

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 TAP ROCK OPERATING, CASE NO. 16230
LLC FOR A NONSTANDARD SPACING AND
PRORATION UNIT AND COMPULSORY POOLING,
EDDY COUNTY, NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

June 28, 2018

Santa Fe, New Mexico

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

This matter came on for hearing before the New Mexico Oil Conservation Division, Phillip Goetze, Chief Examiner, and David K. Brooks, Legal Examiner, on Thursday, June 28, 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.

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APPEARANCES

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1 (9:05 a.m.)

2 EXAMINER GOETZE: 16230, application of Tap
3 Rock Operating, LLC for a nonstandard spacing and
4 proration unit and compulsory pooling, Eddy County, New
5 Mexico.

6 Call for appearances.

7 MR. McMILLAN: Seth McMillan, Montgomery &
8 Andrews, on behalf of Tap Rock Operating.

9 MS. ARNOLD: Dana Arnold on behalf of Tap
10 Rock Operating.

11 EXAMINER GOETZE: Other appearances? COG
12 entered --

13 MS. RYAN: I'm here.

14 EXAMINER GOETZE: Oh, okay.

15 MR. McMILLAN: Very well. Once again, we
16 have two witnesses.

17 EXAMINER GOETZE: Will the witnesses please
18 stand, identify yourself for the court reporter and be
19 sworn in?

20 MS. HIXSON: Erica Hixson.

21 MR. SMITH: Adam Smith.

22 EXAMINER GOETZE: Oh, they're already sworn
23 in, aren't they?

24 MR. McMILLAN: I'll go ahead and call our
25 first witness, Erica Hixson.

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ERICA HIXSON,

after having been previously sworn under oath, was questioned and testified as follows:

DIRECT EXAMINATION

BY MR. McMILLAN:

Q. Please state your full name and place of residence?

A. Erica Hixson, Arvada, Colorado.

Q. Where are you employed and in what capacity?

A. Tap Rock Resources as a landman.

Q. Did you testify just moments ago before the Division and have your credentials accepted and made a matter of record?

A. I did.

Q. Are you familiar with the application filed in this case?

A. Yes.

Q. Are you familiar with the subject lands?

A. Yes.

MR. McMILLAN: Mr. Examiner, I would tender Ms. Hixson as an expert petroleum landman.

EXAMINER GOETZE: She's so qualified.

Q. (BY MR. McMILLAN) Would you briefly state for us what Tap Rock seeks by this application?

A. Yes. In this case Tap Rock Operating seeks an

1 order approving a nonstandard spacing and proration unit
2 comprised of the east half of Section 29 and the east of
3 half of Section 32, Township 26 South, Range 29 East,
4 Eddy County, New Mexico, pooling all mineral interests
5 in the Wolfcamp Formation underlying the nonstandard
6 unit. The unit will be dedicated to our proposed Money
7 Graham 26S29E3229 #208H and the Money Graham 26S29E3229
8 #234H wells.

9 **Q. Thank you.**

10 **Have you prepared certain exhibits for**
11 **introduction in this case?**

12 A. Yes.

13 **Q. Let's turn to them now. Is Exhibit 1 a tract**
14 **map showing Tap Rock's project area?**

15 A. It is.

16 **Q. And please describe for us the status of the**
17 **acreage shown in Exhibit 1.**

18 A. Yes. In Section 29, there is a federal lease.
19 It covers the northeast quarter of Section 29, the north
20 half-southeast quarter and the southeast-southeast
21 quarter of Section 29. The southwest-southeast of 29 is
22 a fee lease, and the east half of Section 32 is a fee
23 lease.

