

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

ORIGINAL

APPLICATION OF GMT EXPLORATION COMPANY, LLC FOR A  
NONSTANDARD OIL SPACING AND PRORATION UNIT AND  
COMPULSORY POOLING, LEA COUNTY, NEW MEXICO.

CASE NO. 15394

OCTOBER 15, 2015  
1220 S. St. Francis Drive  
Santa Fe, NM 87505

HEARING EXAMINER: MICHAEL MCMILLAN  
LEGAL COUNSEL: GABRIEL WADE

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APPEARING FOR THE APPLICANT:

JIM BRUCE, Esq.  
369 Montezuma, No. 213  
Santa Fe, New Mexico 87501  
505-982-2043

REPORTED BY: JAN GIBSON, CCR, RPR, CRR  
Paul Baca Court Reporters  
500 Fourth Street, NW - Suite 105  
Albuquerque, New Mexico 87102

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1 (Note: Proceedings in session.)

2 HEARING EXAMINER MCMILLAN: Let's go back  
3 to Page 2, Case No. 15394, Application of GMT  
4 Exploration Company, LLC for a Non-Standard Oil  
5 Spacing and Proration Unit and Compulsory Pooling,  
6 Lea County, New Mexico. Call for appearances.

7 MR. BRUCE: Jim Bruce of Santa Fe  
8 representing the applicant. I have two witnesses.

9 HEARING EXAMINER MCMILLAN: Any other  
10 appearances?

11 PHILIP WOOD  
12 after having been first duly sworn under oath,  
13 was questioned and testified as follows:

14 EXAMINATION

15 BY MR. BRUCE

16 Q. Would you please state your name and city  
17 of residence for the record?

18 A. Philip Wood; Centennial, Colorado.

19 Q. Who do you work for and in what capacity?

20 A. Vice president of land for GMT  
21 Exploration.

22 Q. Have you previously testified before the  
23 division?

24 A. I have.

25 Q. Were your credentials as an expert

1 petroleum landman accepted as a matter of record?

2 A. They were.

3 Q. Does your area of responsibility at GMT  
4 include this portion of New Mexico?

5 A. It does.

6 Q. Are you familiar with the land matters  
7 involved in this case?

8 A. I am.

9 MR. BRUCE: Mr. Examiner, I tender  
10 Mr. Wood as an expert petroleum landman.

11 HEARING EXAMINER MCMILLAN: So qualified.

12 Q. Mr. Wood, could you identify Exhibit 1 for  
13 the examiner and describe the lands that are  
14 involved in this application?

15 A. Sure. Exhibit 1 is a Midland map centered  
16 on Section 22 of 24 south 34 east, Lea County. The  
17 tracts in question would be those that fall into the  
18 west half west half of Section 22.

19 Q. What types of land are involved in this  
20 case?

21 A. In this case as throughout the section  
22 it's federal minerals and fee minerals in a  
23 combination of mineral surface and fee surface.

24 Q. Could you identify Exhibit 2 and identify  
25 the well name and what formation will be tested by

1 this well?

2 A. Sure. Exhibit 2 is our application with  
3 the Bureau of Land Management for the drilling of  
4 Romeo Fed Com No. 1H. The well is to be located in  
5 northwest northwest quart of the surface location  
6 and the zone that we intend to go in is second Bone  
7 Spring.

8 Q. But do you request to pool the entire Bone  
9 Spring interval?

10 A. We do.

11 Q. And looking at the C-102, the second page  
12 of the EPE, will the well location, both the  
13 beginning perfs and the final perf be at orthodox  
14 locations?

15 A. They will be.

16 Q. Who do you seek to force pool in this  
17 case?

18 A. Oxy.

19 Q. And what is Exhibit 3?

20 A. Exhibit 3 is our well proposal that was  
21 sent to all parties. In this case this is specific  
22 to Oxy, wherein we outlined the scope of our  
23 operation and our proposal including AFE drilling or  
24 geologic prognosis.

25 Q. Has GMT had any other comment? Or I

1 should say has GMT spoken with Oxy or have they  
2 responded to this offer at all?

3 A. They have responded. At this point in  
4 time they declined to participate in the well. We  
5 have had e-mail communications as well as phone  
6 communications.

7 Q. In your opinion, has GMT made a good faith  
8 effort to obtain the voluntary joinder of Oxy U.S.A,  
9 inc. in the well?

10 A. We have.

11 Q. As part of Exhibit 3, there is the AFE.  
12 Could you identify or describe the AFE, describe the  
13 cost of the proposed well?

