

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 APACHE CORPORATION CASE NOS. 16142,
FOR A NONSTANDARD SPACING AND 16143
PRORATION UNIT, NONSTANDARD LOCATIONS,
AND COMPULSORY POOLING, EDDY COUNTY,
NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

May 17, 2018

Santa Fe, New Mexico

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

This matter came on for hearing before the
New Mexico Oil Conservation Division, Scott Dawson,
Chief Examiner, Michael McMillan, Technical Examiner,
and David K. Brooks, Legal Examiner, on Thursday,
May 17, 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.

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1 APPEARANCES

2 FOR APPLICANT APACHE CORPORATION:

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6

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10 Case Numbers 16142 and 16143 Called 3

11 Apache Corporation's Case-in-Chief:

12 Witnesses:

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1 (10:44 a.m.)

2 EXAMINER DAWSON: At this point we will
3 call Case Number 16142, which is an application of
4 Apache Corporation for a nonstandard spacing and
5 proration unit, nonstandard locations, and compulsory
6 pooling, Eddy County, New Mexico.

7 And will this be consolidated with Case
8 Number 16143?

9 MS. BRADFUTE: Yes, it will.

10 EXAMINER DAWSON: Okay. 16143 is
11 application of Apache Corporation for a nonstandard
12 spacing and proration unit, nonstandard locations, and
13 compulsory pooling, Eddy County, New Mexico.

14 So number 13, 16142, and number 14, 16143,
15 will be consolidated.

16 And you can call your witnesses, please.

17 MS. BRADFUTE: Thank you, Mr. Examiner.

18 Jennifer Bradfute, with Modrall Sperling
19 Law Firm, on behalf of Apache Corporation. And I have
20 two witnesses here to testify today.

21 EXAMINER DAWSON: Okay. Can your witnesses
22 please stand and be sworn in by the court reporter?

23 (Ms. St. Pierre and Mr. Muncy sworn.)

24 EXAMINER DAWSON: You may continue. Thank
25 you.

1 MS. BRADFUTE: Thank you, Mr. Examiner.

2 I'd like to call my first witness.

3 EXAMINER DAWSON: Okay.

4 Any other appearances?

5 MS. BRADFUTE: Mr. Examiner, I will say
6 that previously Mr. Bruce had entered an appearance in
7 this case on behalf of V-F, and that objection has been
8 withdrawn and for his appearance at this hearing in the
9 email he sent, I believe yesterday, to the Division.

10 EXAMINER DAWSON: Okay. So noted for the
11 record. Mr. Bruce's appearance for V-F has been
12 dismissed.

13 MS. BRADFUTE: Thank you.

14 EXAMINER DAWSON: Thank you.

15 ASHLEY ST. PIERRE,
16 after having been previously sworn under oath, was
17 questioned and testified as follows:

18 DIRECT EXAMINATION

19 BY MS. BRADFUTE:

20 Q. Good morning.

21 A. Good morning.

22 Q. Could you please state your name for the
23 record?

24 A. Ashley St. Pierre.

25 Q. And, Ms. St. Pierre, who do you work for?

1 A. Apache Corporation.

2 **Q. And what is your position at Apache?**

3 A. Landman.

4 **Q. And what are your responsibilities as a**
5 **landman?**

6 A. I am a mineral landman for Apache. I work the
7 rig line. I work trades. I work with inside and
8 outside departments to, you know, get things resolved as
9 far as the minerals and drill the wells.

10 **Q. And you look into title matters?**

11 A. Yes, title, too.

12 **Q. Have you previously testified before the**
13 **Division?**

14 A. No.

15 **Q. Could you please explain your educational**
16 **background to the Examiners?**

17 A. I have a Bachelor's in Business Administration
18 and Energy Commerce from Texas Tech. I graduated in
19 2007.

20 **Q. And could you please explain your work history?**

21 A. I started working as a landman for Encana in
22 2007. I left Encana in 2013 due to an office closure.
23 In 2014, I started at Apache, and I've been there ever
24 since.

25 **Q. And, Ms. St. Pierre, do you hold any**

1 **certifications?**

2 A. I have my CPL from -- I got that in 2017 from
3 the AAPL.

4 **Q. And are you a member of any professional**
5 **associations?**

6 A. I'm a member of AAPL and a member of the
7 Permian Basin Landmen's Association.

8 **Q. And does your area of responsibility at Apache**
9 **include the area of Eddy County in southeastern New**
10 **Mexico?**

11 A. Yes.

12 **Q. And are you familiar with the applications that**
13 **have been filed by Apache in Case Numbers 16142 and**
14 **16143?**

15 A. Yes.

16 **Q. And are you familiar with the status of the**
17 **lands which are the subject matter of these**
18 **applications?**

19 A. Yes.

20 MS. BRADFUTE: I'd like to tender
21 Ms. St. Pierre as an expert in petroleum land matters.

22 EXAMINER DAWSON: She will be admitted as
23 an expert in petroleum land matters at this time.

24 MS. BRADFUTE: Thank you.

25 **Q. (BY MS. BRADFUTE) Could you please turn in the**

1 packet in front of you to what's been marked as Exhibit
2 1A and identify what this document is for the hearing
3 examiners?

