

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 NOVO OIL & GAS, LLC CASE NOs. 16281,
FOR A NONSTANDARD SPACING AND 16282, 16283,
PRORATION UNIT AND COMPULSORY POOLING, 16285, 16286
EDDY COUNTY, NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

July 12, 2018

Santa Fe, New Mexico

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

This matter came on for hearing before the New Mexico Oil Conservation Division, Michael McMillan, Chief Examiner, Leonard Lowe, Technical Examiner, and David K. Brooks, Legal Examiner, on Thursday, July 12, 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	INDEX	
2		PAGE
3	Case Numbers 16281, 16282, 16283, 16285 and 16286 Called	5
4		
5	Novo Oil & Gas, LLC's Case-in-Chief:	
6	Witnesses:	
7	Brandon Patrick:	
8	Direct Examination by Ms. Callahan	8, 11
	Cross-Examination by Examiner Brooks	9
9	Cross-Examination by Ms. Kessler	34
	Cross-Examination by Examiner McMillan	35
10	Recross Examination by Examiner Brooks	38
	Recross Examination by Examiner McMillan	39
11		
	Grant Sha:	
12	Direct Examination by Ms. Callahan	40
13	Cross-Examination by Ms. Kessler	47
	Cross-Examination by Examiner McMillan	49
14	Cross-Examination by Mr. Bruce	50
	Redirect Examination by Ms. Callahan	51
15		
	Kurt Shipley:	
16	Direct Examination by Ms. Callahan	52, 58
17	Cross-Examination by Examiner McMillan	61
	Redirect Examination by Ms. Callahan	66
18		
19	Statement by Examiner Lowe	56
20	Short Discussion RE: Case Numbers 16277 and 16108	57
21	Proceedings Conclude	69
22	Certificate of Court Reporter	70
23		
24		
25		

1	EXHIBITS OFFERED AND ADMITTED	
2		PAGE
3	Novo Oil & Gas, LLC Exhibit Numbers 1 through 7	33
4	Novo Oil & Gas, LLC Exhibit Numbers 8 through 10	47
5	Novo Oil & Gas, LLC Exhibit Number 11	61
6		
7		
8		
9		
10		
11		
12		
13		
14		
15		
16		
17		
18		
19		
20		
21		
22		
23		
24		
25		

1 (10:28 a.m.)

2 EXAMINER McMILLAN: At this time I would
3 like to call Case Number 16281, application of Novo
4 Oil & Gas, LLC for a nonstandard spacing and proration
5 unit and compulsory pooling, Eddy County, New Mexico.

6 Will these cases --

7 MS. CALLAHAN: Yes. I'd like to have them
8 consolidated for hearing. There are five of them.

9 EXAMINER McMILLAN: Case Number 16281 shall
10 be combined with Case Number 16282, Case Numbers 16283,
11 16285 and Case Number 16286.

12 MS. CALLAHAN: Correct.

13 EXAMINER McMILLAN: With that in mind, do
14 we have any pre-hearing --

15 MS. CALLAHAN: Yeah, I do have a few
16 pre-hearing comments that might help.

17 EXAMINER McMILLAN: What are the other
18 appearances?

19 MS. KESSLER: Mr. Examiner, Jordan Kessler,
20 from the Santa Fe office of Holland & Hart, on behalf of
21 EOG.

22 MR. BRUCE: Jim Bruce of Santa Fe
23 representing TDY.

24 MS. BENNETT: Deana Bennett, Modrall
25 Sperling, on behalf of Marathon Oil Permian, LLC.

1 EXAMINER McMILLAN: Are you representing --

2 MS. KESSLER: EOG.

3 EXAMINER McMILLAN: Just EOG?

4 MS. KESSLER: Just EOG. It submitted an
5 entry of appearance for one of the cases on behalf of
6 EOG and informed counsel submitting anticipations for
7 all of the cases.

8 EXAMINER McMILLAN: Okay.

9 MS. CALLAHAN: So, Mr. Examiner, I'd just
10 like to explain this. These cases were all filed under
11 the old horizontal rules requesting nonstandard
12 proration units, and since we filed them, the new rules
13 are now in effect, so we're no longer asking for
14 nonstandard proration units.

15 EXAMINER BROOKS: Okay. Or spacing units.

16 MS. CALLAHAN: Or spacing units.

17 EXAMINER BROOKS: Yeah. They're standard
18 spacing horizontal units.

19 MS. CALLAHAN: Yes. Exactly.

20 So we're only asking for compulsory
21 pooling.

22 Since there are five cases, I just want to
23 explain that the first three are going to address the
24 Bone Spring Formation, and the last two will -- are
25 requesting compulsory pooling in the Wolfcamp. So the

1 witnesses will present testimony related to the Bone
2 Spring wells first and then move to the Wolfcamp wells,
3 for each witness. And the testimony may relate to all
4 the wells, so we may not specifically refer to a well if
5 what they're testifying about relates to the whole
6 project, all five cases.

7 The exhibits have been numbered so that
8 every exhibit is the same in all five cases. There are
9 12 exhibits -- or 11. We have identified each exhibit
10 with the case that it applies to. So Exhibit 1 will be
11 Exhibit 1-16281 or Exhibit 1-1 -- you know, in sequence.
12 I don't know. Is that clear?

13 EXAMINER McMILLAN: Yes.

14 MS. CALLAHAN: I guess I just want you to
15 be able to follow us.

16 MS. BENNETT: Fine.

17 MS. CALLAHAN: Do you understand?

18 MS. BENNETT: Thank you.

19 EXAMINER McMILLAN: Do you-all have an
20 opening?

21 MS. BENNETT: I filed a pre-hearing
22 statement on behalf of Marathon.

23 EXAMINER McMILLAN: Anything?

24 MS. KESSLER: No. We're just here to
25 observe.

1 MR. BRUCE: Nothing.

2 EXAMINER McMILLAN: Please proceed.

3 MS. CALLAHAN: I have three witnesses to be
4 sworn.

5 EXAMINER McMILLAN: If the witnesses would
6 please stand up and be sworn in at this time.

7 (Mr. Patrick, Mr. Sha and Mr. Shipley
8 sworn.)

9 MS. CALLAHAN: I'd like to call Brandon
10 Patrick.

11 BRANDON PATRICK,
12 after having been first duly sworn under oath, was
13 questioned and testified as follows:

14 DIRECT EXAMINATION

15 BY MS. CALLAHAN:

16 Q. Mr. Patrick, would you confirm for us the case
17 numbers for the Bone Spring well applications?

18 A. Yes, 16281, 16282 and 16283. Those are the
19 Bone Spring applications.

20 Q. And can you briefly state what Novo is seeking
21 in each of these Bone Spring applications?

22 A. Yes. We're seeking to drill three wells,
23 16281, if you look to Exhibit 1, which is a C-102. It
24 shows that we want to drill a 1.75-mile lateral
25 across -- in a lay-down fashion for the 2nd Bone Spring.

1 And in 16282, we want to drill a two-mile well, 3rd Bone
2 Spring, also in a lay-down fashion. And in 16283,
3 another 3rd Bone Spring well, lay-down, a two-mile well.

4 EXAMINER BROOKS: Okay. Let me get this
5 straight.

6 THE WITNESS: Yes.

7 EXAMINER BROOKS: Sorry for interrupting
8 you.

9 CROSS-EXAMINATION

10 BY EXAMINER BROOKS:

11 Q. But they're all lay-downs, right?

12 A. Yes, sir.

13 Q. And they're all 3rd Bone Spring?

14 A. The first one, 16281, that is a 2nd Bone Spring
15 well.

16 Q. 16281 is the 1st Bone.

17 What section is that in?

18 A. Sorry, sir. It's 2nd Bone Spring.

19 Q. Oh, 2nd Bone Spring.

20 What sections?

21 A. Sections 6 and 5. They actually go across the
22 northern edge of 6 and 5, 23 South, 29 East.

23 Q. They're all -- everything is in 23 South, 29
24 East?

25 A. Correct. Correct.

1 Q. Sections 6 and 5. And this is in the north
2 half-north half?

3 A. Correct.

4 So it covers the north half-north half of
5 Section 6 and then the north half of the northwest and
6 the northwest of the northeast of Section 5. It's
7 1.75-mile lateral.

8 Q. Okay. Yeah. So it's the north half-north
9 half --

10 A. Of 6.

11 Q. -- of 6, and the north half -- northeast --

12 A. Northwest quarter.

13 Q. -- northwest of 5.

14 A. And then the northwest of the northeast in 5 as
15 well.

16 Q. Northwest-northeast.

17 A. And Exhibit 1, the C-102 for that, will show
18 the way that that will be true.

19 Q. Okay.

20 A. And that's the first well. That's the 2nd Bone
21 Spring well.

22 Q. Okay. Now, the 16182 -- 16282 --

23 A. Yes.

24 Q. -- that's a 3rd Bone Spring?

25 A. Correct. And it's in Sections 4 and 5. And

1 that's a little easier. It's a two-mile well in the
2 south half-south half of both those sections.

