

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 RSC RESOURCES LIMITED
PARTNERSHIP FOR APPROVAL OF A
NON-STANDARD OIL SPACING AND PRORATION
UNIT AND COMPULSORY POOLING, EDDY
COUNTY, NEW MEXICO

CASE NO. 14245

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

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

December 4, 2008

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico
Oil Conservation Division, DAVID K. BROOKS, Legal Examiner,
WILLIAM V. JONES, Technical Examiner, and TERRY G. WARNELL,
Technical Examiner, on Thursday, December 4, 2008, at the
New Mexico Energy, Minerals and Natural Resources Department,
1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico.

REPORTED BY: JOYCE D. CALVERT, P-03
Paul Baca 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:

James G. Bruce, Esq.
ATTORNEY AT LAW
P.O. Box 1056
Santa Fe, New Mexico 87504

1 MR. JONES: Let's call Case 14245, which is the
2 Application of RSC Resources Limited Partnership for Approval
3 of a Non-Standard Oil Spacing and Proration Unit and Compulsory
4 Pooling, Eddy County, New Mexico.

5 Call for appearances.

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

8 MR. JONES: Any other appearances?

9 Will the witnesses please state your names?

10 MR. CATE: Randall Cate.

11 MR. SMITH: Kirk Smith.

12 [Witnesses sworn.]

13 KIRK E. SMITH

14 after having been first duly sworn under oath,

15 was questioned and testified as follows:

16 DIRECT EXAMINATION

17 BY MR. BRUCE:

18 Q. Would you please state your name for the record?

19 A. My name is Kirk Smith, and I'm from Midland,
20 Texas.

21 Q. Who are you employed by and in what capacity?

22 A. I'm an independent petroleum landman, and I'm
23 working as a contractor for RSC Resources.

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

1 A. Yes.

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

4 A. Yes.

5 Q. And are you familiar with the land matters
6 involved in this case?

7 A. Yes.

8 MR. BRUCE: Mr. Examiner, I tender Mr. Smith as an
9 expert petroleum landman.

10 MR. JONES: Mr. Smith is qualified as an expert in
11 petroleum land matters.

12 Q. (By Mr. Bruce): Ms. Smith, could you identify
13 Exhibit 1 and describe what RCS Resources seeks in this cases?

14 A. Exhibit 1 is a land plat that includes Section 30
15 of Township 16 South, Range 28 East. RSC Resources seeks to
16 drill the Lucky Wolf 30 Fed Com Well No. 1, a Wolfcamp
17 horizontal well, from an orthodox surface location 330 feet
18 from the south line and 330 feet from the east line to a
19 terminus 330 feet from the south line and 330 feet from the
20 west line.

21 The applicant requests an order approving a
22 non-standard 162.77-acre unit in the Wolfcamp comprised of Lot
23 No. 4, the SE/SW and the S/2, SE of Section 30, and pooling all
24 of the mineral interests in the non-standard unit.

25 Q. What does Exhibit 2 reflect?

1 A. Exhibit 2 reflects the list of the working
2 interest owners in the well unit along with their respective
3 percentage interest.

4 Q. Who do you seek to pool?

5 A. We seek to pool the interest owners on Exhibit 3.

6 Q. Were proposal letters sent to the uncommitted
7 interest owners?

8 A. Yes.

9 Q. And are those letters marked as Exhibit 4?

10 A. Yes.

11 Q. And now, referring to Exhibit 3 and 4, could you
12 summarize your contacts with the uncommitted owners and the
13 status of their commitment or non-commitment?

14 A. As shown on the exhibits, we delivered well
15 proposals by certified mail and/or delivered by Fed Ex mail
16 service. The evidence is contained in the exhibits, and we
17 have spoken with each and every one of the interest owners. We
18 have not found anybody that we could not find. We spoke with
19 everyone.

20 Q. So everybody was locatable?

21 A. That's correct.

22 Q. And then on Exhibit 3 on your contact data, it
23 does indicate that several people have verbally committed to
24 assign to you?

