

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 NOS. 20818

Application of Permian, LLC, for
compulsory pooling in Eddy County,
New Mexico.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

THURSDAY, OCTOBER 3, 2018

SANTA FE, NEW MEXICO

This matter came on for hearing before the
New Mexico Oil Conservation Division, Phillip Goetz,
Examiner, Dylan Rose-Coss, Examiner, and David Ames,
Legal Counsel, on Thursday, October 3, 2019, at the New
Mexico Energy, Minerals, and Natural Resources Department,
Wendell Chino Building, 1220 South St. Francis Drive,
Porter Hall, Room 102, Santa Fe, New Mexico

Reported by: Mary Therese Macfarlane
New Mexico CCR 122
PAUL BACA COURT REPORTERS
500 Fourth Street NW, Suite 105
Albuquerque, New Mexico 87102

1 A P P E A R A N C E S.

2 For the Applicant: Adam Rankin, Esq.
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1	E X H I B I T I N D E X		
2	APPLICANT	SEP PERMINA, LLC, CASE NO. 20818	
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1 (Time noted 1:58 p.m.)

2 EXAMINER GOETZ: Let's move to 20818.

3 You're going to hear this with 20819?

4 MR. RANKIN: I was planning on doing them
5 separately, only because they are different sections.
6 They are in the same Township.

7 But I can do them together.

8 EXAMINER GOETZ: You can do whatever you want
9 but I just want to make sure the court reporter gets --
10 there's a pile of paper.

11 Okay. Case No. 20818 Application of SEP
12 Permian, LLC, for compulsory pooling, Eddy County, New
13 Mexico.

14 Call for appearances.

15 MR. RANKIN: Mr. Examiner, Adam Rankin of the
16 law firm of Holland & Hart appearing on behalf of the
17 Applicant in this case. Two witnesses.

18 (The presenting witnesses NASH BELL and C.J.
19 LIPINSKI were duly sworn.)

20 MR. RANKIN: Mr. Examiner, I would call my first
21 witness, Mr. Nash Bell.

22 EXAMINER GOETZ: Very good.

23 NASH BELL,
24 having been duly sworn, testified as follows:

25 DIRECT EXAMINATION

1 BY MR. RANKIN:

2 Q. Mr. Bell, will you please state your full name
3 for the record.

4 A. Nash Bell.

5 Q. By whom are you employed?

6 A. I am employed by Spur Energy Partners, which is
7 the parent of SEP Permian.

8 Q. SEP Permian is the Applicant in this case,
9 correct?

10 A. Yes.

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

13 A. No.

14 Q. Would you please review for the examiners,
15 briefly, your educational background and relevant work
16 experience as a petroleum landman.

17 A. Yes. I have a BA from the University of Texas.
18 I have 15 years of varying land experience, both in the
19 field and in-house.

20 I'm a Certified Professional Landman.
21 Recent companies, World Resource Development, McMoRan, and
22 a few other small ones.

23 Q. Do your job responsibilities include oversight
24 of the Permian Basin in New Mexico?

25 A. Yes.

1 Q. And are you familiar with the application that
2 was filed in this case?

3 A. Yes.

4 Q. Have you conducted a study of the lands and the
5 ownership of the interests that are subject to this
6 Application today?

7 A. Yes.

8 MR. RANKIN: Mr. Examiner, I would at this time
9 tender Mr. Bell as an expert petroleum landman.

10 EXAMINER GOETZ: He is so qualified.

11 MR. RANKING Thank you very much.

12 Q. Mr. Bell, turning your attention to the exhibit
13 packet before you.

14 Actually, before we jump into the details
15 of this case, this is the first time Spur has appeared
16 before the Division at hearings; is that correct?

17 A. Yes.

18 Q. In that case will you just briefly give an
19 overview of Spur: Who the company is, where you operate,
20 and give us a little background about the company?

