

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 OXY USA, INC. FOR A
NONSTANDARD SPACING AND PRORATION
UNIT AND COMPULSORY POOLING, EDDY
COUNTY, NEW MEXICO.

CASE NO. 15489

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

May 12, 2016

Santa Fe, New Mexico

BEFORE: PHILLIP GOETZE, CHIEF EXAMINER
DAVID K. BROOKS, LEGAL EXAMINER

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This matter came on for hearing before the
New Mexico Oil Conservation Division, Phillip Goetze,
Chief Examiner, and David K. Brooks, Legal Examiner, on
Thursday, May 12, 2016, at the New Mexico Energy,
Minerals and Natural Resources Department, Wendell Chino
Building, 1220 South St. Francis Drive, Porter Hall,
Room 102, Santa Fe, New Mexico.

REPORTED BY: Mary C. Hankins, CCR, RPR
New Mexico CCR #20
Paul Baca Professional Court Reporters
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APPEARANCES

FOR APPLICANT OXY USA, INC.:

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1 (8:27 a.m.)

2 EXAMINER GOETZE: Case Number 15489,
3 application of OXY USA, Incorporated for a nonstandard
4 spacing and proration unit and compulsory pooling, Eddy
5 County, New Mexico.

6 Call for appearances.

7 MS. KESSLER: Jordan Kessler, from the
8 Santa Fe office of Holland & Hart, on behalf of OXY USA.

9 EXAMINER GOETZE: Do you have witnesses?

10 MR. HERMANN: Two witnesses, Mr. Examiner.

11 EXAMINER GOETZE: Will the witnesses stand,
12 identify yourselves and be sworn by the court reporter?

13 MR. GUNDERSON: Spencer Gunderson.

14 MR. MURPHREY: Jeremy Murphrey.

15 (Mr. Gunderson and Mr. Murphrey sworn.)

16 MS. KESSLER: I'll call my first witness,
17 Mr. Examiner.

18 JEREMY D. MURPHREY,
19 after having been previously sworn under oath, was
20 questioned and testified as follows:

21 DIRECT EXAMINATION

22 BY MS. KESSLER:

23 Q. Can you please state your name for the record
24 and tell the Examiners by whom you're employed and in
25 what capacity?

1 A. Jeremy Dean Murphrey. I'm a senior land
2 negotiator with OXY USA, Inc.

3 Q. Have you previously testified before the
4 Division?

5 A. No, I haven't.

6 Q. Can you please review your educational
7 background?

8 A. Yes, ma'am. I received a four-year bachelor
9 degree in general studies from LSUS, as well as a
10 certified professional landman certification through the
11 national association.

12 Q. And what is your work history?

13 A. I've been a landman for at least 11-plus years.
14 Six of that was as an independent landman in the field.
15 Five years of that was working with OXY directly.

16 Q. During your time at OXY, have your
17 responsibilities included the Permian Basin?

18 A. Yes, ma'am.

19 Q. Are you a member of any professional
20 associations?

21 A. Yes. I'm a member of the American Association
22 of Professional Landmen, as well as the local Arkansas,
23 Louisiana, Texas associations of professional landmen.

24 Q. And you mentioned that you're a certified
25 professional landman, correct?

1 A. That's correct.

2 Q. Are you familiar with the application filed in
3 this matter?

4 A. Yes, ma'am.

5 Q. Are you familiar with the status of the lands
6 in the subject area?

7 A. Yes, ma'am.

8 MS. KESSLER: I would tender Mr. Murphrey
9 as an expert in petroleum land matters.

10 EXAMINER GOETZE: He is so qualified.

11 Q. (BY MS. KESSLER) Mr. Murphrey, can you please
12 turn to Exhibit 1 and identify this exhibit and explain
13 what OXY seeks in this application?

14 A. Yes, ma'am. In Form C-102 for the Cedar Canyon
15 21 Federal Com 5H well, in our application we seek for a
16 nonstandard proration unit for this well, as well to
17 pool the mineral interests.

18 Q. Okay. Would that nonstandard spacing unit be
19 approximately 160 acres and composed of the north half
20 of Section 21?

21 A. Yes, ma'am.

22 Q. And can you please identify the township and
23 range?

24 A. Section 21, Township 24 South, Range 29 East.

25 Q. And do you seek to pool the mineral estate in

1 the Bone Spring Formation underlying this acreage?

