

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 NEWTEX PARTNERS, LLC CASE NO. 15815
FOR A NONSTANDARD OIL AND SPACING
AND PRORATION UNIT AND COMPULSORY
POOLING, CHAVES COUNTY, NEW MEXICO.

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 NEWTEX PARTNERS, LLC:

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1 (8:29 a.m.)

2 EXAMINER JONES: Let's call Case 15815,
3 which is application of NewTex Partners, LLC for a
4 nonstandard oil spacing and proration unit and
5 compulsory pooling in Chaves County, New Mexico.

6 Call for appearances.

7 MR. LARSON: Good morning, Mr. Examiner,
8 Gary Larson of the Santa Fe office of Hinkle Shanor for
9 the Applicant --

10 EXAMINER JONES: Any other appearances?

11 MR. LARSON: -- NewTex. I have one
12 witness.

13 EXAMINER JONES: Mr. Maxey, will you stand?
14 And will the court reporter swear the
15 witness?

16 (Mr. Maxey sworn.)

17 MR. LARSON: Mr. Examiner, before I start
18 with Mr. Maxey, I direct your attention to Exhibit
19 Number 1, which is the affidavit of Diana Millsap,
20 landman at NewTex Partners, and I'll just hit the
21 highlights of Ms. Millsap's affidavit.

22 First, the affidavit states there are no
23 depth exceptions in the target formation, which is the
24 San Andres. Second, her affidavit states that
25 subsequent to the filing of its application, NewTex

1 received written executed elections by all of the
2 uncommitted interests to participate in the 5H well.
3 And consequently, as stated Ms. Millsap, NewTex is
4 withdrawing its request for compulsory pooling.

5 And finally, the affidavit states that
6 Ms. Millsap identified three offset interests who were
7 entitled to notice of today's hearing, and each of the
8 offset interests received the hearing notice letters
9 that I sent to them, as evidenced by the green cards
10 that are attached as Exhibit B to the affidavit.

11 And with that, I'll move the admission of
12 Exhibit 1.

13 EXAMINER JONES: Exhibit 1 is admitted.

14 (NewTex Partners, LLC Exhibit Number 1 is
15 offered and admitted into evidence.)

16 EXAMINER JONES: So she doesn't anticipate
17 needing compulsory pooling for unknown reasons in the
18 future? In other words, she -- everyone she knows about
19 is signed up?

20 MR. LARSON: That's correct. Yeah. They
21 started -- when they filed the application, they had an
22 87 percent interest through leases --

23 EXAMINER JONES: Okay.

24 MR. LARSON: -- another 12.5 percent held
25 by three other entities, and they have all executed

1 elections to participate in the well.

2 EXAMINER JONES: Okay. Does she say
3 whether this is -- what the royalty is? Is this all fee
4 royalty?

5 MR. LARSON: Yes.

6 EXAMINER JONES: Okay. Thank you.

7 JOHN C. MAXEY,
8 after having been previously sworn under oath, was
9 questioned and testified as follows:

10 CROSS-EXAMINATION

11 BY MR. LARSON:

12 Q. Good morning, Mr. Maxey.

13 A. Good morning.

14 Q. Would you please state your full name for the
15 record?

16 A. John C. Maxey.

17 Q. And where do you reside?

18 A. Roswell, New Mexico.

19 Q. And what is the nature of your business?

20 A. I'm consulting petroleum engineer.

21 Q. And what is your relationship with NewTex
22 Partners, LLC?

23 A. I was retained to evaluate the San Andres
24 development of the NewTex acreage in Chaves County and
25 provide testimony on NewTex's behalf.

1 Q. Is NewTex affiliated with Back Nine Properties?

2 A. Yes, they are.

3 Q. Have you been involved in similar approaches to
4 developing the San Andres that NewTex is developing in
5 Chaves County?

6 A. Yes.

7 Q. Have you been involved in developing their
8 approach of drilling three north-south wells in a half
9 section?

10 A. Yes.

11 Q. Are you familiar with the matters addressed in
12 NewTex's application in this case?

13 A. Yes.

14 Q. Have you previously testified at a Division
15 hearing?

16 A. Yes, I have.

17 Q. And at each of those hearings, were you
18 qualified as an expert in petroleum engineering?

19 A. Yes, I was.

20 MR. LARSON: Mr. Examiner, I tender Mr.
21 Maxey as an expert in petroleum engineering.

22 EXAMINER JONES: He is so qualified.

23 Q. (BY MR. LARSON) Would you identify the document
24 marked as Exhibit Number 2?

25 A. Exhibit 2 is the C-102 location plat with the

1 surface- and bottom-hole location of the Bonanza
2 depicted.

