

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

5 APPLICATION OF CML EXPLORATION, LLC
6 FOR A NONSTANDARD OIL SPACING AND
7 PRORATION UNIT, UNORTHODOX OIL WELL
8 LOCATION, AND COMPULSORY POOLING,
9 LEA COUNTY, NEW MEXICO.

CASE NO. 15008

ORIGINAL

10 REPORTER'S TRANSCRIPT OF PROCEEDINGS
11 EXAMINER HEARING

12
13 BEFORE: DAVID K. BROOKS, CHIEF EXAMINER
14 RICHARD EZEANYIM, TECHNICAL EXAMINER

15 June 27, 2013

16 Santa Fe, New Mexico

17
18 This matter came on for hearing before the
19 New Mexico Oil Conservation Division, David K. Brooks,
20 Chief Examiner, and Richard Ezeanyim, Technical
21 Examiner, on Thursday, June 27, 2013, at the New Mexico
22 Energy, Minerals and Natural Resources Department, 1220
23 South St. Francis Drive, Porter Hall, Room 102, Santa
24 Fe, New Mexico.

25 REPORTED BY: Mary C. Hankins, CCR, RPR
New Mexico CCR #20
Paul Baca Professional Court Reporters
500 4th Street, Northwest, Suite 105
Albuquerque, New Mexico 87102

RECEIVED OGD
2013 JUL 16 P 1:27

1 APPEARANCES

2 FOR APPLICANT CML EXPLORATION, LLC:

3 JAMES G. BRUCE, ESQ.
 4 Post Office Box 1056
 5 Santa Fe, New Mexico 87504
 (505) 982-2043
 jamesbruc@aol.com

6

7 INDEX

| | PAGE |
|---|------|
| 8 Case Number 15008 Called | 3 |
| 9 CML Exploration, LLC's Case-in-Chief: | |
| 10 Witnesses: | |
| 11 Joe Fitzgerald: | |
| 12 Direct Examination by Mr. Bruce | 4 |
| Cross-Examination by Examiner Brooks | 12 |
| 13 Cross-Examination by Examiner Ezeanyim | 14 |
| 14 Steven Fekete: | |
| 15 Direct Examination by Mr. Bruce | 18 |
| Cross-Examination by Examiner Brooks | 25 |
| 16 Cross-Examination by Examiner Ezeanyim | 27 |
| 17 Proceedings Conclude | 31 |
| 18 Certificate of Court Reporter | 32 |

19

20

21 EXHIBITS OFFERED AND ADMITTED

| | |
|--|----|
| 22 CML Exploration Exhibit Numbers 1 through 6 | 11 |
| CML Exploration Exhibit Numbers 7 through 10 | 25 |

23

24

25

1 (9:53 a.m.)

2 EXAMINER BROOKS: At this time, we'll call
3 Case Number 15008, application of CML Exploration, LLC
4 for a nonstandard oil spacing and proration unit,
5 unorthodox well location, and compulsory pooling, Lea
6 County, New Mexico.

7 Call for appearances.

8 MR. BRUCE: Mr. Examiner, Jim Bruce of
9 Santa Fe for CML Exploration, LLC, and I have two
10 witnesses.

11 EXAMINER BROOKS: Would the witnesses stand
12 and identify themselves, please?

13 MR. FITZGERALD: Joe Fitzgerald.

14 MR. FEKETE: Steven Fekete.

15 EXAMINER BROOKS: I'm sorry?

16 MR. FEKETE: Steven Fekete. I have my card
17 on me.

18 EXAMINER BROOKS: Okay. I was going to
19 say, I have no idea how to spell that.

20 MR. FEKETE: F-E-K-E-T-E.

21 EXAMINER EZEANYIM: Are you associated with
22 Fekete?

23 MR. FEKETE: No.

24 EXAMINER EZEANYIM: But it's the same name!

25 MR. FEKETE: Yes, it is the same name.

1 EXAMINER BROOKS: Would the court reporter
2 swear the witnesses?

3 (Mr. Fitzgerald and Mr. Fekete sworn.)

