

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: 22505

APPLICATION OF NOVO OIL & GAS NORTHERN
DELAWARE LLC TO AMEND ORDER NO. R-21092-A
TO EXCLUDE THE SECOND BONE SPRING INTERVAL,
EDDY COUNTY, NEW MEXICO.

REPORTER'S TRANSCRIPT OF VIRTUAL PROCEEDINGS
EXAMINER HEARING
February 3, 2022
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 DYLAN ROSE-COSS on
Thursday, February 3, 2022, 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

1 For the Applicant:
 2 ADAM RANKIN
 3 HOLLAND & HART
 4 110 North Guadalupe, Suite 1
 5 Santa Fe, NM 87501

I N D E X

6

7 CASE CALLED

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1 HEARING EXAMINER BRANCARD: With that, I will
2 call Item 43, Case 22505, Novo Oil & Gas.

3 MR. RANKIN: May it please the Division, Adam
4 Rankin with the Santa Fe office of Holland & Hart appearing
5 on behalf of the applicant in this case, Novo Oil & Gas
6 Northern Delaware LLC.

7 HEARING EXAMINER BRANCARD: Are there any other
8 interested persons for Case 22505?

9 (No audible response.)

10 HEARING EXAMINER BRANCARD: Hearing none,
11 Mr. Rankin, you may proceed.

12 MR. RANKIN: Thank you, Mr. Examiner. This is a
13 little bit different than the cases that we normally see.
14 In this case Novo is requesting that the Second Bone Spring
15 interval of the Bone Spring formation in its existing
16 spacing unit as created under order R-21092-A be excluded
17 from the order to enable Novo to develop the remainder of
18 the Bone Spring formation in the Second Bone Spring
19 formation without the inclusion of an existing well in the,
20 in the portion of the acreage that is drilled to be
21 completed within the Second Bone Spring formation.

22 Included in the exhibits that were filed on
23 Tuesday, Exhibits A through D are -- Exhibit A, which is a
24 copy of the application which lays out what it is that Novo
25 is requesting, and, in particular, Novo is requesting that

1 the order, R-21092-A, be amended for the purposes of
2 excluding the Second Bone Spring formation from specific
3 interval, the stratigraphic equivalent of about 7,575 feet
4 to 8,442 feet as defined in a neutron density log in the
5 nearby well, the HS 13 Com Number 1C well.

6 Exhibit D is the affidavit of Mr. Brandon
7 Patrick, landman with Novo who has previously testified
8 before the Division. He reviews in his affidavit the
9 situation arose where having already pooled the acreage and
10 working with Oxy, they realized there was an existing
11 horizontal Bone Spring well in the N/2 -- a one mile well in
12 the N/2 of the N/2 of -- let me see what section is it --
13 irregular Section 18 within the existing spacing unit.

14 Having identified that, they conferred with Oxy
15 and discussed excluding that second interval of the Bone
16 Spring from the pooling order, and Oxy did not object, so
17 Novo has proceeded to file its application seeking to
18 exclude that portion of the Bone Spring.

19 This will allow them to develop the First and
20 Third and other portions of the Bone Spring formation that
21 they prefer two mile laterals, and then they plan to come
22 back in, and they are already in the process of developing
23 the Second Bone Spring with a one mile lateral in the N/2
24 N/2 of adjoining Section 13, and then they will come back
25 and drill a two mile lateral in the S/2 of the N/2 of

1 Section 13 in irregular Section 18 later.

2 Now that two mile lateral lateral in the Second
3 Bone Spring will require a forced pooling application, and
4 so Novo will proceed to propose that well and then seek
5 compulsory pooling at a later time.

6 So with Mr. Patrick's affidavit is a locator map
7 that identifies the specific spacing unit and it identifies
8 as well in Exhibit B-1 the C-102 for the existing Oxy well
9 at issue.

10 And in Exhibit B-2 is a land plat that depicts
11 the existing spacing unit at issue along with the location
12 of the Oxy well in the N/2 of irregular Section 13 -- or,
13 rather, 18 and they just recently drilled a Second Bone
14 Spring lateral that did not require pooling in the N/2 N/2
15 of Section 18. And then it also identified in the blue box
16 their proposed two mile lateral in the Second Bone Spring
17 that they will seek to pool at a later time.

18 Exhibit C is the affidavit of Novo's geologist,
19 Michael Hale. He provides a type log of the Bone Spring
20 Formation using the HF 13 Com Number 1C Well, which depicts
21 the top and bottom of the Second Bone Spring interval and
22 specifies the stratigraphic equivalent of footages that Novo
23 seeks to exclude from the pooling order.

24 In Exhibit C-2 is an overview map that identifies
25 the surrounding acreage in the area and their plan to

1 develop the excluded Second Bone Spring formation.

2 Exhibit C-3 is a structure map that just
3 identifies the -- on the Second Bone Spring that shows that
4 there are no impediments to developing the Second Bone
5 Spring at a later time as they propose.

