

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 BC OPERATING, INC. CASE NO. 15529
FOR A NONSTANDARD SPACING AND and
PRORATION UNIT, UNORTHODOX WELL CASE NO. 15530
LOCATION, AND COMPULSORY POOLING,
EDDY COUNTY, NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

September 15, 2016

Santa Fe, New Mexico

BEFORE: PHILLIP GOETZE, CHIEF EXAMINER
GABRIEL WADE, LEGAL EXAMINER

This matter came on for hearing before the
New Mexico Oil Conservation Division, Phillip Goetze,
Chief Examiner, and Gabriel Wade, Legal Examiner, on
Thursday, September 15, 2016, 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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APPEARANCES

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1 (10:28 a.m.)

2 EXAMINER GOETZE: Now, the two remaining
3 cases, Case Number 15529 and Case 15530, are
4 consolidated for hearing. Case 15529 is application of
5 BC Operating Inc. for a nonstandard spacing and
6 proration unit, unorthodox well location and compulsory
7 pooling, Eddy County, New Mexico; Case 15530,
8 application of BC Operating, Inc. for a nonstandard
9 spacing and proration unit, unorthodox well location and
10 compulsory pooling, Eddy County, New Mexico.

11 Call for appearances.

12 MR. FELDEWERT: May it please the Examiner,
13 Michael Feldewert, from the Santa Fe office of Holland &
14 Hart, appearing on behalf of the Applicant. I have two
15 witnesses.

16 MR. BRUCE: Mr. Examiner, Jim Bruce of
17 Santa Fe representing CL&F Resources, L.P. I have no
18 witnesses.

19 EXAMINER GOETZE: And Cimarex has filed,
20 and I don't see anybody here from Modrall.

21 What shall we do?

22 MR. FELDEWERT: Mr. Examiner, I will
23 represent to you that we did receive an email
24 communication from Cimarex's attorney this morning
25 informing us that they saw no need for their appearance

1 in the case here today.

2 EXAMINER GOETZE: So they're not going to
3 make an appearance, and they're happy so far, or -- is
4 that your understanding?

5 MR. FELDEWERT: I can only go by what's in
6 the email.

7 EXAMINER GOETZE: Okay. Very good. So
8 they told you they're not coming.

9 EXAMINER WADE: Was that Earl DeBrine or
10 Jennifer --

11 MR. FELDEWERT: Jennifer.

12 EXAMINER GOETZE: Very well. Then the
13 witnesses may stand, identify yourself to the court
14 reporter and be sworn in, please.

15 MR. MURPHY: Harmon Murphy.

16 MR. MOYLETT: Mike Moylett.

17 (Mr. Murphy and Mr. Moylett sworn.)

18 HARMON MURPHY,
19 after having been first duly sworn under oath, was
20 questioned and testified as follows:

21 DIRECT EXAMINATION

22 BY MR. FELDEWERT:

23 Q. Would you please state your name, identify by
24 whom you're employed and in what capacity?

25 A. My name is Harmon Murphy. I'm employed by BC

1 Operating, Incorporated, and I am their senior landman.

2 EXAMINER GOETZE: May I interrupt just one
3 moment?

4 You didn't have an opening statement?

5 MR. BRUCE: No, sir.

6 EXAMINER GOETZE: I just wanted to make
7 sure.

8 Continue, Mr. Feldewert.

9 Q. (BY MR. FELDEWERT) And how long have you been a
10 senior landman for BC Operating?

11 A. Since the first of this year, January 1st,
12 2016.

13 Q. Have you previously testified before the
14 Division?

15 A. No, sir, I have not.

16 Q. Would you outline your educational background?

17 A. Yes, sir. I graduated from Louisiana State
18 University in 2008.

19 Q. And in terms of your work history, have you
20 been a landman since graduation?

21 A. Yes, sir, I have. I was an independent landman
22 for six years, and then in June of 2014, I became the
23 senior landman for Nadel and Gussman.

