

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:

APPLICATION OF OXY USA WTP LIMITED	CASE NOS. 15776,
PARTNERSHIP FOR A NONSTANDARD SPACING	15777,
AND PRORATION UNIT AND COMPULSORY	15778,
POOLING, EDDY COUNTY, NEW MEXICO.	15779

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

September 14, 2017

Santa Fe, New Mexico

BEFORE: MICHAEL McMILLAN, CHIEF EXAMINER
GABRIEL WADE, LEGAL EXAMINER

This matter came on for hearing before the New Mexico Oil Conservation Division, Michael McMillan, Chief Examiner, and Gabriel Wade, Legal Examiner, on Thursday, September 14, 2017, 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.

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APPEARANCES

FOR APPLICANT OXY USA WTP LIMITED PARTNERSHIP:

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1 (10:08 a.m.)

2 EXAMINER McMILLAN: I'd like to call the
3 hearing back to order.

4 I would like to call Case Number 15776,
5 application of OXY USA WTP, Limited Partnership for a
6 nonstandard spacing and proration unit and compulsory
7 pooling, Eddy County, New Mexico. This shall be
8 combined with the following three cases: Case Number
9 15777, application of OXY USA WTP Limited Partnership
10 for a nonstandard spacing and proration unit and
11 compulsory pooling, Eddy County New Mexico; Case Number
12 15778, application of OXY USA WTP Limited Partnership
13 for a nonstandard spacing and proration unit and
14 compulsory pooling, Eddy County, New Mexico; and Case
15 Number 15779, application of OXY USA WTP Limited
16 Partnership for a nonstandard spacing and proration unit
17 and compulsory pooling, Eddy County, New Mexico.

18 Call for appearances.

19 MR. FELDEWERT: May it please the Examiner,
20 Michael Feldewert, with the Santa Fe office of Holland &
21 Hart, appearing on behalf of the Applicant in these four
22 consolidated cases, and I have two witnesses here today.

23 EXAMINER McMILLAN: Any other appearances?
24 Please proceed.

25 MR. FELDEWERT: Mr. Examiner, I believe the

1 witnesses have already been sworn, so we can call our
2 first witness.

3 EXAMINER McMILLAN: Please proceed.

4 INDIA ISBELL,

5 after having been previously sworn under oath, was
6 questioned and testified as follows:

7 DIRECT EXAMINATION

8 BY MR. FELDEWERT:

9 Q. Would you please state your name, identify by
10 whom you're employed and in what capacity?

11 A. India Isbell, OXY USA WTP LP. I'm a land
12 negotiator advisor.

13 Q. Ms. Isbell, have you previously testified
14 before this Division as an expert in petroleum land
15 matters?

16 A. Yes, I have.

17 Q. Are you familiar with the applications that
18 have been filed in these four consolidated cases?

19 A. Yes, I am.

20 Q. Are you familiar with the status of the lands
21 in the subject area?

22 A. Yes, I am.

23 MR. FELDEWERT: I tender Ms. Isbell as an
24 expert witness in petroleum land matters.

25 EXAMINER McMILLAN: So qualified.

1 Q. (BY MR. FELDEWERT) Would you please explain to
2 the Examiner what OXY seeks under these four
3 consolidated applications?

4 A. We are seeking to form four nonstandard spacing
5 units comprised of 312 acres, approximately. The wells
6 will be lay-down Bone Spring wells. We're also seeking
7 to pool uncommitted interest owners.

8 Q. Okay. If I turn to what's been marked as OXY
9 Exhibit Number 1, is this the -- are these the filed --
10 the APDs for the four wells that are at issue here
11 today?

12 A. Yes.

13 Q. And you mentioned that the dedicated acreage is
14 roughly 312 acres?

15 A. That's correct.

16 Q. Is that the equivalent of the 320-acre
17 nonstandard spacing unit?

18 A. Yes. Section 7 is an irregular section, so
19 it's a little smaller.

20 Q. As a result of the irregular Section 7, are
21 there times when the C-101s and C-102s don't exactly
22 match in terms of description and the surface location
23 and bottom-hole location when it comes to the unit
24 number or lot?

25 A. Yes.

1 Q. But am I correct, Ms. Isbell, that whether you
2 use the numeric lot or alphabetic lot -- letter, that
3 it's the equivalent?

