

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 SPC Resources, LLC,
for compulsory pooling, Eddy County,
New Mexico

Case Nos. 22554
22555

TRANSCRIPT OF PROCEEDINGS

May 5, 2022

EXAMINER HEARING

This matter came on for hearing before the New Mexico Oil Conservation Division, William Brancard, Esq., Hearing Examiner, Dean McClure, Technical Examiner, on May 5th, 2022, via Webex Virtual Conferencing Platform hosted by the New Mexico Energy, Minerals and Natural Resources Department

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1 (Time noted as 1:17 p.m.)

2 EXAMINER BRANCARD: Okay. Let's go forward, then.
3 This is the afternoon of May 5th, 2022, hearings of the New
4 Mexico Oil Conservation Division. We are on the last two
5 items on today's worksheet, Items 73 and 74, Cases 22554,
6 22555, SPC Resources.

7 MR. RANKIN: Mr. Examiner, appearing on behalf of
8 the applicant in these two cases, Adam Rankin with the
9 Santa Fe office of Holland & Hart. We have with us today,
10 upon request, SPC's witnesses, and if it pleases the
11 Division, after giving the opportunity for other parties to
12 make their appearances, we would propose that we present
13 what we have by affidavit, and then I have a few -- a little
14 short presentation that I'd like to walk through with two of
15 the witnesses, who will address some of the land issues and
16 efforts to reach agreement and identified parties, and then
17 at that point, I would offer SPC's witnesses for questions
18 by the Division.

19 EXAMINER BRANCARD: That sounds acceptable. So
20 we'll have entries of appearance here. We have an entry
21 from Jalapeño Corporation. Is Jalapeno here today?
22 Gallegos law firm? Let's try Earthstone Permian.

23 MS. HARDY: Good afternoon, Mr. Examiner. Dana
24 Hardy, with the Santa Fe office of Hinkle Shanor, on behalf
25 of Earthstone Permian, LLC, and Earthstone Operating, LLC,

1 in Case Number 22554.

2 EXAMINER BRANCARD: Thank you. Oil Conservation
3 Division?

4 MR. TREMAINE: Mr. Hearing Examiner, this is Jesse
5 Tremaine for the Oil Conservation Division.

6 EXAMINER BRANCARD: Are there any other
7 appearances today in Cases 22554, 22555?

8 MR. KITTINGER: Good afternoon, Mr. Examiner.
9 Luke Kittinger, with Abadie & Schill, on behalf of Cimarex
10 Energy Company in Case 22555.

11 EXAMINER BRANCARD: Thank you. Any other entries?
12 Thank you.

13 Mr. Rankin, you may begin.

14 MR. RANKIN: Thank you, Mr. Examiner. In these
15 two cases, I'll take one -- each in sequence, Case 22554,
16 SPC seeks an order pooling all uncommitted interest owners
17 in the Wolfcamp formation underlying a standard 1,282.24,
18 more or less, acre horizontal spacing unit, which is
19 comprised of Sections 1 and 2, all in Township 22 South,
20 Range 26 East, in Eddy County, New Mexico, and proposes to
21 designate that spacing unit the initial well, which would be
22 the Water Buffalo 403H well.

23 In the companion case, 22555, SPC seeks an order
24 pooling all uncommitted interest owners in the Wolfcamp
25 formation as well underlying a standard 1,908.2-acre, more

1 or less, horizontal spacing unit that would be comprised of
2 Section 36, Township 21 South, Range 26 East, and irregular
3 Section 31 and Section 32 in Township 21 South, Range 27
4 East, Eddy County, New Mexico. That spacing unit would be
5 dedicated to two initial wells, the Fred 402H well and the
6 Fred 442H well.

7 At the prior hearing, Mr. Examiner, in April, we filed
8 exhibits for each of these cases, labeled A through -- I
9 believe A through D., in all these cases -- in these two
10 cases. Exhibit A in both sets of cases is the
11 application -- is, rather, the compulsory pooling checklist,
12 which reviews the target interval pool name, which in one
13 case, in the first case, 22554, is the Purple Sage-Wolfcamp
14 pool, and in the Fred case, 22555, it is the Carlsbad
15 Wolfcamp East pool. The checklists identify the acreage to
16 be dedicated to each of the spacing units, the wells that
17 will be dedicated to the spacing units, their locations, and
18 then, as well, the overhead rates and other elements that
19 are required for the compulsory pooling.

20 Exhibit B in both cases is the application that was
21 filed back in January for pooling in both of these cases.
22 Exhibit C is the affidavit of SPC's landman, Mr. Gary
23 Waldrop. Mr. Waldrop has previously testified before the
24 Division, and his credentials as an expert in petroleum land
25 have been accepted. In both of these affidavits, he reviews

1 the dedicated acreage proposed for each spacing unit, the
2 formation that they're targeting, and then in his Exhibit C1
3 is a plat that identifies the land and the tracts that
4 comprise the spacing unit, and you'll note in each of these
5 cases, that because these wells partially traverse the city
6 of Carlsbad, the tracts that comprise the spacing units in
7 many cases are comprised of city lots, so in many cases,
8 they're numerous and relatively small in size.

9 Exhibit C2 is the form C-102 for the proposed well in
10 each case and shows that the wells are designated to the
11 pools, in one case, Purple Sage-Wolfcamp, and then the
12 other, the Carlsbad Wolfcamp pools. In each case, the wells
13 comply with the setback requirements, one under the Purple
14 Sage special rules, and the other under the Statewide rules
15 for oil wells. There are no depth severance in any of these
16 spacing units or acreages.

17 Exhibit C3 is a copy of the breakdown of the ownership
18 interests, a summary, a roll-up, so you can see based on the
19 table what percentage is comprised working interests and
20 unleased owners and then among those each what percentage
21 constitutes SPC interests that have been leased and what
22 percentage is comprised of unleased mineral owners who have
23 been, in one case, participating and, in other cases, remain
24 unleased.

25 The following page of the exhibit in each case, it

1 provides a more detailed breakout of the working interests
2 and their status currently, reflecting owners who are in
3 blue have elected to participate, owners in black have
4 neither participated nor elected to not participate and,
5 therefore, they are being sought to be pooled.

6 And then in the case of the 22555, for the Fred case,
7 you'll see in that same exhibit, the one difference is --
8 oh, Mr. Examiner, let me note that we did file an updated
9 supplemental exhibit on Tuesday for this Exhibit C3 in both
10 cases. Given the passage of time of a month, we thought it
11 prudent to go ahead and update the status to reflect that
12 there were some minor changes in status of some of these
13 parties, and so, on Tuesday, we did file an updated C -- an
14 updated Exhibit C3 for both cases that show a slight change
15 in the status of some of these parties. And if you refer to
16 that exhibit, you'll see that in Case 22554, one of the
17 parties, Enduring Resources, has affirmatively elected not
18 to participate, and so they're marked as purple, so they are
19 among the parties that SPC is seeking to pool.

20 And same is true for the Fred case, in case -- the
21 updated exhibit in case 22555. Exhibit C4 is a copy of the
22 well proposal and AFE that was sent to each of the owners
23 with a working interest in both cases. Exhibit C5 is a
24 sample letter that was sent to owners of an unleased mineral
25 interest seeking to reach agreement with those owners to

1 lease their interest. Exhibit C6 is a copy of a notice
2 letter that was provided by us to SPC and their land
3 brokerage company, Schoeffler Energy Group, who then sent
4 out these letters by certified mail with the application,
5 giving notice of the case and the hearing.

6 Attached to that is a status report reflecting the
7 status of the notice under the postal delivery report. In
8 the updated supplemental exhibits that we filed on Tuesday
9 is an updated postal report for all of these parties,
10 reflecting their most current status as of -- I believe it
11 was Friday, and I will -- I can get that confirmed with our
12 witnesses. In any event, if you review the exhibit --
13 supplemental exhibit, you'll note that in some cases,
14 parties have been highlighted with a strike through. Those
15 parties have been leased or have reached voluntary agreement
16 with SPC and they are no longer being pooled in these cases.
17 Otherwise, every other party that is identified in these
18 notices is a party that has not yet reached agreement,
19 remains uncommitted; therefore, SPC is seeking to pool.

