

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. 15775,
PARTNERSHIP FOR A NONSTANDARD SPACING	15807,
AND PRORATION UNIT AND COMPULSORY	15808,
POOLING, EDDY COUNTY, NEW MEXICO.	15809

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.

REPORTED BY: Mary C. Hankins, CCR, RPR
New Mexico CCR #20
Paul Baca Professional Court Reporters
500 4th Street, Northwest, Suite 105
Albuquerque, New Mexico 87102
(505) 843-9241

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

APPEARANCES

FOR APPLICANT OXY USA WTP LIMITED PARTNERSHIP:

MICHAEL H. FELDEWERT, ESQ.
HOLLAND & HART, LLP
110 North Guadalupe, Suite 1
Santa Fe, New Mexico 87501
(505) 988-4421
mfeldewert@hollandhart.com

INDEX

PAGE

Case Numbers 15775, 15807, 15808 and 15809 Called 3

OXY USA WTP Limited Partnership's Case-in-Chief:

Witnesses:

India Isbell:

Direct Examination by Mr. Feldewert 4
Cross-Examination by Examiner McMillan 12

Chet Babin:

Direct Examination by Mr. Feldewert 15
Cross-Examination by Examiner McMillan 21

Proceedings Conclude 22

Certificate of Court Reporter 23

EXHIBITS OFFERED AND ADMITTED

OXY USA WTP Limited Partnership Exhibit
Numbers 1 through 5 12

OXY USA WTP Limited Partnership
Exhibit Numbers 6 through 8 21

1 (9:26 a.m.)

2 EXAMINER McMILLAN: I would like to call
3 Case Number 15775, application of OXY USA WTP Limited
4 Partnership for a nonstandard spacing and proration unit
5 and compulsory pooling. At the same time, this case
6 shall be combined with Case Number 15807, the
7 application of OXY USA WTP Limited Partnership for a
8 nonstandard spacing and proration unit and compulsory
9 pooling, Eddy County, New Mexico. This will further be
10 combined with Case Number 15808, application of OXY USA
11 WTP Limited Partnership for a nonstandard spacing and
12 proration unit and compulsory pooling, Eddy County, New
13 Mexico. Lastly, all of these will be combined with Case
14 Number 15809, application of OXY USA WTP Limited
15 Partnership for a nonstandard and proration unit and
16 compulsory pooling, Eddy County, New Mexico.

17 Call for appearances.

18 MR. FELDEWERT: May it please the Examiner,
19 Michael Feldewert, from the Santa Fe office of Holland &
20 Hart, appearing on behalf of the Applicant in these four
21 consolidated cases, and I have two witnesses here today.

22 EXAMINER McMILLAN: Would the witnesses
23 please stand up and be sworn in at this time?

24 (Ms. Isbell and Mr. Babin sworn.)

25

1 INDIA ISBELL,
2 after having been first duly sworn under oath, was
3 questioned and testified as follows:

4 DIRECT EXAMINATION

5 BY MR. FELDEWERT:

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

8 A. India Isbell, OXY USA WTP LP, and I'm a land
9 negotiator advisor.

10 Q. And how long have you been a land negotiator
11 with OXY?

12 A. I've been with OXY for about eight months.

13 Q. And prior to that, by whom were you employed?

14 A. Chevron.

15 Q. In the same capacity?

16 A. Yes.

17 Q. How long were you employed by Chevron?

18 A. About nine years.

19 Q. Have your responsibilities throughout that
20 period of time included the Permian Basin of New Mexico?

21 A. They have, yes.

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

25 A. Yes. That's correct.

1 Q. Are you familiar with the applications that
2 have been consolidated in this particular -- in these
3 matters?

4 A. Yes.

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

7 A. Yes.

8 MR. FELDEWERT: Mr. Examiner, I would
9 tender Ms. Isbell as an expert witness in petroleum land
10 matters.

11 EXAMINER McMILLAN: So qualified.

12 Q. (BY MR. FELDEWERT) Would you please tell us
13 what OXY seeks under these four consolidated
14 applications?

15 A. Yes. We are seeking to form four 320-acre
16 nonstandard spacing units for two-mile lay-down wells in
17 the Bone Spring Formation and to force pool uncommitted
18 interest owners.