6 Exhibit C-4 is a cross section that identifies
7 the entire Bone Spring, as well as the Second Bone Spring
8 that they are seeking to exclude and shows that there is a
9 large zone of carbonates that isolate the Second Bone Spring
10 from the Third Bone Spring, meaning that, in his opinion,
11 the Second Bone Spring can be developed separately without
12 impact, vice versa as to the First and Third Bone Springs.

13 Exhibit D is a copy of the affidavit that we
14 prepared giving notice of this application to the parties
15 who were affected under the pooling order. I will note that
16 some of those notices reflect that the package was, was
17 delivered, so we also published notice in the newspaper.

18 That notice was published on the 21st, which by
19 my calculation, is one day late, so based on that, Mr.
20 Examiner, we would ask that this case be continued to
21 February 17 for purposes of perfecting publication.

22 Otherwise, Mr. Examiner, if there are no other
23 questions, we ask that Exhibits A through E be accepted into
24 the record and the case be continued for purposes of
25 perfecting notice publication.

1 HEARING EXAMINER BRANCARD: Thank you. Mr.
2 Rose-Coss?

3 TECHNICAL EXAMINER ROSE-COSS: I'm curious how
4 the story unfolded and maybe it's (inaudible) but the plan
5 is to go above and below this well that exists, and there is
6 no -- the geologist attests that there shouldn't be any
7 effects on the resources that that well is producing from.

8 MR. RANKIN: That's correct. In addition, the
9 interests are uniform across this pool, and so all parties,
10 you know (inaudible) so it just made sense to (inaudible)
11 Novo to not include that existing -- not to deal with that
12 overlapping spacing unit here and just have separate spacing
13 units for the Bone Spring for that separate Oxy well.

14 TECHNICAL EXAMINER ROSE-COSS: Okay. And what
15 is -- Oxy doesn't have additional plans for more wells in
16 the Second Bone Spring, or they are going to get hemmed in
17 like at a later date with Novo drilling wells around them?
18 Are they parties to this compulsory pooling?

19 MR. RANKIN: They are. They're parties to the
20 compulsory pooling, so they will be a party to the proposed
21 two mile lateral in the S/2 of the N/2, and their interest
22 will be included in that development. So all of the Second
23 Bone Spring will be developed once, once Novo proceeds with
24 its plans to drill the S/2 N/2 well.

25 TECHNICAL EXAMINER ROSE-COSS: Okay. And do the

1 surface facilities get muddled this way, or how is that
2 going to work?

3 MR. RANKIN: They will all be in the same pool,
4 the interest will be uniform, so I suppose I don't -- I
5 haven't thought through this carefully, Mr. Rose-Coss, but I
6 don't suppose it would be an issue if you are thinking about
7 commingling. I guess if there were, it would be a matter of
8 dealing with that administratively.

9 TECHNICAL EXAMINER ROSE-COSS: Okay. Okay. It's
10 my understanding that typically the three Bone Springs are
11 grouped, and then -- so you are asking for a special
12 exclusion of a, like the middle section of a group, like
13 that's the First and second three are left together, but
14 these were leaving the meat of the sandwich out.

15 MR. RANKIN: With all respect, I'm fine whether
16 the meat is in their zone or not. It's the middle part of
17 that pool would be excluded, the Second Bone Spring would be
18 excluded and developed separately under separate spacing
19 units under this proposal. And there is precedence for
20 developing, under this Division's orders, for developing
21 separate intervals separately where there is existing
22 development and production so that they are not included in
23 the (inaudible) so this is a whole different approach. It's
24 done after the fact, but here we are seeking to simply
25 exclude that Second Bone Spring in order to allow the

1 acreage to be developed under their preferred lateral in a
2 way that wouldn't include the existing well.

3 TECHNICAL EXAMINER ROSE-COSS: Okay. Well, I
4 suppose that clears up some of my questions, and I will pass
5 the microphone. Thank you.

6 HEARING EXAMINER BRANCARD: Not sure where to
7 start here. I guess I'll avoid the obvious question which
8 is, how the heck did this happen? I would assume that Oxy's
9 spacing unit is not limited to the Second Bone Spring. Is
10 that correct?

11 MR. RANKIN: I believe that's true, Mr. Brancard,
12 that their spacing unit is a 160 dedicated to the Bone
13 Spring formation.

14 HEARING EXAMINER BRANCARD: So even with dropping
15 the Second Bone Spring, you still have an overlapping
16 spacing unit.

17 MR. RANKIN: That is -- that would be true, there
18 would be portions of their spacing unit that would be
19 included in the full Bone Spring. Those, as I understand --
20 as I understand from Novo that -- that that well is a
21 stand-alone well in the zones -- I am not sure exactly, Mr.
22 Examiner. I'm not sure if that lapse for that acreage is in
23 the N/2 N/2, so I would have to abstain from commenting on
24 that.

