

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 NEWTEX PARTNERS, LLC CASE NO. 15902
FOR A NONSTANDARD OIL SPACING AND
PRORATION UNIT, CHAVES COUNTY,
NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

December 21, 2017

Santa Fe, New Mexico

BEFORE: SCOTT DAWSON, CHIEF EXAMINER
 PHILLIP GOETZE, TECHNICAL EXAMINER
 DAVID K. BROOKS, LEGAL EXAMINER

This matter came on for hearing before the New Mexico Oil Conservation Division, Scott Dawson, Chief Examiner, Phillip Goetze, Technical Examiner, and David K. Brooks, Legal Examiner, on Thursday, December 21, 2017, 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
 New Mexico CCR #20
 Paul Baca Professional Court Reporters
 500 4th Street, Northwest, Suite 105
 Albuquerque, New Mexico 87102
 (505) 843-9241

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APPEARANCES

FOR APPLICANT NEWTEX PARTNERS, LLC MEXICO:

GARY LARSON, ESQ.
HINKLE SHANOR, LLP
218 Montezuma Avenue
Santa Fe, New Mexico 87501
(505) 982-4554
glarson@hinklelawfirm.com

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NewTex Partners, LLC Exhibit Number 1	5
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1 (9:57 a.m.)

2 EXAMINER DAWSON: So at this point we're
3 going to number one on the list, which is Case Number
4 15902. It's application of NewTex Partners, LLC for a
5 nonstandard oil spacing and proration unit, Chaves
6 County, New Mexico.

7 Mr. Larson.

8 Call for appearances, please.

9 MR. LARSON: Good morning, Mr. Examiner.
10 Gary Larson, from the Santa Fe office of Hinkle Shanor,
11 for the Applicant, NewTex Partners, and I have one
12 witness.

13 EXAMINER DAWSON: Could your witness please
14 stand, be sworn in by the court reporter at this time?

15 (Mr. John Maxey sworn.)

16 EXAMINER DAWSON: When you're ready,
17 Mr. Bruce -- Mr. Larson. Sorry. I've got to look up
18 every once in a while.

19 MR. LARSON: All us white guys look alike.

20 (Laughter.)

21 EXAMINER DAWSON: Sorry, Gary. When you're
22 ready.

23 MR. LARSON: Mr. Examiner, before I start
24 with Mr. Maxey, I'll direct your attention to what's
25 been marked as Exhibit 1, which is an affidavit from

1 NewTex landman, Diane Millsap. And I'll just hit the
2 highlights of her affidavit.

3 First, her affidavit states that 100
4 percent of the working interests in the proposed project
5 area are committed to what NewTex has called the Warthog
6 #2 well.

7 Secondly, the affidavit states that there
8 are no depth exceptions in the San Andres, which is the
9 target formation.

10 And finally, it addresses notice of today's
11 hearing. Ms. Millsap identified five offset interests
12 entitled to receive notice, and each was timely sent a
13 hearing notice letter.

14 Attached as Exhibit A to her affidavit are
15 the list of offset interest, an example of the hearing
16 notice letter sent by my law firm and the four green
17 cards that were returned.

18 And as noted by Ms. Millsap, despite her
19 good-faith effort, she was unable to obtain a good
20 address for the fifth offset interest, which is an
21 entity called Bellwether Production. And given that,
22 NewTex published notice of today's hearing in the
23 "Roswell Daily Record" on November 22nd. And Exhibit B
24 to the affidavit is the newspaper's Affidavit of
25 Publication.

1 And with that, I'll move the admission of
2 Exhibit 1.

3 EXAMINER DAWSON: At this point Exhibit 1
4 will be admitted to the record.

5 MR. LARSON: Thank you.

6 EXAMINER DAWSON: You're welcome.

7 (NewTex Partners, LLC Exhibit Number 1 is
8 offered and admitted into evidence.)

9 JOHN C. MAXEY,
10 after having been previously sworn under oath, was
11 questioned and testified as follows:

12 DIRECT EXAMINATION

13 BY MR. LARSON:

14 **Q. Mr. Maxey, state your name for the record.**

15 A. John C. Maxey.

16 **Q. And where do you reside?**

17 A. Roswell, New Mexico.

18 **Q. What is the nature of your business?**

19 A. I've been retained to evaluate the San Andres
20 development of the NewTex acreage in Chaves County and
21 provide testimony on their behalf.