21 A. Certainly. Spur Energy Partners is a
22 newly-formed privately-held company headquartered in
23 Houston, Texas. The management team has been together for
24 the better part of 10 years in various corporate
25 iterations, most recently the company Wild Horse

1 Resources, which divested their assets in February to
2 Chesapeake.

3 Earlier this year we acquired the assets of
4 Percussion Petroleum in Eddy County, and we are currently
5 in the process of acquiring Concho's assets on the
6 northwest shelf in Eddy and Lea County.

7 We are excited to be in the State of New
8 Mexico, and look forward to a beneficial relationship.

9 Q. Thank you very much, Mr. Bell. Now let's talk
10 about this application here.

11 With respect to this application here, what
12 is it that Spur seeks?

13 A. We seek to pool all uncommitted interests in the
14 Yeso Formation within the proposed 320-acre horizontal
15 spacing unit comprised of the west half of Section 15,
16 Township 19 South, Range 25 East, Eddy County, New Mexico.

17 Q. In this case Spur, or SEP Permian, the Applicant
18 in the case, has reached an agreement with all mineral
19 interest owners other than the overrides; is that correct?

20 A. Yes.

21 Q. So the only parties you're seeking to pool are
22 the non cost-bearing override royalty interests within the
23 spacing unit?

24 A. Yes.

25 Q. Now, what is the status of the lands, the

1 ownership of the lands that are the subject of this
2 Application today?

3 A. We have two federal BLM leases and fee leases.

4 Q. And are there any depth severances or variances
5 of ownership within the pool that you're seeking to pool
6 today?

7 A. No.

8 Q. Now let's turn to what has been marked as
9 Exhibit 1 in your exhibit packet.

10 Are these current updated draft copies of
11 C-102s for each of wells that are proposed for this
12 application?

13 A. Yes.

14 Q. There are six wells proposed within this spacing
15 unit, correct?

16 A. Yes.

17 Q. So does SEP Permian plan to batch drill these
18 wells?

19 A. Yes. We intend to drill three wells off the two
20 separate pads.

21 Q. So you will drill them either in sequence or
22 simultaneously, and then complete them either in sequence
23 or simultaneously, right?

24 A. Yes.

25 Q. That's the plan?

1 A. Yes.

2 Q. Has there been a pool assigned? Do you
3 understand what pool these wells will be in here?

4 A. Yes, they will be in the Glorieta-Yeso Pool No.
5 57565.

6 Q. Now, you testified that you're seeking to create
7 a 320-acre spacing unit for these wells. Are you looking
8 to create an expanded spacing unit based on the inclusion
9 of proximity tracts?

10 A. Yes.

11 Q. And looking at your Exhibit No. 1, if I turn to
12 the C-102 for the Osage Boyd 15 Fed. Com 13H well, is that
13 the well that will be the defining well for that expanded
14 spacing unit acreage?

15 A. Yes.

16 Q. So that well is within 230 feet of the setbacks,
17 which permits you by the new rules to include the
18 offsetting tracts to create that larger spacing unit?

19 A. Yes.

20 Q. The other wells that are proposed for your
21 spacing unit, they will all be within the statewide
22 setbacks required by Division rules?

23 A. Yes.

24 Q. And each of the first and last take points are
25 identified in your C-102s?

1 A. Yes.

2 Q. Now moving on to Exhibit No. 2, what does
3 Exhibit No. 2 reflect?

4 A. Exhibit 2 is a map of the proposed unit.

5 Q. Okay. And it identifies -- well, sorry. It
6 identifies the two federal tracts and then it combines the
7 fee leases into the one tract; is that right?

8 A. Correct.

9 Q. Okay. So these are the cartoon of the ownership
10 that you're seeking to pool on the west half of this
11 acreage?

12 A. Yes.

13 Q. Now, on the subsequent pages does it show the
14 ownership of each of the mineral interest owners within
15 the acreage you are speaking to pool?

16 A. Mineral interest and overriding royalty
17 interests.

18 Q. And just to clarify, this page shows all the
19 overrides that you're seeking to pool; is that correct?

20 A. Yes.

21 Q. And it shows them by tract.

22 A. Right.

23 Q. And then if I were to flip to the last page of
24 that exhibit, is that a list of all the overrides that are
25 subject to pooling today?

