

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 READ & STEVENS, CASE NO. 16382
INCORPORATED FOR A HORIZONTAL SPACING
UNIT AND PRORATION UNIT AND COMPULSORY
POOLING, LEA COUNTY, NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

September 6, 2018

Santa Fe, New Mexico

BEFORE: MICHAEL McMILLAN, CHIEF EXAMINER
DAVID K. BROOKS, LEGAL EXAMINER

This matter came on for hearing before the
New Mexico Oil Conservation Division, Michael McMillan,
Chief Examiner, and David K. Brooks, Legal Examiner, on
Thursday, September 6, 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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APPEARANCES

FOR APPLICANT READ & STEVENS, INCORPORATED:

JENNIFER L. BRADFUTE, ESQ.
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1 (10:21 a.m.)

2 EXAMINER McMILLAN: Okay. The next case
3 we're doing is application of Read & Stevens,
4 Incorporated for a horizontal spacing unit and proration
5 unit and compulsory pooling, Lea County, New Mexico.

6 Call for appearances.

7 MS. BRADFUTE: Mr. Examiner, Jennifer
8 Bradfute, with the Modrall Sperling Law Firm, on behalf
9 of the Applicant.

10 Mr. Examiner, this is an uncontested
11 pooling case that I would like to present by affidavit,
12 and the affidavits are contained in the packet in front
13 of you. For convenience, I have included a copy of the
14 application when you first turn to the packet, and the
15 application explains that Read & Stevens is seeking
16 approval of a 320-acre standard horizontal spacing unit
17 covering the west half-east half of Section 3, Township
18 20 South, Range 34 East, N.M.P.M., Lea County, New
19 Mexico, and pooling all mineral interests within the
20 Bone Spring Formation underlying the spacing and
21 proration unit.

22 The first exhibit, when you turn to this
23 packet, is listed as Exhibit Number 1, and this is the
24 affidavit of the Mark Compton. Mr. Compton is a landman
25 who has previously testified here before the Division on

1 behalf of Read & Stevens. Mr. Compton explains in his
2 affidavit that the purpose of his application is to
3 force pool working interest owners in a Bone Spring
4 horizontal spacing unit and that there is no opposition
5 that is expected to this application because working
6 interest owners who are being pooled have been contacted
7 regarding the proposed well but have not responded.
8 They've been unresponsive.

9 I'm going to first walk through the
10 affidavit and then go through the exhibits attached to
11 this affidavit. Attached to the affidavit is a plat
12 outlining the unit that's going to be pooled, and it
13 lists a separate tract of the proposed unit and then
14 also lists the uncommitted interests within that unit.
15 Mr. Compton has confirmed there are no depth severances
16 within the Bone Spring Formation underlying the proposed
17 unit.

18 Attached as Exhibit B to Mr. Compton's
19 affidavit -- we'll turn to it and walk through it -- is
20 going to be a C-102 for the proposed well. The TVD for
21 the well is approximately 10,898 feet. And the well is
22 going to develop the Quail Ridge, South; Bone Spring
23 Pool, Pool Code 50461. And this is designated as an oil
24 pool.

25 The parties being pooled and their last

1 known address and the nature and percent of their
2 interest is going to be included in Exhibit C. And
3 Mr. Compton has certified that he conducted a diligent
4 search of public records in the county where the well is
5 located. He searched phone directories and conducted a
6 computer search to locate contact information to the
7 parties entitled to notice. There were some unlocatable
8 mailings, and we'll go through those when go through my
9 affidavit. And that'll be the last thing we cover.

10 Exhibit D attached to Mr. Compton's
11 affidavit contains summary of contacts or attempted
12 contacts with the interest owners. Mr. Compton
13 certifies that he made a good-faith effort to obtain
14 voluntary joinder of the working interest owners in the
15 proposed well and that there were no overriding royalty
16 interest owners within the horizontal spacing unit.

17 Read & Stevens did send out a well-proposal
18 letter for the proposed well before filing for pooling
19 and attached to that letter is an AFE for the proposed
20 well. Mr. Compton certifies that the estimated cost for
21 drilling, completing and equipping the well are fair and
22 reasonable and comparable to the costs to drill other
23 wells of similar depths and similar lengths in this area
24 of New Mexico.

25 Read & Stevens requests -- and I'm just

1 running throughout the affidavit first, and then we'll
2 go through the exhibits.

3 Read & Stevens requests an overhead and
4 administrative rate of \$7,000 a month for drilling a
5 well and \$700 a month for producing a well. And
6 Mr. Compton certifies that these rates are fair and
7 comparable to the rates charged by other operators for
8 wells of this length and this depth within this area of
9 New Mexico. Read & Stevens asks that this rate be
10 adjusted periodically as provided for under the COPAS
11 accounting procedure, and it also requests the cost,
12 plus 200 percent risk charge against any nonconsenting
13 working interest owner.