4 EXAMINER BROOKS: Okay. You may proceed,
5 Mr. Bruce.

6 JOE FITZGERALD,
7 after having been first duly sworn under oath, was
8 questioned and testified as follows:

9 DIRECT EXAMINATION

10 BY MR. BRUCE:

11 Q. Will you please state your name and city of
12 residence?

13 A. Joe Fitzgerald, Midland, Texas.

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

15 A. I work for CML Exploration, land manager.

16 Q. Have you previously testified before the
17 Division?

18 A. Yes.

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

21 A. Yes.

22 Q. Does your area of responsibility at CML include
23 this portion of southwest New Mexico?

24 A. Yes.

25 Q. And are you familiar with the land matters

1 involved in this case?

2 A. Yes.

3 MR. BRUCE: Mr. Examiner, I tender Mr.
4 Fitzgerald as an expert petroleum landman.

5 EXAMINER BROOKS: So qualified.

6 Q. (BY MR. BRUCE) Mr. Fitzgerald, would you
7 identify Exhibit 1 and briefly describe what CML seeks
8 in this case?

9 A. Exhibit 1 is our Form C-102 for our Harris #1
10 well, located 1353 from the south line and 1570 from the
11 east line of Section 8, Township 10 South, Range 38
12 East. CML seeks an order approving 80-acre nonstandard
13 oil spacing unit comprising the east half-southwest
14 quarter of Section 8. We also seek to pool the unleased
15 mineral interest in the nonstandard unit from the
16 surface to the base of the Devonian.

17 Q. And what is the primary target of this well?

18 A. Devonian.

19 Q. And will this be a vertical well?

20 A. Yes.

21 Q. What is the spacing in the Devonian Formation?

22 A. It's wildcat, 40 acres, and no closer than 330
23 to the quarter-quarter line. The nearest pool is the
24 South Sawyer Devonian pool.

25 Q. Does CML have a technical witness to discuss

1 the reasons for the unorthodox location and nonstandard
2 unit?

3 A. Yes. Of course, the reason is -- we're asking
4 for the larger unit because we believe it will drain the
5 80-acre.

6 Q. What is the -- who do you seek to pool, and I
7 refer you to Exhibit 2?

8 A. Everyone on Exhibit 2 are the unleased mineral
9 owners in the south half-south half of Section 8. The
10 south half of Section 8 is comprised of two tracts. The
11 north half of the south half is common, and the south
12 half of the south half is common. We have all of the
13 north half of the north half leased.

14 Q. North half of the south half?

15 A. Excuse me. The north half of the south half
16 leased, and we have approximately 66 percent of the
17 south half of the south half leased.

18 Q. And everyone who is being pooled today is in
19 the south half of the south half?

20 A. Yes.

21 Q. What is Exhibit 3?

22 A. Exhibit 3 is the letter I sent to the unleased
23 mineral owners proposing our well.

24 Q. Is this the only contact CML had with the
25 mineral owners?

1 A. No. We originally started -- we had a record
2 check done back in September of 2012, hired an
3 independent group to do that for us, and they made
4 contacts on our behalf; searched -- of course, searched
5 the county records, searched Internet records, searched
6 phone records. They made the initial contacts via phone
7 and mail and did the initial leasing.

8 Q. And these are all unleased mineral owners,
9 correct?

10 A. Yes.

11 Q. And the first half of the year or so of
12 contacts was trying to contact them and get them to sign
13 oil and gas leases?

14 A. Yes.

15 Q. Do leases continue to come in?

16 A. Yes. And, in fact, the last few weeks, we've
17 had about six more leases come in.

18 Q. And are you continuing to negotiate with the
19 parties, and will you do so after the hearing?

20 A. Yes.

21 Q. Are there unlocatable mineral interest owners?

22 A. Yes. As indicated on Exhibit 2, yes, there
23 are.

24 Q. And, again, could you reiterate what attempts
25 were made to locate the interest owners?

1 A. Sure. That first group, you know, we made
2 attempts. Since then, I have made attempts, and I've
3 also hired another landman out of Roswell to make
4 attempts. We obviously used the county records, and
5 then we also used the Internet as best we could. We've
6 also used all the phone book records. We also quizzed
7 the people that we did have leased if they knew any of
8 these folks, had any relationship with the folks or knew
9 their whereabouts.

10 Q. In your opinion, has CML made a good-faith
11 effort to obtain a voluntary joinder of the interest
12 owners in this well or to locate all interest owners?

