

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 NO: 20943

APPLICATION OF CENTENNIAL RESOURCE
PRODUCTION LLC FOR COMPULSORY POOLING,
LEA COUNTY, NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS
EXAMINER HEARING
December 12, 2019
SANTA FE, NEW MEXICO

This matter came on for hearing before the New Mexico Oil Conservation Division, EXAMINERS LEONARD LOWE, DEAN McCLURE, DYLAN COSS and LEGAL EXAMINER ERIC AMES, on Thursday, December 12, 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: Irene Delgado, NMCCR 253
PAUL BACA PROFESSIONAL COURT REPORTERS
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1 A P P E A R A N C E S

2 FOR THE APPLICANT:

3 JULIA BROGGI
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14 I N D E X

15 CASE NO. 20943 CALLED
16 TAKEN UNDER ADVISEMENT: 15
17 REPORTER CERTIFICATE 16

18 W I T N E S S E S

19 GAVIN SMITH
20 Direct by Ms. Broggi 04
21 ISABEL HARPER
22 Direct by Ms. Broggi 10
23 Examiner Questions 14

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

25 Admitted
26 1 through 7, 12, 13 09
27 8 through 11 14

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1 HEARING EXAMINER COSS: At this time we will call
2 Case 20943, Centennial Resource for compulsory pooling.

3 MS. BROGGI: Julia Broggi with Holland & Hart on
4 behalf of the applicant.

5 HEARING EXAMINER COSS: Any there any other
6 entries of appearance?

7 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe
8 representing MRC Permian Company.

9 MS. BROGGI: And we have two witnesses today.

10 HEARING EXAMINER LOWE: Would they stand and be
11 sworn in.

12 (Oath administered.)

13 MS. BROGGI: We would call our first witness.

14 HEARING EXAMINER COSS: Please state your name
15 for the record, sir.

16 THE WITNESS: Gavin Smith.

17 GAVIN SMITH

18 (Sworn, testified as follows:)

19 DIRECT EXAMINATION

20 BY MS. BROGGI:

21 **Q. Mr. Smith, will tell the Division by whom you are**
22 **employed and in what capacity?**

23 A. I'm a landman for Centennial Resource
24 Development.

25 **Q. Have you previously testified before the Division**

1 as an expert witness in petroleum land matters?

2 A. I have.

3 Q. Have your credentials as a petroleum landman been
4 accepted by the Division and made a matter of public record?

5 A. Yes.

6 Q. Are you familiar with the application filed by
7 Centennial in this case?

8 A. I am.

9 Q. Are you familiar with the status of the lands
10 that are the subject area?

11 A. Yes.

12 MS. BROGGI: At this time, we would tender Mr.
13 Smith as an expert witness in petroleum land matters.

14 HEARING EXAMINER COSS: Do we have any
15 objections? Mr. Bruce stepped out.

16 MR. AMES: He's waived his right to object.

17 HEARING EXAMINER LOWE: The witness will be so
18 recognized.

19 BY MS. BROGGI:

20 Q. Mr. Smith, will you please tell the Division what
21 Centennial is seeking with this application?

22 A. We seek to create a 640 acre spacing unit,
23 covering the W/2 of Section 1 and the W/2 of Section 12,
24 Township 23 South, 34 East, Lea County, New Mexico.

25 Q. Has the Division designated a pool for this area?

1 A. They have. It's the Ojo Chiso Bone Spring South,
2 Pool Code 97293.

3 Q. And are you seeking to dedicate the spacing unit
4 in the initial wells?

5 A. Yes. The Pac-Man 36 Fed Com 601H, 602H and 603H.

6 Q. Has Centennial filed C-102 well packs for each of
7 the proposed wells?

8 A. We have.

9 Q. And if you will turn to that packet, is that what
10 you will find as Centennial's Exhibits 1, 2, and 3?

11 A. Yes.

12 Q. Mr. Smith, when you incorporate the proximity
13 tracts to the completed intervals from these wells, do they
14 comply with the Division's setback requirements?

