

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 ONE ENERGY PARTNERS, LLC CASE NO. 16107
FOR A NONSTANDARD OIL SPACING AND
PRORATION UNIT AND COMPULSORY POOLING,
LEA COUNTY, NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

June 14, 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, June 14, 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
 (505) 843-9241

1 APPEARANCES

2 FOR APPLICANT ONE ENERGY PARTNERS, LLC:

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 4 HOLLAND & HART, LLP
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 6 Santa Fe, New Mexico 87501
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1 (10:00 a.m.)

2 EXAMINER McMILLAN: Let's call Case Number
3 16107, application of OneEnergy Partners, LLC for a
4 nonstandard oil spacing and proration unit and
5 compulsory pooling, Lea County, New Mexico.

6 Call for appearances.

7 MS. BROGGI: Julia Broggi, on behalf of the
8 Applicant, OneEnergy Partners Operating, LLC.

9 EXAMINER McMILLAN: Any other appearances?
10 Please proceed.

11 MS. BROGGI: We have two witnesses,
12 Mr. Examiner.

13 EXAMINER McMILLAN: Okay. If the witnesses
14 would please stand up and be sworn in at this time?

15 (Mr. Lierly and Ms. Saurborn sworn.)

16 EXAMINER McMILLAN: Please proceed.

17 JEFF LIERLY,
18 after having been first duly sworn under oath, was
19 questioned and testified as follows:

20 DIRECT EXAMINATION

21 BY MS. BROGGI:

22 Q. Good morning. Will you state your name, by
23 whom you're employed and in what capacity?

24 A. Jeff Lierly, vice president of land for
25 OneEnergy Partners, LLC and OneEnergy Partners

1 Operating, LLC.

2 **Q. And have you previously testified before this**
3 **Division as an expert witness in petroleum land matters?**

4 A. Yes, I have.

5 **Q. And have your credentials as a petroleum**
6 **landman been accepted by the Division and made a matter**
7 **of record?**

8 A. Yes, they were.

9 **Q. Are you familiar with the application that**
10 **OneEnergy has filed in this case?**

11 A. I am.

12 **Q. And are you familiar with the status of the**
13 **lands in the subject area?**

14 A. Yes, I am.

15 MS. BROGGI: Mr. Examiner, at this time I
16 would tender Mr. Lierly as an expert witness in
17 petroleum land matters.

18 EXAMINER McMILLAN: So qualified.

19 **Q. (BY MS. BROGGI) Mr. Lierly, will you tell us**
20 **what OneEnergy is seeking through the application in**
21 **this case?**

22 A. We are seeking to create a nonstandard spacing
23 and proration unit in the Wolfcamp Formation comprised
24 of the east half-southeast of Section 13 and the east
25 half-east half of Section 24, Township 25 South, Range

1 35 East, and we're seeking to pool all uncommitted
2 interest owners in the Wolfcamp Formation.

3 Q. And are you seeking to designate OneEnergy as
4 the operator of that spacing unit?

5 A. We are.

6 Q. Will you turn to Exhibit 1 of the exhibit
7 packet? Is this a draft C-101 -- 102?

8 A. Yes. This is a draft C-102 for our proposed
9 Donkey Kong Fed Com 1H well.

10 Q. And will you explain to the Examiner what you
11 told me yesterday about changing the bottom-hole
12 location and the surface-hole location?

13 A. Yes. We had a number of federal on-site visits
14 for some of our federal locations, and this particular
15 one -- it's a draft because there were some
16 archeological issues where the proposed surface-hole
17 location was, and so we'll likely have to switch the
18 surface hole and bottom hole. And we're still working
19 on finding a suitable new surface location. But the
20 proration unit, the lease boundaries will all remain,
21 you know, compliant with the 330 setbacks.

22 Q. Other than switching the surface-hole location
23 and the bottom-hole location, the rest of it is the
24 same?

25 A. That's correct.

1 **Q. Will you please turn to Exhibit 2? Does this**
2 **identify the tracts of land comprising the proposed**
3 **nonstandard spacing and proration unit?**

4 A. It does. As you'll see, the east
5 half-southeast of Section 13 and the east half-northeast
6 of 24 are fee acreage, numerous fee leases. And then
7 the east half-southeast of Section 24 is a federal
8 lease.

