

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

ORIGINAL

IN THE MATTER OF THE HEARING CALLED
BY THE OIL CONSERVATION DIVISION FOR
THE PURPOSE OF CONSIDERING:

Case No. 14628

AMENDED APPLICATION OF NADEL AND GUSSMAN PERMIAN LLC AND COG
OPERATING LLC FOR APPROVAL OF A NON-STANDARD OIL SPACING AND
PRORATION UNIT AND COMPULSORY POOLING, EDDY COUNTY, NEW
MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS
EXAMINER HEARING

BEFORE: WILLIAM V. JONES, Technical Examiner
DAVID K. BROOKS, Legal Examiner

January 5, 2012

Santa Fe, New Mexico

This matter came on for hearing before the New
Mexico Oil Conservation Division, WILLIAM V. JONES, Technical
Examiner, and DAVID K. BROOKS, Legal Examiner, on January 5,
2012, at the New Mexico Energy, Minerals and Natural
Resources Department, 1220 South St. Francis, Drive, Room
102, Santa Fe, New Mexico.

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10 I N D E X

11	STUART DIRKS	
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1 EXAMINER BROOKS: I will at this time call Case
2 Number 14763, Application of Mack Energy Corporation for
3 compulsory pooling, Lea County, New Mexico. Call for
4 appearances.

5 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe
6 representing the applicant. I have two witnesses. This is
7 an opposed case. I just bring that up in case -- or are they
8 both opposed?

9 MR. FELDEWERT: I don't believe our case is opposed.

10 MR. BRUCE: Are you going to consolidate?

11 MR. FELDEWERT: Actually, Mr. Examiner, with respect
12 to Nadel and Gussman COG admitted applications, one of the
13 two cases we can now dismiss. The parties -- COG has been
14 able to reach a good-faith resolution with all the parties on
15 one of the cases, pooling cases, so we really only have a
16 single pooling case to present.

17 EXAMINER BROOKS: Okay. Which is the one to be
18 dismissed?

19 MR. FELDEWERT: It would be the initial one. Give
20 me a minute, Mr. Examiner. 14627 --

21 EXAMINER BROOKS: Okay.

22 MR. FELDEWERT: -- we are able to dismiss at this
23 time, so we just have 14628 to present.

24 EXAMINER BROOKS: Very good. Okay. Thank you.
25 That will be a correction to the continuances and dismissals.

1 And so let us proceed then with Case Number 14763. I believe
2 Mr. Bruce had announced an appearance. Are there other
3 appearances in this case?

4 MR. HALL: Yes. Scott Hall, Montgomery and Andrews,
5 Santa Fe, appearing on behalf of Siana Oil and Gas and Tom
6 Ragsdale.

7 EXAMINER BROOKS: Okay. Are there any other
8 appearances?

9 (No response.)

10 EXAMINER BROOKS: Okay, very good.

11 MR. BRUCE: My question is, do you want to do the
12 unopposed case first?

13 EXAMINER BROOKS: Is the other one unopposed?

14 MR. HALL: I'm appearing in the case, but I have no
15 witnesses and no questions, so --

16 EXAMINER BROOKS: Obviously I don't have any agenda
17 one way or another.

18 MR. FELDEWERT: I would move then to allow us to go
19 first.

20 EXAMINER BROOKS: Very good. We will call then at
21 this time Case Number 14628. Call for appearances -- the
22 amended application of Nadel and Gussman Permian LLC and COG
23 Operating LLC for approval of a non-standard oil spacing and
24 proration unit and compulsory pooling, Eddy County, New
25 Mexico.

1 MR. FELDEWERT: Mr. Examiner, Michael Feldewert with
2 the law firm of Holland and Hart, appearing on behalf of the
3 applicant, COG Operating Inc., and we have two witnesses here
4 today.

5 MR. HALL: Mr. Examiner, Scott Hall, Montgomery and
6 Andrews Law Firm, Santa Fe, on behalf of Nearburg Producing
7 Company. No witnesses.

8 MR. BRUCE: Mr. Examiner, Jim Bruce representing
9 Nadel and Gussman Permian LLC, the original applicant. I
10 have no witnesses, and COG will be presenting the case.

11 EXAMINER BROOKS: Okay, very good. We will proceed
12 then with Case Number 14628.

13 MR. FELDEWERT: Mr. Examiner, just to orient you,
14 this case, this pooling application was actually initially
15 filed by Nadel and Gussman for a horizontal well in the south
16 half of the south half of Section 5. In the process of
17 negotiating over the pooling issues, COG and Nadel and
18 Gussman reached an agreement under which COG is now
19 essentially the applicant and is the party proposing to drill
20 the well and will be the operator of the well. So we have
21 two witnesses to present here today. Our first witness is
22 Mr. Stuart Dirks, and I think we need to swear in both
23 witness.

