

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:

CASE NOS: 20858, 20860

APPLICATION OF SPC RESOURCES LLC
FOR COMPULSORY POOLING
EDDY COUNTY, NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

November 14, 2019

SANTA FE, NEW MEXICO

This matter came on for hearing before the New Mexico Oil Conservation Division, EXAMINERS LEONARD LOWE, KATHLEEN MURPHY, PHILLIP GOETZE, and LEGAL EXAMINER ERIC AMES, on Thursday, November 14, 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: Irene Delgado, NMCCR 253
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A P P E A R A N C E S

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I N D E X

CASE NO. 20858 and 20860 CALLED

NICOLE SINGER (By Affidavit) 04

JOHN WEIHE (By Affidavit) 08

TAKEN UNDER ADVISEMENT: 15

E X H I B I T I N D E X

Admitted

Case 20858

Exhibit A and Attachments 10

Exhibit B and Attachments 10

Case 20860

Exhibit A and Attachments 10

Exhibit B and Attachments 10

1 HEARING EXAMINER LOWE: We will now call the
2 following cases and consolidate cases Number 20858 and
3 20860. SPC Resources for compulsory pooling. Call for
4 appearance.

5 MS. LUCK: Kaitlyn Luck with the Santa Fe office
6 of Holland & Hart on behalf of SPC Resources LLC.

7 HEARING EXAMINER LOWE: Any other appearances?

8 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe,
9 and I am representing Mewborne Oil Company and McDonald's
10 Corporation. I have no witnesses. My contact there,
11 Mr. Goetze, is somebody named Ronald.

12 EXAMINER GOETZE: I was just wondering.

13 MR. PADILLA: Ernest L. Padilla on behalf of BK
14 Exploration Corporation. We have no witnesses, and we will
15 not put on any evidence.

16 HEARING EXAMINER LOWE: Do you intend to present
17 the case by affidavit?

18 MR. PADILLA: No objection.

19 MR. BRUCE: No objection.

20 MS. LUCK: Thank you.

21 HEARING EXAMINER LOWE: You may proceed.

22 MS. LUCK: Mr. Examiner, what we have done here
23 with the exhibits is set up two separate exhibit packets,
24 one is for 20858, which are the Wolfcamp wells, and a
25 separate packet for 20860, which are the Bone Spring wells.

1 They follow the same general format, so I will
2 just walk through the Wolfcamp case, and then if there is
3 any questions about the Bone Spring I can walk through that
4 one as well if you like, but they will track the same order
5 in the affidavits.

6 So SPC, in this case, is presenting three
7 affidavits. The first is the affidavit of the landman --
8 I'm sorry, only two affidavits -- and then the second
9 affidavit is the affidavit of our geologist.

10 So turning to Exhibit A, this is the affidavit of
11 Nicole Singer and she is the legal manager for SPC
12 Resources. She had previously testified before the Division
13 in Case Number 2062 on September 19, and that case provides
14 a lot of the history of the work that went into these cases.

15 These wells are being drilled underneath the city
16 of Carlsbad, so in our affidavit we summarize the efforts
17 taken to locate and work with the unleased mineral interest
18 owners and to secure leases of all of their interests. But
19 the record in Case Number 20762 will have a more extensive
20 description of those efforts, and I believe Mr. Goetze was
21 presiding over those hearings -- that hearing.

22 Returning to Exhibit A-1, this is the project
23 locator map showing the wells in this case for the Barney
24 Wolfcamp XY 4H Well and the Barney Wolfcamp B 4H Well.

25 In this case SPC is seeking an order creating a

1 Wolfcamp spacing unit underlying 473.59 horizontal well
2 spacing unit, comprising the SW/4 of Section 5, and then the
3 S/2 of Section 6, and you will see that on our project
4 locator map behind Tab A-1.