20 Exhibit C7 is a copy of the affidavit of publication
21 provided by the Carlsbad Current-Argus reflecting that the
22 notice of publication did run in the newspaper and on my
23 screen right now, unless you zoom in, it is almost
24 impossible to see the names of the people, but when you do
25 click in and zoom in, you'll see that -- and I -- it's the

1 same list that we used to send -- that SEG uses to send
2 notice, the same list that we used to provide notice in the
3 newspaper. It's quite a number of people for both cases.

4 Exhibit D is the affidavit in both cases that Mr. John
5 Weihe -- Mr. Weihe is a geologist for -- who works for Santo
6 Petroleum, which is the affiliate of SPC Resources. He has
7 previously testified before the Division and he has
8 conducted an analysis of the geology in the Wolfcamp
9 underlying both of these proposed spacing units.

10 In his exhibits -- affidavit, he's attached
11 Exhibits D1, D2 and D3, in which his analysis is reflected
12 that he has determined that there are no impediments,
13 geologic barriers, or other issues that would prevent
14 horizontal development in the acreage. And that each of the
15 tracts or the acreage as a whole will contribute, more or
16 less, equally to production from the wells.

17 Let's see, one thing I wanted to make clear, if I
18 didn't, is that in this case, Mr. Examiner, Holland & Hart
19 did not issue the certified mailings to the parties. That
20 was conducted by SPC and SEG. We did provide the letter,
21 and that was sent -- and I noticed that the date, for some
22 reason, was not on the letter, but I can confirm with the
23 witnesses the date that it was sent, so if there's any -- to
24 make sure you have that question addressed.

25 Now, with that, Mr. Examiner, I would move the

1 admission of Exhibits A through D and their attachments in
2 each of these cases, and then after doing so, I do have
3 these witnesses available and I would like to review some
4 more details with two of them with the Division's
5 permission.

6 EXAMINER BRANCARD: So you are proposing to admit
7 A through D; I assume that's both the original and the
8 replacement, or how are you -- how are you wanting to do
9 that, Mr. Rankin?

10 MR. RANKIN: Yeah, I -- I would ask that we would
11 do both so that the original is admitted and then the
12 supplemental exhibits that were filed on Tuesday be admitted
13 as well. Those are supplemental Exhibits C, C3 in both
14 cases, and then -- and C6A, I believe.

15 EXAMINER BRANCARD: Okay. I have some questions
16 about these exhibits. What has changed and perhaps, more
17 importantly, what has not changed. I wanted to do that now
18 or just to -- I guess we can just admit all these exhibits
19 and then go from there.

20 MR. RANKIN: That's fine with me, Mr. Examiner,
21 and I'll just affirm with you that I won't really be able to
22 answer that question, but we do have people that can answer
23 that question, and so what I propose is to present these
24 additional witnesses and then offer them as a panel, so that
25 questions that you may have can be best directed to the

1 particular witness with the most knowledge on each of those
2 questions that you may have.

3 EXAMINER BRANCARD: Thank you. Are there any
4 objections to the admissions of the exhibits that have been
5 proposed?

6 MR. TREMAINE: No objection from the Division.

7 MS. HARDY: No objection from Earthstone.

8 EXAMINER BRANCARD: Thank you. The exhibits will
9 be admitted at this point.

10 MR. RANKIN: Mr. Examiner, I appreciate that, and
11 at this time, I'd like to call SPC's, I guess, second
12 witness, Ms. Nicole Singer.

13 Ms. Singer, are you logged in?

14 And, Ms. Salvidrez, this maybe -- I believe it's
15 probably going to show up as "SPC Resources" on the screen.

16 EXAMINER BRANCARD: We have a conference room with
17 people sitting around it. Is that --

18 MR. RANKIN: That looks like they're the culprit.

19 THE WITNESS: Can you hear us? That's us.

20 EXAMINER BRANCARD: Yes, we can hear you there.
21 Yes. There's three people sitting there. Is that your --
22 that's your gang for today, Mr. Rankin?

23 MR. RANKIN: Mr. Examiner, those are the three
24 folks that we have identified on the prehearing statement.
25 It does not include Mr. Weihe, who, I believe, is in his own

1 office, and if there are any questions for Mr. Weihe,
2 related to geology, then we can swear him in at the same
3 time as well to cover all of our bases.

4 EXAMINER BRANCARD: All right. Ms. Myers, can you
5 swear in the witnesses?

6 (All witnesses duly sworn.)

7 EXAMINER BRANCARD: All right. Perhaps,
8 Mr. Rankin, you can start by just identifying the witnesses
9 for those of us staring at screens.

10 MR. RANKIN: Thank you. Mr. Examiner, if -- for
11 folks just looking at the screens, and we will identify each
12 witness in turn, but on your left is Ms. Nicole Singer. She
13 is the general counsel and land manager for SPC. Or
14 actually, I guess, it's the parent company, which would be
15 Santo Petroleum. And to Ms. Singer's left, in the middle,
16 is Mr. Gary Waldrop. He is the landman for Santo, and then
17 on the right side of the screen is Mr. David Schoeffler, and
18 he is the representative, I believe, senior vice president
19 of Schoeffler Energy Group.

20 And for purposes of our short presentation, I'm going
21 to call first Ms. Singer and have her review a few questions
22 with me, and then we'll call Mr. David Schoeffler, who will
23 provide some more details on the particular efforts that the
24 company has made to identify, locate and reach agreement
25 with these parties.

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NICOLE SINGER

was called as a witness and, having been first duly sworn,
was examined and testified as follows:

EXAMINATION

BY MR. RANKIN

**Q. Ms. Singer, will you please state your full name
for the record?**

A. My name is Nicole Singer.

Q. By whom are you employed?

A. Santo Petroleum, who's an affiliate of SPC
Resources, LLC, the applicant.

Q. And in what capacity?

A. I'm the VP of land and general counsel.

**Q. And do your -- and in those roles, do you oversee
land matters in New Mexico?**

A. Yes.

**Q. And have you previously testified before the
Division and had your credentials as an expert in petroleum
land matters accepted as a matter of record?**

A. Yes.

**Q. And you are familiar with the files -- the
applications that were filed in these two cases?**

A. Yes.

**Q. Are you also generally familiar with the status of
the land in the subject areas?**

1 A. Yes.

2 **Q. And as well with the efforts that the company and**
3 **SEG have undertaken to reach agreement and identify all the**
4 **interest owners in these two spacing units?**

5 A. Yes.

6 MR. RANKIN: Mr. Examiner, I re-tender Ms. Singer
7 at this time as an expert in petroleum land matters.

8 EXAMINER BRANCARD: Are there any objections?

9 Hearing none, so accepted as an expert.

10 MR. RANKIN: Thanks.

11 **Q. (BY MR. RANKIN) Ms. Singer, is this the first**
12 **time that SPC is now seeking to form a spacing unit for a**
13 **horizontal well and to compulsory pool interest owners**
14 **within the city of Carlsbad?**

15 A. No. These are units within a larger footprint
16 project that we call the Caveman Project that is inside the
17 city limits of Carlsbad.

18 **Q. How many other cases or pooling applications have**
19 **been before the Division at this time seeking to compulsory**
20 **pool owners within some portion of the Carlsbad city limits?**

21 A. So we have five active units in and around
22 Carlsbad. We started by pooling the Caveman wells in Case
23 Number 20762, and those activities have been under Order
24 R-21096. Then we have our Barney wells, we have both a
25 Wolfcamp unit and a Bone Spring unit in those wells. Those

1 cases are Case Number 20860 under Order R-21104 and Case
2 Number 20858 under Order R-21123. We have a Wolfcamp unit
3 in our Buddy wells encompassing our Buddy wells, and that's
4 Case Number 20859 under case -- sorry; Order Number R-21100.
5 We have pooled some Hannah wells in the Bone Spring unit,
6 which was Case 21133, but that order has lapsed.

7 We have appeared before the Division at hearing
8 multiple times. The very first Caveman well compulsory
9 pooled case, we came live to Santa Fe with live witnesses.
10 I appeared there, as did John Weihe, and then we have
11 appeared multiple times to obtain order extensions and/or
12 add additional pooled parties.