15 A. They do.

16 Q. Are there any depth severances?

17 A. There are not.

18 Q. Will you please turn to Centennial Exhibit Number
19 4 in the packet. Does this exhibit identify the tracts of
20 land comprising the proposed horizontal spacing unit?

21 A. Yes. So the N/2 of Section 1 is a federal tract.
22 The SW/4 is a state tract, and then Section 12, the W/2 is
23 all various fee tracts.

24 Q. So there are federal land, state land and fee
25 land?

1 A. Correct.

2 Q. And if you will turn to the second page of
3 Centennial Exhibit Number 4, are these the parties
4 Centennial is seeking -- let me back up. First it shows
5 the interest owner, percentage of their interest in the
6 spacing unit?

7 A. Correct.

8 Q. Does this exhibit show the parties that
9 Centennial is seeking to pool in this case?

10 A. It does.

11 Q. And does it show the nature of their interests?

12 A. It does. Labeled mineral interest and working
13 interest. There are no overriding royalty interests that we
14 don't already have the ability to pool.

15 Q. And are there any unlocatable title owners --
16 holders?

17 A. There are. The estate of Shadie Gould. That is
18 one that we attempted to reach out to all possible heirs and
19 haven't been able to get in contact with them. We will
20 continue to do that, but at this point we listed them as the
21 estate of Shadie Gould.

22 We also have another owner called First Roswell
23 Company, which is claiming to own the interest of John
24 Albery Ellett, and I think we will list that on the final
25 exhibits that we send in since that's pending title.

1 Q. Yeah. This issue just came up, so we are going
2 to revise this exhibit to show that it's which one of those
3 two parties own this interest, but both of these parties
4 received notice of this hearing.

5 And did Centennial provide well proposal letters
6 to the mineral interest owners in this case?

7 A. We did.

8 Q. If you turn to Centennial Exhibits Numbers 5, 6
9 and 7, are those the well proposal letters for each of the
10 three proposed wells?

11 A. Yes.

12 Q. Do these well proposal letters include an AFE?

13 A. They do.

14 Q. And are the costs reflected on the AFE consistent
15 with what our operators charge in this area for horizontal
16 wells?

17 A. They do.

18 Q. Has Centennial made an estimate of overhead and
19 administrative costs while drilling and producing each of
20 the wells?

21 A. We have. That will be 8500 per month for
22 drilling, and 850 per month for producing.

23 Q. Are these costs consistent with what other
24 operators charge in this area for these types of wells?

25 A. Yes.

1 Q. Do you ask that these administrative and overhead
2 costs be incorporated into any order resulting from this
3 hearing?

4 A. We do.

5 Q. What efforts did you undertake to reach
6 agreements with the parties you are seeking to pool?

7 A. A group under our direction contacted all mineral
8 owners and we contacted all working interest owners to work
9 out JOAs, some we are working through currently. And then
10 leasing offers to any mineral owners we could locate, a lot
11 of which we were not able to locate and we just publish
12 them.

13 Q. If after this hearing you are able to reach an
14 agreement with any of the parties Centennial is seeking to
15 pool, will you let the Division know this?

16 A. Yes.

17 Q. In your opinion, has Centennial made good efforts
18 to reach an agreement with uncommitted interest owners?

19 A. We have.

20 Q. Were all parties locatable?

21 A. No, they were not.

22 Q. And in large part of because of that unmarketable
23 title?

24 A. Correct.

25 Q. Also, if you will turn to Centennial Exhibit

1 Number 12, you will see an affidavit from myself that
2 provides the letter providing notice of this hearing that my
3 office sent out, and proof that those letters were sent out
4 and received.

5 And if you turn to Centennial Exhibit Number 13,
6 that's the notice affidavit of publication that was timely
7 provided listing all the parties we are seeking to pool by
8 name.

9 Mr. Smith, were Exhibits Numbers 1 through 7
10 either prepared by you or compiled under your direction and
11 supervision?

