

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

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

7 APPLICATION OF TAP ROCK OPERATING, CASE NO. 20320  
8 LLC FOR A STANDARD HORIZONTAL SPACING  
9 AND PRORATION UNIT AND COMPULSORY  
10 POOLING, EDDY COUNTY, NEW MEXICO.

11 REPORTER'S TRANSCRIPT OF PROCEEDINGS

12 EXAMINER HEARING

13 April 4, 2019

14 Santa Fe, New Mexico

15 BEFORE: MICHAEL McMILLAN, CHIEF EXAMINER  
16 TERRY WARNELL, TECHNICAL EXAMINER  
17 WILLIAM V. JONES, TECHNICAL EXAMINER  
18 DAVID K. BROOKS, LEGAL EXAMINER

19 This matter came on for hearing before the  
20 New Mexico Oil Conservation Division, Michael McMillan,  
21 Chief Examiner; Terry Warnell and William V. Jones,  
22 Technical Examiners; and David K. Brooks, Legal  
23 Examiner, on Thursday, April 4, 2019, at the New Mexico  
24 Energy, Minerals and Natural Resources Department,  
25 Wendell Chino Building, 1220 South St. Francis Drive,  
Porter Hall, Room 102, Santa Fe, New Mexico.

26 REPORTED BY: Mary C. Hankins, CCR, RPR  
27 New Mexico CCR #20  
28 Paul Baca Professional Court Reporters  
29 500 4th Street, Northwest, Suite 105  
30 Albuquerque, New Mexico 87102  
31 (505) 843-9241

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# APPEARANCES

FOR APPLICANT TAP ROCK OPERATING, LLC:

SHARON T. SHAHEEN, ESQ.  
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## EXHIBITS OFFERED AND ADMITTED

Tap Rock Operating, LLC Exhibit Numbers 1 through 4	5
Tap Rock Operating, LLC Exhibit Numbers 6 through 10	9

1 (10:06 a.m.)

2 EXAMINER McMILLAN: I'd like to call Case  
3 Number 20320, application of Tap Rock Operating, LLC for  
4 a standard horizontal spacing and proration unit and  
5 compulsory pooling, Eddy County, New Mexico.

6 Is this case combined with Case Number  
7 20321?

8 MS. SHAHEEN: It could be. I was planning  
9 to do it separate so I don't get confused.

10 EXAMINER McMILLAN: Okay.

11 Any other appearances?

12 Please proceed.

13 MS. SHAHEEN: Sharon Shaheen on behalf of  
14 Tap Rock Operating, LLC. I'll begin with Case Number  
15 20320. And I may have a little more detail than you  
16 want me to, so if I am --

17 EXAMINER McMILLAN: If this is done by  
18 affidavit, just briefly go through the affidavit.

19 MS. SHAHEEN: Okay. I will do that.

20 Tap Rock proposes to create a standard  
21 160-acre spacing unit in the west half-west half of  
22 Section 13, Township 25 South, Range 27 East, targeting  
23 the Hay Hollow; Bone Spring, North pool, to be dedicated  
24 to the Delirium State Com #131H.

25 In support, we have two affidavits. The

1 first affidavit is behind Tab 3. That's the affidavit  
2 of Matt Phillips, the landman. He offers several  
3 exhibits, including C-102s, attached as Exhibit 1; a  
4 plat outlining the unit, attached as Exhibit 2; the  
5 parties being pooled, the nature of their interest in  
6 Exhibit 3.

7 He further states that there are no depth  
8 severances in the Bone Spring Formation.

9 Paragraph 13 details the proposed  
10 surface-hole location, the total vertical -- proposed  
11 total vertical depth, bottom-hole location, first take  
12 point and last take point. He represents that he has  
13 conducted a diligent search and made good-faith efforts  
14 to obtain voluntary joinder of the working interest  
15 owners in the proposed well.

16 Also attached is a sample proposal letter  
17 and the AFE for the proposed well. He represents that  
18 the estimated cost of the well is fair and reasonable  
19 and comparable to the cost of other wells similar in  
20 this area of New Mexico. Tap Rock requests overhead and  
21 administrative rates of 7,000 a month for drilling and  
22 700 a month for a producing well. And these rates are  
23 also fair and comparable to the rates charged by other  
24 operators. Tap Rock requests they be adjusted as  
25 provided in the COPAS.

1 Tap Rock requests the maximum cost plus 200  
2 percent risk charge against -- be assessed against  
3 nonconsenting working interest owners and that it be  
4 designated operator of the wells.

5 With this affidavit, I move that Exhibits  
6 1, 2, 3 and 4 be admitted.

7 EXAMINER McMILLAN: Okay. Exhibits 1  
8 through 4 may now be accepted as part of the record.

9 (Tap Rock Operating, LLC Exhibit Numbers 1  
10 through 4 are offered and admitted into  
11 evidence.)

12 MS. SHAHEEN: Also in support is the  
13 affidavit of geologist Adam Smith. Mr. Smith represents  
14 that -- actually, Mr. Smith offers several other  
15 exhibits, including Exhibits 7, 8 and 10.

