

**MINUTES OF THE MEETING  
OF THE OIL CONSERVATION COMMISSION  
HELD ON JULY 28-29, 2011**

The Oil Conservation Commission met at 9 o'clock a.m. on July 28, 2011, in Porter Hall, Wendell Chino Building, 1220 S. St. Francis Drive, Santa Fe, New Mexico.

**PRESENT: SCOTT DAWSON, Member**  
**ROBERT BALCH, Member**  
**JAMI BAILEY, Chair**

Mark Smith served as the Commission counsel.

The meeting was called to order by Chairman Bailey. The minutes of the July 14, 2011 Special Commission Meeting were approved and adopted.

Order No. R-12546-I in Case No. 13589, the application of Duke Energy Field Services, LP to amend Order No. R-12546 for an acid gas injection well, was signed and adopted unanimously by the Commission.

De Novo Case No. 14497, the application of David H. Arrington Oil & Gas, Inc. for compulsory pooling, Lea County, New Mexico, to be heard De Novo upon the application of David H. Arrington Oil & Gas, Inc., was called. At the request of all parties involved, the case was continued to the Commission meeting scheduled for August 25, 2011.

De Novo Case No. 14538, the application of Marshall & Winston Inc. to cancel an operator's authority and terminate a spacing unit, and approve a change of operator, Lea County, New Mexico, to be heard De Novo upon the application of David H. Arrington Oil & Gas, Inc., was called. At the request of all parties involved, the case was continued to the Commission meeting scheduled for August 25, 2011.

Chairman Bailey announced that the deliberation of De Novo Case No. 14472 and Case No. 14547 will be conducted at the end of today's hearing.

De Novo Case No. 14558, the application of Marbob Energy Corporation for vertical expansion of the Burch Keely Unit, Eddy County, New Mexico and De Novo Case No. 14577, the application of COG Operating, LLC for vertical extension of the Grayburg Jackson (Seven Rivers-Queen-Grayburg-San Andres) Pool to correspond with the unitized formation of the Burch Keely Unit, Eddy County, New Mexico, both being heard De Novo upon the application of ConocoPhillips Company, were called. Appearances were made by Carol Leach and Greg Daggett for Concho Resources or COG Operating, LLC (Concho or COG), Michael Campbell and Jim Vaiana for ConocoPhillips Company (ConocoPhillips), and James Bruce for Cimarex Energy Co. of Colorado and Magnum Hunter Production, Inc (Cimarex and Magnum Hunter). Several motions were received by the Commission and argued by counsel as follows:

Motion for Consolidation filed by COG – Motion was granted.

Motion for Continuance filed by Cimarex and Magnum Hunter - Mr. Bruce argued that adequate notice of this hearing was not given to his clients, and they were not prepared to go forward at this time. He asked that the cases be continued after this hearing to allow his clients an opportunity to put on testimony. He indicated that his clients support

ConocoPhillips. Ms. Leach argued that Mr. Bruce missed the deadline for filing a continuance request, and his clients may not have been entitled to notice pursuant to the rules. She pointed out that they did not make an appearance in the Division cases. After a motion by Commissioner Balch and a second to the motion by Commissioner Dawson, the Commission voted unanimously to close the meeting pursuant to NMSA 1978, Section 10-15-1 H, to deliberate on the motion for continuance. The Commission came back into open session, and Chairman Bailey announced that the motion for continuance was the only matter discussed during the closed session. The Commission unanimously decided that the motion was filed untimely and no efforts had been made to support the claims in the motion. The motion was denied and Cimarex Energy Co. of Colorado and Magnum Hunter Production, Inc. were not allowed to participate in the hearing.

Motion for Postponement filed by ConocoPhillips – Motion was withdrawn.

Motion for Partial Stay filed by ConocoPhillips – Motion was withdrawn.

