

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 KAISER-FRANCIS OIL                      CASE NO. 15912  
COMPANY FOR A NONSTANDARD OIL  
SPACING AND PRORATION UNIT AND  
COMPULSORY POOLING, EDDY 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 KAISER-FRANCIS OIL COMPANY:

JAMES G. BRUCE, ESQ.  
Post Office Box 1056  
Santa Fe, New Mexico 87504  
(505) 982-2043  
jamesbruc@aol.com

FOR MRC PERMIAN LKE COMPANY, LLC:

ADAM G. RANKIN, ESQ.  
HOLLAND & HART, LLP  
110 North Guadalupe, Suite 1  
Santa Fe, New Mexico 87501  
(505) 988-4421  
agrarkin@hollandhart.com

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1 (1:31 p.m.)

2 EXAMINER DAWSON: All right. Back on the  
3 record.

4 And we will now go to number 14 on the  
5 list, Case Number 15912, which is application of  
6 Kaiser-Francis Oil Company for a nonstandard spacing and  
7 proration unit and compulsory pooling, Eddy County, New  
8 Mexico.

9 Please, call for appearances.

10 MR. BRUCE: Mr. Examiner, Jim Bruce of  
11 Santa Fe representing the Applicant. I have two  
12 witnesses.

13 EXAMINER DAWSON: Okay. Can your witnesses  
14 please stand up and be sworn in by the court reporter?

15 (Mr. Maxey and Mr. Lindman sworn.)

16 EXAMINER DAWSON: Whenever you're ready,  
17 Mr. Bruce.

18 MICHAEL D. MAXEY,  
19 after having been first duly sworn under oath, was  
20 questioned and testified as follows:

21 DIRECT EXAMINATION

22 BY MR. BRUCE:

23 Q. Will you please state your name for the record.

24 A. Michael Darwin Maxey from Tulsa, Oklahoma.

25 Q. Who do you work for and in what capacity?

1           A.     Kaiser-Francis Oil Company as a landman.

2           **Q.     Have you previously testified before the**  
3     **Division?**

4           A.     I have not.

5           **Q.     Could you summarize your background?**

6                     EXAMINER GOETZE:   Could I interrupt for a  
7     moment?

8                     We did have a pre-hearing statement for an  
9     appearance by MRC, is this true, in this case?

10                    MR. RANKIN:   Thank you, Mr. Goetze.   I was  
11     in the men's room.

12                    EXAMINER GOETZE:   Seems to be a very  
13     popular place.

14                    MR. RANKIN:   Yes.

15                    And on behalf of MRC Permian, I am entering  
16     an appearance today.   Thank you.

17                    EXAMINER DAWSON:   No witnesses?

18                    MR. RANKIN:   No witnesses.

19                    EXAMINER BROOKS:   And you forgot that  
20     you're Adam Rankin.

21                    MR. RANKIN:   And I'm Adam Rankin.

22                    Is it on the record that I was in the men's  
23     room?   Apologies.

24                    (Laughter.)

25           **Q.     (BY MR. BRUCE) I forget what I -- where we**

1     **stopped.**

2           A.     Very good.  So I -- I attended the University  
3     of Oklahoma and have been employed as a landman by  
4     various oil and gas companies in Oklahoma since 1981,  
5     and I've been employed in that capacity by  
6     Kaiser-Francis for a little over five years.

7           **Q.     Does your area of responsibility at**  
8     **Kaiser-Francis include this portion of southeast New**  
9     **Mexico?**

10          A.     It does.

11          **Q.     And are you familiar with the land matters**  
12     **involved in this application?**

13          A.     I am.

14                     MR. BRUCE:  Mr. Examiner, I tender  
15     Mr. Maxey as an expert petroleum landman.

16                     MR. RANKIN:  No objection.

17                     EXAMINER DAWSON:  Mr. Maxey will be  
18     admitted as an expert petroleum landman.

19          **Q.     (BY MR. BRUCE) Mr. Maxey, could you identify**  
20     **Exhibit 1 and describe what Kaiser-Francis seeks in this**  
21     **case?**

22          A.     Yes.  Exhibit 1 is a Midland Map Company land  
23     plat, which includes Sections 24 and 25 of Township 23  
24     South, 28 East in Eddy County, New Mexico.

