

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 APACHE CORPORATION FOR CASE NOs. 20377,
8 A HORIZONTAL SPACING UNIT AND COMPULSORY 20378,
9 POOLING, EDDY COUNTY, NEW MEXICO. 20379,
10 20380,
11 20381,
12 20382,
13 20383,
14 20384

15 REPORTER'S TRANSCRIPT OF PROCEEDINGS
16 EXAMINER HEARING
17 April 4, 2019
18 Santa Fe, New Mexico

19 BEFORE: MICHAEL McMILLAN, CHIEF EXAMINER
20 TERRY WARNELL, TECHNICAL EXAMINER
21 PHILLIP GOETZE, TECHNICAL EXAMINER
22 DAVID K. BROOKS, LEGAL EXAMINER

23 This matter came on for hearing before the
24 New Mexico Oil Conservation Division, Michael McMillan,
25 Chief Examiner; Terry Warnell and Phillip Goetze,
Technical Examiners; and David K. Brooks, Legal
Examiner, on Thursday, April 4, 2019, 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 APACHE CORPORATION:

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FOR INTERESTED PARTIES HANAGAN INVESTMENTS, LLC and
HANOCO [sic], LLC:

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1 (2:01 p.m.)

2 EXAMINER McMILLAN: So we're going to call
3 Case Number 20377. We're on page 4.

4 MR. BRUCE: Yes.

5 MR. DeBRINE: Mr. Examiner, there are
6 actually eight cases that are being heard together for
7 Apache, beginning with 20377.

8 EXAMINER McMILLAN: Okay. And this will be
9 combined with 20378 through 384, correct?

10 MR. DeBRINE: That is correct.

11 EXAMINER McMILLAN: Okay. I would like to
12 call application of Apache Corporation for a compulsory
13 pooling, Eddy County, New Mexico.

14 Call for appearances.

15 MR. DeBRINE: Earl DeBrine, with Modrall,
16 Sperling, for the Applicant, Apache Corporation.

17 MR. BRUCE: Mr. Examiner, Jim Bruce of
18 Santa Fe, and I'm representing some disreputable
19 characters out of Roswell, Hanagan Investments, LLC and
20 Hanoco, H-A-N-O-C-O.

21 EXAMINER McMILLAN: Hanagan. And who's the
22 other one?

23 MR. BRUCE: H-A-N- -- that is Rob Hanagan.
24 The other one is Mike Hanagan.

25 EXAMINER McMILLAN: Hanagan and what?

1 MR. BRUCE: Hanagan Investments, LLC.

2 I have no witnesses.

3 EXAMINER McMILLAN: It's just Hanoco?

4 MR. BRUCE: Hanoco, H-A-N-O-C-O.

5 EXAMINER McMILLAN: That's it?

6 MR. BRUCE: That's it.

7 With your permission, I'm going to vacate
8 the premises. I have no objection to --

9 MR. DeBRINE: We're going to present these
10 cases by affidavit.

11 EXAMINER McMILLAN: Okay.

12 (Mr. Bruce exits the room, 2:03 p.m.)

13 MR. DeBRINE: Mr. Examiner, in these eight
14 cases, Apache is seeking to establish a 160-acre, more
15 or less, horizontal spacing unit in Sections 3 and 10 of
16 Township 19, Range 28 East, Eddy County, New Mexico and
17 pooling all the mineral interests in the Bone Spring
18 Formation underlying the proposed spacing units. There
19 are eight different wells that support each of the eight
20 applications.

21 The Palmillo 3 State Com 241H is Case
22 20377. For Case 20378, it's the Palmillo 3 State Com
23 242H. For Case 20379, it's the Palmillo 3 State Com
24 243H. For Case 20380, it's the Palmillo 3 State Com
25 244H. For Case 20381, it's the Palmillo 10 State Com

1 231H. For Case 20382, it's the Palmillo 10 State Com
2 232H. For the Palmillo State Com 233H, that's Case
3 20383. For Case 20384, it's the Palmillo 10 State Com
4 244H well.