1 A. Yes.

2 Q. Okay. And, now, were each of these owners
3 locatable? In other words, you had a valid and correct
4 address for each owner?

5 A. Yes. All these owners are in our current
6 paydex, so we use the address that we have on record with
7 us.

8 Q. So you know they're correct addresses because
9 you're currently using that address to pay on other
10 properties.

11 A. Right.

12 Q. Now, is the next -- Exhibit No. 3, is that a
13 copy the notification that you sent to each of these
14 overrides letting them know that you were going to be
15 drilling in this acreage and seeking to combine their
16 interest in the unit?

17 A. Yes.

18 Q. Again, these interests are not cost-bearing so
19 you are not seeking to impose the statutory risk charge
20 against these interest owners; is that correct?

21 A. Correct.

22 Q. Now, Mr. Bell, turning to what has been marked
23 Exhibit 4, is that a copy of an affidavit that was
24 prepared by me and my office reflecting that we provided
25 Notice of today's hearing and of the application to each

1 of the overriding royalty interest owners at the addresses
2 you provided to us?

3 A. It is.

4 Q. And the next page of that affidavit, is that a
5 copy of the notice letter giving notice of today's
6 hearing --

7 A. Yes.

8 Q. -- that was included in that notice package?

9 On the subsequent page is that a copy of --
10 these are the overrides and their addresses that you
11 provided to us?

12 A. Yes.

13 Q. Along with the status of the notification of
14 today's hearing?

15 A. Yes.

16 Q. And you'll note that there were three
17 individuals from whom the United States Postal Service
18 information reflects that the current tracking information
19 shows them still in transit; is that correct?

20 A. Yes.

21 Q. But you have no reason to believe that those
22 addresses are not valid or correct based on the fact that
23 the address is used to pay these folks their royalties; is
24 that right?

25 A. Correct.

1 Q. On the last two pages of that exhibit, is this a
2 copy of an Affidavit of Publication reflecting that we
3 provided notice of today's hearing to each of those
4 overrides by name in a newspaper of general circulation in
5 a county where the well is proposed?

6 A. Yes.

7 Q. Mr. Bell, were Exhibits 1 through 3 prepared by
8 you or under your direction or supervision using company
9 records?

10 A. They were.

11 MR. RANKIN: At this time, Mr. Examiner, I would
12 move the admission of Exhibits 1 through 4, which includes
13 the affidavit prepared by my office reflecting Notice,
14 into the record.

15 EXAMINER GOETZ: Exhibits 1 through 4 in Case
16 No. 20818 are entered.

17 MR. RANKIN: Thank you very much. No further
18 questions. Pass the witness.

19 EXAMINER GOETZ: Mr. Rose-Coss.

20 EXAMINER ROSE-COSS: I have no questions.

21 EXAMINER AMES: None.

22 EXAMINER GOETZ: So -- no, I'm not going to go
23 on communication agreements. So thank you very much.

24 MR. RANKIN: Thanks.

25 With that, Mr. Examiner, I would like to

1 call my second witness in this case, Mr. C.J. Lipinski.

2 CHRISTOPHER JEREMY LIPINSKI,

3 having been duly sworn, testified as follows:

4 DIRECT EXAMINATION

5 BY MR. RANKIN:

6 Q. Mr. Lipinski, good afternoon. Will you please
7 state your full name for the record.

8 A. Christopher Jeremy Lipinski.

9 Q. Have you previously testified before the
10 Division?

11 A. I have.

12 Q. You've had your credentials as an expert in
13 petroleum geology accepted as a matter of record?

14 A. They were.

15 Q. Are you familiar with the Application filed in
16 this case?

17 A. I am.

18 Q. And you conducted a study of the geology in the
19 land underlying the proposed spacing unit in the area?

20 A. I did.

21 MR. RANKIN: Mr. Examiner, at this time I would
22 tender Mr. Lipinski as an expert in petroleum geology.

23 EXAMINER GOETZ: He is so qualified.

24 Q. Mr. Lipinski, let's turn to what has been marked
25 as Exhibit No. 5 in the exhibit packet before you. Would

1 **you review for the examiners what this exhibit shows.**

2 A. Exhibit No 5 is a base map for the Osage Boyd
3 '15' Federal Com. Development that we are proposing. The
4 red dotted line shows the pooling unit and the yellow
5 squares are Spur's leaseholds in the area.