4 A. This is our application to create a nonstandard
5 160-acre spacing and proration unit in the Bone Spring
6 Formation for our Palmillo 26 State Com 314H well. It
7 also -- it covers lands in the south half of the north
8 half of Section 26. We're also seeking approval for
9 nonstandard locations and pooling all the mineral
10 interests as to the Bone Spring Formation.

11 Q. And could you please turn to Tab B within
12 Exhibit 1 and identify what this document is for the
13 hearing examiners?

14 A. This is our application for our Palmillo 26
15 State Com 315H and 316H wells to create a nonstandard
16 160-acre spacing and proration unit in the Bone Spring
17 Formation comprised of the north half-north half of
18 Section 26. We're also seeking approval for nonstandard
19 locations and pooling all mineral interests as to the
20 Bone Spring.

21 Q. Okay. And could you please turn to what's been
22 marked as Exhibit Number 2? And this exhibit has three
23 tabs, A, B and C. I want to first look at Tab A. Would
24 you first explain what this document is to the hearing
25 examiner?

1 A. This is our C-102 plat for the Palmillo 314H
2 well. It's in the south half-north half of Section 26.
3 Our surface-hole location is in Unit H, and our
4 bottom-hole location is in Unit E.

5 Q. Okay. And will this well be developing the
6 Palmillo; Bone Spring, Southwest Pool, Pool Code 96413?

7 A. Yes.

8 Q. And is this pool governed by the Division's
9 statewide rule and setback requirements for oil wells,
10 which established 330-foot setback requirements?

11 A. Yes.

12 Q. And will this well comply with the setback
13 requirements?

14 A. No.

15 Q. So where will the first perforation for the
16 well be located?

17 A. Our first perforation will be located 594 feet
18 from the east line of Section 26 and 200 -- 2,220 feet
19 from the north line.

20 Q. Is that point denoted on the C-102 as the LP
21 landing point?

22 A. Yes.

23 Q. And where will the last perforation for the
24 well be located?

25 A. Our last take point is 100 feet from the west

1 line of Section 26 and 2,188 feet from the north line.

2 Q. And is that location denoted on the C-102 as
3 the WH, the bottom-hole location? No. It's the LPT.

4 A. Yeah. It's the LPT.

5 Q. Okay. And has Apache notified affected parties
6 of the nonstandard locations that it's requesting in
7 this application?

8 A. Yes.

9 Q. Could you please turn to Tab B? Is this the
10 draft C-102 form for the 315H well?

11 A. Yes.

12 Q. And is this well located in the Palmillo; Bone
13 Spring, Southwest Pool, Pool Code 96413?

14 A. Yes.

15 Q. And is Apache also requesting unorthodox
16 locations for this well?

17 A. Yes.

18 Q. Would you please identify where the first
19 perforation will be for this well?

20 A. Our first location of LP is 593 feet from the
21 east line of Section 26 and 1,316 feet from the north
22 line.

23 Q. Okay. And that is a standard location,
24 correct?

25 A. Yes.

1 Q. But what is the first take point going to be
2 for this well?

3 A. It's 100 feet from the west line denoted as LPT
4 on the -- and 1,284 feet from the north line.

5 Q. And has Apache notified affected parties of
6 this proposed nonstandard location?

7 A. Yes.

8 Q. And could you please turn to Tab C of this
9 exhibit? Is this document the proposed C-102 for the
10 316H well?

11 A. Yes.

12 Q. And is this well also going to be located in
13 the same pool as the 314H and the 315H wells?

14 A. Yes.

15 Q. And is Apache requesting nonstandard locations
16 for this well also?

17 A. Yes.

18 Q. Could you please identify the first perforation
19 within this wellbore?

20 A. Our first perforation is designated as LP, and
21 it is 589 feet from the east line and 412 feet from
22 the north line.

