

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: 21048

APPLICATION OF LIME ROCK RESOURCES II-A LP  
FOR COMPULSORY POOLING,  
EDDY COUNTY, NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

FEBRUARY 20, 2020

SANTA FE, NEW MEXICO

This matter came on for hearing before the New Mexico Oil Conservation Division, EXAMINERS FELICIA ORTH and LEONARD LOWE on Thursday, February 20, 2020, 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: Irene Delgado, NMCCR 253  
PAUL BACA PROFESSIONAL COURT REPORTERS  
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Albuquerque, NM 87102  
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1 A P P E A R A N C E S

2 For the Applicant:

3 ADAM RANKIN  
 4 HOLLAND & HART  
 5 110 North Guadalupe, Suite 1  
 Santa Fe, NM 87501  
 505-954-7286

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8 I N D E X

9	CASE CALLED	03
10	TAKEN UNDER ADVISEMENT	16
11	REPORTER CERTIFICATE	17

12 W I T N E S S E S

13	DOUGLAS WILLIAM LACEY	
14	Direct by Mr. Rankin	03
15	Examiner Questions	15

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

17		Admitted
18	Exhibits 1 through 7 and Attachments	15

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1                   HEARING EXAMINER ORTH: Now that was 1 through  
2 14, we've already addressed 16 and 17, and so let's move  
3 back to matter Number 15, which is Lime Rock as the  
4 applicant, compulsory pooling case, and the name of the well  
5 is Condor. Mr. Rankin?

6                   MR. RANKIN: Good morning, Madam Examiner,  
7 appearing of behalf of the applicant in this case with the  
8 Santa Fe office of Holland & Hart. With me this morning I  
9 have one witness.

10                  HEARING EXAMINER ORTH: Tell me your name.

11                  THE WITNESS: Doug Lacey.

12                  HEARING EXAMINER ORTH: Would you raise your  
13 right hand. Do you swear or affirm that the testimony you  
14 are about to give will be the truth, the whole truth, and,  
15 nothing but the truth?

16                  THE WITNESS: I do.

17                  HEARING EXAMINER ORTH: Thank you.

18                                 DOUGLAS WILLIAM LACEY

19                                 (Sworn, testified as follows:)

20                                 DIRECT EXAMINATION

21 BY MR. RANKIN:

22                 **Q. Good morning, Mr. Lacey.**

23                 A. Good morning.

24                 **Q. Would you please state your full name for the**  
25 **record.**

1           A.     Douglas William Lacey.

2           Q.     By whom are you employed?

3           A.     Lime Rock Resources.

4           Q.     And what's your job with Lime Rock?

5           A.     Landman.

6           Q.     Have you previously testified before the  
7   Division?

8           A.     Yes.

9           Q.     Have you had your credentials as an expert  
10   petroleum landman accepted as a matter of record?

11          A.     Yes.

12          Q.     You are familiar with the application that Lime  
13   Rock filed in this case?

14          A.     Yes.

15          Q.     Have you conducted a study of the land and  
16   ownership of the land that are the subject of this pooling  
17   application?

18          A.     Yes.

19                MR. RANKIN:  At this time, Madam Examiner, I  
20   would retender Mr. Lacey as an expert in petroleum land  
21   matters.

22                HEARING EXAMINER ORTH:  He is so recognized.

23   BY MR. RANKIN:

24          Q.     Mr. Lacey, if you would, referring to Exhibit 1  
25   in your exhibit packet, C-102 forms for each of the wells

1     that are proposed for this pooling application, will you  
2     review for the Examiners what it is that Lime Rock is  
3     requesting with this application?

4           A.     200 acre unit making up in Sections 7 and 8 with  
5     a surface location of Section 9.

6           Q.     So you are seeking to pool which formation and  
7     which --

8           A.     The Yeso.

9           Q.     The Yeso. And you are seeking to pool all  
10    uncommitted interest owners within this acreage?

11          A.     Yes.

12          Q.     And are there -- what are the names of the two  
13    wells you are seeking to dedicate to this spacing unit?

14          A.     Condor 8 Federal Com 3H and 4H.

15          Q.     Now, looking at the C-102s, will both of these  
16    wells be drilled in the adjacent Section 9 from the surface  
17    location in the adjacent Section 9?

