

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 PERCUSSION PETROLEUM CASE NOS. 20228,
OPERATING, LLC FOR COMPULSORY POOLING, 20233
EDDY COUNTY, NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

March 21, 2019

Santa Fe, New Mexico

BEFORE: KATHLEEN MURPHY, CHIEF EXAMINER
TERRY WARNELL, TECHNICAL EXAMINER
WILLIAM V. JONES, TECHNICAL EXAMINER
SUSAN SITA, LEGAL EXAMINER

This matter came on for hearing before the New Mexico Oil Conservation Division, Kathleen Murphy, Chief Examiner; Terry Warnell and William V. Jones, Technical Examiners; and Susan Sita, Legal Examiner, on Thursday, March 21, 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
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APPEARANCES

FOR APPLICANT PERCUSSION PETROLEUM OPERATING, LLC:

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1 (10:41 a.m.)

2 EXAMINER MURPHY: The next case -- it's
3 page 3 of the docket -- is 20228, Percussion Petroleum,
4 and I think it's combined 20233.

5 MR. FELDEWERT: Yes. Michael Feldewert,
6 with the Santa Fe office of Holland & Hart, appearing on
7 behalf of the Applicant in both of these cases. I do
8 not have any witnesses. I intend to present these
9 consolidated cases by affidavit.

10 MR. BRUCE: Jim Bruce of Santa Fe
11 representing Lime Rock Resources II-A, L.P. I have no
12 witnesses, and I do not object to presenting the cases
13 by affidavit.

14 MR. FELDEWERT: Ms. Murphy and the
15 remainder of the examiners, we have in our exhibit
16 packet in front of you for these consolidated cases
17 Exhibits A through F.

18 Exhibit A is the affidavit of Stan
19 Mitchell. He has -- he's a landman who has also
20 previously testified before this Division.

21 If you look at Exhibit A1, it contains the
22 C-102 plats for the spacing units that are involved
23 here, one being the south half of the south half in
24 Section 18 for the Oasis 1H well, and then the north
25 half of the south half of Section 18 for the Smashing

1 Pumpkins well, both of which are reflected in Exhibit
2 A1. And you'll see from those plats that both of these
3 wellbores will remain within the setbacks required by
4 the Division statewide rules for horizontal wells.

5 If you look at Exhibit A2, we have an
6 ownership breakdown. There are 14 different tracts of
7 land involved here. The land ownership here is very
8 complicated. And so we provided in Exhibit A2 an
9 ownership breakdown for each of the spacing units. The
10 first page is for the Oasis well, which is the south
11 half of the south half, and then the second page is for
12 the Smashing Pumpkins well, which is the north half of
13 the south half.

14 One point that is not easily apparent is
15 that when you see St. Devote, that is Percussion. Okay?
16 And you'll see that Percussion owns a large majority of
17 the interest here and that the parties that they seek to
18 pool have very small interests. A number of them are
19 unleased mineral interests. If you look on the side,
20 UMI, those are unleased mineral interest owners.

21 So Percussion here is seeking to pool the
22 working interest owners that are shaded in green, the
23 unleased mineral interest owners that are likewise
24 shaded in green. And if you look at the second page of
25 Exhibit A -- B2, look at the bottom, you'll also see

1 that that north half of the south half spacing unit has
2 some nonparticipating royalty interest owners that the
3 company likewise seeks to pool and has shaded in green.

4 They all -- any ownership depth severances
5 within this pool have been resolved by agreement, so you
6 don't need to worry about that. They were able to
7 handle all that by agreement with the affected parties,
8 so we don't need to be concerned about the ownership
9 depth severances when it comes to the pooling order.

10 Exhibit A3 is the well-proposal letters --
11 a sample of the well-proposal letters that went out to
12 each of the working interest owners for each well. I've
13 just provided a sample. I didn't provide them all. And
14 when these wells -- when these were proposed back in
15 November, there was an AFE that was sent out with these
16 well-proposal letters. For purposes of the hearing, we
17 have attached as Exhibit A4 more recent AFEs, which
18 Mr. Mitchell testifies contain costs that are consistent
19 with what operators have incurred for drilling similar
20 horizontal wells in this same area.

21 In his affidavit, in paragraph 12, he
22 requests overhead costs of 7,500 a month while drilling
23 and \$750 a month while producing.

24 Exhibit B contains the affidavit of
25 Mr. Lipinski, who is a petroleum geologist for the

1 company that has also testified previously before this
2 Division.

3 Exhibit B1 provides you a location map.
4 He's identified the Smashing Pumpkins well there in the
5 north half-south half spacing unit and then the Oasis
6 well in the south half-south half spacing unit. And
7 you'll see they'll be drilled from locations in Section
8 13.

9 If you then take a look at Exhibit Number
10 B2, this is a subsea structure map that he created for
11 the Glorieta pool here. The contour intervals are at
12 the requested 25 foot, and. He testifies in paragraph
13 five that the structure appears consistent. He does not
14 see any faulting or pinch-outs or any other geological
15 impediments to developing these spacing units with
16 horizontal wells.

