

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 BACK NINE PROPERTIES, CASE NO. 15903
LLC FOR A NONSTANDARD OIL AND
PRORATION UNIT, CHAVES COUNTY,
NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

December 21, 2017

Santa Fe, New Mexico

BEFORE: SCOTT DAWSON, CHIEF EXAMINER
 PHILLIP GOETZE, TECHNICAL EXAMINER
 DAVID K. BROOKS, LEGAL EXAMINER

 This matter came on for hearing before the
New Mexico Oil Conservation Division, Scott Dawson,
Chief Examiner, Phillip Goetze, Technical Examiner, and
David K. Brooks, Legal Examiner, on Thursday, December
21, 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
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1 APPEARANCES

2 FOR APPLICANT BACK NINE PROPERTIES, LLC:

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1 (10:16 a.m.)

2 EXAMINER DAWSON: At this point we'll go to
3 number two on the list, which is Case Number 15903.

4 It's application of Back Nine Properties, LLC for a
5 nonstandard oil spacing and proration unit in Chaves
6 County, New Mexico.

7 Call for appearances, please.

8 MR. LARSON: Good morning, Mr. Examiner.
9 Gary Larson, with the Santa Fe office of Hinkle Shanor,
10 for the Applicant, Back Nine Properties. I have one
11 witness.

12 EXAMINER DAWSON: Okay. Same witness?

13 MR. LARSON: Same witness.

14 EXAMINER DAWSON: Okay. So Mr. Maxey has
15 been sworn in on the previous case, and he's also been
16 admitted as an expert in petroleum engineering.

17 So you may continue, Mr. Larson, when
18 you're ready.

19 MR. LARSON: Thank you.

20 Mr. Examiner, similar to the previous case,
21 I'm initially going to address an affidavit by landman
22 Diana Millsap, who is a landman at Back Nine Properties.
23 Her affidavit has been marked as Exhibit Number 1.

24 EXAMINER DAWSON: Okay.

25 MR. LARSON: Her affidavit states 100

1 percent of the working interests in the proposed project
2 area are committed to what Back Nine would call the
3 Oakmount #5H well. Her affidavit states there are no
4 depth exceptions in the San Andres, which is, again, the
5 target formation. And it also addresses notice to the
6 offsets of today's hearing. Ms. Millsap identified 12
7 offset interests, all of whom were timely sent a
8 hearing-notice letter. Attached to our affidavit is a
9 listing of those offset interests and an example of the
10 hearing-notice letter sent by my law firm and 11 green
11 cards that were returned.

12 And as she notes in her affidavit,
13 Ms. Millsap made good-faith efforts to obtain a good
14 address for the 12th offset interest, a Mr. Dwight
15 Tipton, but was unable to locate a good address. And
16 given that, Back Nine published notice of today's
17 hearing in the "Roswell Daily Record" on November 21st.

18 And Exhibit B to Ms. Millsap's affidavit is
19 the newspaper's Affidavit of Publication.

20 And with that, I'll move the admission of
21 Exhibit Number 1.

22 EXAMINER DAWSON: At this point Exhibit
23 Number 1 will be admitted to the record.

24 (Back Nine Properties, LLC Exhibit Number 1
25 is offered and admitted into evidence.)

1 EXAMINER DAWSON: You can continue,
2 Mr. Larson.

3 JOHN C. MAXEY,
4 after having been previously sworn under oath, was
5 questioned and testified as follows:

6 DIRECT EXAMINATION

7 BY MR. LARSON:

8 Q. Mr. Maxey, you've also been involved with Back
9 Nine Properties, approached in developing the San Andres
10 Formation in eastern Chaves County; is that correct?

