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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:
CASE NO. 14494
APPLICATION OF VPR OPERATING, LLC
TO ESTABLISH A WATERFLOOD PROJECT
IN THE SAWYER WEST FIELD IN
LEA COUNTY, NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS
EXAMINER HEARING

June 24, 2010
Santa Fe, New Mexico

BEFORE: RICHARD EZEANYIAM: Hearing Examiner
DAVID BROOKS: Legal Adviser

This matter came for hearing before the New Mexico
Oil Conservation Division, Richard Ezeanyiam, Hearing
Examiner, on May 13, 2010, at the New Mexico Energy,
Minerals and Natural Resources Department, 1220 South St.
Francis Drive, Room 102, Santa Fe, New Mexico.

REPORTED BY: Peggy A. Sedillo, NM CCR No. 88
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21	FOR THE APPLICANT:	GARY W. LARSON, ESQ.
22		Hinkle, Hensley, Shanor
23		& Martin, LLP
24		P. O. Box 2068
25		Santa Fe, NM 87504

1 HEARING EXAMINER: At this time we call Case
2 No. 14494, Application of VPR Operating, LLC to Establish
3 a Waterflood project in the Sawyer West Field in Lea,
4 County, New Mexico. Call for appearances.

5 MR. LARSON: Good morning, Mr. Examiner, Larry
6 Larson with the law firm of Hinkle, Hensley, Shanor and
7 Martin on behalf of VPR operating. I have three
8 witnesses.

9 HEARING EXAMINER: Any other appearances? Okay.
10 At this point, will the witnesses stand up, state your
11 names, and then be sworn.

12 MS. WINN: Lee Winn.

13 MR. JAMES HULING: James Huling.

14 MR. PULLEN: Robert Pullen.

15 (Note: The witnesses were placed under
16 oath by the Court Reporter.

17 ROBERT PULLEN,
18 the witness herein, after first being duly sworn
19 upon his oath, was examined and testified as follows:

20 DIRECT EXAMINATION

21 BY MR. LARSON: ,

22 Q. Good morning, Mr. Pullen, would you please state
23 your full name for the record?

24 A. Robert B. Pullen.

25 Q. And where do you reside?

1 A. Austin, Texas.

2 Q. And by whom are you employed and in what
3 capacity?

4 A. VPR Operating in Austin, Texas, and I'm the
5 Senior Vice President.

6 Q. Could you briefly summarize your educational,
7 and oil and gas professional background?

8 A. I was born in Dallas, Texas. I was educated in
9 South Carolina at the College of Charleston, majoring in
10 business and administration classes.

11 First time I got in the oil and gas business was
12 in 1986. I bought some properties out of bankruptcy from
13 the banks. Worked in every sector from operations, to the
14 service industry, drilling rigs, and have been with my
15 current partner and group for about the past 20 years.

16 Q. And with this current partner, do you focus on
17 land matters?

18 A. I do.

19 Q. And have you ever testified before a regulatory
20 agency with regulatory authority over gas and oil
21 operations?

22 A. I have, the Texas Railroad Commission.

23 Q. And did the Railroad Commission qualify you as
24 an expert in land matters?

25 A. They did.

1 MR. LARSON: Mr. Examiner, I move for the
2 qualification of Mr. Pullen as an expert in land matters.

3 HEARING EXAMINER: In addition to being
4 qualified before the Railroad Commission, are you a
5 certified public landman?

6 THE WITNESS: No, sir.

7 HEARING EXAMINER: Okay. Yes, he's qualified to
8 testify.

9 Q. And can you briefly tell the Examiner the
10 history of VPR Operating, which is a recently formed New
11 Mexico limited liability company?

12 A. It's the operating arm for Victory Park
13 Resources, Corp., which maintains properties in New Mexico
14 and Oklahoma.

15 And we use it to do all the fieldwork,
16 contracting with any of the service companies, engineers,
17 the geologists, it's the operating arm, so to speak, for
18 Victory Park Resources.

19 Q. And those operations are focused on New Mexico?

20 A. The vast majority of them, yes.

21 Q. And when did VPR Operating acquire the leases in
22 the Sawyer field?

23 A. About a year ago in roughly May of '09.

24 Q. And is the Sawyer field unitized?

25 A. It is not, not at this time.

1 Q. And what is VPR's long-range plan for the Sawyer
2 field?

3 A. Well, we're here in front of the OCD today to
4 ask for permission to start this water flood. Our studies
5 indicate that the San Andres in this area is an ideal
6 candidate for secondary recovery.

7 And we're going to institute the waterflood, and
8 then gradually build it out moving toward unitization of a
9 lot of our acreage positions out there, maybe some
10 additional.

11 Q. And do you have primary management
12 responsibility for the operations in the Sawyer field?

13 A. I do.

14 Q. And did you have primary management
15 responsibility for the preparation and submission of VPR's
16 application that's the subject of this hearing today?

17 A. I did.

18 Q. And who prepared the application on behalf of
19 VPR?

20 A. James Huling did most of the work, but it was
21 kind of a collaborative effort between my office,
22 Mr. Huling, and Ms. Winn.

23 Q. And Ms. Winn is a consultant geologist?

24 A. She is. And your firm.

25 Q. Yes. I'd direct your attention to VPR Exhibit

1 No. 1.

2 A. Yes.

3 Q. And who prepared this map?

4 A. Again, it was kind of a collaborative effort.
5 James and Lee prepared it under my direction.

6 Q. And does the blue shaded area of the map that's
7 Exhibit 1 accurately depict the project area identified in
8 the application?

9 A. It does, yes.

10 Q. And where is this project area located?

11 A. Township 9 South, Range 37 East, I believe, and
12 partial Sections 27 and 28.

13 Q. And who is the surface owner of the project
14 area?

15 A. Of the project area, Mr. Michael Harton.

16 Q. So it's all fee ownership?

17 A. Yes, sir.

18 Q. And what is VPR's working interest in the
19 project area?

20 A. Minimum is about 85 percent. It may have one
21 partner that owns 15 percent. There's a couple very small
22 1 and 2 percent working interest owners, but we basically
23 represent one hundred percent of the working interest.

24 Q. And referring back to Exhibit 1, we see six
25 triangular shapes around the outer edge of the blue shaded

1 area. Are those the wells that VPR proposes to convert
2 for injection?

3 A. That's correct.

4 Q. And there are two red dots in the middle, are
5 those in-fill wells -- in-fill producing wells, I should
6 say.

7 A. Yes. The ones marked inside the shaded area are
8 recent drills. We drilled those last year, and those will
9 be the producers.

10 Q. So the proposed waterflood wells are on a five
11 spot pattern?

12 A. That's correct.

13 Q. Okay. And has VPR's management evaluated the
14 historical oil production in the project area?

15 A. We have.

16 Q. And has Management also assessed the potential
17 oil in place of the project?

18 A. Yes, sir.

19 Q. And based on those evaluations and Management's
20 cost-benefit analysis of the recoverable oil in the
21 project area and the cost associated with the developing
22 waterflood, does VPR's management believe that the
23 proposed waterflood is economically viable?

24 A. We do. We think a concerted development effort
25 and moving to full secondary recovery operations can

1 exploit a good portion of these reserves in place there.

2 Q. And will VPR be the sole operator of the
3 proposed waterflood?

4 A. We will.

5 Q. And I'll next refer your attention to Exhibit 2.
6 Who prepared this map?

7 A. I believe Mr. Huling prepared this.

8 Q. And did the circles that are identified as
9 radii, those are the half mile radii from each of the
10 proposed injection wells?

11 A. Right. Identifies the notice area, I believe.

12 Q. And did VPR send written notices of the
13 application and today's hearing to all affected areas
14 within each one-half mile radius?

15 A. We did.

16 Q. And how did you identify the names and addresses
17 of those affected persons within those areas?

18 A. We had done extensive title work out there and
19 we retained the services of a certified petroleum landman,
20 Mr. Charlie House out of Midland who's done a lot of work
21 in this area and contracted with him to identify everybody
22 within the notice area and prepare that list.

