

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:

CASE NO. 16338
16339

Application of Oxy, USA for a non-standard oil.
spacing and proration unit, and compulsory pooling,
Eddy County, New Mexico.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

THURSDAY, JULY 26, 2018

SANTA FE, NEW MEXICO

This matter came on for hearing before the
New Mexico Oil Conservation Division, William B. Jones
Examiner, and David Brooks, Legal Examiner, on Thursday,
July 26, 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 Therese Macfarlane
New Mexico CCR 122
PAUL BACA COURT REPORTERS
500 Fourth Street NW, Suite 105
Albuquerque, New Mexico 87102

1 A P P E A R A N C E S.

2 For the Applicant: Jordan Kessler, Esq.
 3 Holland & Hart, LLP
 4 P.O. Box 2208
 Santa Fe, NM 87504-2208

5 I N D E X

6 CASES NOS. 16338, 16339 CALLED PAGE

7 APPLICANT'S WITNESSES:

8 INDIA ISBELL
 DIRECT EXAMINATION BY MS. KESSLER: 3
 9 CROSS EXAMINATION BY MR. JONES: 9
 CROSS EXAMINATION BY MR. BROOKS: 12
 10 TYLER EVANS
 11 DIRECT EXAMINATION BY MS. KESSLER: 13
 CROSS EXAMINATION BY MR. JONES: 17
 12

13 E X H I B I T I N D E X

14 EXHIBIT PAGE

15 APPLICANT OXY USA EXHIBIT 1 9
 16 APPLICANT OXY USA EXHIBIT 2 9
 17 APPLICANT OXY USA EXHIBIT 3 9
 18 APPLICANT OXY USA EXHIBIT 4 9
 19 APPLICANT OXY USA EXHIBIT 5 9
 20 APPLICANT OXY USA EXHIBIT 6 9
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 22 APPLICANT OXY USA EXHIBIT 8 17
 23 APPLICANT OXY USA EXHIBIT 9 17

24

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1 (Time noted: 1:35 p.m.)

2 MR. JONES: Let's go on the record this
3 afternoon and call -- I assume they are going to be
4 combined, so call Cases 16338 and 16339. Both cases are
5 applications by Oxy USA, Incorporated, for a non-standard
6 spacing and proration unit and compulsory pooling in Eddy
7 County, New Mexico.

8 Call for appearances.

9 MS. KESSLER: Mr. Examiner, Jordan Kessler from
10 the Santa Fe office of Holland & Hart appearing for the
11 Applicant.

12 MR. JONES: Any other appearances?

13 (Note: No response.)

14 MS. KESSLER: Two witnessess today Mr. Examiner

15 MR. JONES: Will the witnesses please stand and
16 be sworn by the court reporter:

17 (Whereupon the designated witnesses were duly sworn.)

18 MS. KESSLER: Mr. Examiner, as with other cases
19 today we will be dismssing the request for non-standard
20 spacing unit. This case was filed on June 26th.

21 MR. JONES: Okay.

22 INDIA ISBELL,

23 having been duly sworn, testified as follows:

24 DIRECT EXAMINATION

25 BY MS. KESSLER:

1 Q. Would you please state your name for the record.

2 A. India Isbell.

3 Q. By whom are you employed?

4 A. Oxy, USA, Inc.

5 Q. And in what capacity?

6 A. I'm a land negotiator.

7 Q. Have you previously testified before the
8 Division?

9 A. I have.

10 Q. Were your credentials as an expert in petroleum
11 land matters accepted and made a matter of record?

12 A. They were

13 Q. Are you familiar with the applications filed in
14 these consolidated cases?

15 A. Yes.

16 Q. And are you familiar with the status of the
17 lands that are the subject of these applications?

18 A. Yes.

19 MS. KESSLER: Mr. Examiners, I would tender Ms.
20 Isbell as an expert in petroleum land matters.

21 MR. JONES: How do you spell Isbell?

22 THE WITNESS: I-s-b-e-l-l.

23 MR. JONES: Isbell. Okay.

24 MR. BROOKS: That's your last name?

25 MR. JONES: She is so qualified.

1 **Q. Ms. Isbell, let's look at Exhibit 1.**

2 **Can you please identify Exhibit 1 and**
3 **explain what Oxy seeks under these consolidated cases.**

4 A. Yes. Exhibit 1 is a C-102 form. We are seeking
5 to pool uncommitted interest owners for the 4H. It would
6 be a 320-, roughly 320-acre spacing unit comprised of the
7 west half of the east half of Section 34, 23 South,
8 31 East; and Section 3, 24 South, 31 East.

9 **Q. That would be dedicated to the 4H well; is that**
10 **correct?**

11 A. Correct.

12 **Q. Okay.**

13 A. Then for the 5H it's a non-standard location but
14 within the east half of the east half, also in Section 34,
15 23 South, 31 East, and in Section 3, 24 South, 31 East.

