

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 SPUR ENERGY PARTNERS, LLC  
FOR APPROVAL OF OVERLAPPING HORIZONTAL WELL SPACING  
AND COMPULSORY POOLING  
EDDY COUNTY, NEW MEXICO

Case No. 22597, 22598

REPORTER'S TRANSCRIPT OF VIRTUAL PROCEEDINGS  
EXAMINER HEARING  
June 2, 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  
HEARING OFFICER JOHN GARCIA on Thursday, June 2,  
2022, through the Webex Platform.

Reported by: PAUL BACA COURT REPORTERS  
500 4th Street, NW, Suite 105  
Albuquerque, New Mexico 87102  
505-843-9241

1 A P P E A R A N C E S

2 For Spur Energy Partners, LLC:

3 HOLLAND & HART LLP  
4 PO Box 2208  
5 Santa Fe, New Mexico 87504-2208  
6 505-988-4421  
7 BY: ADAM RANKIN  
8 agrankin@hollandhart.com

9 For Apache Corporation:

10 MODRALL SPERLING ROEHL HARRIS & SISK PA  
11 PO Box 2168  
12 Albuquerque, New Mexico 87103-2168  
13 505-848-1800  
14 BY: DEANA BENNETT  
15 deana.bennett@modrall.com

16 I N D E X

17		PAGE
18	CASE CALLED	
19	HEARING	3
20	CERTIFICATE OF REPORTER	17

21 EXHIBITS

22	NUMBER	PAGE ADMITTED
23	A	16
24	B	16
25	C	16
	D	16
	E	16
	F	16

25

1 HEARING OFFICER BRANCARD: Once again  
2 folks, you got to keep track of those holidays.  
3 Just to let you know, there's a new holiday in June  
4 that you have to keep track of.

5 MR. RODRIGUEZ: I would also like to point  
6 out, I appreciate the Memorial Day Looney Tones tie.

7 HEARING OFFICER BRANCARD: You got to be  
8 patriotic.

9 MR. RODRIGUEZ: Thank you.

10 HEARING OFFICER BRANCARD: All right.

11 With that, let's try to figure out --  
12 Ms. Castillo you doing okay?

13 THE COURT REPORTER: Yes.

14 HEARING OFFICER BRANCARD: Okay. Let's  
15 try to figure out what to do with these next two  
16 cases, Items 83 and 84, Case Numbers 22597, 22598,  
17 Spur Energy Partners.

18 MR. RANKIN: Good morning, Mr. Examiner.  
19 May it please the Division, Adam Rankin appearing on  
20 behalf of the applicant in the case with the Santa  
21 Fe office of Holland & Hart.

22 HEARING OFFICER BRANCARD: We have an  
23 entry from Apache Corporation.

24 MS. BENNETT: Good afternoon,  
25 Mr. Examiner, Deana Bennett from Modrall Sperling on

1    behalf of Apache Corporation.  And Apache does not  
2    object to the cases being heard by affidavit today,  
3    to the extent that's a question.

4                   HEARING OFFICER BRANCARD:  Yes, you  
5    anticipated my question.  You're all alone in the  
6    conference room now.

7                   Jalapeno Corporation?

8                   Okay.  Contango Oil & Gas Company?

9                   All right.  So, Mr. Rankin, these cases  
10   were a part of a prehearing order and then competing  
11   cases disappeared and now you're all alone and set  
12   these by affidavit.  Is that how we're going?

13                   MR. RANKIN:  Mr. Examiner, yes.  We have  
14   been able to reach agreement with the parties who  
15   had been contesting Spur's proposed overlapping  
16   spacing unit and pooling.  And as a result of those  
17   agreements, at the end of this case, Mr. Examiner, I  
18   will dismiss the portion of the case seeking  
19   approval of the overlapping spacing units in these  
20   cases because those objections have been withdrawn.  
21   And we can just have a standard pooling case.

22                   HEARING OFFICER BRANCARD:  Okay.  Well, I  
23   guess with that, you may proceed.

24                   MR. RANKIN:  Thank you.

25                   In the first case, Mr. Examiner,

1 Case 22597, Spur seeks an order and filed an  
2 application to approve a 320-acre, more or less,  
3 overlapping horizontal spacing unit in a portion of  
4 the Yeso from the top of the Yeso to a depth of  
5 4,100 feet being comprised of the north half of  
6 Section 32, Township 17, Range 28 East in Eddy  
7 County. And that would pool all uncommitted  
8 interests in that spacing unit, which would be  
9 dedicated to three horizontal wells, the Blalock 32  
10 State 1H, 10H and 11H well.