13 A. Yes.

14 Q. Would you identify Exhibit 4 and discuss the
15 cost of the proposed well?

16 A. Exhibit 4 is our AFE. The estimated dry-hole
17 cost is \$2,384,350. The completed well cost is
18 \$3,481,561.

19 Q. And are these costs in line with the costs of
20 other wells drilled to this depth by CML in New Mexico?

21 A. Yes.

22 Q. Do you request that CML be appointed operator
23 of the well?

24 A. Yes.

25 Q. And do you have a recommendation for the

1 amounts which CML should be paid for supervision and
2 administrative expenses?

3 A. Yes. We'd ask for a drilling well rate of
4 \$10,000 per month and a producing well rate of \$1,000
5 per month.

6 Q. And is that the rate set forth in your JOA?

7 A. Yes.

8 Q. And has CML used those rates on other Devonian
9 wells it has drilled in New Mexico?

10 A. Yes.

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

14 A. Yes.

15 Q. And do you request the maximum cost plus
16 200-percent risk charge in the event the parties go
17 nonconsent in the well?

18 A. Yes.

19 Q. Were the parties being pooled notified of this
20 hearing?

21 A. Yes, they were.

22 Q. Is that reflected in the Affidavit of Notice
23 submitted as Exhibit 5?

24 A. Yes.

25 Q. And what is Exhibit 6?

1 A. Exhibit 6 is the Affidavit of Publication from
2 the newspaper.

3 Q. And that's for the unlocatable parties?

4 A. Yes, sir.

5 Q. Now, in Exhibit 5, there were two people we did
6 not receive green cards from, a Terry Harper and a
7 Carolyn Clay. Has CML had actual contact with those
8 parties?

9 A. We've tried to contact them via phone and the
10 addresses we had, and nothing's been returned to us.

11 Q. So you have had contact with them?

12 A. They've apparently received our offers, but
13 they have not responded.

14 Q. But to the best of your knowledge, these
15 addresses are correct addresses?

16 A. Apparently.

17 Q. And were Exhibits 1 through 6 prepared by you
18 or under your supervision or compiled from company
19 business records?

20 A. Yes.

21 Q. And will the granting of this application
22 prevent waste and protect correlative rights?

23 A. Yes.

24 MR. BRUCE: Mr. Examiner, I'd move the
25 admission of Exhibits 1 through 6.

1 EXAMINER BROOKS: Exhibits 1 through 6 are
2 admitted.

3 (CML Exploration Exhibit Numbers 1 through
4 6 were offered and admitted into evidence.)

5 MR. BRUCE: No other questions.

6 EXAMINER BROOKS: Well, Mr. Fitzgerald,
7 there is a long-time Midland family name Fitzgerald. Do
8 you belong to it?

9 THE WITNESS: I wished I was. He was a
10 judge? Are you talking about the judge, Fitzgerald?

11 EXAMINER BROOKS: I wasn't really aware --

12 THE WITNESS: There was a law firm,
13 Fitzgerald, Kerr & Fitzgerald --

14 EXAMINER BROOKS: Oh, yes.

15 THE WITNESS: -- and one of those gentleman
16 was a county judge, I believe.

17 EXAMINER BROOKS: I was not aware he was a
18 judge. Kerr, Fitzgerald & Kerr. And one member of that
19 family, back in the 1950s, resided at 1901 Hollowway
20 Avenue, and I was raised, as a child, at 1811 Hollowway
21 in Midland. So if you were related to that family, I
22 wanted to establish the connection. Anyway, you're not.

23 THE WITNESS: No, sir.

24 EXAMINER BROOKS: So I will proceed.

25

1 CROSS-EXAMINATION

2 BY EXAMINER BROOKS:

3 Q. You're seeking establishment of a nonstandard
4 proration unit; did you say?

5 A. Yes, sir.

6 Q. It's an 80-acre unit?

7 A. Yes, sir.

8 Q. And you said it's spaced on 40?

9 A. Yes, sir.

10 Q. And that's in the Devonian?

11 A. Yes, sir.

12 Q. Do you know what pool?

13 A. Yes. It was the South Sawyer pool.

14 Q. South Sawyer?

15 A. Let me double-check that. I had it written
16 down here. Yeah, South Sawyer Devonian pool.

17 EXAMINER EZEANYIM: How do you spell
18 Sawyer.

19 THE WITNESS: S-A-Y-E-R.

20 Q. (BY EXAMINER BROOKS) S-A-Y-E-R? Not
21 S-A-W-Y-E-R?

22 A. Excuse me. S-A-W-Y-E-R.

23 Q. I was going to say, that's the way you normally
24 spell Sawyer.

25 Okay. And you said you were requesting

1 pooling from the surface to the base of the Devonian?

