

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 SPC RESOURCES, LLC CASE NO. 20762
FOR COMPULSORY POOLING, EDDY COUNTY,
NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

September 19, 2019

Santa Fe, New Mexico

BEFORE: KATHLEEN MURPHY, CHIEF EXAMINER
 PHILLIP GOETZE, TECHNICAL EXAMINER
 DANA Z. DAVID, LEGAL EXAMINER

This matter came on for hearing before the New Mexico Oil Conservation Division, Kathleen Murphy, Chief Examiner; Phillip Goetze, Technical Examiner; and Dana Z. David, Legal Examiner, on Thursday, September 19, 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.

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APPEARANCES

FOR APPLICANT SPC RESOURCES, LLC:

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1 (11:16 a.m.)

2 EXAMINER MURPHY: Calling Case 20762,
3 application of SPC Resources, LLC for compulsory
4 pooling, Eddy County, New Mexico.

5 Call for appearances.

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

9 And I have two witnesses.

10 EXAMINER MURPHY: Any other appearances?

11 MS. LUCK: It was my understanding that
12 Mewbourne had entered an appearance in this case
13 previously. I don't see Mr. Bruce here. But SPC had
14 resolved its issues with Mewbourne, and that may be why
15 Jim's not here now.

16 EXAMINER GOETZE: Is that part of the
17 record? Do we have something in writing?

18 MS. LUCK: Yes, we do. Jim had entered his
19 appearance -- this case was originally set for the
20 September 5th hearing, and he had requested a
21 continuance at that time. Since the September 5th
22 hearing, we were able to work out the issues, and that's
23 why the case is being heard today.

24 EXAMINER MURPHY: And your witnesses, can
25 they stand and be sworn in by the court reporter?

1 (Ms. Singer and Mr. Weihe sworn.)

2 EXAMINER MURPHY: Please proceed.

3 MS. LUCK: Thank you.

4 NICOLE SINGER,

5 after having been first duly sworn under oath, was
6 questioned and testified as follows:

7 DIRECT EXAMINATION

8 BY MS. LUCK:

9 Q. Good morning.

10 Please state your name, identify by whom
11 you're employed and in what capacity.

12 A. My name is Nicole Singer. I'm the land and
13 legal manager for Santo Petroleum, which is the parent
14 company of SPC Resources, LLC.

15 Q. Have you previously testified before the
16 Division?

17 A. No.

18 Q. Please outline your educational background for
19 the examiners.

20 A. I have a J.D. from the University -- from Texas
21 Tech University School of Law, and I have a BS from the
22 University of Texas.

23 Q. And then provide your experience in the
24 industry.

25 A. I have been with Santo Petroleum for about a

1 year as their land and legal manager. Prior to that, I
2 was with Occidental Petroleum for 18 months as a land
3 manager and individual land negotiator. Prior to that,
4 I was with Marathon for ten-and-a-half years. In my
5 time at Marathon, I was four years as a landman and six
6 years as in-house counsel. Prior to Marathon, I worked
7 for Shell for about two years as a landman.

8 **Q. And are you a member of any professional**
9 **organizations or associations?**

10 A. I am. I'm a member of the Houston Bar
11 Association. I'm the immediate past chair of the oil
12 and gas well section, which is a relief. I am a member
13 of the Texas Bar Association. I'm in and out of the
14 Rocky Mineral Law Foundation. I'm active as a -- I'm
15 active in the Association of Professional Landmen, AAPL,
16 and also the West Houston Association of Professional
17 Landmen, WHAPL.

18 **Q. Thank you.**

19 **And are you familiar with the application**
20 **filed in this case?**

21 A. Yes.

22 **Q. And are you familiar with the status of the**
23 **lands in the subject area?**

24 A. Yes.

25 MS. LUCK: With that, I would tender

1 Ms. Singer as an expert in petroleum land matters.

2 EXAMINER MURPHY: So qualified.

3 Is a resume attached?

4 MS. LUCK: I have not provided their
5 resumes since they're here testifying in person, but I'm
6 happy to supplement that if the examiners request.

7 EXAMINER MURPHY: No. I guess that's okay.
8 So qualified.

9 MS. LUCK: Thank you.

10 THE WITNESS: Thank you.

11 **Q. (BY MS. LUCK) Ms. Singer, please turn to**
12 **Exhibit 1 and identify what's shown on these maps and**
13 **explain what SPC seeks under this application.**

14 A. So the very first exhibit is a project locator
15 map that's zoomed out so you can see the entire outline
16 of the City of Carlsbad. The green outline represents
17 the unit that we're seeking to compulsory pool today.
18 And then the red lines represent typical Wolfcamp;
19 Purple Sage Gas Pool wells in the area which are
20 producing, and the black lines represent Wolfcamp;
21 Purple Sage APDs that are drilling or waiting on
22 completion.