2 A. Yes, ma'am.

3 Q. Can you briefly explain why it is you seek to
4 pool the acreage with this application?

5 A. Yes, ma'am. We would like to drill the Cedar
6 Canyon 21 Federal Com Number 5H, and we're working
7 towards agreement with the uncommitted working interest
8 parties.

9 Q. Are there any depth-severance issues within
10 this area?

11 A. No, ma'am.

12 Q. What pool is involved with this application?

13 A. This will be the Corral Draw Bone Spring pool.
14 I believe the code is 26938.

15 Q. I believe it's identified on the C-102 as
16 96328; is that correct?

17 A. Yes, that's correct, 96238.

18 Q. Is this pool governed by the Division statewide
19 rules on --

20 A. That's correct.

21 Q. Will the completed interval comply with the
22 statewide setback requirements?

23 A. Yes, ma'am.

24 Q. Is this land comprised of both federal and fee
25 leases?

1 A. Yes, ma'am.

2 Q. Can you please identify Exhibit 2?

3 A. Yes. This is the lease tract map. It
4 identifies the spacing unit for the Cedar Canyon 21 Fed
5 Com Number 5H well Brazos LP tract the Claiborne LP
6 tract, which will be our uncommitted working interest
7 parties.

8 Q. So this exhibit shows the working interest
9 owners by tract, correct?

10 A. Yes, ma'am.

11 Q. And OXY seeks to pool those interests
12 highlighted in yellow?

13 A. That's correct.

14 Q. Did each of these working interest owners
15 receive a well proposal letter?

16 A. Yes, ma'am.

17 Q. Is Exhibit 3 a copy of the well proposal letter
18 sent to Claiborne and to Brazos?

19 A. Yes, ma'am.

20 Q. On what date were these letters sent?

21 A. Both of the letters were sent on February 10th.

22 Q. What other efforts did you undertake to reach
23 agreement with these two interest owners?

24 A. We made an offer to purchase both of the
25 parties' interest outright, as well a term assignment,

1 but the purchase wasn't agreed upon. The Brazos company
2 interest, we're close to finalizing that purchase. The
3 Claiborne interest, we were unable to purchase it, but
4 we are working on a term assignment of their interest.

5 Q. If you reach an agreement with either of those
6 parties, will that agreement supersede the terms of the
7 pooling order?

8 A. Yes, ma'am.

9 Q. Did each well proposal letter contain an AFE?

10 A. Yes, ma'am.

11 Q. Do you believe the costs of the AFE are
12 consistent with what OXY has incurred for drilling
13 similar 2nd Bone Spring horizontal wells?

14 A. Yes, ma'am.

15 Q. Have you estimated the overhead and
16 administrative costs for this well?

17 A. Yes, ma'am.

18 Q. What are those costs?

19 A. It will be \$7,500 per month during drilling and
20 \$700 a month once the well's producing.

21 Q. Do you believe these rates are consistent with
22 what other operators charge for other 2nd Bone Spring
23 wells?

24 A. Yes, ma'am.

25 Q. Do you ask that those rates be incorporated

1 into any order resulting from this hearing?

2 A. Yes.

3 Q. Do you request that those rates be adjusted in
4 accordance with the appropriate accounting procedures?

5 A. Yes, ma'am.

6 Q. Do you request that with respect to the
7 uncommitted interest owners, that the Division impose a
8 200 percent risk penalty?

9 A. Yes, ma'am.

10 Q. Were you able to locate valid addresses for all
11 of the mineral interest owners in the proposed spacing
12 units?

13 A. Yes, ma'am.

14 Q. Were all the green cards for those interests
15 returned?

16 A. Yes.

17 Q. And did OXY also identify the operators or the
18 mineral interest owners in that 40-acre tract
19 surrounding the proposed nonstandard spacing unit?

20 A. Yes, ma'am.

21 Q. And did OXY include those offset owners and
22 notice them of this hearing?

23 A. That's correct. We did.

24 Q. And is Exhibit 4 an affidavit prepared by my
25 office with attached letters and green cards providing

1 notice of this hearing to the parties to be pooled and
2 the offsets?