13 **Q. And in circumstances where you were pooling**
14 **parties, did you review the efforts and the processes that**
15 **the company has in place to identify, locate and reach**
16 **agreement with the interest owners within the spacing units?**

17 A. Yes.

18 **Q. And in general, in short, has locating all mineral**
19 **owners been a challenge in this area? Is it fair to say?**

20 A. Yes, it's something that we -- eyes wide open
21 accepted, so due to the volume of the tracts and the small
22 size of the tracts, we implemented a process early on to
23 identify, locate and attempt to lease as many owners as
24 possible in every single spacing unit, and that process has
25 been implemented and repeated across every unit.

1 **Q. And in general, as I mentioned previously, these**
2 **tracts, because they are within the city boundaries, do they**
3 **include residential lots?**

4 A. They do. So in a general sense, the minerals were
5 conveyed to individual owners at the lot level at the point
6 of subdivision of almost every subdivision in Carlsbad. And
7 so then they were either conveyed or retained to the --
8 sorry; they were conveyed to the first lot owner, the first
9 homeowner, and either retained once that first house sale
10 happened, or some instances, conveyed. But in either
11 instance, all this happened quite a long time ago, and so
12 now the ownership is severed, and you have lots of lots with
13 multiple undivided interest owners per lot, so you can have
14 multiple family members in an heirship sense owning one lot.

15 **Q. So not only are you facing a circumstance where**
16 **you have many, many small lots, but within each lot, you're**
17 **finding that there are, in some cases, undivided interests**
18 **with multiple owners; is that correct?**

19 A. Correct, yes.

20 **Q. And has SPC followed the same general process for**
21 **identifying interest owners, locating owners, and attempting**
22 **to reach voluntary agreement with those owners in all of**
23 **these cases that fall within this footprint?**

24 A. Absolutely, and all in accordance with the OCD
25 rules and regs.

1 Q. Just in general, and this is -- I think this is
2 mostly covered in Mr. Waldrop's affidavit, but if you would,
3 just provide a summary, a high level, of the efforts that
4 SPC has undertaken in conjunction with SEG, and explain
5 SEG's role in all to do that all that work.

6 A. Yeah, so happy to do that. Early in the project,
7 we had hoped that the minerals were retained by developers
8 at a subdivision level, but we realized very soon that they
9 weren't. And so early in the project, after we conducted
10 that preliminary research, we stood up a local office in
11 Carlsbad. That office was open for almost two years, and
12 inside that office is where we conducted all the research on
13 every single lot and made contact with as many owners as we
14 possibly could in an attempt to take leases. And so also
15 part of those early days of just getting settled and getting
16 this project ramped up is we engaged until the City very
17 early on, and we wanted to get permission to go door to door
18 to solicit standard oil and gas leases and help us locate
19 individuals.

20 We also wanted permission or wanted to approach the
21 City, and we did, to enter a lease with the City. So -- and
22 through all of those early engagements, we did end up
23 securing a lease from the City under an ordinance that they
24 adopted, Ordinance Number 2017-28, authorizing them to grant
25 us a lease, and then we subsequently took a lease from the

1 school board and also from the County for tracts inside the
2 city.

3 **Q. Now, is -- the County, the City, and the school**
4 **board are they the largest royalty owners in the project**
5 **areas?**

6 A. They are among the largest owners in the project
7 areas. We have some larger tracts on the outskirts of some
8 of the units, but yes, those are our -- they stand to be
9 some of the largest royalty owners.

10 **Q. And based on your understanding, do each of those**
11 **public entities support SPC's plans to develop this acreage?**

12 A. They do. It's my understanding, and I think you
13 entered it on Tuesday, that the Carlsbad mayor, Mayor
14 Janway, submitted a letter to the OCD supporting our plans
15 in these cases this week, but they have been behind us and
16 in support of all of the cases that I mentioned at the
17 beginning of this testimony.

18 **Q. Thank you for reminding me, Ms. Singer. And I**
19 **believe -- is that letter -- that was sent by the mayor of**
20 **Carlsbad. Was it dated April 27th? It looks like I marked**
21 **it as Exhibit Number E in both of these cases. Is that your**
22 **understanding?**

23 A. Yes.

24 **Q. Yeah.**

25 A. I think it was your intent to submit them into the

1 record as evidence, but I think they were e-mailed directly
2 to Mr. Brancard.

3 **Q. Okay. Now, based on your understanding, now,**
4 **would SPC's wells, if these were approved and drilled, would**
5 **these -- these wouldn't be the only wells that would be**
6 **drilled and operating within Carlsbad city limits, would**
7 **they?**

8 A. No. So as most everybody knows, I believe,
9 Carlsbad sits very central to Eddy County and next door to
10 Lea County, so there's always been very active oil and gas
11 activities in the area, and so we actually operate 19
12 vertical wells in and around the city of Carlsbad. Three of
13 them are inside the city limits, but historically, there's
14 been up to one hundred wells throughout the years inside the
15 city limits and close to 300 within a one-mile radius of
16 Carlsbad.

17 **Q. And just in summary, is it your opinion that SPC**
18 **made a good-faith effort to locate every working interest**
19 **owner that remains uncommitted in these two spacing units?**

20 A. We did. We have detailed mail tracking records of
21 sending the original well proposals and AFEs to every
22 working interest owner and then also each received a notice
23 of hearing, and we made sure that each one of them accepted
24 delivery of that notice. We also follow up as necessary and
25 certainly respond to any inquiries that are incoming.

1 **Q. And Santo also has maintained similar records and**
2 **same kind of process with respect to its efforts to**
3 **identify, locate and lease unleased mineral owners in the**
4 **spacing units?**

5 A. So we have -- I go all the way back to the
6 beginning in just explaining our eyes wide open knowing what
7 we were taking on, and you'll hear a lot more of this from
8 David, who's sitting next to me, but we made sure that every
9 activity that happened on every tract was detailed, and so
10 we have details of attempts to identify, to locate, and to
11 contact each owner and our attempts to secure a lease. So
12 the list that you're seeing in terms of who we seek to pool
13 people today who are unleased owners is anyone who refused
14 to lease or and/or someone we simply couldn't locate. And
15 the unlocateables [sic] were noticed of this case at their
16 last known address of record and/or they were also included
17 in the notice by publication, and so those, I think you said
18 earlier, are duplicative lists all under the OCD rules and
19 regs.

20 **Q. And, Ms. Singer, in fact, on the exhibits that**
21 **were submitted, were parties -- were SEG or SPC unable to**
22 **identify an address, those parties were identified**
23 **separately as address not known in those spreadsheets; is**
24 **that correct?**

25 A. They are. And this might be a good instance for

1 me to answer your questions, Mr. Brancard, on the
2 differences between the updated exhibits. They're not noted
3 as a red line, but in the extensive tracking of mail out
4 exhibits, please correct me if I'm wrong, Adam, I think it's
5 C6, what we've done is we've kept it visible since we
6 applied, so that would have been the full list of folks that
7 we gave notice of the hearing to. And as folks have called
8 and we've been able to reach voluntary agreement, we've
9 highlighted them in yellow and stricken through it, so that
10 will be the difference between last month's submittal and
11 this month's. We just pulled it so that some of them will
12 say "delivered" where some said "in transit" before and some
13 will be highlighted and stricken because we entered a
14 voluntary agreement.

15 **Q. And as far as reaching agreement, is SPC**
16 **continuing to negotiate and come to terms with any**
17 **uncommitted owners who come forward to SPC at this time?**

18 A. So because of the nature of this project and the
19 nature of the lot level ownership in these units, it's
20 always been our stance and will continue to be our stance
21 that we stand ready to make a voluntary agreement with
22 anyone who contacts us, and so we are still answering phone
23 calls and the list in the newspaper worked and we started
24 getting a lot of calls, and David will attest to it. So
25 yes, we are always willing to enter into a voluntary

1 agreement.

2 Q. And that's true even after an order is issued by
3 the Division in these cases?

4 A. It is, because it's our preference to have a
5 voluntary agreement and to have less folks pooled under
6 order.

7 Q. And will SPC notify the Division as and when it
8 reaches agreement with any of the parties that remain
9 uncommitted?

10 A. Yes.

11 Q. Now, you gave us an overview of the efforts to
12 reach agreement with mineral owners and we just -- who
13 actually did that work and how was it done, just high level?

14 A. Yeah. So in all of the affidavits since our first
15 live hearing, we've always highlighted the fact that we've
16 partnered with the Schoeffler Energy Group on this project.
17 They're our land brokerage company and really serve as my
18 external land department, and they're the folks who
19 undertook identifying the mineral owners, and their process
20 is outlined in Gary's affidavit that we just submitted, and
21 it's the same process that we've followed in every case that
22 we've presented to the commission.

