

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, INC. FOR A CASE NOS. 16013,
NONSTANDARD SPACING AND PRORATION 16014
UNIT AND COMPULSORY POOLING, EDDY
COUNTY, NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

March 8, 2018

Santa Fe, New Mexico

BEFORE: MICHAEL McMILLAN, CHIEF EXAMINER
 DAVID K. BROOKS, LEGAL EXAMINER

This matter came on for hearing before the
New Mexico Oil Conservation Division, Michael McMillan,
Chief Examiner, and David K. Brooks, Legal Examiner, on
Thursday, March 8, 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
 Paul Baca Professional Court Reporters
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 Albuquerque, New Mexico 87102
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1 APPEARANCES

2 FOR APPLICANT OXY USA, INC.:

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1 (2:02 p.m.)

2 EXAMINER McMILLAN: At this time I'd like
3 to call Case Number 16013, application of OXY USA,
4 Incorporated for a nonstandard spacing and proration
5 unit and compulsory pooling, Eddy County, New Mexico.

6 This case shall be combined with Case
7 Number 16014.

8 Call for appearances.

9 MR. RANKIN: Thank you, Mr. Examiner. Adam
10 Rankin, on behalf of the Applicant, with Holland & Hart
11 here in Santa Fe. I have two witnesses who have already
12 been sworn in.

13 EXAMINER McMILLAN: Any other appearances?
14 Please proceed.

15 MR. RANKIN: Thank you, Mr. Examiner. My
16 first witness I'd like to call is Ms. Stacy Rojas.

17 STACY ROJAS,
18 after having been previously sworn under oath, was
19 questioned and testified as follows:

20 DIRECT EXAMINATION

21 BY MR. RANKIN:

22 Q. Ms. Rojas, please state your name for the
23 record.

24 A. Yes. Stacy Rojas.

25 Q. Seems like déjà vu, doesn't it?

1 A. Yes.

2 Q. Have your credentials as an expert in petroleum
3 land matters been accepted and made a matter of record?

4 A. Yes.

5 Q. And you're familiar with the applications filed
6 in these two consolidated cases?

7 A. Yes.

8 Q. And you're familiar with the status of the
9 lands?

10 A. Yes.

11 MR. RANKIN: Mr. Examiner, I'd retender
12 Ms. Rojas as an expert in petroleum land matters.

13 EXAMINER McMILLAN: So qualified.

14 Q. (BY MR. RANKIN) Ms. Rojas, would you review for
15 the Examiners what OXY is seeking with these two
16 consolidated cases?

17 A. We are seeking approval for two 160-acre
18 nonstandard spacing units in Section -- it's a regular
19 [sic] section, Section 13, of Township 24 South, Range
20 30 East, Eddy County, New Mexico for the development of
21 one-mile laterals and to pool uncommitted mineral
22 interests in the Bone Spring Formation.

23 Q. And there are a total of three wells that are
24 involved in these two consolidated applications; is that
25 correct?

1 A. Yes.

2 Q. And in the first case, 16013, you're looking to
3 dedicate one initial well in the west half-east half of
4 Section 13; is that correct?

5 A. Yes.

6 Q. And what well is that?

7 A. That's the Nimitz MDP1 13 Federal Com 1H well.

8 Q. And in the next case, 16014, you're looking to
9 dedicate two initial wells?

10 A. Yes.

11 Q. Which wells are those?

12 A. The Nimitz MDP1 13 Federal Com 2H and 3H wells.

13 Q. And those are going to be east half-east half
14 of Section 13; is that correct?

15 A. Yes.

16 Q. And you prepared C-102s that you filed with the
17 Division that reflect the location of each of those
18 wells?

19 A. Yes.

20 Q. And have those been marked as Exhibit Number 1?

21 A. Yes.

22 Q. And in each case, as with the prior cases, each
23 tab represents a different case. So in other words,
24 Case 16012 [sic] exhibits are behind Tab A?

25 A. Yes.

1 Q. Or let me check that. 16013 is behind Tab A,
2 and 16014 is behind Tab A; is that correct?

3 A. Yes.

4 Q. So with respect to these wells, are any of
5 these wells in these two cases nonstandard locations or
6 unorthodox?

7 A. Yes. The 2H is.

8 Q. And has there already been approved an NSL with
9 respect to that well?

10 A. Yes.

11 Q. And do you have the NSL number, by chance?

12 A. Can I get my sheet you just gave me?

13 Q. Yeah. That's fine.

14 And, Ms. Rojas, the 2H well is in Case
15 16014, correct?

16 A. Yes.

17 Q. And what is the NSL number approved for that
18 well?

19 A. 7581.

20 Q. And, otherwise, the intervals for each of the
21 other wells will be completely within the 330-foot
22 setbacks under the statewide rules; is that correct?

