

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:

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| APPLICATION OF OXY USA, INC. FOR | CASE NOS. 16476, |
| COMPULSORY POOLING, EDDY COUNTY, | 16477, |
| NEW MEXICO. | 16478, |
| | 16479 |

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

November 1, 2018

Santa Fe, New Mexico

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

This matter came on for hearing before the New Mexico Oil Conservation Division, William V. Jones, Chief Examiner, Phillip Goetze, Technical Examiner, and David K. Brooks, Legal Examiner, on Thursday, November 1, 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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1 APPEARANCES

2 FOR APPLICANT OXY USA, INC.:

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 6

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16 EXHIBITS OFFERED AND ADMITTED

17 Case Numbers 16476 and 16477:

18 OXY USA, Inc. Exhibit Numbers 1 through 4 10

19

20 Case Numbers 16478 and 16479:

21 OXY USA, Inc. Exhibit Numbers 1 through 4 13

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1 (9:02 a.m.)

2 EXAMINER JONES: Call all four cases, Cases
3 16476, 16477, 16478 and 16479. All are styled the
4 application of OXY USA, Inc. for compulsory pooling in
5 Eddy County, New Mexico.

6 Call for appearances.

7 MS. KESSLER: Mr. Examiner, Jordan Kessler,
8 from the Santa Fe office of Holland & Hart, on behalf of
9 the Applicant.

10 EXAMINER JONES: Any other appearances?
11 I don't have anyone else who entered an
12 appearance in these cases.

13 MS. KESSLER: No.

14 I have -- I will ask that these cases be
15 consolidated for hearing purposes. I have two separate
16 sets of Exhibit 2 to reflect the Bone Spring and the
17 Wolfcamp geology differences. I'm going to pass those
18 out.

19 Mr. Examiners, in front of you, you have
20 two separate sets of exhibits. I'm going to start with
21 16467 and 16477, which, as I mentioned earlier, are the
22 Bone Spring affidavits.

23 The first affidavit is from a landman,
24 Jeremy Murphrey. He's previously testified before the
25 Oil Conservation Division.

1 What we're asking for in Cases 16476 and
2 16477, as set forth in paragraph four of Jeremy's
3 affidavit, is to compulsory pool a 640-acre spacing unit
4 comprised of the west half of Sections 6 and 7 in
5 Township 24 South, Range 29 East, Eddy County. That
6 would be for Case 16476.

7 And 16477 is requesting to compulsory pool
8 a horizontal spacing unit comprised of the east half of
9 Sections 6 and 7, same township and range.

10 Each of these spacing units, as I
11 mentioned, are Bone Spring. They're 40-acre building
12 blocks, but the spacing units will incorporate the
13 proximity tracts, and each of the spacing units has
14 requested -- we've requested five initial wells. Those
15 wells and their elections are listed in paragraph four.

16 EXAMINER JONES: So the Bone Spring will
17 incorporate the proximity tracts, but the Wolfcamp is --

18 MS. KESSLER: Is Purple Sage, so it will
19 just be standard.

20 EXAMINER BROOKS: So both will be built on
21 two tiers of 40 acres?

22 EXAMINER JONES: Both will be --

23 EXAMINER BROOKS: Oh, no. The Bone Spring
24 will be built on --

25 MS. KESSLER: 40.

1 EXAMINER BROOKS: -- 320 acres.

2 MS. KESSLER: The Bone Spring would be 40
3 acres, and the Wolfcamp would be 320 acres.

4 EXAMINER BROOKS: Yeah. The Bone Spring
5 will be built on three tiers with a well down the
6 middle.

7 MS. KESSLER: Correct.

8 EXAMINER BROOKS: Two tiers with a well
9 down the middle.

10 MS. KESSLER: Two tiers with a well down
11 the middle -- with multiple wells down the middle, but
12 yes.

13 EXAMINER BROOKS: Yeah. Wells down the
14 middle of each two sections, right? So you're going to
15 have --

16 EXAMINER JONES: These two are combined and
17 these two are combined.

18 EXAMINER BROOKS: Right. And you'll have a
19 well close to the left side over here on the left side,
20 but it doesn't appear to be so close, but I'll assume
21 it's within 330.

