

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, INC. FOR CASE NO. 16058
ALTERNATIVE NONSTANDARD SPACING
AND PRORATION UNITS, APPROVAL OF A
NONSTANDARD PROJECT AREA AS NEEDED
AND COMPULSORY POOLING, EDDY COUNTY,
NEW MEXICO.

Consolidated with

APPLICATION OF OXY USA, INC. FOR CASE NO. 16059
A NONSTANDARD SPACING AND PRORATION
UNIT AND COMPULSORY POOLING, EDDY
COUNTY, NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

April 5, 2018

Santa Fe, New Mexico

BEFORE: WILLIAM V. JONES, CHIEF EXAMINER
DAVID K. BROOKS, LEGAL EXAMINER

This matter came on for hearing before the
New Mexico Oil Conservation Division, William V. Jones,
Chief Examiner, and David K. Brooks, Legal Examiner, on
Thursday, April 5th, 2018, 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
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1 APPEARANCES

2 FOR APPLICANT OXY USA, INC.:

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1 (4:24 p.m.)

2 EXAMINER JONES: Let's call Cases 16058 and
3 16059, application of OXY USA, Inc. for a nonstandard
4 spacing and proration unit. And 16058 is proration
5 units for approval of nonstandard project area as needed
6 and compulsory pooling in Eddy County, New Mexico.
7 That's 16058.

8 And 16059 is application of OXY USA for a
9 nonstandard spacing and proration unit and compulsory
10 pooling, Eddy County, New Mexico.

11 Call for appearances.

12 MR. FELDEWERT: May it please the Examiner,
13 Michael Feldewert, with the Santa Fe office of Holland &
14 Hart, appearing on behalf of the Applicant. I have two
15 witnesses who have already been sworn.

16 EXAMINER JONES: Let the record reflect
17 that the witnesses have already been sworn.

18 MR. FELDEWERT: And, Mr. Examiner, under
19 these consolidated cases, we will call our first
20 witness.

21 JEREMY MURPHREY,
22 after having been previously sworn under oath, was
23 questioned and testified as follows:

24

25

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. My name is Jeremy Murphrey. I'm a landman for
6 OXY USA, Inc.

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

10 A. Yes, I have.

11 Q. Are you familiar with the applications filed in
12 these consolidated cases?

13 A. Yes, I am.

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

16 A. Yes, I am.

17 MR. FELDEWERT: I would retender
18 Mr. Murphrey as an expert witness in petroleum land
19 matters.

20 EXAMINER JONES: He's so qualified.

21 Q. (BY MR. FELDEWERT) If I turn to what's been
22 marked as OXY Exhibit Number 1, does this contain draft
23 C-102s for the three wells involved in these
24 consolidated cases?

25 A. Yes, sir, it does.

1 Q. What does the company seek under these -- each
2 of these two cases?

3 A. We seek to form a nonstandard spacing unit for
4 the west half of the west half of Section 26 and Section
5 35, Township 24 South, Range 29 East. And under the
6 second case, we seek to form a 320-acre nonstandard
7 spacing unit for the east half of the west half of
8 Section 26, Section 35, Township 24 South, Range 29
9 East.

10 Q. Now, which well will be initially dedicated to
11 what I'll call the west half-west half acreage?

12 A. The well to be dedicated to that will be the
13 Corral Fly 35-26 Federal Com #21H.

14 Q. And then the east-half acreage will be
15 dedicated to the two remaining wells shown in Exhibit
16 Number 1?

17 A. That's correct, Corral Fly 35-26 Federal Com
18 #22H and #23H.

19 Q. Okay. Now, as the Examiner noted, there was
20 some alternative relief requested under Case Number
21 16058, correct?

22 A. That's correct.

23 Q. All right. And what gave rise to the initial
24 request for the alternative relief?

25 A. Initially, the northwest quarter of the

1 northwest quarter was an unleased federal tract. After
2 some discussion with the BLM, as well as the winning
3 bidder, Matador, that lease, according to the BLM, is
4 being issued this week and being mailed. The effective
5 date of that lease will be April 1st of this year, 2018.