Motion to Limit Testimony filed by COG – Ms. Leach argued that fracturing testimony should not be allowed in these cases but should be part of a separate rule-making hearing. Mr. Campbell argued that ConocoPhillips is not seeking protection from fracking; it is only opposing the application seeking the extension of the vertical limits of the Burch Keely Unit and the Grayburg Jackson Pool to a 5000-foot depth directly on top of ConocoPhillips' interests. After a motion by Commissioner Balch and a second to the motion by Commissioner Dawson, the Commission voted unanimously to close the meeting pursuant to NMSA 1978, Section 10-15-1 H, to deliberate on the motion to limit testimony. The Commission came back into open session, and Chairman Bailey announced that the motion to limit testimony was the only matter discussed during the closed session. The Commission unanimously denied the motion.

Opening statements were made by Ms. Leach and Mr. Campbell. Ms. Leach's first witness was David Evans, Lead for the New Mexico Shelf Team and Manager of Landmen for COG in Midland, Texas. He identified wells in the Unit and explained that COG acquired ownership in the Unit down to 5000 feet from Marbob Energy Corp. He said that ConocoPhillips owns the rights below 5000 feet. He discussed the waterflood project in the Unit. He informed that the Bureau of Land Management (BLM) supports COG's request for expansion of the Unit. He provided the history for the extension of the vertical limits of the Grayburg Jackson Pool. He stated that the granting of the application will increase the economic life of the Unit and there will be significant development in the Unit. Mr. Campbell cross-examined the witness, and he was excused.

The next witness was Harvin Broughton, Geologist on the New Mexico Shelf Team with Concho in Midland. He gave geologic testimony on the Grayburg Jackson Pool and the Blinbry formation. He said that in order to optimize the production, the vertical limits of the pool and Unit should be extended down to 5000 feet. He described the heterogeneity of the reservoir. Mr. Campbell, Commissioner Balch, and Chairman Bailey cross-examined the witness, and he was excused.

The next witness was Ken Craig, Lead Reservoir Engineer for the New Mexico Shelf Team with Concho in Midland. He discussed the economics of the Burch Keely Unit and determined that the Upper Blinbry would be a perfect add-on to the Paddock drilling. He said that drilling to the Paddock and the top part of the Blinbry formations would result in greater production than drilling either one of them alone. He discussed the development plan in the Unit and talked about drilling horizontal wells. Mr. Campbell and Commissioner Balch cross-examined the witness, and he was excused.

Mr. Campbell's first witness was Tom Scarborough, Staff Landman with ConocoPhillips in Houston, Texas. He discussed the location and ownership of the Burch Keely Unit. He identified the unitized area in the Unit Agreement. He said COG has rights above 5000 feet and ConocoPhillips has the rights below 5000 feet in the Grayburg Jackson Pool. He told of efforts to get COG to agree to joint development. He said that ConocoPhillips' only recourse would be to drill a well to protect its correlative rights. Ms. Leach and Chairman Bailey cross-examined the witness, and he was excused.

The next witness was Charles Angerman, Senior Geologist with the Permian Southeast New Mexico Development Team with ConocoPhillips in Houston. He described the geology of the Yeso formation in the Burch Keely Unit. He discussed economics and stranded reserves in the Burch Keely and Grayburg Deep Units. Ms. Leach and Chairman Bailey cross-examined the witness, and he was excused.

Mr. Scarborough was recalled to explain the contraction by the BLM of the Grayburg Deep Unit. Ms. Leach and Commissioner Dawson cross-examined the witness, and he was excused.

The next witness was Kim Head, Staff Geophysicist with the Permian Flood Development Team with ConocoPhillips in Houston. He testified on the seismic data showing the thickening of the Blinberry formation. He stated that the granting of Concho's applications would result in economic waste and stranded resources, and the only option is joint development. The witness was excused.

