

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 APACHE CORPORATION
TO RE-OPEN CASE NO. 16142 AND
MODIFY ORDER NO. R-14765 TO ALLOW
FOR DRILLING OF A SUBSEQUENT WELL
AND COMPULSORY POOLING, EDDY COUNTY,
NEW MEXICO.

CASE NO. 16142
(Re-opened)

Consolidated with

APPLICATION OF APACHE CORPORATION
TO RE-OPEN CASE NO. 16143 AND
MODIFY ORDER NO. R-14766 TO ALLOW
FOR DRILLING OF A SUBSEQUENT WELL
AND COMPULSORY POOLING, EDDY COUNTY,
NEW MEXICO.

CASE NO. 16143

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

September 20, 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, September 20, 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
Paul Baca Professional Court Reporters

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APPEARANCES

FOR APPLICANT APACHE CORPORATION:

JENNIFER L. BRADFUTE, ESQ.
MODRALL, SPERLING, ROEHL, HARRIS & SISK, P.A.
500 4th Street, Northwest, Suite 1000
Albuquerque, New Mexico 87102
(505) 848-1800
jlb@modrall.com

FOR INTERESTED PARTY YATES BROTHERS:

SETH C. McMILLAN, ESQ.
MONTGOMERY & ANDREWS LAW FIRM
325 Paseo de Peralta
Santa Fe, New Mexico 87501
(505) 982-3873
smcmillan@montand.com

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1 (3:44 p.m.)

2 EXAMINER JONES: Okay. Let's call Cases
3 16142 and 16143, both re-opened. Both are -- well,
4 16142 is application of Apache Corporation to re-open
5 Case 16142 to modify Order Number R-14765 to allow for
6 drilling of a subsequent well and compulsory pooling in
7 Eddy County, New Mexico. And Case 16143 is application
8 of Apache Corporation to re-open that case to modify
9 Order Number R-14766 to allow for drilling of a
10 subsequent well and compulsory pooling, Eddy County, New
11 Mexico.

12 Call for appearances.

13 MS. BRADFUTE: Mr. Examiner, Jennifer
14 Bradfute, on behalf of Modrall Sperling, on behalf
15 of Apache Corporation.

16 MR. McMILLAN: And Seth McMillan,
17 Montgomery & Andrews, present and accounted for and
18 representing Yates Brothers.

19 EXAMINER BROOKS: Representing who?

20 MR. McMILLAN: Yates Brothers.

21 EXAMINER BROOKS: Oh.

22 MR. McMILLAN: Jim Ball.

23 EXAMINER JONES: No other appearances?

24 Affidavit presentation?

25 MS. BRADFUTE: Yes, Mr. Examiner. We'd

1 like to present both of these cases by affidavit.

2 Both of these applications involve pooling
3 cases that were presented to the Division this summer.
4 An order was issued. Apache then had plans to add an
5 additional well to both of the spacing units. It wants
6 to complete the wells in each of the spacing units at
7 the same time using zipper-fracking, and that's why
8 we're re-opening these cases, is to add an additional
9 well in each of the spacing units so those wells can be
10 zipper-fracked together instead of being under the
11 infill requirements under the compulsory pooling rules.

12 Yates Brothers has contacted Apache. And
13 really the concern is Yates Brothers wants to ensure
14 that the overriding royalty interests would not be
15 subject to the risk penalty or any of the cost expense
16 requirements under a pooling order, which are typically
17 imposed on a working interest owner. Apache has no
18 issue with that. It's not going to impose any of the
19 operating costs on the overriding royalty interests in
20 this matter, nor is it going to try to impose a 200
21 percent risk penalty on the overriding royalty
22 interests.

23 EXAMINER JONES: Is that what --

24 MR. McMILLAN: I couldn't have said it
25 better myself, and I appreciate Ms. Bradfute making that

1 clear for the record, as will Mr. Ball. Thank you.

2 MS. BRADFUTE: With that, I'd like to
3 proceed.

4 So if you could please turn to Exhibit
5 Number 1 in the packet in front of you, the first three
6 exhibits we're going to discuss relate to Case 16142,
7 which asks for a modification to Order Number R-14765.