24 Q. And at the time -- since you've been a senior
25 landman, first with Nadel and Gussman and now with BC

1 Operating, have your responsibilities included the
2 Permian Basin?

3 A. They have been, in Eddy and Lea Counties, New
4 Mexico.

5 Q. And are you a member of any professional
6 organizations or affiliations?

7 A. Yes, sir, I am, the AAPL and the PBLM.

8 Q. How long with AAPL?

9 A. Since 2008.

10 Q. And what about the Permian Basin Landmen's
11 Association?

12 A. Since June of 2014.

13 Q. Are you familiar with the applications that's
14 been filed in these consolidated cases?

15 A. Yes, sir, I am.

16 Q. And are you familiar with the status of the
17 lands in the subject area?

18 A. Yes, sir, I am.

19 MR. FELDEWERT: I would tender Mr. Murphy
20 as an expert witness in petroleum land matters.

21 EXAMINER GOETZE: Mr. Bruce?

22 MR. BRUCE: No objection.

23 EXAMINER GOETZE: He is so qualified.

24 Q. (BY MR. FELDEWERT) Would you please turn to
25 what's been marked as BC Operating Exhibit Number 1?

1 Does this exhibit identify a Midland map for the wells
2 in the acreage that are at issue under these
3 consolidated applications?

4 A. Yes, sir, it does.

5 Q. Okay. The Red Light #1, what acreage is
6 involved there?

7 A. That encompasses the east half of Section 26
8 and 23-26 and the northeast quarter of Section 34 and 23
9 South, 26 East.

10 Q. And you said Section 26. Do you mean Section
11 27?

12 A. Yes, sir. Excuse me.

13 Q. And then the Red Light #2, is that the west
14 half equivalent of that acreage?

15 A. Yes, sir, it is.

16 Q. Okay. So you're looking at one-and-a-half-mile
17 laterals?

18 A. Yes, sir. That is correct, free form.

19 Q. In what formation?

20 A. In the Wolfcamp Formation.

21 Q. What's the nature of the acreage that is
22 shaded --

23 A. In the Red Light #1, there are five state
24 leases and one fee lease.

25 And in the Red Light #2, there are four

1 state leases.

2 Q. Okay. And then if I look at what's been marked
3 as BC Operating Exhibit Number 2, are these draft C-103
4 plats for each of these wells?

5 A. Yes, sir, they are.

6 Q. And does it identify, on these plats, the
7 surface and bottom-hole locations?

8 A. Yes, it does.

9 Q. And does it also identify the first and last
10 take points?

11 A. Yes, sir, it does.

12 Q. Now, you mention the target is the Wolfcamp
13 Formation?

14 A. Yes, sir, that's correct.

15 Q. Has the company visited with the Division's
16 district office to ascertain what pool would be involved
17 with these wells?

18 A. Yes, sir, it has.

19 Q. And what has Mr. Kautz told you?

20 A. He put it in my Wolfcamp gas pool.

21 Q. And is it a Wolfcamp gas pool?

22 A. Yes, sir.

23 MR. FELDEWERT: And I believe,
24 Mr. Examiners, that Wolfcamp gas pool is identified in
25 our application. It has a number series so --

1 EXAMINER GOETZE: Yeah. It is one of the
2 informal designations, yes, that Paul assigns to them.
3 So we realize that, and we do have that on record.

4 Q. (BY MR. FELDEWERT) All right. And, Mr. Murphy,
5 since this is a gas pool, this is subject to 320-acre
6 spacing?

7 A. Yes, sir.

8 Q. With 660-foot setbacks?

9 A. Yes, sir, it does.

10 Q. With that in mind, what is the relief that the
11 company seeks under this application to drill these two
12 wells?

13 A. We want to create two nonstandard spacing and
14 proration units, one for the northeast quarter of
15 Section 34 and one for the northwest quarter of Section
16 34.

17 Q. Let me stop you right there. Is that for
18 purposes of combining that acreage with the standard
19 spacing units in Section 27?

20 A. Yes, sir, that's correct.

21 Q. Okay. And so ultimately then forming, as
22 reflected on the C-102s, a 480-acre nonstandard spacing
23 and proration unit?

24 A. Yes, sir, that's correct.

25 Q. What else do you seek under this application?

1 A. We'd like to pool all committed working
2 interest owners to the Wolfcamp Formation, and we would
3 also like to have approval for an unorthodox location
4 for a 330 setback.

5 Q. Now, what's the reason for the --

6 A. We'd like --

7 Q. Hold on.

8 -- for the request for the nonstandard
9 [sic] locations?