3 **Q. 4 and 5, south half-south half of both**
4 **sections.**

5 **Okay. 16283 is another 3rd Bone Spring?**

6 A. Correct.

7 **Q. And where is it?**

8 A. It's in the north half-south half of Sections 4
9 and 5.

10 **Q. And it's another two-mile?**

11 A. Correct.

12 **Q. Okay. Okay. Thank you.**

13 EXAMINER BROOKS: I'll let you go on.

14 MS. CALLAHAN: Mr. Examiners, I just want
15 to point out, there is kind of a summary sheet that
16 we've submitted with the exhibits that kind of outlines
17 the well names and the lands. It's that very first
18 sheet on the top of the -- that may help --

19 EXAMINER BROOKS: That will help.

20 MS. CALLAHAN: -- keep things clear.

21 EXAMINER BROOKS: Go ahead.

22 CONTINUED DIRECT EXAMINATION

23 BY MS. CALLAHAN:

24 **Q. So do you want to go on to the next case?**

25 A. Yes. So 16281, that first well, that'll have

1 the first take point, 330 feet from the west line and
2 330 foot from the north line, Section --

3 EXAMINER McMILLAN: Has he been -- is he an
4 expert witness?

5 MS. CALLAHAN: Oh, I am so sorry.

6 Q. (BY MS. CALLAHAN) Let me back up (laughter).

7 Would you please state your name for the record?

8 A. Yes. Brandon Patrick.

9 Q. And where do you live?

10 A. Oklahoma City.

11 Q. And by whom are you employed?

12 A. Novo Oil & Gas.

13 Q. In what capability?

14 A. Land manager.

15 Q. And how long have you been employed by Novo?

16 A. One year.

17 Q. Have you previously testified before the
18 Division?

19 A. Yes.

20 Q. This Division?

21 A. Yes.

22 Q. Okay. And your responsibilities as a landman
23 include the Permian Basin in New Mexico?

24 A. Correct.

25 Q. And you're familiar with the applications that

1 **have been filed by Novo?**

2 A. Yes.

3 **Q. Are you familiar with the status of the lands**
4 **that are the subject of this hearing?**

5 A. Correct. Yes, I am.

6 MS. CALLAHAN: I tender Mr. Patrick as an
7 expert in petroleum land matters.

8 MS. BENNETT: No objection.

9 MS. KESSLER: No objection.

10 MR. BRUCE: No objection.

11 EXAMINER McMILLAN: So qualified.

12 **Q. (BY MS. CALLAHAN) Okay. Now let's move on to**
13 **16282.**

14 A. Yes. So we want to drill those three wells,
15 2nd Bone Spring and 3rd Bone Spring. And the reason --
16 the reason why we're drilling in this pattern is
17 mostly -- it's in the potash, and there is limited
18 surface from which we can drill these wells. And we've
19 worked over the last year with the BLM and the offset
20 operators, every working interest owner involved to find
21 a surface location from which we can drill these wells.
22 So that's the reason for this sort of strange pattern.
23 Otherwise, we would be drilling them all in the same
24 section. But that's the reason for that.

25 **Q. Do you want to move to 16283?**

1 A. Yes. 16283, that's the 3rd Bone Spring well.

2 EXAMINER McMILLAN: That's continued?

3 THE WITNESS: No. 16284 is continued.

4 MS. CALLAHAN: Yes. 16284 has been
5 continued to August 23rd.

6 **Q. (BY MS. CALLAHAN) Would you turn to Exhibit 1**
7 **and please tell the examiners what this reflects?**

8 A. Yes. It's the C-102, as I mentioned earlier.
9 We surveyed this in March. We went out, had an on-site
10 with the BLM, and that's where we staked this well in
11 the fashion I described earlier.

12 And the same for 16282. We conducted these
13 on-sites with the BLM and got these staked. Every C-102
14 is the same time frame.

15 **Q. And 16283 as well?**

16 A. Yes.

17 **Q. Okay. What pool are these wells to be drilled?**

18 A. The Culebra Bluff, South.

19 **Q. And the pool number is?**

20 A. It's 15011.

21 **Q. Yes.**

22 Is it your understanding that these Bone
23 Spring wells are governed by statewide oil pool rules in
24 spacing?

25 A. Yes.

1 Q. And is it also your understanding that under
2 the new rules, the setback requirements are going to be
3 100 feet?

4 A. Yes.

5 Q. Will the Bone Spring wells comply with the
6 setback rules for the pool?

7 A. Yes.

8 Q. Are the proposed spacing units for the Bone
9 Spring wells considered standard horizontal spacing
10 units under the new rules?

11 A. Yes.

12 Q. What type of mineral ownership is involved in
13 each of these wells?

14 A. It's federal. For 16281, it is completely
15 federal lands. There are two leases involved, the first
16 lease being in Section 6 and the second lease being in
17 Section 5.

18 16282, that involves federal and fee. So
19 the federal lease is in Section 5 and the fee lease is
20 in Sections -- actually southeast-southeast of 5, and
21 then the south half-south half of 4 is fee.

22 And then 16283 is entirely federal.

23 Q. Let's move to Exhibit 2. Can you tell us what
24 Exhibit 2 is?

25 A. Yes. Those are the well-proposal letters.

1 First, you'll see the AFE, the 16281. This is the AFE
2 we sent out for the 2nd Bone Spring well. And behind
3 it, you'll see the well-proposal letter that we sent to
4 WPX Energy. They are the only pooled party in this
5 case, the only other working interest owner for this
6 well. And we sent this out shortly after the date of
7 this letter. And they confirmed receipt of this letter,
8 and we've been discussing -- actually doing several
9 deals with them. So they have actual notice, as well as
10 we have proof of notice.

11 Q. And so these well-proposal letters mirror what
12 was sent out?

13 A. Yes.

14 Q. Okay.

15 A. And the same -- if you want to go sequentially
16 through the cases.

17 Q. Yes.

18 A. 16282, the same, that AFE for the 3rd Bone
19 Spring well. And right behind it, it's the
20 well-proposal letters that we sent to each of the
21 parties. That would be EOG, OXY, XTO and -- let's
22 see -- and Marathon. But we sent well-proposal letters
23 to every working interest owner. We wanted to try to
24 form a working interest unit, since these wells were
25 close together. But the only pooled party on this

1 application is only Marathon.

2 Q. And this Exhibit 2 in Case 16282 also mirrors
3 what was sent to the working interest owners?

4 A. Yes, it does.

5 And 16283, the same here. This AFE is for
6 the 3rd Bone Spring well. It's the north half of the
7 south half of Sections 4 and 5, and that was sent out --
8 it's identical. We sent this -- both the well proposals
9 for 16282 and 16283 at the same time, and all those
10 parties have received it and responded to us in some
11 fashion, either via email or phone call.

12 Q. And it also mirrors what you sent out to the
13 working interest owners?

14 A. Yes. Yes.

15 Q. Were the AFEs included in the well-proposal
16 letters?

17 A. Yes, they were.

18 Q. Would you identify the cost for each of your
19 wells?

20 A. Sure. For 16281, the total cost is \$9,155,009.
21 And we believe that that reflects what typical costs are
22 for drilling and completing this type of well in the
23 area.

24 Q. And do you want to give the cost to the --

25 A. Yes. 16282, the 3rd Bone Spring well, south

1 half-south half, 9,713,708. And, again, we believe that
2 correctly reflects how 3rd Bone Spring wells would be
3 drilled and completed. And our engineer can go over in
4 more detail if needed, but this is a typical design for
5 the area as well.

6 And the last, for 16283, the total cost is
7 \$9,726,708 for that last 3rd Bone Spring well.

8 Q. And you've already said these costs are in line
9 with other wells in the area --

10 A. Correct.

11 Q. -- for similar wells?

12 Who should be designated operator of these
13 wells?

14 A. Novo.

15 Q. What amount do you recommend Novo be paid for
16 supervision and administrative expenses?

17 A. The reasonable charges for supervision with the
18 combined fixed rates for the wells, \$8,000 per month per
19 well while drilling and \$800 per month per well while
20 producing.

21 Q. Are these amounts equivalent to those normally
22 charged by Novo and other operators in this area for
23 horizontal wells?

24 A. Yes. Yes, they are.

25 Q. Do you request that these rates be adjusted

1 periodically as provided under the COPAS accounting
2 procedure?

3 A. Yes, I do.

4 Q. Does Novo request a maximum cost plus 200
5 percent risk charge if any pooled working interest owner
6 fails to pay their share of costs of drilling,
7 completing and equipping the wells?