4 A. Yes.

5 Q. And does each -- does this exhibit identify for
6 the Examiner not only the proposed nonstandard spacing
7 unit, but the API number for each well?

8 A. Yes.

9 Q. Does it also provide the pool and pool code?

10 A. Yes.

11 Q. And is this particular pool governed by the
12 Division statewide rules?

13 A. Yes.

14 Q. And the completed interval for each of these
15 wells will comply with the setback requirements?

16 A. Yes.

17 Q. In terms of the acreage that's involved, is
18 this all state land?

19 A. It is.

20 Q. And how many state leases are involved?

21 A. One.

22 Q. Okay. If I turn to what's been marked as OXY
23 Exhibit Number 2, does this provide an ownership
24 breakdown for the nonstandard -- for each of the four
25 nonstandard spacing units?

1 A. Yes.

2 Q. Is there a slight difference in the percentage
3 ownership as you move from the north to the south of
4 these two sections?

5 A. Yes, very small.

6 Q. But are the parties the same?

7 A. The parties are the same.

8 Q. What is the total uncommitted interest
9 percentage?

10 A. Approximately, 3.7 percent.

11 Q. And does this exhibit identify the parties that
12 the company currently seeks to pool?

13 A. Yes.

14 Q. And how are they identified?

15 A. They are highlighted in yellow.

16 Q. Are there any of these pooled parties that the
17 company has been unable to locate?

18 A. No.

19 Q. Nonetheless, has -- out of an abundance of
20 caution, did the company provide notice by publication
21 in a local newspaper a listing of each of these pooled
22 parties?

23 A. Yes.

24 Q. Are those notices -- or Affidavits of
25 Publication contained in OXY Exhibit Number 3?

1 A. Yes.

2 Q. And there is a separate notice for each
3 particular well and spacing unit, correct?

4 A. That's correct.

5 Q. If I turn to OXY Exhibit Number 4, are these
6 copies of the well-proposal letter that went out to all
7 of the working interest owners?

8 A. Yes.

9 Q. And you sent this out for all four wells under
10 a single letter?

11 A. That's correct.

12 Q. And attached to that letter are four separate
13 AFEs --

14 A. Yes.

15 Q. -- that correspond with each proposal letter?

16 A. Yes.

17 Q. Are the costs reflected on these AFEs
18 consistent with what the company has incurred for
19 drilling similar horizontal wells in the Bone Spring
20 Formation?

21 A. Yes.

22 Q. Have you estimated the overhead and
23 administrative costs of drilling and producing these
24 wells?

25 A. Yes, 7,000 while drilling and 700 while

1 producing.

2 Q. And are there JOAs in place for this acreage?

3 A. Yes.

4 Q. Joint operating agreements?

5 A. Yes.

6 Q. And are these rates consistent with what is set
7 forth in the joint operating agreement?

8 A. Yes, it is.

9 Q. In addition to sending out the well-proposal
10 letter, what other efforts has the company undertaken to
11 reach a voluntary agreement with the remaining pooled
12 parties?

13 A. All parties have received the joint operating
14 agreement, and we are currently negotiating a term
15 assignment with two of the entities. And the other two
16 entities, I expect to receive the JOA any day now.

17 Q. So you've been able to contact all four pooled
18 parties?

19 A. Yes.

20 Q. In the event you reach an agreement with these
21 parties, they'll be released from the pooling order?

22 A. Yes.

23 Q. In preparation for this hearing, did the
24 company identify the operators and the lease mineral
25 owners in the 40-acre tracts surrounding each of the

1 proposed nonstandard spacing units?

2 A. Yes.

3 Q. And did the company include these offset owners
4 in the Notice of Hearing?

5 A. Yes.

6 Q. If I turn to what's been marked as OXY Exhibit
7 Number 5, is this an affidavit prepared by my office
8 with the attached letters providing notice of this
9 hearing to the affected parties?

10 A. Yes.

11 Q. And it's organized by the letter that's sent to
12 the pooled parties, first, correct?

13 A. That's correct.

14 Q. For each of the four wells?

15 A. Yes.

16 Q. And then behind that, there will be the letter
17 that was sent to the offset owners?

18 A. Yes.

19 Q. And in creating that list of the offset owners,
20 did you use the address of record for the company for
21 these offset owners?