25                     On page 2 is a C-102 for our proposed well,

1 and Kaiser-Francis seeks an order approving a 240-acre  
2 nonstandard oil spacing unit in the Delaware Formation  
3 comprised of the east half-west half of Section 24 and  
4 the east half-northwest quarter of Section 25. We also  
5 seek to pool the Delaware Formation underlying the  
6 nonstandard unit. The unit will be dedicated to the  
7 Williams Fee 2524 LBC Well #1H, horizontal well with a  
8 surface location in the southeast-northwest quarter of  
9 Section 25 and a terminus in the northwest -- I'm  
10 sorry -- northeast-northwest of Section 24.

11 Q. And will the well's first and last take points  
12 be at orthodox locations?

13 A. They will.

14 Q. And does the C-102 contain the name of the pool  
15 and the pool code?

16 A. It does.

17 Q. Let's move on to Exhibit 2. Does this list all  
18 of the working interest owners in the proposed well  
19 unit?

20 A. It does.

21 Q. And are of these parties -- obviously, we don't  
22 seek to force pool Kaiser-Francis here. But what  
23 parties on this list should now be off of the pooling  
24 list?

25 A. Very good. We will want to dismiss -- is that

1     what you were asking me?  Is that correct?  I apologize.

2           **Q.     Yes.  Yes.**

3           A.     Terry A. White and Carla K. White, we will be  
4     dismissing.  That is all we have to dismiss at this  
5     time.

6           **Q.     Okay.  And before we get into your**  
7     **negotiations, are you still discussing arrangements with**  
8     **other people who might lead to the dismissal of other**  
9     **parties?**

10          A.     Yes.

11          **Q.     And if that happens, will you notify the OCD so**  
12     **that they are not subject to a pooling order?**

13          A.     I will.

14          **Q.     Could you move on to Exhibit 3 and describe**  
15     **what that is and maybe go into a little bit of your**  
16     **discussions with the parties being pooled?**

17          A.     Yes.

18                     Exhibit 3 contains the well-proposal  
19     letters that were mailed to all parties who had the  
20     right to participate, and we worked diligently with each  
21     and every one of them.  Some of them are unleased  
22     mineral owners.  We tried to come to terms.  Those we  
23     were unable to come to terms with were aware that we  
24     were pooling today.  Some have informed me that they  
25     will more than likely elect under the order and not



1 participate and be subject to the penalty, and we are  
2 comfortable with that. Others, we are still negotiating  
3 and trying to make deals with.

4 Q. And you have been negotiating -- well, title is  
5 pretty ugly out here, isn't it?

6 A. Yes, sir.

7 Q. So you've been working on this project --  
8 besides the original proposal letter in September,  
9 Kaiser-Francis has been working on this for quite some  
10 time?

11 A. We have. That is correct.

12 Q. And before I move on -- and are some of these  
13 interest owners unlocatable?

14 A. They are. James David Watt and Sharon Ann  
15 Brown, who were noted in an Affidavit of Heirship as an  
16 unleased mineral owner of Edna Watt that they were her  
17 heirs per that Affidavit of Heirship, there were no  
18 addresses, just city and state that they were located  
19 in. We went to the affiant, and she was unwilling to  
20 give us any specific information on how to locate either  
21 of those parties. But she indicated to us that she was  
22 trying to get in touch with them and asked them to get  
23 in touch with me. We have not been able to get any  
24 direct contact with either one of them, and there is no  
25 probate or anything to assure us that, in fact, they are

1 her only heirs. It was just from the affidavit, and  
2 that is why we continue to name Edna Watt in the  
3 application, as she is still the of-record owner.

4 **Q. And besides -- this is fee land; is it not?**

5 A. It is.

6 **Q. And besides checking the county records, what**  
7 **does Kaiser-Francis usually do to locate the interest**  
8 **owners?**

9 A. We used electronic records such as LexisNexis.  
10 We also went into the states and cities where we were  
11 aware that these parties might be living.

12 Another party that we were unable to  
13 locate -- Stanico was a registered corporation, and we  
14 went to their registered agent who said that he assumed  
15 that the owner of that, just from the age that he  
16 remembered when he was doing business with him, had more  
17 than likely passed away. We looked in the town that the  
18 alleged owner last lived in for relatives and so forth  
19 and just have not been unable to find anyone that was  
20 directly related to Stanico.