6 The wells displayed with a purple square
7 around them have Yeso perforations in them, and the
8 horizontals displayed are also perforated within the Yeso
9 Formation.

10 The box in the upper right shows the actual
11 state calls (phonetic) for the proposed wells.

12 **Q. Okay. And your next Exhibit No. 6, what does**
13 **that show?**

14 A. Exhibit No. 6 is used as the structural map for
15 the development area, as well as shows the cross section
16 line. And the wells at the cross section, the subsequent
17 Exhibit 7 will be.

18 So the top of the Glorieta is a structures
19 with 25-foot contours shaded with the blues to purples as
20 the deepest and the orange and red as the shallowest.

21 This exhibit just shows a general 1 1/2 to
22 2 1/2 degree dip across the area, and the red numbers
23 indicate wells that were used to build the structure
24 contour map.

25 **Q. And in your -- just to be clear, the top of the**

1 Glorieta is the top of the formation that you're targeting
2 here with these wells, correct?

3 A. The pool is the Glorieta-Yeso pool, so we used
4 the Glorieta, but we are targeting the Yeso Formation.

5 Q. Now, in your review of the geology in the area
6 have you identified any faulting, pinchouts, or other
7 geologic impediments to the development of horizontal
8 wells in this area?

9 A. I have not.

10 Q. Now let's move on to your final Exhibit No. 7,
11 which I think you referenced as the cross section for
12 those wells identified as A to A-prime you identified in
13 Exhibit 6.

14 Will you review for the examiners what this
15 cross section shows.

16 A. Yes. This cross section explains the previous
17 map. The yellow dots or the pink dots are the wells used
18 for the cross section going from A to A-prime, which is
19 north to south, showing the pooled formations of the
20 Glorieta and Yeso.

21 So depicted in the red line is the top on
22 the Glorieta, the blue line is the top of the Yeso, and
23 the yellow line is the base of the Yeso through the
24 pooling unit.

25 The track -- for the five wells, the track

1 on the left is the gamma ray track 0 to 150. Then there's
2 the neutron density porosity curves in the middle track,
3 and the track on the right -- I'm sorry, the middle track
4 is the resistivity logs, and on the right is the neutron
5 density porosity.

6 Also, on the Osage Boyd 15-2 the target
7 zones for the proposed wells has been indicated in colored
8 dots with labels.

9 Q. In your analysis in looking at the structure
10 across this proposed spacing unit, have you confirmed that
11 the target intervals that you're seeking for each of these
12 wells is continuous across the entire spacing unit?

13 A. I have.

14 Q. Now, in the wells you have identified here for
15 your cross section, are they representative of the geology
16 in the area, in your opinion?

17 A. Yes.

18 Q. And in your opinion, based on your analysis, is
19 the Yeso formation here suitable in this area for
20 development by horizontal wells?

21 A. Yes.

22 Q. In your opinion is there a preference -- based
23 on the geology is there a preferential orientation here
24 for the wells being standup or laydown, in your opinion
25 and based on your review?

1 A. Based on the geology, whether standup or laydown
2 being preferred, and based on well results in offsetting
3 horizontal wells, there -- where normalized for
4 completion, there's no indication that laydown or standup
5 are preferred.

6 Q. You see in the same area just offsetting wells
7 oriented standup and laydown?

8 A. Correct.

9 Q. Now, do you expect each quarter/quarter section
10 within the proposed spacing unit to contribute more or
11 less equally to production from the proposed wells?

