

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 OXY USA WTP LIMITED CASE NOS. 15780,
PARTNERSHIP FOR A NONSTANDARD SPACING 15781
AND PRORATION UNIT AND COMPULSORY
POOLING, EDDY COUNTY, NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

September 14, 2017

Santa Fe, New Mexico

BEFORE: MICHAEL McMILLAN, CHIEF EXAMINER
 GABRIEL WADE, LEGAL EXAMINER

This matter came on for hearing before the New Mexico Oil Conservation Division, Michael McMillan, Chief Examiner, and Gabriel Wade, Legal Examiner, on Thursday, September 14, 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.

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APPEARANCES

FOR APPLICANT OXY USA WTP LIMITED PARTNERSHIP:

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EXAMINER McMILLAN: I would like to call Case Number 15780, application of OXY USA, WTP Limited Partnership for a nonstandard spacing and proration unit and compulsory pooling, Eddy County, New Mexico. This case shall be combined with Case Number 15781, application of OXY USA, WTP Limited Partnership for a nonstandard spacing and proration unit and compulsory pooling, Eddy County, New Mexico.

Please proceed.

MR. FELDEWERT: May it please the Examiner, Michael Feldewert with the Santa Fe office of Holland & Hart, appearing on behalf of the Applicant, and I have two witnesses.

EXAMINER McMILLAN: Are there any other appearances?

Please proceed.

MR. FELDEWERT: We'll call our first witness, and I believe both of our witnesses have already been sworn.

INDIA ISBELL,
after having been previously sworn under oath, was questioned and testified as follows:

DIRECT EXAMINATION

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BY MR. FELDEWERT:

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

A. India Isbell, OXY USA WTP LP, as a land negotiator advisor.

Q. Ms. Isbell, you have previously testified before this Division as an expert in petroleum land matters?

A. Yes.

Q. Are you familiar with the politics that have been filed in these two consolidated matters?

A. Yes.

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

A. Yes.

Q. What does the company seek under these two consolidated applications?

A. We are seeking to form two nonstandard spacing units. They would be 320-acre spacing units for the Bone Spring Formation and pool uncommitted interest owners.

Q. And these would be for two lay-down --

A. That's correct.

Q. -- two lay-down two-mile wells, roughly?

1 A. That's correct.

2 Q. If I turn to what's been marked as OXY Exhibit
3 Number 1, are these the applications that have been
4 filed with the Division for these two wells?

5 A. Yes.

6 Q. And, essentially, they seek to develop the
7 south half of Sections 9 and 10?

8 A. Correct.

9 Q. Does this exhibit provide for the Examiner not
10 only the location and description of the nonstandard
11 spacing unit but also provide the API number for the
12 proposed wells?

13 A. Yes.

14 Q. And the pool and the pool code?

15 A. Yes.

16 Q. Is this pool governed by the Division statewide
17 rules?

18 A. Yes, it is.

19 Q. And will the completed interval for both of
20 these wells comply with those setback requirements?

21 A. Yes, it will.

22 Q. What's the acreage that's involved?

23 A. It's all state land.

24 Q. And do you know how many leases?

25 A. Roughly, three. I could be off on that.

1 Q. If I turn to what's been marked as OXY Exhibit
2 Number 2, does that confirm for you that there are three
3 state leases?

4 A. This actually outlines -- the various colors
5 are the ownership.

6 Q. Okay.

7 A. I blocked it by ownership, not necessarily by
8 lease.

9 Q. Gotcha. All right.

10 And we have a page here in Exhibit Number 2
11 for the 23H and the second page for the 24H wells,
12 correct?

13 A. Correct.

14 Q. Does each well have the same ownership?

15 A. Yes. The parties are the same.

16 Q. And is there any difference in the percentage
17 of ownership?

18 A. No.

19 Q. Have you highlighted in yellow for the Examiner
20 the interest owners that the company seeks to pool?

21 A. Yes.

22 Q. How many are there?

23 A. There are five parties.

24 Q. And what's their combined uncommitted
25 percentage interest?

1 A. Approximately, 2.7 percent.

2 Q. Are there any of these pooled parties that the
3 company has been unable to locate?

4 A. No.

5 Q. Yet, nonetheless, out of an abundance of
6 caution, did the company provide notice of this pooling
7 by newspaper notice of each well?