21 **Q. Okay. And in your opinion, have you made a**  
22 **good-faith effort to either locate the interest owners**  
23 **in the proposed well unit and to obtain the voluntary**  
24 **joinder of the interest owners who were locatable?**

25 A. We have, and we'll continue to do so.

1           Q.    By the way, you're force pooling the Delaware.  
2   What is the specific target zone?

3           A.    The Lower Brushy Canyon.

4           Q.    Are there any depth severances within the  
5   Delaware Formation?

6           A.    There are not.

7           Q.    Can you identify Exhibit 4 and describe the  
8   cost of the well, please?

9           A.    Exhibit 4 is our AFE for the well prepared  
10   September 15 of 2017 showing an estimated drilling cost  
11   of \$2,064,430 and a completed well cost total of  
12   \$5,618,685.

13          Q.    And are those costs fair and reasonable and in  
14   line with the cost of other similar horizontal wells  
15   drilled in this area of New Mexico?

16          A.    Yes.

17          Q.    What overhead rates does Kaiser-Francis  
18   request?

19          A.    We request \$7,500 per month be allowed for a  
20   drilling well and \$750 per month be allowed for a  
21   producing well.

22          Q.    And are those rates fair and reasonable?

23          A.    They are.

24                   We would also request that Kaiser-Francis  
25   be appointed operator of the well.

1           Q.    And do you also request that the overhead rates  
2   be adjusted under the COPAS accounting procedure?

3           A.    We do.

4           Q.    And do you request the maximum cost plus 200  
5   percent?

6           A.    We do.

7           Q.    Was notice of this hearing mailed to all of the  
8   parties on the list who had valid -- who had at least a  
9   valid address?

10          A.    Yes.

11          Q.    And is that reflected in my Affidavit of Notice  
12   marked as Exhibit 5?

13          A.    It is.

14                   MR. BRUCE:  Mr. Examiner, you'll see that  
15   some of the mailings were returned, and I also haven't  
16   received green cards back from about half a dozen  
17   people.

18          Q.    (BY MR. BRUCE) Does Exhibit 7 -- excuse me.  
19   Does Exhibit 6 reflect the operators or working interest  
20   owners in every quarter-quarter section in the sections  
21   13, 24 and 25, which adjoin your proposed well unit?

22          A.    It does.

23          Q.    And were those parties mailed notice of the  
24   hearing?

25          A.    They were.

1           **Q.    And is Exhibit 8 my Affidavit of Notice to the**  
2           **these parties?**

3           A.    It is.

4                       MR. BRUCE:  Mr. Examiner, finally, Exhibit  
5   8 is an Affidavit of Publication in the Carlsbad  
6   newspaper directed to both working interest owners and  
7   those offsets who I was not quite certain of their  
8   addresses.  I still -- unfortunately, there are a couple  
9   of parties such as Chevron U.S.A. and the Allar Company  
10  who I have not received green cards back yet who I did  
11  not include in the Affidavit of Publication.  So I ask  
12  that the case be continued until January 11th so I can  
13  either obtain the green cards or publish notice against  
14  them.

15                   EXAMINER BROOKS:  A lot of people don't get  
16  return receipts from the Allar Company.  I don't know  
17  why.

18                   MR. BRUCE:  Yeah.

19           **Q.    (BY MR. BRUCE) And, Mr. Maxey, were Exhibits 1**  
20           **through 8 either prepared by you or under your**  
21           **supervision or compiled from company business records?**

22           A.    They were.

23           **Q.    And in your opinion, is the granting of this**  
24           **application in the interest of conservation and the**  
25           **prevention of waste?**

1           A.     Yes, it is.

2                     MR. BRUCE:   Mr. Examiner, I'd move the  
3 admission of Exhibits 1 through 8.

4                     EXAMINER DAWSON:   Any objection?

5                     MR. RANKIN:   No objections.

6                     EXAMINER DAWSON:   At this point Exhibits 1  
7 through 8 will be admitted to the record.

8                     (Kaiser-Francis Oil Company Exhibit Numbers  
9 1 through 8 are offered and admitted into  
10 evidence.)

