

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 ONE ENERGY PARTNERS CASE NO. 15690
8 OPERATING, LLC FOR A NONSTANDARD
9 SPACING AND PRORATION UNIT AND
10 COMPULSORY POOLING, LEA COUNTY,
11 NEW MEXICO

Consolidated with

12 APPLICATION OF ONE ENERGY PARTNERS CASE NO. 15691
13 OPERATING, LLC FOR A NONSTANDARD
14 SPACING AND PRORATION UNIT AND
15 COMPULSORY POOLING, LEA COUNTY,
16 NEW MEXICO.

17

18 REPORTER'S TRANSCRIPT OF PROCEEDINGS

19 EXAMINER HEARING

20 May 11, 2017

21 Santa Fe, New Mexico

22 BEFORE: MICHAEL McMILLAN, CHIEF EXAMINER
23 DAVID K. BROOKS, LEGAL EXAMINER

24

25 This matter came on for hearing before the
New Mexico Oil Conservation Division, Michael McMillan,
Chief Examiner, and David K. Brooks, Legal Examiner, on
Thursday, May 11, 2017, 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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1 APPEARANCES

2 FOR APPLICANT ONE ENERGY PARTNERS OPERATING, LLC:

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 6

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8 INDEX

9		PAGE
10	Case Numbers 15690 and 15691 Called	3
11	OneEnergy Partners Operating, LLC's Case-in-Chief:	
12	Witnesses:	
13	Jeffrey M. Lierly:	
14	Direct Examination by Ms. Kessler	4
	Cross-Examination by Examiner McMillan	11
15	Cross-Examination by Examiner Brooks	11
	Recross Examination by Examiner McMillan	
16	(Witness recalled)	18
17	Greg Clark:	
18	Direct Examination by Ms. Kessler	12
	Cross-Examination by Examiner McMillan	17
19		
20	Proceedings Conclude	19
21	Certificate of Court Reporter	20
22	EXHIBITS OFFERED AND ADMITTED	
23	OneEnergy Partners Operating, LLC Exhibit	
	Numbers 1 through 8	10
24		
	OneEnergy Partners Operating, LLC Exhibit	
25	Numbers 9 through 11	17

1 (9:08 a.m.)

2 EXAMINER McMILLAN: Call Case Number 15690,
3 application of OneEnergy Partners Operating, LLC for a
4 nonstandard spacing and proration unit and compulsory
5 pooling, Lea County, New Mexico.

6 Call for appearances.

7 MS. KESSLER: Mr. Examiner, Jordan Kessler,
8 from the Santa Fe office of Holland & Hart, on behalf of
9 the Applicant. And pre-hearing, we had asked that this
10 case be combined with 15691.

11 EXAMINER McMILLAN: Okay. Case Number
12 15690 shall be combined with Case Number 15691, which is
13 the application of OneEnergy Partners Operating, LLC for
14 a nonstandard spacing and proration unit and compulsory
15 pooling, Lea County, New Mexico.

16 MS. KESSLER: Mr. Examiner, again, Jordan
17 Kessler for the Applicant in that case.

18 EXAMINER McMILLAN: Any other appearances?
19 Please proceed.

20 MS. KESSLER: Two witnesses.

21 EXAMINER McMILLAN: If the witnesses would
22 please stand up and be sworn in at this time.

23 (Mr. Lierly and Mr. Clark sworn.)

24 MS. KESSLER: May I proceed?

25

1 JEFFREY M. LIERLY,
2 after having been first duly sworn under oath, was
3 questioned and testified as follows:

4 DIRECT EXAMINATION

5 BY MS. KESSLER:

6 Q. Please state your name for the record and tell
7 the Examiners by whom you're employed and in what
8 capacity.

9 A. Jeff Lierly, Vice President of Land for
10 OneEnergy Partners and OneEnergy Partners Operating,
11 LLC.

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

14 A. Yes, I have.

15 Q. Were your credentials as a petroleum landman
16 accepted and made a matter of record?

17 A. Yes, they were.

18 Q. Are you familiar with the applications filed in
19 these consolidated cases?

20 A. Yes.

21 Q. Are you familiar with the status of the lands
22 in the subject area?

23 A. I am.

24 MS. KESSLER: Mr. Examiners, I would tender
25 Mr. Lierly as an expert in petroleum land matters.

1 EXAMINER McMILLAN: So qualified.

2 Q. (BY MS. KESSLER) Mr. Lierly, would you turn to
3 Exhibit 1 and explain what OneEnergy Partners seeks
4 under this application?

