

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 RKI EXPLORATION AND PRODUCTION, LLC TO RE-OPEN CASE NOS. 15341 and 15477 TO MODIFY ORDER NOS. R-14016 AND R-14154 TO FORM A SINGLE SPACING AND PRORATION UNIT TO CONFORM WITH THE PURPLE SAGE-WOLFCAMP GAS POOL, EDDY COUNTY, NEW MEXICO. CASE NOS. 15341, 15477 (Re-opened)

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

November 30, 2017

Santa Fe, New Mexico

BEFORE: WILLIAM V. JONES, CHIEF EXAMINER
DAVID K. BROOKS, LEGAL EXAMINER

This matter came on for hearing before the New Mexico Oil Conservation Division, William V. Jones, Chief Examiner, and David K. Brooks, Legal Examiner, on Thursday, November 30, 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 RKI EXPLORATION AND PRODUCTION, LLC:

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1 (9:40 a.m.)

2 EXAMINER JONES: Okay. Jump to page 5 of
3 the docket, Case Number 24, which happens to be two
4 cases for some reason.

5 EXAMINER BROOKS: Re-opened.

6 EXAMINER JONES: Call Cases 15341,
7 re-opened, and 15477, re-opened. Apparently both of
8 these -- well, these are application of RKI Exploration
9 and Production, LLC to re-open Case Number -- Cases
10 Number 15341 and 15477 to modify Orders Numbers
11 R-14016-A and R-14154 to form a single spacing and
12 proration unit to conform with the Purple Sage-Wolfcamp
13 gas pool, Eddy County, New Mexico.

14 Call for appearances.

15 MS. KESSLER: Mr. Examiner, Jordan Kessler,
16 from the Santa Fe office of Holland & Hart, on behalf of
17 the Applicant.

18 EXAMINER JONES: Any other appearances?

19 MS. KESSLER: I will be presenting by
20 affidavit today.

21 EXAMINER JONES: Okay.

22 MS. KESSLER: If I can give you a little
23 bit of background on these two cases, Case Number 15341
24 resulted in Order Number R-14016-A, which is included as
25 Exhibit A in the packet in front of you. This

1 particular order formed a 160-acre spacing unit in the
2 Wolfcamp Formation in the east half of the east half of
3 Section 17 -- looking for acreage -- west half-east half
4 of Section 17, Township 26 South, Range 30 East, Eddy
5 County, and dedicated the 160-acre spacing unit, the RDX
6 Fed Com Number 17 No. 26H well -- and the API number is
7 in the order -- and compulsory pooled uncommitted
8 interest owners in the Wolfcamp Formation.

9 Exhibit B is for Case Number 15477. That's
10 Order Number R-14154, and that formed a 160-acre spacing
11 unit in the same section, Section 17, in the east
12 half-east half. So we have two 160-acre spacing units
13 adjacent to one another comprised of the east half of
14 Section 17. Each of the spacing units had an initial
15 well under the compulsory pooling order, and each of
16 those wells was drilled.

17 Also, both of these spacing units were
18 originally placed into oil pools. I believe it's the
19 Brushy Draw; Wolfbone Oil Pool, and that pool has
20 40-acre spacing.

21 And subsequent to these orders -- issuance
22 of these orders, the Purple Sage pool was created. And
23 what RKI is now seeking to do is combine each of these
24 two pooled spacing units into a 320-acre standard
25 spacing unit under the Purple Sage pool, and that's for

1 development purposes so they can locate wells anywhere
2 within the 320-acre spacing unit.

3 So what I've attached here as Exhibit 1 is
4 an affidavit from Aaron Young, who is a landman with
5 RKI, and it reviews the terms of each of those orders
6 and discusses why RKI seeks to form a 320-acre spacing
7 unit, again for development purposes.

8 Now, the important point here is discussed
9 in paragraph seven and the corresponding Attachment C,
10 and this is ownership issues within the spacing unit.
11 Both the west half of the east half and the east half of
12 the east half compulsory pooled EOG. EOG was the only
13 pooled party and that owned identical interests in both
14 of the spacing units. They also elected to go
15 nonconsent under each of the pooling orders. So their
16 net revenue interest is also identical.

17 The spacing units are both comprised of a
18 federal lease, and the overrides are also identical
19 throughout the spacing unit -- or throughout each of the
20 spacing units. So as you can see, ownership is 100
21 percent identical for all parties throughout the east
22 half of Section 17.

23 Finally, included as Exhibit D to the
24 affidavit is an affidavit prepared by my office with
25 letters providing notice to all of the affected parties,

1 and you'll see that green cards are attached for all of
2 those parties except for ExxonMobil, and you can see
3 that a delivery confirmation slip is included.

4 None of the parties objected to the
5 proposal and have been informed and are in discussions
6 with RKI.

7 So, Mr. Examiners, I would ask that this
8 case be taken under advisement and move admission of
9 Exhibits -- of Exhibit 1, inclusive of Exhibits A
10 through D.

11 EXAMINER JONES: Okay. Exhibit 1 is
12 admitted.

13 (RKI Exploration and Production, LLC
14 Exhibit Number 1 is offered and admitted
15 into evidence.)

16 EXAMINER JONES: Put that exhibit in each
17 of these cases.

18 MS. KESSLER: Thank you.

19 EXAMINER JONES: But the actual well costs
20 would be different for each well, the actual drilling
21 costs. But EOG is okay with being pooled under -- or,
22 actually, you're just pooling them anyway.

23 MS. KESSLER: They already are pooled --

24 EXAMINER JONES: They are already pooled.

25 MS. KESSLER: -- under two orders.

1 EXAMINER JONES: But instead of keeping
2 track of two separate payouts, you would just keep track
3 of payout for both -- which one would be the initial
4 well?