12 A. They were.

13 MS. BROGGI: At this time I would move the
14 admission of Centennial 1 through 7, as well as 12 and 13
15 into evidence.

16 HEARING EXAMINER COSS: Any objection?

17 MR. BRUCE: No objection.

18 HEARING EXAMINER COSS: The exhibits will be
19 admitted.

20 (Exhibits 1 through 7, 12 and 13 admitted.)

21 MS. BROGGI: Thank you. I have no further
22 questions for this witness.

23 HEARING EXAMINER COSS: You may be excused. Do
24 you have any?

25 MR. BRUCE: No questions.

1 HEARING EXAMINER COSS: Now you may be excused.

2 MS. BROGGI: We will call our second witness.

3 ISABEL HARPER

4 (Sworn, testified as follows:)

5 DIRECT EXAMINATION

6 BY MS. BROGGI:

7 Q. Will you provide your name for the Examiners?

8 A. Yes. Isabel Harper.

9 Q. Ms. Harper, by whom are you employed and in what
10 capacity?

11 A. I am the New Mexico geologist for Centennial
12 Resource Development.

13 Q. Have you previously testified before the Division
14 as an expert witness in petroleum geology?

15 A. No, I have not.

16 Q. For the Division's benefit, will you provide your
17 educational background?

18 A. Yes. I have a bachelor of arts degree in
19 environmental science from the Colorado College, and then a
20 master's in geology and geological engineering from the
21 Colorado School of Science.

22 Q. Will you provide them your work history?

23 A. I have two years of experience as a geologist for
24 EOG Resources based out of Midland working the Permian. I
25 have been with Centennial for a year and a half working

1 Permian assets out of Denver.

2 Q. Sounds like you have three years of experience.

3 A. Three and a half, yes.

4 Q. Are you familiar with the application filed by
5 Centennial in this case?

6 A. Yes.

7 Q. Have you conducted a geologic study of the land
8 and subject area.

9 A. Yes, I have.

10 MS. BROGGI: Mr. Examiner, at this time we would
11 tender Ms. Harper as an expert witness in petroleum geology.

12 MR. BRUCE: No objection.

13 HEARING EXAMINER COSS: The witness will be
14 recognized as an expert in petroleum geology.

15 BY MS. BROGGI:

16 Q. Ms. Harper, what formation is Centennial
17 targeting in this case?

18 A. The Bone Spring.

19 Q. And if will turn to Centennial Exhibit Number 8,
20 will you identify the exhibit for the Division.

21 A. Yes. This is a zoomed-in map highlighting
22 Centennial acreage in yellow and our drilling unit on the
23 W/2. You see our three proposed wells here, the Pac-Man
24 601H, 602H and 603H in dashed black lines with a surface
25 hole to the north, bottom hole to the south, two-mile

1 laterals. Other wells highlighted here are other producing
2 Bone Spring wells in the close area.

3 **Q. And, Ms. Harper, will you turn to the next**
4 **exhibit, Centennial Exhibit 9, and identify this for the**
5 **Examiners?**

6 A. Yes. This is the same aerial map, but
7 highlighted here we have the Third Bone Spring Sand, Third
8 Bone Spring Sand structure map on top of the Bone Spring
9 Sand, and you can see that these wells been will be drilled
10 toe down with structure dipping slightly to the southeast.

11 **Q. And does this exhibit show that it's consistent**
12 **across the wellbore path?**

13 A. It does.

14 **Q. Have you observed any faulting, pinchouts, or**
15 **other geologic impediments to drilling in this area?**

16 A. We have not.

17 **Q. Will you please turn to the next exhibit,**
18 **Centennial Exhibit 10, and identify this for the Examiners.**

19 A. This map here shows a cross-section of four wells
20 plotted from A to A prime across the wellbore path that will
21 be shown on the next exhibit, and then the same set of wells
22 there.