18          A.     Yes.

19          Q.     To the spacing unit?

20          A.     Yes.

21          Q.     And each well will comply with the standard  
22    setback requirements for oil wells in the state?

23          A.     Yes.

24          Q.     Now, have you recently confirmed that the subject  
25    pool that is within the spacing unit is the Red Lakes

1     Glorietta Yeso Pool, Pool Code 51120?

2             A.     Yes.

3             Q.     And what is the nature of the land within the  
4     proposed spacing unit? Is it federal, state or fee?

5             A.     It's all federal.

6             Q.     Now are there any depth severances within the  
7     proposed spacing unit?

8             A.     Yes.

9             Q.     And what is the depth severance? What is the  
10    footage, total vertical depth of the depth severance?

11            A.     There's a 3000 foot depth severance in Tract 3 on  
12    the exhibit.

13            Q.     So looking at what's been marked Exhibit Number 2  
14    in your exhibit packet, before we get too much more into  
15    depth on this, can we just review what Exhibit 2 shows?

16            A.     Those are the three different federal leases with  
17    the, with the well in red.

18            Q.     So first page shows the 3H well in relation to  
19    each of the tracts that are comprising the spacing unit?

20            A.     Correct.

21            Q.     And the next page of the exhibit shows the 4H  
22    well across each of the three tracts that comprise the  
23    spacing unit?

24            A.     Yes.

25            Q.     Okay. Now, the following pages, does it identify

1 the ownership interest on a tract basis of all the parties  
2 that have an interest within the spacing unit?

3 A. Yes.

4 Q. And on the next page of the exhibit, is there a  
5 recapitulation of the ownership interest across the spacing  
6 unit basis?

7 A. Yes.

8 Q. And is the company in yellow that's the company  
9 that Lime Rock is seeking to pool, the working interest that  
10 Lime Rock is seeking to pool in this case?

11 A. Yes.

12 Q. Does ZPZ Delaware 1 LLC own 60 percent interest  
13 on a unified basis?

14 A. Yes.

15 Q. And their interest is solely within Tract 3; is  
16 that correct?

17 A. Correct.

18 Q. Okay. Now, the last page of that exhibit,  
19 Mr. Lacey, is Lime Rock seeking to pool the overriding  
20 royalty interest owners within the spacing unit?

21 A. Yes.

22 Q. Is that a complete list of all the overrides that  
23 have an interest within the spacing unit?

24 A. Yes.

25 Q. Let's talk about the depth severance you

1 mentioned. You said it was in Tract 3. So looking at the  
2 first page of your exhibit, Tract 3 is the tract that is  
3 highlighted with the amber color on the right side of the  
4 spacing unit; is that correct?

5 A. Yes.

6 Q. Okay. What is the total vertical depth target  
7 interval of the proposed wells for this case?

8 A. It's going to approximate 3850. It's -- it's  
9 slanted, so that's a general.

10 Q. Okay. And you said the depth severance is at  
11 3000 feet?

12 A. Yes.

13 Q. So these wells are both going to be targeting  
14 acreage below the depth severance?

15 A. Yes.

16 Q. Will you explain, looking at Exhibit 2, where  
17 exactly the depth severance is located, which parties are  
18 affected by the depth severance looking at that exhibit?

19 A. Lime Rock has above 3000 feet, and ZPZ has the  
20 interest below 3000 feet.

21 Q. And there is no depth severance in Tracts 1 and  
22 2; is that correct?

23 A. That's correct.

24 Q. So that means that the proposed wells will be  
25 drilled and completed within the vertical portion of the



1 pool where ZPZ owns 100 percent of the interest below that  
2 3000 foot depth severance?

3 A. Correct.

4 Q. And who else will be -- that's in the depth in  
5 which Lime Rock owns no interest?

6 A. Correct.

7 Q. So have the parties been able to -- have they  
8 discussed a potential resolution to come up with a manner by  
9 which they would allocate production across the acreage?

10 A. As to the depth severance?

11 Q. Yes. Ye?

12 A. We are going to, we are going to treat it as if  
13 there is no depth severance and credit ZPZ with 100 percent  
14 of the costs and production in that Tract 3.

15 Q. So the parties, did they reach agreement on that,  
16 or they were unable to reach agreement on how to allocate  
17 production?