23 Q. And that is a standard location under the
24 Division rules, correct?

25 A. Yes.

1 **Q. And could you please identify the last take**
2 **point for this well?**

3 A. It's 100 feet, located as LTP on the plat, 100
4 feet from the west line and 380 feet from the north
5 line.

6 **Q. And has Apache provided notice to affected**
7 **parties of this requested nonstandard location?**

8 A. Yes.

9 **Q. Could you please turn to what has been marked**
10 **as Exhibit Number 3 in the packet in front of you and**
11 **explain what the first page of this exhibit contains?**

12 A. So this exhibit is a map. On the left side, it
13 shows the surface leases in Section 26. Each lease is
14 designated as a color. The lease numbers are indicated
15 on the map. The 314 and the 315 and 316H pools are
16 located in the north half of the section.

17 The exhibit on the right, the Bone Spring
18 rights, there are depth severances in this section. The
19 different depths that the Bone Spring is covered in is
20 designated in colors. This affects the ownership, not
21 the production. The northwest quarter lease is an older
22 lease that's held by production, and the northeast
23 quarter lease is currently in its primary term, and it's
24 undeveloped.

25 **Q. And by drilling the proposed wells, the 315H**

1 and the 316H wells in the north half-north half into the
2 3rd Bone Spring, is there any concern that the Bone
3 Spring Formation depths within the Bone Spring Formation
4 will not be held under these depth severances?

5 A. No.

6 Q. And so the depth-severance issue actually just
7 creates different ownership interests in different
8 places in the Bone Spring Formation?

9 A. Correct.

10 Q. And here, just for explanation, it looks like
11 the proposed proration unit for the 315H and the 316H
12 wells is denoted by a red-dashed line; is that correct?

13 A. Yes.

14 Q. And the proposed project area for the 314H well
15 is denoted by a dashed yellow line; is that correct?

16 A. Yes.

17 Q. And could you please turn to the second page of
18 this exhibit and explain what this information is to the
19 hearing examiners?

20 A. This is the working interest owners that are in
21 the Palmillo 314H well. ZPZ Delaware is a subsidiary of
22 Apache Corporation. Apache and ZPZ are committed
23 working interest owners. Our uncommitted owners are
24 Marathon; PGP, another Marathon entity; and EOG Y. We
25 are actively working to develop a voluntary 320-acre

1 unit with these parties. However, a JOA has not been
2 executed by the parties yet. Because of our drilling
3 program, we are seeking compulsory pooling because of
4 timing issues with our rig.

5 Q. And when is the rig scheduled to drill these
6 wells?

7 A. August 2018.

8 Q. Okay. Could you please explain the efforts
9 that Apache has engaged in to obtain a voluntary
10 agreement with the parties it's seeking to pool,
11 Marathon Oil Company, PGP Holdings, Marathon Oil Permian
12 and
13 EOG Y?

14 A. In January, we sent a proposed voluntary unit
15 development to all the partners. In March, we sent out
16 formal well proposals as to spacing units. Currently,
17 we have been actively working trades with Marathon and
18 EOG in excess of six months. However, we just haven't
19 been able to find a grid [sic] that each other likes.
20 So we're still actively working it, and we all want to
21 do the deal. It's just timing issues.

22 Q. And are there any overriding royalty interest
23 owners within the north half-north half of the section?

24 A. Yes. There are overrides in the northwest
25 quarter of the section.

1 Q. Okay. And how many overriding royalty interest
2 owners are there?

3 A. There are two, Yates Brothers and Marathon Oil
4 Permian LLC.

5 Q. And have those overriding royalty interest
6 owners been provided with notice of this hearing and
7 this application?

8 A. Yes.

9 Q. And does Apache also seek to pool those
10 overriding royalty interest owners?

11 A. Yes.

12 Q. Could you please turn to what's been marked as
13 Exhibit Number 4? Is the first page of this exhibit a
14 duplicate of the tract map that you just previously
15 explained to the hearing examiners?

16 A. Yes.

17 Q. And could you please turn to the second page?
18 Does this document show the interests that Apache -- the
19 working interests that Apache seeks to pool for the 315H
20 and the 316H wells?

21 A. Yes.

22 Q. And are those interests identical -- or are the
23 parties identical with different percentages of
24 interests that were previously explained in the last
25 exhibit?

1 A. Yes, they are.

2 Q. And are there overriding royalty interest
3 owners within this proposed project area that Apache
4 seeks to pool?

5 A. Yes. It's the Yates Brothers and Marathon Oil
6 Permian LLC.

7 Q. Okay. So it's just those two overrides,
8 correct?

9 A. Yes, just those two.

10 Q. And has Apache sent well-proposal letters to
11 the working interest owners that it's seeking to pool in
12 this matter?

13 A. Yes.

14 Q. Would you please turn to what's been marked as
15 Exhibit Number 5 and could you please explain what that
16 document is?