24 EXAMINER BROOKS: Will the court reporter please
25 swear in both witnesses.

1 (Witnesses sworn.)

2 EXAMINER BROOKS: You may call your first witness.

3 STUART DIRKS

4 (Sworn, testified as follows:)

5 DIRECT EXAMINATION

6 BY MICHAEL FELDEWERT:

7 Q. Would you please state your name for the record?

8 A. My name is Stuart Dirks.

9 Q. Mr. Dirks, by whom are you employed and in what
10 capacity?

11 A. I'm employed by Concho Resources as a landman.

12 Q. Have you previously testified before this
13 Division?

14 A. Yes, I have.

15 Q. And were your credentials as a petroleum landman
16 accepted and made a matter of public record?

17 A. Yes, they were.

18 Q. Are you familiar with the application that was filed
19 by -- first by Nadel and Gussman and then the amended
20 application filed by Nadel and Gussman and COG in this
21 case?

22 A. Yes, I am.

23 Q. Are you familiar with the status of the lands in the
24 subject area?

25 A. Yes, I am.

1 MR. FELDEWERT: Mr. Examiner, I tender Mr. Dirks as
2 an expert witness in petroleum land matters.

3 EXAMINER BROOKS: He is so accepted.

4 Q. Mr. Dirks, why don't you turn to what's been marked
5 as COG Exhibit Number 1. Is this an APD filed for the Patton
6 5 Fee Well Number 8?

7 A. Yes, it is.

8 Q. And would you, using this APD, would you identify
9 for the Examiner what COG seeks with this application?

10 A. Yes. The last page of this exhibit outlines our
11 proposed non-standard unit comprising 160 acres in the south
12 half south half of Section 5, and we seek pooling of all
13 mineral interests in the Glorieta-Yeso underneath our
14 non-standard unit.

15 Q. Is this non-standard unit to be dedicated to the
16 Patton 5 Fee Well Number 8?

17 A. Yes.

18 Q. Would you identify for us the surface and bottom
19 hole locations for the proposed well?

20 A. Our surface location is 380 feet from the south line
21 and 330 feet from the west line. And our proposed bottom
22 hole location is 380 feet from the south line, 330 feet from
23 the east line, and these are both standard locations.

24 Q. Is the south half of Section 5 all fee lands?

25 A. Yes, it is.

1 Q. And have you identified the interest owners in the
2 south half of Section 5?

3 A. Yes. Yes, we have.

4 Q. If you turn to what's been marked as Exhibit Number
5 2, is this a cartoon depicting the interest owners in the
6 south half of Section 5?

7 A. Yes, it is.

8 Q. And as we mentioned earlier, you were able to reach
9 an agreement with the interest owners in the north half of
10 the south half of Section 5 for the Patton 5 Well Number 6,
11 correct?

12 A. That is correct.

13 Q. And at this point in time you are seeking to pool
14 for the second well in the south half of the south half of
15 Section 5?

16 A. That's correct.

17 Q. All right. Now, with respect to the interest owners
18 shown here for the south half of the south half of Section 5,
19 the percentages here reflect their interest being various
20 tracts, correct?

21 A. That's correct.

22 Q. And how many of the interest owners in the south
23 half of the south half of Section 5 remain uncommitted to
24 your proposed horizontal well?

25 A. There are two. They are both in the southwest of

1 the southeast.

2 Q. And would you identify them for us, please?

3 A. Cimarex and Scott Peterson.

4 Q. Now, have you been able to contact Mr. Peterson?

5 A. Yes, we have.

6 Q. Okay. And what is the status of your discussions
7 with Mr. Peterson?

8 A. Our brokers have been in negotiations with him, and
9 yesterday they agreed to terms of a lease, and he verbally
10 agreed to grant us a lease.

11 Q. Paperwork is not quite finished yet?

12 A. Not quite finished.

13 Q. And then the other party is Cimarex. Would you
14 identify for the examiners what efforts you have undertaken
15 to obtain voluntary joinder in this well by Cimarex?

16 A. We have been talking to Cimarex since, I believe,
17 about mid November, and we have offered an acreage swap in
18 this area which would include their interest in the south
19 half of Section 5, and they are currently considering that.

20 Additionally, yesterday we also gave them the option
21 of selling us their interest in the south half of 5 if they
22 didn't want it included in their acreage swap.

23 Q. At this point is Cimarex still considering your
24 various offers?

25 A. They are still considering it, and we have a meeting

1 scheduled with them tomorrow afternoon.

2 Q. If you now turn to what's been marked as COG Exhibit
3 Number 3, is this a sample of the well proposal letters that
4 initially went out a year ago in January 2011?

5 A. Yes, it is.

6 Q. Now, this particular letter was sent out by Nadel
7 and Gussman, correct?

8 A. Yes, it was.

9 Q. And they were the parties that initially proposed
10 the well and initially filed the pooling application, and
11 then that resulted in the amended application before the
12 Division today?