17 Exhibit B3 is a map that -- location map
18 that shows the wellbore logs that he utilized for a
19 cross section, A to A prime. And he testifies in
20 paragraph six that he chose the wellbores that you see
21 on Exhibit B3 because of each those logs contained a
22 gamma ray, resistivity, photoelectric absorption -- I
23 hadn't heard that one before -- neutron and density
24 porosity curves. So he considered these wells -- these
25 logs to have good data and representative of the area.

1 You'll see in B4 that he utilized those
2 logs to create a stratigraphic cross section and has
3 identified in yellow the target interval for both the
4 Smashing Pumpkins and the Oasis. And you'll see in that
5 one well on the right-hand side that there is about
6 100-foot difference in total vertical depth because of
7 the nature of the formation in this area. But they
8 essentially target the same interval within the pool.

9 He testifies that he believes that based on
10 his analysis that the targeted interval extends across
11 the spacing units and that the tracts of lands that will
12 be consolidated into these spacing units will contribute
13 more or less equally to production from the well.

14 Exhibit C is an affidavit prepared by my
15 office for Case 20228, which involves the Oasis well.
16 It contains the letters that went out, as well as the
17 status as of hearing here today.

18 And because there were a few that were
19 still in transit and because we have some now
20 nonparticipating royalty interests involved, Exhibit D,
21 as in dog, contains the Affidavit of Publication
22 directed by name to the parties that they seek to pool
23 for that spacing unit for the Oasis well.

24 Then our Exhibit E is a similar Affidavit
25 of Notice prepared by my office for the second case,

1 20233. It has the same information.

2 And Exhibit F, likewise, contains for that
3 case the Affidavit of Publication directed by name to
4 all the parties that they seek to pool for the Smashing
5 Pumpkins initial well.

6 With that, I'd ask that Exhibits A through
7 F be admitted into evidence and that these consolidated
8 cases in this matter be taken under advisement.

9 EXAMINER MURPHY: Exhibits A through F are
10 admitted.

11 (Percussion Petroleum Operating, LLC
12 Exhibits A through F are offered and
13 admitted into evidence.)

14 EXAMINER MURPHY: Any questions?

15 EXAMINER WARNELL: I have a question,
16 Mr. Feldewert.

17 MR. FELDEWERT: Yes, sir.

18 EXAMINER WARNELL: I'm looking at your
19 Exhibit D2. I believe it is the location map.

20 MR. FELDEWERT: Yes, sir.

21 EXAMINER WARNELL: You're drilling your
22 surface hole in Section 13?

23 MR. FELDEWERT: Yes.

24 EXAMINER WARNELL: Your surface hole.

25 Excuse me.

1 MR. FELDEWERT: Let me double-check.

2 EXAMINER WARNELL: The south half-south
3 half of 13, who owns that?

4 MR. FELDEWERT: I do not know. As I'm
5 looking, Mr. Examiner, it looks like, yeah, one surface
6 hole is in the south half -- or in the southeast of the
7 southeast and then the northeast of the southeast for
8 the second well. I would surmise that if they've
9 consulted with their counsel, that they have appropriate
10 approvals they need to utilize those surface locations.
11 And I would also surmise -- I think what we all know is
12 one of the benefits of doing an off-lease surface
13 location like this is that they can then have the first
14 take point within 100 feet of that spacing unit.
15 Otherwise, it's too difficult to build a curve.

16 EXAMINER MURPHY: So there were no unknowns
17 for notice?

18 MR. FELDEWERT: There were no unknowns,
19 correct. And he testified they did their diligent
20 search, and they were able to identify -- and if I look
21 at my notice affidavits, you'll see there were a few --
22 some were heirs. Some interests, they were heirs. I
23 guess those were returned. So they've been notified by
24 name and estate. A lot of them were delivered. Some
25 are in transit. So it's various status when it comes

1 to -- particularly when you're dealing with some of
2 these estates or dealing with unleased mineral
3 interests. So Notice of Publication was necessary and
4 appropriate in a lot of circumstances.

5 EXAMINER MURPHY: Any more questions?

6 EXAMINER WARNELL: No more questions.

7 MR. FELDEWERT: We ask that these
8 consolidated cases be taken under advisement.

9 EXAMINER MURPHY: Cases 20228 and 20233
10 will be taken under advisement.

11 EXAMINER JONES: The docket is concluded.
12 I don't believe there are any other cases.

13 MR. FELDEWERT: I believe we have one other
14 matter that you were going to address.

15 EXAMINER JONES: Actually, that's not part
16 of the docket. It's just another matter.

17 (Case Numbers 20228 and 20233 conclude,
18 10:54 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 7th day of April 2019.

21

22

23 MARY C. HANKINS, CCR, RPR
24 Certified Court Reporter
New Mexico CCR No. 20
Date of CCR Expiration: 12/31/2019
Paul Baca Professional Court Reporters

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