

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

ORIGINAL

1 IN THE MATTER OF THE HEARING CALLED
2 BY THE OIL CONSERVATION DIVISION FOR
3 THE PURPOSE OF CONSIDERING:

4 APPLICATION OF EOG RESOURCES FOR CASE NO. 15555
5 APPROVAL OF A 640-ACRE NONSTANDARD
6 PROJECT AREA COMPRISED OF ACREAGE
7 SUBJECT TO A PROPOSED STATE
8 COMMUNITIZATION AGREEMENT, LEA
9 COUNTY, NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

September 29, 2016

Santa Fe, New Mexico

14 BEFORE: MICHAEL McMILLAN, CHIEF EXAMINER
15 WILLIAM V. JONES, TECHNICAL EXAMINER
16 DAVID K. BROOKS, LEGAL EXAMINER

17 This matter came on for hearing before the
18 New Mexico Oil Conservation Division, Michael McMillan,
19 Chief Examiner, William V. Jones, Technical Examiner,
20 and David K. Brooks, Legal Examiner, on Thursday,
21 September 29, 2016, at the New Mexico Energy, Minerals
22 and Natural Resources Department, Wendell Chino
23 Building, 1220 South St. Francis Drive, Porter Hall,
24 Room 102, Santa Fe, New Mexico.

25 REPORTED BY: Mary C. Hankins, CCR, RPR
New Mexico CCR #20
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1 APPEARANCES

2 FOR APPLICANT EOG RESOURCES:

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1 (11:01 a.m.)

2 EXAMINER McMILLAN: Okay. At this time I
3 would like to call Case Number 15555, application of EOG
4 Resources for approval of a 640-acre nonstandard project
5 area comprised of acreage subject to a proposed state
6 communitization agreement, Lea County, New Mexico.

7 Call for appearances.

8 MS. KESSLER: Mr. Examiner, Jordan Kessler,
9 from the Santa Fe office of Holland & Hart, on behalf of
10 the Applicant.

11 EXAMINER McMILLAN: Any other appearances?

12 Thank you.

13 Would the two witnesses please stand up and
14 be sworn in?

15 Thank you.

16 (Mr. Phillips and Mr. Lock sworn.)

17 MATTHEW C. PHILLIPS,
18 after having been first duly sworn under oath, was
19 questioned and testified as follows:

20 DIRECT EXAMINATION

21 BY MS. KESSLER:

22 Q. Please state your name for the record and tell
23 the Examiners by whom you're employed and in what
24 capacity.

25 A. Matthew Phillips, landman, EOG Resources,

1 Incorporated.

2 Q. Have you testified before the Division?

3 A. Yes.

4 Q. Were your credentials as a petroleum landman
5 accepted and made a matter of record?

6 A. Yes.

7 Q. Are you familiar with the application that's
8 been filed in this case?

9 A. Yes, I am.

10 Q. And are you familiar with the status of the
11 lands in the subject area?

12 A. Yes, I am.

13 MS. KESSLER: Mr. Examiners, I would tender
14 Mr. Phillips as an expert in petroleum land matters.

15 EXAMINER McMILLAN: So qualified.

16 Q. (BY MS. KESSLER) Mr. Phillips, please turn to
17 Exhibit 1 and describe this exhibit and what EOG is
18 seeking with this application.

19 A. Exhibit 1 is a Midland map plat of Section 26
20 showing the location of the eight wells in Section 26
21 and the outline of the proposed nonstandard project
22 area.

23 Q. And EOG is seeking a 640-acre nonstandard
24 project area comprised of two state leases; is that
25 correct?

1 A. Yes, it is.

2 Q. And that would all be in Section 26?

3 A. That's correct.

4 Q. Is EOG the only interest owner in the two state
5 leases?

6 A. Yes.

7 Q. Let's look at Exhibit 2. Is this a lease and
8 development map for Section 26?

9 A. It is.

10 Q. And this identifies the two state leases at
11 issue, correct?

12 A. Yes.

13 Q. And it shows the development plan for Section
14 26?

15 A. Correct.

16 Q. What is the status of these eight wells?

17 A. All eight wells have been drilled. Four wells
18 have -- or all eight have been or are nearing completion
19 and four wells are producing.

