

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:

ORIGINAL

APPLICATION OF McELVAIN ENERGY, INC.  
FOR A NONSTANDARD SPACING AND PRORATION  
UNIT AND COMPULSORY POOLING, LEA COUNTY,  
NEW MEXICO.

CASE NO. 15742

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

August 3, 2017

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, August 3, 2017, 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  
500 4th Street, Northwest, Suite 105  
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APPEARANCES

FOR APPLICANT McELVAIN ENERGY, INC.:

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1 (10:20 a.m.)

2 EXAMINER GOETZE: Next is 15742,  
3 application of McElvain Energy, Inc. for a nonstandard  
4 spacing and proration unit and compulsory pooling Lea  
5 County, New Mexico.

6 I believe you are the attorney representing  
7 it?

8 MS. KESSLER: I am.

9 EXAMINER GOETZE: Are you going to combine  
10 this with 15743?

11 MS. KESSLER: I am not.

12 EXAMINER GOETZE: Thank you.

13 Then call for appearances for Case 15742.

14 MS. KESSLER: Jordan Kessler, from the  
15 Santa Fe office of Holland & Hart, on behalf of McElvain  
16 Energy.

17 EXAMINER GOETZE: And witnesses?

18 MS. KESSLER: Two witnesses.

19 EXAMINER GOETZE: Will the witnesses please  
20 stand, identify yourself to the court reporter and be  
21 sworn in?

22 MR. SIPLE: David Siple, S-I-P-L-E.

23 MR. SHEFTE: Kyle Shefte, S-H-E-F-T-E.

24 (Mr. Siple and Mr. Shefte sworn.)

25 EXAMINER GOETZE: Sorry about the

1 mispronunciation.

2 DAVID W. SIPLE,

3 after having been first duly sworn under oath, was  
4 questioned and testified as follows:

5 DIRECT EXAMINATION

6 BY MS. KESSLER:

7 Q. Please state your name for the record and tell  
8 the Examiner by whom you're employed and in what  
9 capacity.

10 A. My name is David Siple. And I'm employed by  
11 McElvain Energy, Incorporated, and I'm the vice  
12 president of land.

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

15 A. Yes. It's been a while, eight or nine years  
16 ago.

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

19 A. Certainly. I graduated from the University of  
20 Colorado in 1981 with a business -- a BS in business  
21 mineral land management.

22 Q. And what has your work history been since that  
23 time?

24 A. Several different companies, notably Patina Oil  
25 & Gas Corporation, vice president of land; Noble Energy,

1 director of land, Rocky Mountain Region.

2 Q. Okay. And during the past several years, has  
3 your experience and expertise included the Permian  
4 Basin?

5 A. Yes.

6 Q. Do you have any professional certifications?

7 A. I'm a certified professional landman.

8 Q. And are you a member of any professional  
9 associations?

10 A. The American Association of Petroleum Landmen  
11 and the Denver Association of Petroleum Landmen.

12 Q. Are you familiar with the application that's  
13 been filed in this case?

14 A. Yes.

15 Q. Are you familiar with the status of the lands  
16 in the subject area?

17 A. I am.

18 MS. KESSLER: Mr. Examiners, I'd tender  
19 Mr. Siple as an expert in petroleum land matters.

20 EXAMINER GOETZE: He is so qualified.

21 Q. (BY MS. KESSLER) Does McElvain request the  
22 formation of a nonstandard spacing unit comprised of the  
23 west half of the east half of Section 30, 18 South, 34  
24 East in Lea County?

25 A. Yes, we do.

1 Q. Do you seek to pool the uncommitted owners in  
2 the Bone Spring Formation?

3 A. Yes, we do.

4 Q. Let's look at Exhibit 1. Is this the C-102 for  
5 the EK 30 [sic] BS2 Federal Com #1H well? \* EK 30 BS Fed. Com

6 MS. KESSLER: This is 15742, right? # 2H

7 EXAMINER GOETZE: Yes. (GKS)

8 EXAMINER BROOKS: If I understood your  
9 question -- if I heard the question correctly, which is  
10 probably problematic because I don't hear very well, but  
11 I thought you said the west half of the east half, and  
12 Exhibit 1 looks like that shows the east half of the  
13 east half.

14 MS. KESSLER: Yes.

15 Q. (BY MS. KESSLER) So this should be for the EK  
16 31 BS2 Federal Com #1H well; is that correct?

17 A. That's correct.

18 Q. And that's in the east half-east half of  
19 Section 31?

20 A. Yes.

21 EXAMINER BROOKS: Thank you.

22 Q. (BY MS. KESSLER) What is the API for this well?

23 A. The API number 30-025-43884. \* 30-025-43883

24 Q. And what is the pool and pool code for this  
25 area? (GKS)

1 A. The EK; Bone Spring Pool, with Pool Code 21650.

2 Q. Does this pool have special rules?

3 A. Yes, it does.

4 Q. And those are governed by Division Order  
5 R-4981, correct?

6 A. Yes, 80-acre drilling and spacing units and  
7 330-foot setback.

8 Q. Actually, the completed interval will be 150  
9 feet from the center of the quarter-quarter section?

10 A. Yes.

11 Q. Okay. So this well, even though it's 330 feet  
12 from the line, is actually unorthodox under these pool  
13 rules, correct?