10 A. We'd like to lengthen the lateral to increase
11 production.

12 Q. And do you expect production of oil and gas
13 from these wells?

14 A. Yes, sir, we do.

15 Q. Then if I turn to what's marked as BC Operating
16 Exhibit Number 3, does this exhibit -- do each of these
17 two wells identify the acreage that is subject to the
18 notice requirements for both the nonstandard spacing and
19 proration unit --

20 A. Yes, sir.

21 Q. -- in Section 34?

22 A. It does.

23 Q. And for the nonstandard location for these
24 wells?

25 A. Yes, sir, it does.

1 Q. And did you identify, for purposes of this
2 hearing, the affected parties in the offsetting acreage
3 for each of those wells?

4 A. Yes, sir, we did.

5 Q. Looking specifically at the 2H well and noting
6 the notice area for that well, does the 2H well encroach
7 on a spacing unit to the northwest or the southwest?

8 A. No, sir, it does not.

9 Q. Nor does it encroach on the spacing units to
10 the west?

11 A. No, sir, it does not.

12 Q. Okay. Is that why, then, the shaded area
13 exists to the north, to the east and the south of this
14 spacing unit?

15 A. Yes, sir, it does.

16 Q. Okay. Now, turning to the pooling issues, for
17 pooling purposes, did you propose each of these wells to
18 the working interest owners?

19 A. Yes, sir, I did.

20 Q. If I turn to what's been marked as, first, BC
21 Operating Exhibit Number 4 and then BC Operating Exhibit
22 Number 5, are these examples of the well-proposal
23 letters that were sent out to the working interest
24 owners for each of these wells?

25 A. Yes, sir, it does.

1 Q. Okay. And in this case, these were sent to
2 CL&F Resources?

3 A. Yes, sir, it was.

4 Q. Did each of these letters contain an AFE?

5 A. Yes, sir, it did.

6 Q. And that's found on the last page of each of
7 these two exhibits?

8 A. Yes, it does.

9 Q. At the time that these AFEs were sent and put
10 together, did they reflect the cost that was anticipated
11 by BC Operating and other operators who are drilling
12 similar wells in the Wolfcamp?

13 A. Yes, it was -- it is.

14 Q. Now, what overhead and administrative rates are
15 requested under this pooling order?

16 A. We request \$7,000 a month for drilling and \$700
17 a month for production.

18 Q. And are these rates that other operators in the
19 area are charging for similar wells?

20 A. Yes, sir, it is.

21 Q. Now, in preparation for this hearing, did you
22 also look at the underlying instruments governing the
23 non-cost-bearing interests, such as overriding royalty
24 interests on royalty interests?

25 A. Yes, sir, we did.

1 Q. And did you ascertain that there were some of
2 those interests that required pooling?

3 A. Yes, sir, we did.

4 Q. What efforts did the company undertake to
5 obtain voluntary agreements with non-cost-bearing
6 interests prior to --

7 A. We mailed them ratifications and amendments.

8 Q. If I then turn, for example, to BC Operating
9 Exhibit Number 6, is this representative of the types of
10 letters that were sent to, first, royalty owners, and if
11 I look at the second page, overriding royalty owners to
12 the 1H?

13 A. Yes, sir.

14 Q. And then if I turn to BC Operating Exhibit
15 Number 7, is this the type of letter that was sent to
16 the overriding royalty interest owners?

17 A. Yes, sir.

18 Q. Does that mean, then, that the #2H does not
19 have any royalty interests that need to be pooled?

20 A. Yes, sir. It's all state lease.

21 Q. All right. If I then turn to what's been
22 marked as BC Operating Exhibits 8 and 9, these are both
23 put together in a similar fashion?

24 A. Yes, sir, they are.

25 Q. And do they identify the interests that remain

1 to be pooled for each well?

2 A. Yes, sir, they do.

3 Q. And how are those parties identified?

4 A. In bold.

5 Q. And if I first look at Exhibit Number 8, the
6 first page then has a listing of parties, some of which
7 are in bold, for the 1H. And on the right-hand side, we
8 see the working interest owners?

9 A. Yes, sir, that's correct.

10 Q. And now on the left-hand side, we see the
11 overriding royalty interests and royalty -- correct?

12 A. Yes, sir, that's correct.

13 Q. And the percentage interests that you reflect
14 here on the first page, is that on a consolidated basis?

15 A. Yes, sir.

16 Q. If I look at the second page of this particular
17 exhibit, Number 8, does that rate the interest owners --
18 working interest ownership by tract?

