?

19 A. I'm sorry?

20 Q. Did you call other related entities to try and  
21 track down these people?

22 A. No. Because what I was able to get from them  
23 was addresses that were good, and I was able to actually  
24 get leases under those circumstances.

25 Q. So only a couple of bad addresses.



1 Did you also check -- do an Internet search to  
2 further locate people?

3 A. Yes. We did a Google-type search and tried to  
4 find addresses through Dex online or white pages.

5 Q. In your opinion, has NGH made a good-faith  
6 effort to obtain the voluntary joinder of the interest  
7 owners in the well unit?

8 A. Yes.

9 Q. Could you identify Exhibit 4 and discuss the  
10 cost of the proposed well?

11 A. Exhibit 4 is the AFE for this particular well.  
12 The well has an estimated dry hole cost of \$1,422,038 and  
13 a completed well cost of \$3,136,846.

14 Q. Are those costs in line with the costs of  
15 other horizontal wells drilled to this depth in this area  
16 of New Mexico?

17 A. Yes, they are.

18 Q. Do you request that NGH be appointed operator  
19 of the well?

20 A. Yes.

21 Q. What is your recommendation as to the overhead  
22 rates?

23 A. We are requesting \$5,500 a month allowed for  
24 the drilling of the well and \$550 a month be allowed for  
25 the producing well rate.

1 Q. Are those amounts equivalent to those charged  
2 by other operators in this area for wells of this depth?

3 A. Yes. And that is the charges I've been using  
4 for the prior wells.

5 Q. Do you request that the overhead rates be  
6 adjusted periodically as provided by the COPAS accounting  
7 procedures?

8 A. Yes.

9 Q. Do you request a 200 percent risk charge be  
10 assessed against any nonconsenting interest owner?

11 A. Yes, we do.

12 Q. Were the locatable parties notified of this  
13 hearing by Certified Mail?

14 A. Yes. That is affirmed in Exhibit 5.

15 Q. Was notice published as to the unlocatable  
16 parties?

17 A. Yes. Exhibit 6 shows where that was published  
18 in, I believe, the Carlsbad newspaper.

19 Q. What is Exhibit 7?

20 A. Exhibit 7 is all the offsets to the  
21 non-standard well unit and unorthodox location.

22 Q. Was notice given to these parties?

23 A. Yes.

24 Q. Is that reflected in Exhibit 8?

25 A. Yes, it is.

1 Q. In your opinion, is the granting of this  
2 application in the interest of conservation and the  
3 prevention of waste?

4 A. Yes, I do believe that.

5 Q. Were Exhibits 1 through 8 prepared by you or  
6 under your supervision or compiled from company business  
7 records?

8 A. Yes, they were.

9 MR. BRUCE: Mr. Examiner, I move the  
10 admission of Exhibits 1 through 8.

11 EXAMINER JONES: Exhibits 1 through 8 will  
12 be admitted.

13 (Exhibits 1 through 8 were admitted.)

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

16 EXAMINATION

17 BY EXAMINER JONES:

18 Q. Are any people being scared off by the  
19 drilling costs when you go to talk to them about signing  
20 up for the well?

21 A. Yes and no. I had a few that were kind of  
22 gung ho about wanting to participate, then when asked  
23 what the dollar figure was, I explained to them, and they  
24 said, "Well" -- one made the comment, "Do you just  
25 basically pay for my share and then give me money once

1 payout occurs?" I said, "No, that's not how it works."