18 A. I would say they would agree to getting 100  
19 percent.

20 Q. Okay. All right. So in this case then, what you  
21 are proposing is that, because this well has been completed,  
22 we assume that the portion of the pool in which ZPZ owns 100  
23 percent of the pool within Tract 3, that the pooling order  
24 should credit 100 percent of the production and costs  
25 related to the drilling of the well and production of the

1 well to ZPZ on a proportionate basis within that tract; is  
2 that correct

3 A. Yes.

4 Q. And are there any parties who would potentially  
5 be affected by that approach?

6 A. Only Lime Rock, we own the interest above the  
7 3000 foot.

8 Q. So no other party would be impaired other than  
9 Lime Rock itself based on your proposal?

10 A. Correct.

11 Q. And this result that you are proposing would be  
12 the same as if Lime Rock had filed an application to  
13 compulsory pool, a limited extent, limited vertical extent  
14 within the acreage formation from 3000 feet to the base of  
15 the pool; is that correct?

16 A. That's correct.

17 Q. Okay. So now, moving on to the parties that you  
18 are seeking to pool, were you able to identify valid  
19 addresses for each of working interest owners and overrides  
20 you are seeking to pool here today?

21 A. Yes.

22 Q. And did you provide a well proposal letter and  
23 estimate of costs to ZPZ, the only other working interest  
24 owner that you are seeking to pool?

25 A. Yes.

1 Q. Is Exhibit 3 a copy of that well proposal letter  
2 that you provided to ZPZ?

3 A. Yes.

4 Q. Did each include an AFE estimate of costs?

5 A. Yes.

6 Q. Are the costs that are reflected in the well  
7 proposal letter, are they consistent with what Lime Rock and  
8 what other operators have incurred with drilling similar  
9 wells within the area?

10 A. Yes.

11 Q. And after submitting the well proposal letters in  
12 December, what additional efforts did you undertake to reach  
13 agreement with ZPZ?

14 A. Just e-mails and phone calls following up.

15 Q. Now, did the company, did Lime Rock recently  
16 advise ZPZ of a necessary change in the target interval for  
17 both the 3 and 4H well?

18 A. Only in one of them.

19 Q. Okay. Just, just the 3H well?

20 A. Let me see. The 3H

21 Q. Is Exhibit 4 a copy of that notice to ZPZ that  
22 you proposed a change the target interval within the Yeso  
23 formation?

24 A. Yes.

25 Q. Why is it that Lime Rock opted to make the change

1 to the target interval?

2 A. Based on the success of wells we drilled last  
3 year, we think we get more efficient fracs if we start  
4 deeper.

5 Q. So you identified a lower zone within the, within  
6 the formation?

7 A. Yes.

8 Q. Okay. And that zone is, as you previously  
9 testified, is below the depth severance?

10 A. Yes.

11 Q. It's approximately how much lower below the depth  
12 severance?

13 A. 580 feet.

14 Q. That's true for both wells?

15 A. Yes.

16 Q. Now, what overhead rates are Lime Rock seeking to  
17 charge through this order?

18 A. 8000 drilling, 800 producing.

19 Q. Are those costs in line with what Lime Rock and  
20 other operators are charging for overhead rates in this  
21 area?

22 A. Yes.

23 Q. Now, Mr. Lacey, turning to what's been marked as  
24 Exhibit 5 in your exhibit notebook, is that an affidavit  
25 prepared by Mr. Stan Bishop.

1 A. Yes.

2 Q. Who is Mr. Bishop?

3 A. He is our geologist.

4 Q. And this affidavit reflects he's been employed as  
5 a geologist by Lime Rock for 14 years?

6 A. Yes.

7 Q. And has Mr. Bishop previously testified before  
8 the Division by affidavit and had his credentials as an  
9 expert in petroleum geology accepted as a matter of record?

10 A. Yes.

11 Q. Does the company rely on his expertise in  
12 geology?

13 A. We do.

14 Q. Does his affidavit discuss the Yeso formation  
15 underlying the proposed spacing units?

16 A. Yes.

17 Q. And does it identify the target intervals and the  
18 propriety of drilling the proposed wells within the spacing  
19 unit?

20 A. Yes.

21 Q. It also includes exhibits reflecting the  
22 structure map and stratigraphic cross section confirming his  
23 analysis of the appropriateness for these wells in this  
24 acreage?