23 **Q. And what is it that SPC seeks in this**
24 **application?**

25 A. We seek to form a 1,257.1-acre Wolfcamp unit

1 consisting of Section 12 of 22 South, Range 26 East and
2 Section 7 of 22 South, Range 27 East. The unit lands
3 are partially within the city limits of Carlsbad, New
4 Mexico. We have placed the surface-hole locations
5 outside of the city limits.

6 **Q. And your Exhibit 1B shows the path of the**
7 **proposed wellbores within the proposed spacing unit?**

8 A. Yes.

9 **Q. So turning to Exhibit 1C, explain what's shown**
10 **on this map.**

11 A. So this is a more detailed leasehold ownership
12 map, and we can just sort of walk through the key. I
13 know it's pretty tiny. But, again, the red outline is
14 the outline of the entire unit. The solid yellow tracts
15 show tracts that are 100 percent leased by SPC
16 Resources, LLC. The hatched yellow shows tracts that
17 are partially leased by SPC Resources. The gray shows
18 tracts that are leased by third parties, not SPC
19 Resources. And the light blue shows unleased mineral --
20 unleased tracts that are owned by mineral interest
21 owners. The hatch crosses over both unleased tracts and
22 tracts owned by others.

23 The green outline shows where we will site
24 these wells that are part of this application, and the
25 black outline, which is the reason we gave you the

1 zoom-out, is the outline of the Carlsbad city limits in
2 this area so that you can see, in a more zoomed-in
3 fashion, that our wells are sited outside the city
4 limits.

5 MS. LUCK: And just for the examiners'
6 purposes, we're happy to provide a PDF of this, not a
7 scanned version, so you're able to zoom in more if you'd
8 like.

9 EXAMINER MURPHY: Thank you.

10 Q. (BY MS. LUCK) Moving on to Exhibit 2, how many
11 wells does SPC seek to dedicate to this proposed spacing
12 unit?

13 A. Two.

14 Q. And are SPC Exhibits 2A and 2B the C-102s for
15 the proposed wells?

16 A. Yes.

17 Q. And do the C-102s designate the wells being
18 located in the Purple Sage; Wolfcamp Pool?

19 A. Yes.

20 Q. And will the wells comply with the 330 setbacks
21 under the special rules?

22 A. Yes.

23 Q. And has the surface location for the 3H well
24 changed from Unit L to Unit E since the filing of the
25 application for hearing?

1 A. Yes.

2 Q. And what is the nature of the lands in this
3 spacing unit?

4 A. They are all fee.

5 Q. And are there any depth severances in this
6 pool?

7 A. No.

8 Q. In this case SPC seeks to pool unleased mineral
9 interest owners, working interest owners and overriding
10 royalty interest owners?

11 A. Yes.

12 Q. And has locating all the mineral interest
13 owners been a challenge for this area?

14 A. It has due to the volume of the tracts and the
15 small size of the tracts, which go down to the
16 individual lot level in some areas.

17 Q. And so expand upon that a little bit more,
18 about how the tracts are owned down to the lot-size
19 level?

20 A. So in a general sense, minerals were conveyed
21 at the dedication or point of subdivision, so they were
22 conveyed to the individual owners of the first house
23 that was built on each lot. And then when that house
24 was sold at some point in time after, those minerals
25 were either reserved, which is what happened in most

1 cases inside the city limits of Carlsbad, but in some
2 cases, they've been conveyed out since.

3 **Q. And how long has SPC been working on the**
4 **ownership issues here?**

5 A. So we identified this area, which is
6 approximately -- the project area is eight sections in
7 and around and on top of Carlsbad. We identified that
8 as a potentially prospective area for leasing around the
9 end of 2016 and early '17.

10 So in the middle of 2017 is when we
11 partnered with a terrific brokerage firm out of
12 Lafayette, Louisiana called the Schoeffler Energy Group,
13 and they've really worked with us to begin looking at
14 the ownership. So early on we were hopeful that maybe
15 developers had reserved the minerals and then determined
16 rather quickly that all the minerals had been conveyed
17 down to the lot level.

18 So in the middle of 2017, we actually set
19 up an office inside of Carlsbad to start working on the
20 project, working on the research to identify mineral
21 owners. And then we approached the city council sort of
22 in the middle of '17 and towards the end of '17 and
23 attended many of the city council meetings to just talk
24 about the project and work with the City to get their
25 support, which we did. And so we attended, like I said,

1 multiple meetings where we ultimately got support to go
2 door to door to identify and locate mineral owners.