19 Q. Okay. If I turn to what's been marked as OXY
20 Exhibit Number 1, does this contain the filed C-101 and
21 C-102s for each of the four wells at issue here?

22 A. It does.

23 Q. And for the Examiner, then, does this -- do
24 these exhibits identify and provide an API number for
25 each well?

1 A. Yes.

2 Q. And does it also provide, then, the pool and
3 the pool code that's involved here?

4 A. Yes.

5 Q. Now, what I noticed in going through here is
6 sometimes the unit -- the lot designation for the
7 surface and bottom hole didn't match between the C-101
8 and the C-102. Can you explain why?

9 A. Yes. The section -- the north portion of the
10 section is not a standard section, and it's labeled "Lot
11 1 through 4" in the State Land Office survey. But the
12 lot number listed on the C-102 corresponds with the
13 letter listed on the C-101.

14 Q. So if I'm understanding you, when you-all filed
15 the C-102, you would put the unit and lot number in it?

16 A. Correct.

17 Q. And then when the C-101 was generated, it used
18 the lot designation rather than the numeric designation?

19 A. That's correct.

20 Q. But the locations are all the same?

21 A. Same, correct.

22 Q. Is this pool governed by Division statewide
23 rules?

24 A. Yes.

25 Q. And will the completed interval for each of

1 these wells comply with the setback requirements?

2 A. Yes.

3 Q. Now, with respect to the lands that are
4 involved here, is it all state land?

5 A. It is.

6 Q. And how many leases are involved?

7 A. Several.

8 Q. Several?

9 A. Yes.

10 Q. If I turn to what's been marked as OXY Exhibit
11 Number 2, does this provide an ownership breakdown for
12 each of the four nonstandard spacing units?

13 A. Yes, it does.

14 Q. And the way this is organized, it looks like
15 you have an ownership breakdown for the 21H on the first
16 page, correct?

17 A. That's correct.

18 Q. And then a combined ownership breakdown for the
19 remaining three wells on the second page?

20 A. That's correct.

21 Q. Is there a difference in the ownership
22 percentages as you move from north to south on these two
23 sections?

24 A. There is a very small difference because the
25 north half of the north-half acreage is slightly

1 different than the rest of the section due to the lots.

2 Q. Are the parties that are involved the same?

3 A. The parties are the same.

4 Q. Okay. All right. And what's the significance
5 of the highlighting on these two pages?

6 A. Tract 1, shown in the orange, is all OXY, and
7 Tract 2 is where the other parties have an interest.

8 Q. Okay. And have you highlighted for the
9 Examiner in yellow the parties that the company seeks to
10 pool today?

11 A. Yes.

12 Q. And what is the total -- approximately, what's
13 the percentage that remains to be pooled, the interest?

14 A. Approximately 17 percent.

15 Q. Are there any of these pooled parties that the
16 company was unable to locate?

17 A. No.

18 Q. You've been able to talk to all of them?

19 A. Yes.

20 Q. Nonetheless, out of an abundance of caution,
21 did the company provide a Notice of Publication in a
22 local newspaper --

23 A. Yes.

24 Q. -- directed to each of these pooled parties by
25 name?

1 A. Yes.

2 Q. And is that set forth in OXY Exhibit Number 3?

3 A. It is.

4 Q. And you have a separate page notifying the
5 hearing for each well, correct?

6 A. Yes.

7 Q. If I turn to what's been marked as OXY Exhibit
8 Number 4, is this a copy of the well-proposal letters
9 that were sent out for each of the four wells?

10 A. It is.

11 Q. And it shows, does it not, that you sent out an
12 initial letter in May for the 21H?

13 A. Yes. That's correct.

14 Q. And that included an AFE, right?

15 A. It did.

16 Q. And then you sent the second letter in June for
17 the remaining three wells --

18 A. Yes.

19 Q. -- along with another AFE for each well?

20 A. Correct.

21 Q. Are the costs that are reflected on this AFE
22 consistent with what the company has incurred for
23 drilling similar Bone Spring horizontal wells?