23 Q. And Mr. Schoeffler's here, so he'll be able to
24 address questions and give us a little more detail and
25 specifics about how that process unfolded?

1 A. He is. So David's sitting next to me. He is
2 absolutely the lead and the face of this project. He has an
3 amazing team that works with him and for him, but he is a
4 representative of Schoeffler Energy Group and has been
5 engaged in this project since day one. He was also brave
6 enough to let us put his name as the contact person on the
7 notice of hearing, so he is the first person who gets a call
8 and fields most all of them or someone from his team does.

9 MR. RANKIN: Mr. Examiner, I have no further
10 questions for Ms. -- of Ms. Singer at this time, and I would
11 either pass her for cross-examination, or depending on
12 the -- your preference, I can go into Mr. Schoeffler's
13 examination and then, you know, you can cross the witnesses
14 as a panel.

15 EXAMINER BRANCARD: Well, I'll defer.

16 Mr. McClure, did you have a preference?

17 TECHNICAL EXAMINER McCLURE: I don't have a
18 preference, Mr. Brancard. It's however you'd like to
19 proceed.

20 EXAMINER BRANCARD: I don't mind doing a panel
21 cross-examination, but I'll just check with the parties.

22 Ms. Hardy, is that okay?

23 MS. BENNETT: No objection, Mr. Examiner.

24 EXAMINER BRANCARD: Mr. Tremaine?

25 MR. TREMAINE: No objection.

1 EXAMINER BRANCARD: Let's keep going, then,
2 Mr. Rankin.

3 DAVID SCHOEFFLER
4 was called as a witness and, having been first duly sworn,
5 was examined and testified as follows:

6 EXAMINATION
7 BY MR. RANKIN

8 Q. Okay. Mr. Schoeffler, will you please state your
9 full name for the record, and go ahead and spell it for the
10 benefit of the court reporter.

11 A. Yes, sir. It's David Michael Schoeffler, and
12 that's S-C-H-O-E-F, as in "Frank," F, as in "Frank," L-E-R.

13 Q. By whom are you employed and in what capacity?

14 A. I'm a partner of Schoeffler Energy Group.

15 Q. And have you previously testified before the
16 Division?

17 A. No, sir, I have not.

18 Q. At a high level, will you just review your
19 educational background and relevant work experience as it
20 pertains to land determining title and oil and gas mineral
21 interests and general and brokerage activities?

22 A. Yes, sir. I'm a 1998 graduate, business degree,
23 from the University of Southwestern Louisiana, in Lafayette,
24 Louisiana. I have been doing oil gas and land work since
25 1995, and have been running a successful brokerage company

1 since 2006 with my partner.

2 **Q. And in general, what types of services does**
3 **Schoeffler Energy Group provide its oil and gas clients?**

4 A. We are a full-service land management firm that
5 provides, you know, title research, lease acquisitions, due
6 diligence, right of way easements, auto curative, and GIS
7 mapping support.

8 **Q. And have -- have you personally and Schoeffler**
9 **Energy Group collectively had experience doing that type of**
10 **work or the type of work you're doing in this case in other**
11 **situations where there are city lots involved?**

12 A. Yes, we have. We've got several of them in place;
13 one in Ruston, Louisiana, in Lafayette, Louisiana, and also
14 in Shreveport, Louisiana.

15 **Q. And so you've developed a method and a mechanism**
16 **for, you know, tracking down these folks in these small lots**
17 **and undivided interests to that interest?**

18 A. That is correct.

19 **Q. At a high level, if you would, Mr. Schoeffler,**
20 **because we're going to get into some details, what exactly**
21 **did Schoeffler Group do here for SPC in these two cases?**

22 A. First thing we did was determine a mineral
23 ownership for all of the lots within our prospects and made,
24 you know, efforts to lease every single owner and every
25 single lot within each prospect. We also serve as SPC's

1 external land department for this project.

2 Q. And so as part of that, were you the ones
3 coordinating the no- -- sending out the notices and
4 certified mails; is that right?

5 A. That's correct, and also handling all the calls
6 that are coming in.

7 Q. And so you're familiar with the lands that are
8 subject to these two applications?

9 A. Yes, sir.

10 MR. RANKIN: Mr. Examiner, I would tender
11 Mr. Schoeffler as an expert in petroleum land matters for
12 purposes of providing testimony with the Division.

13 EXAMINER BRANCARD: Are there any objections?

14 Hearing none, so accepted as an expert.

15 MR. RANKIN: Thank you.

16 Q. (BY MR. RANKIN) Mr. Schoeffler, let's get into
17 the details here. You know, just step by step, what were
18 the steps that you took or Schoeffler Energy Group took to
19 identify, locate and then lease or reach agreement with the
20 parties in each of these cases?

21 A. As I mentioned earlier, the first thing we did was
22 run a title. You know, we determined the mineral owners,
23 who to contact. After that, we would try to locate
24 telephone numbers, you know, current mail addresses, to get
25 in touch with each and every one of these people. And then

1 we went as far as going -- you know, after this getting
2 approved us going door to door, we also would go to the
3 doors in the evenings and different times of the day to try
4 to locate these people, and if they were not home, we left
5 door hangers with all of our contact information for them to
6 call us.

7 Furthermore, we mailed letters to all the unleased
8 owners to their last known address. You know, we did this
9 through death and heirship, obituaries, further title
10 research to find the best address we could for these folks.
11 And also, we -- we also hired two individuals that were from
12 the City of Carlsbad that -- you know, they were born and
13 raised in Carlsbad and they knew a lot of people that --
14 they helped us locate some folks that we were having trouble
15 getting in touch with.

16 **Q. So based on that, I think maybe what we can do now**
17 **is maybe bring -- you know, kind of bring the process up to**
18 **date, and I'd like to talk about each case separately, but**
19 **I'm going to start, I think, with the Fred case first, which**
20 **is the second case on the docket, Case 22555. Up to**
21 **present, Mr. Schoeffler, approximately how many owners has**
22 **SPC been able to lease at this time?**

23 A. In Fred, we have approximately, I believe, 1,000
24 separate owners, and that covers approximately 700 of
25 separate tracts.

1 Q. And the Fred case, Mr. Schoeffler, correct me if
2 I'm wrong, is the case where there's -- it's -- there's
3 slightly fewer residential lots or lots within the city
4 limits; is that right?

5 A. That is correct.

6 Q. Okay. And then how many owners remain to be
7 compulsory pooled in the Fred proceeding?

8 A. In Fred, we have approximately 650 individuals
9 that we still have not been able to lease, and which covers
10 approximately 500 tracts. And as mentioned, as Nicole
11 mentioned earlier, a lot of this is due to the -- you know,
12 the heirships and the multiple owners in subdivision lots
13 that really get these numbers up.

14 Q. And has -- in your opinion, has SEG, on behalf of
15 the applicant, SPC, undertaken a good-faith diligent effort
16 to locate, track down and lease each of these owners?

17 A. Absolutely. You know, my job is to -- you know,
18 when we get a prospect like this, our job is to lease every
19 tract within a prospect no matter what, and if we don't,
20 have an answer why we were unable to lease. You know, we
21 have also provided notice of this application and hearing
22 for the last name of every record owner, and to this day, we
23 continue and ready to lease anyone that reaches out to us.

24 Q. Just on a percentage basis, approximately what
25 portion of -- as matter of acreage in the Fred unit remains

1 uncommitted to this spacing unit?

2 A. I'd say 8 percent of the unit.

3 Q. So the converse of that, you've been able to reach
4 agreement, including with working interest owners,
5 approximately 92 percent of the acreage that comprises this
6 spacing unit?

7 A. That's correct.

8 Q. All right. Now, Water Buffalo, the first case on
9 the docket, Case 22554, approximately where do things stand
10 now? How many folks has SEG been able to lease in that
11 spacing unit?

12 A. We believe in -- probably about 2,000 owners,
13 which covers approximately 1600 separate tracts.

14 Q. And that's the same issue where you've got, in
15 some tracts, multiple or undivided interest owners within
16 each tract?

17 A. Very much so, especially in this area.

18 Q. Okay. And that accounts for the large number of
19 separate owners you've been able to lease relative to the
20 number of tracts out there?

