

STATE OF NEW MEXICO
ENERGY, MINERALS, AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTTTER OF THE HEARING CALLED
BY THE OIL CONSERVATION DIVISION FOR
THE PURPOSE OF CONSIDERING:

CASE NO. 20819

Application of SEP Permian, LLC
for Compulsory Pooling, 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 Examiner, 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
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1 A P P E A R A N C E S

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6 I N D E X

7	CASE NUMBER 20819 CALLED	
8	APPLICANT WITNESSES:	PAGE
9	NASH BELL (Landman)	
10	DIRECT EXAMINATION BY MR. RANKIN:	3
11	CHRISTOPHER LIPINSKI (Geologist)	
12	DIRECT EXAMINATION BY MR. RANKIN:	10
13	CROSS EXAMINATION BY EXAMINER ROSE-COSS:	15
13	CROSS EXAMINATION BY EXAMINER GOETZ:	16

14

15 E X H I B I T I N D E X

16	APPLICANT SEP PERMIAN/SPUR ENERGY,	CASE NO. 20819
17	EXHIBIT	ADMITTED
18	1	10
19	2	10
20	3	10
21	4	10
22	5	15
23	6	15
24	7	15

25

1 (Time noted noted 2:25 p.m.)

2 EXAMINER GOETZ: Okay. Let's go back on the
3 record.

4 Let's call Case No. 20819, Application of
5 SEP Permian, LLC for Compulsory Pooling, Eddy County, New
6 Mexico.

7 Call for appearances.

8 MR. RANKIN: Adam Rankin with the law firm of
9 Holland and Hart appearing on behalf of the Applicant in
10 this case. I have two witnesses.

11 EXAMINER GOETZ: Those witnesses have been
12 identified and sworn in.

13 MR. RANKIN: Again, Mr. Examiner, I would call
14 our first witness, Mr. Nash Bell.

15 EXAMINER GOETZ: Very good.

16 NASH BELL,
17 having been previously sworn, testified as follows:

18 DIRECT EXAMINATION

19 BY MR. RANKIN:

20 Q. Mr. Bell, will you please state your full name
21 for the record.

22 A. Nash Bell.

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

25 A. I have.

1 Q. And have your credentials as an expert in
2 petroleum land matters been accepted and made part of
3 record?

4 A. Yes.

5 Q. Are you familiar with the application that was
6 filed in this case?

7 A. Yes.

8 Q. Did you conduct a study of the lands and the
9 ownership interests that are the subject to this
10 application today?

11 A. Yes.

12 MR. RANKIN: Mr. Examiner, we would tender Mr.
13 Bell as an expert in petroleum land matters.

14 EXAMINER GOETZ: He is so qualified.

15 Q. Now, Mr. Bell, let's jump into what it is that
16 SEP Permian is seeking with this case. Will you summarize
17 briefly what it is you are requesting with this
18 application.

19 A. Yes. SEP Permian seeks to pool all uncommitted
20 interests in the Yeso Formation within the proposed
21 320-acre horizontal spacing unit comprised of the south
22 half of Section 33, Township 19 South, Range 25 East, Eddy
23 County, New Mexico.

24 Q. Has SEP Permian reached voluntary agreement with
25 all the interest owners or overrides in the spacing unit?

1 A. We have.

2 Q. So those overrides are not cost-bearing interest
3 owners?

4 A. Correct.

5 Q. So you are not seeking to impose the 200 percent
6 cost-risk charge against those owners in this case?

7 A. Correct.

8 Q. Now, tell me about the status of the lands here
9 that you're seeking to pool. What is the mineral
10 ownership in this acreage?

11 A. They are all federal leases.

12 Q. Are there any depth severances within the pool
13 that you're seeking to consolidate here?

14 A. No.

15 Q. Referring to what's been marked as Exhibit No. 1
16 in the exhibit packet before you, are these the C-102s
17 that are in draft form for each of proposed six wells that
18 are the subject of this application?

19 A. Yes.

20 Q. And have you identified the pool that would
21 be -- that these wells would be assigned to in this case?

22 A. Yes. Yeso.

23 Q. And does SEP Permian also intend to batch drill
24 these wells?

25 A. Yes. We are going to batch drill three wells

1 per pad and two separate pads.