5 And then behind Tab A-2 is a larger tract map
6 which shows this development, but with the city streets and
7 tracts overlaid over the spacing unit. And then you will
8 also see on Exhibit A-2 the solid black line is the outline
9 of the City of Carlsbad city limits. And our surface
10 facilities are to be located outside of the city limits of
11 Carlsbad.

12 Behind Tab A-3 and A-4 are the C-102s for the two
13 Wolfcamp wells. The C-102 reflects the first and last take
14 points for both of the wells that complies with the setback
15 requirements for the Purple Sage Wolfcamp.

16 A-5 is a unit recap, so the way that SPC has done
17 it in both of these cases, as well as 20859, which I will be
18 presenting shortly, is a recap of the working interest
19 ownership, and the unit that has been leased to SPC
20 Resources, working interest ownership that has been leased
21 to other third parties, and then a recap of the acreage and
22 number of working interest ownership that is still unleased
23 at this point.

24 Ms. Singer's affidavit describes in detail the
25 efforts SPC made towards the other working interest owners

1 and other unleased mineral interest owners in this acreage.

2 So starting with a A-7, that is our well proposal
3 letter that was sent to the working interest owners before
4 filing this application for pooling, and together with it
5 are the AFEs for both of the wells.

6 A-8 is the offer-to-lease letter that was sent to
7 all the unleased mineral interest owners back in 2017. Like
8 I mentioned, SPC Resources testified in case 20762 about the
9 extensive efforts that they made to reach an agreement with
10 all the unleased mineral interest owners.

11 Ms. Singer said some of that in her affidavit
12 here. You will see her affidavit is a lot longer than
13 normal, but it wasn't just the one letter behind A-8 that
14 was sent to the unleased mineral interest owners. There
15 have been many follow-up calls, and they maintain tract
16 files for every single unleased mineral tract within the
17 spacing unit. And we have not included those tract files,
18 but SPC can provide that information upon request.

19 So -- and I think I forgot to mention A-6 is a
20 breakdown of each working interest owner in the unit, and so
21 you will see that obviously SPC, we are not seeking to pool
22 our interest, but we are seeking to pool the other working
23 interest owners highlighted in gray on the A-6 exhibit.

24 There have been two working interest owners that
25 we have been unable to locate and those are highlighted in

1 red. And then there is a couple of working interest owners
2 that have elected to participate, and then a few that have
3 declined to participate, and each of those are noted in
4 different colors on A-6.

5 And then moving on to Exhibit A-9, that is our
6 notice of hearing letter that was sent to the working
7 interest owners, unleased mineral interest owners, as well
8 as the overriding royalty interest owners that SPC seeks to
9 pool in these cases.

10 So behind Tab 8, 10, 11 and 12 are the mailing
11 statuses for each of the notice of hearing letters. As you
12 can imagine, because we are dealing with such a large group
13 of people who are being pooled in this case, there are some
14 of these letters that have not been delivered, and some of
15 these parties that we have been unable to locate.

16 And so behind A-13 is our affidavit of
17 publication from the Carlsbad Current Argus reflecting that
18 we published notice of this hearing to each of the working
19 interest owners and unleased mineral interest owners, as
20 well as overrides that we are seeking to pool in the case.

21 Ms. Singer also notes in her affidavit that SPC
22 is requesting overhead and administrative costs of 8000 per
23 month, while drilling and 800 while producing. We request
24 that administrative costs be incorporated into the order in
25 this case too.

1 So turning to Tab B, that's the affidavit of
2 SPC's geologist, John Weihe. He is the exploration manager
3 for SPC, and he's familiar with the Wolfcamp underlying the
4 subject area.

5 He provides behind Exhibit B-1 a subsea structure
6 map for the Wolfcamp A structure which is being targeted by
7 this Barney WPXY 4H wells.

8 And then behind Tab A-2 is the structure map for
9 Wolfcamp B which is being targeted by the Barney 56 Wolfcamp
10 B 4H Well.

11 Behind his Tab B-3 he provides a base map for his
12 cross section noting the wells that were used to create the
13 cross section that is located behind his Exhibit A-4.

