

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:

ORIGINAL

APPLICATION OF EOG Y RESOURCES,  
INC. FOR A NONSTANDARD SPACING  
AND PRORATION UNIT AND COMPULSORY  
POOLING, EDDY COUNTY, NEW MEXICO.

CASE NO. 15910

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

January 25, 2018

Santa Fe, New Mexico

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

FEB 15 2018 AM 11:12

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, January 25, 2018, 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  
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1 APPEARANCES

2 FOR APPLICANT EOG Y RESOURCES, INC.:

3 ADAM G. RANKIN, ESQ.  
 4 HOLLAND & HART, LLC  
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25

1 (4:25 p.m.)

2 EXAMINER JONES: Case Number 15910, EOG Y  
3 Resources, Inc. for a nonstandard spacing and proration  
4 unit and compulsory pooling in Eddy County, New Mexico.

5 Call for appearances.

6 MR. RANKIN: Thank you, Mr. Examiner. Adam  
7 Rankin, of Holland & Hart, Santa Fe, on behalf of EOG,  
8 the Applicant. I have two witnesses today.

9 EXAMINER JONES: Will the witnesses please  
10 be sworn?

11 (Mr. Moran and Ms. Baline sworn.)

12 MR. RANKIN: Mr. Examiner, may I call my  
13 first witness, Charles Moran?

14 CHARLES MORAN,  
15 after having been first duly sworn under oath, was  
16 questioned and testified as follows:

17 DIRECT EXAMINATION

18 BY MR. RANKIN:

19 Q. Mr. Moran, how are you today?

20 A. I am good.

21 Q. Will you please state your full name for the  
22 record?

23 A. Charles Moran.

24 Q. Please let the Examiner know by whom you're  
25 employed.

1 A. EOG Resources, Inc. is my employer.

2 Q. And what is your job title with EOG Resources?

3 A. My job title is advisor land or land advisor.

4 I don't remember which way it goes.

5 Q. Have you previously testified before the

6 Division as an expert in petroleum land matters?

7 A. I have.

8 Q. And are you familiar with the application that

9 was filed in this case?

10 A. I am.

11 Q. And have you conducted a study of the lands

12 that are the subject of this application?

13 A. I have.

14 MR. RANKIN: Mr. Examiner, I tender

15 Mr. Moran as an expert in petroleum land matters.

16 EXAMINER JONES: He is very much qualified.

17 MR. RANKIN: Thank you, Mr. Examiner.

18 Q. (BY MR. RANKIN) Mr. Moran, if you would just

19 turn to what is marked as Exhibit Number 1 on your

20 exhibit packet, and would you review for the Examiner

21 what this exhibit shows and what EOG is requesting with

22 this application?

23 A. What this plat is is our Plucky 502 -- or

24 Plucky 14 Fed Com 502H well. We are requesting a

25 nonstandard spacing unit for the Bone Spring Formation

1 so that we may effectively get the well drilled and  
2 producing.

3 Q. And with this request -- with this application,  
4 you're seeking --

5 A. Compulsory pooling of all parties that did not  
6 voluntarily agree to join in the well.

7 Q. Okay. And you're seeking to create a  
8 240-acre --

9 A. 240-acre non- --

10 Q. -- nonstandard spacing unit?

11 A. -- nonstandard spacing unit.

12 Q. And you're seeking to dedicate the proposed  
13 well to that spacing unit?

14 A. Yes, we were, which would be composed of the  
15 east half-east half of Section 14 and the east  
16 half-southeast of Section 11.

17 Q. Okay. Now, this C-102, that was -- this is a  
18 filed C-102?

19 A. Yes. This is the filed C-102.

20 Q. And the pool that is the subject of the spacing  
21 unit?

22 A. The Welch; Bone Spring Pool, which is subject  
23 to, I believe, the statewide spacing pool rules.

24 Q. Okay. And so the well that you're proposing to  
25 drill here would be in compliance with the setbacks for

1 the statewide rules?

2 A. Yes, it is.

3 Q. And, in addition, you've actually already  
4 drilled this well, correct?

5 A. Yes. We had to drill this well because we had  
6 an expiring federal lease. The permit for this well had  
7 been hung up at the BLM for many years, so the lease had  
8 been suspended, that lease being Section 14. The lease  
9 came out of suspension, and there was a time clock in  
10 the permit for us to commence the drilling of the well  
11 to drill across lease expiration to get a two-year  
12 extension of that lease. So we had to commence the  
13 drilling of the well. The well has not been completed.

