

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. 15775,
PARTNERSHIP FOR A NONSTANDARD SPACING	15807,
AND PRORATION UNIT AND COMPULSORY	15808,
POOLING, EDDY COUNTY, NEW MEXICO.	15809

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

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# 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

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1 (9:26 a.m.)

2 EXAMINER McMILLAN: I would like to call  
3 Case Number 15775, application of OXY USA WTP Limited  
4 Partnership for a nonstandard spacing and proration unit  
5 and compulsory pooling. At the same time, this case  
6 shall be combined with Case Number 15807, the  
7 application of OXY USA WTP Limited Partnership for a  
8 nonstandard spacing and proration unit and compulsory  
9 pooling, Eddy County, New Mexico. This will further be  
10 combined with Case Number 15808, application of OXY USA  
11 WTP Limited Partnership for a nonstandard spacing and  
12 proration unit and compulsory pooling, Eddy County, New  
13 Mexico. Lastly, all of these will be combined with Case  
14 Number 15809, application of OXY USA WTP Limited  
15 Partnership for a nonstandard and proration unit and  
16 compulsory pooling, Eddy County, New Mexico.

17 Call for appearances.

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

22 EXAMINER McMILLAN: Would the witnesses  
23 please stand up and be sworn in at this time?

24 (Ms. Isbell and Mr. Babin sworn.)

25

1 INDIA ISBELL,

2 after having been first duly sworn under oath, was  
3 questioned and testified as follows:

4 DIRECT EXAMINATION

5 BY MR. FELDEWERT:

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

8 A. India Isbell, OXY USA WTP LP, and I'm a land  
9 negotiator advisor.

10 Q. And how long have you been a land negotiator  
11 with OXY?

12 A. I've been with OXY for about eight months.

13 Q. And prior to that, by whom were you employed?

14 A. Chevron.

15 Q. In the same capacity?

16 A. Yes.

17 Q. How long were you employed by Chevron?

18 A. About nine years.

19 Q. Have your responsibilities throughout that  
20 period of time included the Permian Basin of New Mexico?

21 A. They have, yes.

22 Q. Ms. Isbell, you have previously testified  
23 before this Division as an expert witness in petroleum  
24 land matters, correct?

25 A. Yes. That's correct.

1           Q.    Are you familiar with the applications that  
2   have been consolidated in this particular -- in these  
3   matters?

4           A.    Yes.

5           Q.    And are you familiar with the status of the  
6   lands in the subject area?

7           A.    Yes.

8                       MR. FELDEWERT:  Mr. Examiner, I would  
9   tender Ms. Isbell as an expert witness in petroleum land  
10   matters.

11                      EXAMINER McMILLAN:  So qualified.

12           Q.    (BY MR. FELDEWERT) Would you please tell us  
13   what OXY seeks under these four consolidated  
14   applications?

15           A.    Yes.  We are seeking to form four 320-acre  
16   nonstandard spacing units for two-mile lay-down wells in  
17   the Bone Spring Formation and to force pool uncommitted  
18   interest owners.

19           Q.    Okay.  If I turn to what's been marked as OXY  
20   Exhibit Number 1, does this contain the filed C-101 and  
21   C-102s for each of the four wells at issue here?

22           A.    It does.

23           Q.    And for the Examiner, then, does this -- do  
24   these exhibits identify and provide an API number for  
25   each well?

1           A.    Yes.

2           Q.    And does it also provide, then, the pool and  
3   the pool code that's involved here?

4           A.    Yes.

5           Q.    Now, what I noticed in going through here is  
6   sometimes the unit -- the lot designation for the  
7   surface and bottom hole didn't match between the C-101  
8   and the C-102.  Can you explain why?

9           A.    Yes.  The section -- the north portion of the  
10   section is not a standard section, and it's labeled "Lot  
11   1 through 4" in the State Land Office survey.  But the  
12   lot number listed on the C-102 corresponds with the  
13   letter listed on the C-101.

14          Q.    So if I'm understanding you, when you-all filed  
15   the C-102, you would put the unit and lot number in it?

16          A.    Correct.

17          Q.    And then when the C-101 was generated, it used  
18   the lot designation rather than the numeric designation?