24 **Q. Excellent.**

25 **Let's turn now to Exhibit 2. Is this the**

1 C-102s -- are these the C-102s for the proposed Money
2 Graham wells?

3 A. They are.

4 Q. You've noted the pool code and pool name on the
5 C-102s, correct?

6 A. Correct.

7 Q. When were the C-102s submitted?

8 A. May 28th.

9 Q. And have they been approved?

10 A. They have not.

11 Q. Are the surface- and bottom-hole locations for
12 the wells shown on the C-102s?

13 A. Yes.

14 Q. What pool rules govern development here in the
15 Wolfcamp?

16 A. Wolfcamp; Purple Sage.

17 Q. Again, is this pool unaffected by the new
18 horizontal drilling rules?

19 A. Yes.

20 Q. What are the setbacks for wells in this pool?

21 A. 330 feet.

22 Q. And will the first and last take points for the
23 Money Graham wells be situated within these setbacks?

24 A. Yes.

25 Q. What is the primary objective for the Money

1 **Graham wells?**

2 A. The Money Graham 234 is Middle Wolfcamp, and
3 the Money Graham 208 is Upper Wolfcamp.

4 **Q. Is it correct that Tap Rock does not yet own**
5 **the right to drill in each tract that will be traversed**
6 **by the wellbores?**

7 A. That's correct.

8 **Q. And that's why you're here today?**

9 A. Correct.

10 **Q. Let's take a look at Exhibit 3. Is this the**
11 **ownership breakdown here?**

12 A. It is.

13 **Q. Can you please describe Tap Rock's ownership in**
14 **Sections 29 and 32?**

15 A. Tap Rock owns approximately 38 percent working
16 interest.

17 **Q. And how long has Tap Rock owned these**
18 **interests?**

19 A. We acquired this interest in January of 2017.

20 **Q. Okay. Turning now to Exhibit 4, does this**
21 **appear to be, behind the email at least, a well-proposal**
22 **letter to COG Operating?**

23 A. It is.

24 **Q. Is this well being proposed -- are these wells,**
25 **rather, being proposed under an operating agreement?**

1 A. Yes.

2 Q. And did you include a copy of the proposed
3 operating agreement in your well-proposal letter to COG?

4 A. Yes.

5 Q. Are you asking the Division to pool this
6 unjoined working interest?

7 A. Yes.

8 Q. Were there any unlocatable interest owners?

9 A. No.

10 Q. Does Tap Rock seek the imposition of a 200
11 percent risk penalty against the unjoined working
12 interest?

13 A. Yes.

14 Q. Does Tap Rock seek to be designated operator
15 for the well?

16 A. Yes.

17 Q. In your opinion, has Tap Rock made a good-faith
18 effort to locate all interest owners and communicate
19 with them in order to obtain voluntary participation?

20 A. Yes.

21 Q. Were the AFEs for the Money Graham wells
22 attached to your well-proposal letter?

23 A. Yes.

24 Q. Can you -- for the record, what is the total
25 for each completed well?

1 A. The total for the Money Graham #208 is
2 approximately \$8.8 million, and the total for the 234 is
3 approximately \$1.9 million.

4 **Q. Are these AFEs still valid and effective, or**
5 **have they changed?**

6 A. They have not changed, still valid and
7 effective.

8 **Q. Are they in line with what's being charged by**
9 **other operators in the area for similar wells?**

10 A. Yes.

11 **Q. Have you made an estimate of overhead and**
12 **administrative costs while drilling and producing the**
13 **wells?**

14 A. Yes, 7,000 for drilling and 700 for producing.

15 **Q. Are these costs in line with what's being**
16 **charged by other operators in the area?**

17 A. Yes.

18 **Q. Do you recommend that these drilling and**
19 **overhead rates be incorporated into the order?**

20 A. Yes.

21 **Q. Does Tap Rock also request that the order**
22 **provide for an annual adjustment of these drilling and**
23 **producing overhead rates?**

24 A. Yes.

25 **Q. In your opinion, has Tap Rock acted diligently**

1 to develop these reserves?

2 A. Yes.

3 Q. In your opinion, will the granting of the Tap
4 Rock's application be in the best interest of
5 conservation, the prevention of waste and the protection
6 of correlative rights?