14 A. Yes.

15 Q. But has McElvain requested and received an  
16 administrative order for an unorthodox location?

17 A. Yes, we have.

18 Q. And NSL 7504?

19 A. Yes.

20 Q. Pursuant to Rule 3 of the special rules, is  
21 McElvain requesting an exception to the 80-acre spacing  
22 requirement such that the well would be dedicated to 160  
23 acres?

24 A. Yes, we are.

25 Q. And are you requesting that exception in the

1     order to develop on 160 acres like all the other mile  
2     laterals?

3             A.     That's correct.   Yes.

4             Q.     What is the character of these lands?

5             A.     All of the lands are federal.

6             Q.     And are there any depth severances in this  
7     pool?

8             A.     There are none.

9             Q.     Is there an existing vertical well in the  
10    spacing unit?

11            A.     There is, in Tract 2.

12            Q.     Who is the operator of that vertical well?

13            A.     This well is Chisholm Energy.   It was  
14    Mewbourne, but now Chisholm operates it.

15            Q.     And was the interest ownership in the vertical  
16    well identical to the working interest included in the  
17    proposed 160-acre spacing?

18            A.     Yes, it is.

19            Q.     Were the operators and all interest owners  
20    provided notice of the overlap?

21            A.     Yes, they were.

22            Q.     Did any of them voice an objection?

23            A.     No.

24            Q.     And do you understand that the allowable for  
25    the spacing -- for the 160 spacing unit will be

1     **curtailed by production from the existing vertical well?**

2           A.    Yes, I do.

3           **Q.    Is Exhibit 2 an ownership map showing ownership**  
4     **by tract in these spacing units?**

5           A.    Yes, it is.  So it's three tracts:  Tract 1,  
6     which is the east half-northeast; Tract 2, the  
7     northeast-southeast; and Tract 3, southeast-southeast of  
8     Section 31.

9           **Q.    And it shows the vertical well there in Tract**  
10    **2?**

11          A.    That's correct.

12          **Q.    And on the next page, is there a summary of the**  
13    **ownership, and also does this reflect the owners that**  
14    **you seek to pool?**

15          A.    It does.  So the owners that we're seeking to  
16    pool are highlighted in yellow.

17          **Q.    Are you in the process of finalizing agreements**  
18    **with some of these parties?**

19          A.    We are.  And some of them have elected to  
20    participate, and we've agreed on a JOA form but haven't  
21    executed it yet.  And then there is another party that  
22    prefers to go nonconsent.

23          **Q.    What about the other interest owners?  Have you**  
24    **been in contact with all of them?**

25          A.    We've been in contact with all of them with

1 proposals and negotiations, and everyone's participating  
2 except for one party.

3 Q. Is Exhibit 3 a copy of the well proposal letter  
4 that you sent to the working owners that you seek to  
5 pool?

6 A. Yes.

7 Q. What date was this letter sent?

8 A. April 19th, 2017.

9 Q. And it included an AFE on the second page here?

10 A. Yes, it does.

11 Q. Are the costs on this AFE consistent with what  
12 other operators in the area charge for similar wells?

13 A. Yes.

14 Q. You mentioned that there are several parties  
15 that you're seeking to pool. Do those parties -- did  
16 you offer a variety of different deal structures and  
17 terms?

18 A. We have, yes. We offered to acquire their  
19 interest, term assignment, farm-out.

20 Q. But you mentioned that one of those parties  
21 prefers to be compulsory pooled?

22 A. Yes. That's correct.

23 Q. And you were able to locate and contact all of  
24 the working interest owners?

25 A. Yes, we were.

1           Q.    In your opinion, have you made a good-faith  
2           effort to try to reach agreement with the parties that  
3           you seek to pool?

4           A.    Yes.

5           Q.    Have you estimated overhead and administrative  
6           costs for drilling and producing this well?

7           A.    Yes, we have.

8           Q.    What are those costs?

9           A.    7,000 per month during drilling and 700 per  
10          month producing well rate.

11          Q.    Are those costs in line with what McElvain and  
12          other operators in the area charge for similar wells?

13          A.    Yes.

14          Q.    Do you ask that those costs be incorporated  
15          into any order resulting from this hearing?

16          A.    We do.

17          Q.    Do you also ask that the costs be adjusted in  
18          accordance with COPAS accounting procedures?

