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2	FOR APPLICANT SM ENERGY COMPANY:	
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- (4:09 p.m.)
- 2 EXAMINER EZEANYIM: At this point, I call
- 3 Case Number 15018, application of SM Energy Company for
- 4 designation of a nonstandard oil spacing and proration
- 5 unit and for compulsory pooling, Eddy County, New
- 6 Mexico.
- 7 Call for appearances.
- 8 MR. HALL: Mr. Examiners, Scott Hall,
- 9 Montgomery & Andrews law firm here in Santa Fe,
- 10 appearing on behalf of SM Energy Company, and we have
- 11 two witnesses this afternoon.
- 12 EXAMINER EZEANYIM: Any other appearances?
- Okay. Will the two witnesses stand up to
- 14 be sworn, and state your names.
- MR. CASH: Wilson Cash, SM Energy Company.
- MR. DAVIS: Ben Davis, SM Energy Company.
- 17 (Mr. Cash and Mr. Davis sworn.)
- MR. HALL: We call Wilson Cash to the
- 19 stand.
- 20 WILSON CASH,
- 21 after having been previously sworn under oath, was
- 22 questioned and testified as follows:
- 23 DIRECT EXAMINATION
- 24 BY MR. HALL:
- Q. And for the record, please state your name.

- 1 A. Wilson Cash.
- Q. Mr. Cash, where do you live, and by whom are
- 3 you employed?
- 4 A. Midland, Texas; SM Energy Company.
- 5 Q. In what capacity?
- 6 EXAMINER EZEANYIM: How do you spell Cash?
- 7 Like money?
- THE WITNESS: C-A-S-H. Yes, like money,
- 9 C-A-S-H.
- 10 EXAMINER EZEANYIM: A lot of cash there.
- 11 THE WITNESS: Yes (laughter). Okay.
- 12 EXAMINER EZEANYIM: Okay. Good.
- Q. (BY MR. HALL) Mr. Cash, you've not testified
- 14 before the Division before. Will you give the Examiner
- 15 a brief summary of your educational background and work
- 16 experience?
- 17 A. I graduated from Texas Tech University in 2012.
- 18 I got my bachelor's in business administration, with a
- 19 double major in energy and commerce and finance. I've
- 20 been working for SM Energy for a little over a year, and
- 21 I've been working their acreage in southeast New Mexico
- 22 for that entire year.
- MR. HALL: We'd offer Mr. Cash as a
- 24 qualified expert in petroleum landman.
- 25 EXAMINER EZEANYIM: Accepted.

- Q. (BY MR. HALL) Mr. Cash, would you briefly tell
- 2 the Examiner what we're seeking by this application
- 3 today?
- 4 A. We seek an order to consolidate the 40-acre
- 5 spacing units within the north half of the north half of
- 6 Section 34, Township 19 South, Range 29 East in Eddy
- 7 County, New Mexico, and to designate the consolidated
- 8 units as 160-acre nonstandard spacing and proration unit
- 9 for a well location in the Bone Spring Formation.
- The interest will be dedicated to Osage 34
- 11 Federal #1H, to be drilled horizontally from a surface
- 12 location of the northeast-northeast quarter to a
- 13 bottom-hole location in the northwest-northwest quarter
- 14 to a depth to sufficiently test the Bone Spring
- 15 Formation in the Parkway Bone Spring pool.
- 16 SM Energy also seeks to recover the cost of
- 17 drilling and completing said well, to allocate to
- 18 recover those costs, as well as the actual operating
- 19 costs and charges for supervision. SM Energy seeks to
- 20 be designated as the operator and also seeks a charge
- 21 for the risk involved in drilling the well.
- Q. Let's look at Exhibit 1. Is that a compilation
- 23 of your C-102 and C-101 drilling permits for the well?
- A. Yes. The first page is the well location
- 25 acreage dedication plat. It shows our proposed

- 1 nonstandard spacing unit. It shows the bottom-hole
- 2 location, the surface location of the Osage 34 Federal
- 3 #1H, with the surface location being 450 feet from the
- 4 north line and 330 feet from the east line, and the
- 5 bottom-hole location being 330 feet from the north line
- 6 and 330 feet from the west line.
- 7 Q. And does the acreage plat also show the setback
- 8 for the producing area?
- 9 A. Yes, it does.
- 10 Q. What's the primary objective for the well?
- 11 A. It is the 2nd Bone Spring Sand of the Bone
- 12 Spring Formation.
- 13 Q. To be clear, you're seeking to force pool the
- 14 entire vertical extent of the Parkway Bone Spring pool;
- 15 is that right?
- 16 A. Yes, that's correct.
- 17 Q. And, again, if we look back at the acreage
- 18 dedication, your surface and bottom-hole locations are
- 19 at standard locations, correct?
- 20 A. Yes, that is correct.
- Q. And is the APD for the well approved?
- 22 A. Yes. It has been approved. It was approved on
- 23 June 24th of this year.
- Q. Let's turn to Exhibit 2, if you could explain
- 25 what that shows, please.