13 A. That's correct, yes.

14 Q. All right. Did you confirm with -- in the records
15 from Nadel and Gussman, that this letter and the AFE at that
16 time was sent out to Cimarex and Mr. Peterson?

17 A. Yes, I did.

18 Q. And do you propose to drill the same -- do you
19 propose the same non-standard spacing unit and drill the same
20 orientation of the horizontal as was proposed by Nadel and
21 Gussman?

22 A. That is correct.

23 Q. If you take a look at the second page of this
24 exhibit, it identifies -- it contains, does it not, the AFE
25 that went out January 12 of 2011?

1 A. Yes, that's correct.

2 Q. Okay. Has the drilling cost for this well increased
3 since it was first proposed by Nadel and Gussman back in
4 January 2011?

5 A. They have.

6 Q. And is COG Exhibit Number 4 an AFE that reflects the
7 costs that COG believes will be incurred to drill this well?

8 A. Yes.

9 Q. And are these costs commensurate with what COG has
10 incurred for drilling similar horizontal wells?

11 A. Yes, they are.

12 Q. Has COG also made an estimate of the overhead and
13 administrative costs while drilling this well and producing
14 if this well is successful?

15 A. Yes, we have.

16 Q. Would you identify this for us, please?

17 A. \$5,500 for drilling the well, \$550 for producing the
18 well.

19 Q. Are these costs also commensurate with what Concho
20 and other operators in this area charge for similar wells?

21 EXAMINER BROOKS: Is that 55 hundred and 500, or
22 550?

23 THE WITNESS: 550.

24 EXAMINER BROOKS: Okay.

25 Q. And does -- do you request that these figures be

1 incorporated into an order and that they also be then
2 adjusted according to the COPAS accounting procedures?

3 A. Yes, we do.

4 Q. Do you then request under Division rules that the
5 200 percent risk penalty be imposed on the working interest
6 owners that are not voluntarily committed to this well?

7 A. Yes.

8 Q. And will you inform the Division in the event you
9 are able to finally conclude your paperwork with
10 Mr. Peterson?

11 A. Yes.

12 Q. And also if you are able to find and reach an
13 agreement with our friends over at Cimarex?

14 A. Yes.

15 Q. Okay. I want to then now turn to the non-standard
16 unit portion of this application. First off, has Concho
17 brought a geologist here today to provide technical testimony
18 in support of the non-standard unit?

19 A. Yes, we have.

20 Q. And did you have an opportunity to then identify the
21 leased mineral interest in the 40-acre tracts surrounding
22 your proposed non-standard spacing unit prior to filing this
23 amended complaint --

24 A. Yes.

25 Q. -- or application?

1 A. Yes.

2 Q. And did Concho include these known leased mineral
3 interest owners in the notice of the hearing and the
4 amended -- and provided to them a copy of the amended
5 application?

6 A. Yes.

7 Q. And if you turn to what's been marked as COG Exhibit
8 Number 5, is this an affidavit with the attached letters
9 providing notice of this hearing to the affected parties?

10 A. Yes.

11 Q. Okay. And does it not, Mr. Dirks, consist of two
12 letters?

13 A. Yes.

14 Q. The first being one sent to the interest owners
15 within the non-standard spacing unit?

16 A. Yes.

17 Q. And then there is a second letter that was then sent
18 out then to provide notice to the known lease mineral
19 interest owners in the surrounding area, correct?

20 A. Yes.

21 Q. All right. And I know that this pooling application
22 was initially filed by Nadel and Gussman, but under the
23 amended application Concho seeks to be designated the
24 operator of the well, correct?

25 A. That is correct.

1 Q. And the amended notification that was filed and
2 served reflects this change in the operating part?

3 A. Yes.

4 Q. Is then Exhibit Number 6 an affidavit of publication
5 in the Artesia Daily Press?

6 A. Yes, it is.

7 Q. And it was for this submitted application and this
8 hearing?

9 A. Yes.

10 Q. All right. I notice that there is two legal
11 notices. The second legal notice contains actually the names
12 of two interest owners that for which -- for whom you did not
13 have an address at the time you filed this amended
14 application.

15 A. That's correct, yes.

16 Q. So we specifically named them in the legal notice,
17 correct?

18 A. Yes.

19 Q. All right. Were Exhibits 1 through 6 prepared by
20 you or compiled under your direction and supervision?

21 A. Yes, they were.

22 MR. FELDEWERT: I move the admission into the record
23 of Exhibits 1 through 6.

24 EXAMINER BROOKS: 1 through 6 admitted.

25 (Exhibits 1 through 6 admitted.)