7 A. Yes.

8 Q. Were Exhibits 1 through 4 -- yeah -- prepared
9 for you or at your -- by you or at your direction and
10 control?

11 A. Yes.

12 MR. McMILLAN: I would move the admission
13 of Exhibits 1 through 4 at this time.

14 EXAMINER GOETZE: You sure you don't want
15 to attach anything else?

16 MR. McMILLAN: How about if I also throw in
17 Exhibit 5 --

18 EXAMINER GOETZE: Thank you.

19 (Laughter.)

20 MR. McMILLAN: -- our notice affidavits and
21 green cards.

22 EXAMINER GOETZE: Ms. Ryan?

23 MS. RYAN: No questions.

24 EXAMINER GOETZE: You don't care about the
25 exhibits?

1 MS. RYAN: No.

2 EXAMINER GOETZE: All right. Exhibits 1
3 through 5 are so entered in the record.

4 (Tap Rock Operating, LLC Exhibit Numbers 1
5 through 5 are offered and admitted into
6 evidence.)

7 EXAMINER GOETZE: And then, Ms. Ryan, you
8 don't have any questions?

9 MS. RYAN: No.

10 EXAMINER GOETZE: Thank you.

11 EXAMINER BROOKS: I do.

12 CROSS-EXAMINATION

13 BY EXAMINER BROOKS:

14 Q. Tap Rock owns 37-something percent of the
15 working interest, you said?

16 A. Correct.

17 Q. Who owns the rest?

18 A. Concho.

19 Q. So Concho owns all the rest?

20 A. They do.

21 Q. You said you proposed to Concho under an
22 operating agreement, so why are you -- why are you here
23 asking for compulsory pooling?

24 A. We did -- as of very recently, about Monday,
25 we're coming to terms under an operating agreement now.

1 Q. Okay. So you don't have an existing?

2 A. Not an existing operating agreement, no, but
3 we're -- we're getting close to executing one.

4 Q. Okay. And you will dismiss the case if you get
5 the operating agreement signed before we issue the
6 order?

7 A. Yes.

8 Q. Okay. Very good. I guess that's all I have.

9 EXAMINER GOETZE: I have no questions for
10 this witness. Thank you.

11 CONTINUED CROSS-EXAMINATION

12 BY EXAMINER BROOKS:

13 Q. Oh, are there any overrides under the federal
14 lease?

15 A. There are, but we gave proper notice and --

16 Q. So you gave notice -- proper notice to all the
17 overrides, and that's all documented in your affidavit?

18 A. Correct.

19 Q. Okay. Thank you.

20 MR. McMILLAN: May the witness be excused?

21 EXAMINER GOETZE: She may. Thank you.

22 MR. McMILLAN: We'll call our next witness,
23 Adam Smith.

24 ADAM SMITH,

25 after having been previously sworn under oath, was

1 EXAMINER GOETZE: Thank you very much.

2 So qualified.

3 Q. (BY MR. McMILLAN) When did Tap Rock first
4 commence its geologic evaluation of this area?

5 A. November 2016.

6 Q. And have you conducted a geologic investigation
7 to determine whether the 40-acre tract comprising the
8 project area for the Money Graham wells are each
9 prospective for production?

10 A. Yes.

11 Q. And what was your conclusion?

12 A. That they are.

13 Q. Will each tract contribute approximately the
14 same amount of reserves to the wells in each of the
15 intervals being developed?

16 A. Yes.

17 Q. Please discuss broadly with the Examiner the
18 geologic development in this area of the Permian.

19 A. Yeah. In this area of southern Eddy County,
20 right on the Texas-New Mexico state line, it's more of a
21 basinal setting in the middle Wolfcamp, which I call the
22 Wolfcamp B, so it's a lot more shale with pulses of
23 little carbonate debris flows in there that help to
24 contribute to the production. And then it
25 transitionally grades up into a shallow marine setting

1 in the Upper Wolfcamp where you have lots of laminated
2 sandstone shales and carbonates that are being put into
3 the basin through higher energy debris flows.

