

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. 15780,  
PARTNERSHIP FOR A NONSTANDARD SPACING                      15781  
AND PRORATION UNIT AND COMPULSORY  
POOLING, EDDY COUNTY, NEW MEXICO.

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.

REPORTED BY:   Mary C. Hankins, CCR, RPR  
                  New Mexico CCR #20  
                  Paul Baca Professional Court Reporters  
                  500 4th Street, Northwest, Suite 105  
                  Albuquerque, New Mexico 87102  
                  (505) 843-9241

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

# APPEARANCES

FOR APPLICANT OXY USA WTP LIMITED PARTNERSHIP:

MICHAEL H. FELDEWERT, ESQ.  
HOLLAND & HART, LLP  
110 North Guadalupe, Suite 1  
Santa Fe, New Mexico 87501  
(505) 988-4421  
mfeldewert@hollandhart.com

# INDEX

PAGE

Case Numbers 15780 and 15781 Called	3
OXY USA WTP Limited Partnership's Case-in-Chief:	
Witnesses:	
India Isbell:	
Direct Examination by Mr. Feldewert	4
Chet Babin:	
Direct Examination by Mr. Feldewert	12
Cross-Examination by Examiner McMillan	18
Proceedings Conclude	19
Certificate of Court Reporter	20

# EXHIBITS OFFERED AND ADMITTED

OXY USA WTP Limited Partnership Exhibit Numbers 1 through 5	10
OXY USA WTP Limited Partnership Exhibit Numbers 6 through 8	17

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

EXAMINER McMILLAN: I would like to call Case Number 15780, application of OXY USA, WTP Limited Partnership for a nonstandard spacing and proration unit and compulsory pooling, Eddy County, New Mexico. This case shall be combined with Case Number 15781, application of OXY USA, WTP Limited Partnership for a nonstandard spacing and proration unit and compulsory pooling, Eddy County, New Mexico.

Please proceed.

MR. FELDEWERT: May it please the Examiner, Michael Feldewert with the Santa Fe office of Holland & Hart, appearing on behalf of the Applicant, and I have two witnesses.

EXAMINER McMILLAN: Are there any other appearances?

Please proceed.

MR. FELDEWERT: We'll call our first witness, and I believe both of our witnesses have already been sworn.

INDIA ISBELL,  
after having been previously sworn under oath, was questioned and testified as follows:

1 DIRECT EXAMINATION

2 BY MR. FELDEWERT:

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

5 A. India Isbell, OXY USA WTP LP, as a land  
6 negotiator advisor.

7 Q. Ms. Isbell, you have previously testified  
8 before this Division as an expert in petroleum land  
9 matters?

10 A. Yes.

11 Q. Are you familiar with the politics that have  
12 been filed in these two consolidated matters?

13 A. Yes.

14 Q. And are you familiar with the status of the  
15 lands in the subject area?

16 A. Yes.

17 Q. What does the company seek under these two  
18 consolidated applications?

19 A. We are seeking to form two nonstandard spacing  
20 units. They would be 320-acre spacing units for the  
21 Bone Spring Formation and pool uncommitted interest  
22 owners.

23 Q. And these would be for two lay-down --

24 A. That's correct.

25 Q. -- two lay-down two-mile wells, roughly?

1           A.     That's correct.

2           Q.     If I turn to what's been marked as OXY Exhibit  
3     Number 1, are these the applications that have been  
4     filed with the Division for these two wells?

5           A.     Yes.

6           Q.     And, essentially, they seek to develop the  
7     south half of Sections 9 and 10?

8           A.     Correct.

9           Q.     Does this exhibit provide for the Examiner not  
10    only the location and description of the nonstandard  
11    spacing unit but also provide the API number for the  
12    proposed wells?

13          A.     Yes.

14          Q.     And the pool and the pool code?

15          A.     Yes.

16          Q.     Is this pool governed by the Division statewide  
17    rules?

18          A.     Yes, it is.

19          Q.     And will the completed interval for both of  
20    these wells comply with those setback requirements?

21          A.     Yes, it will.

22          Q.     What's the acreage that's involved?

23          A.     It's all state land.

24          Q.     And do you know how many leases?

25          A.     Roughly, three. I could be off on that.

1           Q.    If I turn to what's been marked as OXY Exhibit  
2   Number 2, does that confirm for you that there are three  
3   state leases?

4           A.    This actually outlines -- the various colors  
5   are the ownership.

6           Q.    Okay.

7           A.    I blocked it by ownership, not necessarily by  
8   lease.

9           Q.    Gotcha. All right.

10                         And we have a page here in Exhibit Number 2  
11   for the 23H and the second page for the 24H wells,  
12   correct?