3 And then the City ultimately passed an
4 ordinance granting us the right to take a lease from
5 them, so we have an 800-acre lease from the City of
6 Carlsbad covering streets, alleys -- alleyways, streets
7 and then like public -- public spaces that are owned by
8 the City. That's an 800-acre lease. There's only about
9 80 acres in this unit out of that lease. And then the
10 school board followed suit, and we also have a lease
11 that we secured from the school board at that time. We
12 have also secured a lease from the County.

13 So any publicly owned fee minerals are
14 secured and are under lease by SPC.

15 **Q. What process was unitized to identify all**
16 **mineral owners?**

17 A. So a very typical mineral ownership research
18 process. It just had to happen at every single lot
19 level. So we used the records of Guaranty Title Company
20 Title Plan in Carlsbad, New Mexico. We also used the
21 records of Currier Abstract Company Title Plan in
22 Artesia, New Mexico. We also used the records of Eddy
23 County Clerk to identify the owner from inception and
24 then find all of the conveyances out of each lot to
25 occurrence, which oftentimes that just goes into heirs,

1 to pinpoint the current owners of every single tract.

2 **Q. And then from there, what did you do with each**
3 **conveyance?**

4 A. You bring it forward, and you also cross-check
5 it against the county clerk of Eddy, which I mentioned,
6 but also the probate clerk court records in Eddy County
7 and the district court clerk in Eddy County. And then
8 if you find any names in that, you go back and
9 double-check that there are no conveyances due rulings
10 out of those publicly available records.

11 **Q. So did SPC prepare mineral ownership reports or**
12 **limited certificates of title for each interest?**

13 A. We did. So for each tract, based on that
14 research, we have a limited certificate of title or a
15 mineral ownership report, and copies of every single one
16 of those, we have in a per-lease file. And then we also
17 have copies for every tract that we were unable to
18 locate a lessor in. So those are filed. And each file
19 details our attempts taken to reach or identify each
20 owner that we weren't able to secure a lease from.

21 **Q. And so did SPC also obtain title opinions to**
22 **ensure accurate ownership information?**

23 A. We did. So to backstop all of the lot-level
24 research that I just described, we've commissioned title
25 opinion from inception to current on any tracts that are

1 larger than three acres. For subdivisions, we
2 commissioned title from inception to the point of
3 subdivision so that we could make sure that there was no
4 reservation by a developer, and then from that point on,
5 it's overlaid by the process I just described where each
6 lot is then brought forward under an LTC or an MOR.

7 **Q. And what about any tract that was outside of**
8 **the subdivision?**

9 A. Any tract outside of the subdivision that was
10 smaller than three acres, we also have relied on an MOR
11 or LTC to identify ownership and take a lease.

12 **Q. So now I'd ask you to turn to SPC Exhibit 3A,**
13 **which is the ownership breakdown. And on this exhibit,**
14 **I see -- it appears about 61.8 percent is leased to SPC**
15 **and 31.7 percent is leased to other parties. And then**
16 **how many remain unleased?**

17 A. Approximately 6.3 percent of the unit remains
18 unleased.

19 **Q. And that represents about how many individuals?**

20 A. So there is still approximately 400 individual
21 owners who we've attempted to contact and have notes
22 about contacting who remain unleased.

23 **Q. But how many unleased mineral owners did SPC**
24 **initially identify?**

25 A. Between 600 and 700. So about 650 that we've

1 been successful in obtaining many leases, but we still
2 have some unleased mineral interest owners who are
3 unlocatable or are unwilling to enter into a voluntary
4 lease.

5 **Q. So what efforts were undertaken to locate and**
6 **reach an agreement with the remaining unleased mineral**
7 **interest owners?**

8 A. So because we got permission from the City,
9 we -- the team that I mentioned that we partnered with,
10 Schoeffler Energy Group, in 2017 and all of 2018, we
11 knocked on doors. We left door hangers of information
12 about SPC Resources and who we were. And then we would
13 also go and identify the last known address of record,
14 which could be anywhere in the U.S. And then we also
15 looked for addresses in the Carlsbad and Eddy County
16 phonebook. We also looked at the tax assessor's
17 records, and we also used various common online search
18 tools to locate mineral owners.

19 **Q. And SPC also sent a letter to these unleased**
20 **owners, and that will be included later as Exhibit 4A?**

21 A. Yes.

22 And so we would call any numbers that were
23 found in the phonebook. Like I said, we would search
24 all various websites. And then we also hired two local
25 residents who had lived in Carlsbad for over 30 years or

1 maybe longer, to be honest, who had lived in Carlsbad
2 for many years and who could sometimes help us find
3 families and family members and where they were if we
4 couldn't find their current location of record.

