

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: 21049

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
PAUL BACA PROFESSIONAL COURT REPORTERS
500 Fourth Street, NW, Suite 105
Albuquerque, NM 87102
505-843-9241

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A P P E A R A N C E S

For the Applicant:

MICHAEL FELDEWERT
HOLLAND & HART
110 North Guadalupe, Suite 1
Santa Fe, NM 87501
505-954-7286

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1 HEARING EXAMINER ORTH: We will turn next to the
2 two matters in which Lime Rock is the applicant. That's
3 21049 on the Eagle Well, and 21 -- 21050 on the Hawk Well.

4 MR. FELDEWERT: Madam Examiner, Michael Feldewert
5 from the Santa Fe office of Holland & Hart appearing on
6 behalf of the applicant in Case 21049.

7 HEARING EXAMINER ORTH: Lime Rock Eagle Well.

8 MR. BLANCO: Madam Examiner, my name is Andy
9 Blanco from Hinkle Shanor office in Santa Fe appearing on
10 behalf of the XTO Energy in case 21050.

11 MR. FELDEWERT: I think, Madam Examiner, we were
12 going to present this case first because it's a separate
13 property, separate issues and then we would call the other
14 case.

15 HEARING EXAMINER ORTH: So I will take your
16 appearance in just a moment.

17 MR. FELDEWERT: Madam Examiner, we have one
18 witness that needs to be sworn.

19 HEARING EXAMINER ORTH: Please raise your right
20 hand. Do you swear or affirm that the testimony that you
21 give today will be the truth, the whole truth and nothing
22 but the truth.

23 THE WITNESS: I do.

24 HEARING EXAMINER ORTH: Tell me your name.

25 THE WITNESS: Doug Lacey.

1 HEARING EXAMINER ORTH: Mr. Lacey, thank you.

2 DOUGLAS WILLIAM LACEY

3 (Sworn, testified as follows:)

4 DIRECT EXAMINATION

5 BY MR. FELDEWERT:

6 Q. Would you please state your name, identify by
7 whom you are employed and in what capacity.

8 A. Douglas William Lacey, employed by Lime Rock
9 Resources and been with them for about two and a half years.

10 Q. Have your responsibilities during the time for
11 the company included the Permian Basin of New Mexico?

12 A. Yes.

13 Q. Mr. Lacey, have you previously testified before
14 this Division?

15 A. No.

16 Q. Would you outline your educational background?

17 A. Business management degree in 1982. I have been
18 a petroleum landman since that time with both majors in
19 smaller independents.

20 Q. And at one point in time, or have you been a
21 member of any professional affiliations or association?

22 A. American Association of Petroleum Landmen and a
23 Houston Association of Petroleum Landmen.

24 Q. For about how long?

25 A. 35 years.

1 Q. Okay. And did that happen to lapse?

2 A. It did happen to lapse. Thank you.

3 Q. And are you in the process --

4 A. I'm in the process of renewing it.

5 Q. Okay. Good. Are you familiar with the
6 application that's been filed by Lime Rock in this matter?

7 A. Yes.

8 Q. Are you familiar with the status of the land in
9 the subject area?

10 A. Yes.

11 MR. FELDEWERT: Madam Examiner, I would tender
12 Mr. Lacey as an expert in petroleum land matters.

13 HEARING EXAMINER ORTH: Questions on
14 qualifications, Mr. Coss?

15 EXAMINER COSS: No.

16 HEARING EXAMINER ORTH: He is so accepted.

17 BY MR. FELDEWERT:

18 Q. Mr. Lacey, if you go to our exhibit package and
19 turn to what's been marked as Lime Rock Exhibit 1, does this
20 identify the acreage at issue?

21 A. Yes.

22 Q. What is that acreage?

23 A. The N/2 of the S/2 of Section 27, 17 South, 27
24 East.

25 Q. Okay. And you depicted on this exhibit an

1 outline of the proposed horizontal spacing unit?