19 A. It does.

20 Q. And is Exhibit Number 9 put together in the
21 same fashion?

22 A. Yes, sir, it is.

23 Q. Okay. I see here that the interest in this
24 particular area for both wells is pretty heavily
25 divided?

1 A. Yes, sir, it is.

2 Q. As I look through this, I see some interest
3 owners, for example on Exhibit Number 8, that have zero
4 percent interest associated with them. Do you see that?

5 A. Yes, sir, I do.

6 Q. What's the reason for that?

7 A. They may have a contractual interest. We're
8 not exactly sure.

9 Q. So they don't show up as a leasehold of record?

10 A. They have no leasehold rights in that
11 particular well.

12 Q. But you have listed them out of an abundance of
13 caution in the event they have a contractual agreement?

14 A. Yes, sir, that's correct.

15 Q. The other thing I notice here, Mr. Murphy, is I
16 don't see BC Operating listed as a working interest
17 owner. Why is that?

18 A. That's because BC Operating is the operating
19 company for Crown Oil Partners, Crump Energy Partners
20 and Nadel and Gussman Permian.

21 Q. And we see those companies on each of these
22 exhibits listed as the first three interest owners?

23 A. Yes, sir, that's correct.

24 Q. Now, in addition to sending out these
25 well-proposal letters, did you reach out to the working

1 interest owners in attempt -- efforts to reach an
2 agreement?

3 A. Yes, sir, we did.

4 Q. Okay. And did you have various discussions
5 with them?

6 A. Numerous.

7 Q. And are there interest owners you were unable
8 to contact?

9 A. Yes, sir.

10 MR. FELDEWERT: I apologize. I'm going to
11 put this in the record, if I may.

12 If I may approach the witness?

13 EXAMINER GOETZE: Please.

14 Q. (BY MR. FELDEWERT) Mr. Murphy, I'm going to
15 hand you what's been marked as BC Operating Exhibit
16 Number 10A. Mr. Murphy, I introduce this into the
17 record -- first off, I believe -- is this correspondence
18 that you had in July with one of the parties you seek to
19 pool here as CL&F Resources?

20 A. Yes, sir.

21 Q. And that's one of the parties that entered an
22 appearance in this case?

23 A. Yes, sir.

24 Q. And if I look at this, you're having a
25 discussion about whether they're going to execute a JOA;

1 is that right?

2 A. Yeah.

3 Q. And then I also see down here at the bottom --
4 let me step back. Ms. Allison Gill, is she with CL&F
5 Resources?

6 A. Yes, sir, she is.

7 Q. And down there, she's indicating that they're
8 trying to decide whether they're going to execute a JOA
9 or just wait until the order comes in?

10 A. Yes, sir.

11 Q. And what did you understand her to mean when
12 she said they were going to wait until -- possibly wait
13 until the order?

14 A. They just want to make sure that the order
15 comes out, and then they'll make a decision.

16 Q. Talking about the pooling order?

17 A. Yes, sir, that's correct.

18 Q. All right. And this is the type of
19 correspondence that you had with other working interest
20 owners?

21 A. Yes, sir.

22 Q. All right. You mention that there were other
23 working interest owners that you were unable to locate.
24 What efforts were taken to locate them?

25 A. We attempted to contact or identify working

1 phone numbers for them and reach out and call them.

2 Q. Okay. And, for example, here is -- Mr. George
3 D. Gould is listed on Exhibit Number 8. Were you able
4 to find contact information for him?

5 A. No, sir. I believe he's deceased.

6 Q. Okay. And accordingly, prior to this Division
7 hearing, did the company provide notice by publication
8 by name to the interest owners, both cost-bearing and
9 non-cost-bearing, that you seek to pool?

10 A. Yes, sir, we did.

11 Q. And if I turn to what's been marked as BC
12 Operating Exhibit Number 10, is this the affidavit of
13 the publication that was submitted to the local
14 newspaper for the 1H?

15 A. Yes, sir.

16 Q. Okay. And I see that there are more parties
17 listed. And I go to the second page, and I see an
18 additional listing of parties that was for publication
19 in August?

20 A. Yes, sir.

21 Q. What was the reason for the second publication?

22 A. I believe to include the royalty and overriding
23 royalty owners.

24 Q. Okay. All right. And then, again, if I turn
25 to what's been marked as BC Operating Exhibit Number 11,

1 I see, again, a Notice of Publication listing a number
2 of parties, as well as a second notice of publication in
3 August listing some additional parties, correct?