5 A. This is a map of our Prizehog and Wildhog
6 wells. We're seeking to establish two 160-acre
7 nonstandard spacing and proration units comprised of the
8 east half-west half of Section 19 and the east half-
9 west half of Section 20, Township 26 South, Range 36
10 East in Lea County, New Mexico. We're seeking to pool
11 all the uncommitted interest owners in the Wolfcamp
12 Formation.

13 Q. Is Exhibit 2 the C-102 for the Wildhog BWX
14 State Com #1H well?

15 A. Yes, it is, and, again, the dedicated acreage
16 for this well will be the east half-west half of Section
17 20.

18 Q. Has the Division designated a pool for this
19 area?

20 A. There actually is no Wolfcamp pool for this, so
21 we're drilling it as a wildcat under the statewide
22 wildcat rules.

23 Q. So that would be 40-acre spacing and 330-foot
24 setbacks?

25 A. That's correct.

1 Q. Will this well comply with the 330-foot
2 setbacks?

3 A. Yes, it will.

4 Q. Is this spacing unit comprised of state leases?

5 A. Yes, two state leases in both of these wells,
6 the north-half state lease and the south-half state
7 lease in both sections.

8 Q. Is Exhibit 3 a C-102 for the Prizehog BWZ State
9 Com #1H well?

10 A. Yes. Again, it's comprised of the east
11 half-west half of Section 19, Township 26 South, Range
12 36 East.

13 Q. Are these also state leases?

14 A. Correct, same thing, the north-half state lease
15 and the south-half state lease.

16 Q. Does Exhibit 4 identify the interest owners in
17 the proposed area for the Wildhog 1H well?

18 A. Yes, it does. And you'll see -- again, the
19 ownership on these is undivided. There are no depth
20 severances. So what you see on here is ownership across
21 the entire lease. Tract 1 is the north-half lease, and
22 Tract 2 is the south-half lease.

23 Q. And the only party you seek to pool is OXY Y-1
24 Company; is that correct?

25 A. That is correct.

1 Q. Are they a working interest owner?

2 A. They are. They own an undivided 20 percent
3 interest in both leases.

4 Q. What is Exhibit 5?

5 A. Exhibit 5 is the same thing. It's a tract and
6 unit ownership breakdown for the two state leases
7 that'll be dedicated to our Prizehog well.

8 Q. Once again, the highlighted interest is the
9 party that you seek to pool, correct?

10 A. Correct.

11 Q. And that would be OXY Y-1 Company?

12 A. That's correct.

13 Q. And do they own approximately a 20 percent
14 working interest?

15 A. They own exactly a 20 percent working interest.

16 Q. Is Exhibit 6 a copy of the well-proposal letter
17 that was sent to OXY Y-1 Company?

18 A. Yes, this is. And if you kind of thumb
19 through, you'll see their election to not participate.

20 Q. And let me back up. This is for the Wildhog
21 BWX State Com #1H well; is that correct?

22 A. Yes, ma'am.

23 Q. Did this include an AFE?

24 A. It did.

25 Q. And Exhibit 7 a copy of the well-proposal

1 letter sent to OXY Y-1 for the Prizehog BWZ State Com
2 #1H?

3 A. Yes, it is.

4 Q. Did it also include an AFE?

5 A. Yes, it did.

6 Q. Once again, did OXY Y-1 elect not to
7 participate in this well?

8 A. Yes. They elected not to participate.

9 Q. Are the costs reflected on both of these AFEs
10 consistent with what other operators in the area have
11 incurred for similar horizontal wells?