The next witness was Brian Dzubín, Senior Completions Engineer with ConocoPhillips in Houston. He testified on the fracturing practices of ConocoPhillips. He described a well completion with hydraulic fracturing. He told of a simulation of fracturing and the components used for the simulation. He discussed the output of the model and his conclusions that nothing would prevent the fracturing from stopping at the 5000 foot line, and it could impair ConocoPhillips' correlative rights. He said ConocoPhillips' only option would be to drill wells if no joint development is agreed upon. Ms. Leach objected to the acceptance of fracturing exhibits and the entire testimony concerning fracturing. The objection was overruled. Ms. Leach and Commissioner Balch cross-examined the witness, and he was excused.

Ms. Leach recalled David Evans for rebuttal testimony on the comparison of the Burch Keely royalty ownership with that of the Grayburg Deep Unit. The witness was excused.

Ms. Leach recalled Ken Craig as a rebuttal witness regarding activity on a well that was plugged off at 4515 feet, in order to show that there was never any production from this well. Mr. Campbell and Commissioner Balch cross-examined the witness, and he was excused.

Chairman Bailey announced that the Commission will meet at 9 o'clock a.m. on Friday, July 29, in Porter Hall to begin deliberations on these cases and two more cases on the docket. The decision on each case will be announced at the end of the deliberations.

The meeting was recessed at 4:50 p.m.

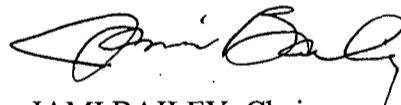
The meeting was reconvened at 9 o'clock a.m. on July 29, 2011. Chairman Bailey announced that all testimony has been given in De Novo Cases 14558 and 14577. After a motion by Commissioner Dawson and a second to the motion by Commissioner Balch, the Commission voted unanimously to close the meeting pursuant to NMSA 1978, Section 10-15-1 H, to deliberate on De Novo Cases 14558 and 14577. The Commission

came back into open session, and Chairman Bailey announced that De Novo Cases 14558 and 14577 were the only matters discussed during the closed session. She said that the Commission unanimously decided in favor of COG for the vertical expansion of the Unit and pool. She said the approval is supported by the evidence presented to the Commission. This decision also denied the Motion to Stay. All counsel were requested to submit proposed findings of fact and conclusions of law by August 26, 2011. The final order in these two cases will be signed at the Commission meeting scheduled for September 22, 2011.

After a motion by Commissioner Dawson and a second to the motion by Commissioner Balch, the Commission voted unanimously to close the meeting pursuant to NMSA 1978, Section 10-15-1 H, to deliberate on De Novo Case No. 14472, the application of COG Operating, LLC for cancellation of operator's authority and termination of spacing units, Yeso Energy, Inc. Dow "B" 28 Federal Well No. 1, Eddy County, New Mexico, and Case No. 14547, the application of the New Mexico Oil Conservation Division seeking an order authorizing the Oil Conservation Division to recognize an operator of record for wells currently operated by Yeso Energy, Inc. Both of these cases were heard by the Commission on June 28, 2011. Cheryl Bada served as the Commission counsel for the deliberation of these cases. The Commission came back into open session, and Chairman Bailey announced that De Novo Case No. 14472 and Case No. 14547 were the only matters discussed during the closed session. She said that the Commission unanimously reached a decision to dismiss the De Novo review of Case No. 14472, to approve Judah Oil, LLC as the Division's recognized operator of record for the Dalton Federal Well No. 1 and the Dow "B" 28 Federal Well No. 1 provided that Judah (1) obtain approval from the BLM as the recognized operator of record, (2) obtain approval from the BLM of its plan to convert to a salt water disposal well, (3) meet the bonding requirements of the BLM, and (4) obtain Yeso's property rights and approval for the processing of the right-of-way. The order will also revoke the Division's authority to plug the Dow "B" Federal 28 Well No. 1 that was granted in Division Order No. R-12930-B. This order will be signed at the Commission meeting scheduled for August 25, 2011.

The meeting was adjourned at 11:25 a.m.

STATE OF NEW MEXICO  
OIL CONSERVATION COMMISSION



JAMI BAILEY, Chair