16 **Q. So you're asking for two standard 320-acre**
17 **spacing units; is that correct?**

18 A. Correct.

19 **Q. And you're asking to compulsory pool uncommitted**
20 **interest owners in the Bone Spring, correct?**

21 A. Yes.

22 **Q. What pool is involved in these applications?**

23 A. This will be the Engle (phonetic) wells, Bone
24 Spring Pool.

25 **Q. Is that pool the 33740?**

1 A. Yes.

2 Q. Is that pool governed by the Division's
3 statewide rules?

4 A. Yes.

5 Q. What is the nature of this acreage?

6 A. It's all federal.

7 Q. Will the completed intervals for the 4H, 5H and
8 6H wells comply with the setback requirements?

9 A. Yes, except for the 5H which is a non-standard
10 location that NSL has been approved.

11 Q. Adminstratively approved?

12 A. Correct.

13 MR. JONES: Do you know the number?

14 MS. KESSLER: I can provide that.

15 MR. JONES: All Right.

16 Q. Let's turn to Exhibit 2.

17 Is this an ownership plat showing the
18 leases and identifying the Working Interest Owners of each
19 of the spacing units?

20 A. Yes, it is.

21 Q. Is ownership identical between the 4H, the 5H
22 and the 6H wells?

23 A. Yes, it is.

24 Q. If you look on the first page of Exhibit 2, this
25 shows each of the leases, correct?

1 A. That's correct.

2 Q. Does the -- on the second page does this list
3 the interest owners that you're seeking to pool?

4 A. Yes.

5 Q. This would be for the 4H well?

6 A. That is correct.

7 Q. Then if I turn to Exhibit 3, on the second page
8 you have highlighted the owners that you seek to pool for
9 the 5H and the 6H wells?

10 A. Correct.

11 Q. What Working Interest Owners -- these are all
12 Working Interest Owners, correct?

13 A. Yes.

14 Q. Are there any Overriding Royalty Interest
15 Owners?

16 A. There are overriding owners, but we have the
17 ability to pool their interest.

18 Q. So you are not requesting compulsory pooling?

19 A. Correct.

20 Q. Is Exhibit 4 a sample of the Well Proposal
21 letter for each of the proposed wells?

22 A. Yes, it is.

23 Q. And attached to this letter are AFEs for the 4H,
24 5H and 6H wells, correct?

25 A. Correct.

1 Q. Are those costs consistent with what Oxy has
2 encountered in drilling similar wells?

3 A. Yes.

4 Q. What efforts have you undertaken to reach
5 agreements with the interest owners they seek to pool?

6 A. In addition to sending the proposal letter we've
7 also offered to trade the parties out of their acreage or
8 acquire term assignments.

9 Q. And you have had contact with each of the
10 Working Interest Owners, correct?

11 A. Yes.

12 Q. Have you estimated overhead and administrative
13 costs?

14 A. Yes. For drilling \$7500, and for producing
15 \$750.

16 Q. Are those rates consistent with what Oxy and
17 other operators in the area are charging for similar Bone
18 Spring wells?

19 A. Yes.

20 Q. Does Exhibit 5 contain an affidavit with letters
21 prepared by my office providing notice to the parties that
22 you seek to pool?

23 A. Yes.

24 Q. And out of an abundance of caution, Holland &
25 Hart published Notice directed to the parties that you're

1 **seeking to pool, correct?**

2 A. Yes.

3 Q. Those affidavits are included as Exhibits 6 and
4 7?

5 A. Yes.

6 Q. You stated that all of the parties that you're
7 seeking to pool were locatable?

8 A. Correct.

9 Q. Were Exhibits 1 through 4 prepared by you or
10 compiled under your direction?

11 A. Yes.

12 MS. KESSLER: Mr. Examiner, I would move
13 Exhibits 1 through 7 into evidence.

14 MR. JONES: Exhibits 1 through 7 are admitted.

15 CROSS-EXAMINATION

16 BY MR. JONES:

17 Q. So this is a potash-restricted area or real
18 close to it?

19 A. It is.

20 Q. So one of the wells -- Well No. 4H seems to be
21 more affected by that, is that correct, or is it just
22 surface and vertical hole restrictions mainly through the
23 potash?

24 A. Yes. The casing is a little -- the casing
25 design is a little different in the potash, from what I

1 understand.

2 I do not believe we are on a drill island
3 for this one but I'm not sure. I have handled most of the
4 subsurface rather than surface.