9 **Q. And will you turn to the next exhibit, Exhibit**
10 **3? Does this exhibit show the interest owners and the**
11 **percentage of their interest in the unit?**

12 A. It does. It's a diagram that shows the
13 ownership for each corresponding tract of our proposed
14 240-acre spacing unit. And the interest owners and
15 their respective interests are highlighted in yellow for
16 the parties that we're seeking to pool, and it's got
17 ownership on a tract on a unit basis.

18 **Q. What type of interest are you seeking to pool**
19 **in this case?**

20 A. Uncommitted working interest owners, and then
21 there are two unleased mineral owners of universities
22 that we're unable to reach agreement with.

23 **Q. Okay. And how about the overriding royalty**
24 **interest owners?**

25 A. We are not seeking to pool any overriding

1 royalty owners.

2 Q. And you mentioned that there are some unleased
3 mineral interests?

4 A. There are.

5 Q. Have you provided them notice?

6 A. Yes. We've been in communication with these
7 parties for well over a year. One of them doesn't have
8 the capacity to enter into an oil and gas lease, and the
9 other just hasn't been able to push anything through on
10 their side.

11 Q. Will you turn to Exhibit 4 and Exhibit 5? Are
12 these exhibits the copies of the well-proposal letters
13 that were sent out to the working interest owners?

14 A. They are. Exhibit 4 is the initial well
15 proposal that we sent for this proposed well back last
16 summer, 2017.

17 And then Exhibit 5 is the subsequent one
18 that we sent out to new working interest owners based on
19 new leases that were taken in the area, and it also has
20 a copy of the draft C-102 associated plats and AFE.

21 Q. And you mentioned that the AFE was included in
22 the well-proposal letter?

23 A. That's correct.

24 Q. Are the costs in the AFE consistent with what
25 operators have incurred in drilling similar wells in

1 **this area?**

2 A. Yes, they are.

3 **Q. Has OneEnergy made an estimate of overhead and**
4 **administrative costs while drilling and producing the**
5 **well?**

6 A. Yes, 7,000 a month while drilling and 700 a
7 month while producing.

8 **Q. And are these costs consistent with what other**
9 **operators are charging in this area for this type of**
10 **well?**

11 A. They are.

12 **Q. And would you ask that the administrative and**
13 **overhead costs be incorporated in any order resulting**
14 **from this hearing?**

15 A. Yes, we do.

16 **Q. Will you explain what efforts OneEnergy has**
17 **undertaken to reach agreement with the parties you are**
18 **seeking to pool?**

19 A. Numerous phone calls, emails, written
20 correspondence, lunch, text messages, almost anything
21 that you can do (laughter).

22 **Q. If, after this hearing, you're able to reach**
23 **agreement with any of these parties, will you notify the**
24 **Division that you are no longer seeking to pool them?**

25 A. We will. And we've notified the folks that,

1 you know, we just have to kind of maintain our schedule,
2 so we continue to work with parties, whether it's a
3 trade or other type of mutual agreement after any type
4 of order is issued.

5 Q. And in your opinion, have you made a good-faith
6 effort to reach agreement with these parties?

7 A. We have.

8 Q. Did OneEnergy identify the offset operators or
9 the lessees of record in the 40-acre tract surrounding
10 the proposed nonstandard spacing unit?

11 A. Yes, we did.

12 Q. And did OneEnergy include the offsets owners in
13 the notice of this hearing?

14 A. Yes.

15 Q. If you'll turn to Exhibit 6 -- before Holland &
16 Hart was representing OneEnergy in this matter, isn't it
17 correct that Montgomery & Andrews filed the application
18 on behalf of OneEnergy?

19 A. Correct.

20 Q. And is Exhibit 6 a copy of the letters
21 providing notice of this hearing or the parties being
22 pooled and the offsets -- the offsets, which were mailed
23 by the Montgomery & Andrews law firm at OneEnergy's
24 direction?

25 A. Yes, they are.

1 **Q.** And if you'll turn to Exhibit Number 7, is this
2 a copy of the notice published regarding this hearing
3 identifying all parties by name?

4 A. It is.

5 **Q.** Were Exhibits 1 through 7 either prepared by
6 you or compiled under your direction and supervision?

7 A. Yes, ma'am.

8 MS. BROGGI: At this time, Mr. Examiner,
9 we'd like to move into evidence OneEnergy's Exhibits 1
10 through 7.

11 EXAMINER McMILLAN: Exhibits 1 through 7
12 may now be accepted as part of the record.

13 (OneEnergy Partners, LLC Exhibit Numbers 1
14 through 7 are offered and admitted into
15 evidence.)