8 A. Yes.

9 Q. And is that reflected in OXY Exhibit Number 3?

10 A. Yes, it is.

11 Q. If I turn to what's been marked as OXY Exhibit
12 Number 4, is this the -- does this provide a copy of the
13 well-proposal letters that were sent out for the two
14 wells?

15 A. Yes, it does.

16 Q. And does each of those proposal letters include
17 an AFE for the wells?

18 A. Yes.

19 Q. And are the costs consistent with what the
20 company and other operators have incurred for drilling
21 similar Bone Spring horizontal wells?

22 A. Yes.

23 Q. What is the overhead and the administrative
24 costs that you seek under this application?

25 A. 7,000 while drilling and 700 while producing.

1 Q. And is that consistent with the rates that are
2 set forth in the executed JOA for the joint operating
3 agreement for this acreage?

4 A. Yes.

5 Q. If I then turn -- well, before I get there,
6 besides sending the well-proposal letter, what other
7 efforts did the company undertake to reach an agreement
8 with the five interest owners that you seek to pool?

9 A. All have received the joint operating
10 agreement. I've spoken with all of them. I'm in the
11 process of negotiating a term assignment with two of
12 them, and two of the other parties we actually can
13 probably release from this force pooling because we've
14 closed on a term assignment.

15 Q. And who are those two other parties that you
16 recently presently closed with a term assignment?

17 A. Snow Oil and Gas and the Nona Snow Estate.

18 Q. And actually those are the two parties that
19 entered an appearance in this matter?

20 A. Yes.

21 Q. In the course of preparing for this hearing,
22 did OXY provide -- or identify the operators in the
23 leased mineral interest owners in the 40-acre tracts
24 surrounding the proposed nonstandard spacing unit?

25 A. Yes.

1 Q. And have those offset owners been included in
2 notice of this hearing?

3 A. Yes.

4 Q. If I turn to what's been marked as OXY Exhibit
5 Number 5, is this an affidavit prepared by my office
6 with the attached letters providing notice of this
7 hearing to the affected parties?

8 A. Yes.

9 Q. And is it organized where the letter to the
10 pooled parties is at the beginning?

11 A. Yes.

12 Q. And then halfway through -- roughly halfway
13 through is the letter to the offset parties, correct?

14 A. Yes.

15 Q. For each of the proposed wells?

16 A. Right.

17 Q. Ms. Isbell, were OXY Exhibits 1, 2 and 4
18 prepared by you or compiled under your direction and
19 supervision?

20 A. Yes.

21 MR. FELDEWERT: Mr. Examiner, I would move
22 the admission into evidence of OXY Exhibits 1 through 5,
23 which includes the newspaper Affidavit of Publication
24 and the affidavit prepared by my office.

25 EXAMINER McMILLAN: Exhibits 1 through 5 in

1 Case Number 15780 and Case Number 15781 may now be
2 accepted as part of the record.

3 (OXY USA WTP LP Exhibit Numbers 1 through 5
4 are offered and admitted into evidence.)

5 **Q. (BY MR. FELDEWERT) And, Ms. Isbell, what's the**
6 **status of the wells?**

7 A. These wells have not been drilled. They are on
8 the rig schedule for early 2018.

9 **Q. Okay. And are there any depth severances in**
10 **this area?**

11 A. No, not as to the Bone Spring.

12 MR. FELDEWERT: Mr. Examiner, that
13 concludes my examination of this witness.

14 EXAMINER WADE: Mr. Feldewert, who entered
15 appearances for this Snow parties?

16 MR. FELDEWERT: Mr. Scott Hall.

17 EXAMINER WADE: Okay. And you spoke with
18 him prior to this hearing?

19 MR. FELDEWERT: Prior to this hearing, he
20 handed to me the executed term assignments that
21 Ms. Isbell referenced during her hearing testimony here
22 today.