16 Exhibit 7 is the Bone Spring structure map.  
17 Mr. Smith details the features of the Bone Spring  
18 structure map, including the contour intervals,  
19 orientation. He represents that there are no horizontal  
20 wells in the nearby vicinity that have targeted the 3rd  
21 Bone Spring W sand, among other things. He does not  
22 observe any faulting, pinch-outs or other geologic  
23 impediments or hazards to developing this targeted  
24 interval as proposed.

25 Exhibit 8 is the Bone Spring stratigraphic

1 cross section. Here, again, Mr. Smith details the  
2 features of the cross section.

3 Exhibit 9 is a gross isopach map of the 3rd  
4 Bone Spring W sand interval, again with detailed  
5 features of this map, including the location of the  
6 spacing unit and the surface- and bottom-hole location,  
7 the anticipated gross thickness, the relative thickness.

8 He represents that there are no horizontal  
9 wells that have targeted this interval in the vicinity,  
10 and based on his geological study of the area, he  
11 concludes that a horizontal spacing and proration unit  
12 is justified. There are no structural impediments or  
13 faulting. Each quarter-quarter section will contribute  
14 more or less equally to production, and the preferred  
15 well orientation in this area is south to north.

16 Finally, Exhibit 10 is a simplified  
17 wellbore program -- excuse me -- diagram that shows the  
18 first and last take points for the 131H will be  
19 standard.

20 I offer Exhibits 6, 7, 8, 9 and 10 into the  
21 record.

22 EXAMINER McMILLAN: Okay. Exhibits 6  
23 through 10 may now be accepted as part of the record.

24 (Tap Rock Operating, LLC Exhibit Numbers 6  
25 through 10 are offered and admitted into

1 evidence.)

2 EXAMINER McMILLAN: Just so you know, I'm  
3 notorious for telling people that I don't like -- I like  
4 seeing limited information on a map, and I particularly  
5 dislike when you put a structure map and your line of  
6 cross section. Put those on separate maps.

7 MS. SHAHEEN: Okay. Let me make sure that  
8 I have that right. "Line of cross section" --

9 EXAMINER McMILLAN: And structure on  
10 separate maps.

11 MS. SHAHEEN: -- "and structure on separate  
12 maps." Got it.

13 EXAMINER McMILLAN: And let's see.

14 EXAMINER BROOKS: This is 50/50 Tap Rock  
15 and Devon?

16 MS. SHAHEEN: I believe so. There was a  
17 little bit of a question about that. There was -- there  
18 was a joint operating agreement that the parties thought  
19 covered this area, and then they subsequently learned  
20 that there was not and determined that it was only Devon  
21 and Tap Rock. Originally, they thought maybe it was COG  
22 but have since determined -- they've got a title  
23 opinion, I believe, and have since determined it's just  
24 Devon and Tap Rock.

25 EXAMINER BROOKS: Okay. So you didn't

1 notice anybody else?

2 MS. SHAHEEN: We noticed COG.

3 EXAMINER BROOKS: You noticed COG. Okay.

4 What about overrides? Any overriding  
5 royalties in these leases?

6 MS. SHAHEEN: I think -- and I get the two  
7 cases mixed up, so let me just look at it real quick.  
8 This being Exhibit 3, the only override was Tap Rock.

9 EXAMINER BROOKS: Okay. No other  
10 overrides?

11 MS. SHAHEEN: That's what it says.

12 EXAMINER BROOKS: Okay. I'm satisfied.

13 EXAMINER McMILLAN: Okay.

14 MS. SHAHEEN: Case Number 20231 --

15 EXAMINER McMILLAN: So you want Case Number  
16 20320 taken under advisement?

17 MS. SHAHEEN: Oh. Yes, I do. Thank you  
18 for reminding me.

19 EXAMINER McMILLAN: Case Number 20320 shall  
20 be taken under advisement.

21 (Case Number 20320 concludes, 10:15 a.m.)

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1 STATE OF NEW MEXICO  
2 COUNTY OF BERNALILLO  
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4 CERTIFICATE OF COURT REPORTER

5 I, MARY C. HANKINS, Certified Court  
6 Reporter, New Mexico Certified Court Reporter No. 20,  
7 and Registered Professional Reporter, do hereby certify  
8 that I reported the foregoing proceedings in  
9 stenographic shorthand and that the foregoing pages are  
10 a true and correct transcript of those proceedings that  
11 were reduced to printed form by me to the best of my  
12 ability.

13 I FURTHER CERTIFY that the Reporter's  
14 Record of the proceedings truly and accurately reflects  
15 the exhibits, if any, offered by the respective parties.

16 I FURTHER CERTIFY that I am neither  
17 employed by nor related to any of the parties or  
18 attorneys in this case and that I have no interest in  
19 the final disposition of this case.

20 DATED THIS 24th day of April 2019.  
21

22  
23 MARY C. HANKINS, CCR, RPR  
24 Certified Court Reporter  
25 New Mexico CCR No. 20  
Date of CCR Expiration: 12/31/2019  
Paul Baca Professional Court Reporters