13          A.    Correct.

14          Q.    Does each well have the same ownership?

15          A.    Yes. The parties are the same.

16          Q.    And is there any difference in the percentage  
17   of ownership?

18          A.    No.

19          Q.    Have you highlighted in yellow for the Examiner  
20   the interest owners that the company seeks to pool?

21          A.    Yes.

22          Q.    How many are there?

23          A.    There are five parties.

24          Q.    And what's their combined uncommitted  
25   percentage interest?

1           A.     Approximately, 2.7 percent.

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

4           A.     No.

5           Q.     Yet, nonetheless, out of an abundance of  
6     caution, did the company provide notice of this pooling  
7     by newspaper notice of each well?

8           A.     Yes.

9           Q.     And is that reflected in OXY Exhibit Number 3?

10          A.     Yes, it is.

11          Q.     If I turn to what's been marked as OXY Exhibit  
12     Number 4, is this the -- does this provide a copy of the  
13     well-proposal letters that were sent out for the two  
14     wells?

15          A.     Yes, it does.

16          Q.     And does each of those proposal letters include  
17     an AFE for the wells?

18          A.     Yes.

19          Q.     And are the costs consistent with what the  
20     company and other operators have incurred for drilling  
21     similar Bone Spring horizontal wells?

22          A.     Yes.

23          Q.     What is the overhead and the administrative  
24     costs that you seek under this application?

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

1           Q.    And is that consistent with the rates that are  
2   set forth in the executed JOA for the joint operating  
3   agreement for this acreage?

4           A.    Yes.

5           Q.    If I then turn -- well, before I get there,  
6   besides sending the well-proposal letter, what other  
7   efforts did the company undertake to reach an agreement  
8   with the five interest owners that you seek to pool?

9           A.    All have received the joint operating  
10   agreement. I've spoken with all of them. I'm in the  
11   process of negotiating a term assignment with two of  
12   them, and two of the other parties we actually can  
13   probably release from this force pooling because we've  
14   closed on a term assignment.

15          Q.    And who are those two other parties that you  
16   recently presently closed with a term assignment?

17          A.    Snow Oil and Gas and the Nona Snow Estate.

18          Q.    And actually those are the two parties that  
19   entered an appearance in this matter?

20          A.    Yes.

21          Q.    In the course of preparing for this hearing,  
22   did OXY provide -- or identify the operators in the  
23   leased mineral interest owners in the 40-acre tracts  
24   surrounding the proposed nonstandard spacing unit?

25          A.    Yes.

1           Q.    And have those offset owners been included in  
2 notice of this hearing?

3           A.    Yes.

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

8           A.    Yes.

9           Q.    And is it organized where the letter to the  
10 pooled parties is at the beginning?

11          A.    Yes.

12          Q.    And then halfway through -- roughly halfway  
13 through is the letter to the offset parties, correct?

14          A.    Yes.

15          Q.    For each of the proposed wells?

16          A.    Right.

17          Q.    Ms. Isbell, were OXY Exhibits 1, 2 and 4  
18 prepared by you or compiled under your direction and  
19 supervision?

20          A.    Yes.

21                   MR. FELDEWERT:  Mr. Examiner, I would move  
22 the admission into evidence of OXY Exhibits 1 through 5,  
23 which includes the newspaper Affidavit of Publication  
24 and the affidavit prepared by my office.

25                   EXAMINER McMILLAN:  Exhibits 1 through 5 in

1 Case Number 15780 and Case Number 15781 may now be  
2 accepted as part of the record.

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

5 Q. (BY MR. FELDEWERT) And, Ms. Isbell, what's the  
6 status of the wells?

7 A. These wells have not been drilled. They are on  
8 the rig schedule for early 2018.

9 Q. Okay. And are there any depth severances in  
10 this area?

11 A. No, not as to the Bone Spring.

12 MR. FELDEWERT: Mr. Examiner, that  
13 concludes my examination of this witness.

14 EXAMINER WADE: Mr. Feldewert, who entered  
15 appearances for this Snow parties?

16 MR. FELDEWERT: Mr. Scott Hall.

17 EXAMINER WADE: Okay. And you spoke with  
18 him prior to this hearing?

19 MR. FELDEWERT: Prior to this hearing, he  
20 handed to me the executed term assignments that  
21 Ms. Isbell referenced during her hearing testimony here  
22 today.