12 A. Yes, they are.

13 Q. And for each of these wells, has OneEnergy
14 Partners estimated overhead and administrative costs for
15 drilling and producing the wells?

16 A. We have, 7,000 a month while drilling and 700 a
17 month while producing.

18 Q. Are those costs in line with what other
19 operators in the area charge for similar wells?

20 A. They are.

21 Q. Do you ask that those administrative costs be
22 incorporated into any order resulting from this hearing?

23 A. Yes, we do.

24 Q. Do you ask that those costs be adjusted in
25 accordance with the COPAS accounting procedures?

1 A. Yes, we do.

2 Q. With respect to OXY Y-1 Company, do you request
3 the Division impose a 200 percent risk penalty?

4 A. Yes, we do.

5 Q. In addition to sending OXY Y-1 the
6 well-proposal letters, what additional efforts did you
7 undertake to reach an agreement with them?

8 A. We had numerous phone-call discussions with
9 their landman over there. Our CLO had numerous
10 technical discussions with their technical folks, email
11 correspondence, and ultimately they just decided they
12 didn't want to participate.

13 Q. Did you identify the offset operators or
14 lessees of record in the 40-acre tract surrounding the
15 proposed nonstandard spacing units?

16 A. Yes, we did.

17 Q. And were they included in the notice of this
18 hearing?

19 A. Yes, they were.

20 Q. Is Exhibit 8 an affidavit prepared by my office
21 with attached letters providing notice to OXY Y-1 and
22 the offset operators or lessees of record for both of
23 the two cases?

24 A. Yes, it is.

25 Q. What are the timing issues for these two

1 leases?

2 A. Both -- all leases, for that matter, are
3 actually set to expire May 31st of this year.

4 Q. So has OneEnergy Partners proceeded with
5 drilling the first well?

6 A. Correct. We're currently drilling the Wildhog
7 well. We're about 2,000 feet from the kick-off point,
8 and then we'll move over, drill the Prizehog in Section
9 19 after.

10 Q. And is OneEnergy Partners requesting an
11 expedited order for these pooling cases?

12 A. Yes.

13 Q. Were Exhibits 1 through 7 prepared by you or
14 compiled under your direction and supervision?

15 A. Yes, they were.

16 MS. KESSLER: Mr. Examiners, I would move
17 admission of Exhibits 1 through 8, which includes my
18 Notice of Affidavit.

19 EXAMINER McMILLAN: Exhibits 1 through 8
20 may now be accepted as part of the record.

21 (OneEnergy Partners Operating, LLC Exhibit
22 Numbers 1 through 8 are offered and
23 admitted into evidence.)

24

25

1 CROSS-EXAMINATION

2 BY EXAMINER McMILLAN:

3 Q. When I was going through the well files, I
4 noticed, first of all, there is actually -- I guess the
5 Hobbs District Office put a pool code in there, 98232;
6 is that correct?

7 MS. KESSLER: That may be correct for the
8 wildcat pool, correct.

9 Q. (BY EXAMINER McMILLAN) And just for
10 clarification purposes, both of these -- actually, the
11 Prizehog has technically spud because it had a spudder
12 on it for years, right?

13 A. We took over operations from EOG. And Yates
14 had been using the spudder operation since, I think,
15 September 2015, and they were given a firm expiration
16 date of May 31st of this year. So we've actually built
17 the locations and have rigs capable of reaching TD on
18 the Wildhog right now, and then we'll move over and
19 drill the Prizehog.