5 **Q. Now, turn to Exhibit 3B. This breaks down the**
6 **31.7 percent working interest owners shown held by other**
7 **parties in the unit.**

8 A. Yes.

9 **Q. What working interest owners remain to be**
10 **pooled?**

11 A. All those shaded in gray.

12 **Q. And did SPC undertake a good-faith effort to**
13 **locate every working interest owner that remains to be**
14 **pooled?**

15 A. Yes. So we have detailed mail tracking records
16 indicating that each of the owners listed in gray was
17 sent a well proposal and accepted same and sent a notice
18 of hearing and accepted same, with the exception of two
19 companies. So if you look at this exhibit, we were
20 unable to locate and unable to secure any kind of
21 delivery. Lignum Oil Company and CMS NOMECCO, we believe
22 that those companies no longer exist, and they are no
23 longer in good standing with the Secretary of State.

24 **Q. And in addition to the well-proposal letters,**
25 **what efforts were undertaken to locate and contact any**

1 **uncommitted working interest owners that you seek to**
2 **pool in these wells?**

3 A. So in addition to making sure that they
4 accepted delivery of a mailout, if they didn't, we made
5 sure that we found an email address and got a response,
6 and we then also looked for their last known address of
7 record, pulled it forward. And so my team has made
8 phone contact or email contact with a representative
9 from every single gray company listed but for the two
10 red companies.

11 **Q. And so is SPC continuing to negotiate with any**
12 **remaining uncommitted working interest owners?**

13 A. We are, and we will continue to do so due to
14 the nature of these lands.

15 **Q. And could you just explain the status of the**
16 **discussions like in a general sense with those --**

17 A. Yeah. Absolutely.

18 So there's sort of three buckets of working
19 interest owners. We've had some -- and they're noted in
20 blue on this same exhibit -- who have indicated an
21 election to participate. So they've returned that
22 paperwork. And we have sent them a joint operating
23 agreement that they're reviewing and may, in fact, sign,
24 or they may decide to participate under the order.

25 And then we have a bucket of folks who have

1 conveyed to us that they want to remain a part of this
2 compulsory pooling process. And then we have a host of
3 folks who wish to assign their interests to us, and
4 we're working through the details of picking up those
5 interests.

6 Q. So will SPC notify the Division if it reaches
7 an agreement with any of these remaining uncommitted
8 working interest owners?

9 A. Absolutely.

10 Q. Turning to Exhibit 4A, this is the letter that
11 we mentioned previously that was sent to the unleased
12 mineral interest owners?

13 A. Yes.

14 Q. And turning to Exhibit 4B, is this a sample
15 well-proposal letter that was submitted to the working
16 interest owners?

17 A. Yes, along with AFEs attached for both wells.

18 Q. Okay. And are the costs reflected on the AFEs
19 consistent with what SPC or other operators have
20 incurred for drilling similar horizontal wells in the
21 area?

22 A. Yes. So we have COPAS rates of 8,000 a month
23 for drilling wells and 800 a month for producing wells,
24 and we've inserted those same rates into the joint
25 operating agreements.

1 Q. And are these costs also similar to what SPC
2 and other operators in the area are charging for similar
3 wells?

4 A. Yes.

5 Q. Are there any overriding royalty interest
6 owners that require pooling in this case?

7 A. Yes.

8 MS. LUCK: And we have included in our
9 packet later on in Exhibit 5C the information that each
10 of the overrides were provided notice of this hearing.

11 Q. (BY MS. LUCK) And so with this, SPC undertook
12 efforts to provide notice of the hearing by certified
13 mail to all of the interests that remain to be pooled;
14 is that correct?

15 A. Yes.

16 Q. So turning to Exhibit 5, this is our notice
17 letter that was sent to all of the parties to be pooled
18 in this case?

19 A. Yes. And there are two notice letters. You'll
20 note there are two pages. We sent out a letter on
21 August 30th. And then to folks that we realized hadn't
22 accepted certified mail, we re-sent the letter on August
23 7th, and we also have since contacted all of those folks
24 via phone or email.

25 Q. And that's -- original letter on August 7th and

1 you sent it to --

2 A. Yes. Sorry. I got mixed up.

3 Q. And so Exhibits 5A, 5B and 5C contain the mail
4 status for the certified letters providing notice of
5 this hearing?

6 A. Yes.

7 Q. So 5A provides the tracking information for
8 each of the unleased mineral interest owners?

9 A. To their best last known address.

10 Q. And then 5B is the tracking information for the
11 working interest owners?

12 A. Yes.

13 Q. And then 5C is the mailing status of the
14 certified letters to the overrides?

15 A. Yes.

16 Q. And did the company also provide notice by
17 publication directed by name to the parties that remain
18 to be pooled?