25 A. That is correct.

1 Q. And others have said, like OXY and El Paso,
2 they've just said, "Force pool us."

3 A. That's correct. They've asked just to be --
4 receive an order under the pooling provision.

5 Q. And in your opinion, has RSC Resources made a
6 good-faith effort to obtain the voluntary joinder of all
7 mineral interest owners in the well?

8 A. Yes.

9 Q. And if some of these interest owners on Exhibit 3
10 subsequently farmout or term assign or agree to participate,
11 will the Division be notified of their joinder?

12 A. Yes, they will.

13 Q. Do you request that RSC Resources be named
14 operator of the well?

15 A. Yes.

16 Q. And do you request the maximum cost plus 200
17 percent risk charge be assessed against non-consenting interest
18 owners?

19 A. Yes.

20 Q. What overhead rates is RSC proposing?

21 A. We request a drilling rate of \$7,000 a month and
22 a producing rate of \$700 per month.

23 Q. And are these rates equivalent to those normally
24 charged by operators in this area for wells of this depth?

25 A. Yes.

1 Q. And do you request that these rates be adjusted
2 under the COPAS accounting procedure?

3 A. Yes, I do.

4 Q. Will the next witness discuss the AFE?

5 A. Yes.

6 Q. Were the parties being pooled notified of the
7 hearing?

8 A. Yes.

9 Q. And they all received actual notice, did they
10 not?

11 A. That's correct.

12 Q. Now, the final page of Exhibit 5, there was one
13 returned letter that was never picked up to Lawbar Petroleum.
14 Did they, in fact, receive a well proposal at this address?

15 A. Yes, they did; however, we opted to use Fed Ex
16 overnight to get that proposal to them.

17 Q. And you have spoken with them?

18 A. And we have spoken with them, and we have made a
19 trade with them.

20 Q. Okay. So you do know that this is, in fact, a
21 correct address for Lawbar Petroleum, correct?

22 A. That's correct.

23 Q. Were all of the offset operators or working
24 interest owners notified of the non-standard unit portion of
25 this application?

1 A. Yes, they were.

2 Q. And is that reflected in Exhibit 6?

3 A. Yes.

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

7 A. Yes, they were.

8 Q. And in your opinion, is the granting of this
9 application in the interests of conservation and the prevention
10 of waste?

11 A. Yes, it is.

12 MR. BRUCE: Mr. Examiner, I move the admission of
13 Exhibit 1 through 6.

14 MR. JONES: Exhibits 1 through 6 will be admitted.

15 [Applicant's Exhibits 1 through 6 admitted into
16 evidence.]

17 MR. BRUCE: I have no further questions.

18 EXAMINATION

19 BY MR. JONES:

20 Q. Mr. Smith, I'm sorry. I spaced out. What's the
21 drilling rate that you're asking for?

22 A. The drilling rate is \$7,000 per month, and the
23 producing rate was \$700 per month.

24 Q. Okay. Are you guys the successor for COG
25 Operating, LLC?

1 A. Are we a successor to them?

2 Q. Yeah. Did you buy this from them or buy the
3 acreage position from them?

4 A. No, we did not. COG is a -- will be a member of
5 the unit, but they are not being force-pooled in this area.
6 We're not requesting that they be force-pooled.

7 Q. So they were a voluntary participant?

8 A. That's correct, yes. They would own a --

9 MR. BRUCE: Did you look at the records and see
10 the --

11 MR. JONES: I did.

12 MR. BRUCE: -- APD. And I think Mr. Cate can answer
13 that as far as operations go.

14 MR. JONES: Okay.

15 THE WITNESS: But our acreage was not purchased from
16 COG.

17 MR. JONES: I better pass you on to Mr. Brooks.

18 MR. BROOKS: I have no other questions, actually. I
19 actually have no questions here. It looks like it's all
20 covered.