22 A. Yes.

23 Q. Were Exhibits 1, 2 and 4 prepared by you or
24 compiled under your direction and supervision?

25 A. Yes.

1 MR. FELDEWERT: Mr. Examiner, I would move
2 the admission into evidence of OXY Exhibits 1 through 5,
3 which includes the Affidavit of Publication and then my
4 Notice of Affidavit.

5 EXAMINER McMILLAN: Exhibits 1 through 5
6 for Cases 15776, 15777, 15778 and 15779 may now be
7 accepted as part of the record.

8 (OXY USA WTP LP Exhibit Numbers 1 through 5
9 are offered and admitted into evidence.)

10 MR. FELDEWERT: And that concludes my
11 examination of this witness.

12 CROSS-EXAMINATION

13 BY EXAMINER McMILLAN:

14 **Q. What's the status of the wells?**

15 A. They have not been drilled. Let's see. The
16 first will be spud very soon, within a few days.

17 **Q. Okay. Any depth severances?**

18 A. No.

19 **Q. And no unlocated interests, correct?**

20 A. Correct.

21 EXAMINER WADE: I have no questions.

22 EXAMINER McMILLAN: No questions. Thank
23 you.

24 MR. FELDEWERT: We'll call our next
25 witness.

1 EXAMINER McMILLAN: You may proceed.

2 CHET BABIN,

3 after having been previously sworn under oath, was
4 questioned and testified as follows:

5 DIRECT EXAMINATION

6 BY MR. FELDEWERT:

7 Q. Would you please state your name, identify by
8 whom you're employed and in what capacity?

9 A. My name is Chet Babin. I'm employed by OXY USA
10 as a senior advisor reservoir engineer.

11 Q. Mr. Babin, you have previously testified before
12 this Division as an expert in petroleum engineering?

13 A. Yes.

14 Q. Are you familiar with the applications that
15 have been filed in these consolidated cases?

16 A. Yes.

17 Q. And did you review with OXY's geologic team a
18 technical study of the geology in the subject area?

19 A. Yes.

20 MR. FELDEWERT: I would tender Mr. Babin as
21 an expert witness in petroleum engineering.

22 EXAMINER McMILLAN: So qualified.

23 Q. (BY MR. FELDEWERT) Mr. Babin, what formation is
24 being developed under these consolidated applications?

25 A. The Bone Spring.

1 Q. And have you created -- has your team created a
2 structure map and a cross section for this location?

3 A. Yes.

4 Q. If I turn to what's been marked as OXY Exhibit
5 Number 6, is this a structure map of a broader area that
6 includes Sections 7 and 8 that are at issue in this
7 case?

8 A. Yes.

9 Q. Okay. And for the record, what's the
10 significance of the red box or the red -- the acreage
11 that's surrounded with the red lines on this exhibit?

12 A. That is OXY's lease outline for what is known
13 as the Turkey Track.

14 Q. Okay. And under these consolidated
15 applications, we're focused on the development of
16 Sections 7 and 8; is that correct?

17 A. Yes.

18 Q. All right. If I turn to what's been marked as
19 OXY Exhibit Number 7, is that a close-up of the
20 structure map of exhibits -- of Sections 7 and 8?

21 A. Yes.

22 Q. And I see that you've included on this B to B
23 prime. Does that correspond with the cross section?

24 A. Yes.

25 Q. Before we get to that, when you look at the

1 structure in this area, what do you observe with respect
2 to Sections 7 and 8?

3 A. That the Bone Spring is correlative from west
4 to east across the sections.

5 Q. Do you see any faulting in this particular
6 area?

7 A. No.

8 Q. And are there any pinch-outs or geologic
9 hazards to horizontal drilling?

10 A. No.

11 Q. With respect to the five wells that are shown
12 here in Exhibit Number 7, why did you choose those wells
13 for your cross section, B to B prime?

14 A. Those wells penetrate the Bone Spring Formation
15 and best represent it in the two sections.

16 Q. If I then turn to what's been marked as OXY
17 Exhibit Number 8, is this the cross section that
18 corresponds with the B to B prime shown on OXY Exhibits
19 6 and 7?

20 A. Yes.

21 Q. And for the record, would you explain to us,
22 starting from the top and moving to the bottom, what is
23 shown on here?