19          A.    That's correct.

20          Q.    But the locations are all the same?

21          A.    Same, correct.

22          Q.    Is this pool governed by Division statewide  
23   rules?

24          A.    Yes.

25          Q.    And will the completed interval for each of

1     these wells comply with the setback requirements?

2           A.     Yes.

3           Q.     Now, with respect to the lands that are  
4     involved here, is it all state land?

5           A.     It is.

6           Q.     And how many leases are involved?

7           A.     Several.

8           Q.     Several?

9           A.     Yes.

10          Q.     If I turn to what's been marked as OXY Exhibit  
11     Number 2, does this provide an ownership breakdown for  
12     each of the four nonstandard spacing units?

13          A.     Yes, it does.

14          Q.     And the way this is organized, it looks like  
15     you have an ownership breakdown for the 21H on the first  
16     page, correct?

17          A.     That's correct.

18          Q.     And then a combined ownership breakdown for the  
19     remaining three wells on the second page?

20          A.     That's correct.

21          Q.     Is there a difference in the ownership  
22     percentages as you move from north to south on these two  
23     sections?

24          A.     There is a very small difference because the  
25     north half of the north-half acreage is slightly

1 different than the rest of the section due to the lots.

2 Q. Are the parties that are involved the same?

3 A. The parties are the same.

4 Q. Okay. All right. And what's the significance  
5 of the highlighting on these two pages?

6 A. Tract 1, shown in the orange, is all OXY, and  
7 Tract 2 is where the other parties have an interest.

8 Q. Okay. And have you highlighted for the  
9 Examiner in yellow the parties that the company seeks to  
10 pool today?

11 A. Yes.

12 Q. And what is the total -- approximately, what's  
13 the percentage that remains to be pooled, the interest?

14 A. Approximately 17 percent.

15 Q. Are there any of these pooled parties that the  
16 company was unable to locate?

17 A. No.

18 Q. You've been able to talk to all of them?

19 A. Yes.

20 Q. Nonetheless, out of an abundance of caution,  
21 did the company provide a Notice of Publication in a  
22 local newspaper --

23 A. Yes.

24 Q. -- directed to each of these pooled parties by  
25 name?



1 A. Yes.

2 Q. And is that set forth in OXY Exhibit Number 3?

3 A. It is.

4 Q. And you have a separate page notifying the  
5 hearing for each well, correct?

6 A. Yes.

7 Q. If I turn to what's been marked as OXY Exhibit  
8 Number 4, is this a copy of the well-proposal letters  
9 that were sent out for each of the four wells?

10 A. It is.

11 Q. And it shows, does it not, that you sent out an  
12 initial letter in May for the 21H?

13 A. Yes. That's correct.

14 Q. And that included an AFE, right?

15 A. It did.

16 Q. And then you sent the second letter in June for  
17 the remaining three wells --

18 A. Yes.

19 Q. -- along with another AFE for each well?

20 A. Correct.

21 Q. Are the costs that are reflected on this AFE  
22 consistent with what the company has incurred for  
23 drilling similar Bone Spring horizontal wells?

24 A. Yes, they are.

25 Q. In fact, has the company drilled similar Bone

1     Spring horizontal wells in this area?

2           A.     Yes, we have.

3           Q.     Have you estimated the overhead and  
4     administrative costs while drilling and producing these  
5     wells?

6           A.     Yes.   It will be 7,000 while drilling and 700  
7     while producing.

8           Q.     And are those the same rates that are set forth  
9     in the joint operating agreement?

10          A.     Yes.

11          Q.     What efforts -- what additional efforts did you  
12     undertake to reach an agreement with the pooled parties  
13     that you seek to pool?

14          A.     Every party has received an operating  
15     agreement, and we are currently in negotiations with  
16     both EOG and Devon to trade them out of the acreage  
17     altogether.

18          Q.     So you've had ongoing discussions?

19          A.     Yes.

20          Q.     And in the event you have reached an agreement,  
21     will you be able to release them from the pooling order?

22          A.     Yes.

23          Q.     In preparation for this hearing, did OXY  
24     identify the operator of the leased mineral owners of  
25     the 40-acre tracts surrounding each of your proposed

1 nonstandard spacing units?

