

1 STATE OF NEW MEXICO
2 ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
3 OIL CONSERVATION DIVISION

4 IN THE MATTER OF THE HEARING CALLED
5 BY THE OIL CONSERVATION DIVISION FOR
6 THE PURPOSE OF CONSIDERING:

7 APPLICATION OF TAP ROCK OPERATING, CASE NO. 20320
8 LLC FOR A STANDARD HORIZONTAL SPACING
9 AND PRORATION UNIT AND COMPULSORY
10 POOLING, EDDY COUNTY, NEW MEXICO.

11 REPORTER'S TRANSCRIPT OF PROCEEDINGS

12 EXAMINER HEARING

13 April 4, 2019

14 Santa Fe, New Mexico

15 BEFORE: MICHAEL McMILLAN, CHIEF EXAMINER
16 TERRY WARNELL, TECHNICAL EXAMINER
17 WILLIAM V. JONES, TECHNICAL EXAMINER
18 DAVID K. BROOKS, LEGAL EXAMINER

19 This matter came on for hearing before the
20 New Mexico Oil Conservation Division, Michael McMillan,
21 Chief Examiner; Terry Warnell and William V. Jones,
22 Technical Examiners; and David K. Brooks, Legal
23 Examiner, on Thursday, April 4, 2019, at the New Mexico
24 Energy, Minerals and Natural Resources Department,
25 Wendell Chino Building, 1220 South St. Francis Drive,
Porter Hall, Room 102, Santa Fe, New Mexico.

26 REPORTED BY: Mary C. Hankins, CCR, RPR
27 New Mexico CCR #20
28 Paul Baca Professional Court Reporters
29 500 4th Street, Northwest, Suite 105
30 Albuquerque, New Mexico 87102
31 (505) 843-9241

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APPEARANCES

FOR APPLICANT TAP ROCK OPERATING, LLC:

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1 (10:06 a.m.)

2 EXAMINER McMILLAN: I'd like to call Case
3 Number 20320, application of Tap Rock Operating, LLC for
4 a standard horizontal spacing and proration unit and
5 compulsory pooling, Eddy County, New Mexico.

6 Is this case combined with Case Number
7 20321?

8 MS. SHAHEEN: It could be. I was planning
9 to do it separate so I don't get confused.

10 EXAMINER McMILLAN: Okay.

11 Any other appearances?

12 Please proceed.

13 MS. SHAHEEN: Sharon Shaheen on behalf of
14 Tap Rock Operating, LLC. I'll begin with Case Number
15 20320. And I may have a little more detail than you
16 want me to, so if I am --

17 EXAMINER McMILLAN: If this is done by
18 affidavit, just briefly go through the affidavit.

19 MS. SHAHEEN: Okay. I will do that.

20 Tap Rock proposes to create a standard
21 160-acre spacing unit in the west half-west half of
22 Section 13, Township 25 South, Range 27 East, targeting
23 the Hay Hollow; Bone Spring, North pool, to be dedicated
24 to the Delirium State Com #131H.

25 In support, we have two affidavits. The

1 first affidavit is behind Tab 3. That's the affidavit
2 of Matt Phillips, the landman. He offers several
3 exhibits, including C-102s, attached as Exhibit 1; a
4 plat outlining the unit, attached as Exhibit 2; the
5 parties being pooled, the nature of their interest in
6 Exhibit 3.

7 He further states that there are no depth
8 severances in the Bone Spring Formation.

9 Paragraph 13 details the proposed
10 surface-hole location, the total vertical -- proposed
11 total vertical depth, bottom-hole location, first take
12 point and last take point. He represents that he has
13 conducted a diligent search and made good-faith efforts
14 to obtain voluntary joinder of the working interest
15 owners in the proposed well.

16 Also attached is a sample proposal letter
17 and the AFE for the proposed well. He represents that
18 the estimated cost of the well is fair and reasonable
19 and comparable to the cost of other wells similar in
20 this area of New Mexico. Tap Rock requests overhead and
21 administrative rates of 7,000 a month for drilling and
22 700 a month for a producing well. And these rates are
23 also fair and comparable to the rates charged by other
24 operators. Tap Rock requests they be adjusted as
25 provided in the COPAS.

1 Tap Rock requests the maximum cost plus 200
2 percent risk charge against -- be assessed against
3 nonconsenting working interest owners and that it be
4 designated operator of the wells.