24 A. The Bone Spring Formation is comprised of a
25 carbonate sand sequence -- three carbonate sand

1 sequences. Starting at the top of the blue line is the
2 top of the 1st Bone Spring Lime. Moving then to the
3 yellow line is the top of the 1st Bone Spring Sand, with
4 the next blue line as the top of the 2nd Bone Spring
5 Lime. Moving then to the orange line is the top of the
6 2nd Bone Spring Sand. Moving then to the next blue line
7 is the top of the 3rd Bone Spring Lime. Moving next to
8 the gold line is the top of the 3rd Bone Spring Sand.
9 And the last gray line is the bottom of the 3rd Bone
10 Spring Sand, also known as the top of the Wolfcamp.

11 **Q. And what is the targeted interval for the wells**
12 **that are at issue under these consolidated applications?**

13 A. It's the 2nd Bone Spring Sand.

14 **Q. And what do you observe about the continuity of**
15 **this interval as you move across Sections 7 and 8?**

16 A. It's correlative across the section. The sand
17 is well developed as shown in the gamma ray. You can
18 also see the improvement of porosity, as well as the
19 lower resistivities indicating the presence of
20 hydrocarbons.

21 **Q. In your opinion, is this an area that can be**
22 **efficiently and economically developed by horizontal**
23 **wells?**

24 A. Yes.

25 **Q. And in your opinion, will each quarter-quarter**

1 section within this proposed nonstandard unit contribute
2 more or less equally to production from the wellbore?

3 A. Yes.

4 Q. And in your opinion, will the granting of this
5 application be in the best interest of conservation, the
6 prevention of waste and in the protection of correlative
7 rights?

8 A. Yes.

9 Q. Were OXY Exhibits 6 through 8 prepared by you
10 or compiled under your direction and supervision?

11 A. I'm sorry?

12 Q. Were OXY Exhibits 6 through 8 prepared by your
13 geologic team?

14 A. Yes.

15 MR. FELDEWERT: Mr. Examiner, I would move
16 admission into evidence of OXY Exhibits 6 through 8.

17 EXAMINER McMILLAN: Exhibits 6 through 8 in
18 Case 15776, Case 15777, Case 15778 and Case Number 15779
19 may now be accepted as part of the record.

20 (OXY USA WTP LP Exhibit Numbers 6 through 8
21 are offered and admitted into evidence.)

22 MR. FELDEWERT: That concludes my
23 examination of this witness.

24

25

1 CROSS-EXAMINATION

2 BY EXAMINER McMILLAN:

3 Q. All quarter-quarter sections are expected to
4 contribute equally to production?

5 A. Yes.

6 Q. And why was the 2nd Bone Spring chosen?

7 A. The 2nd Bone Spring is shown -- has been shown
8 to be economically productive in the general area.

9 Q. In the last case, you said you're testing the
10 3rd Bone Spring --

11 A. Yes.

12 Q. -- nearby area?

13 A. Yes, within the Turkey Track lease.

14 Q. But it's not proven, right, relative to the
15 2nd?

16 A. Correct.

17 EXAMINER WADE: I have no questions.

18 EXAMINER McMILLAN: I have no further
19 questions.

20 MR. FELDEWERT: Mr. Examiner, that
21 concludes our presentation in this matter -- or in these
22 consolidated matters.

23 EXAMINER McMILLAN: Okay. And then so
24 you're requesting --

25 Cases 15776, 15777, 15778 and 15779 shall

1 be taken under advisement.

2 Thank you.

3 (Case Numbers 15776, 15777, 15778 and 15779
4 conclude, 10:26 a.m.)

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1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO

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4 CERTIFICATE OF COURT REPORTER

5 I, MARY C. HANKINS, Certified Court
6 Reporter, New Mexico Certified Court Reporter No. 20,
7 and Registered Professional Reporter, do hereby certify
8 that I reported the foregoing proceedings in
9 stenographic shorthand and that the foregoing pages are
10 a true and correct transcript of those proceedings that
11 were reduced to printed form by me to the best of my
12 ability.

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

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

20

21

22 MARY C. HANKINS, CCR, RPR
23 Certified Court Reporter
24 New Mexico CCR No. 20
25 Date of CCR Expiration: 12/31/2017
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