

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:

ORIGINAL

APPLICATION OF GMT EXPLORATION
COMPANY, LLC TO RE-OPEN CASE
NUMBER 15394 FOR A NONSTANDARD
OIL SPACING AND PRORATION UNIT
AND COMPULSORY POOLING, LEA
COUNTY, NEW MEXICO.

CASE NO. 15394

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

November 17, 2016

Santa Fe, New Mexico

BEFORE: MICHAEL McMILLAN, CHIEF EXAMINER
GABRIEL WADE, LEGAL EXAMINER

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This matter came on for hearing before the
New Mexico Oil Conservation Division, Michael McMillan,
Chief Examiner, and Gabriel Wade, Legal Examiner, on
Thursday, November 17, 2016, 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
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APPEARANCES

FOR APPLICANT GMT EXPLORATION COMPANY, LLC:

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1 (10:27 a.m.)

2 EXAMINER McMILLAN: Okay. 15394,
3 re-opened, application of GMT Exploration Company, LLC
4 to re-open Case Number 15394 for a nonstandard oil
5 spacing and proration unit and compulsory pooling, Lea
6 County, New Mexico.

7 Call for appearances.

8 MR. BRUCE: Mr. Examiner, Jim Bruce of
9 Santa Fe representing the Applicant. I have two
10 witnesses.

11 EXAMINER McMILLAN: Any other appearances?
12 Please proceed.

13 EXAMINER WADE: Do you want to swear in the
14 witnesses?

15 EXAMINER McMILLAN: Yeah.

16 Witnesses?

17 (Mr. Wood and Mr. Dilli sworn.)

18 PHILLIP G. WOOD,
19 after having been first duly sworn under oath, was
20 questioned and testified as follows:

21 DIRECT EXAMINATION

22 BY MR. BRUCE:

23 Q. Would you please state your name and city of
24 residence for the record?

25 A. Phillip Wood, Centennial, Colorado.

1 Q. Who do you work for?

2 A. I'm vice president of land at GMT Exploration
3 Company.

4 Q. Have you previously testified before the
5 Division?

6 A. I have.

7 Q. And were your credentials as an expert
8 petroleum landman accepted as a matter of record?

9 A. Yes.

10 Q. And are you familiar with the geologic
11 matters -- or land matters involved in this application?

12 A. Yes.

13 MR. BRUCE: Mr. Examiner, I tender
14 Mr. Wood as an expert petroleum landman.

15 EXAMINER McMILLAN: So qualified.

16 Q. (BY MR. BRUCE) Can you please identify Exhibit
17 1? And just identify the lands involved in this
18 application.

19 A. Exhibit 1 is just a Midland map identifying the
20 west half of the west half of Section 22, 24 South, 34
21 East as the project area.

22 Q. And could you identify Exhibit 2, and identify
23 the well name and the formation being pooled in this
24 application?

25 A. The name of the well is the Romeo Federal Com

1 1H, and it's for Bone Spring.

2 Q. Now, in this exhibit, I think the first two
3 pages are important.

4 A. Yes.

5 Q. Why are we here today, basically, regarding
6 this well?

7 A. Initially, we had permitted the well at a
8 location 660 feet off the west line. We've been in --
9 the industry's been in debate. We've been in debate
10 over the past year as to whether that's the proper
11 pattern in the future for the 2nd Bone Spring and other
12 formations as well.

13 So if you'll look at the second page, that
14 shows the original design path of the well, and if you
15 go back to the first page, that's the revision, 330 feet
16 off the -- off the line.

17 Q. And that could allow possible infill drilling
18 with the new location?

19 A. Correct. Although we're not 100 percent
20 certain that we will do that, it's important to set the
21 pattern right from the beginning.

22 Q. Okay. The surface location has remained the
23 same?

24 A. It has remained the same.

25 Q. Okay. And briefly, what is Exhibit 3?

1 A. Exhibit 3 is just the design path of the well,
2 and it's -- it shows us back-drilling. In this case,
3 the well -- the pad is quite a ways off the north line.
4 It's that far south of the line because State Highway
5 128 runs right there and we had power lines, so we had
6 to move it further south. So we'll be back-drilling
7 quite a ways, entering the formation, as you can see on
8 this design path, and staying approximately 330 feet all
9 the way to its conclusion.

10 Q. And will the producing interval at the wellbore
11 be at orthodox locations?

12 A. It will be.

13 Q. And what is Exhibit 4?

14 A. Exhibit 4 is sundry notice that we filed with
15 the Bureau of Land Management to effect the same change
16 that we're talking about today.