2 A. Yes, sir.

3 Q. That's going to be a little bit confusing.

4 Because are you requesting a 40-acre unit to be pooled
5 from the surface to the top of the Devonian, or are you
6 requesting only pooling in the unit spaced on 80 acres?

7 A. We'd like it to be 80 acres from the surface to
8 the Devonian.

9 Q. Well, in order to get there, we've got to make
10 a case for a nonstandard unit for all the pools
11 involved, and normally nonstandard-unit cases are
12 geologic, and they're case specific.

13 MR. BRUCE: And, Mr. Examiner, we're happy
14 with just the Devonian.

15 EXAMINER BROOKS: Okay. Well, depending on
16 what case you put on, I think it would be -- if your
17 geologic case refers only to the Devonian, that's the
18 order we're going to end up issuing, because it would be
19 unusual there would be other formation spaced on 80 --

20 MR. BRUCE: I think our next witness will
21 discuss any secondary objectives, but that's far and
22 away the primary target, is the Devonian.

23 Q. (BY EXAMINER BROOKS) Okay. Now, I failed to
24 get your overhead rate.

25 A. It was \$10,000 drilling and \$1,000 producing.

1 Q. That is unusually high. Why?

2 A. That's what -- we operate a number of wells
3 near Maljamar at various depths in the Paddock, all the
4 way down to the -- we don't have a Devonian, all the way
5 down to the Marrow, and that's the rate we've been using
6 in that area.

7 Q. Okay. And people who have voluntarily joined
8 this unit have agreed to that?

9 A. Uh-huh.

10 Q. What depth is this?

11 A. 12,2.

12 Q. That is pretty deep.

13 A. Yeah. And with the COPAS increase rates the
14 last few years, I mean, that's why it's gotten so high.

15 Q. Yeah.

16 And this is all private minerals?

17 A. Yes, this is all fee.

18 Q. I think that's all I have.

19 CROSS-EXAMINATION

20 BY EXAMINER EZEANYIM:

21 Q. Okay. Let me start on the 10,000.

22 Of course, you know that I'm not really --
23 the Devonian has been very disappointing, but since you
24 are going there, going to the Devonian, I'm sure you
25 must have found something, you know. I use the Devonian

1 to dump -- but if you are going to find some oil there,
2 that would be wonderful.

3 However, that 10,000, you know, we have to
4 convince our director, because we make the
5 recommendations. And that 10,000 that the Examiner is
6 asking you about that you are requesting, why is this
7 10,000? Do you have that -- you know, something that
8 comes out where you got this information that you can
9 ensure us that at that depth -- because 12,5 is deep
10 or -- I don't know what you said. That is really deep,
11 because this overhead is dependent on depth.

12 A. Uh-huh.

13 Q. So is there anything you can give us to ensure
14 that there's really something there? We can incorporate
15 it into our recommendations. Because normally we might
16 be called or the Examiner will be called and asked why
17 these rates are high.

18 A. Right.

19 Q. Like you're asking now, she might be asking me
20 those questions. Is there anything we can get to make
21 sure when we make these recommendations to go -- so that
22 way --

23 A. You may recall that the accounting firms used
24 to put out a survey.

25 Q. Yes. Yes. I used to get that booklet. Do you

1 have that?

2 A. No. They don't -- we can't -- I haven't found
3 it in a number of years because the industry doesn't
4 give them their information like they used to. I
5 discussed this with our controller in our company, and
6 she -- these are the rates, you know, that she pulled
7 out of the records that we are charging in the Maljamar
8 area for these type depth wells, and we use that in our
9 operating agreement with our other partners. But,
10 anyway, that's the background I have to go by on this.
11 And I asked her the same question: Have you been able
12 to find that report that --

13 MS. CHAPPELLE: Ernst & Young.

14 A. Yeah, that Ernst & Young used to put out.

15 Q. (BY EXAMINER EZEANYIM) Yeah. Yeah. Do you
16 have that?

17 A. And she hasn't received it in the last two or
18 three years because nobody will -- nobody sends in their
19 information.