2 Q. When you say batch drill, you mean you're going
3 to drill these wells at the same time or sequentially all
4 at once?

5 A. Yes.

6 Q. Now, looking at what's been -- Exhibit 1 on the
7 C-102, which is the third one in, third page in for the
8 Durami 33 Fed Com 4H well, is that the well that would
9 serve as the defining well for the spacing unit?

10 A. Yes.

11 Q. And is that the well that would allow -- that
12 allows you under the Division rules to create an expanded
13 320-acre spacing unit to include the proximity tracts?

14 A. Yes.

15 Q. With that, within this proposed spacing unit,
16 are the wells identified on the C-102 as proposed in the
17 application, are they all within the statewide setback
18 rules required under Division regulations?

19 A. Yes.

20 Q. And are the first and last take points for each
21 of the wells identified for each of these C-102s?

22 A. Yes.

23 Q. Turning to what's been marked as Exhibit 2, will
24 you just review for the examiner what the first page of
25 this exhibit is, what it shows.

1 A. Yes. This is a tract breakdown of the working
2 interest ownership and overriding royalty interests within
3 our proposed spacing unit.

4 Q. And on that exhibit you're seeking to pool only
5 those individuals identified as overriding royalty
6 interest owners?

7 A. Yes.

8 Q. And flipping to the last page of that exhibit,
9 is that a recapitulation of the ownerships of each of
10 those owners, a proportionate ownership of each owner on
11 your identified list?

12 A. It is.

13 Q. And again are you seeking to pool only those
14 identified here as overriding royalty interest owners?

15 A. Yes.

16 Q. Because you reached agreement with everybody
17 else?

18 A. Yes.

19 Q. Were the working interest owners identified on
20 that chart locatable?

21 A. Yes.

22 Q. So you have a valid and correct address for each
23 of those parties?

24 A. Yes.

25 Q. And that's because they are all in your paydex,

1 is that true?

2 A. Yes.

3 Q. So you're currently sending them payments on
4 other properties and they are receiving those checks
5 correctly?

6 A. Yes.

7 Q. Exhibit 3, is that a copy of the of notification
8 record letter you send to each of those overrides
9 apprising them of SEP's plans to drill these wells?

10 A. It is.

11 Q. And to seek their consent?

12 A. Yes.

13 Q. Exhibit 4, is that a copy of an affidavit
14 prepared by my office reflecting that we provided Notice
15 to each of those owners with an overriding royalty
16 interest at the addresses you provided to us?

17 A. It is.

18 Q. And the next page of that exhibit is a copy of
19 the Notice Letter that was sent to each of those owners --

20 A. Yes.

21 Q. -- giving them notice of today's hearing before
22 the Division?

23 A. Yes.

24 Q. And the subsequent page, is that a copy of the
25 information sheet as to the status of delivery of those

1 Notice Letters?

2 A. Yes.

3 Q. And you see there is one that remains in transit
4 at the time this report was printed. It's your
5 understanding that that address is a correct, valid
6 address for that entity?

7 A. Yes.

8 Q. That's the Nearburg Producing Company.

9 And that's because you're currently sending
10 them, again currently sending them payments on other
11 properties at that same address?

12 A. Yes.

13 Q. Flipping through the remainder of the pages of
14 this exhibit, the last two pages, is that a copy of an
15 Affidavit of Publication reflecting that notice was
16 printed of today's hearing and of the Application in a
17 newspaper of general circulation in the county in which
18 the wells are proposed?

19 A. It is.

20 Q. And that advertisement identifies each of those
21 overriding royalty owners by name?

22 A. Yes.

23 Q. Mr. Bell, were each of those Exhibits 1
24 through 3 prepared by you or under your direction and
25 supervision and with company records?

1 A. Yes.

2 MR. RANKIN: At this time, Mr. Examiner, I would
3 move the admission of Exhibits 1 through 4 into the
4 record, which includes my Affidavit of Notice that we sent
5 notice out to teach of the parties that we are seeking to
6 pool here today.