23 Q. And did Mr. House do his work under your
24 direction?

25 A. He did.

1 Q. And once Mr. House provided you with a list of
2 names and addresses, did you direct me as VPR's counsel to
3 send certified mailed notices to all the affected persons?

4 A. I did, yes.

5 Q. I next refer to you Exhibit No. 3. Would you
6 identify this exhibit?

7 A. It's a copy of the correspondence that went out
8 to everybody in the notice area.

9 Q. And also, it includes the registered mail return
10 receipts?

11 A. It does.

12 Q. And these are true and correct copies of the
13 notice letters and return receipts?

14 A. They are.

15 Q. And did all of the persons notified sign and
16 return the certified mail receipts?

17 A. To my knowledge, we had a hundred percent
18 returned, yes.

19 Q. And if the Division approves VPR's application,
20 do you request that any further applications involving the
21 waterflood be approved administratively?

22 A. Yes, I do.

23 Q. And in your opinion, will the granting of VPR's
24 application serve the interests of preventing waste and
25 protecting correlative rights?

1 A. I do believe that, yes.

2 MR. LARSON: Mr. Examiner, at this time, I move
3 the admission of Exhibits 1, 2 and 3.

4 HEARING EXAMINER: Exhibits 1, 2 and 3 are
5 admitted.

6 MR. LARSON: And I pass Mr. Pulling at this
7 time.

8 HEARING EXAMINER: Thank you.

9 MR. BROOKS: I don't believe I have any
10 questions.

11 HEARING EXAMINER: Okay. Mr. Pullen, let's
12 start with -- when I read the application --

13 THE WITNESS: Yes, sir.

14 HEARING EXAMINER: The application described the
15 land in this waterflood project, I found it to be in the
16 north half of Section 27 and all of Section 28 from the
17 descriptions.

18 Why is it necessary to put it in the way you put
19 it in the application? Look at the application where you
20 join all of them and you concluded the north half of 27
21 and then all of 38.

22 So is there a reason why, if we go back to the
23 application, for example, you start with northwest
24 northwest quarter, southwest northwest quarter, east half
25 of northwest quarter, and then the other one, which

1 completes Section 27 in the north half. And then you
2 describe it again -- that's all of section 28.

3 So is there any reason why you put it in there
4 like that? I want to understand why you put it in that
5 form. Because if you read it, the flood description is in
6 the north half of 27, the second description is all of 28.
7 Is there it any reason why you put it in that way?

8 THE WITNESS: We can discuss that maybe with
9 Mr. Huling, but one of the things we wanted to do is
10 concentrate it in one lease area.

11 It's all contained within this SFPRR lease. You
12 know, one set of mineral owners, one landowner, and that
13 thing.

14 The physical descriptions of how it was in the
15 application -- I may have to consult with Mr. Huling on
16 that.

17 HEARING EXAMINER: A it's not really -- I just
18 want to understand. Because if I'm doing that, I would
19 say north half of Section 27, and all of 28, you know.

20 But since you broke it down there, I wanted to
21 understand why you broke it down the way you did, you
22 know. Because they're are tracks that need to -- I don't
23 know. But I just wanted to understand it.

24 Because when I tried to piece it together, I
25 came out with the north half of 27 and all of 28. And if

1 you read through -- And so it's not really anything that
2 impacts on this hearing, but I wanted to understand why
3 you did that.

4 There must be a reason why somebody did that.
5 So it's not really anything very important, but I just
6 wanted to understand that.

7 THE WITNESS: I know the focus was for us to
8 stay in on that same SFPRR. I think one of the things
9 we're going to ask for is the ability to expand the
10 waterflood, and maybe that description helps in that
11 initial expansion.

12 HEARING EXAMINER: Okay. Maybe Mr. Huling will
13 answer that question when he comes to the stand. This
14 waterflood is not unitized, right?

15 THE WITNESS: That's correct.

16 HEARING EXAMINER: Okay. And I thought you
17 mentioned that sometimes you might be unitized.

18 THE WITNESS: Absolutely. You know, in our long
19 range plans, should we get the kind of results we expect
20 here, we will move toward unitization of a bigger acreage
21 position.

22 HEARING EXAMINER: So you're trying to do this
23 just to conduct a pilot and see how you're going to --

24 THE WITNESS: Yes.

25 HEARING EXAMINER: If you go back to Exhibit 1,

1 I see a red outline. Is that the solid waste?

2 THE WITNESS: It's kind of indicative of our
3 holdings out there in kind of a rough sketch of what a
4 potential unit would look like.

5 HEARING EXAMINER: Okay.

6 THE WITNESS: I think once as we expand this
7 initial area, we may be able to get some other areas on
8 these boundaries that we don't currently own. We may find
9 that certain areas -- And I think some of our geology
10 tends to lean this way.

11 There are areas that are tighter that may not be
12 quite as good waterflood candidates that we may not
13 include in the unit, so we'll be able to better define a
14 specific unit as we establish it and draw it out.

15 HEARING EXAMINER: So the red outline is
16 currently what VPR, you know, having --

17 THE WITNESS: It's a basic outline of the
18 holdings, yes, sir.

19 HEARING EXAMINER: Okay. And then you said that
20 you might -- apart from those interest, you want to
21 unitize the whole area?

22 THE WITNESS: There could potentially be some
23 added within that area that don't become part of the unit.

24 HEARING EXAMINER: Okay. Now, you said 85
25 percent is VPR, 15 percent is who?

1 THE WITNESS: A gentleman here in Santa Fe, Leon
2 Romero. Good partner and solidly behind what we're trying
3 to do.

4 HEARING EXAMINER: Okay. This 15 percent -- I
5 don't see it here, but is there a list of the people you
6 notified on this? I want to see a list of all the people
7 you notified, but I think I can find it from --

8 THE WITNESS: I think you could take the copies
9 and make a list, but I think that is everybody. That's an
10 entire list.

11 HEARING EXAMINER: Yeah, that's what I'm trying
12 to find out.

13 THE WITNESS: Yes, sir. That depicts the entire
14 list. If you need us to --

15 HEARING EXAMINER: No, you don't need to, but I
16 wanted to make sure.

17 THE WITNESS: Yes, sir, it is the entire list.

18 HEARING EXAMINER: I want to make sure you
19 notified everybody that is supposed to get notice, no
20 matter what, if they do a form letter and then give that
21 form letter to everybody, and to write a list. But, you
22 know, if you do it individually, that's also acceptable.

23 THE WITNESS: Yes.

24 HEARING EXAMINER: Okay. And the lines here, is
25 all fee, no federal no state?

1 THE WITNESS: There's a little bit of -- within
2 the initial area, it's all fee. When we start to expand
3 it, there's some state lands, but they don't impact, I
4 think, this application on what we're trying to do today.
5 But we do have some state lands here to the south and I
6 think a little to the north.

7 HEARING EXAMINER: Okay, so all the red lines
8 are fee currently?

9 THE WITNESS: Inside this area, yes, sir.

10 HEARING EXAMINER: Okay. I just want to make
11 sure. This man, Mr. Harton, he called me yesterday. Did
12 you have a discussion with him?

13 THE WITNESS: Yes, sir. I have had
14 discussion -- I think kind of what led to that and the
15 withdrawal is, I went out and sat down with Mr. Harton, as
16 I had a number of times.

17 I think going in, when he got the letter, he
18 didn't have a lot of detail on it or -- I think he was
19 just kind of anxious to have somebody come out and kind of
20 walk him through it.

21 I did that last week. They had told us that
22 they -- Because I think that was Wednesday or Thursday,
23 and it's kind of a deadline for the opposition. He told
24 me they were going to file, and I said, you know, feel
25 free, but make sure you protect our rights and whatever

1 you think you need to do.