14 Read & Stevens would like to be designated
15 as the operator of the well.

16 And Mr. Compton certifies that the
17 attachments contained hereto that we're going to talk to
18 in a minute were compiled by him or compiled from
19 company business records and that the information
20 provided is complete and correct to the best of his
21 knowledge and that the granting of this application is
22 within the prevention of waste and within the interest
23 of conservation.

24 If you turn to Exhibit A after going
25 through Mr. Compton's affidavit -- and it's Exhibit A

1 attached to Mr. Compton's affidavit. There is a Midland
2 Map diagram showing where the horizontal spacing unit
3 will be located, and it outlines the spacing unit in red
4 within the map, so you can see how it is situated and
5 where it's located.

6 And I apologize. I think I said 320, and
7 this looks like it's 160 acres for the spacing unit. So
8 I misspoke.

9 And if you turn to the second page of
10 Attachment A, there's a list of the working interest
11 owners by tract, and the tracts are slightly shaded.
12 The first tract is off-white. The second tract is kind
13 of light orange, and then the next two tracts are both
14 blue. If you look below, there are lease numbers for
15 those tracts. In the northernmost tract, there are no
16 pooled parties. In the next tract below it, state
17 lease, and there are some pooled parties listed with
18 their interest in the tract and their interest in the
19 well.

20 Likewise for the next two blue tracts,
21 there are parties listed who are going to be pooled, and
22 it lists the interests in each of those tracts of those
23 parties, along with the interest in the well. And these
24 are the working interest owners that Read & Stevens
25 seeks to pool in this matter. So they're listed by

1 their percentages and their names.

2 If you turn to the next attachment here --
3 it's Attachment B -- there is a proposed C-102 form for
4 the well, and the C-102 form shows where the well is
5 going to be located. It provides the surface location,
6 and it provides the bottom-hole location for the well.
7 And it provides the well name and the bottom-hole
8 location and the surface-hole location here. The well
9 complies with the setback requirements under the new
10 horizontal well rule.

11 If you turn to Attachment C, it provides,
12 again, just a listing of the interests in this area and
13 the record title addresses that Read & Stevens obtained
14 before filing for pooling and contacting parties to show
15 that they performed a diligent search to try to find
16 addresses of record title that they could locate for
17 these parties. In addition to this, they also did
18 computerized searches and looked at directories to find
19 any additional name and address information.

20 If you turn a few pages -- Exhibit C is
21 about five pages thick. If you turn a few pages, there
22 is a brief summary of just generally how Read & Stevens
23 went about trying to contact parties. It performed
24 record title searches. It sent out well-proposal
25 letters. They returned phone calls. They communicated

1 via email. They searched online for additional address
2 information. And then they also searched directories,
3 and then they sent out their pooling applications to
4 addresses of record.

5 Attachment E is a copy of the well-proposal
6 letter that was sent for this well. And if you look at
7 the second page -- second and third pages, an AFE for
8 the well is included which provides the costs.

9 And that concludes the information that's
10 provided for by the landman related to this proposal.

11 Are there any questions?

12 EXAMINER McMILLAN: Yeah. The first
13 question is: What's the status of the well?

14 MS. BRADFUTE: So this well was drilled --
15 it's been spudded and drilled. And it was drilled --
16 and we're going to get to that in the geologist's
17 affidavit at the end of --

18 EXAMINER McMILLAN: So it's drilled, not
19 completed?

20 MS. BRADFUTE: That's right. And it's
21 going to be completed beginning October 22nd of 2018.

22 EXAMINER McMILLAN: API number, is it
23 422227?

24 MS. BRADFUTE: Yes.

25 EXAMINER McMILLAN: Okay. Go ahead.

1 EXAMINER BROOKS: I don't have any
2 questions, except about the notice, and you said you
3 were going to get to that.

4 MS. BRADFUTE: I'm going to get to that.
5 It's the third --

6 EXAMINER BROOKS: Go ahead.

7 MS. BRADFUTE: I would like to tender
8 Exhibit 1 into the record.

9 EXAMINER McMILLAN: Exhibit 1 may now be
10 accepted as part of the record, and Exhibits A, B --

11 MS. BRADFUTE: Yeah. All of the
12 attachments, A through E.

13 EXAMINER McMILLAN: -- and Exhibits A
14 through E may now be accepted as part of the record.

15 (Read & Stevens, Inc. Exhibit Number 1,
16 and A through E, is offered and admitted
17 into evidence.)

18 MS. BRADFUTE: And the next exhibit I'm
19 going to talk about is the affidavit of Norman Lovan.
20 Mr. Lovan is a geologist who works for Read & Stevens,
21 and he has previously testified before the Division.
22 And he has conducted a geologic study related to
23 Read & Stevens' application in this case. I'm going to
24 talk about his affidavit and then go through his
25 exhibit.

1 Exhibit A attached to his affidavit is
2 going to be a structure map, and it's going to form the
3 base on which the basal 3rd Bone Spring Sand sits. It's
4 going to show that the structure dips gently to the
5 south-southeast, and it'll also show vertical Bone
6 Spring wells located within the vicinity of the proposed
7 well. And it also denotes a cross section from A to A
8 prime.

