

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 ASCENT ENERGY, LLC CASE NOS. 16232,
FOR APPROVAL OF A NONSTANDARD SPACING 16233
AND PRORATION UNIT, COMPULSORY POOLING,
AND ONE UNORTHODOX WELL LOCATION, LEA
COUNTY, NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

October 4, 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, October 4, 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
 500 4th Street, Northwest, Suite 105
 Albuquerque, New Mexico 87102
 (505) 843-9241

1 APPEARANCES

2 FOR APPLICANT ASCENT ENERGY, LLC:

3 JAMES G. BRUCE, ESQ.
 Post Office Box 1056
 4 Santa Fe, New Mexico 87504
 (505) 982-2043
 5 jamesbruc@aol.com

6 FOR INTERESTED PARTY COG OPERATING, LLC:

7 WILLIAM F. CARR, ESQ.
 HOLLAND & HART, LLP
 8 110 North Guadalupe, Suite 1
 Santa Fe, New Mexico 87501
 9 (505) 988-4421
 wfcarr@hollandhart.com

10

11 FOR INTERESTED PARTY MARATHON OIL PERMIAN, LLC:

12 JENNIFER L. BRADFUTE, ESQ.
 MODRALL, SPERLING, ROEHL, HARRIS & SISK, P.A.
 13 500 4th Street, Northwest, Suite 1000
 Albuquerque, New Mexico 87102
 14 (505) 848-1800
 jlb@modrall.com

15

16 INDEX

| | | |
|----|-------------------------------------|-------|
| 17 | | PAGE |
| 18 | Case Numbers 16232 and 16233 Called | 3 |
| 19 | Cases Presented by Affidavit | 3 |
| 20 | Proceedings Conclude | 11/12 |
| 21 | Certificate of Court Reporter | 13 |

22

23 EXHIBITS OFFERED AND ADMITTED

| | | |
|----|--|---|
| 24 | Ascent Energy, LLC Exhibit Numbers 1 through 4 | 9 |
|----|--|---|

25

1 (4:01 p.m.)

2 EXAMINER McMILLAN: I'd like to call Case
3 16232, application of Ascent Energy, LLC for approval of
4 a nonstandard spacing and proration unit, compulsory
5 pooling and one unorthodox well location. This shall be
6 combined with Case Number 16233, application of Ascent
7 Energy, LLC for approval of a nonstandard spacing and
8 proration unit, compulsory pooling and one unorthodox
9 well location, Lea County, New Mexico.

10 Call for appearances.

11 MR. BRUCE: Mr. Examiner, Jim Bruce
12 representing the Applicant. I am submitting this case
13 by affidavit.

14 EXAMINER McMILLAN: Any other appearances?

15 MS. BRADFUTE: Mr. Examiner, Jennifer
16 Bradfute, with the Modrall, Sperling Law Firm, on behalf
17 of Marathon Oil Permian, LLC.

18 MR. CARR: May it please the Examiner,
19 William F. Carr, senior counsel to Concho. I'm
20 appearing for COG Operating.

21 EXAMINER McMILLAN: Thank you.

22 MR. BRUCE: Mr. Examiner, I've handed you
23 several exhibits. There is a lot of paper here, but
24 it's fairly simple. Exhibit 1 is a verified statement
25 of Lee Zink, Ascent's landman, and who has been

1 qualified as a witness -- a land witness before the
2 Division.

3 In this case -- in both cases -- in Case
4 16232, Ascent seeks to force pool a Wolfcamp horizontal
5 spacing unit, and in Case 16233, they seek to force pool
6 a Bone Spring horizontal spacing unit.

7 As you may know, Mr. Examiner, there have
8 been some ongoing things between Marathon and Ascent,
9 and they're hopefully about to work out all of their
10 issues. There are some cases that have been continued
11 for a couple of weeks, but they're working toward
12 getting all that resolved. As part of that resolution,
13 Marathon has allowed this case to move forward by
14 affidavit.

15 Exhibit 1, if you'll go through there,
16 they're seeking to drill two horizontal Wolfcamp wells
17 in the west half-west half of Section 28 and the west
18 half-west half of Section 33. And then for a Bone
19 Spring well unit, the same west half-west half of
20 Section 28 and the west half-west half of Section 33.

