

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING CALLED
BY THE OIL CONSERVATION DIVISION FOR
THE PURPOSE OF CONSIDERING:

APPLICATION OF OXY USA, INC. FOR CASE NO. 20225
COMPULSORY POOLING, EDDY COUNTY,
NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

February 7, 2019

Santa Fe, New Mexico

BEFORE: SCOTT DAWSON, CHIEF EXAMINER
KATHLEEN MURPHY, TECHNICAL EXAMINER
TERRY WARNELL, TECHNICAL EXAMINER
DAVID K. BROOKS, LEGAL EXAMINER

This matter came on for hearing before the New Mexico Oil Conservation Division, Scott Dawson, Chief Examiner; Kathleen Murphy and Terry Warnell, Technical Examiners; and David K. Brooks, Legal Examiner, on Thursday, February 7, 2019, 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
500 4th Street, Northwest, Suite 105
Albuquerque, New Mexico 87102
(505) 843-9241

1 APPEARANCES

2 FOR APPLICANT OXY USA, INC.:

3 MICHAEL H. FELDEWERT, ESQ.
 4 HOLLAND & HART, LLP
 5 110 North Guadalupe, Suite 1
 6 Santa Fe, New Mexico 87501
 7 (505) 988-4421
 8 mfeldewert@hollandhart.com

9 INDEX

	PAGE
10 Case Number 20225 Called	3
11 Case Presented by Affidavit	3
12 Proceedings Conclude	9
13 Certificate of Court Reporter	10

14 EXHIBITS OFFERED AND ADMITTED

15 OXY USA, Inc. Exhibit Numbers 1 through 4	7
--	---

1 (1:30 p.m.)

2 EXAMINER DAWSON: And the next case that
3 we'll go to is Case Number 20225, OXY USA, Incorporated
4 for compulsory pooling, Eddy County, New Mexico for the
5 Precious 30 18 Fed Com 4H, 5H, 6H and 9H.

6 Call for appearances, please.

7 MR. FELDEWERT: Mr. Examiner, Michael
8 Feldewert, with the Santa Fe office of Holland & Hart,
9 appearing on behalf of the Applicant, and we'll be
10 presenting the case by affidavit.

11 EXAMINER DAWSON: Okay.

12 No other appearances?

13 Okay. When you're ready, Mr. Feldewert.

14 MR. FELDEWERT: Mr. Examiner, if you look
15 at Exhibit Number 1, we have the affidavit of Matthew
16 Cole who has previously testified before this Division
17 on petroleum land matters. And if you turn to what he
18 has in there as Exhibit 1A, you'll see that the company
19 seeks to pool an 800-acre standard horizontal spacing
20 unit for the Bone Spring Formation comprising of the
21 acreage you see there outlined in green. It is
22 comprised, as he testifies to in his affidavit, six
23 tracts of federal land.

24 And if you look at Exhibit B, you'll find a
25 draft of the C-102s for the four wells that they seek to

1 initially dedicate to this well. These have not been
2 filed. We don't have an API number. We're not quite
3 sure what pool we're in yet. It's the wildcat Bone
4 Spring, so that's why these are presented as they are.

5 The other thing I note with these C-102s
6 when I examined them, at first blush, they appear to
7 be -- the last take point appears to be too close to the
8 outer boundary of the spacing unit. I am told that that
9 is because Section 18 has some additional acreage. It's
10 not a true -- what's the length? It's a little larger
11 than the normal length. So OXY fully intends to make
12 sure that these wells remain 100 feet from the outer --
13 the last take point remains 100 feet from the outer
14 boundary of the spacing unit. So I don't want there to
15 be any confusion here.

16 EXAMINER DAWSON: Okay.

17 MR. FELDEWERT: It's going to be an
18 800-acre spacing unit as he testifies to in his
19 affidavit principally because the 5H will be drilled
20 within 330 feet of the east half of the east half of the
21 acreage and the west half of the east half of the
22 acreage. So that would allow, then, the acreage to be
23 combined for the 800-acre spacing unit.

24 If you turn to what he includes as Exhibit
25 1C, he provides an ownership breakdown by each of the

1 six tracts. OXY owns 95 percent of this acreage. They
2 seek to pool the working interests in Tract 2, which a
3 40-acre tract, as well overriding interest owners that
4 are reflected on the last page of Exhibit 1C.

5 If you go to 1D, you will see two
6 well-proposal letters sent out by OXY. One was a
7 combination letter sent out for the 4H, 5H and 6H, along
8 with the AFEs. And then halfway through, you'll see a
9 second letter for the 9H well, which also has its own
10 AFE.

11 He testifies that OXY has contacted or
12 attempted to contact each of these working interest
13 owners in an effort to reach a voluntary agreement and
14 that the cost reflected on the AFEs for these wells are
15 consistent with what operators have incurred for
16 drilling similar horizontal wells. There is no
17 ownership depth severances here. He testifies to that
18 in his affidavit and no unleased mineral interests. He
19 provides in his affidavit the overhead costs that they
20 seek, which he confirms are consistent with what others
21 are charging. And so that completes Exhibit Number 1.