20 Q. Whoever did this, Ernst & Young -- I don't know
21 when it was, but when I read it, it looks like
22 New Mexico is different from Oklahoma, the way they
23 determine those things. And I'm just trying to protect
24 you by anything you can show to do that, because if I'm
25 asked or if the Examiner is asked, Why is this rate

1 high, or, Is this the normal, I don't know whether that
2 will suffice.

3 A. I think this is becoming pretty normal, if it
4 hasn't -- well, I think it has become normal. It may be
5 new, you know -- but the last few years of the COPAS
6 rate increases have been six and seven percent, I
7 believe, and it's just jumping up way up there. But at
8 this depth, 12,2 --

9 Q. Yeah.

10 A. -- I don't -- I don't really think it's that
11 unreasonable.

12 Q. Yeah, I agree with you, but, you know, I'm not
13 making any assumptions.

14 A. Sure.

15 Q. CML. You are now going to the Devonian.
16 That's impressive. So how long have you been in
17 New Mexico, just for my information? I'm not used to
18 seeing CML, you know.

19 A. Sure.

20 Q. But now you're going to the Devonian.

21 A. Sure.

22 Q. You must be a very big operator if you can do
23 that.

24 A. We operate about 25 wells in the Maljamar area
25 from the Paddock down to the Marrow. We've been in

1 business -- we used to be Patterson Petroleum.

2 Q. What?

3 A. We used to be Patterson Petroleum, who's been
4 around for 30-something years. In 2007, Patterson spun
5 us off as a separate little operating company, and so,
6 you know, our name changed in 2007.

7 Q. I mean, I'm not quarreling with you, but I
8 haven't seen a lot of operators go to the Devonian, and
9 I'd like to see if there is anything there. So I'm glad
10 you are doing that. That's good.

11 That's all I have.

12 EXAMINER BROOKS: Very good.

13 Witness may step down.

14 You may call your next witness.

15 STEVEN FEKETE,

16 after having been previously sworn under oath, was
17 questioned and testified as follows:

18 DIRECT EXAMINATION

19 BY MR. BRUCE:

20 Q. Would you please state your name; spell it for
21 the Hearing Examiners?

22 A. Steven Fekete, F-E-K-E-T-E, from Austin, Texas.

23 Q. And who do you work for?

24 A. I work for CML Exploration in Austin.

25 Q. What is your job with CML?

1 A. I'm a geologist, petroleum geologist.

2 Q. Have you previously testified before the
3 Division as a geologist?

4 A. No.

5 Q. Would you please summarize your education and
6 employment background for the Examiners?

7 A. I have a BS and MS in geology from the
8 University of Texas. I have 25 years of experience as a
9 petroleum geologist, the first 12 with ARCO, and the
10 last 10 with Patterson, which turned into CML
11 Exploration.

12 Q. Does your area of responsibility at CML include
13 this portion of the Permian Basin?

14 A. Yes.

15 Q. And are you familiar with the geologic matters
16 involved in this case?

17 A. Yes.

18 MR. BRUCE: Mr. Examiner, I'd tender the
19 admission of Mr. Fekete as an expert petroleum
20 geologist.

21 EXAMINER BROOKS: So qualified.

22 Q. (BY MR. BRUCE) Mr. Fekete, what is Exhibit 7?

23 A. Exhibit 7 is a locator map showing the proposed
24 location of the CML Harris #1 and some of the nearby
25 Devonian pool production.

1 Q. And could you then move on to Exhibit 8 and
2 discuss its contents?

3 EXAMINER EZEANYIM: Counselor, excuse me
4 just one minute.

5 All of these are produced from the
6 Devonian, right?

7 THE WITNESS: Right.

8 EXAMINER EZEANYIM: All these wells located
9 on Exhibit Number 7, right?

10 THE WITNESS: Yes.

11 EXAMINER EZEANYIM: You don't indicate the
12 operators on there?

13 THE WITNESS: No. Those are actual pools,
14 not individual wells, on most of them.

15 EXAMINER EZEANYIM: Oh, they're just pools
16 in the Devonian?

17 THE WITNESS: The cumulative production
18 numbers for those individual pools and the names of
19 those fields.

20 EXAMINER EZEANYIM: Okay. Now, what are
21 the cumulative? Those that have been produced from that
22 particular pool, those cumulative production, that's
23 what you put in there?