2 HEARING EXAMINER: Yes.

3 THE WITNESS: But once I kind of went over it,
4 we talked very specifically about where the services will
5 stay and where our facilities will be. We just drilled
6 the two wells within the -- inside the five spot patterns
7 were drilled last year. We have agreed to just expand one
8 of those pads to put the facility on.

9 HEARING EXAMINER: Yeah.

10 THE WITNESS: So I think once we walked through
11 it, he was fine.

12 HEARING EXAMINER: Okay.

13 THE WITNESS: And that's what led to the
14 withdrawal.

15 HEARING EXAMINER: Okay. I just wanted to
16 mention it for the record. Because he called me yesterday
17 and said, "I'm withdrawing my objection."

18 THE WITNESS: Yeah. We saw it and we got a copy
19 of the letter, I think, that he sent.

20 HEARING EXAMINER: Okay. Very good. If there's
21 nothing more, you may be excused. You may be recalled if
22 there is a concern later on that we need to know.

23 THE WITNESS: Yes, sir. Thank you, sir.

24 MR. LARSON: Next I'd call Lee Winn.

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LEE WINN,

the witness herein, after first being duly sworn
upon her oath, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. LARSON:

Q. Will you state your full name for the record?

A. Lee Winn.

Q. And where do you reside?

A. Santa Fe, New Mexico.

Q. And what is the name of your business?

A. Lee Winn Consulting Geologist, LLC.

Q. Is that also based in Santa Fe?

A. Yes.

Q. And Mr. Pullen testified that you had a role in
the preparation of VPR's application; is that correct?

A. Yes.

Q. In connection with Mr. Huling?

A. Yes.

Q. And prior to working on VPR's application, did
you have familiarity with the Sawyer West field and the
Slaughter zone in the San Andres formation?

A. Yes, I did. I've worked in the Slaughter zone
in the '80s in Texas in the Levelland field which is in
Kaufman County, and also in New Mexico where it extends
through Roosevelt northerly, and Chaves Counties over

1 to -- I think the western boundary is -- the biggest field
2 to the west is the Kato field.

3 Q. And could you briefly summarize your educational
4 and oil and gas professional background?

5 A. I have a bachelor of science degree in geology
6 from Sul Ross University. I received that in 1983. I
7 also have a master of science degree in geology from the
8 University, of Texas when I received in 1994.

9 I've worked for 27 years as a geologist, 12 of
10 which has been as a consulting geologist specializing in
11 the Permian basin in New Mexico and Texas.

12 Q. And are you an American Association of Petroleum
13 Geologist certified professional geologist?

14 A. Certified Petroleum Geologist No. 5910.

15 Q. Okay.

16 MR. LARSON: Mr. Examiner, I'd move for the
17 qualification of Ms. Winn as an expert petroleum geologist
18 for the purpose of this hearing.

19 HEARING EXAMINER: Ms. Winn is so qualified.

20 MR. LARSON: Thank you, Mr. Examine.

21 Q. Could you please describe the geology of the
22 formation that VPR has proposed to inject into?

23 A. The Slaughter trend of the San Andres
24 formation's lithology consists of interbedded anhydrite
25 and gray to brown medium to coarsely crystalline dolomite.

1 Styolites and vuggy porosity are present related
2 to the secondary porosity development per dolomitization.
3 The dolomite also contains scarred inclusions of gray and
4 white anhydrite with intervals of thin argillaceous
5 sediments present throughout the section.

6 HEARING EXAMINER: And what does that mean?

7 THE WITNESS: It means it's dolomite with some
8 sand in it. It's an anhydrite.

9 HEARING EXAMINER: Okay, so does that mean that
10 there's production from there, potential production from
11 that sand analysis, is that what you're saying?

12 THE WITNESS: I'd say the sand is not the
13 protective interval due to the dolomitization. The sand
14 was windblown frosted grain sands from the savkha
15 environment, the evaporated -- that reef environment
16 that's like a mud flat.

17 HEARING EXAMINER: Okay, go ahead.

18 Q. And what's the estimated thickness of the
19 Slaughter zone?

20 A. The upper porosity zone is approximately 80 feet
21 thick.

22 Q. And what's the depth of the zone?

23 A. The depth in this field ranges from 930 feet to
24 1,050 feet below mean sea level, or from 1,920 feet to
25 5,030 feet below the land surface.

1 Q. And I'd direct your attention to Exhibit No. 4.
2 Could you identify that for the record, please?

3 A. This is a type log from the field.

4 Q. And did you prepare this exhibit?

5 A. Yes.

6 Q. And what's it intended to depict?

7 A. It's intended to depict the Guadalupian strata
8 that includes the San Andres -- down to the San Andres
9 productive interval.

10 Q. And I next direct your attention to Exhibit
11 No. 5. Could you identify this for the record?

12 A. This is a structural cross-section across the
13 interval that we proposed to waterflood.

14 Q. And did you prepare this exhibit?

15 A. Yes.

16 Q. And in your professional opinion, is the
17 injection zone continuous?

18 A. Yes. It's a stratigraphic formation.

19 Q. And is the horizontal continuity of the zone
20 demonstrated by Exhibit 5 which you've prepared?

21 A. Yes.

22 Q. And in your opinion, has the reservoir been
23 recently defined by previous development?

24 A. Yes. Because of historical and recent drilling,
25 we've been able to define the subsurface control, and this

1 was recently confirmed by our -- by wells drilled last
2 year.

3 Q. With the two in-fill wells?

4 A. Yes.

5 Q. And I next refer your attention to Exhibit
6 No. 6. Could you identify that, please?

7 A. This is a depiction of the zone of injection.

8 Q. And did you prepare this exhibit?

9 A. Yes.

10 Q. And is the zone of injection limited to P-1?

11 A. Yes, it is.

12 Q. And are there any known faults that might
13 connect a fresh water zone with the injection zone?

14 A. No, sir.

15 Q. And in your opinion, will the fluids injected by
16 VPR be confined to the injection zone?

17 A. Yes, sir.

18 Q. And are you aware of any known water-bearing
19 strata in the project area?

20 A. There are porous brackish waters that are above
21 the San Andres in the Guadalupian, Yates, Seven Rivers,
22 and Grayburg formations.

23 Q. How about a fresh water formation?

24 A. There is a fresh water formation near the
25 surface that's part of the high-plains aquifer, and it's

1 cased, it's behind casing.

2 Q. And what's the approximate depth of the fresh
3 water?

4 A. I think it's approximately 200 feet.

5 HEARING EXAMINER: 200 feet north?

6 THE WITNESS: It's -- I'd have to look at the
7 application.

8 Q. Would Mr. Huling be --

9 A. Mr. Huling has the exact depth to.

10 Q. SI.

11 MR. LARSON: So I can pin that down with
12 Mr. Huling, Mr. Examiner.

13 HEARING EXAMINER: Okay. I need to know the
14 depth of fresh water.

15 Q. In your opinion, is there any likelihood of
16 fluids impacting this fresh-water zone -- I'm sorry,
17 fluids injected by VPR contaminating the fresh water-zone?

18 A. No.

19 Q. And in your opinion from a geological
20 standpoint, is the project area a good candidate for
21 waterflooding?

22 A. Yes.

23 MR. LARSON: Mr. Examiner, I move the admission
24 of Exhibits 4, 5, and 6.

25 HEARING EXAMINER: Exhibits 4, 5 and 6 are

1 admitted.

2 MR. LARSON: And I'll pass Ms. Winn.

3 HEARING EXAMINER: Thank you.

4 MR. BROOKS: No questions.

5 HEARING EXAMINER: Okay, Ms. Winn, you said you
6 determined the injection interval to be from about 5,000,
7 right?

8 THE WITNESS: I'm sorry, I didn't hear you.

9 HEARING EXAMINER: The injection interval, what
10 is the injection interval in these wells, the approximate
11 depth?

12 THE WITNESS: Between -- Do you want subsea
13 or --

14 HEARING EXAMINER: What is your ground level
15 elevation?

16 THE WITNESS: It's approximately 4,500 feet.

17 HEARING EXAMINER: Okay, 4,500.

18 THE WITNESS: It does say 4,000 feet.

19 HEARING EXAMINER: 4,000 feet?

20 THE WITNESS: Yeah.

21 HEARING EXAMINER: Okay. So if you mention
22 going -- you know, subsea, but let's use the -- you know,
23 a solid number, 4,000 all the way to 5,000.