14 Q. And are there any depth severances underlying  
15 the spacing unit?

16 A. There are no depth severances.

17 Q. Now, looking at your next exhibit, Number 2,  
18 does this reflect any -- the summary of the interest  
19 owners and their interests that you're seeking to pool  
20 in the spacing unit?

21 A. It does, with one correction.

22 Q. Okay. What is that?

23 A. When I mailed out this proposal on October  
24 30th, all parties listed here were who I believed were  
25 the owners. It turns out that Featherstone Development

1 Company filed of record an assignment of the interest to  
2 MRC Permian, LLC on October 20th. So when I sent the  
3 proposal to Featherstone, I became aware of that recent  
4 conveyance, and I have been dealing with MRC Permian,  
5 LLC ever since.

6 Q. And just to be clear, on this list are --  
7 include the EOG entities as well, right?

8 A. Yes.

9 Q. So you're seeking to pool all non-EOG  
10 entities --

11 A. Right.

12 Q. -- who remain uncommitted to the well?

13 A. Yes.

14 Q. On your next exhibit, is that a copy of the  
15 well proposal that was sent to the working interest  
16 owners?

17 A. Yes. That is a copy of the well-proposal  
18 letter mailed out.

19 Q. And was a similar letter sent to each of the  
20 interest owners you're seeking to pool?

21 A. Yes.

22 Q. That was what date?

23 A. October 30th.

24 Q. Did you include a copy of the AFE with the  
25 letter that you sent?

1 A. Yes, I did.

2 Q. Are the costs -- and that is a reflected on the  
3 next page; is that right?

4 A. Yes. That is reflected on the next page.

5 Q. In fact, the AFE goes for next three or four  
6 pages; is that right?

7 A. EOG accounts for different phases of the  
8 drilling of the well through multiple AFEs -- or  
9 multiple documents labeled an AFE with an assigned  
10 number. So I combine all those and make all three  
11 documents the AFE with this cover page setting forth the  
12 individual AFE numbers exhibiting all the costs of the  
13 well right there on the summary page, and that's what we  
14 request they sign as the AFE.

15 Q. And those costs that are reflected on your  
16 summary page, are those consistent with what EOG and  
17 other operators have incurred for similar wells in the  
18 Bone Spring in this area?

19 A. Yes, it is.

20 Q. And has EOG made, also, an estimate of the  
21 overhead and administrative costs?

22 A. Yes, we have.

23 Q. And those costs would be applicable while  
24 drilling and while operating the well?

25 A. Yes.



1 Q. And what were those costs?

2 A. Those costs are \$7,500 for drilling and 750 for  
3 operating.

4 Q. Are those costs similar and rates similar to  
5 what other operators are charging in the area for wells  
6 of this similar length in the Bone Spring?

7 A. Yes. That is what I understand.

8 Q. Okay. Do you ask that these administrative and  
9 overhead costs be incorporated into any order as a  
10 result of this hearing?

11 A. Yes, I do.

12 Q. And do you ask as well that those costs be  
13 adjusted periodically in accordance with COPAS  
14 accounting procedures?

15 A. Yes, I do.

16 Q. And with respect to the uncommitted interests  
17 who remain uncommitted who were pooled subsequently by  
18 this order, do you ask that the Division apply the  
19 maximum penalty rate of 200 percent?

20 A. Yes, I do.

21 Q. Now, will you just review for the Examiners  
22 what efforts beyond the well-proposal letters you have  
23 undertaken to reach agreement with the parties you are  
24 seeking to pool?

25 A. I have talked to all parties on this list. I

1 have received signed AFEs from all parties indicating  
2 they wanted to participate in the well. The matter is  
3 the finalization of the JOA, and I believe we will get a  
4 finalized JOA. And at that point, this order would not  
5 be necessary. But I had to move forward with this just  
6 to keep things moving forward.