5 With this affidavit, I move that Exhibits
6 1, 2, 3 and 4 be admitted.

7 EXAMINER McMILLAN: Okay. Exhibits 1
8 through 4 may now be accepted as part of the record.

9 (Tap Rock Operating, LLC Exhibit Numbers 1
10 through 4 are offered and admitted into
11 evidence.)

12 MS. SHAHEEN: Also in support is the
13 affidavit of geologist Adam Smith. Mr. Smith represents
14 that -- actually, Mr. Smith offers several other
15 exhibits, including Exhibits 7, 8 and 10.

16 Exhibit 7 is the Bone Spring structure map.
17 Mr. Smith details the features of the Bone Spring
18 structure map, including the contour intervals,
19 orientation. He represents that there are no horizontal
20 wells in the nearby vicinity that have targeted the 3rd
21 Bone Spring W sand, among other things. He does not
22 observe any faulting, pinch-outs or other geologic
23 impediments or hazards to developing this targeted
24 interval as proposed.

25 Exhibit 8 is the Bone Spring stratigraphic

1 cross section. Here, again, Mr. Smith details the
2 features of the cross section.

3 Exhibit 9 is a gross isopach map of the 3rd
4 Bone Spring W sand interval, again with detailed
5 features of this map, including the location of the
6 spacing unit and the surface- and bottom-hole location,
7 the anticipated gross thickness, the relative thickness.

8 He represents that there are no horizontal
9 wells that have targeted this interval in the vicinity,
10 and based on his geological study of the area, he
11 concludes that a horizontal spacing and proration unit
12 is justified. There are no structural impediments or
13 faulting. Each quarter-quarter section will contribute
14 more or less equally to production, and the preferred
15 well orientation in this area is south to north.

16 Finally, Exhibit 10 is a simplified
17 wellbore program -- excuse me -- diagram that shows the
18 first and last take points for the 131H will be
19 standard.

20 I offer Exhibits 6, 7, 8, 9 and 10 into the
21 record.

22 EXAMINER McMILLAN: Okay. Exhibits 6
23 through 10 may now be accepted as part of the record.

24 (Tap Rock Operating, LLC Exhibit Numbers 6
25 through 10 are offered and admitted into

1 evidence.)

2 EXAMINER McMILLAN: Just so you know, I'm
3 notorious for telling people that I don't like -- I like
4 seeing limited information on a map, and I particularly
5 dislike when you put a structure map and your line of
6 cross section. Put those on separate maps.

7 MS. SHAHEEN: Okay. Let me make sure that
8 I have that right. "Line of cross section" --

9 EXAMINER McMILLAN: And structure on
10 separate maps.

11 MS. SHAHEEN: -- "and structure on separate
12 maps." Got it.

13 EXAMINER McMILLAN: And let's see.

14 EXAMINER BROOKS: This is 50/50 Tap Rock
15 and Devon?

16 MS. SHAHEEN: I believe so. There was a
17 little bit of a question about that. There was -- there
18 was a joint operating agreement that the parties thought
19 covered this area, and then they subsequently learned
20 that there was not and determined that it was only Devon
21 and Tap Rock. Originally, they thought maybe it was COG
22 but have since determined -- they've got a title
23 opinion, I believe, and have since determined it's just
24 Devon and Tap Rock.

25 EXAMINER BROOKS: Okay. So you didn't

1 notice anybody else?

2 MS. SHAHEEN: We noticed COG.

3 EXAMINER BROOKS: You noticed COG. Okay.

4 What about overrides? Any overriding
5 royalties in these leases?

6 MS. SHAHEEN: I think -- and I get the two
7 cases mixed up, so let me just look at it real quick.
8 This being Exhibit 3, the only override was Tap Rock.

9 EXAMINER BROOKS: Okay. No other
10 overrides?

11 MS. SHAHEEN: That's what it says.

12 EXAMINER BROOKS: Okay. I'm satisfied.

13 EXAMINER McMILLAN: Okay.

14 MS. SHAHEEN: Case Number 20231 --

15 EXAMINER McMILLAN: So you want Case Number
16 20320 taken under advisement?

17 MS. SHAHEEN: Oh. Yes, I do. Thank you
18 for reminding me.

19 EXAMINER McMILLAN: Case Number 20320 shall
20 be taken under advisement.

21 (Case Number 20320 concludes, 10:15 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 24th day of April 2019.

21

22

23 MARY C. HANKINS, CCR, RPR
24 Certified Court Reporter
25 New Mexico CCR No. 20
Date of CCR Expiration: 12/31/2019
Paul Baca Professional Court Reporters