8 A. Yes.

9 Q. Let's look at Exhibit 3 now.

10 A. Okay. Exhibit 3, whenever you open up the
11 file, it's the first one looking at you on the top on
12 the right side. It's the map showing -- it says "Land
13 Plat Showing Working Interests." You can see here the
14 red boundary shows the project area for this well, that
15 1.75-mile 2nd Bone Spring well. Novo will own a 43.54
16 percent working interest just due to that shortened
17 lateral, and WPX will own 56.46 percent working
18 interest. And I will say these numbers will soon change
19 because we're actually in the middle of doing a trade
20 where Novo would acquire 50 percent interest in WPX's
21 tract. So we'll ultimately have a much higher working
22 interest than WPX.

23 And then for 16282, same spot. This plat
24 will show that Novo has a 37.5 percent working interest
25 in the 3rd Bone Spring well that we proposed in the

1 south half of the south half. Similar to the
2 conversation about -- with WPX and Marathon, we're
3 currently in negotiations. That might change. The
4 numbers might change, but Novo, at a minimum, will have
5 37.5 percent working interest.

6 And then the last plat, 16283, this shows
7 that Novo will have a 50 percent working interest. And
8 the other pooled parties here are XTO, EOG and OXY, XTO
9 having the second closest to Novo. XTO having a 25
10 percent working interest, and then EOG having,
11 collectively, 20 percent working interest and OXY with 5
12 percent.

13 **Q. Thank you.**

14 **Are there any overriding royalty interest**
15 **owners with pooling authority in any of these spacing**
16 **units?**

17 **A. No.**

18 **Q. What interests are you seeking to pool within**
19 **these units?**

20 **A. The working interests.**

21 **Q. Okay. Let's go to Exhibit 4.**

22 **A. Exhibit 4 is behind 3 in the case file, and**
23 **it's just -- just a very short list for 16281. I'll let**
24 **you guys get there. But it's just a list of the pool**
25 **parties with their working interest and whether they've**

1 committed yet. So just for 16281, there is only the
2 short list. It's WPX. They're the only pooled party
3 here, and they own a 56.46 percent working interest.

4 And then we can move on to the next one,
5 16282, and that exhibit for the same spot. And Marathon
6 is the only pooled party here. And, again, Novo and
7 Marathon are currently in negotiations. That number
8 could change, but Marathon [sic] will have a 37.5
9 percent working interest.

10 And then lastly 16283, Exhibit 4, it shows
11 a list of the pooled parties. And as mentioned earlier,
12 it's XTO [sic], three entities. There is a typo there.
13 That should say EOG Y, EOG A and EOG M. But the three
14 EOG entities and then OXY Y-1. Those are all the pooled
15 parties. They combine to equal 50 percent. We own --
16 Novo owns 50 percent of the working interest.

17 **Q. Were there any unlocatable interest owner --**

18 A. No.

19 **Q. -- in any of these units?**

20 A. No. In fact, everybody responded.

21 **Q. Let's turn to Exhibit 5 now.**

22 A. Okay.

23 **Q. What is Exhibit 5?**

24 A. Exhibit 5 is just a summary of the
25 communications. Instead of having a long, long

1 breakdown of emails, since this is an uncontested case,
2 I just provided a summary of the communication that I
3 had with each of the pooled parties for each of these
4 cases.

5 So here, 16218, Exhibit Number 5, will show
6 my communication with WPX. And, simply, we tried to, at
7 the very beginning, start collaborating on how we could
8 develop due to the potash concerns. We knew that -- Jim
9 Rutley at the BLM instructed us to work with the other
10 working interest owners and work with the potash
11 companies and try to pick drill island locations and,
12 from there, find development areas to drill the wells.
13 So at the very beginning, in the spirit of our well
14 proposals is really -- it's just a collaborative effort
15 of all the companies coming together.

16 So WPX, in this scenario, we've been
17 working with them since the beginning, since, you know,
18 October of 2017. Our well proposals were in May. So we
19 had a long lead time of communication and planning with
20 them. So that's what the summary really reflects, is
21 that Novo and WPX worked together, had on-sites with the
22 BLM from October until the well proposals were sent.
23 And so now we're, you know, just pooling after the well
24 proposals were sent. So that's for 16281. And most of
25 these are going to be very similar.

1 So 16282, the summary of communication
2 there. Marathon here -- let me see. Sorry. Wrong
3 page. Yes. We initially contacted Marathon actually
4 just their 240-acre tracts because we were interested in
5 possibly acquiring it and we thought maybe non-core
6 asset to them. And then since then -- after we got our
7 term assignment in Section 5, we looped them in on the
8 development discussions, and ultimately Marathon and
9 Novo have agreed on the way that this should be
10 developed, and we've been collaborating since. So
11 that's the communication for 16282.

12 And then 16283, the summary of
13 communication there. There are more parties here, but
14 it's the same general idea. XTO -- this interest --
15 these tracts are just below the Big Eddy Unit where XTO
16 operates. It used to be BOPCO, then XTO bought BOPCO.
17 So it's just below the Big Eddy Unit, a huge asset for
18 XTO. And we knew that -- we didn't want to step on
19 their toes. We wanted to make sure we looped them in to
20 avoid a contested hearing down the road. So we looped
21 them in very early, in November of 2017, had conference
22 calls with them, talked about how the wells should be
23 drilled, and ultimately we came to an agreement on the
24 layout of the land.

25 EOG and OXY, we didn't talk to them as

1 much, just considering how minority their share of the
2 wells is so limited compared to XTO and Marathon and
3 WPX. So we didn't talk to them as much, but we did talk
4 to them prior to the well proposals going out. And
5 that's it for the communication.

6 Q. Thank you.

7 Would you look at Exhibit 6, please?

8 A. Yes.

9 Q. Were the parties Novo is seeking to pool and
10 who you have been notified in Exhibit 4 notified of this
11 hearing in accordance with Division rules?

12 A. Yes, they were.

13 Q. And you believe you were able to obtain
14 accurate recent addresses for every notified, right?

15 A. Yes.

16 Q. So is Exhibit 6 an affidavit prepared by your
17 attorney to reflect notice of this hearing to all
18 mineral interest owners in the proposed units?

19 A. Yes.

20 Q. And attached to the affidavit are copies of all
21 return green cards received from the mail notices?

22 A. Yes.

23 Q. All right. Let's look at Exhibit 7. What is
24 this?

25 A. It's an Affidavit of Publication.

1 Q. So were notices published for each case as to
2 all mineral interest owners in the proposed spacing
3 units?

4 A. Yes.

5 Q. And do the notices in Exhibit 7 reflect timely
6 publication prior to this hearing?

7 A. Yes.

8 Q. And this was done to address any possible
9 missing return receipt cards; is that right?

10 A. Correct.

11 Q. And that's true in all cases, correct?

12 A. That's correct.

13 (Examiner Brooks exits the room, 11:00
14 a.m.)

15 Q. Let's move to the Wolfcamp wells, Cases 16285
16 and 16286. Would you briefly state what Novo is seeking
17 in its two Wolfcamp applications as reflected in Cases
18 16285 and 16286?

19 A. Yes. We want to drill wells from the same pads
20 where these Bone Spring well applications were. So this
21 will be multiwell pads that we're going to be drilling
22 on. And we have proposed two Wolfcamp wells. In the
23 first application, it would be a Wolfcamp B and a
24 Wolfcamp X-Y well. That's in 16285. If you look to the
25 C-102, Exhibit 1, you'll see that it's in the same slot

1 as the 2nd Bone Spring well that we've proposed in Case
2 16281. Here we can actually make it a full two-mile.

3 The reason for the 1.75-mile earlier is due
4 an existing well in the section, and just to avoid
5 stranding any acreage, we had to develop it that way.

6 So here it's the Wolfcamp wells, two-mile
7 wells, all of them, and it's a Wolfcamp X-Y in the
8 north half-north half and then a Wolfcamp B in the
9 north half-north half of Sections 5 and 6. So that's
10 for application 16285.

11 And then 16286 is similar, but it's down in
12 Section 4. We proposed a Wolfcamp B and a Wolfcamp X-Y
13 well down there. Those are both two-mile wells, and
14 they're both in the south half-south half of Sections 4
15 and 5. The C-102s for those proposed wells are also in
16 this Exhibit 1 so you can see where they are.

17 (Examiner Brooks enters the room, 11:02
18 a.m.)