24 THE WITNESS: Okay. On the injection zone well,
25 on that exhibit, it's 3,900 feet. This particular one is

1 at 4,948 to 5,025.

2 HEARING EXAMINER: Okay. These depths depend on
3 injection wells you're talking about. I just want to see
4 the upper to mid depths, because that is -- Okay.

5 Now, let's go back to the logs that you prepared
6 here. I don't know what it says, because I don't see the
7 headings to see which one it is. Number one, you don't
8 have your headings here.

9 THE WITNESS: There's a legend -- Are you
10 looking at the --

11 HEARING EXAMINER: I'm looking at this, and I
12 see something at the bottom, but I can't see what type of
13 logs were run. And I can try to see what you're talking
14 about on the injection zone. And then on your Exhibit
15 No. 5, I'm trying to find out what type of log we have
16 there.

17 THE WITNESS: Okay, the type log is a density
18 neutron log with a gamma ray.

19 HEARING EXAMINER: Is it on the upper edge of
20 this?

21 THE WITNESS: The scales on here --

22 HEARING EXAMINER: It might be at the bottom of
23 that, I can see that.

24 THE WITNESS: Yeah. They're their density
25 neutron or just gamma-ray neutron.

1 HEARING EXAMINER: Okay, so Exhibit 4 and
2 Exhibit 5 are all are density neutron?

3 THE WITNESS: This one, the type I used was a
4 gamma ray with a density neutron. It was one of the log
5 sweeps I had available, and other wells here on the AA
6 Prime are gamma-ray neutron, because they were older logs
7 in the field.

8 HEARING EXAMINER: Are these Schlumberger logs?

9 THE WITNESS: They're different companies.

10 HEARING EXAMINER: Okay. Can you tell me
11 about -- You talk about the formation being continuous.
12 You said it is stratigraphic. What do you mean?

13 THE WITNESS: Stratigraphic formation is -- it's
14 a deposition over a large area typically without a
15 structural component. The productive component of a
16 stratigraphic formation is based on changes in porosity
17 and permeability related to their depositional
18 environment.

19 HEARING EXAMINER: Okay. It looks like the
20 injection is only on P-1. What happened to P-2 and P-3,
21 there's nothing happening there?

22 THE WITNESS: They're not productive in this
23 area.

24 HEARING EXAMINER: On only P-1?

25 THE WITNESS: Yes.

1 HEARING EXAMINER: Do you have an idea about the
2 porosity of that area?

3 THE WITNESS: I haven't looked at it in detail.
4 Usually the P-2 and P-3 produce farther back from the edge
5 of the shelf more towards Roosevelt County.

6 HEARING EXAMINER: Maybe your engineer would
7 know when he comes to the stand. Because I know from your
8 deposition from there, you have porosity in this area that
9 you're producing from.

10 THE WITNESS: Right. Now, the P-2 is about 200
11 feet below the bottom of the P-1. And wells I've seen in
12 the area don't seem to have porosity in that area.

13 HEARING EXAMINER: Okay. And we are talking
14 about -- The production zone is the San Andres?

15 THE WITNESS: Yes.

16 HEARING EXAMINER: Okay. I would like to know
17 the depth of fresh water. First of all, is there fresh
18 water, and if there is, what are the actual depths of the
19 fresh water?

20 Because it's our intent to make sure we protect
21 them, you, know to see how your injection wells will be
22 constructed to protect fresh water.

23 First of all, we need to know if there is fresh
24 water in the area, and if there are, what are the depths.

25 THE WITNESS: Yes, sir. I think Mr. Huling will

1 be able to answer that.

2 HEARING EXAMINER: Okay, very good. And you
3 testified that there are no open faults -- Because I'm
4 finding out the question to ask the judge is, no open
5 faults or any hazards or connection that injected water
6 might migrate upwards in the area?

7 THE WITNESS: No, sir.

8 HEARING EXAMINER: I mean, you have had a lot of
9 experience with this. You made sure you explained this to
10 the Environment Department. You worked for the
11 Environment Department before?

12 THE WITNESS: Yes, sir. I actually didn't
13 mention that experience, but I did work for the
14 Environment Department for 17 years.

15 HEARING EXAMINER: Yeah. That's good
16 experience, too. I mean, you worked as a geologist, if I
17 could remember.

18 THE WITNESS: Yes.

19 HEARING EXAMINER: Okay. I was wondering, you
20 know, because you didn't mention that. But you have other
21 good experiences too.

22 THE WITNESS: Thank you.

23 HEARING EXAMINER: Okay. I have a question
24 here. I think I'd like to deal with the engineer, you
25 know. But if there is anything like a geologist or

1 landman could answer, if you are still here, we might
2 recall you. You may be excused, unless you have anything
3 else you'd like to ask.

4 MR. LARSON: I have nothing further at this
5 time.

6 HEARING EXAMINER: Okay, you may be excused.

7 MR. LARSON: Mr. Examiner, could I have a couple
8 of minutes to confer with my engineer before I call him up
9 to testify?

10 HEARING EXAMINER: Okay. How much time do you
11 need?

12 MR. LARSON: Five minutes.

13 HEARING EXAMINER: Okay, we'll take a break for
14 five minutes and then come back.

15 MR. LARSON: Thank you.

16 (Note: A break was taken.

17 HEARING EXAMINER: Let's go back and continue
18 with Case No. 14494. You may present your next witness.

19 MR. LARSON: My next witness is James Huling.

20 JAMES HULING,
21 the witness herein, after first being duly sworn
22 upon his oath, was examined and testified as follows:

23 DIRECT EXAMINATION

24 BY MR. LARSON:

25 Q. Sir, could you state your full name for the

1 record?

2 A. James Richard Huling.

3 Q. And where do you reside, Mr. Huling?

4 A. Fort worth, Texas.

5 Q. And what is the name and nature of your
6 business?

7 A. Kiamichi Energy Corporation, a petroleum
8 engineering consulting company.

9 Q. Is that based in Fort worth?

10 A. Yes, sir.

11 Q. And did Mr. Pullen retain you on behalf of VPR
12 to work in the preparation of the preparation of the
13 application?

14 A. This is correct, yes, sir.

15 Q. And have you ever testified before an agency
16 with regulatory authority over oil gas and gas operations?

17 A. Yes, sir, I have. In North Dakota, Montana,
18 Kansas, Oklahoma, and Texas. Never in New Mexico, though.

19 Q. And in each of those jurisdictions, were you
20 qualified as an expert in petroleum engineering?

21 A. Yes, sir.

22 MR. LARSON: Mr. Examiner, I move that
23 Mr. Huling be qualified as an expert in petroleum
24 engineering for purposes of this hearing.

25 HEARING EXAMINER: Mr. Huling, could you

1 summarize your educational experience and your working
2 experience? I know you've been qualified in those states.

3 THE WITNESS: Yes, sir.

4 HEARING EXAMINER: But could you summarize for
5 us your educational background and your work experience?

6 THE WITNESS: Yes, sir. I attend the University
7 of Missouri and the University of Oklahoma. I received a
8 petroleum engineering degree from the University of
9 Oklahoma in 1985.

10 I worked for Kerr-McGee Corporation for ten
11 years. Subsequently worked for Riata Energy. I was
12 engineering manager there. Then worked for Encore
13 Acquisition Company as a reservoir engineering manager.

14 Subsequently was vice president of operations
15 for Novation Energy Partners. And since 2007, I've been
16 an independent consulting petroleum engineer.