21 A. That is correct.

22 Q. All right. And then how many remain subject to
23 compulsory pooling in this case?

24 A. Approximately 1800 and covers approximately an
25 interest in 1200 tracts.

1 Q. Okay. So that's --

2 A. A lot of this, as I mentioned, it's -- you know,
3 you may have 20 people owning a subdivision lot in cases.
4 It gets really cut up due to the heirship issues out here.

5 Q. And what -- I mean, I know these lot sizes vary,
6 but what are kind of the range of lot sizes we are talking
7 about here?

8 A. Typical, you know, a quarter of an acre.

9 Q. That sounds good. Now, you know, the numbers you
10 just recited to me, there -- you were able to lease more
11 owners and more tracts, but you have, you know, quite a few
12 owners and individual tracts and owners outstanding. And is
13 that -- what is the reason for that difference in your
14 opinion based on the -- the numbers that remain outstanding
15 in this case compared to the Fred case?

16 A. Just due to the number of tracts within this area
17 and the number of landowners. A lot of times these owners,
18 they may have sold the property in the '80s and reserved
19 minerals and they don't own the surface of the property
20 anymore, so it's really difficult to track some of these
21 folks down. And in this project, this particular prospect,
22 it's the highest populated area of all the prospects that
23 we've worked for SPC.

24 Q. So is the Water Buffalo case -- it overlaps more
25 with the residential lot areas than, say, the Fred case; is

1 that right?

2 A. Yes, sir. It's -- it encompasses probably about
3 75 percent is residential areas.

4 Q. Okay. Now, of the parties that SPC is seeking to
5 pool, is it your opinion that SEG, on behalf of SPC, has
6 undertaken good-faith diligent efforts to locate and track
7 down all of these owners?

8 A. Absolutely. As I mentioned, I mean, it's -- as a
9 land broker, we try to lease every tract, and if it's not
10 leased, I can honestly say we've done everything we can to
11 either reach them or get in touch with them and get --
12 secure a lease on each tract and owner.

13 Q. And now, a similar question as I had for the
14 Water -- for the Fred case in this Water Buffalo case,
15 percentage basis, approximately how much of the acreage in
16 this spacing unit remains uncommitted?

17 A. Approximately 20 percent.

18 Q. All right. And so then you've managed to reach
19 agreement or lease up or -- reach agreement with the working
20 interest owners on 80 percent of the acreage; is that right?

21 A. Yes, sir.

22 Q. Okay. And now, this is a smaller -- relatively --
23 I mean, still a pretty good number, but it's smaller than
24 what you were able to achieve on the Fred case, and is that,
25 again, because the Water Buffalo case is dealing with a

1 larger proportion of residential lots than the Fred case?

2 A. That is accurate. And, you know, furthermore, a
3 lot of these surface owners do not own the minerals, which
4 makes it difficult.

5 Q. I missed what you said there. A lot of them what?

6 A. A lot of these surface owners do not own the
7 minerals and may not live within the Carlsbad area, so it's
8 really difficult to find some of these folks.

9 Q. Okay. Now, I think I may have asked you this
10 already, but I'm going to make sure I ask it again. In your
11 opinion, has SPC undertaken a good-faith diligent effort to
12 identify, locate and reach voluntary agreement with the
13 parties it is seeking to pool in both of these cases?

14 A. Yes, sir.

15 MR. RANKIN: Mr. Examiner, I don't have any
16 further questions. I would ask and move the admission of
17 what's been marked as Exhibit E in both of these cases that
18 was submitted on Tuesday as a supplemental exhibit, and that
19 is the letter from Mr. Janway, mayor of Carlsbad, to the
20 OCD, providing support of these two cases by the City.

21 EXAMINER BRANCARD: Thank you. Any objections?
22 And I'll say -- it's silly to ask that because we already
23 have them in the record. I've already put them in the
24 record. So we'll admit Exhibit E.

25 MR. RANKIN: With that, Mr. Examiner, I pass the

1 witnesses for questions by any of the parties and the
2 Division at this time.

3 EXAMINER BRANCARD: Thank you. Let's start with
4 Ms. Hardy. Do you have any questions?

5 MS. BENNETT: I do not, Mr. Examiner. Thank you.

6 EXAMINER BRANCARD: Thank you.

7 Mr. Tremaine?

8 EXAMINATION

9 BY MR. TREMAINE

10 Q. I only have one question. For each of the two
11 applications, assuming an order is granted, what is the
12 earliest time frame that SPC projects to drill and complete
13 those wells?

14 MS. SINGER: I can answer that, Adam.

15 MR. RANKIN: All right.

16 A. Yeah, we don't have --

17 MR. RANKIN: Sorry.

18 A. No worries. Can everyone hear me? This is Nicole
19 Singer. We would try to drill -- we would project to drill
20 these wells within the time period of the order that the
21 order would allow, the orders -- the two separate orders.

22 EXAMINER BRANCARD: That's one year. Is that okay
23 with you?

24 MR. TREMAINE: Well, I guess I'm looking at the
25 earliest -- I'm just trying to find what's the earliest that

1 they'd be drilled. Are you looking at -- I did a brief
2 review. I didn't see APDs for them yet, but I may have
3 missed it because I didn't have an API. So I'm wondering if
4 you have current plans to drill. Are we looking at May,
5 June, July, or something towards the end of the year?

6 A. So these APDs are in that due loop that happens if
7 you don't have all the tracts leased that the wells are
8 going to cut. So I don't have it in front of me, but I can
9 certainly get it after, but we have submitted these two
10 APDs. We have submitted the APDs for the wells for these
11 units, and so they weren't approved because we don't have
12 approved compulsory pooled orders yet because of the
13 separate nature of the tracts. That still doesn't answer
14 your timing question. I would say, you know, Q4 to forward
15 of next year, but we would want time to reflect actually
16 being able to drill and crack the wells. And I think you
17 understand what I'm asking there. These wells are partially
18 within a three-mile radius of the Brine Well Remediation
19 Project and wholly within a five-mile radius of the Brine
20 Well Remediation Project.

21 MR. TREMAINE: Understood. Thank you for that.
22 And I have no further questions.

23 EXAMINER BRANCARD: Thank you.

24 Mr. McClure.

25

1 TECHNICAL EXAMINER McCLURE: Yes, Mr. Brancard.
2 Yeah, actually, she just answered my first question, was I
3 was just wondering what the actual distance was between this
4 and the Carlsbad Brine Well, but they quite literally just
5 answered that for me. I guess whichever witness, I guess,
6 is most appropriate, if you just want to point them out,
7 Mr. Rankin, or -- or if it's more appropriate for you to
8 answer. On this -- the first question I have, you
9 reference, Mr. Rankin, that both of these are standard
10 spacing units.

11 MR. RANKIN: Uh-huh.

12 TECHNICAL EXAMINER McCLURE: What are you basing
13 that upon?

14 MR. RANKIN: Well, the -- in the case of the
15 Purpose Sage, the building blocks are 320, and the building
16 blocks are oriented in the standup manner while the
17 horizontal well is proposed to transect each of the spacing
18 units in a perpendicular manner, and so that is permitted
19 and permissible under the horizontal well rule. Same thing
20 with the other case in which -- it's the Carlsbad Wolfcamp
21 formation, which, if you look at the rules under APD --
22 under APD, it's spacing formations in the county that are
23 below at this depth are subject to the larger spacing, and
24 so both the building blocks for these pools are within the
25 rules of the Division.

1 TECHNICAL EXAMINER McCLURE: I was going to say
2 I'm relatively sure that you may be mistaken on that when it
3 comes to the Purple Sage. I believe you start out at 320
4 and then you build it on with quarters, with quarter
5 sections.

6 MR. RANKIN: I heard you say that, Mr. Examiner,
7 and I -- I think I disagree. I think that whatever size
8 spacing unit you use, the building -- I don't think you can
9 change your building blocks in the spacing unit. So in the
10 Purple Sage, you can choose either 160 or 320, but I think
11 when you -- for purposes -- the way you're describing it, it
12 doesn't really matter because it always comes out the same
13 way. But my understanding is that you are to use the same
14 spacing blocks to generate your spacing unit, and in the
15 Purple Sage, you have a choice of 160 or 320.