- 1 A. Exhibit 2; there are two different
- 2 spreadsheets. The first spreadsheet is showing the
- B working interest owners in the north half-north half of
- 4 Section 34, and it shows their acreage, their percentage
- 5 in that 160-acre working interest in the unit.
- And the second spreadsheet shows -- again,
- 7 it shows the same working interest owners, and it shows
- 8 their working interest in each 40-acre tract making up
- 9 the north half of the north half.
- 10 Q. Let me defer back to the first page of Exhibit
- 11 2. Would you identify for the Examiner which interests
- 12 you're seeking to pool?
- 13 A. The two parties we are seeking to pool is
- 14 DeVargas Street, LLC and Dean Kinsolving.
- Q. And today what percentage of the well is
- 16 committed?
- 17 A. 98.8 percent. The two parties we have not been
- able to reach voluntary agreements with make up 1.2
- 19 percent.
- Q. And is SM Energy seeking the position of a
- 21 200-percent risk penalty for the interest owners?
- 22 A. Yes, we are.
- Q. Let's turn to Exhibit 3. Is Exhibit 3 a
- 24 compilation of your communications with those interest
- 25 owners that you're seeking to force pool?

- 1 A. Yes. The first four pages are the well
- 2 proposal letters that we mailed out on May 13th, 2013 to
- 3 Dean Kinsolving and DeVargas Street. We also included
- 4 with these well proposals copies of the AFE, a copy of
- 5 the operating agreement and a copy of the memorandum of
- 6 operating agreement, along with extra signatory pages to
- 7 be returned.
- 8 Q. Go ahead.
- 9 A. I was just going to say that we also -- there
- 10 is a copy of the JOA, the cover page of the JOA and
- 11 Exhibit A of the JOA, that we sent out with the well
- 12 proposals.
- 13 Q. Let's first talk about the Kinsolving interest.
- 14 Just briefly summarize your efforts to obtain --
- 15 A. Well, I delivered this well proposal, along
- 16 with the AFE and operating agreement, the memo,
- 17 hand-delivered it to them, and we sat down and had a
- 18 30-minute conversation about the well. We've dealt with
- 19 Mr. Kinsolving in the past on previous wells, and he
- 20 made it known that he just wanted to reach some sort of
- 21 farm-out agreement or something along those lines,
- 22 assigning us his interest, with an option to participate
- 23 later on after payout.
- 24 And so then later on, when we started
- 25 getting close to this hearing, I sent him a couple of

- 1 other e-mails just attaching the -- I called him first,
- 2 and he was like, Well, can you send me copies of this
- 3 again; I seemed to have misplaced them; I want to take a
- 4 look.
- I sent him a couple of e-mails, because he
- 6 wasn't receiving my e-mails. So I sent him two separate
- 7 e-mails. They were all the same; I attached the AFE,
- 8 the operating agreement and the memo.
- 9 And then he made it known that he wasn't
- 10 sure if he wanted to do that or not, and he kind of was
- 11 having some issues with the farm-outs we had done with
- 12 him in the past. And so he's wanting to examine it
- 13 further, and he made it known that he did want to reach
- 14 an agreement with us prior to the compulsory pooling
- 15 hearing.
- 16 Q. And if we look at Exhibit 3, the last two
- 17 pages, there are some e-mail communications with Caroll
- 18 Follingstad. Who is that?
- 19 A. Caroll Follingstad, she's the one who signs all
- 20 the documents for DeVargas Street, LLC. She's in charge
- 21 of DeVargas Street, LLC.
- 22 Q. Did you also have some communications with her
- 23 counsel, John Catron, of the Catron law firm?
- 24 A. I didn't specifically talk to John, or
- 25 Mr. Catron. She kept asking me to forward documents to