4 **Q. Mr. Smith, you've prepared certain exhibits for**
5 **today's presentation, correct?**

6 A. Yes.

7 **Q. Let's turn to those now, and if you would**
8 **kindly walk the Examiner through your exhibits, 6**
9 **through 12.**

10 A. Yes. So Exhibit 6 is the project locator map
11 showing where our Money Graham 26 South 29 East 3229
12 234H and Money Graham 208H are located in southern Eddy
13 County, of Township 26 South, Range 29 East, Section 32
14 into 29.

15 And then Exhibit 7 is a subsea structure
16 map on the top of the Wolfcamp A. This exhibit shows
17 the Money Graham 208H location with a surface hole in
18 the south part of Section 32 and a bottom hole in the
19 north part of Section 29. It has the project area
20 outlined in red and a location of the subsequent cross
21 section from A to A prime. I have highlighted the wells
22 that have targeted the Upper Wolfcamp A in the Lower 3rd
23 Bone Spring Sand. And this has a subsea structure
24 showing a monoclinial dip down into the east, so we will
25 be drilling along strike more or less with this well as

1 we drill south to north.

2 The next exhibit, Exhibit 8, is an isopach
3 map -- a gross isopach map of the Upper Wolfcamp from
4 Wolfcamp A to Wolfcamp B. This shows, again, the Money
5 Graham 208H location with surface and bottom hole, the
6 project area and the cross section, A to A prime, on
7 here. And it also shows a pretty consistent gross
8 thickness of 450 foot throughout the Money Graham
9 project area with contour intervals at 25 feet and
10 highlighting wells that have targeted the same interval
11 in the Upper Wolfcamp A.

12 Exhibit 9 is a stratigraphic cross section
13 from A to A prime hung on the top of the Wolfcamp A.
14 This cross section includes two wells that are triple
15 combo vertical wells that have a gamma ray from zero to
16 200 API units. It's colored from lower API units in
17 blue to higher API units in the dark brown to black and
18 then a caliper log from 8 to 18 in scale, a depth log in
19 the middle and then a deep resistivity log in the second
20 track from .2 to 2,000 ohm meters on a logarithmic
21 scale, and a density, neutron -- density and neutron
22 porosities and porosity percent units from 30 to minus
23 10 in the third track with a 10 percent cutoff that you
24 can kind of see in the green shading on there.

25 The middle well on here is a Concho

1 horizontal well. This is -- so this is the TVD log of
2 the MWD gamma ray from zero to 200 API units. It looks
3 a little different, just with cooler colors because the
4 tool probably wasn't calibrated to the offsets.

5 **Q. Moving along.**

6 A. Exhibit 11 -- 10 is now a subsea structure map
7 on the top of the Wolfcamp B. This is for the location
8 Money Graham 234H, which is targeting in the Wolfcamp B.
9 So it shows the surface-hole location in the south part
10 of Section 32 drilling north into 29 for a bottom-hole
11 location in the north part of Section 29. It has the
12 project location area outlined in red and a cross
13 section locator from A to A prime same as in the
14 previous cross section. This also has highlighted some
15 Upper Wolfcamp B horizontal wells and Lower Wolfcamp B
16 horizontal wells.

17 Exhibit Number 11 is the isopach map of the
18 entire Wolfcamp B, from Wolfcamp B to Wolfcamp C tops,
19 showing the location of the Money Graham 234 and project
20 outlined area, the cross section locator from A to A
21 prime and a gross thickness of around 1,250 foot thick
22 of the entire B interval. I've also highlighted the
23 producers of the Upper Wolfcamp B and Lower Wolfcamp B
24 on here.

25 And then Exhibit 12 is a stratigraphic

1 cross section hung on the Wolfcamp B that shows the same
2 two wells that I walked through in our previous cross
3 section with the same template for gamma ray and then
4 the Concho Sidewinder horizontal well that's offset to
5 the Money Graham to show the gamma ray signature in the
6 Wolfcamp B.