20 Q. This exhibit shows that there is currently one
21 tank battery; is that correct?

22 A. Yes.

23 Q. That would be located in the southeast quarter
24 of Section 26?

25 A. Yes.

1 Q. Does this tank battery serve all eight wells?

2 A. It will, yes.

3 Q. Does Exhibit 3 include all eight C-102s for the
4 wells drilled in Section 26?

5 A. Yes.

6 Q. Are each of these C-102s dedicating the well to
7 a 160-acre spacing unit?

8 A. Yes, they are.

9 Q. And the C-102 also identifies the Wolfcamp Pool
10 and pool code, correct?

11 A. Yes, it does.

12 Q. That would be Pool Code 98094?

13 A. Correct.

14 Q. Is this Wolfcamp Pool subject to 40-acre
15 spacing?

16 A. It is.

17 Q. And 330-foot setbacks?

18 A. Correct.

19 Q. Once a 640-acre project area is approved, will
20 each of these APDs be dedicated to a 640-acre project
21 area?

22 A. Yes, they will.

23 Q. And is that pursuant to the request of the
24 State Land Office?

25 A. Yes.

1 Q. Are you requesting that since this acreage has
2 been fully developed by eight wells, that any
3 nonstandard project area will become effective
4 immediately?

5 A. We are.

6 Q. And this will allow the State Land Office to
7 more easily process royalty and tax issues; is that
8 correct?

9 A. Yes.

10 Q. Let's look at Exhibit 4. What is this?

11 A. Exhibit 4 is an approved consolidation
12 agreement by the New Mexico State Land Office covering
13 all of Section 26 to the vertical extent of the Wolfcamp
14 Formation.

15 Q. Why has EOG requested a 640-acre nonstandard
16 project area?

17 A. EOG's requesting the 640-acre nonstandard
18 project area in order to more efficiently produce the
19 wells and commingle productions, store production in a
20 single facility.

21 Q. So it would be to limit surface facilities; is
22 that correct?

23 A. Correct.

24 Q. And also to limit surface disturbance?

25 A. Yes.

1 Q. Was the communitization agreement for the
2 640-acre project area and this hearing for a nonstandard
3 project area done in consultation with the State Land
4 Office?

5 A. Yes, it was.

6 Q. And did EOG representatives discuss with the
7 State Land Office the creation of a consolidation
8 agreement to communitize all of Section 26?

9 A. Yes, we did.

10 Q. And Exhibit 4 shows both an approval letter and
11 the consolidation agreement; is that correct?

12 A. Yes, it does.

13 Q. What is the difference between a consolidation
14 agreement and a communitization agreement?

15 A. A consolidation agreement is appropriate when
16 there is a single lessee of record and that single
17 lessee of record also owns all operating rights in that
18 section. So we felt it was the best course of action in
19 lieu of communitization, I guess.

20 Q. Is it correct that you cannot dedicate the
21 wells of the entirety of Section 26 before a nonstandard
22 project area is approved by the Division?

23 A. Yes.

24 Q. And that is why EOG is before the Division
25 today; is that correct?

1 A. Yes.

2 Q. You mentioned that the Wolfcamp pool is 40-acre
3 spacing, correct?

4 A. Yes.

5 Q. Did EOG identify and provide notice to the
6 offsetting tracts in the 40-acre spacing units
7 surrounding the 640-acre nonstandard project area?

8 A. Yes, we did.

9 Q. Is Exhibit 5 an affidavit from my office with
10 attached letters providing notice of those special
11 hearings to parties?

12 A. Yes, it is.

13 Q. Were Exhibits 1 through 4 prepared by you or
14 compiled under your direction and supervision?

15 A. Yes.

16 MS. KESSLER: Mr. Examiners, I'd move
17 admission of Exhibits 1 through 5, which includes my
18 affidavit.

19 EXAMINER McMILLAN: Exhibits 1 through 5
20 may now be accepted as part of the record.

21 (EOG Resources Exhibit Numbers 1 through 5
22 are offered and admitted into evidence.)

23 MS. KESSLER: That concludes my
24 examination.

25

CROSS-EXAMINATION

1
2 BY EXAMINER McMILLAN:

3 Q. Have all owners of New Mexico mineral interest
4 state been identified and notified? So have all the
5 working interests been notified?

6 A. Yes.

7 Q. What about royalty interests?

8 A. I don't believe we went as far as royalty
9 interests.

10 MS. KESSLER: Mr. Examiners, if I can grab
11 my rule book -- for the creation of a nonstandard
12 project area, it's not required.

13 EXAMINER McMILLAN: And I'm asking that,
14 though.

15 Q. (BY EXAMINER McMILLAN) So -- so obviously -- so
16 the royalty interest is the State Land Office, right?

17 A. In the -- in Section 26, yes.

18 Q. Yes.

19 And are there any overrides?

20 A. No.

21 Q. Okay. So that -- that was my question. So
22 then all of the owners of the mineral interests, they
23 have been identified.