- 1 him, but -- I talked to her at least a couple times a
- 2 week. She didn't have very much knowledge regarding oil
- 3 and gas. And what I was trying to let her know -- she
- 4 told me she couldn't afford to participate in the well,
- 5 so I spelled out her options. I said, You can either
- 6 wait and go nonconsent after the compulsory pooling
- 7 hearing; you can assign us your interest; you can assign
- 8 part of your interest and participate with part of your
- 9 interest, or, like I said, You can participate with all
- 10 of your interest. She made it known that she couldn't
- 11 participate with all of her interest.
- 12 And she kept asking me to send her another
- 13 farm-out, which we weren't wanting to do another
- 14 farm-out because her interest is subject to 25-percent
- 15 burdens. So if we did another farm-out, our
- 16 farm-outs -- the override is the difference between 25
- 17 percent and these extra burdens, so she wouldn't reserve
- 18 any override. And, therefore, we couldn't convert to an
- 19 after-payout working interest.
- 20 So I made that clear to her, but she
- 21 couldn't understand it, and she kept asking me to send
- 22 that agreement to John. And we kind of ran out of time,
- 23 still needing to work out some sort of agreement with
- 24 her or compulsory pool her.
- 25 Q. So as of today, you don't have a signed

- 1 agreement on behalf of DeVargas or Mr. Kinsolving?
- 2 A. No, I do not.
- 3 Q. In your opinion, Mr. Cash, have you made a
- 4 good-faith effort to try to obtain the voluntary
- 5 participation of those interest owners?
- 6 A. Yes, I have.
- 7 Q. Let's turn to Exhibit Number 4. Is that your
- 8 AFE for the well?
- 9 A. Yes. That is the AFE for the Osage 34 Federal
- 10 1H well. It shows the drilling and completing costs.
- 11 It shows the total dry-hole cost to be \$4,017,165, and
- 12 the total completed well cost to be \$6,515,585.
- Q. And are those costs in line with what's being
- 14 charged in the area for similar wells?
- 15 A. Yes, they are.
- 16 Q. And what are you seeking for drilling and
- 17 producing overhead rates?
- A. We're seeking \$8,500 per month drilling
- 19 overhead and \$850 producing overhead.
- 20 O. And are those overhead rates in line with what
- 21 you're seeing in the area?
- 22 A. Yes, they are.
- 23 Q. Are you recommending that these drilling and
- 24 producing overhead rates be incorporated into the order
- 25 that gets issued from this hearing?

- 1 A. Yes.
- Q. And are you asking that those rates be adjusted
- 3 in accordance with the COPAS accounting procedure?
- 4 A. Yes, I am.
- 5 O. Let's look to Exhibit 5. Does Exhibit 5
- 6 identify your offsetting interest owners?
- 7 A. Yes, it does.
- 8 Q. And were those interest owners notified of this
- 9 hearing?
- 10 A. Yes, they were.
- 11 Q. And did you receive any objection from those
- 12 offset operators?
- 13 A. No, I have not.
- Q. In your opinion, Mr. Cash, would granting SM's
- 15 application be in the interest of conservation, the
- 16 prevention of waste and the protection of correlative
- 17 rights?
- 18 A. Yes, I believe so.
- MR. HALL: At this point, Mr. Examiner, we
- 20 move the admission of Exhibits 1 through 5, along with
- 21 Exhibit 6, which is our notice affidavit for the land
- 22 side of the case.
- One final question for Mr. Cash.
- Q. (BY MR. HALL) When is the well scheduled to be
- 25 spud?

- 1 A. I believe it's scheduled to spud July 25th of
- 2 this year.
- MR. HALL: Nothing further of this witness,
- 4 Mr. Examiner.
- 5 EXAMINER EZEANYIM: Exhibits 1 through 6
- 6 will be admitted.
- 7 (SM Energy Exhibit Numbers 1 through 6
- 8 were offered and admitted into evidence.)
- 9 CROSS-EXAMINATION
- 10 BY EXAMINER EZEANYIM:
- 11 Q. What is happening on July 25th?
- 12 MR. HALL: Say again.
- 13 Q. (BY EXAMINER EZEANYIM) What is happening on
- 14 July 26th or 25th?
- 15 A. July 25th, the spud date for the Osage 34
- 16 Federal 1H.
- 0. What does that mean?
- 18 A. We're planning on beginning drilling.
- 19 O. What?
- 20 A. We're planning on beginning drilling the Osage
- 21 Federal 34 1H on July 25th.
- 22 Q. Well, you know why I'm asking that question.
- 23 You want to get your order before July 25th. That's two
- 24 weeks from today.
- MR. HALL: We'd be much obliged (laughter).