21 The Wolfcamp tests -- or Upper Wolfcamp
22 tests -- on page 2 of the affidavit, you can see that
23 there are a number of different Bone Spring intervals
24 that are going to be tested at different depths, 1st
25 Bone Spring, 2nd Bone Spring and 3rd Bone Spring. I

1 think the easiest way to run through that is if you go
2 back to the attachments a few pages in, to the colored
3 attachment page, Attachment A, it outlines -- this is a
4 two-section development area. It's called the Gavilon
5 Development Area. It's for development of horizontal
6 wells in the potash area.

7 If you turn to Attachment B, it outlines
8 the well unit for the -- when I was doing it at 3:00
9 a.m. this morning, it seemed so much simpler,
10 Mr. Examiner. But you'll see, Attachment B in the Bone
11 Spring, it gives the working interest ownership and the
12 names of the parties in the development area. If you go
13 through, it's got the C-102s for the wells.

14 When you go to Attachment D, it has the --
15 and I may have gotten B and D switched up. But, again,
16 it's the same ownership for the Wolfcamp wells in this
17 area. It gives their percentage interests.

18 And Exhibit E, as Exhibit C, is the various
19 C-102s for the well. They're planning -- testing
20 multiple zones, and at least in a half section, maybe up
21 to three to four Bone Spring wells across the half
22 section of Sections 28 and 33.

23 Attachment F simply gives a summary of the
24 contacts Ascent has had with various parties, and
25 attached to that is a sample proposal letter that was

1 sent out to Camterra Resources, one of the parties.
2 Similar letters were sent out to all of the interest
3 owners. And all the parties have had quite a bit of
4 contact with each other. It's been going on about 19
5 months now, so they've had plenty of time to discuss
6 their various issues.

7 Attachment G contains all of the AFEs for
8 the proposed wells, and they vary, of course, according
9 to the depth. But they're all in the range of the low
10 8 millions and up to the high \$8 million, depending on
11 depth.

12 Mr. Zink states that these -- that these
13 AFEs are fair and reasonable and comparable to other
14 well costs of similar wells in this area. Ascent
15 asserts it has made a good-faith effort to obtain
16 voluntary joinder of the working interest owners in the
17 well, and Ascent has the right to pool the overriding
18 royalties in the well unit. They request \$7,500 for
19 drilling a well and \$750 a month for a producing well.
20 And these are common rates, and Ascent requests a risk
21 charge and asks that it be designated operator of the
22 wells.

23 These applications were filed in early
24 June, and, therefore, we gave notice to the offsets.
25 And the final page of this exhibit lists all of the

1 offsets. Now, some of them are also working interest
2 owners. So either being notified through the notice of
3 the hearing to the working interest owners or through
4 the notice to offsets, all parties have received notice.

5 And Exhibits 2 and 3 are my Affidavits of
6 Notice showing that all the parties who are listed as
7 working interest owners in the proposed wells did
8 receive actual notice.

9 Exhibit 3 is the Affidavit of Notice
10 regarding offsets, and all of the parties who were not
11 working interest owners but were given notice also
12 received actual notice. All of the green cards were
13 returned, which is a notable feature in my lifetime
14 sometimes.

15 And Exhibit 4 is the affidavit of Ben Metz,
16 their geologist, and he has previously been qualified as
17 an expert geologist by the Division.

18 And I've stapled these various geologic
19 plats together. You've got Attachments A through F,
20 going from -- A is the Wolfcamp, and then B through F
21 are the various Bone Spring zones, the Avalon, the
22 Leonard, the 1st, 2nd and 3rd Bone Spring sands. And
23 each of these includes a structure map and a cross
24 section and, where available, data from other wells
25 producing from that specific zone nearby.

1 He does state that all of the zones in this
2 320-acre well unit are continuous across the well unit.
3 Virtually all of the wells in this area, from whatever
4 zone, are north-south wells. Mr. Metz says that the
5 more recent completions, the better completions, the
6 wells are economic that way. And since there is so
7 little data on horizontal wells, they are drilling the
8 wells north-south as other operators are doing.