23 EXAMINER WADE: So should our order exclude
24 those two parties at this point?

25 THE WITNESS: Yes.

1 EXAMINER McMILLAN: Wouldn't OXY have to
2 formerly send a statement that we're releasing them?

3 EXAMINER WADE: No. They just probably
4 didn't need to have them on the application for today,
5 but it just happened.

6 MR. FELDEWERT: In fact, I think they were
7 executed --

8 THE WITNESS: Yesterday.

9 MR. FELDEWERT: -- yesterday.

10 THE WITNESS: Uh-huh.

11 MR. FELDEWERT: But let me -- if you want
12 to make note in the order that they have reached an
13 agreement, that's fine.

14 EXAMINER McMILLAN: We can do that. So
15 Snow Oil and Gas and Nona --

16 THE WITNESS: Nona Snow Estate.

17 MR. FELDEWERT: And, Mr. Examiner, it would
18 actually be the two entities for which you will see an
19 entry of appearance in the record.

20 EXAMINER McMILLAN: Reached voluntary
21 agreement. Okay. Thank you.

22 MR. FELDEWERT: Call our next witness.

23 EXAMINER McMILLAN: Please proceed.

24 CHET BABIN,

25 after having been previously sworn under oath, was

1 Q. And has OXY's geologic team created for the
2 Examiners a structure map and a cross section of this
3 formation in this area?

4 A. Yes.

5 Q. If I turn to what's been marked as OXY Exhibit
6 Number 6, is this a structure map that encompasses an
7 area surrounding Sections 9 and 10?

8 A. Yes.

9 Q. And are in these two particular applications,
10 am I correct that Sections 9 and 10 are involved?

11 A. Yes.

12 Q. What is the significance of the acreage
13 surrounded by the red line?

14 A. That is a lease outline for OXY known as the
15 Turkey Track.

16 Q. And we're focused here today on Sections 9 and
17 10 where we see the line A to A prime?

18 A. Yes.

19 Q. Does that signify a cross section for that
20 particular acreage?

21 A. Yes.

22 Q. If I turn to what's been marked as OXY Exhibit
23 Number 7, is that a close-up of that structure map
24 showing Sections 9 and 10?

25 A. Yes.

1 **Q. And what do you observe with respect to the**
2 **structure as you move across Sections 9 and 10?**

3 A. That the Bone Spring Formation is correlative
4 moving west to east across 9 and 10.

5 **Q. Has your team observed any pinch-outs or other**
6 **geologic impediments to horizontal wells in this**
7 **section --**

8 A. No.

9 **Q. -- 9 and 10?**

10 A. No impediments.

11 **Q. Okay. Has your team, in the course of**
12 **examining this section, observed any slight faulting in**
13 **this area?**

14 A. Yes.

15 **Q. Okay. Would you please explain that to the**
16 **Examiner, what you see -- or what you have found?**

17 A. So OXY has drilled a 3rd Bone Spring Sand
18 horizontal from 9 into 10. As we drilled across the
19 section line into Section 10, we found that there was a
20 fault block with a throw of about 40 feet.

21 **Q. And was the company nonetheless able to**
22 **successfully drill that 3rd Bone Spring well?**

23 A. Yes.

24 **Q. And does that fault -- to the knowledge of your**
25 **team, does that extend into the 2nd Bone Spring Sand?**

1 A. As a follow-up, we have drilled two 2nd Bone
2 Spring Sand wells in the north half of Sections 9 and
3 10, and the fault throw is not seen in the 2nd Bone
4 Spring Sand.

5 Q. So based on the information you have, it
6 appears to be isolated to the 3rd Bone Spring Sand?

7 A. Yes.

8 Q. Does OXY nonetheless have plans to accommodate
9 this fault in the event it is encountered in the 2nd
10 Bone Spring Sand?

11 A. Yes.

12 Q. In your opinion as an expert petroleum
13 engineer, is there any concern about the company's
14 ability to drill a horizontal well in the 2nd Bone
15 Spring Sand across Sections 9 and 10?

16 A. No.

17 Q. I see that you chose four wells for purposes of
18 your cross section involving Sections 9 and 10. Why did
19 you choose those particular wells?