22 **Q. And you're an independent petroleum consultant?**

23 A. Yes, I am.

24 **Q. And have you also been involved in developing**
25 **the approach NewTex has been taking in developing San**

1 **Andres horizontal wells in eastern Chaves County?**

2 A. Yes.

3 **Q. And what is the nature of NewTex's approach to**
4 **that development?**

5 A. Drilling three horizontal wells in a half
6 section.

7 **Q. And are you familiar with the matters addressed**
8 **in NewTex's application in this case?**

9 A. Yes.

10 **Q. And have you previously testified at a Division**
11 **hearing?**

12 A. Yes, I have.

13 **Q. And at each hearing, were you qualified as an**
14 **expert in petroleum engineering?**

15 A. Yes, I was.

16 MR. LARSON: Mr. Examiner, I tender
17 Mr. Maxey as an expert petroleum engineer.

18 EXAMINER DAWSON: Mr. Maxey will be
19 accepted as an expert in petroleum engineering at this
20 time.

21 **Q. (BY MR. LARSON) Would you identify the document**
22 **that's been marked as Exhibit 2?**

23 A. Exhibit 2 is a well location acreage dedication
24 plat for the Warthog 2H.

25 **Q. Is it a true and correct copy of the C-102 for**

1 **NewTex's Warthog #2 well?**

2 A. Yes, it is.

3 **Q. And does the well have an API number yet?**

4 A. Not yet.

5 **Q. And do you know the name of the pool that**
6 **NewTex will be producing from?**

7 A. Yes. This one -- in discussions with the
8 Artesia District Office, they said this will most likely
9 be Twin Lakes; San Andres.

10 **Q. Do you know the pool code number?**

11 A. 61570.

12 **Q. Does NewTex intend to drill and operate the**
13 **Warthog #1H?**

14 A. No. NewTex has retained Hadaway Engineering &
15 Consulting to operate the well.

16 **Q. Is NewTex requesting to designate Hadaway as**
17 **the operator of the well in the proposed project area?**

18 A. Yes, they are.

19 **Q. And referring to Exhibit 2, where will the**
20 **Warthog #2 well be located in relation to the centerline**
21 **of the east half of Section 13?**

22 A. It will be approximately 10 feet to the east of
23 that centerline, 1,310 on the surface and 1,310 on the
24 bottom-hole location from the east line.

25 **Q. And will the completed lateral comply with the**

1 **Division setback requirements?**

2 A. Yes, it will.

3 **Q. Would you identify the document marked as**
4 **Exhibit 3?**

5 A. This is a depiction of nine sections
6 surrounding Section 13 that the well will be with --
7 with surrounding wells. This depicts the east half 320
8 project area with how the 320 will be developed with
9 three horizontal wells from one pad.

10 **Q. And the well indicated in red is the Warthog**
11 **#2H?**

12 A. That's correct.

13 **Q. And did you prepare this document?**

14 A. Yes, I did.

15 **Q. And in this particular area, the east half of**
16 **Section 13, is a north-to-south orientation preferable?**

17 A. Yes, it is.

18 **Q. And is the three-well pattern shown in Exhibit**
19 **3 indicative of NewTex's development plan for San Andres**
20 **horizontals in eastern Chaves County?**

21 A. Yes, it is.

22 **Q. And do you believe that developing three wells**
23 **across the half section is the most efficient and**
24 **economical way to develop the San Andres in this area?**

25 A. Yes, I do.

1 Q. Have you consulted with NewTex's geologist
2 about the target interval?

3 A. Yes.

4 Q. Did you discuss with him whether there are any
5 geologic impediments or faults within the target
6 interval?

7 A. Yes. And we discussed that, and there are no
8 faults or impediments -- geologic impediments.

9 Q. Would you identify the document marked as
10 Exhibit 4?

11 A. Exhibit 4 is a type log taken from the
12 southeast-southeast of the section that the Warthog will
13 be drilled on.

14 Q. Did you prepare this exhibit?

15 A. Yes, I did.

16 Q. And what did you intend to depict with this
17 exhibit?

18 A. It's just a general overall look at the
19 geologic column at the top of the Yates of 1,298 from
20 the surface and San Andres at 2,034 feet. And the
21 target San Andres interval is depicted approximately
22 2,700 total vertical depth.