22 EXAMINER JONES: While we're talking here,
23 the names of the wells are Width and Length?

24 (Laughter.)

25 MS. KESSLER: These are the dimensions, so

1 you'll see -- and I think we may have reversed it
2 earlier. 476 and 477 are actually the Purple Sage;
3 Wolfcamp wells. 478 and 479 are the Bone Spring wells.
4 So I'm sorry. I think I reversed those. We have
5 Height, Time, Length and Width.

6 (Laughter.)

7 EXAMINER JONES: Height, Time, Width and
8 Length.

9 EXAMINER BROOKS: That's an original name
10 of naming wells.

11 EXAMINER JONES: After that, it's real
12 consistent, though. It's all CC 6-7 Federal Com.

13 MS. KESSLER: Correct.

14 EXAMINER JONES: So there is a federal
15 permit.

16 MS. KESSLER: There are federal permits
17 attached as Exhibit A to this application. All of the
18 C-102s have been attached as Exhibit 1A. These are all
19 pending approval. And as I mentioned before, these will
20 all be placed in the Purple Sage; Wolfcamp Gas Pool.
21 We're asking for 320 building blocks, and each of the
22 wells will comply with the 330-foot setbacks
23 incorporating -- no. We're on Wolfcamp. Never mind.
24 They'll all comply with the 330-foot setbacks.

25 EXAMINER JONES: Are the locations

1 represented here in the exhibits going to be final
2 locations?

3 MS. KESSLER: They should be.

4 EXAMINER JONES: Even for surface
5 locations?

6 MS. KESSLER: They should be.

7 EXAMINER JONES: Okay.

8 MS. KESSLER: Exhibit B -- Exhibit 1B
9 identifies the tracts of lands within the spacing unit
10 for Case 16476 and confirms that each of the tracts is
11 comprised of federal and fee lands and lists the parties
12 that will be pooled. Each of the parties has been
13 located, and OXY has been in conversations with each of
14 those parties. They seek to pool -- as noted in
15 paragraph seven, OXY seeks to pool the working interests
16 and unleased mineral interests in the spacing unit and
17 has been in conversations with each of those owners.

18 Exhibit 8 -- paragraph eight references
19 Exhibit 1C, which identifies the tracts of land in the
20 spacing unit for 16- -- Case Number 16477. Again, it's
21 federal and fee acreage. This breaks down the ownership
22 by tract and shows the parties that OXY seeks to pool.
23 There are no overriding royalty interest owners in the
24 spacing unit that OXY seeks to pool. All of their
25 documents allow for pooling.

1 Paragraph nine of Mr. Murphrey's affidavit
2 states the order that the five initial wells will be
3 drilled for Case Number 16476.

4 And then paragraph ten states the order of
5 the five initial wells for 16477.

6 OXY is not requesting an extension of the
7 120-day time frame -- they're comfortable with that --
8 between drilling and completing the initial well.

9 Paragraph 11 states there are no ownership
10 depth severances.

11 And paragraph 12 confirms that all of the
12 working interest owners were locatable.

13 Exhibit 1D includes all of the
14 well-proposal letters for the Wolfcamp spacing unit for
15 each of the two cases and includes an AFE. You'll
16 notice that there are two AFEs. The AFEs correspond to
17 the different target intervals, which are discussed
18 further in the geology affidavit.

19 And finally, Mr. Murphrey notes in
20 paragraph 13 that he has discussed each of these
21 well-proposal letters with the parties that he seeks to
22 pool and has negotiated in good faith.

23 And paragraph 15 requests \$7,500 per month
24 while drilling and 750 a month while producing each of
25 the wells.

1 I'll move on to Exhibit 2, which is the
2 affidavit of the geologist, Mr. Tony Troutman, who has
3 previously testified before the Division. He notes in
4 paragraph three that there are two targets for the
5 Wolfcamp wells, the Wolfcamp X-Y interval and the
6 Wolfcamp D interval. The Height wells target the
7 Wolfcamp X-Y, and the Time wells target the Wolfcamp D.