23 EXAMINER WADE: So should our order exclude  
24 those two parties at this point?

25 THE WITNESS: Yes.

1 EXAMINER McMILLAN: Wouldn't OXY have to  
2 formerly send a statement that we're releasing them?

3 EXAMINER WADE: No. They just probably  
4 didn't need to have them on the application for today,  
5 but it just happened.

6 MR. FELDEWERT: In fact, I think they were  
7 executed --

8 THE WITNESS: Yesterday.

9 MR. FELDEWERT: -- yesterday.

10 THE WITNESS: Uh-huh.

11 MR. FELDEWERT: But let me -- if you want  
12 to make note in the order that they have reached an  
13 agreement, that's fine.

14 EXAMINER McMILLAN: We can do that. So  
15 Snow Oil and Gas and Nona --

16 THE WITNESS: Nona Snow Estate.

17 MR. FELDEWERT: And, Mr. Examiner, it would  
18 actually be the two entities for which you will see an  
19 entry of appearance in the record.

20 EXAMINER McMILLAN: Reached voluntary  
21 agreement. Okay. Thank you.

22 MR. FELDEWERT: Call our next witness.

23 EXAMINER McMILLAN: Please proceed.

24 CHET BABIN,

25 after having been previously sworn under oath, was

1           questioned and testified as follows:

2                                 DIRECT EXAMINATION

3       BY MR. FELDEWERT:

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

6           A.    Chet Babin.  I'm employed by OXY USA as a  
7       senior advisor reservoir engineer.

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

10          A.    Yes.

11          Q.    And are you familiar with the applications that  
12       have been filed in these consolidated cases?

13          A.    Yes.

14          Q.    And have you reviewed a technical study of  
15       the -- a technical geologic study of the subject areas  
16       with OXY's geologic team?

17          A.    Yes.

18                         MR. FELDEWERT:  Mr. Examiner, I would once  
19       again tender Mr. Babin as an expert witness in petroleum  
20       engineering.

21                         EXAMINER McMILLAN:  So qualified.

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

25          A.    The Bone Spring Formation.

1           Q.    And has OXY's geologic team created for the  
2   Examiners a structure map and a cross section of this  
3   formation in this area?

4           A.    Yes.

5           Q.    If I turn to what's been marked as OXY Exhibit  
6   Number 6, is this a structure map that encompasses an  
7   area surrounding Sections 9 and 10?

8           A.    Yes.

9           Q.    And are in these two particular applications,  
10   am I correct that Sections 9 and 10 are involved?

11          A.    Yes.

12          Q.    What is the significance of the acreage  
13   surrounded by the red line?

14          A.    That is a lease outline for OXY known as the  
15   Turkey Track.

16          Q.    And we're focused here today on Sections 9 and  
17   10 where we see the line A to A prime?

18          A.    Yes.

19          Q.    Does that signify a cross section for that  
20   particular acreage?

21          A.    Yes.

22          Q.    If I turn to what's been marked as OXY Exhibit  
23   Number 7, is that a close-up of that structure map  
24   showing Sections 9 and 10?

25          A.    Yes.

1           Q.    And what do you observe with respect to the  
2   structure as you move across Sections 9 and 10?

3           A.    That the Bone Spring Formation is correlative  
4   moving west to east across 9 and 10.

5           Q.    Has your team observed any pinch-outs or other  
6   geologic impediments to horizontal wells in this  
7   section --

8           A.    No.

9           Q.    -- 9 and 10?

10          A.    No impediments.

11          Q.    Okay. Has your team, in the course of  
12   examining this section, observed any slight faulting in  
13   this area?

14          A.    Yes.

15          Q.    Okay. Would you please explain that to the  
16   Examiner, what you see -- or what you have found?

17          A.    So OXY has drilled a 3rd Bone Spring Sand  
18   horizontal from 9 into 10. As we drilled across the  
19   section line into Section 10, we found that there was a  
20   fault block with a throw of about 40 feet.

21          Q.    And was the company nonetheless able to  
22   successfully drill that 3rd Bone Spring well?

23          A.    Yes.

24          Q.    And does that fault -- to the knowledge of your  
25   team, does that extend into the 2nd Bone Spring Sand?

1           A.    As a follow-up, we have drilled two 2nd Bone  
2   Spring Sand wells in the north half of Sections 9 and  
3   10, and the fault throw is not seen in the 2nd Bone  
4   Spring Sand.

5           Q.    So based on the information you have, it  
6   appears to be isolated to the 3rd Bone Spring Sand?

7           A.    Yes.

8           Q.    Does OXY nonetheless have plans to accommodate  
9   this fault in the event it is encountered in the 2nd  
10   Bone Spring Sand?