12 A. I do.

13 Q. In your opinion is the granting of this
14 application in the best interests of the conservation of
15 resources, the protection against waste, and the
16 protection of correlative rights?

17 A. It is.

18 MR. RANKIN: Mr. Examiner, at this time --

19 Q. Well, Mr. Lipinski, Exhibits 5, 6 and 7, were
20 they prepared by you or under your direction or
21 supervision using company records?

22 A. They were.

23 MR. RANKIN: At this time, Mr. Examiner, I would
24 move the admission of Exhibits 5, 6 and 7 into the record.

25 EXAMINER GOETZ: Exhibits 5, 6 and 7 are so

1 entered in the record.

2 MR. RANKIN: With that, Mr. Chairman, I would
3 pass the witness.

4 EXAMINER GOETZ: Mr. Rose-Coss.

5 CROSS EXAMINATION

6 BY EXAMINER ROSE-COSS:

7 Q. I guess on your cross section, Exhibit No. 7, I
8 would just be curious if that was in the -- if you could
9 describe your logic behind the particular targets that you
10 picked and what attributes you were looking at there.

11 A. So for the targets, really you're looking -- I'm
12 looking for the highest porosity Dolomite or Dolostone
13 within the interval, and then it's partially just
14 geometric spacing for offset wells, trying to get the best
15 completion through the area and drain as much as possible.

16 Q. And you feel that the spacing proposed is the
17 most optimal for the Formation?

18 A. Oh, we don't know what's the most optimal at
19 this time, but this -- currently we believe this to be the
20 best spacing.

21 EXAMINER ROSE-COSS: I don't have any other
22 questions.

23 EXAMINER GOETZ: Mr. Ames?

24 EXAMINER AMES: Nothing. Thank you.

25 EXAMINER GOETZ: Follow up on his question.

1 CROSS EXAMINATION

2 BY EXAMINER GOETZ:

3 Q. I do notice that you have chosen for the
4 lower -- at the base of the Yeso to have two of the
5 horizontals in there spaced out?

6 Are you feeling that there is a greater
7 target opportunity at the base of the Yeso? Is this
8 something based upon observation, or is this just finding
9 the base of the Formation as being a better target.

10 Why do you have two wells while your other
11 intervals are not showing any type of expanded
12 development?

13 A. Mainly just for developing in the spacing,
14 correct. So you have the four zones in the upper part,
15 they are much more proximate to each other than this
16 deeper one which has a lot more space, so you can fit two
17 of those farther apart in same zone than as with the upper
18 portion.

19 Q. Any plans for the eastern half of this spacing
20 unit?

21 A. Yes.

22 Q. Okay. So you're looking, down the road after
23 getting these done, at putting additional wells in?

24 A. Yes. We just don't have the --

25 Q. It's a start.

1 A. -- financial means to --

2 **Q. It's a start.**

3 A. Yeah.

4 EXAMINER GOETZ: Okay. I have no more
5 questions for this witness.

6 MR. RANKIN: None for me, Mr. Chairman.

7 At this time. I would request that Case
8 No. 20818 be taken under advisement by the Division.

9 EXAMINER GOETZ: Case 20818 is taken under
10 advisement.

11 (Time noted 2:11 p.m.)

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1 STATE OF NEW MEXICO)
2) SS
3 COUNTY OF TAOS)
4

5 REPORTER'S CERTIFICATE

6 I, MARY THERESE MACFARLANE, New Mexico Reporter
7 CCR No. 122, DO HEREBY CERTIFY that on Thursday, October
8 3, 2019, the proceedings in the above-captioned matter
9 were taken before me; that I did report in stenographic
10 shorthand the proceedings set forth herein, and the
11 foregoing pages are a true and correct transcription to
12 the best of my ability and control.

13 I FURTHER CERTIFY that I am neither employed by
14 nor related to nor contracted with (unless excepted by the
15 rules) any of the parties or attorneys in this case, and
16 that I have no interest whatsoever in the final
17 disposition of this case in any court.

18

19

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