23 A. Yes.

24 Q. And the ownership here, at least the nature of
25 the land here that you're seeking to pool, what's the

1 **status? Is it federal or fee or state?**

2 A. It's all federal.

3 Q. All federal. Okay.

4 And are there any ownership differences or
5 **severances within the area you're seeking to pool?**

6 A. No.

7 Q. Will you review for the **Examiners Exhibit**
8 **Number 2 and what it shows for each of these cases?**

9 A. Yes. They're land plats that I prepared
10 showing the proposed spacing units with the different
11 tracts and the working interest that each of the parties
12 own in each of the tracts.

13 Q. And you've got a sheet -- a land tract sheet
14 with ownership interest by tract for each of the two
15 cases, correct?

16 A. Yes.

17 Q. And your Exhibit Number 3 takes that ownership
18 interest and prorates it across the spacing unit for the
19 parties you're seeking to pool?

20 A. Yes.

21 Q. Is that right?

22 A. Yes.

23 Q. And, again, as with your prior presentation, is
24 the only working interest you're seeking to pool here an
25 EOG entity -- or EOG entities?

1 A. It is, yes.

2 Q. So Tab A reflects that the EOG entities have a
3 prorated interest across the spacing unit?

4 A. Yes.

5 Q. And Tab B does the same for the other case as
6 well?

7 A. Correct. Yes.

8 Q. Are there any unleased mineral interest owners
9 in the spacing unit you're seeking to pool?

10 A. No.

11 Q. And how about overrides?

12 A. Yes.

13 Q. Overrides.

14 So, again, with these overrides, have you
15 been able to identify the correct address for each of
16 the overrides that are subject to the interest here?

17 A. It's the same as the other ones. So any
18 additional addresses that we found, we did the second
19 notice to them at the other addresses just to be sure we
20 got them to the correct address.

21 Q. So as a consequence of the follow-up, you're
22 asking that this case be continued two weeks in order to
23 perfect notice to those entities?

24 A. Yes.

25 Q. But you also nevertheless identified those

1 entities by name in a Notice of Publication as well?

2 A. Yes.

3 Q. We'll go through that exhibit in a moment.

4 Okay. And, otherwise, there were no
5 interests that you were unable to locate; is that
6 correct?

7 A. That's correct, yes.

8 Q. Now, with respect to the working interests
9 you're seeking to pool, the EOG entities, did you
10 provide a well-proposal letter for each of the wells
11 that you proposed to the EOG entities?

12 A. Yes.

13 Q. And are those reflected in the tabs behind
14 Exhibit Number 4?

15 A. Yes.

16 Q. And when did you send out those well-proposal
17 letters?

18 A. They went out January 23rd of 2018.

19 Q. And did each of those well-proposal letters
20 include an AFE?

21 A. Yes.

22 Q. And the AFE that you included, does it reflect
23 costs that are consistent with what OXY has incurred and
24 what other operators have incurred for similar wells in
25 the area?

1 A. Yes.

2 Q. And has OXY also identified the administrative
3 and overhead costs that will be incurred while drilling
4 and producing should it be successful?

5 A. Yes, sir.

6 Q. What are the costs for each of these wells?

7 A. We are seeking, for each well, for drilling,
8 \$7,500 a month, and for producing, 750 a month.

9 Q. And as with the other cases, do you have
10 additional -- has there been additional discussions with
11 EOG about a trade -- potential trade or other voluntary
12 agreement with respect to these lands?

13 A. Yes.

14 Q. And those are ongoing?

15 A. Yes.

16 Q. And should you reach agreement with EOG, will
17 you notify the Division that such agreement has been
18 made?

19 A. Yes.

20 Q. In addition to identifying all the working
21 interest owners and overrides, did you also identify the
22 offset interest owners in the surrounding acreage?

23 A. Yes, we did.

24 Q. And did you provide notice for each of those
25 entities as well?

1 A. Yes.

2 Q. And were those -- behind the next exhibit,
3 Number 5, is that a copy of the provided notice to each
4 of those parties for each of these cases?

5 A. Yes.

6 Q. And do those exhibits include the letters that
7 went out providing notice, a list of the parties and
8 green cards that have been received, in turn, as of
9 today's hearing?