17 Q. And the party being pooled is OXY, correct?

18 A. That's correct.

19 Q. And this well was originally proposed quite
20 some time ago?

21 A. Yes. It was proposed a little over a year ago,
22 same formation, just the original path, and that's what
23 Exhibit 5 shows you.

24 Q. This is the original proposal letter?

25 A. Correct.

1 Q. And what is -- Exhibit 5 is the original
2 proposal.

3 What is Exhibit 6?

4 A. Exhibit 6 is the change-in-location notice,
5 notifying OXY that we intended to change the path of the
6 well, to re-invite their participation in the well.

7 Q. Has OXY basically been unresponsive regarding
8 the well proposal?

9 A. Yes.

10 Q. In your opinion, has GMT made a good-faith
11 effort to obtain the voluntary joinder of OXY in this
12 well?

13 A. Yes.

14 Q. What is Exhibit 7?

15 A. Exhibit 7 is the AFE for that well.

16 Q. Now, this is also dated in 2015. Are the
17 costs -- would the costs now be pretty similar?

18 A. We believe so. We've drilled several wells in
19 the Bone Spring of late, and all the costs are coming in
20 at about this. Drilling costs seem to be down, but your
21 completions are bigger, and that sort of makes up the
22 difference here. So yes.

23 Q. And are these costs fair and reasonable and in
24 line with the cost of other wells drilled by GMT and
25 other operators in this area of southeast New Mexico?

1 A. Yes.

2 Q. First of all, what overhead rates were approved
3 in the original order?

4 A. The original order were 7,500 and 750. Well,
5 if you want to ask me about Exhibit 8.

6 Q. Yeah. Exhibit 8. Go ahead.

7 A. This is the original -- this is what we came to
8 the Commission for a year ago, asking these rates. The
9 Commission moved us down to the rates I mentioned, and
10 GMT is fine with those rates.

11 Q. Okay. But these are the rates that are in the
12 JOA, correct?

13 A. Yes.

14 Q. And was notice given to OXY of this hearing?

15 A. Yes.

16 Q. And is that reflected in my affidavit marked
17 Exhibit 9?

18 A. Yes.

19 Q. And does Exhibit 10 accurately reflect the
20 offset operators for purposes of the nonstandard
21 proration unit?

22 A. It does.

23 MR. BRUCE: And, Mr. Examiner, Exhibit 11
24 is my Affidavit of Notice to the offsets. Once again,
25 notice issues plague me. You'll see the last page. I

1 mailed notice to BTA. I've never gotten a green card
2 back. The address it was sent to is the address that
3 BTA has probably had for 50 years, and it's also the
4 address in the Division's operator records. I would ask
5 that, you know, I not be required to re-notify them, but
6 that's up to you folks. And if I do --

7 EXAMINER WADE: Can you just explain the
8 tracking sheet that you attached?

9 MR. BRUCE: That's from the U.S. Postal
10 Service Web site. You put -- you put in the -- the
11 certified mail number, which you'll see also at the
12 white card down below and then the tracking number up at
13 the top, and this is what the Postal Service shows you.

14 EXAMINER WADE: And so it shows that on
15 October 21st, it was out for delivery?

16 MR. BRUCE: And they have not updated.

17 EXAMINER WADE: They've not updated it
18 since then.

19 MR. BRUCE: It's been out there for a
20 while.

21 EXAMINER WADE: And when did you -- I'm not
22 seeing a date when the last update was. When did you
23 take this off the USPS Web site?

24 MR. BRUCE: I printed this up yesterday.
25 It says "1 of 2 pages." The second page just has a few

1 non-informational lines on it, so I just printed the
2 first page. But you can go to the USPS tracking and
3 essentially see the same thing today, plug in the
4 number.

5 EXAMINER McMILLAN: You've had problems
6 with BTA before?

7 MR. BRUCE: BTA and even EOG. I've mailed
8 them there, and the USPS sheet like you see there says
9 "out for delivery," and I've gotten emails from EOG
10 saying, Yeah, we got it a month ago or three weeks ago.