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EXAMINER EZEANYIM: What are you pooling on

25

- 1 that -- are you pooling from the surface to the Bone
- 2 Spring, or what?
- 3 MR. HALL: It's the entire vertical extent
- 4 of the Bone Spring within that pool, and the pool number
- 5 is 49622. It's in the advertisement.
- 6 EXAMINER EZEANYIM: Okay. Now, you have
- 7 two separate units to pool, one to pool on the vertical
- 8 side, and the horizontal side is one, right?
- 9 MR. HALL: We're just pooling the 160-acre
- 10 special project area within that pool.
- 11 EXAMINER EZEANYIM: But that
- 12 northeast-northeast, A, of that section?
- MR. HALL: Yes, A through D.
- 14 EXAMINER EZEANYIM: Are we considering Case
- 15 15018?
- MR. HALL: Yes, sir.
- 17 EXAMINER EZEANYIM: Now, what happened with
- 18 the northeast-northeast quarter of -- are you pooling on
- 19 that vertical section where the well is going to be
- 20 located?
- 21 MR. HALL: Yes, from the top of the pool to
- 22 the bottom of the pool, so the entirety of the Bone
- 23 Spring.
- 24 EXAMINER EZEANYIM: Oh, okay.
- 25 MR. HALL: We don't need to the surface.

- 1 employed with SM Energy as a geologist.
- 2 Q. And you have not previously testified before
- 3 the Division, have you?
- A. No, I have not.
- 5 Q. Let's give a brief summary of your educational
- 6 background and working experience, please.
- 7 A. I received an undergraduate degree at the
- 8 University of Utah in geology, a master's of science
- 9 degree in geology from the University of Texas at Austin
- 10 in 2007. I was employed with ConocoPhillips in Houston
- 11 for four years. Then on to the Gulf of Mexico, and I
- 12 have been working for SM Energy for about the other
- 13 three years. And for the last year and a half, I have
- 14 been working with the Permian Basin assets.
- 15 Q. And you're familiar with the application that's
- 16 been filed in this case and the lands that are subject
- 17 to the application, correct?
- 18 A. Yes, I am.
- 19 MR. HALL: At this point, Mr. Examiner,
- 20 we'd offer Mr. Davis as an expert petroleum geologist.
- 21 EXAMINER EZEANYIM: So qualified.
- 22 O. (BY MR. HALL) Let's look at Exhibit 7. Does
- 23 Exhibit 7, again, reflect the acreage dedication plat
- 24 for this well, along with a type log for the Bone Spring
- 25 Formation?

- 1 A. Yes, it does.
- Q. And by reference to this exhibit, can the
- 3 Hearing Examiner understand the vertical extent of the
- 4 pool that we're seeking to force pool?
- 5 A. Yes, they can.
- 6 Q. Let's look at Exhibit A. Would you identify
- 7 that, please?
- 8 A. This is a wellbore plat and drilling profile.
- 9 The top diagram with the -- is just a section from the
- 10 previous well acreage, and it's roughly to the same
- 11 scale of the horizontal projection.
- 12 What it's showing is that the surface-hole
- 13 location is well within the setback of 330 feet. It's
- 14 450 feet from the north line, 330 feet from the east
- 15 line. The bottom-hole location is to the west, and it
- 16 is 330 feet from the west line and 330 feet from the
- 17 north line. And the blue dash line represents that
- 18 330-foot setback.
- 19 Q. All right. Where we see the location for the
- 20 vertical segment of the well at 330 and 330, does the
- 21 vertical segment of the well intercept the Bone Spring
- 22 Formation at that same location?
- 23 A. The surface-hole location, yes, intercepts at
- 24 the 450, 330 locality, and it will intercept the Bone
- 25 Spring at that locality.