9 But I won't go into the maps other than to
10 say, again, that they all contain structure maps,
11 representative cross sections and, where available,
12 production data from wells in the area. And he believes
13 that each quarter-quarter section in the well units will
14 produce more or less equally to the well. And the
15 Wolfcamp and Bone Spring horizontal spacing units are
16 justified from a geologic standpoint, and there is no
17 faulting or other geologic impediments which would
18 prevent the drilling of the wells.

19 EXAMINER BROOKS: No depth severances in
20 this case?

21 MR. BRUCE: (Indicating.)

22 EXAMINER BROOKS: No depth severances?

23 MR. BRUCE: No. There are no depth
24 severances, and that is stated in the landman's
25 affidavit. For once I remembered to put it in there.

1 EXAMINER BROOKS: Good.

2 MR. BRUCE: With that -- I mean, if you
3 have any questions, ask them, but I would move the
4 admission of Exhibits 1 through 4.

5 MS. BRADFUTE: No objection.

6 MR. CARR: No objection.

7 EXAMINER McMILLAN: Exhibits 1 through 4
8 may now be accepted as part of the record.

9 (Ascent Energy, LLC Exhibit Numbers 1
10 through 4 are offered and admitted into
11 evidence.)

12 EXAMINER McMILLAN: Cross?

13 MR. CARR: No cross.

14 MS. BRADFUTE: No cross.

15 EXAMINER McMILLAN: Okay. The first
16 question I've got is when I was going through the case
17 file, it said there was an amended application. Is that
18 correct?

19 MR. BRUCE: Well, if it was -- I think I
20 may have had some typos in one of the original
21 applications, but it was nothing significant.

22 EXAMINER McMILLAN: I guess what I'm
23 getting at is your amended application was after June
24 26th, right? Because that changes it from a project
25 area to a horizontal spacing unit.

1 MR. BRUCE: Well, I'm still uncertain of
2 the -- what I've done in the cases that I've originally
3 filed before June 26th, if I amended something
4 afterwards, I have continued to notify offsets. But I
5 don't remember the --

6 EXAMINER BROOKS: Well, it doesn't hurt if
7 you notify them if you don't have to. I mean, that's
8 not a problem. You can send notice to everybody --

9 MR. BRUCE: I don't remember the amended
10 application, but --

11 EXAMINER McMILLAN: It doesn't change
12 anything. It's just -- it's semantics.

13 MR. BRUCE: Semantics. Okay.

14 EXAMINER BROOKS: Yeah. These are all
15 standard horizontal spacing units.

16 EXAMINER McMILLAN: Yeah. But when it was
17 initially done, it would have been a nonstandard project
18 area. Now it would be a standard horizontal spacing
19 unit.

20 EXAMINER BROOKS: Correct. It would have
21 been a nonstandard spacing unit. We'd have dubbed it a
22 nonstandard spacing unit.

23 MR. BRUCE: Ms. Bradfute can confirm there
24 is a lot more paper involved in these cases than this.

25 MS. BRADFUTE: Yes.

1 EXAMINER McMILLAN: I need the pool codes.

2 MR. BRUCE: I know they've been in touch.

3 I will get those for you, Mr. Examiner. These APDs have
4 not yet been filed, but I will get the pool codes for
5 you.

6 EXAMINER McMILLAN: Okay.

7 MR. BRUCE: I believe they're probably
8 wildcat Wolfcamp. I will get that for you.

9 EXAMINER McMILLAN: Yeah. But I don't pay
10 much attention to the names people -- the pool code is
11 more important.

12 MR. BRUCE: I will get those for you.

13 EXAMINER McMILLAN: You said all
14 quarter-quarter sections will contribute to --

15 MR. BRUCE: Yes. The geologist states that
16 in his affidavit.

17 EXAMINER McMILLAN: Okay.

18 MR. BRUCE: And I'd ask that these matters
19 be taken under advisement.

20 EXAMINER McMILLAN: Closing statements?

21 MR. CARR: No.

22 MS. BRADFUTE: No.

23 EXAMINER McMILLAN: Cases 16232 and 233
24 shall be taken under advisement.

25 (Case Numbers 16232 and 16233 conclude,

4:15 p.m.)

- 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

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 25th day of October 2018.
21

22
23 MARY C. HANKINS, CCR, RPR
24 Certified Court Reporter
25 New Mexico CCR No. 20
Date of CCR Expiration: 12/31/2018
Paul Baca Professional Court Reporters