23 Q. Would you identify the last exhibit, which is
24 number 5?

25 A. Now, number 5 is just trying to illustrate what

1 we're trying to do. On the left-hand side of the page
2 is a one-mile section with four wells per section.
3 That's the typical 160-acre project area setup. We have
4 approximately 1,320 feet between wells. And I've shown
5 15 stages per well on there, just a simple graphic.

6 On the right-hand side is more of what
7 we're interested in doing, and that is three wells per
8 half section or six wells in the section, approximately
9 880 feet between wells and using the 330-foot setbacks
10 from the section lines.

11 Q. Did you prepare this document?

12 A. Yes, I did.

13 Q. And looking at the box on the right, are the
14 wells depicted with stages as center wells?

15 A. No, those are not. I'm depicting basically a
16 15-stage zipper frac, and so I had to pick two wells
17 side by side to show that. The two center wells will be
18 to the right and left of those.

19 Q. And in order to proceed with a three-well
20 drilling pattern depicted in Exhibit 3, is it
21 necessary -- excuse me -- for NewTex to drill the
22 Warthog #2H well very near the centerline?

23 A. Yes, it is.

24 Q. And in your opinion, will the Warthog #2H
25 affect, develop and drain portions of the lands in each

1 and every one of the quarter-quarter sections in the
2 proposed project area?

3 A. Yes.

4 Q. And in your opinion, will production from the
5 Warthog #2H be reasonably uniform across the entire
6 length of the lateral?

7 A. Yes, it will.

8 Q. And do you anticipate that production from the
9 infill wells identified in Exhibit 3 will also be
10 reasonably uniform across the entire length of the
11 laterals?

12 A. Yes, I do.

13 Q. And in your opinion, will the granting of
14 NewTex's application avoid the drilling of unnecessary
15 wells, protect correlative rights and serve the interest
16 of conservation and the prevention of waste?

17 A. Yes.

18 MR. LARSON: Mr. Examiner, I move the
19 admission of Exhibits 2, 3, 4 and 5.

20 EXAMINER DAWSON: At this point Exhibits 2,
21 3, 4 and 5 will be admitted to the record.

22 (NewTex Partners, LLC Exhibit Numbers 2
23 through 5 are offered and admitted into
24 evidence.)

25 MR. LARSON: And I will pass the witness.

1 EXAMINER DAWSON: Okay. Thank you.

2 Mr. Goetze, do you have any questions?

3 EXAMINER GOETZE: Yes, I do.

4 CROSS-EXAMINATION

5 BY EXAMINER GOETZE:

6 Q. Good morning, Mr. Maxey.

7 A. Good morning.

8 Q. We've had several of these appear before us.

9 At this point has this corroborative effort between
10 NewTex and Hadaway Consulting -- have any of these
11 projects been initiated yet?

12 A. As far as drilling?

13 Q. Yeah.

14 A. No, they have not. We have three approved
15 drilling permits at the moment.

16 Q. So you have permits in hand?

17 A. Yes.

18 Q. Okay. And the concern is that we are
19 obligating 320 acres based upon one well with no
20 obligation for the two other wells, and we'd like to see
21 at least something that looks like this is going to be
22 carried through.

23 And Hadaway's going to be the designated
24 operator?

25 A. Yes.

1 Q. I have no further questions. Thank you.

2 EXAMINER DAWSON: Do you have any
3 questions, Mr. Brooks?

4 EXAMINER BROOKS: Yes.

5 CROSS-EXAMINATION

6 BY EXAMINER BROOKS:

7 Q. You may have already said this, but it may not
8 have registered with me. But do you have an opinion as
9 to whether this three-mile -- the three-well
10 configuration, three parallel wells in a half section,
11 will -- in this area will produce more oil than -- than
12 any different configuration with more or less wells?

13 A. The reason we're moving ahead with this, with
14 six wells, three wells on a half section -- this play
15 originally developed over in Texas. It's been
16 successful on the New Mexico line. It's moved westward
17 from there. I've been involved in the project that was
18 just west of the West Sawyer Field, which is still about
19 4,500 feet deep. However, that pay -- the target
20 interval is actually thinning as you move to the west.
21 This is the furthestmost west attempted developing of
22 this project and -- on a horizontal basis. And what's
23 happening is the pay is thinning, so we would like to
24 increase the density and reduce the size of our
25 stimulation, try to control a little better the height

1 and placement of our stimulation. Simple math, with
2 three wells a section, it's going to reduce our stim
3 size by about one-third per well.