21 Q. (By Mr. Jones): So there's no clouded title
22 here? Everything is -- you know -- definitely know everybody's
23 interest?

24 A. Yes, we do. With much work involved.

25 Q. Now, did you say anything about unlocatable

1 parties?

2 A. We have located each and every party at this
3 time.

4 Q. You did have to publish one thing, you said.

5 A. Yeah. Lawbar Petroleum.

6 Q. Okay.

7 A. Lawbar Petroleum was in -- their last known
8 address was in Austin, Texas. We did finally contact the
9 president in Las Vegas, Nevada.

10 Q. So you do know everybody's address?

11 A. Yes. And we have made a trade with them.

12 MR. BRUCE: Yeah. We didn't publish against them,
13 but if you'll look at that last page of Exhibit 5, they were
14 given notice and this is a proper address.

15 THE WITNESS: Right.

16 MR. BRUCE: They just didn't pick up their certified
17 mail.

18 MR. JONES: Okay. Thank you very much.

19 RANDALL CATE

20 after having been first duly sworn under oath,

21 was questioned and testified as follows:

22 DIRECT EXAMINATION

23 BY MR. BRUCE:

24 Q. Would you please state your name and city of
25 residence for the record?

1 A. My name is Randall Cate. I live in Midland,
2 Texas.

3 Q. And what is your relationship to RSC Resources?

4 A. I am the president and owner of the company.

5 Q. By trade, are you a petroleum engineer?

6 A. Yes, I am.

7 Q. Have you previously testified before the Division
8 as an engineer?

9 A. Yes, I have.

10 Q. And were your credentials as an expert petroleum
11 engineer accepted as a matter of record?

12 A. Yes.

13 Q. Are you familiar with the engineering matters
14 related to this case?

15 A. Yes.

16 MR. BRUCE: Mr. Examiner, I tender Mr. Cate as an
17 expert petroleum engineer.

18 MR. JONES: Mr. Cate is qualified as an expert in
19 petroleum engineering.

20 Q. (By Mr. Bruce): Mr. Cate, could you -- let's
21 discuss this well proposal. What is Exhibit A?

22 A. Exhibit A is an area of production and activity
23 map or plat. Section 30 with the red in the middle of the
24 plat, and the red outline is the S/2 of the S/2, is the spacing
25 unit that would be required to drill the horizontal lateral

1 starting in the east side of the unit and drilled all the way
2 across the section ending terminus in the west side.

3 And like Mr. Smith said, it would require 162.77
4 acres for the spacing unit.

5 Q. Okay. And I see that the immediate offsetting
6 wells to you are vertical wells; are they not?

7 A. That's correct. Now, there is a play that's
8 beginning out in this area that involves the horizontal
9 drilling, which is our proposal. But to date, in this
10 immediate area, you can see in the N/2 of Section 30, COG is
11 drilling currently a horizontal well. And then there was one
12 other well in the S/2, S/2 of Section 20 to the north and east
13 that has actually completed but it's brand new, and there's no
14 reported production at this time.

15 The only established production in the area is marked
16 with these green triangles. They're all vertical producers,
17 mostly from the 1990 era. And you can see the cumulative
18 production is listed as the first number. And then if the well
19 is currently producing, it shows the current production.

20 Vertical producers are very low rate wells. They
21 average maybe 10 barrels a day or less during their life, and
22 that is why the horizontal technology is so important. We
23 believe that would be the way to make a commercial play out of
24 this.

25 Q. What is Exhibit B?

1 A. Exhibit B is Wolfcamp structure. In a second, my
2 next Exhibit C will show you the type log. But it's gently
3 dipping basically to the east as down dip to the east. There
4 is no faulting or anything that would be, you know,
5 unforeseeable. It should allow for decent drilling. And we do
6 have oil production established down dip from us.