4 A. Yes, sir, that's correct.

5 Q. All right. Finally, if I turn to what's been
6 marked as BC Operating Exhibit Number 12, is this an
7 affidavit prepared by my office with attached letters
8 providing notice of this hearing to the affected
9 parties?

10 A. Yes, sir, it is.

11 Q. And it includes three letters; is that correct?

12 A. Yes, sir.

13 Q. For each well?

14 A. Yes, sir.

15 Q. We have a letter for the pooled parties?

16 A. Yes, sir.

17 Q. And we have a letter to the offset affected
18 parties?

19 A. Yes, sir.

20 Q. I see mailings, then, that went out in July?

21 A. Yes, sir.

22 Q. And then as I page through the exhibit --
23 unfortunately, I don't have a page number on here.
24 There are -- there is an additional set of letters about
25 three-quarters of the way through the stack that went

1 out on August 26th, 2016. Did you find those?

2 A. Yes, sir.

3 Q. What was the reason for sending out that
4 additional round of notice?

5 A. To notify the overriding royalty and royalty
6 owners.

7 Q. Okay. All right. Were BC Operating Exhibits 1
8 through 11 prepared by you or compiled under your
9 direction or supervision?

10 A. Yes, sir, they were.

11 MR. FELDEWERT: Mr. Examiner, at this time
12 I would move the admission into evidence BC Operating
13 Exhibits 1 through 12, which includes my Notice of
14 Affidavit.

15 EXAMINER GOETZE: Mr. Bruce?

16 MR. BRUCE: No objection.

17 EXAMINER GOETZE: Exhibits 1 through 12,
18 inclusive of Exhibit 10A, are entered into record.

19 (BC Resources, L.P. Exhibit Numbers 1
20 through 12 and 10A are offered and admitted
21 into evidence.)

22 MR. BRUCE: Just a couple of questions.

23 CROSS-EXAMINATION

24 BY MR. BRUCE:

25 Q. Mr. Murphy, do CL&F and Nadel and Gussman

1 Permian have a long-standing, friendly relationship with
2 each other?

3 A. Yes, sir, we do.

4 Q. So you've been in touch with them quite a bit
5 on these wells?

6 A. Yes, sir. Yes, sir.

7 Q. And it's your understanding from speaking with
8 them that they will make an election whenever you need
9 one to be made?

10 A. Yes, sir.

11 Q. Thank you.

12 EXAMINER GOETZE: Mr. Wade?

13 CROSS-EXAMINATION

14 BY EXAMINER WADE:

15 Q. Going back to the affidavits, are the parties
16 listed -- is that everybody, all the working interests,
17 or is this the unlocatable interests that are listed in
18 the affidavit? I'm having trouble -- it's everybody?
19 That's on the first affidavit.

20 And on the second affidavit, is that
21 unlocatable affected interests or --

22 MR. FELDEWERT: That would be the
23 overriding and royalty interests.

24 EXAMINER WADE: The overriding and
25 royalties.

1 So for affected parties, there is no
2 notice?

3 MR. FELDEWERT: The list, I believe,
4 includes --

5 EXAMINER WADE: Yes. I'm trying to tie
6 it -- so that's Exhibit --

7 EXAMINER GOETZE: Court Reporter, it's
8 after the July 29th letter in Exhibit Number 12, and
9 there is a listing of affected parties.

10 EXAMINER WADE: So that entire list is
11 included within the affidavit?

12 THE WITNESS: Yes.

13 EXAMINER WADE: Okay. Then I have no
14 further questions.

15 EXAMINER GOETZE: No further questions?

16 Thank you.

17 CROSS-EXAMINATION

18 BY EXAMINER GOETZE:

19 Q. So just for the record, we're looking for a 200
20 percent penalty interest?

21 A. Yes, sir.

22 Q. Very good. Just wanted to make sure. It's a
23 sensitive issue.

24 EXAMINER GOETZE: I have no further
25 questions of this witness.

1 MR. FELDEWERT: I'd call my next witness.

2 MIKE MOYLETT,

3 after having been previously sworn under oath, was
4 questioned and testified as follows:

5 THE WITNESS: Good morning.

6 DIRECT EXAMINATION

7 BY MR. FELDEWERT:

8 Q. Would you please state your name, identify by
9 whom you're employed and in what capacity?

10 A. My name is Mike Moylett. I'm a petroleum
11 geologist with BC Operating, Inc., Incorporated.

12 Q. How long have you been a petroleum geologist
13 with BC Operating?

14 A. Over four years.

15 Q. Okay. And, Mr. Moylett, you have previously
16 testified before the Division as an expert in petroleum
17 geology; is that correct?