17 A. This is the well proposal that we sent out for
18 the 314H well. It includes a letter, a separate
19 elections to participate or not participate in the well
20 and a plat showing where the well location is within the
21 section and then an AFE for the well and an AFE for the
22 facility.

23 Q. Okay. And you mentioned that an AFE has been
24 sent. It looks like the AFE starts on about the fourth
25 or fifth page of the exhibit --

1 A. Yes.

2 Q. -- with "Apache" up on the front of it and the
3 "AFE Summary"?

4 Within Apache's AFE, have you proposed
5 well-drilling and well-completion costs to the parties
6 you're seeking to pool?

7 A. Yes.

8 Q. Could you please identify what those costs are
9 for the 314H well?

10 A. The total well costs for the 314 is \$6,401,700.
11 The drilling is \$3,110,000. The completion is
12 \$2,763,700, and equipping is \$528,000.

13 Q. And could you please turn to what's been marked
14 as Exhibit Number 6 in front of you? Is this the
15 well-proposal letter for the 315H and 316H wells?

16 A. Yes.

17 Q. And in this letter, do provide a separate
18 election opportunity for each of these well proposals?

19 A. Yes.

20 Q. And along with this well-proposal letter, did
21 Apache also send out an AFE for each of the wells?

22 A. Yes.

23 Q. Could you please identify the costs for
24 drilling and completing the 315H well?

25 A. The total cost for the well is \$6,217- --

1 \$6,217,700. The drilling is \$2,926,000, and the
2 completion is \$2,763,700, and equipping is 528,000.

3 Q. And could you please now turn to the AFE for
4 the 316H well, which is the document right after the AFE
5 for the 315H? And could you please identify the cost
6 for drilling and equipping the 316H well?

7 A. The total well cost is \$6,284,700. Drilling is
8 \$2,993,000. Completion is \$2,763,700, and equipping is
9 \$528,000.

10 Q. In your opinion, has Apache made a good-faith
11 effort to obtain voluntary joinder in the wells?

12 A. Yes.

13 Q. Are the costs that Apache has proposed in its
14 AFE for the 314H, 315H and 316H in line with costs that
15 have been proposed by other operators to drill similar
16 wells to these lengths and these depths within this area
17 of New Mexico?

18 A. Yes.

19 Q. And in your opinion, who should be appointed as
20 the operator of these wells?

21 A. Apache Corporation.

22 Q. Do you have a recommendation for the amounts
23 which Apache should be paid for supervision and
24 administrative expenses?

25 A. \$7,000 for drilling wells and \$700 for

1 producing wells.

2 Q. And are these amounts equivalent to those
3 amounts normally charged by Apache and other operators
4 in this area for drilling horizontal wells to these
5 lengths and these depths?

6 A. Yes.

7 Q. Do you request that these rates be adjusted
8 periodically as provided for under the COPAS accounting
9 procedure?

10 A. Yes.

11 Q. Does Apache request the maximum cost plus 200
12 percent risk charge if a pooled working interest owner
13 fails to pay its share of costs for drilling, completion
14 and equipping the wells?

15 A. Yes.

16 Q. Were the parties that you're seeking to pool
17 notified of this hearing?

18 A. They were.

19 Q. Could you please turn to what has been marked
20 as Exhibit 7? And it has two tabs, Tab A and Tab B. I
21 want to first look at Tab A. Does Tab A contain an
22 affidavit prepared by Apache's counsel confirming that
23 notice was provided to the parties you're seeking to
24 pool and other affected parties of Apache's application
25 in that matter?

1 A. Yes.

2 Q. And if you turn to the very last page of this
3 exhibit, does it contain an Affidavit of Publication
4 from the "Carlsbad Current-Argus" also confirming that
5 publication was published in the newspaper?

6 A. Yes.

7 Q. And the two pages just prior to this legal
8 publication, there is an email. Had Apache received
9 notice that its mailing to Fasken Oil & Ranch was
10 undeliverable?

11 A. Yes.

12 Q. Did Apache direct its counsel to reach out to
13 Fasken and provide an email notification of its
14 applications, as well as the date and time of this
15 hearing?

16 A. Yes.

17 Q. And could you please turn to 7B? Does Exhibit
18 7B contain an Affidavit of Notice prepared by Apache's
19 counsel in Case Number 16143?

20 A. Yes.

21 Q. And does this affidavit confirm that notice was
22 given to affected parties in that matter as well?

23 A. Yes.

24 Q. And does the last page of this exhibit contain
25 a legal publication notification that was also published

1 **in the newspaper?**

2 A. Yes.

3 **Q. Ms. St. Pierre, were Exhibits 1 through 7**
4 **prepared by you or under your supervision or compiled**
5 **from company business records?**

6 A. Yes.

7 **Q. And in your opinion, will the granting of these**
8 **applications be within the interest of conservation and**
9 **the prevention of waste?**

10 A. Yes.

11 MS. BRADFUTE: I'd like to tender Exhibits
12 1 through 7 into the record.

13 EXAMINER DAWSON: At this time Exhibits 1
14 through 7 will be admitted to the record.

15 (Apache Corporation Exhibit Numbers 1
16 through 7 are offered and admitted into
17 evidence.)