19 **Q. So the target formation is the Purple Sage;**
20 **Wolfcamp Gas Pool; is that correct?**

21 **A. Correct.**

22 **Q. And what is the spacing for this acreage?**

23 **A. It's 320 acres for a spacing unit.**

24 **Q. Okay. So the new setback rules don't apply to**
25 **the Purple Sage; Wolfcamp; is that right?**

1 A. That's right.

2 Q. What is the setback requirement for the Purple
3 Sage?

4 A. 330 feet.

5 Q. Will all of your Wolfcamp wells comply with the
6 setbacks for this?

7 A. Yes, they will.

8 Q. Are the proposed spacing units for the Wolfcamp
9 wells considered standard horizontal spacing units under
10 the new horizontal well rules?

11 A. Yes.

12 Q. And what type of mineral ownership is involved
13 in these units?

14 A. In the first application, 16285, it is
15 completely federal. And then in 16286, it's a
16 combination of federal and fee.

17 Q. And the spacing unit is going to be developed
18 by lay-down wells; is that correct?

19 A. Correct.

20 Q. Let's look at Exhibit 2. What is Exhibit 2?

21 A. Exhibit 2 shows on the first page an AFE, and
22 then behind it, the well-proposal letter sent to WPX.
23 And it's AFEs for both of these wells, the Wolfcamp X-Y
24 and the Wolfcamp B. The top page is Wolfcamp X-Y. The
25 cost for that well is 10,192,157. And the Wolfcamp B, a

1 little deeper, \$10,207,788. And those are for two-mile
2 Wolfcamp wells. We believe that is comparable to what
3 the costs are for a well of this design in the area.

4 Q. Who should be designated as operator of these
5 wells?

6 A. Novo.

7 Q. What amount do you recommend Novo be paid for
8 supervision and administrative expenses?

9 A. \$8,000 per month per well while drilling and
10 \$800 per month per well while producing.

11 Q. Are these amounts equivalent to those normally
12 charged by Novo and other operators in this area for a
13 well of this length and depth?

14 A. Yes.

15 Q. Do you request that these rates be adjusted
16 periodically as provided under the COPAS accounting
17 procedure?

18 A. Yes, I do.

19 Q. Does Novo request a maximum cost plus 200
20 percent risk charge if any pooled working interest owner
21 fails to pay its share of drilling, completing and
22 equipping the wells?

23 A. Yes.

24 Q. Let's look at Exhibit 3.

25 A. Okay.

1 **Q. What is Exhibit 3?**

2 A. Exhibit 3, just like the last cases, it's a
3 plat showing the working interests, the breakdown of the
4 pooled parties and Novo. Here in 16285, the only
5 parties -- the only working interest owners in this
6 project is Novo and WPX. Novo owns 50.33 percent
7 working interest. WPX owns 46.97.

8 For 16286, the same exhibit. Here, the
9 project area brings in -- due to the size of the
10 Wolfcamp spacing unit, brings in XTO, Marathon, EOG and
11 OXY. Their working interests are shown on that -- shown
12 on that plat. Novo will have a 43.75 percent working
13 interest. The next closest will be Marathon with a
14 31.25 percent working interest.

15 **Q. Were there any overriding royalty interest**
16 **owners who retained pooling authority for their interest**
17 **in either of these spacing units?**

18 A. No.

19 **Q. What interests are you seeking -- we've been**
20 **through who you want to pool.**

21 A. Uh-huh.

22 **Q. And the pooled owners are reflected in Exhibit**
23 **4; is that right?**

24 A. Correct.

25 **Q. Were there any unlocatable interest owners**

1 **within the Wolfcamp units?**

2 A. No.

3 **Q. Let's look at Exhibit 5.**

4 A. Exhibit 5 to 16285 is identical to the exhibits
5 in 16281. Because of our conversation with WPX about
6 development of this area, it encompassed all of these
7 applications, and so we had a conversation about the
8 full development of all of these tracts. So the
9 conversation -- I don't want to bore you guys by saying
10 it all over again, but basically we were very
11 collaborative with WPX. And we had some on-sites, and
12 we ultimately came to agreement on how the acreage
13 should be developed, and the well proposals here reflect
14 that development plan.

15 **Q. So can you give us the status of your**
16 **negotiations with the pooled parties?**

17 A. Yes. WPX, we're currently negotiating a JOA
18 with them. So that's 16285. We've covered that.

19 And then for 16286, with the parties that
20 are involved in that, XTO, we are also negotiating a
21 joint operating agreement right now. They have our
22 version, and they're red-lining it. They're making
23 their revisions.

24 EOG, we sent a JOA to Charles Moran --
25 Charles Moran, the landman that works with EOG. We have

1 not yet discussed the provisions of the JOA, so we don't
2 want to negotiate it yet. But they have the JOA.

3 OXY actually made elections this morning
4 and elected to participate in these wells and also sent
5 back their revisions to our joint operating agreement.

6 Q. I believe I neglected to ask you about Cases
7 16281 through 16283, the Bone Spring applications. Are
8 there any other working interest owners that you didn't
9 just discuss in the Wolfcamp?

10 A. No.

11 Q. So the status is the same?

12 A. Correct.

13 Q. So is Exhibit 6 the Affidavit of Notice?

14 A. Yes.

15 Q. Were the parties that Novo is seeking to pool
16 and who have been identified in Exhibit 6 been notified
17 of this hearing in accordance with Division rules?

18 A. Yes.

19 Q. And the addresses reflected in the notices were
20 the most recent and adequate [sic] available?

21 A. Yes.

22 Q. Were these affidavits prepared by your attorney
23 to reflect notice of this hearing to all mineral
24 interest owners --

25 A. Yes.

1 Q. And attached to these affidavits are copies of
2 the return receipt cards received from the mailed
3 noticed; is that correct?

4 A. Correct.

5 Q. Let's look at Exhibit 7, the Affidavit of
6 Publication. Is that --

7 A. Yes, that is it. Yes, Affidavit of
8 Publication, Exhibit 7.

9 Q. Were notices published in both of these cases
10 as to all mineral interest owners in the proposed --
11 Wolfcamp?

12 A. Yes.

13 Q. Do the notices in Exhibit 7 reflect timely
14 publication prior to this hearing?

15 A. Yes.

16 Q. And this was done to address possible missing
17 return receipt cards?

18 A. Yes.

19 Q. Were Exhibits 1 through 5 in all five cases,
20 16281, 16282, 16283, 16285 and 16286, prepared by you or
21 under your supervision?

22 A. Yes.

23 MS. CALLAHAN: I tender Exhibits 1 through
24 5 -- 1 through 7 -- my apologies -- in all five cases.

25 MS. KESSLER: No objection.

1 MS. BENNETT: No objection.

2 MR. BRUCE: No objection.

3 EXAMINER McMILLAN: Exhibits 1 through 5 --
4 1 through 7 in Case 16281, Case 16282, Case 16283, Case
5 16285 and Case 16286 may now be accepted as part of the
6 record.

7 (Novo Oil & Gas, LLC Exhibit Numbers 1
8 through 7 are offered and admitted into
9 evidence.)

10 MS. CALLAHAN: Thank you.

11 MS. KESSLER: I do have questions.

12 MR. BRUCE: I have no questions.

13 MS. BENNETT: I have no questions.

14 MS. CALLAHAN: I have one more question.

15 Q. (BY MS. CALLAHAN) In your opinion, is the
16 granting of these applications in the best interest of
17 conservation?

18 A. Yes.

19 Q. Prevention of waste?

20 A. Yes.

21 Q. And the protection of correlative rights?

22 A. Yes.

23 Q. Thank you.

24

25

1 CROSS-EXAMINATION

2 BY MS. KESSLER:

3 Q. Good morning. My name is Jordan Kessler from
4 Holland & Hart. I the represent EOG entities.

5 I'm going to start by referring you to the
6 exhibits for the case number ending in 283, and I'm
7 looking at Exhibit 5.

8 A. Yes.

9 Q. Can you please review your communications with
10 EOG?

11 A. Yes. We initially contacted EOG in April, made
12 an offer to purchase their interest. They -- they said
13 that they were interested possibly, told them that we
14 were going to send our well proposals out, and then we
15 subsequently sent out our well proposals. And then as
16 of, actually, yesterday, we've been still discussing
17 potential acquisition of EOG's interest with Charles
18 Moran.

19 Q. You've been in contact with Mr. Moran?

20 A. Yes.

21 Q. By phone?

22 A. Mostly phone and some email.

23 Q. And email. Okay.

24 Why did you contact, looks like, WPX in the
25 other cases and XTO at the beginning of October and

1 **November, but you didn't contact EOG until April?**

2 A. Just because of their controlling interest in
3 those sections. They were actually already -- XTO is
4 operator of the Big Eddy Unit, which is the north half
5 of 4, and WPX operated -- actually have permits in the
6 north half of 6. And so due to us drilling through
7 those -- drilling near those sections, we decided to
8 talk to XTO and WPX because they had the highest working
9 interest and were most likely to want to try to
10 collaborate on how this would go.