24 A. Yes, they are.

25 Q. In fact, has the company drilled similar Bone

1 Spring horizontal wells in this area?

2 A. Yes, we have.

3 Q. Have you estimated the overhead and
4 administrative costs while drilling and producing these
5 wells?

6 A. Yes. It will be 7,000 while drilling and 700
7 while producing.

8 Q. And are those the same rates that are set forth
9 in the joint operating agreement?

10 A. Yes.

11 Q. What efforts -- what additional efforts did you
12 undertake to reach an agreement with the pooled parties
13 that you seek to pool?

14 A. Every party has received an operating
15 agreement, and we are currently in negotiations with
16 both EOG and Devon to trade them out of the acreage
17 altogether.

18 Q. So you've had ongoing discussions?

19 A. Yes.

20 Q. And in the event you have reached an agreement,
21 will you be able to release them from the pooling order?

22 A. Yes.

23 Q. In preparation for this hearing, did OXY
24 identify the operator of the leased mineral owners of
25 the 40-acre tracts surrounding each of your proposed

1 nonstandard spacing units?

2 A. Yes.

3 Q. Did OXY include those in the notice of this
4 hearing?

5 A. Yes.

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

10 A. Yes.

11 Q. And then, secondly, to the offsetting operators
12 and leased mineral interest owners?

13 A. Yes.

14 Q. Were Exhibits 1, 2 and 4 prepared by you or
15 compiled under your direction and supervision?

16 A. Yes.

17 MR. FELDEWERT: Mr. Examiner, at this time
18 I would move admission into evidence of Exhibits 1
19 through 5, which includes the Affidavit of Publication
20 and then my Notice of Affidavit.

21 EXAMINER McMILLAN: Okay. Exhibits 1
22 through 5 may now be accepted as part of the record --

23 MR. FELDEWERT: And that concludes my
24 examination of this witness.

25 EXAMINER McMILLAN: -- in Case Number

1 15775, Case Number 15807, Case Number 15808 and Case
2 Number 15809.

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

5 CROSS-EXAMINATION

6 BY EXAMINER McMILLAN:

7 **Q. I actually do have a question. I think it's**
8 **Case Number 15808. I don't have -- I don't have the**
9 **surface location?**

10 MR. FELDEWERT: Mr. Examiner, if you look
11 at Exhibit Number 1 --

12 EXAMINER McMILLAN: It's the 24H
13 assignment. If I go to the last two pages of Exhibit
14 Number 1, we have the C-101 and C-102.

15 MR. FELDEWERT: So you should have 1,400
16 from the south --

17 EXAMINER McMILLAN: Yeah, 1,400. And then
18 2,814 from the south, 360 from the west and 380 from the
19 south, and the 180 is from the east bottom hole.

20 **Q. (BY EXAMINER McMILLAN) Are there any depth**
21 **severances?**

22 A. Yes, but not in the Bone Spring.

23 **Q. So not within the Bone Spring. It's no?**

24 A. Correct.

25 **Q. And what is the status of the wells?**

1 A. What do you mean exactly?

2 Q. Are they drilled? Are they proposed?
3 Drilling?

4 A. They are proposed. We'll spud the surface
5 location, just the surface hole, in approximately three
6 weeks.

7 Q. So they're all proposed?

8 A. Yes.

9 EXAMINER WADE: I don't see returned green
10 cards for --

11 MR. FELDEWERT: They may be with the --

12 EXAMINER WADE: Actually -- I'm sorry --
13 Mewbourne penciled in that it was returned. And then
14 I'm seeing -- these are the offsets, it looks like --

15 MR. FELDEWERT: Yeah.

16 EXAMINER WADE: -- and Chisos, Limited and
17 one more, New Mexico Western Minerals.

18 MR. FELDEWERT: We have given the number of
19 offset lessees. Occasionally there are parties that we
20 don't get green cards from, but we do -- when it comes
21 to the pooled parties, we certainly make sure we have
22 green cards and then notice. That's what we've done in
23 the past.

24 EXAMINER WADE: But we don't have that the
25 offsets received notice if we don't have a returned

1 green card.

2 MR. FELDEWERT: Well, I mean, we can
3 only -- well, we don't know. We can only go by the
4 address of record and then the advertisement in the
5 newspaper of the case. That's all we can do.