3 Q. The Bonanza 5H?

4 A. Yes, the Bonanza 5H.

5 Q. Is Exhibit 2 a true and correct copy of the
6 C-102 for the 5H well?

7 A. Yes, it is.

8 Q. And does NewTex intend to drill and operate the
9 Bonanza 5H well?

10 A. They have designated Hadaway Engineering as
11 their operator.

12 Q. So is NewTex requesting the Division to
13 designate Hadaway as the operator of the project area
14 for the Bonanza 5H well?

15 A. Yes.

16 Q. Would you next identify the document marked as
17 Exhibit 3?

18 A. Exhibit 3 is a map of the area, nine-section
19 map. Section 21 is in the center. The project area for
20 the Bonanza 5H is depicted in the west half of the
21 section with the red box. I've also depicted the
22 development pattern that NewTex would like to see in the
23 west half, and that is three wells in the 320 project
24 area.

25 Q. And is south to north the preferable direction

1 for drilling San Andres horizontals in this area?

2 A. Yes, it is.

3 Q. And is this three-well pattern indicative of
4 NewTex's, as well as Back Nine's overall plans for San
5 Andres development in eastern Chaves County?

6 A. Yes, it is.

7 Q. And all the development plans involve drilling
8 the center well first?

9 A. Yes.

10 Q. And in your opinion, is drilling three
11 north-south wells in a half section the most efficient
12 and effective way to develop the San Andres in this
13 area?

14 A. Yes, it is.

15 Q. And referring back to Exhibit 2, where will the
16 Bonanza 5H well be located in relation to the centerline
17 of the west half of Section 21?

18 A. The centerline of the west half is
19 approximately 1,320 feet from the line of the section.
20 And the wellbore is planned at 1,310 feet from the west
21 line, 10 feet west of centerline of the west half.

22 Q. And will the completed lateral of the 5H comply
23 with the Division setback requirements to the north and
24 the south?

25 A. Yes, it will.

1 **Q. Have you consulted with NewTex's in-house**
2 **geologist about the target interval?**

3 A. Yes, I have.

4 **Q. Did you discuss whether there are any**
5 **geological impediments in that interval?**

6 A. Yes, and there are no impediments.

7 **Q. Would you identify the document marked as**
8 **Exhibit 4?**

9 A. Exhibit 4 is a type log in the area. This
10 happens to be a well in the east half of Section 21,
11 you'll notice, in the east half-east half of Section 21.

12 **Q. And did you prepare this exhibit?**

13 A. I did.

14 **Q. And what did you intend to depict with this**
15 **exhibit?**

16 A. I wanted to depict the general geologic section
17 in the area, the top of Yates at 581 feet on this
18 particular log, and the top of the San Andres at 1,662
19 feet on this particular log. You'll see at the bottom
20 of the target, the San Andres is crosshatched, and you
21 can see the porosity interval at approximately 2,400
22 feet TVD.

23 **Q. And would you identify the last exhibit which**
24 **is Number 5?**

25 A. Number 5 is -- I wanted to give a visual on the

1 development plan for the area for these 320-project
2 areas.

3 The square on the left side, that's
4 actually depicting a section of the land. That's your
5 typical 160-acre project area with four wells in a
6 section. The section to the right, I've drawn six
7 wells, and that's how we would like to develop the
8 acreage, three wells in each of 320 -- two 320-project
9 areas.

10 **Q. Did you also prepare this document?**

11 A. Yes, I did.

12 **Q. Is there anything else you'd like to discuss?**

13 A. Yes. I just wanted to point out that, just
14 simple arithmetic, what we would like to accomplish is
15 increased density in the well spacing. And it leads to
16 about a one-third reduction in stimulation volumes and
17 amount of profit, and we feel like we could get better
18 placement within the interval that we're targeting.

19 **Q. In your opinion, will the Bonanza 5H well**
20 **affect, develop and drain portions of each and every one**
21 **of the quarter-quarter sections included within the**
22 **proposed project area?**

23 A. Yes, it will. There'll be approximately three
24 stages in each quarter-quarter.

25 **Q. And in your opinion, will production from the**

1 **Bonanza 5H be reasonably uniform across the entire**
2 **length of the lateral?**

3 A. Yes, it will.

4 **Q. And do you anticipate that production from two**
5 **infill wells identified in Exhibit 3 will also be**
6 **reasonably uniform across the entire length of the**
7 **lateral?**

8 A. Yes.

9 **Q. And in your opinion, will the granting of**
10 **NewTex's application void the drilling of unnecessary**
11 **wells, protect correlative rights and serve the interest**
12 **of conservation and the prevention of waste?**

13 A. Yes.

14 MR. LARSON: Mr. Examiner, I move the
15 admission of Exhibits 2 through 5.

16 EXAMINER JONES: Exhibits 2 through 5 are
17 admitted.

18 (NewTex Partners, LLC Exhibit Numbers 2
19 through 5 are offered and admitted into
20 evidence.)