23 **Q. And, Ms. Harper, would you consider the wells**
24 **shown from A to A prime to be representative of the geology**
25 **in the area?**

1 A. I do.

2 **Q. Will you turn to your final exhibit, Centennial**
3 **Exhibit Number 11, and identify this exhibit for the**
4 **Examiners.**

5 A. This is that same cross-section, A to A prime
6 highlighting the nearby wells. For each one we have of
7 these wells we have open hole logs with gamma ray and
8 resistivity highlighted here. This cross-section is hung on
9 our top of Third Bone Spring Sand data. We also have our
10 top of Wolfcamp highlighted there.

11 Our lateral interval target for the 601, 602 and
12 603H will be that basal most Third Bone Spring Sand target
13 highlighted there.

14 **Q. Do these logs demonstrate the target interval is**
15 **consistent in thickness across the entire proposed unit?**

16 A. Yes, they do.

17 **Q. Ms. Harper, based on your geologic study of the**
18 **land, have you identified any impediment to the drilling**
19 **horizontal wells in the area?**

20 A. We have not.

21 **Q. In your opinion, will each tract comprising the**
22 **horizontal surprising unit be productive and contribute more**
23 **or less equally to production from the wellbores?**

24 A. Yes.

25 **Q. Finally, in your opinion, is the granting of**

1 Centennial's application in this case in the best interest
2 of conservation, the prevention of waste and the protection
3 of correlative rights?

4 A. Yes.

5 Q. Were Exhibits 8 through 11 either prepared by you
6 or prepared under your supervision?

7 A. Yes, prepared by me.

8 MS. BROGGI: At this time we would move the
9 admission of Centennial Exhibits 8 through 11 into evidence.

10 MR. BRUCE: No objection.

11 HEARING EXAMINER COSS: The exhibits will be so
12 admitted.

13 (Exhibits 8 through 11 admitted.)

14 MS. BROGGI: I have no further questions for this
15 witness.

16 MR. BRUCE: I have no questions.

17 EXAMINER LOWE: You mentioned Bone Spring. Do
18 you give have a pool code for that? Is it provided, I
19 should say?

20 MS. BROGGI: Yes, on the C-102, and Mr. Smith
21 testified to that as well.

22 HEARING EXAMINER COSS: Out of curiosity, why was
23 the Third Bone Spring used for datum? Does it look very
24 different? If you hang the cross-section on the stated
25 surface, are there any other intervals?

1 THE WITNESS: No. We have a lot of variation in
2 the Third Sand across the area. So we hung it on our most
3 consistent top layer which tends to show our regional
4 structure best. We could say the same thing for the top of
5 the Wolfcamp.

6 HEARING EXAMINER COSS: Okay. And does it look
7 very different if you hang it on the surface?

8 THE WITNESS: It does not.

9 HEARING EXAMINER COSS: Okay.

10 THE WITNESS: No. The overall consistency and
11 thickness across the area helps the structure maintain
12 consistency between many of those markers.

13 HEARING EXAMINER COSS: Okay. One further
14 question, did you compete the IBA team for School of Mines
15 when you were there?

16 THE WITNESS: I did not, no.

17 HEARING EXAMINER COSS: I will pass the witness.

18 THE WITNESS: Great. Thank you.

19 MS. BROGGI: If there are no other questions, I
20 ask that Case Number 20943 be taken under advisement.

21 HEARING EXAMINER COSS: Case Number 20943 will be
22 taken under advisement.

23 (Case 20943 taken under advisement. Adjourned.)
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1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO

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REPORTER'S CERTIFICATE

I, IRENE DELGADO, New Mexico Certified Court Reporter, CCR 253, do hereby certify that I reported the foregoing proceedings in stenographic shorthand and that the foregoing pages are a true and correct transcript of those proceedings that were reduced to printed form by me to the best of my ability.

I FURTHER CERTIFY that the Reporter's Record of the proceedings truly and accurately reflects the exhibits, if any, offered by the respective parties.

I FURTHER CERTIFY that I am neither employed by nor related to any of the parties of attorneys in this case and that I have no interest in the final disposition of this case.

Dated this 12 day of December 2019.

Irene Delgado, NMCCR 253
License Expires: 12-31-19