6 Q. And are you in the process, then, of reaching
7 an agreement with the new owner of that recently leased
8 federal tract?

9 A. Yes. We actually began working with them once
10 the winning bid was announced and they came forward and
11 spoke with us about the tract.

12 Q. As a result, the alternative relief is no
13 longer needed, and we can proceed with the pooling for
14 all of the west half-west half acreage in Sections 25
15 and 26, correct?

16 A. That's correct.

17 Q. All right. Now, what pool is involved with
18 these two applications?

19 A. The Pierce Crossing; Bone Spring, East Pool.

20 MR. FELDEWERT: Mr. Examiner, that's Pool
21 Code 96473.

22 EXAMINER JONES: Thank you.

23 Q. (BY MR. FELDEWERT) Mr. Murphrey, is that pool
24 governed by statewide rules?

25 A. Yes, it is.

1 Q. And what's the nature of this -- and will each
2 of these wells comply with the Division's setback
3 requirements for these rules?

4 A. Each will except for the #22H.

5 Q. Okay. And where will that well be drilled?

6 A. It would be located in the east half of the
7 west half. It will be basically along the centerline.

8 Q. Have you applied administratively for approval
9 of that nonstandard location?

10 A. We have applied for the NSL.

11 Q. What is the nature of this acreage both for the
12 east half -- the west-half acreage of the west half-west
13 half.

14 A. The acreage is comprised of federal leases.

15 Q. If I turn to what's been marked as OXY Exhibit
16 Number 2, does that contain a depiction with colors and
17 wellbores for the tracts that are involved in each of
18 the three proposed wells?

19 A. Yes, sir, it is.

20 Q. Okay. And before we get to the ownership, what
21 are OXY's drilling plans for these three wells?

22 A. We plan to pad drill all three wells from a
23 common surface location. I believe that'll be in
24 Section 2, Township 25 South, Range 29 East, as well as
25 complete the wells simultaneously.

1 Q. And are there drilling efficiencies and
2 completion efficiencies associated with that type of
3 drilling plan?

4 A. Yes, sir. That's correct.

5 Q. And are there also cost savings associated with
6 that?

7 A. Yes, sir.

8 Q. Under these plans, will the company be able to
9 drill and complete a well in each spacing unit within
10 the 120-day period normally provided in a standard
11 pooling order?

12 A. No, sir.

13 Q. What additional time does the company need to
14 effectuate the simultaneous drilling and completion?

15 A. We request at least an additional 30 days.

16 Q. So the company would ask that pooling order
17 provide for 150 days to drill and complete a well within
18 each spacing unit?

19 A. That is correct.

20 Q. Okay. If I turn, then, to OXY Exhibit Number
21 3, does this identify the working interest owners --

22 A. It does.

23 Q. -- that are involved in -- in the acreage that
24 is at issue here with both the west half-west half
25 acreage and the east half-west half acreage?

1 A. Yes, sir, it does.

2 Q. Okay. And is there a lot of difference between
3 the ownership here between the west half-west half and
4 the east half of the west half?

5 A. Really the only difference is the northwest
6 quarter of the northwest quarter, just that one 40-acre
7 tract.

8 Q. And who owns that acreage?

9 A. Matador.

10 Q. Okay. So Matador is involved in one of the
11 spacing units, then, but is not a record title owner in
12 the east half-west half acreage?

13 A. That's correct.

14 Q. And that's the only difference between the two?

15 A. Yes, sir.

16 Q. What working interest does the company then
17 seek to pool in the west half-west half acreage?

18 A. We seek to pool the interest of Matador. It's
19 MRC Permian Company, COG Oil & Gas, LP and Legacy
20 Reserves Operating, LLC.

21 Q. Okay. And then the east half-west half
22 acreage, what working interest does the company seek to
23 pool?

24 A. COG Oil & Gas, LP and Legacy Reserves
25 Operating, LLC.

1 Q. Okay. All right. Now, with respect to those
2 entities, does Exhibit 4 contain a sample of the
3 well-proposal letters that went out to these working
4 interest owners for each of the proposed wells?