18 A. Yes, I have.

19 Q. Are you familiar with the application that's
20 been filed in these consolidated cases?

21 A. Yes.

22 Q. And have you conducted a geologic study of the
23 lands that are the subject of this hearing?

24 A. Yes.

25 MR. FELDEWERT: I'd tender Mr. Moylett as

1 an expert witness in petroleum geology.

2 MR. BRUCE: No objection.

3 EXAMINER GOETZE: He is so qualified.

4 THE WITNESS: Thank you, Mr. Examiner.

5 Q. (BY MR. FELDEWERT) Mr. Moylett, you were here
6 for the testimony that the company intends to complete
7 each of these proposed horizontal wells in the Wolfcamp
8 Formation?

9 A. Yes.

10 Q. In your opinion, does that targeted interval
11 extend across the surface acreage at issue?

12 A. Yes.

13 Q. And in your opinion, are there any structural
14 impediments to developing the Wolfcamp under this
15 acreage using horizontal wells?

16 A. There are none.

17 Q. With that in mind, would you turn to what's
18 been marked as BC Operating Exhibit Number 13? Please
19 describe -- describe and tell us what it shows.

20 A. Okay. This is a subsea structure map on top of
21 the Wolfcamp Formation, the formation we're proposing to
22 drill our horizontal wells in. The contour interval is
23 1 inch to 100 feet in the yellow box, in the center of
24 the map, in Section 27, in the north half of 34 of 23
25 South, 26 East. East is the Red Light acreage we've

1 been talking about. The 2H is on the west half, and the
2 1H is on the east half.

3 The structural cross section shows that
4 it's pretty much a regional dip. It's about 100 feet
5 per mile or about one-degree dip updip to the west and
6 downdip to the east.

7 I've shown in green all the Wolfcamp
8 producers in this area on this map. The vertical wells
9 are just the solid circles. The horizontal wells are
10 the green circles with the sticks attached to them.

11 Q. And does this support your opinion that there
12 is no geologic impediments here in the Wolfcamp to
13 developing this acreage using stand-up horizontal wells?

14 A. No, it doesn't. It shows that basically as you
15 drill from north to south, you would be drilling, for
16 the most part, on strike to the Wolfcamp Formation.

17 Q. Okay. And there is no faulting or pinchouts or
18 anything like that?

19 A. There are none.

20 Q. Okay. All right. Now, did you also prepare
21 two cross sections in preparation for the hearing today?

22 A. Yes, I did.

23 Q. And are those marked as BC Exhibits 14 and 15?

24 A. Yes, I have.

25 Q. First pull out BC Exhibit Number 14. Would you

1 please identify how this cross section was put together
2 and --

3 A. This is a structural cross section. The title
4 block or the locator map is in the bottom left, and the
5 cross section has four wells on it. It runs from west
6 to east. Some of the wells adjacent to the Red Light
7 acreage I used to either have logs over the Wolfcamp or
8 modern suite of logs. So I get the nearest wells that
9 showed what the Wolfcamp looks like in the acreage up in
10 there.

11 The top of the 3rd -- base of the 3rd Bone
12 Spring sits on top of the Wolfcamp. That's noted on the
13 cross section. And then the base of the Wolfcamp rests
14 on top of the Strawn. That's also noted in the cross
15 section.

16 I show the target interval for the Red
17 Light wells on the left part of the cross section. In
18 Tract 1, it's a gamma-ray log, and I highlighted the
19 carbonate detritus members in Tract 1 in blue. Tract 2
20 is a resistivity -- excuse me. It's a neutron density
21 log. I just highlighted the neutron log in yellow for
22 correlation purposes. And Tract 3 is the resistivity
23 log, and I shaded all resistivities less than 100 ohms
24 for correlation purposes.