14 He notes on his cross section the target
15 intervals for both of the Wolfcamp wells in the unit, and he
16 provides his opinion that the laydown orientation of the
17 proposed wells is the preferred and is appropriate,
18 efficiently and effectively of all the subject acreage. And
19 it's his opinion that the targeted development of the
20 Wolfcamp in this case is appropriate to efficiently and
21 effectively develop the subject acreage.

22 So like when I started this presentation, Case
23 Number 20858 and 20860 involve the same acreage, and so the
24 exhibits in 20860 follow the same general format of what I
25 just covered, but these are targeting the Bone Spring

1 underlying the same acreage, which is the 473.59 spacing
2 unit in the SW/4 of Section 5 and the S/2 equivalent of
3 Section 6.

4 And there is also two Bone Spring wells in that
5 unit. And the exhibits follow the same general order and
6 her -- Ms. Singer's affidavit covers the efforts to locate
7 the un -- to reach the unleased mineral interest owners, as
8 well as the uncommitted working interest owners.

9 So without going through all the same exhibits
10 again, I can, if you like, but they are essentially the same
11 as what I just covered for the 20858 case.

12 HEARING EXAMINER LOWE: I will accept.

13 MS. LUCK: So with that, I would move the
14 admission of Exhibits A and B in both cases together with
15 their corresponding exhibits. I can answer any questions
16 about what the packets contain if you'd like.

17 HEARING EXAMINER LOWE: Okay.

18 MR. PADILLA: No objection.

19 HEARING EXAMINER LOWE: Mr. Bruce?

20 MR. BRUCE: No objection.

21 (Exhibits A and B and all attachments in cases
22 20858 and 20860 admitted.)

23 HEARING EXAMINER LOWE: Ms. Murphy?

24 EXAMINER MURPHY: I do have a question on the two
25 drafts for the working interest owners.

1 MS. LUCK: Okay.

2 EXAMINER MURPHY: It's under Tab 5, A-5. So SPC
3 has 44 percent and then the leased other third party on the
4 next page under Tab 6, is that Mewborne?

5 MS. LUCK: So that is all of the other working
6 interest owners who we are seeking to pool in this case, so
7 the 38 percent that shows as being leased to a third party,
8 that is the interest being held by other working interest
9 owners that have not yet committed, so those are each
10 highlighted in gray on A-6.

11 So, for example, on A-5 you see the yellow
12 highlight, that corresponds with the yellow highlight on
13 A-6, and then the gray corresponds with the gray and the
14 same for the blue.

15 EXAMINER MURPHY: So some of the red is really
16 under the gray?

17 MS. LUCK: Correct, yes. They were highlighted
18 in red because we like to point out to the Division we were
19 unable to locate those two working interest owners at all.
20 We made several efforts to identify, you know, corporate
21 representatives, and it seems like they are defunct
22 corporations at this point. So that's why we are seeking to
23 pool them; we don't have a good address or good contact
24 information for them.

25 EXAMINER MURPHY: So if they are leased to other

1 third parties, who are they leased to?

2 MS. LUCK: It's my understanding that it has been
3 leased to those working interest owners.

4 EXAMINER MURPHY: That's who you are seeking to
5 pool though?

6 MS. LUCK: Correct.

7 EXAMINER MURPHY: Okay.

8 MS. LUCK: And then anything that is unleased is
9 reflected in blue, and that's the 17 percent noted on A-6,
10 approximately 17 percent.

11 EXAMINER MURPHY: And that's listed underneath
12 on -- those are everybody underneath in that list, unleased?

13 MS. LUCK: No. The unleased persons are not
14 listed on this breakdown. So the persons who are unleased,
15 if you flip back to our Exhibit A-2, you see that there is a
16 bunch of separate tracts because this drilling is occurring
17 underneath the City of Carlsbad, and so we detail our effort
18 to contact those persons in each tract and obtain some kind
19 of commitment for their interest whether or not it's leased
20 or some other kind of agreement.