7 Q. And then the type log, Exhibit C.

8 A. Yeah, the type log was shown on Exhibit B. It is
9 the well that is directly offsetting us in the NW of the SW of
10 Section 30. That log is shown as Exhibit C. It's the Crowflat
11 Federal Com Unit No. 1. The well was actually drilled as a
12 Morrow well. Most of these were back in the '80s, in the early
13 '80s. And in 1990 was re-completed into this Wolfcamp pay.

14 The pool is designated as the Dog Canyon Wolfcamp.
15 It is an oil reservoir. And this particular well has made
16 48,000 barrels of oil, roughly, and still produces around five
17 barrels of oil per day.

18 Outlined in red, or colored red, is the Wolfcamp pay,
19 and it is a dolomite. The porosities are somewhat erratic.
20 They come and go, which is another reason horizontal technology
21 should allow us to encounter more of the higher perm zones is
22 the theory when you're dealing with carbonates.

23 The Wolfcamp structure that was listed on Exhibit B
24 is shown. I mapped on the top of the Wolfcamp pay as marked on
25 this exhibit.

1 Q. And in your opinion, will all of the
2 quarter/quarter sections in the non-standard well unit be
3 prospective in the Wolfcamp?

4 A. Yes, they will.

5 Q. You would anticipate that they would contribute
6 to production?

7 A. That's right. They should all encounter the
8 dolomite and again, we've got established production in
9 basically in three areas. We've got deep logs in all areas
10 that do have the dolomite, and they should be productive and
11 all contribute.

12 Q. What is Exhibit D? And Exhibit D is two pages
13 that are not stapled together; is that correct?

14 A. That's correct. It's the spacing unit on the
15 well plan. Again, the spacing unit will show inside the
16 producing area which is simply the standard 330 feet inside the
17 boundary. And again, this is what is being drilled in this
18 area are basically the east to west, and all the way across the
19 section, taking in roughly the 160-acre non-standard spacing
20 units.

21 The well plan is not anything -- it's pretty
22 standard. We'll drill down to approximately 6500 feet. We'll
23 probably get a pilot hole. So we'll have a log, plug back, and
24 drill the curve and just stay in the bottom third or so of the
25 dolomite. The completion will then involve probably a

1 three-stage fracture treatment to try to get into all the
2 dolomite pay.

3 Q. Finally, what are the costs of the proposed well?
4 And I refer you to Exhibit E.

5 A. Exhibit E is the AFE that I prepared back
6 approximately a month ago, 10/22/08. The approximate cost
7 completed is \$4.175 million. RSC Resources is an interest
8 owner in four wells so far in this area; three that Cimarex
9 operates; one that is operated by St. Mary's at the time. And
10 these costs are in line or actually maybe even a little less
11 than what the actual cost have been coming in.

12 Q. And are these costs reasonable and comparable to
13 the costs of other wells, horizontal wells, drilled in the
14 Wolfcamp in this area?

15 A. Yes, they are. They are based on actual costs,
16 like I say, that RSC has an ownership in.

17 Q. Okay. And then one final question: The Hearing
18 Examiner asked about the APD that was issued to COG. Are you
19 working with COG on this?

20 A. We are working with COG on this, and they have
21 indicated that they would participate with their interest.
22 They will have a quarter, approximately.

23 There was some discussion that they might even
24 operate since they have a program in the area, but there has
25 been no formal agreements. I am moving toward operating the

1 well. And as Mr. Smith -- I think he might have testified --
2 but we anticipate having the majority interest in the spacing
3 unit and would intend to operate.

4 Q. There was no conflict between you and COG?

5 A. No, there's no conflict.

6 Q. Were Exhibits A through E prepared by you or
7 under your supervision?

8 A. Yes.

9 Q. And in your opinion, is the granting of this
10 application in the interests of conservation and the prevention
11 of waste?

12 A. Yes, it is.

13 MR. BRUCE: Mr. Examiner, I pass the witness.

14 MR. JONES: Okay. Did we admit those Exhibits?

15 MR. BRUCE: I'd ask that they be admitted, Exhibits A
16 through E.

17 MR. JONES: Okay. A through E will be admitted.

18 [Applicant's Exhibits A through E admitted into
19 evidence.]