8 He's attached a lot of exhibits.

9 Exhibits A, B and C correspond to the
10 Wolfcamp X-Y target.

11 Exhibits 2D, E and F correspond to the
12 Wolfcamp D target.

13 He's included north-south and east-west
14 cross sections for each of those two targets. And he
15 notes in his affidavit that for each of the two targets,
16 he believes that there are no geologic impediments and
17 that the acreage can be effectively be developed by
18 horizontal wells and that each of the tracts will
19 contribute more or less equally to production to each of
20 the wells.

21 And finally in the last paragraph,
22 paragraph 14, he states that he believes that these
23 applications best protect the interest of conservation,
24 the prevention of waste and the protection of
25 correlative rights.

1 Exhibit 3 includes an affidavit from my
2 office with attached letters providing notice of this
3 hearing to the parties that we seek to pool.

4 And all of these parties were locatable,
5 but out of an abundance of caution, we did also publish
6 notice, which is included as Exhibit 4.

7 I will march along to the Bone Spring
8 cases, but I would first ask that Exhibits 1 through 4,
9 including their attachments, for Cases 16476 and 16477
10 be taken under advisement [sic].

11 EXAMINER JONES: Exhibits 1 through 4 for
12 Cases 16476 and 16477 are taken under advisement -- are
13 taken -- are admitted.

14 (Laughter.)

15 (OXY USA, Inc. Exhibit Numbers 1 through 4
16 are offered and admitted into evidence.)

17 MS. KESSLER: As I mentioned,
18 Mr. Examiners, 16478 and 16479 have the Bone Spring
19 exhibits and wells. These do include -- incorporate the
20 proximity tracts. As I mentioned, they'll be spaced on
21 40 acres. And the first exhibit is the affidavit of
22 Mr. Murphrey. He identifies the same spacing units as
23 the previous cases, 640 acres comprised of the west half
24 of Sections 6 and 7, and then for Case 16479, the east
25 half of Sections 6 and 7.

1 Each spacing unit will be dedicated to five
2 initial wells, the Length and the Width. The C-102s are
3 attached as Exhibit A.

4 The same owners and interests are reflected
5 in the pooling exhibits, which are Exhibits B and C.

6 Exhibit D includes all of the well-proposal
7 letters and AFEs.

8 Mr. Murphrey's affidavit states in
9 paragraph six that the Bone Spring wells will be in the
10 Pierce Crossing; Bone Spring Pool, Pool Code 50371, and
11 all of the completed intervals will be standard once the
12 proximity tracts are incorporated.

13 Paragraphs 10 and 11 state that the --
14 state the order that the wells will be drilled in.
15 Again, OXY is not requesting 120-day extension. They're
16 fine with the 120 days.

17 And paragraph 16 notes that the requested
18 overhead and administrative costs are \$7,500 a month for
19 drilling and 750 while producing.

20 I'll jump ahead to the second affidavit,
21 which is Mr. Troutman's affidavit for the Bone Spring.
22 It calls out in paragraph three the two target
23 intervals. The 1st Bone Spring will be the target
24 interval for the Width wells. The 2nd Bone Spring will
25 be the target interval for the Length wells, five wells

1 per spacing unit. He's included the same exhibits for
2 the Bone Spring as for the Wolfcamp, which is a
3 structure map and north-south, east-west cross-section
4 exhibits for both the 2nd and the -- 1st and 2nd Bone
5 Spring.

6 And just to briefly summarize his
7 affidavit, he states that each of the tracts will
8 contribute more or less equally to production to each of
9 the wells, that the north-south orientation is the
10 optimal orientation and that he believes that there are
11 no geologic impediments in this area and that granting
12 the application will be in the best interest of
13 conservation, for the prevention of waste and the
14 protection of correlative rights.

15 Exhibit 3 is our affidavit providing notice
16 of this hearing.

17 Again, all of the interest owners were
18 locatable, but out of an abundance of caution, we again
19 published notice, which is included as Exhibit 4.

20 Mr. Examiners, I'd ask that Cases -- this
21 Exhibits 1 through 4 in Cases 16478 and 16479 be
22 admitted into the record and that each of these four
23 cases be taken under advisement.

24 EXAMINER JONES: Okay. Exhibits 1 through
25 4 in Cases 16478 and 16479 are admitted into the record.

1 (OXY USA, Inc. Exhibit Numbers 1 through 4
2 are offered and admitted into evidence.)