11 EXAMINER WADE: Will you attempt to get an
12 email to that effect?

13 MR. BRUCE: I will contact somebody.

14 EXAMINER WADE: My concern here is -- I
15 think it's less of a problem with -- the company is more
16 a problem than the Postal Service. Even the tracking
17 information doesn't show effective notice. That's the
18 problem. But if you were to give us an email where they
19 confirmed they at least got notice --

20 MR. BRUCE: I will get ahold of somebody.
21 I know some people at BTA. Mr. Wood probably does and
22 we can --

23 EXAMINER WADE: Something that specifically
24 says they received notice as to this dated hearing.

25 MR. BRUCE: Yeah. I will do that. Then at

1 the end, in order to cover that, I will ask to continue
2 the case for two weeks.

3 Q. (BY MR. BRUCE) Were Exhibits 1 through 11
4 either prepared by you or under your supervision or
5 compiled from company business records?

6 A. They were.

7 Q. And in your opinion, is the granting of this
8 application in the interest of conservation and the
9 prevention of waste?

10 A. It is.

11 Q. One final thing is the original order expires
12 at the end of month. Do you request additional time to
13 drill the well?

14 A. We do.

15 MR. BRUCE: Mr. Examiner, I'd move the
16 admission of Exhibits 1 through 11.

17 EXAMINER McMILLAN: Exhibits 1 through 11
18 may now be accepted as part of the record.

19 MR. BRUCE: I have no further questions.

20 (GMT Exploratory Co., LLC Exhibit Numbers 1
21 through 11 are offered and admitted into
22 evidence.)

23 CROSS-EXAMINATION

24 BY EXAMINER McMILLAN:

25 Q. Just for clarity purposes, same well?

1 A. Correct.

2 Q. And you're essentially going 330 off the line?

3 A. Correct.

4 Q. And the reason -- okay. Why are you changing
5 it?

6 A. (Indicating.)

7 Q. What is the reasoning for changing it?

8 A. To set up a pattern that we think will be used
9 in the future, more of a -- what we might refer to as an
10 80-acre pattern or an infill pattern.

11 Q. And you're keeping the same rates?

12 A. The same rates as used in the Commission's
13 last -- the original order.

14 CROSS-EXAMINATION

15 BY EXAMINER WADE:

16 Q. You just requested that additional time be
17 granted for the drilling of the well?

18 A. Correct.

19 Q. But this is the re-opening of the case, so are
20 you just asking for -- what specifically -- what time
21 specifically are you asking for?

22 MR. BRUCE: Well, I suppose ask for another
23 year, although I think they have -- the order expires
24 November 30th.

25 EXAMINER WADE: I see.

1 I have no further questions.

2 EXAMINER McMILLAN: Thank you very much.

3 MIKE DILLI,

4 after having been previously sworn under oath, was
5 questioned and testified as follows:

6 DIRECT EXAMINATION

7 BY MR. BRUCE:

8 Q. Would you state your name for the record?

9 A. Mike Dilli.

10 Q. Would you spell your last name?

11 A. D-I-L-L-I.

12 Q. The Dairy Queen bar wasn't named after you?

13 A. (Laughter.)

14 THE WITNESS: Don't put that in there.

15 (The court reporter laughs and responds.)

16 THE WITNESS: Jim, I'll get even.

17 MR. BRUCE: I know.

18 (Laughter.)

19 Q. (BY MR. BRUCE) Where do you reside?

20 A. Littleton, Colorado.

21 Q. Who do you work for and in what capacity?

22 A. GMT Exploration, vice president of exploration.

23 Q. And by trade, are you a geologist?

24 A. Yes.

25 Q. Have you previously testified before the

1 Division?

2 A. Yes.

3 Q. And were your credentials as an expert
4 petroleum geologist accepted as a matter of record?

5 A. Yes.

6 Q. And are you familiar with the geologic matters
7 related to this application?

8 A. Yes.

9 MR. BRUCE: Mr. Examiner, I tender
10 Mr. Dilli as an expert petroleum geologist.

11 EXAMINER McMILLAN: So qualified.

12 Q. (BY MR. BRUCE) Mr. Dilli, would you identify
13 Exhibit 12 and just hit the highlights of the
14 attachments of Exhibit 12?

15 A. This is basically the same presentation we made
16 at the last hearing, page 1 to the base map showing the
17 well locations, showing the proposed Romeo well.
18 20-stage completion is anticipated. I would like to
19 note that in Section 22, the far northeast-northeast
20 quarter, we have just drilled a Wolfcamp well in that
21 section. It doesn't affect the Bone Spring, but it's
22 not noted on here. We haven't completed it yet. It's
23 being completed as we speak.

24 Q. And all of these wells are drilled north-south
25 or south-north. Obviously, that's the preferred

1 orientation out here?