19 A. Yes.

20 Q. And that's included as SPC Exhibit C?

21 A. Yes.

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

24 A. Absolutely.

25 MS. LUCK: And with that, I move the

1 admission into evidence of SPC Exhibits 1 through 6.

2 EXAMINER MURPHY: Exhibits 1 through 6 are
3 accepted.

4 EXAMINER GOETZE: Well, we might take a
5 moment --

6 (Mr. Bruce enters the room, 11:34 a.m.)

7 MR. BRUCE: Mr. Examiner, Jim Bruce
8 representing Mewbourne Oil Company.

9 I have no objection to anything.

10 EXAMINER GOETZE: Okay. Well, my
11 understanding is that -- we had already had a discussion
12 about Mewbourne has been satisfied to a point.

13 MR. BRUCE: Correct.

14 EXAMINER GOETZE: Okay.

15 Continue.

16 THE WITNESS: Thank you.

17 EXAMINER MURPHY: Exhibits 1 through 6 will
18 be admitted.

19 (SPC Resources, LLC Exhibit Numbers 1
20 through 6 are offered and admitted into
21 evidence.)

22 MS. LUCK: And I have no further questions
23 for this witness.

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CROSS-EXAMINATION

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BY EXAMINER GOETZE:

Q. My turn.

So thank you very much for having gone through the effort of dealing with the City. I'm sure you didn't have any choice once you found out property belonged to them.

Has there been any concern raised with regards to the County, the City and other public entities having mineral rights as far as having the authority to lease it out? Is this something that's common?

A. So no problems. That's where we started. So we approached the City first, and they passed an official ordinance. And I believe 2017-28 is the official ordinance where they adopted right to enter into a lease with us. The school board followed suit. And we actually just secured the County lease yesterday. So you'll see a whited-out line -- I don't know what page it is -- in the unleased mineral interest owner exhibit. That has a white-out line, and that's because we secured the County lease that rolled in yesterday.

Q. And how long did this entire process take?

A. Yes. So we kicked it off at the end of 2016, which John will talk about a little bit more, because he

1 is the reason that we took this on because he identified
2 some sections that looked prospective but were a
3 step-out. And then we took basically all of 2017 to
4 identify the owners and find them. And then we used all
5 of '18 to secure leases. So we closed up the office in
6 Carlsbad at the end of '18. But it was fully staffed
7 with close to 20 individuals for a solid year and a
8 half.

9 Q. And then we're using for building blocks in the
10 horizontal spacing unit the 320 acres; is that correct?

11 A. Yes, sir.

12 Q. No more questions. Thank you.

13 A. Thank you.

14 EXAMINER MURPHY: I have no more questions.

15 THE WITNESS: Thanks.

16 CROSS-EXAMINATION

17 BY EXAMINER DAVID:

18 Q. Well, I really applaud the effort that you guys
19 made to try to find these, and I appreciate you --
20 through your attorney, you kind of hit all the issues
21 that I would ask questions about.

22 Thank you for identifying the line that was
23 whited out. That was one question I had just, for the
24 record. So to the best of your knowledge, the --
25 the --- the tables that have the -- that show the

1 results of mailing out the notices, to the best of your
2 knowledge, these are complete and all -- and all the
3 identified property owners, you verified that each name
4 was on here?

5 A. Yes. So those are complete and accurate, and I
6 had to cut it off at about 3:30 p.m. yesterday. So we
7 were whiting out up until that point yesterday.

8 And I do want to go on the record to say
9 that we will continue to work with anybody who surfaces
10 on voluntary agreements because it makes a lot more
11 sense to us to have paperwork. So whether that be
12 lessors that want to, in fact, lease to us and/or
13 working interest owners, because you'll see the working
14 interest owner list. They own teeny, tiny interests.
15 So we don't want to use compulsory pooling against
16 anyone, but we really just need it for all the folks
17 that we couldn't locate and the folks that just don't
18 understand that they own a really small, tiny mineral
19 interest inside of the City of Carlsbad because it was
20 their grandfather's house or their great grandfather's
21 house.

22 Q. And for the -- the Notice of Publication by
23 notice -- at the time of notice, that the list of
24 individuals on the -- I mean, you verified that all the
25 identified property interests are actually --

1 A. Absolutely. That's a snapshot in time. There
2 are definitely folks that have come off of that. I
3 mean, just since we did the mail-out at the beginning of
4 August, we've had between 10 and 12 leases roll in. So
5 that was a snapshot in time at the very end of July of
6 everyone that still remained to be compulsory pooled.
7 But folks have come off of that since then.