21 And we describe those efforts in Ms. Singer's
22 affidavit starting on Page 3, Paragraph 19, and it goes
23 through the chain of title that we developed and the SPC
24 identified over 450 mineral interest owners in the spacing
25 unit. So each of the parties we are seeking to pool that we

1 have not obtained a lease for, we provided notice of this
2 hearing, and some of them we're still negotiating with at
3 this time.

4 So after this hearing we will provide the
5 Division with an updated list as far as unit ownership and
6 who we have been able to reach an agreement with.

7 EXAMINER MURPHY: So unleased is a separate tract
8 in the city.

9 MS. LUCK: Yes. And so there is several
10 different colors of shading on that Exhibit A-2, and you
11 will see that Ms. Singer's affidavit in Paragraph 6
12 describes what the different color of shading means. The
13 yellow means leased, and the gray reflects tracts that have
14 been leased by other working interest owners, and light blue
15 are unleased tracts.

16 We can provide a larger version of this exhibit,
17 but it doesn't have any detail other than the coloring as
18 far as who the owners are of each individual tract. It is
19 just a lease tract map.

20 EXAMINER MURPHY: Okay. Thank you. I do
21 remember this case when it came up.

22 EXAMINER GOETZE: Oh, yeah.

23 EXAMINER MURPHY: Thank you.

24 MS. LUCK: Thanks.

25 EXAMINER GOETZE: Just one question. Is Carlsbad

1 participating in this?

2 MS. LUCK: I'm not sure of the answer on this
3 one. I know on the last case we presented they had been
4 committed, but I can double check our working interest -- I
5 mean our unleased mineral interest list and confirm whether
6 or not if they signed with other case applies to this one or
7 if it's separate, I can provide it to the Division.

8 EXAMINER GOETZE: Would you please.

9 MS. LUCK: Yes.

10 EXAMINER GOETZE: No other questions.

11 MR. AMES: No questions.

12 HEARING EXAMINER LOWE: On your Tab 10, I guess
13 for both cases, your red color is the ones you couldn't
14 find?

15 MS. LUCK: That's correct.

16 HEARING EXAMINER LOWE: What's the purple?

17 MS. LUCK: So the purple are the parties listed
18 on A. So purple means that they have declined or they have
19 elected non-consent at this point. So that's why those are
20 highlighted in purple or the text is in purple -- sorry.

21 HEARING EXAMINER LOWE: And just for future, I
22 guess if you are going to reference in Tab 2 where you
23 indicate, you give a map of the City of Carlsbad and the
24 city limits, just kind of indicate where the well is going
25 to be at for surface location.

1 MS. LUCK: So we did that on our A-2. That
2 identifies the bottom hole and surface hole location. It's
3 more of a cartoon map. It doesn't have the tracts
4 underlying it, so it's a project locator map, but we can
5 definitely do that on our A-2 in the future.

6 HEARING EXAMINER LOWE: That's all the questions
7 I have.

8 MS. LUCK: Thank you. So with that I would ask
9 that Cases Number 20858 and 20860 be taken under advisement.

10 HEARING EXAMINER LOWE: Cases Number 20858 and
11 20860 will be taken under advisement.

12 MS. LUCK: Thank you.

13 (Cases taken under advisement.)

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1 STATE OF NEW MEXICO)
)SS
2 COUNTY OF SANTA FE)

3 I, IRENE DELGADO, certify that I reported the
4 proceedings in the above-transcribed pages, that pages
5 numbered 1 through 15 are a true and correct transcript of
6 my stenographic notes and were reduced to typewritten
7 transcript through Computer-Aided Transcription, and that on
8 the date I reported these proceedings I was a New Mexico
9 Certified Court Reporter.

10 Dated at Santa Fe, New Mexico, this 14th day of
11 November 2019.

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Irene Delgado, NMCCR 253
Expires: 12-31-19