21 MR. LARSON: And I pass the witness.

22 EXAMINER JONES: Mr. Brooks?

23 EXAMINER BROOKS: Well, I still don't
24 understand why we need this evidence if we're not being
25 asked to do a compulsory order. What is the Division

1 being asked for?

2 MR. LARSON: To improve the project area,
3 the nonstandard spacing unit.

4 EXAMINER BROOKS: Oh, this is -- well, is
5 it a nonstandard project area?

6 MR. LARSON: That's correct. When the
7 application was filed, there were three uncommitted
8 interests --

9 EXAMINER BROOKS: Right.

10 MR. LARSON: -- that were subsequently --
11 subsequently elected to join the well.

12 EXAMINER BROOKS: Well, why would it be a
13 nonstandard project area?

14 MR. LARSON: Because it's 320 acres, half
15 section.

16 EXAMINER BROOKS: Well, what is the spacing
17 in this pool?

18 MR. LARSON: I'm sorry?

19 CROSS-EXAMINATION

20 BY EXAMINER BROOKS:

21 Q. What is the spacing in the subject pool?

22 A. We don't have a pool yet.

23 Q. Oh. It's a wildcat then. And it's in the --
24 what formation?

25 A. San Andres.

1 **Q. San Andres.**

2 A. Typically we've -- the standard has been
3 160-acre project areas.

4 **Q. Right.**

5 Well, the project -- I don't think the
6 project area would be nonstandard. I don't see why it
7 would, unless it were spaced -- unless it were spaced
8 outside of 640. I don't know -- it's a combination of
9 spacing units, and under present rules, that's not an
10 nonstandard project area. So --

11 EXAMINER JONES: Let me ask them to present
12 evidence that all 40s were developed by the well,
13 because they can't penetrate all 40s.

14 EXAMINER BROOKS: Oh, oh, oh.

15 EXAMINER JONES: Yes.

16 EXAMINER BROOKS: So presumably it's going
17 to be 40-acre spacing because it's wildcat. Okay. That
18 makes sense.

19 Go ahead. I have no questions.

20 CROSS-EXAMINATION

21 BY EXAMINER JONES:

22 **Q. So north-south being preferable, how do you**
23 **know that?**

24 A. That's been determined basically from search
25 and literature. Also, I have access to some proprietary

1 breakout type surveys on the cores using log calibers,
2 and I have had access to microseismic. And north-south
3 is preferential because basically propagation is
4 east-west. It's a little north-northeast to
5 south-southwest. As you go to the west side of the
6 Basin, that rotates more to a north-northeast,
7 south-southwest orientation, so anywhere in that window.
8 If you were actually 45 degrees, it wouldn't make a
9 difference.

10 **Q. Thank you very much.**

11 **And three wells in a three -- in this half**
12 **section being optimal, how do you -- say again how you**
13 **knew that? You covered that, but can you repeat that?**

14 A. Yeah. As you move further west in this play,
15 the target interval gets thinner. It's not as thick as
16 it is in West Texas and on the New Mexico border. So
17 you're looking -- on that type curve -- that type log --
18 excuse me -- you're looking at approximately 80 feet of
19 thickness on that porosity interval. So what we are
20 attempting to do is increase the density and reduce the
21 size of the stimulation needed so we can -- it gives us
22 an opportunity to have less height growth on our frac,
23 get more of the frac stimulation in-zone, and that's
24 what we're trying to accomplish.

25 **Q. Okay. So can you talk a little bit more about**

1 the reservoir there? I mean, you've got it here. It
2 shows porosity -- just a neutron porosity. Is this case
3 fold [sic] neutron?

4 A. Yes. Yes.

5 Q. Is that what we're looking at?

6 A. Yes. Well, most of them are case [sic] fold in
7 the area of the old wells that are drilled. In this
8 particular area, this is the furthest west, really, that
9 I've seen a package put together to attempt to develop
10 the San Andres horizontally in this entire northwest
11 shelf play. So what you have is a lot of old vertical
12 completion attempts. Most of this is, at a minimum, 20
13 years old and going back further into the '60s. That's
14 what you see in Exhibit 3. You see some of those
15 offsets that are vertical completions.

