

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 NOS: 21873

APPLICATION OF OXY USA INC.
FOR APPROVAL OF 1,277.08 ACRE
NON-STANDARD SPACING UNITS,
EDDY COUNTY, NEW MEXICO.

REPORTER'S TRANSCRIPT OF VIRTUAL PROCEEDINGS
EXAMINER HEARING
MAY 6, 2021
SANTA FE, NEW MEXICO

This matter came on for virtual hearing before
the New Mexico Oil Conservation Division, HEARING OFFICER
WILLIAM BRANCARD and TECHNICAL EXAMINER LEONARD LOWE on
Thursday, MAY 6, 2021, through the Webex Platform.

Reported by: Irene Delgado, NMCCR 253
PAUL BACA PROFESSIONAL COURT REPORTERS
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A P P E A R A N C E S

For the Applicant:

KAITLYN LUCK
HOLLAND & HART
110 North Guadalupe, Suite 1
Santa Fe, NM 87501
505-954-7286

I N D E X

CASE CALLED

SUMMARY OF CASE AND EXHIBITS

TAKEN UNDER ADVISEMENT 10

REPORTER CERTIFICATE 11

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

Admitted

Exhibits and Attachments 10

1 HEARING EXAMINER BRANCARD: Okay. Case number
2 31, 21873, OXY USA, Holland & Hart.

3 MS. LUCK: Kaitlyn Luck with the Santa Fe office
4 of Holland & Hart on behalf of the applicant in case, Oxy.

5 HEARING EXAMINER BRANCARD: Are there any other
6 parties here for case 21873?

7 (No audible response.)

8 HEARING EXAMINER BRANCARD: Hearing none, Ms.
9 Luck, what do you have for us?

10 MS. LUCK: Thank you. In this case Oxy applied
11 for approval of a non-standard spacing unit in the Bone
12 Spring and Wolfcamp formations. (Unclear) prehearing
13 statement that was filed last week, Oxy is only seeking to
14 proceed with the Bone Spring non-standard unit because they
15 have decided to proceed with standard spacing in the
16 Wolfcamp so then my presentation will only touch on the Bone
17 Spring non-standard unit request that was made in the
18 application.

19 So starting off with Oxy Exhibit A is copy of
20 Oxy's application for approval of 1277.08 non-standard
21 spacing unit in the Bone Spring and Wolfcamp formations, and
22 these are both located in Eddy County, New Mexico.

23 Exhibit B is the affidavit of Peter Van Liew who
24 is the landman for Oxy in this case. He has previously
25 testified before the Division, and he explains Oxy is

1 seeking an order approving 1277.08 acre non-standard spacing
2 unit to match a proposed communitization agreement for
3 acreage underlying Sections 4 and 9 in Township 24 South,
4 Range 29 East in Eddy County, New Mexico.

5 Oxy's Exhibit B-1 is a land plat showing where
6 this unit is going to be located, and it only includes
7 federal land. Oxy does require pooling of any interest
8 within the unit, and Oxy is the designated operator for the
9 federal leases in the Bone Spring formation.

10 Oxy is seeking this approval to conform to BLM's
11 requested communitization agreement and some to minimize
12 surface disturbance as Mr. Van Liew testified.

13 Next Oxy provides as Exhibit B-2 a copy of the
14 CA. Mr. Van Liew's affidavit also reflects that Oxy seeks
15 to dedicate this non-standard spacing unit initially to the
16 Heads CC 9-4 Federal Com 22 through 26H wells, and the API
17 numbers for each of those wells are provided in his
18 affidavit.

19 He also provides a form C-102 for each of the
20 wells as Exhibit B-3. Those C-102s reflect these wells are
21 located in the Pierce Crossing Bone Spring East Pool, and
22 that is Pool Code 96473.

23 Finally he provides as Exhibit B-4 a plat
24 identifying the areas that were provided notice of this
25 hearing as required by the Division rules.

1 And next, Exhibit C is the affidavit of Mr. Tony
2 Troutman who is Oxy's geologist for this project. He
3 conducted a geologic study of the Bone Spring formation and
4 he provides all the standard geology exhibits for the Bone
5 Spring formation as Oxy Exhibit C-1, C-2 and C-3.

6 And then finally the last two exhibits in our
7 packet, Exhibit D and E are the notice information
8 reflecting that notice of this hearing was timely provided
9 to each of the interest owners as required by Division rules
10 for approval of non-standard spacing units.

11 So with that, I would submit these exhibits to
12 the Division and request that Case Number 21873 be taken
13 under advisement.

14 HEARING EXAMINER BRANCARD: Thank you. Mr. Lowe,
15 questions?

16 TECHNICAL EXAMINER LOWE: I have a question here,
17 Ms. Luck. You initially stated at the beginning of your
18 testimony that you are excluding a certain pool. Are you
19 only seeking a Bone Spring in this proposal? Is that
20 correct?

21 MS. LUCK: Exactly. Exactly. So Oxy originally
22 applied for both the Bone Spring and Wolfcamp formations,
23 but because Oxy is now going with standard spacing in the
24 Wolfcamp, we no longer need approval of the non-standard in
25 the Wolfcamp, so we are only seeking approval of the Bone

1 Spring in the Pierce Crossing pool code that's noted in the
2 Mr. Van Liew's affidavit.

3 TECHNICAL EXAMINER LOWE: So the exhibits that
4 you provided just now in your testimony, does it pertain to
5 the recent change you stated, Bone Spring only, or does it
6 encompass both?