11 **Q. What percentage does EOG have in the Bone**
12 **Spring unit?**

13 A. The Bone Spring unit? Twenty percent in this
14 project area.

15 **Q. Will you continue to negotiate with Marathon**
16 **and EOG?**

17 A. Yes.

18 **Q. Okay. No further questions.**

19 EXAMINER McMILLAN: Jim?

20 MR. BRUCE: No questions.

21 EXAMINER BROOKS: No questions.

22 CROSS-EXAMINATION

23 BY EXAMINER McMILLAN:

24 **Q. It looked like in some of these -- I think it's**
25 **16285 -- there were some undeliverables, right?**

1 MS. CALLAHAN: There were, but that's why
2 we published notice.

3 EXAMINER McMILLAN: Okay. I just --

4 MS. CALLAHAN: That was the best -- best
5 address that we had.

6 EXAMINER McMILLAN: Okay. So there were
7 unlocatables?

8 MS. CALLAHAN: Well, initially we didn't
9 realize they were unlocatables, but yes.

10 EXAMINER BROOKS: Who were these -- were
11 these --

12 MS. CALLAHAN: We thought we had correct
13 addresses when we sent it out.

14 EXAMINER BROOKS: Were these override
15 owners, or who was it you didn't have correct addresses
16 for?

17 MS. CALLAHAN: I don't know. None of the
18 overriding royalty interests retained pooling authority,
19 so --

20 EXAMINER BROOKS: That's what I understood
21 you to say.

22 Now, the working interest owners are only
23 these people that are identified in the documents,
24 right?

25 MS. CALLAHAN: Right.

1 EXAMINER BROOKS: So these would have been
2 people who had interests in the offsetting tracts?

3 MS. CALLAHAN: Well, originally we did
4 notify offsetting tracts because we were under the old
5 rules.

6 EXAMINER BROOKS: Right. And that's why I
7 was going to raise this because the matter becomes, in
8 my opinion, moot, because as of the date of this
9 hearing, you're not really required to notify offsets.

10 MS. CALLAHAN: Yes.

11 EXAMINER BROOKS: Back to the offsets, I
12 think that's --

13 MS. CALLAHAN: Yes, that's true. And we're
14 grateful for the new rule.

15 EXAMINER BROOKS: So the people noticed
16 that you didn't have addresses for would have been
17 offsets. They wouldn't have been -- interest in the
18 unit.

19 MS. CALLAHAN: No, not working interest
20 owners, and there are no -- if there were any overriding
21 royalty interest owners, they would have been -- that
22 needed to be noticed, they would have been offsets, but
23 there are no overriding royalty interest owners.

24 EXAMINER BROOKS: Okay. Now, which case is
25 this?

1 MS. CALLAHAN: All the cases.

2 EXAMINER BROOKS: But, I mean, which case
3 is it that you have parties that didn't get notice?

4 MS. CALLAHAN: I believe it's 16282 and
5 16283.

6 EXAMINER BROOKS: Now, did those involve a
7 portion of Section 5 -- Section 4, the project?

8 MS. CALLAHAN: I'm going to ask Mr. Patrick
9 to answer that.

10 EXAMINER BROOKS: If so, there is the
11 possibility they could be unleased minerals.

12 THE WITNESS: Sir, can you -- if you're
13 addressing me, can you address -- ask the question
14 again?

15 RECROSS EXAMINATION

16 BY EXAMINER BROOKS:

17 Q. The people who did not receive notice, was this
18 in a case involving the portion of Section 4 that is
19 private?

20 A. No. So Marathon is the working interest owner
21 in Section 4 entirely, in the fee tract -- sorry -- fee
22 tract. So there were no unleased mineral owners that
23 didn't -- there are no unleased mineral owners, period.

24 Q. Okay. And it would seem to me, then, that we
25 would have -- that these people to whom the notice was

1 **not delivered were necessarily -- must have offsets?**

2 MS. CALLAHAN: Correct.

3 EXAMINER BROOKS: Okay. If they're
4 offsets, then notice is no longer required --

5 MS. CALLAHAN: Correct.

6 EXAMINER BROOKS: -- so the matter is
7 solved.

8 MS. CALLAHAN: Thank you.

9 RE CROSS EXAMINATION

10 BY EXAMINER McMILLAN:

11 **Q. Are there any depth severances?**

12 A. Yes, but we -- oh, I should actually -- sorry.
13 Not involved in these applications. I apologize. There
14 is an existing well in there where Concho has drilled a
15 2nd Bone Spring well, but no, not involving these
16 applications. I apologize.

17 **Q. This includes the Bone Spring and the Wolfcamp?**

18 A. Correct.

19 **Q. And the producing area will be orthodox?**

20 A. Yes.

21 EXAMINER McMILLAN: I don't have any more
22 questions.

23 EXAMINER BROOKS: No questions.

24 EXAMINER McMILLAN: Thanks.

25 MS. CALLAHAN: Okay. I call our next

1 witness, Mr. Grant Sha.

2 GRANT SHA,

3 after having been previously sworn under oath, was
4 questioned and testified as follows:

5 DIRECT EXAMINATION

6 BY MS. CALLAHAN:

7 Q. Mr. Sha, for the record, will you please state
8 your name?

9 A. Grant Sha.

10 Q. And by whom are you employed?

11 A. Novo Oil & Gas.

12 Q. And in what capacity?

13 A. As a geologist.

14 Q. And how long have you been employed by Novo?

15 A. It'll be three years next month.

16 Q. Have you previously testified before this
17 New Mexico division?

18 A. No, ma'am.

19 Q. Would you please outline your educational
20 background?

21 A. A Bachelor's in Geology in 2001 from the
22 University of North Carolina, Wilmington; Master's in
23 Geology from Washington State in 2004, with additional
24 course work in petroleum geology from Colorado School of
25 Mines.

1 Q. Would you outline your professional background,
2 please?

3 A. I started working for Pason Systems in 2004 as
4 a mud-logger. I hired on with Halliburton in 2006 as a
5 log analyst. I hired on with Newfield in 2009 and with
6 Novo in 2015.

7 Q. Thank you.

8 Do you hold any professional certifications
9 or professional affiliations?

10 A. I'm just affiliated with AAPG, SPWLA, SEG, the
11 major, kind of, industrial groups.

12 Q. Thank you.

13 What are your responsibilities as a
14 geologist for Novo?

15 A. General geological duties, basin mapping,
16 prospect generation.

17 Q. Does your area of responsibility at Novo
18 include the Permian Basin in New Mexico?

19 A. Yes.

20 Q. Are you familiar with the applications that
21 have been filed by Novo in these cases?

22 A. Yes.

23 Q. Are you familiar with the geology of the lands
24 that are the subject of this hearing?

25 A. Yes.

1 MS. CALLAHAN: I tender the witness as an
2 expert petroleum geologist.

3 MS. BENNETT: No objection.

4 MS. KESSLER: No objection.

5 MR. BRUCE: No objection.

6 EXAMINER McMILLAN: So qualified.

7 Q. (BY MS. CALLAHAN) Mr. Sha, are you familiar
8 with the drilling plan for the wells in the Bone Spring?
9 Let's address the Bone Spring wells first.

10 A. Okay. Yes, I am familiar with the drilling
11 plan for the Bone Spring wells.

12 Q. Have you prepared maps and a cross section of
13 the geology of this area?

14 A. Yes.

15 Q. Okay. Would you please walk us through
16 Exhibits 8, 9 and 10?

17 A. Okay. Exhibits 8, 9 and 10 in Case 16281 --
18 Exhibit 8 is a structure contour map on top of the 2nd
19 Bone Spring Sand. The contour interval is 100 feet.
20 The project area is outlined with that black box with
21 the diagonal line pattern. Nearby horizontal wells on
22 production, the red wells are shown in -- the Wolfcamp
23 wells are shown in red. The Bone Spring wells are shown
24 in blue, and the Delaware Sand wells are shown in green.
25 The regional structural dip in this area is

1 about 1 degree to the east. A cross section, A to A
2 prime, is also shown for reference, and that's shown in
3 Exhibit 10.

4 Let's turn to Exhibit 9, the next page.
5 This is an isochore map on the 2nd Bone Spring Sand.
6 The contour interval is 50 feet. The 2nd Bone Spring
7 Sand in this area varies between 350 and 400 feet thick.
8 This map is just meant to show general thicknesses
9 within this area.

10 Let's flip to Exhibit 10. Exhibit 10 shows
11 a stratigraphic cross section, A to A prime, from the
12 previous two exhibits. The red arrow denotes the
13 approximate location of the Lower 2nd Bone Spring Sand
14 that we would target with this well.