16 TECHNICAL EXAMINER McCLURE: I was going to say
17 that was -- that's not my understanding, but we will --
18 we'll review it later internally with our district geologist
19 and see for sure. Because my understanding was on the
20 Purple Sage, you start off 320 and then you build on with
21 160s, hence all these mile-and-a-half long wells that we
22 have. But regardless, I guess the thought process that I'm
23 getting at, though, is you're not thinking that you're close
24 enough to have a -- a -- you're not able to bring in the
25 adjacent because you're not thinking you're within the

1 limits, correct?

2 MR. RANKIN: I'm not sure I'm following you,
3 because we're not attempting to make a -- an enlarged --

4 TECHNICAL EXAMINER McCLURE: Proximity, yeah.
5 Excuse me. I was missing -- I meant -- I was confirming
6 that you wasn't bringing in the additional acreage because
7 of the proximity, I guess, was actually what my question
8 was.

9 MR. RANKIN: It's the orientation of the building
10 blocks.

11 TECHNICAL EXAMINER McCLURE: Okay. Having said
12 that, I don't know if having an NSP roll into the case is
13 necessarily that big of a deal regardless, but that is
14 something that we're going to have to review internally
15 after this particular juncture because I think that this may
16 be nonstandard. Regardless, though, moving on, I guess my
17 question is on these -- on these ones, it looked like there
18 was -- I mean, clearly for the Water Buffalo, there was far
19 more that addresses were not found for, but I didn't
20 actually count them and I don't know if there's some updated
21 amended submittals, I guess, since what I'm looking at here,
22 because this is from the beginning of last month, I believe.
23 But is it correct, then, that may be approximately -- let's
24 just say 30 interest owners were not able -- were not able
25 to find addresses for; is that correct, for the Water

1 Buffalo?

2 A. That's correct.

3 TECHNICAL EXAMINER McCLURE: And for the Fred, it
4 was significantly less, it looked like, like maybe a dozen
5 or ten maybe.

6 MS. SINGER: I can look at that. We don't have
7 those tallied. I could tally them really quickly. This is
8 Nicole Singer. But I would say that anyone that we couldn't
9 find an address for was also listed in the notice of
10 publication, as were all the folks that we could find an
11 address for.

12 TECHNICAL EXAMINER McCLURE: Oh, yes. Oh, yeah,
13 absolutely. I was just trying to get kind of approximations
14 just so we kind of had an idea of percentage-wise what we
15 were actually looking at, understanding that we're talking
16 650 and 1800 individuals that are uncommitted.

17 MS. SINGER: And you're just asking for the number
18 of folks that we couldn't actually find an address for at
19 all?

20 TECHNICAL EXAMINER McCLURE: That was the first
21 question, I guess.

22 MS. SINGER: Sorry; will you repeat your first
23 question.

24 TECHNICAL EXAMINER McCLURE: My first question is
25 I was wondering how many -- or how many you were unable to

1 find addresses for, for the two different cases. And I know
2 there's a number of them that's -- or some of them listed
3 here on the notice list as undeliverable, so I'm assuming
4 that those are the ones you couldn't find addresses for.

5 A. I think a lot of those, we may have found an
6 address, but it may have been dated, so the last record
7 address that we were able to obtain and locate, we mailed it
8 to that address, and those came back.

9 TECHNICAL EXAMINER McCLURE: Okay. So are these
10 only -- so these would also include the notices that were
11 returned, then, or also listed as undeliverable at the
12 bottom here?

13 A. That's correct.

14 MS. SINGER: Yes. So, you know, a lot of these
15 are showing "in transit." We use a certified mail label
16 company, a third party, to handle this because of the
17 volume, and were able to pull down reports straight from
18 USPS in terms of tracking those certified signatures, and so
19 you're correct, we have some undeliverables and some that we
20 never could find an address for at all. I don't have the
21 exact tally, but it does seem like we moved them to the
22 bottom for you, of that last exhibit, the last exhibit that
23 we entered.

24 TECHNICAL EXAMINER McCLURE: Okay. Very good.

25 And I noticed there was -- you know, some seem like they are

1 separated out, make them easier for viewing. Now,
2 noticing -- did you guys mention that there was an updated
3 exhibit for this, versus the 404 whatnot what I'm looking at
4 now?

5 MR. RANKIN: Yes, Mr. --

6 MS. SINGER: Sorry. Go ahead, Adam.

7 MR. RANKIN: I was going to say yes, Mr. Examiner.
8 We filed, on Tuesday, an updated Exhibit C6A that updates
9 the list of owners. I don't believe -- I'd have to defer to
10 Nicole and David. I don't believe there are any changes on
11 the undeliverables or the address-not-known parties.

12 MS. SINGER: Correct. So those would have
13 probably just stayed the same, but, again, they were in the
14 notice of publication. The biggest change is going to be
15 highlighted and strike-throughs for folks that did reach out
16 and elected to enter into a lease.

17 TECHNICAL EXAMINER McCLURE: Okay. And, yeah, I
18 do apologize. I do see those updated -- those amended
19 exhibits now. I -- initially, I hadn't seen them in the
20 imaging, just the front sheet on it looked a little bit
21 different, but I do those now. On the updated ones, there's
22 still a number of these that are in transit. Is your
23 thought process that you have correct addresses for them and
24 they just haven't been received yet, or whatnot?

25 MS. SINGER: There's no real way to know, so just

1 to echo what David said, what David Schoeffler had said, is,
2 you know, we send it to the last known address of record and
3 we tried multiple ways to find that address, so if they're
4 in transit, they haven't been accepted and we don't really
5 have a way to update the address any further. I would
6 remind you that it stopped -- and I keep repeating myself --
7 by those same names have been printed in the notice of
8 publication.

9 TECHNICAL EXAMINER McCLURE: You know, having said
10 that, these were originally sent out on February 9th; is
11 that correct? What it looks like.

12 MS. SINGER: I think one case, most of them went
13 out on the 9th, and maybe the other one or both of them went
14 out on the 11th, so they went out within, like, a 48-hour to
15 72-hour range because of the volume.

16 TECHNICAL EXAMINER McCLURE: I gotcha. Yeah. So
17 in theory, though --

18 A. Excuse me. A lot of these in transit, you know,
19 could be where, you know, they just hadn't gone to the post
20 office to pick it up either. We've left a green card at
21 their door and they have not received it. I mean, I have
22 gone -- taken the effort to go to the post office and
23 received the letter.

24 TECHNICAL EXAMINER McCLURE: Oh, yes, absolutely.
25 I've ran in -- we've had a number of different discussions,

1 actually, even between myself and Mr. Rankin about the in
2 transit versus actually having a bad address, I guess, so we
3 have had -- but just -- go ahead.

4 MS. SINGER: Sorry. Those are the codes that come
5 directly back from USPS, so that was probably part of your
6 conversation. So, you know, that's the code that were sent
7 directly from USPS that's populated into this report.

8 TECHNICAL EXAMINER McCLURE: Oh, yes, absolutely.
9 And if the USPS don't update it to say it's been delivered,
10 then, you know, who knows how many's actually been delivered
11 and how many has not because who knows. Regardless, I
12 guess, just so we kind of have -- do you have kind of a
13 rough number of how many has been confirmed to be delivered
14 versus how many is still reading as in transit?

15 MS. SINGER: So I can easily get that for you. I
16 think we'd be spending people's time right now. We can pull
17 this spreadsheet and get you your count pretty easily as a
18 follow up. I could sit here and it do right now, but I
19 think it would be easier to do it off line.

20 TECHNICAL EXAMINER McCLURE: And that -- that
21 there will be sufficient. I just wondering kind of a base
22 percentage of what we're looking at, like, sitting here
23 scrolling through the list, there is, I mean, a number of
24 them that's being returned as in transit for sure.

25 MS. SINGER: But also a number delivered. And so

1 it's not fair to you that you get a hard copy because it's
2 so voluminous, and so we can certainly break it down into
3 percentages or numbers of delivered, in transit and
4 undeliverable.

5 TECHNICAL EXAMINER McCLURE: Very good. And, you
6 know, in all actuality, I think that was -- that was
7 actually all the questions I had, Mr. Brancard. I don't
8 know what you had further.

9 EXAMINER BRANCARD: Thank you. I've got a number
10 of questions, but I'd first like to thank you for the effort
11 of SPC to do this. I guess to remark on your bravery to
12 take this on.