1 MR. FELDEWERT: That concludes my examination of
2 this witness.

3 EXAMINER BROOKS: Okay. This is a Yeso prospect?

4 THE WITNESS: Yes, sir.

5 EXAMINER BROOKS: And on your Exhibit 2 where you've
6 got the ownership, are all of these owners shown on gas
7 lessees, or are there unleased mineral interests?

8 THE WITNESS: They are all leasehold owners with the
9 exception of Marshall and Winston, that's a mineral interest,
10 and Scott Peterson is a mineral interest.

11 EXAMINER BROOKS: Okay. And you're asking for
12 pooling only of the Yeso Formation, Glorieta-Yeso?

13 THE WITNESS: Yes, sir.

14 EXAMINER BROOKS: Okay. Now, the people that you
15 could not locate, they are not shown on this ownership, is
16 that right?

17 THE WITNESS: They were in the -- the surrounding --

18 EXAMINER BROOKS: They were. So you looked at
19 everybody within the spacing unit?

20 THE WITNESS: Yes, sir.

21 EXAMINER BROOKS: Within the proposed unit?

22 THE WITNESS: Yes, sir.

23 EXAMINER BROOKS: Thank you. Mr. Jones?

24 MR. HALL: I have no questions.

25 EXAMINER JONES: When Nadel and Gussman did the

1 proposal, they had a 3,000 foot pilot hole, is that correct,
2 and then when COG took it over, they proposed a 45 hundred
3 foot pilot hole. So are you really -- you really changed the
4 well, didn't you, not just the AFE costs?

5 THE WITNESS: For the pilot hole we deepened it.
6 The lateral is still -- it's still the same.

7 EXAMINER JONES: Okay. But I guess I can talk to
8 the geologist about the -- I don't know where you are
9 targeting or anything, but the agreements that Nadel and
10 Gussman got with the participating parties, did you have
11 to -- you had to actually repropose that, didn't you, to them
12 to get COG named as the operator?

13 THE WITNESS: We didn't formally repropose. We took
14 over Nadel's proposal, but we did send our AFE.

15 EXAMINER JONES: So you sent them the AFE?

16 THE WITNESS: Yes.

17 EXAMINER JONES: And the same people wrote you
18 back?

19 THE WITNESS: Yes, sir, that's correct. Arrington,
20 Marshall and Winston, and the Yates entities.

21 EXAMINER JONES: Does that swap with Cimarex, is
22 that -- you didn't give them an opportunity to go heads-up
23 with the -- with the proposal?

24 THE WITNESS: No, they had the opportunity. I'm
25 sorry. I'm sorry.

1 EXAMINER JONES: Okay. I don't have any more
2 questions.

3 EXAMINER BROOKS: Okay. Mr. Feldewert?

4 MR. FELDEWERT: We will call our second witness.

5 THE WITNESS: Good morning.

6 EXAMINER BROOKS: Good morning.

7 RAMON REYES

8 (Sworn, testified as follows:)

9 DIRECT EXAMINATION

10 BY MR. FELDEWERT:

11 Q. Would you please state your full name for the record
12 and identify by whom you are employed and in what capacity.

13 A. My name is Ramon Reyes. I work for COG Operating
14 LLC. I'm the lead geologist for the shelf team.

15 Q. Mr. Reyes, you have previously testified before this
16 Division, correct?

17 A. Yes, sir, I have.

18 Q. And your credentials as a petroleum geologist have
19 been accepted and made a matter of public record?

20 A. Yes, they have.

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

23 A. Yes, I am.

24 Q. Have you conducted a study of the lands, in this
25 case, the south half of Section 5 and surrounding areas that

1 are the subject of this application?

2 A. Yes, sir, that's correct.

3 MR. FELDEWERT: We tender Mr. Reyes as an expert
4 witness in petroleum geology.

5 EXAMINER BROOKS: So qualified.

6 Q. Mr. Reyes, would you turn to what's been marked as
7 COG Exhibit Number 7 and orient the Examiners and identify
8 what's important on this exhibit.

9 A. Okay. Exhibit Number 7 is a regional map that's
10 located in Eddy County. What's highlighted in yellow would
11 be Section 5, the section we are talking about situated
12 somewhat in the middle of this map. This is just to
13 represent what's around the area and identify production
14 that's within the horizon that we are proposing to drill.

15 If you look in the upper right-hand corner, there is
16 a multitude of colored dots up there. They are red and blue.
17 The red represents Paddock producers, and the blue represents
18 Blinebry production. And what it is, is the Yeso is -- we
19 have broken it down into two parts, so the upper third of the
20 Yeso would be what we identified as Paddock, and the bottom
21 two-thirds of the Blinebry is -- the bottom two-thirds of the
22 Yeso is what we identify as the Blinebry.

23 So you see there is the Dayton Field. There is
24 quite a few wells in that field. If you go towards the west,
25 again, there is again a Penasco Draw field. Going towards

1 the southwest there is Dagger Draw that has a spreading of
2 Paddock producers and some Blinebry. And finally at the
3 bottom of this page is the Cemetery, and there is also
4 producers down there.