19          A.    Yes.

20          Q.    For the uncommitted working interest owners, do  
21          you request that the Division impose a 200 percent risk  
22          penalty?

23          A.    Yes, we do.

24          Q.    And did McElvain provide notice of this hearing  
25          to all of the affected parties -- all of the parties

1     affected by the request for a nonstandard spacing unit?

2           A.     We did.

3           Q.     And that notice was sent to the 80-acre tracts  
4     surrounding the nonstandard spacing unit?

5           A.     That's correct.

6           Q.     Is Exhibit 4 an Affidavit of Publication in Lea  
7     County?

8           A.     Yes, it is.

9           Q.     And is Exhibit 5 an affidavit prepared by my  
10    office, a letter providing notice both to the parties  
11    that you seek to pool and also the affected parties in  
12    the 80-acre spacing unit surrounding the nonstandard  
13    spacing units?

14          A.     That's correct.   Yes.

15          Q.     Were Exhibits 1 through 3 prepared by you or  
16    compiled under your direction and supervision?

17          A.     They were.

18                   MS. KESSLER:   Mr. Examiner, I move  
19    admission of Exhibits 1 through 5.

20                   EXAMINER GOETZE:   Exhibits 1 through 5 are  
21    so entered.

22                   (McElvain Energy, Inc. Exhibit Numbers 1  
23                   through 5 are offered and admitted into  
24                   evidence.)

25                   MS. KESSLER:   Thank you.

1 EXAMINER BROOKS: No questions.

2 CROSS-EXAMINATION

3 BY EXAMINER GOETZE:

4 Q. In your notification, did we do stand-ups and  
5 lay-down 80-acre parcels, so we covered both  
6 configurations?

7 A. (Indicating.)

8 MS. KESSLER: (Indicating.)

9 Q. (BY EXAMINER GOETZE) Do you have any  
10 information --

11 It seems we always come together on these  
12 points, and you bring me in a preexisting well.

13 Do we have any information on this well as  
14 far as an API number or --

15 MS. KESSLER: We can give you the name of  
16 the well. I don't know that we have the --

17 Is the API number on the --

18 THE WITNESS: I don't believe so, but it's  
19 the -- well, PD 31 Federal #1.

20 MS. KESSLER: Actually, I think I see the  
21 API number right above -- that may be the API number.  
22 It looks like there is a 30025358410001 on the log on  
23 Exhibit 7.

24 EXAMINER GOETZE: Oh. Maybe we're asking  
25 the wrong person. We'll get it reinforced later.

1 Q. (BY EXAMINER GOETZE) And the notification in  
2 the newspaper, everyone was locatable in your search and  
3 title of ownership? You didn't have any gaps?

4 A. No. We were able to identify all owners.

5 Q. Okay. And so to get back to the well, that's  
6 owned by a party that you're wishing to pool -- force  
7 pool?

8 A. Actually, they're going to be participating.  
9 It's Chisholm --

10 Q. Chisholm Energy?

11 A. -- Energy.

12 Q. So they'll be cooperating.

13 EXAMINER GOETZE: Okay. No further  
14 questions for this witness.

15 Thank you very much.

16 KYLE SHEFTE,  
17 after having been previously sworn under oath, was  
18 questioned and testified as follows:

19 DIRECT EXAMINATION

20 BY MS. KESSLER:

21 Q. Please state your name for the record and tell  
22 the Examiners by whom you're employed and in what  
23 capacity.

24 A. Kyle Shefte. I'm employed by McElvain Energy  
25 as a geologist.

1           Q.    Have you previously testified before the  
2   Division?

3           A.    No, I have not.

4           Q.    Can you please outline your education?

5           A.    I have a bachelor's of science focusing on  
6   earth science, with a focus on geology.

7           Q.    And from what institution?

8           A.    Montana State University. I graduated in 2014.

9           Q.    What has your work history been since 2014?

10          A.    I started working at McElvain in November of  
11   2015.

12          Q.    And during your time with McElvain, has your  
13   experience included the Permian Basin?

14          A.    Yes, it has.

15          Q.    Are you a member of any professional  
16   associations?

17          A.    No, I'm not.

18          Q.    Are you familiar with the application filed in  
19   this case?

20          A.    Yes.

21          Q.    And have you conducted a study of the lands  
22   that are the subject of this application?

23          A.    Yes, I have.

24                   MS. KESSLER: Mr. Examiners, I'd tender  
25   Mr. Shefte as an expert in petroleum geology.

1 EXAMINER GOETZE: We'll classify him as a  
2 young expert in petroleum geology.

3 Please proceed.

4 Q. (BY MS. KESSLER) Let's look at Exhibit 6,  
5 Mr. Shefte. Can you please identify this exhibit for  
6 the Examiners?

7 A. Yes. This is a structure map using the top of  
8 the 2nd Bone Spring Sand. The general trend of the  
9 strike is east to west, with the dip going to the south  
10 at roughly 2 degrees.