8 **Q. Understood. Thank you very much.**

9 A. Thank you.

10 No more questions?

11 EXAMINER MURPHY: No.

12 THE WITNESS: Okay. Thank you.

13 MS. LUCK: And with that, I'd call my next
14 witness, John Weihe.

15 JOHN WEIHE,

16 after having been previously sworn under oath, was
17 questioned and testified as follows:

18 DIRECT EXAMINATION

19 BY MS. LUCK:

20 **Q. Will you state your name for the record,**
21 **identify by whom you're employed and in what capacity?**

22 A. My name is John Weihe, and I'm employed by
23 Santo Petroleum Company, which is the parent of SPC
24 Resources, as exploration manager. That's my position.

25 **Q. And have you previously testified before the**

1 **Division?**

2 A. No.

3 **Q. Please provide the examiners with your**
4 **educational background.**

5 A. I have a bachelor's of science in geophysical
6 engineering from the Colorado School of Mines.

7 **Q. And detail your work experience.**

8 A. I've worked for Santo Petroleum for the last
9 three-and-a-half years as exploration manager, and prior
10 to that, I worked for close to 15 years for Callon
11 Petroleum Company. I was hired as a geologist in 2000
12 with Callon. Prior to that, I worked British Borneo and
13 ENI for four years. And then I was hired out of college
14 by Unocal and worked with them for 13 years prior to
15 that.

16 **Q. And are you a member of any professional**
17 **organization or associations?**

18 A. I am. I'm a member of PSEG and the Roswell
19 Geological Society.

20 **Q. Are you familiar with the application filed by**
21 **SPC Resources in this case?**

22 A. Yes, I am.

23 **Q. And have you conducted a geological study of**
24 **the lands that are the subject of this application?**

25 A. Yes, I have.

1 **Q. And like Nicole mentioned earlier, could you**
2 **just explain a little bit more your involvement in this**
3 **project?**

4 A. Sure. So back in 2016, we initiated regional
5 mapping and trying to identify prospectivity, and we
6 identified it, of course, in many areas of New Mexico.
7 And this was exclusively in the Delaware Basin of
8 New Mexico. And one of the areas was in the City of
9 Carlsbad, and that kind of picks up the story where
10 Miss Nicole was talking about as far as initiating
11 studies to, you know, really look at the feasibility of
12 leasing there, and, of course, doing a lot of research
13 on any kind of seismic concerns there might be, research
14 on the brine well, all kinds of things to just ensure
15 feasibility, and then we -- and then we started
16 leasing --

17 MS. LUCK: And so with that, I tender
18 Mr. Weihe as an expert in petroleum geology.

19 EXAMINER DAVID: Mr. Bruce is on record as
20 no objection so -- unless he interrupts us, I think we
21 can --

22 EXAMINER MURPHY: So qualified.

23 MS. LUCK: Thank you.

24 THE WITNESS: Thank you.

25 **Q. (BY MS. LUCK) So what is the target interval**

1 **for the wells under this application?**

2 A. So the target intervals -- and I apologize.
3 Let me just move to the displays here -- the display
4 numbers.

5 There we go.

6 **Q. 7?**

7 A. 7.

8 So the target intervals of the wells --
9 there are two wells. We would like to propose target
10 intervals in the Wolfcamp A and in the Wolfcamp D.

11 **Q. And have you created a structure map for the**
12 **target intervals?**

13 A. Yes, I have.

14 **Q. So turning to SPC Exhibit 7, explain what this**
15 **map shows.**

16 A. Exhibit 7 is a structure map at the top of the
17 Wolfcamp A, and the black lines are structural contours
18 in subsea depth. The subsea depths' control points are
19 labeled in black numbers next to their well location
20 points. Some of these deviated wells that you see red
21 lines in many directions, those are not horizontal
22 wells. Those are deviated wells due to surface
23 constraints, and they had two control points for this
24 structural top.

25 The unit outline is in green, Section 12

1 and Section 7, and the contour interval is 25 feet. And
2 the map depicts the location of the proposed Wolfcamp A
3 well, as well as additional proposed wells from other
4 operators in the area.

5 **Q. And those are depicted by the --**

6 A. The black -- the black kind of east-west lines.

7 **Q. And is the structure consistent throughout**
8 **these two sections?**

9 A. Yes. The structure actually is very flat,
10 really essentially zero degrees through Section 7 and
11 dips increase to about 1-and-a-half degrees on the --
12 and in general, the regional dip is to the southeast.
13 Dips increase about 1-and-a-half degrees in the west
14 half of Section 12.