20 EXAMINATION

21 BY MR. JONES:

22 Q. Mr. Cate, you're going to drill in the bottom
23 third? What is that neutron response? How come it's so much
24 higher there below like 6420 or so compared to your density?
25 Is that water, or is it just shale?

1 A. No.

2 Q. Is it more shale?

3 A. It's just part of the erratic nature of dolomite
4 section. But are you talking about the hotter gamma ray area?

5 Q. Yeah. It's a little bit hotter and the neutron
6 is quite a more, unless that's -- I guess -- I assume this is a
7 density neutron porosity. Is that what that is?

8 A. The neutron porosity and the dolomite is the
9 dashed line, so it's the hot -- reading the highest porosity.
10 And then, of course, the density and dolomites as you can see
11 up above, I mean, it can be less than zero, but when you do
12 have porosity, the densities are typically running anywhere
13 from zero to 2 to 4 percent.

14 But the cross plot porosities are almost equal to
15 what your neutron reading is showing you. So it is a little
16 misleading in the dolomites, because they're run on a limestone
17 matrix.

18 Q. Everything limestone, right? You always run logs
19 on limestone?

20 A. Even if it's a granite sandstone. And one of the
21 points, this is an older log. More recent logs, the spectral
22 gamma rays take most of this dirty look out.

23 Q. Oh, do they?

24 A. Yes. So it ends up actually being much cleaner.

25 Q. But that neutron is still reacting.

1 A. And it is. And the reason we really would stay
2 in the bottom third, the frac technology, the frac jobs are
3 generally going to go up.

4 Q. Okay.

5 A. And --

6 Q. And you can prop them up.

7 A. Yes.

8 Q. Upwards.

9 A. That's right. And there will be sand put in the
10 frac job. These are very tight, low permeability dolomites.
11 But as you can see above, you have a very tight dolomite. It's
12 anhydritic, virtually zero porosity, and that's a good frac
13 boundary. And then below you is a very limey, low porosity
14 type bank that should act as a pretty good boundary also.

15 So we really feel that the frac jobs, while they have
16 a propensity to go up, they should be well contained within the
17 dolomite section here.

18 Q. Okay. Do you run a post survey on your well
19 after you drill it?

20 A. You know, you can, but the design I'm leaning
21 toward right now -- and I've got New Tech looking at both the
22 drilling program and the completion, but I had a lot of
23 experience with EOG Resources and, you know, we're large
24 horizontal players. And we found -- you know, horizontal
25 wells, there's so much you don't see above or below you. So I

1 would use the limited entry technology in that three stages
2 along the 5,000 feet. That will ensure -- 80 barrels a minute
3 will pretty much ensure that you're getting those entire stage
4 open and fraced to full 100 feet.

5 Q. Is that a liner, uncemented liner, you're running
6 there?

7 A. Right now we're looking at it that way just
8 because it is the cheapest. And I feel if we do a proper
9 completion, we'll get it open -- the majority of the pay open.
10 Cimarex and even COG have been using what they call peak
11 completion, which is a uncemented liner with packers. And once
12 they get it set, the packers set, and you have a port that
13 opens for each stage --

14 Q. So you pump and frac all in one big --

15 A. Yes.

16 Q. -- set up?

17 A. Right. And they'll have balls that will --

18 Q. Separate the stages?

19 A. -- divert the frac job into the next set of
20 packers, yes.

21 Q. And you can pack enough reserves in here to pay
22 for \$4 million?

23 A. Yes. Actually, yes. And as you can see, back on
24 Exhibit A, the vertical wells, and I believe they only drain 40
25 acres or less have made some of them up to 50,000. So then if

1 you take four spacing units, it gives you an idea of the
2 reserves.

3 Q. And they're flat?

4 A. They're very flat, yeah. So again, it's a
5 relatively new play, and we don't have any long-term results,
6 but we do believe that there's a good chance of establishing
7 commercial production.