11 Q. And the spacing unit is outlined in red; is  
12 that correct?

13 A. Yes, it is.

14 The green line represents our well, and  
15 we'll be drilling it downdip.

16 Q. You've also put a line of section on this  
17 exhibit; is that correct?

18 A. Yes. The blue line from A to A prime.

19 Q. And that's a three-well cross section that will  
20 be in the following exhibit?

21 A. Yes, it is.

22 Q. What do you see with respect to structure in  
23 this section? Do you identify any hazards or  
24 impediments?

25 A. No, I do not. There doesn't seem to be any

1 faults and no pinch-outs or --

2 Q. Is Exhibit 7 your corresponding cross-section  
3 exhibit?

4 A. Yes, it is.

5 Q. Is the green line the top of the 2nd Bone  
6 Spring Sand?

7 A. Yes.

8 Q. And the blue line with the base of the Bone  
9 Spring Sand?

10 A. Yes, it is.

11 Q. You've drawn your horizontal target in red; is  
12 that correct?

13 A. Yes, we have.

14 Q. And can you please review these logs for the  
15 Examiners?

16 A. Okay. So we have gamma ray logs and density  
17 porosity, as well as bulk density logs. As you can see  
18 in our target interval, the gamma ray looks very  
19 continuous across the entire section, as well as  
20 porosity is within the range.

21 Q. So fairly uniform thickness?

22 A. Yes, it is.

23 Q. Based on your study of this area, have you  
24 identified any impediments or hazards to drilling a  
25 full-section horizontal well?

1 A. No, we have not.

2 Q. In your opinion, can the area be efficiently  
3 and economically developed by horizontal wells?

4 A. Yes.

5 Q. Do you believe that each of the tracts in the  
6 proposed spacing unit will contribute, on average,  
7 equally to production from the well?

8 A. Yes, we do.

9 Q. And in your opinion, will granting this  
10 application be in the best interest of conservation, for  
11 the prevention of waste and the protection of  
12 correlative rights?

13 A. Yes.

14 Q. And is one of the logs on this cross section  
15 the vertical well that's within the spacing unit?

16 A. Yes, it is, the middle log.

17 Q. That would be the Chisholm Energy?

18 A. Chisholm Energy, WAPITI 31 Federal 1.

19 Q. Can you read into the record the API listed on  
20 top of that identification?

21 A. 30-025-358410001.

22 Q. Thank you.

23 Did you prepare Exhibits 6 and 7, or were  
24 they compiled under your direction and supervision?

25 A. Yes.

1 MS. KESSLER: Mr. Examiner, I'd move to  
2 admit Exhibits 6 and 7 into the record.

3 EXAMINER GOETZE: Exhibits 6 and 7 are so  
4 entered into the record.

5 (McElvain Energy, Inc. Exhibit Numbers 6  
6 and 7 are offered and admitted into  
7 evidence.)

8 EXAMINER GOETZE: Mr. Brooks?

9 EXAMINER BROOKS: No questions.

10 CROSS-EXAMINATION

11 BY EXAMINER GOETZE:

12 Q. Good morning.

13 A. Good morning.

14 Q. In general in this area, we're using a  
15 north-south for your well. Is there a similar trend or  
16 a different trend as far as completion of the Bone  
17 Spring in the adjoining --

18 A. Similar, north-south.

19 Q. North-south has been very productive as far  
20 as --

21 A. Yes.

22 Q. -- associated --

23 And as before, we're doing 2nd Bone Spring.  
24 Is there any interest in the other intervals in the Bone  
25 Spring?

1 A. Not at this time.

2 Q. Okay. So primarily you're staying with the  
3 2nd?

4 A. Yes.

5 EXAMINER GOETZE: I have no further  
6 questions of this witness.

7 Thank you.

8 And Case Number 15742 is taken under  
9 advisement.

10 (Case Number 15742 concludes, 10:37 a.m.)

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I hereby certify that the foregoing is  
a complete record of the proceedings in  
the Examiner hearing of Case No. \_\_\_\_\_  
heard by me on \_\_\_\_\_

\_\_\_\_\_, Examiner  
Oil Conservation Division

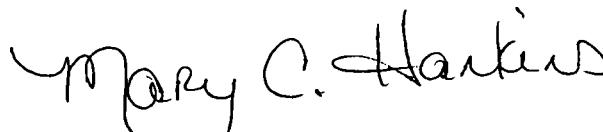
1 STATE OF NEW MEXICO  
2 COUNTY OF BERNALILLO  
3

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   
21

22 MARY C. HANKINS, CCR, RPR  
23 Certified Court Reporter  
24 New Mexico CCR No. 20  
25 Date of CCR Expiration: 12/31/2017  
Paul Baca Professional Court Reporters