14 A. Sure. It's the AFE for the Romeo 1H well.  
15 It was prepared in July. Total cost, estimated cost  
16 for the well, \$6.32 million -- or I should say  
17 \$6.832 million.

18 Q. Is this cost reasonable and in line with  
19 the cost of other horizontal wells of this depth  
20 drilled in this area of New Mexico?

21 A. It is.

22 Q. Do you have a recommendation as to the  
23 overhead rates?

24 A. We do. The rates that were putting into  
25 our joint operating agreements are \$8,000 for the

1 drilling period and the \$800 per month.

2 Q. Are those costs fair and reasonable and in  
3 line with the operating administrative overhead  
4 rates of other operators in this area?

5 A. We believe they are.

6 Q. Is Exhibit 3 simply a page out of the JOA  
7 showing those rates?

8 A. Exhibit 4?

9 Q. Exhibit 4, excuse me.

10 A. Yes, it's just a copy of the Copas that  
11 will be in the particular operating agreement.

12 Q. And are there other working interest  
13 owners who have agreed to join in the billing of the  
14 well other than GMT?

15 A. There are. There are two others.

16 Q. And was notice given to Oxy of this  
17 hearing?

18 A. It was.

19 Q. Was that reflected in my affidavit of  
20 notice marked as Exhibit 5?

21 A. It is.

22 Q. And what is Exhibit 6?

23 A. Exhibit 6 is a list of the offset  
24 operators.

25 Q. Was notice given to all of the offsets of

1 the non-standard unit?

2 A. It was.

3 Q. And is that reflected in Exhibit 7, the  
4 notice affidavit?

5 A. It is.

6 Q. In your opinion, is the granting of the  
7 application in the interest of conservation and the  
8 prevention of waste?

9 A. It is.

10 Q. Were Exhibits 1 through 7 either prepared  
11 by you or under your supervision or compiled from  
12 company business records?

13 A. They were.

14 MR. BRUCE: Mr. Examiner, I move the  
15 admission of Exhibits 1 through 7.

16 HEARING EXAMINER MCMILLAN: Accepted as  
17 part of the record.

18 (Note: Exhibits 1 through 7 admitted.)

19 MR. BRUCE: No further questions of the  
20 witness.

21 HEARING EXAMINER MCMILLAN: Okay. Can you  
22 give me the well status?

23 THE WITNESS: Pardon me?

24 HEARING EXAMINER MCMILLAN: Is this  
25 pending or proposed?

1 THE WITNESS: It's pending BLM approval.  
2 We are negotiating a service use agreement as we  
3 speak with the private landowner.

4 HEARING EXAMINER MCMILLAN: Do you have  
5 the API number?

6 THE WITNESS: I do not have an API number.

7 MR. BRUCE: The APD has not been approved.

8 THE WITNESS: Has not been approved but we  
9 expect it to be approved soon. We currently have  
10 the well budgeted for the fourth quarter. It may  
11 roll into the first.

12 HEARING EXAMINER MCMILLAN: And the Red  
13 Hills Bone Springs north, state-wide, right?

14 MR. BRUCE: That is correct.

15 HEARING EXAMINER MCMILLAN: Okay. Because  
16 your surface is orthodox and your bottom hole is  
17 orthodox.

18 MR. BRUCE: Yes.

19 HEARING EXAMINER MCMILLAN: I'll be  
20 honest, the cost of \$8,000 and \$800, how did you get  
21 that? Because that's higher than we normally give.  
22 We normally give \$7500 and \$750. We have it well  
23 documented.

24 THE WITNESS: Those are the costs we  
25 believe are reasonable to this type of well. We

1 have seen higher and we have seen lower in  
2 proposals. I think we're kind of splitting the  
3 difference, at least is what we have seen. You have  
4 probably seen more than we have.

5 HEARING EXAMINER MCMILLAN: I'm just  
6 telling you what to expect.

7 THE WITNESS: I understand.

8 HEARING EXAMINER MCMILLAN: Any unlocated  
9 interest?

10 THE WITNESS: No.

11 HEARING EXAMINER MCMILLAN: Go ahead.

12 LEGAL COUNSEL WADE: I just have a  
13 question regarding one of the green cards. It looks  
14 like we have on Exhibit 7, the last page that's been  
15 delivered. We have a printout. Do you expect the  
16 green card or have you had any conversation with  
17 EOG?