20 A. Those best represent -- those wells penetrate
21 the Bone Spring Formation, as well as best represent the
22 formation moving from west to east.

23 Q. Okay. Then if I turn to what's been marked as
24 OXY Number 8, is this the cross section that corresponds
25 with you're a to A prime line shown on OXY Exhibits 6

1 **and 7?**

2 A. Yes.

3 **Q. For the record, would you start at the top and**
4 **identify what you show on this particular exhibit?**

5 A. The Bone Spring Formation is comprised of three
6 series of carbonate sand sequences. Starting at the
7 top, the blue line represents the top of the 1st Bone
8 Spring Limestone. The next line, which is yellow,
9 represents the top of the 1st Bone Spring Sand, followed
10 by the blue line, which represents the top of the 2nd
11 Bone Spring Lime, followed by the orange line, which
12 represents the top of the 2nd Bone Spring Sand, followed
13 by the blue line that represents the top of the 3rd Bone
14 Spring Lime, followed by the gold line, which represents
15 the top of the 3rd Bone Spring Sand, followed by the
16 gray line, which represents the bottom of the 3rd Bone
17 Spring Sand, which is also the top of the Wolfcamp.

18 **Q. And what is the targeted interval for these two**
19 **proposed wells?**

20 A. The 2nd Bone Spring Sand.

21 **Q. And what do you observe about the continuity of**
22 **that zone as you move across Sections 9 and 10?**

23 A. It is continuous and correlative as you move
24 from west to east. The porosity is developed. The
25 resistivity log indicates the presence of hydrocarbons

1 and the gamma ray suggests good, clean sand.

2 Q. In your opinion, is this an area that can be
3 efficiently and economically developed by horizontal
4 wells?

5 A. Yes.

6 Q. And in your opinion, will each tract within the
7 proposed nonstandard unit contribute more or less
8 equally to the production from the wellbore?

9 A. Yes.

10 Q. In your opinion, will the granting of these
11 consolidated applications be in the best interest of
12 conservation and the prevention of waste and the
13 protection of correlative rights?

14 A. Yes.

15 Q. Were OXY Exhibits 6 through 8 prepared by your
16 geologic team?

17 A. Yes.

18 MR. FELDEWERT: Mr. Examiner, I would move
19 admission into evidence of OXY Exhibits 6 through 8.

20 EXAMINER McMILLAN: Exhibits 6 through 8 in
21 Case Number 15780 and Case Number 15781 may now be
22 accepted as part of the record.

23 (OXY USA WTP LP Exhibit Numbers 6 through 8
24 are offered and admitted into evidence.)

25 MR. FELDEWERT: And that concludes my

1 examination of this witness.

2 CROSS-EXAMINATION

3 BY EXAMINER McMILLAN:

4 Q. How did you know there was a fault?

5 A. We drilled a pilot hole for the 3rd Bone Spring
6 Sand well, logged it, and we used that log for our gamma
7 ray and our markers as we drilled from west to east. In
8 addition, as you can see from our cross section, A to A
9 prime, we had penetrations across the two sections, so
10 we had an idea of what the dip was and where the
11 formation was to be found as we drilled our horizontal.
12 So as we crossed from Section 9 into Section 10, we saw
13 a distinction, a difference in the resistivity and the
14 gamma ray, et cetera, as we moved through that.

15 Q. Is there a repeat section or something?

16 A. Well, what we did is we pulled up when we saw
17 that, so we came up in the 2nd Bone Spring section and
18 saw the change back in the resistivity and the gamma ray
19 and the other log -- log markers.

20 Q. Okay.

21 EXAMINER WADE: I have no questions.

22 EXAMINER McMILLAN: I don't have any
23 questions.

24 MR. FELDEWERT: That concludes our
25 presentation.

1 EXAMINER McMILLAN: Okay. Case Numbers
2 15780 and 15781 shall be taken under advisement.

3 Thank you.

4 This portion of the hearings is concluded.

5 (Case Numbers 15780 and 15781 conclude,
6 10:47 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
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14 Record of the proceedings truly and accurately reflects
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16 I FURTHER CERTIFY that I am neither
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