2 But we did do a lease after that point.

3 EXAMINER JONES: \$17,000 per day shows on  
4 here. That's almost three times as much as I remember.

5 The notice to the offsets, that is still  
6 required according to the horizontal well rule?

7 EXAMINER BROOKS: Yes. Well, it's not  
8 required by the rule, but it's required by our director.

9 EXAMINER JONES: Okay.

10 MR. BRUCE: That battle has been fought  
11 and lost, Mr. Examiner.

12 EXAMINER JONES: I just wanted to make  
13 sure. David was almost not here today, so --

14 Q. (By Examiner Jones) And no API number yet?

15 A. I do not have that with me.

16 Q. If you don't have it, that's --

17 A. Our geologist may have it.

18 Q. But if it's all fee, that means it's  
19 probably -- it's not exactly a federal well or anything  
20 like that.

21 Is Nadel and Gussman Heyco merged now totally,  
22 or is this just a joint venture?

23 A. It is a joint venture with Nadel and Gussman  
24 Permian out of Midland, and I'm involved with the Harvey  
25 Yates company office.

1 Q. But it encompasses like all of New Mexico?

2 A. Yeah. There's API situations and whatnot.

3 But I do have an API number here. It is  
4 30-015-39761.

5 Q. Okay. Is there any potash involved in this  
6 area?

7 A. No.

8 EXAMINER JONES: David?

9 EXAMINATION

10 BY EXAMINER BROOKS:

11 Q. Well, first, just a question out of curiosity,  
12 if you happen to know, who is the Iron Duke? I've seen  
13 literary references to Iron Duke previously, and I always  
14 tended to assume it probably meant the Duke of  
15 Wellington. But it was well enough known to the readers  
16 at the time that those books were written that it wasn't  
17 necessary to explain.

18 Anyway, that aside, this is -- you want to  
19 drill to the Yeso?

20 A. Yes, sir.

21 Q. And you're also asking for a 40-acre unit for  
22 the vertical hole from the surface to the base of the  
23 Yeso?

24 A. That is correct.

25 Q. Is there any difference in ownership between

1 formations in this?

2 A. Not in this case, no, sir.

3 Q. So through that vertical interval, it's going  
4 to be the same -- well, it's not going to be the same  
5 owners as the horizontal portion, I wouldn't think,  
6 because the horizontal portions are going to include  
7 other --

8 A. That is correct.

9 Q. So as far as the vertical -- the units that  
10 would be included in the vertical hole, there would be a  
11 different ownership from the horizontal?

12 A. That is correct.

13 Q. Now, would it be safe to assume that you have  
14 no definite plans to complete uphole?

15 A. As of right now, that is not the plan.

16 Q. It's basically just a bail-out situation?

17 A. That's correct.

18 Q. Do you have any bail-out zones in mind?

19 A. I probably wouldn't be the one to answer that  
20 question.

21 EXAMINER BROOKS: In a situation like  
22 that, if we were to grant this application, it would seem  
23 reasonable -- we've often done this without putting in  
24 any provision about costs, but that seems not to be, from  
25 a regulatory point, totally responsible. So I think our

1 present policy would be if we granted this, to put in  
2 some provision.

3 And where there is not any particular  
4 contemplation of an uphole completion, what we would  
5 normally supply in that case would be to say that all  
6 costs will be paid by owners of the 160-acre unit, unless  
7 there actually is an uphole completion, in which case the  
8 completion costs only would be paid by the owners of the  
9 shallower zone. Would that be something that you would  
10 consider to be a reasonable provision?

11 MR. BRUCE: I think people have agreed to  
12 that in the past, Mr. Examiner.

13 EXAMINER BROOKS: Yes, I think that's  
14 true. I think that's all I have.

15 EXAMINER JONES: The base of the Yeso, is  
16 there a depth on that, or is that -- do you just want  
17 that language in there? Because depending on where  
18 you're at, I guess there's four members of the Yeso.  
19 Until Gordon gets up here, we don't know?

20 A. Gordon is probably going to be better at  
21 answering that question than myself. At this point, yes,  
22 that's what we're requesting is to the base.