5 MS. KESSLER: Well, each of the -- each of
6 the two wells have already been drilled. Each of the
7 two initial wells have already been drilled, and EOG
8 elected to go nonconsent for each of those wells. So
9 wells in the -- nothing would change in terms of
10 allocation of costs retroactively because they wouldn't
11 have to. It would be identical.

12 EXAMINER JONES: Okay.

13 EXAMINER BROOKS: I'm missing things, and
14 that's my fault.

15 But what you have here is two 480-acre
16 units; is that correct?

17 MS. KESSLER: Two 160-acre units.

18 EXAMINER BROOKS: Two 160-acre units.

19 MS. KESSLER: Side by side.

20 EXAMINER BROOKS: Okay. And in what pool?

21 MS. KESSLER: They're currently in the
22 Brushy Draw; Wolfcamp Pool.

23 EXAMINER BROOKS: Okay. It's an oil pool.
24 What's its spacing?

25 MS. KESSLER: 40 acres.

1 EXAMINER BROOKS: 40 acres. Okay.

2 Why are you combining these two? What's
3 going on here?

4 MS. KESSLER: RKI would like to combine
5 them for development purposes -- of leaselines.

6 EXAMINER BROOKS: Okay. So, in effect, the
7 objective is to create a unit -- a mini unit?

8 MS. KESSLER: Well, in fact, Mr. Examiner,
9 it's now a standard spacing unit under the new -- so the
10 Brushy Draw; Wolfcamp Oil Pool was eliminated, and the
11 Purple Sage took its place.

12 EXAMINER BROOKS: Okay. So it's in the
13 Purple Sage now?

14 MS. KESSLER: Correct.

15 EXAMINER BROOKS: That makes a difference.
16 But what I was trying to get, is in the Purple Sage, you
17 have 320-acre standard units, right?

18 MS. KESSLER: That's right. So this would
19 be a standard unit under the current pool.

20 EXAMINER BROOKS: Right. So exactly what
21 is it you're asking us to do? You're asking us -- it
22 says you're amending a compulsory pooling record, right?

23 MS. KESSLER: We're amending each of the
24 two orders to modify the spacing and create a single
25 320-acre spacing unit.

1 EXAMINER BROOKS: Now, you said that -- did
2 you say COG or EOG?

3 MS. KESSLER: EOG is the party that's
4 pooled in each of those orders.

5 EXAMINER BROOKS: Yeah. And they've
6 elected to go nonconsent?

7 MS. KESSLER: For each of the wells that's
8 been drilled so far.

9 EXAMINER BROOKS: Okay. And have they
10 agreed to what you're asking for? Is that what you told
11 me?

12 MS. KESSLER: There have been discussions,
13 and they have not objected.

14 EXAMINER BROOKS: They have not objected,
15 but they didn't agree to it?

16 MS. KESSLER: My understanding,
17 Mr. Examiners, is that they are going nonconsent for
18 future wells under --

19 EXAMINER BROOKS: Right. But you said the
20 wells have already been drilled?

21 MS. KESSLER: At least two have already
22 been drilled.

23 EXAMINER JONES: So they would get another
24 election?

25 MS. KESSLER: Under the compulsory pooling,

1 they would get an election for each of the --

2 EXAMINER JONES: A new order, they would
3 get a new election.

4 EXAMINER BROOKS: Right.

5 MS. KESSLER: For mutual wells.

6 EXAMINER JONES: Not the existing two
7 wells.

8 MS. KESSLER: They already made their
9 elections.

10 EXAMINER JONES: They already made their
11 elections.

12 MS. KESSLER: Uh-huh.

13 EXAMINER JONES: Okay.

14 EXAMINER BROOKS: Well, the election to --
15 the election to nonconsent is usually made by default.
16 In other words, you don't have to do anything to elect a
17 nonconsent position. So normally when we do a
18 compulsory pooling order, we give the -- we give the
19 pooled party another option to elect, but you're not
20 asking for that here.

21 MS. KESSLER: No.

22 EXAMINER BROOKS: No reason you would ask
23 for it if you don't want --

24 MS. KESSLER: But they would have the
25 option in the future for any wells drilled to make a new

1 election.

2 EXAMINER JONES: They've already made their
3 election, so you're just bumping up the spacing, is what
4 you're doing on each one, right?

5 EXAMINER BROOKS: But as a nonconsenting
6 party, they have the right to -- their back end will
7 occur as payout of each of the wells separately, right?

8 MS. KESSLER: (Indicating.)
9 Which wouldn't change.

10 EXAMINER BROOKS: Okay. Very good. I'm
11 not sure I understand this all that well, but --

12 EXAMINER JONES: I don't know if he wants a
13 draft order, but just an outline of --

14 MS. KESSLER: I'll be happy to do something
15 like that.

16 EXAMINER BROOKS: Yeah. Probably not until
17 the Horizontal Well Rule is filed, but --

18 MS. KESSLER: You're going to give me a
19 date on that, Mr. Examiner?

20 EXAMINER BROOKS: That's expected to be --
21 that is expected to happen by December 15.

22 MS. KESSLER: Okay.

23 EXAMINER BROOKS: That's an optimistic
24 expectation, but that's -- if it's going to go to
25 hearing in February, that needs to happen.

1 MS. KESSLER: I'll provide you a draft
2 order, and, you know, make the -- make RKI available to
3 answer questions if necessary. Thank you.

4 (Case Numbers 15341 and 15477 conclude,
5 9:52 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.

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