16 Those four offsets, in 16, 21 and 22,
17 you're looking at about 1,000 -- anywhere from 1,000 to
18 8,000 barrels cumulative oil production in those four
19 wells.

20 Q. 8,000 barrels?

21 A. Yes.

22 Q. And that's all?

23 A. And that's it.

24 This play started actually in -- the
25 New Mexico part of this play started on the Texas-New

1 Mexico border with Manzano, and that's exactly how that
2 prospect developed. There was a lot of very poor
3 downdip San Andres production completions. It was not
4 economic vertically. And so the play has -- the attempt
5 was made to drill horizontally, and that has made the
6 play economic. There are still some things to learn
7 about the play. That's why we're here with six wells
8 per section rather than four.

9 **Q. Okay.**

10 A. But that's what has caused this play to develop
11 as far as horizontal drilling staged stimulation.

12 And in that particular play -- I'll just
13 tell you. In that particular play, the first play,
14 there is a lot of very poor production. There is one
15 key well in that whole play that was frac stimulated,
16 and most of the wells were very similar to the cums you
17 see in this particular case except for the well that was
18 frac stimulated. It went on to make -- I don't remember
19 the exact number. It was 34,000 barrels per day from
20 the vertical completion. So that was a key well in that
21 play.

22 **Q. What kind of frac job was that?**

23 A. I think it was about 40,000. I looked at that
24 well -- and this has been about three years ago when I
25 looked at that deal when it was originally developed,

1 and it was around 40, 50 -- probably 50,000 pounds of
2 sand. It was a typical vertical frac job, but it wasn't
3 typical for the San Andres because the San Andres is
4 normally just acid stimulated on the verticals.

5 Q. Okay. Okay. So this is the same interval that
6 you're targeting here, 2,400 feet or so, for the
7 vertical wells?

8 A. Yes. Yes.

9 Q. The same intervals? Everything else is pretty
10 much nothing.

11 A. Yeah, you have to get down below the top of the
12 interval, below the top of the San Andres to get into
13 this porosity interval.

14 Q. Is there a Glorieta below this that's any good,
15 or does anyone know?

16 A. There is -- to get to attempted commercial
17 production in the area, you have to actually get down
18 deeper more towards the Devonian, if it's there, also in
19 the pinch-out in this particular area.

20 Q. Okay. Okay. So what kind of water cut are you
21 hoping not to get?

22 A. Well, this is similar to -- the whole play
23 is -- I'm sure you've heard the terminology "ROZ play,"
24 residual oil zone.

25 Q. Yeah.

1 A. Hopefully -- what would be nice is to get into
2 actual porosity that is main pay zone, which is actually
3 high oil cut, high oil saturation, oil-water saturation.
4 A lot of the play has been developed on higher water
5 saturation, oil that -- depending on who you talked
6 to -- that's either immobile and you need to
7 depressurize the formation to get it to move, or you
8 have some mobile oil.

9 We're going to have -- you know, we're in
10 the -- what's called the Roswell Fairway with this
11 acreage, which means there are some other fields around.
12 The San Andres has developed, but it's spotty. We hope
13 to be in both types of porosity as we drill these wells.
14 But we are looking for higher cuts, probably 50 to 60
15 percent at the minimum.

16 **Q. That's better than I've heard.**

17 A. Yeah. More -- to the east has been more like
18 80 percent.

19 **Q. Is this well -- I hate to pry here, but does**
20 **this well -- higher on the structure than these four old**
21 **San Andres wells?**

22 A. Which well are you looking at?

23 **Q. The proposed center well, is it higher on**
24 **structure to the south?**

25 A. Well, I would have to say yes, but regional dip

1 is to the west. So you're moving updip regionally to
2 the west. There is no -- this is not a structural play.

3 **Q. So it's dipping to the west?**

4 A. It's dipping to the east. It's going up
5 towards the mountains to the west.

6 **Q. Okay. Okay.**

7 A. Yes.

8 And this particular play structure has not
9 been a -- it's good to note, but it's not been critical.

10 **Q. Okay. Thank you very much.**

11 EXAMINER JONES: Any more questions?

12 EXAMINER BROOKS: No questions.

13 MR. LARSON: I have nothing further,
14 Mr. Examiner.

15 EXAMINER JONES: Thank you, Mr. Larson.

16 With that, we'll take Case 15815 under
17 advisement.

18 (Case Number 15815 concludes, 8:49 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

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