18 MR. BRUCE: I haven't, and, of course,  
19 they were here today. But yeah, that was on the  
20 notice to the offsets. Yes. I had expected to get  
21 the green card back. I don't know. If it's  
22 necessary to continue it for a couple weeks just to  
23 show you the green card, that's okay.

24 LEGAL COUNSEL WADE: I think there's  
25 probably been a mixed bag as to what we have

1 accepted in the past regarding these printouts. I'm  
2 not sure, but just to be conservative, maybe we  
3 should continue it for two weeks?

4 MR. BRUCE: I can get an e-mail from the  
5 EOG.

6 LEGAL COUNSEL WADE: Something that would  
7 show constructive notice.

8 MR. BRUCE: To show they have no  
9 objection?

10 LEGAL COUNSEL WADE: That's correct.  
11 Thank you.

12 MIKE DILLI  
13 after having been first duly sworn under oath,  
14 was questioned and testified as follows:

15 EXAMINATION

16 BY MR. BRUCE

17 Q. Will you please state your name and city  
18 of residence?

19 A. Mike Dilli; Littleton, Colorado.

20 Q. Spell your name for the examiner?

21 A. D-I-L-L-I.

22 Q. Who do you work for and in what capacity?

23 A. GMT Exploration, vice president of  
24 exploration.

25 Q. Have you previously testified before the

1 division?

2 A. I have.

3 Q. And were your credentials as an expert  
4 petroleum geologist accepted as a matter of record?

5 A. They were.

6 Q. Are you familiar with the geological  
7 matters involved in this application?

8 A. Yes.

9 MR. BRUCE: Mr. Examiner, I tender  
10 Mr. Dilli as a expert petroleum geologist.

11 HEARING EXAMINER MCMILLAN: So qualified.

12 Q. Would you identify Exhibit 8?

13 A. Exhibit 8 is just a base map showing the  
14 activity in the area of the blue well circle, and  
15 the call-out box shows the Romeo well we are  
16 proposing in its location in Section 22. Also  
17 listed on there are the operators of several wells  
18 being drilled around us, Chevron, COG, EOG, and then  
19 our previous well we have drilled in Section 16.

20 The circles are wells that have been  
21 permitted but not drilled yet. The color code  
22 purple is the Third Bone Springs. The brown would  
23 be Second Bone Springs. Also there's two call-out  
24 boxes for the two key wells, ours and offsetting the  
25 EOG wells showing completions in production of those

1 two key wells.

2 Q. And what is Exhibit 9?

3 A. Exhibit 9 is a structure map drawn on top  
4 of the Second Bone Springs Sands interval. Again  
5 showing the well cost. What this basically is  
6 showing is a south to southeast dip of a little over  
7 one degree, 100-foot per mile, showing the well  
8 location possibly on a slight nose.

9 Q. Is there any, looking at this  
10 structurally, any geologic impediment to the  
11 drilling of this well?

12 A. There's not.

13 Q. Let's move on to Exhibit 10. What is  
14 that?

15 A. Exhibit 10 is an Isopach map of the  
16 specific Second Bone Springs Sand that we have  
17 targeted. This map is drawn with 8 percent density  
18 porosity cutoff within the sand package so it's kind  
19 of a net sand map. It shows the sand deposition is  
20 primarily from north to south as these turbidites  
21 tend to be in this area. Also showing we anticipate  
22 over 60 feet of net sand at the location we are  
23 drilling.

24 Q. And what is Exhibit 11?

25 A. Exhibit 11, if you refer back to any of

1 the other previous maps, is the cross-section A to B  
2 across the -- showing the location of the well and  
3 two offsetting nearest wells that have logs through  
4 them. The cross-section is hung on top of the  
5 Second Bone Springs sand down to the carbonate  
6 below.

7 For your information, the left tract on  
8 all these logs is a gamma ray. The middle track is  
9 a resistivity. The right tract is a density neutron  
10 with the bright red you see in the right tract is a  
11 highlight of over 8 percent density porosity. So  
12 you have the top of the Bone Springs sand. You see  
13 the Second Bone Springs No. 2 sand. That's what we  
14 call the lower sand we are going for. That's the  
15 target zone. You can see in the GMT well, the  
16 Pirate State there in 16, the red line across that  
17 target zone shows where we targeted our horizontal  
18 well on that. And then as you look at the HNG Buff  
19 22 well down in Section 22, that's our correlation  
20 down to the same package in that well. And the  
21 Romeo well would be drilled between these two wells.