- 1 O. Now, can the completed interval of the well be
- 2 produced in conformity with the setbacks for this pool
- 3 in the project area?
- 4 A. Yes. All of the prorations in the producing
- 5 interval will be along the wellbore, and the wellbore is
- 6 entirely within the setback.
- 7 Q. Let's look at your geology exhibits, Exhibits 9
- 8 through 11. If you would explain those to the Hearing
- 9 Examiner and tell us why you believe that each of the
- 10 40-acre units comprising the project area appear to be
- 11 prospective for oil production?
- 12 A. Okay. Exhibit 9 is a 2nd Bone Spring
- 13 surrounding producer of our competitors, and some of
- 14 ours are shown in green. The orange dots are wells that
- 15 have been permitted and are either scheduled to be
- 16 drilled or have not yet been drilled. Shown in the text
- 17 boxes are initial production rates that we have from
- 18 public data, where we have taken a monthly average and
- 19 averaged it down to a day rate. And it shows that there
- 20 is production in and around the Osage 34 1H highlighted
- 21 by the green star. It's in a 360-degree area.
- 22 On Exhibit 10, it is a 2nd Bone Spring
- 23 structure map. It shows that there is a dip to the
- 24 east. The contour interval is 20 feet, so it's a very
- 25 tight contour interval. The proposed well is

- 1 highlighted red, with a red star, and the wells that are
- 2 highlighted with the blue line are wells we have drilled
- 3 to date in the 2nd Bone Spring Sand. So this is our
- 4 seventh well.
- 5 And what we're looking at and what it shows
- 6 is that there is no independent structure across the
- 7 wellbore that would indicate like a specific 40 -- or a
- 8 40-acre unit that would produce more than one or the
- 9 other based on the structure of this well.
- 10 On Exhibit 11, it is a net sand isopach
- 11 map. And we have interpreted the Bone Spring to be
- 12 channelized turbidite flows in that the reservoir is a
- 13 complex reservoir. Drilling these horizontal wells, we
- 14 intend to probably intersect multiple channels, each
- 15 with their own flow barrier and their own contribution
- 16 to the production. The well will intersect at least 125
- 17 feet across the entire length of the wellbore.
- 18 And so based on the data that we've
- 19 collected and what we've looked at, I don't think that
- 20 there is any indication that one 40 unit will produce
- 21 more than any other 40 unit across the length of the
- 22 wellbore.
- 23 The next exhibit, Exhibit 12, is a cross
- 24 section projected along the wellbore. It goes Section
- 25 35 -- sorry -- Section 34 and Section 35 in a

- 1 west-to-east orientation. The green wellbore path is
- 2 the proposed well that we plan on drilling. What you're
- 3 looking at are gamma rays that are colored, as an
- 4 interpretation. Usually if they're blue, we interpret
- 5 them as limestone; yellow, sandstone. And then the
- 6 browns will be a higher gamma ray possibly indicating
- 7 higher shale content.
- 8 The well that is horizontal that you can
- 9 see here is the Mewbourne Four Peaks 35 1H, and we are
- 10 proposing to drill roughly in the same interval that
- 11 they have drilled. And you can see from their wellbore
- 12 the changes across the gamma ray indicating, you know,
- 13 possible multiple channels that they've intersected.
- 14 And the vertical wells in this area, you
- 15 know, as we correlate around, we see a change in the
- 16 gamma ray character. And individual sand bodies are not
- 17 easily correlatable, but the whole package is. So
- 18 that's why we're saying that contribution is equal
- 19 across the wellbore.
- 20 Q. And SM Energy is proposing that should be done
- 21 on a 100-percent surface-acre basis?
- 22 A. Yes, we are.
- Q. And based on your geologic evaluation, are you
- 24 satisfied that that's a fair and reasonable basis for
- 25 participation in this well?

- Α. 1 I am.
- 2 In your opinion, is granting of SM's
- application in the best interest of conservation, the 3
- 4 prevention of waste and the protection of correlative
- rights? 5
- 6 Α. Yes.
- That concludes my direct of this 7 MR. HALL:
- witness, and I move the admission of Exhibits 7 through 8
- 9 12.
- EXAMINER EZEANYIM: Exhibits 7 through 12 10
- 11 will be admitted.
- (SM Energy Exhibits Number 7 through 12 12
- 13 were offered and admitted into evidence.)
- 14 MR. HALL: That concludes my direct.
- 15 Any questions? EXAMINER EZEANYIM:
- 16 EXAMINER BROOKS: No questions.
- 17 EXAMINER EZEANYIM: Any questions?
- 18 EXAMINER GOETZE: No questions.
- 19 EXAMINER EZEANYIM: You may step down. No
- 20 questions.
- 21 MR. HALL: Ask that the case be taken under
- advisement, and that concludes our case today. 22
- 23 EXAMINER EZEANYIM: At this point, Case
- 24 Number 15018 will be taken under advisement.
- n do bareby certify that he foregoing he 25 (Case Number 15018 concludes,

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