7 MS. LUCK: It relates to Bone Spring only. So we
8 advised the Division in our prehearing statement last week
9 that we would only be proceeding with the Bone Spring
10 portion of this case, and we no longer require the Wolfcamp
11 non-standard. So these exhibits only relate to the Bone
12 Spring request as indicated on the prehearing.

13 TECHNICAL EXAMINER LOWE: Okay. I'm going
14 through your exhibits here. So Exhibit 4, the area, the map
15 you show here, the area in red, the dotted red line is the
16 acreage that you are seeking; correct?

17 MS. LUCK: Yeah, that's right. This is a
18 non-standard spacing unit because it's two sections stacked
19 on top of each other, essentially.

20 TECHNICAL EXAMINER LOWE: Okay. That's all the
21 questions I have for now. Thank you, Ms. Luck.

22 HEARING EXAMINER BRANCARD: Thank you. So, Ms.
23 Luck, then why not do -- I mean you could have done standard
24 spacing units; correct? You could have done two standard
25 spacing units?

1 MS. LUCK: That's a possibility, that's correct,
2 of the Bone Spring here, but due to the way that Oxy has
3 their development plan set out, they would prefer to have
4 their well spacing a little bit different from the standard
5 spacing unit requirements, so that's why we are seeking a
6 non-standard spacing unit in the Bone Spring to match what
7 BLM has requested.

8 HEARING EXAMINER BRANCARD: So I guess you are
9 going to have to give us some reasons why we would approve a
10 non-standard here when standards are available. You know,
11 we don't really have great standards in the rules, but the
12 rules give you a lot of flexibility to come up with standard
13 horizontal spacing units. So why would we approve a
14 non-standard?

15 MS. LUCK: Yeah, and Mr. Van Liew's testimony
16 explains some of the reasons why Oxy is specifically seeking
17 a non-standard in this case. The reason here is that the
18 BLM has requested a CA to match these -- this two section
19 development plan. And so without Division approval of a
20 non-standard spacing unit, we are not able to get the two
21 section CA.

22 The other reason that Mr. Van Liew notes in his
23 affidavit is because Oxy would be required to construct
24 separate facilities for each of the standard spacing units.
25 So with this enlarged two section unit, then they would

1 only -- they would be able to consolidate those facilities
2 and much lesser surface disturbance and then be able to
3 proceed with their development much more efficiently in
4 terms of cost and both the surface disturbance by having
5 this enlarged spacing unit.

6 And this isn't -- this isn't the first time the
7 Division has approved a two section spacing unit like this.
8 I can provide you several other recent cases where we have
9 applied for similar two section spacing unit approval
10 because the BLM had requested it.

11 HEARING EXAMINER BRANCARD: I'm aware that we
12 have approved similar cases, but I think we have concerns
13 here with any of these situations as brought up elsewhere
14 that we are sort of sliding away from pooling and into
15 unitization when we approve these kinds of units.

16 And as we have discussed, and there have been
17 division orders in the past that make it clear that we have
18 authority for pooling, but we don't have authority for
19 unitization. So that's the fear here, when pooling is
20 available, when standard spacing units are available and yet
21 we wanted to construct a larger unit essentially through a
22 non-standard spacing unit, that's a bit troublesome.

23 I guess I'm confused. Why would you be required
24 to have separate surface facilities if you had two standard
25 spacing units? Couldn't you just have one set of surface

1 facilities serving each of the standard units?

2 MS. LUCK: That may be a possibility, but there
3 would be different approvals that would be required to
4 proceed that way, possibly commingling or other BLM approval
5 to mix production from those separate spacing units prior to
6 (unclear).

7 This way Oxy is able to, you know, commingle all
8 the production from the unit without seeking separate
9 approval for by obtaining approval of the non-standard unit.
10 This is something that Oxy has been in contact with the BLM
11 about, so we'll have to figure out the best way to go about
12 this because of the way the acreage is held all by Oxy, and
13 the way the BLM would have like to have a two section CA.

14 HEARING EXAMINER BRANCARD: Well, we don't want
15 to get in the way of what BLM is hoping to do. On the other
16 hand, we don't have unitization authority like they do. So
17 that's our concern here is whether we are sliding into
18 unitization by approving this kind of non-standard unit.
19 Okay. Any other questions, Mr. Lowe?

20 TECHNICAL EXAMINER LOWE: No other questions.
21 Thank you.

22 HEARING EXAMINER BRANCARD: So case 21873, we
23 will admit the exhibits that have been offered and take case
24 21873 under advisement.

25 MS. LUCK: Thank you.

1 (Exhibits admitted.)

2 (Taken under advisement.)

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1 STATE OF NEW MEXICO
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REPORTER'S CERTIFICATE

I, IRENE DELGADO, New Mexico Certified Court Reporter, CCR 253, do hereby certify that I reported the foregoing virtual proceedings in stenographic shorthand and that the foregoing pages are a true and correct transcript of those proceedings to the best of my ability.

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

I FURTHER CERTIFY that the Virtual Proceeding was of poor to good quality.

Dated this 6th day of May 2021.

/s/ Irene Delgado

Irene Delgado, NMCCR 253
License Expires: 12-31-21