

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 READ & STEVENS ENERGY CASE NO. 16503
COMPANY FOR A HORIZONTAL SPACING UNIT
AND PRORATION UNIT AND COMPULSORY
POOLING, LEA COUNTY, NEW MEXICO.

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
 New Mexico CCR #20
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APPEARANCES

FOR APPLICANT READ & STEVENS ENERGY COMPANY:

JENNIFER L. BRADFUTE, ESQ.
MODRALL, SPERLING, ROEHL, HARRIS & SISK, P.A.
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1 (9:45 a.m.)

2 EXAMINER JONES: Let's go back on the
3 record and call Case Number 16503, application of Read &
4 Stevens, Incorporated for a horizontal spacing unit and
5 proration unit and compulsory pooling in Lea County, New
6 Mexico.

7 MS. BRADFUTE: Mr. Examiner, Jennifer
8 Bradfute, with the Modrall, Sperling Law Firm, on behalf
9 of the Applicant.

10 EXAMINER JONES: Any other appearances?

11 MS. BRADFUTE: There are no other
12 appearances, and we would like to present this case by
13 affidavit.

14 Mr. Examiner, you have in front of you a
15 packet of exhibits which contain Read & Stevens'
16 affidavits that they prepared for this matter. They are
17 clipped together. Kathleen has asked us to use binder
18 clips so that it's easier for her when she's scanning
19 and when emailing to her as well. So I apologize for
20 the binder clip.

21 EXAMINER JONES: No. That's okay.

22 MS. BRADFUTE: If you look in the packet in
23 front of you, Exhibit A in this packet is the affidavit
24 of Mark Compton. Mark is a landman who works for Read &
25 Stevens. Attached to this affidavit are a number of

1 exhibits, and I'll walk through those exhibits with you.

2 The first exhibit attached to Mark's
3 affidavit is an amended application. In this
4 application, Read & Stevens seeks to create a 160-acre,
5 more or less, horizontal spacing unit which covers the
6 west half-west half of Section 3, Township 20 --
7 Township 20 South, Range 34 East, Lea County, New
8 Mexico. And they're seeking to pool all uncommitted
9 mineral interests in the Bone Spring Formation
10 underlying that spacing unit.

11 The spacing unit is going to be dedicated
12 to the North Lea 3 Federal Com 4H well, which is going
13 to be drilled to a depth sufficient to test the Bone
14 Spring Formation.

15 The next exhibit attached to Mr. Compton's
16 affidavit is a breakdown of the tracts included within
17 the spacing unit and the interests that are included
18 within each of those tracts. And it's calculated -- if
19 you look at the bottom of the interests that are
20 calculated, it says "total pooled interest." This
21 interest has changed slightly, and there is another
22 chart that will summarize the interests that are
23 actually being pooled. This spacing unit consists of
24 three different federal leases, so it's all federal
25 acreage.

1 The next exhibit attached to Mr. Compton's
2 affidavit is a copy of the federal API, which has been
3 approved by the BLM, and a C-102 for the well. This
4 well is going to be located in the Quail Ridge; Bone
5 Spring, South Pool. It's Pool Code 50461. And it's
6 going to be a horizontal well, and all of the
7 perforations are going to be orthodox for this well.
8 The building blocks for this spacing unit are going to
9 be 40-acre tracts.

10 And if you turn to the next page, it's a
11 chart which has yellow headings, and this actually gives
12 the summary of breakdown of the interests that are going
13 to be pooled within the spacing unit.

14 Mr. Compton has provided a summary of his
15 contacts with interest owners. Read & Stevens sent
16 well-proposal letters to interest owners on July 30th,
17 2018. They then tried to contact parties to see if they
18 wanted to participate in the well. They then conducted
19 updated record searches and Internet searches for
20 contact information, and those record searches included
21 searching the county records for title information.
22 They then filed their application to force pool parties,
23 and they sent notices of this application to all
24 addresses of record. They also published notice in a
25 newspaper of general circulation, and we'll get to that

1 when I get to Mr. DeBrine's affidavit confirming notice
2 has been provided.

3 The next exhibit attached to Mr. Compton's
4 affidavit is the well-proposal letter which gives an
5 election to either participate or not participate within
6 the well that's been proposed.