5 We will note that down at the Cemetery there is
6 roughly 30 horizontal producing Yeso wells down there, so
7 this is showing you that the trend of where our acreage is at
8 and where we are proposing to drill the wells, so we're on
9 strike of where, and we feel our risk level is somewhat low
10 as far as being successful in producing an economic well.

11 Q. Mr. Reyes, in this particular map you show both in
12 that colored Section 5, a 6H well and then 8H well?

13 A. That is correct.

14 Q. And those are the two wells that are the subject of
15 the amended pooling applications that were to be heard here
16 today, correct?

17 A. That is correct.

18 Q. And today, having reached an agreement with the 6H,
19 the focus is really on the 8H?

20 A. That is correct.

21 Q. If you then turn to COG Exhibit Number 8, is this a
22 close-up of the area that you just identified?

23 A. That is correct.

24 Q. Is there anything -- any additional points to be
25 brought out from this close-up?

1 A. No, sir, just -- just a -- just a close-up of where
2 we're at, and the little squares represent the 40-acre tracts
3 that are included within the 160-acre horizontal proposals.

4 Q. And you are proposing to drill from west to east?

5 A. From west to east, that's correct.

6 Q. We then turn to what's been marked as COG Exhibit
7 Number 9. Would you please walk the Examiners through this
8 structure map?

9 A. Exhibit Number 9 is -- is a replica of the regional
10 map that we saw earlier. On it now is a structure map that
11 is hung on top of the -- or picked at the top of the Paddock.
12 All this is representing is that there is just a slight
13 structural dip going from northwest to southeast, roughly in
14 the middle of Township 19 26 is where we identify roughly
15 where the shelf edge is located, so anything going south of
16 that is -- for us is not prospective because it becomes part
17 of the Delaware Basin, and you don't -- obviously you don't
18 see any red dots in that bottom left -- right-hand corner.
19 The play in the reservoir is on strike to where we are
20 looking at. That's about it.

21 MR. FELDEWERT: Mr. Examiner, if I could take pause
22 here one moment. I just realized that the one I gave the
23 court reporter is my copy of the exhibits that have my notes,
24 so I'm going to swap out.

25 EXAMINER BROOKS: Okay. That seems acceptable.

1 MR. FELDEWERT: I need my notes.

2 Q. And did you -- I believe you testified, Mr. Reyes,
3 that the structure here has a downdip from northwest to the
4 southeast?

5 A. That is correct.

6 Q. Okay. And with respect to Section 5, do you see any
7 faulting or other geologic impediments to the production in
8 the shale from the -- with respect to the horizontal well?

9 A. Right. There is -- it's a pretty -- there is no
10 faulting, no pinch-outs, no -- nothing geological that we are
11 concerned about that we are going to encounter in Section 5.
12 It's pretty -- that section is pretty -- you can follow it
13 all the way back to 17 33, all the way going to the Texas
14 state line. It's about a 13 hundred foot section that
15 doesn't -- that stays pretty consistent overall.

16 Q. Now, did you also then do a cross-section of this
17 area?

18 A. I did.

19 Q. Okay. And if we look -- if we turn to what's been
20 marked as COG Exhibit Number 11, does this identify the wells
21 that are the subject of your cross-section analysis?

22 A. That is correct. You will note there is six red
23 dots representing a well that was picked that's on strike,
24 and that's just to show a tiny end from the -- from the
25 production that produces the Dayton Field all the way down to

1 the Cemetery to the south being on strike in trend to what we
2 are proposing to drill.

3 Q. Okay. And then let's return to COG Exhibit Number
4 11. Does that correspond to the wells identified on COG
5 Exhibit Number 10?

6 A. Yes, sir, that is correct.

7 Q. Would you then discuss the COG Exhibit Number 11.
8 First identify it and then discuss it with the Examiners.

9 A. Okay.

10 Q. Exhibit Number 11 is a cross-section of the wells
11 that were picked and depicted on the exhibit before.

12 A. As you can see, this is a stratigraphic
13 cross-section that's hung on the top of the Paddock, kind of
14 colored it a little bit to help you identify what we are
15 talking about.

16 Above the Paddock is the Glorieta which is also part
17 of the Yeso, but it's a siltstone, so it's not something that
18 we are targeting at this point. And then you go into the
19 carbonate section, which is the top of the Yeso which we call
20 Paddock. And then the green part you will see where roughly
21 three to four feet of the upper part of the Yeso is what we
22 identify as Paddock.

23 Below that in the blue line is what we identify as
24 the Blinebry. The Blinebry goes all the way down roughly 6-
25 to 800 feet thick until you reach another silt section which

1 is called a tub, and that's where you find your -- the
2 targeted interval for reserves that we're after.