24 Okay. My -- okay. Now, going back to your
25 testimony, you said there have been eight wells drilled,

1 right, and four completed?

2 A. Eight wells drilled. All eight have either
3 been completed or are nearing completion. Only four
4 wells are producing.

5 Q. Okay. I'm sorry. So let's go back to those
6 four wells that are producing. Can you tell me which
7 ones they are?

8 A. I believe they are the 701H through 704H.

9 Q. 701 is east half-east half, east half of the
10 east half. So, essentially, the east half are
11 producing, right?

12 A. Correct.

13 EXAMINER McMILLAN: Go ahead.

14 CROSS-EXAMINATION

15 BY EXAMINER JONES:

16 Q. So the -- so all of the wells -- do they
17 already have a comm agreement, a single one for each
18 well? In other words, four different comm agreements
19 that are going to be terminated, or did you just go
20 straight to creation of one comm agreement for the
21 whole --

22 A. I believe we evaluated the possibility of
23 getting four separate comm agreements and probably began
24 that process when we decided to pursue the 640-acre
25 communitization -- or consolidation.

1 Q. So the leases are for the -- they weren't --
2 these are not -- this didn't need a short-term comm or
3 anything like that, so the leases are in good shape
4 anyway.

5 The comm agreement effective date of June
6 the 1st, that was before any production happened in any
7 of these wells; is that correct?

8 A. I would have to double-check the date of first
9 production on the first well.

10 Q. Okay. But the project -- I can check that.
11 I'm sure it was, because it messes things up if it's
12 not.

13 A. Right.

14 Q. So the project area affected, since we're
15 dealing with one pool here, we're not creating a pool or
16 messing with a pool, we could go back and retroactively
17 do the project area, I'm pretty sure, to the original
18 date of production?

19 MS. KESSLER: I think that would be most
20 effective for the State Land Office.

21 EXAMINER JONES: Yeah. Even if it required
22 service request, it could be done easily.

23 So effective date, if you coincided it with
24 the comm agreement date, that would be kind of clean to
25 do it that way, if Mr. Brooks agrees.

1 EXAMINER BROOKS: As far as I can think, it
2 would be okay.

3 EXAMINER JONES: We had a lot of
4 controversy on the units as far as backdating, but we
5 were backdating pools. So this is not a pool issue.

6 EXAMINER BROOKS: I think it's much easier
7 for us to backdate probably than it is for the State
8 Land Office. They have some fairly uniform policies
9 going on about how they date things.

10 EXAMINER JONES: It has to be before the
11 date of the first production.

12 EXAMINER BROOKS: Okay. Well, as long as
13 we're not compulsory pooling, I think we can do just
14 about when we want to.

15 Q. (BY EXAMINER JONES) Yeah. And so all interests
16 are -- are signed up.

17 There are multiple working interests; is
18 that correct?

19 A. No. EOG 100 percent.

20 Q. Okay. And no overrides.

21 And the actual -- these are both assignment
22 leases. So does EOG have the assignment -- in other
23 words, does EOG hold the leases, or does EOG hold the
24 operating rights to the leases?

25 A. EOG Resources holds the leases.

1 Q. Holds the leases --

2 A. (Indicating.)

3 Q. -- from assignment from somebody that recently
4 got the leases?

5 And this area is in Lea County, so it's
6 not -- it's not going to be overlapped by any of the
7 special hearing -- special pool rules that may be in
8 progress. And it's not part of the Wolfbone. Yeah.
9 It's not going to be part of the Wolfbone. It's
10 Wolfcamp, but it's considered Wolfbone pool?

11 MS. KESSLER: I believe that's correct, but
12 I would direct that question to the geologist.

13 EXAMINER JONES: Yeah. The comm agreement
14 covers the Wolfcamp depths. So if it's Wolfcamp, they
15 would have to maybe, you know, cover the Wolfbone
16 depths.