8 Exhibit 1 is an affidavit by Laci
9 Stretcher. And Ms. Stretcher is a landman for Apache
10 Corporation, and she's been qualified and accepted as an
11 expert in petroleum land matters by the Division.

12 On May 17th, 2018, Apache presented its
13 application in Case Number 16142, which requested the
14 approval of a nonstandard spacing and proration unit and
15 the pooling of all uncommitted mineral interests within
16 the south half-north half of Section 26, Township 19
17 South, Range 28 East, N.M.P.M., Eddy County, New Mexico.
18 And the application was for the development of the
19 Palmillo 26 State Well #314H. And evidence was
20 presented during that hearing. We ask that the evidence
21 that was presented in that hearing be incorporated and
22 made part of the record in this matter.

23 An order was issued by the Division on July
24 2nd, 2018, and that order number is R-14765. Apache is
25 seeking to re-open that case and modify that order to

1 add a well, and the well that it is seeking to state, as
2 testified to by Ms. Stretcher, is the Palmillo 26 State
3 213H well. The API for that well is 30-015-45040.

4 Attached to Ms. Stretcher's affidavit is a
5 plat, which is marked as Exhibit A, and it shows the
6 information related to the 213H well, which is stated
7 within her affidavit, along with the TVD and the total
8 measured depth for the well and the estimated cost for
9 drilling the well.

10 So opposition is expected because interest
11 owners have already been pooled, and they have been
12 contacted about these addition wells, and nobody has
13 raised opposition at this point in time.

14 A plat outlining the unit to be pool was
15 presented on May 17th, 2018, along with the list of
16 pooled parties, and I included that as additional pages
17 within Exhibit A to Ms. Stretcher's affidavit so that it
18 would be easy to locate. Apache asks that that
19 information be included in the record for this case.

20 There are no depth severances within the
21 Bone Spring Formation and the spacing unit, and
22 Ms. Stretcher testifies that she's conducted a diligent
23 search of public records in the county where the well's
24 located. She's searched phone directories and conducted
25 computerized research to locate the contact information

1 for the parties entitled to notice.

2 Exhibit B to Ms. Stretcher's affidavit
3 contains a summary of her attempts to contact people.
4 Exhibit B -- we'll look at it briefly after going
5 through the affidavit -- does note that Apache has
6 entered into a JOA with EOG in this matter, so they no
7 longer need to be pooled. Ms. Stretcher testifies that
8 Apache made a good-faith effort to obtain voluntary
9 joinder for the working interest owners for the newly
10 proposed well and that Apache also has the right and
11 would like to pool overriding royalty interest owners in
12 the well. And it's the same overriding royalty interest
13 owners that were already pooled to the unit under Order
14 Number R-14765.

15 Exhibit C to Ms. Stretcher's affidavit is a
16 well-proposal letter, along with an AFE for the well.
17 The estimated costs for the well, she testifies, are
18 fair and reasonable and are comparable to the cost to
19 drill other wells to this depth and this length within
20 this area of New Mexico.

21 Apache is requesting an overhead and
22 administrative rate of \$7,000 a month for drilling a
23 well and \$700 a month for a producing well.
24 Ms. Stretcher testifies that these rates are fair and
25 comparable to rates charged by other operators for this

1 well drilled to this length and this depth within this
2 area of New Mexico. Ms. Stretcher requests that these
3 rates be adjusted periodically as provided for under the
4 COPAS accounting procedure. And Apache requests that
5 the maximum cost plus 200 percent risk penalty be
6 assessed against any nonconsenting working interest
7 owners in the additional well. Apache requests that it
8 still be designated operator of the pooled unit, and it
9 also states that the offsets who were notified in the
10 original application were also notified in re-opening
11 this case.

12 Ms. Stretcher testifies that the
13 attachments to her affidavit were prepared by her and
14 compiled from company business records, and she attests
15 that the information provided herein is complete to the
16 best of her knowledge and that the granting of this
17 application is in the interest of conservation and the
18 prevention of waste.