5 Q. Okay. So they have a different person for
6 surface land issues?

7 A. That's correct.

8 Q. And permitting issues.

9 Okay. So 5H has got an NSL because why?
10 Why was it it needing one?

11 A. It is less than 330 from the west half --

12 Q. Okay.

13 A. -- line.

14 Q. So you're encroaching on the other --

15 A. The 4H spacing unit, yes.

16 Q. The proposed 4H spacing.

17 MR. BROOKS: It needs an NSL number under the
18 old rules.

19 MR. JONES: The new rule would allow you to
20 combine this whole thing if you wanted a 640, I guess, and
21 have the 5H as your first well -- or it -- well, it
22 defines the spacing unit. I guess they call it that.

23 You can't call it the defining well because
24 it's not defined.

25 MR. BROOKS; The defining well is not defined.

1 MR. JONES: The defining well is not defined but
2 we can say it is the well that would define the spacing
3 unit.

4 MS. KESSLER: I don't think it works.

5 MR. JONES: Yeah. Unless someone re-opens those
6 rules and changes that.

7 Q. So everybody -- It's basically EOG; is that
8 right?

9 A. Correct.

10 Q. What's their hesitation?

11 A. I honestly am not sure. They've been
12 nonresponsive.

13 Q. Chuck Moran?

14 A. I was actually working with Clay Haggett
15 (phonetic) on this one.

16 Q. Oh, okay. Do you also do Bravo Dome?

17 A. No.

18 Q. I was told yesterday that they're going to
19 propose a bunch of wells next year, but it just depends on
20 management where they want to spend their money.

21 And these are -- the tracts are identified
22 as separately owned. There's two tracts, right --

23 A. Correct.

24 Q. -- in each well, each of these spacing units?

25 A. Two separate leases.

1 Q. Federal leases?

2 A. Uh-huh.

3 Q. Is there restrictions on when you can get out
4 here and drill? Are there any prairie chicken or lizard?

5 A. I do not believe these are in a prairie chicken
6 area, no.

7 Q. Would you drill all these wells and then
8 complete them at the same time?

9 A. Essentially. They will be drilled back to back
10 and completed as soon as reasonably possible thereafter.

11 Q. Okay. I didn't know if you were requesting any
12 kind of extended...

13 A. Not in this case, no.

14 MR. JONES: Okay. Mr. Brooks?

15 CROSS-EXAMINATION

16 BY MR. BROOKS:

17 Q. Sometimes I wonder if EOG isn't kind of like
18 Union Pacific when they merged with Southern Pacific. For
19 the first few months they were stopping trains and lining
20 them up on the track in Houston, for several miles outside
21 of Houston, because they couldn't figure out what trains
22 were what and where they were going.

23 But don't take that remark seriously.

24 So EOG and their entities are the only
25 parties to be pooled?

1 A. Correct.

2 Q. Are there any overrides?

3 A. There are.

4 Q. There are?

5 A. Not to be pooled. There are overrides in these
6 tracts.

7 Q. But are those overrides committed to the unit by
8 virtue of existing agreements?

9 A. Yes.

10 MR. BROOKS: Okay. That's all I have.

11 MS. KESSLER: I'll call my next witness.

12 TYLER EVANS,
13 having been previously sworn, testified as follows:

14 DIRECT EXAMINATION

15 BY MS. KESSLER:

16 Q. Please state your name for the record.

17 A. My name is Tyler Evans.

18 Q. By whom are you employed?

19 A. I work for Oxy, USA.

20 Q. And in what capacity?

21 A. Staff geologist in New Mexico.

22 Q. Have you previously testified before the
23 Division?

24 A. No.

25 Q. Can you please outline your educational

1 **background.**

2 A. Sure. I have a Bachelor in Science in
3 environmental science from the University of North
4 Carolina from 2011, and a PhD in geology from the
5 University of South Carolina in 2016.

6 **Q. What has been your work history?**

7 A. Worked at Oxy since January of 2017 in New
8 Mexico.

9 **Q. And during this time your experience has**
10 **included the Permian Basin, correct?**

11 A. Yes.

12 **Q. Are you a member of any professional**
13 **associations?**

14 A. Yes. The APG Houston Geological Society and
15 West Texas Geological Society.

16 **Q. Are you familiar with the applications filed in**
17 **these consolidated cases?**

18 A. Yes.

19 **Q. Have you conducted a geologic study of the lands**
20 **that are the subject of these applications?**

21 A. Yes.

22 MS. KESSLER: I would tender Mr. Evans as an
23 expert in petroleum geology.

24 MR. JONES: Okay. Why would you go -- what did
25 you do your Ph- -- did you have a thesis or something?

1 A. Yeah, I wrote a dissertation on mostly ground
2 water flow on the Continental Shelf Scale for the Atlantic
3 barges in the Southeast. Simulate variable density fluid
4 flow on the Continental Shelf.

5 MR. JONES: Oh, okay. So the Mars water
6 discovery is interesting you, probably.

7 A. Yeah. So it's sort of the -- there's potential
8 for future oil and gas exploration out there, so there's a
9 lot of legacy data from the '60s sort of delineating
10 aquifers.