17 I think I don't have any more questions.

18 EXAMINER McMILLAN: Actually, I have
19 another question.

20 RECROSS EXAMINATION

21 BY EXAMINER McMILLAN:

22 Q. In essence, this whole section is HBP?

23 A. Correct.

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CROSS-EXAMINATION

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BY EXAMINER BROOKS:

Q. This entire section is included in one of the other two state leases, right?

A. Yes.

Q. And EOG owns 100 percent of the working interest for the entire 640 acres?

A. Yes.

Q. Okay. And you're going to drill eight wells?

A. Drilled eight wells.

Q. And they're going to be evenly spaced, it looks like here?

A. That would be a question for John as to the spacing of the wells.

Q. That's just eyeballing it.

A. It's going to be pretty close.

Q. Yeah. So basically what you need this for is the State Land Office's purposes?

A. Yes.

Q. And the thing that's going to be nonstandard about it -- because it's not really normally what we think of as a nonstandard project area. The thing that's nonstandard about it is there is no one well that develops all of the spacing units in this proposed project area. So it doesn't meet the definition of a

1 project area in the rules -- in the rules. But I'm not
2 worried about that because we can do it by order. Looks
3 like nobody is going to be affected, so --

4 A. Okay.

5 Q. Okay. That's all.

6 MS. KESSLER: Thank you, Mr. Examiners.

7 EXAMINER McMILLAN: Thank you very much.

8 JOHN LOCK,

9 after having been previously sworn under oath, was
10 questioned and testified as follows:

11 DIRECT EXAMINATION

12 BY MS. KESSLER:

13 Q. Please state your name for the record and tell
14 the Examiners by whom you're employed and in what
15 capacity.

16 A. Yeah. John Lock. I'm a geologist at EOG
17 Resources, Midland division.

18 Q. Have you previously testified before the Oil
19 Conservation Division?

20 A. I have.

21 Q. Were your credentials as a petroleum geologist
22 accepted and made a matter of record?

23 A. They were, yes.

24 Q. Are you familiar with the application filed in
25 this case?

1 A. I am.

2 Q. And have you conducted a geologic study of the
3 lands that are subject of this application?

4 A. I have, yes.

5 MS. KESSLER: Mr. Examiners, I would tender
6 Mr. Lock as an expert in petroleum geology.

7 EXAMINER McMILLAN: So qualified.

8 Q. (BY MS. KESSLER) Mr. Lock, the target of these
9 wells, all of which have been drilled, was the Wolfcamp
10 Formation; is that correct?

11 A. That's correct, yes.

12 Q. Did you prepare a structure map and cross
13 section for this formation?

14 A. I did, yes.

15 Q. Let's turn first to Exhibit 6. Is this a lease
16 map of the area?

17 A. It is, yes.

18 Q. And Section 26 is highlighted, correct?

19 A. Uh-huh. That's correct.

20 Q. And it shows all of the eight existing wells?

21 A. It does, yes.

22 Q. What is Exhibit 7?

23 A. Exhibit 7 is the same map you saw on the
24 previous exhibit, but we've added structural contours
25 onto the map, indicated at a contour interval of 50 feet

1 with a very gentle -- gentle dip over the entire
2 interval. And this -- this structural contour map is on
3 the top of the Wolfcamp Formation subsea.

4 Q. And this shows all the existing wells, correct?

5 A. It does, yeah.

6 Q. What is Exhibit 8?

7 A. Exhibit 8 is a map indicating the cross section
8 that will be shown in the subsequent exhibit.

9 Q. How many wells did you use for your
10 cross-section exhibit?

11 A. So there are three wells indicated here A to A
12 prime going from north to south.

13 Q. Are these wells representative of wells in the
14 area?

15 A. They are, yeah.

16 Q. Is Exhibit 9 your cross-section exhibit?

17 A. It is, yes.

18 Q. Can you please walk us through this exhibit?

19 A. Sure. This is A to A prime on the previous
20 map, so the well on the left is to the north and then
21 moving south across the section. The logs that are
22 shown here are the gamma-ray log on the left with a
23 scale of zero to 300 API units. The second track,
24 moving to the right, is the depth track. That's in TVD.
25 The third track is the resistivity track in red there,

1 and that is showing .2 to 2,000 ohms on a logarithmic
2 scale. And then on the last track, on the right track,
3 are the neutron and density porosity curves, both with
4 the standard scales of negative 10 to 30 on the left.

5 The cross section is a structural cross
6 section with two tops indicated that -- the first of
7 which being the top, which is the 3rd Bone Spring top,
8 indicated as TBSG. And then the formation top below it
9 is the Wolfcamp top indicated as WFMP.

10 The lateral interval for the target of the
11 wells in question here today is indicated in the middle
12 log shown in red there, all of which being in the Upper
13 Wolfcamp, often referred to in the industry as the
14 Wolfcamp A.

15 Q. Based on this exhibit, have you identified any
16 geologic impediments that would prevent the acreage from
17 contributing to the overall production from the
18 anticipated wellbores?

19 A. I have not, no.

20 Q. And in your opinion, will the two state leases
21 comprised of the nonstandard project area contribute
22 production to the planned wellbores on a proportionate
23 contribution level?