7 Q. And in light of your pending lease deadline?

8 A. Yes. Well, I've dealt with the deadline by  
9 drilling across the expiration date.

10 Q. Now, if you are able to reach a voluntary  
11 agreement with any of the interest owners, will you  
12 notify the Division --

13 A. I will notify the Division of who is not -- who  
14 has voluntarily signed the joint operating agreement and  
15 not subject to the forced pooling order.

16 Q. All right. Now, the lands at issue here  
17 consist of fee lands and federal lands; is that correct?  
18 Will you review that?

19 A. The tracts on Section 14 is all federal. The  
20 southeast-southeast of Section 11 is a second federal  
21 lease, and the northeast-southeast of Section 11 is a  
22 fee tract.

23 Q. So it's mostly all federal after that --

24 A. But that -- that one 40-acre tract at the end  
25 of the well.

1           Q.    Okay.  Now, with respect to the offsetting  
2   interest owners, did you identify all those offsets, the  
3   40-acre tracts in the offsetting acreage surrounding  
4   the --

5           A.    I did.  The lease in Section 12 -- the federal  
6   lease in Section 12 encompasses the full diameter of the  
7   fee tract.  So all those -- all those owners are in the  
8   well.  All the fee owners are in the well, and they own  
9   the offset to the east.  So everybody that's  
10   participating in the well is all the lands surrounding  
11   the well except to the south, which the operator to the  
12   south is Chevron U.S.A.  I believe Chevron U.S.A., they  
13   are the only party that is not involved in the well that  
14   needed notice.

15          Q.    As an offset owner?

16          A.    As an offset owner.

17          Q.    Looking at the next exhibit, Number 4, is this  
18   a copy of my affidavit prepared by me and my office?

19          A.    Yes, it is.

20          Q.    Stating that we have identified all the  
21   parties -- pool parties and offsetting interest and  
22   provided them notice of today's hearing?

23          A.    Yes, it is.

24          Q.    And then the subsequent pages, is that a copy  
25   of the letter that was sent to all the pool parties?

1           A.    I sent the letter to the pool parties, the  
2           exhibit listing those parties, which is MRC Permian, the  
3           certified return receipt cards for those pool parties  
4           acknowledging that notice was received.

5           Q.    And then after that set of green cards and  
6           green-card receipts, is there another letter that was  
7           sent to the offset operator? In this case it was  
8           Chevron --

9           A.    Yes. Chevron being the offset operator and the  
10          green card associated therewith.

11          Q.    And in your opinion, did you make a good-faith  
12          effort to identify all the pool parties and their  
13          correct addresses?

14          A.    Yes. I undertook to identify all pool parties  
15          and their correct addresses and have had communication  
16          with all those pool parties.

17          Q.    Now, is Exhibit 5 also a Notice of  
18          Publication -- Affidavit of Notice of Publication  
19          stating that the advertisement ran in the "Carlsbad  
20          Current-Argus" identifying each party -- pooled party by  
21          name?

22          A.    Yes. That's what I understand this exhibit to  
23          be.

24          Q.    Were Exhibits 1 through 5 prepared by you or  
25          under your direct supervision?

1           A.    They were either prepared by me or under my  
2   direct supervision.  Yes.

3                   MR. RANKIN:  Mr. Examiner, I'd move the  
4   admission of Exhibits 1 through 5.

5                   EXAMINER JONES:  Exhibits 1 through 5 are  
6   admitted.

7                   (EOG Y Resources, Inc. Exhibit Numbers 1  
8   through 5 are offered and admitted into  
9   evidence.)

10                  MR. RANKIN:  Pass the witness.

11                  EXAMINER BROOKS:  No questions.

12                               CROSS-EXAMINATION

13   BY EXAMINER JONES:

14           Q.    Why did you do the newspaper notice?

15           A.    Because he (indicating) told me to.

16           Q.    You just don't want any delays (laughter).

17           A.    He hates delays.

18                   MR. RANKIN:  No delays.

19           Q.    (BY EXAMINER JONES) MRC Permian, I noticed you  
20   jumped on them and notified them right away, pretty  
21   quick.

22           A.    Yes.  They have signed up.  They've agreed to  
23   drill the well.  Like I said, we're just hung up getting  
24   the JOA finalized.