22 If you then turn to Exhibit Number 2 in our
23 package, it's the affidavit of Daniel Burnett. He's a
24 geologist employed by OXY. His credentials as an expert
25 in petroleum geology are set forth in paragraph two of

1 the affidavit.

2 He has concluded within his affidavit as
3 Exhibit 2A a cross section -- I'm sorry -- a structure
4 map of the 2nd Bone Spring Sand, which is the target
5 interval for all of these wells. And you'll see that he
6 testifies -- he presented us with 50-foot contours. He
7 testifies there is no -- he also provided for
8 Mr. McMillan and everybody else the control points for
9 his structure map. He includes on here the -- one, two,
10 three, four -- five wells that he utilized for his cross
11 section for A to A prime from the north to south, and he
12 confirms there are no pinch-outs, faulting or other
13 geologic impediments to developing these horizontal
14 wells.

15 Exhibit 2B, then, is the cross section that
16 conforms with the wells that we see in Exhibit 2A from
17 the A to A prime. He identifies the top of the 2nd Bone
18 Spring with the red line and then the bottom -- or what
19 would be the top of the 3rd Bone Spring with the blue
20 line on this exhibit. The two black lines you see on
21 there are identified as landing depths in each of these
22 logs for the proposed wells that are reflected thereon.

23 He confirms that this cross section
24 demonstrates that the target interval for these four
25 wells is continuous across the acreage that's involved

1 here, and he states, finally, in his affidavit that the
2 north-to-south orientation is proper here because of the
3 stress direction and that it will efficiently and
4 effectively develop the acreage.

5 Exhibit 3 is our affidavit for OXY as their
6 attorney. In going through that, we see the notice
7 letters went out. We have the information on the status
8 of the receipts. As I went through this, there were two
9 overriding royalty interest owners where it was either
10 awaiting delivery or delivery was not accepted, and that
11 was a Jerune Allen, and then the River Oaks Trust
12 Company and Georgia Todd Temple as co-trustees of the
13 Lorraine L. Johnson Living Trust.

14 As a result, if you look at Exhibit 4, it's
15 an Affidavit of Publication in the local newspaper, and
16 those two individuals, as well as the other overriding
17 royalty interest owners are specifically listed in the
18 Affidavit of Publication. So they received proper
19 notice of this hearing.

20 With that, I move to admit Exhibits 1
21 through 4.

22 EXAMINER DAWSON: Okay. At this time
23 Exhibits 1 through 4 will be admitted to the record.

24 (OXY USA, Inc. Exhibit Numbers 1 through 4
25 are offered and admitted into evidence.)

1 MR. FELDEWERT: And we ask that this case
2 be taken under advisement.

3 EXAMINER DAWSON: Does anyone have any
4 questions?

5 David?

6 EXAMINER BROOKS: No questions.

7 EXAMINER WARNELL: I have a question and a
8 concern. On the cross section on Exhibit 2B, I don't
9 think I've ever seen five logs on five wells. We've got
10 gamma ray. We've got a resistivity on two of the five,
11 and nothing else on the others other than a gamma ray.
12 It's difficult -- I'd be hard-pressed to correlate those
13 logs just based on the gamma ray. I'm amazed that OXY
14 wouldn't give us a little more to work with. That's
15 just an observation.

16 No questions.

17 EXAMINER DAWSON: Do you have any
18 questions, Ms. Murphy?

19 EXAMINER MURPHY: No, no questions.

20 EXAMINER DAWSON: Mr. Feldewert, do you
21 know what the administrative and overhead costs are
22 going to be?

23 MR. FELDEWERT: If you look in the
24 affidavit, I believe there is --

25 EXAMINER DAWSON: I'm sure they testified

1 to that in the initial hearing.

2 MR. FELDEWERT: In his affidavit he
3 testifies to it directly. Give me one minute.

4 7,500 while drilling and 750 while
5 producing.

6 EXAMINER DAWSON: Oh, okay. I see that
7 under Exhibit 1.

8 MR. FELDEWERT: Exhibit 1, paragraph ten.

9 EXAMINER DAWSON: Yeah. Got it. Perfect.
10 So the exhibits and the numerical [sic]
11 exhibits behind Exhibits 1 through 4 will be admitted to
12 the record, and this case will be taken under
13 advisement.

14 Thank you very much.

15 MR. FELDEWERT: Thank you.

16 (Case Number 20225 concludes, 1:39 p.m.)
17
18
19
20
21
22
23
24
25

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 7th of March 2019.

21

22

23 MARY C. HANKINS, CCR, RPR
24 Certified Court Reporter
New Mexico CCR No. 20
Date of CCR Expiration: 12/31/2019
Paul Baca Professional Court Reporters

25