18 MS. BRADFUTE: Thank you. That concludes
19 my questions.

20 EXAMINER DAWSON: All right.

21 Michael, do you have any questions?

22 EXAMINER McMILLAN: Go ahead.

23 CROSS-EXAMINATION

24 BY EXAMINER DAWSON:

25 **Q. The one question I have is on your Exhibit 3.**

1 **Is the lease VB2415 --**

2 A. Yes.

3 **Q. -- a state lease?**

4 A. Yes. All the leases in Section 26 are State of
5 New Mexico leases.

6 **Q. Is there -- do you know when the expiration**
7 **date is on that lease?**

8 A. It's August 2019. Mewbourne initially took
9 that lease. They term-assigned the lease to Apache in
10 2015, I believe. Our term assignment expires in
11 February 2019. It gives Mewbourne six months to drill a
12 well if they would like to hold their lease before the
13 expiration of the primary term.

14 **Q. That's all the questions I have. Thank you.**

15 EXAMINER DAWSON: David?

16 EXAMINER BROOKS: Thank you.

17 CROSS-EXAMINATION

18 BY EXAMINER BROOKS:

19 **Q. You're proposing three wells, two of them to be**
20 **in the south half -- no. Two of them will be in the**
21 **north half-north half and one of them in the south half?**

22 A. That's correct.

23 **Q. And you're proposing separate nonstandard**
24 **spacing units --**

25 A. That's correct.

1 Q. -- for the north half-south half and the south
2 half-north half, respectively?

3 A. Ideally, we would like to form a 320-acre
4 voluntary unit. We just are having trouble getting
5 traction getting a JOA signed. So because of our rig
6 situation, we are using -- we are going to compulsory
7 pooling.

8 Q. Okay. Yeah, I understand that.

9 My concern here is about the -- let's see.
10 This is 40-acre spacing?

11 A. Yes.

12 MS. BRADFUTE: Yes, it is, David.

13 Q. (BY EXAMINER BROOKS) And do you know what pool
14 these wells will be in?

15 A. It's the Palmillo; Bone Spring, Southwest,
16 96413.

17 Q. Okay. So that's one of Paul's pools there. Or
18 is it -- it's a pool that's been designated?

19 MS. BRADFUTE: Yeah. If it has a name,
20 it's a designated pool.

21 EXAMINER BROOKS: Right, as opposed to
22 wildcat.

23 MS. BRADFUTE: Because the wildcat's
24 producing --

25 EXAMINER BROOKS: A wildcat pool has a

1 large series of letters and numbers.

2 MS. BRADFUTE: Yes.

3 Q. (BY EXAMINER BROOKS) It's 40-acre spacing. So
4 your 315H well is going to be a nonstandard location,
5 1,316 from the north line?

6 A. Yes.

7 Q. And are you asking for NSL approval, or have
8 you already obtained that?

9 A. We're asking for NSL approval.

10 Q. Okay. Now, let's see. I heard something about
11 3rd Bone Spring. Are these all going to be in the 3rd
12 Bone Spring, all these wells?

13 A. Yes. All three of these wells are 3rd Bone
14 Spring.

15 Q. Now, how does this depth severance affect the
16 situation? I didn't understand about that.

17 A. These leases -- the leases in the northwest
18 quarter of the section have depth severances. If you
19 look at --

20 Q. At what level?

21 A. So the -- the Bone Spring is covered. One of
22 the depth severances is the surface to the base of the
23 Strawn, and then the other depth severance is 500 feet
24 below the San Andres to the base of the Morrow.

25 Q. So there is no depth severance within the Bone

1 **Spring Formation then?**

2 A. No.

3 **Q. That makes it much easier, much easier.**

4 Now, I'm looking at your Exhibit 3, which
5 is the map. You said that there is a lease that is in
6 force as to the purple acreage. That is separate from
7 your leases, right?

8 A. No. So Apache owns interest in the green, the
9 purple and the blue as to the Bone Spring rights. The
10 only -- the northwest quarter of the section is leased.
11 XO-648 is a State of New Mexico lease. The only
12 difference is when we got our title opinion, the depths
13 of the Bone Spring is within -- the depth severances are
14 different, and the working ownership is different.