7 **Q. Great.**

8 **And you have identified on Exhibits 9 and**
9 **12 the specific intervals for your landing targets,**
10 **correct?**

11 A. Yes.

12 **Q. Are these intervals continuous throughout the**
13 **project area?**

14 A. Yes.

15 **Q. Have you seen any faults or discontinuities?**

16 A. No.

17 **Q. Do you observe any notable porosity differences**
18 **throughout the project area?**

19 A. I do not. The data is a little bit sparse, but
20 I interpret that as pretty consistent through here due
21 to the depositional set.

22 **Q. Great.**

23 **Any substantial thickening or thinning?**

24 A. No.

25 **Q. Are Exhibits 13, 14 schematic wellbore diagrams**

1 for the Money Graham wells?

2 A. Yes.

3 Q. And tell us, what's the prevailing development
4 pattern for the Wolfcamp in this area?

5 A. These are stand-up. This is an area of
6 stand-up development.

7 Q. Okay. And so are Tap Rock's stand-up units
8 consistent with the prevailing development pattern?

9 A. Yes.

10 Q. You did this once already, but let's do it for
11 this record. Can you just briefly discuss Tap Rock's
12 experience drilling horizontal wells?

13 A. Yeah. The Tap Rock operating team has drilled
14 approximately 300 wells in the Northern Delaware Basin
15 of New Mexico.

16 Q. Has Tap Rock arranged for a drilling rig for
17 the Money Graham wells?

18 A. Yes.

19 Q. And where do these wells fall in Tap Rock's
20 drilling schedule?

21 A. November of this year.

22 Q. Okay. In your opinion, will granting Tap
23 Rock's application be in the interest of conservation,
24 the prevention of waste and the protection of
25 correlative rights?

1 A. Yes.

2 **Q. Were Exhibits 6 through 14 prepared by you or**
3 **at your direction?**

4 A. Yes.

5 MR. McMILLAN: I tender at this time
6 Exhibits 6 through 14, Mr. Examiner.

7 EXAMINER GOETZE: Ms. Ryan?

8 MS. RYAN: No objection.

9 EXAMINER GOETZE: Thank you.

10 Exhibits 6 through 14 are entered into the
11 record.

12 And I'll make sure I entered Exhibits 1
13 through 5, too.

14 (Tap Rock Operating, LLC Exhibit Numbers 6
15 through 14 are offered and admitted into
16 evidence.)

17 EXAMINER GOETZE: Ms. Ryan, any questions?

18 MS. RYAN: No.

19 EXAMINER BROOKS: No questions.

20 CROSS-EXAMINATION

21 BY EXAMINER GOETZE:

22 **Q. So one question: Order of drilling, which do**
23 **you plan to go with first?**

24 A. We will drill the 234 first, the deeper well.

25 **Q. The deeper well.**

1 And then how -- would you complete both of
2 them at the same time after the drilling?

3 A. I believe so, yeah. We'll probably do batch
4 drilling and do a completion at the same time.

5 Q. A question on one of your figures: For
6 instance, let's go to Figure 10. What are the two
7 horizontals in Section 32, the east-west? Are those
8 Bone Spring?

9 A. Yeah. Those are shallower. I believe they're
10 Bone Spring or even Delaware, some Brushy Canyon.

11 Q. Thank you.

12 Let's see. All right. I don't have any
13 questions. Thank you very much.

14 MR. McMILLAN: We ask that this case be
15 taken under advisement, and, mercifully enough, we don't
16 have a request for an expedited order.

17 EXAMINER GOETZE: You may want to ask for
18 it the way things are going.

19 MR. McMILLAN: Oh, shall we --

20 EXAMINER GOETZE: Amazingly, it may end up
21 benefitting you in no way at all.

22 Case 16230 is taken under advisement.

23 And let's take a ten-minute break.

24 (Case Number 16230 concludes, 9:25 a.m.)

25 (Recess, 9:25 a.m. to 9:43 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 THIS 26th day of July 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
Paul Baca Professional Court Reporters

25