17 HEARING EXAMINER: Okay, are you a registered
18 professional engineer?

19 THE WITNESS: I'm not a registered professional
20 engineer.

21 HEARING EXAMINER: You've practiced in the state
22 of Texas?

23 THE WITNESS: Yes, sir.

24 HEARING EXAMINER: Okay. Mr. Huling is
25 qualified to testify.

1 MR. LARSON: Thank you, Mr. Examiner.

2 Q. Mr. Huling, I direct your attention to VPR
3 Exhibit No. 1.

4 A. Yes, sir.

5 Q. And Mr. Pullen testified you had a hand in
6 preparing this exhibit?

7 A. Yes, sir. Lee Winn and I both worked on the
8 preparation of this exhibit.

9 Q. And does the blue shaded area accurately depict
10 the project area for the waterflood?

11 A. Yes, sir, it does.

12 Q. And did you hear the Examiner's question about
13 the appropriate property description for this project
14 area?

15 A. Yes, sir, I did. And specifically there, the
16 area of impact is the area shaded in blue. Again, the
17 pilot is completely encompassed in the SFPRR lease.

18 The area of impact should be the southwest
19 quarter of Section 27 and the southeast quarter of
20 Section 28, which is going to be the area that encompasses
21 again the area in blue shaded on Exhibit 1.

22 HEARING EXAMINER: So, what are you saying? Are
23 you saying that all the areas in Section 28 are not
24 involved in the project?

25 THE WITNESS: At this time, no. That is

1 correct. Just the southeast quarter of 28, and the
2 southwest quarter of 27 are the area of impact.

3 HEARING EXAMINER: Okay, that's the area of
4 impact?

5 THE WITNESS: Yes, very specific to those areas.

6 HEARING EXAMINER: Okay.

7 THE WITNESS: And those are entirely encompassed
8 within the SFPRR lease.

9 HEARING EXAMINER: I'm wondering if we have an
10 agreement to say that you are going to -- Just take a
11 portion of the north half of Section 27, and all of 28,
12 but now you're confining to the southwest 28, and then --
13 well, southwest 27, and southeast 28, that's what you're
14 doing now?

15 THE WITNESS: Yes, sir.

16 HEARING EXAMINER: Does that cause any problem
17 with a reduction in area on what you're doing here?

18 MR. BROOKS: I don't think that it would, as
19 long as the reduction of the area, compare it -- The fact
20 that only a part of the area that's covered in the
21 advertisement will actually be subject to the waterflood
22 does not seem to me to create a problem.

23 Now of course, if the waterflood would create a
24 larger area including areas that were not covered in the
25 advertisement, that would be an issue that we'd have to

1 deal with.

2 HEARING EXAMINER: Okay.

3 MR. BROOKS: But a contraction of the area does
4 not seem to be a problem.

5 HEARING EXAMINER: Okay. Very good.

6 Q. Mr. Huling, you also heard a question by the
7 Examiner regarding the depth of the fresh water strata?

8 A. Yes. First off, I'm not aware of any fresh
9 water wells in the immediate pilot area. However, looking
10 at open-hole logs, and looking at resource data, I would
11 estimate that the fresh water zones in this area are at
12 approximately 270 feet from surface down to about 270
13 feet.

14 The surface casings on all of these wells are at
15 approximately 400 feet and are cemented to surface. So
16 all of those fresh water zones that overlie this
17 waterflood area are cased off with cement, and there are
18 no active water wells in the area -- fresh water wells.

19 HEARING EXAMINER: So what you're saying is you
20 can't find any fresh water wells, but if there are, they
21 might be beyond 270 feet?

22 THE WITNESS: Yes, sir.

23 HEARING EXAMINER: How do you reach that
24 conclusion?

25 THE WITNESS: Looking at open-hole logs, some

1 old open-hole logs just trying to infer where the neutron
2 porosity is which shows -- implies some porosity.

3 And secondly, I pulled some research from --
4 water resource data looking at surface waters in that
5 area, and they were in that 270 feet range. They tended
6 to agree.

7 There are some wells to the south and west of
8 here that are fresh-water wells, and they're generally
9 shallower than that 270 feet, they're 170, 200 feet,
10 somewhere in that range.

11 HEARING EXAMINER: Okay. Go ahead.

12 Q. Mr. Huling, I direct your attention to Exhibit
13 No. 2. And you had a hand in preparing this map?

14 A. Yes, sir. This map was prepared both by Lee
15 Winn and myself to depict the area of notification.

16 Q. And did you identify all wells of public record
17 located within each of these half mile radii?

18 A. Yes. All of those are identified, and they are
19 listed in tabular form in the C-108 application.

20 Q. And researching the wells within the half mile
21 radii, did you find the location of any plugged wells?

22 A. No, sir, no plugged wells within the area.

23 Q. And does the application contain all the
24 information the Division requires concerning each of the
25 wells within these half mile radii?

1 A. Yes, sir. To the best of my knowledge, yes.

2 Q. And if asked by the Examiner, could you identify
3 the location, type of construction, and other specific
4 information about those wells?

5 A. Yes, I could. And they are also included in the
6 original application.

7 Q. The information about the wells?

8 A. Yes, sir.

9 Q. Now, I'd ask you to identify Exhibit No. 7.

10 A. Exhibit No. 7 is a schematic of SFPRR No. 18
11 which is one of the wells in the area that we propose for
12 conversion. And this would be the existing condition of
13 the wellbore.

14 HEARING EXAMINER: Let's go back to that. I was
15 looking for it. I didn't understand what it says. What
16 did you say?

17 MR. LARSON: It's No. 7, Mr. Examiner.

18 HEARING EXAMINER: Okay, that's the SFPRR
19 No. 18, which will be converted for injection, right?

20 THE WITNESS: Yes, sir.

21 HEARING EXAMINER: Okay.

22 THE WITNESS: Yes, Exhibit No. 7 depicts the
23 SFPRR No. 18 which is a well within the pilot area that
24 will be converted from an active producer to injection.

25 HEARING EXAMINER: Okay.

1 Q. And is this schematic that is Exhibit No. 7
2 representative of the other five producing wells within
3 the area?

4 A. It's not exact, but it is similar, yes.

5 Q. And I next ask you to identify Exhibit No. 8.

6 HEARING EXAMINER: Let's go back, because I want
7 to find out the well construction here. We see the
8 existing, we see the proposed. The proposed is to be a
9 conversion to injection, right?

10 THE WITNESS: Yes, sir. That is correct.

11 HEARING EXAMINER: We need to make sure this
12 well is well constructed which would prevent any
13 environmental damage here. So can you walk me through
14 what you did here? What did you do that is different from
15 the existing?

16 THE WITNESS: Okay, what we would do, if you
17 refer to Exhibit 7, the existing?

18 HEARING EXAMINER: Yeah.

19 THE WITNESS: It is presently equipped with
20 tubulars and sacarad [sic] pump. We would initially
21 employ a rig to pull the tubing and the rods from the
22 well.

23 After pulling the tubing and the rods, we would
24 clean out the well to plug back TD, or a depth below our
25 injection interval in the San Andres P-1.

1 HEARING EXAMINER: P-1.

2 THE WITNESS: Then we would test the casing to
3 show that we have casing integrity. We know that ahead of
4 time.

5 HEARING EXAMINER: And most of this casing is
6 five and a half?

7 THE WITNESS: Yes, sir -- Four and a half. Most
8 of these are four and a half.

9 HEARING EXAMINER: Okay. And two and
10 three-eighths?

11 THE WITNESS: Yes, sir.

12 HEARING EXAMINER: The casing is four and a
13 half?

14 THE WITNESS: Yes. And after we clean out the
15 well and we know that the casing does have integrity, then
16 we would pick up a coated packer, a nickel coated or
17 plastic coated packer, and two and three-eighths inch
18 tubing that's internally coated.

19 And we would run that in and we would circulate
20 the tubing casing annulus with a fresh water 2 percent KCL
21 solution that would also contain oxygen scavenger,
22 corrosion inhibitor, and scale preventative packer fluid.