11 The 1H is to be within 330 feet of the  
12 offsetting quarter-quarter sections thereby allowing  
13 those offsetting tracts, adjacent tracts to be  
14 included in the horizontal spacing unit.

15 And then the next case, 22598, Spur seeks  
16 an order approving a 320-acre, more or less,  
17 overlapping horizontal spacing unit in a portion of  
18 the Yeso from a depth of 4,130 feet to the base of  
19 the Yeso. That would be comprised of the same  
20 acreage in Eddy County and pooling all uncommitted  
21 interests in that spacing unit.

22 And for this deeper unit, Spur would  
23 dedicate the proposed Blalock 32 State 50H, 70H and  
24 90H wells to the spacing unit.

25 The 90H well will be within 330 feet of

1 the offsetting quarter-quarter sections allowing  
2 those adjacent tracts to be included in the spacing  
3 unit.

4 We filed on Tuesday our exhibit packet.  
5 Exhibit A is the compulsory pooling checklist for  
6 each of the cases identifying the spacing unit, the  
7 depth severances and the acreage in the wells to be  
8 dedicated to each of the spacing units.

9 Exhibit B is the application that was  
10 filed in each case.

11 Exhibit C is the affidavit of Spur's  
12 landman, Mr. Rett Dalton. Mr. Dalton has previously  
13 testified before the Division and has had his  
14 credentials accepted. He walks through each of the  
15 cases, identifies the depth severances, the acreage  
16 dedicated to each spacing unit and the proposed  
17 wells for each of those spacing units.

18 His Exhibit C1 is a copy of the  
19 overlapping -- notice of the overlapping spacing  
20 unit that was sent out by certified mail.

21 Exhibit C2 is a copy of the C102s for  
22 each of the wells for both cases identifying the  
23 locations and the footages and indicating that these  
24 wells will be assigned to the Artesia Gloria Yeso  
25 pool.

1                   Exhibit C3 is an ownership plat  
2 identifying the separately owned tracts that  
3 comprise the proposed spacing units in both cases.  
4 As well as the, you know, whether they're State or  
5 Federal tracts.

6                   The following pages behind the plat  
7 identify the ownership interests within each of the  
8 tracts that comprises the spacing unit and then on a  
9 unit-wide basis. The parties identified in yellow  
10 are the parties that Spur seeks to pool.

11                   The next page does the same for the  
12 second case, and then the following pages identify  
13 each of the overrides for this case -- in these  
14 cases just overrides that are also being sought to  
15 be pooled.

16                   Exhibit C4 is a copy of the well  
17 proposal letters that went out to all of the owners  
18 with working interests along with the AFE costs for  
19 each of the wells.

20                   The Exhibit C5 is a chronology of the  
21 contacts reflecting Spur's efforts to identify,  
22 locate and then reach agreement with each of the  
23 parties in this case. It also includes a summary of  
24 the communications, writing notice of the  
25 overriding -- overlapping spacing unit to the

1 operators of those existing spacing units.

2 Exhibit D is the application of --  
3 sorry, the affidavit of Spur's geologist in this  
4 case, Mr. Matthew Van Wie and he has not previously  
5 testified. So he reviews his education and work  
6 experience in his affidavit and includes as D1 his  
7 resume. And at this time, Mr. Examiner, I would  
8 tender Mr. Van Wie as an expert in petroleum and  
9 geology.

10 HEARING OFFICER BRANCARD: Any objections?

11 Hearing none, he is so accepted as an  
12 expert.

13 MR. RANKIN: Mr. Van Wie reviews the  
14 geology in the proposed spacing units and identifies  
15 in his Exhibits D2 through D5 the standard of  
16 geology exhibits. The locator map identifying the  
17 spacing units itself, the location of the proposed  
18 horizontal wells, a cross section, line of cross  
19 section from A to A prime.

20 D3 is an structure map reflecting that the  
21 structure of the Yeso in this area is consistent  
22 across the spacing unit.

23 D4 is a cross section of the wells that he  
24 identified as being representative of the geology in  
25 the area showing the landing zones for each of the

1 proposed wells in both spacing units as well as the  
2 location of the depth severance lines that are  
3 identified in the case.