10 A. Yes.

11 Q. And for each case, does it reflect that the
12 working interests and owners that you pooled have
13 actually received notice of today's hearing?

14 A. Yes.

15 Q. And there are still some green cards that
16 haven't been returned, but you've identified the correct
17 addresses for each of those offsets or royalty interest
18 owners?

19 A. Yes. And we've received several phone calls on
20 them.

21 Q. Okay. So you've been in contact with some of
22 those noticed parties?

23 A. Yes.

24 Q. In addition to the well-proposal letters and
25 the notice of today's hearing, did you also instruct my

1 office to provide notice by publication?

2 A. Yes.

3 Q. Does Exhibit 6 reflect the affidavits
4 indicating that notice was published in the newspaper in
5 the county where the wells are located?

6 A. Yes.

7 Q. And identify the parties by name in each of
8 those Notices of Publication?

9 A. Yes.

10 Q. Ms. Rojas, were Exhibits 1 through 6 in cases
11 16013 and 16014 prepared by you or under your direct
12 supervision?

13 A. Yes.

14 MR. RANKIN: Mr. Examiner, I'd move the
15 admission of Exhibits 1 through 6 into the record.

16 EXAMINER McMILLAN: Exhibits 1 through 6 in
17 Case 16013 and Exhibits 1 through 6 in Case Number 16014
18 may now be accepted as part of the record.

19 (OXY USA, Inc. Exhibit Numbers 1 through 6
20 in each case, Case Numbers 16013 and 16014,
21 are offered and admitted into evidence.)

22 MR. RANKIN: No further witnesses,
23 Mr. Examiner. Pass the witness.

24

25

1 CROSS-EXAMINATION

2 BY EXAMINER McMILLAN:

3 Q. Okay. In Case 16013, what are the last five
4 numbers of the API number?

5 A. That's for the 1H?

6 Q. Yeah.

7 A. That's 44524.

8 Q. And then the 3H and then the 2H?

9 A. So for the 3H, it's 44525, and then for the 2H,
10 it's 44498.

11 EXAMINER McMILLAN: Go ahead.

12 CROSS-EXAMINATION

13 BY EXAMINER BROOKS:

14 Q. Are these wells also -- well, first of all,
15 these are all Bone Spring wells?

16 A. Yes, sir.

17 Q. And which Bone Spring zones are they going to
18 be drilled in?

19 A. The same pool, the Cotton Draw; Bone Spring.

20 Q. Yeah. But what zone -- what --

21 A. 2nd Bone Spring.

22 Q. They're all 2nd?

23 A. Yes, sir.

24 Q. Okay. We've already been over the spacing unit
25 and so forth.

1 **Okay. Thank you. That's all.**

2 MR. RANKIN: No further questions.

3 EXAMINER McMILLAN: Thank you.

4 MR. RANKIN: Mr. Examiner, I'd like to call
5 my second witness.

6 EXAMINER McMILLAN: Please proceed.

7 MR. RANKIN: It's Phylricia Saner.

8 PHYLICIA SANER,

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

11 DIRECT EXAMINATION

12 BY MR. RANKIN:

13 **Q. Hello, again.**

14 A. Hello.

15 **Q. Will you please state your full name for the**
16 **record?**

17 A. Phylricia Saner.

18 **Q. By whom are you employed and in what capacity?**

19 A. Occidental Petroleum Corporation, staff
20 geologist.

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

24 A. Yes.

25 **Q. And are you familiar with the applications that**

1 **were filed in these two consolidated cases?**

2 A. Yes.

3 **Q. Have you conducted a study of the geology**
4 **underlying these lands?**

5 A. Yes.

6 MR. RANKIN: Mr. Examiner, I'd retender
7 Ms. Saner as an expert in geology.

8 EXAMINER McMILLAN: So qualified.

9 **Q. (BY MR. RANKIN) Ms. Saner, will you please tell**
10 **the Examiners what target interval you're seeking to**
11 **develop here?**

12 A. We're seeking to develop the 2nd Bone Spring
13 Sand interval.

14 **Q. And have you prepared a structure map that**
15 **reflects the geology and the structure in the zone**
16 **you're seeking to develop?**

17 A. Yes.

18 **Q. Has that been marked as Exhibit Number 7 in the**
19 **consolidated exhibit packets?**

20 A. Yes.

21 **Q. Can you review for the Examiners what that**
22 **structure map shows?**

23 A. On the left side of the map is a shallower
24 structure, and moving towards the east, which is on the
25 right side of the map, is deeper in the Basin. In the

1 red box is our area of interest around the Nimitz wells
2 in both of these cases. The wells of interest
3 particular for this case are in the southern one-third
4 of that red box. The black line, A to A prime, is the
5 cross section shown in Exhibit 8.