16 MS. BROGGI: And I have no further
17 questions for this witness.

18 CROSS-EXAMINATION

19 BY EXAMINER McMILLAN:

20 **Q.** Do you know the pool code?

21 A. This is going to be a wildcat pool, so there
22 are no pools that are established for this yet.

23 **Q.** But you're going to have a pool code?

24 A. No. I think what we've done in this area is I
25 think Paul Kautz usually creates a WC and --

1 Q. Yeah, but he always has a pool code associated
2 with it.

3 A. Oh. We don't, but we can request one.

4 Q. Yeah. You need one.

5 A. Okay.

6 Q. Any unlocatable interests?

7 A. No.

8 Q. But you just -- you had the Affidavit of
9 Publication out of an abundance of caution?

10 A. Yes, sir.

11 Q. Okay. Any depth severances?

12 A. No, sir.

13 Q. Okay. So the surface location may change
14 because of surface issues?

15 A. Yes. Since there is federal acreage involved,
16 the BLM on-sites, they found some archeological sites in
17 and around where the proposed well pad would be, and so
18 we're working on finding an alternative. It will likely
19 be in the south, flip the surface hole, bottom hole.

20 Q. So it's safe to say there are surface-issue
21 concerns?

22 A. Correct.

23 Q. I guess you're not the correct person to answer
24 this, but if you have to change location, would you
25 expect any changes to the AFE?

1 A. No. I mean, it's going to be, you know, the
2 same proposed lateral length and drilling and
3 completions, but I think it would be approximately the
4 same.

5 **Q. Get a statement from the engineer for the**
6 **record.**

7 A. Okay.

8 MS. BROGGI: Okay.

9 EXAMINER McMILLAN: It looks cleaner.

10 Go ahead, David.

11 CROSS-EXAMINATION

12 BY EXAMINER BROOKS:

13 **Q. Okay. King Kong was a gigantic ape. Is Donkey**
14 **Kong a gigantic donkey or a stupid ape?**

15 A. It's a fun video game from the '80s.

16 **Q. Okay (laughter).**

17 **You said you were not seeking to pool any**
18 **override owners. I take it there are some?**

19 A. There are a few. All the instruments that
20 created overrides provided for pooling and proportionate
21 reduction.

22 **Q. Okay. So you're convinced that all overrides**
23 **are subject to the lessee's pooling power?**

24 A. Yes. They granted that in the creation of the
25 overrides.

1 **Q. Very good.**

2 **I think I have no other questions.**

3 EXAMINER McMILLAN: Yeah. Just get the
4 pool code from Paul Kautz.

5 MS. BROGGI: I would like to call our
6 second witness.

7 MELISSA SAURBORN,
8 after having been previously sworn under oath, was
9 questioned and testified as follows:

10 DIRECT EXAMINATION

11 BY MS. BROGGI:

12 **Q. Will you state your name, by whom you're**
13 **employed and in what capacity?**

14 A. Melissa Saurborn. I'm employed by OneEnergy
15 Partners as a geologist.

16 **Q. And have you previously testified before the**
17 **Division as an expert witness in petroleum geology?**

18 A. Yes.

19 **Q. And have your credentials as an expert in**
20 **petroleum geology been accepted by the Division and made**
21 **a matter of public record?**

22 A. Yes, they have.

23 **Q. Are you familiar with the application filed by**
24 **OneEnergy in this case?**

25 A. Yes, I am.

1 **Q. And have you conducted a geologic study of the**
2 **lands in the subject area?**

3 A. Yes.

4 MS. BROGGI: Mr. Examiner, at this time
5 we'd like to tender Ms. Saurborn as an expert witness in
6 petroleum geology.

7 EXAMINER McMILLAN: So qualified.

8 **Q. (BY MS. BROGGI) Ms. Saurborn, will you turn to**
9 **Exhibit Number 8, and will you identify this for the**
10 **Examiners and explain what we're looking at?**

11 A. Of course. This is a map of the subject area,
12 25 South, 35 East, showing the proposed Donkey Kong
13 location in orange here in Sections 13 and 24, and this
14 does show the proposed surface-hole location in the
15 south, as Mr. Lierly previously discussed.