11                    MR. BRUCE:   I have no further questions of  
12 the witness.

13                    EXAMINER DAWSON:   Mr. Rankin?

14                    MR. RANKIN:   No questions.

15                    EXAMINER DAWSON:   Mr. Goetze.

16                    EXAMINER GOETZE:   No questions.

17                    EXAMINER DAWSON:   Mr. Brooks?

18                                    CROSS-EXAMINATION

19 BY EXAMINER BROOKS:

20            **Q.     Is this on 40-acre spacing?**

21            A.     It is, sir, yes.

22            **Q.     And I think you covered the notice issues real**  
23 **well.**

24            A.     Thank you.

25            **Q.     So I won't ask you any other questions.**

1           A.     Thank you.

2                   MR. BRUCE:   Practice, practice, practice.

3                   EXAMINER BROOKS:   Practice makes perfect.

4                   EXAMINER DAWSON:   I have no questions.

5     Thank you, Mr. Maxey.

6                   THE WITNESS:   Thank you for your time,  
7     gentlemen.

8                   EXAMINER DAWSON:   You can call your next  
9     witness now, Mr. Brooks -- Mr. Bruce.

10                   (Laughter.)

11                                 LEE LINDMAN,  
12     after having been previously sworn under oath, was  
13     questioned and testified as follows:

14                                 DIRECT EXAMINATION

15     BY MR. BRUCE:

16           **Q.    Will you please state your name and city of**  
17     **residence?**

18           A.    Lee Lindman, Tulsa, Oklahoma.

19           **Q.    Who do you work for and in what capacity?**

20           A.    Kaiser-Francis as a geologist.

21           **Q.    Have you previously testified before the**  
22     **Division?**

23           A.    I have not.

24           **Q.    Could you summarize your educational and**  
25     **employment background for the Examiners?**

1           A.    I've got a master's and a bachelor's in geology  
2    from the University of Tulsa and have been employed for  
3    Kaiser-Francis as a geologist for 25 years.

4           **Q.    Does your area of responsibility at**  
5    **Kaiser-Francis include this portion of southeast New**  
6    **Mexico?**

7           A.    It does.

8           **Q.    And are you familiar with the geologic matters**  
9    **involved in this case?**

10          A.    I am.

11                   MR. BRUCE:  Mr. Examiner, I tender  
12   Mr. Lindman as an expert petroleum geologist.

13                   EXAMINER DAWSON:  Any objection?

14                   MR. RANKIN:  No objections.

15                   EXAMINER DAWSON:  Mr. Lindman will be  
16   admitted as an expert petroleum geologist at this time.

17          **Q.    (BY MR. BRUCE) Mr. Lindman, what is Exhibit 9?**

18          A.    Exhibit 9 is a structure map on the top of the  
19   1st Bone Spring Lime, which is the base of the Delaware  
20   interval.  On there, I've noted with a -- with a box the  
21   surface hole or post surface-hole location and with a  
22   triangle, our bottom-hole location.  Also depicted on  
23   there in red highlighting are Lower Brushy Canyon  
24   producing wells, whether horizontal or vertical.

25          **Q.    And is there a line of cross section on this**



1     **plat?**

2           A.     There is.  There is a line from south to north,  
3     A to A prime.

4           **Q.     Let's move on to Exhibit 10, the cross section.**  
5     **Do the logs that you've chosen for this plat accurately**  
6     **reflect the Lower Brushy Canyon in this area?**

7           A.     They do.

8           **Q.     Could you further describe the geology in this**  
9     **area?**

10          A.     Yeah.  This is a cross section, A to A prime,  
11     which is south to north, hung on the 1st Bone Spring  
12     Lime just to kind of show the continuity of the interval  
13     across our -- across our proposed wellbore path.  There  
14     is kind of an indication with a red arrow as to our  
15     landing point towards the base -- base of the Lower  
16     Brushy Canyon.  The logs on here are kind of nonstandard  
17     in that the porosity's on the left and the resistivity  
18     is on the right.  So you've got a neutron density on  
19     the -- you've got a gamma ray neutron density on the  
20     left-hand -- on the left-hand side, and then you've got  
21     your resistivity log on the right-hand side in all three  
22     wells.

23          **Q.     What is Exhibit 11?**

24          A.     Exhibit 11 is a gross isopach of the overall  
25     Lower Brushy Canyon, and that's from the top of the

1 Lower Brushy Canyon to the top of the 1st Bone Spring  
2 Lime.

3 Q. The thickness of the Lower Brushy Canyon is  
4 pretty consistent throughout the well unit?

5 A. It is. It's going to be between 350 and -- or  
6 excuse me -- 325 to 300 feet across the entire lateral.

7 Q. And based on Exhibits 8, 9 and 10, is the Lower  
8 Brushy Canyon continuous across the well unit?

9 A. It is.

10 Q. And from a geological standpoint, will the  
11 quarter-quarter section in the well unit contribute,  
12 more or less, equally to production?