15 Those are Exhibits 8, 9 and 10 for Case
16 Number 16281.

17 **Q. Do those exhibits represent the Bone Spring in**
18 **this entire area for all the spacing units? Correct?**

19 **A. Yes.**

20 **Q. All right. Let's look at the Wolfcamp**
21 **exhibits, 8, 9 and 10.**

22 **A. Okay. Case Number 16282 --**

23 **Q. 16 -- well, Bone Spring is 16281, 16283 and**
24 **1628- -- did I say 2?**

25 **So the Wolfcamp is 16285 and 16286?**

1 A. Yes, ma'am.

2 Do you want to go through Case Number
3 16282?

4 **Q. Oh. Is it not the same as 16281?**

5 A. 81 is the 2nd Bone Spring well. 82 and 83 are
6 3rd Bone Spring wells.

7 **Q. Okay. Okay. My apologies.**

8 A. Similar layout to the exhibits on numbering.
9 8 is going to be structure. Exhibit 9 will be
10 thickness, and Exhibit 10 will be a local cross section.

11 So Exhibit 8 in Case 16282 is a structure
12 contour map on the 3rd Bone Spring Sand. Similar to the
13 previous set of maps, the contour interval here is 50
14 feet. The project area is shown in the black-outlined
15 box with the diagonal line pattern. And offset
16 horizontal producing wells, Wolfcamp are shown in red.
17 Bone Spring are shown in blue, and Delaware Sand wells
18 are shown in green. The cross-section line, A to A
19 prime, is just shown for reference and will be seen in
20 Exhibit 10.

21 We want to turn to Exhibit 9. This is an
22 isochore map on the 3rd Bone Spring Sand. Contour
23 interval on this map is 25 feet. 3rd Bone Spring Sand
24 thickness in this area ranges between 300 and 325 feet
25 thick.

1 We want to turn to Exhibit 10. It shows
2 the stratigraphic cross section, A to A prime, through
3 this area, and the red arrow denotes the approximate
4 target location in the Lower 3rd Bone Spring Sand.

5 **Q. Do you want move to 16283?**

6 A. Let's move on to Case 16283. And these
7 exhibits are essentially identical to Case Number 16282
8 being this is a 3rd Bone Spring Sand well.

9 So very briefly, Exhibit 8 on 16283 is a
10 3rd Bone Spring structure contour map.

11 Exhibit 9 for Case 16283 is the 3rd Bone
12 Spring thickness map.

13 And on Exhibit 10 for Case 16283 is a
14 stratigraphic cross section, A to A prime, showing
15 the -- or the red arrow shows the approximate target
16 zone on the Lower 3rd Bone Spring Sand.

17 **Q. All right. Shall we move to the Wolfcamp**
18 **exhibits, 8, 9 and 10, in Cases 16285 and 16286?**

19 A. Okay. In Case 16285, Exhibit 8 is a structure
20 contour map on top of the Wolfcamp. The contour
21 interval is 100 feet thick -- or 100 feet. The project
22 area is outlined with the black box with the diagonal
23 line pattern. Offset horizontal producers, Wolfcamp
24 wells are shown in red. Bone Spring wells are shown in
25 blue, and Delaware Sand wells are shown in green. The

1 Wolfcamp regional structure in this area, similar to the
2 Bone Spring, is also about 1 degree to the east.

3 Exhibit 9 for Case 16285 is a Wolfcamp
4 isochore map. The contour interval is 50 feet. You can
5 see the gross thickness of the Wolfbone increases to the
6 south, but over our project area, it's very consistent
7 in thickness.

8 Moving on to Exhibit 10 for Case 16285,
9 this is stratigraphic cross section, A to A prime, shown
10 on the previous exhibits, and the red arrows denote the
11 approximate target location for the Wolfcamp X-Y and
12 also the Wolfcamp B.

13 **Q. All right. In your opinion, is the granting of**
14 **these applications in the best interest of conservation?**

15 A. Yes.

16 **Q. The prevention of waste?**

17 A. Yes.

18 **Q. And the protection of correlative rights?**

19 A. Yes.

20 **Q. Were Exhibits 8 through 10 prepared by you or**
21 **compiled under your direction and supervision?**

22 A. Yes.

23 MS. CALLAHAN: I move to admit Exhibits 8
24 through 10.

25 MS. KESSLER: No objection.

1 MS. BENNETT: No objection.

2 MR. BRUCE: No objection.

3 EXAMINER McMILLAN: Exhibits 8 through 10
4 may now be accepted as part of the record in Case
5 Numbers 16281, 16282, 16283, 16285 and 16286.

6 EXAMINER BROOKS: I believe you reversed a
7 couple of digits.

8 EXAMINER McMILLAN: Well, it's too late
9 now.

10 (Novo Oil & Gas, LLC Exhibit Numbers 8
11 through 10 are offered and admitted into
12 evidence.)

13 MS. CALLAHAN: All right. I tender the
14 witness for questions.

15 EXAMINER McMILLAN: Cross?

16 CROSS-EXAMINATION

17 BY MS. KESSLER:

18 Q. I'm looking at the exhibits for 16282 and
19 16285, and I'm just having trouble reading it. It looks
20 like your lateral on 16282 is going to be landed just
21 above the Wolfcamp line, and I can't tell how far above
22 the Wolfcamp line. Can you help me out?

23 A. You're looking at Exhibit 10?

24 Q. Yeah.

25 A. Okay. Exhibit 10 on 16282?

1 **Q. Yeah.**

2 A. Yeah. I apologize. These formation tops, the
3 labels don't appear as clearly as they should be. So if
4 we look at this cross section starting at the top going
5 down, the first line going across those wells is the top
6 of the Bone Spring Lime. That also contains the Avalon
7 section. The next line down is the 1st Bone Spring
8 Sand. The next line down is 2nd Bone Spring Sand. The
9 third line down is the 3rd Bone Spring Sand and then the
10 Wolfcamp X-Y. So that red arrow right at the base of
11 the 3rd Bone Spring Sand, that's typically where
12 operators target 3rd Bone Spring wells in this area. So
13 based on our knowledge, we think this would be the best
14 zone to target.

15 **Q. And approximately how far off the top of the**
16 **Wolfcamp are you there?**

17 A. It's probably 50 feet or so.

18 **Q. So when comparing it to Exhibit 10 in Case**
19 **Number 16285 --**

20 A. Yup.

21 **Q. -- it looks like maybe it's 100, 150 feet below**
22 **the top of the Wolfcamp in your Wolfcamp X-Y; is that**
23 **right?**

24 A. Yeah. I think 150 feet is probably a little
25 thin. Maybe 200 plus. Yeah. They're fairly close, but

1 we don't think there's going to be any sort of vertical
2 interference between those wells.

3 Q. Okay.

4 CROSS-EXAMINATION

5 BY EXAMINER McMILLAN:

6 Q. Okay. The first thing I'm going to tell you is
7 on all your exhibits, I want -- we have no way of
8 knowing if these values are correct because you didn't
9 tie -- you didn't put the values for the wells for every
10 case. You will resubmit that.

11 A. Okay.

12 Q. You will do that for the structure map and the
13 contour map.

14 And simply put, I was absolutely confused
15 by Jordan's question because I have no idea what the
16 tops were.

17 A. Yes, sir.

18 Q. And you will resubmit that. And resubmit it
19 bigger so everyone can read it.

20 A. Yes, sir.

21 Q. And you will resubmit to the OCD and all
22 affected parties.

23 A. Yes, sir.

24 MR. BRUCE: Can I ask one question of the
25 witness?

1 EXAMINER McMILLAN: Certainly.

2 CROSS-EXAMINATION

3 BY MR. BRUCE:

4 Q. What is the preferred orientation for either
5 the Bone Spring and the Wolfcamp in this area?

6 A. From what we've -- we've done a very high-level
7 analysis of north-south versus east-west-oriented wells.
8 For the wells that have data, the data is inconclusive
9 to see whether or not each orientation has better
10 production. All the other zones that are prospective
11 here don't have enough data, so I think the jury is out
12 on whether or not we've seen, you know, better
13 production for whether it's north-south or east-west
14 wells.

15 Q. Thanks.

16 A. So that's something we definitely pay close
17 attention to.

18 Q. That's all I have.

19 EXAMINER McMILLAN: Do you have any
20 questions?

21 EXAMINER LOWE: No, just to reiterate what
22 Michael said. I couldn't read your legend. Your
23 information that you're presenting is based off of
24 pictures and drawings, but your legend is pretty much
25 the same size as your maps. So I just want to reiterate

1 what Michael said.