23 And we would notify the State and perform a
24 mechanical integrity test, and it will be witnessed by the
25 State.

1 HEARING EXAMINER: Okay.

2 THE WITNESS: Subsequently, the well would then
3 be set up to inject produced salt water from the existing
4 P-1 San Andres interval down to tubing.

5 So at this point, you would have injection of
6 water down the tubing, you would have the internal plastic
7 coated tubing, the tubing itself, the tubing casing
8 annular space of packer fluid, the production casing, in
9 this case of the SFPRR No. 18, a cement sheath behind the
10 four and a half and the seven and seven-eighths hole.

11 And then you would have surface casing -- in
12 this case, eight and five-eighths cement, all of that --
13 all of those strings of protection between the injection
14 fluid and the fresh water zones.

15 HEARING EXAMINER: Yeah. Because I went through
16 what you are proposing for the injection wells. And I
17 don't think -- Is this construction the same for all the
18 six?

19 THE WITNESS: Yes, sir.

20 HEARING EXAMINER: Because some of them said top
21 of cement about 4,090. But here, I like this, because you
22 said four and a half is circulated to surface.

23 THE WITNESS: On this one it is. There are some
24 that may not be, and those are all --

25 HEARING EXAMINER: Okay, we can go back and

1 finish with this.

2 THE WITNESS: Okay.

3 HEARING EXAMINER: Now, this is really good,
4 because if you are four and a half circulated to the
5 surface -- And then you're placing your packer within a
6 hundred feet of the injection interval?

7 THE WITNESS: Yes, sir.

8 HEARING EXAMINER: This is properly constructed.
9 And my question is, are you going to construct the rest of
10 the other five to be like this? Because what I found out
11 was, some of these four and a half is not circulated to
12 surface, but however, the top is cemented to be at 4,090
13 feet.

14 But this No. 18 is going to be converted as it
15 is. If it is converted, that's good. But I'm worried
16 about all the ones that you're going to convert. So we'll
17 talk about it when we get there.

18 THE WITNESS: Okay. To generally provide the
19 outline of the plan, first off, all of these wells have
20 surface casing that is generally set at about 400 feet
21 with cement and circulated back to surface.

22 HEARING EXAMINER: Yeah.

23 THE WITNESS: So the possible fresh-water
24 intervals that exist at the roughly 270 feet and up are
25 going to be cemented behind the eight and five-eighths inch

1 casing.

2 HEARING EXAMINER: Okay.

3 THE WITNESS: This particular well with four and
4 a half inch casing does have cement circulated back to
5 surface. There are some that don't. However, the
6 fresh-water intervals are protected with the surface
7 casing.

8 We will have mechanical integrity on all of
9 these production casings, four and a half, or five and a
10 half casings that are in the hole. And so you will still
11 have cement and we'll have mechanical integrity before
12 commencing injection.

13 HEARING EXAMINER: Okay.

14 THE WITNESS: If, in general, I have answered
15 your question.

16 HEARING EXAMINER: Yes. Go ahead.

17 Q. And just for purposes of the record, could you
18 identify VPR Exhibit No. 8?

19 A. Yes. VPR Exhibit No. 8 shows the SFPRR No. 18
20 well --

21 HEARING EXAMINER: We don't have it. Do you
22 have it?

23 MR. BROOKS: It's stapled to No. 7? There's two
24 pages stapled together that are labeled 7, but I don't see
25 an Exhibit 8.

1 MR. LARSON: Mr. Brooks, that's my mistake. We
2 went -- 7 turned out to be -- the first page is the
3 schematic of the existing well, the second page is a
4 schematic of a proposed well. That's what I started to
5 call 8, but I realized I was incorrect.

6 MR. BROOKS: That's the second page of
7 Exhibit 7.

8 Q. So I'll refer you to the second page of
9 Exhibit 7.

10 A. Which is the proposed injection conversion, what
11 the well will look like after conversion to injection.

12 Q. And this schematic would be representative in
13 the other five conversions as well?

14 A. In general, yes.

15 Q. And you have schematics for all the
16 conversations as part of the application?

17 A. I have schematics of the existing condition,
18 yes, and then I have proposed, yes, I do.

19 Q. And for the record, what number attachment is
20 that to the application?

21 A. It will be following Exhibit Roman Numeral 3-A,
22 3 and 4.

23 Q. And what will be the average daily volumes of
24 fluids to be injected in the proposed waterflood?

25 A. Initially we're estimating 3,500 barrels a day.

1 Q. And what is the maximum daily volume that VPR
2 proposes for injection?

3 A. Two thousand.

4 Q. That is per well per day?

5 A. That is correct.

6 Q. And will the system be open or closed?

7 A. Closed.

8 Q. And what is maximum surface injection pressure
9 proposed by VPR?

10 A. Maximum on the application is 1,500 pounds. We
11 will be well below that.

12 Q. Initially, do you have a sense of what your
13 surface pressures will be?

14 A. Less than 200 pounds. Right now the reservoir
15 pressure is very low. So the injection pressure will be
16 well below 200 pounds.

17 Q. Initially, and then gradually it will increase?

18 A. That is correct.

19 Q. With a end high of 1,500 psi?

20 A. Correct.

21 Q. And in your professional opinion, would the
22 proposed maximum injection pressures result in fracturing?

23 A. No, sir.

24 Q. And in your opinion, will those pressures cause
25 migrating of injected fluids out of the injection zone?

1 A. No.

2 Q. And you analyzed the historical oil protection
3 from the Slaughter zone?

4 A. Yes, sir.

5 Q. And you've also evaluated the potential oil in
6 place?

7 A. Yes, sir.

8 Q. And in your opinion, will the waterflood recover
9 oil that would not otherwise be recovered?

10 A. Yes.

11 Q. Why do you hold that opinion?

12 A. I hold that opinion because the recoveries in
13 this area are indicative of other successful waterfloods
14 in the San Andres and Grayburg intervals. The porosity
15 development and water saturations and recoveries are all
16 consistent with other successful waterfloods in the area.

17 Q. Do you agree with Mr. Pullen that the waterflood
18 will be a profitable project for VPR?

19 A. Yes, sir.

20 Q. And that's based on your evaluation of oil in
21 place and historical production?

22 A. Yes, sir.

23 Q. And in your opinion, would the approval of the
24 application serve the interests of conservation,
25 prevention of waste, and the protection of correlative

1 rights?

2 A. Yes, sir, I do believe so.

3 MR. LARSON: Mr. Examiner, I move the admission
4 of Exhibit No. 7.

5 HEARING EXAMINER: Exhibit No. 7 will be
6 admitted.

7 MR. LARSON: I would pass Mr. Huling for
8 questions.

9 MR. BROOKS: No questions.

10 HEARING EXAMINER: Okay. I think you've already
11 answered my question about the well construction, unless
12 you want to change anything. Did you prepare the
13 application?

14 THE WITNESS: Yes, sir, I did.

15 HEARING EXAMINER: Okay. So if there is any
16 question, you would be the person to contact?

17 THE WITNESS: Please, yes.

18 HEARING EXAMINER: Okay. Before I lose track of
19 this, your attorney was asking you what depth you were
20 asking for. You said 1,500. How did you come up with
21 that 1,500 psi?

22 THE WITNESS: I'm projecting down the road that
23 as the reservoir pressures up, and since the frac rating
24 is proportional to the core pressure of the rock, as the
25 rock is pressured up, my experience in the area shows that

1 parting pressures later on in the life of wells get up in
2 that range.

3 We would be injecting well below that. Our
4 intent is to stay well below the frac gradient and the
5 parting pressure.

6 From a waterflood theory perspective, we want to
7 stay below parting pressures so that we affect all of the
8 rock without fracturing. We do not want to fracture the
9 rock to move water outside of the P-1 interval.

10 In my pumping of pressure above the frac
11 gradient, we potentially do that. So our intent and
12 purpose is to inject below parting pressure.