25

1 CROSS-EXAMINATION

2 BY EXAMINER BROOKS:

3 Q. I guess I did forget to ask you. Are there  
4 overrides in this unit?

5 A. I believe there are overrides on the fee acre  
6 tract.

7 Q. Not on the federal?

8 A. Not on the federal. The federal leases were  
9 bought by Yates and Marbob originally, and now the  
10 owning parties are the surviving EOG entities and a  
11 remaining Yates entity and then two COG entities listed  
12 in here.

13 Featherstone, who received the proposal  
14 originally, I believe did reserve an override on the  
15 assignment to MRC. I don't know if there are other -- I  
16 don't know if he broke out that override to third  
17 parties, but my plan to deal with them is I will have  
18 them ratify the communitization agreement.

19 Q. Okay. That's -- that will be my -- the fee  
20 lease, I'm sure, has -- the fee leases, I'm sure, have  
21 pooling clauses in them?

22 A. I believe they do.

23 Q. And my concern about overrides is that federal  
24 and state leases generally don't have pooling clauses.  
25 So I can be dogmatic about state leases because they're

1 statutory and they don't have pooling clauses, but I was  
2 under the impression federal leases generally don't  
3 either. But in that kind of leases, there would be a  
4 question of whether the pooling clause -- whether the  
5 working interest owner had a right to pool the  
6 overrides.

7 A. Based upon my conversation with  
8 Mr. Featherstone, I believe he would agree to pool  
9 because he very much wanted this well drilled.

10 Q. Yeah. Okay. Very good. No further questions.

11 CONTINUED CROSS-EXAMINATION

12 BY EXAMINER JONES:

13 Q. Does the BLM require you to have overrides sign  
14 a com agreement?

15 A. I don't request them to sign the com agreement.  
16 I request them to ratify the com agreement. That's been  
17 my practice for years so that there is no question.  
18 Everybody knows where we stand and how we are  
19 distributing the revenue for the well, based upon the  
20 communitization agreement.

21 Q. Okay.

22 A. Yeah. It's just been my practice for doing it.  
23 That way everybody's -- I have everybody signed up on a  
24 piece of paper. I don't do it for the -- I don't have  
25 them sign the actual com agreement because they tend to

1 slow things down. That's why I go with a ratification,  
2 which can follow. The BLM doesn't need to approve their  
3 signature. They just need to approve the record title  
4 owner and the working interest owners.

5 Q. Okay. Thank you very much.

6 EXAMINER BROOKS: Nothing further.

7 MR. RANKIN: Thank you.

8 I'd like to call our second witness,  
9 Ms. Baline.

10 LORRAINE BALINE,  
11 after having been previously sworn under oath, was  
12 questioned and testified as follows:

13 DIRECT EXAMINATION

14 BY MR. RANKIN:

15 Q. Ms. Baline, would you please state your full  
16 name for the record?

17 A. Lorraine Baline.

18 Q. Will you please state by whom you're employed?

19 A. I am employed by EOG Resources.

20 Q. In what capacity?

21 A. I'm a lead geologist in our Midland office.

22 Q. Have you previously testified before the  
23 Division and had your expertise as a petroleum geologist  
24 made a matter of record?

25 A. I have.



1           Q.    Are you familiar with the application filed in  
2   this case?

3           A.    Yes, I am.

4           Q.    Have you conducted a study of the geology in  
5   the lands underlying this proposed spacing unit?

6           A.    Yes.

7                   MR. RANKIN:  Mr. Examiner, I tender  
8   Ms. Baline as an expert in petroleum geology.

9                   EXAMINER JONES:  She is so qualified.

10                  MR. RANKIN:  Thank you.

11           Q.    (BY MR. RANKIN) Ms. Baline, please look at  
12   what's marked as Exhibit 6 in your exhibit packet.

13           A.    Yes.

14           Q.    Will you please review for the Examiners what  
15   this exhibit depicts?

16           A.    This is a map of the area around our Plucky 14  
17   Fed Com 502H well.  The area highlighted in yellow is  
18   the project area for the well and then the surface  
19   locations and the south side of the bottom hole as  
20   depicted on the north of that project area.  The  
21   contours on the map are structure contours at the top of  
22   the 2nd Bone Spring Sand, which is the target for the  
23   well, and they are surrounding wells posted as well.  
24   The red numbers are the control points for the structure  
25   contours on the map.  There is also a cross-section line

1 shown on the map in blue from A to A prime going from  
2 west to east.

