

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 OXY USA, INC. FOR CASE NO. 15956
A NONSTANDARD SPACING AND PRORATION
UNIT AND COMPULSORY POOLING, EDDY
COUNTY, NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

January 25, 2018

Santa Fe, New Mexico

BEFORE: WILLIAM V. JONES, CHIEF EXAMINER
DAVID K. BROOKS, LEGAL EXAMINER

This matter came on for hearing before the New Mexico Oil Conservation Division, William V. Jones, Chief Examiner, and David K. Brooks, Legal Examiner, on Thursday, January 25, 2018, 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
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APPEARANCES

FOR APPLICANT OXY USA, INC.:

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1 (4:11 p.m.)

2 EXAMINER JONES: Okay. Let's call Case
3 Number 15956, application of OXY USA Inc. for a
4 nonstandard spacing and proration unit and compulsory
5 pooling in Eddy County, New Mexico.

6 Call for appearances.

7 MS. KESSLER: Jordan Kessler, from the
8 Santa Fe office of Holland & Hart, on behalf of the
9 Applicant. We have two witnesses today.

10 EXAMINER JONES: Will the witnesses please
11 stand?

12 Are they the same witnesses?

13 MS. KESSLER: They've been previously
14 sworn.

15 EXAMINER JONES: Let the record show the
16 witnesses were previously sworn in Case Number 15955 and
17 qualified.

18 JEREMY MURPHREY,
19 after having been previously sworn under oath, was
20 questioned and testified as follows:

21 DIRECT EXAMINATION

22 BY MS. KESSLER:

23 Q. Can you please state your name for the record
24 and the tell the Examiners by whom you're employed and
25 in what capacity?

1 A. Jeremy Murphrey. I'm employed by OXY USA, Inc.
2 as a landman.

3 **Q. Were your qualifications as a petroleum -- as**
4 **an expert in petroleum land matters previously accepted**
5 **today and made a matter of record?**

6 A. Yes, they were.

7 MS. KESSLER: Mr. Examiners, I would ask
8 that Mr. Murphrey again be qualified as an expert.

9 EXAMINER JONES: He is qualified as an
10 expert in petroleum land matters.

11 **Q. (BY MS. KESSLER) Let's look at Exhibit 1,**
12 **Mr. Murphrey. And can you please identify this exhibit**
13 **and explain what OXY seeks under this application?**

14 A. Yes. We're seeking -- we're seeking to --
15 approval to form a 320-acre nonstandard spacing unit.
16 This unit will be comprised of the west half of the east
17 half of Sections 25 and 36 of Township 24 South, Range
18 29 East. The dedication -- or the well to be drilled in
19 this spacing will be the Corral Canyon 36-25 Fed Com
20 24H. And Exhibit 1 is a C-102 for that well.

21 **Q. Okay. Are you also seeking to pool the**
22 **uncommitted interest owners in the Bone Spring Formation**
23 **underlying the spacing unit?**

24 A. Yes, we are.

25 **Q. Is the pool involved in this spacing unit also**

1 **the Pierce Cross; Bone Spring, East Pool?**

2 A. Yes, ma'am.

3 **Q. And that's Pool Code 96473?**

4 A. Yes, it is.

5 **Q. Do you know if that pool is governed by**
6 **Division statewide rules?**

7 A. It is.

8 **Q. Will the completed interval for this well**
9 **comply with the 330-foot setback requirements?**

10 A. It will.

11 **Q. And is the proposed spacing unit comprised of**
12 **federal and state lands?**

13 A. Yes, ma'am, it is.

14 **Q. Is Exhibit 2 a lease tract map showing**
15 **ownership of working interest owners in the proposed**
16 **nonstandard spacing unit?**

17 A. Yes, ma'am, it is.

18 **Q. Who does OXY seek to pool?**

19 A. We seek to pool XTO Energy, Inc. Their
20 interest is located in the southwest quarter of the
21 northeast quarter of Section 36, Township 24 South,
22 Range 29 East.

23 **Q. They're highlighted in pink there; is that**
24 **correct?**

25 A. Yes, ma'am.

1 Q. They're a working interest owner?

2 A. That's correct.

3 Q. Is Exhibit 3 a copy of the well-proposal letter
4 that you sent to XTO?

5 A. Yes, ma'am, it is.

6 Q. When did you send this letter?

7 A. The letter would have been mailed October 20th
8 of 2017.

9 Q. And can you please describe what efforts
10 besides sending this well-proposal letter you undertook
11 to reach an agreement with XTO?