15 **Q. Okay. So turning to SPC Exhibit 8, could you**
16 **identify what's shown on this map? It appears to be**
17 **shown in Exhibit 7, but I'll let you explain what the**
18 **differences are here.**

19 A. Yes. So it's an identical format with control
20 points structural contours. The contour interval is 25
21 feet and the unit outline. And similarly to the
22 Wolfcamp A, the Wolfcamp D here is very flat throughout
23 Section 7 and the east half of Section 12 and dips
24 increasing to about a degree and a half in the west half
25 of Section -- Section 12.

1 **Q. And this map shows the path of the proposed**
2 **wellbore for the 3H well?**

3 A. Yes, ma'am. Yes. That shows the Wolfcamp D
4 location -- surface- and bottom-hole location.

5 **Q. And with these two maps, Exhibits 7 and 8, do**
6 **you observe any faulting, pinch-outs or other geologic**
7 **impediments to horizontal development?**

8 A. No, I don't. I don't see any faulting. I
9 don't see any pinch-outs, and I don't see any
10 impediments at all to horizontal development.

11 **Q. And I also note that these wells are going to**
12 **be drilled east to west. Is this the preferred**
13 **orientation for these wells?**

14 A. Yes. I do believe east to west is the
15 preferred orientation. The horizontal maximum
16 compressive stress direction is dominantly north-south
17 about north 10 degrees east, so it really sets up
18 ideally for east-west horizontal development.

19 **Q. And then I also note that there's these other**
20 **permitted laterals to the east of the proposed spacing**
21 **unit, and those are also east-west?**

22 A. Yes. They are also east-west.

23 **Q. And so have you created a cross section for**
24 **these two target zones within the Wolfcamp?**

25 A. Yes, I have.

1 **Q. Please turn to Exhibit 9 and explain what this**
2 **map shows.**

3 A. Yes. So Exhibit 9 is a base map of the unit
4 area -- the proposed unit area, and it depicts the
5 locations of the two proposed wells that we're talking
6 about. And then the dotted line shows the locations in
7 a cross section that we will talk about. At A, A prime
8 crosses essentially all of the well control in the -- in
9 this unit area -- in this proposed unit area, with the
10 exception of the Douglas 1, which is right next to the
11 Douglas 2, which is on the cross section. And that's in
12 the far eastern side of Section 7.

13 **Q. And so you used four wells to create this cross**
14 **section?**

15 A. That's correct.

16 **Q. And these are the logs that are representative**
17 **of the target zone in the area?**

18 A. Yes, I think so.

19 **Q. And turning to SPC Exhibit 10, please explain**
20 **what that exhibit shows?**

21 A. Okay. So this is a cross section from those
22 four well locations. There are two panels under each
23 well location. The panel on the left is the gamma ray
24 with API units from zero to 150. It also has a caliper
25 log on it, and there is shading in blue for gamma ray

1 values less than 80.

2 On the right side of each log is a deep
3 resistivity from that well log, and it's on a scale up
4 to 2,000 ohms, and it's shaded in green everything over
5 8 ohms. So kind of -- this is not hung on any
6 geological horizon. This is a structural cross section,
7 so it kind of depicts the fairly flat nature of the
8 area, thus indicating, you know, no faults, conducive to
9 horizontal development.

10 I'll start kind of from the bottom up, the
11 two targets. So if you'll notice the last three picks
12 on the cross section, they're the Wolfcamp D, a Wolfcamp
13 D marker and a Wolfcamp D Shale base. And the base of
14 the shale is really underpinned by, in this area, more
15 or less a regional carbonate debris flow, which I think
16 will act as a good frac barrier below.

17 The D1 marker is a regional highstand
18 event, and it provides a nice signature. You can see
19 that kind of the highest excursion of the gamma ray
20 provides a nice mapping tool in the area. And then the
21 top of the D shale is kind of the first major burst of a
22 carbonate debris flow as that section gradually coarsens
23 upward into the Wolfcamp C. And our landing zone will
24 target right at the top of the Wolfcamp D. And both the
25 Wolfcamp D and the Wolfcamp C, as defined by this cross

1 section and internally how we define it, has been
2 drilled by other operators.

3 As you move up the section, you go through
4 more of a low-resistivity silty-shaley interval, and you
5 move up to -- which we call the Wolfcamp B, and then you
6 move up into the Wolfcamp A section. And at the base of
7 the Wolfcamp A is dominantly a limestone composed of
8 carbonate debris flows from the North West Shelf. And
9 it builds up about 50 feet, and then grades into sandy
10 shales at the top of the Wolfcamp A.