7 And the next exhibit attached is a copy of
8 the AFE for this well. Mr. Compton confirms and
9 testifies in his affidavit that these proposed well
10 costs are comparable to well costs to drill other wells
11 to these lengths and these depths within this area of
12 New Mexico.

13 Mr. Compton testifies in his affidavit that
14 there are no depth severances in the Bone Spring
15 Formation and that there are no overriding royalty
16 interest owners who need to be pooled.

17 He also testifies that the overhead and
18 administrative rates that Read & Stevens is requesting
19 is 7,000 a month for drilling and 700 a month while
20 producing and that these rates are fair and comparable
21 to the rates charged by other operators in this area for
22 wells drilled to this length and this depth. Read &
23 Stevens requests that these rates be adjusted
24 periodically as provided for under the COPAS accounting
25 procedure, and Mr. Compton confirms that in his

1 affidavit.

2 Mr. Compton also testifies that Read &
3 Stevens is requesting the minimum cost, plus 200 percent
4 risk penalty charge to be assessed against any
5 nonconsenting working interest owner.

6 Mr. Compton confirms that the information
7 in his affidavit and the exhibits attached thereto are
8 compiled from company business records and that it is
9 true and accurate information related to this well
10 proposal.

11 The next affidavit that's included in the
12 packet in front of you is an affidavit by Norman Lovan,
13 and Mr. Lovan is a geologist who has contracted with
14 Read & Stevens to conduct a study for this well.

15 Attached to this affidavit, he has included
16 two different structure maps that look at from the base
17 of the Wolfcamp. And the structure maps, if you look at
18 them, they're really looking at the 3rd Bone Spring Sand
19 interval. The first structure map does have a number of
20 laterals that are shown in different colors. They do
21 include laterals that are in other portions of the Bone
22 Spring, as well as the Wolfcamp and some vertical wells
23 that are shown on the first structure map.

24 The second structure map attached to his
25 affidavit looks more specifically at the top of the

1 Wolfcamp to the base of the 3rd Bone Spring Sand
2 Formation. And again it shows -- it shows a zoomed-in
3 portion of this area on the map and then a zoomed-out
4 structure map of the area. And then it outlines the
5 proposed spacing unit and a black dot dashed line.

6 Mr. Lovan has also attached an interval
7 isopach exhibit showing the basal 3rd Bone Spring Sand
8 Formation within the area, and then he has also attached
9 a cross section of wells to his affidavit. And this
10 cross section shows the targeted formation within the
11 3rd Bone Spring. There is an arrow noting where the
12 target zone is, and then the zone -- the 3rd Bone Spring
13 Sand, which is the interval that's going to be developed
14 by the well is shown and highlighted in yellow. The top
15 of the Wolfcamp is also noted on this cross section.

16 Mr. Lovan testifies that based on his study
17 of the area, he did not notice any geologic impediments
18 or faulting that would interfere with horizontal
19 development. He testifies that each quarter-quarter
20 section in the unit will contribute more or less equally
21 to production and that the preferred well orientation in
22 this area is north to south. And he says this is
23 because the regional-induced fractures trend
24 northeast-southwest allowing your perpendicular
25 interaction by the drilled lateral.

1 Finally, the next affidavit attached to
2 this application is an affidavit prepared by Modrall,
3 Sperling confirming that notice was provided to all
4 affected parties that Read & Stevens is seeking to pool.
5 This affidavit was executed by Earl DeBrine, who is
6 another attorney at the firm where I work.

7 Attached to this affidavit is a chart with
8 a blue header confirming that notices were mailed, and
9 it lists whether or not notices were delivered or
10 returned. There were a couple of returned mailings for
11 this application, so we did also publish notice in a
12 newspaper of general circulation, and that's included as
13 the last page attached to Mr. DeBrine's affidavit.

14 And with that, I'd like to tender the
15 admission of Exhibits A, B and C, which are the three
16 affidavits that I've discussed, along with their
17 attachments, into the record.

18 EXAMINER JONES: Exhibits A, B and C, along
19 with the attachments, are admitted into the record in
20 Case 16503.

21 (Read & Stevens Energy Company Exhibit.
22 Letters A, B and C are offered and
23 admitted into evidence.)

24 MS. BRADFUTE: And do you have any
25 questions about this application?

1 EXAMINER JONES: So you styled it -- or was
2 this styled a long time ago? But it's styled with a
3 horizontal spacing unit and proration unit, along with
4 compulsory pooling.