6 EXAMINER WADE: I'll give that some
7 thought, but --

8 MR. FELDEWERT: And that's what we've
9 always done.

10 EXAMINER WADE: For offsets?

11 MR. FELDEWERT: Yes.

12 EXAMINER WADE: That's all the questions I
13 have.

14 MR. FELDEWERT: We've been through this
15 before. We've talked to --

16 EXAMINER WADE: This is off the record.

17 (Discussion off the record, 9:41 a.m. to
18 9:44 a.m.)

19 EXAMINER McMILLAN: Back on record.

20 And it has been determined that your
21 notification is sufficient.

22 MR. FELDEWERT: Okay.

23 EXAMINER WADE: Next witness?

24 EXAMINER McMILLAN: Thank you.

25

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

CHET BABIN,

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

DIRECT EXAMINATION

BY MR. FELDEWERT:

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

A. Chet Babin, OXY USA. I'm a reservoir engineering advisor.

Q. And how long have you been a reservoir engineering advisor with OXY?

A. About nine months.

Q. Who was your previous employer?

A. Chevron.

Q. And how long were you a reservoir engineer with Chevron?

A. 15 years.

Q. And have -- do your responsibilities include the Permian Basin?

A. Yes.

Q. Mr. Babin, you have also previously testified before this Division; is that correct?

A. Yes.

Q. And were your credentials as an expert in petroleum engineering accepted and made a matter of

1 public record?

2 A. Yes, sir.

3 Q. In the course of your duties as a reservoir
4 engineer, do you routinely approve and analyze the
5 geologic studies by your team?

6 A. Yes.

7 Q. And are you familiar with the applications that
8 have been filed in these consolidated cases?

9 A. Yes.

10 Q. And did you -- have you reviewed with your
11 geologic team the technical study they put together of
12 the geology in this subject area?

13 A. Yes.

14 MR. FELDEWERT: I would tender Mr. Babin as
15 an expert in reservoir engineering.

16 EXAMINER McMILLAN: So qualified.

17 Q. (BY MR. FELDEWERT) Mr. Babin, what formation is
18 being development under these consolidated applications?

19 A. The Bone Spring.

20 Q. And have you created for the Examiners a
21 structure map and a cross section for this formation?

22 A. I did create it. I worked with the geologist.

23 Q. And reviewed it with him?

24 A. That's correct.

25 Q. All right. If I take a look at what's been

1 marked as Exhibit Number 6, is this a structure map of
2 the -- of a larger area surrounding the acreage that's
3 at issue in this case?

4 A. Yes.

5 Q. First off, why -- what -- I see Sections 3 and
6 4 are involved in this particular case, correct?

7 A. Yes.

8 Q. And this reflects -- what's the significance of
9 the C to C prime there? Are those the wells you used to
10 create your cross section?

11 A. Yes.

12 Q. And then are there other cross sections that
13 have been created for other cases today that are
14 reflected on this exhibit?

15 A. Yes.

16 Q. And what's the significance of the red line
17 that I see around this particular acreage in this area?

18 A. That represents OXY's leasehold for the Turkey
19 Track.

20 Q. Okay. And there are a number of Turkey Track
21 applications that are before the Division today?

22 A. Yes.

23 Q. So we're going to see this exhibit again,
24 right?

25 A. Yes.

1 Q. All right. Now, if I turn to what's been
2 marked as OXY Exhibit Number 7, does this provide a
3 close-up for the Examiner of the structure map for the
4 sections that are involved here?

5 A. Yes.

6 Q. And what do you observe about the structure
7 of -- across the area of these two sections?

8 A. That the Bone Spring is consistent as you work
9 from west to east.

10 Q. And in this particular area, is there any
11 faulting or pinch-outs or other geologic impediments to
12 horizontal drill?

13 A. No.

14 Q. Now, I see here that this reflects that you
15 chose five wells for a cross section across this area.

16 A. Yes.

17 Q. Why did you choose these five particular wells?

18 A. Those best represent the geology of the Bone
19 Spring in those sections.

20 Q. And are those from vertical wells --

21 A. Yes.

22 Q. -- that penetrated all the way through the Bone
23 Spring Formation?

24 A. Yes.

25 Q. Okay. If I then turn to what's been marked as

1 OXY Number 8, is this the cross section that corresponds
2 with the C to C prime shown on Exhibits 6 and 7?

3 A. Yes.

4 Q. Would you start at the top of this exhibit and
5 just kind of walk us through the lines here and what
6 you're showing?