20 Q. There are no depth severances?

21 A. No. No, sir.

22 EXAMINER McMILLAN: Go ahead.

23 CROSS-EXAMINATION

24 BY EXAMINER BROOKS:

25 Q. May 31st deadline on your lease?

1 A. On all of them, yes, sir.

2 Q. So you need an order pretty fast, right?

3 A. We would like one.

4 EXAMINER McMILLAN: You need to make sure
5 you have the pool. Contact Hobbs and email me.

6 THE WITNESS: Okay.

7 MS. KESSLER: I'll follow up with that,
8 Mr. Examiner.

9 EXAMINER BROOKS: That's all I have.

10 EXAMINER McMILLAN: Thank you.

11 GREG CLARK,

12 after having been previously sworn under oath, was
13 questioned and testified as follows:

14 DIRECT EXAMINATION

15 BY MS. KESSLER:

16 Q. Please state your name for the record.

17 A. Greg Clark.

18 Q. Where do you reside, Mr. Clark?

19 A. I am currently back to the great state of New
20 Mexico, residing in Rio Rancho, where my diet consists
21 of mass tacos and green chile enchiladas.

22 (Laughter.)

23 Q. Are you a consulting geologist for OneEnergy
24 Partners, Mr. Clark?

25 A. That is correct.

1 Q. Have you been retained to review the geology in
2 the subject area?

3 A. I have.

4 Q. And have you also been retained to provide
5 testimony related to these wells?

6 A. Yes.

7 Q. Have you previously testified before the
8 Division?

9 A. I have.

10 Q. Are you familiar with the applications that
11 have been filed by OneEnergy Partners in these
12 consolidated cases?

13 A. Yes, I am.

14 Q. And are you familiar with the APDs for the
15 subject wells?

16 A. Yes, I am.

17 Q. Have you conducted a geologic study of the
18 area?

19 A. I have.

20 MS. KESSLER: Mr. Examiner, I'd tender
21 Mr. Clark as an expert in geology.

22 EXAMINER McMILLAN: So qualified.

23 Q. (BY MS. KESSLER) Mr. Clark, please turn to
24 Exhibit 9 and identify this exhibit for the Examiners.

25 A. Yes. This is a subregional structure map on

1 top of the Wolfcamp. You will see that the contour
2 intervals are 100-foot increments. This is in subsea
3 structure. The red lines indicate the proposed wells to
4 the Prizehog 1H and the Wildhog 1H. You will see that
5 the general structural trend dips from the northeast to
6 the southwest towards the Basin. This map is mainly
7 here to show that there are no major geologic faults or
8 folding or impediments that would keep us from drilling
9 and developing that area using full-section horizontal
10 wells.

11 Q. And just to clarify, this structure map
12 covers -- includes Sections 19 and 20; is that correct?

13 A. That is correct. I left the section lines off
14 here to make the map less busy, since the section lines
15 were included on the previous exhibits.

16 Q. What is Exhibit 10?

17 A. Exhibit 10 is the same regional map, just a
18 base map, and it is showing the line of section, which
19 will be discussed in the next exhibit, going A to A
20 prime roughly from the southwest to the northeast, more
21 east.

22 Q. And you used four wells for your cross
23 section --

24 A. I did. And they cover and represent -- cover
25 and represent the geology in the area in which we intend

1 to drill the Prizehog 1H and the Wildhog 1H.

2 Q. What is Exhibit 11?

3 A. Exhibit 11 is the cross section A to A prime,
4 as pointed out in the previous exhibit. It is a
5 stratigraphic cross section, which means it has been
6 flattened on top of the Wolfcamp. The structural
7 component has been taken out of the cross section in
8 order to show the stratigraphic relationship of the rock
9 throughout the area. You will see the well on the left,
10 the first well, and then the third well from the left
11 are L-A-S logs with a gamma ray porosity, gamma ray in
12 the first track and then porosity curves in the second
13 track.

14 The second and fourth well are raster
15 images obtained from the NMOCD State Web site, which are
16 gamma ray and sonic logs. You will see I have in
17 yellow. That represents the top of the 3rd Bone Spring,
18 with the gray line representing the top of the Wolfcamp
19 and the brown line representing the top of the Strawn.
20 Again, this has been flattened on the Wolfcamp to show
21 the consistent nature of the Upper Wolfcamp in which we
22 intend to land these wells.