13 MS. SINGER: Thank you for the compliment. We'll
14 take it.

15 EXAMINER BRANCARD: And part of why I wanted to
16 have this, you know, discussion with the witnesses rather
17 than just do this by affidavit is, in some ways, we're sort
18 of setting a precedent that if we do have other sort of
19 urban drilling scenarios, you know, how do we make the
20 effort other than the normal landman research? This is
21 different, you know, and so how do you do that? And I like
22 to sort of establish that record.

23 The other thing that's come up recently is that we've
24 had some cases where people have come back later and said,
25 What do you mean I wasn't locateable? Of course I was

1 locateable. And so I think it's important for us to be able
2 to document the efforts that were undertaken to locate
3 people, so we don't have to reopen every case when somebody
4 comes back in later on.

5 MS. SINGER: And so, luckily -- I obviously
6 testified to this and so did David Schoeffler, but luckily
7 that was part of our process from day one, and I don't think
8 you want those records, but what we do have is a very
9 fulsome electronic system for every single tract and we can
10 pull up contact made from the beginning of the project until
11 very recently. So every time David gets a call to his
12 office, we tie the owner to a tract number and they make a
13 note of the date and what was -- what was said in that call,
14 if it doesn't end up resulting in a lease. And so we have
15 those records knowing that that would probably be important
16 for a project like this, especially since we were using
17 compulsory pooling to put the project together.

18 EXAMINER BRANCARD: I guess I was impressed by
19 that, and I think that if you don't submit them to us, I
20 highly recommend that you hold on to them for some
21 significant period of time, just in case, when somebody
22 comes back later.

23 MS. SINGER: Understood. So the volume of the
24 leases for the projects is about a 4,500 mark. That's
25 across all the cases that I sort of stated at the beginning.

1 And also lots of credit to David Schoeffler and his team.
2 They are the external land department because they are also
3 the record keepers. So we take strides to do special
4 backups of their electronic records, and we actually also
5 have paper files in warehouses in super secret locations in
6 New Mexico, and I'm just joking with you, but in Artesia.

7 EXAMINER BRANCARD: Thank you. So let me just
8 sort of go through some basics, then. So Mr. Schoeffler
9 said you determine the mineral ownership for each lot. I
10 assume you're working off County records.

11 A. That's correct, and in the courthouse as well. We
12 had a group of title people in the courthouse in Eddy County
13 running titles.

14 EXAMINER BRANCARD: Okay. And then you said you
15 made an attempt to locate addresses. Could you just sort of
16 walk us through, you know, particularly if you have a
17 situation where it's obviously not the correct address
18 anymore since people have moved.

19 A. Yeah. In that case, we would, a lot of times,
20 look in the records in the courthouse and see maybe not our
21 property, but another parcel that they're selling where
22 there may be a more updated address. So we would take those
23 measures. And then, you know, internet search you can find
24 a lot on different search engines to locate people. So that
25 was a major part of our, you know, task in locating these

1 folks.

2 EXAMINER BRANCARD: Could you just sort of, if you
3 have off the top of my head, names of those search engines
4 that you used?

5 A. White pages, Yahoo, Google. There's numerous
6 ones. I've got -- geez, I'm not up to date on the latest
7 and the greatest due to some of my guys -- my buyers,
8 they -- they're always on top of, you know, the best search
9 engines to find folks. Gary uses one as well.

10 MR. WALDROP: I use a service that's called TLO
11 and --

12 A. It's a paid service that he uses.

13 MR. WALDROP: It's very in depth and we used it.
14 On the hard ones where no one could find anything, they
15 would reach out to me. I'm the only one that's allowed to
16 use it and I would search for that person.

17 A. And another one is FastPeopleSearch is another one
18 that we use. That's a good one.

19 MS. SINGER: And, Bill, you're probably not going
20 to get this on anybody else's record, but at one point in
21 time a parent company of Santo Petroleum or an affiliate
22 also bought and owned two title companies in Carlsbad, and
23 so we also had direct access to title records and unfettered
24 access because we owned those title companies at the time we
25 kicked off all this research.

1 EXAMINER BRANCARD: That's great. Title companies
2 have a trove of records.

3 MS. SINGER: And so it cut down on the time I had
4 to pay or David to pay for his armies of landmen to be in
5 the courthouse.

6 EXAMINER BRANCARD: Thank you.

7 A. And all these title reports are updated in a
8 database that we have for each individual tract we have
9 ownership on a per-tract basis.

10 MS. SINGER: Yeah. So we cut that out of our
11 testimony, but we have what's called "mineral ownership
12 reports" or LTCs, limited title search tickets, for every
13 single lot, and if a lot was bigger than three acres, we
14 commissioned a full-blown title opinion on it. So for all
15 those subdivisions up to the point of subdivision, we
16 actually got a title opinion rendered and then we took each
17 lot forward by an LTC or an MOR. That's another official
18 piece of paper that shows how we see the breakdown of the
19 ownership of each lot resides, and it's signed by the
20 landman who did the research.

21 EXAMINER BRANCARD: Thank you. So for -- for a
22 number of these properties, did you end up sending out
23 notices to multiple addresses?

24 A. Absolutely.

25 EXAMINER BRANCARD: Thank you.

1 A. And knocked on doors to last known addresses as
2 well.

3 EXAMINER BRANCARD: Speaking of knocking on doors,
4 was there any option for a public meeting?

5 A. No, sir, there was not, not that I remember doing.
6 Like Gary was mentioning earlier, we originally met with the
7 City to get approval to go door by door, and once they
8 approved it, that was a match method that we used to locate
9 these folks, but we did not have a town hall meeting or
10 anything to gather these landowners. A lot of the
11 problems -- because a lot of them were not actually, you
12 know, like I mentioned earlier, they don't own the surface,
13 so it might have been their, you know -- their family sold
14 the property in the '80s, reserved the minerals and no
15 telling the people that live there have no relation to the
16 current mineral owners.

17 EXAMINER BRANCARD: Did you put any ads in the
18 newspaper, I mean, other than the legal ad?

19 A. No, sir.

20 EXAMINER BRANCARD: Okay.

21 MS. SINGER: I think we did.

22 MR. WALDROP: The Current-Argus ran several
23 stories of what we were doing as we were doing things. They
24 ran several articles about our leasing operation. The City
25 of Carlsbad does -- the lady at the main office, she would

1 get calls, they would direct them back to us, people would
2 call, what's going on, what's this all about, and they would
3 direct those calls back to us and we would field them as
4 they came in every time.

5 MS. SINGER: And, Bill, I have to dig, but I think
6 we might have put an ad.

7 MR. WALDROP: I don't remember.

8 MS. SINGER: Okay.

9 EXAMINER BRANCARD: All right. So when somebody
10 approached you or you approached someone, did you just offer
11 to lease the minerals, or what if somebody wanted to sell
12 the minerals to you?

13 MS. SINGER: So we kicked off the project and
14 continue to really lean more towards leasing. My boss,
15 Hanson Yates, would say that's really where they wanted to
16 start on this project and not approach folks about
17 purchasing the minerals. Certainly we are open to
18 purchasing minerals, and we may, in fact, embark on going
19 back and asking folks if they'd like to sell their minerals,
20 but we thought, quite frankly, from a fairness standpoint,
21 it made more sense to offer leases before we came back or
22 initially started with purchasing of minerals.

23 EXAMINER BRANCARD: And I'm guessing you had,
24 like, a standard form lease for everybody, or --

25 MS. SINGER: Yeah. So that's, I'd say, one of the

1 most amazing things of this entire project, is we have a
2 very standard form lease that we did not change, but for
3 maybe some of the very last largest lease owners, and even
4 then, their negotiated terms, there's no few clauses,
5 they're all very standard, and we gave the same royalty rate
6 and the same bonus to almost everyone across the entire
7 asset, especially on the lot level.

8 I would also just give you a little bit more color
9 that because the lots are so tiny, we had charts that
10 rounded the ownership up. So in some instances, the bonus
11 is way higher than what they would have gotten on a net
12 mineral-acre basis because it made more sense to pay
13 standard amounts if you had, for instance, between zero and
14 .25 acres or zero and a half of an acre.

15 MR. WALDROP: In many cases, with churches, we'd
16 have a church board, we'd have to go to a church board
17 meeting with numerous people from the community and present
18 our proposal to the church, and we leased a lot to the
19 church, and so there was multiple people from the community
20 that was represented at those meetings.