2 A. Yes.

3 Q. What does the company seek under this
4 application?

5 A. To pool the working interest and overriding
6 royalty interest owner.

7 Q. In what formation?

8 A. As to the Yeso.

9 Q. Yeso, okay. What well will be initially
10 dedicated to this pool horizontal spacing unit?

11 A. Eagle 27 Federal Com 1H.

12 Q. Is that the green hash line that you've got
13 depicted on here?

14 A. Yes.

15 Q. Then if I turn to Lime Rock Exhibit 2, is this a
16 C-102, Form C-102 for this proposed well?

17 A. Yes.

18 Q. And have you identified on this C-102 the pool
19 code that's involved?

20 A. Yes.

21 Q. The pool and pool code?

22 A. Yes.

23 Q. And will this well comply with the setbacks for
24 horizontal oil wells?

25 A. Yes.

1 Q. When we look at this acreage that's involved
2 here, what's the nature of the lands that are at issue?

3 A. Federal lease.

4 Q. How many leases?

5 A. One.

6 Q. Just one federal lease?

7 A. Yes.

8 Q. Okay. Are there any ownership depth severances
9 in the Yeso formation underlying this acreage?

10 A. No depth severances, no.

11 Q. If I turn to what's been marked Lime Rock
12 Exhibit 3, does this, on the first page, depict the proposed
13 horizontal spacing unit?

14 A. Yes.

15 Q. And what is shown on the second page?

16 A. The ownership breakdown, Lime Rock owning 50
17 percent and Occidental Permian owning the other 50.

18 Q. Okay. And you have identified Occidental Permian
19 as the other working interest owner in this federal lease
20 that needs to be pooled?

21 A. Yes.

22 Q. You also mentioned a group of overriding royalty
23 interest owners?

24 A. Yes.

25 Q. We will get to those in a minute. Were you able

1 to locate -- I know you did for Occidental Permian. Were
2 you able to locate valid addresses for also the overriding
3 royalty interests?

4 A. Yes.

5 Q. Why is that?

6 A. They are current royalty owners.

7 Q. So they are already on your paydeck?

8 A. Yes.

9 Q. If I turn to what's been marked as Lime Rock
10 Exhibit Number 4, is this a copy of the well proposal letter
11 submitted to Occidental Petroleum for this proposed spacing
12 unit and horizontal well?

13 A. Yes.

14 Q. When you sent this letter, did you likewise
15 include an AFE?

16 A. Yes.

17 Q. And are the costs reflected on the AFE in this
18 exhibit consistent with what Lime Rock and other operators
19 have incurred drilling similar horizontal wells?

20 A. Yes.

21 Q. Now, you sent this letter to Occidental in
22 December of 2019; correct?

23 A. Correct.

24 Q. What has occurred with Occidental Petroleum since
25 you sent this letter in December?

1 A. We have had both e-mail and telephone
2 discussions.

3 Q. And at some point in time did you also send to
4 Occidental Permian a proposed joint operating agreement?

5 A. Yes, it was included in the well proposal.

6 Q. What's your understanding of the status of
7 Occidental's analysis of this case based on the phone calls
8 and e-mails you have had?