19 If you look at Attachment A, it does
20 contain a C-102 for the well. I will note for the
21 hearing examiners that the first take point is not
22 listed on this C-102, but we do have a statement from
23 the geologist who confirms that all of the perforations
24 will be orthodox and will comply with the Division
25 setback requirements. There is nothing particularly

1 unusual about the C-102. It does list the pool and the
2 pool code. It's the Winchester; Bone Spring Pool, and
3 the pool code is 65010.

4 The next pages under Exhibit A are the
5 documents that were presented in the original hearing in
6 this case, which shows the surface leases and the
7 spacing unit for the well that was created under the
8 original pooling order.

9 And the last page indicates the working
10 interest owners who have interest within the pooled
11 unit. And the only difference now is that EOG Y has
12 executed a JOA.

13 Apache did make a good-faith effort to
14 contact everyone and obtain their joinder in this new
15 well, and a copy of that correspondence is attached to
16 Exhibit B to Ms. Stretcher's affidavit. And then also
17 included within that affidavit -- or within that exhibit
18 is -- is the well proposal. And there should be an AFE
19 also included in there. Yes. The last page is an
20 AFE -- the last two pages are the AFE for the well.

21 EXAMINER JONES: Okay.

22 MS. BRADFUTE: Exhibit 2 to this packet is
23 an affidavit by Mike Muncy. Mr. Muncy is a geologist at
24 Apache Corporation, and he previously testified in Case
25 Number 16142, and his credentials were accepted and made

1 a matter of record. Mr. Muncy has three different
2 attachments that are included with his affidavit. In
3 the first attachment, he has a structure map which is on
4 the base of the 2nd Bone Spring Sand. It shows that the
5 structure dips to the southeast, and it shows that the
6 2nd Bone Spring -- it shows other 2nd Bone Spring Sand
7 wells within the vicinity of the 213H well, along with a
8 line of cross section.

9 Exhibit B to his affidavit is a gross sand
10 isopach map of the 2nd Bone Spring Sand interval, and he
11 states and testifies that the 2nd Bone Spring Sand is
12 uniform across the proposed well unit.

13 Exhibit C to Mr. Muncy's affidavit is a
14 cross section, and the cross section highlights the
15 targeted interval for the 213H well. And Mr. Muncy
16 testifies that the well logs in that cross section give
17 a representative sample of the Bone Spring Formation in
18 the area and that the 2nd Bone Spring Sand is continuous
19 across the well unit.

20 Based on the exhibits included in
21 Mr. Muncy's affidavit, he concludes from his study and
22 testifies that there are no structural impediments or
23 faulting that will interfere with horizontal development
24 and that each quarter-quarter section within the unit
25 will contribute more or less equally to production from

1 the well. Mr. Muncy states that the preferred well
2 orientation in the area is east-west, and he states this
3 is because of offset horizontal well production and
4 formation micromasure [sic] FMI interpretation from the
5 Palmillo 14 State 1H pilot hole.

6 EXAMINER JONES: Microimager.

7 MS. BRADFUTE: Thank you. Microimager.
8 Yes. I see it now. I haven't seen that in writing a
9 lot before.

10 And then he also confirms that the
11 producing interval for the well will be orthodox.

12 Exhibit 3 attached to this application is
13 an affidavit that I have prepared stating that Apache
14 did perform a diligent search of county records and
15 tried to find accurate addresses. Everybody in this
16 case who was provided with notice did receive notice,
17 with the exception of Marathon Oil Permian, LLC. I have
18 contacted Marathon Oil Permian, LLC (laughter) and
19 informed them about this hearing, and so they are aware
20 of today's proceeding. The address is correct. It's
21 unclear why the notification didn't actually deliver to
22 them, but they do have notice of today's hearing.

23 EXAMINER BROOKS: The address for Fasken
24 Oil & Ranch, Limited is not correct.

25 MS. BRADFUTE: The address for Fasken

1 Ranch?

2 EXAMINER BROOKS: The address for Fasken
3 Oil & Ranch on this exhibit is not correct. Its current
4 address is Holiday Hill Road. I think it's 6103 or 6101
5 Holiday Hill Road. I don't remember.