2 THE WITNESS: More clearly legible, better
3 labeled, yes, sir.

4 EXAMINER LOWE: That's it.

5 EXAMINER McMILLAN: Do you have any
6 questions, David?

7 EXAMINER BROOKS: No questions.

8 MS. CALLAHAN: I just have one redirect.

9 REDIRECT EXAMINATION

10 BY MS. CALLAHAN:

11 **Q. I understand that the lay-down proposals are**
12 **really based more on the availability of drilling**
13 **islands in this area; is that right?**

14 A. Yes, ma'am.

15 **Q. So north-south wells were not really an option**
16 **to develop these lands?**

17 A. In this particular case, no, not for us.

18 **Q. Okay.**

19 MS. CALLAHAN: That's all.

20 EXAMINER McMILLAN: Thanks.

21 Thank you.

22 EXAMINER BROOKS: This witness can be
23 excused?

24 EXAMINER McMILLAN: Yes.

25 MS. CALLAHAN: I call our next witness,

1 Kurt Shipley.

2 KURT SHIPLEY,

3 after having been previously sworn under oath, was
4 questioned and testified as follows:

5 DIRECT EXAMINATION

6 BY MS. CALLAHAN:

7 Q. Mr. Shipley, please state your name for the
8 record.

9 A. Kurt Shipley.

10 Q. And by whom are you employed?

11 A. Novo Oil & Gas.

12 Q. In what capacity?

13 A. I'm the vice president of operations.

14 Q. And how long have you been employed by Novo?

15 A. 14 months.

16 Q. Have you previously testified before the
17 New Mexico division?

18 A. Yes.

19 Q. And were your credentials accepted as a matter
20 of record?

21 A. Yes.

22 Q. What are your responsibilities with Novo?

23 A. I handle all of the location building, work
24 with our team on the staking of the locations, and then
25 I handle all the drilling, completion, facilities

1 installation and production.

2 Q. Does your area of responsibility at Novo
3 include the Permian Basin in New Mexico?

4 A. Yes.

5 Q. Are you familiar with the applications that
6 have been filed by Novo in these cases?

7 A. Yes.

8 Q. Have you prepared an exhibit for introduction
9 at hearing today?

10 A. Yes.

11 MS. CALLAHAN: I tender Mr. Shipley as an
12 expert petroleum engineer.

13 EXAMINER McMILLAN: Have you testified
14 before?

15 THE WITNESS: Yes.

16 MS. BENNETT: No objection.

17 MS. KESSLER: No objection.

18 MR. BRUCE: No objection.

19 EXAMINER McMILLAN: So qualified.

20 Q. (BY MS. CALLAHAN) Mr. Shipley, have you
21 prepared APDs for the wells proposed in the five
22 applications?

23 A. Yes. We prepared APDs on all five of these --
24 all the wells on all five of the applications.

25 Q. Are they included as Exhibit 11?

1 A. Yes. For the -- for the applications that have
2 actually been submitted, we have. They are included in
3 the file.

4 Q. And you have submitted one other application,
5 is that right -- one other APD, is that right, for 16 --
6 you've submitted a total of three APDs, right? We just
7 didn't include the third that you recently submitted?

8 A. We've submitted seven -- well, we've -- I'm
9 sorry. We've submitted two -- let me back up.

10 We have submitted three APDs, and two of
11 them were available to put in the exhibits, and one is
12 still outstanding, that we don't have the documents on
13 it yet.

14 Q. Are the well names that are seen in our
15 applications different than as they appear in the APDs?

16 A. Yes.

17 Q. And why is that?

18 A. We are in the process of revising these well
19 names for shorter well names to be accepted by the BLM
20 application system.

21 Q. All right. So you're in the process of
22 preparing APDs for all those that you haven't submitted
23 yet?

24 A. Yes.

25 Q. What communications have you had with the BLM

1 **regarding your APDs?**

2 A. We have had a lot of discussion with the BLM on
3 locating the drill islands in relation to the potash
4 activity, then also in conducting on-site inspections of
5 the surface. We've -- those have been the main
6 correspondence. And then also correspondence in letting
7 them know we're going to be applying for these APDs.

8 **Q. Have the drilling islands been approved for all**
9 **seven wells?**

10 A. Yes.

11 **Q. And the fees are paid?**

12 A. Yes. We have paid all fees.

13 **Q. And has the BLM given you any indication there**
14 **is a problem with your planned development and approval**
15 **of all the APDs?**

16 A. No.

17 **Q. Do you have any idea when these APDs will be**
18 **approved?**

19 A. We're hoping for within about three to six
20 months.

21 **Q. Have you prepared a preliminary drilling and**
22 **completion schedule for the seven wells?**

23 A. Yes.

24 **Q. Your plan is to drill these wells sequentially**
25 **and batch complete them, correct?**

1 A. Yes.

2 Q. So can you explain how you plan to group the
3 sequential drilling and completion in terms of all of
4 the applications? You plan to sequentially drill four
5 wells identified in Cases 16282 --

6 EXAMINER McMILLAN: Let's -- let's just
7 come back after lunch.

8 EXAMINER BROOKS: Yeah. I need -- I need
9 to leave, so I was -- I didn't know what the examiner
10 wanted to do, since he's the presiding officer.

11 EXAMINER McMILLAN: That's what we're
12 doing.

13 MR. BRUCE: What time?

14 EXAMINER McMILLAN: 1:30.

15 EXAMINER BROOKS: I promise to be on time.

16 (Examiner Brooks exits the room.)

17 EXAMINER McMILLAN: Hold on. Leonard needs
18 to make -- Leonard wants to make a statement.

19 EXAMINER LOWE: Yeah. What I want -- this
20 past week, I sent out an email to the majority of
21 you-all indicating any information application-wise -- I
22 was looking the cases and hearings that happen here. If
23 you could submit those items, such as exhibits, to me
24 electronically via email, that will ease up the
25 processing of whatever application or orders we need to

1 complete. We don't have a scanner person here in
2 Santa Fe, and we're trying to all help out Florene in
3 all that she does, which is a lot, and we've all kind of
4 jumped on board in doing it. But you might have seen
5 items online that are duplicates here and there or not
6 even there. So for that reason, we're trying to
7 solidify this process. Mind you, it's a growing
8 process. So the email that I sent out this past week
9 took me a long time to write, trying to get things
10 together on it. So as we move forward, it's going to be
11 changing here and there. So I'm just letting you know.

12 And if you didn't get the email, please
13 give us your business card, and I can resend the email
14 out to you-all. So any questions you've got, you can
15 ask Mike.

16 (Laughter.)

17 EXAMINER LOWE: That's all I've got to say.

18 MR. BRUCE: Mike, one thing, Scott and I
19 had a brief --

20 MR. HALL: You had called Case --

21 EXAMINER McMILLAN: 16277?

22 MR. HALL: -- Case 16277. It is a
23 duplicate advertisement for Case 16108. How that
24 happened, I don't know, but the request for dismissals
25 have gone into --

1 MR. BRUCE: The second case is number 72.

2 MR. HALL: They're identical.

3 EXAMINER McMILLAN: Okay. 16722 should be
4 dismissed?

5 MR. HALL: Both of them, 16108 as well.

6 MR. BRUCE: I had matters for BTA, but BTA
7 and OneEnergy have settled. So OneEnergy's cases along
8 with BTA's, which was dismissed last hearing, they're
9 all dismissed.

10 MR. HALL: It's cases 72 and 26.

11 EXAMINER McMILLAN: Oh, okay. Great.
12 Thanks.

13 (Recess, 11:43 a.m. to 1:28 p.m.; Examiners
14 Brooks and Lowe not present.)

15 EXAMINER McMILLAN: Call the hearing back
16 to order in Case Numbers 16281, 16282, 16283, 16285 and
17 16286.

18 Please proceed.

19 MS. CALLAHAN: Thank you.

20 CONTINUED DIRECT EXAMINATION

21 BY MS. CALLAHAN:

22 Q. So, Mr. Shipley, you've prepared a preliminary
23 drilling and completion schedule for all seven wells in
24 these applications; is that correct?

25 A. Yes.

1 Q. And our applications have requested an
2 extension of the 120-day requirement from spud date to
3 completion; is that right?

4 A. Yes.

5 Q. So you plan to drill these wells sequentially
6 and batch complete them; is that right?

7 A. Yes. We --

8 Q. So the first four wells that you'd like to
9 sequentially drill and batch complete are the wells in
10 Case Numbers 16282, 16283 and 16286. That's the two
11 Bone Spring and the two Wolfcamp wells; is that right?

12 A. Yes. The plan is a four-well pad, then we
13 would drill the four wells and then follow up with
14 four-well completion.

15 Q. All right. So do you request 220 days in total
16 to drill and complete all four of these wells?

17 A. Yes.

18 Q. And then you plan to drill the three wells
19 identified in Case Numbers 16281 and 16285, sequentially
20 and batch complete those as well?

21 A. Yes.

22 Q. And that's one Bone Spring and two Wolfcamp
23 wells?

24 A. Yes. And that's a three-well pad. So we're
25 intending to drill the three wells and then follow up

1 with a three-well completion there.