24 THE WITNESS: That is correct.

25 EXAMINER EZEANYIM: But you don't know the

1 names of the wells that are doing this?

2 THE WITNESS: No, I don't have specific
3 names on there.

4 EXAMINER EZEANYIM: That's interesting.
5 Go ahead.

6 Q. (BY MR. BRUCE) Move on to Exhibit 8,
7 Mr. Fekete.

8 A. Exhibit 8 is an intensified Devonian
9 Time-Structure Map in the area of CML Harris #1. This
10 map is based on 3D seismic data. Also shown on the map
11 is the 80-acre unit that we're requesting, and the
12 reason that we're requesting that, as well as the
13 unorthodox location, is that the highest point on the
14 structure shown on the map is just about right on the
15 line, between those the two 40-acre sections, the
16 northeast quarter of the southwest quarter and the
17 southeast quarter of the southwest quarter. And to most
18 efficiently and effectively and equitably drain this
19 structural feature, we feel like that's the ideal place
20 to place the well.

21 Q. You have the fault to the north of the well.
22 Will this reservoir be separate from the South Sawyer
23 pool, which is about a mile and a half north of this
24 well?

25 A. Yes, it will be.

1 Q. In your opinion, will each quarter-quarter
2 section in the well contribute to production?

3 A. Yes, it will.

4 Q. Now, on Exhibit 8, I see you've identified two
5 wells, one in Section 8 and one in Section 16?

6 A. Yes.

7 Q. Do you have some type logs in those wells to
8 submit as exhibits?

9 A. Yes, we do. Those are Exhibits 9 and 10.

10 Q. Could you run through those exhibits, please?

11 A. Yeah. Exhibit 9 is from the Rowan Simmons #1.
12 That's the well to the north -- north-northwest of our
13 proposed well location. And the main reason to show
14 this is just to show that we have -- likely have
15 Devonian reservoir. This is the resistivity log, the
16 only log available. This well was drilled in the early
17 '50s. But the low resistivity at the top of the
18 Devonian indicates likely porosity, and the DSD type --
19 just a bit of gas and water and drilling fluid.

20 Exhibit 10 is the well, the Exxon New
21 Mexico FM State #1, found out to the southeast of our
22 proposed location, and that has a more complete Devonian
23 section. That was drilled in '91, I believe. And,
24 again, this is a resistivity log. But these low
25 resistivity streaks you see throughout this section,

1 through all, pretty much, 400 feet of it, are
2 high-porosity zones. And we do have a poor-quality
3 resistivities log, but the log resistivity reached up to
4 14 percent. So we feel like there is ample evidence
5 that there is going to be good reservoir rock in the
6 vicinity. There is good reservoir-quality rock in the
7 area that we're drilling and that it covers both 40-acre
8 sections.

9 EXAMINER EZEANYIM: Is the top of the
10 Devonian at 12,000?

11 THE WITNESS: 12,021 in this -- in New
12 Mexico State well.

13 EXAMINER EZEANYIM: At the top of the
14 Devonian?

15 THE WITNESS: Yes, that is the top.

16 And the pay [sic] in the Devonian pools can
17 be anywhere from the very top of the dome all the way
18 down to three to four feet below the top.

19 Q. (BY MR. BRUCE) So is it important to have the
20 well drilled at the top of the Devonian structure?

21 A. Absolutely.

22 Q. And looking back at Exhibit 7 from these
23 exhibits, back to the locator map, what can you say
24 about the number of wells necessary to adequately drain
25 a Devonian reservoir?

1 A. Well, the two fields I feel like we can look at
2 here are the North Eckles [phonetic] field and the South
3 Crossroads field. And based on the number of wells and
4 the size of the structure, it looks like they're
5 draining 80-plus acres per well. And some of those
6 wells can be extremely prolific, producing 3- to 500,000
7 barrels for individual wells.