12 A. Yes. We've actually spoken with them about
13 entering into a JOA or allowing them to go nonconsent
14 under the operating agreement and not participate. We
15 have some loose discussions about trades, but it seems
16 at this point possibly the operating agreement will
17 probably be the option that works out for them.

18 Q. Are you going to continue to negotiate with
19 them?

20 A. Yes, ma'am, we will.

21 Q. And in the event you reach an agreement with
22 XTO, will you inform the Division?

23 A. Yes, we will.

24 Q. Did the well-proposal letter that you sent to
25 XTO include an AFE?

1 A. Yes, ma'am, it did.

2 Q. Are the costs of this AFE consistent with what
3 OXY has incurred for drilling similar Bone Spring wells
4 in the area?

5 A. Yes, ma'am.

6 Q. Have you estimated overhead and administrative
7 costs for drilling and completing this well?

8 A. Yes, ma'am.

9 Q. What are those costs?

10 A. \$7,500 per day for -- I'm sorry -- for drilling
11 and \$750 for a producing well.

12 Q. Are these costs -- are these rates consistent
13 with what other operators in the area charge for similar
14 two-mile Bone Spring wells?

15 A. Yes, ma'am.

16 Q. Do you request that the cost be incorporated to
17 any order resulting from this hearing?

18 A. Yes, ma'am.

19 Q. And that the cost be periodically adjusted
20 according to the COPAS accounting procedures?

21 A. Yes, we do.

22 Q. For the uncommitted interest owner, does XTO
23 request the Division impose a 200 percent risk charge?

24 A. Yes, we do.

25 Q. And were you able to locate a valid address for

1 XTO?

2 A. Yes, we were.

3 Q. Is Exhibit 4 an affidavit prepared by my office
4 providing notice of this hearing to the parties that you
5 seek to pool, as well as the offsets in the 40-acre
6 tract surrounding the proposed nonstandard unit?

7 A. Yes, it is.

8 Q. And it looks like you received a green card
9 back from OXY, correct?

10 A. Did you say from OXY or XTO?

11 Q. I'm sorry. XTO.

12 A. Yes, we did. We received one back from XTO.

13 Q. Were Exhibits 1 through 3 prepared by you or
14 compiled under your direction or supervision?

15 A. Yes, they were.

16 MS. KESSLER: Mr. Examiners, I move
17 admission of Exhibits 1 through 4, which include my
18 notice exhibit.

19 EXAMINER JONES: Exhibits 1 through 4 are
20 admitted.

21 (XTO Energy, Inc. Exhibit Numbers 1 through
22 4 are offered and admitted into evidence.)

23 EXAMINER BROOKS: No questions.

24 EXAMINER JONES: I don't think I have any
25 questions either.

1 EXAMINER BROOKS: It's just too late in the
2 day to ask questions.

3 CROSS-EXAMINATION

4 BY EXAMINER JONES:

5 Q. Yeah. I guess one off-the-wall question here.
6 When you release the rig -- when you stop the drilling
7 COPAS -- or the drilling overhead rate and -- so from
8 that date, do you start charging a monthly rate even
9 though the well is not producing yet, or do you -- if it
10 takes several months to complete, do you wait and start
11 charging immediately after that, or do you know?

12 A. I could check with our joint interest billing
13 group to get a proper answer. I wouldn't be able to
14 answer that one.

15 Q. You don't need to do that. I'll bug somebody
16 else about it.

17 A. (Laughter.)

18 Q. Thanks a lot.

19 MS. KESSLER: We'll call our next witness.

20 TONY TROUTMAN,
21 after having been previously sworn under oath, was
22 questioned and testified as follows:

23 DIRECT EXAMINATION

24 BY MS. KESSLER:

25 Q. Can you please state your name for the record

1 and tell the Examiners by whom you're employed and in
2 what capacity?