25 But I believe that the intent is for Novo to

1 drill a two mile lateral across the N/2 N/2 overlying Oxy's
2 spacing unit in the N/2 N/2 of irregular Section 18. So the
3 full Bone Spring will be developed, and there are full --
4 there is a spacing unit that would result but Oxy did not
5 object to that in this case.

6 HEARING EXAMINER BRANCARD: Okay. Well, it's
7 just that the rules have a process for dealing with
8 overlapping spacing units, and it would be good to know
9 that, although it's not an onerous process, a lot of it is
10 notice to people who already have a spacing unit that Novo
11 do what is required for an overlapping spacing unit to
12 remainder of the Bone Spring.

13 MR. RANKIN: I guess my understanding of the
14 rule, Mr. Examiner, is that where there is no objection,
15 there is no need to obtain approval between from the
16 Division for an overlapping spacing unit. In this case Oxy
17 is not objecting to the existence of an overlapping spacing
18 unit, so there is no need to obtain approval.

19 HEARING EXAMINER BRANCARD: People do come to
20 hearing with those, I mean, it would be just, if you looked
21 at 19.15.16.15.B.9, kind of go back to what you are required
22 to do, which, of course, reference 19.15.13 and also some
23 other requirements, it would be good to know that you went
24 through the steps that you had to do in order to make this
25 work.

1 MR. RANKIN: Mr. Examiner, if there is something
2 that you would like us to do to confirm, I guess we can
3 adjust that, but my reading of the rule is that unless there
4 is an objection, we can proceed with an overlapping spacing
5 unit because the existing well would be dedicated to its own
6 spacing unit.

7 HEARING EXAMINER BRANCARD: So your Exhibit D-2,
8 I'm trying to figure this one out.

9 MR. RANKIN: So D-2, Mr. Examiner, depicts only,
10 number one, that red outline is a depiction of Novo's
11 spacing unit that was approved under Order R-21092-NA. The
12 black lines show the existing Second Bone Spring wells that
13 have been drilled.

14 Oxy's wells are the N/2 N/2 of Section 18 was
15 drilled and has been producing for some time. Novo's well
16 in the N/2 N/2 of Section -- and I may be getting my
17 sections wrong -- 13, was just recently drilled between
18 December and January of 2021 and 2022, and that well has yet
19 to be completed, but it was, it was dedicated to a 160 acre
20 spacing unit.

21 Now, Novo's plan is to come back and develop the
22 S/2 of the N/2 which is depicted in the red -- I'm sorry --
23 the blue box of Sections 13 and 18 with the two mile lateral
24 within the Second Bone Spring. That's the intent of that
25 exhibit is to show the Second Bone Spring development within

1 the acreage at issue.

2 HEARING EXAMINER BRANCARD: All right. What
3 about the N/2 of the S/2 -- the N/2 of the N/2 in 13, Novo
4 already has a well there? You are already in the Second
5 Bone Spring, so how does it help you to take the Second Bone
6 Spring out of the order if you already have a well in the
7 Second Bone Spring?

8 MR. RANKIN: That well was drilled with the
9 intent it would be subject to its own spacing unit having
10 been reviewed from this order. So they, they had a drilling
11 rig schedule and were committed to it, so their intent would
12 be to develop that acreage separate from -- because it
13 wasn't necessary for pooling. They own that 100 percent as
14 the working interest owner, so their intent was to drill
15 that and dedicate it to a separate unit not under the order.

16 HEARING EXAMINER BRANCARD: So there is no
17 pooling involved within the N/2 section

18 MR. RANKIN: In Section 13, there wouldn't be,
19 Mr. Examiner, because Novo owns that acreage 100 percent.

20 HEARING EXAMINER BRANCARD: All right. I
21 probably should have a lot more questions, but I don't.

22 MR. RANKIN: Mr. Examiner, I would offer to be
23 available for questions if upon review, if no attorneys
24 entered an appearance, we would be happy to address any
25 questions you have during the review, and if there is things

1 you would like us to do or, you know, subsequently maybe, or
2 to provide, we would be happy to do that.

3 HEARING EXAMINER BRANCARD: Thank you. Are there
4 any other interested persons, you know, like Oxy, that's
5 interested in Case 22476 -- no, sorry -- 22505?

6 (No audible response.)

7 HEARING EXAMINER BRANCARD: Hearing none, your
8 exhibits will be admitted into the record. As you
9 mentioned, this case will be continued to February 17
10 because of notice issues. Is that correct, is that going to
11 be enough time?

12 MR. RANKIN: Yes, it will be, Mr. Examiner. The
13 notice of publication was one day late so February 17 is
14 ample time to perfect notice publication.

15 HEARING EXAMINER BRANCARD: And as always, if we
16 have questions, we will get direct them to you, Mr. Rankin.
17 Thank you, Mr. Rankin. No need to file a continuance.

18 MR. RANKIN: Thank you.

19 (Exhibits admitted.)

20 (Case continued.)

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1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO

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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 3rd day of February 2022.

/s/ Irene Delgado

Irene Delgado, NMCCR 253
License Expires: 12-31-22