3 Another thing you will note is on the cross-section
4 you will see some red bars on the right-hand side. Those
5 depict the perforations that other operators, as well as ours
6 we have produced from the -- from these -- from these
7 wellbores, and then you will see three other ones. It seems
8 like every other one doesn't have perforations or produced.
9 Starting from the left-hand side the Preston Cemetery 2
10 Number 1, State Number 1, is a Morrow producer, so it's
11 actually still producing deeper in the zone, so hopefully at
12 some point it will come up and tap into that reservoir.

13 The third one is the Nearburg 13 Number 1. Also
14 that is down to 82 hundred. At some point that was drilled
15 as a Cisco Canyon target. It was a dry hole, and it's still
16 not being reviewed or plugged back to -- to test the Yeso
17 section.

18 And then, finally, the fifth one or the second to
19 the right is another well, a Yates pit well that is also a
20 Morrow producer, and so they have yet to look back and test
21 that interval. So hopefully at the end of all this they all
22 should have some perforations in this interval because we
23 think they are all prospective.

24 Q. Mr. Reyes, just to orient yourself to what's been
25 marked as Exhibit Number 10, if I look at the stratigraphic

1 analysis on the left of Exhibit Number 11, that corresponds
2 to the well at the -- at the south of Exhibit Number 10,
3 correct?

4 A. Yes.

5 Q. And then you move across, and, actually, I guess,
6 then, third well from the right on Exhibit Number 11 is the
7 well that you utilized in Section 5. Correct?

8 A. Yes, sir. And it will be the Nearburg Well that's
9 also in Section 5, and that's what we are using as a --
10 that's a good marker for us to know exactly where we're
11 targeting our zone.

12 Q. Now, you also show a bracketed area in red called
13 the lateral interval. Is that your target zone for your
14 horizontal well?

15 A. That is correct. Well, yes, it is, and even though
16 we get to drill a well here, that -- that little bracket that
17 you are seeing there, the reason it's about 50 or 60 feet
18 thick, I used that to identify the wells to the south of the
19 Cemetery, the well, the lateral with the -- with the deepest
20 target and also the well with the shallowest target
21 laterally, and it falls between this bracket, so it's a
22 pretty -- it's an identified zone that these wells, the wells
23 that have already been drilled, have been targeted.

24 Q. Are you saying that your target zone then is
25 consistent in and extends into the south half of the south

1 half of Section 5?

2 A. Yes, sir, that's correct.

3 Q. All right. Would you then summarize for the
4 Examiners the conclusions that you have drawn from your
5 portion?

6 A. Yes, sir, one -- there is really no geologic
7 impediment development in the section we have seen. It's
8 pretty consistent as far as the reservoir and the overall
9 thickness of the section; it does not change in the large
10 scale. We believe that we can effectively and economically
11 drill these wells horizontally, and last, but not least, we
12 believe that drilling each 40 will contribute equally in the
13 overall production of these horizontal wells that we are
14 proposing.

15 Q. In your opinion, will the granting of COG's
16 application be in the best interest of conservation,
17 prevention of waste, and protection of correlative rights?

18 A. Yes, sir.

19 Q. Were Exhibits COG 7 through 11 prepared by you or
20 compiled under your direction and supervision?

21 A. Yes, they are.

22 MR. FELDEWERT: I would move into admission of COG's
23 Exhibits 7 through 11.

24 EXAMINER BROOKS: 7 through 11 are admitted.

25 (Exhibits 7 through 11 admitted.)

1 MR. FELDEWERT: And I have no further questions of
2 this witness.

3 MR. HALL: I have no questions.

4 EXAMINER BROOKS: Mr. Jones?

5 EXAMINER JONES: Well, I guess I could, first of
6 all, on this instruction map on Exhibit Number 9, I just --
7 just a question as to the way you do these things. Why don't
8 you put a big strike and a little arrow with a dip mark on
9 these things? Is that -- we are supposed to be able to tell,
10 I guess, which direction the -- the dip is going? But I
11 just -- that's not a criticism, I'm just -- for my own
12 information.

13 THE WITNESS: Yes, sir.

14 EXAMINER JONES: Why don't you guys do that? It
15 seems like in academics they do that, and in oil patch they
16 don't.

17 THE WITNESS: You know, I try to keep my exhibits
18 simple.

19 EXAMINER JONES: Okay.

20 THE WITNESS: In the past I put a lot of bells and
21 whistles. Sometimes people put an isopach on top of a
22 structure map on top of a cross-section line, and you go,
23 "What am I looking at? What's the purpose of this?"