3 A. That's correct.

4 Q. And has OXY brought a geologist to provide
5 technical testimony in support of this hearing?

6 A. We have.

7 Q. And were Exhibits 1 through 3 prepared by you
8 or compiled under your direction or supervision?

9 A. Yes, ma'am.

10 MS. KESSLER: Mr. Examiner, I would move
11 admission of Exhibits 1 through 4, which includes my
12 affidavit.

13 EXAMINER GOETZE: Exhibits 1 through 4 are
14 so entered.

15 (OXY USA, Inc. Exhibit Numbers 1 through 4
16 are offered and admitted into evidence.)

17 MS. KESSLER: That concludes my examination
18 of this witness.

19 THE COURT: Very good.

20 Mr. Brooks?

21 EXAMINER BROOKS: No questions.

22 EXAMINER GOETZE: I have a few for you.

23 THE WITNESS: Okay.

24

25

1 CROSS-EXAMINATION

2 BY EXAMINER GOETZE:

3 Q. Did you directly -- were you directly involved
4 in negotiations with the parties that are being pooled
5 here?

6 A. For the purchase of the interests, another lady
7 actually negotiated that, but I was involved with the
8 term assignment for farm-out negotiations.

9 Q. Okay. And it's Brazos that is still
10 nonreceptive to any offer that's been made at this
11 point?

12 A. Claiborne.

13 Q. Claiborne?

14 A. Yes, sir.

15 The Brazos acquisition is just waiting on a
16 few managers' signatures, so it should be pretty much
17 done.

18 Q. Very good.

19 And as far as ownership of this project
20 area, OXY's is a federal lease or which portion is --

21 A. Our portion is the fee lease. The federal
22 portion will be the north half of the southeast quarter.
23 So it'll be Brazos' and Claiborne's lease. It's all the
24 same federal lease.

25 Q. Okay.

1 EXAMINER GOETZE: I have no further
2 questions for this witness. Thank you very much.

3 SPENCER GUNDERSON,
4 after having been previously sworn under oath, was
5 questioned and testified as follows:

6 DIRECT EXAMINATION

7 BY MS. KESSLER:

8 Q. Please state your name for the record and tell
9 the Examiners by whom you are employed and in what
10 capacity.

11 A. My name is Spencer Gunderson. I'm employed by
12 OXY USA, Inc. as a geologist.

13 Q. Have you previously testified before the
14 Division?

15 A. I have not.

16 Q. Can you please review your educational
17 background?

18 A. I have a bachelor's degree in geology from
19 University of California Berkeley in 2008 and a master's
20 degree in geology, with a focus on the Permian Basin,
21 from Texas A & M University in 2011.

22 Q. What is your work history?

23 A. I've been with OXY in the Permian Basin
24 Division since 2011.

25 Q. Okay. So you've been involved in the Permian

1 Basin since 2011?

2 A. That's correct.

3 Q. Are you familiar with the application filed in
4 this case?

5 A. I am, yes.

6 Q. And have you conducted a geologic study of the
7 lands that are the subject of this application?

8 A. I have, yes.

9 MS. KESSLER: Mr. Examiner, I tender
10 Mr. Gunderson as an expert in petroleum geology.

11 EXAMINER GOETZE: He is so qualified.

12 Q. (BY MS. KESSLER) Mr. Gunderson, could you
13 please turn to Exhibit 5 and identify this exhibit for
14 the Examiners?

15 A. This is a structure map of the top of the 2nd
16 Bone Spring sand and TVD subsea showing the proposed
17 well and spacing unit, as well as the cross section
18 provided for Exhibit 6 and the wells that were used to
19 create that cross section.

20 Q. What have you identified with respect to
21 structure in this section?

22 A. A one-degree dip to the east, a smooth
23 consistent dip across the proposed spacing location with
24 good well control.

25 Q. Have you identified any geologic impediments in

1 this area?

2 A. We don't have any indication of any faulting or
3 stratigraphic pinch-outs. The geology seems smooth and
4 consistent with a gentle dip and no major changes within
5 the proposed unit.

6 Q. Do you believe that the wells you've selected
7 on this cross-section line are representative of the
8 Bone Spring in this area?

9 A. There are vertical wells that penetrate the
10 entire section with good quality log data, nicely
11 oriented in the dip direction, which give a very good
12 representation of the proposed wells' geology.

