

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: 21050

APPLICATION OF LIME ROCK RESOURCES 11-A LLP  
FOR COMPULSORY POOLING,  
EDDY COUNTY, NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

FEBRUARY 6, 2020

SANTA FE, NEW MEXICO

This matter came on for hearing before the New Mexico Oil Conservation Division, EXAMINERS FELICIA ORTH and DYLAN COSS on Thursday, February 6, 2020, 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 CALLED	03
TAKEN UNDER ADVISEMENT	13
REPORTER CERTIFICATE	14

W I T N E S S E S

DOUGLAS WILLIAM LACEY	
Direct by Mr. Feldewert	03
Examiner Questions	12
Redirect by Mr. Feldewert	13

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

	Admitted
Exhibits 1 through 7 and Attachments	13

1 HEARING EXAMINER ORTH: Let's turn to 21050.

2 MS. HARDY: Madam Examiner, I think we skipped  
3 21046. Are we going to do the next -- sorry, you're right.  
4 Sorry.

5 HEARING EXAMINER ORTH: I'm going to get to it.  
6 Mr. Blanco?

7 MR. BLANCO: Madam Examiner, I'm here on behalf  
8 of XTO Energy.

9 HEARING EXAMINER ORTH: Thank you.

10 MR. FELDEWERT: Madam Examiner, as in the prior  
11 case, we have one witness who has already been sworn.

12 HEARING EXAMINER ORTH: Thank you.

13 DOUGLAS WILLIAM LACEY

14 (Sworn, testified as follows:)

15 DIRECT EXAMINATION

16 BY MR. FELDEWERT:

17 Q. Mr. Lacey, since we have called a new case with a  
18 new transcript, will you please state your name, by whom you  
19 are employed by and in what capacity?

20 A. Douglas William Lacey, employed by Lime Rock  
21 Resources as a landman.

22 Q. Mr. Lacey, you actually previously testified  
23 before this Division today.

24 A. I have.

25 Q. In Case 21049 for the Eagle Well as expert

1     **petroleum in land matters.**

2           A.     Yes.

3           **Q.     Are you familiar with the application filed by**  
4     **Lime Rock in this case, 21050?**

5           A.     Yes.

6           **Q.     Are you familiar with the status of lands in the**  
7     **subject area?**

8           A.     Yes.

9                   MR. FELDEWERT:   Retender as expert.

10                   HEARING EXAMINER ORTH:   He will be so recognized,  
11     unless, Mr. Blanco, you have questions about his  
12     qualifications.

13                   MR. BLANCO:   I do not.

14     BY MR. FELDEWERT:

15           **Q.     Mr. Lacey, if you turn to Exhibit Number 1, we**  
16     **again see a map with a black rectangle. Is this the acreage**  
17     **that's at issue under this particular application?**

18           A.     Yes.

19           **Q.     What acreage is involved?**

20           A.     That's the N/2 of the N/2 of Section 9, 18 South,  
21     27 East.

22           **Q.     Okay. And what does the company seek under this**  
23     **application?**

24           A.     To pool the working interest and overriding  
25     royalty interest.

1 Q. In which formation?

2 A. In Yeso.

3 Q. I see this is two pages. This exhibit, does both  
4 pages depict the same spacing unit?

5 A. Yes.

6 Q. How many wells do you initially intend to  
7 dedicate to this spacing unit?

8 A. Two.

9 Q. 1H and 2H?

10 A. Yes.

11 Q. If I turn to what's been marked as Lime Rock  
12 Exhibit Number 2, is this a draft C-102 for both the  
13 proposed 1H well and 2H well?

14 A. Yes.

15 Q. Will both of these wells be drilled from a common  
16 surface bed?

17 A. Yes, they will.

18 Q. Where will that be located?

19 A. In the N/E N/E of Section 8.

20 Q. Just off the spacing?

21 A. Yes.

22 Q. Okay. Will each of these wells comply with the  
23 setbacks for horizontal oil wells?

24 A. Yes.

25 Q. Have you had an opportunity before this hearing

1 to confirm the pool that's involved?