11 **Q. Okay.**

12 A. You know, reservoirs, maybe.

13 MR. JONES: Well, thank you. He's qualified as
14 an expert in petroleum geology.

15 MS. KESSLER: Thank you.

16 **Q. Mr. Evans, let's turn to Exhibit 8. Can you**
17 **please identify this exhibit**

18 A. Sure. Exhibit 8 is a structure map at the top
19 of the Second Bone Spring Sand, which is the target of the
20 Platinum 4, 5, 6H wells. As you can see, those three
21 wells are highlighted with the white stars and also
22 labeled.

23 In general, the geology is pretty calm
24 here; it's gently dipping to the east. We are going to be
25 drilling approximately a long strike from north to south.

1 There's a black line labeled A to A prime that describes
2 the cross section which is the next exhibit, and in
3 general the structure map shows that there are no faults
4 or unusual structures in the area.

5 **Q. Thank you. Is Exhibit 9 a cross section showing**
6 **the Bone Spring?**

7 **Q. Yes.**

8 **Q. Please walk us through this exhibit.**

9 A. Sure. This cross section, as labeled on the map
10 preceeding, goes from A to A prime. The first well is
11 Sterling Silver 33.2. The first track is the depth, the
12 second track is gamma ray and the third track is deep
13 resistivity. The red line indicates the top of the Second
14 Bone Spring Sand, the blue line represents the top of the
15 Third Bone Spring limestone.

16 We're drilling these wells, like I said,
17 from north to south at approximately 9,980 feet TVD from
18 the first well, the Sterling Silver 33.2. This is a
19 continuous sand load right above a middle carbonate layer
20 that we routinely drill these wells in. As you can see,
21 the thickness of the Second Bone Spring Sand is uniform in
22 this area both north/south and east/west.

23 **Q. No major thickening or thinning for the target**
24 **formation --**

25 A. No.

1 Q. -- across the proposed unit?

2 A. No.

3 Q. Based on your geologic study of this area, have
4 you identified any hazards to drilling horizontal wells?

5 A. No.

6 Q. In your opinion can the area be efficiently and
7 economically developed by horizontal wells?

8 A. Yes.

9 Q. And in your opinion will the acreage comprising
10 the proposed unit contribute more or less equally to
11 production?

12 A. Yes.

13 Q. In your opinion will granting Oxy's application
14 be in the best interests of conservation, the prevention
15 of waste, and the protection of correlative rights?

16 A. Yes.

17 Q. And finally, were Exhibits 8 and 9 prepared by
18 you or under your direction and supervision?

19 A. Yes.

20 MS. KESSLER: Mr. Examiner, I move admission of
21 Exhibits 8 and 9.

22 MR. JONES: Exhibits 8 and 9 are admitted.

23 CROSS-EXAMINATION

24 BY MR. JONES:

25 Q. Second Bone Spring --

1 A. Yes, sir.

2 Q. -- sand? And you're about to drill north/south
3 wells here for some reason.

4 A. There's a strong -- we have a lot of data that
5 suggests there is a strong SH maximum, about 70 degrees,
6 so north/south ultimizes that fracture growth.

7 Q. So you would agree that 100 feet heel and toe is
8 a safe distance to not affect your neighbors.

9 A. Yes.

10 MR. BROOKS: No questions.

11 MR. JONES: Thanks for coming all the way from
12 North Carolina. South Carolina?

13 I guess you're in Houston now.

14 THE WITNESS: Houston now, yeah.

15 MR. BROOKS: Your dissertation is a subject that
16 sounds like very little relationship to New Mexico.

17 THE WITNESS: That's true.

18 MR. BROOKS: That's true of most people's
19 dissertations, though.

20 MR. JONES: We're all here because something
21 happened.

22 MR. BROOKS: That's definitely true of me.

23 MS. KESSLER: I would ask these cases be taken
24 under advisement.

25 MR. JONES: Cases 16338 and 16339 are taken

1 under advisement.

2 MS. KESSLER: Thank you.

3 (Time noted: 1:56 p.m.)

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1 STATE OF NEW MEXICO)
2) SS
3 COUNTY OF TAOS)
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5 REPORTER'S CERTIFICATE

6 I, MARY THERESE MACFARLANE, New Mexico Reporter
7 CCR No. 122, DO HEREBY CERTIFY that on Thursday, July 26,
8 2018, the proceedings in the above-captioned matter were
9 taken before me; that I did report in stenographic
10 shorthand the proceedings set forth herein, and the
11 foregoing pages are a true and correct transcription to
12 the best of my ability and control.

13 I FURTHER CERTIFY that I am neither employed by
14 nor related to nor contracted with (unless excepted by the
15 rules) any of the parties or attorneys in this case, and
16 that I have no interest whatsoever in the final
17 disposition of this case in any court.

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