25 So as we proceed from west to east with the

1 four wells on the cross section, the first well on the
2 west, you'll see around 9,300 feet, there is a
3 resistivity marker that goes across the west-east cross
4 section. And associated with that resistivity marker is
5 the carbonate detritus below, and that's the target
6 interval for the two Red Light wells.

7 Q. And you show that targeted interval as
8 extending across the acreage that's at issue today?

9 A. Yes, on the east-west cross section that we're
10 looking at.

11 Q. All right. Did you also then prepare a
12 north-south cross section?

13 A. Yes, I have.

14 Q. And is that Exhibit Number 15?

15 A. Yes.

16 Q. Would you please explain that for us?

17 A. This is a north-south cross section. The
18 locator map is on the bottom left. It's a strike cross
19 section that includes five wells on the cross section,
20 and you see the locator map from north to south. And I
21 have most of the wells that have been drilled through
22 the Wolfcamp on our acreage block up in there.

23 The color scheme is the same as the
24 previous cross section on the gamma ray in Tract 1, the
25 neutron density in Tract 2, the resistivity in Tract 3.

1 And that resistivity marker that I pointed out in the
2 west-east cross section is shown around approximately
3 9,430 feet on the well in the west, and you can trace
4 that across the cross section in the north-south
5 direction.

6 Once again, associated above and below that
7 resistivity marker are the carbonate detritus, benches
8 that we'll be targeting in our Red Light well.

9 Q. And does that further confirm that the target
10 interval extends across the acreage at issue?

11 A. Yes. It shows also on the strike direction
12 that the carbonate intervals would be present.

13 Q. Based on your study, in your opinion, will the
14 Wolfcamp Formation underlying the acreage at issue
15 contribute more or less equally to the production from
16 the well -- proposed wellbores?

17 A. Yes.

18 Q. And in your opinion, Mr. Moylett, is the
19 granting of this application -- or these two
20 applications in the best interest of conservation, the
21 prevention of waste and the protection of correlative
22 rights?

23 A. Yes.

24 Q. And were BC Operating Exhibits 13 through 15
25 prepared by you or compiled under your direction and

1 supervision?

2 A. Yes.

3 MR. FELDEWERT: Mr. Examiner, I would move
4 admission of the evidence of BC Operating Exhibits 13
5 through 15.

6 MR. BRUCE: No objection.

7 EXAMINER GOETZE: Exhibits 13 through 15
8 are so entered.

9 (BC Resources, L.P. Exhibit Numbers 13
10 through 15 are offered and admitted into
11 evidence.)

12 MR. FELDEWERT: That concludes my
13 examination of this witness.

14 EXAMINER GOETZE: Mr. Wade?

15 EXAMINER WADE: No questions.

16 CROSS-EXAMINATION

17 BY EXAMINER GOETZE:

18 Q. Welcome back.

19 A. Thank you. It's nice to be back.

20 Q. First question that pops into my head is why
21 are we not including the south half of Section 34 in
22 this effort? Is there some limitation?

23 A. We don't have ownership of Section 34.

24 Q. So it's mostly about ownership that we're
25 concerned with?

1 A. Yes.

2 Q. Of course, in this area, we had a big effort by
3 Cimarex to change setbacks and bring this into a more
4 conservative effort to develop the Wolfcamp. What do
5 you think is going to be the type of production coming
6 out of your completed well?

7 A. Well, the wells on the base map to the east are
8 Mewbourne wells, and we've been in the Mewbourne wells.
9 And we've also been in a lot of Matador wells further
10 east as a nonoperating interest. We've actually drilled
11 the wells ourselves in this Wolfcamp zone. And the
12 potential -- in this middle Wolfcamp, the gas-to-oil
13 ratio is 10,000 to 1. So these wells generally
14 initially produced approximately 600 barrels of oil and
15 about 6 million cubic feet of gas per day.

16 Q. And at this point, we're looking at a time
17 single completion, or were we going to have multiple
18 laterals?

19 A. For this Red Light well, we will be
20 targeting -- one of them will be targeting the
21 carbonates above that shale marker, and the second well
22 will be targeting carbonates below that shale marker,
23 which is common practice out here. The wells to the
24 east have drilled from what we call the B1, B2 or lower
25 B, upper B benches. A lot of operators have a lot of

1 different names for the different benches. We've been
2 staying consistent with how Matador's been calling their
3 benches.

