

1 STATE OF NEW MEXICO  
2 ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT  
3 OIL CONSERVATION DIVISION

4 IN THE MATTER OF THE HEARING CALLED  
5 BY THE OIL CONSERVATION DIVISION FOR  
6 THE PURPOSE OF CONSIDERING:

7 APPLICATION OF LIME ROCK RESOURCES CASE NO. 20319  
8 II-A, L.P. FOR COMPULSORY POOLING,  
9 EDDY COUNTY, NEW MEXICO.

10

11 REPORTER'S TRANSCRIPT OF PROCEEDINGS

12 EXAMINER HEARING

13 April 4, 2019

14 Santa Fe, New Mexico

15

16 BEFORE: MICHAEL McMILLAN, CHIEF EXAMINER  
17 TERRY WARNELL, TECHNICAL EXAMINER  
18 WILLIAM V. JONES, TECHNICAL EXAMINER  
19 DAVID K. BROOKS, LEGAL EXAMINER

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22 This matter came on for hearing before the  
23 New Mexico Oil Conservation Division, Michael McMillan,  
24 Chief Examiner; Terry Warnell and William V. Jones,  
25 Technical Examiners; and David K. Brooks, Legal  
26 Examiner, on Thursday, April 4, 2019, at the New Mexico  
27 Energy, Minerals and Natural Resources Department,  
28 Wendell Chino Building, 1220 South St. Francis Drive,  
29 Porter Hall, Room 102, Santa Fe, New Mexico.

30

31 REPORTED BY: Mary C. Hankins, CCR, RPR  
32 New Mexico CCR #20  
33 Paul Baca Professional Court Reporters  
34 500 4th Street, Northwest, Suite 105  
35 Albuquerque, New Mexico 87102  
36 (505) 843-9241

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APPEARANCES

FOR APPLICANT LIME ROCK RESOURCES II-A, L.P.:

GARY W. LARSON, ESQ.  
HINKLE SHANOR, LLP  
218 Montezuma Avenue  
Santa Fe, New Mexico 87501  
(505) 982-4554  
glarson@hinklelawfirm.com

FOR INTERESTED PARTY/PROTESTER ANN LANDRITH HOLDINGS,  
LLC:

ADAM LEAVITT, PRO SE  
Post Office Box 3363  
Tulsa, Oklahoma 74101  
(918) 237-5454  
aleavitt@ht-di.com

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1 (9:52 a.m.)

2 EXAMINER McMILLAN: I'd like to call this  
3 hearing to order.

4 I'd like to call Case Number 20319,  
5 application of Lime Rock Resources II-A, L.P. for  
6 compulsory pooling, Eddy County, New Mexico.

7 Call for appearances.

8 MR. LARSON: Good morning, Mr. Examiner.  
9 Gary Larson, with the Santa Fe office of Hinkle Shanor,  
10 for the Applicant. I have no witnesses. I propose to  
11 present my case by affidavit.

12 EXAMINER McMILLAN: Any other appearances?

13 MR. LEAVITT: Yes. Adam Leavitt  
14 representing Ann Landrith Holdings, LLC.

15 MR. LARSON: Do you have any objection to  
16 me presenting the case by affidavit?

17 MR. LEAVITT: Yeah, I do. Well, I don't  
18 have objection to you presenting, but I am objecting to  
19 the drilling of it.

20 MR. LARSON: Because I was not served with  
21 an entry of appearance, so I was unaware that  
22 Mr. Leavitt would be here today.

23 MR. LEAVITT: I did submit a prehearing  
24 letter.

25 EXAMINER BROOKS: Well, I understand

1 you -- what you just said, that you don't have any  
2 objection to his presenting by affidavit. You just have  
3 an objection to his application; is that correct?

4 MR. LEAVITT: That's correct. I don't have  
5 any problem with the proposed drilling of the well.  
6 Yeah.

7 EXAMINER BROOKS: What is your concern?

8 MR. LEAVITT: The concern, according to the  
9 prehearing statement, is simply that they -- you know,  
10 my grants signed a lease back in the '50s. I wanted to  
11 open up the terms of a -- of a lease, but just  
12 bifurcating a very small portion of it rather than  
13 renegotiating a contract.