11 A. Yes.

12 Q. Are you familiar with the matters addressed in
13 Back Nine's application in this case?

14 A. Yes, I am.

15 Q. Would you identify the document marked as
16 Exhibit Number 2?

17 A. Exhibit 2 is a well-location acreage dedication
18 plat C-102 for the Oakmount 5H.

19 Q. And is it a true and correct copy of the C-102?

20 A. Yes, it is.

21 Q. And does this well have an API number yet?

22 A. No, it does not.

23 Q. And have you gotten feedback from the Artesia
24 District Office with regards to the pool that the
25 Oakmount #5H will produce from?

1 A. Yes, I have. And it -- it's near the Racetrack
2 Field, so the Artesia District Office believes it's
3 either going to be a wildcat, or it could be an
4 extension of the Racetrack Field.

5 Q. And you've communicated with Mr. Podany about
6 that?

7 A. Yes.

8 EXAMINER DAWSON: P-O-D-A-N-Y.

9 Q. (BY MR. LARSON) And does Back Nine intend to
10 drill and operate the Oakmount #5H well?

11 A. No. They have retained Hadaway Engineering &
12 Consulting to operate the well.

13 Q. And is Back Nine requesting the Division
14 designate Hadaway as the operator in the proposed
15 project area?

16 A. Yes.

17 Q. In referring to Exhibit 2, where will the
18 Oakmount 5H be located in relation to the centerline of
19 the west half of Section 32?

20 A. This well is to be located 10 foot to the east
21 of the centerline of the west half there. The
22 bottom-hole location is located 10 feet to the east.
23 There is a power line to the northwest of the location,
24 running southwest to northeast, and so this location had
25 to be moved 200 feet to the east. So the surface

1 location will be approximately 200 feet to the east of
2 the centerline.

3 Q. And will the completed lateral of the well
4 comply with the Division setbacks?

5 A. Yes.

6 Q. Would you identify the document marked as
7 Exhibit 3?

8 A. Exhibit 3 is a map of the project area and that
9 section with the surrounding eight zones.

10 Q. Did you prepare this exhibit?

11 A. Yes, I did.

12 Q. What are you intending to illustrate with this
13 document?

14 A. This is a depiction of how the west half will
15 be developed with the three laterals.

16 Q. With the red well being the Oakmount 5H?

17 A. That's correct.

18 Q. And the other two will be the subsequent infill
19 wells?

20 A. That's correct.

21 Q. And is the north-south orientation preferable
22 in this area?

23 A. Yes, it is.

24 Q. And would you say that the three-well pattern
25 shown on Exhibit 3 is indicative of Back Nine's

1 development plan for the San Andres in eastern Chaves
2 County?

3 A. Yes.

4 Q. And is it your opinion that the developing
5 three wells across the half section is the most
6 efficient and economical way to develop the San Andres
7 in this area?

8 A. In this area, yes.

9 Q. Have you consulted with Back Nine's geologist
10 regarding the target interval?

11 A. Yes, I have.

12 Q. Did you discuss with him whether there are any
13 geological impediments in the interval?

14 A. Yes. We've discussed it. There are no
15 impediments -- geologic impediments.

16 Q. Would you identify the document marked as
17 Exhibit 4?

18 A. Exhibit 4 is a type log located in the -- it's
19 actually from the southwest of Section 32.

20 Q. Did you prepare this document?

21 A. I did.

22 Q. And what are you intending to depict?

23 A. This is the geologic section of this particular
24 project area with the top of the Yates at 481 feet below
25 the surface and the top of the San Andres at 1,646. And

1 our target San Andres interval TVD is approximately
2 2,300 feet.

3 Q. Would you identify the final exhibit, which is
4 number 5?

5 A. Yeah. Number 5 is a depiction of standard
6 development of 160-acre project areas and a section on
7 the left-hand side, and the proposed development of the
8 San Andres in the project area on the right-hand side.