2 A. Yes.

3 Q. Did OXY include those in the notice of this  
4 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 attached letters providing notice of this hearing,  
9 first, to the pooled parties?

10 A. Yes.

11 Q. And then, secondly, to the offsetting operators  
12 and leased mineral interest owners?

13 A. Yes.

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

16 A. Yes.

17 MR. FELDEWERT: Mr. Examiner, at this time  
18 I would move admission into evidence of Exhibits 1  
19 through 5, which includes the Affidavit of Publication  
20 and then my Notice of Affidavit.

21 EXAMINER McMILLAN: Okay. Exhibits 1  
22 through 5 may now be accepted as part of the record --

23 MR. FELDEWERT: And that concludes my  
24 examination of this witness.

25 EXAMINER McMILLAN: -- in Case Number

1 15775, Case Number 15807, Case Number 15808 and Case  
2 Number 15809.

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

5 CROSS-EXAMINATION

6 BY EXAMINER McMILLAN:

7 Q. I actually do have a question. I think it's  
8 Case Number 15808. I don't have -- I don't have the  
9 surface location?

10 MR. FELDEWERT: Mr. Examiner, if you look  
11 at Exhibit Number 1 --

12 EXAMINER McMILLAN: It's the 24H  
13 assignment. If I go to the last two pages of Exhibit  
14 Number 1, we have the C-101 and C-102.

15 MR. FELDEWERT: So you should have 1,400  
16 from the south --

17 EXAMINER McMILLAN: Yeah, 1,400. And then  
18 2,814 from the south, 360 from the west and 380 from the  
19 south, and the 180 is from the east bottom hole.

20 Q. (BY EXAMINER McMILLAN) Are there any depth  
21 severances?

22 A. Yes, but not in the Bone Spring.

23 Q. So not within the Bone Spring. It's no?

24 A. Correct.

25 Q. And what is the status of the wells?

1           A.     What do you mean exactly?

2           **Q.     Are they drilled?  Are they proposed?**  
3           **Drilling?**

4           A.     They are proposed.  We'll spud the surface  
5     location, just the surface hole, in approximately three  
6     weeks.

7           **Q.     So they're all proposed?**

8           A.     Yes.

9                     EXAMINER WADE:  I don't see returned green  
10    cards for --

11                    MR. FELDEWERT:  They may be with the --

12                    EXAMINER WADE:  Actually -- I'm sorry --  
13    Mewbourne penciled in that it was returned.  And then  
14    I'm seeing -- these are the offsets, it looks like --

15                    MR. FELDEWERT:  Yeah.

16                    EXAMINER WADE:  -- and Chisos, Limited and  
17    one more, New Mexico Western Minerals.

18                    MR. FELDEWERT:  We have given the number of  
19    offset lessees.  Occasionally there are parties that we  
20    don't get green cards from, but we do -- when it comes  
21    to the pooled parties, we certainly make sure we have  
22    green cards and then notice.  That's what we've done in  
23    the past.

24                    EXAMINER WADE:  But we don't have that the  
25    offsets received notice if we don't have a returned

1 green card.

2 MR. FELDEWERT: Well, I mean, we can  
3 only -- well, we don't know. We can only go by the  
4 address of record and then the advertisement in the  
5 newspaper of the case. That's all we can do.

6 EXAMINER WADE: I'll give that some  
7 thought, but --

8 MR. FELDEWERT: And that's what we've  
9 always done.

10 EXAMINER WADE: For offsets?

11 MR. FELDEWERT: Yes.

12 EXAMINER WADE: That's all the questions I  
13 have.

14 MR. FELDEWERT: We've been through this  
15 before. We've talked to --

16 EXAMINER WADE: This is off the record.

17 (Discussion off the record, 9:41 a.m. to  
18 9:44 a.m.)