11 And then there's a little shale break, and
12 then you go into the Wolfcamp Y Sand, which is the 2nd
13 Sand member of the Wolfcamp X-Y, and that would be our
14 planned and proposed landing interval. It's right kind
15 of in the middle of the Wolfcamp A, and it is the
16 dominant choice of landing by industry for Wolfcamp X-Y
17 wells.

18 Above the Y Sand is another carbonate
19 debris flow interval, and then you go into the X Sand,
20 which typically has a higher carbonate content, a little
21 less porosity but is indeed a coarse turbidite sand, as
22 is the Y Sand.

23 And then finally you go into another
24 highstand carbonate debris flow followed by a capping
25 shale at the top of the Wolfcamp A.

1 And so that describes the two intervals
2 that we would like to develop.

3 **Q. Thank you.**

4 **And in your opinion, is the proposed**
5 **spacing unit an area that can be efficiently and**
6 **economically developed by horizontal wells?**

7 A. Yes, I do.

8 **Q. And do you believe each tract in the proposed**
9 **spacing unit will contribute more or less equally to the**
10 **proposed spacing unit?**

11 A. Yes. I absolutely do. Uh-huh.

12 **Q. And in your opinion, will the granting of SPC's**
13 **application be in the best interest of conservation, the**
14 **prevention of waste and the protection of correlative**
15 **rights?**

16 A. Yes. I really do. And I think, you know, our
17 plan for horizontal development utilizing that
18 technology is maybe the only way for the public and
19 private mineral owners to realize their value.

20 **Q. And were SPC Exhibits 7 through 10 prepared by**
21 **you or compiled under your direction and supervision?**

22 A. Yes, ma'am, they were.

23 MS. LUCK: And with that, I'd move the
24 admission of Exhibits 7 through 10.

25 EXAMINER MURPHY: Exhibits 7 through 10.

1 MR. BRUCE: No objection.

2 EXAMINER MURPHY: Sorry, Mr. Bruce.

3 Exhibits 7 through 10 are admitted.

4 (SPC Resources, LLC Exhibit Numbers 7
5 through 10 are offered and admitted into
6 evidence.)

7 MS. LUCK: I have no further questions for
8 this witness.

9 EXAMINER MURPHY: Mr. Goetze?

10 MR. BRUCE: I have no questions.

11 EXAMINER GOETZE: Come on. One or two?

12 CROSS-EXAMINATION

13 BY EXAMINER GOETZE:

14 Q. I think I have one question.

15 A. Sure.

16 Q. Your upper well, your 2H, any consideration
17 that you may be reaching up into the base of the Bone
18 Spring, or do you think you'll be fully contained with
19 what you've got as far as location of your --

20 A. So that's a good question. The fracture --
21 from a fracture -- we would plan to fracture stimulate
22 this well, of course, a horizontal, just like -- very
23 similar to industry practices. And I believe that it's
24 possible that fractures could go up into the Bone 3.
25 It's about 150 feet up from our planned location. But

1 in my professional opinion, at this landing location,
2 the bulk of the reserves would be derived from the --
3 from the Wolfcamp at that location.

4 **Q. Okay. And --**

5 A. And I would say -- and I would say the vast
6 bulk. It would be minimal.

7 And if I may speak to this, if we go to the
8 broader development plan, our broader development plan
9 is four wells per section in the D at 1,320 spacing, 660
10 off the -- off the leaselines. As we go up into that
11 specific area you're talking about, in the -- in the
12 Wolfcamp X-Y and the Bone 3, all our other levels have
13 straight four levels, we plan on wine-racking those two
14 levels to maximize the efficiency of development of the
15 Wolfcamp and the Bone Spring, which would come in a --
16 in a later hearing here for the Bone Spring.

17 **Q. Okay. And what kind of native porosity are you**
18 **thinking you'll have for each well, the 2H well?**

19 A. In the Y Sand, about two-thirds of the 35-foot
20 average thickness has in excess of 8 percent porosity,
21 so about 25 out of 35 feet has in excess of 8 percent
22 porosity. I would estimate the density porosity average
23 through the zone to be somewhere in that 7 to 9 percent
24 range.

25 **Q. I have no further questions. Thank you.**

1 A. Thank you.

2 EXAMINER MURPHY: I have no questions.

3 Mr. David?

4 EXAMINER DAVID: I have no questions

5 either.

6 MS. LUCK: Thank you.

7 And so with that, I would request that the
8 case be taken under advisement.

9 EXAMINER MURPHY: Case Number 20762 will be
10 taken under advisement.

11 MS. LUCK: Thank you.

12 EXAMINER MURPHY: Meet back here at 1:15.

13 (Case Number 20762 concludes, 11:56 a.m.)

14 (Recess, 11:56 a.m. to 1:17 p.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 DATED THIS 9th day of October 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
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