

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 CENTENNIAL RESOURCE CASE NO. 20518
PRODUCTION, LLC FOR COMPULSORY POOLING,
LEA COUNTY, NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

June 13, 2019

Santa Fe, New Mexico

BEFORE: SCOTT DAWSON, CHIEF EXAMINER
 DAVID K. BROOKS, LEGAL EXAMINER

This matter came on for hearing before the
New Mexico Oil Conservation Division, Scott Dawson,
Chief Examiner, and David K. Brooks, Legal Examiner, on
Thursday, June 13, 2019, 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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 (505) 843-9241

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APPEARANCES

FOR APPLICANT CENTENNIAL RESOURCE PRODUCTION, LLC:

KAITLYN A. LUCK, ESQ.
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1 (9:53 a.m.)

2 EXAMINER DAWSON: At this point we'll go
3 back on the record. It's approximately 9:53.

4 The next case we will hear is 20518, which
5 is an application of Centennial Resource Production, LLC
6 for compulsory pooling, Lea County, New Mexico.

7 Please call for appearances.

8 MS. LUCK: Thank you, Mr. Hearing Examiner.
9 Kaitlyn Luck with the Santa Fe office of Holland & Hart.

10 EXAMINER DAWSON: Do you have witnesses on
11 this case?

12 MS. LUCK: No, Mr. Hearing Examiner. We
13 intend to present this case by affidavit.

14 EXAMINER DAWSON: Okay.

15 Any other appearances on Case Number 20518?

16 Seeing none, when you're ready, Ms. Luck.

17 MS. LUCK: In Case Number 20518, Centennial
18 seeks an order pooling all uncommitted interests in the
19 Bone Spring Formation in the Ojo Chiso; Bone Spring
20 Pool, pool code 96553, underlying a standard 320-acre
21 horizontal spacing unit comprised of the west half of
22 the west half of Sections 1 and 12, Township 22 South,
23 Range 34 East, Lea County, New Mexico.

24 This unit will be dedicated to the Chorizo
25 12 State Com 601H well, and this well will be drilled in

1 Unit M of Section 12 to Lot 4 of Section 1.

2 Exhibit A is the affidavit of Gavin Smith,
3 and he has been admitted as an expert in petroleum land.
4 He's familiar with this application, and he advises in
5 his application that none of the parties to be pooled in
6 this case has indicated opposition and he does not
7 expect any.

8 Exhibit 1 is the draft C-102 for the
9 proposed well, which reflects the completed interval
10 comprised of the standard setback under the statewide
11 rules for horizontal wells.

12 Exhibit A2 identifies the tracts of land in
13 question that are encompassed within -- and I apologize.
14 I misspoke earlier. This well is located within two
15 pools, so it's the Ojo Chiso; Bone Spring Pool, pool
16 code 96553, and the Grama Ridge, Northeast; Bone Spring
17 Pool, 28435, and the acreage consists only of state
18 lands. So turning to Exhibit A2, you'll see on the map
19 that it reflects the pool boundary in the center of the
20 sections, and the map reflects that Section 1 is the Ojo
21 Chiso Pool and Section 12 is in the Grama Ridge; Bone
22 Spring Pool.

23 On Exhibit Number 3, Centennial has
24 detailed ownership interest in the proposed spacing unit
25 and also identified the only record title owner that

1 Centennial seeks to pool in this proceeding. There are
2 no depth severances.

3 And Centennial also provides as Exhibit A4
4 the well-proposal letter, along with the AFE that was
5 provided in this case. The costs are consistent with
6 what other operators are charging, and Centennial has
7 estimated the overhead and administrative costs of
8 \$7,000 per month while drilling and \$700 per month while
9 producing.

10 EXAMINER DAWSON: Okay. On the letter, it
11 says 7,500 per day [sic] for drilling and 750 per day
12 [sic] for producing.

13 MS. LUCK: And Centennial would request
14 that the larger amount be incorporated into the order,
15 if that will that would be okay with the Division, given
16 the letter says 7,500 and \$750.

17 EXAMINER BROOKS: Well, the Division can
18 make that decision. It's the examiner's discretion what
19 to recommend. I think we have approved 7,500 and 750 in
20 some cases.

21 EXAMINER DAWSON: Okay. So you're saying
22 8,000, 800 or 7,000 and 700?

23 MS. LUCK: And I apologize, Mr. Hearing
24 Examiner. I'm saying 7,500 and \$750 while drilling as
25 reflected on the AFE, which is Exhibit A4.