19 EXAMINER McMILLAN: Back on record.

20 And it has been determined that your  
21 notification is sufficient.

22 MR. FELDEWERT: Okay.

23 EXAMINER WADE: Next witness?

24 EXAMINER McMILLAN: Thank you.

25

1 CHET BABIN,  
2 after having been previously sworn under oath, was  
3 questioned and testified as follows:

4 DIRECT EXAMINATION

5 BY MR. FELDEWERT:

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

8 A. Chet Babin, OXY USA. I'm a reservoir  
9 engineering advisor.

10 Q. And how long have you been a reservoir  
11 engineering advisor with OXY?

12 A. About nine months.

13 Q. Who was your previous employer?

14 A. Chevron.

15 Q. And how long were you a reservoir engineer with  
16 Chevron?

17 A. 15 years.

18 Q. And have -- do your responsibilities include  
19 the Permian Basin?

20 A. Yes.

21 Q. Mr. Babin, you have also previously testified  
22 before this Division; is that correct?

23 A. Yes.

24 Q. And were your credentials as an expert in  
25 petroleum engineering accepted and made a matter of

1     public record?

2           A.     Yes, sir.

3           Q.     In the course of your duties as a reservoir  
4     engineer, do you routinely approve and analyze the  
5     geologic studies by your team?

6           A.     Yes.

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

9           A.     Yes.

10          Q.     And did you -- have you reviewed with your  
11     geologic team the technical study they put together of  
12     the geology in this subject area?

13          A.     Yes.

14                   MR. FELDEWERT:  I would tender Mr. Babin as  
15     an expert in reservoir engineering.

16                   EXAMINER McMILLAN:  So qualified.

17          Q.     (BY MR. FELDEWERT) Mr. Babin, what formation is  
18     being development under these consolidated applications?

19          A.     The Bone Spring.

20          Q.     And have you created for the Examiners a  
21     structure map and a cross section for this formation?

22          A.     I did create it.  I worked with the geologist.

23          Q.     And reviewed it with him?

24          A.     That's correct.

25          Q.     All right.  If I take a look at what's been



1     marked as Exhibit Number 6, is this a structure map of  
2     the -- of a larger area surrounding the acreage that's  
3     at issue in this case?

4             A.     Yes.

5             Q.     First off, why -- what -- I see Sections 3 and  
6     4 are involved in this particular case, correct?

7             A.     Yes.

8             Q.     And this reflects -- what's the significance of  
9     the C to C prime there? Are those the wells you used to  
10    create your cross section?

11            A.     Yes.

12            Q.     And then are there other cross sections that  
13    have been created for other cases today that are  
14    reflected on this exhibit?

15            A.     Yes.

16            Q.     And what's the significance of the red line  
17    that I see around this particular acreage in this area?

18            A.     That represents OXY's leasehold for the Turkey  
19    Track.

20            Q.     Okay. And there are a number of Turkey Track  
21    applications that are before the Division today?

22            A.     Yes.

23            Q.     So we're going to see this exhibit again,  
24    right?

25            A.     Yes.

1           Q.    All right.  Now, if I turn to what's been  
2   marked as OXY Exhibit Number 7, does this provide a  
3   close-up for the Examiner of the structure map for the  
4   sections that are involved here?

5           A.    Yes.

6           Q.    And what do you observe about the structure  
7   of -- across the area of these two sections?

8           A.    That the Bone Spring is consistent as you work  
9   from west to east.

10          Q.    And in this particular area, is there any  
11   faulting or pinch-outs or other geologic impediments to  
12   horizontal drill?

13          A.    No.

14          Q.    Now, I see here that this reflects that you  
15   chose five wells for a cross section across this area.

16          A.    Yes.

17          Q.    Why did you choose these five particular wells?

18          A.    Those best represent the geology of the Bone  
19   Spring in those sections.

20          Q.    And are those from vertical wells --

21          A.    Yes.

22          Q.    -- that penetrated all the way through the Bone  
23   Spring Formation?

24          A.    Yes.

25          Q.    Okay.  If I then turn to what's been marked as

1     OXY Number 8, is this the cross section that corresponds  
2     with the C to C prime shown on Exhibits 6 and 7?

3             A.     Yes.

4             Q.     Would you start at the top of this exhibit and  
5     just kind of walk us through the lines here and what  
6     you're showing?