5 MS. BRADFUTE: You know, I did not prepare
6 this application. It should have just been a horizontal
7 spacing unit, and it's just really requesting pooling,
8 is what they're requesting, because there is no approval
9 needed. It's a standard horizontal spacing unit.

10 EXAMINER JONES: And we've got an amended
11 application.

12 MS. BRADFUTE: There was a typo in the
13 application with the acreage shown in one of the
14 paragraphs, which is the reason why they filed the
15 amended application.

16 EXAMINER JONES: Okay. And there are a
17 whole lot of people being pooled, but there is no
18 overriding royalty interest owners?

19 MS. BRADFUTE: That is correct. We asked
20 them to confirm that, and they confirmed.

21 EXAMINER JONES: So they're all mineral
22 interest owners?

23 MS. BRADFUTE: Yes. Yes. Let me look back
24 at these.

25 EXAMINER BROOKS: Well, I thought you said

1 it was federal acreage.

2 MS. BRADFUTE: Federal acreage. So they're
3 all working interests.

4 EXAMINER BROOKS: They're owners of
5 leases -- owners of leasehold interests?

6 MS. BRADFUTE: Yes. Yes, because it's all
7 federal leases.

8 EXAMINER BROOKS: They own undivided
9 interests in the leases?

10 MS. BRADFUTE: That is correct.

11 EXAMINER BROOKS: Either in record title or
12 operating rights?

13 MS. BRADFUTE: Uh-huh. Yes.

14 EXAMINER JONES: But there was no notice to
15 people around --

16 MS. BRADFUTE: We did not notify offsets
17 with this one.

18 EXAMINER BROOKS: That's not required.

19 MS. BRADFUTE: That is not required. Yeah.

20 And looking at the C-102, I did review that
21 this morning in preparing to present this application.
22 The completed lateral is going to be orthodox, so it
23 complies with the setback requirements.

24 EXAMINER JONES: Okay. Anything?

25 EXAMINER GOETZE: Well, I do have a

1 question. Exhibit A, Exhibit B of the geologist, we've
2 got this red line going through 33 and 34. Is there any
3 reason for that, or is that just an error?

4 MS. BRADFUTE: I would need to ask the
5 geologist. Would you like me to get a confirmation and
6 send that?

7 EXAMINER GOETZE: Just go ahead and send me
8 an email clarifying. It doesn't seem to be a fault, but
9 it's going into the record. I would like to make sure
10 that this is not a geologic impediment.

11 MS. BRADFUTE: Yes.

12 EXAMINER GOETZE: And at the same time,
13 would you also ask what his cutoff for the isopach is?
14 I'm assuming -- is this based on porosity, or is this
15 total? And, again, just for the record.

16 MS. BRADFUTE: Okay.

17 EXAMINER GOETZE: And that would be Exhibit
18 B.

19 MS. BRADFUTE: Exhibit B.

20 EXAMINER GOETZE: Other than that,
21 everything in the discussion is to the point.

22 MS. BRADFUTE: We would like to submit that
23 as a response to an information request to the Division
24 via email.

25 And with that, we would ask this case be

1 taken under advisement.

2 EXAMINER JONES: Okay. Did you say
3 unlocatable people?

4 MS. BRADFUTE: There were some unlocated
5 people.

6 EXAMINER JONES: Okay. I saw you posted it
7 in the newspaper.

8 MS. BRADFUTE: Yes. If you look at Exhibit
9 C, which is Mr. DeBrine's affidavit, there is attached
10 to the back of the second full page a blue chart. It's
11 got a blue header. And in that chart, it lists if the
12 certified mailing was delivered or returned or
13 undelivered.

14 Read & Stevens used the best addresses that
15 it had when it provided us with addresses to send out
16 the mailings, and they had conducted a record title
17 search for those addresses and then conducted Internet
18 searches for other addresses. So the mailings have been
19 returned, but we haven't been able to locate other
20 addresses for them, so we published in the newspaper.

21 EXAMINER JONES: Okay. Thanks much.

22 MS. BRADFUTE: Thank you.

23 EXAMINER JONES: Take Case 16503 under
24 advisement.

25 (Case Number 16503 concludes, 9:59 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 11th day of November 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