13 HEARING EXAMINER: Oh, yeah. I got from the way
14 you said yeah, that was not -- you know. I mean, the
15 pressure will not be greater than the formation. We try
16 to give you 1,500 psi maximum.

17 You have to demonstrate that that can be done
18 without breaking the formation by what is called a
19 step-rate test, which I know you're familiar with.

20 THE WITNESS: Yes.

21 HEARING EXAMINER: Okay, so no matter, you
22 should be aware of, you know, normal pressure gradients we
23 give here. We can give you 1,500 psi if you demonstrate
24 the need.

25 THE WITNESS: Right. I understand.

1 HEARING EXAMINER: If this is approved, we are
2 going to give you the normal gradient.

3 THE WITNESS: I understand.

4 HEARING EXAMINER: Now, I didn't see any
5 calculation on this waterflood project. I need to see the
6 cost benefits and other things your attorney has been
7 talking about, how much you're going to produce more than
8 if you implement this.

9 I really like those, because that's really what
10 we want you to do. Because we encourage you to do this
11 waterflood, spend money to do that, but I didn't see the
12 costs.

13 THE WITNESS: Right. We did not submit that
14 information as part of the application, but that work has
15 been performed.

16 HEARING EXAMINER: Is there any way I can get
17 it? Because I'm interested in knowing how much additional
18 oil you're going to recover. That's something that I like
19 to see.

20 THE WITNESS: Okay.

21 HEARING EXAMINER: Could that be furnished?

22 THE WITNESS: Yes, I could send you -- What I
23 would propose, following the hearing, I'll contact you and
24 I'll provide you with the specific information you're
25 after.

1 HEARING EXAMINER: Yes, I would like to have
2 that.

3 MR. LARSON: Mr. Ezeanyiam, may I speak to that
4 point? There's a proprietary information issue here.
5 This is a privately owned company and they're dealing with
6 investors on a regular basis. And that's part of the
7 reluctance to give hard numbers.

8 I think rather than submit something which would
9 then become part of the record, could I just question him
10 generally about that kind of analysis?

11 HEARING EXAMINER: You don't have to do that.
12 We are not your competitors. I am not going to give it
13 out to anybody. It's for my own consumption to be able to
14 approve this project.

15 We can make it confidential for you, nobody will
16 see it except the Examiners. And in that case, nobody
17 else will see it. It's not going to -- If you come to my
18 office now, I have confidential information nobody else
19 sees it, but I need it to do my work. I no other party
20 will see it.

21 MR. LARSON: We're fine with that.

22 HEARING EXAMINER: Nobody else will see it
23 except the two of us, and then we'll keep it confidential.

24 MR. BROOKS: Well, we have a certain here that
25 there is some procedures that need to be undertaken when

1 confidential information is submitted.

2 If Mr. Ezeanyiam wants to examine confidential
3 information, it would be easiest if it were to be returned
4 afterwards. We have statutory restrictions on our
5 handling of confidential information.

6 So I would suggest that you send this
7 information -- if you consider it confidential, that you
8 send it directly to Mr. Ezeanyiam addressed to him
9 personally with a letter stating that it's to be held in
10 confidence and not to be copied.

11 And after his review of the information, it is
12 to be returned to you and then we can make a record that
13 that has been done.

14 HEARING EXAMINER: I mean, we don't want to
15 divulge your confidential information.

16 MR. BROOKS: In fact, it's a not just for your
17 protection, because under the statute applicable to this
18 Department, if we compromise information that's submitted
19 to us in confidence, there are criminal penalties.

20 HEARING EXAMINER: Yes. That's why we have a
21 Legal Examiner here. I'm not a lawyer, I'm just an
22 engineer. So I don't understand the legal implications.
23 But at least I know we can look at confidential
24 information -- we have done it before -- and then return
25 it to you.

1 MR. LARSON: We'll submit it with those
2 guidelines.

3 MR. BROOKS: I would appreciate that.

4 HEARING EXAMINER: Okay. I don't have any other
5 questions. Do you want to comment?

6 MR. LARSON: I have nothing further for
7 Mr. Huling.

8 HEARING EXAMINER: Okay. These six produces
9 right now, are they producing any oil currently?

10 THE WITNESS: Yes.

11 THE WITNESS: How much?

12 THE WITNESS: About probably in the neighborhood
13 of seven barrels collectively between the six wells on a
14 daily basis.

15 HEARING EXAMINER: So probably one barrel for
16 each one?

17 THE WITNESS: Yes.

18 HEARING EXAMINER: And you designed it to be a
19 five spot pad?

20 THE WITNESS: Yes.

21 HEARING EXAMINER: And there are no plugged or
22 abandoned wells?

23 THE WITNESS: No, sir.

24 HEARING EXAMINER: In the whole area of review?

25 THE WITNESS: That's correct.

1 HEARING EXAMINER: And where you drew all those
2 circles, you generated them before you notified Mr. Harton
3 in writing, that's why you were able to communicate with
4 him and --

5 THE WITNESS: Yes.

6 HEARING EXAMINER: Okay. Okay now, what type of
7 water are you going to be injecting there? Is that
8 produced water, is that fresh water? What type of water
9 are you going to be injecting?

10 THE WITNESS: Our plan right now is to use
11 existing produced water from the P-1 San Andres interval
12 from other wells within the field. We'll reinject that
13 water.

14 We additionally have some wells that produce
15 significant amounts of water from the P-1 and lower parts
16 of the structure that we will remove additional water to
17 supply water for this waterflood project. So to answer
18 the question specifically, produced water from the P-1 San
19 Andres.

20 HEARING EXAMINER: Do you intend to have any
21 make-up water?

22 THE WITNESS: Any make-up water present will be
23 from the San Andres.

24 HEARING EXAMINER: Fresh water?

25 THE WITNESS: No, not fresh water.

1 HEARING EXAMINER: Okay. Do you have that kind
2 of make-up water analysis that I can look at that you want
3 to inject?

4 THE WITNESS: Yes. And included in the
5 application are multiple water analysis samples from wells
6 within the field. And so, yes, those are included in the
7 application.

8 HEARING EXAMINER: So the make-up water would
9 come from San Andres?

10 THE WITNESS: Yes.

11 HEARING EXAMINER: From a water well from
12 San Andres, right?

13 THE WITNESS: Yes.

14 HEARING EXAMINER: Okay. When I read the
15 application, it says the make-up water will be fresh
16 water.

17 THE WITNESS: That is not the plan at the
18 present.

19 HEARING EXAMINER: Because, you know, in New
20 Mexico in the desert, we don't have the availability to
21 use fresh water. There's a bunch of produced water out
22 there that we can use as long as they're compatible with
23 the native water.

24 THE WITNESS: Right.

25 HEARING EXAMINER: Using fresh water -- fresh

1 meaning TD is at least 10,000 or less, you don't want to
2 use water like that.

3 THE WITNESS: Right. And that is not our plan.
4 Our plan is to use waters that are more saline.
5 Initially, San Andres water. In time, there could be a
6 case where we would look at -- you know, if we're to
7 expand towards unitization in a larger area, then we might
8 extract water from other brackish intervals above the
9 San Andres just because it would be cheaper to lift from a
10 shallower interval.

11 But for the purpose of this application, we're
12 looking at using produced water from the San Andres. For
13 any additional water, we will increase pump capacity on
14 some wells that have higher water capacity from the
15 San Andres and use that as make-up water.

16 HEARING EXAMINER: Yeah. Because when you send
17 your application to Southwest or something, they objected
18 to the fact that you stated that you are going to use
19 fresh water.

20 And that will come up with Mr. Harton saying,
21 "We're objecting because you're going to use fresh water."
22 But I guess you guys settled this.

23 THE WITNESS: For the record, we plan to use
24 produced water, brackish water. We will not use fresh
25 water.

1 HEARING EXAMINER: Yeah. And the produced water
2 is from the P-1, and you are producing from P-1 and
3 injecting into P-I.

4 THE WITNESS: Correct.

5 HEARING EXAMINER: I assume there's no
6 compatibility issues. Did you prepare this water analysis
7 in the application?