23 EXAMINER JONES: Just say base? Okay.  
24 Thank you.

25

1 GORDON YAHNEY

2 Having been first duly sworn, testified as follows:

3 DIRECT EXAMINATION

4 MR. BRUCE:

5 Q. Mr. Yahney, where do you reside?

6 A. I reside in Roswell, New Mexico.

7 Q. Who do you work for?

8 A. I work for Nadel and Gussman Heyco.

9 Q. And what is your job with them?

10 A. I am a geologist.

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

13 A. Yes, I have.

14 Q. Were your credentials as an expert petroleum  
15 geologist accepted as a matter of record?

16 A. Yes, they were.

17 Q. Are you familiar with the geology involved in  
18 this case?

19 A. Yes, I am.

20 MR. BRUCE: Mr. Examiner, I tender  
21 Mr. Yahney as an expert petroleum geologist.

22 EXAMINER JONES: He is so qualified.

23 Q. (By Mr. Bruce) Mr. Yahney, could you identify  
24 Exhibit 9 for the Examiners?

25 A. Exhibit 9 is a base map that I prepared for



1 the immediate area of the proposal. It shows the Section  
2 9 acreage block that we have. It also shows with the  
3 label Iron Duke Number 2H, proposed horizontal surface  
4 location in the northeast of the southeast, going west,  
5 to a bottomhole location in the northwest of the  
6 southwest.

7 Also on this base map is a cross-section  
8 labeled AP prime, a map view of the layout of that  
9 cross-section that will be one of the later exhibits.

10 Oil production here is posted on this  
11 particular base map, with a bubble of the oil production  
12 listed there. All the production to the east of the area  
13 is from the San Andres. It's part of the Atoka-San  
14 Andres Unit which is operated currently by Lime Rock.

15 Q. And looking at Exhibits 9 and 10 together,  
16 they're pretty similar, but one is a structure map; is  
17 that correct?

18 A. Right. Exhibit Number 10 is a structure map  
19 that's been prepared on the top of the Glorieta, so it  
20 would be just above the Yeso, and is a good regional  
21 structure marker for the area.

22 Regional dip is to the east and locally, a  
23 little bit to the northeast. You are roughly at the  
24 shelf edge or slightly behind the shelf edge for the  
25 Lanardia carbonate sequence of the Permian Basin.

1 Q. What is Exhibit 11?

2 A. Exhibit 11 is an isopach map of the porosity  
3 development within a certain interval in the upper part  
4 of the Yeso. This interval is our target kind of package  
5 of rock.

6 It shows an isopach thick there that's kind of  
7 east/west oriented. And for the location there of the  
8 2H, it shows that the rock to be encountered by the  
9 horizontal will be roughly equivalent through each of the  
10 proration units that will be encountered by the  
11 horizontal.

12 Q. Let's move on to your cross-section. What  
13 does that show?

14 A. The cross-section exhibit there, A prime  
15 there, runs east/west slightly south of the proposed well  
16 path, the trajectory of the horizontal. It shows the  
17 Glorieta mapping marker, the top of the Yeso, and the  
18 mapped interval there, the porosity developed within the  
19 target package. It's got kind of a little schematic  
20 there of the proposed well path of the Iron Duke 2H.

21 Q. Is the bottom of the red shaded area, is that  
22 the base of the Yeso?

23 A. That is not the base of the Yeso. That is  
24 just a marker within the upper part of the Yeso. The  
25 base of the Yeso in this area is about 1,000 foot below

1 the bottom of the cross-section.

2 This well is set up with a pilot proposed, so  
3 we will be drilling below what you see here on the  
4 cross-section in the pilot hole to get an evaluation of  
5 this section and sidewall cores, logging package, to help  
6 us further develop the acreage position that we have.

7 Q. Is the target package continuous across the  
8 proposed non-standard well unit?

9 A. Yes, it is.

10 Q. Would you expect that each quarter/quarter  
11 section will contribute more or less equally to  
12 production?

13 A. I do in this case.

14 Q. Will the horizontal wellbore adequately and  
15 efficiently drain this particular zone within the Yeso?

16 A. I think it will.

17 Q. Would you move on to Exhibit 13 and just  
18 discuss briefly for the Examiner how NGH intends to drill  
19 and complete the well?