2 A. Yes.

3 Q. And is it the same pool as in case 20149?

4 A. Yes.

5 Q. The Red Lake Glorieta Yeso Pool?

6 A. Yes.

7 Q. Actually, it's a different pool.

8 A. No, it's --

9 Q. It is. I'm sorry.

10 A. There's a slight difference in it.

11 Q. I think in the prehearing statement it identified  
12 it as the Red Lake Glorietta Yeso Pool, and the code 51120.

13 Now, what's the nature of the lands involved in  
14 this particular case?

15 A. Two federal leases.

16 Q. Are there any ownership depth severances in the  
17 Yeso formation underlying these two federal leases?

18 A. Not in the Yeso.

19 Q. Okay. If I turn to what's been marked as Lime  
20 Rock Exhibit Number 3, does the first page identify the two  
21 federal leases, Tract 1 and Tract 2?

22 A. Yes.

23 Q. What do you show on the second page of this  
24 exhibit?

25 A. The interest breakdown in the two leases and then

1 in the unit interest.

2 Q. And do you identify in the second page of this  
3 exhibit the working interest that you seek to pool?

4 A. Yes.

5 Q. You also mention a group of overriding royalty  
6 interest?

7 A. Yes.

8 Q. Were you able to find valid addresses not only  
9 for the two working interest owners you seek to pool, but  
10 also for the overriding royalty interest owners?

11 A. Yes.

12 Q. Are they -- why is that?

13 A. They are the same owners.

14 Q. They are already on your paydeck?

15 A. Yes.

16 Q. If I turn to what's been marked as Lime Rock  
17 Exhibit Number 4, does it contain both well proposal letters  
18 that were submitted to the working interest owners for both  
19 the 1H and the 2H wells?

20 A. Yes.

21 Q. When you sent these out in December, did you also  
22 include an AFE?

23 A. Yes.

24 Q. And are the costs reflected in those AFEs  
25 consistent with what the company has incurred for drilling

1 similar horizontal wells in this area?

2 A. Yes.

3 Q. Now, these were submitted in December?

4 A. Yes.

5 Q. Okay. After you sent these out in December, what  
6 additional efforts did the company or you undertake to  
7 attempt to reach an agreement with both Occidental Petroleum  
8 or Occidental Permian and XTO?

9 A. Both e-mails and phone discussions.

10 Q. And what's the status, as you understand it, of  
11 Occidental's analysis of this proposal?

12 A. Their preference is to negotiate a term  
13 assignment.

14 Q. What's the status with respect to XTO?

15 A. The same.

16 Q. They are in the process of examining those?

17 A. Yes.

18 Q. If I then turn to -- or let me ask you this: You  
19 mentioned that the company had drilled other Yeso horizontal  
20 wells in this general area?

21 A. Yes.

22 Q. Okay. As a result of those efforts, did the  
23 company, after December, determine to make a change, at  
24 least with respect to the depth of one of these wells?

25 A. Yes.

1           Q.     If I turn to what's been marked as Lime Rock  
2     Exhibit Number 5, does this communicate to the working  
3     interest owners you seek to pool the proposed change in  
4     depth?

5           A.     Yes.

6           Q.     Okay.  What, essentially what are you doing here  
7     and why?

8           A.     Our, as I mentioned, the previous three wells we  
9     drilled last year, two were in the Paddock, which is the  
10    upper zone, and one was in the Blinebry.  We feel like we  
11    get a more efficient frac if we -- if we complete in the  
12    Blinebry, so we lowered that depth to that zone.

13          Q.     So which well was changed in terms of vertical  
14    depth?

15          A.     The -- what was it -- the 1H.

16          Q.     And so that had initially been proposed, as I  
17    understand it, in the Paddock?

18          A.     In the Paddock.

19          Q.     And you by this letter communicated that you are  
20    moving the total vertical depth to get to the Blinebry?

21          A.     Yes.

22          Q.     What overhead rates does the company seek by  
23    drilling these wells also while producing?

24          A.     8000 for drilling and 800 for producing.

25          Q.     Are these the overhead rates that you provided in

1 the JOA sent out to the working interest owners?

2 A. Yes.

3 Q. Are these overhead rates consistent with what  
4 Lime Rock and other operators charge in this area for  
5 similar wells?