8 Q. Okay.

9 MR. WARNELL: No questions.

10 MR. BROOKS: I guess I'll address this question to
11 counsel, because I should have addressed it to the last
12 witness.

13 Did you give notices to the offsets as well as to the
14 people to be pooled?

15 MR. BRUCE: Yes, Mr. Examiner. And if you'd like, I
16 did have a plat that identified all of the offsets. I can
17 submit that.

18 MR. BROOKS: I think that would be helpful.

19 MR. BRUCE: But Exhibit 6 is the notice to the
20 offsets and the records of the county, State, BLM and OCD, if
21 you look at the land plat, which I think is Exhibit 1,
22 you'll -- a lot of the acreage to the south is operated by
23 certain operators. And then in Section 30 itself, almost all
24 of the interest owners in the proposed well are also offsets.
25 So I might not have notified them separately as such, but

1 they -- the ones that were not counted were notified.

2 MR. BROOKS: Okay. Now, COG was among the parties
3 notified, it looks like?

4 MR. BRUCE: As an offset operator.

5 MR. BROOKS: Very good.

6 MR. BRUCE: I will submit that plat. I have that
7 data.

8 MR. BROOKS: I appreciate it.

9 MR. BRUCE: As you'll see from the next case, I spent
10 all my time preparing about 50 pounds of exhibits for you on
11 that case and neglected this one.

12 MR. BROOKS: Okay.

13 MR. JONES: Thanks, Mr. Bruce. With that, we'll take
14 Case No. 14245 under advisement. And let's take a 10-minute
15 break.

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I hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 14245
heard by me on 12-4-2008.
David K. Burpee, Examiner
Oil Conservation Division

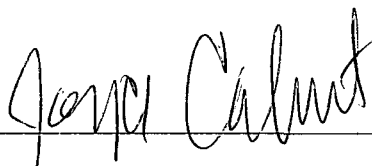
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REPORTER'S CERTIFICATE

I, JOYCE D. CALVERT, Provisional Court Reporter for the State of New Mexico, do hereby certify that I reported the foregoing proceedings in stenographic shorthand and that the foregoing pages are a true and correct transcript of those proceedings and was reduced to printed form under my direct supervision.

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

DATED this 4th day of December, 2008.

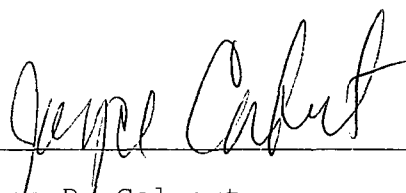


JOYCE D. CALVERT
New Mexico P-03
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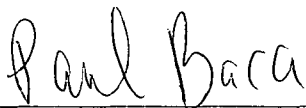
1 STATE OF NEW MEXICO)
2 COUNTY OF BERNALILLO)

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4 I, JOYCE D. CALVERT, a New Mexico Provisional
5 Reporter, working under the direction and direct supervision of
6 Paul Baca, New Mexico CCR License Number 112, hereby certify
7 that I reported the attached proceedings; that pages numbered
8 1-22 inclusive, are a true and correct transcript of my
9 stenographic notes. On the date I reported these proceedings,
10 I was the holder of Provisional License Number P-03.

11 Dated at Albuquerque, New Mexico, 4th day of
12 December, 2008.

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15 

Joyce D. Calvert
Provisional License #P-03
License Expires: 7/31/09

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18 Paul Baca, RPR
19 Certified Court Reporter #112
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STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

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WILLIAM V. JONES, Technical Examiner, and TERRY G. WARNELL,
Technical Examiner, on Thursday, December 4, 2008, at the
New Mexico Energy, Minerals and Natural Resources Department,
1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico.

REPORTED BY: JOYCE D. CALVERT, P-03
 Paul Baca Court Reporters
 500 Fourth Street, NW, Suite 105
 Albuquerque, New Mexico 87102