7 EXAMINER GOETZ: Very good. Exhibits 1 through
8 4 are so entered.

9 MR. RANKIN: No further questions. I pass the
10 witness at this time.

11 EXAMINER GOETZ: Any questions?

12 EXAMINER ROSE-COSS: No questions.

13 EXAMINER AMES: None.

14 EXAMINER GOETZ: I have no questions for this
15 witness.

16 Thank you very much.

17 MR. RANKIN: Mr. Examiner, I would ask our
18 second witness to approach the witness stand.
19 Mr. Lipinski.

20 CHRISTOPHER JEREMY LIPINSKI,
21 having been previously sworn, testified as follows:

22 DIRECT EXAMINATION

23 BY MR. RANKIN:

24 **Q. Mr. Lipinski, will you please state your name**
25 **for the record.**

1 A. Christopher Jeremy Lipinski.

2 Q. And by whom are you employed?

3 A. Spur Energy Partners.

4 Q. And that's as a petroleum geologist; is that
5 correct?

6 A. Yes.

7 Q. You previously testified before the Division and
8 had your credentials as an expert petroleum geologist
9 accepted for the record?

10 A. Yes.

11 Q. And you're familiar with the case filed?

12 A. Yes.

13 Q. And did you conduct a study of the geology of
14 the lands underlying the proposed spacing unit in the
15 area?

16 A. I did.

17 MR. EXAMINER: Mr. Examiner, at this time I
18 would tender Mr. Lipinski as an expert in petroleum
19 geology.

20 EXAMINER GOETZ: He is so qualified.

21 MR. RANKIN: Thank you.

22 Q. Mr. Lipinski, Will you please turn to what's
23 been marked as Exhibit 5 in your exhibits before you.

24 (Note: Reporter interruption.)

25 Mr. Lipinski, on Exhibit 5 just review for

1 **the examiners what this exhibit shows.**

2 A. Exhibit 5 is a basemap for the Durami Fed Com
3 pooling unit, and the red dashed box shows the pooling
4 unit that we are proposing. Within that the black lines
5 are representing the proposed wells within that pooling
6 unit.

7 The yellow boxes indicate Spur's leaseholds
8 within the area.

9 The wells with a purple box around them are
10 vertical wells with Yeso perforations in the Glorieta-Yeso
11 Formation. The upper-left-hand corner calls the proposed
12 development wells.

13 **Q. Moving on to Exhibit 6, what does that exhibit**
14 **show?**

15 A. Exhibit 6 is a structural contour map. It
16 identifies the top of the Glorieta for the immediate area
17 surrounding the pool. This is a 25-foot contour. The
18 data points that were used are shown in the red text. The
19 cooler colors, the blues and purples, are the deeper, and
20 the oranges and yellows and red show the shallower.

21 Overall it shows a very gentle dip to the
22 east southeast at a 1 1/2 to 2 1/2 degrees.

23 Also shown on here are the five wells used
24 for the cross section to represent the geology through the
25 pooling unit and connected by a dashed lines from A to on

1 A prime or north to south.

2 Q. And those will be -- those wells that you used
3 to create that structure map are your next exhibit,
4 correct?

5 A. Correct.

6 Q. Now real quickly let's talk about the preferred
7 orientation here. Can you identify the basic geology for
8 the preferential orientation as stand-up or lay-down wells
9 in this area?

10 A. There's no geologic evidence for preferred
11 orientation.

12 Q. Is it, according to what we see on these maps,
13 some wells are stand-up, some lay-down within the same
14 formation? Is that correct?

15 A. Correct.

16 Q. And based on the analysis here of the top, using
17 the structure map have you identified any pinchouts,
18 geologic impediment or faulting that would impede your
19 plan for horizontal development in this spacing unit?

20 A. I have not.

21 Q. In your opinion is this Structure Top Glorieta,
22 representative of the structure of the Yeso Formation?

23 A. Yes.

24 Q. Now let's talk about your cross section from A
25 to A prime on your next exhibit, 7. What does that show?

1 A. These are five wells which are highlighted with
2 pink dots. And the previous exhibit, the A to A prime,
3 north to south. Two them go through the unit. And the
4 far left track is the gamma track, on the middle is the
5 resistivity logs, and the right track for each well is the
6 neutron density porosity curves.