11          A.    Yes.

12          Q.    In your opinion as an expert petroleum  
13   engineer, is there any concern about the company's  
14   ability to drill a horizontal well in the 2nd Bone  
15   Spring Sand across Sections 9 and 10?

16          A.    No.

17          Q.    I see that you chose four wells for purposes of  
18   your cross section involving Sections 9 and 10. Why did  
19   you choose those particular wells?

20          A.    Those best represent -- those wells penetrate  
21   the Bone Spring Formation, as well as best represent the  
22   formation moving from west to east.

23          Q.    Okay. Then if I turn to what's been marked as  
24   OXY Number 8, is this the cross section that corresponds  
25   with you're a to A prime line shown on OXY Exhibits 6

1     **and 7?**

2           A.     Yes.

3           **Q.     For the record, would you start at the top and**  
4     **identify what you show on this particular exhibit?**

5           A.     The Bone Spring Formation is comprised of three  
6     series of carbonate sand sequences. Starting at the  
7     top, the blue line represents the top of the 1st Bone  
8     Spring Limestone. The next line, which is yellow,  
9     represents the top of the 1st Bone Spring Sand, followed  
10    by the blue line, which represents the top of the 2nd  
11    Bone Spring Lime, followed by the orange line, which  
12    represents the top of the 2nd Bone Spring Sand, followed  
13    by the blue line that represents the top of the 3rd Bone  
14    Spring Lime, followed by the gold line, which represents  
15    the top of the 3rd Bone Spring Sand, followed by the  
16    gray line, which represents the bottom of the 3rd Bone  
17    Spring Sand, which is also the top of the Wolfcamp.

18          **Q.     And what is the targeted interval for these two**  
19     **proposed wells?**

20          A.     The 2nd Bone Spring Sand.

21          **Q.     And what do you observe about the continuity of**  
22     **that zone as you move across Sections 9 and 10?**

23          A.     It is continuous and correlative as you move  
24     from west to east. The porosity is developed. The  
25     resistivity log indicates the presence of hydrocarbons

1 and the gamma ray suggests good, clean sand.

2 Q. In your opinion, is this an area that can be  
3 efficiently and economically developed by horizontal  
4 wells?

5 A. Yes.

6 Q. And in your opinion, will each tract within the  
7 proposed nonstandard unit contribute more or less  
8 equally to the production from the wellbore?

9 A. Yes.

10 Q. In your opinion, will the granting of these  
11 consolidated applications be in the best interest of  
12 conservation and the prevention of waste and the  
13 protection of correlative rights?

14 A. Yes.

15 Q. Were OXY Exhibits 6 through 8 prepared by your  
16 geologic team?

17 A. Yes.

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

20 EXAMINER McMILLAN: Exhibits 6 through 8 in  
21 Case Number 15780 and Case Number 15781 may now be  
22 accepted as part of the record.

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

25 MR. FELDEWERT: And that concludes my

1 examination of this witness.

2 CROSS-EXAMINATION

3 BY EXAMINER McMILLAN:

4 Q. How did you know there was a fault?

5 A. We drilled a pilot hole for the 3rd Bone Spring  
6 Sand well, logged it, and we used that log for our gamma  
7 ray and our markers as we drilled from west to east. In  
8 addition, as you can see from our cross section, A to A  
9 prime, we had penetrations across the two sections, so  
10 we had an idea of what the dip was and where the  
11 formation was to be found as we drilled our horizontal.  
12 So as we crossed from Section 9 into Section 10, we saw  
13 a distinction, a difference in the resistivity and the  
14 gamma ray, et cetera, as we moved through that.

15 Q. Is there a repeat section or something?

16 A. Well, what we did is we pulled up when we saw  
17 that, so we came up in the 2nd Bone Spring section and  
18 saw the change back in the resistivity and the gamma ray  
19 and the other log -- log markers.

20 Q. Okay.

21 EXAMINER WADE: I have no questions.

22 EXAMINER McMILLAN: I don't have any  
23 questions.

24 MR. FELDEWERT: That concludes our  
25 presentation.

1 EXAMINER McMILLAN: Okay. Case Numbers

2 15780 and 15781 shall be taken under advisement.

3 Thank you.

4 This portion of the hearings is concluded.

5 (Case Numbers 15780 and 15781 conclude,

6 10:47 a.m.)

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

1 STATE OF NEW MEXICO  
2 COUNTY OF BERNALILLO  
3

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  
Paul Baca Professional Court Reporters