15 **Q. I thought you said there was no depth severance**
16 **within the Bone Spring?**

17 A. It's not. But the depth severance, one of them
18 is -- the green is surface to the base of the Morrow,
19 and the purple is 500 feet below the San Andres to the
20 base of the Morrow.

21 **Q. So they're all the same ownership through the**
22 **Bone Spring, is what I'm trying --**

23 A. So the percentage of ownership is different as
24 to the Bone Spring. So when you look at the green --
25 one second.

1 So the green tract -- there are two
2 Marathon entities that have a different ownership. ZPZ
3 has a 50 percent ownership. EOG has 18. Marathon Oil
4 has 15. Apache has 7. Marathon Oil Permian has 4, and
5 PGP has 3.

6 And when you look at the purple tract, ZPZ
7 has 50. EOG Y has 13. Marathon Oil Permian has 11.
8 PGP has 11, and Apache has 8.

9 **Q. These would be, though, differences between the**
10 **portion -- differences between the interests in these**
11 **particular tracts within --**

12 A. The Bone Spring.

13 **Q. -- from each other?**

14 A. Yes.

15 **Q. But there would be no difference as to any**
16 **tract between one part of the Bone Spring Formation and**
17 **another part of the Bone Spring Formation?**

18 A. That's correct. It covers the whole Bone
19 Spring. There is not a Bone Spring one interest, a Bone
20 Spring two interest. It's just the entire Bone Spring.

21 **Q. Yeah. So Tract 1 has one set of ownership --**

22 A. Yes.

23 **Q. -- Tract 2, another, and Tract 3, another?**

24 A. Yes.

25 **Q. And they're all -- they're all uniform**

1 **throughout those tracts?**

2 A. Yes, that's correct.

3 Q. Okay. And so you just combine them by acreage
4 **under the normal --**

5 A. Yes.

6 Q. We would just combine them by acreage, the
7 **normal --**

8 A. Uh-huh.

9 Q. You said something about there were two
10 **overrides?**

11 A. Yes. Yates Brothers and Marathon Oil Permian
12 LLC have overrides in the northwest quarter of the
13 section.

14 Q. The northwest quarter of the section. That's
15 **Tracts 2 and 3?**

16 A. That's right.

17 Q. And not in Tract 1?

18 A. No.

19 Q. And you have noticed them, and you're
20 **requesting that those overrides be compulsory pooled?**

21 A. That's correct.

22 Q. Okay. I think I understand it. Thank you.

23 EXAMINER DAWSON: Any questions, Mike?

24

25

1 CROSS-EXAMINATION

2 BY EXAMINER McMILLAN:

3 Q. So the owners of the different percentages,
4 they -- have they signed a voluntary agreement?

5 A. They're currently reviewing. I should know
6 something about each of them within the next two weeks.

7 Q. So as of the hearing, they were not?

8 A. Yes. As of the hearing, no one has signed a
9 JOA.

10 Q. Okay. All right. Let me ask -- going back to
11 the 316H, what is the first perf and the last perf? I
12 didn't copy it down.

13 MS. BRADFUTE: I think that's Exhibit 2C.

14 Q. (BY EXAMINER McMILLAN) 412 from the north,
15 589 --

16 A. That's correct.

17 Q. And the last perf is going to be --

18 A. 100 feet from the west line and 380 feet from
19 the north line.

20 Q. Okay. And then the NSL notifications, did
21 you -- did you notify the -- in the 316H, did you notify
22 the northeast quarter of 27?

23 A. Yes, we did.

24 Q. The southeast quarter of 22?

25 A. Yes.

1 Q. And, likewise, I'm looking at the 315H. Did
2 you notify everyone in the south half of the north half?

3 A. Yes, we did.

4 Q. And then did you notify everyone in the east
5 half of the northeast quarter of 27?

6 A. Uh-huh. We did.

7 Q. Okay. I'm just trying to make sure.

8 Likewise for the 314H, the southeast
9 quarter of the northeast -- you don't have to notify the
10 northeast quarter of the --

11 A. Can you repeat that?

12 Q. You notified everyone in the south -- southeast
13 quarter of the northeast quarter, correct? But you
14 didn't have to notify everyone in the northeast quarter
15 of the southeast quarter, right?

16 MS. BRADFUTE: I think that's right, Mike,
17 but we may have overnotified.

18 EXAMINER McMILLAN: No question about
19 notification?

20 MS. BRADFUTE: Yes.

21 THE WITNESS: No. We overnotified.

22 EXAMINER DAWSON: All right. Thank you.

23 MS. BRADFUTE: Thank you.

24 I will call my second witness.

25 EXAMINER DAWSON: Did we admit the

1 exhibits?