6 A. Yes.

7 Q. If I then turn to what's been marked as Lime Rock  
8 Exhibit 6, is this an affidavit by Stan Bishop?

9 A. Yes.

10 Q. I think you previously testified that he has been  
11 employed by Lime Rock as a geologist for 14 years?

12 A. Yes.

13 Q. And again, in Paragraph 2 he identifies his  
14 credentials.

15 A. Yes.

16 Q. And, Mr. Lacey, do you and the company rely on  
17 his expertise in your development projects in the Permian  
18 Basin of New Mexico?

19 A. Yes, we do.

20 Q. And does his affidavit analyze the Yeso Formation  
21 underlying the proposed horizontal spacing unit?

22 A. Yes.

23 Q. And in the course of that analysis, has he  
24 prepared a structure map and cross section and attached that  
25 to his affidavit?

1 A. Yes.

2 Q. Okay. If I then turn to what's been marked as  
3 Lime Rock Exhibit Number 7, is this an affidavit prepared by  
4 my office with the attached letters providing notice of this  
5 hearing to the parties you seek to pool?

6 A. Yes.

7 Q. If I go to the third page, which is on the back  
8 of the second page, I see XTO and Occidental, and then there  
9 is two other parties listed on there. What's the nature of  
10 their interest?

11 A. Overriding royalty interest owners.

12 Q. And this reflects that all the parties you seek  
13 to pool received notice of this hearing?

14 A. Yes.

15 Q. Were Exhibits 1 through 5 prepared by you or  
16 compiled under your direction and supervision?

17 A. Yes.

18 MR. FELDEWERT: Madam Examiner, I would move the  
19 admission into evidence of Lime Rock Exhibits 1 through 7  
20 which include the affidavit of Stan Bishop and notice of --

21 HEARING EXAMINER ORTH: Mr. Blanco, do you have  
22 any objection?

23 MR. BLANCO: No objection.

24 HEARING EXAMINER ORTH: Exhibits 1 through 7 are  
25 admitted.

1 (Exhibits 1 through 7 admitted.)

2 HEARING EXAMINER ORTH: Mr. Blanco, do you have  
3 questions of Mr. Lacey?

4 MR. BLANCO: I do not.

5 EXAMINER COSS: The only other question that I  
6 have similar to the last case, what's the nature -- what  
7 kind of rock is being targeted in the Yeso here? Is it  
8 muddy?

9 THE WITNESS: The Paddock has traditionally been  
10 a better, a better rock, is what our geologist calls it, but  
11 the fracs are fracking up as opposed to horizontally. And  
12 so we think that we're -- the frac is benefiting from both  
13 the zones. So the Blinebry is not as good a rock from a  
14 geological standpoint, but we are producing from both of  
15 them.

16 EXAMINER COSS: So is this -- is this another  
17 landing interval that's already been well --

18 THE WITNESS: Our vertical wells, we frac three  
19 different zones in the Yeso, and this one is, the Blinebry  
20 is the middle one. The Paddock is the top one.

21 EXAMINER COSS: Oh, and so is there -- there's  
22 already horizontal wells in the Paddock and this is going to  
23 be another completion?

24 THE WITNESS: No. These are vertical wells.

25 EXAMINER COSS: Oh, these are vertical wells,

1     okay.

2                   THE WITNESS:   Right.  We are drilling horizontal  
3     wells in a field that's already been developed vertically.

4                   EXAMINER COSS:  I see.  Thanks for the  
5     clarification.

6                   MR. FELDEWERT:  Mr. Coss, I may have  
7     misunderstood, but --

8                                    REDIRECT EXAMINATION

9     BY MR. FELDEWERT:

10            **Q.     Mr. Lacey, these two wells we are talking about**  
11     **are horizontal wells?**

12            A.     Yes.

13            **Q.     And it will now both be in the Blinebry at the**  
14     **location shown on the stratigraphic cross section?**

15            A.     Yes.

16                   MR. FELDEWERT:  All right.

17                   EXAMINER COSS:  Okay, perfect.

18                   HEARING EXAMINER ORTH:  All right.  Thank you  
19     very much.

20                   MR. FELDEWERT:  That concludes our presentation.

21                   HEARING EXAMINER ORTH:  Thank you, Mr. Lacey, Mr.  
22     Feldewert, Mr. Blanco.  The matter will be taken under  
23     consideration.

24                                    (Case taken under advisement.)

25

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 13 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 6th day of  
11 February 2020.

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Irene Delgado, NMCCR 253  
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