5 There are two affidavits submitted in
6 support of all eight cases. First, if you turn to your
7 exhibit package, is the affidavit of Laci Stretcher, who
8 is the landman for Apache. She has been previously
9 qualified as an expert in petroleum land matters by the
10 Division. If you look at her affidavit, she includes
11 several exhibits, the first of which is a map that
12 outlines the basic area of the Palmillo 3 and state area
13 map and with the wells depicted there on Sections 3 and
14 10. It also indicates prior development of the Bone
15 Spring in the area by Apache. The second page of that
16 map shows the actual spacing units that are the subject
17 of the applications and identifies the different wells.

18 Also attached to her affidavit is an
19 explanation and tract map that shows all the different
20 tracts that comprise the spacing unit that are being --
21 that are the subject of the application. And she lists,
22 with respect to each tract, the ownership and percentage
23 of ownership of the different working interest owners
24 and overriding royalty owners. In this case there were
25 some overriding royalty owners, and everyone was

1 provided notice with respect to this proceeding.
2 Whether or not there was a provision in their lease that
3 allowed them to be pooled, we went ahead and notified
4 all the royalty owners with respect to each of the
5 different cases that are at issue in this case.

6 Next in her affidavit, she attaches the
7 summary -- she attaches a C-102 for the wells, which is
8 Exhibit B, 241H, or if you look under each case in her
9 affidavit, there is a different exhibit number listed,
10 but it's the same basic type of exhibit, whether it's a
11 C-102. What we did is we referenced the well number on
12 the exhibit so that it's easy to follow with respect to
13 what particular well we're dealing with.

14 She also attaches to her affidavit the
15 well-proposal letters that were sent out and the
16 Authorization for Expenditure. There are different
17 amounts with respect to each of the different eight
18 wells, but they're about \$6 million wells that were the
19 subject of the AFE. She testifies that the costs that
20 were proposed were comparable to wells drilled to
21 similar length and depth and being drilled in the area.
22 She also describes the work that she did to try and
23 reach voluntary agreement. She made a diligent search
24 of the public records, conducted phone directory and
25 computer searches to locate all the contact information

1 for the parties, sent them well-proposal letters and
2 AFEs, and for anyone who requested it, provided them an
3 operating agreement.

4 She also requests that Apache be named the
5 operator of the spacing units and requests a risk charge
6 of 200 percent and overhead and administrative rates of
7 7,500 a month during drilling and 750 a month while
8 producing. She renders her opinion that Apache made a
9 good-faith effort to obtain voluntary joinder of the
10 working interests in the proposed wells and that there
11 are also no depth severances within the Bone Spring
12 Formation with respect to any of the eight proposed
13 units.

14 Also attached to -- also included in the
15 exhibit package is the affidavit of Mike Muncy. He is a
16 geologist for Apache. He also has previously testified
17 before the Division, been accepted as an expert in
18 petroleum land matters. Mr. Muncy, in his affidavit, if
19 you look at the attachments, Attachment A is a structure
20 map that shows the proposed spacing units in the 3rd
21 Bone Spring and identifies the wells.

22 Exhibit B to his affidavit is a
23 stratigraphic cross section from A to A prime of the
24 different logs that were used to determine the
25 correlation and identify the thickness of the sands

1 associated with it. If you look on that map, the target
2 zone in the Bone Spring is highlighted in green. He
3 also includes, as Exhibit B to his affidavit, the Bone
4 Spring sand soapy [sic; phonetic] map, which identifies
5 the spacing units and shows the location of the wells
6 that are used to comprise his cross -- his cross section
7 from A to A prime.

8 Mr. Muncy offers his opinions that the --
9 he's conducted a geologic study. There are no
10 geological impediments or faulting that would interfere
11 with horizontal development in any of the eight spacing
12 units that are the subject of the application, that each
13 quarter-quarter section of the units will contribute
14 more or less equally to production, and the preferred
15 well orientation is east to west, and the producing
16 interval for each of these wells will be orthodox and
17 comply with the Division setback requirements.

18 Both Mr. Muncy and Ms. Stretcher also offer
19 their opinions that the granting of these applications
20 is in the interest of conservation and the protection of
21 correlative rights.