3 EXAMINER JONES: Pierce Crossing; Bone
4 Spring, I think we've done a lot of work on that pool.
5 I don't remember if it's special rules or not.

6 MS. KESSLER: I think any of those special
7 rules would be superseded by the horizontal well rule.

8 EXAMINER JONES: You're going to use
9 40-acre building blocks?

10 MS. KESSLER: Correct.

11 EXAMINER JONES: I don't think the new
12 horizontal well rule required you to declare your --
13 your well that's defining the proximity tracts.

14 MS. KESSLER: I don't think that it does.

15 EXAMINER BROOKS: No. It should have, but
16 it doesn't.

17 EXAMINER JONES: It doesn't? So we should
18 be silent on that? That makes it easy.

19 EXAMINER BROOKS: Well, the forms are going
20 to require it.

21 MS. KESSLER: Out of an abundance of
22 caution, we've listed the timing for each of the wells,
23 the sequence that the wells will be drilled, and then
24 each of the two Bone Spring spacing units, the middle
25 well will be drilled first.

1 EXAMINER BROOKS: Yeah. Well, that's not
2 required, of course. But the forms, when -- assuming
3 the forms ever are promulgated, will include a provision
4 that requires you to say which is the defining well, but
5 the rule does not require that. So, of course, you
6 know, if you just want to leave that blank, that may be
7 an option. I don't want to say that.

8 MS. KESSLER: List all five wells as the
9 defining well?

10 EXAMINER JONES: And your client is aware
11 that it's between spud of the first well and the spacing
12 unit to completion of the first well?

13 MS. KESSLER: They are aware. And as I
14 believe Mr. Murphrey states in his affidavit, they'll be
15 batch drilled and batch completed, and the completions
16 will very quickly follow the drilling.

17 EXAMINER JONES: So they have everything
18 ready to hook up.

19 MS. KESSLER: (Indicating.)

20 EXAMINER JONES: Do you see any concerns
21 with --

22 EXAMINER GOETZE: No. The discussion seems
23 to address everything we normally ask, so I have no
24 additional comments or requests.

25 EXAMINER JONES: Is notice okay? And any

1 other concerns, Mr. Brooks?

2 EXAMINER BROOKS: Well, I didn't really pay
3 attention, but I'm getting accustomed to them getting
4 the notice.

5 You noticed all the overrides, if there are
6 any?

7 MS. KESSLER: All of the overrides are
8 committed by virtue of their agreements.

9 EXAMINER BROOKS: Okay. This is fee land?

10 MS. KESSLER: Federal and fee.

11 EXAMINER BROOKS: Federal. But they are
12 committed by virtue of the override assignments?

13 MS. KESSLER: They are. If there are
14 overrides, they are admitted.

15 EXAMINER BROOKS: If there are. Okay.

16 EXAMINER JONES: There are some unleased
17 mineral interests in the fee tract.

18 MS. KESSLER: There is one, I believe,
19 unleased mineral interest owner. I'm not seeing it.

20 EXAMINER JONES: I hate to ask awkward
21 questions, but this notice affidavit, your office does
22 that, the affidavit of -- that the notice has been
23 provided. Does the company actually do the notice and
24 you -- you're the affiant that it's correct?

25 MS. KESSLER: Yeah. It just depends on how

1 many we're getting out. Sometimes we use the company,
2 and sometimes we do it in-house. For this one, we did
3 it in-house.

4 EXAMINER JONES: But obviously they do the
5 land work. You don't do any of the land work?

6 MS. KESSLER: I don't do land work. No.

7 (Laughter.)

8 EXAMINER BROOKS: You should try examining
9 a title sometime. It's a lot of fun.

10 MS. KESSLER: No. Thank you.

11 EXAMINER JONES: Okay. Cases 16476, 16477,
12 16478 and 16479 are taken under advisement.

13 MS. KESSLER: Thank you.

14 EXAMINER JONES: We'll take a ten-minute
15 break here.

16 (Case Numbers 16476, 16477, 16478 and 16479
17 conclude, 9:22 a.m.)

18 (Recess, 9:22 a.m. to 9:45 a.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 11th day of November 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