9 Exhibit A is also an isopach map, so it's
10 kind of all roped into one. It's the basal 3rd Bone
11 Spring Sand, green sand, and it shows that the Bone
12 Spring Formation is uniform across the proposed well
13 unit.

14 Exhibit B consists of a stratigraphic cross
15 section hung on top of the 3rd Bone Spring, and the well
16 logs on the cross section give a representative sample
17 of the Bone Spring Formation of the area. The target
18 zone, which we're going to about when we look at the
19 exhibits, is the basal 3rd Bone Spring Sand, and the
20 geologist notes that that zone is continuous across the
21 well unit. The well has a total depth measured 15,630
22 at feet. And the bottom-hole location, actually as the
23 well has now been drilled, is 100 feet from the south
24 line and 1,670 feet from the east line.

25 The geologist has concluded that the

1 horizontal spacing and proration unit is justified from
2 a geologic standpoint, that there are no structural
3 impediments or faulting that will interfere with
4 horizontal development and that quarter-quarter section
5 will contribute more or less equally to production.

6 The preferred well orientation within this
7 area is north-south, and this is because of the
8 regional-induced fracture's trend northeast-southwest
9 allowing near perpendicular intersection by the drilled
10 lateral. The producing interval for the well will be
11 orthodox.

12 And the geologist confirms when the well
13 was spud, on July 25th, 2018, and the fact that it has
14 not yet completed and completion operations are expected
15 to take place on October 22nd, 2018.

16 If you look at the attachments, there is a
17 structure map. It's a nine-section structure map that I
18 referenced. The project area or the spacing unit for
19 the well is outlined in a black dashed line, and you can
20 see the A to A prime marking on this map.

21 Included as a second page is a zoomed-in
22 version of the structure map that focuses more on the A
23 to A prime closer to the spacing unit.

24 And then Exhibit B, if you look at that, is
25 the cross section that's been prepared going A to A

1 prime with the wells that are noted. And the
2 highlighted in yellow with the red arrow is the targeted
3 formation for the well on the cross section.

4 And that concludes my information
5 concerning Exhibit Number 2 from the geologist.

6 Are there any questions?

7 EXAMINER BROOKS: I have none.

8 EXAMINER McMILLAN: No questions.

9 MS. BRADFUTE: Okay. I'd like to tender
10 Exhibit 2 with Attachments A and B into the record.

11 EXAMINER McMILLAN: Exhibit 2 with
12 attachments Exhibit A and B may now be accepted as part
13 of the record.

14 (Read & Stevens, Inc. Exhibit Number 2 with
15 A and B are offered and admitted into
16 evidence.)

17 MS. BRADFUTE: And finally, attached as
18 Exhibit 3 is my affidavit confirming that notice was
19 provided and that Read & Stevens conducted a good-faith,
20 diligent effort to find the names and correct addresses
21 for the interest owners who are entitled to receive
22 notice. Attached to this affidavit is a copy of the
23 notice letter. There's a chart showing the certified
24 mailing numbers that went out, a copy of green cards and
25 mailing receipts as well.

1 And in this case, we will need to continue
2 this matter in order to publish notice in a newspaper of
3 general circulation because there are a couple of
4 mailings that are still in transit. And so we'd like to
5 request this matter be continued to October the 4th.

6 EXAMINER BROOKS: Okay. Which owners are
7 you concerned about the addresses of the mailing notice
8 and you want to be sure are published?

9 MS. BRADFUTE: So the first person is
10 Andrea Miller Bunnett.

11 EXAMINER BROOKS: Okay.

12 MS. BRADFUTE: The second person is Wesley
13 Merrick Miller, and the third person is Nancy Peacock
14 Mackey. And that is it.

15 EXAMINER BROOKS: Okay. So all those
16 people, you don't have good addresses for?

17 MS. BRADFUTE: Yeah. The USPS tracking
18 says they're in transit. So we went to the USPS Web
19 site, and it says that the mailings are in transit. But
20 usually when it's taking this long and they're still in
21 transit, they don't usually deliver.

22 EXAMINER BROOKS: Okay. They're all
23 individuals, so I don't have any more suggestions. I
24 believe you did recite in general what you intend to do
25 as to addresses. Thank you.

1 MS. BRADFUTE: Thank you.

2 With that, I'd like to admit Exhibit Number
3 3 into the record.

4 EXAMINER McMILLAN: Exhibit 3 may now be
5 accepted as part of the record.

6 (Read & Stevens, Inc. Exhibit Number 3 is
7 offered and admitted into evidence.)

8 MS. BRADFUTE: And I'd like to ask that
9 this case be continued until October the 4th.

10 EXAMINER McMILLAN: Case Number 16382 shall
11 be continued until October the 4th.

12 MS. BRADFUTE: Thank you.

13 EXAMINER McMILLAN: Thanks.

14 (Case Number 16382 concludes, 10:38 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 DATED THIS 28th day of September 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