5 A. That's correct.

6 Q. And did the letters include an AFE?

7 A. They did.

8 Q. And are the costs reflected on that AFE
9 consistent with what the company has incurred for
10 drilling similar Bone Spring horizontal wells?

11 A. It is.

12 Q. What's the status of your discussions with MRC,
13 COG and Legacy?

14 A. We're at the very end of negotiating a joint
15 operating agreement, and I would expect probably by next
16 week, it'll be completed and I'll be waiting for
17 signatures from everyone.

18 Q. In the event that all three of those companies
19 then execute the joint operating agreement, you'll
20 notify the Division?

21 A. Yes, we will.

22 Q. Okay. Have you made an estimate of the
23 overhead and administrative costs while drilling and
24 producing these wells?

25 A. Yes, we have.

1 Q. And what rates do you ask be incorporated into
2 the pooling order?

3 A. 7,500, drilling rates, and 750, producing.

4 Q. And are these rates consistent with what OXY
5 and other operators are charging for other similar Bone
6 Spring wells?

7 A. Yes, sir, they are.

8 Q. In preparation for this hearing, did the
9 company identify the operators or the leased mineral
10 interest owners in the 40-acre tract surrounding each of
11 these proposes nonstandard spacing units?

12 A. Yes, sir, we have.

13 Q. Have they been included in notice of this
14 hearing?

15 A. Yes, sir.

16 Q. If I turn to what's been marked as OXY Exhibit
17 Number 5, is this an affidavit prepared by my office
18 with attached letters indicating that notice was
19 provided to the parties you seek to pool and these
20 offsetting tracts -- owners?

21 A. Yes, sir, it is.

22 Q. Okay. Were Exhibits 1 through 4 prepared by
23 you compiled under your direction and supervision?

24 A. Yes, sir, they were.

25 MR. FELDEWERT: Mr. Examiner, I would move

1 the admission into evidence of OXY Exhibits 1 through 5.

2 EXAMINER JONES: Exhibits 1 through 5 are
3 admitted.

4 (OXY USA, Inc. Exhibit Numbers 1 through 5
5 are offered and admitted into evidence.)

6 MR. FELDEWERT: That concludes my
7 examination of this witness.

8 EXAMINER JONES: Mr. Brooks?

9 EXAMINER BROOKS: No questions.

10 EXAMINER JONES: I don't have questions
11 either.

12 MR. FELDEWERT: Call our next witness.

13 THE WITNESS: Thank you.

14 TONY TROUTMAN

15 after having been previously sworn under oath, was
16 questioned and testified as follows:

17 DIRECT EXAMINATION

18 BY MR. FELDEWERT:

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

21 A. My name is Tony Troutman. I'm employed by OXY
22 USA, Inc. as a geologist.

23 Q. Mr. Troutman, you have previously testified
24 before this Division as an expert in petroleum geology,
25 correct?

1 A. Yes, I have.

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

4 A. Yes, I am.

5 Q. Have you conducted a geologic study of the
6 formation underlying the subject lands?

7 A. Yes, I have.

8 MR. FELDEWERT: I would retender
9 Mr. Troutman as an expert in petroleum geology.

10 EXAMINER JONES: He's so qualified.

11 Q. (BY MR. FELDEWERT) Mr. Troutman, what formation
12 or interval is the target of the subject wells?

13 A. These wells are targeting the 2nd Bone Spring
14 Sand.

15 Q. And have you prepared a structure map and cross
16 section?

17 A. I have.

18 Q. If I turn to what's been marked as OXY Exhibit
19 Number 6, is this a structure map that you've created
20 for this area?

21 A. Yes, it is.

22 Q. Would you please explain to us the colors and
23 the lines that are shown on here?

24 A. The yellow on the left is the shallowest. The
25 blue on the right is the deepest. These are 50-foot

1 contour intervals.