9 A. As far as their interest?

10 Q. As far as where they are in deciding whether they
11 want to participate under the JOA, under the pooling order?

12 A. They have evaluated it. Their preference is to,
13 is to grant a term assignment.

14 Q. Have you had discussions with them yet about the
15 term assignment?

16 A. We have -- we have initiated discussions very
17 recently, yes.

18 Q. All right. The JOA that you sent to Occidental
19 Petroleum, did it have overhead rates --

20 A. Yes.

21 Q. -- listed in it?

22 A. Yes.

23 Q. What overhead rates does the company seek while
24 drilling this well and also while producing?

25 A. 8000 drilling and 800 producing.

1 Q. Those are the same rates in the JOA that you sent
2 to Occidental?

3 A. Yes.

4 Q. Okay. Are those costs similar to what Lime Rock
5 and other operators in the area charge?

6 A. Yes.

7 Q. Now, if I turn to what's been marked as Lime Rock
8 Exhibit Number 5, this is an affidavit of a Mr. Stan Bishop.

9 A. Yes.

10 Q. Who is Mr. Bishop?

11 A. He is our geologist for this area.

12 Q. And has he previously testified before this body?

13 A. I don't think so.

14 Q. Okay. If I look at his Paragraph 2, does this
15 reflect his credentials?

16 A. Yes.

17 Q. How long has he been a geologist with Lime Rock?

18 A. I think 14 years.

19 Q. Have you worked with him for projects in the
20 Permian Basin of New Mexico?

21 A. Yes.

22 Q. And do you and others within the company rely
23 upon his geologic expertise?

24 A. We do.

25 Q. And does his affidavit discuss the Yeso Formation

1 underlying the proposed horizontal spacing unit?

2 A. Yes.

3 Q. And within his affidavit, does he discuss and
4 attach both a structure map and stratigraphic cross section
5 for this area?

6 A. Yes.

7 Q. If I then turn to what's been marked as Lime Rock
8 Exhibit 6, is this an affidavit prepared by my office with
9 the attached letters providing notice of this hearing to the
10 parties in the pool?

11 A. Yes.

12 Q. And if I flip through that exhibit, and I go to
13 Page 3, which is going to be on the back side of Page 2, we
14 see Occidental Petroleum?

15 A. Yes.

16 Q. There's three other parties listed. What's the
17 nature of their interest?

18 A. Those are the overriding royalty interest owners.

19 Q. Okay. And this reflects that all the parties you
20 seek to pool received notice of this hearing here today?

21 A. Yes.

22 Q. Mr. Lacey, were Lime Rock Exhibits 1 through 4
23 prepared by you or compiled under your direction and
24 supervision?

25 A. Yes.

1 MR. FELDEWERT: Madam Examiner, I would move the
2 admission of Lime Rock Exhibits 1 through 6 which include
3 Mr. Bishop's affidavit and my notice affidavit.

4 HEARING EXAMINER ORTH: All right. Exhibits 1
5 through 6 will be admitted. Mr. Coss, any questions?

6 (Exhibits 1 through 6 admitted.)

7 EXAMINER COSS: Mostly out of curiosity, Yeso is
8 less typical horizontal target these days. Is this
9 exploratory for Lime Rock or in general, or are there many
10 other --

11 THE WITNESS: It was exploratory. As of last
12 year we have drilled three wells, and based on the success
13 of those -- yes, the field traditionally has been
14 three-stage multi frac vertical wells, but yes, so this is
15 new for the Yeso.

16 EXAMINER COSS: Okay. And I guess the three
17 wells are successful, that's why you are --

18 THE WITNESS: Well, we think so.

19 EXAMINER COSS: And where exactly are we located?
20 I can't exactly always see just from --

21 THE WITNESS: This would be just southeast of
22 Artesia.

23 EXAMINER COSS: Okay. On the -- but on the east
24 side of the river?

25 THE WITNESS: Or both. Our field straddles the

1 river. The river straddles our field, I guess.

2 EXAMINER COSS: Does the well go across or under
3 the river?

4 THE WITNESS: No.

5 EXAMINER COSS: Okay. And the well cost I saw
6 was roughly \$4.5 million?

7 THE WITNESS: Yes.

8 EXAMINER COSS: That is -- none of this has any
9 bearing on the compulsory pooling, but that's substantially
10 less than a Wolfcamp well.

11 THE WITNESS: Well, that does not include a salt
12 water disposal facility. We have a field-wide system that's
13 not in there, not in the AFE.

14 EXAMINER COSS: Okay. Well, thanks. Those are
15 all my questions.

16 HEARING EXAMINER ORTH: Okay. Thank you.

17 MR. FELDEWERT: That concludes our presentation
18 in this matter.

19 HEARING EXAMINER ORTH: Thank you, Mr. Feldewert
20 and Mr. Lacey, and the matter will be taken under
21 advisement.

22 (Case taken under advisement.)

23

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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
Expires: 12-31-20