23 You will see that the third log from the
24 left indicates the landing interval, which is in the
25 upper part of the Wolfcamp. The log curves indicate

1 that there are not -- there is not any major
2 discontinuity in the gamma ray and the porosity where
3 the lithology is fairly similar throughout the area.
4 You do see a shortening in Wolfcamp, and that shortening
5 is happening in the lower part of the Wolfcamp as you go
6 updip. It should have no effect on the landing interval
7 in which we intend to land these horizontal wells.

8 Q. Have these logs shown you any geologic
9 impediments or hazards to drilling the proposed
10 horizontal wells?

11 A. They have not.

12 Q. In your opinion, can the area be efficiently
13 and economically developed by horizontal wells?

14 A. Yes.

15 Q. And do you believe that each of the 40-acre
16 tracts, on average, will contribute more or less equally
17 to production from each of the wells?

18 A. I do.

19 Q. In your opinion, will granting these two
20 applications be in the best interest of conservation,
21 for the prevention of waste and the protection of
22 correlative rights?

23 A. Absolutely.

24 Q. Mr. Clark, did you prepare Exhibits 10 through
25 12?

1 A. I did.

2 Q. Actually, did you prepare Exhibits 9 through
3 12?

4 A. And I prepared Exhibit 9 also.

5 MS. KESSLER: I'd ask that these exhibits
6 be part of the record.

7 EXAMINER McMILLAN: Exhibits 9 through 12
8 may now be made part of the record.

9 (OneEnergy Partners Operating, LLC Exhibit
10 Numbers 9 through 12 are offered and
11 admitted into evidence.)

12 MS. KESSLER: Thank you.

13 CROSS-EXAMINATION

14 BY EXAMINER McMILLAN:

15 Q. So do you think one well can drain the whole
16 thing?

17 A. The whole thing meaning?

18 Q. The whole Wolfcamp, or do you think there is a
19 chance that you're going to have to have multiple wells?

20 A. You mean in the vertical sense?

21 Q. Yeah, in the vertical sense.

22 A. Oh, well, you know, I'm not a completion
23 engineer, so I'm not qualified to talk to the drainage
24 in terms of the completion. But we do feel where we're
25 landing will drill enough adequately in order to meet

1 the production profile for these wells. And we feel the
2 upper part of the Wolfcamp, based offset analogy, is the
3 primary target that fits within our geologic model at
4 this time.

5 EXAMINER BROOKS: No questions.

6 EXAMINER McMILLAN: I do have a question
7 for the landman.

8 Thank you.

9 THE WITNESS: Thank you.

10 JEFFREY M. LIERLY,
11 after having been previously sworn under oath, was
12 recalled, questioned and testified as follows:

13 RECROSS EXAMINATION

14 BY EXAMINER McMILLAN:

15 Q. The question I have is: Are there actually any
16 depth severances within the Bone Spring because there
17 kind of looks like it could be. We want to make sure
18 that if they place -- if Hobbs places it in a
19 Wolfberry pool -- in the Wolfbone pool, I want to make
20 sure that there are no depth severances in the Bone
21 Spring or the Wolfcamp.

22 A. There's not. The ownership that they did on
23 the exhibit is surface to the center there, so there is
24 no depth severances in any formation. So none in the
25 Bone Spring, none in the Wolfcamp, none in the Delaware.

1 Q. Okay.

2 EXAMINER McMILLAN: And like I said, the
3 only thing I need from you is the pool code.

4 MS. KESSLER: I'll provide that later
5 today.

6 EXAMINER McMILLAN: With that in mind,
7 Cases Number 15690 and 15691 shall be taken under
8 advisement.

9 MS. KESSLER: Thank you.

10 (Case Numbers 15690 and 15691 conclude,
11 9:26 a.m.)

12 (Recess, 9:26 a.m. to 9:42 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

21

22 MARY C. HANKINS, CCR, RPR
23 Certified Court Reporter
24 New Mexico CCR No. 20
25 Date of CCR Expiration: 12/31/2017
Paul Baca Professional Court Reporters

24

25