2 Q. And have you identified the wells that are at
3 issue?

4 A. Yes. The three wells are shown in the middle
5 in blue, the 21H, the 22H and the 23H.

6 Q. And what's the distance of your contour lines?

7 A. They're 50-foot intervals.

8 Q. Okay. And with respect to the structure across
9 the proposed nonstandard spacing unit, do you see any
10 falls or pinch-outs or other geologic impediments?

11 A. No, I do not.

12 Q. And this is an area, in your opinion, that can
13 be efficiently and effectively developed by horizontal
14 wells?

15 A. Yes, I believe so.

16 Q. Now, what are the other -- I see a red line and
17 a yellow line. What do they depict?

18 A. Those are cross sections prepared to represent
19 strike direction and dip direction.

20 Q. Now, with respect to those cross sections, why
21 did you utilize the wells identified?

22 A. They were the best wells available to represent
23 our target formation.

24 Q. You had good logs?

25 A. Yes.

1 Q. If I turn to what's been marked as OXY Exhibit
2 Number 7, is this your north-to-south cross section?

3 A. Yes, it is.

4 Q. Structural cross section?

5 A. It is.

6 Q. Have you identified on here the targeted
7 interval?

8 A. Yes. The interval shown in white is the
9 targeted interval. That's the top of the 2nd Bone
10 Spring Sand to the top of the 3rd Bone Spring Lime.

11 Q. And within this targeted interval, can you
12 identify for the Examiner, using one of these wells,
13 where you hope to land your proposed wells?

14 A. Yes. If I look at the Riverbend Fed 7 in the
15 middle of the cross section, the landing zone will be
16 about 5,850 in subsea and about 8,850 in measured depth.

17 Q. And what do you observe about the continuity of
18 this targeted interval across this --

19 A. It's very continuous and consistent.

20 Q. If I turn to what's been marked as OXY Number
21 8, is this your west-to-east cross section?

22 A. Yes, it is.

23 Q. Did you utilize three different well logs for
24 this?

25 A. I did.

1 Q. Okay. And, again, have you identified the
2 targeted interval in white?

3 A. I have.

4 Q. And on this particular log, where would you
5 point to as the location where you hope to land your
6 wells?

7 A. If I were looking at the Cedar Canyon 27 State
8 Com 10, in the center well in the cross section, the
9 landing would be about 5,750 in TVD or about 8,760 in
10 measured depth.

11 Q. Mr. Troutman, in your opinion, will the
12 proposed nonstandard unit, on average, contribute more
13 or less equally to production from the well?

14 A. Yes, it will.

15 Q. In your opinion, is the granting of this
16 application be in the -- these applications be in the
17 best interest of conservation, the prevention of waste
18 and the protection of correlative rights?

19 A. Yes, it would.

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

22 A. Yes, they were.

23 MR. FELDEWERT: I'd move into evidence OXY
24 Exhibits 6 through 8.

25 EXAMINER JONES: Exhibits 6 through 8 are

1 admitted.

2 (OXY USA, Inc. Exhibit Numbers 6, 7 and 8
3 are offered and admitted into evidence.)

4 MR. FELDEWERT: That concludes my
5 examination of this witness.

6 EXAMINER JONES: Mr. Brooks?

7 EXAMINER BROOKS: No questions.

8 EXAMINER JONES: I have one more question
9 for the previous case of this witness before we let him
10 get away.

11 MR. FELDEWERT: The Cedar Canyon?

12 EXAMINER JONES: 16057, Cedar Canyon.

13 MR. FELDEWERT: Do you want to complete
14 this case first, consider this case first?

15 I'd ask that it be taken under advisement.

16 EXAMINER JONES: These two cases?

17 MR. FELDEWERT: I'm sorry. These
18 consolidated cases be taken under advisement.

19 EXAMINER JONES: 16058 and 16059 will be
20 taken under advisement.

21 (Case Numbers 16058 and 16059 conclude,
22 4:40 p.m.)

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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 DATED THIS 22nd day of April 2018.

21

22

23 MARY C. HANKINS, CCR, RPR
24 Certified Court Reporter
New Mexico CCR No. 20
Date of CCR Expiration: 12/31/2018
Paul Baca Professional Court Reporters

25