6 Q. Okay. And the wells you selected for that
7 cross section, A to A prime, are those, in your opinion,
8 representative of the geology of the wells in the area?

9 A. Yes.

10 Q. Will you review for the Examiners the cross
11 section that you've got in Exhibit Number 8?

12 A. So on the left-hand track is the well TVD. The
13 middle track is gamma ray, and the right-hand track is
14 resistivity. In the light brown shading, we have our
15 target interval for all of these wells.

16 Q. And in your opinion, Ms. Saner, is the target
17 interval appropriate for one-mile lateral development in
18 this area?

19 A. Yes.

20 Q. And in your view, is the orientation of the
21 wells here appropriate for development horizontally?

22 A. Yes.

23 Q. Have you identified any faults or pinch-outs,
24 discontinuities or other impediments geologically to
25 development of the area of the wells?

1 A. No.

2 Q. I think you said that in your view the target
3 zone is consistent throughout the proposed spacing
4 units?

5 A. Yes.

6 Q. In your opinion, will each of the 40-acre
7 tracts that comprise each of these spacing units
8 contribute more or less equally to production in these
9 wells?

10 A. Yes.

11 Q. In your opinion, will the granting of these two
12 applications result in the protection against waste,
13 protection against --

14 EXAMINER McMILLAN: So another attorney
15 likes to say that.

16 MR. RANKIN: Yeah? Is that right?

17 EXAMINER McMILLAN: Yeah.

18 Q. (BY MR. RANKIN) In your opinion, will the
19 granting of these applications be in the best interest
20 of conservation and the prevention of waste and the
21 protection of correlative rights?

22 A. Yes.

23 Q. Thank you for allowing me to work through that.

24 (Laughter.)

25 MR. RANKIN: Mr. Examiner, with that, I'd

1 like to move admission of Exhibits 7 and 8 for each of
2 these consolidated cases into the record.

3 EXAMINER McMILLAN: Exhibits 7 and 8 may
4 now be accepted as part of the record in Case Number
5 16013, and Exhibits 7 and 8 may now be accepted as part
6 of the record in Case Number 16014.

7 (OXY USA, Inc. Exhibit Numbers 7 and 8 in
8 each case, Case Numbers 16013 and 16014,
9 are offered and admitted into evidence.)

10 MR. RANKIN: Thank you, Mr. Examiner. No
11 further questions. Pass the witness.

12 EXAMINER BROOKS: I have no questions.

13 EXAMINER McMILLAN: No questions.

14 Thank you.

15 THE WITNESS: Thank you.

16 MR. RANKIN: Ask this case be continued two
17 weeks so we can complete notice.

18 EXAMINER McMILLAN: Case Number 16013 and
19 Case Number 16014 shall be continued until March the
20 22nd.

21 MR. RANKIN: I just remembered, Mr.
22 Examiner, we didn't have on the record your request for
23 a statement from an engineer.

24 EXAMINER McMILLAN: For all of the cases.

25 MR. RANKIN: For all the cases. So I'll

1 follow up with OXY. We'll provide an email or a
2 statement.

3 EXAMINER McMILLAN: I want a letter because
4 it's going to go in the case file.

5 MR. RANKIN: Okay. A letter on letterhead
6 that indicates we're going to be following --

7 EXAMINER McMILLAN: Yeah, basically
8 protects correlative rights.

9 MR. RANKIN: Okay. The methodology?

10 EXAMINER McMILLAN: Yeah, the methodology.
11 Because you guys did a case in December and the problem
12 was that we required individual well testing, and OXY
13 came to our office said, Hey, we want to use -- we want
14 to measure the wells according to Hearing Order R-14922.
15 And we certainly -- the OCD wants to follow that, and we
16 just want that as part of the record.

17 MR. RANKIN: Okay. Understood. We'll
18 follow up and supplement the record with a statement to
19 that effect.

20 EXAMINER McMILLAN: Great.

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

22 EXAMINER McMILLAN: Thank you very much.

23 EXAMINER BROOKS: Thank you.

24 EXAMINER McMILLAN: That concludes today's
25 hearings. Thank you.

1 (Case Numbers 16013 and 16014 conclude,
2 2:19 p.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 THIS 26th day of March 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
Paul Baca Professional Court Reporters

25