16 The map shows the top of the Wolfcamp
17 structure. The contour intervals are 100 feet, and you
18 can see where the Donkey Kong location is proposed.
19 We're roughly along trend with the strike on the top of
20 the Wolfcamp in this area. We'll be going very slightly
21 updip as we drill from the south to the north. And
22 based on the structure map, I don't see any faults or
23 pinch-outs, no evidence of fractures or anything like
24 that that would impede drilling.

25 **Q. So there are no geological hazards to**

1 horizontal drilling in this area?

2 A. No.

3 Q. Will you turn to the next exhibit, Exhibit
4 Number 9?

5 A. Yes. So this is the same area-based map as in
6 the subject area, the Donkey Kong location again shown
7 in orange. And from A to A prime is the location of the
8 well cross section through the Donkey Kong area.

9 Q. And do you consider these wells to be
10 representative of the Wolfcamp area?

11 A. Yes.

12 Q. And then turn to that final exhibit, Exhibit
13 Number 10.

14 A. So this is the stratigraphic cross section from
15 A to A prime, which was shown on the previous map. It
16 goes from the Sioux 36 State pilot hole south [sic] to
17 the southeast, to the Dinwiddie and then the West Jal 18
18 wells towards the northeast.

19 There are four tracks shown here from left
20 to right, gamma ray, resistivity, density, neutron and
21 sonic data. And you'll notice that only the Sioux well
22 has data over the entire depth of this cross section
23 shown here. The Dinwiddie and the West Jal wells have
24 some data limited to gamma ray, some resistivity and
25 porosity and sonic, but it doesn't extend above the top

1 of the Wolfcamp in the Dinwiddie well.

2 The formation shown here from top to the
3 bottom -- the bottom of the 2nd Bone Spring Sand; the
4 3rd Bone Spring Sand; the Wolfcamp X-Y; the top of the
5 Wolfcamp A, which is our datum; the Wolfcamp A itself,
6 including our target interval, which is about 40 feet
7 thick; and then at the very bottom is the uppermost
8 Wolfcamp B.

9 **Q. And how about the thickness and uniformity?**
10 **Can you determine that from looking at this?**

11 A. So the thickness of the target zone will be
12 about 40 feet. And when you correlate from the Sioux to
13 the Dinwiddie and the West Jal using the gamma ray, the
14 target interval appears to be the same thickness, so it
15 should be relatively continuous through the Donkey Kong.

16 **Q. In your opinion, can this area be efficiently**
17 **and economically developed by horizontal wells?**

18 A. Yes.

19 **Q. And in your opinion, will each quarter-quarter**
20 **section be productive and contribute more or less**
21 **equally toward each quarter-acre unit comprising the**
22 **nonstandard spacing unit?**

23 A. Yes.

24 **Q. And in your opinion, will horizontal drilling**
25 **be the most efficient method to develop this acreage and**

1 prevent the drilling of unnecessary wells and result in
2 the greatest ultimate recovery?

3 A. Yes.

4 Q. And finally, in your opinion, will the granting
5 of OneEnergy's application in this case be in the best
6 interest of conservation, the prevention of waste and
7 the protection of correlative rights?

8 A. Yes.

9 Q. And Exhibits 8 through 10, were they prepared
10 by you or compiled under your direction?

11 A. Yes, they were.

12 MS. BROGGI: At this time,
13 Mr. Examiner, we'd move for the admission of Exhibits 8
14 through 10.

15 EXAMINER McMILLAN: Exhibits 8 through 10
16 may now be accepted as part of the record.

17 (OneEnergy Partners, LLC Exhibit Numbers 8
18 through 10 are offered and admitted into
19 evidence.)

20 MS. BROGGI: I have no further questions
21 for this witness.

22 EXAMINER BROOKS: No questions.

23 EXAMINER McMILLAN: I don't have any
24 questions.

25 THE WITNESS: Thank you.

1 EXAMINER McMILLAN: Thank you.

2 MS. BROGGI: At this time, Mr. Examiner, we
3 would ask that Case Number 16107 be taken under
4 advisement.

5 EXAMINER McMILLAN: With the requested
6 information?

7 MS. BROGGI: Yes. So what I understood,
8 both the pool code, but then also a statement from the
9 engineer --

10 EXAMINER McMILLAN: Yeah.

11 MS. BROGGI: -- regarding the bottom hole,
12 surface.

13 EXAMINER McMILLAN: Case Number 16107 shall
14 be taken under advisement.

15 Thank you very much.

16 (Case Number 16107 concludes, 10:17 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 THIS 17th day of July 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