7 The red dashed line is the top of the
8 Glorieta pick, the blue dashed line is the top of the Yeso
9 pick, and the yellow dashed line is the base of the Yeso.

10 There's also colored dots labeled for the
11 landing zones for the development wells proposed.

12 Q. And based on your assessment and analysis of the
13 geology of the area, would you affirm that the target
14 intervals on each those are consistent across the proposed
15 spacing unit here?

16 A. Yes.

17 Q. And is it your opinion that this acreage is
18 suitable for horizontal development?

19 A. It is.

20 Q. Do you expect each quarter-quarter section that
21 comprise this proposed 320-acre spacing unit will
22 contribute more or less equally to production from the
23 wells?

24 A. I do.

25 Q. And in your opinion is the State's granting of

1 this application in the best interest of conservation,
2 prevention of waste, and protection of correlative
3 rights?

4 A. Yes.

5 MR. RANKIN: Let me make sure I got everything
6 in I wanted to get in.

7 And I did.

8 Q. Mr. Lipinski, were Exhibits 5, 6 and 7 prepared
9 by you or under your direction or supervision using
10 company business records?

11 A. They were.

12 MR. EXAMINER: Mr. Examiner, I would move the
13 admission of Exhibits 5, 6 and 7 into the record.

14 EXAMINER GOETZ: Exhibits 5, 6 and 7 are so
15 entered.

16 MR. RANKIN: No further questions of the
17 witness.

18 EXAMINER GOETZ: Mr. Rose-Coss.

19 CROSS EXAMINATION

20 BY EXAMINER ROSE-COSS:

21 Q. Was there any reason in this case as to why you
22 decided to run your cross section from north to south
23 instead of the east to west direction that the wells are
24 running?

25 A. It was just due to availability of logs. We had

1 more digital logs going north/south than we did going
2 across east/west.

3 Q. That makes sense.

4 I see you're targeting the 8H target in the
5 cross section. It's surrounded by higher gamma ray
6 readings. Are you worried at all about landing in that
7 zone in this area, or that that shouldn't be a concern for
8 that particular --

9 A. We are not concerned. We've landed a horizontal
10 in the equivalent of a few units over in between those
11 intervals before.

12 MR. ROSE-COSS: Those are all my questions.
13 Thank you.

14 EXAMINER GOETZ: Mr. Ames.

15 EXAMINER AMES: Nothing.

16 EXAMINER GOETZ: Just one question.

17 CROSS EXAMINATION

18 BY EXAMINER GOETZ:

19 Q. In your Exhibit No. 6, Section 33 I'm assuming
20 all these wells that are the shown here are Yeso clay
21 wells. Correct?

22 A. All the -- well, all the horizontals in here are
23 Yeso horizontal wells. Vertical wells were
24 structurally -- or those deeper gas wells or shallow.

25 Q. So north of the 33, the two features shown there

1 **are horizontals in the Yeso.**

2 A. That's correct.

3 **Q. Do you know, just out of curiosity, what the**
4 **acreage in 34 is where you're starting your well?**

5 A. Uhm.

6 **Q. Who owns that?**

7 A. That's Permian acreage, as well. That's our
8 Lockwood unit, which has been pooled.

9 EXAMINER GOETZ: Okay. No more questions.
10 Thank you.

11 THE WITNESS: Uh-huh.

12 MR. RANKIN: Mr. Examiner, I would request that
13 Case No. 20819 be taken under advisement.

14 EXAMINER GOETZ: Case 20819 is taken under
15 advisement. Thank you.

16 Off the record.

17 (Time noted 2:51 p.m.)

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COUNTY OF TAOS)

I, MARY THERESE MACFARLANE, New Mexico Reporter

I FURTHER CERTIFY that I am neither employed by
ed to nor contracted with (unless excepted by the
y of the parties or attorneys in this case, and
ve no interest whatsoever in the final
on of this case in any court.

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