24 So really in doing that I try to simplify, and
25 hopefully with my -- with my testimony I can relate to what

1 you are looking at, so that's where I'm getting at, but I
2 will certainly consider that in the future --

3 EXAMINER JONES: No, no.

4 THE WITNESS: -- on my presentations.

5 EXAMINER JONES: That's just for my own information.
6 And Dagger Draw is to the west, or the southwest?

7 THE WITNESS: Yes, sir.

8 EXAMINER JONES: That's primarily Cisco target.

9 THE WITNESS: You'll see a lot of those black dots
10 in 19-25. That is Dagger Draw. That is a Cisco Canyon
11 producer for many, many years. And since, you know, a lot of
12 these are at the end of their life cycle, so they are, you
13 know, Nearburg, Yates Pad, they are the primary operators in
14 that field, they have come back up and plugged back and
15 tested these at the Yeso interval, so that's why you have a
16 scattering of little red dots.

17 EXAMINER JONES: So some of them have been
18 re-entered and they cut a window or section of a window and
19 went horizontal?

20 THE WITNESS: No, sir, not those. All they did with
21 those was plug them back and then perforated the vertical.

22 EXAMINER JONES: Vertical?

23 THE WITNESS: Yes, sir. Cemetery is where the
24 majority of the horizontal wells are at.

25 EXAMINER JONES: Okay. And some of these are

1 Blinebry, it looks like?

2 THE WITNESS: Yes, sir, there are some Blinebry.

3 Some of those wells, the majority of the Blinebry wells that
4 are colored in blue were vertical wells; none were horizontal
5 wells. And the way -- the way we identified within our using
6 geographics, if there is one perforation below where we pick
7 the top of the Blinebry, then it identifies it as a Blinebry
8 producer. It's one of those deals, "How do you tweak that?"

9 So some of those actually did perforate and test
10 some Blinebry. They had some limited success, but this was
11 vertically, so -- so -- but there is a possibility of
12 Blinebry production in that part of the area.

13 EXAMINER JONES: But that Dayton to the northeast
14 is, it looks like it was real popular for targeting the --

15 THE WITNESS: Yes, sir.

16 EXAMINER JONES: -- the Yeso.

17 THE WITNESS: Yes, sir. Again, vertically speaking,
18 two or three perforation holes, and it's open. So we believe
19 it wasn't tested to our standards, for a better way of
20 putting it. We would have probably perforated a larger
21 interval because it's such a tight rock. It's heterogeneous.
22 It's got a lot of -- if you had seen the logs, it's pretty
23 tight rock.

24 EXAMINER JONES: How long ago was that one, that
25 pool developed?

1 THE WITNESS: The Dayton Field, wow, it's 40s, 50s.
2 I can't remember. It's pretty old.

3 EXAMINER JONES: Okay.

4 THE WITNESS: I don't know for a fact.

5 EXAMINER JONES: They must have liked what they saw
6 because they sure went after it.

7 THE WITNESS: There is also San Andres production in
8 that part, so when you commingle it and everything else, it
9 makes for an economic well. So it's a little deceiving to
10 see the way -- again, all I'm doing here is identifying the
11 Yeso production.

12 EXAMINER JONES: The well that's closest on your
13 cross-section --

14 THE WITNESS: Yes, sir.

15 EXAMINER JONES: -- where you are going to drill the
16 Morrison Com, I guess it shows the red as testing the
17 Glorieta, do you think they knew how much was coming from
18 each zone in that well?

19 THE WITNESS: It's hard to tell. But I will give
20 you my definition why there is a perforation there. When you
21 drill these wells and you have no logs, you do get shows,
22 significant shows, and the porosity is quite a bit higher
23 than it is in the -- in the carbonates. You have to remember
24 it's siltstone, so siltstone tends to give you 12 to 14
25 percent porosity.

1 And so when you're looking at it and you're
2 prospecting, you go, "Hey, let's test that," the problem with
3 the Glorieta is what we found is it's generally wet. So it
4 becomes an economic call whether you include it, and you've
5 got to -- you've got to also produce associated water that
6 comes with it. So at some point you have to decide how many
7 barrels of water do I need to produce to capture one barrel
8 of oil?

9 So we tend to -- today, we tend to avoid that and
10 just focus on the primary, because it does come with water,
11 but not in the quantities that we get in the Glorieta. So
12 you will -- you will see production in the Glorieta. I will
13 assume they -- they produce it altogether.

14 EXAMINER JONES: Okay. That 3,000 foot, where would
15 that go in that well? Would that go into the very little
16 part of the top of the Paddock or --

17 THE WITNESS: Yes, sir. The 3,000-foot interval --
18 and I think I'm going to answer the question before you ask
19 me about why we are going -- I think our AFE was deeper than
20 the 3,000 foot. The 3,000 foot takes you right where the
21 blue line is at, which would be right where the top of the
22 Blaine is at.