14 EXAMINER BROOKS: Well, it looked to me  
15 like there may have been a problem whether there is  
16 sufficient good-faith negotiation in this case --

17 MR. LEAVITT: Correct.

18 EXAMINER BROOKS: -- from what was filed in  
19 the Division's file.

20 MR. LEAVITT: Correct. See, the original  
21 agreement had -- you know, it was limited to 43 acres.

22 EXAMINER BROOKS: Well, you don't have the  
23 right to do that. When the State compulsory pools, it  
24 compulsory pools what it has a right to compulsory pool.  
25 That's very well established. But as far as the

1 royalty's concerned, usually do unleased tracts,  
2 encourage parties to -- to negotiate in good faith. And  
3 I can see why it would be appropriate to say that if you  
4 could not voluntarily pool it under the existing  
5 agreements, those agreements would be subject to  
6 good-faith renegotiation --

7 MR. LEAVITT: Correct.

8 EXAMINER BROOKS: -- which we don't get  
9 involved in. We simply ask the parties to negotiate.  
10 So Mr. -- Mr. --

11 MR. LARSON: Larson.

12 EXAMINER BROOKS: -- Larson should have  
13 been served with that response.

14 And I gather you did not?

15 MR. LARSON: I have not received it.

16 MR. LEAVITT: So we haven't -- I haven't  
17 reached out to Mr. Larson to attempt to -- to  
18 communicate. This is my first time -- first time being  
19 in front of this Commission, so I am a little confused.  
20 I tried to seek counsel on the matter for months.

21 EXAMINER BROOKS: You're not an attorney?

22 MR. LEAVITT: No. I'm representing myself  
23 per the prehearing statement I made.

24 EXAMINER BROOKS: Well, I'm going to -- my  
25 ruling is going to be that we allow Mr. Larson to go

1 ahead and make his presentation, and then the case will  
2 be reset to another date for disposition so the parties  
3 will have an opportunity to conduct negotiations.

4 MR. LEAVITT: Yeah. I appreciate it.

5 And one more thing. It's very difficult,  
6 because Lime Rock on this particular interest or this  
7 particular well, they also have -- Lime Rock also has  
8 other wells of which, you know, my family has a mineral  
9 interest. And then there is a competing well proposal.  
10 So I'm dealing with, you know, many different attorneys.

11 And by the way, when I try to find  
12 representation, it goes -- you know, it takes weeks, and  
13 then all of a sudden I find out they're conflicted out  
14 anyway, and they don't want to represent a mineral  
15 owner. It's very, very difficult.

16 EXAMINER McMILLAN: Well, let's stick to  
17 this case.

18 MR. LEAVITT: Okay.

19 MR. LARSON: And just for the record,  
20 Mr. Examiner, this is the first time I've spoken to  
21 Mr. Leavitt.

22 EXAMINER BROOKS: Okay. Well, he should  
23 have been -- he should have served you with his reply,  
24 no doubt about that, but --

25 MR. LARSON: May I proceed?

1 EXAMINER BROOKS: Yes.

2 MR. LARSON: In this case Lime Rock seeks  
3 to pool the Yeso Formation in a standard 160-acre  
4 horizontal spacing unit comprised of the north  
5 half-north half of Section 13, Township 18 South, Range  
6 26 East. And the horizontal spacing unit will be  
7 dedicated to the proposed Leavitt 13 #1H well.

8 And I've handed you two exhibits. The  
9 first is one the self-affirmed statement of the Lime  
10 Rock landman, Doug Lacey. The attachments to  
11 Mr. Lacey's affidavit are the C-102 for the well, a  
12 sample of Mr. Lacey's well-proposal letter, proof of  
13 notice of today's hearing, and the AFE for the proposed  
14 well.

15 And to highlight the statements of  
16 Mr. Lacey's affidavit, there are no depth severances in  
17 the Yeso Formation. The estimated well costs are fair  
18 and reasonable and are comparable to the costs of other  
19 wells of similar depth and length in the vicinity. And  
20 Lime Rock is requesting overhead and administrative  
21 rates of \$8,000 a month while drilling and \$800 a month  
22 while the well is producing, which are similar to  
23 administrative costs for other wells in the area and are  
24 actually less than the adjusted rates in the governing  
25 JOAs for the well. And finally, Lime Rock is also

1 requesting a 200 percent risk penalty.

2                   Exhibit 2 is a self-affirmed statement of  
3 Lime Rock's geologist, Stan Bishop. Attached as  
4 exhibits to Mr. Bishop's affidavit are a location map  
5 that depicts the proposed well and offset Yeso-producing  
6 well, a top of the Yeso carbonate structure contour map,  
7 a location map that delineates the well logs Mr. Bishop  
8 used in preparing his stratigraphic cross section and a  
9 cross section that Mr. Bishop prepared that depicts the  
10 target interval.

11                   And as stated in Mr. Bishop's affidavit,  
12 the horizontal spacing unit is justified from a geologic  
13 standpoint. An east-to-west orientation is preferred  
14 for the proposed well. There is no faulting or other  
15 geologic impediment that might adversely affect the  
16 drilling of the well, and each quarter section in the  
17 proposed unit will contribute more or less equally to  
18 the production.