7 A. So the Bone Spring is a series of limestone and
8 sand sequences. Starting at the top, the top marker is
9 the top of the 1st Bone Spring Lime. The second marker
10 is the top of the 1st Bone Spring Sand, which is
11 relatively thin, followed by the 2nd Bone Spring Lime,
12 which is relatively thick, followed by the 2nd Bone
13 Spring Sand, followed by the 3rd Bone Spring Lime,
14 followed by the 3rd Bone Spring Sand. The bottommost
15 line, which is gray, is the bottom of the 3rd Bone
16 Spring Sand, which is the top of the Wolfcamp.

17 Q. If you turn to Exhibit Number 8 -- and I'm
18 impressed that you were able to explain that to us
19 without immediately having it in front of you.

20 Did you -- explain to the Examiner what the
21 initial target interval is. What are you targeting?

22 A. We are targeting the 2nd Bone Spring Sand.

23 Q. Okay. So that's about halfway down these type
24 logs?

25 A. Yes.

1 Q. And what do you observe about the continuity of
2 that particular target interval as you move across this
3 section?

4 A. It's correlative from west to east in a
5 consistent formation.

6 Q. Okay. Do you show good porosity and
7 resistivity?

8 A. Yes. The porosity is relatively well
9 developed, and the resistivity indicates hydrocarbons
10 present.

11 Q. In your opinion, is this an area that can be
12 efficiently and economically developed by horizontal
13 wells?

14 A. Yes.

15 Q. And in your opinion, will each tract within
16 this proposed -- within these proposed nonstandard
17 spacing and proration units contribute to the production
18 from the well?

19 A. Yes.

20 Q. And in your opinion, will the granting of this
21 application -- or these consolidated applications be in
22 the best interest of conservation, the prevention of
23 waste and the protection of correlative rights?

24 A. Yes.

25 Q. Were OXY Exhibits 6 through 8 prepared by you

1 **or compiled under your review?**

2 A. Yes.

3 MR. FELDEWERT: Mr. Examiner, at this time
4 I would move admission into evidence of OXY Exhibits 6
5 through 8.

6 EXAMINER McMILLAN: Exhibits 6 through 8
7 for Cases 15775, 15807, 15808 and 15809 may now be
8 accepted as part of the record.

9 (OXY USA WTP LP Exhibit Numbers 6 through
10 8 are offered and admitted into evidence.)

11 MR. FELDEWERT: And that concludes my
12 examination of this witness.

13 CROSS-EXAMINATION

14 BY EXAMINER McMILLAN:

15 **Q. Do you expect all quarter-quarter sections to**
16 **contribute equally to production?**

17 A. Yes.

18 **Q. What's the average porosity here at your target**
19 **interval?**

20 A. I believe it's about 2 to 3 percent.

21 **Q. And do you expect the other intervals within**
22 **the Bone Spring to be prospective?**

23 A. The 3rd Bone Spring may be prospective. The
24 1st Bone Spring, it's not because it's too thin to be
25 economically viable.

1 **Q. I'm curious. Why did you pick the 2nd, not the**
2 **3rd?**

3 A. The 2nd has, in the general area in the trend
4 and in the Basin, has been productive nearby. The 3rd
5 has not necessarily shown that.

6 **Q. So the 3rd is not as prospective?**

7 A. OXY is actually drilling in Sections -- OXY is
8 drilling in Sections 9 and 10 a 3rd Bone Spring
9 appraisal well to test the viability of producing from
10 the 3rd Bone Spring Sand.

11 EXAMINER WADE: I have no questions.

12 EXAMINER McMILLAN: I have no more
13 questions.

14 MR. FELDEWERT: That concludes our
15 presentation.

16 EXAMINER McMILLAN: Okay. Case Number
17 15775, Case Number 15807, Case Number 15808 and Case
18 Number 15809 shall be taken under advisement at this
19 time.

20 Let's take about a ten -- we'll take a
21 ten-minute break.

22 (Case Numbers 15775, 15807, 15808 and 15809
23 conclude, 9:54 a.m.)

24 (Recess, 9:54 a.m. to 10:08 a.m.)

25

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
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

23

24

25

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