4 And finally D5 is a gun barrel diagram  
5 showing the relative placement of the wells within  
6 the spacing unit in a, essentially a narrow wine  
7 rack pattern as well as showing the locations of the  
8 depth severance within the various intervals of the  
9 Yeso formation.

10 Mr. Van Wie testifies that the acreage is  
11 suitable for horizontal development and that there's  
12 no impediments to development by horizontal wells,  
13 pinch-outs, faulting or other issues.

14 Exhibit E is an affidavit that was  
15 prepared by me in our office reflecting that we have  
16 provided notice to the parties that Spur is seeking  
17 to pool. Under the notice letters that are attached  
18 and the dates on those letters.

19 And that also is an updated certified  
20 postal delivery status report as of May 24th  
21 reflecting the status of those certified mail  
22 letters.

23 And in addition, Mr. Examiner, I'll note  
24 that in this case there's -- the depth severance is  
25 a little bit complicated but the only party -- this

1 one party in the second case, 22598, that is not  
2 included in that deep zone. Their interests are  
3 only above 4,130 feet and that is Contango. So we  
4 provided notice to Contango as a vertical offset and  
5 just viewed that letter included in our notice  
6 packet as well as a status that they received. That  
7 notice as well is in the delivery report.

8           So that's the notice packet under  
9 Exhibit E and then Exhibit F is an affidavit of  
10 publication reflecting that we provided notice.  
11 There are, by publication there are a few parties  
12 under a couple of decedents, so there's a potential  
13 that we have not yet -- that Spur has not yet  
14 identified all the potential interest owners because  
15 of those unprobated, you know, there may be some  
16 errors there or advisees that they have not been  
17 able to locate. And they have tried to identify  
18 them, you'll see in the chronology of contacts, they  
19 have made efforts to try to locate and identify who  
20 those parties may be.

21           So we provided notice by publication and  
22 that's Exhibit F.

23           So at this time, Mr. Examiner, I would say  
24 that based on the -- I believe every party that had  
25 objected to the overlapping spacing units has

1 withdrawn those objections. We reached agreement  
2 with those parties, the operators of those existing  
3 vertical wells.

4 And at this time unless the Division has  
5 any questions or concerns about it, we would move to  
6 dismiss that portion of the applications from these  
7 two cases.

8 HEARING OFFICER BRANCARD: Thank you.

9 Ms. Bennett, did you have any questions?

10 MS. BENNETT: No questions. Thank you.

11 HEARING OFFICER BRANCARD: Mr. Garcia?

12 TECHNICAL HEARING EXAMINER GARCIA: One  
13 question. I guess I'm just curious out of curiosity  
14 on the 30-foot gap in depth severances. Top of Yeso  
15 to 4100 feet and then it goes 4130 down, so I guess  
16 what's the deal with that 30 feet?

17 MR. RANKIN: Basically, my understanding  
18 is and Mr. Dalton is, I believe, on, he can probably  
19 give you more details on it, but essentially there  
20 was a conveyance that created a slight difference in  
21 the depths within that spacing unit. So there are  
22 two parties that have a slight variation in the  
23 ownership percentage from the top of Yeso down to  
24 that 4100-foot interval and between the 4100  
25 interval and the 4130 interval. And those two

1 parties are Spur and Contango. So it's just a  
2 slight variation in the ownership interest in that  
3 30-foot zone.

4 Contango is an owner above 4100 feet, so  
5 they are going to be -- their interests are going to  
6 be part of that shallower spacing unit. And there's  
7 just, you know, the way that contracts have created  
8 a break in that ownership inspect that small 30-foot  
9 gap.

10 TECHNICAL HEARING EXAMINER GARCIA: So by  
11 gap ownership aligns more with below 4130 or?

12 MR. RANKIN: I'm not sure. Can you try  
13 rephrasing that, Mr. Garcia, I'm not I understood  
14 the question.

15 TECHNICAL HEARING EXAMINER GARCIA: I  
16 think I confused myself, too. I guess I'm still  
17 confused on the 30-foot gap. Just the interest  
18 there is different than above or below it?

19 MR. RANKIN: Correct. From 4130 to the  
20 surface of the Yeso it's all the same parties, okay?  
21 But in that 30-foot gap there is a slight variation  
22 in ownership interest only as between Spur and  
23 Contango.