3 A. I'm Tony Troutman. I'm employed by Occidental
4 Petroleum, and I'm a senior geologist.

5 Q. Earlier today were your credentials as an
6 expert in petroleum geology accepted and made a matter
7 of record?

8 A. Yes.

9 MS. KESSLER: Mr. Examiners, once again,
10 I'd tender Mr. Troutman as an expert in petroleum
11 geology.

12 EXAMINER JONES: He is so qualified.

13 Q. (BY MS. KESSLER) Let's turn to Exhibit 5, Mr.
14 Troutman. Can you identify this exhibit for the
15 Examiners?

16 A. This is a structure map of the 2nd Bone Spring
17 Sand. It's generally dipping in an easterly direction.
18 It shows the location of two cross sections and the well
19 that's the subject of this.

20 Q. Have you identified any hazards or impediments
21 to drilling horizontal wells in this area?

22 A. No, I have not.

23 Q. And you mentioned there are two lines marked
24 north-south and east-west. Are these the cross-section
25 lines?

1 A. Correct. These are the next two exhibits.

2 **Q. Let's turn to Exhibit 6, please, and identify**
3 **the exhibit for the Examiners.**

4 A. This is the north-south cross section showing
5 the 2nd Bone Spring Sand. The two blue lines delineate
6 the top and the bottom of the 2nd Bone Spring Sand. Our
7 log tracks -- the first one on the left is gamma ray.
8 The middle one is resistivity, and the right-hand track
9 is the porosity curves.

10 **Q. And where approximately are you intending to**
11 **land the 24H well?**

12 A. We will land the horizontal near the base of
13 the 2nd Bone Spring.

14 **Q. Have you identified, based on this cross**
15 **section, the 2nd Bone Spring as being fairly continuous**
16 **throughout the proposed nonstandard unit?**

17 A. I have.

18 **Q. What is Exhibit 7?**

19 A. Exhibit 7 is a west-to-east cross section of
20 the 2nd Bone Spring Sand. The same log tracks were
21 used, and the same two lines delineate the top and the
22 base of the 2nd Bone Spring Sand. It's fairly
23 consistent across the area we'll be drilling in
24 thickness and in geologic character.

25 **Q. No major thickening or thinning of the 2nd Bone**

1 Spring in this area?

2 A. No.

3 Q. Based on your study of the area, have you
4 identified any geologic impediments to drilling two-mile
5 horizontal wells?

6 A. No.

7 Q. Do you believe that the area can be efficiently
8 and economically developed by two-mile wells?

9 A. Yes.

10 Q. And do you believe that the proposed
11 nonstandard unit in each of the tracts in the proposed
12 nonstandard unit will contribute more or less equally to
13 production of the well?

14 A. Yes, I do.

15 Q. And will the completed interval for the 24H
16 well comply with the Division's 330-foot setbacks?

17 A. Yes, it will.

18 Q. In your opinion, will granting OXY's
19 application be in the best interest of conservation, for
20 the prevention of waste and the protection of
21 correlative rights?

22 A. Yes.

23 MS. KESSLER: Mr. Examiners, I move -- I'm
24 sorry.

25 Q. (BY MS. KESSLER) Were Exhibits 5 through 7

1 prepared by you or compiled under your direction and
2 supervision?

3 A. Yes, they were.

4 MS. KESSLER: Mr. Examiner, I move
5 admission of Exhibits 5 through 7.

6 EXAMINER JONES: Exhibits 5 through 7 are
7 admitted.

8 (XTO Energy, Inc. Exhibit Numbers 5 through
9 7 are offered and admitted into evidence.)

10 EXAMINER JONES: Mr. Brooks?

11 EXAMINER BROOKS: No questions.

12 CROSS-EXAMINATION

13 BY EXAMINER JONES:

14 Q. I had a question. The pool here has got a
15 special pool rule for increased -- increased -- limiting
16 GOR up to 5,000 and no other special pool rule, but it's
17 got that one. And I was wondering -- and several of
18 these Bone Spring pools seem to be more gassy than the
19 black hole reservoir would indicate. So is there a
20 reason geologically? The different maturity or what?

21 A. I believe it's different maturity. As you move
22 west in the Basin, you're getting into a more mature
23 area. So yeah, as you get further west from this Cedar
24 Canyon area, you're correct, it gets gassier.

25 Q. We've seen a lot those, so I was always

1 **wondering why.**

2 A. Yeah.

3 **Q. Okay. Thanks very much.**

4 EXAMINER JONES: Does that end this case?

5 MS. KESSLER: Yes, sir.

6 EXAMINER JONES: Case Number 15956 is taken
7 under advisement.

8 (Case Number 15956 concludes, 4:24 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 13th day of February 2018.

21

22

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