6 MS. BRADFUTE: It does show that it
7 delivered. I did not pull the return receipt on that to
8 see who signed.

9 EXAMINER BROOKS: 330 Wall Street is First
10 National Bank Building where they were located from 1959
11 until about six years ago. But they've been out on
12 Holiday Hill Road for the last -- last six or seven
13 years.

14 EXAMINER JONES: Maybe they haven't updated
15 their --

16 EXAMINER BROOKS: Maybe they haven't.

17 MS. BRADFUTE: They may have not updated,
18 if this was a record search for the address. I'm not
19 sure.

20 EXAMINER BROOKS: Ed was sending notice for
21 the State Land Office to them, and he called me to
22 verify their current address.

23 MS. BRADFUTE: But we can continue the case
24 to deliver notice to Fasken.

25 EXAMINER BROOKS: I thought you said they

1 got notice.

2 MS. BRADFUTE: They did. It shows it was
3 delivered.

4 EXAMINER BROOKS: Well, if it was
5 delivered, that's fine. I started getting -- quite some
6 years ago, I started getting "unable to forward" when I
7 sent letters to that old address, and now I've got a
8 rubber stamp with their return address.

9 MS. BRADFUTE: Yeah. Well, I will confirm
10 that fact with Apache. And I have mailed other things
11 to Fasken, so -- but it does say "delivered." But if
12 you'd like us to, we can continue it.

13 MR. McMILLAN: I guess I would also note
14 for the record that -- obviously Yates Brothers got
15 notice; here I am. But the address for Yates Brothers,
16 I was informed by my client, isn't quite right. I guess
17 the address I'm seeing on Exhibit -- well, on your
18 exhibit there, Jennifer, is actually -- that's EOG.
19 And, of course, EOG swallowed up almost everything
20 Yates, but Yates Brothers is actually at a different
21 location. I don't have it off the top of my head, but
22 it's probably is not in Artueza [sic; phonetic], New
23 Mexico either.

24 MS. BRADFUTE: Yes (laughter).

25 MR. McMILLAN: In any event, I will get you

1 the right address for cases going forward. But you
2 might want to double-check that.

3 MS. BRADFUTE: That will be helpful. Thank
4 you.

5 So I will move on, and then I will admit
6 all my exhibits at the end.

7 Exhibit Number 4 is Ms. Stretcher's
8 affidavit in Case 16143 to modify Order Number R-14766.
9 This case and order relate to the north half-north half
10 of Section 26, Township 19 South, Range 28 East,
11 N.M.P.M., Eddy County, New Mexico. And the original
12 application was for the development of the Palmillo 26
13 State 315H and 316H wells. An order was issued pooling
14 the underlying spacing unit for the development of those
15 wells on July 2nd, 2018. Apache wants to re-open the
16 case to add an additional well. It's the Palmillo 26
17 State 20 214H well, API Number 30-015-45041.

18 Attached to Ms. Stretcher's affidavit in
19 this matter as Exhibit A is a plat which provides the
20 information about the well. No opposition is expected
21 in this matter because Apache has notified everyone, and
22 they have been in contact trying to get everybody to
23 participate in the well and have not received any
24 indication that parties are going to oppose this
25 proceeding.

1 A plat outlining the unit being pooled was
2 presented at the hearing on May 17th, along with a list
3 of parties being pooled and ownership percentages. And
4 Apache asks that information be included in the record,
5 and I've also attached it in Exhibit A to
6 Ms. Stretcher's affidavit. Ms. Stretcher testifies that
7 there are no depth severances in this spacing unit and
8 that she conducted a diligent search in the public
9 records in the county where the well's located. She
10 looked at phone directories and conducted computer
11 searches to locate contact information.

12 Exhibit B contains a summary of her
13 attempts to contact people and also confirms that she
14 entered into the JOA with EOG which also covers this
15 spacing unit. Apache, in the underlying case, sought to
16 pool the overriding royalty interest in the unit, and
17 they would like those interests to be pooled also within
18 this well that's just being added to the pooled unit.