8 Q. And that is one reason for the 80-acre unit,
9 correct?

10 A. Yes, sir.

11 Q. And just by the mere location of the well, just
12 a few dozen feet from the quarter-quarter section line,
13 based on Devonian production characteristics, would you
14 anticipate that it will drain each quarter-quarter
15 section?

16 A. Yes, we would.

17 Q. And Mr. Fitzgerald gave information on the cost
18 of the -- total cost of a completed well, which is
19 about -- close to three-and-a-half million dollars. In
20 this situation, would it make any sense to place one
21 well in each quarter-quarter section?

22 A. I don't think it would, because I feel like we
23 could effectively drain both quarter-quarter sections.

24 Q. There's no need to spend 7 million drilling
25 wells in this area?

1 A. No, not at all.

2 Q. Were Exhibits 7 through 10 prepared by you or
3 under your direction?

4 A. Yes.

5 Q. And in your opinion, will the granting of this
6 application prevent waste and protect correlative
7 rights?

8 A. Yes.

9 MR. BRUCE: Mr. Examiner, I'd move the
10 admission of Exhibits 7 through 10.

11 EXAMINER BROOKS: 7 through 10 are
12 admitted.

13 (CML Exploration Exhibit Numbers 7 through
14 10 were offered and admitted into
15 evidence.)

16 MR. BRUCE: No further questions.

17 CROSS-EXAMINATION

18 BY EXAMINER BROOKS:

19 Q. I don't believe I fully picked up your -- I
20 probably wasn't listening adequately. But why is the
21 location encroaching toward the west line there?

22 A. Towards the west of those quarter-quarter
23 sections?

24 Q. Yes.

25 A. We want to drill on the very highest part of

1 the feature, and that --

2 Q. You think that's where it is?

3 A. -- that XY right there puts us at -- based on
4 our 3D seismic at the highest structural position, and
5 that's where we need to be to most effectively drain
6 this reservoir.

7 Q. Now, you indicated that, if I understood --
8 well, not you, the previous witness. If I understood
9 him correctly, he indicated that the ownership is
10 identical in the north half -- throughout the north
11 half-north half and throughout the south half-south
12 half?

13 A. That's correct.

14 MR. BRUCE: North half-south half is one
15 tract.

16 EXAMINER BROOKS: North half-south half.

17 MR. BRUCE: And then the south half-south
18 half is another tract.

19 EXAMINER BROOKS: So, in other words, while
20 you're encroaching, you're not encroaching on anybody.

21 MR. BRUCE: Yeah. They're not impairing
22 anybody's rights by encroaching.

23 EXAMINER BROOKS: I believe that's all I
24 have.

25 Mr. Ezeanyim?

1

2

CROSS-EXAMINATION

3

BY EXAMINER EZEANYIM:

4

Q. That's -- that's -- that's a good question. I

5

like you to drill on the most productive zone, and

6

that's why you have -- right?

7

A. That's correct.

8

Q. And then I thought I heard something by the

9

Examiner that there are no correlative-rights issues,

10

right?

11

A. That's correct.

12

Q. Okay. Good.

13

If you know -- you just answered that

14

question; maybe I wasn't listening to your -- to your

15

attorney. Your attorney asked you why you want to do an

16

80-acre. There are two reasons you gave. You know,

17

what are those reasons you want to do the 80-acre

18

spacing?

19

A. Okay. First of all, we feel that based on

20

other fields in the area, primarily the North Eckles

21

[phonetic] and the South Crossroads, that the reservoir

22

quality that we're going to encounter will enable us to

23

drain 80 acres. We're expecting good rock quality. And

24

we feel like if we only have to drill on 40, then it

25

will be on that north -- northern quarter-quarter

1 section, but we're convinced that we'd be draining a
2 good part of that southern quarter-quarter section. And
3 so that would not be equitable.

4 Q. Okay. In those ones that you think are
5 draining 80 acres, do you have any drilling calculations
6 to demonstrate, really, that drainage?

7 A. No. Basically, we have the size of the feature
8 from seismic and how many wells we drilled and how far
9 apart they were drilled, and, generally speaking, we
10 just came up with that number.