9 Q. Did you also prepare this document?

10 A. Yes, I did.

11 Q. Would you go into more detail with regard to
12 what you're intending to depict with this exhibit?

13 A. I also depict on these exhibits 15-stage frac
14 jobs, very simplified illustrations, just to show that
15 we're looking to reduce the size of the stimulations by
16 one-third, hopefully have a little less height growth, a
17 little more control over the stimulated reservoir
18 volume --

19 Q. And in order to proceed with the three-well
20 drilling pattern shown in Exhibit 3, is it necessary for
21 Back Nine to drill the Oakmount 5H well very near the
22 centerline of the project area?

23 A. Yes.

24 Q. In your opinion, will the Oakmount 5H well
25 affect, develop and drain portions of the lands in each

1 and every one of the quarter-quarter sections in the
2 proposed project area?

3 A. Yes, it will.

4 Q. And in your opinion, will production from the
5 Oakmount #5H well be reasonably uniform across the
6 entire length of the lateral?

7 A. Yes.

8 Q. And do you anticipate that production from the
9 infill wells will also be reasonably uniform across the
10 entire length of the lateral?

11 A. Yes.

12 Q. And in your opinion, will the granting of
13 NewTex's application avoid the drilling of unnecessary
14 wells, protect correlative rights and serve the interest
15 of conservation and the prevention of waste?

16 A. Yes.

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

19 EXAMINER DAWSON: At this point Exhibits 2
20 through 5 will be admitted to the record.

21 (Back Nine Properties, LLC Exhibit Numbers
22 2 through 5 are offered and admitted into
23 evidence.)

24 MR. LARSON: And I will pass the witness.

25 EXAMINER DAWSON: Okay. Phil?

1 CROSS-EXAMINATION

2 BY EXAMINER GOETZE:

3 Q. Welcome back again.

4 Exhibit 4, your type log, what's the
5 history of this well?

6 A. Pardon me? What's the --

7 Q. The history. I mean, is it drilled and
8 produced or -- the O'Brien Deming 13?

9 A. This particular well was a dry hole.

10 Q. Okay. And it's target was?

11 A. San Andres.

12 There is a well in the southwest-southwest
13 of 29. You see the black circle?

14 Q. Yeah.

15 A. I couldn't get a log, but that well has made
16 13,000 barrels of oil. So these aren't what I would
17 call key wells, but we certainly take notice of these
18 kind of -- or vertical type completions.

19 Q. Well, considering you're doing the same
20 approach in the previous case, 15902, and this one, the
21 prospect is about 15 miles south of that one, is this
22 something that you see as uniform throughout this area
23 of the San Andres?

24 A. Yes.

25 Q. So you're looking for areas that are

1 **essentially undeveloped with --**

2 A. Poorly developed, yes. Yes.

3 **Q. Poorly developed?**

4 A. Yes. There's -- there's not a lot of
5 subsurface control but there is enough scattered around.
6 This is kind of what we see in this particular area, if
7 you're familiar with some of the literature published on
8 the R-O-Z plays. We're in the Roswell Fairway.

9 **Q. Okay. I have no further questions. Thank you.**

10 EXAMINER BROOKS: No questions.

11 CROSS-EXAMINATION

12 BY EXAMINER DAWSON:

13 **Q. I just have one question. You said that well**
14 **up in the southwest-southwest of 29 produced 13,000**
15 **barrels?**

16 A. Yes.

17 **Q. So you would anticipate that your well, since**
18 **you're cutting four quarter-quarters, basically, or**
19 **cutting the whole section, you would think that well**
20 **would probably -- your proposed well would probably**
21 **produce at least four times that much?**

22 A. At least.

23 And something interesting about the San
24 Andres in this area, you do have some -- in some areas,
25 you have some better-developed permeability somewhat

1 localized. You can see the field to the -- off to the
2 north-northwest of this particular location. That field
3 averaged about 25,000 barrels per well. I've talked to
4 two different guys who were drillers in -- you know,
5 back in years past that were actually on a rig drilling,
6 and both of them -- these were independent discussions I
7 had with these two guys. And when they cut some of
8 these areas, they get a lot of torque and bounce in the
9 bit, and they know intuitively just from the field
10 operations if they're going to have a good well, if
11 they've got oil, if they're in the oil column.