1 EXAMINER DAWSON: Okay. That's fine.

2 We'll stick with the 7,500 and 750.

3 MS. LUCK: Okay. Thank you.

4 EXAMINER DAWSON: All right.

5 MS. LUCK: Exhibit B is the affidavit of
6 Mr. Harper, who has been previously admitted as an
7 expert in petroleum geology. He's familiar with the
8 application in this case, and he's conducted a geologic
9 study of the acreage underlying the proposed horizontal
10 spacing unit. In this case Centennial is targeting the
11 3rd Bone Spring Sand with its Chorizo 13 State Com 601H
12 well.

13 Exhibit B1 is a structure map prepared by
14 Mr. Harper with contour lines every 50 feet. It shows
15 the development in Sections 1 and 12. He opines in his
16 affidavit that he does not observe any faulting,
17 pinch-outs or geologic impediments to developing the
18 targeted interval with the horizontal well. All of the
19 wells in this area are either north-to-south or
20 south-to-north wells, and this drilling is consistent
21 with that pattern.

22 Centennial Exhibit B2 shows a cross-section
23 line in blue consisting of three wells penetrating the
24 Bone Spring Sand, which he used to construct the
25 stratigraphic cross section from A to A prime. He chose

1 these wells because they illustrate the target interval
2 along the well path.

3 Exhibit B3 is a cross section using the
4 representative wells that show the logs for each of the
5 wells. The targeted interval is labeled on the exhibit
6 just above the Wolfcamp and shows that Centennial is
7 targeting the 3rd Bone Spring Sand with this well.
8 Based on his geologic study, the subject area is
9 suitable for development by horizontal wells. And
10 north-south or south-to-north orientation of the
11 proposed well in the 3rd Bone Spring Sand of the Bone
12 Spring Formation is the preferred orientation to develop
13 the subject acreage, and each of the tracts within the
14 horizontal spacing unit will get contribute more or less
15 equally to production. In his opinion, the granting of
16 Centennial's application is in the best interest of
17 conservation, the prevention of waste and the protection
18 of correlative rights.

19 Finally, Exhibit Number [sic] C is an
20 affidavit from our office reflecting that notice of this
21 hearing was provided, along with an application to the
22 parties that Centennial seeks to pool.

23 And I would move the admission of Exhibits
24 A, B and C into the record in this case and ask the case
25 be taken advisement.

1 EXAMINER DAWSON: Okay. Exhibits A, B and
2 C will be admitted to the record at this time.

3 (Centennial Resource Production, LLC
4 Exhibits A, B and C are offered and
5 admitted into evidence.)

6 EXAMINER DAWSON: Do you have any
7 questions, Mr. Brooks?

8 EXAMINER BROOKS: No questions.

9 EXAMINER DAWSON: On the overrides?

10 EXAMINER BROOKS: Oh, yeah, on the
11 overrides. I should ask about overrides. What land
12 type is involved?

13 MS. LUCK: And Centennial Exhibit A3
14 reflects that Centennial is only seeking to pool a
15 record title owner in this case. That's also detailed
16 in the affidavit of Mr. Smith. There are no overrides,
17 and Centennial's only seeking to pool a record title
18 owner.

19 EXAMINER BROOKS: Okay. There are no
20 overrides?

21 MS. LUCK: That's correct. There is just
22 the record title.

23 EXAMINER BROOKS: And since they're only
24 pooling the record title owner, there won't need to be
25 any accounting provisions.

1 MS. LUCK: Okay.

2 EXAMINER BROOKS: And there was talk about
3 the overhead costs, but you're not going to be assessing
4 overhead against them because a record -- an
5 only-record-title who owns no operating rights is not
6 liable for administrative costs.

7 MS. LUCK: And that would be correct, I
8 believe, because Centennial is the only working interest
9 owner in this acreage, and we're just seeking to pool
10 the record title owner.

11 EXAMINER BROOKS: Okay. The only person
12 being pooled does not own any working interest.

13 MS. LUCK: That's correct.

14 EXAMINER BROOKS: Okay. So there is no --
15 that makes the amount of -- or the amount overhead and
16 the amount of risk charge irrelevant.

17 EXAMINER DAWSON: Is that all the
18 questions?

19 EXAMINER BROOKS: That's all my questions.

20 EXAMINER DAWSON: So they will -- they will
21 prepare a consolidation agreement prior to the first
22 date of production on this well?

23 MS. LUCK: And if there is an agreement
24 that has to be prepared in advance, Centennial will be
25 in charge of doing that, and if we need to provide some

1 proof to the Division, we're happy to do so.

2 EXAMINER DAWSON: Okay. That's all the
3 questions I have.

4 MS. LUCK: Okay. And with that, we'd just
5 ask that Case Number 20518 be taken under advisement.

6 EXAMINER DAWSON: Okay. At this point Case
7 Number 20518 will be taken under advisement.

8 Thank you very much.

9 MS. LUCK: Thank you.

10 (Case Number 20518 concludes, 10:03 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 30th day of June 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