19 Exhibit C contains the well-proposal letter
20 and authorization for expenditure. The proposed cost to
21 drill this well, Ms. Stretcher testifies, are in line
22 with costs to drill other wells to these lengths and
23 these depths within this area of New Mexico.
24 Ms. Stretcher testifies that Apache requests overhead
25 and administrative rates of 7,000 a month for drilling

1 and 700 a month for a producing well, and she states
2 that these rates are fair and comparable to those rates
3 charged by other operators for wells drilled to these
4 lengths and these depths. Ms. Stretcher states that
5 Apache is asking that these rates be adjusted
6 periodically as provided under for the COPAS accounting
7 procedure and that Apache requests the maximum cost plus
8 200 percent risk charge be assessed against any
9 nonconsenting working interest owners. Apache requests
10 that it be designated as the operator of the well. And
11 Ms. Stretcher also testifies that offsets were notified
12 of this application to re-open this case.

13 Ms. Stretcher also testifies that the
14 attachments are correct and complete to the best of her
15 knowledge and that the granting of this application is
16 in the interest of conservation and the prevention of
17 waste.

18 Similar attachments to the last case are
19 attached Ms. Stretcher's affidavit, so I won't walk
20 through them in great detail unless the examiner has
21 questions.

22 EXAMINER JONES: Yeah. I don't. Seth
23 might have a question.

24 MR. McMILLAN: I don't.

25 MS. BRADFUTE: Thank you.

1 Attached as Exhibit Number 5 is an
2 affidavit by Mr. Muncy, which is similar to his
3 affidavit in Case 16142. In this matter, he is
4 attaching three different exhibits to his affidavit.

5 Exhibit A attached to his affidavit is a
6 structure map. It's also based on the -- it's hung on
7 the base of the 2nd Bone Spring Sand, and it shows that
8 the structure dips to the southeast. It shows the 2nd
9 Bone Spring Sand well is within the vicinity of the
10 proposed well and also lists a line of cross section.

11 Similar to the last affidavit, there is an
12 attachment, Attachment B, which is a gross sand isopach
13 map of the 2nd Bone Spring Sand interval.

14 And attached as Exhibit C is a cross
15 section which highlights the targeted interval for the
16 214H well. These exhibits are very close, if not
17 identical, to the exhibits we just talked about in the
18 prior case, so I'm not going to walk through them.

19 EXAMINER JONES: Okay.

20 MS. BRADFUTE: Mr. Muncy concludes in this
21 case that there are no structural impediments or
22 faulting that will interfere with horizontal development
23 and that each quarter-quarter section within the unit
24 will contribute more or less equally to the production
25 from the new well. And the orientation is the exact

1 same as what was testified to in the prior case.

2 EXAMINER JONES: Okay. It's pretty much
3 adding another well.

4 MS. BRADFUTE: We're just adding another
5 well. Yeah.

6 EXAMINER JONES: Okay.

7 MS. BRADFUTE: And attached as Exhibit 6 is
8 my affidavit confirming notice was given. These
9 mailings went out together, I believe, so the only
10 return mailing or undelivered was to Marathon again, and
11 they have notice of this hearing.

12 I ask that Exhibits 1 through 6 be admitted
13 into the record.

14 MR. McMILLAN: No objection.

15 EXAMINER JONES: No objection?

16 Exhibits 1 through 6 are admitted in
17 both -- in Cases 16143 and 16142

18 (Apache Corporation Exhibit Numbers 1
19 through 6 are offered and admitted into
20 evidence.)

21 EXAMINER BROOKS: Nothing from me.

22 EXAMINER JONES: We will take Cases 16142
23 and 143 under advisement.

24 MS. BRADFUTE: Thank you.

25 EXAMINER JONES: Thank you for coming

1 today.

2 As I understand it, that's the last one of
3 the docket. We're done.

4 (Case Numbers 16142 and 16143 conclude,
5 4:05 p.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 DATED this 7th day of October 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