4 Q. And do you expect that to increase the total
5 EUR of the three wells as compared to if you developed
6 it with two wells?

7 A. Yes. And we also -- we're very hopeful that
8 we're going to reduce our water cut to some extent.

9 Q. And by producing more oil by this drilling
10 pattern, you would prevent waste?

11 A. Yes, that's correct. And we would also produce
12 to a lower economic level with less water to handle.

13 Q. We have had experts in other cases testify that
14 once you have drilled wells in a particular pattern --
15 horizontal wells in a particular pattern, it's very
16 difficult to -- to effectively infill between them. Is
17 that your opinion also?

18 A. Yes. Depending on the amount of drainage, you
19 have operational issues when you're drilling a depleted
20 reservoir, particularly the horizontal ones because of
21 the configuration of the wellbore. And then also on
22 your stimulation side, it makes it a little more
23 problematic to do a stimulation later in the life.

24 Q. So that makes it important to get your spacing
25 and drilling wells right the first time?

1 A. Yes. That's -- it's really critical if you
2 can -- if you're correct on your model, great. If
3 you're not, you have to go back and infill or change
4 patterns. It's more difficult.

5 Q. Thank you.

6 CROSS-EXAMINATION

7 BY EXAMINER DAWSON:

8 Q. Mr. Maxey, on your top log, this Harlow
9 Corporation, O'Brien Deming 13-1 well --

10 A. Yes.

11 Q. -- that was drilled back in 1981 --

12 A. Yes.

13 Q. -- do you have an idea how much oil -- how much
14 was produced from that well?

15 A. That particular well was 18,000 barrels of oil,
16 23,000 barrels of water. And that well is a little bit
17 unique because most of these wells in this area are
18 drilled -- I say "in this area," and I'm talking
19 multiple townships when I say "in this area." Most of
20 these wells developed probably -- majority of
21 development was from the '60s to 1980. There's been a
22 smaller amount of development after the fact.

23 This particular well was frac stimulated
24 with -- I couldn't find the sand amount, but about
25 10,000 gallons of oil [sic] was used, and they used

1 nitrogen. It's performed better than most of the
2 verticals out there. A lot of the development when this
3 thing was initiated, the play on the New Mexico line,
4 that was initiated by Manzano. They were the first
5 successful operator in New Mexico. And I saw that
6 particular project as they started their second
7 development well. I had the opportunity to see
8 everything. And, basically, it was a difficult review
9 because what you're looking at is very poor vertical
10 completions in the area.

11 And what we're doing is going horizontal in
12 those areas and depressuring a lot better. And so we're
13 getting a combination -- in my opinion -- there are
14 different opinions, but in my opinion, we're getting a
15 combination of mobile oil that you consider primary and
16 then somewhat of a secondary or depressurization where
17 you've got immobile oil that will start moving under
18 depressurization. Well, that's where we're moving a lot
19 water in the play.

20 So most of these completions around here
21 are much poorer than this well in the
22 southeast-southeast.

23 **Q. So you have -- your drilling plan, are you**
24 **going to drill those wells back-to-back? Is that what**
25 **you plan is, or are you going to drill the first one and**

1 **test it?**

2 A. That's why the attempt is being made. You
3 know, the economy of scale drilling these horizontal
4 wells -- you see it all over the Basin -- if you can get
5 something set up on a plan with six or seven wells at a
6 minimum and get a rig contracted that you're going to
7 keep for a while, your services are critical. You know,
8 water disposal is a big part of this play, so we've
9 permitted a well. We've got a reentry permit approved
10 on that. There are right-of-ways that are being worked
11 on right now for lines to that well.

12 So yeah, it all has to come together, and
13 it's very difficult. You know, it used to be, in the
14 vertical days, you'd go out and drill a project,
15 one-well deal. When you're drilling horizontal wells,
16 you kind of like to have a grouping, so you can get some
17 kind of an economy of scale to the project.

18 **Q. Okay. That's all the questions I have.**

19 MR. LARSON: I have nothing further,
20 Mr. Examiner.

21 EXAMINER DAWSON: All right. Thank you.

22 So at this time, Case Number 15902 will be
23 taken under advisement.

24 Thank you, Mr. Maxey.

25 (Case Number 15902 concludes, 10:15 a.m.)

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 on ^ DATE, 2018.

21

22

23 MARY C. HANKINS, CCR, RPR
24 Certified Court Reporter
25 New Mexico CCR No. 20
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