2 MS. BRADFUTE: Oh, yes. I'd like to tender
3 Exhibits 1 through 7.

4 EXAMINER DAWSON: Okay. At this point
5 Exhibits 1 through 7 will be admitted to the record.

6 (Apache Corporation Exhibit Numbers 1
7 through 7 are offered and admitted into
8 evidence.)

9 EXAMINER DAWSON: You can continue with
10 your second witness.

11 MIKE MUNCY,
12 after having been previously sworn under oath, was
13 questioned and testified as follows:

14 DIRECT EXAMINATION

15 BY MS. BRADFUTE:

16 Q. Could you please state your full name for the
17 record?

18 A. Mike Muncy.

19 Q. And, Mr. Muncy, who do you work for?

20 A. Apache Corporation.

21 Q. And what are your responsibilities with Apache?

22 A. Evaluate and research subsurface data to create
23 oil and gas prospects to exploit on Apache's acreage.

24 Q. And are you a geologist at Apache?

25 A. Yes. I am a Geologist III.

1 Q. Have you previously testified before the
2 Division?

3 A. Yes, I have.

4 Q. And were your credentials accepted and made a
5 part of the record?

6 A. Yes.

7 Q. Are you familiar with the status of the lands
8 which are the subject matter of Apache's applications?

9 A. Yes.

10 Q. And are you familiar with the drilling plans
11 for the 314H, 315H and the 316H wells?

12 A. Yes.

13 Q. And have you conducted a geologic study of the
14 areas embracing the proposed spacing as to the wells?

15 A. Yes.

16 MS. BRADFUTE: I'd like to tender Mr. Muncy
17 as an expert witness in geology matters.

18 EXAMINER DAWSON: Mr. Muncy will be
19 admitted into the record as an expert in petroleum
20 geology matters.

21 Q. (BY MS. BRADFUTE) Mr. Muncy, could you please
22 identify what the targeted interval is for the 314H, the
23 315H and the 316H wells?

24 A. It is the 3rd Bone Spring Sand.

25 Q. And could you please turn to what is marked as

1 **Exhibit Number 8 in the packet in front of you? And**
2 **this has a foldout map. Could you please explain what**
3 **this map is to the hearing examiners?**

4 A. Yes. This is a structure map on top of the 3rd
5 Bone Spring Sand. Each square on there is a section, so
6 square mile. You're seeing a contour interval of 20
7 feet. Section 26 is located in the middle. The 314,
8 315 and the 316 is the north half of the section. What
9 we are observing on structure is we are getting deeper
10 as we head to the southeast.

11 Q. And when you prepared this structure map, did
12 you notice any faulting or geologic impediments?

13 A. No.

14 Q. Are there other Bone Spring wells that you've
15 denoted on this map?

16 A. The other horizontals located on the map, those
17 were drilled by Mewbourne, and most of them are
18 targeting the 2nd Bone Spring Sand. There are a couple
19 wells targeting the 3rd Bone Spring Sand.

20 Q. And have you prepared a cross section of the
21 logs when you were preparing your structure map?

22 A. Yes, I have.

23 Q. And could you please turn to what's been marked
24 as Exhibit Number 9? Is this the cross section that you
25 prepared?

1 A. Yes, it is.

2 **Q. Could you please walk through this document for**
3 **the hearing examiners?**

4 A. This is a stratigraphic cross section, A
5 through A prime, going from west to east, as located on
6 the previous structure map. What I'm showing on the log
7 suite is gamma ray in the first track, TVD in the depth
8 track, resistivity and then neutron porosity and bulk
9 density. The datum is the top of the 3rd Bone Spring
10 Sand. As you can see, it is present all the way across
11 from west to east. The target interval is located
12 around the middle, as indicated by the blue arrow.
13 We're observing 1,000 feet above and about 750 feet
14 below the datum line.

15 **Q. And what does this cross section tell you about**
16 **the area that Apache is targeting for these wells?**

17 A. Our target interval is continuous and present
18 across the entire section.

19 **Q. And could you please turn to what has been**
20 **marked as Exhibit Number 10 in the packet in front of**
21 **you and explain what this document is?**

22 A. Yes. This is a gross isochore map on the 3rd
23 Bone Spring Sand measured from the top of the 3rd Bone
24 Spring to the top of the Wolfcamp. What we're seeing is
25 we have an average thickness of close to 400 feet across

1 the section.

2 Q. And could you please turn to the next exhibit,
3 which is marked under Tab 11, and explain what this map
4 shows to the hearing examiners?

5 A. This is an SoPhiH map, so saturation oil times
6 porosity map. What we're seeing is a contour interval
7 of 20 feet by using the same scale that we've seen on
8 the previous maps. So we're using a cutoff of 4 percent
9 porosity and a water saturation of 7 percent. The water
10 saturation was calculated using rock properties from
11 proprietary rotary sidewall core data.