2 Q. Okay. Do you request 180 days to drill and
3 complete all three of these wells?

4 A. Yes.

5 Q. Assuming you have approved APDs in about three
6 to six months, when would you anticipate spudding the --

7 (Examiner Brooks enters the room, 1:30
8 p.m.)

9 EXAMINER BROOKS: I said I would be on
10 time, but I missed it by 30 seconds.

11 THE WITNESS: You want to repeat the
12 question?

13 Q. (BY MS. CALLAHAN) Yes. Assuming you have APDs
14 in about three to six months, when would you anticipate
15 spudding your first wells?

16 A. Around February 5th, 2019.

17 Q. And assuming the Division grants your
18 applications and the order is entered within the next
19 two months or so, do you request the order allow 18
20 months from the date the order is issued to get all
21 seven wells drilled?

22 A. Yes.

23 Q. In your opinion, is the granting of these
24 applications in the best interest of conservation,
25 prevention of waste and the protection of correlative

1 **rights?**

2 A. Yes.

3 **Q. Was Exhibit 11 prepared by you or compiled**
4 **under your direction and supervision?**

5 A. Yes.

6 MS. CALLAHAN: I move to admit Exhibit 11.

7 MS. BENNETT: No objection.

8 MS. KESSLER: No objection.

9 EXAMINER McMILLAN: Jim?

10 MR. BRUCE: No objection.

11 EXAMINER McMILLAN: Exhibit 11 in the cases
12 shall be admitted as part of the record.

13 (Novo Oil & Gas, LLC Exhibit Number 11 is
14 offered and admitted into evidence.)

15 MS. CALLAHAN: Thank you.

16 I tender the witness for cross-examination.

17 MS. BENNETT: No questions.

18 MS. KESSLER: No questions.

19 MR. BRUCE: No questions.

20 EXAMINER McMILLAN: Okay.

21 CROSS-EXAMINATION

22 BY EXAMINER McMILLAN:

23 **Q. The only problem I always get is it's hard for**
24 **everyone to figure out exactly when 120 days is. Is**
25 **there some -- the problem -- and then you've asked for**

1 **180 days for the other one, right?**

2 MS. CALLAHAN: Because there are four wells
3 in the first --

4 THE WITNESS: It was 220 days for the
5 four-well pad and 180 days for the three-well pad.

6 EXAMINER McMILLAN: 220 days is awful hard
7 to figure out, I mean, looking at a calendar. Is there
8 any way you can make it 180 both? Either that or go up
9 to --

10 MS. CALLAHAN: 220.

11 THE WITNESS: I'd prefer to make both 220.
12 There is a lot of work that goes into sequentially
13 drilling four wells back to back to back and then
14 subsequently trying to procure the frac fleet to -- you
15 have to then complete all four wells sequentially behind
16 that. So from the spud of the first well to completion
17 of the last well, that's the timing that we had.

18 EXAMINER BROOKS: What if we just said 240.

19 THE WITNESS: That works.

20 EXAMINER McMILLAN: For both wells. It's
21 too difficult to figure out what day of the week it is.

22 (Laughter.)

23 THE WITNESS: I could do that.

24 EXAMINER McMILLAN: It's true.

25 MR. BRUCE: It's Thursday.

1 EXAMINER McMILLAN: I can't figure out --
2 if you can tell me when 220 days from today is --

3 (Laughter.)

4 EXAMINER McMILLAN: And then all we would
5 do is we would just say, If we give you that, then we
6 want -- we want you to send a sundry notice to the
7 bureau when the wells were spud and when they've reached
8 the TD and they're prepped to complete. That way we're
9 ensuring full development of the acreage.

10 EXAMINER BROOKS: Yeah.

11 EXAMINER McMILLAN: I think that's -- is
12 that fair?

13 THE WITNESS: Yes, very fair.

14 EXAMINER BROOKS: I believe the rule
15 already requires a sundry at the time of the spudding,
16 so that would only add one additional requirement.

17 EXAMINER McMILLAN: Do you have a problem
18 with that?

19 MS. BENNETT: (Indicating.)

20 MS. KESSLER: I don't think so.

21 We're discussing four separate spacing
22 units, right? So the sequential -- it's not like there
23 would need to be an election sent out for each of the
24 separate wells sequentially, specifically as EOG, is
25 what I'm thinking. They would only be participating in

1 one of those four wells, right? There is only one
2 well --

3 THE WITNESS: I can't answer that.

4 MS. CALLAHAN: I think --

5 THE WITNESS: EOG --

6 MS. CALLAHAN: I think our landman will
7 have to answer that.

8 MS. KESSLER: That's fine. I think I
9 understand. I don't have a question about it.

10 EXAMINER BROOKS: Well, is everybody good
11 with the 240 days?

12 MR. BRUCE: Yes.

13 THE WITNESS: Yes.

14 EXAMINER BROOKS: I thought you would be.

15 EXAMINER McMILLAN: So 240 days with a
16 sundry notice when the well is -- has penetrated all of
17 the units for each of the wells. Obviously, it's going
18 to be worded better than that.

19 EXAMINER BROOKS: That's something we're
20 going to have to talk about in the Division, as to
21 whether that penetrates -- all of the quarter-quarter is
22 going to continue, now that we've got a new rule, or
23 whether that's not going to continue. The new rule
24 doesn't say anything that affects it one way or another,
25 so we don't have any instructions from the Commission on

1 that.

2 REDIRECT EXAMINATION

3 BY MS. CALLAHAN:

4 **Q. You do anticipate producing from each of the**
5 **spacing units about equally; is that right?**

6 A. Yes.

7 EXAMINER McMILLAN: All right. If there
8 are no other questions, I just want to clearly state for
9 the record that these cases will not be taken under
10 advisement because the geologic presentation needs to be
11 better. And since you're continuing the case, whichever
12 case, 16284 [sic], the other cases will be continued,
13 and you will provide better geologic maps.

14 EXAMINER BROOKS: Well, it wasn't 16284.

15 MS. CALLAHAN: 284 is the one that was
16 continued.

17 EXAMINER BROOKS: Yeah. That one was
18 already continued.

19 EXAMINER McMILLAN: Yes. But the rest of
20 them will be continued also until the information is
21 provided.

22 EXAMINER BROOKS: Okay.

23 EXAMINER McMILLAN: Any objections to that?

24 MS. KESSLER: I guess I would say it seems
25 like they could be provided via email so they wouldn't

1 necessarily have to continue the cases. It's obviously
2 up to the examiner's discretion.

3 EXAMINER BROOKS: Yeah. Also, rather than
4 continuing it indefinitely, I would recommend that we
5 continue it until the next hearing docket to validate
6 all the notices.

7 EXAMINER McMILLAN: Okay.

8 MS. BENNETT: And on behalf of Marathon, I
9 tend to agree with Ms. Kessler. Again, it's up to
10 you-all, but it seems that perhaps to keep this one
11 moving forward, which is Marathon's desire, as well as
12 Novo's, it might make sense to have the exhibits emailed
13 and then be able to take the case under advisement
14 subject to those supplemental --

15 MS. CALLAHAN: We plan to do that very
16 quickly, so I don't think that'll be an issue. If you'd
17 like us to present them --

18 EXAMINER BROOKS: Well, it would be okay to
19 continue it to the next hearing docket, but if we've got
20 the materials, we can go ahead and take it under
21 advisement.

22 MS. BENNETT: Would that work for your
23 schedule?

24 MS. CALLAHAN: Well, except that I won't be
25 able to be here on the 26th. I would probably just send

1 a surrogate.

2 EXAMINER BROOKS: If you've gotten to us,
3 it won't matter.

4 MS. CALLAHAN: I'm sorry?

5 EXAMINER BROOKS: If you've gotten
6 materials to us, that won't matter.

7 MS. CALLAHAN: Okay. You don't want me to
8 present them?

9 EXAMINER BROOKS: You don't have to present
10 them at the hearing if you get them to the examiner in
11 advance of the hearing.

12 MS. CALLAHAN: Okay. That, we would be
13 happy to do.

14 EXAMINER McMILLAN: Cases 16281, 16282,
15 16283, 16285 and 16286 shall be continued until July the
16 26th.

17 MS. CALLAHAN: Or until we get the
18 revised --

19 EXAMINER McMILLAN: Yeah. We'll just --

20 EXAMINER BROOKS: Hopefully the revised
21 exhibits will be acceptable to Michael over here.

22 MS. CALLAHAN: Yeah. I guess you'll let us
23 know.

24 EXAMINER McMILLAN: Okay. Thank you.

25 MS. BENNETT: Thank you.

1 THE WITNESS: Thank you.
2 (Case Numbers 16281, 16282, 16283, 16285
3 and 16286 conclude, 1:41 p.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 11th day of August 2018.

21

22

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