13 A. Yes.

14 Q. Are there any faults or other factor --  
15 geological factors in the area which would preclude you  
16 from successfully drilling horizontal wells out here?

17 A. No.

18 Q. In looking at your Exhibit 9, looking at the  
19 other horizontal Delaware wells, they're pretty much all  
20 north-south; are they not?

21 A. Correct.

22 Q. Is that the preferred orientation?

23 A. There doesn't seem to be a preferred  
24 orientation in the Lower Brushy Canyon.

25 Q. You don't -- okay.

1                   **And what is Exhibit 12?**

2           A.     Exhibit 12 is our directional plan, and it just  
3     shows that our location's going to be orthodox with 330  
4     setbacks.

5           **Q.     Were Exhibits 9 through 12 either prepared by**  
6     **you or under your direction or compiled through company**  
7     **business records?**

8           A.     They were.

9           **Q.     And in your opinion, will the granting of this**  
10    **application be in the interest of conservation and the**  
11    **prevention of waste?**

12          A.     It will.

13                   MR. BRUCE:   Mr. Examiner, I would move the  
14    admission of Exhibits 9 through 12.

15                   EXAMINER DAWSON:   Any objection?

16                   MR. RANKIN:   No objection.

17                   EXAMINER DAWSON:   Exhibits 9, 10, 11 and 12  
18    will be admitted at this time.

19                   (Kaiser-Francis Oil Company Exhibit Numbers  
20                   9 through 12 are offered and admitted into  
21                   evidence.)

22                   MR. BRUCE:   And I pass the witness.

23                   EXAMINER DAWSON:   Mr. Rankin, do you have  
24    any questions?

25                   MR. RANKIN:   No questions.

1 EXAMINER DAWSON: Mr. Goetze?

2 CROSS-EXAMINATION

3 BY EXAMINER GOETZE:

4 Q. Do we have any Avalon or Upper Bone Spring  
5 production in this area?

6 A. I think there is a Chevron well in 26 that was  
7 an Upper Avalon short well, and it's on the, pretty  
8 much, west half-west half. And it wasn't particularly  
9 successful.

10 Q. So there is no danger of encroaching onto the  
11 top of the Bone Spring in your plan for completion?

12 A. No. It looks as though the 1st Bone Spring is  
13 going to be a tight line. It should be a frac barrier  
14 to anything below.

15 Q. That's the only questions I have. Thank you.

16 EXAMINER DAWSON: Mr. Brooks?

17 EXAMINER BROOKS: No questions.

18 CROSS-EXAMINATION

19 BY EXAMINER DAWSON:

20 Q. I do have one question.

21 In Section 25 --

22 A. Yes.

23 Q. -- that well to the south down there --

24 A. Yes.

25 Q. -- is this a Brushy Canyon well, too?

1           A.    It was a Brushy Canyon completion that's  
2   subsequently been plugged.

3           Q.    Okay.  Are you -- do you guys have plans down  
4   in the south half of 22, or is that your acreage?

5           A.    Not right now.

6           Q.    And those wells, those -- they look like  
7   mile-and-a-half laterals down in 30.

8           A.    In 30 and 31?

9           Q.    Yes.

10          A.    Those are Devon, Lower Brushy Canyon wells.  
11   They're Harroun Trust wells Numbers 2 through 5 that  
12   are -- that were landed in a similar interval to what  
13   we're targeting.

14          Q.    Are those wells performing pretty well?

15          A.    They are.

16          Q.    Do you have an idea how much those wells will  
17   ultimately make?

18          A.    I do.  They're going to be in the  
19   300,000-barrel range.

20          Q.    That's all the questions I have.  Thank you  
21   very much.

22                       EXAMINER DAWSON:  Thank you very much.

23                       THE WITNESS:  Thank you.

24                       EXAMINER DAWSON:  At this point Case Number  
25   15912 will be continued to --

1 Did you say January 11th?

2 MR. BRUCE: January 11th.

3 EXAMINER DAWSON: -- to Jan 11th.

4 (Case Number 15912 concludes, 1:53 p.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 12th day of January 2018.

21

22

23 MARY C. HANKINS, CCR, RPR  
24 Certified Court Reporter  
25 New Mexico CCR No. 20  
Date of CCR Expiration: 12/31/2018  
Paul Baca Professional Court Reporters