2 A. Correct.

3 Now, you can see the brown wells on the
4 base map, for all the other operators, those are the 2nd
5 Bone Spring wells.

6 Q. Okay. Is the 3rd Bone Spring also potential
7 out here?

8 A. Yes, it is.

9 Q. And could you move on with the --

10 A. The next map is a structure map drawn on top of
11 the 2nd Bone Spring Sand. It shows a slight nosing to
12 the top part of Section 22. However, we feel like we're
13 going to be drilling essentially along strike with that
14 well.

15 Q. Is that the preferable way GMT likes to drill
16 these Bone Spring wells, on strike?

17 A. Well, no. You want to drill them north-south
18 So, I mean, the wells up to the north in Section 10 are
19 drilling across strike, but we would be drilling down
20 strike with the structure map.

21 Q. Ah. Because of the preferred orientation?

22 A. Right.

23 Q. And the next page?

24 A. The next page is the cross section, which goes
25 from Section 16 on the west through the GMT location,

1 then to Section 22 and a little bit south and east of
2 us, highlighted -- hung on top of the 2nd Bone Spring.
3 The GMT Pirate State well, on the A part of the cross
4 section, has a red line through it. That's the
5 horizontal zone that we went into in that well. That's
6 the exact same horizontal zone we're anticipating in
7 this well. And you can see what that looks like in the
8 HNG well in Section 22. I've labeled that as the
9 horizontal target zone. The logs going from left to
10 right are the gamma ray, resistivity and the
11 density-neutron.

12 Q. And the next page?

13 A. The next page is an isopach map of the 2nd Bone
14 Spring Sand, which is not the entire section but the
15 sand that we're going into. I use an 8 percent density
16 cutoff to make this -- this map. I'm showing a fairly
17 thick and continuous sand across the entire section of
18 over 50 feet, 50 to 60 feet thick.

19 Q. Is the 2nd Bone Spring continuous across the
20 proposed well unit?

21 A. It is.

22 Q. And would you expect each quarter-quarter
23 section in the well unit to contribute more or less
24 equally to the final production?

25 A. Yes, I would.

1 Q. And what is the final map?

2 A. The final map is just proposed horizontal well
3 plan that we anticipate drilling with on this well.

4 Q. What is Exhibit 13?

5 A. That is the prepared geologic, really,
6 prognosis -- just the geologic portion of the drilling
7 prognosis.

8 Q. Has this been provided to OXY?

9 A. I think so. Yes. Yes.

10 Q. And what is Exhibit 14?

11 A. 14 is the proposed standard drilling report
12 from Newsco for the horizontal drilling part of this
13 well into the 2nd Bone Spring.

14 MR. BRUCE: Mr. Examiner, the drilling
15 prognosis -- Exhibit 5, the original letter to OXY,
16 contains the drilling prognosis.

17 Q. (BY MR. BRUCE) In your opinion, will the
18 granting of this application be in the interest of
19 conservation and the prevention of waste?

20 A. Yes.

21 Q. And were Exhibits 12, 13, and 14 either
22 prepared by you or compiled by company business records?

23 A. Yes, they were.

24 MR. BRUCE: Mr. Examiner, I move the
25 admission of the Exhibits 12, 13 and 14.

1 EXAMINER McMILLAN: Exhibits 12, 13 and 14
2 may now be accepted as part of the record.

3 (GMT Exploration Co., LLC Exhibit Numbers
4 12, 13 and 14 are offered and admitted into
5 evidence.)

6 MR. BRUCE: No further questions.

7 CROSS-EXAMINATION

8 BY EXAMINER McMILLAN:

9 Q. You're requesting to change the setup pattern
10 for an 80-acre?

11 A. Correct.

12 Q. Setup pattern on an 80-acre infill plan?

13 A. Basically, yes.

14 Q. Okay.

15 EXAMINER WADE: I have no questions.

16 EXAMINER McMILLAN: Case Number 15394 shall
17 be continued until December 1st. Thanks.

18 This concludes the hearing.

19 (Case Number 15394 concludes, 10:47 a.m.)
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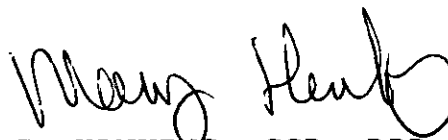
1 STATE OF NEW MEXICO
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3

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

22 MARY C. HANKINS, CCR, RPR
23 Certified Court Reporter
24 New Mexico CCR No. 20
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