22 And we ask that Exhibits A and B be
23 admitted into evidence.

24 EXAMINER McMILLAN: Exhibits A and B in
25 Cases 20377 through 20384 may now be accepted as part of

1 the record.

2 (Apache Corporation Exhibits A and B are
3 offered and admitted into evidence.)

4 MR. DeBRINE: That concludes my
5 presentation. We ask that these cases be taken under
6 advisement.

7 EXAMINER McMILLAN: Okay. Any unlocatable
8 interests?

9 MR. DeBRINE: There were -- oh, actually,
10 we also-- Exhibit C is also my Affidavit of Publication,
11 which indicates that there were some unlocatable
12 interests. We got some -- some cards came back
13 returned. We published notice with respect to the
14 application in the paper of circulation in Eddy County
15 identifying each of the different owners that were
16 notified of the applications, and they're all
17 specifically listed so everyone with regard to Apache's
18 title work identified owning an interest in any of these
19 spacing units was either provided actual notice or was
20 given notice by publication in accordance with the
21 newspaper advertisements.

22 We also ask that Exhibit C be admitted into
23 evidence.

24 EXAMINER McMILLAN: Okay. Exhibit C may
25 now be accepted as part of the record.

1 (Apache Corporation Exhibit C is offered
2 and admitted into evidence.)

3 EXAMINER McMILLAN: What is the status of
4 these wells? Are they proposed?

5 MR. DeBRINE: They're proposed. We have
6 not commenced drilling yet.

7 EXAMINER McMILLAN: And were there
8 unlocatable interests for every case?

9 MR. DeBRINE: Yeah. There are in each of
10 the cases -- the ownership is different with respect to
11 the eight proposed units, but it is more or less
12 uniform. There are some differences, and there were
13 different unlocatable interests with respect to each
14 proposed spacing unit, but we identified everybody and
15 provided notice -- individual notice of each individual
16 application through separate letters.

17 EXAMINER McMILLAN: Okay. Go ahead, David.

18 EXAMINER BROOKS: I commend you for your
19 diligence in doing the -- sounds like you did quite a
20 lot.

21 MR. DeBRINE: Yeah. This was a pretty
22 intensive endeavor to put all this stuff together.

23 EXAMINER BROOKS: Okay. Well, I don't have
24 any questions.

25 EXAMINER McMILLAN: The same comment I give

1 to all the geologists. Put your last cross section on
2 one map and show the structure map on another map. It's
3 too much information to look at at one time.

4 MR. DeBRINE: We will do that,
5 Mr. Examiner. Thank you.

6 EXAMINER BROOKS: That's why I object to
7 people coming in with copies of Midland Map Company for
8 land purposes. There's so much information on it that
9 you can't see any of it.

10 EXAMINER McMILLAN: Do you have any
11 questions?

12 EXAMINER GOETZE: Well, I just want to
13 comment on your Affidavit of Publication. I find it
14 quite amusing that you were not able to locate --
15 New Mexico. So kudos there.

16 MR. DeBRINE: Well, we -- we -- it's better
17 safe than sorry. So it's been my practice just to list
18 everybody in that notice just in case we don't miss
19 someone because sometimes things fall through the
20 cracks.

21 EXAMINER GOETZE: State might not show up.
22 We understand.

23 MR. DeBRINE: And it doesn't cost a whole
24 lot more to throw another name on there.

25 EXAMINER GOETZE: You'd be surprised how

1 many people have a hard time spelling "State."

2 MR. DeBRINE: Ask these cases be taken
3 under advisement.

4 EXAMINER McMILLAN: With the requested
5 information?

6 MR. DeBRINE: We will provide the requested
7 information.

8 EXAMINER McMILLAN: Okay. Cases 20377,
9 20378, 20379, 20380, 20381, 20382, 20383 and 20384 shall
10 be taken under advisement.

11 Thank you.

12 Let's take a break.

13 (Case Numbers 20377 through 20384 conclude,
14 2:14 p.m.)

15 (Recess, 2:14 p.m. to 2:30 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 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