7             A.     So the Bone Spring is a series of limestone and  
8     sand sequences. Starting at the top, the top marker is  
9     the top of the 1st Bone Spring Lime. The second marker  
10    is the top of the 1st Bone Spring Sand, which is  
11    relatively thin, followed by the 2nd Bone Spring Lime,  
12    which is relatively thick, followed by the 2nd Bone  
13    Spring Sand, followed by the 3rd Bone Spring Lime,  
14    followed by the 3rd Bone Spring Sand. The bottommost  
15    line, which is gray, is the bottom of the 3rd Bone  
16    Spring Sand, which is the top of the Wolfcamp.

17            Q.     If you turn to Exhibit Number 8 -- and I'm  
18    impressed that you were able to explain that to us  
19    without immediately having it in front of you.

20                    Did you -- explain to the Examiner what the  
21    initial target interval is. What are you targeting?

22            A.     We are targeting the 2nd Bone Spring Sand.

23            Q.     Okay. So that's about halfway down these type  
24    logs?

25            A.     Yes.

1           Q.    And what do you observe about the continuity of  
2   that particular target interval as you move across this  
3   section?

4           A.    It's correlative from west to east in a  
5   consistent formation.

6           Q.    Okay.  Do you show good porosity and  
7   resistivity?

8           A.    Yes.  The porosity is relatively well  
9   developed, and the resistivity indicates hydrocarbons  
10   present.

11          Q.    In your opinion, is this an area that can be  
12   efficiently and economically developed by horizontal  
13   wells?

14          A.    Yes.

15          Q.    And in your opinion, will each tract within  
16   this proposed -- within these proposed nonstandard  
17   spacing and proration units contribute to the production  
18   from the well?

19          A.    Yes.

20          Q.    And in your opinion, will the granting of this  
21   application -- or these consolidated applications be in  
22   the best interest of conservation, the prevention of  
23   waste and the protection of correlative rights?

24          A.    Yes.

25          Q.    Were OXY Exhibits 6 through 8 prepared by you

1     **or compiled under your review?**

2           A.     Yes.

3                   MR. FELDEWERT:  Mr. Examiner, at this time  
4     I would move admission into evidence of OXY Exhibits 6  
5     through 8.

6                   EXAMINER McMILLAN:  Exhibits 6 through 8  
7     for Cases 15775, 15807, 15808 and 15809 may now be  
8     accepted as part of the record.

9                   (OXY USA WTP LP Exhibit Numbers 6 through  
10     8 are offered and admitted into evidence.)

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

13                               CROSS-EXAMINATION

14     BY EXAMINER McMILLAN:

15           **Q.     Do you expect all quarter-quarter sections to**  
16     **contribute equally to production?**

17           A.     Yes.

18           **Q.     What's the average porosity here at your target**  
19     **interval?**

20           A.     I believe it's about 2 to 3 percent.

21           **Q.     And do you expect the other intervals within**  
22     **the Bone Spring to be prospective?**

23           A.     The 3rd Bone Spring may be prospective.  The  
24     1st Bone Spring, it's not because it's too thin to be  
25     economically viable.

1           Q.    I'm curious.  Why did you pick the 2nd, not the  
2   3rd?

3           A.    The 2nd has, in the general area in the trend  
4   and in the Basin, has been productive nearby.  The 3rd  
5   has not necessarily shown that.

6           Q.    So the 3rd is not as prospective?

7           A.    OXY is actually drilling in Sections -- OXY is  
8   drilling in Sections 9 and 10 a 3rd Bone Spring  
9   appraisal well to test the viability of producing from  
10   the 3rd Bone Spring Sand.

11                   EXAMINER WADE:  I have no questions.

12                   EXAMINER McMILLAN:  I have no more  
13   questions.

14                   MR. FELDEWERT:  That concludes our  
15   presentation.

16                   EXAMINER McMILLAN:  Okay.  Case Number  
17   15775, Case Number 15807, Case Number 15808 and Case  
18   Number 15809 shall be taken under advisement at this  
19   time.

20                   Let's take about a ten -- we'll take a  
21   ten-minute break.

22                   (Case Numbers 15775, 15807, 15808 and 15809  
23   conclude, 9:54 a.m.)

24                   (Recess, 9:54 a.m. to 10:08 a.m.)

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