20 A. Okay. Exhibit 13 is a horizontal worksheet  
21 that I prepared. It details the drilling plan here, and  
22 it corresponds quite closely to what you saw on the  
23 cross-section there.

24 We expect to kick off our horizontal from the  
25 pilot hole somewhere at 2,150 or above and then achieve a

1 true vertical depth at the heel of about 2,720 to 2,725,  
2 somewhere in there, and drill slightly up dip in a  
3 westerly fashion following this target package as it goes  
4 up dip.

5 The completion for this horizontal is expected  
6 to be a multi-stage hydraulic packer system. It will be  
7 quite similar to the completion that we recently did  
8 on the Rock Island Number 2H. That means that we will  
9 have somewhere probably between 17 to 20 stages across  
10 that, up to 20 stages.

11 We would put a total fluid of probably  
12 somewhere around two and a half million gallons and prop  
13 that with somewhere between 750,000 and a million pounds  
14 of sand.

15 Q. And the Rock Island well that you mentioned is  
16 a little bit less than a mile to the south of Section 16?

17 A. That is correct.

18 Q. In your opinion, is the granting of this  
19 application in the interest of conservation and the  
20 prevention of waste?

21 A. Yes, it is.

22 Q. And were Exhibits 9 through 12 prepared by you  
23 or under your supervision?

24 A. 9 through 13.

25 Q. 9 through 13.

1           A.     Yes.

2                   MR. BRUCE:  Mr. Examiner, I move the  
3   admission of Exhibits 9 through 13.

4                   EXAMINER JONES:  Exhibits 9 through 13  
5   will be admitted.

6                   (Exhibits 9 through 13 were admitted.)

7                   MR. BRUCE:  I have no further questions of  
8   the witness.

9                                   EXAMINATION

10   BY EXAMINER JONES:

11           Q.     Is this still in the Paddock, the target?

12           A.     Target package there, if there is a  
13   designation for the Paddock in this area, which I don't  
14   know that there really is, but yes, it would be in the  
15   Paddock, to my knowledge, anyway.

16           Q.     And I guess I'm having a little trouble  
17   visualizing where this is in Eddy County.  You said it's  
18   on -- the edge of the shelf is on the Delaware Basin edge  
19   of the shelf?

20           A.     Right.  It's just on the map there.  Yeso and  
21   the Glorieta continue for another mile or two -- probably  
22   more than that -- three to five miles to the south, and  
23   then you get into the slope faces and then it transitions  
24   into the Bone Spring.

25           Q.     So you're going to drill west, and that's

1 going to be updip?

2 A. Yes, it will be updip. The trajectory is  
3 going to climb between 50 and 70 feet as it goes up to  
4 the west.

5 Q. The pilot hole, how deep will that be drilled?

6 A. It's scheduled for 3,000 feet.

7 Q. 3,000 feet? So it may not quite penetrate the  
8 base of the Yeso?

9 A. That is correct.

10 Q. But you want to pool to the base of the Yeso?

11 A. That's our objective, yes.

12 EXAMINER JONES: I don't have any more  
13 questions.

14 EXAMINER BROOKS: No questions.

15 MR. BRUCE: Nothing further.

16 EXAMINER JONES: We'll take Case 14841  
17 under advisement.

18 \* \* \*

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

23 \_\_\_\_\_, Examiner  
24 Oil Conservation Division  
25

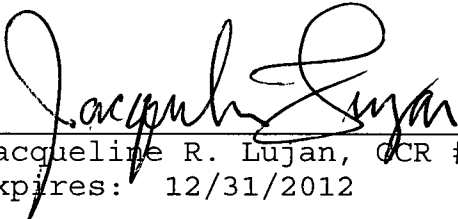
## REPORTER'S CERTIFICATE

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I, JACQUELINE R. LUJAN, New Mexico CCR #91, DO  
HEREBY CERTIFY that on June 7, 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 19th day of June, 2012.

  
Jacqueline R. Lujan, CCR #91  
Expires: 12/31/2012