13 Q. Please turn to Exhibit 6 and identify this
14 exhibit.

15 A. This is a stratigraphic cross section hung on
16 the top of the 2nd Bone Spring lime. These are all
17 open-hole logs showing the target interval as the 2nd
18 Bone Spring sand. We have a landing depth of
19 approximately 8715 TVD, which can be most closely
20 identified on the Mitchell 21 Fed, on that cross
21 section, which is the third well.

22 Q. Can you please discuss the continuity across
23 the proposed nonstandard unit?

24 A. Yes. So over the proposed unit, we see
25 consistent thickness, nice, clean gamma ray. The

1 porosity is within one porosity unit, so 10 to 11
2 percent average porosity over the 2nd Bone Spring sand,
3 and no evidence of pinch-outs or major stratigraphic
4 changes.

5 Q. What conclusions have you done based on your
6 geologic study of this area?

7 A. My conclusion is that drilling a one-mile
8 lateral and pooling interests together would be the most
9 efficient way to develop the 2nd Bone Spring sand on
10 this piece of acreage.

11 Q. In your opinion, will the proposed nonstandard
12 unit, on average, contribute more or less equally to the
13 production of the well?

14 A. Yes.

15 Q. And the unit intervals comply with the setback
16 requirements under the Horizontal Well Rule, correct?

17 A. Yes. There is an off-lease surface-hole
18 location that we've produced from within the 330-foot
19 hard line [sic].

20 Q. In your opinion, would the granting of OXY's
21 application be in the best interest of conservation, for
22 the prevention of waste and the protection of
23 correlative rights?

24 A. This is the most efficient way to develop this
25 lease -- this acreage.

1 Q. And did you prepare Exhibits 5 and 6?

2 A. I did.

3 MS. KESSLER: Mr. Examiner, I'd move
4 admission of Exhibits 5 and 6.

5 EXAMINER GOETZE: Exhibits 5 and 6 are so
6 entered.

7 (OXY USA, Inc. Exhibit Numbers 5 and 6 are
8 offered and admitted into evidence.)

9 EXAMINER GOETZE: Any questions,
10 Mr. Brooks?

11 EXAMINER BROOKS: No questions.

12 EXAMINER GOETZE: Just a few, if you can.

13 CROSS-EXAMINATION

14 BY EXAMINER GOETZE:

15 Q. The completion of this well will be a toe-up on
16 the west side?

17 A. That would be toe up, yeah, the surface hole
18 being on the east side of the lease.

19 Q. And we're looking at a pretty -- well, it's not
20 that tight of an interval, but certainly it does
21 increase towards the west.

22 A. It does -- the -- the two leases that are
23 within the section show pretty consistent thickness,
24 though.

25 Q. Okay. So you're not going to have any issues

1 of getting too close to the bottom of the sand? You'll
2 be able to land in toe [sic]?

3 A. We'll be steering it with gamma ray while
4 drilling, and we feel confident about being able to stay
5 in the zone and that, lowest sand lobe at the base of
6 the 2nd Bone Spring.

7 Q. And then do you know anything about the Morgan
8 fee to the south, the 1H?

9 A. Yes.

10 Q. Okay. How did that turn out as far as -- any
11 lessons learned, or did it go without any issues?

12 A. I wasn't involved with the well, so I'm not
13 intimately familiar with how that went. So I guess I
14 don't have an answer to that question.

15 Q. Okay. Very good answer.

16 EXAMINER GOETZE: I have no further
17 questions.

18 MS. KESSLER: Thank you.

19 EXAMINER GOETZE: Do you have any other --

20 MS. KESSLER: No. Ask this case be taken
21 under advisement.

22 EXAMINER GOETZE: Thank you. And with
23 that, Case 15489 is taken under advisement. And that
24 ends the docket for today, and thank you very much.

25 (Case Number 15489 concludes, 8:44 a.m.)

I do hereby certify that the foregoing is

PAUL BACA PROFESSIONAL COURT REPORTERS
500 FOURTH STREET NW - SUITE 105, ALBUQUERQUE, NM 87102

Oil Conservation Division

15489
May 12, 2016
Examiner

1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO
3

4 CERTIFICATE OF COURT REPORTER

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

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

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

20 DATED at Albuquerque, New Mexico, on May
21 21, 2016.

22 

23 MARY C. HANKINS, CCR, RPR
24 Certified Court Reporter
25 New Mexico CCR No. 20
Date of CCR Expiration: 12/31/2016
Paul Baca Professional Court Reporters