11 Q. 80 acres.

12 A. Yes.

13 Q. Of course, you are drilling 12,000 feet. You
14 don't want to drill a seven -- a seven-meter [sic] well,
15 like your attorney said.

16 A. That's correct.

17 Q. I don't want you to do that, but I wanted to
18 make sure that -- you know, that well will run the 80
19 acres before we approve that unit. If it's not 40 -- if
20 it's 40, you wouldn't be here. So what I'm saying is
21 that it's good if you could drain the 80 acres, but I
22 wanted to see if I can get any evidence, or you just
23 inferred from offset production that --

24 A. Right.

25 Q. -- you are going to drain 80 acres.

1 A. That's right.

2 Q. Why is it more important to drill at the top of
3 the Devonian?

4 A. In all likelihood, it's a waterdrive reservoir,
5 which means that the water is going to be pushing
6 whatever hydrocarbons we find in that area up to the
7 very highest point on the structure, and to effectively
8 drain that, we need to be at the very top.

9 Q. Does this have a gas cap?

10 A. We have not seen that.

11 Q. It's simply a water drive?

12 A. Yes. There might be some solution expansion
13 drive, but -- you know, some of these fluids [sic] do
14 indicate that there is a fair amount of --

15 Q. What county is this?

16 A. It's Lea County. It's the very northeastern
17 corner of Lea County. That dark line on Exhibit 7 is
18 the Texas-New Mexico border. Our engineers suggested
19 that it's, in all likelihood, water drive.

20 Q. Water drive. Okay. Good. That's all I have.

21 EXAMINER BROOKS: I have a question that's
22 probably -- well, I'll just ask it. Maybe counsel can
23 respond.

24 Do you have an API number for this well?

25 MR. BRUCE: I don't think the well has been

1 permitted yet, Mr. Examiner.

2 EXAMINER BROOKS: Okay. Thank you.

3 Do you have another witness, or is that
4 all?

5 MR. BRUCE: No. That's it. I do have a
6 couple of comments I'd like to make.

7 EXAMINER BROOKS: Okay. Very good. The
8 witness may step down, and you may make your comments.

9 MR. BRUCE: The only reason I'm making
10 comments in an uncontested case is simply, most
11 nonstandard units we see are horizontal wells.

12 EXAMINER BROOKS: Right.

13 MR. BRUCE: It's my position that under
14 70-2-18.C, under the Rutter & Wilbanks case, the
15 Division does have the authority to approve a
16 nonstandard unit in instances like this.

17 And the other reason we're asking for it
18 is, if they simply sought a 40-acre unit, I think it
19 would be pretty difficult to get approval for the
20 nonstandard location, being this close to another
21 separately owned tract.

22 EXAMINER BROOKS: Right.

23 MR. BRUCE: And, of course, this location
24 will protect the correlative rights of all interest
25 owners, and since they're only drilling one well rather

1 than two, it will prevent economic waste. And as a
2 result, we would request permission to form the
3 nonstandard unit.

4 EXAMINER BROOKS: Thank you.

5 If there is nothing further, then Case
6 Number 15006 will be taken under advisement -- I'm
7 sorry. 15008 will be taken under advisement.

8 (Case Number 15008 concludes, 10:25 a.m.)

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 15008
heard by me on June 27, 2013.
David K. Bragg, Examiner
Oil Conservation Division

1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO
3

4 CERTIFICATE OF COURT REPORTER

5 I, MARY C. HANKINS, New Mexico Certified
6 Court Reporter No. 20, and Registered Professional
7 Reporter, do hereby certify that I reported the
8 foregoing proceedings in stenographic shorthand and that
9 the foregoing pages are a true and correct transcript of
10 those proceedings that were reduced to printed form by
11 me to the best of my ability.

12 I FURTHER CERTIFY that the Reporter's
13 Record of the proceedings truly and accurately reflects
14 the exhibits, if any, offered by the respective parties.

15 I FURTHER CERTIFY that I am neither
16 employed by nor related to any of the parties or
17 attorneys in this case and that I have no interest in
18 the final disposition of this case.

19
20
21
22
23
24
25



MARY C. HANKINS, CCR, RPR
Paul Baca Court Reporters, Inc.
New Mexico CCR No. 20
Date of CCR Expiration: 12/31/2013