12 Q. And what does this map show you about the
13 acreage that Apache is proposing to develop with these
14 wells?

15 A. The reservoir is continuous across the acreage,
16 and they average about 20 feet of hydrocarbon pore
17 volume.

18 Q. And what conclusions have you drawn from your
19 geologic study?

20 A. We do not have any geologic hazards in the
21 area. The reservoir is present across the entire area,
22 and it's best exploited by drilling horizontal wells.

23 Q. In your opinion, will each quarter-quarter
24 section be productive in the Bone Spring Formation?

25 A. Yes.

1 Q. And in your opinion, would the granting of
2 Apache's application be in the best interest of
3 conservation and the prevention of waste and the
4 protection of correlative rights?

5 A. Yes.

6 Q. And could you please turn to the last exhibit
7 in this packet, Exhibit 12, and identify what this
8 document is for the hearing examiners?

9 A. This is a wellbore diagram prepared from my
10 geologic prognosis for the 3rd Bone Spring Sand. You
11 can see we have a three-casing-string design. If you'll
12 notice on here, our intermediate string goes down to
13 8,000 TVD. That's to account for -- in our first 3rd
14 Bone Spring well, we had significant presence of gas in
15 the well. So it's for well control.

16 Q. And, Mr. Muncy, were Exhibits 8 through 12
17 prepared by you or compiled under your direction and
18 supervision?

19 A. Yes.

20 MS. BRADFUTE: I'd like to tender Exhibits
21 8 through 12 into the record.

22 EXAMINER DAWSON: At this time Exhibits 8
23 through 12 will be admitted to the record.

24 (Apache Corporation Exhibit Numbers 8
25 through 12 are offered and admitted into

1 evidence.)

2 MS. BRADFUTE: And that concludes my
3 questions.

4 EXAMINER DAWSON: Thank you.

5 CROSS-EXAMINATION

6 BY EXAMINER DAWSON:

7 Q. Mr. Muncy, in your opinion, do you think the
8 proposed three wells will adequately drain the north
9 half of that section?

10 A. Yes.

11 Q. There are other offsetting wells or commercial
12 in those zones?

13 A. Yes. Over in Section 31, Mewbourne drilled
14 the --

15 Q. Most of the wells are being drilled east-west?

16 A. Yes. From our analysis of an FMI image log, we
17 determined the horizontal stress direction in this area
18 is roughly about north-south. So east-west is the best
19 way to develop these wells in this area.

20 Q. Okay. So Apache's mostly drilled mile-long
21 laterals in this area?

22 A. Yes.

23 Q. As have the other operators, it appears?

24 A. Most of the wells in this area are one-mile
25 laterals, 2nd Bone Spring wells. It's pretty steep

1 structure in this area, so our drilling department is a
2 little cautious going up 6 degrees and down 3 degrees
3 and up again for two-mile laterals. But if we were
4 able, if we had the acreage position, we definitely
5 would drill two-mile laterals in the 3rd Bone Spring
6 Sand.

7 Q. Okay. That's all the questions I have. Thank
8 you.

9 EXAMINER BROOKS: No questions.

10 CROSS-EXAMINATION

11 BY EXAMINER McMILLAN:

12 Q. Really the only question I have -- it's
13 actually a land question. I want to make sure that
14 everyone with a mineral interest estate is identified in
15 the -- in the Wolfcamp?

16 MS. BRADFUTE: In the Wolfcamp?

17 EXAMINER McMILLAN: Yeah. Since the target
18 interval is on the top of the Wolfcamp, make sure that
19 everyone --

20 MS. BRADFUTE: Can I confer with my landman
21 momentarily?

22 EXAMINER McMILLAN: Yeah.

23 MS. BRADFUTE: Yes. They provided
24 notification to everybody in the Wolfcamp. They didn't
25 differentiate between the -- I think the interests are

1 uniform, so everybody was notified.

2 EXAMINER McMILLAN: That's good enough.

3 Thank you.

4 EXAMINER DAWSON: Do you have any
5 questions, David?

6 EXAMINER BROOKS: No questions.

7 MS. BRADFUTE: That concludes our
8 presentation. We would ask these cases be taken under
9 advisement.

10 EXAMINER DAWSON: Okay.

11 EXAMINER McMILLAN: Thanks.

12 EXAMINER DAWSON: So at this point, Case
13 Number 16142 and 16143 will be taken under advisement.

14 (Case Numbers 16142 and 16143 conclude,
15 11:24 a.m.)

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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 19th day of June 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