24 A. I believe they will, yes.

25 Q. In your opinion, will approval of the

1 nonstandard project area be in the best interest of
2 conservation, for the prevention of waste and the
3 protection of correlative rights?

4 A. Yes.

5 Q. Were Exhibits 7 through 9 prepared by you or
6 compiled under your direction and supervision?

7 A. Yes, they were.

8 MS. KESSLER: Mr. Examiners, I'd move
9 admission of Exhibits 7 through 9.

10 EXAMINER McMILLAN: Exhibits 7 through 9
11 may now be accepted as part of the record.

12 (EOG Resources Exhibit Numbers 7 through 9
13 are offered and admitted into evidence.)

14 CROSS-EXAMINATION

15 BY EXAMINER McMILLAN:

16 Q. Okay. The east-half wells are producing,
17 right?

18 A. The east-half wells, yes.

19 Q. Based on your examination, do you see any
20 variations in the quality on the reservoir in the west
21 half versus the east half?

22 A. I don't, no.

23 Q. Okay. So you're saying they look similar?

24 A. Uh-huh. Yes.

25 Q. Okay. And -- and by the way, I like -- I like

1 how you did your display. You kept it -- you kept,
2 basically, the information -- you didn't put too much
3 information on the page. That's very good.

4 And the question I have also is do you see
5 multiple targets within the Wolfcamp? Do you plan to
6 drill any more than eight wells? Is there a chance of
7 that?

8 A. There is a chance of that, yeah.

9 CROSS-EXAMINATION

10 BY EXAMINER JONES:

11 Q. This log on the Burton 35 well on the cross
12 section, you've got -- in the lower part of the Bone
13 Spring, you've got a section maybe 10, 15 feet, looks
14 like, or 20 feet that didn't -- didn't log. Is that a
15 stuck -- stuck logging tool?

16 A. This log comes from the his database. My -- my
17 suspicion would be that there was casing set there, so
18 they probably had a gap. That's a common place to set
19 casing. But that's my suspicion. I don't have data to
20 support that.

21 Q. Okay. Okay. Where's the -- the four wells
22 that are producing, where -- do they each have their own
23 facilities right now?

24 A. I believe that these are using a common
25 facility.

1 Q. They are --

2 A. I believe so.

3 Q. -- a common facility. Okay.

4 And is there any surface commingle
5 applications that are floating around here that we need
6 to watch out for or go into our database and --

7 EXAMINER McMILLAN: There are a few
8 floating around. I've approved few of them. It sticks
9 in my mind. I think I have.

10 MS. KESSLER: Yes. I believe that there is
11 one.

12 EXAMINER JONES: Okay. It's already
13 approved?

14 EXAMINER McMILLAN: Yeah. They've been
15 approved in the past.

16 EXAMINER JONES: Okay. So we've already
17 approved the surface commingle maybe for all of these
18 eight wells. But we're just going to create a project
19 area, and I'm assuming it's pretty much coming equally
20 from all 40-acre space -- quarters --

21 MS. KESSLER: That's correct.

22 EXAMINER JONES: -- or spacing formation?

23 MS. KESSLER: Yes.

24 EXAMINER JONES: For reservoir engineering
25 recordkeeping, we would assume it's equal. And someday

1 in the future, if we can talk our I.T. people into it,
2 we can have them split out all of this stuff so people
3 besides the operator can come in and see where the
4 production is coming from.

5 Q. (BY EXAMINER JONES) And this is definitely not
6 Wolfbone area, right?

7 A. It's the targets and the laterals. We
8 correlate them to only Wolfcamp.

9 Q. Wolfcamp?

10 A. Yeah.

11 Q. Okay. Thanks very much.

12 A. Uh-huh.

13 EXAMINER JONES: Any questions?

14 EXAMINER BROOKS: No.

15 MS. KESSLER: I would ask that this case be
16 taken under advisement.

17 EXAMINER McMILLAN: Case Number 15555 shall
18 be taken under advisement.

19 (Case Number 15555 concludes, 11:25 a.m.)

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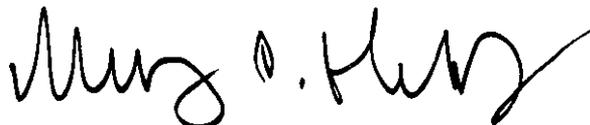
1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO

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 

21 MARY C. HANKINS, CCR, RPR
22 Certified Court Reporter
23 New Mexico CCR No. 20
24 Date of CCR Expiration: 12/31/2016
25 Paul Baca Professional Court Reporters