12 And so we've got kind of a -- two things
13 we're shooting for here. Number one, horizontal gives
14 us an opportunity to cut more prospective pay that could
15 have these enhancements. And then number two, we've got
16 the development based on the ROZ principles that are
17 being done in the San Andres zone. So yes, we're
18 looking to be able to contact more reservoir like in
19 that particular well. Plus, we're stimulating and doing
20 some pressure reduction with the lateral.

21 **Q. Okay. So when they cut that San Andres zone in**
22 **those vertical wells and they had some bouncing with the**
23 **bit and some rumbling --**

24 A. Yeah.

25 **Q. -- do you expect that will impair your ability**

1 **to drill this horizontal?**

2 A. No. I've -- I've been involved until --
3 essentially, the San Andres, when you get into the
4 porous intervals, it cuts like butter. And in some
5 cases, we have to time drill because we'll outrun the
6 cuttings. You know, we'll get too much cuttings buildup
7 because we're penetrating so fast. So we have to go to
8 a timed drilling in some of these areas. But we're not
9 experiencing problems as far as this kind of drilling.

10 You know, vertical, you're drilling with a
11 lot more weight on the bit. Drilling horizontally,
12 we're talking PDC bits now. We're looking at 700,000
13 pounds roughly, just, you know, give or take, upon a
14 bit. We don't bit when we're drilling, so it's -- and a
15 mud motor's in the hole. So it's a little different.
16 But my experience in drilling in the San Andres is that
17 it cuts very well once you're in a lateral.

18 Q. **Yeah. And a lot those wells were drilled back**
19 **in the -- the vertical wells were drilled back in the**
20 **late '70s, early '80s probably.**

21 A. They were all roller cone, tri-cone bits.

22 Q. **And so down there in Section 3 to the south,**
23 **there is a well down there, it looks like, in the**
24 **northwest quarter of Section 3 down there.**

25 A. Yeah.

1 Q. Was that a San Andres well?

2 A. That's Devonian.

3 Q. Oh, that's Devonian.

4 A. I can't remember the field name. But that's
5 Devonian, and I believe there are some other Devonian
6 wells to the south of there.

7 Q. Okay. All right. That's all the questions I
8 have. Thank you very much, Mr. Maxey.

9 MR. LARSON: Nothing further, Mr. Examiner.

10 EXAMINER DAWSON: Thank you, Mr. Larson.

11 At this point number two on the list, Case
12 Number 15903, will be taken under advisement. Thank you
13 very much.

14 RE CROSS EXAMINATION

15 BY EXAMINER GOETZE:

16 Q. I will say one more thing. On the C-102,
17 Mr. Maxey, on the fourth line, there is a statement of
18 "un-Chavesized mineral interests." I'll ask you next
19 time what that means.

20 A. I'm sorry. Hang on a second. On the Oakmount?

21 Q. The C-102, the operator identification. It's
22 just a glitch.

23 A. On the Oakmount?

24 Q. On either one.

25 A. What does it say?

1 Q. On the fourth line, it starts with "un-Chavesed
2 minerals."

3 A. Oh, on the operator's certification?

4 Q. Yes, sir.

5 A. Okay. You know, I had one other C-102 that had
6 a problem. And I went back and surveyed, and I had a
7 problem in their PDF file. So I'll get --

8 Q. Okay (laughter). Next time you bring it
9 around, we'll ask you what it means.

10 A. Okay.

11 (Case Number 15903 concludes, 10:32
12 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 DATED on this 12th day of January 2018.

21

22

23 MARY C. HANKINS, CCR, RPR
24 Certified Court Reporter
New Mexico CCR No. 20
Date of CCR Expiration: 12/31/2018
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