4 Also, the Upper Wolfcamp -- on the top of
5 the Wolfcamp, there is also production in this area, and
6 it is another target, too. That's a 2001 GOR. That's
7 what they call the Wolfcamp, x-y, or some people call it
8 Wolfcamp A.

9 Q. It has been a preferred target for some of the
10 operators in the area?

11 A. Yes. It's -- like I say, this is multiple
12 benches out here. And also on top of the Strawn, that
13 lower Wolfcamp, they call it Wolfcamp B in some cases,
14 it's very gassy. But that's been targeted in some other
15 areas. So eventually, with the right price scenario
16 forecast, that will also be another development.

17 Q. I'm more interested in the Upper Wolfcamp since
18 that is present.

19 A. Yes.

20 Q. Well, as usual, your presentation is thorough.
21 I have no more questions. Thank you.

22 A. Thank you very much.

23 MR. BRUCE: Mr. --

24 EXAMINER GOETZE: Oh, did you like that
25 cross? Do you have something to say?

1 (Laughter.)

2 MR. BRUCE: I've got to earn my keep.

3 CROSS-EXAMINATION

4 BY MR. BRUCE:

5 Q. I just have some general questions, Mr.
6 Moylett. On your Exhibit 13, to the north of you, up in
7 Sections 10 and 15, are those -- the green circles, are
8 those Wolfcamp wells?

9 A. I'm sorry?

10 Q. To the north of your -- a mile and two to the
11 north of your proposed well?

12 A. What sections, again?

13 Q. Look at 10.

14 A. 10. Oh, no. Those green circles? I'm sorry.
15 They're showing up as -- they're shallow Delaware wells
16 that I've got the -- I'm sorry. They're Morrow wells.
17 They're not producers anymore.

18 The Wolfcamp -- if you look at the ledger,
19 I have to have a bigger circle on it.

20 Q. Okay. I was confused.

21 A. But that's fine.

22 Q. And then over to the east, you have a well
23 stake, over in Section 20.

24 A. Yeah. Those are permanent wells that BC
25 Operating has approval for.

1 Q. So on the east half of 20, it looks like you're
2 proposing three wells?

3 A. Yes. There are multiple benches out there, and
4 in the north half of 16, we've already drilled the well
5 in the north half of the north half. We're waiting on
6 completion, so that well's down.

7 Q. And the fact that you're drilling some
8 east-west and some north-south, there is no preferred
9 orientation?

10 A. No, there has not been. It's generally been
11 driven by land. This principal stress direction out
12 here varies, but for the most part, it's kind of north,
13 30 degrees east, is the general industry belief.
14 Mewbourne has drilled wells north-south, east-west, and
15 Matador drills them north-south, east-west, mainly
16 driven by your acreage position out here. So we don't
17 see a principal stress direction that would dictate
18 north-south being a better direction than east-west.

19 Q. And how many completion stages did BC use?

20 A. Well, the last well -- and it's changing. It's
21 a dynamic number, but the last well we did approximately
22 22 stages for a one-mile lateral.

23 Q. Okay.

24 A. So a mile-and-a-half lateral have approximately
25 50 percent more stages in there. And the industry has

1 evolved. Where it used to be 1,500 pounds per foot,
2 2,000 pounds per foot, now Matador has even gone up to
3 3,000 pounds per foot of sand per foot and 40 barrels of
4 fluids.

5 Q. People are still adjusting their completion
6 procedures?

7 A. Yes. Yes.

8 Q. Thank you.

9 A. That's why there is no more play sand.

10 EXAMINER GOETZE: Would you like to
11 redirect after all that questioning?

12 MR. FELDEWERT: I can't come up with
13 anything.

14 EXAMINER GOETZE: Thank you, Mr. Bruce. We
15 apologize for shortchanging you.

16 MR. BRUCE: (Laughter.)

17 EXAMINER GOETZE: At this point there are
18 no further questions in this case.

19 We will take it under advisement. So Case
20 Number 15529 and Case 15530 is taken under advisement.

21 And that is the end of today's docket.

22 Thank you very much, ladies and gentlemen.

23 (Case Numbers 15529 and 15530, 11:02 a.m.)

24 I do hereby certify that the foregoing is
25 a true and correct record of the proceedings in
the hearing of Case No. 15529 & 15530
by me on September 15, 2016

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
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9 stenographic shorthand and that the foregoing pages are
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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.

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Mary C. Hankins

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