3 Q. And those wells that you identified and chose  
4 for your line of cross section, you chose those for a  
5 reason. Are they representative of the area?

6 A. They are representative of the area.

7 Q. Okay. And is that your cross section on your  
8 next exhibit?

9 A. Yes, it is.

10 Q. Will you review Exhibit Number 7, your cross  
11 section, for the Examiners?

12 A. Sure. So this is, again, a three-well cross  
13 section that was shown on the map going from A to A  
14 prime from west to east. This cross section depths go  
15 from above the top of the 1st Bone Spring Sand all the  
16 way down through the upper part of the Wolfcamp. The  
17 target, as I mentioned previously, is the 2nd Bone  
18 Spring Sand, and it's indicated on the cross section by  
19 the red arrows and target marker.

20 The logs on the cross section in the first  
21 track is the gamma ray log, followed by the subsea  
22 depths. Then the next track is the resistivity, and,  
23 finally, the porosity in blue and red on the right-hand  
24 side.

25 Q. And based on your analysis and review of the

1 cross section, have you identified any impediments to  
2 drilling a mile-and-a-half lateral across the proposed  
3 spacing unit?

4 A. No. The target is correlative across all three  
5 of these wells and in the area. There are no major  
6 faults or structural features in this area that would  
7 impede production.

8 Q. And you've identified the target formation, the  
9 target interval across the entire length of your  
10 proposed spacing unit?

11 A. Yes, I have.

12 Q. Do you consider -- let's see. I think that's  
13 all I want to ask about that.

14 Now, based on your study and analysis of  
15 the geology in the area, are you under the opinion that  
16 this acreage can be efficiently and economically  
17 developed by a mile-and-a-half lateral?

18 A. Yes.

19 Q. And in your opinion, will all the  
20 quarter-quarter sections comprising the proposed spacing  
21 unit be productive and contribute more or less equally  
22 to the production in the well?

23 A. Yes.

24 Q. And in your opinion, will the granting of the  
25 EOG application be in the best interest of conservation,

1 the prevention of waste and the protection of  
2 correlative rights?

3 A. Yes.

4 MR. RANKIN: Mr. Examiner, I have no  
5 further questions, and I would move the admission of  
6 Exhibits 6 and 7 into the record.

7 EXAMINER JONES: Exhibits 6 and 7 are  
8 admitted.

9 (EOG Y Resources, Inc. Exhibit Numbers 6  
10 and 7 are offered and admitted into  
11 evidence.)

12 MR. RANKIN: Pass the witness.

13 EXAMINER BROOKS: No questions.

14 CROSS-EXAMINATION

15 BY EXAMINER JONES:

16 Q. That zone you're targeting is pretty ratty on  
17 the gamma ray. So it's kind of like the upper part of  
18 the 2nd Bone Spring Sand?

19 A. Yeah. The -- the entirety of what's shown  
20 there from the 2nd Bone Spring top to the 3rd Bone  
21 Spring top is comprised of interbedded shales, sands and  
22 carbonates.

23 Q. Okay.

24 A. And so below our target is a series of  
25 relatively thicker carbonates in that package. But the

1 sand directly overlying those carbonates, which are  
2 depicted by a very low gamma response on the first track  
3 there and a correlative -- resistivity. Above that is  
4 our target, and that is pretty sand-ridden and  
5 correlative across all three of the wells.

6 Q. Okay. Okay. Thanks very much.

7 A. Of course.

8 Q. Appreciate it.

9 EXAMINER JONES: No more in this case?

10 MR. RANKIN: Nothing further.

11 EXAMINER JONES: Nothing further.

12 We'll take Case 15910 under advisement.

13 Thank you very much. Sorry we switched and  
14 had the hardest case first today. We should have -- we  
15 should have done that totally different.

16 (Case Number 15910 concludes, 4:46 p.m.)

17 (Proceedings conclude, 4:46 p.m.)

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I do hereby certify that the foregoing is  
a true and correct record of the proceedings in  
the above hearing of Case No. \_\_\_\_\_,  
heard by me on \_\_\_\_\_.

\_\_\_\_\_, Examiner  
Oil Conservation Division

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 DATED THIS 13th day of February 2018.

21  
22 

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