22 Q. Based on Exhibits 10 and 11, do you  
23 anticipate the Second Bone Spring to be a continuous  
24 across the well unit?

25 A. I do.

1 Q. Would you anticipate each quarter quarter  
2 section in the well unit contributing more or less  
3 equally to production?

4 A. I would.

5 Q. And finally, what is Exhibit 12?

6 A. I don't have Exhibit 12. I'm sorry. Here  
7 it is. Horizontal drilling plan for the well in  
8 question, the Romeo well, showing where the landing  
9 point is, where the kickoff point is at about 10-6  
10 and then full length of lateral. We are merely  
11 dropping down dips slightly, and that's why it shows  
12 on that, that this exhibit on Page 2 shows the  
13 projected pathway going down slightly. That's  
14 following the structure of the formation.

15 Q. How many completions will there be?

16 A. We are participating 20 completion stages.

17 Q. What volumes of fluids, et cetera?

18 A. We have up-sized our fracs a little bit  
19 here, and on the Romeo well we are anticipating four  
20 million gallons approximately and six million pounds  
21 of sand.

22 Q. And that's quite a bit more than the  
23 Pirate State well that you highlight on Exhibit 8?

24 A. Yes, it's about double.

25 Q. And is that a trend in the business to

1 upsize?

2 A. Yes, we have done this on a couple other  
3 wells out there and we are seeing quite a bit of  
4 increase in production by upsizing our frac, so  
5 that's pretty much standard operating now.

6 Q. Were Exhibits 8 through 12 either prepared  
7 by you or compiled from company business records?

8 A. Yes, they were.

9 Q. In your opinion, is the granting of the  
10 application in the interest of conservation and the  
11 prevention of waste?

12 A. Yes, it is.

13 MR. BRUCE: Mr. Examiner, I move the  
14 admission of Exhibits 8 through 12.

15 HEARING EXAMINER MCMILLAN: Exhibits 8  
16 through 12 may now be accepted as part of the  
17 record.

18 (Note: Exhibits 8 through 12 admitted.)

19 HEARING EXAMINER MCMILLAN: The question I  
20 have is let's look at Exhibit 11. I'm just curious.  
21 Could you have multiple wells within this project  
22 area? I mean, I'm just curious. Is that the plan?

23 THE WITNESS: I know what you're getting  
24 at. Yes. We have had numerous discussions about  
25 that in-house. I think many companies are, as to

1 whether one wellbore would get this. So, I mean, if  
2 you want just a little information.

3 HEARING EXAMINER MCMILLAN: I'm curious  
4 myself.

5 THE WITNESS: What I find interesting is  
6 right next to us in Section 16, EOG has drilled a  
7 well in the upper, middle and the lower part of the  
8 Second Bone Springs, so they are following that  
9 closely.

10 HEARING EXAMINER MCMILLAN: In the west  
11 half?

12 THE WITNESS: Yeah, see those three?  
13 That's what they did. So we are following that  
14 closely. Right now we are targeting what we think  
15 is the biggest, thickest and best sand.

16 HEARING EXAMINER MCMILLAN: Okay. I was  
17 just curious. Have the wells in the west half of  
18 16, the cume reserves, going to be greater than the  
19 east half?

20 THE WITNESS: Well, the three wells I just  
21 talked about are pretty new so it's kind of hard to  
22 say right now. The well in the east half of 16 is a  
23 really good well. We are predicting over 500,000  
24 barrels of well out of that well.

25 HEARING EXAMINER MCMILLAN: I have no

1 further questions. Thank you very much. And case  
2 No. 15394 will be continued to October 29th.

3 (Note: The proceedings were concluded.)  
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I do hereby certify that the foregoing is  
a complete record of the proceedings in  
the Examiner hearing of Case No. \_\_\_\_\_  
heard by me on \_\_\_\_\_  
\_\_\_\_\_. Examiner  
Oil Conservation Division

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REPORTER'S CERTIFICATE

I, JAN GIBSON, Certified Court Reporter for the State of New Mexico, do hereby certify that I reported the foregoing proceedings in stenographic shorthand and that the foregoing pages are a true and correct transcript of those proceedings and was reduced to printed form under my direct supervision.

I FURTHER CERTIFY that I am neither employed by nor related to any of the parties or attorneys in this case and that I have no interest in the final disposition of this case.



JAN GIBSON, CCR-RPR-CRR  
New Mexico CCR No. 194  
License Expires: 12/31/15