21 EXAMINER BRANCARD: Well, Nicole's probably aware
22 that one of the big royalty cases in New Mexico is the First
23 Roswell Baptist Church claiming royalties with the Yates
24 family.

25 MR. WALDROP: I was hoping you wouldn't bring that

1 up.

2 EXAMINER BRANCARD: So you don't want to get the
3 churches mad at you. Just finally, what -- does the City
4 have ordinances for oil and gas development, zoning or land
5 use, any restrictions that you have to comply with?

6 MS. SINGER: They actually do. And so we have
7 formed this unit -- or sorry; this project with, I guess, a
8 preference to try to stage our facilities and our surface
9 operations outside the city limits, but that might not be
10 possible in all cases across all of these units, and so the
11 City of Carlsbad has their own regime of rules and
12 regulations for operating wells within the city limits, and
13 we would absolutely comply with those in any instance where
14 we need to site anything inside the city limits.

15 EXAMINER BRANCARD: Do they have setbacks from
16 anything?

17 MR. WALDROP: It's 500 feet from a residence or
18 building within the city limits; 300 feet outside the city
19 limits.

20 EXAMINER BRANCARD: The County has that
21 restriction?

22 MR. WALDROP: Yes, the County also has their own
23 regs for building within the county. 300 feet from a
24 residence or building in the county; 500 feet within the
25 city limits.

1 EXAMINER BRANCARD: Okay.

2 MR. WALDROP: All pipelines are also governed by
3 regs within the city and the county.

4 EXAMINER BRANCARD: Oh, well, that's important,
5 yes. Don't want to have what happened in Colorado. I think
6 that covers what I was about to ask. Thank you.

7 MS. SINGER: Thank you.

8 EXAMINER BRANCARD: Mr. McClure, did I trigger
9 anything on your behalf?

10 TECHNICAL EXAMINER McCLURE: No, sir. No, sir.
11 I'm good still.

12 EXAMINER BRANCARD: And, Mr. Rankin, did you have
13 any follow-up?

14 MR. RANKIN: Mr. Examiner, I do not. The only
15 thing I would say, I guess, because it's more of a legal
16 nature, in response to some of Mr. McClure's questions about
17 whether these spacing units are standard or not standard, I
18 guess I understand -- I think you and I are on the same page
19 about that, but if there are any questions that you would
20 like us to address about the orientation or the sizing of
21 the building blocks, I'm happy to discuss with you the basis
22 for those. You know, basically it's just an internal
23 reference to the Division's own rules that identify the
24 targets for the space -- appropriate spacing for these zones
25 for the Wolfcamp and Boulder, and that's the basis for the

1 spacing.

2 EXAMINER BRANCARD: Thank you.

3 Ms. Hardy, any further questions or comments?

4 MS. BENNETT: Not from me, Mr. Examiner. Thank
5 you.

6 EXAMINER BRANCARD: Mr. Tremaine?

7 MR. TREMAINE: No further questions. Thank you.

8 EXAMINER BRANCARD: Thank you.

9 Mr. Kittinger, I forgot to ask you.

10 MR. KITTINGER: No questions. Thank you,
11 Mr. Examiner.

12 EXAMINER BRANCARD: All right. Any other matters,
13 any other documents, witnesses, Mr. Rankin?

14 MR. RANKIN: I think that's everything,
15 Mr. Examiner. I think we've gotten the supplemental
16 exhibits admitted and we've gotten the original exhibits
17 admitted, and so we will -- I believe the one thing to
18 follow up was that we're going to provide a summary,
19 basically a percentage of for each case, how many were
20 delivered and how many remain in transit on the notices. We
21 can do that in an e-mail, or we can include all parties, or
22 we can do it on a piece of paper.

23 EXAMINER BRANCARD: Always good to do on a piece
24 of paper. You know, I did have -- the question that first
25 came to my mind when I looked at the exhibits, and I forgot

1 all about it, which is, in your Exhibit C3, there is a
2 summary, a little chart, leased, unleased, that little
3 color-coded thing in --

4 MR. RANKIN: Yeah, the first page.

5 EXAMINER BRANCARD: What I noticed was that we
6 went from the first set of exhibits to the supplemental
7 exhibits, the supplemental exhibits showed a number of
8 parties being lined out as now being leased, yet these
9 percentages never changed.

10 MS. SINGER: Yes. So we can take a look at that.
11 I don't think you're going to be surprised that I think
12 we've taken a handful of leases that have covered under
13 three acres.

14 A. Yeah, that's correct.

15 MS. SINGER: So we -- you know, the strikeouts
16 look impressive. I think they're voluminous, but they don't
17 add up to make the decimal change by much. I'm happy to
18 look at these and update them if you think we need to, but I
19 don't think they've changed materially, even despite the
20 leases that have come in.

21 EXAMINER BRANCARD: Okay. Well, if you could just
22 update, then, the Exhibit C3, just that summary chart, just
23 so we have it accurate.

24 MS. SINGER: We'd be happy to.

25 EXAMINER BRANCARD: All right. And then there's

1 the one -- the follow-up for Mr. McClure on percentage
2 delivered versus percentage in transit.

3 MS. SINGER: I think I might have a question for
4 you on that. So we did quote, unquote, cut those off, I
5 think on the 27th, which was last Wednesday, just because
6 the reports are so voluminous. And so do you -- are you
7 comfortable with the percentages being based on what we
8 remitted, or do you want us to run the reports again?

9 EXAMINER BRANCARD: Mr. McClure, I'll leave that
10 up to you.

11 TECHNICAL EXAMINER McCLURE: Depending on what you
12 submit, it should be -- should be sufficient. I mean, we
13 are talking a couple days versus -- it's already been a
14 couple months, correct?

15 MS. SINGER: Yeah. So that's the only, I guess --
16 maybe not the only, but, you know, this case went a little
17 bit longer than I had expected it to, and so that know --
18 those letters have been out in the world longer than they
19 normally would have been in a month, you know, one month
20 before hearing, so they've been -- so yeah, it sounds like
21 I'll run those numbers for you based on this cutoff, which
22 we did, which was the 27th of April.

23 TECHNICAL EXAMINER McCLURE: Yeah, that -- that
24 sounds sufficient to me.

25 MS. SINGER: Thank you.

1 TECHNICAL EXAMINER McCLURE: Thank you.

2 EXAMINER BRANCARD: Well, I think we're almost
3 there. Mr. Rankin, thank you for your -- having your
4 witnesses available, and it appears that your clients have
5 made a fine effort here trying to look -- deal with a very
6 difficult urban scenario. I don't even want to get into the
7 effort they're going to have to make when the proceeds come
8 out and they have to start -- dealing with that, but that's
9 not an act we deal with. The Payment Proceeds Act is not
10 ours. We just deal with the Oil and Gas Act.

11 MS. SINGER: Thank you for your time today.

12 MR. WALDROP: Thank you.

13 EXAMINER BRANCARD: And so, Mr. Rankin, it seems
14 like the only significant issue here is the one that
15 Mr. McClure raised on special pool rules. I am not
16 conversant in special pool rules so I have nothing to add to
17 that, but we will take a look at that, and if there's
18 anything significant, we will sure let you know right away.

19 MR. RANKIN: Thank you, Mr. Examiner.

20 EXAMINER BRANCARD: So we can hear that. Okay,
21 Mc. McClure, are we done for today?

22 TECHNICAL EXAMINER McCLURE: I think so.

23 EXAMINER BRANCARD: All right. So with that,
24 the -- all the exhibits if they haven't already been
25 admitted in Cases 22554, 22555 are admitted in the record

1 and along with all the testimony of the witnesses today, and
2 these cases, with the exception of the few pieces of
3 information that we requested, are taken under advisement.

4 MR. RANKIN: Thank you, Mr. Examiner. Thank you,
5 everybody. Have a wonderful day.

6 (Proceedings concluded at 2:41 p.m.)

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1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO

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REPORTER'S CERTIFICATE

I, SHANON R. MYERS, New Mexico Certified Court Reporter, CCR #275, 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 extremely poor to good quality.

Dated this 2nd day of June 2022.

/s/ Shanon R. Myers

SHANON R. MYERS, CCR, RPR, CRR, RMR, CRC
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