8 THE WITNESS: I did not. I mean, I asked for
9 them to be run, but they were run by Permian Treating.

10 HEARING EXAMINER: Okay. And they run it on the
11 produced water and they run it on the native water?

12 THE WITNESS: Yes.

13 HEARING EXAMINER: And did you look at it?

14 THE WITNESS: Yes.

15 HEARING EXAMINER: What did you find?

16 THE WITNESS: There's definitely some variation.
17 You do have some -- we're going to have some scaling
18 tendencies, but generally, it's brackish water ranging
19 from 70,000 to 100,000, you know, depending on where you
20 are on the structure and where it's broken in the
21 San Andres.

22 HEARING EXAMINER: Okay. You're going to be
23 using a closed system?

24 THE WITNESS: Yes, sir.

25 HEARING EXAMINER: You're not going to truck any

1 water?

2 THE WITNESS: No.

3 HEARING EXAMINER: I read somewhere that the
4 water would be trucked. We prefer a closed system.

5 THE WITNESS: And it's our preference to have a
6 closed system as well.

7 HEARING EXAMINER: Okay. So the leased wells in
8 the area of review, all of those are producers?

9 THE WITNESS: That is correct.

10 HEARING EXAMINER: None are plugged or
11 abandoned, all of them are producers?

12 THE WITNESS: All of them are producers.

13 HEARING EXAMINER: Okay. I guess that's all I
14 have for now. Let me make this comment about this
15 confidential information we're trying to get from you.

16 When we get confidential information from you,
17 just be assured that we are not going to violate -- as the
18 Legal Examiner says, we're not going to divulge the
19 information to anybody. We use it to determine whether
20 this is appropriate.

21 In doing our jobs, we need that information to
22 make sure we're doing it right, you know. Again, because
23 it's confidential information doesn't mean that we can't
24 look at it as regulators, you know. We can look at it.

25 However, we're not going to divulge it. And I'm

1 glad you say said we can mail it back to you. Nobody will
2 copy it, we'll just mail it back to you in whatever you
3 want us to mail it back.

4 MR. BROOKS: And the important thing is that it
5 doesn't get stuck in the file, because the file would then
6 be scanned, and that would be a problem for --

7 MR. LARSON: And that was our only concern, the
8 issue of it being not of public record. We're more than
9 happy to share that information.

10 HEARING EXAMINER: Okay, very good.

11 MR. BROOKS: It's easier to manage in this case
12 because it's uncontested, and so we don't have to deal
13 with coordinating with opposing counsel and their
14 witnesses, and so forth.

15 MR. LARSON: Exactly.

16 HEARING EXAMINER: Okay. So if there are no
17 other questions?

18 MR. BROOKS: I have no questions.

19 MR. LARSON: What would you estimate as the
20 timing for approval? We're very anxious and eager to get
21 started on this project.

22 HEARING EXAMINER: All right. What are the
23 exigent circumstances, what are the problems, why do you
24 need this, what is going on?

25 MR. LARSON: Well, we have investors also that

1 we're trying to please. We cleaned up a -- we've been
2 working on this application since February, and we have a
3 group in -- and ourselves, we want to get this moving
4 along as quick as possible.

5 So it's definitely economically driven, you
6 know, to get it instituted while the weather is nice
7 and -- you know, to keep the project moving.

8 HEARING EXAMINER: Okay.

9 MR. PULLEN: And I might say, a project of this
10 scope, I mean, it takes some lead time in scheduling, but
11 we can't do that scheduling until we know we're within a
12 certain period of what we think is going to be the
13 approval time.

14 Because if I set up the rigs and all the service
15 companies and all the vendors that are associated with the
16 execution of this part of the plan, it's a -- it's time
17 consuming.

18 And until we have a date or some kind of target
19 time, it's hard to get scheduled on the boards for the
20 service companies.

21 HEARING EXAMINER: Well, what kind of time are
22 you asking? Because, you know, we have all these --
23 everybody's asking for --

24 MR. PULLEN: Yes, sir. You know, I don't have a
25 good sense of that. From our perspective, as soon as

1 possible. If that can be within 30 days, that's great.

2 If it can be shorter, that's even better.

3 Because then I can start initiating the
4 execution of the program and get vendors lined up and get
5 some money spent to get it moving along.

6 HEARING EXAMINER: Okay. Send that confidential
7 information, that might help too. Because it's something
8 we need to have. So send it and then let's see what we
9 can do. Because there's are a lot of things we have on
10 your plates. So we'll see what we can do to help you. So
11 send that as quickly as possible.

12 And again, you know, initially, I forgot to
13 mention at the beginning about -- This was continued from
14 February, because VPR was out of compliance for some
15 reason or the another, and it wasn't put on the docket
16 until you came into compliance.

17 And as of yesterday, I went back again to the
18 compliance issues and found out that you are in
19 compliance. That's why I didn't make any bones about
20 that, because I checked.

21 You have two other wells inactive, and there are
22 no financial assurance issues. So that's why the hearing
23 was continued. If you had been out of compliance, well,
24 we would hear the case, but we wouldn't be able to write
25 the order until you come into compliance. But none of

1 those is an issue now.

2 And in that case, you wouldn't be asking about
3 expediting the order, because you're out of compliance.
4 However, it's good news, you're not out of compliance.

5 MR. PULLEN: Thank you for noting that. I mean,
6 we worked hard to get those -- the project and all our
7 holdings, not only this one, but the other ones also -- in
8 compliance and keep them in order.

9 HEARING EXAMINER: Okay.

10 MR. LARSON: And I would add too that,
11 Mr. Examiner, yesterday, Mr. Pullen executed an amendment
12 to the inactive well agreed compliance order to add the
13 two wells that appear on the list.

14 HEARING EXAMINER: Okay.

15 MR. LARSON: It's not been signed by the
16 Director, but Mr. Swazo and I negotiated it.

17 HEARING EXAMINER: Okay. That would be
18 excellent, that would be nice. Anything further?

19 MR. LARSON: Just a couple of things. I know
20 there's a question about the proper description for the
21 project area.

22 HEARING EXAMINER: Yes.

23 MR. LARSON: What we noticed was larger from the
24 actual area. And I certainly agree with Mr. Brooks that
25 it's not an issue here. Our actual project area is

1 smaller than the noticed area.

2 So I just wanted to stipulate for the record
3 that Mr. Hulings' property description is the actual area
4 we would ask to be permanent for the waterflood.

5 HEARING EXAMINER: Okay, so those two sections?

6 MR. LARSON: Yes. And secondly, we will get
7 that confidential information to you as soon as possible.
8 And to reinforce my client's statements, we'd ask that we
9 get consideration for an order as soon as possible.

10 HEARING EXAMINER: Yeah, I've stated that
11 already.

12 MR. LARSON: Thank you, Mr. Examiner.

13 HEARING EXAMINER: Okay. Without further
14 comments, Case No. 14494 will be taken under advisement.
15 Thank you.

16 (Whereupon, the proceedings concluded.)

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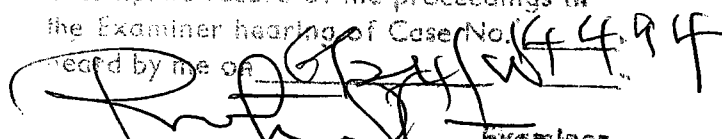
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I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 14494
heard by me on


Examiner
Oil Conservation Division

1 STATE OF NEW MEXICO)
) ss.
 2 COUNTY OF BERNALILLO)

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REPORTER'S CERTIFICATE

I, PEGGY A. SEDILLO, Certified Court
 Reporter of the firm Paul Baca Professional
 Court Reporters do hereby certify that the
 foregoing transcript is a complete and accurate
 record of said proceedings as the same were
 recorded by me or under my supervision.

Dated at Albuquerque, New Mexico this
 2nd day of June, 2010.


 PEGGY A. SEDILLO, CCR NO. 88
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