19                   And with that, I move the admission of Lime  
20 Rock Exhibits 1 and 2.

21                   EXAMINER McMILLAN: Do you have any  
22 objections?

23                   MR. LEAVITT: To the drill proposal?

24                   EXAMINER BROOKS: To the admission of the  
25 exhibits.

1 MR. LEAVITT: I'm sorry. You'll have to  
2 have patience with me. Do I have any --

3 EXAMINER BROOKS: The question was: "Do  
4 you have any objections?" And that referred to the  
5 admission of the exhibits offered by Mr. Larson.

6 MR. LEAVITT: The exhibits. I do not have  
7 any objection.

8 EXAMINER McMILLAN: Exhibits 1 and 2 may  
9 now be accepted as part of the record.

10 (Lime Rock Resources II-A, L.P. Exhibit  
11 Numbers 1 and 2 are offered and admitted  
12 into evidence.)

13 MR. LARSON: That's all I have,  
14 Mr. Examiner.

15 EXAMINER McMILLAN: Mr. Brooks?

16 EXAMINER BROOKS: I have no questions.

17 EXAMINER McMILLAN: The first comment is  
18 you need clarification of the first take point and the  
19 last take point. Because if it's 220 from the north and  
20 330 from the west, that's an NSL. If an NSL is  
21 required, it has to be done through the Engineering  
22 Bureau. It will not be done at hearing.

23 Okay. What about unlocatables?

24 MR. LARSON: We have one, and as you'll  
25 note, we published notice.

1 EXAMINER McMILLAN: Okay. Where is it?

2 MR. LARSON: It's attached to Mr. Lacey's  
3 affidavit. I believe it's Exhibit D, as in dog. It's  
4 the Affidavit of Publication in the "Carlsbad  
5 Current-Argus."

6 EXAMINER McMILLAN: Well, let's make sure.  
7 Okay. And the unlocatable is mentioned  
8 here?

9 MR. LARSON: HTI. Yes.

10 EXAMINER McMILLAN: Okay. All right. So  
11 that case is going to be continued?

12 EXAMINER BROOKS: Yes. We'll take this --  
13 I would advise that we take this case under  
14 advisement -- I'm sorry -- that we not take this case  
15 under advisement, but we continue it in order to allow  
16 the parties to conduct further negotiations with regard  
17 to the lease interest, which I gather your client -- no,  
18 you --

19 MR. LEAVITT: Yes. It's owned through Ann  
20 Landrith Holdings, but I am a member of Ann Landrith  
21 Holdings.

22 EXAMINER BROOKS: -- to negotiate.  
23 Normally, we don't allow -- or require people  
24 renegotiate existing leases, but where you have a lease  
25 that has a restriction in it that would preclude a

1 voluntary pooling agreement and where it also has a  
2 royalty which is a default minimum under the statute,  
3 which people usually -- well, I won't say usually --  
4 people sometimes renegotiate, I would recommend that the  
5 parties attempt to come to an agreement about this  
6 matter.

7 EXAMINER McMILLAN: Okay.

8 EXAMINER BROOKS: If they can't, then we'll  
9 proceed appropriately.

10 MR. LEAVITT: Agreed. So it's continued  
11 until what date?

12 EXAMINER McMILLAN: We haven't set the  
13 dates yet.

14 Okay. So Case Number 20319 shall be  
15 continued.

16 And we should have a docket out in a couple  
17 of days?

18 EXAMINER BROOKS: That's up to other people  
19 than me, but it will be out well before the continued  
20 date, which will probably be somewhere in the  
21 neighborhood of six weeks.

22 MR. LARSON: And what would you envision  
23 happening if we come back to hearing in six weeks? Will  
24 we have testimony about the parties' negotiations?

25 EXAMINER BROOKS: No. We wouldn't have

1 testimony because we're not going to rule on that. If  
2 you have an agreement, you have an agreement. And we  
3 can -- then you can make a voluntary pooling with him  
4 and get an order as to anybody else that's in there. If  
5 you don't, then we will have to decide whether there's  
6 been sufficient -- you may want to be prepared to make  
7 some representations about the negotiations, not because  
8 we're going to say that you should have agreed to  
9 anything but because we want to be sure you have  
10 negotiated if that's disputed.

11 MR. LARSON: Would it be sufficient to  
12 present that by affidavit?

13 EXAMINER BROOKS: I would think so. The  
14 whole purpose of this procedure is to avoid having to  
15 redo everything.

16 EXAMINER McMILLAN: Okay. Thank you.

17 MR. LARSON: Thank you, Mr. Examiners.

18 (Case Number 20319 concludes, 10:05 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 24th day of April 2019.

21

22

23 MARY C. HANKINS, CCR, RPR  
24 Certified Court Reporter  
25 New Mexico CCR No. 20  
Date of CCR Expiration: 12/31/2019  
Paul Baca Professional Court Reporters