25 A. Yes.

1           Q.     Finally, Mr. Lacey, Exhibit 6 is an affidavit  
2     prepared by me and my office reflecting that we provided  
3     notice of today's hearing to each of the owners you  
4     identified to us requiring notice for pooling.

5                     And the subsequent page is a copy of the letter  
6     that we sent on January 28, and then on January 17 to the  
7     overriding royalty interest owners, and the following pages  
8     is a copy of the status of the United States Postal Service  
9     tracking information showing that each of the parties have  
10    been sent certified mail, notice of the application and  
11    hearing.

12           A.     Yes.

13           Q.     And then Exhibit 7 is a copy of the affidavit of  
14    publication reflecting that each of those parties have been  
15    identified by name giving them notice of today's hearing; is  
16    that correct?

17           A.     Exhibit 7?

18           Q.     Yes.

19           A.     That's the affidavit of publication. Is that  
20    your question?

21           Q.     Yes.

22           A.     Yes.

23                     MR. RANKIN: With that, Madam Chair, I would move  
24    the admission of Exhibits 1 through 7 into the record.

25                     HEARING EXAMINER ORTH: They will be accepted.

1     Okay.  Do you have any questions, Mr. Lowe.

2                     (Exhibits 1 through 7 admitted.)

3                     EXAMINER LOWE:  Yes, I have a few questions.

4     Good morning.

5                     THE WITNESS:  Good morning.

6                     EXAMINER LOWE:  What's your total acreage?  Are  
7     they about the same that you are seeking?

8                     THE WITNESS:  The same 200 acres.

9                     EXAMINER LOWE:  200 acres?

10                    THE WITNESS:  200 acre unit, yeah.

11                    EXAMINER LOWE:  And are these both, both wells  
12     are, are under the same scenario in section -- or Tract 3  
13     they both have been --

14                    THE WITNESS:  Yes.

15                    EXAMINER LOWE:  Are these wells toe up or toe  
16     down?

17                    THE WITNESS:  I'm not sure.  I think that's  
18     indicated in the geology exhibit.  I believe it's toe up.

19                    EXAMINER LOWE:  Toe up, okay.

20                    THE WITNESS:  But for the record, I'm just a  
21     landman.

22                    EXAMINER LOWE:  I'm sorry for my late arrival,  
23     but what were the pools you were seeking for the two wells  
24     again?

25                    THE WITNESS:  Yeso.

1                   EXAMINER LOWE:   Yeso.   Okay.   And who prepared  
2   the C-102s for all of your --

3                   THE WITNESS:   We have that contracted out.

4                   EXAMINER LOWE:   You did.   I was curious to know  
5   that.   At times we get several C-102s, and the majority  
6   never indicate acreages or the pool name or the pool code.  
7   It would make it a lot easier for us to, to process anything  
8   we get on our end if we had a C-102 in full form as much as  
9   possible.

10                  THE WITNESS:   I believe that's Permits West, and  
11   I will let them know.

12                  EXAMINER LOWE:   That's all the questions I have.  
13   Thank you.

14                  THE WITNESS:   All right.

15                  HEARING EXAMINER ORTH:   Exhibits 1 through 7 are  
16   admitted.   Is there anything else?

17                  MR. RANKIN:   No further questions, Madam  
18   Examiner.   I ask that case 20148 be taken under advisement.

19                  HEARING EXAMINER ORTH:   And it will be.   Thank  
20   you.

21                         (Taken under advisement.)

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1 STATE OF NEW MEXICO  
2 COUNTY OF BERNALILLO

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4 REPORTER'S CERTIFICATE

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6 I, IRENE DELGADO, New Mexico Certified Court  
7 Reporter, CCR 253, do hereby certify that I reported the  
8 foregoing proceedings in stenographic shorthand and that the  
9 foregoing pages are a true and correct transcript of those  
10 proceedings that were reduced to printed form by me to the  
11 best of my ability.

12 I FURTHER CERTIFY that the Reporter's Record of  
13 the proceedings truly and accurately reflects the exhibits,  
14 if any, offered by the respective parties.

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

19 Dated this 20 day of February 2020.

20

21

Irene Delgado, NMCCR 253  
License Expires: 12-31-20

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