24 TECHNICAL HEARING EXAMINER GARCIA: And  
25 they don't object to this I guess?

1           MR. RANKIN: No, they don't. We gave them  
2 notice that there are vertical offsets and they  
3 initially had objected to the case and the  
4 overlapping spacing units, but they have withdrawn  
5 that objection as a matter of record in the case  
6 file.

7           TECHNICAL HEARING EXAMINER GARCIA: Yeah.  
8 I mean, because based off spacing it looks like it  
9 will be drained, I'm just curious about that, but I  
10 will pass to Mr. Brancard.

11           HEARING OFFICER BRANCARD: Well, I guess  
12 the drainage question I had, too, Mr. Garcia, which  
13 looking at your Exhibit D5, the gun barrel there  
14 that -- and then this 50H well is less than a  
15 hundred feet, like 85 feet from the severance  
16 vertically.

17           TECHNICAL HEARING OFFICER GARCIA: Yeah,  
18 and that's kind of why I passed to you. I don't  
19 have a simulation before me, but visually it looks  
20 like it will be drained, no problem. So I just  
21 don't know where we stand with that, why I deferred  
22 to you.

23           MR. RANKIN: Well, I guess I would say I'm  
24 happy to -- I believe Mr. -- then we and Mr. Dalton  
25 are also available for questions, but, you know, the

1 challenge with contractual depth severances is they  
2 don't always pay heed to what may be the best rock  
3 or target interval. And we have come across this  
4 before. And the manner, the way we addressed it is  
5 to provide notice to those vertical offsets.

6 Many cases the ownership is -- the owner  
7 are the same across the ownership, it's just a  
8 variation in the ownership percentage. In this case  
9 there's actually one owner who doesn't own in the  
10 deeper zone and that's Contango.

11 Contango is going to be part of the  
12 production from the shallower unit. They're just  
13 not an owner in the deeper unit, so they're aware of  
14 the proposal. We've given notice as a vertical  
15 offset owner and the way we have addressed this in  
16 the past is to work with the Division to demonstrate  
17 that we have given notice to any owners who will be  
18 excluded from any portion of a vertical pooling and  
19 that they don't object.

20 And to Mr. Garcia's question, now this is  
21 no different really than circumstance where there  
22 may be a pool boundary and sometimes the pool  
23 boundaries don't always pay heed to where the best  
24 rock is within the pool and sometimes it's prudent  
25 to lay your intervals right near that pool boundary.

1 And so that's just the nature of the geology here.  
2 And the ownership severance that we don't have any  
3 control over.

4 HEARING OFFICER BRANCARD: Thank you.  
5 Anything else, Mr. Garcia?

6 TECHNICAL HEARING EXAMINER GARCIA: I  
7 don't have nothing.

8 HEARING OFFICER BRANCARD: So let's just  
9 circle back to what Spur is actually applying for,  
10 Mr. Rankin.

11 MR. RANKIN: So we had filed an  
12 application in both cases for an overlapping spacing  
13 unit. And -- for our approval of an overlapping  
14 spacing unit and pooling uncommitted interests  
15 within the proposed spacing units.

16 At this point because the parties have  
17 withdrawn their objections, everybody that had  
18 objected has withdrawn those objections, I believe  
19 that we are free now to dismiss from both cases the  
20 portion of the applications requesting approval from  
21 the division for overlapping spacing units.

22 So the only thing left would be the  
23 formation of the horizontal well spacing units and  
24 the pooling of uncommitted interests within each  
25 case.

1 HEARING OFFICER BRANCARD: All right. I  
2 just wanted to clarify that for the record.

3 Are there any other interested persons,  
4 then, for Cases 22597 and 22598?

5 Hearing none, the applications in 22597,  
6 598 are amended as requested by the applicant.

7 The exhibits are admitted into the record  
8 and these cases are taken under advisement.

9 (Matter concluded.)

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REPORTER'S CERTIFICATE

I certify that the foregoing is a correct transcript from the record of proceedings in the above-entitled matter. I further certify that the transcript fees and format comply with those prescribed by the Court and the Judicial Conference of the United States.

Date: June 2, 2022

/s/ Edwina Castillo

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EDWINA CASTILLO, RPR, CCR  
Certified Court Reporter #407  
License Expires: 12-31-2022