23 EXAMINER JONES: Okay.

24 THE WITNESS: There is a really small cross-section
25 that you are looking at, but the reason they do that is your

1 porosity tends to drop off fairly quickly in the Paddock, so
2 by the time you get to the Blinebry you are looking at 2 or 3
3 percent or less porosity, and now you are into the Blinebry
4 section. So the idea was to drill your pilot hole, get deep
5 enough to see the section, find where your landing point is
6 for your curve for your lateral and then you move on. Our
7 proposal was, I believe -- I can't remember what it is, 4,000
8 feet?

9 EXAMINER JONES: 45 hundred.

10 THE WITNESS: 45 hundred.

11 EXAMINER JONES: I think it's 45 hundred. 45
12 hundred pilot hole.

13 THE WITNESS: Well, this cross-section doesn't go
14 deep enough, but one of our proposals -- and again, so we are
15 trying to capture all the reserves that we possibly can, and
16 COG believes that the Blinebry has potential as well in this
17 part of the world. Like I said, it's been tested on a
18 limited basis on a vertical sense. We are going to drill
19 pilot holes deeper and we want to do some science and see if
20 it has potential to try to make Blinebry producers as well.

21 So whether we do them all that deep or not, it's
22 hard to say. Definitely we will try the first few, we'll try
23 to test that and then make some recommendations and move
24 forward. So that's the difference of drilling the well an
25 extra thousand feet. It's a minimum cost, I believe,

1 drilling-wise at that depth, it's not a large amount of money
2 that -- to go see what's out there.

3 EXAMINER JONES: You didn't lose any people
4 participating because of that?

5 THE WITNESS: No, sir. Absolutely not.

6 EXAMINER JONES: Okay. Thank you.

7 EXAMINER BROOKS: You said the pilot hole is to be
8 drilled to 45 hundred?

9 THE WITNESS: Yes, sir. That's the plan, yes,
10 sir.

11 EXAMINER BROOKS: What depth is the interval that
12 you plan to drill the pilot hole?

13 THE WITNESS: The Blinebry section is roughly about
14 800 feet thick, so we are going to drill until we encounter
15 siltstone. That would be the tub or whatnot at the bottom
16 there, and those also tend to be wet, and so as soon as we
17 encounter more sand than we do carbonate is when we'll stop
18 drilling. It could be shallower than 41 hundred feet, it
19 could be 38 hundred feet or so. We want to go deep enough to
20 make sure that we see the full carbonate section of the Yeso.

21 EXAMINER BROOKS: Yeah, but the zone that you are
22 targeting, do you -- what depth do you expect to find that in
23 this well?

24 THE WITNESS: We won't know until we run our logs
25 and see -- and do our science and do our homework and study

1 it and then come out with a recommendation. You know, 800
2 feet is a pretty big target where you want to land it, so --
3 and we have a log, one wellbore and so we're going to try
4 to --

5 EXAMINER BROOKS: Well, I understand you won't know
6 where it is until you get down there.

7 THE WITNESS: Exactly.

8 EXAMINER BROOKS: I just thought you had an
9 estimated --

10 THE WITNESS: You know, we are still -- I mean, we
11 have thousands of these wells in the shelf area, you know,
12 and it's our -- our -- one of our biggest assets in our
13 company and, you know, we've done a lot of science. And so
14 this is a relatively new area for us. It's the same
15 reservoir. It's a lot shallower. There may be some
16 different challenges that we are going to encounter, so
17 coming up with a recommendation without seeing logs is where
18 we're at right now.

19 EXAMINER BROOKS: Okay. Very good. Thank you.

20 MR. FELDEWERT: Mr. Examiner, that concludes our
21 presentation here today.

22 EXAMINER BROOKS: Very good. Then if there is
23 nothing further, Case Number 14628 will be taken under
24 advisement.

25 MR. FELDEWERT: Thank you for the opportunity to

1 present our case ahead of --

2 EXAMINER BROOKS: At this time we will take a
3 ten-minute recess, or probably about a 12-minute recess.

4 (Recess taken.)

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I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 14628
heard by me on Jan 5, 2012
David K. Brooks Examiner
Oil Conservation Division

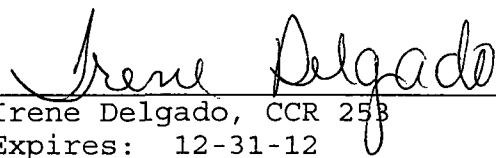
REPORTER'S CERTIFICATE

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I, IRENE DELGADO, New Mexico CCR 253, DO HEREBY
CERTIFY THAT ON January 5, 2012, proceedings in the
above-captioned case were taken before me and that I did
report in stenographic shorthand the proceedings set forth
herein, and the foregoing pages are a true and correct
transcription to the best of my ability.

I FURTHER CERTIFY that I am neither employed by nor
related to nor contracted with any of the parties or
attorneys in this case and that I have no interest whatsoever
in the final disposition of this case in any court.

WITNESS MY HAND this _____ day of January 2012.


Irene Delgado, CCR 253
Expires: 12-31-12